



PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

THIRTY-NINTH REPORT TO PARLIAMENT

REPORT ON UNFUNDED SUPERANNUATION LIABILITIES IN THE FINANCIAL REPORTS OF VICTORIAN UNIVERSITIES

March 2001

Ordered to be printed

By Authority
Government Printer for the State of Victoria

No. 69 Session 1999-2000-2001

Public Accounts and Estimates Committee

TABLE OF CONTENTS

Public Accounts and Estimates Committee Membership	1
Duties of the Committee.....	3
Reporting of Unfunded Superannuation Liabilities in the Financial Reports of Victorian Universities.....	5
1. Introduction	5
2. Process followed by the Committee.....	5
3. Background	6
4. Situation in Victoria	8
5. Victorian Auditor-General’s Qualification on the Financial Reports of Universities	9
6. Involvement of the Department of Treasury and Finance and Minister for Finance.....	12
7. Commonwealth Government’s Position	15
8. Situation in other Jurisdictions.....	20
9. Conclusion	21
10. Recommendations.....	23
Appendix 1: List of Witnesses who gave Evidence.....	25

Public Accounts and Estimates Committee

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

MEMBERSHIP

Mr P Loney, MP (Chairman)
Hon. R Hallam, MLC (Deputy Chairman)
Hon. L Asher, MP
Ms A Barker, MP
Ms S Davies, MP
Hon. D Davis, MLC
Mr T Holding, MP
Mrs J Maddigan, MP
Hon. G Rich-Phillips, MLC
Hon. T Theophanous, MLC

Staff:

Executive Officer:	Ms M Cornwell
Assistant Executive Officer:	Ms F Essaber
Consultant:	Mr T Wood
Office Manager:	Ms C Walker

The Committee's address is:

Level 8, 35 Spring Street
Melbourne Victoria 3000

Telephone:	(03) 9651 3556
Facsimile:	(03) 9651 3552
Email:	paec@parliament.vic.gov.au
Internet:	http://www.parliament.vic.gov.au/paec

DUTIES OF THE COMMITTEE

The Public Accounts and Estimates Committee is a joint parliamentary committee constituted under the *Parliamentary Committees Act 1968*, as amended.

The Committee comprises ten Members of Parliament drawn from both Houses of Parliament and all political parties and includes an Independent Member.

The Committee carries out investigations and reports to Parliament on matters associated with State financial management. Its functions under the Act are to inquire into, consider and report to the Parliament on:

- (a) any proposal, matter or thing connected with public administration or public sector finances;
- (b) the annual estimates or receipts and payments and other budget papers and supplementary estimates of receipts and payments presented to the Assembly and the Council.

The Committee also has a consultative role in determining the objectives of performance audits and identifying any particular issues that need to be addressed during these audits.

REPORTING OF UNFUNDED SUPERANNUATION LIABILITIES IN THE FINANCIAL REPORTS OF VICTORIAN UNIVERSITIES

1. Introduction

Since 1998 the Victorian Auditor-General has issued qualified audit opinions on the financial statements of all Victorian universities which have recognised as an asset, the Commonwealth Government's commitment to fund the superannuation costs of university employees who were members of the State Superannuation Fund.

At 30 June 2000, the financial report of the Commonwealth Department of Education, Training and Youth Affairs reported a total unfunded superannuation commitment to all Australian universities of \$2.3 billion of which the Commonwealth's share was \$1.7 billion.¹

At present, resolution of this matter is at a stalemate. The purpose of this report is to outline to the Victorian Parliament the issues involved and to explore future options available to advance this issue to a satisfactory resolution.

