

VICTORIA

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*Second Report*

of the

**AUDITOR-GENERAL**

for the

Year ended 30 June 1983

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*Ordered by the Legislative Assembly to be printed*

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1983



Office of the Auditor-General,  
MELBOURNE. VIC.  
18 October 1983.

Sir,

Pursuant to the provisions of the Audit Act 1958, I transmit herewith my second report covering the 1982-83 financial year.

Yours faithfully,

B.J. WALDRON  
Auditor-General

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

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## PART 1

### BACKGROUND INFORMATION

#### 1.1 **FORMAT OF REPORTS TO PARLIAMENT**

- 1.1.1 In future, I propose to present to Parliament 4 reports each year as indicated below, and I may present special reports on other matters as the occasion demands.
- 1.1.2 The First Report, which was presented to Parliament on 21 September 1983, accompanied the Treasurer's Statement for the year ended 30 June 1983, and contained my report on this statement as required by Section 47 of the Audit Act 1958.
- 1.1.3 This, the Second Report, contains information on the operations of the Audit Office during 1982-83 and audit observations and recommendations arising out of the audit of departments during 1982-83.
- 1.1.4 The Third Report, which will be presented towards the end of the calendar year, will cover the operations of certain statutory bodies which I am required by law to audit.
- 1.1.5 The Fourth Report, which will be presented later this financial year, will cover those statutory bodies not included in my Third Report because of:
- . delays in the preparation of financial statements,
  - . balance dates other than 30 June, or
  - . incomplete audits.
- 1.1.6 In this Second Report, in certain of the detailed reports on the audit of departments, ministries and commissions (Part 6), following the heading Audit Observations and Recommendations there is a section headed Response by Department. In a number of cases, the time available to the department to respond to an audit report has been insufficient to enable them to give a considered response. In these cases the heading Response by Department has been omitted.

#### 1.2 **ROLE AND FUNCTIONS OF THE AUDITOR-GENERAL**

##### General

- 1.2.1 The method of appointment, tenure, duties, responsibilities and powers of the Auditor-General are provided for mainly in the Audit Act 1958, with other provisions affecting his role and functions being contained in the Constitution Act 1975, the Public Account Act 1958 and the various enabling Acts establishing statutory authorities.
- 1.2.2 In Victoria, as in other places operating under the Westminster system of government, the Auditor-General is responsible for the external audit of the financial affairs and activities of the Executive and reports annually to the Legislative Assembly.

- 1.2.3 The primary objective of the Audit Office is therefore the provision to Parliament of the information which it requires to exercise oversight of the financial operations of government departments and statutory bodies. It thus plays an important role in the accountability of the Executive to Parliament.
- 1.2.4 Broadly speaking, the Auditor-General has all the responsibilities of external auditors of commercial organisations in relation to the conduct of a financial audit. In addition, there are the special responsibilities which are associated with government auditing to ensure that the decisions of Parliament in relation to financial matters are properly observed and to draw attention to departures from statutory provisions covering these matters. The Auditor-General is able to report freely and as he thinks fit on such matters.
- 1.2.5 By tradition and usage, the duties of the Auditor-General have extended beyond financial auditing and reporting breaches of statutory requirements by organisations subject to his audit. In the past, attention has been drawn to instances of waste or extravagance in the expenditure of public moneys, either by a department or by a statutory authority.
- 1.2.6 The Auditor-General is an office holder under the Crown, subject to removal only by resolution of both Houses of Parliament. Like members of the judiciary, the Auditor-General is not subject to control either by Parliament or by the Executive in the exercise of his functions and his independence is assured by very wide powers granted by statute. Although undertaking duties on behalf of the Parliament, the Auditor-General is not a servant of the Parliament. The staff of the Audit Office are employed under the provisions of the Public Service Act 1974.
- 1.2.7 The Auditor-General has no executive power to enforce improvements to financial management and procedures. The power is one of scrutiny and reporting. It is the responsibility of Parliament and of the Government to act on reports made by the Auditor-General as they think fit.

#### Audit Responsibility and Reporting Requirements

- 1.2.8 The Auditor-General is responsible for the audit of the financial operations of all State government departments and most major authorities.
- 1.2.9 In Victoria, public sector activities are divided into 2 main areas of operation, generally referred to as the inner budget and outer budget sectors.
- 1.2.10 The inner budget sector includes all those government departments which are financed by annual parliamentary appropriations and the financial operations of which are processed through or come under the control of the central accounting system operated by the Department of Management and Budget. Because Parliament appropriates authority to spend cash within the ensuing year, the cash basis system is largely used to record departmental financial transactions.

- 1.2.11 In the inner budget area, the Auditor-General is required to make a report to Parliament explaining the statement prepared by the Treasurer on the cash transactions of all government departments. He also reports on the financial statements prepared by each department.
- 1.2.12 The outer budget sector comprises a large number of public bodies, many of which are established by separate legislation. These bodies enjoy greater financial autonomy than government departments. Their financial transactions are not reported in the Budget Documents or in the Treasurer's Statement except to the extent of cash appropriated to them by way of special grants and the extent to which they make contributions to the Consolidated Fund.
- 1.2.13 The legislative provisions concerning the form and content of public bodies' financial statements vary substantially, but generally financial statements are prepared on an accrual basis. The Auditor-General reports individually on the financial statements of each public body and in doing so takes due cognisance of accepted accounting and auditing standards as promulgated by the Australian professional accounting bodies.
- 1.2.14 Many large public bodies are required to include financial statements along with the Auditor-General's report thereon in their annual reports to Parliament.

## PART 2

### REVIEW OF DEVELOPMENTS IN 1982-83

#### 2.1 SIGNIFICANT DEVELOPMENTS AFFECTING THE OFFICE

##### 2.1.1 Introduction

2.1.1.1 In 1982-83 the most significant developments affecting the Office's operations were:

- (1) the tabling in Parliament of the report of the Economic and Budget Review Committee on "Improving Government Management and Accountability : A Report to Parliament on a Review of The Audit Act 1958";
- (2) the progressive implementation of a comprehensive auditing approach, which extends financial auditing into value for money issues;
- (3) the appointment of private practitioners as my agents to conduct the audit of some water authorities; and
- (4) the implementation of a revised management structure, emphasising a corporate management approach.

2.1.1.2 Each of these developments is now discussed in turn.

##### 2.1.2 **Report of Economic and Budget Review Committee**

2.1.2.1 The Committee's report, which was tabled in the Legislative Assembly on 1 June 1983, is a most significant document, both to the Office and to the functioning of government generally. As early as 1980, I drew Parliament's attention to the need for a review of the Audit Act 1958 to ensure that it provided an adequate legislative framework for modern techniques of financial management and auditing.

2.1.2.2 The thrust of the Committee's report is mainly consistent with views expressed in my reports to Parliament over the last few years. The Committee's report, however, covers the whole area of accountability of government organisations, of which external auditing is just one aspect. I am consulting with the Government on the matters contained in the report.

##### 2.1.3 **Moves to a Comprehensive Audit Approach**

2.1.3.1 In my 1981-82 report on the Treasurer's Statement (paragraphs 7.1.13 to 7.1.23) I outlined the audit methodology used in the Audit Office. As indicated in that report, with increasing recognition that the accountability of the managers of departments and statutory authorities extends beyond compliance with laws and regulations governing the use of public funds, a corresponding shift in the emphasis of auditing is taking place.



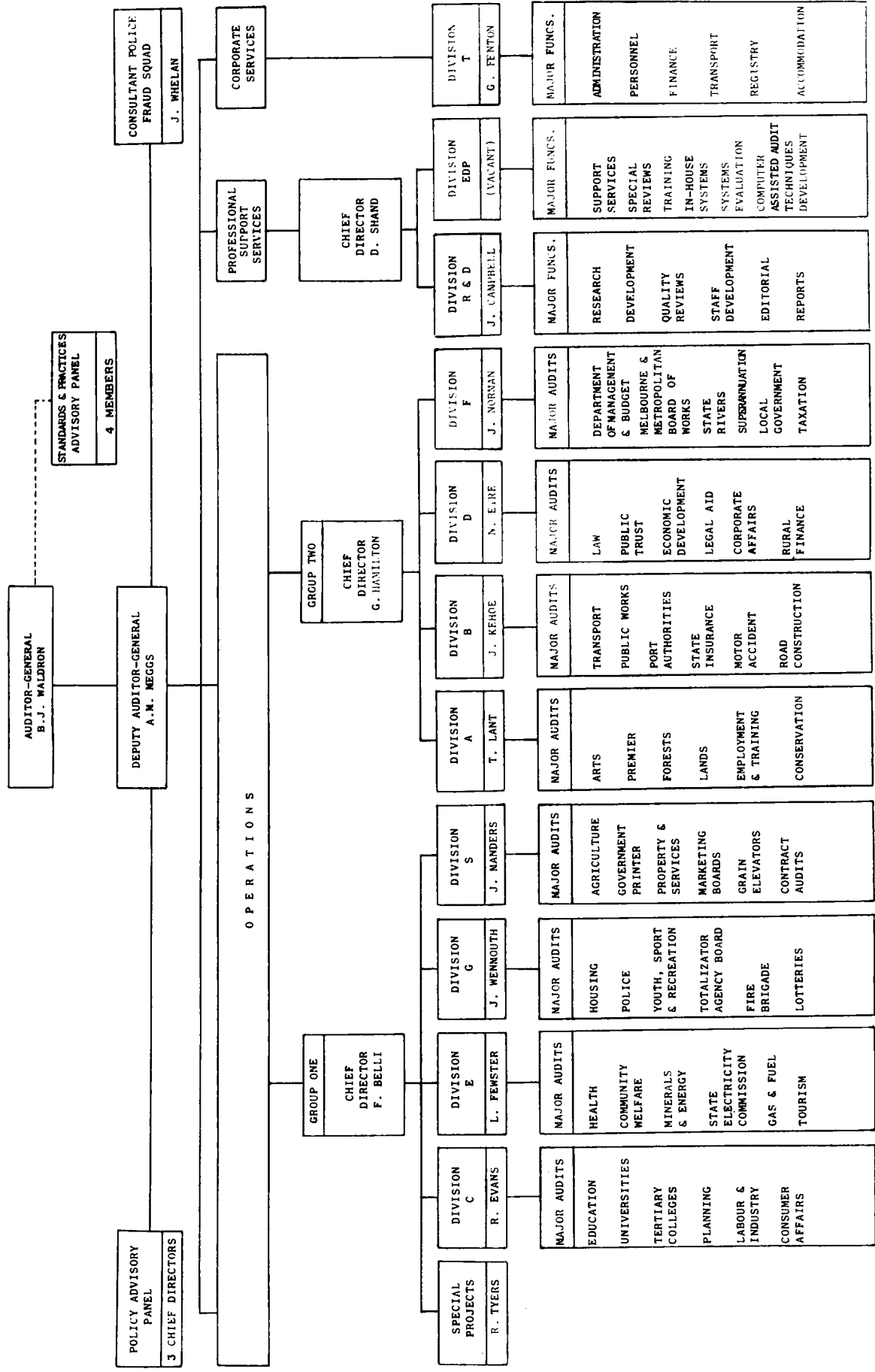
- 2.1.3.2 A financial and compliance audit does not examine specifically whether wasteful practices exist in government operations (efficiency) or if management monitors whether organisational objectives are achieved (effectiveness). Comprehensive audits, which seek to address such value for money issues as well as financial and compliance issues thus have a broader scope than financial audits and can serve to make management more accountable for its activities.
- 2.1.3.3 Section 48 of the Audit Act 1958 enables the Auditor-General to recommend methods for the better collection and payment of public moneys and for more effective and economical auditing, and generally to report on all matters relating to the public accounts or accounts of public authorities. This provides the necessary legislative authority for the introduction of comprehensive auditing on a restricted basis. Nevertheless, I consider that full implementation of the methodology will require amendment to the Audit Act 1958, and I support the Economic and Budget Review Committee's recommendation that statutory provision be made for the Auditor-General to undertake efficiency and effectiveness audits in any legislation replacing the Audit Act 1958.
- 2.1.3.4 Comprehensive auditing is a logical extension of and not a replacement for financial auditing. Financial audits remain the base upon which other audit activities of the Office are being built, and emphasis on value for money issues will increase. Although financial audits will be necessary on an annual basis, it is expected that comprehensive audits will be conducted on a cyclical basis.
- 2.1.3.5 Under the comprehensive audit approach, the Office would not be concerned with evaluating objectives given to organisations by legislation or by ministerial directive. The main approach would be to evaluate the processes by which departments translate broad objectives into operational objectives, the adequacy of mechanisms set in place to monitor efficiency and effectiveness and the systems management uses to achieve and monitor efficiency. This approach to comprehensive auditing is consistent with the approach recommended by the Economic and Budget Review Committee.
- 2.1.3.6 The development of a comprehensive audit approach is a continuous process. Its full implementation will depend on the level of resources available for such reviews.
- 2.1.3.7 A number of pilot studies in comprehensive auditing were undertaken during the year to familiarise my officers with the methodology which applied within the Office. These studies were limited in scope and the experience gained is now being used to refine the approach to comprehensive auditing and to determine the training requirements of audit staff.
- 2.1.3.8 A second and final report on the first major review carried out by the Office using comprehensive auditing methodology was presented to Parliament in June 1983. The review covered the procedure of government departments and authorities with respect to works contracts. This followed my first report to Parliament on this topic, which was tabled in June 1982. I concluded in the report that greater value for money would be achieved if attention were to be paid to procedural deficiencies in works contract practices.

## 2.1.4 **Contracting of Audits to the Private Sector**

- 2.1.4.1 During the year, following a submission to the Government, I received a budgetary allocation to engage a number of private sector auditors to act as my agents in the auditing of water authorities.
- 2.1.4.2 Forty private practitioners acted as my agents during the year and conducted 102 audits of water authorities for which they were paid a total of \$130 000. These agents were selected from a total of 261 qualified persons who registered an interest in undertaking such work.
- 2.1.4.3 The employment of private sector auditors on a contractual basis became necessary because of the lack of manpower resources and the arrears of audits which continued to accumulate, particularly in the water authorities area. Under this arrangement, I retain responsibility for the audit work, prescribe the audit practices to be followed and attest the financial statements of the organisations subject to the audit.
- 2.1.4.4 In the main, the arrangement proved satisfactory and I have been allocated the necessary funds for the practice to continue and to be extended in 1983-84.

## 2.1.5 **Development of a Corporate Management Structure**

- 2.1.5.1 In my 1981-82 report to Parliament on the Treasurer's Statement, I outlined the resource requirements needed to overcome previous operational problems. These included:
- the upgrading of the management structure;
  - the need for a flexible classification structure, particularly at lower organisational levels; and
  - the professional development of officers by the upgrading of skills in the research and development and E.D.P. resource areas.
- 2.1.5.2 During the year a new corporate management structure was put into operation in the Office. A corporate plan was submitted to the Effectiveness Review Committee resulting in the Public Service Board allocating some additional positions to the Audit Office. The Office established a corporate management structure comprising the Assistant Auditor-General and 3 Chief Directors of Audits, with responsibility for the overall co-ordination of all Office activities, preparation of master plans, advice on matters of policy and evaluation of new directions.
- 2.1.5.3 The division of responsibilities of the Chief Directors of Audits is consistent with the approach adopted by the private sector accounting firms. Under the functional division of responsibility, 2 Chief Directors are responsible for field audit operations and one Chief Director is responsible for the administration of specialist audit support functions and research and development. The new structure shown in the organisational chart (opposite page) establishes more clearly defined lines of responsibility in the Office, improves co-ordination between divisions, and upgrades the specialist E.D.P. audit and research and development functions in the Office.
- 2.1.5.4 Other related matters are discussed in Section 2.4, 'Staffing'.



## 2.2 WORKLOAD PLANNING AND METHODOLOGY

2.2.1 At 30 June 1983 the Office was responsible for the audit of:

- (1) 30 government departments whose operations are financed from the Public Account. The audit of departments includes several hundred branches and district offices of such departments located throughout Victoria (i.e. courts, police stations, forests and land offices, psychiatric hospitals, and corrective institutions, water supply urban and irrigation offices etc.);
- (2) 96 statutory bodies, including such large utilities as the State Electricity Commission, Melbourne and Metropolitan Board of Works, Gas and Fuel Corporation and commercially oriented organisations such as the State Insurance Office, Totalizator Agency Board, Victorian Egg Marketing Board, and Victorian Dairy Industry Authority;
- (3) 47 post-secondary and tertiary institutions comprising universities, colleges of advanced education and Technical and Further Education colleges. In addition, the Office oversees the audits of 2156 school councils whose accounts are audited by private practitioners and the internal audit section of the Education Department;
- (4) 215 waterworks, river improvement and drainage trusts;
- (5) 17 committees of management; and
- (6) a number of audits undertaken at the request of the Treasurer.

2.2.2 It should be noted that the Office is not responsible for the audit of local government, companies established by statutory authorities, the State Bank, and hospitals, although the legislation does provide for the Auditor-General to undertake special audits of hospitals if deemed necessary.

2.2.3 As illustrated in the organisation chart, field audit operations are performed by 2 groups, each under the management of a Chief Director. Group One comprises 5 divisions, of which 4 are field audit divisions and one has the responsibility for the conduct of special audit assignments. Group Two is made up of 4 field audit divisions.

2.2.4 With the exception of the division undertaking special projects, the 8 field divisions have a balanced portfolio of large, diverse and complex audits which cover all the activities of government departments and statutory authorities in the State.

2.2.5 All divisions prepare annual forward plans which have the objective of systematically scheduling the workload over the production year 1 October to 30 September on the basis of stated priorities, perceived audit risk and available human resources.

2.2.6 A computerised audit management information system (AMIS) is used to monitor on a fortnightly basis the progress of each audit activity against priorities established in annual forward plans, predetermined time budgets, productivity levels and staff establishment.

- 2.2.7 Inspectorial staff are expected to spend at least 80 per cent. of their time on field audit work, the balance being taken up by professional development, short periods of secondment on research activities, and leave of absence.
- 2.2.8 All audits are conducted in accordance with generally accepted auditing standards as promulgated by the Australian professional bodies and consistent with the legislative requirements of the State.
- 2.2.9 With the exception of the smaller and specialised audits, all audit work is undertaken using systems-based methodology. In conformity with the systems-based approach, it is the accepted practice of the Office to review the accounting procedures and systems of internal control of all organisations subject to its audit and, based on that review, to conduct such tests of the accounting records and supporting evidence as are considered necessary to form an opinion on financial statements. This practice is, of course, complemented by the obtaining of evidence to determine whether there has been full compliance with existing statutes, regulations and instructions.
- 2.2.10 As indicated under Section 2.1.3, the systems-based methodology is currently being extended to include value for money auditing. The extended methodology, known as comprehensive auditing, addresses issues of economy, efficiency and effectiveness as well as the traditional concepts of financial and compliance attestation.

### **2.3 SPECIALIST E.D.P. FUNCTION**

- 2.3.1 With the growth of sophisticated E.D.P. systems in departments and authorities, the need for my officers to have a high level of competence in E.D.P. auditing has increased.
- 2.3.2 A specialist E.D.P. division was established in 1973. This division provides consultative services and technical support to field auditors on E.D.P. matters, develops computer assisted audit techniques for use by field divisions and assists in the training of auditors. It is also responsible for the development and maintenance of the Office's own E.D.P. systems.
- 2.3.3 Major activities during the year included:
- (1) an audit review of the payroll sub-system of the Education Department's Generalised Education Network Information and Utility System (GENIUS);
  - (2) a continuation of an audit review of the Government Computing Service's Burroughs B7700 computer installation;
  - (3) the development and implementation of a series of computer assisted audit techniques to assist field auditors in the audit of the centralised "Paycast" payroll system, currently used by 22 departments; and
  - (4) a post-implementation review of the Office's Audit Management Information System (AMIS).

- 2.3.4 Other projects undertaken included aspects of the contributions sub-system of the Local Authorities Superannuation Board, the Department of Management and Budget's Standard Micro Computer Accounting (SMACS) Revenue Module and a computer installation review at the Victorian Dairy Industry Authority. In addition, numerous substantive tests in the form of file interrogations were conducted against the central Financial Recording and Reporting (FRAR) system maintained by the Department of Management and Budget.
- 2.3.5 During the year, work commenced on a review of the Department of Management and Budget's SMACS Payments Module and the Revenue System at the Government Computing Service.
- 2.3.6 Due to the increased utilisation of mini and micro computers within departments and instrumentalities, and as part of the on-going professional development program, the Office has purchased 2 micro computers. These are used primarily to supplement E.D.P. training with practical experience in the use of computers as an audit tool.

## 2.4 STAFFING

- 2.4.1 During the year, the Department of Management and Budget raised the approved manpower ceiling for the Office from 144 to 150. The following table indicates the staffing levels in the Office over the last 7 years.

