

**VICTORIA**

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*Report*

of the

**AUDITOR-GENERAL**

April 1982

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*Ordered by the Legislative Assembly to be printed*

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**MELBOURNE**  
**F D ATKINSON GOVERNMENT PRINTER**  
1982

No. A3

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# REPORT OF THE AUDITOR-GENERAL OF VICTORIA

Pursuant to the provisions of the Audit Act 1958, I present to the Legislative Assembly a report on the 1980-81 accounts of certain of the statutory bodies which the Auditor-General is required by law to audit and certain other matters which were not included in my previous reports presented on 22 October 1981 and 3 December 1981.

As foreshadowed in my supplementary report presented to Parliament in December 1981, detailed statements of final accounts of statutory bodies which are required to present audited financial statements to Parliament, have not been duplicated in this report.

It is my intention in this and future reports on statutory bodies to provide a brief description of each entity, an outline of the scope of the audit and to present any audit observations and recommendations of a significant nature which arise from that audit. Such observations will include comment and recommendations, where appropriate, on:

reviews of internal control;

reviews of E.D.P. applications;

instances of failure to comply with legislative or regulatory requirements; and

deficiencies or inconsistencies in the application of stated accounting policies or applicable accounting standards.

Management responses, if available, to matters raised in the audit reports will also be provided.

In this report, there is also a review of certain matters relating to superannuation and retirement benefit funds subject to my audit.

Inclusion of this material continues the practice, which was first adopted last year of including the results of specific reviews on matters of audit significance.

B. J. WALDRON  
Auditor-General

## Matters of Special Interest

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# ALBURY-WODONGA (VICTORIA) CORPORATION

## *Introduction*

The Commonwealth of Australia and the States of New South Wales and Victoria entered into an agreement called the "Albury-Wodonga Area Development Agreement", on 23 October 1973. The purpose of the agreement is to promote the growth and development of the Albury-Wodonga area and, to this end, the agreement makes provision for the establishment of 3 corporations - the Albury-Wodonga Development Corporation, the principal working body of the project, and two State Corporations - constituted by Acts of the Parliaments of the Commonwealth and the two States, respectively. The 3 corporations work as a single entity responsible to the Ministerial Council consisting of the appropriate Commonwealth and State Ministers.

The Albury-Wodonga (Victoria) Corporation was established under the provisions of the Albury-Wodonga Agreement Act 1973, which came into operation on 10 April 1974. The principal functions of the Corporation are to purchase, hold, manage and provide land in the areas designated for urban and regional development in the Wodonga area.

## *Statutory Reporting Requirements*

The Albury-Wodonga Agreement Act 1973 requires the Corporation to forward its audited accounts to the Minister, as soon as is reasonably practicable after the 30 June in each year, for tabling in Parliament. A set of draft accounts in respect of the 1980-81 year was received from the Corporation on 18 September 1981 and the annual statements were finalised by the Corporation on 18 December 1981. The audit report on the financial statements for the 1980-81 year was signed on 3 March 1982.

## *Qualification of Corporation's Financial Accounts*

As in the previous two years it was necessary to record the following qualification on the accounts of the Corporation.

"As stated in notes 1 and 9 to the accounts, Land and Buildings are included at cost plus holding charges and no provision has been made for depreciation.

It is further stated in note 1 to the accounts that no independent valuation of these assets has been obtained and it is recognised that the book value may be at variance with market value.

Because of the existence of this recognised variance, and in the absence of an independent valuation, I am unable to express an opinion on whether the Balance Sheet gives a true and fair view of the state of the affairs of the Corporation as at 30 June 1981. However, in my view, subject to the above matters, the Income and Expenditure Account properly summarises the financial operations for the year".

## *Financial Operations*

The financial operations of the Corporation for 1980-81 compared with 1979-80 are summarised hereunder:

	1980-81	1979-80
	\$	\$
Income	1 421 524	1 222 362
Expenditure	11 084 882	9 261 052
Deficit	<u>9 663 358</u>	<u>8 038 690</u>

The financial statements of the Corporation show a net deficiency of \$41 485 465 at 30 June 1981 (\$31 822 107, 30 June 1979).

Survey and works costs amounting to \$732 306, which had been accumulated in the Works In Progress Account during the years 1976-1981 were written off in the 1980-81 year. These costs relate to the Barranduda new city developments medium density units and some Willow Park projects which the Corporation has deferred indefinitely.

### *Internal Audit*

The Albury-Wodonga Development Corporation (Commonwealth body) has appointed a firm of chartered accountants as internal auditors. The reports of the internal auditors are made available to my officers for the purpose of my audit.

### **Scope of Audit**

Section 23 of the Albury-Wodonga Agreement Act 1973 provides for an annual audit of the accounts of the Corporation by the Auditor-General.

In accordance with arrangements made with the Commonwealth Auditor-General the detailed audit to trial balance stage, was performed by staff of the Commonwealth Auditor-General's Office in conjunction with their audit of the accounts of the Development Corporation. A verified trial balance of the Victorian Corporation provided by the Commonwealth Auditor-General together with an audit report dated 25 November 1981 were used by my officers for the purpose of the audit of the Corporation's annual financial accounts.

### **Audit Observations and Recommendations**

Matters raised in the audit report upon the books and accounts of the Albury-Wodonga (Victoria) Corporation for the year ended 30 June 1981 included:

### *Reserves*

Sub-section 1 of Section 23 of the Albury-Wodonga Agreement Act 1973 requires the Corporation to establish such reserves as are required to ensure the efficiency and financial stability of the Corporation.

The financial statements disclose an accumulated deficiency of \$41 485 465. No reserves had been established by the Corporation at 30 June 1981.

### *Debtors - Land Sales*

During the 1980-81 year the internal auditors reviewed the debtors system and drew the Corporation's attention to the fact that interest charges in the land sales debtors account are being raised at either year end or at the date of settlement, which is not in accordance with the terms of the sale contracts. The Corporation responded that the level of staff resources available make it difficult to ensure that interest is raised quarterly in accordance with contract conditions.

It is my opinion that, interest should be raised in accordance with the provisions of the contracts of sale.



# DANDENONG VALLEY AUTHORITY

## *Introduction*

The Dandenong Valley Authority, established under the provisions of the Dandenong Valley Authority Act 1963, is responsible for administering the several provisions of the Dandenong Valley Authority Act 1963 including the better drainage of the waters of the Dandenong Creek and its tributaries, channels and watercourses, the improvement of lands within the catchment thereof and the prevention of flooding and pollution.

## *Statutory Reporting Requirements*

The Act requires the Authority, within 6 months after the close of each financial year, to submit to the Minister a report of its proceedings and activities for the year accompanied by a statement of its accounts at the close of the year.

The balancing date for the accounts of the Authority is 30 September in each year. The final accounts of the Authority were received during the course of the audit and the audit report on the financial statements was signed on 12 March 1982.

## *Financial Operations*

The financial operations of the Authority for the years ending 30 September 1981 and 1980 are summarised hereunder:

	1981	1980
	\$	\$
Operating Income	4 235 612	3 729 858
Operating Expenditure	4 122 624	3 509 093
Excess of Operating Income over Operating Expenditure	<u>112 988</u>	<u>220 765</u>

The total assets of the Authority at 30 September 1981 were \$50 615 765 (30 September 1980, \$46 142 001).

## **Scope of Audit**

Section 13 of the Dandenong Valley Authority Act 1963, by virtue of the application to the Authority of Section 169 of the Water Act 1958, provides for an annual audit of the accounts of the Authority.

The audit program carried out included a detailed review of the payroll system operated through a computer bureau and of the expenditure procedures of the Authority. Tests were undertaken on all other areas of the Authority's activities to enable an opinion on the accounts to be expressed.

# GRAIN ELEVATORS BOARD

## *Introduction*

The Grain Elevators Board is constituted under the provisions of the Grain Elevators Act 1958 and operates as the bulk grain handling authority in Victoria. It is responsible for the receiving of bulk grain from growers and delivering this grain to purchasers, on behalf of the marketing bodies for which it acts as authorised receiver.

## *Statutory Reporting Requirements*

The Grain Elevators Act 1958 requires that the Board prepare an annual report for the period ending 31 October of each year. The Minister is required to lay such report before Parliament on or before 31 December in each year or as soon as may be thereafter.

The finalised accounts of the Board for 1980-81 were received by audit on 25 March 1982 and the audit report on the financial statements was signed on 7 April 1982.