2. Process followed by the Committee

On 12 April 2000, the Committee wrote to the Auditor-General seeking advice on the current status of the audit qualification. In response the Auditor-General advised that his position as to the qualification had not changed. The Auditor-General also advised that he had raised the matter with the Chairman of the Victorian and Tasmanian University Senior Financial Officers' Group and suggested that the matter be referred to the Urgent Issues Group of

¹ Commonwealth Department of Education, Training and Youth Affairs, 1999-2000 Annual Report, Note 22

the Australian Accounting Research Foundation for independent consideration. However, this suggestion was not pursued by the universities.²

It is in the interests of all parties that the annual financial statements of the universities not be subject to an audit qualification. Given that the respective parties involved in the audit qualification have been unable to resolve the issue over the past two years, the Committee decided to undertake an Inquiry into this matter. Accordingly, on 9 November 2000, the Committee took evidence from representatives of Department of Treasury and Finance, Melbourne University and the Victorian Auditor-General's Office.

On 13 and 14 December 2000, further evidence was provided to the Committee from representatives of the NSW Auditor-General's Office, the Australian National Audit Office and the Head of the Commonwealth Accounting Centre of Excellence Team from the Commonwealth Department of Finance and Administration.

A list of the witnesses appears at Appendix 1.

The Committee is most appreciative of the contribution made by each participant to this Inquiry. The Committee has drawn heavily on this advice in preparing this report.

3. Background

Traditionally, university employees were not members of State superannuation schemes. However, in the mid-1980s the Commonwealth Government reduced the number of tertiary institutions. Consequently a large number of tertiary institutions and parts of State Government departments merged with universities. Many of the staff formerly employed by these merged institutions were public servants who were members of State Government defined benefit superannuation schemes.

² Letter, dated 19 April 2000, from the Victorian Auditor-General

Under the terms of the amalgamations, the universities assumed responsibility for the superannuation contributions for public servants formerly employed by those institutions involved. However, because of the practice of only recognising the cost of superannuation at the point of retirement, and that the former public servants carried a substantial unfunded liability with them, the States and Commonwealth negotiated an agreement under which the cost of the superannuation entitlement of those employees would be shared as it emerged.

Up to 30 June 2000, under the *States Grants (General Purposes) Act 1994*, the Commonwealth Government reimbursed universities for the costs the universities paid to the superannuation funds each year. These expenses mainly related to pensions payable to retired employees. In turn, under this legislation the States reimbursed the Commonwealth 28 per cent of this cost. The Committee understands that universities are the only public bodies where their superannuation costs are met by both Commonwealth and State Governments.

In correspondence, dated 13 September 1999, between the Commonwealth Minister for Finance and Administration and the Victorian Minister for Finance, the Commonwealth maintained its commitment to continue funding the unfunded superannuation expenses of universities on an emerging cost basis unless further advised.

In addition to funding universities under the *States Grants (General Purposes) Act 1994*, the Commonwealth Minister for Education, Training and Youth Affairs may also provide funding to universities under the *Higher Education Funding Act 1988* to meet additional emerging superannuation costs.

As a result of the implementation of the new tax system from 1 July 2000, the *State Grants (General Purposes) Act 1994* was abolished. However, the existing arrangements are to continue in the interim

under a Memorandum of Understanding which is to be finalised between the State and Commonwealth Ministers of Finance. As at March 2001, a Commonwealth review of proposed new funding arrangements, including the recovery of the States share of university superannuation costs, had not been finalised.

4. Situation in Victoria

Up until June 1998, the unfunded superannuation liabilities of Victorian universities were disclosed in the financial statements of the Department of Treasury and Finance. Universities were exempted from the requirement of the *Financial Management Act 1994* that this liability be disclosed in their financial reports. In January 1999, the Treasurer removed this exemption and individual universities were required to disclose in their balance sheets the total unfunded superannuation liability attributed to their employees commencing from the year beginning 1 January 1999. In removing this exemption, no information was provided as to the impact on universities suddenly including very large liabilities in their financial statements with no offsetting item recognising the Commonwealth commitment to fund this liability. At 31 December 1999, the unfunded superannuation liability of Victorian universities was around \$832 million.