### Staffing Levels

As at	Establishment	Actual	Deficiency
30 June			
1977	147	126	21
1978	148	128	20
1979	148	130	18
1980	148	122	26
1981	153	132	21
1982	153	129	24
1983	164	141	23

- 2.4.2 Although there was some increase in the number of positions in the specialist E.D.P. and research and development divisions during the year, a shortage of qualified staff in the field audit divisions has continued to exist, with the result that a number of priority audits remained in arrears. This shortage is due partly to the Office's inability to compete with the remuneration packages offered by private accounting firms to experienced personnel.
- 2.4.3 The Office recruits professionally qualified officers. With the move towards a comprehensive audit approach, there may be a need to utilise officers with a diverse range of skills to complement financial and auditing skills. My officers will also be required to develop comprehensive audit skills through experience and further training.
- 2.4.4 Given the current audit experience of my officers, particularly at audit supervisor level and above, the development of an effective internal audit within the public sector may, in the short-term, result in a significant loss of my staff to internal audit as this function is developed further.

2.4.5 While the establishment of a new senior management structure within the Office will undoubtedly improve the ability of the Office to fully meet its responsibilities, I am concerned at the classification levels determined by the Public Service Board for the positions of Assistant Auditor-General, Chief Directors and Directors. In my opinion, these classifications fail to give adequate recognition to the responsibilities attached to those positions when compared with similar positions in the private sector. This may make it difficult for this Office to attract new staff at a senior level.

2.4.6 During the year, a member of the staff of Monash University Department of Accounting and Finance was attached to the research and development division for 3 months, as part of his study leave. Such an arrangement provides additional expert staffing resources and I hope to continue this arrangement with staff from other universities and colleges.

## **2.5 PROFESSIONAL DEVELOPMENT**

2.5.1 The need for professional development of audit staff has been recognised by the Office for some time and staff are required to acquire and maintain their professional competence.

2.5.2 Particular needs of the Office include more training in general management skills for middle level officers, more training for all staff in aspects of modern systems-based auditing (such as statistical sampling and analytical review), training for all staff in comprehensive auditing skills, and a general upgrading of E.D.P. audit skills.

2.5.3 I have set an objective, to be achieved within the next 2 years, of having 6 per cent. of an officer's available time devoted to formal professional development activities.

2.5.4 The appointment during the year of a development officer to co-ordinate the development of professional skills within the Office has enabled work to begin on a structured sequential development program based on the assessed needs of officers. It has also enabled a pilot exercise to be conducted in one division on a system of performance and development review. This involves the identification of training needs for each officer through processes of self-assessment and counselling. It is to be introduced throughout the Office as the basis of a professional development and training appraisal system for audit and administrative staff. The results of the review and a record of each officer's professional development activities are recorded on a computerised data base.

2.5.5 External training activities covered a range of subject areas including accounting, auditing, computer audit, public administration and management techniques. The courses were provided by post-secondary educational institutions, professional accounting and other bodies, the Victorian Public Service Board, and private sector experts. Of particular note was a 2 week summer school in E.D.P. auditing conducted for the Office by staff of Deakin University's Department of Computer Science.

- 2.5.6 Staffing shortages experienced during the year and the need to develop a comprehensive professional development plan meant that internal training activities were restricted to induction courses for newly recruited graduates, technical briefing sessions, and on-the-job sessions for field staff.
- 2.5.7 Other significant professional development activities during 1982-83 were:
- . the secondment of 4 officers as part of a team from Australian Auditors-General's Offices to provide much needed audit assistance to the Republic of Vanuatu;
  - . the visit to India of one officer to audit the New Delhi office and the Hissar Cattle Project of the Department of Agriculture, as part of the audit of the Department's overseas aid program; and
  - . a full-day presentation on the operation of management control systems given by the Office to participants in an Australian Administrative Staff College management course.
- 2.5.8 The 14th Conference of Australian Area Auditors-General was held in Hobart in February 1983. The purpose of the conferences, which are held every 2 years, is to provide a forum for the exchange of ideas and experiences. The 1983 conference was a particularly significant one in view of current moves throughout Australia to broaden and upgrade the government auditing function. In terms of this Office's future activities, I gained valuable insights into aspects of comprehensive auditing and the professional development and training of audit staff.
- 2.5.9 In October 1982 I attended the Fourth Conference of Heads of Audit Offices in the South Pacific in Honiara, Solomon Islands. Topics discussed included audit staff training, the relationship of the Auditor-General with the legislature and the audit of computer systems. Subsequently, the secondment of my officers to Vanuatu (mentioned in paragraph 2.5.7) was confirmed. Also arising from this conference I have provided audit training materials, working papers and standard audit plans to assist the Auditors-General of Papua New Guinea, Solomon Islands, Fiji, Kiribati, Tonga and Vanuatu.

## **2.6 PARLIAMENTARY COMMITTEES**

- 2.6.1 During the year, the 5 Parliamentary (Joint Investigatory) Committees set up under the Parliamentary (Joint Investigatory Committees) Act 1982 commenced operations. The committees are:
- . Economic and Budget Review Committee
  - . Public Bodies Review Committee
  - . Legal and Constitutional Committee
  - . Social Development Committee
  - . Natural Resources and Environment Committee.



- 2.6.2 The Economic and Budget Review Committee has taken over most of the functions of the former Public Accounts and Expenditure Review Committee. Although not specifically provided in the legislation, it is the appropriate committee to review my reports to Parliament.
- 2.6.3 By long practice and tradition Auditors-General have established a close relationship with the Public Accounts Committee. The process whereby the Auditor-General's reports when published and presented to Parliament are then referred for examination by the Public Accounts Committee has been a crucial element in maintaining the Executive's accountability to Parliament. It has also been an important influence in maintaining propriety and economy in expenditure of public funds, and in the improvement of financial management. I must express some disappointment that no specific reference was made in the Economic and Budget Review Committee's terms of reference under the Act to any special relationship with the Auditor-General or to specifically charge the Committee with reviewing and acting on his reports to Parliament.
- 2.6.4 I note that the Economic and Budget Review Committee has sought explanations from departments and authorities on matters mentioned in my 1981-82 reports, and has also resolved to investigate a matter arising out of my 1979-80 report. However, I must point out that the most recent tabling in Parliament of a committee document dealing with matters raised in my reports was in November 1981 when the former Public Accounts and Expenditure Review Committee presented a document which dealt with matters arising from my 1978-79 reports.
- 2.6.5 The value of my reports to Parliament in terms of the accountability of public sector managers will clearly be enhanced if the Committee pursues matters raised and reports to Parliament on them.

## **2.7 PANEL OF ADVISERS**

- 2.7.1 In 1982 I established an advisory panel comprising 4 senior members of the accounting profession, chosen from members nominated by the Victorian State Council of the Institute of Chartered Accountants and the Victorian Division of the Australian Society of Accountants, to provide me with independent advice on matters of accounting and auditing significance in the public sector.
- 2.7.2 The present members of the panel are:
- John Ballantyne, Arthur Young and Co.  
David T. Greenall, Greenall and Associates  
D. Geoffrey Neilson, Day Neilson Jenkins and Johns  
Robert Watts, Deloitte Haskins and Sells
- 2.7.3 During 1982-83 the panel of advisers met on 5 occasions and advised me on the following major issues:
- (1) the application of Australian accounting standards to the financial statements of certain public bodies;
  - (2) the form and content of audit manuals and working papers prepared by the Office dealing with the audit approach to post-secondary educational institutions, superannuation funds and water bodies;

- (3) the form and content of my annual reports to Parliament;
- (4) the organisation of the Office, in particular the senior management structure;
- (5) the selection criteria applied by the Office in contracting private practitioners as my agents to conduct the audit of water bodies; and
- (6) the professional development of audit staff, with emphasis on managerial skills.

2.7.4 I am grateful to all members of the panel for their contributions during the year.

## **2.8 ACKNOWLEDGEMENTS**

2.8.1 During the year, Messrs. Graham Hamilton and David Shand were appointed to the newly created positions of Chief Director of Audits (Operations) and (Resources) respectively. I wish to express my thanks to them, Mr. Flavio Belli, Chief Director of Audits (Operations), Mr. Alan Meggs, Assistant Auditor-General, and all members of staff for their assistance during the year.

2.8.2 I also record my appreciation of the co-operation of departments and the assistance of the Government Printer in printing my reports.

## PART 3

### REVIEW OF FINANCIAL MANAGEMENT ISSUES

#### **3.1 ESTABLISHMENT OF DEPARTMENT OF MANAGEMENT AND BUDGET**

- 3.1.1 An Office of Management and Budget Task Force was established in May 1982 and the Department of Management and Budget was subsequently created by Order-in-Council on 12 October 1982. The functions of the Department, which include previous functions of the Treasury, were decreed on the same day. The new department initially existed in parallel with the former Treasury.
- 3.1.2 The charter of the new department includes the development of a strengthened financial and budgetary control system which is linked to the program priorities of government. The provision for the appointment of and the powers of the Director-General of the Department are set out in the Management and Budget Act 1983.
- 3.1.3 An important aspect of the Department of Management and Budget is the new position of Comptroller-General. This person will have primary responsibility for accounting policies and operations, accounting systems development and internal audit. I welcome the increased emphasis that the establishment of such a position should give to these matters.

#### **3.2 DEPARTMENTAL FINANCIAL STATEMENTS**

- 3.2.1 For the year ended 30 June 1982, the Treasurer instructed departments to prepare and publish departmental financial statements. These statements were published in a separate document tabled in Parliament in November 1982. They were prepared in accordance with guidelines laid down by the former Treasury and by arrangement with the Treasurer these were certified by the permanent head and principal accounting officer and audited by the Audit Office.
- 3.2.2 I consider such statements have value in reinforcing the accountability of permanent heads for the financial transactions of their departments. However, some departments experienced difficulties in preparing adequate statements. My audit report which accompanied these statements pointed out that many departmental statements did not contain information on debtors and creditors as at the end of the financial year, that they excluded details of cash balances and investments held in certain departmental accounts outside the Public Account, and that in some instances the notes accompanying the financial statements were inappropriate.
- 3.2.3 For the year ended 30 June 1983, departments have been instructed by the Treasurer to include further information in their financial statements, including details of departmental cash balances and investments held outside the Public Account, statements of debtors and creditors, and information on contractual commitments for capital expenditure and leasing liabilities. At the date of preparation of this report these financial statements have not been received from the Department of Management and Budget and therefore have not been audited.
- 3.2.4 In future, it is expected that departmental financial statements will be prepared under the provisions of the Annual Reporting Act 1983.

### **3.3 ANNUAL REPORTING ACT**

- 3.3.1 The Annual Reporting Bill was under consideration by Parliament at the end of the year and subsequently received Royal Assent in September 1983. The Act applies to departments and public bodies which are designated by Order-in-Council, and the intention is that it will eventually cover all departments and authorities.
- 3.3.2 Under the Act, ministers responsible for designated departments and authorities are required to cause their departments to prepare a report on operations during the year and the permanent head is required to prepare financial statements, in both cases as soon as practicable after the end of the financial year. Each public body is required to submit to the Minister, within 3 months of the end of the year, a report on operations and financial statements, for tabling in Parliament. The form and content of both financial statements and reports on operations will be prescribed by regulation under the Act. The Act also lays down certain financial management responsibilities for public bodies and contains provisions for the audit of these financial statements.
- 3.3.3 In my opinion, the Act should result in Parliament receiving more relevant and comparable information on the operations and financial transactions of both departments and authorities. I propose to advise authorities subject to my audit that, in order to meet the relatively tight time limits provided in the Act, it will be necessary for them to have financial statements available for audit within 6 weeks of the end of the financial year.

### **3.4 INTERNAL AUDIT**

- 3.4.1 Since 1977, I have repeatedly drawn Parliament's attention to the unsatisfactory situation which has existed in Victorian departments and statutory authorities.
- 3.4.2 The primary role of internal audit is to assist management in fulfilling its responsibilities by reviewing and appraising an organisation's management and operating systems. It is an important part of the financial management system in that it indicates whether proper control procedures are operating within the organisation. It is of paramount importance that internal audit positions be staffed with suitably qualified persons, that they be provided with the necessary authority, standards and training, and be made directly responsible to the chief executive.
- 3.4.3 The Economic and Budget Review Committee's report of April 1983 recommended that the Department of Management and Budget, with the assistance of the Public Service Board, urgently institute a program for the upgrading of the internal audit function throughout the Victorian Public Service. Some steps were taken during the year in this direction.
- 3.4.4 The most significant development has been the establishment of a Bureau of Internal Audit within the Department of Management and Budget which will have primary responsibility for developing internal audit principles and standards, co-ordinating the internal audit function within the Victorian Public Service and conducting the internal audit of the Department of Management and Budget and certain smaller agencies.

- 3.4.5 A significant contribution to the upgrading of the internal audit function will be needed from the Public Service Board in addition to the development work by the Department of Management and Budget. In particular, I consider a substantial commitment should be made by the Public Service Board to internal audit training.
- 3.4.6 A discussion paper on the role of internal audit has recently been issued by the Public Service Board, and audit comments have been provided to the Board.
- 3.4.7 I am concerned at the apparent lack of understanding generally prevailing in the public sector of the relationship between internal and external audit. It is important that the different objectives of internal and external audit are recognised: it is not a matter of simply dividing the areas for examination between the 2 groups. The external auditor remains responsible for reporting independently on the financial statements regardless of the existence of an internal audit unit.
- 3.4.8 While the work of an internal audit unit may be useful to the external auditor, the external auditor must review the operations of internal audit in the same way as he reviews other aspects of the organisation's internal control system. Thus, internal audit coverage of a particular area does not alter the need for external audit in that area, but it does change the nature, timing and extent of external audit work required.

### **3.5 ADMINISTRATIVE ARRANGEMENTS LEGISLATION**

- 3.5.1 In my 1980-81 report on the Treasurer's Statement and again in 1981-82, I drew attention to the fact that in the establishment of new ministries and in the transfer of functions from one agency to another, there had been a failure to make appropriate financial arrangements. Consequent difficulties arose in determining the legality of funding the operations of newly formed bodies from previous parliamentary appropriations.
- 3.5.2 In September 1982, I wrote to the Director of Finance seeking his advice in relation to the proposed funding of the operations of a new body, the Ethnic Affairs Commission, which was being created following the abolition of the Ministry of Immigration and Ethnic Affairs. In reply, the Director of Finance put forward a general approach to accommodate administrative changes made or about to be implemented in 1982-83. He suggested that, where the nature of the services for which Parliament had appropriated funds had not changed, the original appropriations should be available to the new bodies.
- 3.5.3 I advised the Director of Finance that, whilst it was possible to argue that where the nature of the services for which Parliament had appropriated funds did not change then the original appropriations should be available, past experience had indicated that there were serious difficulties in meeting legislative requirements and establishing accountability for the usage of funds.

3.5.4 I stated that, in my view, administrative changes would need to be sanctioned by legislation and adverted to specific legislation which had been enacted in New South Wales and Queensland to overcome problems similar to the ones being experienced in Victoria. In April 1983, the Treasurer advised that he was in agreement with my recommendation and that he would be seeking legislative action to facilitate the process of administrative changes which had implications for parliamentary appropriations.

3.5.5 I am pleased to note that the Administrative Arrangements Act 1983 was proclaimed in June 1983. The Act makes provision, amongst other matters, for the Governor-in-Council to issue orders dealing with matters incidental to or consequential upon administrative changes, identifies instances where appropriations are available to the new departments without the issue of an order and prescribes the powers to be exercised by officers affected by the changes.

### **3.6 CLOSURE OF TRUST ACCOUNTS**

3.6.1 As discussed in Part 2.6 of my first report for 1982-83, a significant number of trust accounts were closed during the year. The balances held in those accounts were transferred to the Consolidated Fund or the Treasury Trust Fund.

3.6.2 As these expenditures are now incorporated into the budgetary process, greater parliamentary scrutiny and control should be exercised over such expenditure. Both the budgetary exercise and financial reporting will also become less fragmented.

### **3.7 WORKS AND SERVICES EXPENDITURE**

3.7.1 The 1982-83 works program estimates were presented on a financial year basis for departments and major semi-government authorities. In previous years, appropriation arrangements have been based on a calendar year, which involved legislation spanning 2 financial years.

3.7.2 The 1982-83 Budget papers were expanded by the inclusion of Trust Fund programs and the inclusion of notes on expenditure items which would normally accompany the Works and Services Appropriation Acts.

3.7.3 Amounts previously received from the Commonwealth for specific purposes are no longer paid into a separate account in the Trust Fund, but most are now appropriated as a line item in the Works and Services Appropriation Act.

### **3.8 ACCOUNTING SYSTEMS REFORMS**

3.8.1 In my main 1980-81 report to Parliament on the Treasurer's Statement I pointed out several inherent deficiencies in the Financial Recording and Reporting (FRAR) system used by the then Treasury and departments. These included lack of interface between departmental and Treasury systems and variations in the FRAR system between departments, resulting in time consuming reformatting and manual entry of departmental information into the Treasury system. I expressed the view that a full scale review should be undertaken to establish both short and long term objectives for financial recording and reporting of the State.

- 3.8.2 Steps are now being taken by the Department of Management and Budget to replace FRAR with a new State Management Accounting and Financial Information System (SMAFIS). The system, which is to be operational for the central agencies (Departments of Management and Budget and Premier and Cabinet) not later than 1 July 1984, with subsequent implementation in other departments, is to have an on-line capacity (the capabilities of which are currently undefined). It is proposed to acquire a financial software package capable of running on both centralised and decentralised hardware. It should provide for automatic interface of specified data between departments and the central agencies, centralised cash management, commitment control and flexible account aggregation facility.
- 3.8.3 There will be a range of relationships between departmental systems and the Department of Management and Budget central system with departments divided into 3 categories, viz.:
- those operating directly as part of the central system;
  - those using the SMAFIS system on their own computer, subsidiary to the central system; and
  - those using a different system on their own computer with the compatibility necessary to transfer information to the central system.
- 3.8.4 A draft "System Requirement Definition Document" has been issued by the Department of Management and Budget to potential user departments for comment and discussion. As the document was not specific, particularly in matters of audit interest, I have requested that when tender proposals are considered, the Audit Office be given the opportunity to comment on the adequacy of controls, security and system auditability etc.
- 3.8.5 The Department of Management and Budget is also proposing the implementation of a sophisticated personnel/payroll system to replace the existing centralised "Paycost" payroll system.
- 3.8.6 In my 1981-82 report to Parliament on the Treasurer' Statement I referred to the then Treasury's implementation within its Receiver and Paymaster's Office of a Standard Micro Computer Accounting System (SMACS) to process revenue transactions which would also provide input for subsequent processing by the centralised FRAR system. The revenue module was subsequently released to other departments. In addition, the development of additional modules to process payments, invoicing and debtors was planned.
- 3.8.7 At that time I expressed the view that it would have been preferable to develop a new and comprehensive system rather than developing such decentralised modules.
- 3.8.8 During the year under review the Department of Management and Budget produced a preliminary user specification for the SMACS payments module. A working party consisting of representatives of the Department of Management and Budget, 2 user departments and the Government Computing Service was formed to develop a formal system specification. However, this did not come to fruition due partly to lack of support from potential user departments. In spite of this, the Government Computing Service proceeded with the development based on the draft preliminary specification and in consultation with the Department of Management and Budget.

3.8.9 In light of the current proposal to implement SMAFIS within the Department of Management and Budget and other departments, I would not advocate the development of additional SMACS modules at this time. Clarification has been sought from the Department of Management and Budget on their intentions concerning the payments module.

### 3.9 E.D.P. SYSTEMS

3.9.1 A significant component of audit is the testing of accounting and management controls in E.D.P. accounting systems. A number of problems have existed in the planning, installation and operation of E.D.P. systems in government organisations. These were identified by the previous Parliament's Public Accounts and Expenditure Review Committee in its 1981 report entitled "The Current and Future Use of E.D.P. Facilities and Techniques in the Victorian Public Sector". Its major recommendations included:

- (1) greater responsibility and thus accountability of departmental and authority management for E.D.P.;
- (2) the formulation of 3 to 5 year E.D.P. strategic plans by all departments and authorities, and their consolidation into a comprehensive E.D.P. plan for the whole public sector;
- (3) programs to increase the number of qualified E.D.P. staff and internal E.D.P. auditors in the Victorian public sector;
- (4) increased use of formal systems development and project management techniques for E.D.P. projects; and
- (5) the introduction of guidelines for internal controls in E.D.P. systems.

3.9.2 Apart from improving the efficiency and effectiveness of E.D.P. operations, some of these proposals would also alleviate problems in the auditing of E.D.P. systems.

3.9.3 There have been some steps to implement or follow up these recommendations, including the creation of a separate computer systems officer classification, which has improved the recruitment of E.D.P. staff into the Victorian Public Service, and the adoption of a systems development methodology. In addition, a preferred supplier policy for the purchase of mini and micro computers has been adopted.

3.9.4 However, I am concerned at the lack of progress in developing and reviewing strategic plans, and in preparing a comprehensive E.D.P. plan for the whole public sector. Until further progress is made, existing controls over departmental E.D.P. operations will remain, with consequent lack of responsibility and accountability for E.D.P. operations. The abolition of the former E.D.P. Policy Committee (comprising various permanent heads) as a separate entity and change in the staffing and role of the Computer and Systems Division of the Public Service Board appear to have contributed to this lack of progress.