## *Financial Operations*

The financial operations of the Board for 1980-81 compared with 1979-80 are summarised hereunder:

	1980-81	1979-80
	\$	\$
Income	32 895 982	37 455 576
Expenditure	29 587 836	30 723 757
Surplus	<u>3 308 146</u>	<u>6 731 819</u>

Although handling rates in respect of grain receivals increased by approximately 13 per cent. revenue from receivals decreased by 17 per cent. due to a 22 per cent. reduction in grain handled.

The net assets of the Board at 31 October 1981 were \$57 047 817 (31 October 1980, \$53 739 671).

## *Scope of Audit*

Section 47 of the Grain Elevators Act 1958 provides for an annual audit of the accounts of the Board by the Auditor-General.

Due to problems associated with the internal audit it was necessary for my officers to review all of the Board's main systems covering revenue, expenditure and contracts and verify all balance sheet items for 1980-81.

## Audit Observations and Recommendations

Major matters included in the audit report upon the books and accounts of the Grain Elevators Board for the year ended 31 October 1981 include:

### *Internal Audit*

The Board had, until February 1981, an internal audit section. The officer appointed to this position had other administrative duties apart from his audit responsibilities.

On the 9 November 1981 the Board appointed a firm of chartered accountants to conduct an internal audit of revenue, expenditure, payroll, fixed assets and contracts covering the 6 months ended 31 October 1981. The firm's workpapers were made available to my officers on 17 February 1982. At the date of preparation of this report the firm had not made a final report to the Board.

On the 30 November 1981, the Board appointed an internal auditor to its own staff.

### *Contracts*

As mentioned in my 1980-81 supplementary report, the Board took action to remedy deficiencies in their administrative procedures relating to the handling of contracts. Two exceptions noted during the current audit were as follows:

- (a) ministerial approval as required by Section 36 of the Grain Elevators Act 1958 was not obtained for the appointment of a firm of consultants to conduct a review of the Board's objectives, strategies and operations; and
- (b) tenders were not called as required by Section 35 of the Grain Elevators Act 1958 when the Board decided on a substantial upgrade of their computer system.

### *Stock Control - Pesticides*

The Board's method of stock control during 1980-81 was considered to be inadequate. The matter had been brought to the attention of the Board during the audit relating to the 1979-80 accounts. Action was not taken to remedy inadequacies until March 1982.

The Board took stock in September 1981 and again in October 1981 and valued the October 1981 stock at \$1 753 249 whereas the Board's records showed the value of this stock to be \$1 705 937. The discrepancy was brought to the attention of the Board and an adjustment of \$22 407 was made in respect of October's usage records, resulting in the discrepancy between the Board's stocktake figure and stock records at 31 October being reduced to \$24 905.

# GRAIN HANDLING IMPROVEMENT AUTHORITIES

## *Introduction*

The Grain Handling Improvement Authorities Act 1979 provided for the establishment of 3 separate Authorities from 22 December 1979:

Geelong Grain Handling Improvement Authority  
Portland Grain Handling Improvement Authority  
Country Grain Handling Improvement Authority

The main functions of the respective Authorities are to assist in the promotion and financing of improvements at the Geelong and Portland grain terminals and to assist in the establishment of a grain terminal in north-eastern Victoria.

To this end, the Authorities are empowered under Section 5 of the Grain Handling Improvement Authorities Act 1979 to enter into arrangements and contracts with the Country Roads Board, the port authorities at Geelong and Portland, the Grain Elevators Board, the Railway Construction and Property Board and the Victorian Railways Board which are referred to in the Act as the relevant authorities, for the financing of construction or the carrying out of works deemed necessary.

## *Statutory Reporting Requirements*

The Grain Handling Improvement Authorities Act 1979 requires each of the Authorities, within 3 months of 31 October of each year, to make a report on their operations during the year preceding 31 October to the Grain Elevators Board. The Board may include in its annual report, matters contained in an Authority's report.

Further, the Minister is required to lay before both Houses of Parliament a copy of the audited accounts of each of the Authorities.

Finalised accounts, adopted by the Authorities, had not been received by audit at 12 March 1982.

# HOSPITALS SUPERANNUATION BOARD

## *Introduction*

The Hospitals Superannuation Board operates under the provisions of the Hospitals Superannuation Act 1965. It is responsible for the administration of the Hospitals Superannuation Fund established under that Act for the purpose of providing, on a contributory basis, a scheme of superannuation for employees of participating hospitals and other institutions. Benefits provided out of that fund are generally by way of both lump sum and pension payable upon retirement, death or disability.

## *Statutory Reporting Requirements*

The Hospital Superannuation Act 1965 requires the Board each year, to submit to the Minister, to be laid before both Houses of Parliament, a report dealing with the general administration and working of the Act. The 1980-81 accounts were made available to audit in November 1981 and the audit report was signed on 22 March 1982.

## *Financial Operations*

The financial operations of the fund for 1980-81 and 1979-80 are summarised hereunder:

	1980-81	1979-80
	\$	\$
Income	13 322 599	14 139 384
Transfer from (to) Income Stabilisation Reserve	1 519 970	(2 551 518)
	<hr/>	<hr/>
Distribution of Income	14 842 569	11 587 866
	<hr/>	<hr/>

Net assets of the fund at 30 June 1981 were \$107 088 124 (30 June 1980, \$89 642 008).

## *Actuarial Investigation*

The Hospitals Superannuation Act 1965 requires an actuarial investigation into the financial position of the fund every 3 years and the actuary's report to be laid before Parliament.

In a report on the financial position of the fund at 30 June 1978, the actuary advised that the Pension Scheme - Institution Fund had a deficit of \$302 775 at that date, but with the increased levy effective from 7 September 1979, the deficit should be reduced to a small surplus by 30 June 1982.

Deficits at 30 June for the respective years following the actuary's report were:

1979	\$942 018
1980	\$871 096
1981	\$781 221

The actuarial examination of the financial position of the fund at 30 June 1981 is in course.

#### *Amending Legislation*

The Hospitals Superannuation (Amendment) Act 1980 and the regulations prescribed under the Act provide, from 1 January 1981, for lump sum payments to be paid from the Additional Payments Fund to certain beneficiaries on a new basis and for institutions to commence contributing to the fund from 7 August 1981.

Benefits of persons who were members of the fund prior to 1 January 1981 are determined in accordance with the provisions of both the new and/or old regulations while members who joined the fund after this date are entitled only to the benefits of the new regulations.

The fund had an accumulated balance at 30 June 1981 of \$307 994.

#### **Scope of Audit**

Section 17 of the Hospitals Superannuation Act 1965 provides for an annual audit of the Hospitals Superannuation Fund by the Auditor-General. In addition to my statutory responsibility to conduct an audit each year, a continuous audit is carried out by a firm of chartered accountants appointed for that purpose by the Board. The audits are, by arrangement complementary in character. Their audit programs, working papers and reports were examined and evaluated by my officers and were accepted for the purpose of my audit. Additional work was undertaken on various aspects of the Board's accounts to enable an opinion to be formed on the financial statements.

#### **Audit Observations and Recommendations**

Included in the audit report on the books and accounts of the Hospitals Superannuation Fund for the year ended 30 June 1981 was the following major matter:

#### *Rental of Premises - 555 Collins Street, Melbourne*

The Board has not entered into a lease with the Minister of Public Works regarding its occupancy from 5 February 1977, of part of the 13th Floor, 555 Collins Street which is leased by the Minister of Public Works from the State Superannuation Board.

Subsequent to a demand for payment of rental from the Public Works Department in August 1979, the Board received legal advice that there was no legal requirement for it to commence payment of rent until an agreement for the lease has been negotiated.

The Public Works Department have raised a charge to 30 June 1981 of \$177 149. The Board have provided in the accounts at this date \$155 500 for the payment of rent. The matter remains unresolved.

# METROPOLITAN FIRE BRIGADES BOARD

## *Introduction*

The Metropolitan Fire Brigades Board is constituted under the Metropolitan Fire Brigades Act 1958 and is responsible for the general control of all fire stations and brigades within the metropolitan fire district.

The Board's revenue consists primarily of contributions from fire insurance companies, municipalities and the Consolidated Fund to meet the estimated annual expenditure of the Board, as provided under Sections 36 and 37 of the Metropolitan Fire Brigades Act 1958. In addition, brokers and owners are required to contribute where properties are insured with companies other than those licensed under Section 96 of the Stamps Act 1958.

## *Statutory Reporting Requirements*

The Metropolitan Fire Brigades Act 1958 requires the Board to furnish the Governor-in-Council with audited accounts of all moneys received and disbursed by the Board for the year ended 30 June and that such accounts shall within one month after the making thereof be laid before both Houses of Parliament. The Board is also required to furnish the Minister, in September, with an annual report upon its activities for the previous year for tabling in Parliament.

