



**Victoria**

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**Report  
of the  
Auditor-General**

**December 1982**

VICTORIA

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*Report*

of the

**AUDITOR-GENERAL**

December 1982

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1982



Office of the Auditor-General  
MELBOURNE, Vic.  
13 December 1982.

Sir,

Pursuant to the provisions of the Audit Act 1958, I transmit herewith a report on the 1981-82 accounts of certain statutory bodies which I am required by law to audit. This report is supplementary to the report of 6 October 1982, in relation to the Treasurer's Statement for the year ended 30 June 1982.

Yours faithfully,

B.J. WALDRON  
Auditor-General

The Honourable the Speaker,  
Legislative Assembly,  
Parliament House,  
MELBOURNE, VIC.

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## 1.0 INTRODUCTION

- 1.1.1 Pursuant to the provisions of the Audit Act 1958, I present to the Legislative Assembly a report on the 1981-82 accounts of certain of the statutory bodies which the Auditor-General is required by law to audit.
- 1.1.2 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.
- 1.1.3 The report provides a brief description of each entity, an outline of the scope of the audit and any audit observations and recommendations of a significant nature which arose from the audit. Such observations include comment and recommendations, where appropriate, on:
- (1) reviews of internal control;
  - (2) reviews of E.D.P. applications;
  - (3) instances of failure to comply with legislative or regulatory requirements; and
  - (4) deficiencies or inconsistencies in the application of stated accounting policies or applicable accounting standards.
- 1.1.4 Management responses, if available, to matters raised in the audit reports have also been provided.
- 1.1.5 Early in 1982 statutory bodies subject to audit were advised that unless finalised accounts of the organisation were available for audit on or before 15 September 1982, no assurance could be provided that they would be included in this report to Parliament.
- 1.1.6 At the nominated date of 15 September 1982 a number of statutory authorities had not finalised their accounts and thus are not included in this report.
- 1.1.7 These bodies are:

Country Grain Handling Improvement Authority\*  
Film Victoria  
Geelong Grain Handling Improvement Authority\*  
Home Finance Trust and Registry of Co-operative Housing Societies  
Hospitals Superannuation Board  
Housing Commission  
Legal Aid Commission  
National Gallery of Victoria\*\*  
Portland Grain Handling Improvement Authority\*  
State Electricity Commission of Victoria  
State Employees Retirement Benefits Board  
Victorian Dairy Industry Authority  
Victorian Economic Development Corporation  
Victorian Government Travel Authority  
Victorian Post-Secondary Education Commission

\* accounts for year ended 31 October 1981

\*\* accounts for 2 years to 30 June 1982

1.1.8 The following bodies which had completed their finalised accounts by the nominated date are not included in this report:

Albury Wodonga (Victoria) Corporation  
Council of Adult Education  
Institute of Educational Administration  
Latrobe University  
Melbourne University  
Monash University  
State Superannuation Fund

1.1.9 The reason for the non-inclusion of a report on these latter bodies, is the inability of my office, due to a lack of resources, to complete the audits in sufficient time for presentation in this report. Comment on the resources available to the office was included on page 172 of my report to Parliament on the Treasurer's Statement for the year ended 30 June 1982.

1.1.10 A further report including comment on all the above bodies will be presented to Parliament in 1983.

Acknowledgement

1.1.11 I appreciate the helpful co-operation received during the year from the members and staff of the several authorities referred to in this report.

1.1.12 The assistance of the Government Printer in the presentation of my several reports is appreciated.

## 2.0 MATTERS OF SPECIAL INTEREST

2.1.1 Matters of special interest in this report are identified hereunder:

<u>SUBJECT</u>	<u>PARAGRAPH REFERENCE</u>
<u>Qualification of Financial Statements</u>	
Building Industry Long Service Leave Board	3. 1. 7
Cancer Institute Board	3. 2. 7
Country Fire Authority	3. 3. 8
Melbourne and Metropolitan Tramways Board	3.17. 8
Melbourne Underground Rail Loop Authority	3.18. 7
Railway Construction and Property Board	3.26. 8
State Insurance Office	3.28. 9
<u>Country Fire Authority</u>	
Verification of insurance company contributions	3. 3.16 - 3. 3.18
<u>Gas and Fuel Corporation</u>	
Accelerated depreciation of certain assets	3. 7. 6 - 3. 7. 7
<u>Government Printing Office</u>	
Publicity campaign in conjunction with Ministry of Employment and Training	3.10. 7 - 3.10.18
<u>Greyhound Racing Control Board</u>	
Financial viability of the board	3.11.13
<u>Local Authorities Superannuation Board</u>	
Internal control in computer operations	3.14.17
Need for internal audit	3.14.19
<u>Victorian Egg Marketing Board</u>	
Ex-gratia payments to former employees	3.15.29 - 3.15.31
Additional contribution by board to superannuation fund	3.15.32 - 3.15.35
<u>Melbourne and Metropolitan Board of Works</u>	
Physical security over board's computer operations centre	3.16.11
<u>Melbourne Wholesale Fruit and Vegetable Market Trust</u>	
Computer control weaknesses	3.19. 9 - 3.19.10
<u>Motor Accidents Board</u>	
Outstanding liability	3.22.15 - 3.22.17
Payment to hospital for rehabilitation centre	3.22.18 - 3.22.23

<u>SUBJECT</u>	<u>PARAGRAPH REFERENCE</u>
<u>State Insurance Office</u>	
Future investment income	3.28.12 - 3.28.17
<u>Victorian Public Offices Corporation</u>	
Financial viability of the corporation	3.37. 9 - 3.37.12
<u>Victorian Railways Board</u>	
Inadequacy of financial accounts	3.38.30 - 3.38.57
Vicrail Pipelines Pty. Ltd. - losses	3.38.44 - 3.38.52
<u>West Gate Bridge Authority</u>	
Financial operations of former authority	3.40. 7 - 3.40. 8



### 3.1 BUILDING INDUSTRY LONG SERVICE LEAVE BOARD

#### Introduction

- 3.1.1 The Building Industry Long Service Leave Board was established under the provisions of the Building Industry Long Service Leave Act 1975.
- 3.1.2 The main functions of the board are:
- (1) to administer the Building Industry Long Service Leave Act 1975;
  - (2) to keep a register of private employers employing workers to perform building and construction work;
  - (3) to keep a register of workers and working sub-contractors performing building and construction work; and
  - (4) to invest and manage the fund to meet ongoing and future long service leave payments.

#### Statutory Reporting Requirements

- 3.1.3 The Building Industry Long Service Leave Act 1975 requires the board to submit to the minister, to be laid before both Houses of Parliament, a report dealing with the general administration and working of this act.
- 3.1.4 Final accounts for 1981-82 were received on 17 September 1982 and the audit report on the financial statements was signed on 6 December 1982.

#### Financial Operations

- 3.1.5 The financial operations of the board for 1981-82 compared with 1980-81 are summarised hereunder:

	1980-81	1981-82
	\$	\$
Income	8 933 231	11 247 231
Expenditure	3 753 050	4 396 758
	-----	-----
Surplus	5 180 181	6 850 473
	-----	-----

- 3.1.6 Net assets of the fund at 30 June 1982 were \$27 423 024 (30 June 1981, \$20 470 333).

#### Qualification of Financial Statements

- 3.1.7 It was necessary for me to record the following qualification on the board's financial statements for 1981-82:

"The board has adopted a policy of switching investments to obtain a better yield. The accounting treatment adopted by the board does not disclose the loss or gain on sale at the point of sale and thus I am unable to determine from the board's records the correctness or otherwise of the operating surplus for the year".

## **Scope of Audit**

- 3.1.8 Section 7 of the Building Industry Long Service Leave Act 1975 provides for an annual audit of the Building Industry Long Service Leave Fund. The audit work undertaken included an evaluation and testing of internal controls in operation and ascertaining that legislation and generally accepted accounting principles had been complied with to enable an opinion to be formed on the financial statements.

### **Audit Observations and Recommendations**

#### Switching of Fixed Interest Securities

- 3.1.9 The board's policy, is that when the opportunity exists to improve the earning rate of the fund or to acquire a more suitable investment, securities are disposed of at their book value.
- 3.1.10 The brokers acting for the board, in their contract notes, show the purchase consideration for the replacement securities at approximately the book value of the securities being disposed of.
- 3.1.11 In audit opinion, the consideration received on the disposal of the securities, i.e. book value, where it differs from the actual market price, contains an element of profit or loss on disposal. However, the board's records did not contain sufficient information to enable audit to establish any loss or gain on the 5 disposals which occurred during the year.
- 3.1.12 The non-disclosure of any loss or gain at the point of sale is contrary to the accounting standards. This situation was brought to the board's attention by my letter of 25 August 1982. However, no adjustments have been made by the board to their final accounts and consequently the accounts were qualified.
- 3.1.13 Audit recommended that documentation from brokers should show the actual consideration on the disposal of securities and losses or gains on switching should be accounted for at the point of sale.

#### Accounts Receivable

- 3.1.14 An examination of monthly reports of ageing of accounts receivable disclosed the following:
- (1) the accounts receivable report at 30 June 1982 included balances outstanding since 1977; and
  - (2) the report has not been properly utilised due to a delay of up to 3 months in the processing of employer monthly contribution forms.
- 3.1.15 Audit recommended that to strengthen internal control:
- (1) the board should ensure that there are regular follow up procedures for the collection or adjustment of outstanding balances; and

(2) employer monthly contribution forms should be processed earlier in order that the ageing report be meaningful.

Conclusion

3.1.16 Apart from the above matters the results of the audit proved satisfactory.

## 3.2 CANCER INSTITUTE BOARD

### Introduction

3.2.1 The Cancer Institute Board is constituted in accordance with the provisions of the Cancer Act 1958 to carry out the institute's objects which are:

- (1) to provide facilities for research and investigation in respect of the causes, prevention, diagnosis and treatment of cancer and allied conditions;
- (2) to undertake such research and investigation; and
- (3) to provide in Victoria and elsewhere for the special training of persons in such research and investigations.

3.2.2 Operating expenditure of the board is met mainly from moneys appropriated under a Health Commission vote.

### Statutory Reporting Requirements

3.2.3 The Cancer Act 1958 requires the board to forward its audited balance sheet and income and expenditure statement to the minister, as soon as practicable after 30 June each year. The audit report on the financial statements for the year 1981-82 was signed on 26 November 1982.

### Financial Operations

3.2.4 The financial operations of the board for 1981-82 compared with 1980-81 are summarised hereunder:

	1980-81 \$	1981-82 \$
Income	21 392 822	25 104 587
Expenditure	21 983 356	25 116 429
	<hr/>	<hr/>
Deficit	590 534	11 842
	<hr/>	<hr/>

3.2.5 Net assets of the board at 30 June 1982 were \$34 354 616 (30 June 1981, \$30 901 377).

### Qualification of the Board's Financial Statements

3.2.6 I again found it necessary to record a qualification on the accounts of the board for the year ended 30 June 1982.

3.2.7 The qualification reads as follows:

"Private Practice Income of \$456 515 was collected under the terms of Section 33(3) of the Cancer Act 1958. Principal accounting records for this activity are neither maintained by, nor accessible to the board, and are therefore not verifiable by audit."

## **Scope of Audit**

- 3.2.8 Section 29 of the Cancer Act 1958 provides for an annual audit of the accounts of the board by the Auditor-General.
- 3.2.9 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. Their audit programs, work papers and reports were examined and accepted for the purposes of my audit. Additional work was undertaken by my staff on various aspects of the board's accounts to enable an opinion to be formed on the financial statements.

### Audit Conclusion

- 3.2.10 Apart from the above qualification and other minor weaknesses brought to the attention of the board, the results of the audit examination proved to be satisfactory.

### 3.3 COUNTRY FIRE AUTHORITY

#### Introduction

- 3.3.1 The Country Fire Authority is constituted under the Country Fire Authority Act 1958 and is responsible for the prevention and suppression of fires in the country areas of Victoria, facilitating the establishment of country fire brigades and the training of firemen.
- 3.3.2 The authority's revenue consists primarily of contributions from fire insurance companies and from the Municipalities Assistance Fund as provided under Section 76 of the Country Fire Authority Act 1958. Contributions are also received from insurance brokers and property owners where properties are insured with companies other than those licensed under Section 96 of the Stamps Act 1958.

#### Statutory Reporting Requirements

- 3.3.3 The Country Fire Authority Act 1958 requires the authority, as soon as practical after the end of each financial year, to furnish the minister with a report on its activities and audited accounts for tabling in Parliament.
- 3.3.4 The accounts were adopted by the authority on 13 September 1982 and the audit report was signed on 9 November 1982.

#### Financial Operations

- 3.3.5 The financial operations of the authority relating to the general account for 1981-82, compared with 1980-81 are summarised hereunder:

	1980-81	1981-82
	\$	\$
Income	26 837 343	31 254 898
Expenditure	24 799 098	29 252 288
	<hr/>	<hr/>
Surplus	2 038 245	2 002 610
	<hr/>	<hr/>

- 3.3.6 In addition to the general fund the authority also operates the following separate funds:
- (1) motor replacement;
  - (2) sale of property;
  - (3) sinking funds - loan;
  - (4) compensation; and
  - (5) superannuation.
- 3.3.7 Total net assets of the authority at 30 June 1982 were \$42 216 911 (30 June 1981, \$37 726 268).

## Qualification of Financial Statements

3.3.8 It was necessary to record the following qualification on the statement of accounts for 1981-82:

"Included in Stocks on Hand is an amount of \$593 000 representing the estimated value of stocks held at 14 regional workshops. Estimations are not an acceptable method of inventory valuation and as such I am unable to verify the valuation placed on Stocks on Hand at 30 June 1982."

### **Scope of Audit**

3.3.9 Sub-section (1) of Section 24 of the Country Fire Authority Act 1958 provides for the Auditor-General to annually audit the authority's balance sheet and statement of receipts and expenditure. In addition to my statutory responsibility to conduct an audit a continuous audit up until 31 March 1982 was carried out by a firm of chartered accountants appointed by the authority for that purpose. An internal audit section maintained a continuing appraisal of the financial and administrative systems.

3.3.10 The audit conducted by my officers encompassed an examination of financial systems and transactions including an evaluation of internal controls and a review of the effectiveness of internal audit and the audit conducted by the private auditors.

### **Audit Observations and Recommendations**

#### Stocks

3.3.11 Although the authority retains a large volume of stocks on hand a perpetual inventory system exists only in respect of stores at head office, the value of which represented only 13 per cent. of the total valuation placed on stocks at 30 June 1982.

3.3.12 The authority determined in 1981-82 to account for stocks on hand at district mechanical officers' workshops, the value of which was previously charged to maintenance. An adjustment of \$593 000 was made to accumulated funds to effect this transaction, which represented the estimated value of stocks on hand at 14 locations based on an actual stocktake at Belmont workshop. This method of inventory valuation does not conform with accepted accounting standards issued by the Australian accounting profession and accordingly the accounts have been qualified.

3.3.13 Audit recommendations were:

- (1) a review of inventory control be undertaken; and
- (2) valuations of stock be based on physical stocktakes and financial records.

### Sale of Property Fund

- 3.3.14 The authority has continued the practice of previous years of transferring interest earned (\$571 648) on general account investments to the sale of property fund. There is nothing within the authority's act or regulations to prevent such a transfer being made although the practice is contrary to accepted accounting standards in that it is credited direct to the sale of property fund. The transfer results in a reduction of the cash balance of the general account which is required, pursuant to Section 81 of the Country Fire Authority Act 1958, to be deducted from the expenditure estimates prepared for the purpose of calculating contributions due from insurance companies and Treasury.
- 3.3.15 This practice results in Treasury and the insurance companies being required to contribute to the authority's funds in excess of the amount that would otherwise be required.

### Statutory Contributions

- 3.3.16 Under the provisions of Section 76 of the Country Fire Authority Act 1958, fire insurance companies insuring against fire property within the country area of Victoria are required to contribute two thirds of the estimated annual expenditure of the authority. Section 79 of the Country Fire Authority Act 1958 provides for an inspection of the books and papers of insurance companies by any person appointed by the authority in order to verify premium returns.
- 3.3.17 Enquiries established that inspections of insurance company records do not take place. Checks on the accuracy of premium returns were limited to verbal enquiries with a selection of companies where significant variances from year to year have occurred.
- 3.3.18 In order to substantiate the accuracy of returns audit recommended to the authority that a system be adopted whereby premium returns are selectively verified, especially where significant variances have occurred.

### Conclusion

- 3.3.19 Audit is of the view the books were not satisfactorily kept due to:
- (1) journal entries often being incomplete, unauthorised and unsupported by suitable documentation;
  - (2) inconsistencies in the classification of accounts; and
  - (3) certain ledger cards not reflecting closing balances at 30 June.
- 3.3.20 A committee of enquiry has been formed by the authority to investigate the manner in which the financial records are maintained.



### 3.4 DEAKIN UNIVERSITY

#### Introduction

- 3.4.1 Deakin University was established by the Deakin University Act 1974.
- 3.4.2 In terms of the act, the university is a body politic and corporate whose objects include the establishment of a university in the Geelong area, the provision of tertiary education at university level, the provision of study centres at Ballarat, Bendigo and other places within Victoria, the provision of courses prescribed by statute and research.

#### Statutory Reporting Requirements

- 3.4.3 The Deakin University Act 1974 requires the council of the university to prepare a statement of accounts at 31 December in every year for submission within 3 months thereafter to the Auditor-General for audit. The audited accounts, together with its annual report on the university, are required to be forwarded by the council to the Governor in Council as soon as practicable after 31 March in each year. Copies of the accounts and the report are to be laid before Parliament.
- 3.4.4 The finalised accounts for 1981 were received by audit on 31 March 1982 and the audit report on the accounts was signed on 20 September 1982.

#### Financial Operations

- 3.4.5 The university's accounts structure is based on recording income and expenditure into funds or groups of funds.
- 3.4.6 The accounts are kept on an accrual basis, but, as the university does not operate for the purpose of profit making the conventional distinction between capital and revenue expenditure is not maintained in the accounts. Funds used for the purchase of equipment, the construction of buildings or for other items regarded as capital expenditure in the normal accounting sense are recorded as expenditure against the amounts received for such purposes in the year.
- 3.4.7 The major source of funding was from Commonwealth government grants provided under the States Grants (Tertiary Education Assistance) Act 1978. In the year 1981 total grants of \$18 259 495 (1980, \$15 495 434) were received for the following purposes - recurrent \$17 041 000, equipment \$801 000, capital \$342 000, special research \$42 000 and halls of residence \$33 495. Other income, derived mainly from interest and donations, amounted to \$2 326 651 for the year.
- 3.4.8 From total funds available, \$21 437 726, a sum of \$20 129 310 (1980, \$17 063 477) was expended by the university during the year, leaving an overall surplus of \$1 308 416 to be carried forward to 1982.

## **Scope of Audit**

- 3.4.9 The audit for the year 1981 was conducted pursuant to Section 35 of the Deakin University Act 1974 and involved the examination and evaluation of systems of internal control, including the work performed by the internal audit section. Verification of assets and liabilities disclosed in the statement of balances at 31 December 1981 was also carried out.

### **Audit Observations and Recommendations**

#### Companies Associated with University

- 3.4.10 The audit report on the accounts for 1981 again contained comment in relation to the legality of the university's involvement in the establishment of two companies, namely, Deakin University Foundation Limited and Durac Limited. This matter, together with the practice by the university of incurring costs in respect of the above companies, has been the subject of comment by me in previous reports.

#### Conclusion

- 3.4.11 Apart from the above matter and a number of minor weaknesses in internal control brought to the attention of the university, the results of the audit proved satisfactory.

### 3.5 DECENTRALIZED INDUSTRY HOUSING AUTHORITY

#### Introduction

- 3.5.1 The Decentralized Industry Housing Authority was established under the provisions of the Decentralized Industry (Housing) Act 1973.
- 3.5.2 The authority has a responsibility to assist in the provision of adequate housing for persons employed in country industries or in any country public administration.

#### Statutory Reporting Requirements

- 3.5.3 Section 16 of the act requires for the authority to finalise its accounts as soon as reasonably practicable after 30 June each year. Copies of the revenue account and balance sheet together with a report of the authority's operations during the year are required to be forwarded to the minister within 7 days after the preparation thereof for tabling in Parliament.
- 3.5.4 The accounts were adopted by the authority on 21 October 1982 and the audit report was signed on 25 November 1982.

#### Financial Operations

- 3.5.5 The financial operations of the authority for 1981-82 and 1980-81 are summarised hereunder:

	1980-81	1981-82
	\$	\$
Income	764 284	1 069 109
Expenditure	721 195	844 973
	-----	-----
Surplus	43 089	224 136
	-----	-----

- 3.5.6 Net assets of the authority at 30 June 1982 were \$364 937 (30 June 1981, \$140 771).

#### **Scope of Audit**

- 3.5.7 Section 17 of the Decentralized Industry (Housing) Act 1973 provides for an annual audit of the accounts of the authority. The audit comprised an evaluation of the system of internal controls and selective examination of individual transactions relating to the various accounting systems operated by the authority. Apart from a number of minor weaknesses, brought to the attention of the authority the results of the audit proved satisfactory.

### 3.6 EMERALD TOURIST RAILWAY BOARD

#### Introduction

- 3.6.1 The Emerald Tourist Railway Board was established as a body corporate under the provisions of the Emerald Tourist Railway Act 1977, to preserve and operate the historical narrow-gauge steam railway "Puffing Billy" as a tourist attraction in the Dandenong Ranges.

#### Statutory Reporting Requirements

- 3.6.2 The Emerald Tourist Railway Act 1977 requires the board before 31 October in every year to furnish to the minister a set of its audited accounts for tabling in Parliament.
- 3.6.3 The board adopted the accounts on 18 October 1982 and the audit report in respect of the 1981-82 accounts was signed on 16 November 1982.

#### Financial Operations

- 3.6.4 The financial operations of the board for 1981-82 and 1980-81 are summarised hereunder:

	1980-81	1981-82
	\$	\$
Income	525 438	640 509
Expenditure	471 547	518 791
	-----	-----
Surplus	53 891	121 718
	-----	-----

- 3.6.5 An increase in passenger fares from 1 July 1981 and passenger journeys during 1981-82 contributed towards the board's improved net profit result.
- 3.6.6 Net assets of the board at 30 June 1982 were \$1 768 575 (30 June 1981, \$1 126 617).

#### **Scope of Audit**

- 3.6.7 Section 25 of the Emerald Tourist Railway Act 1977 provides for an annual audit of the accounts by the Auditor-General. In addition to my statutory responsibility to conduct an audit each year, a private auditor appointed by the board conducted an audit on a regular basis throughout the year. His audit program, working papers and audit reports were examined and evaluated by my officers and were accepted for the purposes of my audit. The audit also included an examination of income and expenditure and verification of the assets and liabilities of the board at 30 June 1982.