### **3.10 PROGRAM BUDGETING**

- 3.10.1 The Government determined that a system of program budgeting would apply in Victoria with the objective of formulating and appropriating the State Budget on a program basis. This will be introduced progressively, with program appropriations for some departments from 1984-85 and others from 1985-86.
- 3.10.2 Departments are currently developing appropriate program structures and performance measurements with the assistance of the Department of Management and Budget. At the same time, the central accounting system and departmental accounting systems are being revised to handle this different basis of classifying financial information. In addition, a program information document is to be presented to Parliament in 1983-84.
- 3.10.3 The introduction of program budgeting has implications for the auditing function and the Office is closely following developments. In particular, from an audit point of view there will need to be full documentation of the basis of allocation of inputs and tasks as between different programs. Furthermore, the basis of establishing such measurements will need to be carefully examined to determine their validity and reliability.

## PART 4

### MATTERS OF SPECIAL INTEREST

#### **4.1 FAILURE TO OBTAIN TENDER BOARD APPROVAL**

- 4.1.1 In this report, as in previous years, I have drawn attention to a number of instances of failure by departments to obtain Tender Board approval for the purchase of goods and services. The Department of Management and Budget Regulations 1981 require that, with certain exceptions, Tender Board approval be obtained to the purchase of all goods and services costing more than \$2 000.
- 4.1.2 In many cases, departments have failed to seek any approval from the Board and in other cases have sought approval retrospectively. The purpose of the Regulations is both to ensure propriety in the obtaining of goods and services by requiring a range of quotations or public tendering, and also to ensure through Tender Board review that the purchases are necessary and that the best alternative is chosen by the department.
- 4.1.3 I am firmly of the view that action should be taken either to ensure that the Regulations are observed or, if the Regulations are considered inappropriate, that steps should be taken to revise them whilst ensuring that adequate controls remain.

#### **4.2 CIRCUMVENTION OF STAFF CEILINGS**

- 4.2.1 In paragraphs 6.9.25 to 6.9.38 of this report I draw attention to the actions of the Health Commission in using staff who are employed by various health institutions to work for the Commission on its programs and activities, with the Health Commission reimbursing the institution for the cost of these services. This enables the Commission to by-pass public service staff ceilings.
- 4.2.2 I have previously reported on similar actions by other departments. For example, in my report to Parliament of April 1981 and my 1980-81 report on the Treasurer's Statement I drew attention to the practice of the Education Department of using school councils to employ staff for central departmental administrative purposes, with school councils being reimbursed for the cost of these services from certain Commonwealth grants. In my 1981-82 report on the Treasurer's Statement I referred to the actions of the Department of Youth, Sport and Recreation in employing staff in excess of staff ceilings by providing grants from trust funds to school councils and private organisations.
- 4.2.3 The Public Service Board has issued a directive that all engagements of consultants, contractors and persons employed in non-public service areas be referred to the Board for approval. In a number of cases this directive has not been observed and in my view stronger action is necessary to ensure that departments do not circumvent staff ceilings in this way.

**4.3 INADEQUATE ACCOUNTABILITY FOR GRANTS ETC. TO NON-GOVERNMENT ORGANISATIONS**

4.3.1 A significant number of non-government organisations received government grants, subsidies or loans, channelled through government departments.

4.3.2 In many cases departments fail to institute procedures to ensure there is proper accountability for the expenditure of such moneys, by satisfying themselves that the funds are spent on the purposes for which they are given, that any other conditions attached to the assistance are observed and, where relevant, that the Government's investment is protected. As a minimum this would involve the organisation providing audited financial statements to the department clearly indicating the manner in which the moneys had been spent and the current financial position of the organisation. For example, in this report I refer to the failure by the Department of Youth, Sport and Recreation to institute such procedures (paragraph 6.20.6).

**4.4 OTHER MATTERS**

4.4.1 Other matters of special interest in this report are identified as follows:

<u>SUBJECT</u>	<u>PARAGRAPH REFERENCE</u>
<u>Functions of Economic and Budget Review Committee</u>	
No specific provision in Committee's terms of reference to review reports of the Auditor-General	2.6.3
<u>Department of Community Welfare Services</u>	
Payments to bushfire victims not certified by departmental officers	6.2.12 - 6.2.15
<u>Corporate Affairs Office</u>	
Delays in bankings	6.10.18 - 6.10.20
<u>Education Department</u>	
Loss of interest moneys	6.6.7
Audit of State primary school councils	6.6.15 - 6.6.24
<u>Health Commission of Victoria</u>	
Utilisation of land and property holdings	6.9.6 - 6.9.16
<u>Department of Management and Budget</u>	
Employment of consultants	6.11.8 - 6.11.9
Advances from Cash Management Account to Consolidated Fund without Treasurer's approval	6.11.10 - 6.11.11

SUBJECT

PARAGRAPH REFERENCE

Ministry of Transport

Engagement of consultants

6.18.9 - 6.18.10

State Rivers and Water Supply Commission

Advance payment - Blue Rock Dam project

6.19.14 - 6.19.18

Contracts - approval of Governor-in-Council  
not obtained

6.19.19 - 6.19.21

Water authorities - breaches of legislation

6.19.27

Taxation Office

Land tax not collected

6.11.40 - 6.11.41

**PART 5**  
**STATUS REPORT**

**5.1** This section reports on the status of observations and recommendations relating to departments which were contained in previous reports of the Auditor-General.

<u>REPORT</u>	<u>PAGE</u>	<u>SUBJECT</u>	<u>STATUS AT DATE OF PREPARATION OF THIS REPORT</u>
<u>AGRICULTURE DEPARTMENT</u>			
1980-81	53	Internal audit not established.	Position unchanged.
<u>MINISTRY FOR THE ARTS</u>			
1980-81	59	Internal audit not established.	Position unchanged.
1981-82	65	For purposes of accountability, each organisation receiving a grant should be required to furnish an audited financial statement.	Position unchanged in 1982-83. However, during 1983-84 all such organisations receiving grants will be required to furnish statements certified by a responsible officer of the organisation or by an external auditor.
<u>DEPARTMENT OF COMMUNITY WELFARE SERVICES</u>			
1980-81	63	Prisoners Incentive Payments Scheme - legislative authority required	Legislative authority has been included in the Victorian Prison Industries Commission Act.
1981-82	68	Records kept by the Department inadequate to verify claims for grants by certain institutions and hostels.	The Department has recently advised that a review of records is taking place and a revised control system is to be implemented.
<u>MINISTRY FOR CONSERVATION</u>			
1981-82	70	Internal audit - unsatisfactory reporting arrangements and district offices not visited.	Apart from one visit to a district office, the position remains substantially the same.

<u>REPORT</u>	<u>PAGE</u>	<u>SUBJECT</u>	<u>STATUS AT DATE OF PREPARATION OF THIS REPORT</u>
1981-82	71	National Parks Division - Effective control over collections by several parks not maintained. Head Office records for licences, permits and lease agreements unsatisfactory.	No response from the Ministry to these matters.
<u>MINISTRY OF CONSUMER AFFAIRS</u>			
1981-82	72	Motor Car Traders Guarantee Fund - delay in collection of licence fees and failure to always follow-up overdue fees.	Position unchanged.
<u>MINISTRY FOR ECONOMIC DEVELOPMENT</u>			
1981-82	76	Appropriate action necessary concerning \$43 397 due by a company subsequently under receivership, in respect of a loan made from the Development Fund. The amount is held in trust by the Rural Finance Commission.	Director of Finance directed that Ministry does not have to account for loan.
	131	Liquor Control Commission - Commission should request interstate Liquor Commissioners or wholesalers to supply details of sales to Victorian licence holders to enable an independent check to be made of interstate liquor purchases.	The Commission has advised that the legislation in 2 States now provides for this information to be supplied. The Commission anticipates that during 1983-84 all States and Territories will be able to provide such information.
<u>EDUCATION DEPARTMENT</u>			
1980-81	94	Department continued to enter into certain arrangements with school councils which circumvented prescribed regulatory and standing directions of the Public Service Board and Treasury.	Position unchanged.
1979-80	94	Lease arrangements at Preston Regional Office - requirements of Audit Act and Treasury Regulations not complied with.	Letter sent to Minister. Matter under consideration by the Economic and Budget Review Committee.

<u>REPORT</u>	<u>PAGE</u>	<u>SUBJECT</u>	<u>STATUS AT DATE OF PREPARATION OF THIS REPORT</u>
1980-81	95	Failure of department to establish an effective internal audit group to monitor, examine and report on its financial operations.	Audit and Review Unit resources at present being extended.
1981-82	77	Education allowances for certain students needs are not verified in respect of registered schools.	Position unchanged.
	80	In respect of capitation grants paid to non-government schools, enrolments were accepted without verification, and significant internal control weaknesses were noted in relation to payments.	Position unchanged.
<u>MINISTRY OF EMPLOYMENT AND TRAINING</u>			
1981-82	84	Unsatisfactory tendering and contractual arrangements, together with control weaknesses in relation to payments, were evident in respect of the publicity campaign "Plan Ahead to Get Ahead".	Tendering and contractual arrangements in respect of the payment in 1982-83 were satisfactory.
<u>FORESTS COMMISSION</u>			
1980-81	129	Internal audit not yet established.	Internal audit now established.
<u>HEALTH COMMISSION OF VICTORIA</u>			
1980-81	141	An effective internal audit not yet established.	Appropriate action has been taken.
1981-82	92	Subsidies paid to Pre-school Centres - action necessary by the Commission to ensure compliance with conditions of subsidy to pre-school centres and a change to fortnightly payments of subsidy instead of quarterly in advance would enable interest to be earned on the funds withheld.	Audit query has been raised in relation to non-compliance with conditions of subsidy. Subsidies paid on a monthly basis from 1 July 1983.

<u>REPORT</u>	<u>PAGE</u>	<u>SUBJECT</u>	<u>STATUS AT DATE OF PREPARATION OF THIS REPORT</u>
1981-82	94	Geriatric Supplementary Fund - appropriate measures necessary to authorise the establishment of the Geriatric Supplementary Trust Fund to regularise payments thereto from the Hospitals and Charities Fund and to eliminate certain weaknesses in internal control.	At 30 June 1983 this trust account was still being administered in contravention of the Hospitals and Charities Act. In relation to internal control weaknesses, appropriate measures have been taken by the Commission to implement audit recommendations.
1981-82	96	Commonwealth - State Governments Hospitals Agreement - terms of agreement requiring Auditor-General's certificate to annual statement of receipts and payments not observed after year ended 30 June 1976.	Financial statements to 30 June 1981 have recently been submitted by the Commission for audit verification.
		Revenue section - mail remittances should be recorded centrally and forwarded to the revenue section.	The Commission is currently reviewing the matter.
	96	Expenditure on buildings and equipment from interest earned by patients' trust account investments is considered to be improper. Specific guidelines to regulate expenditure from this source of funds should be established.	The Commission agrees that certain expenditure has been incorrectly charged to the patients' trust account. A working party now inquiring into management of these trust accounts is expected to formulate guidelines on expenditure from the accounts.



<u>REPORT</u>	<u>PAGE</u>	<u>SUBJECT</u>	<u>STATUS AT DATE OF PREPARATION OF THIS REPORT</u>
1981-82	96	The provision of financial assistance from the patients' trust account at Aradale Mental Hospital should be reviewed.	A working party is to examine all issues relating to sporting clubs and facilities on Health Commission property. After consideration of the party's findings appropriate action is expected to be taken on the matters raised by audit.
<u>MINISTRY OF HOUSING</u>			
1980-81	145	Government Guarantees - Co-operative Societies - Treasurer of Victoria ranks as unsecured creditor in respect of guaranteed loan to a co-operative society in liquidation.	At 29 May 1983 a sum of \$360 450 had been recovered by the Treasurer out of a guarantee of \$400 500 met in respect of the Broadmeadows Club Co-Operative Ltd.
1980-81	145	Internal audit section should cover all branches of the ministry in its activities.	Position unchanged.
<u>DEPARTMENT OF LABOUR AND INDUSTRY</u>			
1981-82	100	Several weaknesses in internal control in relation to the debtors system.	Position unchanged.
<u>LAW DEPARTMENT</u>			
1981-82	103	Major functions within the Department and its branches should be reviewed by internal audit.	Position substantially unchanged.
<u>DEPARTMENT OF MANAGEMENT AND BUDGET</u>			
1980-81	211	Internal audit section should be established to embrace activities of the central administration and its branches.	Internal Audit Bureau has now been established.

STATUS AT DATE OF  
PREPARATION OF THIS  
REPORT

<u>REPORT</u>	<u>PAGE</u>	<u>SUBJECT</u>	
1980-81	20	Under agreements made with other governments certain percentages of the total duty on subscriptions to Victorian consultations are paid to those governments. There is no express or implied provision for these agreements other than those in respect of Soccer Football Pools under the provisions of the Tattersall Consultations Act 1958.	Position unchanged.
1981-82	13	Consolidated Fund Receipts - non assessment of land tax.	Matter has been reviewed by the Commissioner of Land Tax. Commissioner considers that a large proportion of land would be used for primary production and, therefore, is exempt from land tax. He also considers that the costs involved in loading the information on to the data base would exceed the revenue to be gained.
	143	Failure to always promptly bank moneys received.	Position unchanged.
	143	Contractors securities held are not always current for current contracts and include securities which should have been returned to contractors.	Matter is still subject to discussion with Department.
	145	Stamps Office Clearing Account - A suitable system is necessary to enable reconciliation of balance.	Position unchanged.
	145	Australia Post - Sale of duty stamps. The records of the Stamps Office and Australia Post did not agree.	Position unchanged.

<u>REPORT</u>	<u>PAGE</u>	<u>SUBJECT</u>	<u>STATUS AT DATE OF PREPARATION OF THIS REPORT</u>
<u>DEPARTMENT OF MINERALS AND ENERGY</u>			
1981-82	112	Gas Examiner - the maximum statutory rate of 20 cents per consumer does not cover increased operating costs of the Gas Examiner.	The maximum statutory rate of 20 cents per consumer has not been increased.
	112	The financial reporting provisions of the Gas Act 1969 should be reviewed.	From 1 July 1982 all moneys received by the Gas Examiner are payable to the Consolidated Fund and all costs of administration are met from the Minerals and Energy Department Vote.
<u>MINISTRY FOR POLICE AND EMERGENCY SERVICES</u>			
1978-79	55	Central Firearms Registry - system weakness.	System in process of being changed.
1980-81	172	Internal audit not yet established.	Position unchanged.
1981-82	118	Audit of the police payroll and an examination of leave records revealed various weaknesses in internal control.	Present position under review.
	118	Charges for departmental services - ineffective follow-up procedures for collection of amounts due.	Position unchanged.
1981-82	119	Sundry Debtors - Port of Melbourne Authority. The matter of charging the Authority for police services should be resolved.	The amount of \$321 924 due from the Port of Melbourne has now been paid. No further charges have been raised following advice by the Director of Finance on 8 March 1983.

<u>REPORT</u>	<u>PAGE</u>	<u>SUBJECT</u>	<u>STATUS AT DATE OF PREPARATION OF THIS REPORT</u>
		<u>DEPARTMENT OF THE PREMIER AND CABINET</u>	
1981-82	120	Victoria's Representation in Japan - weaknesses in internal control in relation to expenditure require remedial action.	Satisfactory remedial action taken. However, expenditure on entertainment still being met from funds other than representation allowances provided for such purpose.
		<u>DEPARTMENT OF PROPERTY AND SERVICES</u>	
1981-82	124	Government Computing Service - greater control necessary in the accounting in relation to debtors, a review of charges for services considered desirable and improved security measures necessary.	<p><u>Charges for E.D.P. Services</u></p> <p>Charges for services have been reviewed. Revised scale of charges, became operative from 1 July 1982.</p> <p>Controls over chargeable time for resources used and services provided have been introduced.</p> <p><u>Control over Debtors</u></p> <p>The position is substantially unchanged.</p> <p><u>Security</u></p> <p>Apart from some strengthening of security over input procedures, the position in relation to physical security at the I.C.L. installation is unchanged.</p>

<u>REPORT</u>	<u>PAGE</u>	<u>SUBJECT</u>	<u>STATUS AT DATE OF PREPARATION OF THIS REPORT</u>
1981-82	125	Government Information Services - satisfactory stock records not kept and no segregation of duties in bookshop.	Departmental reply considered. Position is substantially unchanged.
<u>PUBLIC WORKS DEPARTMENT</u>			
1981-82	128	State Petrol Centre - a detailed review of the Centre's operations is considered warranted.	A review of the Centre has been undertaken by the State Government Transport Task Force.
<u>MINISTRY OF TRANSPORT</u>			
1981-82	134	Tender Board Approvals - the requirements under the Treasury Regulations 1981 to obtain Tender Board approval to expenditure under contract not always obtained.	Action taken by Ministry to ensure that approval is obtained.
1981-82	139	Delays in the processing of mail remittances for the renewal of registrations.	The direct bank billing system which was introduced as an optional form of registration payment in 1982 has reduced the volume of mail remittances. Delays in processing mail remittances are currently approximately 2 days.
	139	Overpayment of refunds to certain goods and passenger licence holders.	A reply from the Board has not yet been received in respect of this matter.
<u>MINISTRY OF WATER RESOURCES AND WATER SUPPLY</u>			
1980-81	226	Internal audit has not yet been established.	Internal audit now established.

<u>REPORT</u>	<u>PAGE</u>	<u>SUBJECT</u>	<u>STATUS AT DATE OF PREPARATION OF THIS REPORT</u>
1981-82	150	Contracts - Sanction of Governor in Council not obtained to 2 contracts in excess of \$100 000, as required by Section 38 of the Water Act 1958.	The matter is now resolved and acquittance given to the Treasurer in respect of the payments.
1981-82	150	Various matters raised in audit reports respecting District Centres and the several Water Authorities require attention.	Appropriate departmental action taken in respect of the matters raised.
<u>DEPARTMENT OF YOUTH, SPORT AND RECREATION</u>			
1980-81	231	Trust funds were charged with administration expenses that should have been met from Vote.	Administration expenses are now charged to Vote.
1981-82	155	Department failed to observe a Public Service Board directive requiring Board approval to be obtained for the employment of consultants and others through non public service areas.	The Public Service Board directive is now observed.
	156	Stock records - an adequate stock control system is not in operation.	Position unchanged.

## PART 6

### AUDITS OF DEPARTMENTS, MINISTRIES, COMMISSIONS AND PARLIAMENT

#### 6.1 DEPARTMENT OF AGRICULTURE

##### Introduction

6.1.1 The functions of the Department of Agriculture are:

- (1) to provide regulatory, research, diagnostic and extension services in the fields of animal health, animal industries, agriculture, dairying, horticulture, economics and marketing; and
- (2) to administer the State's agricultural and horticultural establishments (excluding educational establishments), veterinary laboratories and offices.

##### Financial Responsibilities

6.1.2 The Accounts Branch of the Department is responsible for collecting revenue from metropolitan and country centres. It is also responsible for paying all general accounts apart from urgent or minor accounts, which may be paid from individual advance accounts at departmental establishments outside head office.

6.1.3 Salaries and certain wages are paid by head office. Other wages are paid from advance accounts at various establishments.

6.1.4 Under the Victorian College of Agriculture and Horticulture Act 1982, from 8 March 1983 the control and administration of the Department's Division of Agricultural Education and of all State agricultural colleges were transferred to the Council of the Victorian College of Agriculture and Horticulture. The Council was constituted under the Post-Secondary Education Act 1978 as a body corporate to manage and control the College as a post-secondary education institution.

##### **Scope of Audit**

6.1.5 Audit coverage comprised:

- (1) an evaluation of internal control and subsequent compliance and substantive testing of revenue, stores, salaries and general payments systems;
- (2) year-end substantive testing of cash receipts, bank balances and advance account operations;
- (3) a review of specific operations at the Division of Agricultural Chemistry, Rutherglen Research Institute, Benalla Veterinary Laboratory and Seymour and Benalla District Offices; and

- (4) examination of financial and accounting control systems in operation for the Indian Overseas Aid Program.

## **Audit Observations and Recommendations**

### Indian Overseas Aid Program

- 6.1.6 Under formal arrangements with the Commonwealth which have operated since 1 July 1977, the Department has administered and provided technical direction for 6 agricultural aid projects in India. As at 30 June 1983, 4 of the projects were completed. Expenditure incurred by the Department and funded by the Commonwealth to 30 June 1983 totalled \$7 419 683.
- 6.1.7 Co-ordination and oversight of the aid program are exercised by the overseas projects unit of the Department located at head office. Departmental staff in India have operational responsibility for administration and technical direction of projects, including engagement of local staff. The audit examination covered both elements of departmental activity and included a visit to India during February 1983.
- 6.1.8 Audit recommendations conveyed to the Department took account of the winding down of the aid program and of local customs in India e.g. the existence, in places, of a "cash society", and emphasised the need for:
- (1) greater accountability of principal project advisers for operational advances;
  - (2) improved purchasing procedures with emphasis on supporting evidence for quotations;
  - (3) improved control over the disposal of unserviceable items of furniture and equipment;
  - (4) pre-numbered receipts and control over accountable documents;
  - (5) a re-assessment of the adequacy of current insurance cover; and
  - (6) future advances for the project to take account of cash levels and projected commitments in India.