Following the Treasurer's action, the Commonwealth Department of Education, Training and Youth Affairs issued guidelines to all Australian universities stating that if they had an unfunded liability for superannuation, the liability was to appear in the balance sheet, but an equivalent entry was also to appear as an asset, representing the Commonwealth's ongoing commitment to fund this liability as was the case since 1987.

All Victorian universities complied with both the Treasurer's directive and the Commonwealth guidelines. However, the Victorian Auditor-General did not recognise the Commonwealth commitment to continue to fund the liability as an asset in accordance with Australian Accounting Standards and issued qualified audit opinions

on university financial statements for the years ended 31 December 1998 and 1999.

This position has been effectively supported by the Commonwealth Auditor-General as the financial statements of the Department of Education, Youth and Training do not record the Commonwealth Government's commitment to fund the unfunded superannuation liabilities of Australian universities as a liability in the balance sheet. However, this commitment, which was calculated at \$1.7 billion at 30 June 2000, was included in the notes to the financial statements. Although the Department advised all Australian universities to record the Government's commitment to continue to fund unfunded superannuation liabilities as an asset in their financial reports, it did not record a corresponding liability in its own balance sheet.

The Committee was advised that the universities remain concerned about the ongoing audit qualification.³ One university reported to the Committee that although the audit qualification had not impacted on its credit rating to date, it was concerned that such an impact could occur should the qualification continue.⁴

The Committee was further advised that the unfunded superannuation liability of universities will continue for many years,⁵ given that the unfunded costs of superannuation not only relate to future superannuation pensions of retired employees, but also to future benefits for those current employees who are members of defined benefit superannuation schemes.

5. Victorian Auditor-General's Qualification on the Financial Reports of Universities

As referred to previously, the Commonwealth guidelines require universities with an unfunded superannuation liability to disclose this debt to the State superannuation schemes as a liability in their

³ Mr. D. Percival, Vice-Principal, Corporate Services, University of Melbourne, transcript of evidence, 9 November 2000, p. 9

⁴ Ibid

⁵ Ibid, p. 10

balance sheet. There is no dispute as to the appropriateness of this treatment under Australian Accounting Standards and the application of the *Financial Management Act 1994*. However, the guidelines also require the universities to report a matching amount, referred to as a deferred Government contribution, as an asset in their balance sheets. The reasoning behind this accounting treatment is that if a corresponding amount equivalent to the unfunded liability was not recorded, the financial reports of some universities could convey the impression they were technically insolvent.

The Victorian Auditor-General maintains that the receivable described as a deferred Government contribution to the superannuation liability is not an asset and continues to qualify the financial reports of all universities, notwithstanding their employment of the accounting treatment recommended in the guidelines. A typical example of the form of the qualification can be found in the Auditor-General's opinion on the financial report of Melbourne University for the year ended 31 December 1999:

Qualifications

As disclosed in notes 1.6(iv) and 12 to the financial statements, the Commonwealth Government has undertaken to reimburse the University and the economic entity in respect of the cost of annual pension payments paid by the University into the State Superannuation Fund in relation to former higher education employees. The University's and the economic entity's future call on Commonwealth Government funding has been recognised as assets in the balance sheets as at 31 December 1999 and have been valued at \$77.2 million and \$89.3 million respectively, which equates with the amount of the University's and the economic entity's unfunded superannuation liability. In my opinion, as the University and the economic entity do not exercise control over the future Commonwealth Government funding associated with the unfunded superannuation liability of the University and the economic entity as at 31 December 1999, a right to these funds should not have been recognised as an asset in the University's and the economic entity's balance sheets.

Accordingly, the reported assets of the University and the economic entity have been overstated by \$77.2 million and \$89.3 million respectively and the accumulated funds have been overstated by similar amounts.⁶

The basis for the Auditor-General's qualification revolves around the definition of an asset under Australian Accounting Standards. Under accounting concepts, a receivable is a financial asset defined under Australian Accounting Standard 33 (AAS33) as a "*contractual right to receive cash or another financial asset from another entity*". There are no legally enforceable contractual arrangements between the universities and the Commonwealth Government to guarantee that the Commonwealth Government will continue to reimburse universities for emerging superannuation costs until such time as unfunded superannuation liabilities are extinguished. For a debt to be recognised it must be legally enforceable.

