

VICTORIA

Third Report

of the

AUDITOR-GENERAL

for the

Year ended 30 June 1983

Ordered by the Legislative Assembly to be printed

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Office of the Auditor-General
MELBOURNE, VIC
25 November 1983

Sir,

Pursuant to the provisions of the Audit Act 1958, I transmit herewith a report on the 1982-83 financial statements of certain statutory bodies which I am required by law to audit. This report is supplementary to my reports of 21 September 1983, in relation to the Treasurer's Statement for the year ended 30 June 1983, and of 18 October 1983 on the audit of departments during 1982-83.

Yours faithfully,


B.J. WALDRON
Auditor-General

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

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 The Second Report, which was presented to Parliament on 20 October 1983, contained 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 This, the Third Report, covers 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.

1.2 **CONTENTS OF THIRD REPORT**

- 1.2.1 In this Third Report, detailed statements of final accounts of statutory bodies which are required to present audited financial statements to Parliament, have not been duplicated.
- 1.2.2 The report provides a brief description of each statutory body, an outline of the scope of the audit and any audit observations and recommendations of a significant nature which arose from the audit on matters such as:
- (1) reviews of internal controls;
 - (2) reviews of E.D.P. applications;
 - (3) instances of failure to comply with legislative or regulatory requirements; and
 - (4) deficiencies or inconsistencies in the application of stated accounting policies or applicable accounting standards.

- 1.2.3 Management responses to matters raised in the audit reports have also been provided where these are available.
- 1.2.4 A further report containing comment on the accounts of those bodies subject to my audit and not included in this report will be presented to Parliament early in 1984, as indicated above.

1.3 **ROLE AND FUNCTIONS OF THE AUDITOR-GENERAL**

General

- 1.3.1 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.
- 1.3.2 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.
- 1.3.3 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.
- 1.3.4 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.
- 1.3.5 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.
- 1.3.6 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.

1.3.7 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

1.3.8 The Auditor-General is responsible for the audit of the financial operations of all State government departments and most major authorities.

1.3.9 In Victoria, public sector activities are divided into 2 main areas of operation, generally referred to as the inner budget and outer budget sectors.

1.3.10 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.

1.3.11 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.

1.3.12 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.

1.3.13 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.

1.3.14 Many large public bodies are required to include financial statements along with the Auditor-General's report thereon in their annual reports to Parliament.

1.4 ACKNOWLEDGMENTS

1.4.1 I wish to record my appreciation of the co-operation of the members and staff of the various statutory bodies referred to in this report, and the assistance of the Government Printer in printing my reports.

PART 2

MATTERS OF SPECIAL INTEREST

2.1 **ADVICE TO AUDIT OF ACCOUNTING CHANGES**

- 2.1.1 As in previous years a number of instances occurred where proposed changes in the format of annual financial statements and changes in accounting policies have not been formally advised to audit in sufficient time for consideration.
- 2.1.2 To ensure timeliness in the presentation of annual audited financial statements to Parliament, it is important that audit be given the opportunity to comment upon proposed changes in accounting policies at the earliest possible time.

2.2 **STATUTORY AUTHORITY FINANCIAL REPORTING**

- 2.2.1 Readers of my past reports will be aware of my specific identification of the need for attention to be given to the standard of financial reporting by statutory authorities in this State. This issue has recently been subject to considerable discussion in Victoria, particularly since reports of the parliamentary Public Bodies Review Committee on the Audit and Reporting of Public Bodies in Victoria and the Economic and Budget Review Committee on a Review of the Audit Act 1958 were tabled.
- 2.2.2 In view of the recent passing of the Annual Reporting Act 1983 which will govern the form and content of financial statements of statutory authorities, I identify in this section financial reporting issues relevant to statutory authorities which are not currently treated consistently by all authorities, or which are regarded as contentious.
- 2.2.3 The Annual Reporting Act 1983 provides for the prescription by way of regulations of the form and content of the financial statements of statutory authorities (and departments). The objectives are both to provide more relevant information to Parliament and the public and to ensure greater comparability of reported financial results and position between different authorities.
- 2.2.4 The role of the Auditor-General in setting accounting standards was considered by the Economic and Budget Review Committee in its report on a Review of the Audit Act 1958. The Committee reaffirmed my view that it is not an appropriate role for the Auditor-General to prescribe financial reporting standards. An objective approach to the audit task requires that the auditor not be required to audit adherence to requirements which he himself has prescribed. I support the Committee's view that the prescription of such reporting standards should be the responsibility of the Executive, or more specifically the Treasurer, with the provision that the prescribed reporting standards should be reviewed and commented on by the Committee itself, as representative of the Parliament. The charter of the Department of Management and Budget provides for it to assume basic responsibility for the detailed work of developing such reporting standards and recommending them to the Treasurer.

2.2.5 I consider that the role of the Auditor-General does, however, include commenting to Parliament on proposed accounting policies and identifying and reporting issues which need to be more adequately or consistently treated. I have commented on a number of such issues in previous reports.

2.2.6 Some of the major deficiencies in existing statutory authority financial statements were listed by the Economic and Budget Review Committee in its report and are repeated below:

- (1) The use of only cash flow accounting by some authorities means that neither information on costs of activity nor a statement of assets and liabilities is provided.
- (2) The failure to classify costs or revenues on a functional, program or activity basis.
- (3) Varying treatment of such accounting issues as recognition of liability for long service leave, superannuation costs, depreciation etc.
- (4) The disclosure in the balance sheet of many separate "funds" with no indication as to what they represent, their purpose or what restrictions they represent on the use of assets, i.e. whether they are committed or available liquid funds.
- (5) The absence of a statement of sources and application of funds indicating changes in the financial structure of the organisation (e.g. policies on financing of capital assets, debt redemption etc.).*
- (6) A confusing "capital" section of the balance sheet under which the nature or source of past long term financing of the organisation is not clearly disclosed.

* An Australian Accounting Standard was issued recently and a number of statutory authorities have followed the standard by including such a statement in their financial statements.

2.2.7 These deficiencies exist for 2 major reasons:

- (1) The financial reporting provisions in legislation establishing particular statutory authorities are inconsistent as between authorities and in some cases are in conflict with Australian Accounting Standards. While the legislation prescribes the statements which must be prepared e.g. income statements, balance sheet, there is little prescribed as to the form and content of these statements. For example, a number of statutory authorities prepare financial statements on a cash rather than an accrual basis because they are required to do so by their legislation, and they have treated the legislative provision as a maximum rather than a minimum requirement.

A significant number of authorities are required by their legislation to establish various separate funds which complicate comprehensive financial reporting by the organisation, in some cases unnecessarily. Legislative provisions also frequently confuse the normal accounting distinctions between expenses to be deducted in determining profit and appropriations of profit, and between provisions (liabilities) and reserves (which are part of the Government's equity in the organisation). Thus there can be misinterpretation of both the financial result for the year and the financial position at the end of the year, particularly if a comparison is made with the financial statements of private sector organisations.

This great variety in legislative provisions is due in part to the lack of any overview in the past on the financial reporting of statutory authorities.

- (2) Australian Accounting Standards promulgated by the professional accounting bodies do not yet exist for a number of the issues mentioned by the Economic and Budget Review Committee. For example, as yet there is no Australian Accounting Standard on the recognition of future liabilities for superannuation and long service leave commitments.

2.2.8 Existing legislative requirements on the overall form and content of financial statements vary considerably. There is a great variety of requirements for financial statements to present a "true and fair" view, "true and correct" view, "correct" view etc. These provisions will in due course be replaced by the overall requirements in the Annual Reporting Act 1958 to "present fairly" the information. This provision uses more modern terminology, but does not alter the essence of the criterion. In my audit role such provisions are interpreted as requiring:

- (1) observance of legislative provisions governing financial reporting;
- (2) observance of Australian Accounting Standards where these are not inconsistent with legislative requirements; and
- (3) observance of generally accepted accounting practices where these are not inconsistent with legislative requirements and are not covered by Australian Accounting Standards.

2.2.9 The Annual Reporting Act 1983 introduces an additional criterion, namely observance of the regulations prescribing the form and content of financial statements.

2.2.10 Some of the important issues which I consider will need to be addressed in prescribing the form and content of statutory authority financial statements under the Act are set out below. Many of these issues have arisen during the course of my audit reports on statutory authorities.

(1) Treatment of Government and Other Grants

Should these be treated as income or credited directly to a reserve? Should capital grants be disclosed in the operational statement or should they be directly credited to a capital reserve? The reported financial operations for the year will differ depending upon the treatment adopted. In the case of specific purpose grants, should moneys received during the year and not used in full be treated as a liability of the organisation.

(2) Current Cost Accounting

Should the Government adopt current cost accounting in full or should it adopt the recommendations of the Statement of Accounting Practice of the professional accounting bodies which strongly recommends supplementary current cost financial statements in addition to conventional statements prepared on an historical cost basis, or should it not adopt either of these approaches and present only financial statements prepared on an historical cost basis?

(3) The Recognition of Liabilities such as Long Service Leave and Superannuation

How much of the future liability should be recognised? Should it extend beyond the existing legal liability to employees and include the estimated liability to present employees who can in due course be expected to become eligible for such payments?

(4) Self-Insurance

Many government organisations are self-insurers i.e. they carry their own risk. Is the creation of a self-insurance "reserve" properly an expense giving rise to a liability in the balance sheet (where it would be correctly termed a provision) or is it an appropriation of profits to a "reserve" which is still part of the Government's equity in the organisation?

(5) Recognition of Long Term Lease Commitments

Should there be recognition in the financial statements of both the property right (asset) and the financial commitments (liability) arising from a long term lease or should this be shown by way of note only?

(6) Statutory Contributions by Trading Organisations

Should fixed obligations to make contributions to general government revenues such as royalty payments and other contributions to the Consolidated Fund be treated as a business expense or an appropriation?

(7) Fund Accounting

To what extent is there a need for some authorities to have their financial operations segregated into various separate funds for each of which separate financial statements are prepared or, alternatively, should there be a requirement for comprehensive financial reporting in addition to separate reporting by each fund?

(8) Reporting on Economic Performance

To what extent should financial reports incorporate information relevant to the Government's economic targets for trading organisations? Government policy is to require such trading organisations to earn a real rate of return on assets, which envisages both the valuation of assets and the measurement of expenses on an economic or opportunity cost basis, which would in many cases differ from current accounting practices. It may be argued that the current cost basis of accounting in general provides such information.

(9) Cash Accounting

Should accrual accounting be adopted as a general requirement to replace reporting on a cash basis where that is still used?

(10) Valuation of Long-Life Infrastructure Assets

What is the appropriate basis of the valuation of certain classes of long-life infrastructure assets such as roads, dams etc. and the appropriate basis of depreciation of such fixed assets?

(11) Valuation of Land and Buildings not Vested

To what extent should assets such as land and buildings used and controlled by authorities but not actually owned by or vested in the authority be disclosed in the financial statements?

(12) Reserves and Provisions

What should be the basis of distinguishing between various "reserves", "funds" and "provisions" and how should their nature and purpose be disclosed in the financial statements?

2.2.11 It can be seen that there are many complex issues to be addressed in improving the relevance and comparability of statutory authority financial statements. Some of these issues apply to all organisations, whether in the public or the private sector. However, some of them are peculiar to public sector organisations.

2.2.12 I endorse the view of the Commonwealth Parliament's Joint Committee of Public Accounts in its Discussion Paper on the Form and Content of Financial Statements of Commonwealth Undertakings (Report 199) that the adoption of Australian Accounting Standards promulgated by the 2 professional accounting bodies is not in itself a sufficient approach to overcoming these problems and that a considerable amount of research is necessary to properly establish a conceptual framework for these financial reporting requirements.

2.2.13 In this respect the work of the newly established Public Sector Accounting Standards Board, which is charged with developing and co-ordinating accounting standards to be recommended for use in the public sector, will be most significant. Mr. David Shand, my Chief Director of Audit (Resources) and Mr. David Greenall, a member of my Panel of Advisers, have been appointed by the 2 professional accounting bodies to membership of this Board.