The finalised accounts of the Board were received on 4 March 1982 and the audit report on the financial statements was signed on 10 March 1982.

## *Financial Operations*

The financial operations of the Board for 1980-81 in respect of the General Fund are summarised hereunder:

	1980-81
	\$
Income	49 226 833
Expenditure	49 838 941
	<hr/>
Deficit	612 108
	<hr/>

Net assets of the Board at 30 June 1981 were \$14 104 866 (\$12 289 131 30 June 1980).

## *Scope of Audit*

Sub-section (1) of Section 48 of the Metropolitan Fire Brigades Act 1958 provides for the Auditor-General to annually audit the accounts of all moneys received and disbursed by the Board.



In addition to my statutory responsibility to conduct an audit each year, a firm of chartered accountants, appointed by the Board, conducted an audit on a regular basis throughout the year.

In conducting the audit of the Board's accounts the work performed by these auditors has been reviewed by my officers and accepted. Additional work undertaken included an evaluation of the system of internal controls in respect to the material receipt and disbursement items namely, contributions from insurance companies, brokers, municipalities, charges for services and salaries and of the Board's general payments system.

### **Audit Observations and Recommendations**

Comments included in the audit report upon the books and accounts of the Metropolitan Fire Brigades Board for the year ended 30 June 1981 are detailed in the following paragraphs.

#### *Contributions by Insurance Companies*

Legislation provides for insurance companies who receive premiums attributable to insurance against fire in respect of property situated within the Metropolitan district, to contribute towards expenditure necessarily incurred by the Board in the execution of the provisions of the Metropolitan Fire Brigades Act 1958. Accordingly, insurance companies must provide a return, supported by a statutory declaration, of amounts collected or due to them in respect of such insurance.

Sub-section (1) of Section 42 of the Act provides for the Board to verify these returns through inspection of the insurance companies records. However, companies who do not submit a return are not subject to the same review and as such the Board is unable to ensure it has received all entitlements. Consideration should be given to an appropriate change in legislation.

#### *Asset Revaluation Reserve*

The Board's freehold land and buildings are valued at the higher of cost or municipal valuation and, following a municipal revaluation during 1980-81, these assets were increased by \$1 699 956. An Asset Revaluation Reserve was created accordingly.

#### *Long Service Leave*

During the year under review the Board has calculated and included for the first time in the general statement of assets and liabilities its liability in respect of long service leave entitlements which at 30 June 1981 amounted to \$7 950 680.

# MOTOR ACCIDENTS BOARD

## *Introduction*

The Motor Accidents Board was established as a body corporate on 17 April 1973, under the provisions of the Motor Accidents Act 1973. It is responsible for administering the various provisions of the Motor Accidents Act 1973 which deal mainly with protecting persons from financial hardship as a result of a motor car accident in Victoria.

Accounts of accident victims are paid by the Board and include such things as doctors and medical accounts, ambulance services, loss of income within certain limits, housekeeping and other allied expenses. The payments are made regardless of fault and do not prejudice the rights of injured parties to future common law actions.

## *Calls upon Authorised Insurers*

Section 65 of the Motor Accidents Act 1973 authorises the Board to make calls as determined upon authorised insurers.

In 1974-75 the Board, in their first full year of operation, made calls totalling \$23 700 000 upon 12 authorised insurers. Details:

State Insurance Office	\$12 624 523
R.A.C.V.	9 957 810
Others	1 117 667
	<hr/>
	\$23 700 000
	<hr/>

In 1980-81 calls upon authorised insurers totalled \$56 250 000. Details:

State Insurance Office	\$55 480 000
R.A.C.V.	770 000
	<hr/>
	\$56 250 000
	<hr/>

The State Insurance Office has since 1 January 1977, been the only authorised insurer. Calls upon the R.A.C.V. are in respect of accidents incurred prior to the above date.

## *Statutory Reporting Requirements*

The Motor Accidents Act 1973 requires the Board to finalise its accounts within 3 months of 30 June each year and to forward its audited accounts to the Minister by 31 December for tabling in Parliament. The finalised accounts were made available for audit on 29 September 1981.

The audit report on the financial statements for 1980-81 was signed on 30 December 1981 and it was necessary to record the following qualification:

"The Board did not deduct income tax from benefits paid during the period 12 February 1974 to 17 December 1979. Following a Federal Court decision on 3 August 1979 in the case of Tinkler -v- Commissioner of Taxation, in my opinion, the Board has a contingent liability in respect of the unpaid tax instalment deductions which has been estimated by the Board not to exceed \$5 400 000".

### *Financial Operations*

The financial operations of the Board for 1980-81 and 1979-80 are summarised hereunder:

	1980-81	1979-80
	\$	\$
Income	57 359 304	42 405 512
Expenditure	56 485 000	41 195 973
Surplus	<u>874 304</u>	<u>1 209 539</u>

Net assets of the Board at 30 June 1981 were \$9 192 082 (30 June 1980, \$8 317 778).

### **Scope of Audit**

Section 64 of the Motor Accidents Act 1973 provides for an annual audit of the accounts of the Board by the Auditor-General. In addition to my statutory responsibility to conduct an audit each year, a continuous audit is carried out by a firm of Chartered Accountants appointed for that purpose by the Board and an internal auditor, an employee of the Board. Their audit programs, working papers and reports were examined and evaluated by my officers and were accepted for the purposes of my audit. Additional audit checks undertaken included confirmation of the correctness of the income received from calls made on the authorised insurers, reconciliation of income from drivers' licence surcharge between the Board and Motor Registration Branch records and verification of assets held and liabilities incurred by the Board at 30 June 1981.

### **Audit Observations and Recommendations**

Major matters included in the audit report upon the books and accounts of the Motor Accidents Board for the year ended 30 June 1981 were:

#### *Special Account*

All expenses and compensation payments relating to accidents which occurred during the "Special Period", i.e. 12 February 1974 to 13 May 1974, are to be met from the "Special Account" established under the legislation. This account was financed from statutory deductions from motor cycle and motor car third party premiums which were appropriated to the Special Account during the 3 years ended 11 February 1977.

Payments during 1980-81 amounted to \$78 471 and interest earned on investments amounted to \$342 130. The surplus at 30 June 1981, \$3 192 486, was under legislation in force at 30 June 1981, not able to be disbursed. The Board, in order to make optimum use of these funds, is in the course of having legislative amendments enacted.

#### *Computer Operations - Contractual Relationships*

A formal contract has not been entered into for the supply of computing services by the Local Authorities Superannuation Board to the Motor Accidents Board. A similar service is also provided by the Local Authorities Superannuation Board to the State Superannuation Board. A tri-party agreement between these 3 bodies has been drafted but not formalised. This draft agreement, which has operated since 1 July 1979, includes the charging basis for services provided.

#### *Payments for Unused Hospital Beds*

An agreement was entered into by the Board with a hospital whereby the Board negotiated a "special" bed rate for a minimum of 25 beds per day, with payments being made up to 6 months in advance. The Board, in the period to 30 June 1981, did not utilise all 25 beds per day and these unused beds represent an additional cost to the Board of \$204 950. This amount is the difference between the amount paid under the agreement and the amount which would have been payable on an occupancy basis.

The payment by the Board for these unused beds is considered to be outside the ambit of the Motor Accidents Act 1973 which, inter alia, provides for payment where a service has been provided and where the service was in respect of a claim under Section 22. In respect of the unused beds no service had been provided and no claim had been made.

#### *Overcharging by Hospital*

Investigations made by the internal auditor of the Board revealed an apparent overpayment to a hospital of approximately \$99 000 for inpatient fees for the period 1 July 1980 to 31 July 1981. This overpayment resulted from the hospital, billing the Board the normal daily inpatient bed rate as approved by the Health Commission of Victoria, for periods when the patients had been sent home. The figure quoted above only takes into account the weekends in that period. It has been ascertained that this hospital closes on weekends and on public holidays.

Subsequent to the audit upon the accounts for the period ended 30 June 1981 the Board have further investigated this matter and have estimated that an amount of \$363 585 has been overcharged by the hospital for the period March 1975 to December 1981.

Action should be taken by the Board to clarify and resolve this situation and to recover all overpayments made.

# NATIONAL GALLERY OF VICTORIA

## *Introduction*

The Council of Trustees of the National Gallery of Victoria was constituted under the National Gallery of Victoria Act 1966.

The Council is responsible for the management and administration of the National Gallery of Victoria and the Banyule Gallery. It is also responsible for the maintenance, development and display of the State collection of works of art and assists in the promotion and supervision of art education throughout Victoria.