The Committee acknowledges that the Commonwealth Government has met its commitment to fund emerging superannuation costs since 1987 and there is no reason to suggest that it will not continue to do so. In addition, the Commonwealth Minister for Finance and Administration in September 1999 stated, in effect, that unless further advised, the Commonwealth has an ongoing commitment to continue funding emerging superannuation costs of universities.

It is argued that, despite the past history of funding and a stated intention to continue to meet its commitment, these actions do not constitute a legally binding future obligation on the Commonwealth Government to continue this funding. This situation is further complicated by the provisions of the *Higher Education Funding Act 1988* whereby "*the Minister may determine an amount of additional financial assistance payable to the institution*" to meet superannuation expenditure.⁷ Therefore, continued funding could be said to remain

⁶ Financial Report of Melbourne University for year ended 31 December 1999 pp. 94-95

⁷ (Cwlth) *Higher Education Funding Act 1988*, section 20, subsection (1)

at the discretion of the Minister for Education, Training and Youth Affairs. Under Australian Accounting Standard AAS31:

the intention of a government to make payments to other parties, whether advised in the form of a budget policy, election promise or statement of intent does not of itself create a present obligation which is binding on the government.

The most commonly cited point is that the Commonwealth Department of Education, Training and Youth Affairs does not include the accrued commitment to funding the superannuation costs of universities as a liability in its financial report but does include a reference to the accrued liability in the notes to the financial report. This treatment is accepted by the Commonwealth Auditor-General. The argument runs that if the Commonwealth Government is not prepared to acknowledge the existence of the accrued liability, then it would be inappropriate for the Victorian Auditor-General to recognise a corresponding asset.

The Victorian Auditor-General's approach is consistent with that of the Commonwealth Auditor-General, in that the commitment of the Commonwealth is held to not have the characteristics of a liability, or that of an asset from the perspective of universities.

The Committee is aware that inconsistencies exist with respect to the approach taken by other Auditors-General across Australia and is disappointed that a compromise could not be negotiated.

Against the background of the Commonwealth's inconsistency in treatment, the Committee accepts the approach taken by the Victorian Auditor-General. Clearly, it now falls upon the Commonwealth Government to resolve the issue.

6. Involvement of the Department of Treasury and Finance and Minister for Finance

In April 1998, when this issue first arose and negotiations between the Auditor-General and the Department of Treasury and Finance

failed to resolve this matter, the then Minister for Finance, Hon. Roger Hallam MP, wrote to the universities indicating his support for the accounting treatment they adopted. The Minister acknowledged that the approach taken by the Auditor-General “*may be justified in technical terms*” but nevertheless misrepresented the financial position of universities.⁸

In support of the advice to the universities, reference was made to a legal opinion by the Victorian Government Solicitor’s Office and advice from the Department of Treasury and Finance that the receivable from the Commonwealth qualified as an asset as defined in Statement of Accounting Concepts (SAC4) *Definition and Recognition of the Elements of Financial Statements*.

With respect to the legal opinion, which was in draft form only and provided to the Department of Education in March 1999, the Victorian Government Solicitor acknowledged the absence of a contractual arrangement between the Commonwealth and the universities guaranteeing that the unfunded superannuation liability would be met. Nevertheless, as the Commonwealth had met its obligations to provide annual funding for over 20 years, the opinion concluded that by this action the universities believed that funding would continue. Accordingly, if the funding ceased, this could give rise to the universities seeking compensation from the Commonwealth.