### Conclusion

- 6.1.9 Apart from the above matter and a number of other minor control weaknesses brought to the attention of the Department, the results of the audit examination proved to be satisfactory.

### **Response by Department**

- 6.1.10 The Department replied in a positive manner to the various matters covered in the audit report, indicating that the majority of audit recommendations would be implemented.



## 6.2 DEPARTMENT OF COMMUNITY WELFARE SERVICES

### Introduction

6.2.1 The Department of Community Welfare Services was established by the Community Welfare Services Act 1970. The main functions and responsibilities of the Department are:

- (1) to provide services aimed at improving the conditions under which people live;
- (2) to develop community welfare services at the regional and local levels;
- (3) to promote family welfare within the community through the provision of services to support, protect and enhance family life;
- (4) to promote and provide adolescent and child welfare services; and
- (5) to administer correctional services.

### Financial Responsibilities

6.2.2 The financial responsibilities of the Department include the payment of the cost of administration of welfare and correctional services, grants and subsidies to welfare organisations and certain concessions to pensioners. In addition, the Department is responsible for the collection of revenue for various departmental services, which includes sale of farm produce and goods manufactured by prison industries.

### Scope of Audit

6.2.3 The audit inspection covered:

- (1) an examination of departmental records and a review of internal control procedures with respect to the payment of salaries, other expenditure (including emergency grants to bushfire victims) and head office debtors systems; and
- (2) substantive tests of various financial transactions.

### Audit Observations and Recommendations

#### Pensioner Concessions

6.2.4 Under the Appropriation (1982-83, No. 1) Act 1982, payments totalling \$12 098 075 were made to the Victorian Railways Board and Melbourne and Metropolitan Tramways Board for fare concessions to pensioners and other approved groups. The wording of the parliamentary appropriations was as follows:

Vote 240.3.3 - "Fare concessions for pensioners and other approved groups - Payments to Railways Department"

Vote 240.3.4 - "Fare concessions for pensioners and other approved groups - Payments to Melbourne and Metropolitan Tramways Board"

6.2.5 Audit established that the payments to the 2 transport authorities were not based on the value of the actual concessions. In fact:

- (1) payments to the Victorian Railways Board for concessions other than pensioner holiday travel were paid quarterly, based on the amount provided in the annual appropriation; and
- (2) payments to the Melbourne and Metropolitan Tramways Board for fare concessions were paid monthly, based on the amount provided in the annual appropriation.

6.2.6 Audit recommended that the legislative requirements be clarified to indicate whether the payments are in the nature of a subsidy or represent reimbursement of actual concessions granted to pensioners.

Emergency Grants from the Victorian Natural Disasters Relief Account

6.2.7 The Natural Disasters Relief Committee is an ongoing organisation established to provide natural disaster relief from the Victorian Natural Disasters Relief Account, a joint Commonwealth and State trust account.

6.2.8 Emergency grants totalling \$2 128 000 were paid from the Account to the victims of the recent bushfires in Victoria. The distribution of these grants was administered by the Department of Community Welfare Services and excluded moneys paid to victims from the bushfires appeal funds donated by the general public.

6.2.9 Persons applying for emergency grants from the Department were required to complete an application form issued by the Natural Disasters Relief Committee. Audit considered that the application form was deficient in that it:

- . did not require that the actual address of the applicant's principal place of dwelling or business which had been lost in the bushfire be stated;
- . did not require the applicant to declare that the principal place of dwelling or business had been destroyed; and
- . did not provide for details on the application form to be verified.

6.2.10 Audit noted that the form included provision for a statutory declaration to be made by the applicant as to the truth and correctness of details shown on the form. However, on a number of application forms examined, the declaration had not been made before a Justice of the Peace or a Commissioner for taking Declarations or Affidavits. Audit recommended that an application form be developed to cover the eligibility criteria set down by the Government and that appropriate verification procedures be adopted.

- 6.2.11 Payments of emergency grants were generally made at Disaster Control Centres established by the Department. The needs of the applicant were assessed and, based on the recommendation of a departmental officer, an emergency grant up to \$1 000 was paid. However, the application form did not specifically provide for recording the recommendation. A number of forms sighted by audit contained an amount but there was no signature to authorise the amount of assistance granted.
- 6.2.12 In audit opinion, control procedures for the payment and recording of the emergency grants by the Department were inadequate as they did not ensure that:
- the payee signed the claim form as evidence of receipt of the emergency grant;
  - claim forms were checked by a departmental officer in accordance with the Department of Management and Budget Regulations 1981;
  - the payee who received the grant was the same person as the one who applied for the grant;
  - only those application forms submitted at departmental centres were recorded on the computer file; and
  - details entered on the computer file were in agreement with those on the application form.
- 6.2.13 Because of the extenuating circumstances existing at the time, audit recognises that it may have been difficult for the Department to implement the above control procedures. Consequently, the matters raised by audit were primarily designed to assist in developing basic internal controls for the payment of emergency grants to victims of future natural disasters.
- 6.2.14 Audit considered that there was a need to reassess the documentation required to be completed by victims of natural disasters and recommended that a new application form be developed incorporating the requirements of both the Department and the Natural Disasters Relief Committee.
- 6.2.15 As indicated in my first report to Parliament for the year ended 30 June 1983, the amount of \$2 100 118 has not been acquitted in accordance with Section 34 of the Audit Act 1958 as having been duly and properly expended. This amount represents payments to victims of the bushfires which, to date, have not been certified by the Department in accordance with the Department of Management and Budget Regulations 1981.

### Conclusion

- 6.2.16 Apart from the lack of control over expenditure for bushfire relief, the results of the audit examination were satisfactory.

### **Response by Department**

- 6.2.17 The Department indicated that the practices in relation to pensioner concessions had been followed for a number of years and would continue to be followed unless otherwise directed.

## 6.3 MINISTRY FOR CONSERVATION

### Introduction

- 6.3.1 The Ministry for Conservation was established by the Ministry for Conservation Act 1972. The objectives of the Ministry are the protection and preservation of the environment and the proper management and use of the land and living aquatic resources of Victoria.
- 6.3.2 The Ministry for Conservation Act 1972 brought the following agencies within the administration of the Ministry:

Environment Protection Authority  
Fisheries and Wildlife Division  
Land Conservation Council  
National Parks Division  
Soil Conservation Authority  
Victoria Archaeological Survey  
Victorian Fishing Industry Council.

### Financial Responsibilities

- 6.3.3 The Environment Protection Authority is responsible for the collection of revenue from the licences it issues for waste discharged to air, land and water. The Fisheries and Wildlife Division collects revenue from commercial fishing and boating licences, amateur fishing licences and wildlife licences. The National Parks Division is responsible for the collection of moneys from fees, permits and sales of publications through the national and other parks, and the Ministry's bookshop.
- 6.3.4 Revenue collected by these agencies is forwarded to the Ministry and subsequently remitted to the Department of Management and Budget together with collections of the Ministry.
- 6.3.5 Salaries and general accounts are paid by the Ministry on behalf of all agencies. Individual agencies and divisions of the Ministry have responsibility for the acquisition of their stores and services.

### **Scope of Audit**

- 6.3.6 The scope of the audit included the following:
- (1) evaluation of the internal controls over payroll preparation and disbursement;
  - (2) examination of the system for the acquisition of stores and services and payment of accounts;
  - (3) examination of the internal controls over the moneys from the agencies brought to account by the Ministry;
  - (4) review of the collection procedures and licensing system in operation at the Environment Protection Authority;

- (5) examination of the revenue collection procedures in respect of licences issued by the Fisheries and Wildlife Division; and
- (6) examination of the cash receipts system and stock control procedures in operation at the Ferntree Gully and Kinglake National Parks.

### **Audit Observations and Recommendations**

#### Payroll

- 6.3.7 An audit examination of the Ministry's payroll function disclosed the following internal control weaknesses:
- (1) staff authorities to advise salaries branch of employee terminations were not always received prior to the termination date;
  - (2) agency payroll cheques were distributed by paying officers directly involved in originating staff authorities; and
  - (3) agency payroll certifications were not always returned to the salaries section to enable proper certification of the Ministry's payroll.

6.3.8 Audit recommendations included:

- (1) that only personnel branch officers should be authorised to initiate staff authorities;
- (2) that all paying officers should be independent of any personnel or salaries functions; and
- (3) that procedures should be improved to ensure that all agency certifications are returned prior to certification of the Ministry's payroll.

#### Environment Protection Authority

6.3.9 The following matters were raised as a result of the audit:

- (1) inadequate control over assessment of fees in that the assessment sheet used as a basis for fee calculation by the licensing section was not independently verified by the technical branch; and
- (2) adequate procedures did not exist to ensure complete and accurate computer processing of all input.

6.3.10 Audit recommended that appropriate action be taken by the Authority in respect of the above matters.

#### Conclusion

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

## **6.4 MINISTRY OF CONSUMER AFFAIRS**

### Introduction

6.4.1 The Ministry of Consumer Affairs was established by the Ministry of Consumer Affairs Act 1973. The main objective of the Ministry is to protect and promote a fair market place in the interests of consumers and traders.

6.4.2 The Ministry includes the following bodies:

Consumer Affairs Council  
Motor Car Traders Committee  
Small Claims Tribunals  
Residential Tenancies Bureau and Tribunal  
Market Court  
Prices Commissioner (as from 24 August 1982)

### Financial Responsibilities

6.4.3 Revenue collections are processed through the Department of Labour and Industry which subsequently transfers these funds to the Department of Management and Budget. The Department of Labour and Industry is also responsible for the provision of administrative services associated with the payment of general accounts and salaries and wages on behalf of the Ministry.

### **Scope of Audit**

6.4.4 The accounting operations of the Ministry were examined in conjunction with those of the Department of Labour and Industry. The audit covered the receipts and payments of the Motor Car Traders Guarantee Fund, the Residential Tenancies Fund and the Registry of Small Claims Tribunals Trust Account and concentrated on evaluating the system of internal control in operation.

### **Audit Observations and Recommendations**

#### Residential Tenancies Fund

6.4.5 The Residential Tenancies Fund was established as a trust account under Section 49 of the Residential Tenancies Act 1980 which came into operation on 9 November 1981. Section 67 of the Act requires landlords who receive, either in their own right or through agents, security deposits under tenancy agreements to hold those deposits for the tenants in accounts maintained at approved institutions, which includes a bank or other financial institution approved by the Treasurer. To date, the Treasurer has approved 7 banks as institutions. Interest accruing on these trust accounts is required to be paid to the Treasurer who must deposit these moneys to the credit of the Residential Tenancies Fund held within the Trust Fund.

6.4.6 Audit was unable to verify interest receivable by the Fund as:

- (1) an information system to establish that all landlords and agents who received security deposits were lodging those deposits in accordance with the provisions of the Act was not in operation;

- (2) banks approved as financial institutions agreed to allow a rate of interest on these deposits of not less than 1 per cent. below the current investment rate. Due to the varying rates of interest offered from the banks, interest received on security deposits held by the respective banks fluctuated; and
- (3) there was no uniform method for calculating interest on deposits lodged with approved financial institutions.

6.4.7 In discussion with management audit recommended that:

- (1) arrangements be made with the approved financial institutions to have their internal auditors certify the accuracy of the monthly returns submitted to the Ministry; and
- (2) the Ministry enter into arrangements with the approved financial institutions to provide uniformity in the method of calculating interest due to the fund.

6.4.8 At the date of preparation of this report, Ministry officials had advised audit that a working party had completed a review of the operations of the Residential Tenancies Fund but no report had yet been finalised.

#### Conclusion

6.4.9 Apart from the above matter, and other minor issues raised in respect of the Small Claims Tribunals Trust Account and the Motor Car Traders Guarantee Fund, the results of the audit examination proved satisfactory.

## 6.5 DEPARTMENT OF CROWN LANDS AND SURVEY

### Introduction

- 6.5.1 The main responsibilities of the Department of Crown Lands and Survey are:
- (1) the management of crown lands;
  - (2) the eradication of vermin and noxious weeds;
  - (3) the control and co-ordination of survey and mapping throughout the State;
  - (4) the control and maintenance of the Botanic and Domain Gardens and the National Herbarium;
  - (5) the administration of existing schemes of land settlement under the Closer Settlement (Winding-up) Act 1982; and
  - (6) the provision of administrative and management support to the Mt. Hotham Alpine Resort Committee.

### Financial Responsibilities

- 6.5.2 The regional and district land offices, together with the central administration, are responsible for the collection of departmental revenue, which is derived mainly from the sale and lease of crown land and fees and charges for departmental services. The revenue is subsequently forwarded to the Department of Management and Budget by the collector of imposts who is located in the central administration.
- 6.5.3 The central administration is responsible for the payment of salaries and general accounts. Wages and minor local accounts are paid at district offices from advances provided for the purpose.
- 6.5.4 In addition, the central administration is responsible for the collection of revenue and the payment of accounts and salaries on behalf of the Mt. Hotham Alpine Resort Management Committee.

### **Scope of Audit**

- 6.5.5 The audit covered:
- (1) a review of internal control within the central administration, including compliance and substantive testing of revenue, salaries, general payments, debtors and creditors;
  - (2) a review of departmental practices to establish if the Department has procedures in place to monitor and measure the efficiency and effectiveness of its workshop operations, including an examination of the Maribyrnong workshop operations; and
  - (3) audit inspections at a number of district land inspectors' offices and the Royal Botanic Gardens Kiosk.



## **Audit Observations and Recommendations**

### Workshops

- 6.5.6 The Department is responsible for the operation of 6 State-wide workshops with annual payments of approximately \$522 000 which service and maintain the Department's vehicles and also undertake the fabrication of heavy duty and specialised equipment for departmental needs.
- 6.5.7 Since 1977, the Department has undertaken a series of reviews into the operations of the workshops resulting in certain improvements which have included:
- (1) a rationalisation of workshop locations and an upgrading of facilities;
  - (2) the formation of a technical support branch within the Department; and
  - (3) the introduction of a technical records package which is designed to obtain information for fleet management and aid the efficient management of the workshops.
- 6.5.8 A report by the Department's mechanical engineer in May 1980 stated that the use of certain technical records by head office would be evaluated in a separate departmental report. That report had not been prepared at the date of the audit review.
- 6.5.9 The major matters which arose during the audit review of the operations of the Maribyrnong workshop were:
- (1) workshops do not operate as accountable cost centres in the departmental accounting system; and
  - (2) the workshop costing system currently operating is not based on actual costs. Accordingly, accurate costing information is not available for individual workshops.
- 6.5.10 Audit recommended that workshops be identified as separate cost centres and the workshop costing system be based on actual costs and integrated with the departmental accounting system. This will enable the Department to monitor and measure the efficiency and effectiveness of its workshop operations.

### Conclusion

- 6.5.11 Apart from the above and other matters of a minor nature brought to the attention of management, the results of the audit examination proved to be satisfactory.

### **Response by Department**

- 6.5.12 The Department has advised that an investigation of the issues raised and recommendations made by audit has been initiated.

## **6.6 EDUCATION DEPARTMENT**

### Introduction

- 6.6.1 The primary function of the Education Department is to develop literacy and numeracy skills within the State and to impart knowledge, skills and values essential to life in a multicultural society.
- 6.6.2 Under the Education Act 1958, the Department is responsible for the acquisition of land, and for the provision, maintenance and equipment of school buildings. The Department employs teachers and other persons to provide administration and services in accordance with the Education Services Act 1981.

### Financial Responsibilities

- 6.6.3 Through its general administration, the Department pays the salaries of teachers and support staff and disburses funds to schools for such purposes as school administration, minor maintenance of buildings and grounds, library, materials and class requisites. Other payments are made to meet central and regional operating expenses. In addition, the Department disburses grants to support community education and supplementary grants to disadvantaged schools. Capitation grants are made to registered schools. Disbursements are also made for technical and further education in post-primary schools and post-secondary educational institutions.
- 6.6.4 The Department is responsible for annual payments from appropriations, works and services and trust accounts of approximately \$2 000 million. The Department is also responsible for the collection of certain revenues, which include charges for departmental services, for secondments of teachers to post-secondary educational institutions, and for broken bond debts under studentship agreements.

### **Scope of Audit**

- 6.6.5 A number of the Department's functions were examined and internal controls evaluated, including the teachers' and professional staffs' payrolls, departmental advance account, broken bonds and stores branch. The audit of the advance account included appraisal of reimbursement procedures.
- 6.6.6 During the year, a review of the payrolls sub-system of the Generalised Education Network Information and Utility System (GENIUS) was undertaken by the specialist E.D.P. division of this Office.

### **Audit Observations and Recommendations**

#### Advance Account

- 6.6.7 The Department uses 3 bank accounts in conjunction with its advance account to pay salaries and general expenses. The following matters were noted:
- (1) delays of between 6 and 10 months occurred in the finalisation of departmental advance and bank reconciliations. In addition, a number of required adjustments were not made promptly;

- (2) a study conducted by audit disclosed that, under current reimbursement procedures, funds substantially in excess of daily operating needs are retained in these 3 bank accounts on which the banks pay an agreed daily rate of interest. If these surplus funds had been invested, even at minimum rates of interest on the official short term money market over the period, additional interest of approximately \$600 000 per annum could have been earned. Audit suggested that the Department review with the Department of Management and Budget the possibility of implementing alternative reimbursement procedures to more efficiently utilise available funds; and
- (3) departmental procedures do not provide for monetary limits being imposed on officers authorised to sign cheques, thus failing to ensure scrutiny of large payments at a senior level.

#### E.D.P. Review

6.6.8 The review of the payroll sub-system of the Generalised Education Network Information and Utility System (GENIUS), which is used to process the teachers', professionals', administrative and cleaners' payrolls at a computer site operated by the Government Computing Service, focused on:

- (1) the adequacy of internal controls in operation within the Department over the preparation, transmission, editing and authorisation of data for input to the system;
- (2) the integrity of the Data Base Management System which provides control over the administration, access, security and recovery of the data base;
- (3) the operation of the communication network software which services the data base, including the evaluation of security over physical access to terminals and peripheral equipment;
- (4) the relationship between the Department and the Government Computing Service in the maintenance of and modifications to the data base including the controls over system software; and
- (5) the procedures adopted by the Government Computing Service to reduce the likelihood of unauthorised access to the computer site, environmental threats and processing failures.

6.6.9 Following the review, a discussion paper was forwarded to the Department on 26 August 1983. This paper included audit observations and recommendations with respect to processing controls, communications software, access and security to programs, physical environment of the installation, back-up provisions and emergency procedures.

6.6.10 It is anticipated that early discussions on the paper will be held between officers of the Department and this Office. The results of these discussions will be included in a later report.

## Breaches of Studentship Agreements

- 6.6.11 For a number of years up to 1978 the Department awarded studentships to selected students to enable them to attend prescribed courses of training pursuant to the Teaching Service Act 1958. Students signed a standard student-in-training agreement with the Department which required the student to teach for 600 days upon completion of the course. Breaches of the conditions of the agreement rendered the student or surety liable to repay amounts received under the studentship.
- 6.6.12 The collection of the debts due under broken studentship agreements was examined in conjunction with current departmental policy.
- 6.6.13 Where the Department had accepted service in lieu with another employer as a satisfactory fulfilment of the conditions of agreement, the process of checking that the person was still in that employment was substantially in arrears.
- 6.6.14 At 30 June 1983, the departmental records showed outstanding debts totalling \$7 365 851 in respect of 1786 ex-students. There was no regular, timely follow-up to collect repayments due under the agreements. During 1982-83 collections of these debts amounted to \$376 052 and debts totalling \$893 608 owed by 222 ex-students were written off with the approval of the Treasurer.

## State Primary School Councils

- 6.6.15 Section 15F(2) of the Education Act 1958 requires all school councils to have their accounts audited by a person with appropriate qualifications in accounting and to forward such statements to the Auditor-General as soon as practicable after 31 December in each year.
- 6.6.16 Since 1977, the Auditor-General has been obliged by legislation to undertake the administrative tasks of receiving, recording and filing financial statements of school councils as well as dealing with problems encountered by primary schools in complying with the Act.
- 6.6.17 The following schedule shows the degree of compliance of primary school councils with the requirements of the Act to have their accounts audited and forwarded to the Auditor-General.

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Complied	1342	1282	1318	1355	1371	757
Not complied	401	459	426	380	344	951
	—	—	—	—	—	—
	1743*	1741*	1744*	1735*	1715*	1708*
	—	—	—	—	—	—

\* The details above do not include school councils where the school has been unstaffed all year.