2.2.14 During 1983 the Commonwealth Government issued new guidelines for the preparation of financial statements by Commonwealth undertakings. Similar work is currently underway in the New South Wales Government and considerable work has already been done on this issue in Victoria within the Department of Management and Budget and elsewhere. In my view, it is important for different governments in Australia to work together to improve the comparability of financial reporting between different governments.

2.2.15 Finally, whilst I stress that there is much to be done in the area of financial reporting of statutory authorities, it would be remiss of me to fail to mention the significant improvement achieved, particularly in the last 2 years, by many Victorian statutory authorities in the form and content of their financial statements. I acknowledge the assistance of officers of these organisations and my own staff in bringing this about.

2.3 OTHER MATTERS OF SPECIAL INTEREST

2.3.1 Matters of special interest detailed in Part 4 : Audit of Statutory Bodies are identified hereunder:

<u>SUBJECT</u>	<u>PARAGRAPH REFERENCE</u>
<u>Qualification of Financial Statements</u>	
Geelong Grain Handling Improvement Authority	4.4.22
Portland Grain Handling Improvement Authority	4.4.17
Victorian Economic Development Corporation	4.23.7 - 4.23.8
<u>Government Employee Housing Authority</u>	
Rental scales - financial viability of the Authority	4.2.8 - 4.2.9
<u>Latrobe Valley Water and Sewerage Board</u>	
Loan from State Development Fund	4.7.8 - 4.7.10
<u>Metropolitan Fire Brigades Board</u>	
Special service - control weaknesses in the section	4.10.8 - 4.10.9
Investment powers of the Board	4.10.10 - 4.10.11
<u>Metropolitan Fire Brigades Superannuation Board</u>	
Actuarial provisions - need for actuarial investigation	4.11.9

<u>SUBJECT</u>	<u>PARAGRAPH REFERENCE</u>
<u>Office of the Public Trustee</u>	
Loss on common fund mortgage	4.13.19 - 4.13.21
<u>Rural Finance Commission</u>	
Provision for superannuation	4.16.11 - 4.16.13
Provision for doubtful debts	4.16.14 - 4.16.16
<u>State Electricity Commission</u>	
Effect of changes in accounting treatment	4.17.9
Bushfires - claims resulting from fires	4.17.10 - 4.17.13
Newport D Power Station - write-down of assets	4.17.17 - 4.17.19
<u>Urban Land Authority</u>	
"Keilor Downs" - loss on revaluation of properties	4.20.8 - 4.20.9
<u>Victorian Dairy Industry Authority</u>	
Computer installation review	4.21.18 - 4.21.19
<u>Victorian Development Fund</u>	
E.D.P. review	4.22.18 - 4.22.22
<u>Victorian Tourism Commission</u>	
Appointment of consultant	4.26.11 - 4.26.12

PART 3

STATUS REPORT

3.1 This section reports on the status of observations and recommendations relating to statutory bodies which were contained in previous reports of the Auditor-General.

<u>REPORT</u>	<u>PAGE</u>	<u>AUTHORITY</u>	<u>STATUS AT DATE OF PREPARATION OF THIS REPORT</u>
<u>GOVERNMENT EMPLOYEE HOUSING AUTHORITY</u>			
1981-82	21	Accommodation register not yet finalised.	Position unchanged.
<u>GOVERNMENT PRINTING OFFICE</u>			
1980-81	54	Sundry debtors - government departments - Treasury instruction re payment of accounts within 30 days not being complied with.	Position unchanged. At 30 June 1983 debtors outstanding over 30 days amounted to \$1 093 727.
<u>GRAIN HANDLING IMPROVEMENT AUTHORITIES</u>			
1980-81	63	Doubt on ownership of assets.) Position unchanged. There are indications that Authorities may be wound up in the near future.
	63	No facility to generate income.	
May 83	17	The ownership of assets constructed or financed by certain "authorities" should be clarified.)
	18	Services of officers of the Grain Elevators Board utilised by the Authority without the approval of the Minister.	Position now satisfactory.
<u>GREYHOUND RACING CONTROL BOARD</u>			
1981-82	26	The financial viability of the Board should receive urgent attention.	Improvement in financial result for 1982-83. Deficit of \$17 407 after providing \$35 000 as an abnormal expense for long service leave.
	27	Provision should be made in the accounts for long service leave in respect of officers of the Board.	Position now satisfactory.

<u>REPORT</u>	<u>PAGE</u>	<u>AUTHORITY</u>	<u>STATUS AT DATE OF PREPARATION OF THIS REPORT</u>
<u>LATROBE VALLEY WATER AND SEWERAGE BOARD</u>			
1981-82	32	All office and laboratory equipment and furniture should be recorded in the asset registers.	Position unchanged. Further comment is given in paragraph 4.7.13 of this report.
	32	The failure to keep a satisfactory register to record all agreements and charges due to the Board resulted in the non invoicing of certain charges for interest, redemption and depreciation.	The matter is still under review by audit.
	32	Weaknesses in internal control in respect of salaries and other expenditure.	Various weaknesses in internal control still exist and have been reported upon in the current audit.
<u>MELBOURNE WHOLESALE FRUIT AND VEGETABLE MARKET TRUST</u>			
1981-82	57	Certain control weaknesses were evident in respect of computer operations.	Position now satisfactory.
	57	Salaries and wages - employees did not sign attendance records.	Further comment is given in paragraphs 4.9.11 - 4.9.12 of this report.
	57	Accountable documents - lack of control over recording and security.	Position unchanged.
	57	Rental arrears - unsatisfactory position.	Action taken by the Trust has reduced the arrears from \$51 022 at 30.6.82 to \$13 257 at 30.6.83.
<u>NATIONAL GALLERY OF VICTORIA</u>			
1980-81	139	Cash collections internal control weaknesses.	Position unchanged.
1981-82	43	Works of art - no regular stocktaking - lack of insurance cover.	Position unchanged.
<u>OFFICE OF THE PUBLIC TRUSTEE</u>			
1980-81	145	Financial statements -	Position unchanged in 1982-83.
1981-82	70	amendment to legislation required.	Attorney-General has advised that action will be initiated to include financial statements in future annual reports.

<u>REPORT</u>	<u>PAGE</u>	<u>AUTHORITY</u>	<u>STATUS AT DATE OF PREPARATION OF THIS REPORT</u>
<u>OFFICE OF THE PUBLIC TRUSTEE</u>			
1980-81	148	Internal audit - effectiveness impaired by staff turnover and secondment of staff to other sections.	The position has improved following the adoption of modern audit methodology and an increase in internal audit staff.
1981-82	74		
1981-82	74	Delays in banking of certain moneys received.	Position unchanged.
<u>PORT OF PORTLAND AUTHORITY</u>			
1981-82	69	Legislative requirement not observed in respect of failure to obtain Governor-in-Council approval for No. 5 Berth extension.	Position unchanged.
<u>STATE ELECTRICITY COMMISSION</u>			
May 83	47	A number of practices adopted for the depreciation of non-current assets is at variance with Australian Accounting Standards.	Further comment in paragraphs 4.17.14 - 4.17.16.
<u>STATE SUPERANNUATION BOARD OF VICTORIA</u>			
1979-80	140	Computer services supplied by Local Authorities. Superannuation Board - formal agreement still to be finalised.	State Superannuation Board has now signed formal agreement.
1980-81	187		
1979-80	140	Need for introduction of full accrual accounting procedures and meaningful financial reports.	Position now satisfactory.
1980-81	187		
May 83	53	The liability for unclaimed refunds of contributions should be ascertained and shown in the 1982-83 financial statements.	Position unchanged.
	54	The subsidiary records of the Reserve Units Account should be reconciled with the general ledger.	Reconciliation not yet finalised in respect of 1982-83.
	54	Lack of information contained in the Board's minutes.	Some improvement was noted, however the position is not considered to be wholly satisfactory.

<u>REPORT</u>	<u>PAGE</u>	<u>AUTHORITY</u>	<u>STATUS AT DATE OF PREPARATION OF THIS REPORT</u>
<u>VICTORIAN DAIRY INDUSTRY AUTHORITY</u>			
1980-81	205	Payments to producers through depots - review of procedures necessary.	Action in course. Further comment is given in paragraphs 4.21.12 - 4.21.17 of this report.
May 83	57	Investigation into alleged falsification of information on files relating to certain tenders.	Legal proceedings in course.
<u>VICTORIAN ECONOMIC DEVELOPMENT CORPORATION</u>			
May 83	59	Treasurer's approval not obtained to temporary bank overdraft.	Position now satisfactory.
	60	The Treasurer had not fixed the total amount respecting guarantees pursuant to sub-section (2) (b) of Section 13 of the Victorian Economic Development Corporation Act 1981.	Treasurer has now authorised a guarantee limit of \$10 million on the total face value of guarantees executed and still in force.
	60	The accounts of overseas offices should be prepared on a consistent basis.	Position unchanged.
<u>VICTORIAN EGG MARKETING BOARD</u>			
1981-82	47	The authority of the Board to make certain ex-gratia payments to staff should be clarified.	Legal opinion obtained by the Board states that it possesses the necessary power to make such payments.
	47	There is a need to clarify the basis of the Board's decision to make an additional contribution of \$120 000 to the Superannuation Fund in respect of the former general manager and another senior officer.	Position has now been satisfactorily clarified by the Board.

PART 4

AUDIT OF STATUTORY BODIES

4.1 GAS AND FUEL CORPORATION OF VICTORIA

Introduction

4.1.1 The Gas and Fuel Corporation of Victoria was established under the provisions of the Gas and Fuel Corporation Act 1950.

4.1.2 The objectives of the Corporation are to:

- (1) ensure a safe, economical and effective supply of gas to the people of Victoria;
- (2) promote the efficient use of gas in those applications where it can effectively contribute to meeting the energy demands of modern society; and
- (3) operate as an efficient business enterprise at a level of profit consistent with its role as a publicly owned utility.

Statutory Reporting and Auditing Requirements

4.1.3 The Gas and Fuel Corporation Act 1958 requires the Corporation to prepare at the end of every financial year a profit and loss account and balance sheet. An audited copy of the balance sheet and profit and loss account is to be laid before both Houses of Parliament.

4.1.4 In accordance with Section 20 of the Gas and Fuel Corporation Act 1958, the financial statements of the Gas and Fuel Corporation of Victoria are audited jointly by the Auditor-General and auditors appointed by the Corporation. The auditors appointed by the Corporation are responsible for the audit of the financial statements of the subsidiaries of the Corporation, namely, the Albury Gas Company Ltd. and Gas and Fuel Exploration No Liability.

4.1.5 The financial statements were adopted by the Board on 26 August 1983, and the joint audit report was signed on 28 September 1983.

Financial Operations

4.1.6 The financial operations of the Corporation and the consolidated figures of the Corporation and its subsidiaries for 1982-83 compared with 1981-82 are summarised hereunder:

	Gas and Fuel Corporation		Consolidated	
	1981-82 \$000	1982-83 \$000	1981-82 \$000	1982-83 \$000
Income	388 914	459 527	392 783	464 123
Cost of sales	114 015	114 213	116 736	117 097
Net income	274 899	345 314	276 047	347 026
Expenditure	262 303	328 001	267 839	337 453
Operating Profit	12 596	17 313	8 208	9 573
Profit on Sale of Fixed Assets	2 948	702	2 948	702
Net Profit	15 544	18 015	11 156	10 275

4.1.7 Net assets of the Corporation and its subsidiaries at 30 June 1983 were \$108.9 million (30 June 1982, \$99.4 million).

4.1.8 During the year, the Public Authorities (Contributions) Act 1966 was amended to provide for the Gas and Fuel Corporation to transfer to the Consolidated Fund a contribution of an amount equal to 33 per cent of the total revenue of the Corporation received during 1981-82. The contribution rate prior to the above legislative amendment was 15 per cent. The contribution increased from \$39.8 million in 1981-82 to \$90.8 million in 1982-83.

Scope of Audit

4.1.9 The audit included the documentation, evaluation and testing of the Corporation's computerised accounts payable and payroll systems, documentation of the system for stocks and stores and the verification of assets and liabilities at 30 June 1983 as allocated by the joint audit agreement.