In evidence to the Committee, the Assistant Auditor-General, advised that:

*discussions with the Victorian Government Solicitor confirm that such a case would need to be proven in law by the courts.*⁹

The advice to the Minister for Finance from the Department of Treasury and Finance that the receivable from the Commonwealth qualified as an asset under SAC4 was not accepted by the Auditor-

⁸ Victorian Auditor-General, *Report on Ministerial Portfolios*, May 1999, p. 45

⁹ Mr R. Walker, Assistant Auditor-General, transcript of evidence, 9 November 2000, p. 13

General. The Department's view was that despite the absence of a legal agreement, correspondence between State and Commonwealth Governments and the long established practice of the Commonwealth providing funding meant that, based on the facts of the arrangement, a "*constructive recognisable obligation*" existed as defined in SAC4 which qualified as an asset. The Department further considered that as the receivable qualified as an asset under SAC4, the universities were deemed to be controlling the income stream specifically attached to the eventual extinguishment of the unfunded superannuation liability.

In further confirming the need for an audit qualification, the Auditor-General obtained an expert accounting opinion that concluded that the recognition by universities of the receivable relating to expected future payments from the Commonwealth Government was not in accordance with Australian Accounting Standards.¹⁰ The opinion concluded that, in order for the receivable to qualify as an asset, there would need to be formal acknowledgment by the Commonwealth Government that a debt existed. The debt would need to be enforceable at law in order for the universities to control the right to future payments and meet the test for an asset under SAC4.

On 27 April 2000, the Minister for Finance, Hon. J. Brumby MP, issued a letter to all universities stating that:

the position adopted by the Auditor-General is technically correct, however the substance of long-standing arrangements between the parties can reasonably lead to a conclusion that a receivable should be recognised.

He also drew attention to the failure of the Commonwealth Government to resolve this long standing issue and an undertaking was given to pursue the matter further in order to avert future audit qualifications.

¹⁰ Letter, dated 20 July 2000, from Mr Warren McGregor, Director of Stevenson McGregor, to the Victorian Auditor-General

In evidence provided to the Committee by officers from the Department of Treasury and Finance in November 2000, it was maintained that:

while there is an argument that the Auditor-General's position is technically correct, it is more important to reflect the true financial position of the universities.¹¹

The Committee accepts that where the Auditor-General considers that a financial report is not presented fairly in accordance with Australian Accounting Standards and other mandatory reporting requirements and the amount concerned is of a material nature, then there is no option under Australian Auditing Standards other than for the Auditor-General to issue a qualified audit opinion.

While the Committee acknowledges the Department's view that the financial reports of universities could be misleading if the receivable is not treated as an asset, the onus is on that Department, in conjunction with the universities and the Commonwealth Government to resolve the matter.

7. Commonwealth Government's Position

As referred to previously, although all universities recognise the future funding of the unfunded superannuation liability as a non-current asset in their financial reports, a corresponding non-current liability is not disclosed in the financial reports of the Commonwealth Department of Education, Training and Youth Affairs. However, it is disclosed in the notes to the financial report as an "*unfunded superannuation commitment*" actuarially calculated at \$2.3 billion at 30 June 2000. However of this amount, the States' share was around \$0.6 billion,¹² leaving a net commitment by the Commonwealth of \$1.7 billion in respect of all relevant universities in Australia.

¹¹ Mr N. Taylor, Director, Financial Policy and Compliance Branch, Department of Treasury and Finance, transcript of evidence, 9 November 2000, p. 5

¹² Commonwealth Department of Education, Training and Youth Affairs, financial report for 2000-2001, Note 22

The guidelines further state that it is a condition of the receipt of grants from the Commonwealth Government that institutions comply with the guidelines. Therefore, Victorian universities are required to treat the Commonwealth Government's responsibility for unfunded superannuation as a non-current asset in their financial reports, even though they know that this will cause them to be qualified by the Victorian Auditor-General.