- 6.6.18 In my past reports to Parliament, I have consistently expressed the view that the responsibility for receiving and reviewing the financial statements of State school councils was in the nature of an administrative function, which was inconsistent with the functions of the Audit Office. I have also recommended on a number of occasions that such responsibility should rest with the Department.
- 6.6.19 In December 1982, I wrote to the Department indicating the unsatisfactory position of the audit of school accounts and enquiring whether any progress had been made towards the Department assuming responsibility for the administration of the scheme.
- 6.6.20 The Department advised audit that it was reviewing the accounting system in operation at primary schools with the intention of transferring responsibility for the preparation of financial records to regional headquarters. It also requested me to consider a proposal to simplify the auditing requirements at school level.
- 6.6.21 The Department drew my attention to a number of difficulties it was experiencing in providing adequate audit coverage to primary schools. It was pointed out that the use of outside auditors was becoming a costly exercise, that schools in country areas were unable to obtain the services of suitably qualified accountants and that proposals to expand the departmental internal audit function to conduct the audit of primary schools would require substantial funding.
- 6.6.22 In view of the difficulties being experienced, the Department suggested that consideration be given to making school councils responsible for attesting their own records and providing a suitable certificate to the Department, jointly signed by the school council treasurer and school principal and countersigned by the chairperson of the school council.
- 6.6.23 In June 1983 and again in August 1983, following discussions between senior officers of the Audit Office and of the Department, I advised the Director-General of Education that I had serious reservations in accepting certificates signed by members of school councils to the exclusion of an independent audit. I stated that there is a need for a person of suitable qualifications, independent of an entity, to examine its operations and form an opinion on the truth and fairness of its financial statements. I also indicated that any decision to reduce the present level of accountability by primary school councils would require legislative sanction.
- 6.6.24 At the date of preparation of this report there have been no further developments in relation to the transfer of the administrative arrangements or the changes to the audit arrangements proposed by the Department.

#### State Post-Primary School Councils

- 6.6.25 The Education Department's audit and review unit by arrangement audits the accounts of State post-primary school councils and forwards the financial statements to the Auditor-General in accordance with Section 15F of the Education Act 1958. At 30 June 1983, progress on these audits for the calendar years to 31 December, was as follows:

	<u>Completed</u>	<u>In Progress</u>	<u>Not Commenced</u>	<u>Total</u>
High Schools				
1980	202	31	52	285
1981	120	39	126	285
1982	15	32	239	286
Technical Schools				
1980	96	4	18	118
1981	60	6	53	119
1982	11	5	92	108
Others				
1977	37		18	55
1978	33		15	48
1979	34		15	49
1980	25		31	56
1981	22		34	56
1982	8		43	51

#### Audit and Review Unit

- 6.6.26 The activities of the Department's audit and review unit during 1982-83 were principally confined to audits of high, technical, higher elementary and consolidated schools.
- 6.6.27 The unit has an establishment of 25 personnel located at head office and at offices in the metropolitan and country regions. An audit charter covering operations of the unit is in the course of being established. Following a restructuring of the unit, the appointment of additional key staff is still in progress and it is anticipated that the restructure will lead to a significant involvement of the unit in the audit and review of all the activities of the Department.

#### Conclusion

- 6.6.28 Apart from the above and other matters of a minor nature associated with the audit of the Department's stores branch, teachers' and professionals' salaries, and studentship allowances, the results of the audit examination proved to be satisfactory.

## 6.7 ETHNIC AFFAIRS COMMISSION

### Introduction

6.7.1 The Ethnic Affairs Commission was established by the Ethnic Affairs Commission Act 1982 on 9 November 1982. It took over the functions previously carried out by the Ministry of Immigration and Ethnic Affairs which was abolished by the same Act. As from 1 July 1983, all activities in respect of immigration previously performed by the State were handed over to the Commonwealth.

6.7.2 The principal objectives of the Commission are:

- (1) to achieve full participation of ethnic groups in the social, economic, cultural and political life of the community;
- (2) to ensure access of ethnic groups to services made available by governmental or other bodies;
- (3) to ensure that all ethnic groups in the community can retain and express their social identity and cultural inheritance; and
- (4) to promote unity and better understanding of ethnic groups in the community.

### Financial Responsibilities

6.7.3 Revenue is earned from the operation of Shenton Hostel, Hawthorn. Apart from salaries and other administrative expenses, payments by the Commission include grants to various ethnic groups. The Commission operates a translation unit which primarily services State Government departments. The costs of operating the unit are shared by the State and the Commonwealth.

6.7.4 Moneys appropriated by Parliament in 1982-83 to the former Ministry of Immigration and Ethnic Affairs became available for use by the Commission under the authority of the Administrative Arrangements Act 1983 as from November 1982.

### Statutory Reporting Requirements

6.7.5 Under the provisions of Section 15 of the Ethnic Affairs Commission Act 1982, the Commission is required to submit an annual report to the Minister, not later than 30 September in each year, on the activities carried out during the previous year to 30 June. The Minister is required to lay the report before both Houses of Parliament.

### **Scope of Audit**

6.7.6 The audit examination of the Commission and former Ministry covered the following areas:

- (1) an evaluation of internal control procedures in relation to receipts, salaries and payments systems; and
- (2) substantive tests of selected financial transactions.

## **Audit Observations and Recommendations**

### Shenton Hostel

- 6.7.7 This hostel was purchased in 1961 for \$71 460 and is jointly owned by the State and the Commonwealth. During the year, the hostel's main function continued to be the provision of temporary accommodation, including meals, for migrants on arrival in Victoria. In addition, the accommodation facilities were used by government departments to conduct residential seminars, conferences and training courses.
- 6.7.8 Receipts from accommodation charges and rentals totalled \$24 940 in 1982-83. Payments for wages, provisions and light, power and fuel totalled \$75 722 during the same period.
- 6.7.9 Audit was advised that, in view of the transfer of immigration activities from State to Commonwealth, the future use of this valuable property was being considered by the Commission in consultation with the Commonwealth.

### Conclusion

- 6.7.10 Apart from matters of a minor nature brought to the attention of the Commission, the audit examination proved satisfactory.



## 6.8 FORESTS COMMISSION

### Introduction

6.8.1 The Forests Commission was first constituted under the Forests Act 1918. The general functions of the Commission are to:

- (1) protect, control and manage State forests and forest produce in general;
- (2) discharge the statutory responsibilities imposed by the legislation administered directly by the Commission under the Minister;
- (3) administer Victoria's forestry establishments, reserves and offices throughout the State; and
- (4) supervise the financial operations and administration of the various committees of management pursuant to Section 50 of the Forests Act 1958.

6.8.2 Victoria's forests are administered through 44 district forest offices grouped into 7 territorial divisions. The central administration comprises 6 divisions:

Administrative Division  
Division of Forest Management  
Division of Forest Operations  
Division of Economics and Marketing  
Division of Forests Protection  
Division of Forestry Education and Research.

### Financial Responsibilities

6.8.3 The Commission has responsibility for collection of revenue derived from royalties, sale of forest produce, rentals, loan repayments and miscellaneous sources.

6.8.4 Salaries, wages and general accounts are paid by the central administration. District offices are responsible for payment of minor accounts and wages for casual employees.

### Statutory Reporting Requirements

6.8.5 Section 35 of the Forests Act 1958 requires the Commission to prepare an annual report of its proceedings during the financial year, including contracts entered into and works carried on or completed during the year; a statement of moneys received and disbursed; and an estimate of moneys required during the ensuing year. It is also required that the annual report and estimates be laid before both Houses of Parliament.

### **Scope of Audit**

6.8.6 The audit scope covered:

- (1) an evaluation of internal control over financial systems including cash receipts, cash payments, revenue, expenditure, debtors, creditors, salaries and wages;
- (2) an examination of the Barmah Forest District agistment records; and
- (3) an examination of 44 district offices by the internal and external audit.

### **Audit Observations and Recommendations**

#### Barmah Forest District Agistment Records

- 6.8.7 The Commission for a fee permits stockowners, who are resident in the Shire of Nathalia, to agist cattle in the Barmah forest. Following a complaint by several stockowners that cattle losses in the forest at the end of agistment periods were excessively high, the Commission's Chairman requested that a special audit be undertaken on the agistment records of the Barmah Forest District.
- 6.8.8 Audit concluded that the full extent of any losses incurred could not be established, due to:
- (1) discrepancies found in the records maintained by the Commission;
  - (2) the absence of a perpetual inventory of cattle agisted containing records for individual stock owners; and
  - (3) the nature of the current ear tag used to identify cattle agisted. The tag forms an integral part of the recording system and is of such poor quality that it is relatively easy to dislodge from the cattle.
- 6.8.9 Audit recommended that:
- (1) a perpetual stock record be maintained for each owner and reconciled to a master control;
  - (2) an acknowledgement be obtained from stock owners as to the number of cattle agisted and removed each year, in order to provide an independent verification of the accuracy of the Commission's records; and
  - (3) the identification tags currently used be replaced by those of a more durable type.

#### Conclusion

- 6.8.10 Apart from the above matter and a number of minor weaknesses brought to the attention of the Commission, the results of the audit examination proved satisfactory.

#### **Response by Commission**

- 6.8.11 The reply from the Commission indicated that the following steps would be undertaken to improve recording and identification of cattle agisted:

- (1) the introduction of larger and more durable identification tags;  
and
- (2) the introduction of a new recording form which requires both the stock owner and herdsman to jointly sign for cattle placed into and removed from the forest.

## 6.9 HEALTH COMMISSION OF VICTORIA

### Introduction

- 6.9.1 The Health Commission of Victoria was established in December 1978 under the Health Commission Act 1977.
- 6.9.2 The responsibilities of the Commission are the oversight, supervision, maintenance and co-ordination of health services in Victoria.

### Financial Responsibilities

- 6.9.3 The Health Commission is responsible for the financial arrangements in relation to public health, hospitals, mental retardation and mental health. In addition, grants and subsidies are made to voluntary health organisations to assist with the funding of their operations.
- 6.9.4 The Commission operates through 4 "line" divisions with responsibilities for the following:
- . Hospitals Division - public general hospitals, private hospitals and nursing homes, and charitable institutions and benevolent societies;
  - . Mental Health Division - mental and psychiatric hospitals, psychiatric services, training centres, alcohol and drug services;
  - . Public Health Division - public health, general health, school, maternal and child health services; and
  - . Mental Retardation Division - mental retardation services.

### **Scope of Audit**

- 6.9.5 The audit inspection of the Commission for 1982-83 covered the following areas:
- (1) a review of the extent and utilisation of land and property holdings of the Mental Health and Mental Retardation Divisions and an evaluation of the effectiveness of the management control systems operated by the Commission to monitor such holdings;
  - (2) an evaluation of the internal control procedures with respect to:
    - salaries and personnel systems;
    - grants to ambulance services;
    - dental health services stores;
    - grants to benevolent societies;
    - cadetship scheme;
    - mental health fund; and
    - mental health donations trust fund.
  - (3) substantive tests of various financial transactions;

- (4) an examination of the utilisation of non-public service personnel by the Commission on various programs associated with health care in Victoria, together with the purchase of goods and services connected with these programs; and
- (5) an examination of the books and accounts of the following psychiatric hospitals and centres:

Colac Training Centre;  
Mayday Hills Mental Hospital, Beechworth;  
Warrnambool Mental Hospital;  
Heatherton Hospital; and  
Sandhurst Boys' Training Centre, Bendigo.

## **Audit Observations and Recommendations**

### Utilisation of Land and Property Holdings

- 6.9.6 The Commission's responsibilities include the maintenance of established psychiatric hospitals and centres and the purchase of land and properties in various parts of the State to meet future needs. Residential accommodation is also provided to staff employed at certain hospitals and centres.
- 6.9.7 An audit review was undertaken to ascertain whether the land and property holdings of the Mental Health and Mental Retardation Divisions were being effectively utilised and managed by the Commission.
- 6.9.8 The review indicated that the Commission did not maintain a register of land holdings. Consequently, audit could not ascertain whether all of the Commission's land holdings had been identified.
- 6.9.9 The audit examination of specific files relating to land holdings disclosed that, in many instances, the documentation was incomplete and that there was a lack of follow-up by management to ensure that decisions concerning land holdings were implemented.
- 6.9.10 Audit recommended that a central register of lands should be established by the Commission to maintain control over land holdings and that management conduct regular reviews of land holdings and land utilisation to ensure that they are in accordance with the Commission's objectives.
- 6.9.11 The Commission operated a number of divisional file registries. The lack of a centralised registry precluded easy access to information. Accordingly, audit could not ascertain whether the Commission had a documented policy on the holding of land. Audit recommended the establishment of a centralised file registry system in order to facilitate access to information.
- 6.9.12 A centralised register of houses and/or tenants was not maintained. The responsibility for the maintenance of tenancy records was at the institutional level. Audit recommended that a centralised tenancy register be established and that a regular review be conducted by management to ensure that an optimal level of occupancy was maintained.

- 6.9.13 Rental collections from employees occupying Commission residences is governed by Public Service Board Determinations. Rental charges are collected by way of salary deductions and are based on the employee's salary at 1 August each year. The determinations provide specific conditions for the calculation of rents relating to Mental Health Division employees. Audit noted that the method of calculation of rental deductions varied between the institutions due to different interpretations of the determinations.
- 6.9.14 Audit recommended that clarification of the determinations be sought by the Commission to ensure that there was a consistent approach in rent calculation by each institution.
- 6.9.15 Audit noted that the contribution towards the cost of fuel, light and power by Mental Health and Mental Retardation employees occupying Commission residences was \$90 per annum. The basis of this charge could not be determined by audit. Management had been advised by one of its divisions that it was the practice in other government departments for a tenant to pay the entire cost of fuel, light and power. It was estimated by audit that the adoption of the \$90 charge was costing the Commission a sum of \$209 500 per annum for fuel, light and power.
- 6.9.16 Audit recommended that the \$90 per annum charge be reviewed and that consideration be given to the feasibility of installing separate meters at each Commission residence so as to apply the user pays principle.

#### Salaries and Personnel Systems

- 6.9.17 During 1982-83, payments by the Commission in the nature of salaries totalled approximately \$188 million.
- 6.9.18 Following a review of the salaries and personnel systems, audit advised the Commission that:
- (1) certain practices adopted by psychiatric hospitals were inconsistent with the application of Public Service Board Determinations relating to the administration of leave procedures; and
  - (2) salary payments to employees were being incorrectly calculated in a significant number of instances.
- 6.9.19 Audit recommended that the Commission implement uniform leave procedures and policies. It was also suggested that internal control procedures for the calculation of salary payments be improved.

#### Grants to Ambulance Services

- 6.9.20 During 1982-83, a sum of \$16 826 161 was paid to district ambulance services by way of grants from the Hospitals and Charities Fund. An agreement between the then Hospitals and Charities Commission and the ambulance services in 1976 provided, in part, for:

"the necessary incentive to ambulance services to continue the strong development of the subscriber scheme and to enable the establishment of reserve funds which may subsequently be used for capital and/or maintenance development."

6.9.21 Audit ascertained that the transfer to reserves under the agreement, representing either 25 per cent. of net surplus or 9 per cent. of total revenue from the subscriber scheme, whichever was the greater amount, was treated as an expense by the ambulance services when requesting funding from the Commission.

6.9.22 The effect of allowing transfers to reserve accounts was to:

- (1) increase the funding by the Commission of operating and deficit grants payable to the ambulance services;
- (2) increase the balance of reserve accounts investments in the books of the ambulance services; and
- (3) allow ambulance services to retain and use funds outside the direct control of the Commission.

6.9.23 Audit observed in the financial statements of one large ambulance service that the transfer to reserves totalled \$531 000 and \$661 000 in 1980-81 and 1981-82 respectively (comparison with figures from 1982-83 was not possible as the financial statements were not available at the date of preparation of this report).

6.9.24 Audit concluded that there was a need for a review of the 1976 agreement having regard to the fact that:

- (1) the subscriber scheme was now well established;
- (2) substantial cash funds were held in capital and reserve accounts of registered ambulance services (\$4.5 million at 30 June 1982);
- (3) the basis of calculation was inconsistent with that applied to other organisations funded from the Hospitals and Charities Fund; and
- (4) capital purchases by the ambulance services also qualified for reimbursement by way of capital and special purpose grants.

#### Seconded Staff

6.9.25 The Commission's January 1982 return to the Public Service Board Manpower Advisory Committee listed non-public service personnel being used by the Commission on various health care programs. The return indicated that there were 120 of the Commission's staff on the payrolls of 14 health care organisations.

6.9.26 Commission records disclosed that salaries and the purchase of goods and services for the above programs totalled in excess of \$1.7 million for 1981-82.

6.9.27 At 1 February 1983, 106 non-public service personnel on the payrolls of 13 health care organisations were being used by the Commission in the following areas.

Hospitals Division	60
Planning Division	22
Central Administration	12
Buildings & Services	6
Finance	5
Mental Retardation	1

6.9.28 The following organisations paid the salaries of these personnel:

Carlton Community Health Centre  
Royal Southern Memorial Hospital  
Preston and Northcote Community Hospital  
Ovens and Murray Hospital  
St. Vincents Hospital  
Mount Royal Hospital  
Geelong Ambulance Service  
Royal Women's Hospital  
Alfred Hospital  
Mayfield Centre  
Queen Victoria Medical Centre  
Frankston Community Hospital  
Peninsula Ambulance Service.

6.9.29 An audit examination of salaries and certain other payments was carried out at the following 3 health care organisations:

Mayfield Centre  
Royal Southern Memorial Hospital  
Carlton Community Health Centre

6.9.30 These 3 organisations employed 94 seconded staff who worked at various locations other than at the organisations concerned.

6.9.31 The Mayfield Centre is registered as a training school and provides for hospital education. It employed 18 seconded staff, 14 of whom related to the health management services (work study group).

6.9.32 The Commission provided the funds to meet salaries, equipment purchases and other expenses of these staff. Equipment purchased for the health management services group (\$104,827 in 1980-81 and \$77,850 in 1981-82) was located at the Commission's headquarters. The Commission also engaged consultants to carry out projects and arranged for the Mayfield Centre to make the payments from funds provided by the Commission.

6.9.33 The Royal Southern Memorial Hospital is a registered public hospital and it operates a community care centre known as the Caulfield Community Health Centre. The hospital employed 66 seconded staff who performed duties which varied from those of a specialist nature to clerical and administrative functions at various locations including the Commission's headquarters.



6.9.34 Salaries paid by the Royal Southern Memorial Hospital on behalf of Health Commission seconded staff were \$354 166 in 1981 and \$405 976 in 1982. Funds to enable these payments to be made were included in the maintenance grants to this hospital.

6.9.35 Details of grants received from the Commission and payments made by the Caulfield Community Health Centre relating to seconded staff for the 3 years ended 30 June 1982 were:

	1980	1981	1982
	\$	\$	\$
<u>Caulfield Community Health Centre</u>			
<u>Grants from Commission</u>			
- Interpreters	38 200	160 000	500 071
- Health Services Research Group	226 400	230 400	273 730
- Dialysis Unit	8 100	101 820	95 000
	<hr/>	<hr/>	<hr/>
Total Grants from Commission	272 700	492 220	868 801
	<hr/>	<hr/>	<hr/>
<u>Grants Applied to Salaries and Other</u>			
<u>Expenses</u>			
Interpreters			
- Salaries	9 665	175 052	376 985
- Other Expenses	14 919	45 705	54 716
Health Services Research Group			
- Salaries	168 360	200 943	241 992
- Other Expenses	41 916	38 748	27 909
Dialysis Unit			
- Salaries	13 691	36 204	49 045
- Other Expenses	52 604	37 595	78 185
	<hr/>	<hr/>	<hr/>
Total Salaries and Other Expenses	301 155	534 247	828 832
	<hr/>	<hr/>	<hr/>

6.9.36 The Carlton Community Health Centre, which has been a registered institution since 1976, provides health and welfare services to those most in need in the local community.

6.9.37 Under an agreement entered into between the Centre and the Commission in 1981, an ethnic health worker service was established by the Commission for the Melbourne and Geelong areas. Separate records were maintained at the Centre for this purpose. The service consisted of a co-ordinator, located at the Commission's headquarters, and 9 ethnic health workers who were administratively responsible to this co-ordinator.

6.9.38 During 1981-82, the Commission paid \$145 326 to the Centre for the salaries and operating expenses of this service together with a capital grant of \$1 025 for equipment purchases. In addition, 10 motor vehicles were purchased in 1981 from a capital grant at a cost of \$48 160 for use by these workers. The approval of the Victorian Government Transport Committee was not sought.

6.9.39 From the examination, audit formed the view that:

- (1) the Commission, by using the facilities of the 3 organisations to purchase goods and services, engage consultants, employ staff and provide additional accounting services for the Commission, circumvented staff ceilings and failed to comply with the relevant legislation and directives of the Public Service Board and the Department of Management and Budget;
- (2) the ownership of equipment purchased by the various health care organisations from funds provided by the Commission could not be ascertained; and
- (3) by paying grants from the Hospitals and Charities Fund and/or the Medibank Trust Account through registered hospitals the Commission was able to make payments for health programs and other services which were unrelated to the specific hospitals.

#### Psychiatric Hospitals and Centres

6.9.40 At 5 centres administered by the Commission audit noted that pensioner residents received the entire proceeds of their pension entitlement and made no contribution towards their upkeep. However, in other hospitals and centres, the pensioners contributed towards their upkeep by means of a deduction from their pension entitlement. This contribution was paid directly by the Commonwealth Department of Social Security to the Health Commission each fortnight and was credited to the Consolidated Fund. The pensioners received the balance of their entitlements.

6.9.41 The Commission was advised by audit that the arrangement at the 5 centres was inequitable when compared with the procedures operating in the other institutions.