Audit Observations and Recommendations

Pipeline Licence Fee

4.1.10 The pipeline licence fee, payable to the Consolidated Fund by the Corporation under the Pipeline (Fees) Act 1981, increased from \$10 million in 1981-82 to \$22.2 million in 1982-83. A High Court decision, dated 5 August 1983, ruled that the fees under Section 2 of the Act were in the nature of an excise and as such were invalid. As a consequence of this decision, the Corporation has disclosed a contingent liability of \$2.7 million in its explanatory notes to the 1982-83 financial statements, on the basis that it may be necessary for this sum to be refunded to certain major consumers who had been levied by the Corporation for a portion of the licence fee.

Creditors - Accounts Payable System

- 4.1.11 In my December 1982 report, reference was made to a major control weakness in the computerised creditors accounts payable system which had been developed in-house by the Corporation. One of the major weaknesses was a lack of satisfactory and regular reconciliations of the trade creditors account in the general ledger with the total of individual balances.
- 4.1.12 The above reconciliation weakness continued to persist during 1982-83. The monthly reconciliation record indicated a difference between the general ledger and individual accounts of approximately \$200 000.
- 4.1.13 The continuing discrepancy in the records is due mainly to a lack of interface between the stores and creditors ledgers which currently necessitates independent postings of transactions into each system. The process is time consuming and results in inconsistent input into the 2 ledgers.
- 4.1.14 An internal task force of the Corporation recommended changes to the existing systems including processing input simultaneously into the 2 systems. The Systems and Data Processing Department of the Corporation is currently developing and amending the computer processes to accord with the recommendations of the task force.

Unclaimed Moneys

- 4.1.15 In audit opinion the Corporation is a "company" within the meaning of the Unclaimed Moneys Act 1962. In accordance with Section 12 of this Act, all unclaimed moneys are required to be paid to the Receiver of Revenue at the Department of Management and Budget for credit to the Unclaimed Moneys Fund.
- 4.1.16 Unclaimed moneys held by the Corporation at 30 June 1982 for unpaid dividends, unclaimed debentures and accrued debenture interest totalled approximately \$47 000. These moneys had not been paid to the Receiver of Revenue at the Department of Management and Budget.
- 4.1.17 Audit recommended that legal advice be sought to determine whether the Corporation is required to comply with the provisions of the Unclaimed Moneys Act 1962.

Conclusion

- 4.1.18 Apart from the above matters and some minor weaknesses brought to the attention of the Corporation, the results of the audit proved satisfactory.

4.2 GOVERNMENT EMPLOYEE HOUSING AUTHORITY

Introduction

4.2.1 The Government Employee Housing Authority, established under the Government Employee Housing Authority Act 1981, replaced the Teacher Housing Authority from 24 March 1982.

4.2.2 The Authority's principal functions are:

- (1) to provide suitable housing accommodation for government employees in participating departments;
- (2) to establish and maintain a register of such houses provided for government employees; and
- (3) to advise on and review the practices of government departments and statutory authorities in providing employee housing.

Statutory Reporting and Auditing Requirements

4.2.3 Section 23 of the Government Employee Housing Authority Act 1981 requires the Authority, as soon as practical after the end of each financial year, to furnish the Minister with a report of its operations and audited financial statements for tabling in Parliament. Section 22 of the Act provides for an annual audit of the accounts of the Authority by the Auditor-General.

4.2.4 The financial statements were adopted by the Authority on 8 September 1983 and the audit report was signed on 24 November 1983.

Financial Operations

4.2.5 The financial operations of the Authority for the year 1 July 1982 to 30 June 1983, compared with the previous operating period from 24 March 1982 to 30 June 1982, are shown below:

	24.3.82 to	
	30.6.82	1982-83
	\$	\$
Income	1 148 730	4 798 617
Expenditure	1 271 041	5 176 892
	<hr/>	<hr/>
Deficit	122 311	378 275
	<hr/>	<hr/>

4.2.6 The excess of liabilities over assets at 30 June 1983 was \$580 450 (30 June 1982, \$202 175).

Scope of Audit

4.2.7 The audit covered an examination of financial systems and transactions including an evaluation of internal controls and verification of assets and liabilities at 30 June 1983.

Audit Observations and Recommendations

Rental Scales

- 4.2.8 New rental scales became operative from 3 October 1982 and provided for a maximum rental of \$125 per fortnight. Rental income generated for the year was insufficient to cover costs incurred and resulted in an operating loss in respect of rental operations of \$1 903 666. The loss was partly offset by various government grants which totalled \$1.2 million in 1982-83 and profits on the sale of certain properties and investment income. Main items contributing to the loss were maintenance, \$2 393 357 and interest on loans, \$1 082 095. This loss followed a loss on rental operations of \$483 713 in the previous period of approximately 3 months which was commented on in my December 1982 report.
- 4.2.9 The continuing loss on rental operations warrants further review by the Authority.

Non-recovery of rental arrears

- 4.2.10 Certain tenants were charged incorrect rentals during the year 1981-82 which resulted in over and underpayments. Rentals overcharged have been returned to tenants. No action has been taken in respect of \$19 419 rentals undercharged, most of which was due to a failure to notify a number of tenants of a rental increase.

Expenditure without Ministerial Approval

- 4.2.11 For the financial year 1982-83 the Authority failed to obtain ministerial approval for a total of \$426 945 expended in excess of its annual estimates as is required by Section 21 of the Government Employee Housing Authority Act 1981.

Conclusion

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

Response by Authority

- 4.2.13 The Authority indicated that in respect of rental arrears there is no basis in law to support a claim by the Authority against the tenants for the arrears as the tenancy agreements require tenants to be advised in writing of any increase in rent.
- 4.2.14 The Authority has had insufficient time to respond to the other matters raised above.

4.3 GOVERNMENT PRINTING OFFICE

Introduction

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

Statutory Reporting and Auditing Requirements

- 4.3.2 The operations of the Government Printing Office are financed through the Government Printing Office Working Account, a trust account held in the Department of Management and Budget. The majority of capital expenditure incurred by the Office is financed through the Works and Services Account. Both groups of transactions are incorporated in the annual financial statements of the Department of Property and Services. In addition, the Government Printing Office prepares trading accounts and a statement of balances which do not form part of the departmental financial statements.
- 4.3.3 Trading accounts for 1982-83, together with a statement of balances at 30 June 1983, were received by audit on 27 October 1983. Although there is no statutory requirement for the Auditor-General to express an opinion on these financial statements, they have been audited and details are included in this report.

Financial Operations

- 4.3.4 Changes in presentation in the financial statements of the Office for 1982-83 were:
- (1) presentation of the Manufacturing Statement has been reorganised to disclose prime cost of goods manufactured; and
 - (2) transfers out of production to other centres are shown in the Profit and Loss Statement. In previous years, these transfers were shown in the Manufacturing Statement.
- 4.3.5 Comparative figures for 1981-82 have been adjusted to reflect the above changes.
- 4.3.6 Manufacturing and profit and loss statements of the Office for 1982-83 compared with 1981-82 are summarised hereunder:

	1981-82	1982-83
	\$	\$
Work in progress 1 July	2 970 269	3 044 849
Prime cost of goods manufactured	13 392 931	14 480 898
Manufacturing expenses	2 496 742	3 114 415
	<hr/>	<hr/>
	18 859 942	20 640 162
Less transfers out - manufacturing expenses	110 447	221 216
	<hr/>	<hr/>
	18 749 495	20 418 946
	<hr/>	<hr/>

	1981-82	1982-83
	\$	\$
Work in progress 30 June	3 044 849	2 583 932
Cost of goods manufactured	15 704 646	17 835 014

PROFIT AND LOSS STATEMENT

	1981-82	1982-83
	\$	\$
Net Sales	23 312 567	25 015 814
Less		
Cost of goods sold		
Stock 1 July	2 206 192	2 865 737
Purchases	6 358 279	5 953 337
Net internal transfers*	(739 073)	(905 915)
Cost of goods manufactured	15 704 646	17 835 014
Less stock 30 June	2 865 737	3 321 120
Less Trading Expenses	1 160 889	1 421 599
Gross Profit	1 487 371	1 167 162
Less selling, administrative and finance expenses	1 426 410	1 911 067
Net Operating Profit/(Loss)	60 961	(743 905)
Add Non-Operating Income	55 585	66 152
Net Profit/(Loss)	116 546	(677 753)
Accumulated Surplus 1 July	2 907 712	3 024 258
Accumulated Surplus 30 June	3 024 258	2 346 505

4.3.7 The main factors contributing to the net loss of \$677 753 in 1982-83 compared with a net profit of \$116 546 in 1981-82 were:

- (1) wage increases granted in the year;
- (2) the effect of a price freeze introduced by the Government during the year; and
- (3) the impact on productive output of retraining programs arising from the introduction of modern technology.

4.3.8 The statement of balances of the Office at 30 June 1983 compared with the previous year is summarised hereunder:

STATEMENT OF BALANCES

	30.6.82	30.6.83
	\$	\$
Funds Provided From		
Treasurer's advances to working account	3 004 405	3 004 405
Works and services advances for machinery	4 000 953	5 164 041
Public Works Department-works and services	577 768	672 023
Department of Management and Budget- workers' compensation	314 954	414 273
	<hr/>	<hr/>
	7 898 080	9 254 742
Accumulated Surplus	3 024 258	2 346 505
	<hr/>	<hr/>
	10 922 338	11 601 247
	<hr/>	<hr/>
Represented by:		
Current Assets		
Government Printing Office Working Account	446 673	131 794
Sundry debtors, including prepayments	3 858 000	3 914 801
Stock on hand	6 910 626	6 799 952
	<hr/>	<hr/>
	11 215 299	10 846 547
	<hr/>	<hr/>
Less Current Liabilities		
Sundry creditors	1 978 203	1 455 704
Accrued salaries	110 885	22 010
Advance sales	698 907	1 055 035
	<hr/>	<hr/>
	2 787 995	2 532 749
	<hr/>	<hr/>
	8 427 304	8 313 798
	<hr/>	<hr/>
Fixed Assets		
Motor vehicles, office equipment, machinery and equipment (at cost)	3 221 184	4 290 855
Provision for depreciation	(1 090 916)	(1 409 018)
Capital works provided by Public Works Department	364 766	405 612
	<hr/>	<hr/>
	2 495 034	3 287 449
	<hr/>	<hr/>
	10 922 338	11 601 247
	<hr/>	<hr/>

Stock on Hand

4.3.9 Stock on hand at 30 June 1982 and 30 June 1983 consisted of:

	30.6.82	30.6.83
	\$	\$
At Cost		
Work in Progress	3 044 849	2 583 932
Stock	3 199 452	3 368 748
At Cost plus loadings		
Completed jobs not yet billed to clients	666 325	847 272
	<hr/>	<hr/>
	6 910 626	6 799 952
	<hr/>	<hr/>

Scope of Audit

4.3.10 The audit included the documentation, evaluation and testing of the Office's major revenue and expenditure systems and the verification of assets and liabilities at 30 June 1983.

Audit Observations and Recommendations

Job Recording System

4.3.11 Up to March 1983, the Office utilised the Job Recording System, a computerised system processed at the Government Computing Service, for 2 principal functions, namely, to monitor jobs in production and to provide a control record to assist timely invoicing of completed jobs. In March 1983, the Office installed an in-house computer system to monitor jobs in production but continued to use the Job Recording System to control the billing of completed jobs.

4.3.12 Audit observed that there were no control procedures employed at the Office to ensure that all input documents to the Job Recording System had been prepared for processing by the computer, and there were no tests undertaken to confirm the accuracy of the System's output.

4.3.13 Audit ascertained that officers of the accounting and costing sections of the Office had little confidence in the reliability of information generated by the Job Recording System. As a consequence, the output reports of the System were not being used to supplement manual procedures employed in the invoicing of completed jobs.

4.3.14 Audit examination of the relevant manual records disclosed that completed jobs with a value in excess of at least \$85 000 had not been invoiced within 12 months of the dates of completion. Audit was informed that this position was due to the problems experienced with the Job Recording System and the consequential absence of an effective control record to augment the invoicing function.

4.3.15 As costs are incurred by the Office in the use of the Job Recording System, audit recommended that the Office re-assess the usefulness of the System to the invoicing process. In addition, audit emphasised the need for the Office to introduce procedures which ensure that invoices for all completed jobs are issued on a timely basis.