## *Statutory Reporting Requirements*

The National Gallery of Victoria Act 1966 requires the Council to furnish to the Minister on or before 30 September in each year a report containing a full account of its income and expenditure for the previous year to 30 June audited by the Auditor-General. This report is then to be tabled in Parliament.

The accounts for 1980-81 were presented for audit on 8 February 1982 but, following audit examination, have been returned to the Council with a request that various adjustments of a material nature be incorporated therein. However, at 12 March 1982 the amended financial statements had not been furnished.

# PORT OF GEELONG AUTHORITY

## *Introduction*

The Port of Geelong Authority Act 1981, altered the name of the Geelong Harbor Trust to the Port of Geelong Authority as from 22 December 1981.

The objectives of the Authority as laid down by the Commissioners of the Authority are:

- (a) To operate as a profitable commercial enterprise playing a significant part in carefully selected segments of shipping cargo and the ship-repair market.
- (b) To contribute to the overall development of the Geelong region by integrating the port into a world wide system of total distribution of imports and exports.
- (c) To contribute to an efficient and economical transport system within Victoria.

## *Statutory Reporting Requirements*

The Port of Geelong Authority Act 1958 requires the Authority to finalise its accounts as soon as practicable after 31 December in each year and have such accounts audited by the Auditor-General prior to them being tabled in Parliament.

The finalised accounts of the Authority were received during the course of the audit and the audit report on the financial statements was signed on 25 March 1982.

## *Financial Operations*

During the year ended 31 December 1981 the structure and format of the financial statements was reviewed and the accounts were brought more into line with the accounting standards issued by the Australian accounting bodies.

The financial operations of the Authority for the years ending 31 December 1981 and 1980 are summarised hereunder:

	1981	1980
	\$	\$
Operating Revenue	6 918 410	5 518 337
Operating Expenses	5 566 874	4 765 390
Net profit from Port operations	1 351 536	752 947
Investment and Extraordinary income	1 170 902	1 303 355
Net Profit	2 522 438	2 056 302

The net assets of the Authority at 31 December 1981 were \$38 519 759 (31 December 1980, \$35 964 695).

### Scope of Audit

Section 86 of the Port of Geelong Authority Act 1958 provides for an annual audit of the accounts of the Authority by the Auditor-General.

The audit consisted of an appraisal of the soundness of the accounting methods employed and the effectiveness of the system of internal control maintained by the Authority.

Satisfactory explanations were given to all the matters raised during the course of the audit.



# PORT OF MELBOURNE AUTHORITY

## *Introduction*

The Port of Melbourne Authority is responsible for the operation of the Port of Melbourne, including the construction and maintenance of docks, wharves and buildings, the dredging of shipping channels and the provision of cranes and mobile equipment for handling various types of cargo. To enable the Authority to carry out its functions, the lands and waterways within the designated port area have been vested in the Authority.

## *Statutory Reporting Requirements*

The Port of Melbourne Authority Act 1958 requires the Authority to prepare a balance sheet and statement of accounts. An audited copy of the balance sheet and statement is to be laid before both Houses of Parliament. The finalised accounts for 1980-81 adopted by the Authority were received by audit on 7 January 1982 and the audit report on the accounts was signed on 19 February 1982.

## *Financial Operations*

The financial operations of the Authority for 1980-81 compared with 1979-80 are summarised hereunder:

	1980-81	1979-80
	\$	\$
Income	45 723 000	39 674 000
Expenditure	47 334 000	38 352 000
(Deficit) Surplus	<u>(1 611 000)</u>	<u>1 322 000</u>

The 1980-81 result was adversely affected by the inclusion in the revenue statement of abnormal items totalling \$2 732 000 and accrued annual leave amounting to \$1 701 000. Further comment on these items is given later in this report.

Net assets of the Authority at 30 June 1981 were \$289 910 000 (30 June 1980, \$254 143 000).

## **Scope of Audit**

Sub-section (3) of Section 118 of the Port of Melbourne Authority Act 1958 provides for an annual audit of the accounts of the Authority by the Auditor-General. The audit work undertaken by my officers included the documentation, evaluation and testing of the Authority's major revenue and expenditure systems and the verification of assets held and liabilities incurred by the Authority at 30 June 1981.

## Audit Observations and Recommendations

Major matters commented on in the audit report upon the books and accounts of the Port of Melbourne Authority for the year ended 30 June 1981 included:

### *Internal Audit*

A firm of Chartered Accountants was engaged by the Authority during 1980 to review their financial procedures and controls including the role of the internal audit department. Discussions between my staff and senior officers of the Authority and the firm of Chartered Accountants during the 1979-80 audit resulted in the Authority undertaking to ensure that the internal audit function would be operating effectively by the end of the 1980-81 year. During their review all major financial areas were documented and audit programs developed for use by the restructured internal audit department. It was not possible for internal audit to cover all the areas documented in respect of the 1980-81 year in the limited period available.

The documentation of the work actually carried out for the year by internal audit was of a high standard. However it was considered necessary to extend the audit in areas where tests were not sufficiently spread over the whole period under review. The internal auditor was aware of such shortcomings in the work carried out during the year and he has indicated that the spread of tests will be reviewed by him in future audits.

It is anticipated that in future, greater reliance may be placed on internal audit work as a result of:

- (a) internal audit staff adopting new audit methodology and documentation techniques; and
- (b) the proposed expansion in scope of the internal audit department to cover financial, operational and computer audits.

### *Abnormal Items*

As previously mentioned the 1980-81 results were adversely affected by the inclusion in the revenue statement of abnormal items consisting of the following:

Provision for Long Service Leave	\$ 2 684 000
Provision for Service Grant Gratuities	440 000
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	3 124 000
Less Depreciation Adjustment Reserve	392 000
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	2 732 000
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Previous methods of calculating provisions for long service leave and service grant gratuities were reviewed by the Authority and it was considered that the sums previously provided were inadequate. New determinations were made by the Authority for the calculation of the provisions and the additional amounts shown were included in the accounts for 1980-81.

The depreciation adjustment reserve which had not been adjusted by the Authority to take account of certain assets disposed of in prior years was amended by writing back the above amount. This reserve was created to provide additional depreciation on certain assets considered essential to the continuing operations of the Authority. These assets are revalued at intervals in the books of the Authority.

### *Annual Leave*

The liability for annual leave due but not taken at balance date was brought to account in the financial statements of the Authority for the first time in 1980-81. A total accrual of \$1 701 000 was made of which portion was absorbed in other accounts leaving \$1 520 000 as a charge against administration expenses for the year.

### *World Trade Centre*

The Port of Melbourne (World Trade Centre) Act 1978 provided for the construction of the World Trade Centre within the port area and authorised the Authority to incur expenditure thereon.

During 1980-81 a net amount of \$24 162 000 was expended on the project bringing the total expenditure at 30 June 1981 to \$44 988 000. This amount includes \$35 035 000 paid to the contractor and other payments totalling \$9 953 000 mainly in respect of consultants, administration, insurance, finance costs, tenancy works, promotion and public relations. The contract for the construction, completion and maintenance of the 5 building complex was entered into during 1979 at a contract price of \$45 005 000 and was scheduled for completion in June 1982.

The revised cost of the contract of \$52 325 000 at 30 June 1981, included approved variations totalling \$7 320 000. The completion date has been revised to April 1983.

### *Superannuation*

In the audit report for 1979-80 it was stated that the balance of the provision for superannuation could not at present be adequately related to the Authority's liability in respect of pensions. In response to this comment the Authority arranged for an actuarial estimate of the liability of the Authority for its share of future pensions. The Authority has advised that the actuary's report will not be available for some time.

# STATE EMPLOYEES RETIREMENT BENEFITS BOARD

## *Introduction*

The State Employees Retirement Benefits Board was constituted under the provisions of the State Employees Retirement Benefits Act 1979 for the purposes of establishing and administering the State Employees Retirement Fund.

The fund which is contributory, provides superannuation benefits for certain employees of the Country Roads Board and State Departments and any other class of officers not otherwise covered by superannuation benefits who may be recommended by the Governor in Council.

In the main the Board provides benefits on account of age, disability, death or resignation. Lump sum payments and pension entitlements are available to beneficiaries in most instances.

## *Statutory Reporting Requirements*

The State Employees Retirement Benefits (Amendment) Act 1980 required the Board to submit its annual report to the Treasurer to be laid before both Houses of Parliament before or on the last day of November each year.

Under amending legislation namely the State Employees Retirement Benefits (Amendment) Act 1981 proclaimed on 15 December 1981 the Board was required from 1 January 1981 to submit its report including the audited accounts as soon as practicable after the accounts relating to the Fund have been audited.

The accounts of the Board for the year ended 30 June 1981 were received in my office on 23 November 1981.