#### Conclusion

6.9.42 Apart from the matters raised above and a number of minor matters brought to the attention of the Commission, the results of the audit examination were satisfactory.

#### **Response by Commission**

##### Utilisation of Land and Property Holdings

6.9.43 The Commission agreed to take appropriate action to implement the audit recommendations with the exception of the introduction of a centralised file registry system which it considered to be unfeasible.

##### Seconded Staff

6.9.44 In discussions with audit, senior management of the Commission argued that the practices adopted by the Commission were consistent with its objectives. In their opinion, the staff were engaged to provide ancillary health services in a number of geographic areas and that the location of seconded staff at nominated hospitals or centres was necessary for the control of costs associated with the services being provided.

## 6.10 LAW DEPARTMENT

### Introduction

6.10.1 The Law Department is responsible for:

- (1) the provision of an effective and efficient legal system within the State;
- (2) the continuous review of legislation under the Attorney-General's jurisdiction; and
- (3) the provision of staff, facilities and services to the courts, for legal assistance to the government and for the management of royal commissions and boards of inquiry.

6.10.2 The Law Department comprises the central administration, which includes the Office of the Attorney-General, and a number of branches and agencies. Comments on the central administration and on certain of the branches and agencies are included in this report.

6.10.3 The functions of the Raffles and Bingo Permits Board administered under the provisions of the Lotteries Gaming and Betting Act 1966 were transferred to the Minister for Youth, Sport and Recreation on 10 January 1983.

### **CENTRAL ADMINISTRATION**

#### Financial Responsibilities

6.10.4 The central administration is responsible for the payment of its own salaries and other expenses together with those of its branches and agencies.

6.10.5 Revenue is collected by the various branches and agencies and remitted directly to the Department of Management and Budget with the exception of the following, which remit revenue collections to the Law Department:

Court Reporting Branch  
Crown Solicitor's Office  
Government Shorthand Writer's Office.

#### **Scope of Audit**

6.10.6 The audit of the central administration covered:

- (1) a review of internal control and compliance and substantive testing in respect of revenue and general payments;
- (2) a review of internal control and compliance testing in respect of salaries; and
- (3) an examination of the operation of various advance and trust accounts controlled by the Department.

## Conclusion

- 6.10.7 Apart from a number of minor weaknesses brought to the attention of the Department, the results of the audit examination proved satisfactory.

## **COURTS ADMINISTRATION**

### Introduction

- 6.10.8 This division is responsible for providing an efficient and accessible system of courts. It supervises the staffing and provides administrative services to the Supreme Court, County Court and Magistrates' Courts.

### Financial Responsibilities

- 6.10.9 Clerks of Courts, Registrars of the County Court and the Senior Master of the Supreme Court are either collectors of imposts or receivers of revenue under the Audit Act 1958 and are responsible for the collection of trust moneys and penalties imposed by the court system.
- 6.10.10 Collectors of imposts pay their collections to the receiver of revenue at the Department of Management and Budget, whereas receivers of revenue pay their collections directly to the credit of the Public Account bank account.

### **Scope of Audit**

- 6.10.11 During the year, audits were conducted at 58 Magistrates' Courts and 61 reports were issued - 40 by the Audit Office and the balance by the internal audit section of the Law Department. Audits were also carried out at the County Court, the Prothonotary of the Supreme Court and the Sheriff of Victoria.

### **Audit Observations and Recommendations**

- 6.10.12 In most instances, the matters raised in these reports involved weaknesses in internal control and suitable recommendations were made to rectify the weaknesses. Other specific recommendations included:

#### (1) Magistrates' Courts

- (i) Audit is in agreement with internal audit reports where comment was expressed regarding the inadequate security of the cash office at a large suburban court. Audit recommended that the Department take action to improve security. The Department advised that a new cash receipting system is being considered for introduction at this court.
- (ii) Audit also recommended that to improve efficiency a review be undertaken of cash procedures at all courts with large volumes of cash transactions.

(2) County Court

- (i) Investments on behalf of minors at 31 December 1982 totalled \$21 336 510 and all administrative work in relation to the investments was handled by one officer. Audit recommended that, to establish some degree of internal control over investments, steps be taken to segregate some of the officer's duties.
- (ii) Investments on behalf of minors are by way of term deposits. Audit recommended that the Department establish a common fund which would enable funds to be invested at a higher rate of return.

6.10.13 Misappropriations of moneys occurred at 3 courts during the year:

- (1) Master of the Supreme Court, \$223 465
- (2) County Court, \$11 812
- (3) Geelong Court, \$1 100

Details of the above misappropriations are given in paragraph 3.4.7 of my first report for 1982-83.

**Response by Department**

6.10.14 In March 1983, in responding to a 1979 audit report regarding audit recommendations for a common fund, the Department stated "a departmental review is being undertaken of the Prothonotary's Office in the Supreme Court which will also address the question of the investment of trust funds in the Supreme Court. It is most likely that whatever decision is made in relation to these funds would also have a bearing on the method of investment of the County Court funds".

**CORPORATE AFFAIRS OFFICE**

Introduction

6.10.15 In accordance with the relevant Commonwealth and State Acts, including the Companies (Victoria) Code effective from 1 July 1982, the Commissioner for Corporate Affairs is responsible for the regulation of companies, business names and the securities industry. Specific responsibilities include the registration of companies, business names, securities industry operators, company auditors and liquidators.

Financial Responsibilities

6.10.16 The Corporate Affairs Office is responsible for the collection of fees:

- (1) under the various Acts administered by the Commissioner; and
- (2) under the Commonwealth-State Scheme for Co-operative Companies and Securities Regulation.

## **Scope of Audit**

6.10.17 Audit examination comprised:

- (1) an evaluation of the system of internal control over revenue collections;
- (2) a review of the work performed by the internal audit section of the Law Department; and
- (3) an examination of fees under the Commonwealth-State Scheme for Co-operative Companies and Securities Regulation.

## **Audit Observations and Recommendations**

### Delays in Banking

6.10.18 During the period from December 1982 to March 1983 collections ranging in total from approximately \$30 000 to \$600 000 were not banked for periods in excess of 4 weeks.

6.10.19 Audit observed that mail remittances and documents were not stored securely pending processing and were accessible to all personnel. Audit acknowledges that staff shortages and a large volume of transactions during peak periods have contributed to these problems. Concern is expressed at the lack of security over collections and potential interest earnings foregone as a result of banking delays.

6.10.20 Audit recommended that:

- (1) there should be adequate security over collections;
- (2) moneys should be banked promptly; and
- (3) a cost benefit exercise should be undertaken to determine the effects of staff shortages and current procedures on interest lost through inability to bank daily.

### Fee Sharing Agreement

6.10.21 Under the Commonwealth-State Scheme for Co-operative Companies and Securities Regulation a fee sharing agreement was drafted for consideration by the participating parties. Audit noted that whilst the Corporate Affairs Office had been processing the relevant fees in accordance with the agreement, the agreement had not been formally signed by all of the parties.

### Conclusion

6.10.22 Apart from the above matters and other minor internal control weaknesses brought to the Office's attention, the audit proved satisfactory.

## **REGISTRAR-GENERAL'S OFFICE AND OFFICE OF TITLES**

### **Introduction**

- 6.10.23 The Registrar-General is responsible under the Property Law Act 1958, the Instruments Act 1958 and the Printers and Newspapers Act 1958 for the registering, entering, depositing and filing of documents such as bills of sale, powers of attorney, stock mortgages, wills and deeds deposited for safe custody and for the registration of printing presses and newspapers.
- 6.10.24 The Registrar of Titles is responsible for the administration of the Torrens system of title registration. The principal Acts administered by this Office are the Transfer of Land Act 1958, the Strata Titles Act 1967 and the Cluster Titles Act 1974. The Office of Titles registers dealings in land under the Transfer of Land Act 1958, including plans of subdivision, transfers and mortgages. Search facilities are available to the public upon payment of a prescribed fee.

### **Financial Responsibilities**

- 6.10.25 The Office is responsible for the collection of revenue in relation to various dealings in land as prescribed under the Transfer of Land Act 1958 and other Acts administered by this Office.

### **Scope of Audit**

- 6.10.26 The audit covered an evaluation of the system of internal control in operation in relation to the inwards cash and debtors systems and testing of related transactions.

### **Conclusion**

- 6.10.27 Apart from some minor weaknesses, which have been brought to the attention of the Office, the audit examination proved satisfactory.

## **OFFICE OF FINANCE BROKERS, AUCTIONEERS AND MONEY LENDERS**

### **Introduction**

- 6.10.28 The Registrar is responsible for the licencing of finance brokers and auctioneers, the maintenance of a register of moneylenders, the investigation of complaints from the public, and other matters contravening the provisions of the relevant Acts.

### **Financial Responsibilities**

- 6.10.29 The Registrar collects licence fees as prescribed in the Auction Sales Act 1958 and the Finance Brokers Act 1969.

### **Scope of Audit**

- 6.10.30 Audit tests were conducted on the system of internal control operating over the collection of prescribed licence fees and the subsequent issuance of the licences.

### Conclusion

6.10.31 Apart from minor control weaknesses brought to the attention of the Office, the audit tests proved satisfactory.



## 6.11 DEPARTMENT OF MANAGEMENT AND BUDGET

### Introduction

- 6.11.1 In May 1982, the Government established a task force to restructure the Treasury into an Office of Management and Budget. Whilst the Treasury continued to operate the day to day financial affairs of the State, the task force developed the mechanisms to implement the economic and financial policies of the new government.
- 6.11.2 The Department of Management and Budget was created by Order-in-Council of 12 October 1982. Section 7 of the Management and Budget Act 1983, which came into operation on 14 February 1983, provided for funds available to the former Treasury to be made available to the new department from that date.
- 6.11.3 The functions of the Department of Management and Budget were specified by Order-in-Council of 12 October 1982. These can be broadly described as:
- (1) to participate in the development of advice to government on policies and priorities and to strengthen financial budgeting and control systems of departments and authorities to ensure that they are linked to the program priorities of government and are monitored through a management control system;
  - (2) to develop improved approaches to financial management including advice on resource policy and management, monitoring of cash flows, maintenance of centralised investments, and to advise on and, where necessary, manage the financial assets of the State and maximise the return thereon to the State;
  - (3) to co-ordinate and monitor the financial management, economic policy and budgetary requirements of government;
  - (4) to set budgetary parameters and financial and economic management standards for departments and public authorities and to continually evaluate and review project, program and management effectiveness;
  - (5) to set accounting standards to be met by both departments and public authorities; and
  - (6) to ensure that government expenditures are properly authorised by and reported to Parliament and to manage the collection of the revenues of the government.
- 6.11.4 As the central accounting office of the State, the Department is responsible for the central processing of the financial transactions of departments and the preparation of the Treasurer's Statement for presentation to Parliament.
- 6.11.5 The Department includes the following 3 offices, which are discussed later in this section:
- Stamp Duties Office;  
State Tender Board; and  
Taxation Office.

## Financial Responsibilities - Head Office

6.11.6 The Department's financial responsibilities include the following accounting activities:

- (1) collection and banking of the revenues of the State and financial management of the Public Account;
- (2) operation of the Government of Victoria drawings accounts for those departments on the centralised salaries system;
- (3) administration of the centralised Financial Reporting and Recording (FRAR) system;
- (4) payment of accounts for some departments;
- (5) monitoring of expenditure against parliamentary authority, warrant authority and trust account balances;
- (6) allocation of expenditure authorities, subject to the approval of the Treasurer from the "Advance to the Treasurer";
- (7) control over the public debt of the State;
- (8) administration of the Unclaimed Moneys Act 1962; and
- (9) payment of its own staff salaries and administrative expenses, together with the salaries of all its branches.

### **Scope of Audit**

6.11.7 The scope of the audit included:

- (1) an examination of the Treasurer's cash book and related documents;
- (2) an evaluation of the internal control procedures operating in the Department;
- (3) an examination of the departmental payments including salaries;
- (4) a detailed examination of investment transactions and the verification of investment balances at 30 June 1983;
- (5) a review of the operations of the Government of Victoria drawings accounts and an examination of the records of the Registrar of Unclaimed Moneys; and
- (6) an examination of the securities lodged by certain departments as contractors' securities, as required by the Department of Management and Budget Regulations 1981.

## **Audit Observations and Recommendations**

### Employment of Consultants

- 6.11.8 During the year a number of consultants were employed, and in some cases paid, prior to the Department requesting and obtaining the approval of the Tender Board, contrary to the requirements of Regulation 84 of the Department of Management and Budget Regulations 1981. The regulation requires ministerial and Tender Board approval for the purchase of goods and services which are not on contract and which cost in excess of \$2 000.
- 6.11.9 A selective examination of the payments made by the Department during the year disclosed that amounts totalling \$112 397 were paid to consultants prior to the receipt of the necessary approvals. Documentation relating to payments to other consultants was requested by audit to establish whether the necessary approvals had been obtained prior to payment. At the date of preparation of this report, this documentation had not been provided.

### Advances to the Consolidated Fund

- 6.11.10 Section 7A of the Public Account Act 1958 authorises the Treasurer to make advances from the Cash Management Account to the Consolidated Fund for such periods, not exceeding 12 months, as the Treasurer from time to time determines.
- 6.11.11 The Department failed to comply with this section of the Act in that advances during the period 26 November 1982 to 23 December 1982 totalling \$172.2 million were made from the Cash Management Account to the Consolidated Fund prior to a determination being made by the Treasurer.

### Departmental Salaries

- 6.11.12 An evaluation of the internal control procedures operating in the salaries section of the Department disclosed a number of weaknesses in internal control including:
- (1) the failure of the Department to carry out important payroll reconciliations such as the financial reconciliation between pay periods, as required under the Paycost Manual;
  - (2) calculations of salaries payable were not independently verified and this resulted in a number of incorrect calculations of salaries paid;
  - (3) instances where the computer records were not updated for off-line payments, resulting in the need to issue amended group certificates; and
  - (4) failure to reconcile the departmental advance since 12 October 1982.
- 6.11.13 The Department has recognised that problems exist in the salary area and has advised audit that action will be taken to strengthen internal control.

## Bank Reconciliations - Public Account

- 6.11.14 The reconciliations of the Public Account bank accounts were in arrears at the date of audit. Audit considers it essential for these accounts to be reconciled on a regular basis to ensure that satisfactory control is maintained over the bank balances of the State.

## **STAMP DUTIES OFFICE**

### Financial Responsibilities

- 6.11.15 The Stamp Duties Office is responsible for the administration of the Stamps Act 1958, the Business Franchise (Tobacco) Act 1974, the Business Franchise (Petroleum Products) (Licence Fees) Act 1979, the Hospital Benefits (Levy) Act 1982, the Financial Institutions Duty Act 1982, the Energy Consumption Levy Act 1982 and the collection of duty under the Cattle Compensation Act 1958. Collections by the Office during the year amounted to \$627.5 million and further amounts of "other stamp duty" totalling \$80.9 million were collected by the Transport Regulation Board, now part of the Road Traffic Authority.
- 6.11.16 The Office is also responsible for paying its own operating expenses.

### **Scope of Audit**

- 6.11.17 The scope of the audit included:
- (1) an evaluation of the system of internal control in respect of the various revenue raising functions of the Stamp Duties Office;
  - (2) an evaluation of the system of internal control in respect of the payments and payroll systems; and
  - (3) a review of the internal audit function of the Office.

### **Audit Observations and Recommendations**

#### Follow-up Procedures for the Collection of Stamp Duty

- 6.11.18 In my 1980-81 and 1981-82 reports to Parliament on the Treasurer's Statement I reported that lack of staff in the Stamp Duties Office appeared to be a major reason for the failure of the Office to follow up a number of cases of non-lodgement and late-lodgement of returns. I also reported that this, together with the failure to impose the penalties provided for in the Act, had caused a loss of revenue to the State. Audit recommended that urgent action be taken to employ sufficient staff to ensure that all duties payable were collected.
- 6.11.19 Recent increases in administrative, legal and inspectorial staff have been allocated to those sections dealing with the financial institutions duty, energy consumption levy, hospital benefits levy and credit card business. A number of additional inspectorial staff were also used to set up administrative procedures for the energy consumption levy, financial institutions duty and the "off-road" diesel fuel certificates system.

- 6.11.20 During the year, the staffing situation did not improve in sections dealing with credit and rental transactions, approved vendors, approved insurers and sharebrokers although there was increased investigatory activity in the business franchises area. Audit recommended that efforts be made to increase inspectorial activities to cover all revenues collected by the Office.

#### Refunds of Stamp Duty on Cheques

- 6.11.21 Sections 96 and 102 of the Financial Institutions Duty Act 1982 provided for a reduction in the stamp duty on cheques from 10 cents to 5 cents from 1 January 1983 and for its abolition from 1 July 1983. Persons holding 100 or more cheques on which the higher rate of duty had been paid were required to make an application for the refund of 5 cents per cheque. Amounts totalling \$989 000 were refunded in relation to the reduction of stamp duty taking effect from 1 January 1983.
- 6.11.22 Audit found that no action was taken by the Office to establish the validity of refund claims, for example, verifying the existence of cheques on which refunds were claimed and this situation was considered to be unsatisfactory.

#### Stocks of Duty Stamps

- 6.11.23 Stocks of duty stamps held in the Stamps Office at 30 June 1983 totalled approximately \$17.5 million. In audit opinion, this amount is far in excess of Office requirements and presents storage, security and control problems to the Office. Audit recommended that:
- (1) an improved stock control system be introduced;
  - (2) no further orders be placed until current stocks are depleted;
  - (3) requests for duty stamps from Australia Post, which sells stamps on a commission basis, be met from Office stocks;
  - (4) stocks of superseded duty stamps be destroyed immediately; and
  - (5) the Government Printer, who produces the duty stamps, be advised that production of more than 10 per cent above the order placed will not be accepted by the Office.

#### New Duties

- 6.11.24 During the year, the Office became responsible for the collection of 3 new forms of duty. These were:
- (1) energy consumption levy;
  - (2) health levy; and
  - (3) financial institutions duty.

- 6.11.25 Audit examination of the related control systems for the first 2 of these duties indicated that controls were generally satisfactory, whereas in relation to the financial institutions duty, difficulties experienced by the Office in the administration of the Act included:
- . the processing of large volumes of data manually, using antiquated recording and reporting methods;
  - . the large number of matters requiring legal interpretation and policy formulation;
  - . instances where duplicate exemptions had been issued for one bank account; and
  - . the amount of time spent on non revenue producing activities such as the recording and issuing of approximately 100 000 exemption certificates, the recording and processing of nil returns, and returns covering small amounts.

#### E.D.P. Services

- 6.11.26 At present, the Government Computing Service maintains registers of tobacco and petroleum licences and diesel fuel exemption certificates for the Stamp Duties Office.
- 6.11.27 Large volumes of work for the financial institutions duty, energy consumption levy, credit and rental and betting tax are processed manually using outdated processing methods. Audit recommended that urgent consideration be given to a feasibility study into computerising these activities.

#### **STATE TENDER BOARD**

##### Introduction

- 6.11.28 The main function of the State Tender Board is to arrange for the procurement of stores and services and the transport of stores for the Victorian Public Service.

##### Financial Responsibilities

- 6.11.29 The Board pays all its own operating expenses and also recoups certain freight costs from some departments and authorities.

##### **Scope of Audit**

- 6.11.30 The receipts and payments of the Board were examined. Reviews were also undertaken of:
- (1) the scheme operated by the Board for the reimbursement of certain freight charges to country schools; and
  - (2) the granting of approval to departments to purchase out of contract stores, works and services.

## **Audit Observations and Recommendations**

### **Freight Charges for Country Schools**

- 6.11.31 In 1972 a scheme was introduced to assist country schools, which were financially disadvantaged compared with metropolitan schools in the payment of freight charges for school necessities.
- 6.11.32 An audit of the scheme established that, overall, only 16.7 per cent. of eligible schools participated in the scheme during the period subject to review and in audit opinion, based on a survey of a limited number of schools, the main reason for the low participation rate was that many schools were unaware of the scheme. No review of the effectiveness of the scheme in meeting its objectives or of the cost of the scheme had been undertaken by the Board.
- 6.11.33 Audit recommended that the Board review the scheme with a view to establishing its costs and effectiveness in meeting its objectives.

### **Board Approvals for Out of Contract Purchases**

- 6.11.34 The Department of Management and Budget Regulations 1981 require departments to obtain the approval of the Board to purchase stores, services or works which are not obtainable under government contract and which exceed \$2 000 in cost.
- 6.11.35 Certain approvals granted by the Board during the year were compared with the relevant departmental records and it was established that in some instances commitments and/or payments had been made prior to the approval being granted by the Board. Audit is of the opinion that the Board does not have power to grant retrospective approvals.

## **TAXATION OFFICE**

### **Financial Responsibilities**

- 6.11.36 The Taxation Office is responsible for the assessment and collection of probate duty, land tax, gift duty and payroll tax.
- 6.11.37 The Office is also responsible for the payment of its own operating expenses, with the exception of salaries, which are paid by the Department of Management and Budget.