Conclusion

4.3.16 Apart from the above matter and other minor weaknesses brought to the attention of the Office, the results of the audit proved satisfactory.

4.4 GRAIN HANDLING IMPROVEMENT AUTHORITIES

Introduction

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

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

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

Statutory Reporting and Auditing Requirements

4.4.3 The Grain Handling Improvement Authorities Act 1979 requires each authority to provide the Minister with a copy of its audited financial statements. The Minister is required to table such audited statements before both Houses of Parliament.

4.4.4 Sub-section (3) of Section 6 of the Grain Handling Improvement Authorities Act 1979 provides for the audit of the financial statements by the Auditor-General.

4.4.5 The financial year of the authorities ends on 31 October.

4.4.6 In my May 1983 report, I explained the circumstances which had precluded the issue of an audit report on the financial statements of the Geelong and Portland Grain Handling Improvement Authorities for 1980-81 and 1981-82 and delayed finalisation of the audit of the Country Grain Handling Improvement Authority for 1981-82. My comments centred on the need for clarification as to the ownership of assets constructed or financed by the authorities. In this regard, the land on which the authorities construct or finance the construction of assets is neither owned by nor leased to the authorities. The May report also referred to the absence of a legislative power for the authorities to generate income and so be assured of their ability to meet loan obligations.

4.4.7 In July 1983, following a submission from the Minister of Agriculture, the Treasurer approved the establishment of a working party to consider solutions to the problems which had arisen from administration of the authorities' enabling legislation. The Treasurer requested the working party to include, within its deliberations, a recommendation submitted by the 3 authorities to the Minister of Agriculture, that the Grain Handling Improvement Authorities be wound up. The working party has agreed that formal approval should be sought to the winding up of the 3 authorities.

4.4.8 A confirming audit report on the financial statements of the Country Grain Handling Improvement Authority for 1981-82 was given as that authority had not incurred any capital expenditure and the audit report was signed on 4 November 1983.

4.4.9 I am unable to form an opinion on the financial statements of the Geelong and Portland Authorities for 1980-81 and 1981-82 because of the uncertainties concerning ownership of assets constructed or financed by these authorities. The statements of my inability to form an opinion on the accounts of the Portland and Geelong Authorities are set out in paragraphs 4.4.17 and 4.4.22 respectively.

COUNTRY GRAIN HANDLING IMPROVEMENT AUTHORITY

Financial Operations

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

	1980-81	1981-82
	\$	\$
Income	164 479	208 037
Expenditure	152 973	150 509
	<hr/>	<hr/>
Surplus	11 506	57 528
	<hr/>	<hr/>

4.4.11 Net assets of the Authority at 31 October 1982 were \$69 352 (31 October 1981, \$819).

4.4.12 The improved financial position at 31 October 1982 was due to higher rates of return earned by the Authority from short-term investment of an unexpended loan of \$1.2 million.

Scope of Audit

4.4.13 The audit covered substantive testing of the Authority's revenue and expenditure and verification of assets and liabilities at 31 October 1982.

PORTLAND GRAIN HANDLING IMPROVEMENT AUTHORITY

Financial Operations

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

	1980-81	1981-82
	\$	\$
Income	225 626	370 981
Expenditure	221 891	452 605
	<hr/>	<hr/>
Surplus (Deficit)	3 735	(81 624)
	<hr/>	<hr/>

- 4.4.15 Net liabilities of the Authority at 31 October 1981 and 31 October 1982 were \$27 276 and \$108 900 respectively.
- 4.4.16 The further deterioration of the financial position at 31 October 1982 was due to higher interest expense incurred in 1981-82 following the raising by the Authority of an additional loan of \$1.2 million in February 1982. The Authority has no specific legislative power to generate income and so be assured of its ability to meet loan obligations. Income earned during 1980-81 and 1981-82 was derived from short-term investments of loan funds. There were no funds available for short-term investment at 31 October 1982.

Qualification of the Authority's Financial Statements

- 4.4.17 It was necessary to record the following qualifications on the accounts of the Authority for 1980-81 and 1981-82:

1980-81

"As stated in note 2 to the accounts, the amount of \$240 002, shown in the balance sheet as expenditure on fixed assets, represents expenditure relating to the construction of improved grain handling facilities at the Portland terminal.

The land on which the Authority constructs or finances the construction of assets is neither owned by nor leased to the Authority. Because of the consequential uncertainties concerning the ownership of the fixed assets disclosed in the accounts, I am unable to express an opinion on whether the accompanying balance sheet gives a true and fair view of the state of the affairs of the Authority at 31 October 1981".

1981-82

"As stated in note 2 to the accounts, the amounts of \$307 100 and \$3 978 980, shown in the balance sheet as expenditure on fixed assets and assets under construction respectively, represent expenditure relating to the construction of improved grain handling facilities at the Portland terminal.

The land on which the Authority constructs or finances the construction of assets is neither owned by nor leased to the Authority. Because of the consequential uncertainties concerning the ownership of the fixed assets and assets under construction disclosed in the accounts, I am unable to express an opinion on whether the accompanying balance sheet gives a true and fair view of the state of the affairs of the Authority at 31 October 1982".

Scope of Audit

- 4.4.18 The audit comprised substantive testing of the Authority's revenue and expenditure for 1980-81 and 1981-82 and verification of assets and liabilities at 31 October 1981 and 31 October 1982.

GEELONG GRAIN HANDLING IMPROVEMENT AUTHORITY

Financial Operations

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

	1980-81	1981-82
	\$	\$
Income	98 122	24 884
Expenditure	307 042	469 978
	<hr/>	<hr/>
Deficit	208 920	445 094
	<hr/>	<hr/>

4.4.20 Net liabilities of the Authority at 31 October 1981 and 31 October 1982 were \$249 163 and \$694 257 respectively.

4.4.21 The further deterioration of the financial position at 31 October 1982 was mainly due to higher interest expense incurred in 1981-82 following the raising by the Authority of additional loans totalling \$1.7 million during that year. The Authority has no specific legislative power to generate income and so be assured of its ability to meet loan obligations. Income earned during 1980-81 and 1981-82 was derived from short-term investments of loan funds.

Qualification of the Authority's Financial Statements

4.4.22 It was necessary to record the following qualifications on the accounts of the Authority for 1980-81 and 1981-82:

1980-81

"As stated in note 2 to the accounts, the amount of \$2 246 567, shown in the balance sheet as expenditure on fixed assets, represents expenditure relating to the construction of improved grain handling facilities at the Geelong terminal. Of this amount, \$1 897 397 represents expenditure in respect of the construction of a rail loop by the State Transport Authority.

The land on which the Authority constructs or finances the construction of assets is neither owned by nor leased to the Authority. Because of the consequential uncertainties concerning the ownership of the fixed assets disclosed in the accounts, I am unable to express an opinion on whether the accompanying balance sheet gives a true and fair view of the state of the affairs of the Authority at 31 October 1981".

1981-82

"As stated in note 2 to the accounts, the amount of \$1 963 297 shown in the balance sheet as expenditure on fixed assets, represents expenditure in respect of the construction of a rail loop by the State Transport Authority and the amount of \$1 206 446, shown in the balance sheet as expenditure on assets under construction, represents expenditure relating to the construction of improved grain handling facilities at the Geelong terminal.

The land on which the Authority constructs or finances the construction of assets is neither owned by nor leased to the Authority. Because of the consequential uncertainties concerning the ownership of the fixed assets and assets under construction disclosed in the accounts, I am unable to express an opinion on whether the accompanying balance sheet gives a true or fair view of the state of the affairs of the Authority at 31 October 1982".

Scope of Audit

4.4.23 The audit comprised substantive testing of the Authority's revenue and expenditure and verification of assets and liabilities at 31 October 1981 and 31 October 1982.

Conclusion

4.4.24 Apart from the qualifications on the financial statements of the Portland and Geelong Grain Handling Improvement Authorities, and the deteriorating financial position of the 2 authorities, the results of the audits proved satisfactory.

4.5 GREYHOUND RACING CONTROL BOARD

Introduction

- 4.5.1 The Greyhound Racing Control Board was established under Section 69 of the Racing Act 1958. Its functions, as provided under Section 75 of the Act, are to control, carry out research, assist in planning future development, and promote the sport of greyhound racing.
- 4.5.2 The Board's principal sources of income are a share of the Totalizator Agency Board's surplus received in accordance with the financial scheme under Section 116I of the Act, and registration fees.

Statutory Reporting and Auditing Requirements

- 4.5.3 Section 81 of the Racing Act 1958 provides for an annual audit of the accounts of the Board by the Auditor-General. Section 81 also requires the Board to submit the audited accounts within 3 months of 31 July each year to the Minister for tabling in Parliament.
- 4.5.4 The accounts were adopted by the Board on 19 October 1983 and the audit report was signed on 27 October 1983.

Financial Operations

- 4.5.5 The financial operations of the Board for 1982-83 compared with 1981-82 are summarised hereunder:

	1981-82	1982-83
	\$	\$
Income	564 002	721 009
Expenditure	661 753	738 416
	<hr/>	<hr/>
Deficit	97 751	17 407
	<hr/>	<hr/>

- 4.5.6 The main reasons for reduction in the deficit in 1982-83 were an increase of \$115 200 in the TAB distribution and a \$51 000 subsidy towards the cost of advertising from the Greyhounds Racing Grounds Development Board. Offsetting this was an abnormal expense of \$35 000 for recognition of liability for long service leave entitlements.
- 4.5.7 Net assets of the Board at 31 July 1983 were \$18 570 compared with \$35 977 at 31 July 1982.

Scope of Audit

- 4.5.8 The audit covered a review of the accounting systems and procedures of the Board, an examination of its books, records, vouchers and other documentation and verification of assets and liabilities at 31 July 1983.

Conclusion

- 4.5.9 Apart from minor weaknesses brought to the attention of the Board, the results of the audit proved to be satisfactory.

4.6 HARNESS RACING BOARD

Introduction

- 4.6.1 The Harness Racing Board was established under Section 39 of the Racing Act 1958. The Board controls the sport of harness racing throughout Victoria and conducts harness races at certain authorised venues.
- 4.6.2 The principal sources of income of the Board are a share of the Totalizator Agency Board surplus received in accordance with the financial scheme under Section 116 I of the Act, admission and other income received from conducting harness races, commission from the operation of on-course totalizators, and registration and licence fees.

Statutory Reporting and Auditing Requirements

- 4.6.3 The Racing Act 1958 requires the Board to prepare and submit audited accounts, balance sheets and such reports as properly record the affairs of the Board within 3 months of 31 July to the Minister for tabling in Parliament. Section 47 of the Racing Act 1958 provides for the audit of the accounts by the Auditor-General.
- 4.6.4 The 1982-83 financial statements were adopted by the Board on 19 October 1983 and the audit report was signed on 28 October 1983.

Financial Operations

- 4.6.5 The financial operations of the Board for 1982-83 compared with 1981-82 are summarised hereunder:

	1981-82	1982-83
	\$	\$
Income	7 687 316	8 140 187
Expenditure	7 118 522	8 006 391
	<hr/>	<hr/>
Surplus	568 794	133 796
	<hr/>	<hr/>

- 4.6.6 Net assets of the Board at 31 July 1983 were \$4 529 092 (31 July 1982, \$4 395 296).

Scope of Audit

- 4.6.7 The audit covered a review, appraisal and examination of the accounting and other systems in operation in respect of the several activities of the Board. In addition to the general operations and financial statements of the Board, the operations and the financial statements of the following separate accounts were also examined:

- (1) Harness Racing Board Benevolent Fund;
- (2) Trotting Trainers and Drivers Accident Compensation Scheme; and
- (3) Trotting Control Board Staff Superannuation Fund.

Conclusion

4.6.8 Apart from the above matter and a number of minor weaknesses brought to the attention of the Board, the result of the audit proved to be satisfactory.

4.7 LATROBE VALLEY WATER AND SEWERAGE BOARD

Introduction

- 4.7.1 The Latrobe Valley Water and Sewerage Board was established under the Latrobe Valley Act 1958. The functions of the Board include the provision of water to certain bulk users and the disposal of industrial and domestic waste in the Latrobe Valley.