According to documentation provided to the Committee, the Department of Education, Training and Youth Affairs did not include a matching recognisable liability in their financial reports for the following reasons:

- the Commonwealth has always maintained that the continued funding of the unfunded superannuation liability was a commitment only, as distinct from a liability. This attitude was further reinforced in a recently issued document from the Department of Employment, Training and Youth Affairs entitled *Higher Education – Report for the 2001 to 2003 Triennium*. The document which “acknowledged the audit qualification” re-affirmed that “*The Commonwealth’s position in relation to universities’ superannuation liabilities is that it has a commitment to meet its share of these liabilities*”.¹³ Despite this commitment and the fact that the Commonwealth will more than likely continue to provide funding in the future, there remains no binding, legally enforceable agreement for these payments to continue and accordingly a liability is not deemed to exist in accordance with Australian Accounting Standard AAS31.

In the absence of a legal agreement, Governments regularly change or abandon previous policies or commitments, and therefore it would be inappropriate to recognise future contributions which could continue for many decades.

¹³ Higher Education – Report for the 2001-2003 Triennium, p. 119

- Under the *Higher Education Funding Act 1988*, “*the Minister may determine an amount of additional financial assistance payable to the institution*”. The effect of these provisions is that the Commonwealth Government retains the discretion as to whether the payments will continue.

Given the above discretionary powers of the Commonwealth Minister, the Government’s commitment to fund the superannuation costs should be viewed on a year to year basis. The projected future commitment of the Government to ongoing funding does not therefore meet the definition of a liability, or an asset from the perspective of universities, as there are no contractual arrangements or obligations for the funding to continue.

- The ability of the Commonwealth Government to provide grants to the universities for emerging superannuation costs is dependent on the Commonwealth Parliament enacting legislation authorising Special Appropriations for this purpose each year. Until such time as this occurs, under SAC 4, universities do not control any right to these funds. This means that beyond each year universities do not have a legal entitlement to future income to reimburse their emerging superannuation costs.

In an attempt to have the Commonwealth Government confirm its intention to continue to fund the unfunded superannuation liabilities of universities, the Minister for Finance in March 1999 wrote to the Commonwealth Minister for Education, Training and Youth Affairs requesting that the Department confirm in writing its present obligation in respect of the total unfunded superannuation liabilities of universities. A response was not received but the Department verbally advised the Department of Treasury and Finance that they would not confirm or acknowledge the existence of a liability.¹⁴

¹⁴ Mr N. Taylor, Director, Financial Policy and Compliance Branch, Department of Treasury and Finance, transcript of evidence, 9 November 2000, p. 3

In September 1999, the Commonwealth Minister for Finance and Administration advised the Victorian Minister for Finance that the Commonwealth would be reviewing the accounting treatment of the grant as part of the arrangements for the introduction of the new tax system. The Committee was informed by the Department of Treasury and Finance that no subsequent correspondence had been received on the matter since that date.¹⁵

This matter could be resolved if the Commonwealth gave a written commitment to meet unfunded superannuation liabilities. The Assistant Auditor-General advised the Committee that, if the Commonwealth agreed to guarantee future funding, the asset in the financial reports of universities would be recognised.¹⁶

A form of words that would be acceptable to the Auditor-General's Office was suggested to the Committee:

*The Commonwealth Government confirms that it accepts it has a liability to fund an amount equivalent to (name of university) unfunded superannuation liability. The Commonwealth Government guarantees to fund this liability as the University incurs associated cash outflows.*¹⁷

In Victoria, the Department of Treasury and Finance acknowledges the existence of an accrued liability to the Commonwealth of its 28 per cent share of the cost of the unfunded superannuation liabilities of the universities. At 30 June 2000, this liability was calculated at \$219 million and was included in the Financial Report for the State of Victoria as part of the unfunded superannuation liabilities of the State of around \$12.4 billion.¹⁸

In recognising this liability, Victoria's position was similar to that of the Commonwealth Government in that there is a discretionary

¹⁵ Hon. J. Fahey, Commonwealth Minister for Finance and Administration, letter, dated 13 September 1999, to Hon. R Hallam, Victorian Minister for Finance