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

##### Insurance

- 3.6.8 Audit has reviewed the insurance covers taken out by the board, and suggested an extended cover in some areas.

##### Conclusion

- 3.6.9 Apart from the above matter, the audit examination proved satisfactory.

### 3.7 GAS AND FUEL CORPORATION OF VICTORIA

#### Introduction

- 3.7.1 The Gas and Fuel Corporation of Victoria was established and constituted under the provisions of the Gas and Fuel Corporation Act 1950.
- 3.7.2 The objectives of the corporation are:
- (1) to ensure a safe, economical and effective supply of gas to the people of Victoria;
  - (2) to promote the efficient use of gas in those applications where it can effectively contribute to meeting the energy demands of modern society; and
  - (3) to operate as an efficient business enterprise at a level of profit consistent with its role as a publicly owned utility.

#### Statutory Reporting Requirements

- 3.7.3 The Gas and Fuel Corporation Act 1958 requires the corporation to prepare at the end of every financial year a profit and loss account and balance sheet certified by the directors. An audited copy of the balance sheet and profit and loss account is to be laid before both Houses of Parliament. The finalised accounts were made available to audit on 27 August 1982 and the audit report on the financial statements of the corporation was signed on 22 September 1982.

#### Financial Operations

- 3.7.4 The financial operations of the corporation and the consolidated figures of the corporation and its subsidiaries for 1981-82 compared with 1980-81 are summarised hereunder:

	Gas and Fuel Corporation 1981-82 \$	Consolidated 1981-82 \$	Consolidated 1980-81 \$
Income	388 913 915	392 783 567	319 284 290
Cost of sales	114 015 204	116 736 314	114 376 194
	<hr/>	<hr/>	<hr/>
Net income	274 898 711	276 047 253	204 908 096
Expenditure	262 302 068	267 839 221	199 241 255
	<hr/>	<hr/>	<hr/>
Profit on trading	12 596 643	8 208 032	5 666 841

- 3.7.5 Net assets of the corporation at 30 June 1982 were \$99.4 million (30 June 1981, \$88.7 million).

- 3.7.6 During the year under review, the corporation determined to reduce the depreciable lives of steel and cast iron mains, domestic services and gas meters with a consequential acceleration in depreciation charges of \$22.73 million. Of that amount, \$19.52 million represented a retrospective adjustment on account of past financial periods.
- 3.7.7 The above determination is consistent with the overall thrust of the corporation's policy in recent years to accelerate depreciation by way of shortened depreciable lives for certain assets. Policy decisions by the corporation in this area during the 5 year period 1977-78 to 1981-82 have resulted in accelerated charges against operations of \$47.31 million.

### **Scope of Audit**

- 3.7.8 By statutory direction, the accounts of the Gas and Fuel Corporation of Victoria are audited jointly by the Auditor-General and auditors appointed by the corporation. The auditors appointed by the corporation audit the accounts of the subsidiaries of the corporation, namely, the Albury Gas Company Ltd. and Gas and Fuel Exploration No Liability.
- 3.7.9 The audit work undertaken by my officers included the documentation and evaluation of the corporation's computerised accounts payable and payroll systems, and the verification of assets and liabilities as allocated by the joint audit agreement.

### **Audit Observations and Recommendations**

#### Creditors Accounts Payable System

- 3.7.10 A review and evaluation of the input and output controls relating to the computerised accounts payable system was completed during the period. The major control weaknesses identified by the review were the continued failure by the corporation to reconcile the creditors control account in the general ledger with the creditors subsidiary ledger and the lack of authorisation of input documentation.
- 3.6.11 The corporation has indicated that action has commenced to correct the abovementioned control weaknesses.

#### Conclusion

- 3.7.12 Apart from the above matter the audit examination proved satisfactory.

### **3.8 GEELONG PERFORMING ARTS CENTRE TRUST**

#### Introduction

- 3.8.1 The Geelong Performing Arts Centre Trust was established under the Geelong Performing Arts Centre Trust Act 1980.
- 3.8.2 The act requires the centre to be known as the Geelong Performing Arts Centre and the trust is required to:
- (1) care for, improve and maintain the centre;
  - (2) control and manage the centre;
  - (3) present and produce in the centre, performances and entertainments of any kind whatsoever; and
  - (4) promote the use of the centre by persons and bodies whom the trust consider suitable to use it.

#### Statutory Reporting Requirements

- 3.8.3 The Geelong Performing Arts Centre Trust Act 1980 requires the trust not later than 31 December each year to submit to the minister, to be laid before both Houses of Parliament, a report on its operations for the year together with the audited statements of accounts prepared pursuant to section 17 of the act for the financial year ending in the year in which the report is made.
- 3.8.4 The 1981-82 financial statements were made available on 20 August 1982 and the audit report was signed on 25 November 1982.

#### Financial Operations

- 3.8.5 The financial operations of the trust for its first full year of operations resulted in a deficit of \$177 075 which was incurred despite a government subsidy of \$285 000 for general purposes and specific subsidies for:
- |     |                          |          |
|-----|--------------------------|----------|
| (1) | Entrepreneurial ventures | \$30 000 |
| (2) | Minor capital works      | \$10 000 |
| (3) | Catering equipment       | \$6 000  |
- 3.8.6 Included in the deficit is an amount of \$36 994 being the net loss on 17 entrepreneurial ventures run by the trust during the year.
- 3.8.7 Net assets of the trust at 30 June 1982 were \$8 791 369 (30 June 1981, \$8 104 123).

#### **Scope of Audit**

- 3.8.8 Section 17 of the Geelong Performing Arts Centre Trust Act 1980 provides for an annual audit of the accounts of the trust by the Auditor-General. In addition to my statutory responsibility to conduct an audit each year, a firm of chartered accountants appointed by the trust conducts an audit on a regular basis throughout the year.
- 3.8.9 The work of the private auditors was evaluated during the course of my audit and additional audit tests were imposed to ensure that the financial statements of the trust gave a true and fair view of the state of affairs of the trust at 30 June 1982 and of the operations of the trust for the year then ended.

## **Audit Observations and Recommendations**

### Contingent Liability

- 3.8.10 The builder, architect and some consultants have lodged claims in relation to the completion of the centre. The amount of all claims is \$1 606 324.
- 3.8.11 The trust has denied liability for any of the above amount and the claims are subject to litigation.

### Conclusion

- 3.8.12 Apart from a number of minor matters raised with the trust the results of the audit proved satisfactory.



### **3.9 GOVERNMENT EMPLOYEE HOUSING AUTHORITY**

#### Introduction

- 3.9.1 The Government Employee Housing Authority was established under the Government Employee Housing Authority Act 1981 to operate from 24 March 1982 and is the successor in law to the Teacher Housing Authority.
- 3.9.2 The authority's principal functions are to provide suitable housing accommodation for government employees in participating departments, to establish and maintain a register of houses provided for government employees, and to advise on and review the practices of government departments and statutory authorities in relation to the provision of housing accommodation.

#### Statutory Reporting Requirements

- 3.9.3 Section 23 of the act requires the authority, as soon as practical after the end of each financial year to furnish the minister with a report of its operations and audited financial statements for tabling in Parliament.
- 3.9.4 The accounts were adopted by the authority on 15 September 1982 and the audit report was signed on 9 November 1982.

#### Financial Operations

- 3.9.5 The financial operations of the authority for the period 24 March 1982 to 30 June 1982 are shown hereunder:

Income	\$ 1 148 730
Expenditure	1 271 041
	-----
Loss	122 311
	-----

- 3.9.6 Net liabilities of the authority at 30 June 1982 were \$202 175.

#### **Scope of Audit**

- 3.9.7 Section 22 of the Government Employee Housing Authority Act 1981 provides for an annual audit of the accounts of the Authority by the Auditor-General. The audit encompassed an examination of financial systems and transactions including an evaluation of internal controls.

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

##### Accommodation Register

- 3.9.8 Section 14 of the Government Employee Housing Authority Act 1981 requires the authority to establish and maintain a government housing accommodation register. At date of audit the establishment of this register was still in progress.

### Rental Scales

- 3.9.9 Rental scales (approved by the former Teacher Housing Authority) which were operative until June 1982 provided for a maximum rental of \$56 per week. Rental income generated for the period ended 30 June 1982 was insufficient to cover costs incurred and resulted in an operating loss in respect of rental operations of \$483 713. The inability to recoup operating costs under existing rental scales warrants review by the authority.

### Conclusion

- 3.9.10 Apart from the above matters and a number of minor weaknesses brought to the attention of the authority, the results of the audit examination proved satisfactory.

### 3.10 GOVERNMENT PRINTING OFFICE

#### Introduction

3.10.1 The Government Printing Office is responsible for the design, production and sale of printed and published material and stationery for the Victorian Parliament, government departments and some statutory authorities. The office is also responsible for the administration of certain media advertising.

#### Statutory Reporting Requirements

3.10.2 The operations of the Government Printing Office are financed through the Government Printing Office Working Account, a trust account held in Treasury.

3.10.3 This account was incorporated in the financial statements of the Department of Property and Services for 1981-82. In addition, the Government Printing Office prepares trading accounts which do not form part of the departmental financial statements.

3.10.4 There is no statutory requirement for the Auditor-General to express an opinion on the trading accounts of the Government Printing Office.

3.10.5 At the date of preparation of this report the audit was in progress but trading accounts in respect of 1981-82 had not been completed by the Government Printing Office.

3.10.6 Audit comment on these accounts will be included in a later report.

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

3.10.7 During 1981 a decision was made by the Ministry of Employment and Training to undertake a publicity campaign "Plan Ahead to Get Ahead" to promote awareness and understanding in the community on the value of early career planning. The estimated cost of the original project (\$250 000) was to be funded from the ministry's vote appropriation. The minister anticipated that business would buy into and extend the campaign after this initial phase.

3.10.8 When financial assistance from private enterprise did not eventuate, the then Minister of Employment and Training decided to proceed with the project as a government initiative only. Further funds were made available from the ministry's vote appropriation.

3.10.9 For the continuance of the project after 31 December 1981 (phase 2), 22 consultants responded to advertisements on 20 October 1981, to provide further public relations, marketing and research assistance to the ministry.

3.10.10 Information and audit comment relating to the involvement of the Ministry of Employment and Training in this project was provided in section 4.9 of my report on the Treasurer's statement for 1981-82.

3.10.11 The Government Printer was requested, by the Ministry of Employment and Training to use his expertise to oversee phase 2 of the project which related to the introduction and development of a marketing, advertising and public relations program.

- 3.10.12 In the course of the audit examination of the project certain unsatisfactory features relating to the tendering and contractual procedures were noted and as a result audit queries were raised.
- 3.10.13 These queries requested certain information from both the Director-General of the Ministry of Employment and Training and the Director-General of the Department of Property and Services, who has a responsibility for the Government Printing Office.
- 3.10.14 Subsequently information was also sought from the Chairman of the State Tender Board.
- 3.10.15 It is not intended to detail in this report the questions asked of and responses given by the Department of Property and Services and the State Tender Board.
- 3.10.16 They do, however, confirm the unsatisfactory features of the project which necessitated the raising of the queries.
- 3.10.17 These unsatisfactory matters are summarised hereunder:
- (1) the involvement of the Government Printer in the project, at the request of the Ministry of Employment and Training on the basis of the Government Printer being able to provide his expertise in the media advertising area therefore enabling greater control over the project. As the project was a pilot scheme the Government Printer may not have possessed the expertise required and in fact was unable to exercise the "greater control" anticipated due to him not becoming involved in the project from its commencement.
  - (2) funds for the project were provided by appropriation to the Ministry of Employment and Training however, tender board approval was sought by the Department of Property and Services for expenditure from the Government Printing Office Working Account.
  - (3) this method of funding necessitated invoices being prepared by the Government Printing Office for payment by the Ministry of Employment and Training solely to enable the funds to be transferred to the Government Printing Office Working Account.
  - (4) the greater control envisaged apparently did not eventuate as invoices from the consortium were verified by the Ministry of Employment and Training rather than the Government Printer whose officers were required to certify to the account payments. To enable this certification to be given the Government Printer relied upon the recommendation given in writing by the Director-General of Employment and Training that the invoices received "are correct and should be paid on behalf of the ministry". The ministry also indicated that the services provided by the consortium "had met our needs and the work, as carried out was according to the high standards we require". Furthermore several invoices paid by the Government Printing Office related not to the "Plan Ahead to Get Ahead" project but to previous ministry projects known as A.C.E. (Australian Centre for Entrepreneurship) and A.C.T.I.V. (Advisory Centre for Technological Innovation in Victoria).

- (5) at the time the Government Printer became involved in the project substantial expenditure had already been incurred by the ministry.
- (6) expenditure totalling \$306 040 had been incurred by the ministry prior to the Department of Property and Services seeking tender board approval on 30 March 1982. The Chairman of the State Tender Board indicated that the Government Printer had sought verbal approval earlier in March, at which time expenditure in excess of \$261 000 had been incurred and that he ratified this approval on 7 April 1982. The board did not formally approve of the project until its meeting of 11 June 1982 at which date all payments to the consortium had been made.

#### Recommendations

3.10.18 Audit recommendations in respect of any future similar projects undertaken by the Government Printing Office on behalf of the Ministry of Employment and Training or any other department are:

- (1) objectives and specifications should be established for each project prior to commencement and such objectives and specifications should be reviewed during each particular project and the results assessed on finalisation;
- (2) proper administrative and financial controls should be established and these should be monitored during the project;
- (3) the nature of the Government Printer's involvement in non-print advertising should be determined;
- (4) projects of this magnitude should be subject to formal contracts detailing the rights and liabilities of the parties involved and proper guidelines should be established for tendering and contract procedures; and
- (5) arising from enquiries made of the Chairman of the State Tender Board, in respect of this project, audit considers that a complete review of tender board procedures in relation to the timeliness of formal board approvals should be undertaken.

### 3.11 GREYHOUND RACING CONTROL BOARD

#### Introduction

- 3.11.1 The Greyhound Racing Control Board was constituted under the provisions of sub-section (1) of Section 69 of the Racing Act 1958. Its functions, as provided under section 75 of the act, are to control the sport of greyhound racing, to carry out research into aspects of greyhound racing, to assist in planning future development, to promote the sport of greyhound racing, and to exercise such powers, functions and duties as are conferred on it by or under the Racing Act 1958 or any other act.
- 3.11.2 The board's principal sources of income are a share of the Totalizator Agency Board's surplus received in accordance with the financial scheme under section 116I of the act, and registration fees.

#### Statutory Reporting Requirements

- 3.11.3 Section 81 of 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.
- 3.11.4 The accounts were adopted by the board on 13 October 1982 and the audit report was signed on 26 October 1982.

#### Financial Operations

- 3.11.5 The financial operations of the board are recorded in the Greyhound Racing Control Board Fund, established and operated under the provisions of section 76 of the act.
- 3.11.6 The financial operations of the board for 1981-82 compared with 1980-81 are summarised hereunder:

	1980-81	1981-82
	\$	\$
Income	517 662	564 002
Expenditure	553 786	661 753
Deficit	36 124	97 751

- 3.11.7 The main reasons for the increased deficit in 1981-82 were increases in salaries and advertising expenses.
- 3.11.8 Net assets of the board at 31 July 1982 were \$35 998 compared with \$133 729 at 31 July 1981.

#### **Scope of Audit**

- 3.11.9 Section 81 of the Racing Act 1958 provides for an annual audit of the accounts of the board by the Auditor-General. The audit involved a review of the accounting systems and procedures of the board, an examination of its books, records, vouchers and other documentation, verification of account balances and generally of all other functions necessary for the formation of an opinion on the annual accounts.

## **Audit Observations and Recommendations**

### Loans to Clubs

- 3.11.10 The board from time to time makes loans to greyhound racing clubs. No formal loan documents are prepared in respect of these loans.
- 3.11.11 Audit recommended that when future loans are made to clubs, the board should ensure that adequate documentation and security is provided.

### Provision for Long Service Leave

- 3.11.12 No provision has been made in the accounts for long service leave commitments. Audit recommended that an annual provision be made for the several officers of the board who are entitled to or will be soon entitled to long service leave.

### Financial Viability of the Board

- 3.11.13 The summary of the financial operations of the board for the past two years indicates that the total income earned has not been sufficient to cover the outgoings. As a consequence the matter of the financial viability of the board requires urgent attention.

### Conclusion

- 3.11.14 Apart from the above matters and other minor weaknesses brought to the attention of the board, the results of the audit proved satisfactory.

### 3.12 HARNESS RACING BOARD

#### Introduction

- 3.12.1 The Harness Racing Board was 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 harness racing throughout Victoria and to conduct harness 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 the financial scheme under Section 116I of the act, admission and other income received from conducting harness races, commission from the operation of on-course totalizators and registration and licence fees.

#### Statutory Reporting Requirements

- 3.12.2 The Racing Act 1958 requires the board to prepare and submit audited accounts, balance sheets and such reports as properly record the affairs of the board within 3 months of 31 July to the minister for tabling in Parliament.
- 3.12.3 The accounts were adopted by the board on 8 October 1982 and the audit report was signed on 26 October 1982.

#### Financial Operations

- 3.12.4 In accordance with section 46 of the act, the board established the Harness Racing 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 1981-82 compared with 1980-81 are summarised hereunder:

	1980-81	1981-82
	\$	\$
Income	6 795 870	7 687 316
Expenditure	6 308 168	7 118 522
	<hr/>	<hr/>
Surplus	487 702	568 794
	<hr/>	<hr/>

- 3.12.5 Net assets of the board at 31 July 1982 were \$4 395 296 (31 July 1981, \$4 149 915).

#### **Scope of Audit**

- 3.12.6 The audit was conducted pursuant to sub-section (2) of Section 47 of the Racing Act 1958 and included a review, appraisal and examination of the accounting and other systems in operation in respect of the several activities of the board.
- 3.12.7 The operations and the financial statements of the following accounts were also examined:
- (1) Harness Racing Board Benevolent Fund;
  - (2) Trotting Trainers and Drivers Accident Compensation Scheme; and
  - (3) Trotting Control Board Staff Superannuation Fund.



- 3.12.8 In addition, during the year a review and evaluation was undertaken of:
- (1) the board's computer acquisition and implementation procedures;
  - (2) the environment in which the computer systems are processed; and
  - (3) the controls implemented by the board to ensure that all data processed by the accounting system is complete, accurate and authorised.

### **Audit Observations and Recommendations**

#### Sires Stakes and Galaxy Grand Slam Series

- 3.12.9 The board operates a series of races under the above names. The series are complex in nature as each operates for 3 years, with several series operating concurrently and involving on-going fees by way of nomination, forfeit, acceptance and sustaining payments. Series receipts are initially processed in the cash receipts/general ledger system and subsequently reprocessed into the series system.
- 3.12.10 The financial records are maintained on the board's computer. These records however are not readily reconcilable with the general ledger because complete reference to amounts received, refunds made and the date of the transactions are not recorded and totalled by the existing software.
- 3.12.11 In audit opinion because of the complexity and the financial liability - \$796 165 at 31 July 1982 - the financial records should contain complete data which is readily reconcilable with the board's general ledger. In this context, audit recommended to the board that the computer software be further developed so that the initial receipting of series funds in the cash receipts/general ledger system updates the series sub-system immediately. Further, any refunds or other payments through the payments system should immediately update the series sub-system.

#### General Ledger

- 3.12.12 The general ledger software permits transactions to be back dated and recorded at a date prior to the date of processing.
- 3.12.13 Whilst it is appreciated that this facility is advantageous from a reporting viewpoint, in audit opinion, it represents a serious control weakness.
- 3.12.14 Audit recommended that amendment to the software be made to prohibit the backdating of transactions and to overcome the control weakness.

#### E.D.P. Review

- 3.12.15 During the course of the E.D.P. review the following were identified:
- (1) inadequate planning, documenting and testing of the computer system;
  - (2) untested emergency procedures;

- (3) computer access control weakness;
- (4) control weakness in the program amendment procedures;
- (5) deficient processing and segregation controls; and
- (6) insufficient management trail.

3.12.16 Audit made recommendations designed to remedy the above weaknesses.

#### Conclusion

3.12.17 Apart from the above matters and a number of minor weaknesses brought to the attention of the board, the result of the audit proved to be satisfactory.

#### **Response by the Board**

3.12.18 At the date of preparation of this report the matters raised have been discussed with management of the board and are still to be resolved.

3.12.19 In respect to the E.D.P. review the board advised:

- (1) the planning undertaken was considered to be reasonably satisfactory in the medium term and it had noted the recommendations in respect to documentation and testing of the system;
- (2) the results of risk analysis and the details of contingency plans for the range of potential fault conditions will be documented. The board considers their system is readily transportable to the computer manufacturer's installation, the use of which is a facility incorporated in the maintenance contract, and therefore the back-up does not require prior testing;
- (3) access control to the computer room is considered adequate due to its remote location within the board's office. Periodic password controls will be instituted;
- (4) program maintenance by way of dial-up facilities is seen as an acceptable risk;
- (5) procedures will be reviewed in regard to processing and segregation controls; and
- (6) action will be taken to improve the management trail.

### 3.13 LATROBE VALLEY WATER AND SEWERAGE BOARD

#### Introduction

- 3.13.1 The Latrobe Valley Water and Sewerage Board was constituted under the Latrobe Valley Act 1958. The functions of the board include the maintenance of adequate supplies of water and the disposal of industrial and domestic waste in the Latrobe Valley.

#### Statutory Reporting Requirements

- 3.13.2 The Latrobe Valley Act 1958 requires that the board submit to the minister, as soon as practicable after the end of each financial year and not later than the following 31 December, a report of its operations and the audited statement of accounts. The report and audited statement of accounts are required to be tabled by the minister in both Houses of Parliament within 14 sitting days.
- 3.13.3 The finalised accounts for 1981-82 were received by audit on 13 September 1982 and the audit report on the accounts was signed on 9 November 1982.

#### Financial Operations

- 3.13.4 The financial operations of the board for 1981-82 compared with 1980-81 are summarised hereunder:

	1980-81	1981-82
	\$	\$
Income	5 955 610	7 576 341
Expenditure	5 564 813	7 260 475
	<hr/>	<hr/>
Net Surplus	390 797	315 866
	<hr/>	<hr/>

- 3.13.5 Net assets of the board at 30 June 1982 were \$5 619 992 (30 June 1981, \$5 122 256).

#### Changes in Accounting Treatment

- 3.13.6 The following changes in the accounting treatment of certain items in the water and sewerage revenue account were adopted by the board in 1981-82:
- (1) certain income items, previously deducted from gross expenditure to arrive at net costs of various departments, have been shown as income;
  - (2) expenditure has been classified according to the board's operational objectives rather than for the various departments; and
  - (3) oncosts and overheads have been shown separately as deductions from gross expenditure to arrive at net operational system costs.
- 3.13.7 The 1980-81 figures have been adjusted for comparative purposes.
- 3.13.8 There was no effect on the net surplus of the board as a result of these changes.