Statutory Reporting and Auditing Requirements

- 4.7.2 The Latrobe Valley Act 1958 requires that the Board submit to the Minister, as soon as practicable after the end of each financial year and not later than the following 31 December, a report of its operations and an audited statement of accounts. Section 53 of the Act provides for an annual audit of the financial statements of the Board by the Auditor-General. The report and audited statement of accounts are required to be tabled by the Minister in both Houses of Parliament within 14 sitting days.
- 4.7.3 The financial statements of the Board for 1982-83 were adopted by the Board on 28 October 1983 and the audit report was signed on 18 November 1983.

Financial Operations

- 4.7.4 The financial operations of the Board for 1982-83 compared with 1981-82 are summarised hereunder:

	1981-82	1982-83
	\$	\$
Income	7 576 341	9 434 016
Expenditure	7 260 475	8 589 487
	<hr/>	<hr/>
Net Surplus	315 866	844 529
	<hr/>	<hr/>

- 4.7.5 The increase in the net surplus for the year was due mainly to:
- (1) higher charges for water supply and waste water disposal; and
 - (2) an increase in income from investments.
- 4.7.6 The net assets of the Board at 30 June 1983 were \$6 547 545 (30 June 1982, \$5 619 992).

Scope of Audit

- 4.7.7 The audit covered an appraisal of the Board's accounting methods and internal controls. Assets and liabilities at 30 June 1983 were verified.

Audit Observations and Recommendations

Loan from State Development Fund

- 4.7.8 In October 1982 the Board applied for a loan of \$1 905 000 from the State Development Fund to finance an accelerated program of work on the construction of a pumping station at the Blue Rock Dam on the Tanjil River and a pipeline to the Moondarra Reservoir in order to augment water supplies to industries and towns in the Latrobe Valley. The loan was approved by the Treasurer in December 1982.
- 4.7.9 Audit ascertained that doubt existed as to whether the Board or the State Rivers and Water Supply Commission would be the constructing authority for certain of the project works. As a result, construction on the project has not proceeded at the anticipated rate. Nevertheless, the Board agreed to accept the loan of \$1 905 000 and this amount was paid by the Department of Management and Budget to the Board on 29 June 1983.
- 4.7.10 Responsibility for the continued progress of the works had not been resolved and the majority of the funds remained unspent at the end of September 1983. The unspent portion of the funds was invested in short term investments at an interest rate of approximately 11 per cent. As the loan carries an interest rate of 15.34 per cent, the estimated net interest cost to the Board is approximately \$6 800 per month.

Short Term Money Market

- 4.7.11 Section 50A of the Latrobe Valley Act 1958 authorises the Board to invest on deposit with an authorised dealer in the short term money market. An examination of deposits made by the Board during the year revealed instances where money had been deposited with an unofficial dealer. No funds were held in this type of investment at 30 June 1983.

Commercial Bills

- 4.7.12 (1) During the year, the Board invested some of its funds in commercial bills although it is not authorised to undertake this form of investment. At 30 June 1983, \$2.17 million was held in commercial bills.
- (2) The Board at present allows the issuing bank or dealer to retain possession of the bills purchased for "safe custody". This arrangement is considered unsatisfactory. As the bills are negotiable instruments, physical possession and safe custody are of paramount importance.

Asset Registers

- 4.7.13 Asset registers for permanent works were incomplete in that the capital value of many assets was not recorded and thus the asset registers could not be reconciled with the financial records. Audit recommended that the Board review all assets under the classification of permanent works with a view to maintaining proper asset registers.

Conclusion

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

4.8 **MARKETING BOARDS**

Introduction

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

CITRUS FRUIT MARKETING BOARD

Introduction

- 4.8.4 The Board was established under the Marketing of Primary Products Act 1958 for the purpose of controlling the marketing of oranges, mandarins and grapefruit produced in Victoria.
- 4.8.5 Under the Act, the Board may enter into and carry out any contract relating to the handling, packing, marketing or processing of citrus fruit as may, in the opinion of the Board, be necessary or expedient for orderly marketing.
- 4.8.6 The Board's directives and marketing policy, which are formulated in conjunction with the Murray Valley (N.S.W.) Citrus Marketing Board, are administered through a registered company, the Citrus Management Company Limited which is not subject to my audit. The Board of Directors of this company includes certain members of both marketing boards.

Statutory Reporting and Auditing Requirements

- 4.8.7 The Marketing of Primary Products Act 1958 requires the Board to prepare statements of account but there is no legislative requirement for the Board to prepare an annual report or to have its audited financial statements tabled in Parliament.
- 4.8.8 Section 12 of the Marketing of Primary Products Act 1958 provides for the audit of the financial statements of the Board by the Auditor-General. The financial statements for the year ended 31 December 1982 were received by audit on 5 July 1983 and the audit report was signed on 26 September 1983.

Financial Operations

- 4.8.9 A summary of the operations of the Board for the year ended 31 December 1982, together with comparative figures for the previous year, is given below:

	1981	1982
	\$	\$
Income		
Remittances - grower contributions	51 167	86 783
Other	800	513
	-----	-----
	51 967	87 296
Expenditure		
Administration charge paid to Citrus Management Co. Ltd.	17 100	18 500
Board members' fees and allowances	30 055	31 900
Legal and other	19 576	24 009
	-----	-----
	66 731	74 409
	-----	-----
(Deficit) Surplus for year	(14 764)	12 887
	-----	-----

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

	31.12.81	31.12.82
	\$	\$
Assets		
Cash at bank	15 127	6 090
Debtors	1 531	513
Interest bearing deposit	..	22 000
	-----	-----
	16 658	28 603
Less		
Liabilities		
Creditors	2 214	1 272
	-----	-----
Accumulated surplus	14 444	27 331
	-----	-----

Scope of Audit

4.8.11 The audit covered an examination and appraisal of the accounting system operated by the Board and the verification of assets and liabilities of the Board at 31 December 1982.

Conclusion

4.8.12 Apart from a number of minor weaknesses brought to the attention of the Board, the audit proved satisfactory.

TOBACCO LEAF MARKETING BOARD

Introduction

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

Statutory Reporting and Auditing Requirements

- 4.8.14 The Marketing of Primary Products Act 1958 requires the Board to prepare statements of account. Section 12 of the Marketing of Primary Products Act 1958 provides for the audit of the financial statements of the Board by the Auditor-General. However, there is no legislative requirement for the Board to prepare an annual report or to have its audited financial statements tabled in Parliament.
- 4.8.15 The financial statements for the year ended 31 March 1983 were received on 13 May 1983 and the audit report was signed on 30 September 1983.

Financial Operations

(1) Realisation Account

- 4.8.16 Pursuant to Section 17 of the Marketing of Primary Products Act 1958, all tobacco leaf grown in Victoria is vested in the Board. The proceeds of the Board's quota tobacco sales are distributed through its agent, the Tobacco Industry Leaf Finance Agency.
- 4.8.17 A summary of the distribution for the years ended 31 March 1983 and 31 March 1982 is shown below:

	1981-82	1982-83
	\$	\$
Gross proceeds from sales of tobacco leaf	23 666 338	23 402 244
Applied to:		
Broker's commission	439 896	468 045
Freight	133 747	144 789
Rehandling charges	56 827	24 996
Commonwealth tax levy	60 505	132 777
Crop insurance	100 582	99 459
Marketing Board charges	354 995	321 781
Growers' liens, orders etc.	4 634 334	3 344 146
Net proceeds to growers	17 885 452	18 866 251
	<hr/>	<hr/>
	23 666 338	23 402 244
	<hr/>	<hr/>

- 4.8.18 By resolution of the Board, the levy on gross sales of tobacco leaf during the year for Board charges was decreased from 1.5 per cent to 1.375 per cent and the rate of broker's commission was increased from 1.875 per cent to 2 per cent.

(2) Income and Expenditure Account

- 4.8.19 The Board's income and expenditure accounts for the past 2 years are summarised hereunder:

	1981-82 \$	1982-83 \$
Income		
Board charges (quota and non quota)	355 301	322 700
Interest on investments	90 346	92 950
Miscellaneous	14 026	323
	<hr/>	<hr/>
	459 673	415 973
Expenditure		
Selling costs	18 966	26 411
Administration costs	338 208	405 395
	<hr/>	<hr/>
	357 174	431 806
Operating Surplus (Deficit)	102 499	(15 833)
Extraordinary items	106 425	1 288
Net Operating Deficit and extraordinary items	<hr/>	<hr/>
	(3 926)	(14 545)

(3) Balance Sheet

4.8.20 The Board's balances are summarised in the following table:

	31.3.83 \$	31.3.83 \$
Board Funds - Accumulated Surplus	632 272	617 727
Represented by:	<hr/>	<hr/>
Fixed Assets	32 668	24 234
Current Assets	655 760	672 514
Energy Research Program	32 996	34 597
	<hr/>	<hr/>
	721 424	731 345
Less Current Liabilities and Provisions	89 152	113 618
	<hr/>	<hr/>
Net Assets	632 272	617 727

Scope of Audit

4.8.21 The audit work undertaken by my officers include testing of the Board's revenue and expenditure systems and verification of assets and liabilities at 31 March 1983. The audit of the Board's realisation account was undertaken by a firm of private practitioners and has been accepted for the purpose of my audit.

Conclusion

4.8.22 The results of the audit proved to be satisfactory.

VICTORIAN EGG MARKETING BOARD

Introduction

4.8.23 The Victorian Egg Marketing Board administers the marketing of eggs and egg products in Victoria. It operates a grading floor at Keysborough in addition to a number of receiving and selling depots which are situated in both metropolitan and country areas. Certain operations are also conducted on behalf of the Board by its authorised agents, producer agents and distributors. Pulp is manufactured by the Board in its factory at Keysborough. From 20 June 1983, the Board changed its trading name to Egg Farmers of Victoria.

Statutory Reporting and Auditing Requirements

4.8.24 The Marketing of Primary Products Act 1958 requires the Board to prepare an annual report on its operations for the year including audited financial statements and deliver a copy to the Minister not later than 30 November for tabling before both Houses of Parliament. Section 12 of the Act provides for the audit of the accounts of the Board by the Auditor-General.

4.8.25 The financial statements for 1982-83 adopted by the Board were received by audit on 12 September 1983 and the audit report was signed on 11 November 1983.

Financial Operations

4.8.26 The financial operations of the Board for 1982-83 compared with 1981-82 are summarised below:

	1981-82	1982-83
	\$	\$
Income	77 040 996	88 068 175
Expenditure	77 780 948	86 154 266
	<hr/>	<hr/>
Net Operating (Deficit) Surplus	(739 952)	1 913 909
	<hr/>	<hr/>

4.8.27 The main factors responsible for the surplus of \$1 913 909 in 1982-83 as compared with a deficit of \$739 952 in 1981-82 were:

- (1) a significant reduction in the quantity of surplus eggs which are sold at a loss or valued at net realisable value;
- (2) an increase in revenue from egg sales, resulting from higher sales volume and higher prices; and
- (3) an increase in producer contributions to Board costs due to higher Board charges to and greater egg production for the year.

4.8.28 Pursuant to Section 20 of the Marketing of Primary Products Act 1958, the Governor-in-Council approved the transfer of \$1 150 000 to a reserve fund in 1982-83 to meet a long term loan repayment and working capital requirements.

4.8.29 Net assets of the Board at 30 June 1983 were \$5 430 989 (30 June 1982 \$3 517 080).

Scope of Audit

4.8.30 The audit covered testing of the Board's revenue and expenditure systems, verification of the assets and liabilities of the Board at 30 June 1983. The work of a firm of private practitioners which performs the internal audit function was reviewed and accepted for the purpose of the audit.

Conclusion

4.8.31 Apart from some minor control weaknesses brought to the attention of the Board, the results of the audit proved satisfactory.

4.9 MELBOURNE WHOLESALE FRUIT AND VEGETABLE MARKET TRUST

Introduction

4.9.1 The Melbourne Wholesale Fruit and Vegetable Market Trust was established under the Melbourne Wholesale Fruit and Vegetable Market Trust Act 1977.