### **Scope of Audit**

- 6.11.38 Audit carried out an evaluation of the systems and internal controls currently in operation for the assessment and collection of the various taxes raised by the Office. Assessments raised and amounts collected during the year were tested and the amounts of taxes outstanding at 30 June 1983 were verified. Payments made by the Office were selectively examined.

## **Audit Observations and Recommendations**

### Payroll Tax - Inspectorial Branch

- 6.11.39 An examination of the operations of the inspectorial branch of the Office revealed that although the staff establishment was 32 officers, at the date of audit only 9 officers were employed in the branch. Because of the limited resources, the effectiveness of the branch was considerably reduced.

### Land Tax

- 6.11.40 Assessments of land tax are based on information contained on the data base computer system maintained by the Government Computing Centre.
- 6.11.41 Due to the restructuring of the data base during the year, it was not possible for the Taxation Office to update the data base with all the required amendments. Consequently, although certain 1982 assessments which had been issued to taxpayers were incorrect and required amendment, the amended assessments could not be issued until the required information had been updated on the data base. At the date of this report, audit has been unable to determine the amount of tax that will be realised from the issue of these amended assessments.

### Gift Duty and Probate Duty

- 6.11.42 Gift duty was abolished on 1 January 1983 and probate duty is being progressively abolished over the period 1 January 1982 to 31 December 1983. Audit examination of the internal controls operating over the collections of these duties proved satisfactory.

### Internal Audit Function

- 6.11.43 Collections of the Office in 1982-83 totalled \$1 113.8 million. In view of the need to ensure that internal control procedures relating to the assessment and collection of the various taxes received in the Office are fully maintained, audit is of the opinion that the Internal Audit Bureau established in the Department should provide internal audit services to the Taxation Office as a matter of urgency.

### Conclusion

- 6.11.44 Apart from the matters raised above, the results of the audit examination of the Department and its branches proved satisfactory.



## 6.12 DEPARTMENT OF MINERALS AND ENERGY

### Introduction

- 6.12.1 The principal objectives of the Department of Minerals and Energy are:
- (1) to promote and assist the orderly exploration, development production and management of the State's mineral, extractive, oil and gas and groundwater resources;
  - (2) to foster the responsible use of the State's energy resources through the development of comprehensive energy plans and policies, and by encouraging, where practicable, the substitution of plentiful or renewable resources for scarce energy sources; and
  - (3) to protect the environment, the public and those employed in the mining, extractive, oil and gas and related chemical industries from potential hazards associated with those industries.

### Financial Responsibilities

- 6.12.2 The Department collects fees for a variety of licences, including licence fees under the Pipelines (Fees) Act 1981, leases and permits associated with mining and extractive activities.
- 6.12.3 Payments by the Department include salaries, general administrative expenses and the cost of other services provided by the divisions of the Department, namely, Energy, Oil and Gas, Geological Survey, Hazardous Materials and Mining.
- 6.12.4 The Department is also responsible for the administration of the Petroleum (Submerged Lands) Act 1967 which includes the calculation of and accounting for offshore petroleum royalties payable under that Act.

### **Scope of Audit**

- 6.12.5 The audit inspection of the Department for 1982-83 covered the following areas:
- (1) documentation and evaluation of certain aspects of the Department's revenue and payroll systems;
  - (2) substantive tests of departmental payments; and
  - (3) progressive monitoring of the accounting and collection procedures for petroleum royalties including the operations of the Royalties and Management Review Unit.

## **Audit Observations and Recommendations**

### Offshore Petroleum Royalties

- 6.12.6 The Commonwealth Petroleum (Submerged Lands) Act 1967, which is applicable to areas beyond the State's 3 mile territorial limit, governs the exploration, recovery and royalty basis of Bass Strait petroleum. In its role as the "Designated Authority" under the Act, the Department of Minerals and Energy is responsible for the administration of the legislation in Victoria, which involves the calculation of and accounting for petroleum royalties.
- 6.12.7 My 1981-82 report on the Treasurer's Statement referred to certain issues and developments concerning the determination and collection of offshore petroleum royalties, together with a review of the Department's internal monitoring program for the verification of such payments. Succeeding paragraphs summarise the current status of issues identified in that report together with progress on other relevant matters.
- 6.12.8 Amendments to the Commonwealth legislation, originally assented to on 29 May 1980, were proclaimed on 14 February 1983 following the final enactment of all complementary State legislation in 1982. The amendments provided that the responsibility for royalty collection be vested in the Commonwealth, with royalties payable being received by the Designated Authority on behalf of the Commonwealth. Under this arrangement, the Designated Authority retains responsibility for the monitoring of offshore petroleum activities.
- 6.12.9 To comply with the amended legislation, the following procedural changes relating to the collection of royalty payments were instituted with effect from February 1983:
- (1) the introduction of revised accounting and collection arrangements sufficient to comply with the provisions of the Commonwealth Audit Act 1901; and
  - (2) the forwarding of monthly certificates to the Commonwealth Department of Resources and Energy by the Designated Authority as to the result of checks undertaken in accordance with the agreed procedures.
- 6.12.10 These arrangements also include provision for the Auditor-General to forward an annual statement to the Commonwealth Department of Resources and Energy that royalty calculations have been made in accordance with the agreed procedures. At the date of this report the format of the statement had not been finalised.
- 6.12.11 Royalty paid by the licensees in 1982-83 amounted to \$188.3 million, of which \$120.1 million was allocated to the State in accordance with the provisions of the Petroleum (Submerged Lands) Act 1967.
- 6.12.12 The Petroleum Measurement and Accounting Manual, covering all aspects of the production and accounting streams of the royalty system, was formally adopted by the Designated Authority on 3 December 1982. It was noted by audit that, as a result of subsequent legislation and other developments, the manual was now in need of amendment. It is understood that the necessary amendments are to be incorporated in the manual by December 1983.

- 6.12.13 My 1981-82 report on the Treasurer's Statement referred to recommendations made in June 1982 by an international firm of petroleum consultants, engaged by the Commonwealth Department of Resources and Energy to examine techniques and standards employed for the sampling of petroleum production from the Bass Strait fields. In accordance with the consultants' recommendations, an implementation program was developed by the licensees in December 1982 and was formally approved by the Designated Authority in May 1983.
- 6.12.14 The approved measurement and sampling procedures have generally followed the consultants' recommendations except with respect to independent verification of sample analysis. However, as no accredited testing facilities other than those of the licensee are available in Australia to undertake the sample analysis, the Department has proposed increasing the frequency of testing the analytical standards employed by the licensees' laboratories.
- 6.12.15 During the year, audit reviewed the work undertaken by the Department's Royalties and Management Review Unit. This unit was established on 5 December 1982 to upgrade the internal audit capacity of the Department. The responsibilities of the unit embrace management and financial audits within all areas of the Department, including the verification of petroleum royalties from Bass Strait. The unit reports directly to the permanent head.
- 6.12.16 In addition to the ongoing verification of the royalty calculation process, other major tasks undertaken by the unit in 1982-83 with respect to petroleum royalties were:
- (1) the development of a consolidated audit plan for the verification of both the product flow and the royalty accounting system; and
  - (2) liaison and discussion with the licensees and the Commonwealth Department of Resources and Energy on significant matters affecting the royalty calculation and verification process.
- 6.12.17 The Department also documented and reviewed the inspection procedures for metering and sampling.
- 6.12.18 Previous reports have referred to the fact that royalty payments made by the Bass Strait licensees since the commencement of production in 1969 were still subject to verification by the State in terms of the 1980 agreement which provided for the re-assessment of well head value.

#### Pipeline Licence Fees

- 6.12.19 During 1982-83, revenue collected from pipeline licence fees was \$66.6 million. The fees collected since the Pipeline (Fees) Act 1981 was implemented totalled \$96.6 million.
- 6.12.20 A High Court decision, dated 5 August 1983, ruled that Section 2 of the Act was in the nature of an excise and as such any fees levied and collected by the State under this section were invalid.

### Conclusion

- 6.12.21 Apart from the matters raised above and other matters of a minor nature brought to the attention of the Department, the results of the audit examination were satisfactory.

### **Response by Department**

- 6.12.22 The Designated Authority has advised that it has completed its plans for the review of all past royalty payments and that, subject to additional staff being available, the review will be finalised by December 1983.
- 6.12.23 Until the review is completed, audit is unable to confirm the accuracy of royalty payments made by the licencees from 1969 to date.

## **6.13 MINISTRY FOR POLICE AND EMERGENCY SERVICES**

- 6.13.1 The Ministry for Police and Emergency Services, which includes the Office of the Chief Commissioner of Police and the State Emergency Service, was created from 1 July 1979 by Order-in-Council of 26 June 1979.

### **OFFICE OF THE CHIEF COMMISSIONER OF POLICE**

#### Introduction

- 6.13.2 The primary function of the police is the maintenance of law and order. This encompasses the protection of life and property, and the prevention and detection of crime.
- 6.13.3 In addition to its central administration, the Office operates through 26 police districts which encompass some 350 police stations situated throughout Victoria.

#### Financial Responsibilities

- 6.13.4 The Office raises revenue through the provision of police services at sporting and other venues, escorts and accident information. It also collects certain parking infringement, traffic and other fines, and revenue under the Firearms Act 1958 and from the operations of the Victorian Police Hospital.
- 6.13.5 The Office is responsible for the payment of salaries of public servants employed by the Office and of members of the police force and payment of general accounts.

#### **Scope of Audit**

- 6.13.6 Audit examined the Office's revenue and advance accounts and general payments. Examinations were also conducted at the police transport store, the police radio store and workshop, the police general store, the penalties payments office and various superintendents' offices throughout the State.

### **Audit Observations and Recommendations**

#### Revenue Collections

- 6.13.7 Departmental revenue collections at police stations are remitted to the accounts branch via the appropriate police district offices. Audit tests of remittances disclosed lengthy delays between the initial receipting of moneys and their transmission to head office, with a consequent loss of interest to the Public Account.

#### Advance Accounts

- 6.13.8 There was a failure to promptly adjust discrepancies which occurred in the reimbursement of payments from advance accounts. Audit recommended that procedures be instituted to monitor the frequency and adequacy of their adjustment.

## Penalties Payments Office

6.13.9 The penalties payments office processes traffic infringement notices and those parking infringement notices which have not been paid within the stipulated period. Audit examination disclosed the following weaknesses:

(1) Poor security measures

Inadequate controls exist over access to source documents with a consequent risk of charges to or removal of these documents. This is due to:

- . lack of strict segregation of duties within the office, which enables a large number of staff to have access to the documents;
- . the physical layout of the office, which makes it difficult to prevent unauthorised access to the documents.

(2) Traffic Infringement Notice (TIN) system

There was no adequate check that action had been taken on all TIN's before the expiration of the one year legal collection period, with consequent loss of revenue.

(3) Parking Infringement Notice (PIN) system

Of 3504 briefs authorising the issue of summonses on unpaid PIN's between 1 January 1982 and 28 March 1982, audit noted that 647 were returned because summonses could not be served within the 12 months time limit. Further inquiries indicated that a similar situation existed in 1982-83. The consequential loss of revenue has been estimated by audit to be in excess of \$50 000 for the year.

## Conclusion

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

## **STATE EMERGENCY SERVICE**

### Introduction

6.13.11 The State Emergency Service was established under the provisions of the Victoria State Emergency Act 1981, which came into operation on 3 March 1982.

6.13.12 The functions of the Service are:

- (1) to assist the police and other bodies and organisations dealing with emergencies;
- (2) to deal with floods and wind storms and their effects;

- (3) to provide road accident rescue services; and
- (4) to co-ordinate and assist organisations providing welfare services in emergencies.

#### Financial Responsibilities

- 6.13.13 All salaries and other payments are processed by the Ministry for Police and Emergency Services. The Commonwealth Government provides grants for buildings, stores and equipment. Certain other approved expenditures are recouped from the Commonwealth.

#### **Scope of Audit**

- 6.13.14 The audit covered an evaluation of the internal controls of the stores system.

#### Conclusion

- 6.13.15 Apart from a number of minor weaknesses brought to the notice of the Service, the results of the audit examination proved satisfactory.

## **6.14 DEPARTMENT OF THE PREMIER AND CABINET**

### Introduction

- 6.14.1 The name of the Department of the Premier was altered to the Department of the Premier and Cabinet by Order-in-Council of 12 October 1982. The functions of the Department can be broadly described as administrative, regulatory, planning, developmental, educational and advisory in character and include co-ordinating the implementation of government policy. It also has overall responsibility for inter-governmental relations and administers the Office of the Agent-General in London and the Victorian Agency in Tokyo.
- 6.14.2 For administrative purposes, the following offices are branches of the Department:

Agent-General's Office, London  
Audit Office  
Governor's Office  
Promotions Appeal Board  
Public Service Board  
Ombudsman's Office.

### Financial Responsibilities

- 6.14.3 With the exception of the Audit Office, the central administration is responsible for the collection of all receipts and the payment of salaries and general accounts of all branches and offices of the Department. The Audit Office is discussed later in this section.

### **Scope of Audit**

- 6.14.4 The audit covered an evaluation of internal control and subsequent compliance and substantive testing of cash receipts, payroll, general payments, debtors and creditors within the central administration.
- 6.14.5 In addition, audit examined cash receipts, debtors and wages of the Werribee Park Committee of Management for which the Department provided administrative services until 31 March 1983.

### **Audit Observations and Recommendations**

#### Werribee Park

- 6.14.6 An examination of wages records revealed that certain categories of employees had been substantially underpaid as a result of incorrect award rates being applied.
- 6.14.7 Audit recommended that employees affected be paid at the correct rates, the underpayments rectified and that in future, wage rates be in accordance with the appropriate awards and schemes.



### Conclusion

- 6.14.8 Apart from the matter raised above and other minor weaknesses brought to the attention of the Department, the results of the audit examination proved satisfactory.

### **AUDIT OFFICE**

#### Introduction

- 6.14.9 The Auditor-General is responsible for the audit of the financial operations of all State government departments and most major authorities. A more detailed description of the operations of the Audit Office is contained in Part 1 of this report.

#### Financial Responsibility

- 6.14.10 The Audit Office collects fees charged for the audit of most statutory authorities and pays its own administrative expenses and salaries.

#### **Scope of Audit**

- 6.14.11 In the absence of specific legislation concerning the audit of the Office, an audit inspector appointed under Section 31 of the Audit Act 1958 undertook an audit examination covering an evaluation of the internal control system operating within the Office and subsequent compliance and substantive testing of cash receipts, payroll, general payments, debtors and creditors.

#### Conclusion

- 6.14.12 Apart from a number of matters of a minor nature brought to the attention of management, the results of the audit examination proved satisfactory.

## **6.15 DEPARTMENT OF PROPERTY AND SERVICES**

### Introduction

6.15.1 The Department of Property and Services was established by Order in Council on 16 May 1978.

6.15.2 The main functions of the Department are to:

- (1) monitor all aspects of real estate dealings in excess of \$100 000 by government departments and authorities;
- (2) provide a number of support activities for departments in the areas of computing, printing, record keeping and courier services;
- (3) record births, deaths and marriages in Victoria; and
- (4) conduct elections of members of the Victorian Parliament and a number of government and semi-government bodies.

6.15.3 In addition to the central administration, the following offices form part of the Department:

Government Computing Service  
Government Information and Courier Services  
Government Printing Office  
Government Statist  
Public Record Office  
State Electoral Office.

### Financial Responsibilities

6.15.4 The central administration of the Department is responsible for collecting the revenue of the Government Computing Service, the State Electoral Office, the Government Information Service and branches of the Public Record Office. Revenue collected by the Office of the Government Statist and the Government Printing Office is the responsibility of those offices.

6.15.5 Salaries and other expenses are paid by the central administration on behalf of all offices other than the Government Printing Office, which pays its own wages, salaries and general expenses.

### **Scope of Audit**

6.15.6 The audit covered the receipts, general payments and salaries systems of the Department and concentrated on evaluating the system of internal control. The examination of receipts covered collections at the central administration, the Government Statist, the State Electoral Office, the Public Record Office and the Government Information Service. General payments and salaries paid by the central administration of the Department were examined.

6.15.7 A computer installation review was conducted at the Government Computing Service's Burroughs (B6800/B7700) data processing centre. The audit covered an assessment of the effectiveness of procedures in operation at the centre to:

- (1) physically protect the computer centre;
- (2) safeguard the integrity of computer applications being processed on behalf of user departments; and
- (3) give reasonable assurance that the "framework" within which methods and procedures operate provides a safeguard for assets and ensures the integrity of data.

### **Audit Observations and Recommendations**

#### Government Printing Office - Trading Account

- 6.15.8 Trading accounts prepared by the Government Printing Office were not available for audit at the date of preparation of this report. Further comments on the Government Printing Office will be included in a later report, if necessary.

#### Government Computing Service - Computer Installation Review

- 6.15.9 The Government Computing Service is responsible for providing departments with various data processing services including systems design, programming, data preparation and processing facilities. The Burroughs (B6800/B7700) computer installation is one of 3 data processing centres administered by the Government Computing Service.
- 6.15.10 The audit report on the review recognised the existence of many internal control strengths within systems and procedures operating at the installation. It also found a range of environmental, organisational and operational control weaknesses. These weaknesses included:
- (1) control over the issue and return of the Mil-Keys providing access to the installation and areas within the installation was inadequate, and there was inadequate security over output material awaiting collection by departments. These weaknesses could lead to unauthorised access to terminals, theft of output data and the wilful destruction of equipment within the operations area. Audit recommended appropriate improvements in security;
  - (2) the location of the computer installation in close proximity to a motor pool housing many vehicles, a laboratory and a building storing highly combustible materials makes the installation vulnerable to any fire and/or explosion in the surrounding environment. Audit recommended an assessment of the risks to determine whether steps need to be taken to reduce the potential hazards;
  - (3) there was no back-up power supply in the event of power failure. Equipment is currently being installed to provide the installation with a short-term uninterruptable power supply. Although the need for back-up generating equipment has been recognised, funds have not been made available for the project. As heavy reliance is placed on data processing, without continuous power supply there is a high risk of damage to and failure of computer hardware. Audit recommended the acquisition of back-up generating equipment as soon as possible; and

(4) there were no adequate back-up facilities in the event of a major disaster occurring at the installation. Although discussions have been held with other large Burroughs system users with a view to providing an acceptable level of back-up, nothing has been resolved.

6.15.11 Given the serious impact a major disaster at the installation would have on government operations, audit recommended that a formal disaster plan be developed, tested and implemented as soon as possible, and be subjected to regular review.

#### Conclusion

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

## **6.16 PUBLIC WORKS DEPARTMENT**

### Introduction

- 6.16.1 The Public Works Department is the major architectural and building organisation for State government departments and undertakes site works, design, construction, furnishing and maintenance of buildings for client departments. It is also responsible for the control of port navigation and port development, the maintenance of shipping channels and foreshore protection along the Victorian coastline excluding only those areas controlled by the 3 port authorities or municipalities. Some of the other functions carried out include the purchase, leasing and allocation of accommodation, caretaking and office security, telephone operations and the maintenance of parks and gardens.
- 6.16.2 The Department operates and maintains control over its activities through 4 divisions:
- Administration
  - Building
  - Ports and Harbors
  - Property and Services.

### Financial Responsibilities

- 6.16.3 The administration division has under its control several administrative and financial branches. The accounts branch is responsible for the payment of creditors' claims and salaries and wages, the control of stores and plant, the collection of revenue and financial reporting to client departments.

### **Scope of Audit**

- 6.16.4 The audit examination concentrated on the documentation, evaluation and testing of the systems of internal control relating to a number of financial functions of the Department. These functions included receipting and debtors, salaries and wages, personal expenses, advance account, design supervision and administration charge, canteen operations, stores and the operation of 2 trust accounts, which form part of the Trust Fund at the Department of Management and Budget, the Public Works Plant and Machinery Fund and the Public Works Stores Suspense Account.

### **Audit Observations and Recommendations**

#### Public Works Stores Suspense Account

- 6.16.5 This account was established under the provisions of the Public Works Loan Application Act 1947. Advances authorised by legislation totalled \$2 202 900 at 30 June 1983.
- 6.16.6 Moneys to the credit of the account are available on a continuing basis for:
- (1) the purchase of stores, materials, fittings and equipment; and
  - (2) defraying the cost of manufacturing articles of stock.

6.16.7 The value of stock issued is credited to the account and charged against the appropriation for the project on which the stock is to be used either directly or, where an invoice is issued, upon receipt of payment. The value of stock issued which had not been credited to the account at 30 June 1983 totalled \$1 362 828, of which \$342 054 represented unpaid accounts.

6.16.8 Reasons given by the Department for the account not being credited were:

- (1) delays in processing transactions due to information recorded on the computerised works recording network (WREN) being inconsistent with that recorded on the material issued voucher;
- (2) stock had been issued to projects for which insufficient funds were available at 30 June 1983 to allow direct allocation of the stock value; and
- (3) failure by client departments and organisations to pay invoices promptly.

6.16.9 Delays in crediting the stores suspense account with the value of stores issued will adversely affect the liquidity of the account which, in turn, may restrict the purchase of replacement stock.