## Scope of Audit

- 3.13.9 Sub-section (3) of Section 53 of the Latrobe Valley Act 1958 provides for an annual audit of the statement of accounts of the board by the Auditor-General. The audit work undertaken by my officers included the documentation, evaluation and testing of the board's major income and expenditure systems and the verification of assets and liabilities of the board at 30 June 1982.

### Audit Observations and Recommendations

#### Asset Registers

- 3.13.10 Asset registers were not maintained to record all office and laboratory equipment and furniture.
- 3.13.11 Audit recommended that the board incorporate these assets in its asset registers.

#### Board Residences

- 3.13.12 Information relating to the occupancy of residences owned by the board was not kept up to date and audit recommended that the current occupancy details for each board residence be recorded on each appropriate house file.

#### Recoup of Interest, Redemption and Depreciation Charges

- 3.13.13 In relation to the recoup of interest, redemption and depreciation charges, incurred by the board on capital works for other industries and State Electricity Commission of Victoria projects, a register was not kept to record all agreements and associated charges to be recouped.
- 3.13.14 As a result of this weakness the State Electricity Commission of Victoria was not invoiced during 1981-82 for interest, redemption and depreciation charges in respect of the Hazelwood Saltwater Pipeline. After this matter was brought to the attention of the board by audit, an invoice, in respect of 1981-82, was raised for \$15 739.
- 3.13.15 Audit recommended that a register be compiled to record all agreements and charges due to the board so as to ensure that invoices are raised for all interest, redemption and depreciation charges incurred by the board on behalf of other organisations.

#### Internal Control

- 3.13.16 Weaknesses in internal control brought to the attention of the board included:
- (1) inadequate division of duties between payroll calculation and payroll distribution;
  - (2) no independent check on the calculation of the payroll;
  - (3) no reconciliation performed between time sheets and payroll;

- (4) expenditure vouchers, processed through the newly introduced computerised accounting system from 1 March 1982, were not checked and approved for payment; and
- (5) instances where claims paid from the Treasurer's advance account were not approved.

3.13.17 Appropriate recommendations were made to the board.

Conclusion

3.13.18 Apart from the above and a number of other minor matters brought to the attention of the board, the results of the audit examination proved satisfactory.

### 3.14 LOCAL AUTHORITIES SUPERANNUATION BOARD

#### Introduction

- 3.14.1 The Local Authorities Superannuation Board was constituted as a corporate body under the provisions of the Local Authorities Superannuation Act 1958 and is responsible for the administration of several superannuation and pension schemes established under the act.
- 3.14.2 The separate schemes provide on a contributory basis pensions, retiring allowances and disability benefits for employees of local governing bodies.

#### Statutory Reporting Requirements

- 3.14.3 The current legislation does not provide for any statutory reporting of the board's operations.
- 3.14.4 Accounts in respect of the 1981-82 year were received from the board during the course of the audit and the audit report on the financial statements was signed on 1 December 1982.

#### Financial Operations

- 3.14.5 As the board is not required to report its financial operations to Parliament the following is a summary of the various accounts and funds operated by the board:

MANAGEMENT ACCOUNT		
	1980-81	1981-82
	\$	\$
INCOME		
Interest on investments	218 767	221 183
Contribution to administration		
From Benefit Contracts Account and Disability Fund	588 825	859 561
From Local Authorities Pensions (Authorities) Fund	302 860	275 570
Rent	33 253	57 060
Computer bureau fees	2 656 626	3 118 486
Other income	15 942	19 919
	-----	-----
	3 816 273	4 551 779
EXPENDITURE		
Board members' fees, salaries and associated expenses	2 157 930	2 488 452
Hire of computer and other services	927 492	1 258 802
Medical examination fees	97 377	111 499
Printing and stationery	93 204	93 907
Postage and telephone	60 701	76 980
Superannuation	143 258	161 305
Other administration charges	294 640	404 554
Rates etc.	22 876	21 407
Depreciation	69 795	64 873
	-----	-----
	3 867 273	4 681 779

	1980-81	1981-82
	\$	\$
Less systems development costs capitalised	51 000	130 000
	<hr/>	<hr/>
	3 816 273	4 551 779
	<hr/>	<hr/>
Result for year	*NIL	*NIL
	<hr/>	<hr/>

\* The board has resolved to transfer from other funds as contributions to administration only those funds required to equalise the total expenditure for the year against income.

3.14.6 Accumulated funds of the Management Account at 28 February 1982 and 28 February 1981 were:

	28.2.81	28.2.82
	\$	\$
Accumulated Funds	4 714 612	5 128 740
Asset Replacement Reserve	463 647	..
	<hr/>	<hr/>
	5 178 259	5 128 740
	<hr/>	<hr/>
Represented by:		
Investments	1 719 706	*1 036 401
Fixed Assets		
Freehold property (at cost less depreciation)	1 196 273	580 872
Furniture, equipment and office machines (at cost less depreciation)	173 097	146 842
Motor vehicles (at cost less depreciation)	47 094	67 359
Computer services and system development costs	51 000	424 859
Current Assets		
Cash	243 223	289 833
Debtors	1 809 908	2 878 961
Accruals and prepayments	56 847	73 950
	<hr/>	<hr/>
Sundry creditors and accruals	5 297 148 (118 889)	5 499 077 (370 337)
	<hr/>	<hr/>
Total Net Assets	5 178 259	5 128 740
	<hr/>	<hr/>

\* Consisting of local and semi-government securities \$353 218 and short-term deposits \$683 183.

PROVIDENT FUND

	1980-81 \$	1981-82 \$
INCOME		
Interest on investments	110 928	112 731
EXPENDITURE		
Death claims	7 283	..
Withdrawal benefits	198 617	161 676
Retirement benefits	32 721	108 274
	<u>238 621</u>	<u>269 950</u>
Deficit	<u>127 693</u>	<u>157 219</u>

3.14.7 The balance of the Provident Fund at 28 February 1982 and 28 February 1981 comprised:

	28.2.81 \$	28.2.82 \$
Contributors' credits	1 390 920	1 260 062
Unallotted interest	170 104	131 687
Sundry creditors	24 393	17 386
	<u>1 585 417</u>	<u>1 409 135</u>
Represented by:		
Cash	24 691	8 892
Investments	1 530 704	*1 368 630
Accrued interest	30 022	28 560
Sundry debtors	..	3 053
Total Assets	<u>1 585 417</u>	<u>1 409 135</u>

\* Consisting of local and semi-government securities \$1 043 853 and short-term deposits \$324 777.

BENEFIT CONTRACTS ACCOUNT AND DISABILITY FUND ACCOUNT

	1980-81 \$	1981-82 \$
INCOME		
Contract premiums	26 061 643	29 891 954
Interest on investments and rents	15 793 378	20 054 455
Withdrawal benefits-disability beneficiaries	659 719	1 396 807
	<u>42 514 740</u>	<u>51 343 216</u>



	1980-81	1981-82
	\$	\$
EXPENDITURE		
Benefits		
Death	1 539 162	1 638 945
Withdrawal	7 239 979	8 711 447
Retirement	1 845 102	2 223 232
Death - credited to disability beneficiaries	3 554 084	5 842 308
Contribution to administration	588 825	859 561
Net loss on sale of investments and property	..	779 411
Other	637 480	772 640
	<hr/>	<hr/>
	15 404 632	20 827 544
	<hr/>	<hr/>
Surplus	27 110 108	30 515 672
	<hr/>	<hr/>

3.14.8 At 28 February 1982 and 28 February 1981, the funds of the Benefit Contracts Account amounted to \$194 924 073 and \$164 408 401 respectively, and were represented by:

	28.2.81	28.2.82
	\$	\$
Cash	404 300	151 925
Investments	169 470 815	*201 375 901
Less Mortgage Reserve and Asset Revaluation Reserve Accounts	1 146 281	1 106 700
	<hr/>	<hr/>
	168 728 834	200 421 126
Net Current Liabilities	(4 320 433)	(5 497 053)
	<hr/>	<hr/>
	164 408 401	194 924 073
	<hr/>	<hr/>

\* Consisting of local government securities \$93 141 977, semi-government securities \$21 648 997, government guaranteed loans \$27 060 000, real estate mortgages \$14 102 000, property \$31 997 574 and other instrumentalities \$13 425 353.

#### LOCAL AUTHORITIES PENSIONS (AUTHORITIES) FUND ACCOUNT

	1980-81	1981-82
	\$	\$
INCOME		
Contributions	9 175 578	10 694 314
Investment income	618 132	1 065 243
	<hr/>	<hr/>
	9 793 710	11 759 557
	<hr/>	<hr/>

	1980-81 \$	1981-82 \$
EXPENDITURE		
Withdrawals-refund contributions	225 104	290 715
Pensions paid	4 674 678	6 092 905
Contribution to administration*	302 860	275 570
Contribution refunds-miscellaneous	8 155	1 428
Lump Sum Payments		
Deaths	221 539	258 596
Retirements	1 154 093	1 319 488
Early retirements	1 263 781	1 273 571
Disability	617 902	1 358 409
Withdrawals	99 857	256 344
	<hr/>	<hr/>
	8 567 969	11 127 026
	<hr/>	<hr/>
Surplus	1 225 741	632 531
	<hr/>	<hr/>

\* Amounts determined by the board after considering the actuary's report.

3.14.9 The balance of the fund at 28 February 1982 and 28 February 1981 was represented by:

	28.2.81	28.2.82
	\$	\$
Cash	22 032	33 534
Debtors	256 041	2 269 353
Investments-Interest Bearing Term Deposits	3 460 616	2 000 000
	<hr/>	<hr/>
	3 738 689	4 302 887
Less Creditors	572 359	504 026
	<hr/>	<hr/>
Accumulated Funds	3 166 330	3 798 861
	<hr/>	<hr/>

LOCAL AUTHORITIES PENSIONS (EMPLOYEES) FUND ACCOUNT

	1980-81 \$	1981-82 \$
INCOME		
Contributions	7 070 302	8 342 300
Investment income	3 035 118	4 303 393
	<hr/>	<hr/>
	10 105 420	12 645 693
	<hr/>	<hr/>

	1980-81	1981-82
	\$	\$
EXPENDITURE		
Withdrawals-refund of contributions	1 532 908	1 975 563
Pensions paid	170 608	282 322
Loss on sale of investments	..	278 675
Contribution refunds-miscellaneous	12 965	1 724
	<hr/>	<hr/>
	1 716 481	2 538 284
	<hr/>	<hr/>
Surplus	8 388 939	10 107 409
	<hr/>	<hr/>

3.14.10 The balance of the fund at 28 February 1982 and 28 February 1981 was represented by:

	28.2.81	28.2.82
	\$	\$
Cash	31 264	24 823
Investments	30 478 783	*38 744 711
Debtors		
Contributions	57 847	20 902
Other	947 479	2 816 724
	<hr/>	<hr/>
	31 515 373	41 607 160
Less Creditors	69 001	47 995
	<hr/>	<hr/>
Accumulated Funds and Reserves	31 446 372	41 559 165
	<hr/>	<hr/>

\* Consisting of local government securities \$25 716 484, semi-government securities \$2 074 500, government guaranteed loans \$4 289 061, real estate mortgages \$2 380 000, property \$1 909 666, other instrumentalities \$2 000 000 and short-term deposits \$375 000.

#### INSURANCE ACCOUNT

3.14.11 No new policies are being written under this scheme as it has been superseded by the benefit contracts scheme.

3.14.12 Receipts and payments of the fund consisted mainly of surrender values and matured policies and the payment of these to the beneficiaries.

3.14.13 The balance of the fund at 28 February 1982 was \$52 (1981 \$1 313).

#### Actuarial Investigation

3.14.14 The actuarial investigation of the Benefits Contract Account as at 28 February 1982 disclosed a surplus in the account of \$19.6 million. The actuarial investigation into the Local Authorities Pensions (Employees) Fund Account and Local Authorities Pensions (Authorities) Fund Account as at 28 February 1982 was in progress at the date of this report.

#### Scope of Audit

3.14.15 Section 33 of the Local Authorities Superannuation Act 1958 provides for the audit of the accounts of the board by the Auditor-General.

3.14.16 The audit program undertaken included the documentation and evaluation of internal control procedures operating at the board's St. Kilda computer service bureau, and a detailed review and testing of the board's expenditure and receipting systems. Tests were undertaken on all other areas of the board's activities and the assets held and liabilities incurred by the board at 28 February 1982 were verified.

### **Audit Observations and Recommendations**

#### Matters arising during the audit

3.14.17 In the audit report on the books and accounts of the Local Authorities Superannuation Board for the year ended 28 February 1982, the following major matters were raised:

- (1) Examination of the sales and services system at the board's St. Kilda computer services bureau revealed a number of control weaknesses. These were detailed in a letter of weakness of 11 August 1982 addressed to the secretary of the board. The main weaknesses were:
  - (i) the data processing manager had overall control over the operations of the charging - invoicing sub-system, the debtors update, accounting for production orders, authorising of charging sheets and credit notes and the setting of rates chargeable for the services offered by the bureau. The performance of these tasks by one officer was considered to be an internal control weakness and several recommendations were made to remedy the situation;
  - (ii) the board had not developed a contingency plan to ensure that its major applications are regularly tested on back-up equipment; and
  - (iii) the board did not carry a professional indemnity insurance policy to cover claims made by third parties for negligence or breach of professional responsibility.

At the date of this report no reply has been received to the abovementioned letter of weakness.

- (2) In 1981-82 no charge has been made for depreciation on buildings held for investments. This has resulted in an overstatement of the financial result of the board.
- (3) In 1981-82 the board capitalised certain system development costs. Sufficient supporting documentation could not be presented to audit to support this capitalisation.
- (4) For a number of years, audit has recommended that the existing informal tri-party agreement between the board, the State Superannuation Board and the Motor Accidents Board in respect of the various computer services performed by the board on their behalf be formalised. At the date of this report no formal agreement had been reached and negotiations were still continuing.

The final report of the Public Accounts and Expenditure Review Committee on the Auditor-General's reports for 1978-79 recommended that the abovementioned arrangements should be formalised and urgent consideration given to the adoption of an agreement.

- (5) Other matters reported included weaknesses in the mail opening and banking procedures, lack of certification of payrolls, failure by some authorities to submit to the board half-yearly returns of employees and the need for securities obtained by the board in respect of deposits lodged with dealers on the short-term money market to be supported by "directions to attorn" which add further security to such investments.

3.14.18 Recommendations were made to overcome the abovementioned weaknesses.

#### Internal Audit

3.14.19 In view of the board's operations growing at an increasing rate, past audit reports and the current audit report have recommended the establishment of an adequate internal audit function. Such a function would assist management in providing a continuous review of its operations and ensuring that adequate internal controls are in existence and maintained. To date, no action has been taken by the board to establish an internal audit function.

#### Legislation

3.14.20 In audit opinion steps should be taken to require the board to report annually to Parliament.

#### Conclusion

3.14.21 Apart from the matters mentioned above and a number of minor weaknesses brought to the attention of the board the results of the audit proved satisfactory.

### 3.15 MARKETING BOARDS

#### Introduction

- 3.15.1 The Marketing of Primary Products Act 1958 provides the machinery under which boards may be constituted for the marketing of those primary products which, by proclamation of the Governor in Council, have been declared commodities under and for the purposes of the act.
- 3.15.2 The legislation specifically provides that a board so constituted shall not be deemed to represent the Crown for any purpose whatsoever, and thus no liability can accrue to the State as a result of the transactions of any such board.
- 3.15.3 The accounts of boards constituted under the act are subject to audit by the Auditor-General. Comments on and summaries of the accounts of 3 boards, namely, the Citrus Fruit, Egg, and Tobacco Leaf Marketing Boards follow.

#### **CITRUS FRUIT MARKETING BOARD**

#### Introduction

- 3.15.4 The board was established under the Marketing of Primary Products Act 1958 for the purpose of controlling the marketing of oranges, mandarins and grapefruit produced in Victoria.
- 3.15.5 Under the act the board may enter into and carry out any contract relating to the handling, packing, marketing or processing of citrus fruit as may, in the opinion of the board, be necessary or expedient for orderly marketing.
- 3.15.6 The board's directives and marketing policy, which are formulated in conjunction with the Murray Valley (N.S.W.) Citrus Marketing Board, are administered through a registered company, the Citrus Management Company Limited. The board of directors of this company includes certain members of both marketing boards.

#### Statutory Reporting Requirements

- 3.15.7 The Marketing of Primary Products Act 1958 requires the board to prepare statements of account. However, there is no legislative requirement for the board to prepare an annual report or to have its audited financial statements tabled in Parliament.
- 3.15.8 The finalised accounts for the year ended 31 December 1981 were received by audit on 26 May 1982 and the audit report on the accounts was signed on 6 September 1982.

#### Financial Operations

- 3.15.9 A summary of the operations of the board for the year ended 31 December 1981 together with comparative figures for the previous year follows:

	1980 \$	1981 \$
Income		
Remittances - grower contributions	75 327	51 167
Other	..	800
	<hr/>	<hr/>
	75 327	51 967
	<hr/>	<hr/>

	1980	1981
	\$	\$
Expenditure		
Administration charge paid to Citrus Management Co. Ltd.	19 596	17 100
Board members' fees and allowances	23 207	30 055
Legal fees	2 300	10 026
Other	5 275	9 550
	<hr/>	<hr/>
	50 378	66 731
	<hr/>	<hr/>
Surplus (Deficit) for year	24 949	(14 764)
	<hr/>	<hr/>

The accumulated balance at the close of each year was represented as follows:

	31.12.80	31.12.81
	\$	\$
Assets		
Cash at bank	3 708	15 127
Debtors	25 500	1 531
	<hr/>	<hr/>
	29 208	16 658
Less		
Liabilities		
Creditors	..	2 214
	<hr/>	<hr/>
Accumulated surplus	29 208	14 444
	<hr/>	<hr/>

#### Change in Accounting Policy

- 3.15.10 In respect of the year 1981 a change of policy by the board to account for "Remittances - grower contributions" on a cash basis, instead of the accrual method formerly adopted, had the effect of reducing reported income by approximately \$11 900 for the year.

#### **Scope of Audit**

- 3.15.11 The audit was conducted pursuant to sub-section (3) of Section 12 of the Marketing of Primary Products Act 1958 and involved an examination and appraisal of the accounting system operated by the board. Apart from a number of minor weaknesses brought to the attention of the board the audit proved satisfactory.

# TOBACCO LEAF MARKETING BOARD

## Introduction

- 3.15.12 The Tobacco Leaf Marketing Board operates as the sole marketing authority for tobacco leaf produced in Victoria.

## Statutory Reporting Requirements

- 3.15.13 The marketing of Primary Products Act 1958 requires the board to prepare statements of account. However, there is no legislative requirement for the board to prepare an annual report or to have its audited financial statements tabled in Parliament. The finalised accounts for the year ended 31 March 1982, adopted by the board, were received by audit on 8 July 1982 and the audit report on the accounts was signed on 16 August 1982.

## Financial Operations

### Realisation Account

- 3.15.14 Pursuant to the provisions of Section 17 of the Marketing of Primary Products Act 1958 all tobacco leaf grown in Victoria is vested in the board. The proceeds of the board's quota tobacco sales are distributed through its agent, the Tobacco Industry Leaf Finance Agency.
- 3.15.15 A summary of the distribution for the years ended 31 March 1981 and 1982 is shown hereunder:

	1980-81	1981-82
	\$	\$
Gross proceeds from sales of tobacco leaf	22 601 919	23 666 338
Applied to:		
Broker's commission	416 071	439 896
Freight	118 095	133 747
Rehandling charges	31 171	56 827
Commonwealth tax levy	61 496	60 505
Crop insurance	96 058	100 582
Marketing board charges	339 029	354 995
Growers' liens, orders etc.	3 234 213	4 634 334
Net proceeds to growers	18 305 786	17 885 452
	<hr/>	<hr/>
	22 601 919	23 666 338
	<hr/>	<hr/>

### Income and Expenditure Account

- 3.15.16 The board's income and expenditure accounts for the past two years are summarised hereunder:

	1980-81	1981-82
	\$	\$
Income		
Board charges (quota and non quota)	339 029	355 301
Interest on investments	57 748	90 346
Miscellaneous	3 492	14 026
	<hr/>	<hr/>
	400 269	459 673
	<hr/>	<hr/>



	1980-81	1981-82
	\$	\$
Expenditure		
Selling costs	16 807	18 966
Administration costs	271 745	338 208
	<hr/>	<hr/>
	288 552	357 174
	<hr/>	<hr/>
Operating Surplus	111 717	102 499
Extraordinary expenses	21 345	106 425
	<hr/>	<hr/>
Net Operating Surplus (Deficit) and extraordinary items	90 372	(3 926)
	<hr/>	<hr/>

### Balance Sheet

The board's balances are summarised hereunder:

	31.3.81	31.3.82
	\$	\$
Board Funds - Accumulated Surplus	636 198	632 272
	<hr/>	<hr/>
Represented by:		
Fixed Assets	31 153	32 668
Current Assets	637 104	655 760
Energy Research Program	26 967	32 996
	<hr/>	<hr/>
	695 224	721 424
Less Current Liabilities and Provisions	59 026	89 152
	<hr/>	<hr/>
Net Assets	636 198	632 272
	<hr/>	<hr/>

### **Scope of Audit**

- 3.15.17 Sub-section (3) of Section 12 of the Marketing of Primary Products Act 1958 provides for the audit of the accounts of the board by the Auditor-General. The audit work undertaken by my officers included the documentation, evaluation of internal controls, testing of the board's revenue and expenditure systems and the verification of assets and liabilities of the board at 31 March 1982. The audit of the board's realisation account by a firm of chartered accountants has been accepted for the purpose of my audit.

### **Audit Observations and Recommendations**

#### Extraordinary Item

- 3.15.18 A distribution of surplus board funds was made to on-going 1981 quota holders. Distribution which totalled \$106 425 was based on 0.5 per cent. of gross sales for the 1980 season.

#### Conclusion

- 3.15.19 Satisfactory explanations were provided in relation to all matters raised during the audit.

# THE VICTORIAN EGG MARKETING BOARD

## Introduction

- 3.15.20 The Victorian Egg Marketing Board administers the marketing of eggs and egg products in Victoria. It operates a grading floor at Keysborough in addition to a number of receiving and selling depots which are situated in both metropolitan and country areas. Certain operations are also conducted on behalf of the board by its authorised agents, producer agents and distributors. Pulp is manufactured by the board in its factory at Keysborough.