4.9.2 The functions of the Trust are to control, maintain and manage the market and market lands at Footscray.

Statutory Reporting and Auditing Requirements

4.9.3 The Melbourne Wholesale Fruit and Vegetable Market Trust Act 1977 requires the Trust to submit to the Minister, as soon as practicable after the end of each financial year, audited financial statements. These statements are required to be tabled by the Minister in both Houses of Parliament within 3 weeks of receipt. Section 19 of the Act provides for an annual audit of the financial statements of the Trust by the Auditor-General.

4.9.4 The financial statements for 1982-83 adopted by the Trust were received by audit on 25 August 1983 and the audit report was signed on 10 November 1983.

Financial Operations

4.9.5 The financial operations of the Trust for 1982-83 compared with 1981-82 are summarised hereunder:

	1981-82	1982-83
	\$	\$
Income	3 278 470	3 535 248
Expenditure	2 860 446	3 208 646
	<hr/>	<hr/>
Surplus	418 024	326 602
	<hr/>	<hr/>

4.9.6 Net assets of the Trust at 30 June 1983 were \$3 074 748 (30 June 1982, \$2 588 605).

Scope of Audit

4.9.7 The audit covered:

- (1) an update of the documentation and an evaluation of the E.D.P. installation;
- (2) documentation, evaluation and testing of the major revenue and expenditure systems; and
- (3) verification of assets and liabilities at 30 June 1983.

Audit Observations and Recommendations

Depreciation

- 4.9.8 In the year under review, the Trust provided for the first time in its accounts an amount of \$30 900 for depreciation of a railway siding. The provision represents depreciation of the siding for 1981-82 and 1982-83. Construction of the siding is expected to be finalised in 1983-84. The reasoning for the Trust's action, as conveyed to audit, was that the external framework of the siding had been substantially completed at 1 July 1981 and, as such, normal wear and tear had commenced from that date.
- 4.9.9 The Accounting Standards issued by the Australian accounting bodies provide that depreciation charges should be made as from the point of time when a depreciable asset is first put into use or held ready for use. As the railway siding has not been completed, in audit opinion the decision by the Trust to provide for depreciation of the siding in 1982-83 is contrary to the Accounting Standards.
- 4.9.10 Audit recommended to the Trust that depreciation policies for all assets should be consistent with the standards prescribed by the Australian accounting bodies.

Salaries and Wages

- 4.9.11 A review by audit of procedures relating to the preparation and payment of salaries and wages revealed the following control weaknesses:
- (1) calculations prepared by payroll staff to support payroll variations were not independently verified. Overpayments of \$8 275 for cleaners' wages, dating from 2 February 1982 to 12 August 1983, were detected by audit. The Trust has sought the approval of the Treasurer to write off these overpayments;
 - (2) reconciliations of the variations between payrolls, which had been recommended by audit in a previous report, had been discontinued;
 - (3) attendance registers and summary time sheets, which form the basis of payroll preparation, were not always signed by administrative staff and employees; and
 - (4) there was no evidence to indicate that attendance registers had been independently checked to ensure that times recorded by administrative staff were accurate.
- 4.9.12 Measures to overcome these control weaknesses were conveyed by audit to the Trust.

Conclusion

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

4.10 METROPOLITAN FIRE BRIGADES BOARD

Introduction

4.10.1 The Metropolitan Fire Brigades Board is constituted under the Metropolitan Fire Brigades Act 1958 and is responsible for the control and fighting of fires, the protection of life and property in the case of fire and the general control of all fire stations and brigades within the metropolitan fire district.

4.10.2 The Board's main source of revenue is contributions from fire insurance companies, municipalities and State government grants. Revenue is also raised from services provided to various organisations for fire prevention facilities.

Statutory Reporting and Auditing Requirements

4.10.3 Section 48 of the Metropolitan Fire Brigades Act 1958 requires the Auditor-General to audit the accounts of all moneys received and disbursed by the Board. The audited statements of receipts and payments are required to be furnished to the Governor-in-Council. The Board is also required to lay copies of these audited statements before both Houses of Parliament within one month. Section 27 of the Act also requires the Board to provide the Minister, in September, with an annual report of its activities for the previous year for tabling in Parliament.

4.10.4 The financial statements of the Board were signed on 4 October 1983 and the audit report was signed on 24 November 1983.

Financial Operations

4.10.5 The financial operations of the Board for 1982-83 compared with 1981-82 in respect of the general fund are summarised hereunder:

	1981-82	1982-83
	\$	\$
Receipts	101 053 766	166 025 140
Payments	102 574 859	165 949 932
	<hr/>	<hr/>
Cash Surplus (deficit)	(1 521 093)	75 208
	<hr/>	<hr/>

4.10.6 The net assets of the Board at 30 June 1983 were \$26 844 610 (30 June 1982, \$12 528 919).

Scope of Audit

4.10.7 The audit covered an evaluation of the system of internal controls over receipt and disbursement items. A review of the audit program, work papers and reports of the private auditors was performed by my officers and accepted for the purposes of this audit where practicable.

Audit Observations and Recommendations

Special Service

4.10.8 The special service section is responsible for the inspection and servicing of fire hoses, hose reels, and fire extinguishers in public buildings, factories and other places. Prior to commencement of the service a formal agreement is entered into requiring the Board to provide, as a minimum, a half yearly service. Examination of customer billing procedures for the special service section disclosed:

- (1) Computerised "job tickets" which provide data as to the type, location and time schedule of services contracted are generated at random intervals upon the request of the officer in charge of the special service section. Failure to request such "job tickets" on a regular scheduled basis may result in the non-servicing of fire fighting equipment or, alternatively, late servicing.
- (2) Although completed "job tickets" were sent to the Accounts Receivable Section for processing there was no system to ensure that all tickets issued were processed. Missing tickets could result in fire fighting equipment not being serviced or accounts not being raised, with a resultant loss of revenue.
- (3) There was no evidence that input data was checked to ensure valid prices were entered into the computerised customer billing system. Incorrect data could occasion under/overcharging of clients.

4.10.9 Audit recommended:

- (1) a systematic production of "job tickets" in advance of due service dates to ensure that the Board's servicing obligations are met; and
- (2) that master file pricing information should be verified.

Investment Powers of the Board

4.10.10 Although the Metropolitan Fire Brigades Act 1958 is silent as to investment powers, since its inception the Board has invested surplus moneys in both short and long term securities. The value of investments held at balance date totalled \$16 216 000 and included deposit stock and at call moneys on both the official and unofficial short term money market.

4.10.11 Audit recommended that if the Board is to continue investing in the unofficial short-term money market it should seek appropriate legislative authority.

Audit Limitations of Section 48

4.10.12 The scope of audit conducted by my Office is limited by Section 48 of the Metropolitan Fire Brigades Act 1958 to the statements of receipts and payments. Consideration should be given to amending the section to allow for report by the Auditor-General on the income and expenditure statement and balance sheet.

Conclusion

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

4.11 METROPOLITAN FIRE BRIGADES SUPERANNUATION BOARD

Introduction

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

Statutory Reporting and Auditing Requirements

- 4.11.3 Section 7 of the Metropolitan Fire Brigades Superannuation Act 1976 Act requires the Board to furnish the Minister each year with a report of its operations for tabling in Parliament. Section 13 of the Act provides for an annual audit of the accounts of the Board by the Auditor-General.
- 4.11.4 The financial statements were adopted by the Board on 26 August 1983 and the audit report was signed on 24 November 1983.

Financial Operations

- 4.11.5 The financial operations of the Board for 1982-83 compared with 1981-82 are summarised hereunder:

	1981-82	1982-83
	\$	\$
Income	14 246 823	16 685 384
Expenditure	4 405 459	4 895 643
	<hr/>	<hr/>
Surplus	9 841 364	11 789 741
	<hr/>	<hr/>

- 4.11.6 Net assets of the Board at 30 June 1983 were \$73 822 055 (30 June 1982, \$62 027 513).

Scope of Audit

- 4.11.7 The audit covered an evaluation of internal controls and concentrated on income from superannuation contributions, interest earned from loans and investments, refunds of contributions and verification of major assets, current liabilities and reserves at 30 June 1983.
- 4.11.8 For the purposes of this audit, the work performed by the internal auditors (a firm of private practitioners) was reviewed, evaluated and accepted.

Audit Observations and Recommendations

Actuarial Provisions

- 4.11.9 A triennial actuarial investigation of the financial position of the Fund pursuant to the provisions of Section 14 of the Act was due at 30 June 1982 and had not been obtained at the date of audit. This situation was brought to the attention of the Board by the internal auditors. The matter should be determined as soon as practicable.

Conclusion

- 4.11.10 Apart from a number of minor control weaknesses brought to the attention of the Board, the results of the audit proved to be satisfactory.

4.12 NATIONAL GALLERY OF VICTORIA

Introduction

4.12.1 The Council of Trustees of the National Gallery of Victoria was established under the National Gallery of Victoria Act 1966. The functions of the Council include:

- (1) management and administration of the National Gallery of Victoria and the Banyule Gallery;
- (2) acquisition, display and preservation of the State collection of works of art; and
- (3) assistance in the promotion and supervision of art education throughout Victoria.

Statutory Reporting and Auditing Requirements

4.12.2 The National Gallery of Victoria Act 1966 requires the Council to provide to the Minister on or before 30 September in each year a report containing a full account of its income and expenditure for the previous year to 30 June for tabling in Parliament. Section 17 of the Act provides for the annual audit of the accounts of the Council by the Auditor-General.

4.12.3 The financial statements were received by audit on 27 September 1983 and the audit report signed on 24 November 1983.

Financial Operations

4.12.4 A summary of the financial operations of the Council for the years 1982-83 compared with 1981-82 is given hereunder:

	1981-82	1982-83
	\$	\$
Income	3 232 561	3 148 385
Expenditure	2 359 646	2 120 373
	<hr/>	<hr/>
Surplus	872 915	1 028 012
	<hr/>	<hr/>

4.12.5 The increased surplus was mainly attributable to a reduction in expenditure on the acquisition of works of art from \$1 145 703 during 1981-82 to \$729 000 during 1982-83.

4.12.6 Net assets of the Council at 30 June 1983 were \$7 040 172 (30 June 1982, \$6 012 160).

Scope of Audit

4.12.7 The audit covered:

- (1) a review and evaluation of internal controls operative within the National Gallery; and

(2) verification of the assets and liabilities at 30 June 1983.

Conclusion

4.12.8 Apart from a number of minor matters brought to the attention of the Council, the audit proved to be satisfactory.

4.13 OFFICE OF THE PUBLIC TRUSTEE

Introduction

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

Statutory Reporting and Auditing Requirements

- 4.13.2 Under the Public Trustee Act 1958 the Public Trustee is required to keep certain accounts. These accounts include the common fund, building operations account, building depreciation account, interest suspense account and estate guarantee and reserve account. There is no provision in the Act requiring the Public Trustee to produce annual financial statements covering the operations of the Office for audit but Section 62 of the Public Trustee Act 1958 provides for the accounts of all estates and properties controlled or managed by the Public Trustee to be subject to inspection by the Auditor-General.

Financial Statements

- 4.13.3 The following financial information in respect of accounts which are required to be maintained by the Public Trustee has been compiled by my officers from the records maintained at the Public Trustee's Office and from Law Department records.

- 4.13.4 Sub-section (1)(b) of Section 56 of the Public Trustee Act 1958 provides for a common fund. The Public Trustee in his capacity as executor and administrator of estates and trusts may invest receipts on behalf of beneficiaries in a common fund to be invested and applied in accordance with the Public Trustee Act 1958. Certain other moneys may be individually invested. The composition of the common fund at 30 June 1983 and 30 June 1982 was as follows:

	30.6.82	30.6.83
	\$	\$
Moneys held for		
Protected persons	64 591 520	79 695 991
Deceased estates	29 076 633	33 743 940
Minors	7 243 880	8 335 324
Trusts and agencies	372 845	423 542
Estate Guarantee and Reserve Account	5 610 000	6 081 332
Unclaimed moneys	3 216 553	3 836 126
Interest reserve	2 100 000	3 000 000
Suspense—amounts pending allocation or adjustment	388 635	437 999
Deposits by trustees	64 236	64 796
Building Depreciation Account	64 288	74 116
	<hr/>	<hr/>
	112 728 590	135 693 166
	<hr/>	<hr/>

4.13.5 The common fund was invested as follows:

	30.6.82	30.6.83
	\$	\$
Mortgages	67 294 199	65 644 587
Inscribed stock		
Victorian semi-government authorities	15 282 100	24 532 100
Commonwealth government securities	6 517 138	6 497 138
Interstate semi-government authorities	6 167 000	12 167 000
Interstate local-government authorities	1 944 272	2 444 272
Commercial bills-bank accepted	2 392 501	..
Loans to municipal and other statutory bodies	3 691 320	10 684 354
Land and buildings	3 358 588	3 361 908
Cash at bank and on hand	866 275	325 692
Bank term deposit and special deposits	1 215 197	3 036 115
Bank transferable deposit	4 000 000	7 000 000
	<hr/>	<hr/>
	112 728 590	135 693 166
	<hr/>	<hr/>

4.13.6 In addition to the funds held in the common fund, the Public Trustee has under his control other assets of substantial value. These assets include land and buildings and other unrealised assets belonging to the estates being administered by him. There are also estate liabilities to be met during the administration and distribution of these assets which are not recorded as at 30 June 1983 in the financial records of the Public Trustee.