#### Works Recording Network (WREN)

6.16.10 During the year a review of the controls within the computerised WREN system was undertaken by a firm of chartered accountants. The review disclosed a number of control weaknesses, and recommendations were made on action required to overcome the weaknesses which had been identified.

6.16.11 The Department established a WREN System Security Audit Committee to review the weaknesses identified and the recommendations. For those recommendations which the Department decided to adopt, the committee gave a priority rating for implementation.

#### Canteen Operations

6.16.12 An audit review of internal control procedures relating to the 5 canteens operated by the Department was commenced and will be continued in 1983-84. The internal departmental financial statements which provide details of the trading results for each canteen were examined. Audit formed the opinion that a greater depth of analysis of the trading results was required.

#### Conclusion

6.16.14 Apart from the above matters and a number of other minor weaknesses brought to the attention of the Department, the results of the audit examination proved to be satisfactory.

## **6.17 VICTORIAN TOURISM COMMISSION**

### Introduction

- 6.17.1 The Ministry for Tourism was abolished by Order-in-Council with effect from 16 June 1983. The Victorian Tourism Commission was established as a statutory authority under the Victorian Tourism Commission Act 1982 on 11 May 1983. On this date, by Order-in-Council, the Commission was also created as a department for the purposes of the Public Service Act 1974.
- 6.17.2 During the period 11 May to 15 June 1983, both the Ministry and the Commission operated as departments for the purposes of tourism with the Ministry meeting all payments from annual appropriations on account of the 2 bodies. On the abolition of the Ministry, the Commission became the sole department responsible for payment of moneys appropriated by Parliament in 1982-83 for the purposes of tourism.

### Financial Responsibilities

- 6.17.3 In relation to its commercial-type operations, the Commission is an autonomous body and is required to prepare separate financial statements in accordance with the provisions of the Victorian Tourism Commission Act 1982. The audit report on the Commission's commercial-type operations will be included in a later report.
- 6.17.4 The former Ministry and the subsequent Commission were responsible for the payment of salaries, general expenses and other services relating to the promotion and development of tourism.
- 6.17.5 The former Ministry had responsibility for the Liquor Control Commission during the period 1 July 1982 to 23 April 1983. This responsibility was transferred to the Ministry of Economic Development on 24 April 1983 at the direction of the Premier.

### **Scope of Audit**

- 6.17.6 The audit involved an examination of receipts and payments for the year.

### Conclusion

- 6.17.7 The results of the audit examination proved satisfactory.

## 6.18 MINISTRY OF TRANSPORT

### Introduction

- 6.18.1 The Ministry of Transport was established under the provisions of the Ministry of Transport Act 1958. The general objectives of the Ministry are to secure the improvement, development and better co-ordination of railway, tramway and road transport in Victoria.
- 6.18.2 Because of the restructuring of transport provided for in the Transport Act 1983 from 1 July 1983, comments on the Country Roads Board and the Transport Regulation Board have not been included in this section of my report dealing with the Ministry of Transport, nor have comments on the Road Safety and Traffic Authority been included in the section of my report dealing with the Ministry for Police and Emergency Services, as was the case in previous years.
- 6.18.3 The Transport Act 1983 provides that the financial statements of the Country Roads Board, the Road Safety and Traffic Authority and the Transport Regulation Board for the year ended 30 June 1983 are to be prepared so as to give a true and fair view of the financial transactions and state of affairs of each authority, i.e. are to be prepared on an accrual basis. Previously, financial statements for these authorities were prepared on a cash basis and formed part of the central accounting system operated by the Department of Management and Budget. Responsibility for the preparation of the statements rests with the following authorities established under the Transport Act 1983:
- . the Road Construction Authority in respect of the Country Roads Board; and
  - . the Road Traffic Authority in respect of the Road Safety and Traffic Authority and the Transport Regulation Board.
- 6.18.4 The legislation further provides that the statements are to be prepared on or before 1 December 1983. As a result of these changes, comment on the Country Roads Board, the Road Safety and Traffic Authority and the Transport Regulation Board, together with comment on other authorities which are the responsibility of the Minister of Transport, will appear in a later report.

### Financial Responsibilities

- 6.18.5 The Ministry of Transport is responsible for:
- (1) collection and banking of revenue from the sale of publications and a proportion of travel card sales to private bus operators;
  - (2) payment of its own salaries and other operating expenses; and
  - (3) payment of other items including:
    - (i) subsidies to the Victorian Railways Board in lieu of certain freight rate increases;
    - (ii) subsidies to private bus operators;



- (iii) payments to the Melbourne and Metropolitan Tramways Board in respect of passenger transport; and
- (iv) cost of special projects approved by the Minister of Transport.

### **Scope of Audit**

- 6.18.6 The audit covered the central administration of the Ministry and included:
- (1) examination of the advance and revenue accounts; and
  - (2) an evaluation of internal control procedures relating to payments, including salaries, allowances and special projects.

### **Audit Observations and Recommendations**

#### Special Projects

- 6.18.7 Section 9 of the Ministry of Transport Act 1958, as amended by the Public Account (Trust Funds) Act 1982, provides that moneys appropriated by Parliament for the purposes of special projects may be applied as the Minister directs. A total of \$20.75 million was provided for special projects in the 1982-83 budget. On 30 March 1983 the Minister's approval was obtained for all projects undertaken since 1 July 1982. Some of these projects had commenced prior to the approval being obtained.
- 6.18.8 Audit considers that no project should be commenced without the required ministerial approval.

#### Approvals for Engaging Consultants

- 6.18.9 During 1982-83 the Ministry identified a need for outside skills and expertise to assist in restructuring the transport organisations. An amount of \$1 324 724 was allocated towards the engagement of consultants. Expenditure for the year amounted to \$1 126 485.
- 6.18.10 Audit noted several instances where the required approvals from the Tender Board and the Treasurer for the employment of consultants were sought after the consultants had commenced their duties.

#### Conclusion

- 6.18.11 Apart from the above matters, the audit examination proved satisfactory.

## **6.19 MINISTRY OF WATER RESOURCES AND WATER SUPPLY**

### Introduction

- 6.19.1 The Ministry of Water Resources and Water Supply was established by the Water Resources Act 1975. The function of the Ministry is to ensure the most efficient utilisation of the water resources of Victoria.

### **Scope of Audit**

- 6.19.2 As the State Rivers and Water Supply Commission performs the administrative functions of the Ministry, a review of the general payments and salaries and allowances of the Ministry was included as part of the audit of the Commission.

### **Audit Observations and Recommendations**

#### Tender Board Approvals

- 6.19.3 The Ministry of Water Resources and Water Supply is a department for the purposes of the Public Service Act 1974 and, unlike the State Rivers and Water Supply Commission, has not been granted an exemption from compliance with the requirements of Part V of the Department of Management and Budget Regulations 1981 in relation to stores, services and works.
- 6.19.4 During the year the Ministry failed to obtain ministerial and Tender Board approval for the purchase of stores and expenditure on works and services as required by Regulation 84 of the Department of Management and Budget Regulations 1981.

#### Conclusion

- 6.19.5 Apart from the above matter, the results of the audit proved satisfactory.

## **STATE RIVERS AND WATER SUPPLY COMMISSION**

### Introduction

- 6.19.6 The State Rivers and Water Supply Commission was established under the Water Act 1958. The Commission is the authority responsible for the conservation and distribution of rural water resources and the control of water from all rivers, streams and other natural sources in Victoria, with the exception of the Melbourne metropolitan area. Its functions also include drainage, flood protection and flood plain management and the control of salinity and water pollution.
- 6.19.7 The Ministry of Water Resources and Water Supply, through the Commission, exercises a supervisory role over the financial and engineering activities of water, sewerage, river improvement and drainage authorities throughout the State.

### Statutory Reporting Requirements

- 6.19.8 Section 61 of the Water Act 1958, requires the Commission to prepare an annual report of its proceedings, including a statement of moneys received and disbursed, together with a budget for the ensuing year. This report is to be laid before both houses of Parliament in the month of October, or if Parliament is not sitting, within 14 days after the commencement of the next session.

### Financial Responsibilities

- 6.19.9 Revenue received by the Commission is mainly from rates and charges levied for the supply of water and related services to approximately 200 000 ratepayers outside the metropolitan area of Melbourne. Most of the revenue is collected at district centres and is remitted to head office.
- 6.19.10 Salaries and general accounts are paid by the central administration. District centres are responsible for payment of minor accounts and wages.
- 6.19.11 The Commission is currently responsible for the control and custody of assets totalling approximately \$900 million. These consist mainly of dams, reservoirs, trunk mains, reticulation mains, plant machinery and buildings.

### **Scope of Audit**

- 6.19.12 The audit of the State Rivers and Water Supply Commission included an evaluation and examination of:
- (1) the cash inwards system and revenue recording procedures at head office;
  - (2) the payments systems, including salaries, operating at head office; and
  - (3) wages systems at both head office and district centres.
- 6.19.13 In addition, transactions on several bank accounts operated by the Commission were examined and the audit of the books and accounts of a number of district centres was undertaken during the year.

### **Audit Observations and Recommendations**

#### Blue Rock Dam Project

- 6.19.14 Construction on the dam site commenced in November 1979. As part of the project the Commission, with the approval of the Governor-in-Council, entered into a contract for the construction of the dam embankment at a cost of \$3.8 million. In November 1982 work on the project was extended with ministerial consent and Governor-in-Council approval and the value of the contract increased to \$5.2 million.

- 6.19.15 Under the financing arrangements between the Commission and the contractor, the contractor undertook to provide the initial finance during 1982-83 and the Commission agreed to make payment in early July 1983. Notwithstanding these arrangements, in January 1983 the Commission sought and obtained the approval of the Treasurer to charge the Treasurer's Advance with an amount of up to \$900 000 for this project in 1982-83.
- 6.19.16 Although, under the terms of the agreement, payments were deferred to 1983-84, the Commission drew a cheque for \$1.17 million on 27 June 1983 and charged the expenditure to the 1982-83 year. The amount of \$1.17 million included \$850 743 drawn against the \$900 000 allocated by the Treasurer from his Advance.
- 6.19.17 On 4 July 1983 the cheque for \$1.17 million was cancelled by the Commission and a replacement cheque issued for \$1.65 million for the total of the deferred payments due on 5 July 1983. The amount of the original cheque of \$1.17 million remained a charge against the 1982-83 appropriation and only the balance of \$480 000 has been charged against the 1983-84 appropriation.
- 6.19.18 Audit is of the opinion that:
- (1) there was no necessity for the Commission to seek funds from the Treasurer's Advance in view of the financing arrangements agreed to with the contractor;
  - (2) the cheque for \$1.17 million was drawn to utilise funds available for the project in 1982-83 although the payment was not due until 5 July 1983; and
  - (3) payments for capital purposes of the Commission for 1982-83 were overstated by \$1.17 million.

#### Contracts

- 6.19.19 Section 38 of the Water Act 1958 requires the Commission to obtain Governor-in-Council approval for contracts in excess of \$100 000. Two instances were noted where payments on contracts exceeded the amount sanctioned by the Governor-in-Council. The additional amounts involved were \$782 544 for the construction of an embankment on the Blue Rock Dam project and \$79 933 for the construction of an embankment on the Sandhurst Reservoir project.
- 6.19.20 The Commission indicated that, in its view, the approval of the Governor-in-Council constituted approval of the project rather than approval of the specified amount of the contract. The Commission therefore considered it unnecessary to obtain approval in respect of the escalated costs of a contract.
- 6.19.21 Audit is of the opinion that the approval of the Governor-in-Council relates to both the project and the amount of the contract. Thus, any cost overruns require Governor-in-Council approval.

## Trust Accounts - Estimates of Receipts and Expenditures

- 6.19.22 Sections 49A and 58AA of the Water Act 1958 require the Commission to prepare budgets for the Water Supply Stores Suspense Account and the Water Supply Plant and Machinery Depreciation Fund by 31 March and 31 May respectively. The Commission failed to comply with the requirements of these sections for the 1983-84 financial year.

### District Centres

- 6.19.23 The Commission operated 23 district centres throughout Victoria during 1982-83. In accordance with the provisions of the Geelong Waterworks and Sewerage (Bellarine Water Supply) Act 1983, the Bellarine Centre was taken over by the Geelong Waterworks and Sewerage Authority from 1 July 1983.
- 6.19.24 The books and accounts of a number of centres were audited during the year and the following matters arising from the audits were drawn to the attention of the Commission and the Treasurer:
- (1) inadequate receipting and banking procedures at the Frankston Centre; and
  - (2) failure to obtain the necessary approval of the permanent head pursuant to Regulations 89(4) and (5) of the Department of Management and Budget Regulations 1981 for the adjustment of stores records at the Bellarine Centre.

### Conclusion

- 6.19.25 Apart from the matters raised above and a number of minor internal control weaknesses, the results of the audit examination proved satisfactory.

## **WATER AUTHORITIES**

- 6.19.26 In 1982-83, 93 audits of water authorities were carried out by the Audit Office. In addition, as stated in paragraph 2.1.4. of this report, I appointed a number of private practitioners to act as my agents and these private practitioners conducted 102 audits of water authorities during the year. This resulted in a substantial reduction in arrears of audits of waterworks and river improvement trusts.
- 6.19.27 In many instances, matters raised in audit reports involved breaches of legislative requirements. Examples are:

### (1) Depreciation

There were 36 breaches of Section 285 of the Water Act 1958, relating to depreciation. These may be summarised as:

- (i) failure to fund the depreciation provision in full or in part;
- (ii) withdrawal of funds without ministerial authority;

- (iii) failure to invest funds in accordance with the Act; and
- (iv) failure to adjust the annual depreciation charge in respect of new works.

(2) Writing-off of Uncollectable Amounts

Eleven instances were noted where amounts were written-off contrary to the provisions of sub-section (5) of Section 360 of the Water Act 1958, which requires the recommendation of the Auditor-General or an audit inspector and ministerial approval prior to the writing-off of moneys not likely to be paid or recovered.

As stated in my 1981-82 report on the Treasurer's Statement (paragraph 4.27.13), I am of the opinion that it should be the responsibility of the Commission, not of audit to recommend the writing-off of such moneys, and the current legislation should be reviewed.

(3) Borrowings

Nine authorities borrowed funds in excess of the amounts authorised by the Governor-in-Council under Sections 286 and 288 of the Water Act 1958.

(4) Investments

(i) Four authorities amalgamated their investment funds with those of a related authority and invested the funds in the name of that authority without adequate security. The transactions contravened the provisions of Section 303 of the Water Act 1958.

(ii) Five authorities invested moneys in securities not authorised by Section 306A of the Water Act 1958.

(5) Banking of Moneys

Section 171 of the Water Act 1958 requires authorities to bank moneys collected at least once in every 7 days. It was noted that, at various times, 10 authorities failed to comply with this requirement.

(6) Annual Financial Statements

Several authorities were reported to the Minister of Water Supply for failure to keep their books and accounts up to date and ready for inspection and audit at all times during the year, as required by Section 168 of the Water Act 1958. Further, a number of authorities failed to prepare certain financial statements as soon as possible after the end of the financial year, as required by Section 172 of the Water Act 1958.

(7) Section 333 of the Water Act 1958 - Estimates

- (i) Thirty five audit reports drew attention to a breach of sub-section (i) of Section 333 of the Water Act 1958, in that certain items of expenditure exceeded the amounts provided for in the estimates and in that the additional expenditure had not been specifically approved by the Minister. Such additional expenditure is, in terms of the Act, to be "deemed and taken to be unlawful".
- (ii) Two authorities failed to submit estimates to the Minister of Water Supply prior to the making of a rate and in audit opinion the rates were illegally raised.

(8) Other

These included the failure to:

- (i) establish and fund a Long Service Leave Payments Reserve Fund as required by Section 160C of the Water Act 1958;
- (ii) gazette mains in accordance with the provisions of Section 207 of the Water Act 1958;
- (iii) include works constructed under Section 307AA of the Water Act 1958 in the books and accounts of the trust; and
- (iv) create a sinking fund as required by Section 303 of the Water Act 1958.

6.19.28 Additional matters raised included:

- (1) a lack of adequate insurance cover;
- (2) failure to maintain adequate books of accounts;
- (3) incomplete, unauthorised and un-cancelled vouchers; and
- (4) failure to write-back the cost of replaced works in the books and accounts of the trust and to adjust the depreciation thereon.

## **6.20 DEPARTMENT OF YOUTH, SPORT AND RECREATION**

### Introduction

6.20.1 The functions of the Department of Youth, Sport and Recreation are embodied in the Youth, Sport and Recreation Act 1972, the Racing Act 1958, the Professional Boxing Act 1975 and the Lotteries Gaming and Betting Act 1966 and are:

- (1) to provide financial assistance, consulting and advisory services to municipal councils and community groups on recreation planning, design and management of facilities;
- (2) to provide recreation programs, camp facilities, leadership training courses and other activities to cater for the needs of the people of Victoria, including the aged and the handicapped;
- (3) to improve the facilities available to the people of Victoria for leisure time pursuits;
- (4) to issue licences and permits for race meetings and to provide for totalizator inspection to co-ordinate gaming;
- (5) to allocate funds for development in the thoroughbred horse and greyhound industries;
- (6) to provide for licensing of promoters, registration of boxers, medical supervision of boxers and supervision of the conduct of boxing contests; and
- (7) to administer the operation of lotteries and betting under the Lotteries Gaming and Betting Act 1966.

### Financial Responsibilities

6.20.2 The Department collects revenue derived from the Government's share of totalizator turnover, recreation camps and activities. Under the provisions of the Public Account (Trust Funds) Act 1982, certain trust funds, including the Sports and Recreation, the Recreation and the Youth Funds ceased to exist as from 1 July 1982 and all transactions are now processed through the Consolidated Fund.

6.20.3 The Department is also responsible for the payment of its own salaries, wages and general accounts.

### **Scope of Audit**

6.20.4 The audit encompassed an examination of financial systems and transactions, including an evaluation of internal controls and the degree of compliance with relevant statutes, regulations and directives from the Treasurer and Public Service Board.

6.20.5 Audit reviewed the Department's administrative practices in relation to staffing and provision of grants, loans and subsidies to private organisations.



## **Audit Observations and Recommendations**

### Grants and Subsidies

- 6.20.6 In my report dated 6 October 1982, I drew attention to the unsatisfactory procedures for payment of grants and subsidies to private organisations. Although improvement was noted, a significant number of organisations, including committees of management which were granted \$4 561 025 from the Racecourses Development Fund and the Greyhounds Racing Grounds Development Fund during 1982-83, did not provide the Department with financial statements. Where financial statements were provided, a proportion of them were either not audited or did not make adequate disclosure of the application of the grants.

### Loans to Racing Clubs

- 6.20.7 Follow-up procedures in respect of arrears of loans to racing clubs and other organisations were inadequate. Of the 87 loans at 30 June 1983, 11 were in arrears for periods in excess of 6 months. Moreover, the Department did not obtain security for these loans.

### Loan to Ballarat YMCA

- 6.20.8 An interest free loan of \$125 000 to the Ballarat City Council for the Ballarat YMCA was originally approved by the Minister for Youth, Sport and Recreation in August 1977. In April 1978, following representation by the Council, it was agreed to make the loan direct to the Ballarat YMCA. No formal security was taken for the loan although the directors of the Ballarat YMCA by letter guaranteed loan repayment.
- 6.20.9 In April 1982 this organisation was placed in official management. The balance of principal outstanding at 30 June 1983 was \$100 000, of which \$50 000 was in arrears.
- 6.20.10 Audit recommendations made to the Department included:
- (1) regular monitoring of loan repayments; and
  - (2) that appropriate security be obtained for future loans.

### Conclusion

- 6.20.11 Apart from the above matters and a number of minor matters brought to the attention of the Department, the audit examination proved satisfactory.

## **RAFFLES AND BINGO PERMITS BOARD**

### Introduction

- 6.20.12 The Board was established under the provisions of the Lotteries Gaming and Betting (Raffles and Bingo) Act 1977. The functions of the Board are to issue permits for, and control the conduct of, raffles and bingo throughout Victoria. From 10 January 1983 the administration of the Lotteries Gaming and Betting Act 1966 was transferred from the Attorney-General to the Minister for Youth, Sport and Recreation.

### Financial Responsibilities

- 6.20.13 Pursuant to the Public Account (Trust Funds) Act 1982, the Bingo Fund ceased to exist as from 1 July 1982 and all transactions are now processed through the Consolidated Fund.

### **Scope of Audit**

- 6.20.14 Tests were made of the Board's system for collection of revenue from permits and surcharges.

### Conclusion

- 6.20.15 Apart from minor internal control weaknesses which were brought to the Board's attention, the audit tests proved satisfactory.

## 6.21 **AUDIT OF PARLIAMENT, OTHER DEPARTMENTS AND MINISTRIES**

6.21.1 Apart from some minor weaknesses in and departures from internal control, the audits of the following bodies, which are not reported separately in this report, proved satisfactory:

- . Ministry for the Arts
- . Ministry for Economic Development
- . Ministry of Employment and Training
- . Ministry of Housing
- . Ministry of Industrial Affairs
- . Department of Labour and Industry
- . Local Government Department
- . Parliament of Victoria
- . Department of Planning