## Statutory Reporting Requirements

- 3.15.21 The Marketing of Primary Products Act 1958 requires the board to prepare statements of account. The board is also required to prepare an annual report of its proceedings for the financial year and deliver a copy to the minister not later than 30 November for tabling before both Houses of Parliament. The finalised accounts for 1981-82 adopted by the board were received by audit on 27 September 1982 and the audit report on the accounts was signed on 23 November 1982.

## Financial Operations

- 3.15.22 The financial operations of the board for 1981-82 compared with 1980-81 are summarised below. From 1981-82 the board's financial year ends on 30 June instead of the first Saturday falling on or after the 30 June.

	1980-81	1981-82
	\$	\$
Income	68 950 677	77 040 996
Expenditure	68 555 881	77 780 948
	<hr/>	<hr/>
Net Operating Surplus (Deficit) and extraordinary items	394 796	(739 952)
	<hr/>	<hr/>

- 3.15.23 The board made a deficit of \$739 952 as compared to a surplus of \$394 796 in 1980-81 due to a build-up of surplus eggs at the end of the year as a result of an increased rate of lay per hen. Surplus eggs in excess of local market requirements were valued at net realisable value.

- 3.15.24 Net assets of the board at 30 June 1982 were \$3 517 080 (4 July 1981, \$4 257 032).

## Changes in Accounting Treatment

- 3.15.25 The board changed the accounting treatment of the following items:
- (1) discount allowed on egg sales, previously deducted from income in 1980-81, has been shown as expenditure in 1981-82.
  - (2) payments received from the Poultry Industry Trust Fund to equalise certain administration costs incurred in the administration of the Commonwealth Hen Levy acts, previously offset against administration costs, have been shown as income.

(3) direct cartage involved in transporting egg products to consumers, previously shown as a cartage expense, has been shown as a reduction of income.

3.15.26 The 1980-81 figures have been adjusted for comparative purposes.

3.15.27 There was no effect on the net surplus of the board as a result of these changes.

### **Scope of Audit**

3.15.28 Sub-section (3) of Section 12 of the Marketing of Primary Products Act 1958 provides for the audit of the accounts of the board by the Auditor-General. The audit work undertaken by my officers included an evaluation of the work performed by a firm of chartered accountants which conducts the internal audit function, testing of the board's revenue and expenditure systems, including salaries and wages and the verification of the assets and liabilities of the board at 30 June 1982.

### **Audit Observations and Recommendations**

#### Ex-gratia Payment

3.15.29 During 1981-82 the board made an ex-gratia payment of \$3 972 to the chief accountant who resigned during the year.

3.15.30 This payment was made in respect of a pro-rata long service leave calculation based on a period of service with the board of 8.75 years instead of 10 years as prescribed in the Commercial Clerks' Award. Audit observed that the authority for payment was a verbal instruction from the general manager.

3.15.31 Subsequent to this matter being raised by audit, board approval was obtained on 21 October 1982. Audit recommended that the board's authority to make ex-gratia payments of this nature be clarified.

#### Additional Contribution by the Board to the Superannuation Fund

3.15.32 The superannuation fund is administered under a trust deed and does not form part of the board's accounts. The audit of the fund is undertaken by a firm of chartered accountants.

3.15.33 Prior to the retirement of the former general manager and another senior officer of the board the trustees were instructed by the board to waive certain conditions in relation to the retirement benefits payable to these former members of the fund. The board's decision to waive certain conditions was a contributing factor necessitating the provision of an additional contribution of \$120 000 to the fund during 1980-81. This amount was paid by the board to the investment manager of the fund, Capel Court Corporation Ltd., in August 1981.

3.15.34 The need for clarification of the basis of the board's decision to contribute an additional \$120 000 was raised in an audit report dated 29 January 1982.

3.15.35 Replies from the board dated 1 March 1982, 5 May 1982 and 3 September 1982 have failed to specify those conditions which were waived and the reasons that led to the board making this decision.

#### Conclusion

3.15.36 Apart from the matter relating to ex-gratia payments and other minor weaknesses brought to the attention of the board, the audit proved satisfactory.

### 3.16 MELBOURNE AND METROPOLITAN BOARD OF WORKS

#### Introduction

- 3.16.1 The Melbourne and Metropolitan Board of Works is constituted under the provisions of the Melbourne and Metropolitan Board of Works Act 1958. The principal functions of the board are to supply water, provide sewerage facilities and carry out drainage and river improvement works within the metropolis of Melbourne, as defined by the act. In addition, the board, under the provisions of the Town and Country Planning Act 1961, is a responsible authority for the preparation of planning schemes in the metropolitan area.
- 3.16.2 The costs of carrying out the above functions are primarily financed by public loan borrowings, advances and grants from the State and Commonwealth governments by way of the Works and Services Account, and the levying of separate rates to meet the costs of supplying water, sewerage and drainage facilities, and to meet the costs of carrying out the board's planning functions.

#### Statutory Reporting Requirements

- 3.16.3 The Melbourne and Metropolitan Board of Works Act 1958, requires the board to finalise its accounts within 5 months after the last day of June in every year and have such accounts audited by the Auditor-General prior to them being tabled in Parliament.
- 3.16.4 The finalised accounts were adopted by the board on 7 September 1982 and the audit report on the financial statements was signed on 9 November 1982.

#### Financial Operations

- 3.16.5 The financial operations of the board for the 1981-82 financial year together with comparative figures for 1980-81 are shown hereunder:

	1980-81		1981-82	
	Metropolitan		Metropolitan	
	General	Improve-	General	Improve-
	Fund	ment	Fund	ment
	\$000	Fund	Fund	Fund
		\$000	\$000	\$000
Operating income	343 929	20 866	375 856	31 855
Less operating expenditure	295 170	9 739	330 252	13 652
	<hr/>	<hr/>	<hr/>	<hr/>
	48 759	11 127	45 604	18 203
Less other expenditure	20 967	5 281	22 959	6 370
	<hr/>	<hr/>	<hr/>	<hr/>
Excess of income over expenditure	27 792	5 846	22 645	11 833
Less capital expenditure	..	4 333	..	6 919
Less appropriations	30 200	..	28 000	..
	<hr/>	<hr/>	<hr/>	<hr/>

	1980-81		1981-82	
	Metropolitan		Metropolitan	
	Improve-		Improve-	
	General	ment	General	ment
Fund	Fund	Fund	Fund	
	\$000	\$000	\$000	\$000
Refund - Braeside land	(2 408)	1 513	(5 355)	4 914
	..	..	..	*1 986
<hr/>				
Surplus (Deficit)				
transferred to Rates				
Equalisation Reserve				
Fund	(2 408)	1 513	(5 355)	6 900
<hr/>				

\* Refund in respect of the purchase of land at Braeside treatment plant as a result of a valuation made by the Valuer-General and an independent valuer.

3.16.6 Net assets of the board at 30 June 1982 amounted to \$906.5 million (30 June 1981, \$798.5 million).

### Scope of Audit

3.16.7 Section 49 of the Melbourne and Metropolitan Board of Works Act 1958 provides for an annual audit of the accounts of the board by the Auditor-General. The scope of the audit included the evaluation and testing of the systems of internal control operating in the following areas of the board's accounting system namely: salaries, wages, chargeable works, trade waste charges, computer operations centre and the head office canteen. Verification of the assets and liabilities of the board at 30 June 1982 was also undertaken.

3.16.8 In addition to the audit tests carried out by my officers cognizance was taken of the work undertaken by the board's audit services division and the appraisal of the physical security of the board's computer operations centre was undertaken in conjunction with the audit services division.

### Audit Observations and Recommendations

#### Salaries

3.16.9 Internal controls in relation to the salaries payroll system were found to be generally satisfactory, however the following control weaknesses were evident:

- (1) failure to indicate that certain reconciliations had been effected;
- (2) the use of the accounting examiner in the dual role of checking the accuracy and authorisation of the salaries documentation as well as authorising the documents for processing by the computer; and
- (3) payrolls are not certified to the effect that the persons on the payrolls are actually employed.

3.16.10 Audit recommendations in respect of the above matters were as follows:

- (1) that where reconciliations are effected, they should be evidenced by signature or initial;
- (2) accounting examiners should not form part of a management function; and
- (3) all payrolls should be certified by the officer in charge.

Physical Security over the Board's Computer Operations Centre

3.16.11 Arising out of the review of the adequacy and effectiveness of the controls presently operating in the computer operations centre of the board, the following major weaknesses were brought to the attention of the board:

- (1) the absence of an automatic fire extinguisher system;
- (2) the dependence on one cooling tower for all 3 air- conditioning units serving the centre; and
- (3) the lack of a contingency plan in the event of the destruction of the computing facilities.

Conclusion

3.16.12 Apart from the abovementioned matters and a number of minor weaknesses brought to the attention of the board the results of the audit proved satisfactory.

**Response by Board**

Computer Operations Centre

3.16.13 Certain recommendations to improve security have been agreed to and an investigation of the computer room layout and facilities is currently in progress. The investigation will address the major weaknesses of the lack of an automatic fire extinguisher system and air-conditioning shortcomings. Further, the board has advised that it is currently seeking the services of an outside consultant who, together with board staff, will have the charter of preparing a contingency plan in the event of the destruction of the board's computing facilities.

### 3.17 MELBOURNE AND METROPOLITAN TRAMWAYS BOARD

#### Introduction

- 3.17.1 The Melbourne and Metropolitan Tramways Board is a body corporate which operates under the provisions of the Melbourne and Metropolitan Tramways Act 1958.
- 3.17.2 The board is responsible for the construction, maintenance, management and operation of all tramways within the metropolis. It is empowered to operate bus services, ferry services and to provide parks, gardens and recreation areas. The act provides for the board to borrow up to a limit of \$130 million at any one time. Such borrowing is secured by inscribed stock guaranteed by the State.

#### Statutory Reporting Requirements

- 3.17.3 The Melbourne and Metropolitan Tramways Act 1958 requires the board to submit to the minister an annual report on the board's activities in respect of the previous 12 months for tabling in Parliament. The board is also required to present to the Auditor-General by 30 September a balance sheet for audit. The Auditor-General is required to submit to the minister a copy of the audited balance sheet for tabling in Parliament.
- 3.17.4 The accounts of the board which did not include the notes thereto were made available to audit on 6 August 1982 and were adopted by the board on 26 August 1982.
- 3.17.5 The finalised accounts were presented to audit on 4 November 1982 and the audit report on the accounts was signed on 9 November 1982.

#### Financial Operations

- 3.17.6 The financial operations of the Melbourne and Metropolitan Tramways Board for 1981-82 compared with 1980-81 are summarised hereunder:

	1980-81	1981-82
	\$	\$
Income	51 568 200	57 795 417
Expenditure	93 637 564	111 710 564
Operating Deficit	42 069 364	53 915 147
Payment from State Treasury in respect of passenger transport	37 500 000	47 650 000
Net Deficit	4 569 364	6 265 147

- 3.17.7 Net liabilities of the board were represented by:

	30.6.81	30.6.82
	\$	\$
Reserves	(24 983 768)	(30 655 963)
Accumulated Deficit	26 484 233	32 749 380
Net liabilities	1 500 465	2 093 417

## Qualification of Financial Statements of the Board

- 3.17.8 It was necessary to record the following qualification on the accounts:

"As referred to in note 10 to the accounts, the Board has established a Superannuation, Retiring Benefits Provision totalling \$1 000 000.

As the Board cannot provide an accurate determination of the liability for Superannuation, Retiring Benefits, I am unable to express an opinion as to the adequacy of the provision".

### **Scope of Audit**

- 3.17.9 Part E of the Fourth Schedule of the Melbourne and Metropolitan Tramways Act 1958 provides for a continuous audit of the board's accounts by an authorised company auditor appointed by the board and an annual audit by the Auditor-General. The audit programs, working papers and audit report of the continuous auditor were examined, evaluated and tested by my officers and were accepted for the purpose of the audit. My officers carried out additional audit checks which included the verification of assets and liabilities of the board at 30 June 1982.

### **Audit Observations and Recommendations**

- 3.17.10 Major matters in the audit report upon the books and accounts of the Melbourne and Metropolitan Tramways Board for the year ended 30 June 1982 included:

#### Superannuation, Retiring Benefits Provision

- 3.17.11 The board has approved amendments to the existing retiring gratuities scheme and the introduction of a superannuation scheme for the board's personnel.
- 3.17.12 A provision totalling \$1 million has been established for superannuation. However, the board cannot provide an accurate determination of the liability, in respect of superannuation, as the nature of the scheme has not been determined.

- 3.17.13 The annual accounts of the board have been qualified to this extent.

#### Provision for Sick Leave, Long Service Leave and Retiring Benefits

- 3.17.14 The board has consistently followed a policy of not recognising as liabilities accrued sick leave, long service leave and retiring gratuity entitlements. Audit considers it prudent to recognise such entitlements as the benefits accrue to employees.

#### Conclusion

- 3.17.15 The results of the audit proved satisfactory.



### **3.18 MELBOURNE UNDERGROUND RAIL LOOP AUTHORITY**

#### Introduction

- 3.18.1 The Melbourne Underground Rail Loop Authority was established, under the provisions of the Melbourne Underground Rail Loop Act 1970, as a body corporate on 1 January 1971. It is charged with the duty of supervising and co-ordinating the planning, financing and construction of an underground rail loop and ancillary works. It is also responsible for the development of the Museum Station and Flagstaff Station sites and adjacent areas.
- 3.18.2 The authority, under the provisions of the act, is empowered to finance loop construction and property development from borrowings within Australia or overseas and from advances by the State, with a limit to the amounts borrowed, at any time, of \$475 million for loop construction and \$100 million for property development. Such borrowings are secured by inscribed stock guaranteed by the State and advances from the Works and Services Account.

#### Statutory Reporting Requirements

- 3.18.3 The act requires the authority to prepare annual accounts of its financial transactions to show its financial position at 30 June in each year. It is required to forward, before 31 October each year, its audited statements to the minister for tabling in Parliament.
- 3.18.4 A set of financial statements, duly adopted by the authority, was presented to audit on 20 September 1982 and the audit report on these accounts was signed on 8 October 1982.

#### Financial Operations

- 3.18.5 The authority does not prepare an annual income and expenditure account. Its financial statements comprise a statement of financial position and a statement of financial transactions.
- 3.18.6 Net assets as recorded in the accounts of the authority at 30 June 1982 were \$13 582 447 (30 June 1981, \$10 569 041).

#### Qualification of Authority's Financial Statements

- 3.18.7 I again found it necessary to record the following qualification on the accounts of the authority:

"As stated in Note 2 to the accounts, the loop development account includes an amount of \$122 922 000 being the cost (as certified by the Authority's Principal Consultants) of that part of the loop which has been transferred to and is now vested in the Victorian Railways Board pursuant to Section 41(1) of the Melbourne Underground Rail Loop Act 1970.

As a result of the abovementioned transfer, in my opinion, the fixed asset item, Loop Development Account, in the statement of financial position, is overstated by an amount of \$122 922 000".

## **Scope of Audit**

3.18.8 Section 12 of the act provides for an annual audit of the accounts of the authority by the Auditor-General. The authority has continued the engagement of the services of a person to carry out a continuous examination of the financial transactions in the books of the authority. Copies of his periodic reports to the authority, of the duties performed by him, were provided to audit. These reports were evaluated by my officers and accepted for the purpose of the audit. Additional audit tests undertaken included the examination of contract payments, interest payable and receivable, statutory contributions from other bodies and authorised borrowings. Assets and liabilities on hand at 30 June 1982 were verified. The results of the audit examination proved satisfactory.

### 3.19 MELBOURNE WHOLESALE FRUIT AND VEGETABLE MARKET TRUST

#### Introduction

- 3.19.1 The Melbourne Wholesale Fruit and Vegetable Market Trust was established as a body corporate under the provisions of the Melbourne Wholesale Fruit and Vegetable Market Trust Act 1977.
- 3.19.2 The functions of the trust are to control, maintain and manage the market and market lands at Footscray.

#### Statutory Reporting Requirements

- 3.19.3 The Melbourne Wholesale Fruit and Vegetable Market Trust Act 1977 requires the trust to submit to the minister, as soon as practicable after the end of each financial year, audited accounts and a balance sheet. These accounts are required to be tabled by the minister in both Houses of Parliament within 3 weeks.
- 3.19.4 The finalised accounts for 1981-82 adopted by the trust were received by audit on 7 October 1982 and the audit report on the accounts was signed on 3 December 1982.

#### Financial Operations

- 3.19.5 The financial operations of the trust for 1981-82 compared with 1980-81 are summarised hereunder:

	1980-81	1981-82
	\$	\$
Income	3 041 421	3 278 470
Expenditure	2 524 993	2 860 446
	<hr/>	<hr/>
Surplus	516 428	418 024
	<hr/>	<hr/>

- 3.19.6 Net assets of the trust at 30 June 1982 were \$2 588 605 (30 June 1981, \$1 974 913).

#### **Scope of Audit**

- 3.19.7 Sub-section (2) of Section 19 of the Wholesale Fruit and Vegetable Market Trust Act 1977 provides for an annual audit of the accounts of the trust by the Auditor-General. The audit work undertaken by my officers included the documentation and evaluation of the E.D.P. installation, documentation, evaluation and testing of the trust's major revenue and expenditure systems and the verification of assets and liabilities of the trust at 30 June 1982.

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

##### Evaluation of Computer System

- 3.19.8 The objectives of the review were to assess the effectiveness of internal controls over the pre-installation, organisation, development, operations, processing and documentation of the computer system.

- 3.19.9 The review indicated many control deficiencies, the more important of which are listed below:
- (1) the absence of specific guidelines and objectives on post implementation procedures;
  - (2) the absence of parallel running of manual and computer information;
  - (3) delays in preparation of manuals and documentation of procedures on computer operations;
  - (4) inadequate controls over preparation of input documents and checking of outputs;
  - (5) the absence of basic controls over access to computer system;
  - (6) the absence of management trails on information transferred from the manual system to the computer;
  - (7) journal audit listings were not produced at regular intervals of time;
  - (8) failure to produce computer trial balances needed for confirmation of transactions processed at various stages during the year; and
  - (9) delay in creating debtors and cash control registers which are used to verify updated ledger balances.

3.19.10 As a result of these deficiencies audit was compelled to rely heavily on substantive testing in order to verify figures brought to account in the financial statements. The trust has since taken action to rectify several of the deficiencies and at the date of preparation of this report only the matters raised in paragraphs (5) and (7) remain unresolved. However, since the appointment of the computer operations supervisor in August 1982 certain weaknesses in relation to environmental controls have arisen as a result of him being able to access the computer system, being responsible for operations and having the necessary expertise to effect program amendments.

#### Cash Control and Bankings

- 3.19.11 The trust reported two irregularities covering the period January to May 1982 whereby collections totalling \$1 608 were not accounted for in the trust's records.
- 3.19.12 Details of these irregularities are included in section 5.4 of my report on the Treasurer's Statement for the 1981-82 financial year.
- 3.19.13 The bank reconciliation at 30 June 1982 prepared by the trust disclosed a number of over and under bankings.
- 3.19.14 Further instances of overbankings were disclosed during the audit and brought to the attention of the trust.
- 3.19.15 These over and under bankings highlighted weaknesses resulting from the absence of adequate segregation of duties in that the computer operator cleared the cash register, balanced cash, prepared the bank pay-in slip and handled bankings.

- 3.19.16 This was compounded when the trust decided to discontinue preparing the daily ticket sales summary on 18 February 1982. This summary recorded the details of all tickets sold together with the total of moneys collected and banked and facilitated a reconciliation between sales, collections and bankings.
- 3.19.17 In addition it is essential that the trust introduce a system whereby the revenue collectable is regularly reconciled with moneys received.

#### Employee Attendance Record Books

- 3.19.18 Audit noted that some employees of the trust did not sign attendance records during the period 1 July 1981 to 30 June 1982. As a consequence it was not possible for audit to ascertain whether or not these employees were in attendance during the hours for which they have been paid.
- 3.19.19 The trust has since directed that all employees sign attendance records.

#### Matters raised in Previous Audit Reports

- 3.19.20 Matters unresolved in respect of previous audits included:

(1) Accountable Documents

Despite assurances by the trust in the reply to the 1980-81 audit report, controls over the recording of receipt book issues in the accountable documents register and the security of accountable documents were again found to be deficient. Audit checks indicated that receipt books were not being signed for upon issue, and that stocks of accountable documents were able to be accessed by at least 4 employees of the trust throughout 1981-82.

(2) Rental Arrears

As commented upon in the last 3 audit reports, trust determinations which require rent charges and fees to be paid on or before the first day of the period to which they relate are not being complied with in that arrears of rent charges and fees existed at 30 June 1982.

Despite efforts to ensure compliance with the determinations rental arrears have increased from \$40 611 (1980-81) to \$51 023 (1981-82).

These matters which have remained unresolved for a considerable period require attention.

#### Conclusion

- 3.19.21 Apart from the above matters and other minor weaknesses brought to the attention of the trust the results of the audit proved satisfactory.

### 3.20 METROPOLITAN FIRE BRIGADES BOARD

#### Introduction

- 3.20.1 The Metropolitan Fire Brigades Board is a body corporate constituted under the Metropolitan Fire Brigades Act 1958 and is responsible for taking, superintending and enforcing all necessary steps for the extinguishment of fires, the protection of life and property in the case of fire and the general control of all fire stations and brigades within the metropolitan fire district.
- 3.20.2 The board's revenue consists primarily of contributions from fire insurance companies, municipalities and the Consolidated Fund to meet the actual expenditure of the board as provided under Sections 36 and 37 of the Metropolitan Fire Brigades Board Act 1958. In addition, substantial revenue is raised from services provided to various organisations for fire prevention facilities.

#### Statutory Reporting Requirements

- 3.20.3 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 accounts were adopted by the board on 20 August 1982 and the audit report was signed on 26 November 1982.

#### Financial Operations

- 3.20.4 The financial operations of the board for 1981-82 compared with 1980-81 in respect of the general fund are summarised hereunder:

	1980-81	1981-82
	\$	\$
Income	49 226 833	55 263 129
Expenditure	51 372 952	58 908 059
	-----	-----
Deficit	2 146 119	3 644 930
	-----	-----

- 3.20.5 Net assets of the board at 30 June 1982 were \$12 528 919 (30 June 1981, \$15 313 325 after adjustments to accumulated funds following the 1981 audit).

#### **Scope of Audit**

- 3.20.6 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.

3.20.7 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. Their audit programs, working papers and reports were examined and evaluated by my officers and were accepted for the purposes of my audit. Additional work undertaken included an evaluation of the system of internal controls in respect of the material receipt and disbursement items including contributions from insurance companies, brokers, municipalities, charges for services, salaries and of the board's general payments system.