Building Operations Account

4.13.7 In accordance with Section 56A of the Public Trustee Act 1958, the Public Trustee is required in respect of property occupied by him at 168 Exhibition Street, Melbourne, to establish a building account and a building depreciation account. Moneys in respect of the building depreciation account are held and invested in the common fund. Details of receipts and payments for the years ended 30 June 1983 and 30 June 1982 were as follows:

	30.6.82	30.6.83
	\$	\$
Receipts		
Rentals	548 485	647 229
Payments		
Operating payments	172 883	213 345
Transfer to Building Depreciation Account	5 345	5 345
Transfer to Interest Suspense Account	370 257	428 539
	<hr/>	<hr/>
	548 485	647 229
	<hr/>	<hr/>

Interest Suspense Account

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

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

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

4.13.10 Operations through the suspense account for the financial years 1982-83 and 1981-82 were:

	1981-82	1982-83
	\$	\$
Income from investments	14 734 766	18 480 821
Transfer from Building Operations Account	370 257	428 539
Assessment fees	1 050	950
	<hr/>	<hr/>
	15 106 073	18 910 310
	<hr/>	<hr/>
Appropriations		
Interest allocated to estates	10 935 568	13 384 677
Provision for interest payable to estates	2 100 000	3 000 000
Estates Guarantee and Reserve Account	81 783	241 200
Consolidated Fund	1 988 722	2 284 433
	<hr/>	<hr/>
	15 106 073	18 910 310
	<hr/>	<hr/>

Estates Guarantee and Reserve Account

4.13.11 This account was established in accordance with Section 57 of the Public Trustee Act 1958 to record gains or losses of common fund investments and to meet certain other expenses relating to common fund investments. The account also meets certain other costs and expenses, including those relating to estates where there are insufficient assets to meet its costs and expenses, or where in the opinion of the Public Trustee costs and expenses should not be borne by any particular estate or trust property.

4.13.12 Details of the operations of the reserve account for the financial years 1982-83 and 1981-82 were:

	1981-82	1982-83
	\$	\$
Balance 1 July	5 010 943	5 610 000
Interest earned	674 014	786 275
Transfer from Interest Suspense Account	81 783	241 200
	<hr/>	<hr/>
Less legal costs and other expenses	5 766 740	6 637 475
	156 740	556 143
	<hr/>	<hr/>
Balance 30 June	5 610 000	6 081 332
	<hr/>	<hr/>

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

Consolidated Fund

4.13.14 Fees and commissions from the management of estates by the Public Trustee, together with the interest contribution already mentioned, are paid to the Department of Management and Budget for credit to the Consolidated Fund, from which the operating expenses of the Office of the Public Trustee are met. The Public Trustee also collects moneys from various sources which are credited to the Consolidated Fund, including probate duty on estates administered by him and amounts on account of maintenance of certain patients in mental hospitals. Particulars are:

	1981-82	1982-83
	\$	\$
RECEIPTS		
Fees and commissions	2 229 513	2 593 609
Probate duty	2 555 482	2 152 784
Surplus-Interest Suspense Account	1 988 722	2 284 433
Maintenance - patients in mental hospitals	97 935	77 374
Appropriations of former years	96 429	98 547
Miscellaneous	17 854	17 856
	<hr/>	<hr/>
	4 332 518	4 994 445
	<hr/>	<hr/>
PAYMENTS		
Salaries and allowances	3 006 281	3 461 634
Payments in lieu of long service leave	66 968	22 639
Overtime and penalty rates	24 993	27 184
Administration	145 735	218 655
	<hr/>	<hr/>
	3 243 977	3 730 112
	<hr/>	<hr/>

Treasury Trust Fund Receipts

4.13.15 Unclaimed moneys collected by the Public Trustee and credited to the Treasury Trust Fund were \$337 195 in 1982-83 (\$308 608 in 1981-82).

Scope of Audit

4.13.16 The audit covered:

- (1) an evaluation of internal control procedures over cash receipts and payments and investments;
- (2) substantive testing of transactions;
- (3) an examination of files maintained in respect of protected persons, deceased estates and minors; and
- (4) a review of the work performed by the internal audit section.

Audit Observations and Recommendations

Bulk Shareholding Register

- 4.13.17 Audit noted several instances where the trust officer administering the estate disposed of shares without processing the transaction through the securities officer.
- 4.13.18 Audit recommended that the internal control procedures be adhered to at all times.

Loss on Common Fund Mortgage - W.H.&S. Massey Pty. Ltd.

- 4.13.19 On 17 April 1978 the Public Trustee advanced \$706 000 to W.H. & S. Massey Pty. Ltd. subject to a common fund mortgage. Further small advances were made bringing the total amount advanced to \$722 730.
- 4.13.20 Following the collapse of the company, the Public Trustee took possession of the properties tendered as security. The properties were subsequently placed on the market for sale. After a protracted selling period spanning almost 3 years, settlement was finally effected during the year resulting in a loss to the common fund of \$551 075. Pursuant to the Public Trustee Act 1958, \$534 423 was recouped from the Estates Guarantee and Reserve Account. The balance of \$16 652 represents interest foregone. The Public Trustee indicated that unrealistic valuations and vandalism of the property contributed to the size of the loss.
- 4.13.21 As a result of the experience in this matter, mortgage security requirements became more stringent and more detailed information was required from valuers.

Conclusion

- 4.13.22 Apart from the above matters and a number of minor weaknesses which were brought to the attention of the Public Trustee, the results of the audit examination proved satisfactory.

4.14 PORT OF PORTLAND AUTHORITY

Introduction

4.14.1 The Port of Portland Authority was established under the Port of Portland Authority Act 1958 and is responsible for the management, control and development of the port of Portland.

Statutory Reporting and Auditing Requirements

4.14.2 The Port of Portland Authority Act 1958 requires the Authority to finalise its accounts as soon as practicable after 30 June in each year and present to the Governor-in-Council audited financial statements to be laid before both Houses of Parliament. Section 44 of the Act provides for an annual audit of the accounts of the Authority by the Auditor-General.

4.14.3 The financial statements for 1982-83 were adopted by the Authority on 22 September 1983 and the audit report was signed on 24 November 1983.

Financial Operations

4.14.4 The financial operations of the Authority for 1982-83 compared with 1981-82 are summarised hereunder:

	1981-82	1982-83
	\$	\$
Income	4 468 853	6 031 252
Expenditure	4 765 391	5 923 773
	<hr/>	<hr/>
(Deficit) Surplus	(296 538)	107 479
	<hr/>	<hr/>

4.14.5 Each year the Authority receives a grant from the Government to offset any estimated shortfall between its revenue and expenditure. For 1982-83, the grant was \$2 500 000 (1981-82, \$1 060 000).

4.14.6 Net assets of the Authority at 30 June 1983 were \$4 711 498 (30 June 1981, \$4 604 021).

4.14.7 A curtailment of port development works during the year is reflected in the financial statements by:

- (1) a decrease in maintenance and capital expenditure;
- (2) redundancy payments of \$219 396; and
- (3) a decrease of \$142 574 in provisions for long service leave, annual leave and retiring gratuities.

Scope of Audit

- 4.14.8 The audit included the documentation, evaluation and testing of the Authority's revenue and expenditure systems and the verification of the assets and liabilities of the Authority at 30 June 1983.

Audit Observations and Recommendations

Loan Liability - Treasurer of Victoria

- 4.14.9 No loan funds were advanced by the Treasurer of Victoria to the Authority during the year ended 30 June 1983. Advances at 30 June 1983 remained at \$3 822 900.
- 4.14.10 The Treasurer approved the deferment of payment by the Authority of the 1982-83 interest charges of \$151 715 and the principal repayment, represented by the contribution to the National Debt Sinking Fund of \$48 377. The totals of deferred interest and contribution at 30 June 1983 were \$4 369 804 and \$660 105 respectively. The interest liability has been disclosed in the notes to the accounts of the Authority.

Temporary Overdraft Facility

- 4.14.11 Section 38 of the Port of Portland Authority Act 1958 provides for the Authority to borrow money from any bank or banks by way of loan or overdraft with the consent of the Treasurer.
- 4.14.12 During 1982-83 the Authority's current account was overdrawn on a number of occasions without the approval of the Treasurer. The maximum amount overdrawn at any one time was \$110 000.

Conclusion

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

4.15 RAILWAY CONSTRUCTION AND PROPERTY BOARD

Introduction

4.15.1 The Railway Construction and Property Board was established under the Railway Construction and Property Board Act 1979. The main functions of the Board were to construct new railway lines and develop and manage surplus railway land and housing.

4.15.2 The Transport Act 1983 abolished the Board as from 1 July 1983 and the resources and activities of the Board were divided between the State Transport Authority, and the Property Division of the Ministry of Transport.

Statutory Reporting and Auditing Requirements

4.15.3 Section 234 of the Transport Act 1983 required that the annual financial statements in respect of the former Railway Construction and Property Board:

- (1) be prepared by the State Transport Authority;
- (2) include such information as is necessary to give a true and fair view of the financial transactions and state of affairs of the former Board;
- (3) be certified correct by the managing director and principal accounting officer of the State Transport Authority;
- (4) be audited by the Auditor-General; and
- (5) be presented to the Minister of Transport by 1 December 1983.

4.15.4 The annual accounts of the former Board which were certified by the State Transport Authority were received by audit on 8 November 1983. The audit report was signed on 24 November 1983.

Financial Operations

4.15.5 The financial operations of the Board for 1982-83 compared with 1981-82 are summarised hereunder:

	1981-82	1982-83
	\$	\$
Operations		
Housing - (deficit)	(157 374)	(359 748)
Development - surplus	349 309	136 490
	<hr/>	<hr/>
Operating surplus (deficit)	191 935	(223 258)
Abnormal item	(762 620)	..
	<hr/>	<hr/>
Deficit	(570 685)	(223 258)
	<hr/>	<hr/>

- 4.15.6 Net assets of the Board at 30 June 1983 were \$70 143 543 (30 June 1982, \$48 665 479). This increase was due largely to the vesting of additional houses and development properties in the Board.
- 4.15.7 Project costs of \$678 169 were written off during 1982-83 as a consequence of the reappraisal of costs incurred in respect of feasibility studies and other work abandoned. In addition, the Ministry of Transport directed that the Board charge only direct costs to specified projects resulting in a write-off of overhead costs relating to such projects.

Scope of Audit

- 4.15.8 The audit covered the documentation, evaluation and testing of the Board's major revenue and expenditure systems and verification of assets and liabilities at 30 June 1983.

Conclusion

- 4.15.9 Apart from minor weaknesses which were brought to the attention of the Board, the audit proved satisfactory.

4.16 RURAL FINANCE COMMISSION

Introduction

4.16.1 The Rural Finance Commission was established by the Rural Finance and Settlement Commission Act 1961. The Commission's principal functions are to administer the Rural Finance Act 1958, the Soldier Settlement Act 1958 and the Land Settlement Act 1959.

4.16.2 The Commission provides financial assistance to primary and secondary industries in rural Victoria and is responsible for the operation of the land settlement and soldier settlement schemes. On an agency basis, the Commission also administers several special schemes of assistance including natural disaster relief and the rural adjustment scheme.