¹⁶ Mr R. Walker, Assistant Auditor-General, transcript of evidence, 9 November 2000, p. 16

¹⁷ Mr R. Walker, Assistant Auditor-General, letter dated 8 January 2001

¹⁸ Victorian Auditor-General, *Report on the Finances of the State of Victoria, 1999-2000*, p. 108

element as to whether this payment is made each year. Under the *States Grants (General Purposes) Act 1994*, the State was required to pay to the Commonwealth its share of the costs (if any) of the unfunded superannuation liabilities as determined by the Commonwealth Minister for Education before 31 March each grant year. Given that this Minister had discretion as to whether the universities received funding for superannuation purposes, the Minister also retained the discretion as to whether the States were to participate in the cost sharing arrangements.

Due to the discretionary nature of the arrangements, the Victorian Government, in contrast to the Commonwealth Government, recognised future contributions as an accrued liability inclusive of the State's total unfunded superannuation liability. Although the Committee understands that the Victorian Auditor-General had reservations about recognising this liability, the Department of Treasury and Finance formally advised the Auditor-General that the liability would be acknowledged. This was on the basis that irrespective of legal form, contributions had been made since 1987 and would be expected to continue until the unfunded liability was extinguished.

The above circumstances create the anomalous situation whereby the Victorian Auditor-General does not recognise the Commonwealth Government's funding commitment as an asset in the financial reports of universities but recognises the accrued liability of the Government of Victoria to contribute to this commitment. Conversely, while instructing universities to record the Commonwealth's accrued commitment as an asset, the Commonwealth does not recognise as a liability their commitment to this future funding. Apart from these anomalies, and the fact that the financial statements of universities, States and the Commonwealth are to be prepared in accordance with relevant legislation, Australian Accounting Standards and audited in accordance with Australian Auditing Standards, there is a diversity of accounting treatment for the unfunded liabilities and inconsistencies in the audit opinions expressed on the financial reports between the various States.

8. Situation in other Jurisdictions

In universities in New South Wales, the asset is reported in their financial reports. The New South Wales Auditor-General does not qualify the financial reports, but includes in his opinion “*an emphasis of matter*” to the effect that uncertainty currently exists about amounts owed by the Commonwealth and State Governments for their contributions to the unfunded superannuation liability. In universities in South Australia, the asset is recognised and the South Australian Auditor-General provides an unqualified audit opinion. In universities in Western Australia, the unfunded liability is reported but the asset is not, and a clear opinion is provided by the Auditor-General. The asset was recognised in the 1998 financial statements of Tasmanian universities and the Tasmanian Auditor-General expressed an unqualified opinion. The asset was not recognised in the 1999 financial statements and the Tasmanian Auditor-General also expressed an unqualified audit opinion.

The Commonwealth Minister for Finance and Administration acknowledged to the Victorian Minister for Finance in September 1999 that the issue must be approached from a Commonwealth perspective and that the Commonwealth would be reviewing the accounting treatment for the grant. Despite this assurance, no action was taken.¹⁹

The Committee is very concerned at the failure of the Commonwealth Government since early 1999, to resolve this very important issue with the States. This situation also highlights serious inconsistencies in public accountability and reporting to Parliament when throughout Australia there is a diversity of accounting practices coupled with different audit opinions by the Auditors-General, in relation to accounting for the unfunded superannuation liabilities of Australian universities.

¹⁹ Hon. J. Fahey, Commonwealth Minister for Finance and Administration, letter dated 13 September 1999

Following a meeting between the Committee and a representative from the Commonwealth Department of Finance and Administration, agreement was reached that this matter be placed on the agenda for a State and Commonwealth Heads of Treasury meeting in March 2001. The Committee strongly recommends that this meeting urgently address the anomalous situation which has arisen.

The Committee believes it to be of critical importance that consensus be reached between all Auditors-General in Australia as to the appropriate accounting treatment of the Commonwealth's commitment so there is consistency in the audit opinions expressed on the financial reports of all relevant Australian universities.