### **Audit Observations and Recommendations**

#### Overdraft Limit

3.20.8 Under sub-section (4) of Section 46 of the Metropolitan Fire Brigades Act 1958 the maximum liability that the board could incur at any time in respect of bank overdraft was limited to \$300 000. A number of instances were noted in which this limit was exceeded by substantial amounts during the months of May and June 1982. The limit was subsequently increased to \$2 million on 22 June 1982 under the provisions of the Metropolitan Fire Brigades (Amendment) Act 1982.

#### Conclusion

3.20.9 Apart from the above matters and a number of minor control weaknesses brought to the attention of the board, the results of the audit examination proved to be satisfactory.

### 3.21 METROPOLITAN FIRE BRIGADES SUPERANNUATION BOARD

#### Introduction

- 3.21.1 The Metropolitan Fire Brigades Superannuation Board is a body corporate constituted under the Metropolitan Fire Brigades Superannuation Act 1976. The board is responsible for the administration of the Metropolitan Fire Brigades Superannuation Fund within which a number of superannuation schemes operate.
- 3.21.2 The board's revenue consists primarily of superannuation contributions, interest received from investments, commercial and housing loans and rents. The major expenditure items are pension payments under the various superannuation schemes.

#### Statutory Reporting Requirements

- 3.21.3 Section 7 of the act requires the board to furnish the minister each year with a report of its operations for tabling in Parliament.
- 3.21.4 The accounts were adopted by the board on 10 September 1982 and the audit report was signed on 24 November 1982.

#### Financial Operations

- 3.21.5 The financial operations of the board for 1981-82 compared with 1980-81 are summarised hereunder:

	1980-81	1981-82
	\$	\$
Income	11 725 003	14 246 823
Expenditure	3 627 308	4 405 459
	-----	-----
Surplus	8 097 695	9 841 364
	-----	-----

- 3.21.6 Net assets of the board at 30 June 1982 were \$62 027 513 (30 June 1981, \$52 039 072).

#### **Scope of Audit**

- 3.21.7 Section 13 of the act provides for an annual audit of the accounts of the board by the Auditor-General.
- 3.21.8 The audit consisted of an evaluation of internal controls and concentrated on income from superannuation contributions, interest earned from loans and investments, refunds of contributions and verification of major assets, current liabilities and reserves.
- 3.21.9 For the purposes of this audit, the work performed by the internal auditors (a firm of chartered accountants) was reviewed, evaluated and accepted.
- 3.21.10 Apart from a number of minor control weaknesses brought to the attention of the board, the results of the audit proved to be satisfactory.



### 3.22 MOTOR ACCIDENTS BOARD

#### Introduction

- 3.22.1 The Motor Accidents Board was established as a body corporate on 17 August 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.
- 3.22.2 Accounts of accident victims including such items as medical services, ambulance services, loss of income within certain limits, housekeeping and other allied expenses are paid by the board. The payments are made regardless of fault and do not prejudice the rights of injured parties to common law actions.
- 3.22.3 The Motor Accidents (Amendment) Act 1981, inter alia, provided for the establishment of a rehabilitation account and the transfer of \$3 million to this account from the special account. Moneys from this account are to be used by the board to assist certain motor accident victims in medical and vocational rehabilitation. The provisions of the act came into operation on 23 December 1981.

#### Statutory Reporting Requirements

- 3.22.4 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 statements to the minister by 31 December to be laid before both Houses of Parliament.
- 3.22.5 The accounts of the board were received on 14 September 1982 and the audit report was signed on 1 December 1982.

#### Financial Operations

- 3.22.6 The financial operations of the board for 1981-82 and 1980-81 are summarised hereunder:

	1980-81	1981-82
	\$	\$
Income	57 359 304	67 491 622
Expenditure	56 485 000	64 713 314
	-----	-----
Surplus	874 304	2 778 308
	-----	-----

- 3.22.7 Net assets of the board at 30 June 1982 were \$11 970 390 (30 June 1981, \$9 192 082).

These amounts comprised:

	1980-81	1981-82
	\$	\$
General Account	5 999 596	8 225 920
Special Account	3 192 486	460 879
Rehabilitation Account	..	3 283 591
	-----	-----
	9 192 082	11 970 390
	-----	-----

## Scope of Audit

- 3.22.8 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, interest received on investments, income from drivers' licence surcharges and verification of assets held and liabilities incurred by the board at 30 June 1982.

### Audit Observations and Recommendations

- 3.22.9 Major matters included in the audit report upon the books and accounts of the Motor Accidents Board for the year ended 30 June 1982 were:

#### Income Tax - Liability

- 3.22.10 The matter of a contingent liability existing in respect of income tax instalment deductions from compensation payments made by the board prior to 18 December 1979 has been referred to in previous reports. Subsequent to 30 June 1982 a letter from the Second Commissioner of Taxation was received by the board requesting payment of the relevant amount.
- 3.22.11 This letter also expressed the opinion that the board should be deducting income tax instalment deductions from compensation payments made by the board after 18 December 1979 in accordance with the provisions of the Income Tax Assessment Act.
- 3.22.12 The board, at the date of preparation of this report, was obtaining legal advice in regard to these matters.

#### Calls upon Authorised Insurers

- 3.22.13 Section 65 of the Motor Accidents Act 1973 authorises the board to make calls as determined upon authorised insurers. Details of calls made during the last two years are shown hereunder:

	1980-81	1981-82
	\$	\$
State Insurance Office	55 480 000	65 000 000
R.A.C.V.	770 000	600 000
	-----	-----
	56 250 000	65 600 000
	-----	-----

- 3.22.14 The amount of \$65.6 million includes \$500 000 which was paid directly into the rehabilitation account instead of to the general account for subsequent transfer to the rehabilitation account as required by the provisions of the legislation.

#### Outstanding Liability

- 3.22.15 Note 9 of the notes to and forming part of the accounts for the year ended 30 June 1982 shows an outstanding liability of \$64.37 million for the general account which was arrived at by the board as follows:

	\$	\$
Outstanding claims liability (including workers compensation recoveries)		63 541 639
Contingent tax liability		5 224 091
		-----
		68 765 730
Less general account funds held at 30 June 1982	7 893 695	
Less current liabilities	3 498 376	
	-----	4 395 319
		-----
		64 370 411
		-----

3.22.16 The method adopted by the board at 30 June 1982 was a departure from that followed in prior years in that the amount shown as outstanding liability in previous years did not include the contingent liability in respect of taxation deductions.

3.22.17 Audit is of the opinion that:

- (1) the contingent tax liability above, together with the tax component included in the outstanding liability for the special account should be shown separately; and
- (2) the inclusion of general account funds and current liabilities in the calculation of the outstanding liability is an incorrect accounting treatment.

#### Bethesda Hospital

3.22.18 In my April 1982 report to Parliament on the operations of the board reference was made to an agreement entered into by the board with Bethesda Hospital whereby a "special" bed rate was negotiated for a minimum of 25 beds per day and resulted in the board paying for beds not used. The payment for these unused beds was considered by audit to be outside the ambit of the Motor Accidents Act 1973. The board continued to make these payments up to 22 December 1981, the date that the Motor Accidents Act 1973 was amended to provide for the establishment of a rehabilitation account.

3.22.19 Following the enactment of the amending legislation the board entered into an agreement with Bethesda Hospital to establish a rehabilitation centre. This agreement had not, at the date of audit, been formalised.

3.22.20 The agreement provides, inter alia, for the board to finance the operations of the rehabilitation centre at Bethesda Hospital on a "deficit funding" basis. Payment to be made quarterly and the cost of equipment purchased is to be charged to the quarter in which it is purchased.

3.22.21 Audit has requested the board to clarify the position in regard to accountability for and of ownership of the assets and recommended that these matters should be included in the formalised agreement.

- 3.22.22 Subsequent to 30 June 1982 it was noted that the board had agreed to underwrite an overdraft of \$400 000 on behalf of Bethesda Hospital and to accept charges as part of the deficit funding arrangement.
- 3.22.23 The Motor Accidents Act 1973 does not, in audit opinion, authorise the board to underwrite an overdraft.

#### Computer Operations - Contractual Relationship

- 3.22.24 In previous reports reference has been made to the failure to formalise a draft tri-party agreement. The draft agreement provides for the supply of computing services to the Motor Accidents Board and the State Superannuation Board by the Local Authorities Superannuation Board, and includes the charging basis for services provided. This informal arrangement has operated since 1 July 1977.
- 3.22.25 The final report of the Public Accounts and Expenditure Review Committee on the Auditor-General's report for 1978-79 recommended that the abovementioned arrangements should be formalised and urgent consideration given to the adoption of an agreement.

#### Overcharging by Hospital

- 3.22.26 In my April 1982 report I made reference to a hospital overcharging the board approximately \$99 000 for the period 1 July 1980 to 31 July 1981. Subsequent enquiries by the board indicated that the practice of overcharging extended for a greater period and an amount of \$332 225 was recovered.
- 3.22.27 The sum of \$332 225 was provided to the hospital by the Health Commission of Victoria in 1982-83 in the form of a special grant from the Hospitals and Charities Fund.

#### Conclusion

- 3.22.28 Apart from the above matters and a number of other minor weaknesses brought to the notice of the board the results of the audit proved satisfactory.

### 3.23 PORT OF MELBOURNE AUTHORITY

#### Introduction

- 3.23.1 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

- 3.23.2 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 1981-82 adopted by the authority were received by audit on 9 September 1982 and the audit report on the accounts was signed on 6 December 1982.

#### Financial Operations

- 3.23.3 The financial operations of the authority for 1981-82 compared with 1980-81 are summarised hereunder:

	1980-81	1981-82
	\$	\$
Income	45 723 000	56 137 000
Expenditure	47 334 000	52 081 000
	<hr/>	<hr/>
(Deficit) Surplus	(1 611 000)	4 056 000
	<hr/>	<hr/>

- 3.23.4 Increases in revenue charges during 1981-82 resulted in an improved operating result whilst the 1980-81 deficit was effected by abnormal expenditure items totalling \$2 732 000.
- 3.23.5 Net assets of the authority at 30 June 1982 were \$210 330 000 (30 June 1981, \$169 663 000).

#### **Scope of Audit**

- 3.23.6 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 1982.

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

- 3.23.7 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 1982 included:

### Asset Revaluation

- 3.23.8 Major assets considered essential to continued operations of the authority have been revalued each year by the use of a statistical index together with actual revaluation of certain items at intervals since 1974-75. Additional depreciation is provided on these revalued assets.
- 3.23.9 During 1981-82 certain of the major assets were revalued by statistical index whilst others were actually revalued resulting in a credit of \$32.03 million to the asset revaluation reserve for the year. Additional depreciation provided on the total of assets revalued amounted to \$4.58 million for 1981-82.
- 3.23.10 Documentation supporting the actual revaluations made by the authority's technical staff was considered deficient in that:
- (1) revalued amounts were altered by hand on previous schedules;
  - (2) revised schedules were not formally certified as to their correctness by the responsible technical staff; and
  - (3) the credit to the asset revaluation reserve for the year was not formally approved by the authority.
- 3.23.11 Audit recommended that actual revaluation figures be clearly and formally documented by the technical staff and approved by the authority.

### Transport and Services

- 3.23.12 A number of forms are used as source documents for initiating transport and service charges in relation to the utilisation of the various plant and equipment items owned and operated by the authority.
- 3.23.13 Audit examination of the various documents indicated that not all documents are accounted for in that:
- (1) certain types of documents are not prenumbered; and
  - (2) not all those documents which are prenumbered are subjected to a sequence check during processing.
- 3.23.14 Audit recommended that in order to improve internal control in this area all forms used to initiate transport and service charges be reviewed and made accountable by prenumbering and subjected to sequence checks.

### Superannuation Provision

- 3.23.15 In previous audit reports it was stated that the balance of the provision for superannuation could not at present be adequately related to the authority's liability. The authority's actuary was instructed to investigate and to advise on the actual liability for superannuation. At the date of preparation of this report the authority advised that the investigation has not yet been carried out.

### Conclusion

3.23.16 Apart from the above matters and a number of minor weaknesses brought to the attention of the authority the results of the audit proved satisfactory.

### 3.24 PORT OF PORTLAND AUTHORITY

#### Introduction

- 3.24.1 The Port of Portland Authority Act 1981 altered the name of the Portland Harbor Trust to the Port of Portland Authority with effect from 13 January 1982. The exclusive management and control of the port of Portland is vested in the commissioners of the Port of Portland Authority.

#### Statutory Reporting Requirements

- 3.24.2 The Port of Portland Authority Act 1958 requires the authority to finalise its accounts as soon as practicable after 30 June in each year and present to the Governor in Council audited accounts which are required to be laid before both Houses of Parliament. The finalised accounts for 1981-82 adopted by the authority were received by audit during September 1982 and the audit report on the accounts was signed on 22 November 1982.

#### Financial Operations

- 3.24.3 The financial operations of the authority for 1981-82 compared with 1980-81 are summarised hereunder:

	1980-81	1981-82
	\$	\$
Income	5 397 731	4 468 853
Expenditure	3 880 801	4 765 391
	-----	-----
Surplus (Deficit)	1 516 930	(296 538)
	-----	-----

- 3.24.4 Net assets of the authority at 30 June 1982 were \$4 604 021 (30 June 1981, \$4 900 558).

#### Change in Accounting Treatment

- 3.24.5 Prior to 30 June 1981 interest from investments was accounted for on a cash basis. Interest received during 1981-82 has been brought to account on an accrual basis and this had the effect of reducing the deficit for 1981-82 by \$126 462. This change in accounting treatment is not reflected in the comparative figures for 1980-81.

#### **Scope of Audit**

- 3.24.6 Sub-section (3) of Section 44 of the Port of Portland 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 revenue and expenditure systems and the verification of the assets and liabilities of the authority at 30 June 1982.

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

- 3.24.7 Major matters commented on in the audit report upon the books and accounts of the Port of Portland Authority for the year ended 30 June 1982 included:



### Amounts deferred by the Treasurer

- 3.24.8 The Treasurer, as in previous years, approved the deferment of payment by the authority of interest charges and the contribution to the national debt sinking fund. The totals of deferred interest and contribution at 30 June 1982 were \$4 218 088 and \$611 728 respectively. The interest liability has been disclosed in the notes to the accounts of the authority.

### Statement of Works

- 3.24.9 Under legislative requirements the authority must submit a statement of proposed works to the Governor in Council, for approval. Only works specified in the approved statement, subject to a \$30 000 provisional sum, may be undertaken by the authority.
- 3.24.10 During 1981-82 expenditure was incurred on two projects which had not been specifically approved in the statement and did not relate to the provisional sum. These projects were:
- (1) container crane - preliminary expenditure of \$6 471; and
  - (2) no. 5 berth extension - expenditure relates to the purchase of steel costing \$154 044. As the continuation of the no. 5 berth extension was in doubt at the time of preparing the authority's financial statements the amount of \$154 044 has been included in the balance sheet item, stores.
- 3.24.11 Audit recommended that the legislative requirements in respect of Governor in Council approval for works be complied with.

### Works in Progress

- 3.24.12 The balance sheet item, works in progress included works about which there was uncertainty as to their continuance. Details of these works are:
- (1) preliminary expenses totalling \$123 559 in relation to a specially constructed tugboat; and
  - (2) expenditure relating to the acquisition of container cranes which totalled \$14 317 including \$6 471 incurred during the 1981-82 financial year.
- 3.24.13 If a decision is made not to continue with these works then the expenditure incurred will have to be charged in the future, against the revenue of the authority.

### Conclusion

- 3.24.14 Apart from the above matters and a number of minor weaknesses in internal control brought to the attention of the authority, the results of the audit examination proved satisfactory.

### 3.25 PUBLIC TRUSTEE

#### Introduction

- 3.25.1 The Public Trustee, appointed under the Public Trustee Act 1958, manages the estates of mental patients and other persons incapable of managing their own affairs and on the order of a judge of the Supreme Court deals with property the owner of which is unknown or cannot be found. He may also be appointed executor of the will of any person or he may elect to administer the estate of a person who dies without leaving a will. In such cases he manages the estate and distributes the assets amongst the beneficiaries.

#### Statutory Reporting Requirements

- 3.25.2 There is no provision in the Public Trustee Act 1958 requiring the Public Trustee to produce annual financial statements for audit. However, section 62 of the act does provide that the accounts of all estates and properties controlled or managed by the Public Trustee shall be subject to inspection by the Auditor-General.
- 3.25.3 The financial information contained later in this section has been compiled by my officers from the records maintained at the Public Trustee's Office and from Law Department records.

#### Financial Statements

- 3.25.4 There are several accounts which are required to be maintained under the Public Trustee Act 1958.
- 3.25.5 Sub-section (1)(b) of Section 56 of the Public Trustee Act 1958 provides for a common fund and its composition at 30 June 1982 and 30 June 1981 was as follows:

	30.6.81	30.6.82
	\$	\$
Moneys held for		
Protected persons	55 931 841	64 591 520
Deceased estates	27 874 943	29 076 633
Minors	6 106 574	7 243 880
Trusts and agencies	331 721	372 845
Estates Guarantee and Reserve Account	5 010 943	5 610 000
Unclaimed moneys	2 844 316	3 216 553
Interest reserve	1 700 000	2 100 000
Suspense-amounts pending allocation or adjustment	165 350	388 635
Deposits by trustees	176 105	64 236
Building Depreciation Account	55 244	64 288
	<hr/>	<hr/>
	100 197 037	112 728 590
	<hr/>	<hr/>

3.25.6 The common fund was invested as follows:

	30.6.81	30.6.82
	\$	\$
Mortgages	64 190 173	67 294 199
Inscribed stock		
Victorian semi-government authorities	12 192 100	15 282 100
Commonwealth government securities	5 921 980	6 517 138
Interstate semi-government authorities	5 103 000	6 167 000
Interstate local-government authorities	1 000 000	1 944 272
Commercial bills-bank accepted	2 577 835	2 392 501
Loans to municipal and other statutory bodies	3 748 687	3 691 320
Land and buildings	3 354 635	3 358 588
Cash at bank and on hand	1 543 168	866 275
Bank term deposit and special deposits	65 459	1 215 197
Bank transferrable deposit	500 000	4 000 000
	<hr/>	<hr/>
	100 197 037	112 728 590
	<hr/>	<hr/>

3.25.7 In addition to the funds held in the common fund, the Public Trustee has under his control other assets of substantial value. These assets include real estate and other unrealised assets belonging to the estates being administered by him. There are also estate liabilities to be met during the administration and distribution of these assets which are not recorded as at 30 June 1982 in the financial records of the Public Trustee.

3.25.8 It is understood that a feasibility study is to be conducted to review the existing accounting systems and the associated equipment to produce these accounting records. It is anticipated that this study will examine the feasibility of incorporating the unrealised assets and estate liabilities into the accounting records as soon as the estates come under the control of the Public Trustee.

3.25.9 Sub-section (5) of Section 56A of the Public Trustee Act 1958 requires the Public Trustee to establish a building operations account and a building depreciation account in respect of the investment in land and buildings.

3.25.10 Details of receipts and payments for the years ended 30 June 1982 and 30 June 1981 were as follows:

	30.6.81	30.6.82
	\$	\$
Receipts		
Rentals	533 984	548 485
Payments		
Operating payments	151 124	172 883
Transfer to Building Depreciation Account	5 345	5 345
Transfer to Interest Suspense Account	377 515	370 257
	<hr/>	<hr/>
	533 984	548 485
	<hr/>	<hr/>

3.25.11 Interest received from the investment of moneys forming part of the common fund is required by section 57 of the act to be paid into the interest suspense account. From this account there is payable in each year:

- (1) to the credit of the respective estates represented in the common fund, interest at rates determined from time to time by the Public Trustee; and
- (2) such amount as the Public Trustee deems necessary for credit to the estates guarantee and reserve account for the purpose of meeting certain contingencies including losses which might arise on the sale of investments of the common fund.

3.25.12 At the end of the financial year, any remaining credit in the interest suspense account is payable to the Consolidated Fund towards the cost of the administration of the act.

3.25.13 Operations through the suspense and reserve accounts for the financial years 1981-82 and 1980-81 were:

(1) Interest Suspense Account

	1980-81	1981-82
	\$	\$
Income from investments	11 809 915	14 734 766
Transfer from Building Operations Account	377 515	370 257
Assessment fees	675	1 050
	-----	-----
	12 188 105	15 106 073
Appropriations	-----	-----
Interest allocated to estates	8 437 098	10 935 568
Provision for interest payable to estates	1 700 000	2 100 000
Estates Guarantee and Reserve Account	220 000	81 783
Consolidated Fund	1 831 007	1 988 722
	-----	-----
	12 188 105	15 106 073
	-----	-----

(2) Estates Guarantee and Reserve Account

	1980-81	1981-82
	\$	\$
Balance 1 July	4 364 579	5 010 943
Interest earned	429 179	674 014
Transfer from Interest Suspense Account	220 000	81 783
	-----	-----
	5 013 758	5 766 740
Less legal costs and other expenses	2 815	156 740
	-----	-----
Balance 30 June	5 010 943	5 610 000
	-----	-----

3.25.14 Moneys standing to the credit of the estates guarantee and reserve account are invested as part of the common fund and the account is credited with a share of the earnings of the fund.

Consolidated Fund

3.25.15 Receipts from the management of estates by way of fees and commissions, as well as the interest contribution already mentioned, are paid to the Treasury for credit to the Consolidated Fund, from which operating expenses are met. Particulars are:

	1980-81 \$	1981-82 \$
<b>RECEIPTS</b>		
Fees and commissions	2 096 243	2 229 513
Surplus-Interest Suspense Account	1 831 007	1 988 722
Appropriations of former years	101 411	96 429
Miscellaneous	13 599	17 854
	-----	-----
	4 042 260	4 332 518
<b>PAYMENTS</b>		
Salaries and allowances	2 667 339	3 006 281
Payments in lieu of long service leave	65 632	66 968
Overtime and penalty rates	21 700	24 993
Administration	164 948	145 735
Other services	4 095	..
	-----	-----
	2 923 714	3 243 977
	-----	-----

3.25.16 The Public Trustee also collects moneys from various sources which are credited to the Consolidated Fund, including probate duty on estates administered by him and amounts on account of maintenance of certain patients in mental hospitals.

3.25.17 Amounts received by the Public Trustee and credited to the Consolidated Fund and to Treasury Trust Fund from all sources during the last two years were:

	1980-81 \$	1981-82 \$
<b>Consolidated Fund</b>		
Fees and commission	2 096 243	2 229 513
Probate duty	1 905 982	2 555 482
Surplus from Interest Suspense Account	1 831 007	1 988 722
Maintenance-patients in mental hospitals	68 446	97 935
Postages, stationery recouped	101 411	96 429
Sundry receipts	13 599	17 854
	-----	-----
	6 016 688	6 985 935
<b>Treasury Trust Fund</b>		
Unclaimed moneys	202 251	308 608
	-----	-----

## Scope of Audit

- 3.25.18 An examination of the books and accounts kept in respect of the estates of deceased and protected persons and other funds under the administration of the Public Trustee was performed. Audit tests were carried out in respect of receipts, payments, journals, investments, effects, files and of the work performed by internal audit.