The Board on 4 December 1981 presented its report to Parliament containing unaudited financial statements for the year ended 30 June 1981.

As indicated below, the financial statements were found on being audited to require material amendment. At 12 March 1982, new financial statements had not been received from the Board.

## **Scope of Audit**

Section 17 of the State Employees Retirement Benefits (Amendment) Act 1980 provides for an annual audit of the accounts of the Board by the Auditor-General. In addition to my statutory responsibility to conduct an audit each year, a firm of chartered accountants appointed by the Board, conduct an audit on a regular basis throughout the year. Their audit program, working papers and audit reports were examined and evaluated by my officers.

Additional work carried out by my officers revealed that as the "debtors ledger - schedule of employers' contributions" and receipts cash book had not been reconciled, the accounts as presented for audit were materially incorrect.

On 22 December 1981 the Board was informed that the audit of its accounts could not be completed until all employers and members accounts had been reconciled and new financial statements prepared.

# STATE INSURANCE OFFICE

## *Introduction*

The State Insurance Office was established pursuant to the provisions of the State Insurance Office Act 1975.

The main functions of the Office are:

- (a) to enable employers to obtain policies of insurance which they are required to effect against their liability in relation to workers compensation under the Workers Compensation Act 1958; and
- (b) to enable the owners of motor cars to obtain contracts of insurance as required by the provisions of the Motor Car Act 1958, and contracts of insurance generally in relation to motor cars.

In terms of the legislation, all premiums and other moneys received by the Insurance Commissioner are required to be paid into the State Insurance Fund, from which moneys are available to meet liabilities incurred, together with administration and other costs payable under the Act. Moneys standing to the credit of the fund may be invested by the Commissioner on the advice of an Investment Advisory Committee, constituted under the Act, in such securities as are within the classes or kinds of securities approved by the Treasurer.

As a result of an amendment to the Workers Compensation Act 1958 by the Workers Compensation (Miscellaneous Provisions) Act 1979, the Treasurer delegated to the Insurance Commissioner certain powers and functions relating to the operation and administration of the Insurers Guarantee and Compensation Supplementation Fund and Workers Supplementation Fund which form part of the Trust Fund in the Treasury. Powers and functions delegated may be summarised as follows:

- (a) examination, authorisation and payment of claims and re-funds;
- (b) examination of insurer's records and audited statements; and
- (c) prescription of procedures relating to the general administration of the funds.

Comments on each of these funds was contained in my annual report to Parliament for 1980-81 (refer pages 212 to 214).

### Statutory Reporting Requirements

The State Insurance Office Act 1975 requires the Insurance Commissioner to give the Minister in the month of September in each year a statement of accounts of the Office for the preceding financial year. The statement of accounts is required to be tabled in both Houses of Parliament as soon as practicable.

The statement of accounts for 1980-81 were finalised on 18 March 1982 and the audit report on the financial statements was signed on 7 April 1982.

### Financial Operations

The financial operations of the State Insurance Office for 1980-81 compared with 1979-80 are summarised hereunder:

	1980-81	1979-80
	\$	\$
Income	396 109 117	364 741 987
Expenditure	395 215 436	352 192 835
Profit before transfer to Reserves	<u>893 681</u>	<u>12 549 152</u>

The profit in 1980-81 was transferred to Undistributed Profit whereas in 1979-80 \$6 049 152 was transferred to General Reserve and \$6 500 000 transferred to Bonus Reserve.

Net assets of the Office at 30 June 1981 were \$53 364 378 (30 June 1980 \$52 470 697).

During the year under review, several significant changes in accounting policy were adopted by the Office. A brief summary of the more important changes being:

- (a) The compulsory third party outstanding claims provision was adjusted in order to make allowance for future investment income receivable from investments held to meet the claims liability for that class of business. In the year ended 30 June 1981 the amount of this allowance was \$97.7 million.

If this change in accounting policy had not been adopted each of the following items would have been varied by \$97.7 million.

- (i) the compulsory third party outstanding claims provision of \$663 200 000 would have been \$760 900 000; and
- (ii) the incurred claims on compulsory third party of \$276 170 452 would have been \$373 870 452.

- (b) The method of calculating the outstanding claims provision in respect of employers' liability was varied by excluding from the provision "incurred but not reported" (I.B.N.R.) claims in respect of "cost plus" policies. These policies provide for recoup of claims incurred plus a percentage recovery of administration charges and form a component part of the outstanding claims provision. The effect of this change in 1980-81 was to reduce the provision for outstanding claims and to increase profit by approximately \$40.7 million.
- (c) The recognition by the Office that it has a liability for superannuation which extends beyond balance date. An actuarial assessment estimated this liability at 30 June 1981 to be \$9.9 million. Of this amount \$635 000 was in respect of the current year and \$9 265 000 in respect of previous years.

If the above accounting policies had not been adopted during the year, the net profit, as disclosed in the accounts of the Office, of \$893 681 would have been a net loss of \$127 606 319.

#### *Qualification of Financial Statements of Office*

It was necessary to record the following qualification to the statement of accounts:

"The amount shown under Sundry Debtors \$31 884 297 includes \$910 000 on account of employers liability premiums raised prior to 30 June 1981 relating to policies of insurance subsequent to that date. The inclusion of this sum under Sundry Debtors has had the effect of overstating both Sundry Debtors and Unearned Premium - Employers Liability by \$910 000 in the balance sheet. There was no effect on the net profit for the year."

#### **Scope of Audit**

Sub-section (2) of Section 18 of the State Insurance Office Act 1975 provides for an audit of the accounts of the State Insurance Office by the Auditor-General.

The Office had an internal audit section operating during 1980-81. The internal audit was conducted by a firm of chartered accountants with assistance from the Office's own internal audit group. The firm was also responsible for the planning, directing and reporting functions of the section. Internal audit programs, work papers and reports were examined and accepted for the purposes of my audit. In addition my officers verified assets held and liabilities incurred by the Office at 30 June 1981.



## Audit Observations

### *Outstanding Claims Provisions*

As noted above, the Insurance Commissioner adopted, for the first time, the practice of adjusting the compulsory third party provision by allowing for future investment income. The practice was not adopted in respect of other classes of insurance transacted by the Office. Further in determining the amount of the adjustment, the Commissioner adopted in the current year a rate equivalent to 50 per cent. of the earning rate from investment held to meet the claims liability for that class of business.

The practice of discounting outstanding claims provisions by future investment income anticipated to be earned is the subject of considerable debate in the insurance industry. The practice is not uniformly adopted by all insurance companies.

## STATE SUPERANNUATION BOARD

The State Superannuation Board is constituted as a body corporate under the provisions of the Superannuation Act 1958 and is responsible for the administration of the Superannuation Fund established under Section 5 of the Act.

The fund provides, on a contributory basis, retiring benefits for the public and teaching services, the officers and employees of the railways service and certain statutory bodies and, in terms of the Superannuation Act 1963, certain members of the Police Force.

### *Statutory Reporting Requirements*

#### (a) Annual Report

Section 63 of the Superannuation Act 1958 requires the Board in each year to submit to the Minister to be laid before both Houses of Parliament, a report dealing with the general administration and working of the Act.

Although the Act does not specifically require the presentation of a financial report the Board has over the years provided Parliament with statements of receipts and payments for the year and details of investments held at year end.

The Board for the first time, in its report to Parliament for the year ended 30 June 1981, presented a statement of income and expenditure and a balance sheet for the period.

The unaudited accounts presented to Parliament for the year ended 30 June 1981 required certain amendments which are detailed in this report and it was not until 25 February 1982 that the accounts were finalised by the Board. The audit report on the financial statements was signed on 25 March 1982.

#### (b) Actuarial Report

Section 10 of the Superannuation Act 1958 requires an actuarial investigation into the state and sufficiency of the fund every 3 years. The investigation at 30 June 1980 revealed a surplus of \$157 282 062 compared with a surplus of \$103 522 451 at 30 June 1977.

## Financial Operations

A summary of the operations of the fund based on the audited financial statements for the year ended 30 June 1981 is as follows:

	1981
	\$
Income	129 292 614
Expenditure	52 051 562
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Excess of Income over Expenditure	77 241 052
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The total funds employed by the Board at 30 June 1981 and 1980 is as follows:

	1981	1980
	\$	\$
Accumulated Funds	660 233 444	582 992 392
Reserve Funds	6 280 080	1 141 667
	<hr/>	<hr/>
	666 513 524	584 134 059
	<hr/>	<hr/>

The unaudited accounts presented to Parliament disclosed that the total funds at 30 June 1981 were \$663 808 720 whereas the audited accounts disclosed a figure of \$666 513 524. The difference in the total funds resulted from a variation in the accounting treatment of the asset, land and buildings, on revaluation.