9. Conclusion

The Committee understands the frustration of those universities for whom the inconsistent treatment means that their accounts are being qualified and hence their financial position may not be accurately reflected in their annual reports.

However, the Committee's primary conclusion is that whatever may be said or done about the various accounting treatments and inconsistencies in audit opinions expressed on the financial reports of Australian universities in respect of unfunded superannuation liabilities, resolution of this matter clearly rests with the Commonwealth Government, particularly as the accounting guidelines issued to all universities by the Government gave rise to this issue in the first instance.

The Committee notes that formal recognition of this debt to the universities would result in the liability being recognised in the Commonwealth Government's consolidated financial report.

Options to resolve the matter include:

- amendment of the guidelines for the preparation of annual financial reports by Australian Higher Education Institutions by the Commonwealth Department of Education, Training and Youth Affairs in order to remove the requirement to disclose the Government's commitment to future funding as an asset;
- recognition by the Commonwealth Government of the accrued superannuation liability and entering into a legal guarantee with universities to continue the present arrangements to fund superannuation liabilities on an emerging cost basis. In turn, the States would need to formally recognise their obligation to the Commonwealth to meet part of this cost and to include this accrued liability in State financial reports;
- determine a common date after which the States and the Commonwealth would accept responsibility for their portions of the accrued superannuation liability. The liability would be calculated by an actuary and arrangements would be made for the States and the Commonwealth to contribute their share over a defined period directly to the superannuation funds in order to fully fund future obligations. In turn, the universities as the employer, be required to fully contribute to the superannuation funds their share of the liability relating to existing employees, as is the normal practice within both the private and public sectors. This contribution would continue to be met by the Commonwealth and State Governments in line with existing practice.

The latter option, which the Committee understands has been proposed by the South Australian Treasury, would have the added advantage of eliminating from the financial reports of universities the liability for unfunded superannuation benefits payable to past employees.

The Committee acknowledges that there may be other options available to address this issue but regardless of the strategy, this situation needs to be addressed by the Commonwealth Government as a matter of urgency.

10. Recommendations

The Committee recommends that:

Recommendation 1.1:

As a matter of priority, the Victorian Government make representations to the Commonwealth Government with the view to resolving the issue of the reporting of unfunded superannuation liabilities in Victorian universities accounts.

Recommendation 1.2:

The Australasian Council of Auditors-General be urged to determine and apply a consistent approach to the accounting treatment and audit opinion relating to unfunded superannuation liabilities in universities accounts across Australia.

APPENDIX 1: LIST OF WITNESSES WHO GAVE EVIDENCE

9 November 2000 - Melbourne

Department of Treasury
and Finance

Mr Neil Taylor
Director, Financial Policy and
Compliance Branch; and

Mr Nick Daicos
Assistant Director, Financial
Policy and Compliance Branch

University of Melbourne

Mr David Percival
Vice-Principal, Corporate Services

Victorian Auditor-General's
Office

Mr Russell Walker
Assistant Auditor-General,
Strategic Planning and Sector
Leadership; and

Mr Greg Pound
Assistant Auditor-General,
Accounting and Auditing Policy

13 December 2000 - Canberra

Australian National
Audit Office

Mr Michael Watson
Group Executive Director; and

Ms Lynne O'Brien
Executive Director

Public Accounts and Estimates Committee

Commonwealth Department
of Finance and Administration

Mr Brett Kaufmann
Head, Commonwealth
Accounting Centre of Excellence
Team

14 December 2000 - Sydney

NSW Audit Office

Mr Bob Sendt,
NSW Auditor-General;

Ms Maria Spriggins,
Director of Audit; and

Mr Sam Kalagurdevic,
Director of Audit

NSW Treasury

Mr Andrew Waddington,
Finance Manager, Crown
Transactions; and

Mr Martin Smith
Senior Policy Adviser