### Audit Observations and Recommendations

#### Bank Reconciliations

- 3.25.19 The clearance account had not been reconciled for the monthly periods after 31 January 1982.
- 3.25.20 Audit recommended that action be taken to bring the reconciliation of the account up to date.

#### Internal Audit

- 3.25.21 The position of internal auditor at the Public Trust Office was vacant from 18 July 1981 to 16 November 1981. The effectiveness of internal audit has been impaired by staff turnover.

#### Delays in Banking

- 3.25.22 Previous audit reports have drawn attention to delays in the banking of certain moneys which come into the hands of the Public Trustee. The Secretary to the Law Department has indicated that because of the Public Trustee's fiduciary responsibilities and the legal consequences that flow from them, the Public Trustee is unable to accept remittances unless he is certain that they are properly payable to him.
- 3.25.23 In 1977 audit recommended that the Treasury and the Law Department should examine the position with a view to seeking amendments to Sections 55 and 63 of the Public Trustee Act 1958. As this matter is unresolved action should be taken to finalise it as soon as possible.

#### Conclusion

- 3.25.24 Other matters relating to the weaknesses in internal control were brought to the attention of the accountant during the course of the audit and these matters have now been resolved. Apart from the matters mentioned above the results of the audit proved satisfactory.

### Response by the Public Trustee

#### Bank Reconciliations

- 3.25.25 The Public Trustee has advised that the delay in performing bank reconciliations has been occasioned by lack of staff resources.

#### Internal Audit

- 3.25.26 The public Trustee has advised that an additional position has been created recently in the internal audit section.

#### Replies to 1980-81 Audit Report

- 3.25.27 At 2 December 1982 no reply had been received from the Law Department in respect of comments made in the 1980-81 audit report.

### 3.26 RAILWAY CONSTRUCTION AND PROPERTY BOARD

#### Introduction

3.26.1 The Railway Construction and Property Board was established, under the provisions of the Railway Construction and Property Board Act 1979, as a body corporate on 22 February 1980. The functions of the board include:

- (1) investigation, design and construction of all railway lines which Parliament has authorised to be constructed;
- (2) such works as the minister approves on the recommendation of the board; and
- (3) other functions conferred on the board under the act, including railway housing and development of railway property.

3.26.2 The board, under the provisions of the act, may borrow moneys within Australia or overseas with a limit to the amount borrowed, at any one time, of \$50 million. Such borrowings are secured by inscribed stock and guaranteed by the State.

#### Statutory Reporting Requirements

3.26.3 The Railway Construction and Property Board Act 1979 requires the board to prepare accounts as soon as reasonably practicable after the 30 June each year. Audited statements must then be forwarded to the minister for tabling in Parliament as soon as reasonably practicable.

3.26.4 The accounts were adopted by the board on 15 September 1982 and the finalised accounts were made available to audit on 14 October 1982.

3.26.5 The audit report was signed on 21 October 1982.

#### Financial Operations

3.26.6 The financial operations of the board for 1981-82 compared with 1980-81 are summarised hereunder:

	1980-81	1981-82
	\$	\$
Operations		
Housing - deficit	166 597	157 374
Development - surplus	(100 456)	(349 309)
	-----	-----
Operating deficit (surplus)	66 141	(191 935)
Abnormal items	103 252	762 620
	-----	-----
Deficit	169 393	570 685
	-----	-----

3.26.7 Net assets of the board at 30 June 1982 were \$48 665 479 (30 June 1981, \$27 212 709).

## Qualification of Financial Statements

- 3.26.8 It was necessary to record the following qualification on the financial statements:

"As referred to in note 3 to the accounts, the board has deducted an amount of \$182 250 from the valuation of houses vested in it from the Victorian Railways Board to cover the costs of complying with M.M.B.W. requirements in relation to plumbing, sewerage and drainage of houses for sale.

In my opinion, expenditure of the nature stated above represents a cost against current operations and should be brought to account by creating a suitable provision and disclosing the existence of such provision in the financial statements of the board.

The effect of the board's accounting method is that the deficit from operations has been understated by \$182 250 and the value of assets vested in the board and classified in the balance sheet under Board Equity has also been understated by a similar amount".

### **Scope of Audit**

- 3.26.9 Section 32 of the Railway Construction and Property Board Act 1979 provides for an annual audit of the accounts of the board by the Auditor-General.
- 3.26.10 The audit included an examination of the system for the purchase of stores and services and payment of accounts, an evaluation of controls over collections from the sale and rental of properties and interest from investments, a review of the board's computer facility and a verification of the board's financial statements.
- 3.26.11 Apart from the qualification to the accounts and minor matters raised with management and resolved during the course of the audit, the audit examination proved satisfactory.



### 3.27 RURAL FINANCE COMMISSION

#### Introduction

- 3.27.1 The Rural Finance Commission which is constituted under the Rural Finance and Settlement Commission Act 1961 is a body corporate and comprises 3 members. The commission's principal functions are to administer the Rural Finance Act 1958, the Soldier Settlement Act 1958 and the Land Settlement Act 1959.
- 3.27.2 The commission provides financial assistance to primary and secondary industries in rural Victoria and is responsible for the operation of the land settlement and soldier settlement schemes. On an agency basis, the commission also administers several special schemes of assistance including natural disaster relief and the rural adjustment scheme.
- 3.27.3 The Soldier Settlement Act 1958 authorised the borrowing of \$130 million for the purpose of a land settlement scheme for eligible ex-servicemen and for advances to discharged servicemen to assist them in the purchase of individually selected farms (single units). Soldier settlement has been completed for a number of years and administration by the commission is confined to collection of outstandings.
- 3.27.4 The Land Settlement Act 1959 provides for the application from the Works and Services Account of amounts not exceeding in the aggregate \$45 million for a land settlement scheme to be opened, in terms of the act, to applications by all adult British subjects. Land settlement has ceased for the time being. During 1977, the commission was given power to dispose of land developed for settlement but surplus to its requirements. Pending disposal of surplus land, livestock operations are being carried out on the land.

#### Statutory Reporting Requirements

- 3.27.5 The act requires the commission to prepare annual accounts of its financial operations and a balance sheet, at 30 June each year, for each of its principal functions duly certified by the members of the commission. The commission is required to forward its audited statements in relation to each principal function to the Treasurer for tabling in parliament.
- 3.27.6 The financial statements for 1981-82 which were adopted by the commission, were presented to audit on 21 October 1982 and the audit report on the accounts was signed on 12 November 1982.

#### Financial Operations

- 3.27.7 The results of the financial operations of the 3 principal functions of the commission for 1981-82 and 1980-81 are summarised hereunder:

	1980-81	1981-82
	\$	\$
Rural Finance Fund - Net profit	3 768 634	5 491 224
Soldier Settlement - Net loss	(536 579)	(522 360)
Land Settlement - Net profit	3 156 044	1 266 099
	-----	-----
Overall net profit	6 388 099	6 234 963
	-----	-----

3.27.8 After allowing for transactions through the respective appropriation accounts the net accumulated deficiency at 30 June 1982 and 1981 are summarised hereunder:

	1980-81	1981-82
	\$	\$
Rural Finance Fund	(21 463)	(20 324)
Soldier Settlement	33 711 721	34 234 081
Land Settlement	5 537 547	4 271 448
	-----	-----
Net accumulated deficiency	39 227 805	38 485 205
	-----	-----

3.27.9 The overall net assets of the commission at 30 June 1982 and 30 June 1981 are set out below:

	30.6.81	30.6.82
	\$	\$
Rural Finance Fund - net assets	50 899 384	59 002 881
Soldier Settlement - net liabilities	(33 711 721)	(34 234 081)
Land Settlement - net liabilities	(5 537 547)	(4 271 448)
	-----	-----
Net Assets	11 650 116	20 497 352
	-----	-----

#### **Scope of Audit**

3.27.10 Sub-section (1) of Section 27 of the Rural Finance Commission Act 1961 provides for an annual audit of the accounts of the commission by the Auditor-General. The following areas were reviewed by my officers:

- (1) cash receipts and cash payments;
- (2) investments, debtors and fixed assets;
- (3) current liabilities and loan liabilities; and
- (4) the computer installation.

3.27.11 The commission continued to engage the services of a firm of chartered accountants to conduct an independent check on salaries, mortgage loan securities and money market securities. Their reports and working papers have been evaluated by my officers and were accepted for the purposes of the audit. Several matters regarding weaknesses in internal controls were discussed with the manager - administration during the course of the audit and appropriate corrective action was taken. The results of the audit proved satisfactory.

### **3.28 STATE INSURANCE OFFICE**

#### Introduction

- 3.28.1 The State Insurance Office was established pursuant to the provisions of the State Insurance Office Act 1975.
- 3.28.2 The main functions of the office are:
- (1) 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
  - (2) 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.
- 3.28.3 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.
- 3.28.4 Pursuant to the provisions of the Workers Compensation Act 1958 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 the Workers Supplementation Fund which form part of the Trust Fund in the Treasury. Powers and functions delegated may be summarised as follows:
- (1) examination, authorisation and payment of claims and refunds;
  - (2) examination of insurer's records and audited statements; and
  - (3) prescription of procedures relating to the general administration of the funds.

#### Statutory Reporting Requirements

- 3.28.5 The State Insurance Office Act 1975 requires the Insurance Commissioner to provide the minister in the month of September 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.
- 3.28.6 The statement of accounts for 1981-82 were finalised on 30 September 1982 and the audit report on the financial statements was signed on 12 November 1982.

## Financial Operations

3.28.7 The financial operations of the State Insurance Office for 1981-82 compared with 1980-81 as disclosed in the statement of accounts provided by the Commissioner are summarised hereunder:

	1980-81	1981-82
	\$	\$
Income	396 109 117	490 696 502
Expenditure	395 215 436	620 589 641
	-----	-----
Profit (Loss)	893 681	(129 893 139)
	-----	-----

3.28.8 Net liabilities of the office at 30 June 1982 were \$75.175 million compared with net assets of \$54.854 million at 30 June 1981.

## Qualification of Financial Statements

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

"(1) As stated in Note 1(c) to the accounts the provision for outstanding claims is established on an actuarial basis to which adjustments are made to cover the cost of handling outstanding claims, claims incurred but not reported and to allow for future investment income.

If the Commissioner had not in 1980-81 adopted a policy of allowing for future investment income the following items, based on actuarial advice, would have been varied as indicated hereunder:

- (i) provision for outstanding claims - compulsory third party of \$900.6m would have been \$1 164.4m, an increase of \$263.8m;
  - (ii) incurred claims - compulsory third party of \$462.014m would have been \$628.114m, an increase of \$166.1m;
  - (iii) the loss for the year of \$129.893m would have been a loss of \$295.993m, an increase of \$166.1m; and
  - (iv) the accumulated loss of \$128.999m would have been \$392.799m, an increase of \$263.8m which is represented by \$97.7m in respect of 1980-81 and \$166.1m for the current year.
- (2) The Commissioner, in implementing this policy, has overstated the item net investment income on underwriting provisions of \$122.273m as a result of the inclusion as income in 1981-82 of an amount which had been included as future investment income in the previous year. Actuarial advice indicates that the amount of the overstatement is \$31.1m. As a consequence the expense item, incurred claims, of \$462.014m has been similarly overstated. (See also 1(ii) above). There was no effect on the result for the year.

- (3) As in 1980-81, the Commissioner has shown under sundry debtors an amount of \$1.946m on account of employers liability premiums raised prior to 30 June 1982 relating to policies of insurance raised subsequent to that date. The inclusion of this sum has had the effect of overstating both sundry debtors and unearned premium - employers liability by \$1.946m in the balance sheet. There was no effect on the result for the year.

Subject to the above, the accompanying accounts being the balance sheet and profit and loss account drawn up on the basis stated in Note 1(a) are, in my opinion, properly drawn up to present a true and fair view of the state of the affairs of the office at 30 June 1982 and the result for the year then ended."

### **Scope of Audit**

- 3.28.10 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.
- 3.28.11 The office had an internal audit section operating during 1981-82. 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, assets held and liabilities incurred by the office at 30 June 1982 were verified.

### **Audit Observations and Recommendations**

#### Future Investment Income

- 3.28.12 The Commissioner allows for future investment income on the outstanding claims provision - compulsory third party at a rate of 11 per cent. based on the average annual earning rate on the portfolio of investments underpinning the provision of \$900.6m and is calculated in relation to the run off of payments from the provision.
- 3.28.13 The investments held against the provision are securities with fixed interest rates and it is the Commissioner's view that the amount of future investment income is therefore known with relative certainty.
- 3.28.14 The ability of the sum set aside for the provision to earn investment income in the future is in the view of audit, dependent on the following factors:

- (1) at 30 June 1982 the compulsory third party division had incurred an accumulated loss of \$135.217m, which will have the effect of reducing the amount of investments held against the compulsory third party divisions reserves and provisions.

Consequently investments for the full value of the provision for outstanding claims, will not be held against the provision but will be reduced by the amount of the accumulated loss relating to compulsory third party, thus the receipt of future investment income previously brought to account is considered doubtful; and

- (2) the possible decline in interest rates.

- 3.28.15 If the Commissioner's estimate is found to be unattainable, due to any of the above reasons, then an overstatement of profit or understatement of losses would result. By over-estimating future investment income a profit that otherwise would not have been earned may result and this could lead to a distribution being made to Treasury.
- 3.28.16 In addition the income is not earned in this accounting period and the test for income recognition should be whether or not it has been earned in the period, not whether it has the potential to be earned in the future.
- 3.28.17 Audit is of the view, for the above reasons, that the practice of recognising future investment income should not be continued.

Employers Liability Outstanding Claims Provision

- 3.28.18 The Commissioner's estimate of \$262.931 million is made up of the following:

	\$m
Actuarial estimate	222.832
Asbestosis	20.000
Industrial Deafness	15.000
Provision for handling claims	5.570
	-----
	263.402
Less Reinsurance	.471
	-----
	262.931
	-----

(1) Actuarial Estimate

The actuarial estimate is based on payment patterns for the past 3 years. In arriving at an estimate of \$222.832 million the actuary used data provided by the Commissioner for a 2 year and 10 month period and therefore had to estimate the data for the balance of 2 months. Audit carried out calculations based on the actuarial model using the actual data for the full 3 year period. This calculation was approximately \$7 million less than the estimate made by the actuary.

(2) Asbestosis and Industrial Deafness

The estimate for asbestosis and industrial deafness is not based on past payment patterns. As the payment patterns do not reflect the payment of claims for asbestosis and industrial deafness, estimates from other sources of information have to be made by management.

The estimates were accepted by audit on the basis that they were made on the best information available at the time.

- 3.28.19 The Commissioner considers his overall estimate of \$262.931 million to be the best indication of the liability at balance date.

3.28.20 As the data used has a material effect on the profitability of the division, audit recommended that actual data be used in the calculation of actuarial estimates for outstanding claims provision - employers liability for the period, wherever possible.

Conclusion

3.28.21 Apart from the above matters and a number of minor weaknesses brought to the attention of the Commissioner the results of the audit proved satisfactory.

### **3.29 STATE SUPERANNUATION BOARD OF VICTORIA**

#### Introduction

- 3.29.1 The State Superannuation Board of Victoria 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.
- 3.29.2 By legislative direction the board is also responsible for the administration of the Pensions Supplementation Fund, the Superannuation Lump Sum Fund, the Parliamentary Contributory Superannuation Fund and until its repeal by the Superannuation (Lump Sum Benefits) Act 1981, the Married Women's Superannuation Fund. In addition, the board is responsible for the administration of the Constitution (Governor's Pension) Act 1978.
- 3.29.3 This report covers all funds administered or controlled by the board other than the operations of the State Superannuation Fund.
- 3.29.4 At the date of preparation of this report the audit of the accounts of the State Superannuation Fund, which were received on 15 September 1982 had not been completed.

#### **Pensions Supplementation Fund**

- 3.29.5 The fund was established pursuant to the Pensions Supplementation Act 1966 to meet the cost of supplementing, from 1 April 1966, the pensions of officers who retired on or before 12 July 1961 or the widows of such officers or of those officers who died prior to that date. Amending legislation incorporated in the Pensions Supplementation Act 1966 gave the board power to increase the supplementary pensions of those persons and to grant supplementary pensions to, or in respect of, persons who became entitled to a pension subsequent to that date. The Superannuation (Amendment) Act 1979 provides for the twice yearly indexation of the pensions.

#### Statutory Reporting Requirements

- 3.29.6 Section 10 of the act requires the board to submit to the Treasurer to be laid before both Houses of Parliament a report dealing with the general administration and operations of the fund; the adequacy or otherwise of the fund; and any recommendations in connection with the use of any surplus. There is no statutory provision for the preparation of financial statements or the audit thereof, however, the board has produced accounts for the fund over the years and included same in its report to Parliament in respect of the fund.
- 3.29.7 The audit of the accounts of the fund is undertaken as part of the audit of the Superannuation Board.



## **Parliamentary Contributory Superannuation Fund**

- 3.29.8 The Parliamentary Salaries and Superannuation Act 1968 provides for the establishment of the Parliamentary Contributory Superannuation Fund. The purpose of the fund is to provide pensions, retiring allowances and other superannuation benefits to former members of Parliament and their widows. Members are required to contribute by way of deduction from salary, and, to the extent certified by the actuary appointed by the trustees, the Consolidated Fund is applied to enable the fund to meet its liabilities.

### Statutory Reporting Requirements

- 3.29.9 The act does not make any provision for the preparation of financial statements or of any form of report on the years operations. However, the trustees of the fund have over the years provided Parliament with details of the receipts and payments of the fund.

### Audit of Accounts of the Fund

- 3.29.10 The audit of the accounts of this fund is undertaken at the request of the Treasurer.

## **Married Women's Superannuation Fund**

- 3.29.11 The Married Women's Superannuation Act 1968 provided for the establishment, on a contributory basis, of the Married Women's Superannuation Fund. The purpose of this fund was to provide retiring benefits to married women who were on the permanent staff of the public service and who, because of their married status, prior to the operation of the Superannuation Act 1975, were not eligible to become contributors to the State Superannuation Fund established under the Superannuation Act 1958, or who, subsequent to the operation of the 1975 act, elected to contribute to the Married Women's Superannuation Fund.

- 3.29.12 Each member was required to contribute to the fund, by way of deductions from salary, a sum equal to 5 per cent. of her salary. Contributions were credited to members' accounts in the fund and were supplemented by payments out of the Consolidated Fund when benefits became due. Benefits on retirement consisted of lump sum payments or annuities.

- 3.29.13 The act was repealed by the Superannuation (Lump Sum Benefits) Act 1981, whereby all contributors and the assets and liabilities of the fund were transferred to the Superannuation Lump Sum Fund on 1 January 1982. Net assets transferred totalled \$6 474 348.

### Statutory Reporting Requirements

- 3.29.14 Section 18 of the act required the accounts of the fund to be audited by the Auditor-General, however, no reference was made in the act to the reporting by the board on the operations of the fund. The board did however over the years prepare an annual report and provide details of the financial operations of the fund to Parliament on an annual basis.

## **Superannuation Lump Sum Fund**

- 3.29.15 The fund was established under the Superannuation (Lump Sum Benefits) Act 1981 and came into operation on 1 January 1982. The fund took over the assets and liabilities, and contributors, of the Married Women's Superannuation Fund. Net assets taken over totalled \$6 474 348. The fund is concerned with the payment of superannuation benefits to married women and to part-time officers and employees of the public service.

### Statutory Reporting Requirements

- 3.29.16 Section 17 of the act requires the Auditor-General to audit the accounts of the fund however no reference is made in the act to the reporting requirements of the board on the operations of the fund. The board has prepared financial statements of the fund for the period 1 January 1982 to 30 June 1982 and these have been subject to audit by my officers.

### **Scope of Audit**

- 3.29.17 The audit of the Pensions Supplementation Fund, the Parliamentary Contributory Superannuation Fund, the Married Women's Superannuation Fund and the Superannuation Lump Sum Fund consisted of an examination of the contributions and other income of the funds, the pensions and other benefits paid by the funds and the verification of the assets and liabilities of the funds at the respective balance dates.

### **Audit Observations and Recommendations**

- 3.29.18 In my 1980-81 supplementary report I referred to the failure of the trustees to prepare the accounts of the Parliamentary Contributory Superannuation Fund on an accrual basis.
- 3.29.19 The trustees in a reply to an audit report on the 1980-81 accounts indicated that the accounts for 1981-82 would be prepared on an accrual basis. However, these accounts have been prepared on a cash basis.
- 3.29.20 Audit recommended that the accounts of the fund for 1982-83 and future years, be prepared on an accrual basis.

### Conclusion

- 3.29.21 Apart from the above-mentioned matter, the results of the completed audits of the various funds proved satisfactory.

### **3.30 TEACHER HOUSING AUTHORITY**

#### Introduction

- 3.30.1 The Teacher Housing Authority was constituted under the provisions of the Teacher Housing Act 1970. The functions of the authority were to provide and maintain suitable housing accommodation for teachers and to fix rentals for that housing.
- 3.30.2 The authority ceased operations on 23 March 1982 and was succeeded in law by the Government Employee Housing Authority.

#### Statutory Reporting Requirements

- 3.30.3 The Teacher Housing Act 1970 required the authority to finalise its accounts as soon as practical after 30 June each year and to forward the accounts to the minister within 7 days thereof for tabling in Parliament.
- 3.30.4 The accounts of the former authority were adopted on 15 September 1982 and the audit report was signed on 9 November 1982.

#### Financial Operations

- 3.30.5 The financial operations of the authority for the period 1 July 1981 to 23 March 1982 resulted in a deficit of \$411 693 compared with a surplus of \$331 839 in 1980-81. The deficit was mainly attributable to increased maintenance expenditure and higher depreciation charges after revaluation.

#### **Scope of Audit**

- 3.30.6 The Teacher Housing Authority Act 1970 provided for an annual audit of the accounts of the authority by the Auditor-General. The audit encompassed an examination of financial systems and transactions including an evaluation of internal controls. Apart from a number of minor control weaknesses brought to the attention of the authority, the results of the audit proved satisfactory.

### 3.31 TOTALIZATOR AGENCY BOARD

#### Introduction

- 3.31.1 The Totalizator Agency Board was constituted as a body corporate under the provision of sub-section (1) of Section 116A of the Racing Act 1958. It is the function of the board, under the control of a chairman and 7 members, to provide off-course betting on horse, harness and greyhound racing and on Australian rules football.
- 3.31.2 The principal source of income of the board is commission deducted out of moneys paid into a totalizator at any one of the 436 offices operated by the board or through the telephone betting system. In May 1982 the office network became completely automated following the successful conversion of the remaining manual offices to the CRISP cash system.