### Scope of Audit

Section 8 of the Superannuation Act requires the accounts relating to the fund to be audited by the Auditor-General.

A detailed audit of the operations of the Board was carried out and considerable time was spent in verifying the opening balances contained in the revised financial statements. Verification procedures established the existence of the assets and liabilities of the fund, however due to the manner in which the accounts have been maintained in the past it was not possible to verify that the balance at 30 June 1980 of \$582 992 392 was represented by existing members contributions and accumulated surpluses over the years.

### Audit Observations and Recommendations

#### Contributions

##### (a) Annual Variation Returns

Departments are required, on an annual basis, to provide the Board with details of employees unit entitlements to enable the Board to record the annual adjustment due in May each year.

At the date of audit the Board had not completed the processing of the 1980 returns.

(b) Late Variation Returns

Departments are required to submit to the Board on a fortnightly basis their remittances and details of the variations in employees contributions during the period.

It was noted that certain departments were late in forwarding their returns and remittances to the Board.

The forwarding of late remittances has the effect of reducing, for a period, the funds available for investment.

(c) Refund of Contributions

Section 36 of the Superannuation Act 1958 provides for a refund of contributions in the event of a member resigning from the fund.

An examination of the deletions from Education Department superannuation records for 11 pay periods during the year established that:

- (i) 41 contributors had resigned and had not claimed refunds totalling \$115 615; and
- (ii) certain persons were recorded as not having claimed a refund of contributions, whereas in fact they had been granted a retirement benefit and their records had not been suitably endorsed.

Arising out of this examination it was further established that:

- (i) there are a large number of persons who have not claimed a refund of their contributions to the fund; and
- (ii) the Board has not included this liability in its financial statements.

It was recommended that the Board ensure the accuracy of its contributors' records and that the existing liability in respect of unrefunded contributions be established and incorporated in its 1981-82 accounts.

*Housing Loans*

At 30 June 1980 and 1981, the Board was unable to provide details of the individual loans outstanding to support the figures shown in the balance sheets at those dates.

At 30 June 1981 the figure shown in the balance sheet was \$61 191 426 whereas the subsidiary debtors ledger totalled \$61 431 034, a difference of \$239 608.

At the completion of the audit, the Board's staff had reduced the variance to approximately \$20 000.

#### *Commercial Loans - Default in Repayments*

Two borrowers have defaulted in the repayment of their commercial loans and action is currently being taken to recover the amounts due to the Board. One of these loans is guaranteed by the Treasurer of Victoria.

#### *Reserve Units Account*

The balance of this account at 30 June 1980 could not be reconciled with the subsidiary records. A reconciliation had apparently been performed but the working papers could not be located. The Board's staff is currently in the course of reconstructing the reconciliation.

The reconciliation of the Reserve Units Account at 30 June 1981 had not been completed as at the date of audit, 24 February 1982.

#### *Review of the Internal Audit Function*

A review of the internal audit function of the Board was carried out during the course of the current audit.

It was established that:

- (a) The internal auditor had received little direction from the Board, had insufficient organisational status and his independence was impaired as he did not have access to the Board; and
- (b) there was a lack of audit programs, working papers and documentation of the Board's systems and procedures.

Audit recommended, as a matter of urgency, that the Board review its internal audit function so as to provide an effective internal audit of its operations.

#### *Provision of E.D.P. Services*

The formalisation of the existing verbal agreement for E.D.P. services provided to the Board by the Local Authorities Superannuation Board had not been finalised at 12 March 1982. This matter was first brought to the attention of the Board in an audit report of July 1979.

*Trade Practices Commission*

The Board's previous practice of dealing exclusively with an insurance broker for the provision of insurance cover on property mortgaged to the Board as security for loans, resulted in an action being taken against the Board by the Trade Practices Commission.

On 19 December 1980, judgment was entered against the Board which has appealed to the Full Court. A decision on the appeal is pending.

# TROTTING CONTROL BOARD

## *Introduction*

The Trotting Control Board is constituted as a body corporate under the provisions of sub-section (1) of Section 39 of the Racing Act 1958. It is the function of the Board to control the sport of trotting throughout Victoria and to conduct trotting races at certain authorised venues.

The principal sources of income of the Board are a share of the Totalizator Agency Board surplus received in accordance with that Board's financial scheme under Section 116I of the Act, admission and other income received from the conduct of trotting races, commission from the operation of on course totalizators and registration and licence fees.

## *Statutory Reporting Requirements*

The Racing Act 1958 requires the Board to finalise and submit audited accounts within 3 months of 31 July each year to the Minister for tabling in Parliament. Due to protracted discussions between my officers and officers of the Board on the accounting treatment of certain balance sheet items the accounts were not adopted by the Board until 4 December 1981 and the audit report on the financial statements was signed on 11 December 1981.

## *Financial Operations*

In accordance with Section 46 of the Act the Board established a Trotting Control Board Fund into which moneys received have been paid and out of which all expenses incurred by the Board in performing its statutory functions have been met. The financial operations of the Board for 1980-81 compared with 1979-80 are summarised hereunder:

	1980-81	1979-80
	\$	\$
Income	6 795 870	5 967 905
Expenditure	6 308 168	5 465 085
Surplus	<u>487 702</u>	<u>502 820</u>

Net assets of the Board at 31 July 1981 were \$4 149 915 (\$4 020 335 31 July 1980).

## Scope of Audit

Section 47 of the Racing Act 1958 provides for an annual audit of the accounts of the Board by the Auditor-General. In addition to my statutory responsibility to conduct an audit each year, a firm of Chartered Accountants appointed by the Board, conduct an audit on a regular basis throughout the year. Their audit program and working papers were examined and evaluated by my officers and were accepted for the purposes of my audit. Additional audit work undertaken by my officers included determination of the correctness of the income received from the operations of the galaxy grand slam series and stakes series, verification of the country club distribution and of the assets and liabilities of the Board at 31 July 1981. The operations and the financial statements of the following were also examined:

Trotting Trainers' and Drivers' Accident Compensation Scheme,  
Trotting Control Board Staff Superannuation Fund,  
Trotting Control Board Benevolent Fund.

## Audit Observations and Recommendations

Major matters included in the audit report upon the books and accounts of the Trotting Control Board included:

### *Non-compliance with Legislation*

The Board had not complied with Section 44A of the Racing Act 1958 as it had not obtained the approval in writing of the Minister and the Treasurer of Victoria to borrow a sum of \$320 000 from the Victorian Trotting Club.

### *Cash Receipting System*

A control weakness in the computerised cash receipting system was identified by audit and it was recommended that the computer programs be amended to overcome the weakness.

### *Trotting Trainers' and Drivers' Accident Compensation Scheme*

The Trotting Control Board prior to 1980-81 also administered this scheme which was set up to provide a cover for trainers and drivers involved in accidents while engaged in official trotting activities, with a further 24 hour cover extending over any trotting activity being available upon payment of an additional premium.

The Board resolved that this scheme be wound up at 31 July 1980 as its operation was contrary to the Commonwealth Insurance Act. No premiums were collected during 1980-81. However, the scheme has not yet been completely wound up as claims are currently being processed for accidents which occurred while the scheme was operating.



The income of the scheme for the year totalled \$7 543 and the expenditure \$99 692 resulting in a net deficit of \$92 149 which together with the accumulated surplus of \$107 549 brought forward from the previous year made the accumulated funds at 30 June 1981 \$15 400.

#### Action by Board

At the date of preparation of this report the Board has indicated that the recommendations regarding the cash receipting systems are the subject of consideration.

# URBAN LAND AUTHORITY

## *Introduction*

The Urban Land Authority was established under the provisions of the Urban Land Authority Act 1979 which came into operation on 12 March 1980.

The functions of the Authority are to provide developed and development allotments as directed by the Minister for Housing and to facilitate the disposal of lands, both developed and undeveloped, which the Governor in Council, on the recommendation of the Minister for Housing, by order declares ought to be disposed in the public interest.

## *Statutory Reporting Requirements*

The Urban Land Authority Act 1979 requires the Authority to finalise its accounts within two months of 30 June each year. The audited accounts are to be forwarded to the Minister by 30 November for tabling in Parliament before 31 December or if Parliament is not sitting forthwith upon the resumption of the sitting of either House.

The finalised accounts for 1980-81 were made available to audit on 20 November 1981 and the audit report on the financial statements was signed on 25 November 1981.