#### Statutory Reporting Requirements

- 3.31.3 The Racing Act 1958 requires the board within 3 months of 31 July to prepare and submit audited accounts, balance sheets and such reports as properly record the affairs of the board to the minister for tabling in Parliament.
- 3.31.4 The accounts were adopted by the board on 22 September 1982 and the audit report was signed on 4 October 1982.

#### Financial Operations

- 3.31.5 The financial operations of the board for 1981-82 resulted in an operating surplus of \$24 414 040 as compared with \$22 041 511 in 1980-81. After appropriations to reserves of \$1 964 652 (\$1 902 963, 1980-81) and from reserves of \$241 200 (nil 1980-81), the total surplus available for distribution to the racing industry was \$22 690 588 compared with \$20 138 538 in the previous year.
- 3.31.6 The net assets of the board at 31 July 1982 were \$30 081 845 (31 July 1981, \$28 202 193).

#### **Scope of Audit**

- 3.31.7 Section 116Y of the Racing Act 1958 provides for an annual audit of the accounts of the board by the Auditor-General.
- 3.31.8 The audit covered an evaluation of the systems and internal controls of the board and concentrated particularly on the racing commission, late dividends, fixed assets, telephone betting and agents fees systems.
- 3.31.9 The board, through its own internal audit division, also conducts an audit of its branches, agencies and head office on a regular basis throughout the year. Their programs and working papers have been examined and accepted for the purpose of the statutory audit.

## **Audit Observations and Recommendations**

3.31.10 Comments follow on matters arising out of the audit:

### CRISP Cash Office Wagering System

(1) Depreciation

The board currently depreciates the CRISP cash office wagering system using a 10 year write-off period. In audit opinion, based on enquiries of the life expectancy of computer equipment, the estimated useful life of the CRISP system is between 5 and 7 years and should be depreciated over this period.

(2) GART Memory Boards

During the year, certain memory boards in each GART computer terminal were replaced with a more powerful 64K memory board. The written down value of the replaced boards at 31 July 1982 was estimated as \$644 368.

While the boards now do not form an integral part of the CRISP system, they are to be still depreciated over the 10 year life of the system as they are considered to form part of the overall development cost of the CRISP system. However, the board was advised that in the event of any major upgrades of the system in the future, the circumstances involved in each case should be reviewed and if the expense cannot be deemed to represent part of the overall development cost, then the replaced equipment should be written off at that time.

### Format of Financial Statements

3.31.11 Audit, in conjunction with members of the audit finance group of the Totalizator Agency Board, prepared during the year, a revised format of the financial statements for the board's consideration. Subsequently the board decided it would not adopt the revised format and that the previous year's format would be retained for the year ended 31 July 1982.

### Conclusion

3.31.12 Apart from the above matters, the results of the audit examination proved to be satisfactory.

### **Response by the Board**

3.31.13 The board has indicated with respect to the matters disclosed under audit observations and recommendations that:

- (1) the current depreciation policy in regard to the CRISP cash office wagering system will be reviewed in 1982-83;
- (2) the comments in regard to the upgrade of the CRISP system have been noted; and
- (3) a review of the format of the financial statements will be undertaken in 1982-83.

### 3.32 URBAN LAND AUTHORITY

#### Introduction

- 3.32.1 The Urban Land Authority was established under the provisions of the Urban Land Authority Act 1979 which came into operation on 12 March 1980.
- 3.32.2 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 of in the public interest.
- 3.32.3 Section 19 of the Urban Land Authority Act 1979 provides for Crown Land to be vested in the authority for the purpose of development and/or sale. Proceeds of property sales less any amounts incurred by the authority in or in relation to the development and sale of the property are repaid to the owner.

#### Statutory Reporting Requirements

- 3.32.4 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.
- 3.32.5 The finalised accounts for 1981-82 were made available to audit on 15 September 1982 and the audit report on the financial statements was signed on 9 November 1982.

#### Financial Operations

- 3.32.6 The financial operations of the authority for 1981-82 and 1980-81 are summarised hereunder:

	1980-81 \$	1981-82 \$
Income	2 286 201	3 293 223
Expenditure	523 329	776 846
Operating Surplus	1 762 872	2 516 377
Transfer from provision for decrease in land values	5 777 281	..
Net Surplus	7 540 153	2 516 377

- 3.32.7 Net assets of the authority at 30 June 1982 were \$8 452 005 (30 June 1981, \$5 935 628).

### "Keilor Downs"

- 3.32.8 For the year under review, a full valuation of undeveloped land at "Keilor Downs" has yet to be completed and the last Valuer-General's valuation of 30 June 1980 has been used in the authority's accounts.
- 3.32.9 "Keilor Downs" is currently recorded as having a net value of \$4 810 978 but the ultimate valuation, when determined, may result in adjustment of the authority's records.

### Vested Lands

- 3.32.10 Pursuant to section 19 of the act, the authority has been vested with undeveloped land owned by the Department of Crown Lands and Survey and developed land owned by the Housing Commission. At 30 June 1982 the sales of these lands resulted in surpluses of \$448 683 and \$4 036 997 respectively.
- 3.32.11 For the purposes of accounting for these operations, the authority has adopted the view that since the vested land is not an authority asset, transactions relating to these sales should be separated from the authority's own land sales. Accordingly, the financial statements presented reflect only net amounts receivable by the authority from the Department of Crown Lands and Survey and the Housing Commission.

### **Scope of Audit**

- 3.32.12 The audit, pursuant to Section 13 of the Urban Land Authority Act 1979, comprised an evaluation of the system of internal controls and selective examination of individual transactions relating to the various accounting systems operated by the authority. Apart from a number of minor weaknesses brought to the attention of the authority the results of the audit proved satisfactory.

### 3.33 VICTORIAN ARTS CENTRE TRUST

#### Introduction

- 3.33.1 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.
- 3.33.2 The trust has responsibility for:
- (1) completing the construction of the centre;
  - (2) improving and maintaining the centre;
  - (3) controlling and managing the centre (other than those parts occupied by the National Gallery);
  - (4) presenting and producing theatrical and other entertainment;  
and
  - (5) promoting the theatre complex.
- 3.33.3 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

- 3.33.4 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, is required to be laid before Parliament.
- 3.33.5 The finalised accounts for 1981-82 were received by audit on 4 August 1982 and the audit report on the accounts was signed on 28 October 1982.

#### Financial Operations

	1980-81	1981-82
	\$	\$
Income	2 007 509	2 432 944
Expenditure	3 177 072	4 550 454
	<hr/>	<hr/>
Excess of operating expenditure over income	1 169 563	2 117 510
Government grants	25 046 000	26 280 000
	<hr/>	<hr/>
Balance available for capital and other purposes (transferred to Accumulated Fund)	23 876 437	24 162 490
	<hr/>	<hr/>

- 3.33.6 Net assets of the trust at 30 June 1982 were \$145 092 853 (30 June 1981, \$120 930 363).



## Scope of Audit

- 3.33.7 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

#### Building Projects

- 3.33.8 Expenditure of \$38 830 693 on the concert hall and theatre projects during the year under review brought the total construction costs of these projects to \$158 247 946 at 30 June 1982. Estimated completion cost of the complex has risen from \$97 661 000, as approved in September 1976, to \$198 640 728. This current estimate does not include allowance for the effects of future inflation and variation of costs.

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

- 3.33.9 In 1981-82 box office operations incurred a further loss of \$326 834 (1980-81, \$241 134), thus increasing the accumulated losses at 30 June 1982 to \$1 129 595.
- 3.33.10 The major reasons for the further loss in 1981-82 are stated to be the depressed state of the theatre industry and delay in completion of the Arts Centre which, in turn, has delayed the opening of the concert hall and theatres.

#### Sidney Myer Music Bowl

- 3.33.11 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.
- 3.33.12 In 1981-82, the first full year of operation by the trust, this activity incurred a loss of \$16 882.

#### Catering

- 3.33.13 The catering service at the National Gallery is managed by a firm of caterers under an agreement with the trust. The agreement provides for a management fee based on gross receipts banked to be paid to the caterers and replaces previous arrangements under which the caterers paid a fee to the Council of Trustees of the National Gallery for the right to provide a catering service.
- 3.33.14 A summary of operations for the year under review is given hereunder:

	\$	\$
Sales	943 409	
Less cost of goods sold	666 315	
	<hr/>	277 094
Other income		6 383
		<hr/>
		283 477

	\$	\$
Operating expenses	*289 812	
Payment to National Gallery	19 916	
	<hr/>	309 728
Deficit		<hr/> 26 251 <hr/>

\* Includes \$47 207 management fee paid to caterers.

3.33.15 Decreased sales compared with budget, rises in direct costs and increased advertising and other promotional expenses were considered to be major reasons for the adverse financial result for the year.

3.33.16 Audit was advised that the trust has taken action in an endeavour to improve the viability of catering operations.

Conclusion

3.33.17 Apart from the above matters and a number of other minor weaknesses in internal control brought to the attention of the trust, the results of the audit proved satisfactory.

### 3.34 VICTORIAN BROWN COAL COUNCIL

#### Introduction

- 3.34.1 The Victorian Brown Coal Council was established as a body corporate under the provisions of the Victorian Brown Coal Council Act 1978.
- 3.34.2 The main functions of the council are to promote and co-ordinate research into and development of the potential uses of brown coal, primarily in areas of coal conversion, and to promote and undertake research into and development of processes that may facilitate or extend the use of brown coal.

#### Statutory Reporting Requirements

- 3.34.3 The Victorian Brown Coal Council Act 1978 requires the council to prepare and present to the minister, not later than 1 November in each year, a report of its activities during the previous year to 30 June. The minister is required to lay such report before both Houses of Parliament.
- 3.34.4 Although there are no specific provisions within the legislation requiring audited financial statements of the council to either accompany or be included in the annual report, in practice, the council incorporates audited financial statements within its annual report presented to Parliament.
- 3.34.5 The finalised accounts were made available to audit on 7 September 1982 and the audit report on the accounts was signed on 1 October 1982.

#### Financial Operations

- 3.34.6 Up to 30 June 1981, the financial transactions of the council were recorded in an account maintained in Treasury as part of the Trust Fund. As from 1 July 1981, the council recorded its financial transactions outside the Public Account and introduced, for the first time, the accrual-based system of accounting.
- 3.34.7 The financial operations of the council for 1981-82 are summarised hereunder:

	\$
Income	1 507 784
Expenditure	1 531 196
	<hr/>
Deficit	23 412
	<hr/>

- 3.34.8 Net assets of the council at 30 June 1982 were \$424 988.

#### **Scope of Audit**

- 3.34.9 Section 14 of the Victorian Brown Coal Council Act 1978 provides for an annual audit of the accounts of the council by the Auditor-General.

3.34.10 Audit work undertaken during the year included:

- (1) an examination of expenditure transactions including a review of the monitoring and control procedures employed by the council in respect of expenditure on research projects;
- (2) verification of Treasury contributions to the council for operating and capital purposes;
- (3) confirmation of year-end balances; and
- (4) an assessment of the adequacy of accounting records maintained by the council.

### **Audit Observations and Recommendations**

#### Accounting Records

3.34.11 Audit identified some inadequacies in the accounting records maintained by the council and in documentation available to audit for verification of final balances. With advice from audit, council staff have since taken steps to rectify the inadequacies.

#### Conclusion

3.34.12 Apart from the above matter the results of the audit examination proved satisfactory.

### 3.35 VICTORIAN FISHING INDUSTRY COUNCIL

#### Introduction

- 3.35.1 The Victorian Fishing Industry Council was constituted, under the Victorian Fishing Industry Council Act 1979, as a body corporate on 10 November 1980.
- 3.35.2 The object of the council is to promote all phases of the fishing industry with particular emphasis given to product and market development. The council also advises the Minister for Conservation on the formation of policies which are likely to affect the industry in general.

#### Statutory Reporting Requirements

- 3.35.3 The Victorian Fishing Industry Council Act 1979 requires the council to finalise its accounts within 28 days after the 30 June and to forward its audited accounts to the minister on or before the last day of November in each year.
- 3.35.4 The finalised accounts were made available for audit on 1 November 1982 and the audit report was signed on 18 November 1982.

#### Financial Operations

- 3.35.5 The financial operations of the council for 1981-82 and the period 10 November 1980 to 30 June 1981 are summarised hereunder:

	Period 10.11.80 to 30.6.81	1981-82
Income	\$ 47 000	\$ 116 428
Expenditure	10 032	119 941
	<hr/>	<hr/>
Net profit (loss)	36 968	(3 513)
	<hr/>	<hr/>

- 3.35.6 Net assets of the council at 30 June 1982 were \$33 455 (30 June 1981, \$36 968).

#### **Scope of Audit**

- 3.35.7 Section 16 of the Victorian Fishing Industry Council Act 1979 provides for an annual audit of the accounts of the council by the Auditor-General. Audit tests included accounting for contributions from government and private industry, and a review of the system of internal control over purchase of goods and services and payment of creditors' accounts. Assets held and liabilities incurred by the council at 30 June 1982 were verified.

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

##### Accounting System

- 3.35.8 The annual accounts of the council are presented on an accrual basis. Accounting records, consisting only of a cash book, are maintained by the Ministry for Conservation. In audit opinion, the council should ensure that full accounting records including a journal and ledger are maintained.

Conclusion

3.35.9 Apart from the above matter and another minor weakness brought to the attention of the council, the results of the audit proved satisfactory.

### 3.36 VICTORIAN INSTITUTE OF MARINE SCIENCES

#### Introduction

- 3.36.1 The Victorian Institute of Marine Sciences was established as a body corporate under the Victorian Institute of Marine Sciences Act 1974. The objects of the institute are generally to advance scientific research, technological development and knowledge in respect of marine sciences, including the sea, the sea-bed, sea shores, and the resources and inhabitants thereof and mankind's relationship with and use of the sea.

#### Statutory Reporting Requirements

- 3.36.2 The Victorian Institute of Marine Sciences Act 1974 requires the institute to finalise its accounts within 3 months after 31 December in every year and to submit them to the Auditor-General for audit.
- 3.36.3 The accounts were made available for audit on 31 March 1982. The accounts were finalised on 29 October 1982 and the audit report for the year 1981 was signed on 23 November 1982.

#### Financial Operations

- 3.36.4 The financial operations of the institute for the years ended 31 December 1980 and 1981 are summarised hereunder:

	1980	1981
	\$	\$
Income	212 817	275 369
Expenditure	177 007	234 101
	-----	-----
Net profit	35 810	41 268
	-----	-----

- 3.36.5 Net assets of the institute at 31 December 1981 were \$100 730 (31 December 1980, \$57 498).

#### **Scope of Audit**

- 3.36.6 Section 24 of the act provides for an annual audit of the accounts of the institute. The audit included an examination of income and expenditure for the year, and the verification of assets and liabilities at 31 December 1981. Apart from some minor matters which have been brought to the attention of the institute's management the audit proved satisfactory.

### 3.37 VICTORIAN PUBLIC OFFICES CORPORATION

#### Introduction

- 3.37.1 The Victorian Public Offices Corporation was constituted pursuant to the Victorian Public Offices Corporation Act 1974 and consists of the Minister of Public Works, the Treasurer, the Premier and the Minister of Lands.
- 3.37.2 The function of the corporation is to provide such public offices as are from time to time required for the government of Victoria.
- 3.37.3 Professional and administrative services are made available to the corporation through the Public Works Department at no charge to the corporation.

#### Statutory Reporting Requirements

- 3.37.4 The Victorian Public Offices Corporation Act 1974 requires the corporation to prepare a balance sheet and statements of receipts and payments and income and expenditure. Copies of the accounts are required to be forwarded to the Minister of Public Works before the 31 October each year and laid before both Houses of Parliament. The finalised accounts for 1981-82 of the corporation were received by audit on 17 September 1982 and the audit report on the accounts was signed on 19 November 1982.

#### Financial Operations

- 3.37.5 The financial operations of the corporation for 1981-82 compared with 1980-81 are summarised hereunder:

	1980-81	1981-82
	\$	\$
Income	458 242	614 117
Expenditure	474 560	668 548
	_____	_____
Deficit for year	(16 318)	(54 431)
	_____	_____

- 3.37.6 Net assets of the corporation at 30 June 1982 were \$20 130 688 (30 June 1981, \$19 073 394).

#### **Scope of Audit**

- 3.37.7 Sub-section (3) of Section 15 of the Victorian Public Offices Corporation Act 1974 provides for an annual audit of the accounts of the corporation by the Auditor-General. The work undertaken by my officers included the documentation, evaluation and testing of the corporation's revenue and expenditure systems and the verification of assets and liabilities of the corporation at 30 June 1982.

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

- 3.37.8 The following matter of significance was commented on in the audit report on the books and accounts of the Victorian Public Offices Corporation for the year ended 30 June 1982:



### Financial Viability of the Corporation

- 3.37.9 Additional borrowings of the corporation during the year of \$1.2 million have increased the amount outstanding in respect of borrowings to \$6 195 367 at 30 June 1982 (1981, \$5 041 382).
- 3.37.10 Furthermore, the total income of \$614 117 earned by the corporation was not sufficient to cover the outgoings of \$668 548 in respect of interest and principal payments during the current year.
- 3.37.11 As a consequence, the matter of the financial viability of the corporation which was raised in the previous two audit reports requires urgent attention by the corporation.
- 3.37.12 Whilst the corporation has indicated that it is considering various options available to generate additional revenue, no firm action had been taken at 30 June 1982.

### 3.38 VICTORIAN RAILWAYS BOARD

#### Introduction

- 3.38.1 The Victorian Railways Board is a body corporate established under the Railways Act 1958 with two full time and 7 part-time members. The board has no specific statutory commercial objectives but its general duties include the maintenance of an efficient railway service, the carriage of goods and to carry passengers on the railways without negligence.
- 3.38.2 As from 22 December 1981 the Railways (Borrowing Powers) Act 1981 empowered the board to borrow moneys within Australia or overseas with a limit to the amount borrowed at any one time, of \$50 million. The repayment of principal and interest is guaranteed by the government of Victoria.

#### Statutory Reporting Requirements

- 3.38.3 The accounts of the board form part of the Public Account and were included in the Treasurer's accounts for the year ended 30 June 1982.
- 3.38.4 Section 105 of the act requires the board to prepare an annual report of its proceedings and an account of all moneys received and expended for the year ended 30 June. Such annual report shall be presented to Parliament in the month of September. However there is no specific requirement in the act for the board to submit its financial accounts to the Auditor-General for an audit certificate.
- 3.38.5 The finalised accounts were received by audit on 13 September 1982. The board's annual report tabled in Parliament on 6 October 1982 included unaudited financial statements. Comments on the contents of these statements are made later in this section.

#### Financial Operations

- 3.38.6 Receipts and payments, including debt charges, as extracted from the Treasurer's cash accounts disclosed that the overall financial operations of the board for 1981-82 resulted in a deficit on a cash basis of \$266.6 million which has been funded from the Consolidated Fund. The deficit was \$221.1 million for the previous year.
- 3.38.7 During 1981-82, in respect of its own financial accounting, the board adopted the principle of accrual accounting. For the year 1981-82 a profit and loss account has been included for the first time with the financial statements and the board reported a net operating loss of \$286.1 million for the year. This amount has been transferred to an accumulated deficit account which shows a cumulative deficit after government subsidy of \$413.8 million.
- 3.38.8 The reported operating loss for 1980-81 on an accrual type basis was \$236.3 million.
- 3.38.9 The results of the two years are not comparable because in past years revenue and expenditure were brought to account mainly on a cash basis.

## **Scope of Audit**

- 3.38.10 Section 75 of the Railways Act 1958 provides that the provisions of the Audit Act 1958 shall apply to the board. The board is required, in accordance with Section 105 of the Railways Act 1958, to prepare an account of moneys received and expended during the previous year.
- 3.38.11 Audit adopted the following objectives:
- (1) to form an opinion on the reliability of the cash receipting system in respect of banking, recording and classifying information in the financial records;
  - (2) to form an opinion on the cash payment system with reference to authorisation, classification and compliance with relevant Treasury instructions;
  - (3) to form an opinion on whether the statement of financial position presented a true and fair view of the state of the affairs of the board as at 30 June 1982 and the profit and loss account properly summarised the operations for the year; and
  - (4) to review matters raised by the board's internal audit branch during the year 1981-82. Audit work performed by this branch was regarded as an integral part of the system of internal control for the purposes of this audit.

### **Audit Observations and Recommendations**

- 3.38.12 Major matters included in the audit report upon the books and accounts of the Victoria Railways Board for the year ended 30 June 1982 were:

#### Security of Cash

- 3.38.13 As a result of 3 major robberies during 1981 a board committee carried out a preliminary study into all aspects of cash handling procedures and security arrangements. Assistance was obtained from the crime prevention bureau of the Victoria Police. However subsequent to 30 June 1982 a further substantial robbery has required the board to immediately introduce certain new security measures.

#### Contracts for Road Passenger Bus Services

- 3.38.14 Amounts totalling \$836 142 for the above contracts have been charged to Vote in 1981-82 as against \$884 395 in 1980-81.
- 3.38.15 I have previously reported that the board does not appear to have specific powers under the Railways Act 1958 to enter into contracts to provide regular road passenger bus services in lieu of former rail services.
- 3.38.16 Audit recommended that the board seek amendments to the act to enable it to enter into such contracts.

Railways (Borrowing Powers) Act 1981

- 3.38.17 Sub-section (1) of Section 100I provides for the establishment of a sinking fund at such rate and for such period to be approved by the Governor in Council on the recommendation of the Treasurer.
- 3.38.18 The Governor in Council approved several issues of inscribed stock of the board totalling \$20 million during 1981-82. Of this amount, inscribed stock amounting to \$15 million was issued on terms and conditions which included the creation of a sinking fund at the rate of 0.5 per cent. per annum cumulative during the period of the loan.
- 3.38.19 Treasury advice to the board on 1 July 1982 was that its first contribution to a sinking fund would be required on the first anniversary of the earliest borrowing by the board in February 1983.