## *Financial Operations*

The financial operations of the Authority for the year 1980-81 compared with the period 12 March 1980 to 30 June 1980 are summarised hereunder:

	1980-81	12.3.80 to 30.6.80
	\$	\$
Income	2 286 201	565 254
Expenditure	523 329	406 241
Operating Surplus	1 762 872	159 013
Transfer from (to) Provision for Decrease in Land Values	5 777 281	(8 263 596)
Net Surplus (Deficit)	7 540 153	(8 104 583)

Net assets of the Authority at 30 June 1981 were \$5 935 628 (Net deficiency \$8 277 746, 30 June 1980).

This substantial variation occurred mainly because:

- (a) In the previous period following a valuation of all land held it was found necessary to create a provision for decrease in land values amounting to \$8 263 596.
- (b) In 1980-81 an amount of \$5 777 281 was transferred back from the provision for decrease in land values.

This amount consisted of:

- (i) \$5 080 000 due to interest that had previously been capitalised and included as part of the cost of land being waived by the Commonwealth as explained in the next paragraph; and
  - (ii) an adjustment of \$697 281 due to sales and revaluations.
- (c) There was an increased net operating profit from \$159 013 to \$1 762 872 in 1980-81 due to a full year's operations as against 3 months in the previous period.

#### *Changes in Commonwealth Financial Agreement*

Section 19 of the Act provides for all land vested in or held by the Housing Commission immediately before the commencement of the Act for the purposes of urban land development to be vested in the Authority together with all encumbrances, mortgages and other charges in respect of that land.

Accordingly all land held by the Housing Commission on behalf of the then Urban Land Council, a non statutory body was transferred to the Urban Land Authority together with charges affecting that property.

Up to 12 March 1980 \$23 668 705 had been advanced to the Housing Commission on behalf of the former Urban Land Council under the Commonwealth's Urban and Regional Development (Financial Assistance) Act 1974 and a subsequent Commonwealth State Agreement under the Act. These funds were in respect of expenditure on programs approved by the Commonwealth in accordance with the Act and the agreement.

The repayment of these advances was not due to commence until 15 June 1985. Interest outstanding has been capitalised each year and treated as an additional loan by the Commonwealth. The amount of interest capitalised at 30 June 1981 was \$11 851 445 making the total amount repayable at that date \$35 520 150.

The repayment under the terms of this Act and agreement became the responsibility of the Urban Land Authority pursuant to Section 21 of the Urban Land Authority Act 1979 and was incorporated in the books of the Authority accordingly.

However as the result of negotiations during the year between the Authority and the Commonwealth, it was agreed that in exchange for a greatly accelerated program of repayments by the Authority over a 6 year period instead of 20 as previously and beginning in the 1981-82 financial year in lieu of 1984-85 a capitalised interest liability of \$11 820 150 would be waived by the Commonwealth leaving an amount of \$23 700 000 outstanding in full and final settlement at 30 June 1981.

In addition to reducing the Loan Liability by \$11 820 150 other adjustments to the accounts, necessary because of the new agreement, are as follows:

	\$	\$
Reduction of capitalised interest in assets		
Undeveloped Land	4 416 259	
Developed Land	663 741	
	<hr/>	5 080 000
Write Back to Accumulated Surplus (relating to capitalised interest on land sold in previous periods)		6 740 150
		<hr/>
		11 820 150
		<hr/>

# VICTORIAN ARTS CENTRE TRUST

## *Introduction*

The Victorian Arts Centre Trust was established as a body corporate under the provisions of the Victorian Arts Centre Act 1979. The Act, proclaimed to operate from 11 March 1980, provided for the Trust to be constituted as the successor in law of the Victorian Arts Centre Building Committee.

The Trust has responsibility for:

- completing the construction of the Centre;
- improving and maintaining the Centre;
- controlling and managing the Centre (other than those parts occupied by the National Gallery);
- presenting and producing theatrical and other entertainment; and
- promoting the theatre complex.

The activities operated by the Trust include B.A.S.S. (best available seating service), the Sidney Myer Music Bowl and a catering service at the National Gallery.

## *Statutory Reporting Requirements*

The Victorian Arts Centre Act 1979 requires the Trust to prepare and submit to the Auditor-General for audit a statement of accounts at the end of each financial year (30 June). The Trust is required to report to the Minister on its operations not later than 31 December in each year and such report, including the audited statements are required to be laid before Parliament.

The finalised accounts were made available to audit on 23 December 1981 and the audit report on the financial statements of the Trust was signed on 12 January 1982.

## *Financial Operations*

	1980-81	1979-80
	\$	\$
Income	2 007 509	1 114 039
Expenditure	3 177 072	2 349 411
Excess of operating expenditure over income	1 169 563	1 235 372
Government grants	25 046 000	28 350 000
Balance available for capital and other purposes (transferred to Accumulated Fund)	23 876 437	27 114 628

Net assets of the Trust at 30 June 1981 were \$120 930 363 (30 June 1980, \$97 019 989).

During the year a change in accounting policy adopted by the Trust resulted in a change in the form of presentation of the final accounts. The Trust decided that, as the accounts cover all of its activities, the financial statements should be changed to the extent necessary to achieve an overview of its total operations. This has resulted in information in relation to activities such as, B.A.S.S., catering and the Sidney Myer Music Bowl being absorbed into the Trust's overall figures under appropriate headings of income and expenditure.

### Scope of Audit

The audit was conducted pursuant to sub-section (4) of Section 17 of the Victorian Arts Centre Act 1979 and involved examination and appraisal of the accounting and other systems in operation in respect of the several activities of the Trust.

### Audit Observations and Recommendations

#### B.A.S.S.

In 1980-81 box office operations incurred a further loss of \$241 134 (1979-80, \$325 945), thus increasing the accumulated losses at 30 June 1981 to \$802 761.

#### *Sidney Myer Music Bowl*

The approval of the Minister of Lands was given on 16 September 1980 to the appointment of the Victorian Arts Centre Trust as a Committee of Management for the Sidney Myer Music Bowl Reserve.

In accordance with a resolution by members of the Sidney Myer Music Bowl Trust (a company limited by guarantee in liquidation) net assets of \$33 937 were transferred by the liquidator to the Victorian Arts Centre Trust.

Operations in 1980-81 disclosed a surplus of \$16 199 after taking into account a Treasury grant of \$16 000.

#### *Catering*

The Trust entered into an agreement with caterers, with effect from 3 November 1980, to manage a catering service at the National Gallery. The agreement provided for a management fee, based on gross receipts banked, to be paid to the caterer and for profits to be shared with the Council of Trustees of the National Gallery. The new agreement replaced previous arrangements under which the caterer paid a fee to the Council of Trustees of the National Gallery for the right to provide a catering service.

A summary of operations for the period is given hereunder:

	\$	\$
Sales	636 032	
Less Cost of goods sold	428 114	
	<hr/>	207 918
Operating expenses		190 078
		<hr/>
Net profit		*17 840
		<hr/>

\* \$15 681 was transferred to the Council of Trustees of the National Gallery of Victoria as its share of the net profit.

# VICTORIAN SOLAR ENERGY COUNCIL

## *Introduction*

The Victorian Solar Energy Council was established as a body corporate, pursuant to the provisions of the Victorian Solar Energy Council Act 1980, on 17 December 1980.

The general functions of the Council can be broadly described as the encouragement and promotion of the use of and research into the use of solar energy. Similar functions had previously been conducted by the Victorian Solar Energy Research Committee, the financial transactions of which were conducted through the Victorian Solar Energy Research Committee Trust Account maintained in Treasury.

To date, funds to enable the Council to carry out its functions have been provided from appropriations from Parliament.

In the performance of these functions, the Council is empowered to provide funds to any institution, person or body for solar energy research and solar powered demonstration and development projects. Such funding can be on a Council equity basis or, with Ministerial approval, in the form of a loan or grant.

## *Statutory Reporting Requirements*

Under sub-section (1) of Section 18 of the Act the Council is required to submit to the Minister as soon as possible after the end of the financial year and not later than the first day of November, an annual report for the financial year ending on 30 June, together with an audited statement of accounts.

Finalised accounts were not available for audit prior to 1 November 1981. The audit report on the financial statements of the Council was signed on 26 November 1981.

## *Financial Operations*

Financial operations of the Council for the period 17 December 1980 to 30 June 1981 are summarised hereunder:

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Income	617 267
Expenditure	489 439
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Surplus	127 828
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At 30 June 1981, the net assets of the Council amounted to \$395 351 which included assets taken over at no cost, at a deemed value of \$267 523, from the Victorian Solar Energy Research Committee.



## Scope of Audit

The audit program centred on the following major areas:

a review of the value attributed to fixed assets taken over by the Council at no cost;

a system review of the Council's procedures for the approval and allocation of grants in relation to the solar energy development and demonstration program;

confirmation of cash balances transferred to the Council from State Treasury; and

verification of the authenticity and legality of Council expenditure.