Leverage Leasing

- 3.38.20 The board sought legal advice on the question of whether it had specific powers under the Railways Act 1958 to engage in leverage leasing arrangements for the purpose of acquiring new railway carriages and refurbishing its existing rolling stock and also whether any debt so incurred became a debt of the Crown.
- 3.38.21 Legal counsel advised:
- "(1) in principle, the board had the necessary power to enter into the proposed transactions;
- (2) no proceeding could be properly brought against the Crown in right of the State of Victoria in respect of any default that may be made by the board under the proposed arrangements".
- 3.38.22 With respect to (1) above, in audit opinion, the board should be provided with specific powers under the Railways Act 1958 to engage in leverage lease arrangements.
- 3.38.23 With regard to the second item, letters of comfort were provided by the then Treasurer on 28 August 1981, in respect of new country carriages and "new" class locomotives and on 3 December 1981 for new suburban passenger carriages, stating that the Victorian government had approved, in principle, commitments for the leverage lease of the above items and that the board's revenue and expenses are transacted through the Consolidated Fund.
- 3.38.24 The agreement for leverage lease no. 1 was formalised on 1 April 1982 and covered the following equipment to be sold to the participants:
- (1) 54 "N" class country passenger carriages (to be built at Newport Workshops - expected date of completion is December 1983); and
- (2) 26 "B" class locomotives which are to be refurbished (expected date of completion is by July 1984).
- 3.38.25 Construction and refurbishing of the above equipment was to be financed from the Works and Services Account, private borrowings and funds obtained from leverage leasing arrangements.

- 3.38.26 The purchase consideration of \$65.59 million is payable over a 3 year draw-down period and the contingent liability as at 30 June 1982 was estimated at approximately \$182 million.
- 3.38.27 Arrangements were finalised for leverage lease no. 2, with approval of the Treasurer, in relation to 114 suburban train carriages with a total capital cost of \$66.2 million.

National Railway Network (Financial Assistance) Act 1979

- 3.38.28 In accordance with the provisions of the above act, the Commonwealth government is providing financial assistance by way of interest bearing loans to improve main railway lines. Advances to 30 June 1982 totalled \$10.7 million.
- 3.38.29 As provided under the legislation an agreement has been entered into between the Commonwealth government and the State of Victoria for financial assistance in connection with certain projects. This agreement provided that:
- (1) the first instalment of principal and interest shall be payable on 15 June 1984; and
  - (2) interest is to be calculated at the long term bond rate and payable from the date each advance is made.
- 3.38.30 Audit has previously commented that no provision has been made in the board's annual accounts to meet this future liability.

Internal Audit Branch

- 3.38.31 The internal audit branch operating at the board is comprised of 18 officers.
- 3.38.32 It is understood that no detailed audit program for 1981-82 was submitted to the board for formal approval. However, the internal audit branch proceeded during 1981-82 with a systems based review of a number of revenue and expenditure systems which formed part of a two year corporate plan previously approved by the board.

Railways of Australia (R.O.A.) Committee

- 3.38.33 By letter dated 24 March 1982, audit received a request from the Secretary for Railways to conduct an audit of the accounts of the Railways of Australia Committee. This committee was established in 1975 when the commissioners of the Australian and New Zealand Railways (A.N.Z.R.) extended the work of their small existing conference secretariat, primarily to promote and co-ordinate inter-system activities.
- 3.38.34 Arising from a detailed study of this matter, undertaken by my officers, I replied to the request on 28 May 1982, and expressed concern that the Committee appeared to be a collective comprising members from each of the participating rail systems.

- 3.38.35 As I was not satisfied as to the legality of the board's participation and membership of the present committee and in the absence of legislative statutory requirements I was unable to accept responsibility for the audit.
- 3.38.36 At date of preparation of this report, it is understood that the board is seeking senior legal counsels' opinion regarding possible amendments to the act to give it specific powers to participate in the Railways of Australia Committee.

Railways of Australia Documentation Accounting and Reconciliation  
(R.A.D.A.R.) System

- 3.38.37 On 9 March 1982, I was advised by the Comptroller of Accounts, Victorian Railways Board, of the impending introduction of the R.A.D.A.R. system which will provide new methods of accounting and settlement of freight traffic between States.
- 3.38.38 In my reply in a letter dated 11 June 1982 I made the following observations:
- (1) Under the proposal it appears that the board will operate a computer service bureau facility with the capacity to serve other Australian railway systems. I am of the view that the operation of such a facility for those outside bodies will require legislative approval.
  - (2) In the course of the audit of the financial operations of the board, the R.A.D.A.R. system will be subject to regular review by this office in so far as it impinges on those financial operations.
  - (3) In the absence of statutory authority I do not see it as part of my role to provide the specific assurances sought by the Steering Committee which I understand consists of representatives of all railway systems.
- 3.38.39 At date of preparation of this report, legislative authority for the board to operate the computer service bureau facility has not been obtained.

**Audit Comments on the Unaudited Financial  
Statements Presented to Parliament**

- 3.38.40 Included in the board's annual report tabled in Parliament on 6 October 1982 were unaudited financial statements incorporating:
- (1) summary of receipts and expenditure (Treasury basis);
  - (2) statement of financial position at 30 June 1982; and
  - (3) profit and loss account for the year ended 30 June 1982.

Summary of Receipts and Expenditure

- 3.38.41 In previous reports, audit has commented that this summary does not contain sufficient detailed information of the nature of the board's operations for the year.
- 3.38.42 The board has for the first time included in the financial statements a profit and loss account which provides more information than previously disclosed in relation to the nature of the board's activities for the year.

## Statement of Financial Position

### Fixed Assets

3.38.43 The cumulative costs charged in the board's accounts for fixed assets is recorded on a section of line/major asset group recording system. This method of recording fixed assets results in the following shortcomings:

(1) Replacement of Assets

There is a lack of detailed information as to the original costs of all items contained within the various asset groups.

Where assets are replaced, the original costs may still be retained in the account, with the result that assets may be overstated.

For example the replacement of bridges and culverts on five separate lines amounted to \$3.6 million in 1981-82 and \$3.1 million in 1980-81 but original costs of the replaced works do not appear to have been deducted from the accounts.

(2) Stocktaking

Under the present method of recording fixed assets, stocktaking for the purpose of reconciling physical assets on hand with the financial records was deemed impracticable because of the lack of information in respect of individual assets. It is understood that work has commenced on the compilation of a fixed asset register.

(3) Transfer of Assets

By direction of the Minister of Transport the board deleted from its accounts for 1981-82 the asset: Melbourne Underground Rail Loop with a certified value of \$122.9 million.

The transfer of this portion of the loop works to the board was approved by Governor in Council in accordance with the provisions of the Melbourne Underground Rail Loop Act 1970.

The present situation is that the board is responsible for the maintenance and operation of assets vested at no cost to the board and which are not recorded in its accounts for 1981-82.

In audit opinion this amount of \$122 922 000 should be included in the financial accounts of the board.

### Investments

3.38.44 Vicrail Pipelines Pty. Ltd. was incorporated on 8 August 1977 under the Companies Act 1961 as a proprietary limited company and is a wholly owned subsidiary of the board. Particulars of the establishment and operations of this company were provided in my 1980-81 Supplementary Report to Parliament.

3.38.45 With the approval of the Treasurer, the board pursuant to the act, has made cash advances of \$3.2 million from the Works and Services Account to Vicrail Pipelines Pty. Ltd. to 30 June 1982.

- 3.38.46 The interest rate on cash advances is 14 per cent. and under the terms of the mortgage debenture unpaid interest is to be compounded.
- 3.38.47 Interest due and payable for 1981-82 amounted to \$664 289 and was included with other revenue in the profit and loss account. No interest payments were received by the board up to 30 June 1982.
- 3.38.48 Total unpaid interest outstanding to 30 June 1982 amounted to \$2.1 million.

Following a request from Vicrail Pipelines Pty. Ltd. the board on 28 June 1982 in accordance with the provisions of sub-section (2) of section 99 of the act agreed:

- (1) not to demand the outstanding interest on the mortgage debenture for one year;
- (2) to defer further interest for one year;
- (3) to guarantee the directors of the company that it will compound and agree with the company, at the company's request, in such sum or recompense which will enable the company to be fully released from its debt to the board within the funds which are then available to the company; and
- (4) to indemnify the directors of Vicrail Pipelines Pty. Ltd. in relation to the directors' liability under Section 374A of the Companies Act, in relation to a company trading whilst unable to pay its debts as they fall due.

- 3.38.50 Private auditors were appointed to audit the accounts of Vicrail Pipelines Pty. Ltd. for 1980-81.
- 3.38.51 The Victorian Railways Board's report to Parliament disclosed that an audited net loss of \$1.3 million was incurred by the company for the eighteen months period ending 31 December 1981, as against an unaudited net loss of \$919 006 for the year 1979-80.
- 3.38.52 I am unable to comment on the accounts of this subsidiary company of the Victorian Railways Board as no provision exists in the Railways Act 1958 for the accounts of the subsidiary company to be audited by my office.

#### Creditors and Accruals

- 3.38.53 Outstanding accounts as included in the board's financial records up to 30 June 1982 and paid subsequent to that date were included in creditors and accruals. These accounts were verified by audit.
- 3.38.54 However as the board does not maintain a commitments register, audit was unable to confirm that all accruals have been properly included in the financial statements as at 30 June 1982.

#### Revenue Earned but not yet Received

- 3.38.55 Included in accumulated deficits in Note 6 to the accounts is an item for "Revenue earned but not yet received" of \$2.8 million for 1981-82 and \$10.7 million for the previous year.



- 3.38.56 This item represents adjustments of debtors and creditors between the board and Treasury.
- 3.38.57 Audit is of the opinion that an explanation of this item should be included in the notes to the accounts.

Previous Annual Audit Report

- 3.38.58 At date of preparation of this report, no reply has been received from the board to matters raised in the annual audit report on the books and accounts of the Victorian Railways Board for 1980-81.

### 3.39 VICTORIAN SOLAR ENERGY COUNCIL

#### Introduction

- 3.39.1 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.
- 3.39.2 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.
- 3.39.3 To date, funds to enable the council to carry out its functions have been provided from appropriations by Parliament.
- 3.39.4 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 entity basis or, with ministerial approval, in the form of a loan or grant.

#### Statutory Reporting Requirements

- 3.39.5 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 1 November, an annual report for the financial year ending on 30 June, together with an audited statement of accounts.
- 3.39.6 The audit report on the financial statements for 1981-82 was signed on 28 October 1982.

#### Financial Operations

- 3.39.7 Financial operations of the council for 1981-82 compared with the period ended 30 June 1981 are summarised hereunder:

	Period 17.12.80 to 30.6.81	1981-82
	\$	\$
Income	617 267	1 082 229
Expenditure	489 439	1 050 921
	-----	-----
Surplus	127 828	31 308
	-----	-----

- 3.39.8 At 30 June 1982, the net assets of the council amounted to \$422 932 (30 June 1981, \$395 351).

#### **Scope of Audit**

- 3.39.9 Sub-section (3) of Section 16 of the Victorian Solar Energy Council Act 1980 provides for an audit of the accounts of the council by the Auditor-General.

3.39.10 The audit work undertaken included:

- (1) verification of the authority for and legality of council expenditure;
- (2) verification of assets held and liabilities incurred by the council at 30 June 1982; and
- (3) a review of the criteria and rationale established by the council in the acquisition of items of a capital nature and the obtaining of rental accommodation.

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

3.39.11 Matters raised in the audit report for the year under review were:

- (1) the economic justification or feasibility of the council's capital acquisitions was not always established, or if established not always documented, prior to the committing of funds;
- (2) instances of moneys received not being receipted;
- (3) the awarding of contracts for major council commitments was not always formally sanctioned through the council minutes.

3.39.12 Audit recommended that appropriate action be taken to remedy these matters.

#### Conclusion

3.39.13 Apart from the above matters the audit examination proved satisfactory.

### 3.40 WEST GATE BRIDGE AUTHORITY

#### Introduction

- 3.40.1 The West Gate Bridge Authority was established in 1965 as the Lower Yarra Crossing Authority, a company limited by guarantee incorporated under the Companies Act 1961. The company's name was changed to West Gate Bridge Authority in 1974.
- 3.40.2 On 1 January 1981 pursuant to the provisions of the West Gate Bridge Authority Act 1980, the company was dissolved. The legislation provided for the authority to become a new body corporate titled the West Gate Bridge Authority, and this new body became the successor in law to the former company.
- 3.40.3 Subsequent to the end of the 1981-82 year the authority was abolished under the provisions of the West Gate Bridge Authority (Transfer of Functions) Act 1982. As from 1 July 1982 the powers, authorities and duties of the former authority were transferred to the Country Roads Board.
- 3.40.4 The principal functions of the authority were:
- (1) the operation, maintenance and repair of the West Gate bridge;
  - (2) the construction of works ancillary to the bridge; and
  - (3) the financing of the operations, maintenance and repair of the bridge.

#### Statutory Reporting Requirements

- 3.40.5 The West Gate Bridge Authority Act 1980 required the authority to forward its audited accounts to the minister by 31 December for tabling in Parliament.
- 3.40.6 The finalised accounts for 1981-82 were received by audit on 19 November 1982 and the audit report on the accounts was signed on 24 November 1982.

#### Financial Operations

- 3.40.7 The financial operations of the authority for 1981-82 and 1980-81 are summarised hereunder:

	1980-81	1981-82
	\$	\$
Operating revenue	5 845 274	6 750 760
Operating expenses	5 473 444	5 832 092
	<hr/>	<hr/>
Surplus from operations	371 830	918 668
Finance costs (net)	22 234 359	24 300 935
	<hr/>	<hr/>
Net deficit	21 862 529	23 382 267
	<hr/>	<hr/>

- 3.40.8 Net liabilities of the authority at 30 June 1982 were \$78 527 656 (30 June 1981, \$55 145 389).

## **Scope of Audit**

- 3.40.9 Sub-section 3 of Section 16 of the West Gate Bridge Authority Act 1980 provided for an annual audit of the accounts of the authority.
- 3.40.10 The scope of the audit included:
- (1) an evaluation of controls over the collections of the authority;
  - (2) an examination of the systems in respect of the purchase of stores and services, and the payment of outgoings including salaries, wages and contract disbursements; and
  - (3) a review of material revenue and expenditure items and verification of assets and liabilities to form an opinion on whether the financial statements fairly reflect the financial position and results of operations of the authority for the year.

### **Audit Observations and Recommendations**

- 3.40.11 Major matters included in the audit report upon the books and accounts of the West Gate Bridge Authority for the year ended 30 June 1982 included:

#### Temporary Financial Accommodation

- 3.40.12 Sub-section (1) of Section 26 of the West Gate Bridge Authority Act 1980 provided for the authority to obtain such temporary financial accommodation as approved by the Treasurer. During the year approval was granted by the Treasurer for the authority to arrange overdraft accommodation up to a maximum limit of \$500 000 for up to one month.
- 3.40.13 At 30 June 1982 the overdraft balance of the West Gate bridge fund bank account was \$573 824. Written approval from the Treasurer could not be produced to support the additional overdraft accommodation obtained.

#### Asset Register

- 3.40.14 An audit report dated 29 January 1982 recommended that the authority's manual asset register be updated and reconciled to the financial records without further delay.
- 3.40.15 The authority's reply to that report stated that efforts were being made to have the register updated. At date of audit the register had not been updated and could not be produced for audit inspection.
- 3.40.16 Audit again recommended that the asset register be brought up to date and reconciled with the financial records.

#### Sinking Fund

- 3.40.17 Sub-section (1) of section 20 of the act stated that in the case of every loan raised under the act the authority would provide a sinking fund at such rate and for such period as the Governor in Council on the recommendation of the Treasurer approved.

- 3.40.18 In respect of certain loans raised by the authority after 1 January 1981, the Governor in Council has approved that a sinking fund at the rate of 0.5 per cent. per annum be provided.
- 3.40.19 At 30 June 1982 the amount required to be provided in a sinking fund by the authority was approximately \$160 000. Investments to the value of \$43 376 were held for the purpose of the sinking fund but no actual provision had been raised in the accounts.
- 3.40.20 This under-funding of the sinking fund was brought to the attention of management.

#### Maintenance Stores

- 3.40.21 In an audit report dated 29 January 1982 it was noted that maintenance stores held in the west abutment of the bridge had not been included in the stocktake for that year. During 1981-82 it was again noted that these stores, valued at approximately \$23 000 had not been verified during the stocktake.
- 3.40.22 Audit recommended that the authority undertake a stocktake of these items as soon as practicable.

#### Conclusion

- 3.40.23 Apart from the above matters and a number of minor matters brought to the attention of the former authority the results of the audit proved satisfactory.

### 3.41 WORKERS COMPENSATION BOARD

#### Introduction

- 3.41.1 The Workers Compensation Board was established under the Workers Compensation Act 1958. The board acts as a court of settlement for cases between employers and employees when there is a dispute regarding liability for workers compensation.

#### Board Fund

- 3.41.2 The board's income consists of contributions by approved insurers, the Victorian Railways Board and employers who operate certified schemes of compensation. All receipts of the board are paid into the Workers Compensation Board Fund, a trust fund kept at the Treasury. The costs and expenses of the board, together with the payment of moneys due under awards against uninsured employees and, in certain circumstances, claims for compensation on the "nominal defendant" are met from the fund.

#### Common Fund

- 3.41.3 All amounts of compensation granted under awards of the board to minors and in the case of death (other than weekly payments) are payable into the custody of the board to be invested, applied, or otherwise dealt with, at the board's discretion, for the benefit of the persons entitled thereto. All moneys in its custody are invested in a common fund and interest earned thereon is apportioned equitably over all the constituent accounts.

#### Statutory Reporting Requirements

- 3.41.4 The Workers Compensation Act 1958 requires the board's registrar in August of each year to prepare and submit to the minister a balance sheet and statement of accounts of the fund for the financial year ending 30 June. An audited copy of the balance sheet and statement of accounts is to be laid before each House of Parliament as soon as practicable thereafter.
- 3.41.5 The audit report on the financial statements for 1981-82 was signed on 22 November 1982.

#### Financial Operations

- 3.41.6 The financial operations of the board for 1981-82 compared with 1980-81 are summarised hereunder:

	1980-81	1981-82
	\$	\$
Income	2 039 703	2 506 800
Expenditure	2 185 881	2 298 125
	-----	-----
(Deficit) Surplus	(146 178)	208 675
	-----	-----

- 3.41.7 Net assets of the board at 30 June 1982 were \$421 969 (30 June 1981, \$213 585).

### **Scope of Audit**

- 3.41.8 The Workers Compensation Act 1958 provides for an annual audit of the accounts of the board by the Auditor-General. The audit undertaken by my officers included the evaluation of the accounting systems and internal controls maintained by the board including income and expenditure and the verification of assets held and liabilities incurred at 30 June 1982.

### **Audit Observation**

#### Investments

- 3.41.9 At 30 June 1982, the board's common fund portfolio of investments totalled \$64.65 million (1981, \$58.18 million) of which \$17.61 million (1981, \$16.21 million) was invested outside Victoria by way of mortgage loans and secondary mortgage market securities.

#### Conclusion

- 3.41.10 The results of the audit proved satisfactory.



### **3.42. ZOOLOGICAL BOARD OF VICTORIA**

#### Introduction

- 3.42.1 The Zoological Board of Victoria was established as a body corporate under the provisions of the Zoological Parks and Gardens Act 1967, and is responsible for the administration and control of zoological parks at Parkville, Werribee and Healesville.
- 3.42.2 The principal functions of the board include the exhibition of specimens, scientific study, instruction and entertainment of the public.
- 3.42.3 Provision is made in the legislation for the board to borrow moneys providing the aggregate liability does not at any time exceed \$1 million.

#### Statutory Reporting Requirements

- 3.42.4 The Zoological Parks and Gardens Act 1967 requires the board to prepare statements of account as at 30 June each year and forward the audited accounts to the minister by 30 September for tabling in parliament.
- 3.42.5 The board adopted the 1981-82 accounts on 17 September 1982 and an audit report on the accounts was signed on 25 November 1982.

#### Financial Operations

- 3.42.6 The overall financial operations of the board for 1981-82 recorded a net cash position of \$100 759 at 30 June 1982 as against an overdrawn cash position of (\$9 574) at 30 June 1981. An increase in attendances and admissions during the year contributed towards the board's improved cash position. However, as the board reports its results on a receipts and payments basis, items such as souvenir and catering stocks \$126 242, creditors \$193 269 and debtors \$24 539 have not been taken into account in determining the year's result.

#### **Scope of Audit**

- 3.42.7 Section 12 of the Zoological Parks and Gardens Act 1967 provides for an annual audit of the accounts of the board. Audit tests covered receipts and payments of the various board accounts and included an examination of the staff provident fund.

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

- 3.42.8 Matters raised in the audit report upon the books and accounts of the Zoological Board of Victoria for the year ended 30 June 1982 included:

#### Legislation

- 3.42.9 The legislation requires the board to submit to the minister a statement of the accounts audited by the Auditor-General including a full account of the income and expenditure of the board. In respect of the year ended 30 June 1982, the board has submitted statements of receipts and payments as its financial books of account are still being maintained on a cash basis.

### Principal Outstanding on Loans

- 3.42.10 As the board uses a receipts and payments basis for reporting, the amount of principal outstanding on loans was not disclosed in the statements of account. The amount of principal outstanding on loans at 30 June 1982 was \$469 167 in respect of works and service advances and \$361 148 from a trading bank.

### Bank Overdraft

- 3.42.11 Section 14A of the act empowers the board to borrow moneys from any bank by way of overdraft and to secure it on the revenues of the board. No amount borrowed shall exceed the limit determined by the Treasurer.
- 3.42.12 The board went into an overdraft position on several occasions during the year in excess of the current approval which is \$50 000. In a letter dated 31 March 1982 the board requested that approval to obtain overdraft accommodation be extended. In his reply dated 27 July 1982 the Director of Finance informed the board as follows:

"...it is proposed, during 1982-83 to make advances to the board having regard to cash needs and this will ensure that the bank account will not be overdrawn. In these circumstances, I have not submitted the board's request for the consideration of the Treasurer".

### Development Works

- 3.42.13 The board's development program for 1981-82 exceeded the amount provided by Treasury for works and services. The difference between accounts paid, in respect of development works and the works and service allocation amounted to \$111 305 and was met by board revenue.

### Maintenance Store

- 3.42.14 In respect of the board's maintenance store at Royal Melbourne Zoological Gardens audit recommended that a more detailed system of stock records be commenced and that management arrange for regular stocktakes.

### Purchase of Fruit and Vegetables

- 3.42.15 The board provides an advance each week to an employee for the purchase of fruit and vegetables. During a review of the systems of internal control audit noted that dockets or invoices were not provided to support purchases, the quantity purchased was not established upon delivery to the store and the same employee normally attends the market each week.
- 3.42.16 Audit recommended that the board take appropriate action to improve internal control in this area.

### Souvenir Shop Stocktakes

- 3.42.17 Audit noted that stocktakes of the souvenir shop at Sir Colin Mackenzie Fauna Park are only being conducted on an annual basis. Audit recommended that for internal control purposes more regular stocktakes be arranged by management.

Conclusion

3.42.18 Apart from the above matters and a number of minor matters brought to the attention of the board the results of the audit proved satisfactory.