### Audit Observations and Recommendations

Major matters raised in the Council's audit report for the period under review were:

#### *Financial Transactions*

The Act provided that the Council establish a General Fund into which was to be paid the amount standing to the credit of the Victorian Solar Energy Research Committee Trust Account. The trust account was kept open in Treasury until 18 March 1981, on which date Treasury forwarded the balance in the account to the Council. Council expenditure on solar demonstration and development projects from the commencement date, 17 December 1980 to 18 March 1981 was met from moneys standing to the credit of the trust account.

The financial transactions referred to above were incorporated in the financial records of the Council.

#### *Financial Statements*

Difficulties were encountered by the Council in preparing its financial statements due mainly to the inadequacy of the financial recording system operative during the period under review. With advice from audit, Council staff has since taken steps to establish suitable financial records.

# SUPERANNUATION AND RETIREMENT BENEFIT SCHEMES

## *Introduction*

In Victoria, there are a number of superannuation and retirement benefit schemes operating in respect of government employees. The majority of such schemes are subject to audit by the Auditor-General.

These schemes are arrangements whereby employers undertake to provide employees with retirement benefits. The basic types of benefits provided in schemes include:

- a pension related to terminal salary;
- a pension based on the average earnings of the employee during his working life;
- a lump sum payment;
- a disability or death benefit.

In some schemes, the pension entitlement may be partly commuted to a lump sum payment on retirement.

Generally, superannuation schemes are funded by way of contributions received from the employer and employee although the timing of the contribution by the employer may vary. Actuarial assessments, based on benefit provisions, the specific characteristics of the participants and the predictions of future liabilities, determine the rate (commonly known as the pace of funding) at which the funds of the scheme need to be accumulated in order to meet its liabilities with respect to the future benefits for the participants.

In view of the diversified nature of the various schemes and the lack of uniformity in financial statements, a review of the nature, constitution, funding and general administration of the schemes was undertaken by my Office.

## Scope of Review

A review group comprising 3 senior audit officers was established to examine the schemes to enable decisions to be made in respect of the future conduct of the audit of such schemes. It was necessary to identify in respect of each fund subject to my audit:

- (a) the document constituting the fund;
- (b) the funding arrangements;
- (c) the relationship between fund and employer;
- (d) the investment powers of the persons charged with the responsibility for the management of the schemes (Trustees, Board etc.);

- (e) whether the investments of the fund are held in the name of trustees or the employer organisation;
- (f) the frequency of the actuarial valuation of the fund;
- (g) whether administrative costs of the fund are borne by the fund;
- (h) the reporting requirements of trustees of the fund and how those requirements are met; and
- (i) the nature of audit responsibility.

The review covered 14 large public authorities involved in the operation of one or more superannuation schemes on behalf of their employees.

### Audit Observations and Recommendations

The examination disclosed that diversified practices existed between the schemes and the following comments highlight the major issues arising from the review:

#### *Constitution of Schemes*

In Victoria, there are no uniform legislative requirements governing the constitution, operation, reporting and audit of superannuation schemes. Each of the funds reviewed was generally constituted either by statute, regulation or specific deed of trust.

However, one authority operates a scheme for certain employees without a formal document establishing the scheme. This scheme is not subject to my audit.

#### *Funding*

Superannuation schemes are usually funded by means of contributions received, on a regular basis, from the employer and employee. The rate of contribution is governed by the conditions contained in the relevant legislation or in the trust deed and these conditions vary from one scheme to another.

Contributions by employees usually range from 2.5 per cent. through to 9 per cent. of annual salary, the rate being determined, in most instances, by the board or trustees acting on actuarial advice. Employer contributions to the schemes varied, however, generally the rate of contribution was on a 2:1 basis.

In addition to the agreed proportionate rate of contribution by the employer, there was one instance of the employer contributing an additional amount in order to reduce an actuarial deficit in the fund.

In the major fund, namely the State Superannuation Fund, the employees contributions are deducted from their fortnightly salary and remitted to the fund. However, the employee's fortnightly contributions are not matched by a contribution from the employer until a retiring benefit is payable. Income generated by the fund is derived from the investment of the employees's funds. Where lump sum benefits are payable, the fund meets the full employer share of the commuted pension and recovers the employer's share over the life of the beneficiary.

The Melbourne and Metropolitan Tramways Board operates a retirement benefits scheme. Gratuities are paid to certain employees on retirement through age or disability and, in the case of death, to the widow. No contributions are made by the employees to this gratuity scheme and the costs are borne by the employer and charged against each year's operations.

### *Relationship between Fund and Employer*

In most schemes, there is a mix of employer and employee representation on the management body and, generally, the employee representative is elected by the members. In some schemes, an independent representative is appointed by either the government or the employer.

However, some funds have no employee representation whilst, in other cases, the fund is controlled directly by the employer organisation. In one instance, the scheme was administered by 6 members, 2 of whom also act as the joint actuaries to the scheme.

It was noted, more particularly in relation to employer controlled schemes that, in some cases:

- (a) the superannuation fund is incorporated in the Authority's accounts,
- (b) funds are not specifically invested, and
- (c) investments are held other than in the name of the fund.

Audit is of the view that the trustees of superannuation funds should present separate audited financial statements.

### *Investment Powers*

The review identified a wide diversity of investment powers accorded to the trustees of the various schemes. Investments held in various superannuation funds varied from trustee investments, as authorised by the Trustee Act 1958, to shares in public companies and any other approved by the employer.

A number of managed schemes exist. Under these schemes, insurance or trustee companies manage the scheme on behalf of the trustees. From information gathered during the review, it would appear that the trustees, the employer and the employee have little, if any, control over the manner in which the funds of these schemes are invested.

### *Investment of the Funds*

In some cases, the investments of the fund are held in the name of the employer.

Approximately 50 per cent. of the investments of the State Electricity Commission Superannuation Fund are in the form of unsecured advances to the Commission for its capital works program. These advances are provided to the Commission by the fund at an agreed rate of interest and on specific repayment terms. The Commissioners of the State Electricity Commission are the trustees of the superannuation fund.

Few funds disclose details of their investment policy to their members.

### *Actuarial Valuations*

The schemes, examined during the review, require periodic actuarial investigations, the usual period being 3 years. Although the investigations are commenced within the prescribed time, the review group noted instances of delay in the finalisation of the reports of such investigations.

It was noted in one scheme that, prior to introducing revised superannuation benefits, no actuarial valuation was sought to study the long term financial implications of such changes.

Audit is of the view that timely reports from appointed actuaries are essential to enable trustees of a fund to make appropriate decisions to ensure the financial viability of the fund.

### *Administrative Costs*

There is no uniformity in the way in which the administrative costs of the various schemes reviewed are to be borne. The costs are borne in some instances by the authority operating the scheme, some by the fund and in others solely by government.

No reference is made in the annual reports of the cost of administration where such costs have been borne either by the authority or by the government.

## *Reporting requirements of Trustees*

In Victoria, there is no specific legislation which clearly sets out the reporting requirements of trustees of superannuation funds. In the funds reviewed, it was noted that the reporting of financial information to members ranged from nothing at all through to a well presented and meaningful annual report. Some funds presented statements of receipts and payments whilst others had adopted accrual based accounting and were presenting income and expenditure statements and balance sheets each year.

Audit is of the view that members of each fund and Parliament should be provided with an income and expenditure statement and balance sheet together with supplementary explanatory notes of a relevant nature including actuarial information.

## *Audit Responsibility*

The authority for the conduct of the audit of the various schemes was generally provided for in either the relevant statute, regulation or trust deed. In some schemes, this authority was vested in the Auditor-General whilst in others with private auditors. Provision is made in some schemes for a continuous audit to be conducted by a private auditor and for an annual audit by the Auditor-General.

In my supplementary report to Parliament for the year ended 30 June 1981, I drew attention to the establishment of a new superannuation scheme by the Melbourne and Metropolitan Board of Works which replaced the previous schemes conducted by the Board. These previous schemes were, by legislation, subject to my audit. Without prior consultation with me, the trustees of the new scheme appointed a firm of chartered accountants to conduct the audit of the account. The removal of my audit responsibility by means of sub-ordinate legislation has been drawn to the attention of the Treasurer.

## **Conclusion**

The review established a need for the preparation of standard guidelines for the audit of public sector superannuation schemes. These guidelines are in course of preparation by my officers.

I am of the view, based on the information obtained by my officers and as reported above, that there is a need for a review of the legislative and other provisions relating to the audit, operation and reporting of superannuation and retirement benefit schemes in the public sector.