Statutory Reporting and Auditing Requirements

4.16.3 The Rural Finance and Settlement Commission Act 1961 requires the Commission to prepare annual financial statements, at 30 June, covering each of its principal functions i.e. rural finance, soldier settlement and land settlement. Section 27 of the Act provides for an annual audit of the accounts of the Commission by the Auditor-General. The Commission is required to forward its audited financial statements in relation to each principal function to the Treasurer for tabling in Parliament.

4.16.4 The financial statements for 1982-83 were received by audit on 3 October 1983 and the audit report was signed on 4 November 1983.

Financial Operations

4.16.5 The results of the financial operations of the 3 principal functions of the Commission for 1982-83 and 1981-82 are summarised hereunder:

	1981-82	1982-83
	\$	\$
Rural Finance Fund - net profit	5 491 224	6 029 042
Soldier Settlement - net loss	(522 360)	(561 977)
Land Settlement - net profit	1 266 099	1 611 743
	<hr/>	<hr/>
Overall net profit	6 234 963	7 078 808
	<hr/>	<hr/>

4.16.6 The overall net assets of the Commission at 30 June 1983 and 30 June 1982 are set out below:

	30.6.82	30.6.83
	\$	\$
Rural Finance Fund - net assets	59 002 881	60 863 775
Soldier Settlement - net liabilities	(34 234 081)	(34 796 058)
Land Settlement - net liabilities	(4 271 448)	(2 659 705)
	<hr/>	<hr/>
Net assets	20 497 352	23 408 012
	<hr/>	<hr/>

Scope of Audit

4.16.7 The audit covered:

- (1) cash receipts, cash payments, payroll and bank balances;
- (2) inventories, investments, debtors and fixed assets; and
- (3) current liabilities and loan liabilities.

4.16.8 The Commission continued to use the services of private practitioners to conduct an independent check on salaries, mortgage loan securities and money market securities. Their reports and working papers have been evaluated by my officers and were accepted for the purposes of the audit.

Audit Observations and Recommendations

Investment Income - Rural Finance Fund

4.16.9 Interest of \$1 318 287 earned on investments for the year ended 30 June 1983 has been disclosed in the Profit and Loss Account of the Rural Finance Fund. However, the total fund income from investments is \$2 759 668. The balance of the investment income, \$1 441 381, represent income transferred directly to various provisions and reserves, the investments for which form part of the Commission's investment pool.

4.16.10 Audit recommended that the total investment income be disclosed in the Profit and Loss Account and that subsequent transfers to the provisions and reserves be disclosed as appropriations in accordance with Australian Accounting Standards.

Provision for Superannuation

4.16.11 The Commission has made provision for its liability in respect of employees who have or who are contributing to the State Superannuation Scheme. The provision, which amounted to \$5 639 237 at 30 June 1983, is additional to the annual contribution required to reimburse the State Superannuation Board for the employer's contribution towards superannuation benefits paid to former employees during the 1982-83 financial year.

4.16.12 The basis for the provision is an actuarial assessment conducted in 1964 and modified on a number of occasions by the Commission to reflect changes in legislation and circumstances.

4.16.13 Audit recommended that the Commission obtain regular independent actuarial advice as to the adequacy of the provision at least every 3 years.

Provision for Doubtful Debts

4.16.14 At 30 June 1983 provision for doubtful debts amounted to \$5 113 752. This provision has been calculated using varying percentages based on the Commission's assessment of the risk value of each classification of debtor.

- 4.16.15 The provision represents a value judgment which is not supported by any recent historical experiences in bad debt write-offs or specific circumstances known to exist at the time the accounts were prepared.
- 4.16.16 Audit considers the provision for doubtful debts to be excessive, particularly as the Commission also requires adequate security and insurance of all mortgage securities during the term of the loans.

Conclusion

- 4.16.17 Apart from the above matters, the results of the audit examination proved satisfactory.

4.17 STATE ELECTRICITY COMMISSION

Introduction

4.17.1 The State Electricity Commission of Victoria was established under the State Electricity Commission Act 1958. In carrying out its responsibilities under the Act, the Commission is required to:

- (1) operate in accordance with criteria, established from time to time by the Minister, with respect to efficiency, economy, safety and reliability;
- (2) efficiently use the State's natural resources in the production of electricity (including its production by co-generation) and the substitution of more plentiful or renewable resources for less plentiful resources;
- (3) establish a working environment which is safe and satisfying, and with conditions of employment consistent with government policy;
- (4) comply with State environmental policies and give due consideration to environmental factors in the planning, design, construction and operational phases of every project;
- (5) implement energy conservation goals consistent with policy established from time to time by the Government of Victoria; and
- (6) operate in accordance with economic and social objectives established from time to time by the Government of Victoria.

Statutory Reporting and Auditing Requirements

4.17.2 The State Electricity Commission Act 1958 requires the Commission to prepare at the end of each financial year a balance sheet and a profit and loss account in respect of all its operations. Section 81 of the Act provides for the accounts of the Commission to be audited by the Auditor-General. An audited copy of the balance sheet and profit and loss account is to be included in the annual report of the Commission which is to be laid before Parliament on or before 30 November in each year.

4.17.3 The financial statements were adopted by the Commission on 4 November 1983, and the audit report was signed on 9 November 1983.

Financial Operations

4.17.4 The financial operations of the Commission for 1982-83 compared with 1981-82 are summarised hereunder. For comparative purposes the 1981-82 figures have been restated to conform with the accounting treatment adopted for 1982-83.

	1981-82 Audited \$000	1981-82 Restated \$000	1982-83 Audited \$000
Revenue	1 088 444	1 088 444	1 274 839
Expenditure (including extraordinary items)	1 012 360	1 023 160	1 206 405
Surplus before contributions to Consolidated Fund	76 084	65 284	68 434
Less:			
Statutory Contribution to Consolidated Fund			
Payment for current year	82 500
Less provisions made in previous year	58 795
Provisions for 1982-83 year	59 687	58 795	23 705 ..
Net surplus for year	16 397	6 489	44 729
Add			
Transfer from General Reserve	..	7 101	13 459
Total Available for Appropriation	16 397	13 590	58 188
Appropriations to Reserves	10 800
Appropriation - Brown Coal Royalty	..	892*	7 537
Balance of revenue transferred to General Reserve	5 597	12 698	50 651

* In 1981-82 the Brown Coal Royalty was shown as an expense.

4.17.5 Net assets of the Commission at 30 June 1983 were \$227.54 million (\$183.76 million at 30 June 1982).

4.17.6 After allowing for a number of changes in accounting treatment which are further commented upon in paragraph 4.17.9, the net surplus for the year increased from \$6.5 million in 1981-82 to \$44.7 million in 1982-83 and was due mainly to:

- (1) a net increase in tariff charges during 1981-82; and
- (2) the write-back of the sum provided in 1981-82 in respect of the statutory contribution payable to the Consolidated Fund (further details are provided in paragraph 4.17.9).

4.17.7 The effect of the changes in accounting treatment was to change the net result for the year from a deficit of \$89.4 million to a surplus of \$44.7 million. These changes in accounting treatment conform with Australian Accounting Standards and meet the requirements of the Act to present a true and fair view.

Scope of Audit

- 4.17.8 A number of the Commission's financial systems were examined during 1982-83, including contract payments, payrolls, trade credit and overseas loans and lease payments. A review of the plans, programs, reports and working papers of the internal auditor was undertaken during the audit. The Commission's assets and liabilities at 30 June 1983 were verified.

Audit Observations and Recommendations

The Effect of Changes in Accounting Treatment

- 4.17.9 Comment on the effect of these changes follows:

(1) Contribution to Consolidated Fund

During 1982-83, the Public Authorities (Contributions) Act 1966 was amended to increase the rate of contribution payable to the Consolidated Fund in a financial year from 5.5 per cent to 7.72 per cent, based on the total revenue of the preceding year. As a consequence the sum paid to the Consolidated Fund by the Commission in 1982-83 was \$82.5 million. Of this sum, \$58.8 million had been previously provided for in 1981-82.

In previous years, the Commission, in terms of the Public Authorities (Contributions) Act 1966, set aside each year a sum by way of a provision to make a contribution to the Consolidated Fund in the subsequent year. Such provision was accounted for as an expense prior to the determination of the net result for the year. In 1982-83, the Commission ceased to make such a provision. If the previous practice had been followed, an additional amount of approximately \$96.8 million would have been charged as an expense to meet this provision.

(2) Brown Coal Royalty

During 1982-83 Section 82A of the State Electricity Commission Act 1958 was amended to increase the rate of contribution payable to the Consolidated Fund based on brown coal production from 2.46 cents to 13 cents per tonne. As a consequence, the sum paid to the Consolidated Fund by the Commission in 1982-83 was \$4.4 million. Of this sum \$0.9 million had been provided for previously in 1981-82.

In previous years, such contributions were accounted for as an expense prior to the determination of the net result for the year. During the conduct of the audit, the Commission was advised that, in terms of Section 82A of the Act, such contributions should be accounted for as an appropriation after the determination of the net result for the year. This advice was adopted in the 1982-83 accounts. The effect of the change in accounting policy was to reduce the expense item by \$7.5 million in 1982-83.

(3) Provision for Self Insurance (formerly Insurance Reserve)

In recent years, the Commission appropriated an amount of \$2.5 million annually to an insurance reserve. These appropriations were additional to the annual insurance expense based on the estimated commercial premiums which would have been paid by the Commission had the premiums been paid to insurance companies.

At its meeting on 9 June 1983, the Commission revised its accounting policy on self-insurance. The revised policy embraces the following key aspects:

- (i) the annual charge be treated as a cost having regard to the estimated commercial premium on specific risks by dividing an estimate of future liability by the assessed frequency of occurrence of the self-insured event;
- (ii) the annual charge be treated as a cost incurred in earning revenue and not an appropriation of net revenue;
- (iii) the insurance account be classified in the balance sheet as a current liability or a deferred charge; and
- (iv) the insurance provision be increased by an appropriation of operating surplus as and when considered appropriate.

The effect of the revised policy in 1982-83 was to increase expenses by \$2.5 million.

Audit is of the opinion that certain aspects of the policy as stated above may be contrary to the Australian Accounting Standards. I have indicated to the Commission by letter dated 8 September 1983, that further research is required on the subject of self-insurance and, in these circumstances, the accounting policy adopted by the Commission for 1982-83 should not to be regarded as a precedent for future years.

(4) Provision for Long Service Leave and Wages Retiring Gratuities

In previous years, the Commission has generally appropriated a sum to the provision for long service leave. In my May 1983 report, I commented on the need for the Commission to formulate a specific policy particularly in relation to the shortfall that existed between the total long service leave liability and the accumulated balance of the provision.

During the year the Commission formulated a policy on the provision for long service leave and wages retirement gratuities. The main aspects of the policy are:

- (i) the liability in respect of long service leave and wages retirement gratuities will be accrued annually in the provision for long service leave account by adding a surcharge to the direct labour charge-out rate;

- (ii) the provision may be increased by an appropriation of operating surplus if the Commission deems such action appropriate; and
- (iii) the existing shortfall between the total long service leave commitment and the provision will be funded over a period not greater than 10 years.

The effect of this accounting change was to increase the expense item by \$9 million.

Audit is of the opinion that further consideration needs to be given to the policy. The treatment in point (ii) would be contrary to the Australian Accounting Standards in that increases in provisions for liabilities should be charged as an operating expense, not as an appropriation.

(5) Capitalisation of Borrowing Costs

During the year the Commission reviewed its accounting policy relating to the capitalisation of borrowing costs. The main outcome of the review was to classify foreign currency transaction gains and losses as finance charges and to apportion such charges between operational expenses and fixed assets. The Commission's policy accords with the draft International Accounting Standard on the capitalisation of borrowing costs.

The effect of this accounting policy change on the financial statements for 1982-83 was to decrease the allocation of finance charges against operations by \$14.6 million and to increase fixed assets by a corresponding amount.

(6) Finance Charges

Prior to 1982-83 the apportionment of finance charges between fixed assets and operations was based on the net capital expenditures of significant projects to June of the preceding year. Under a revised accounting policy effective in 1982-83, the base for finance charges has been expanded to include also capital expenditure incurred during the year under review.

The effect of this accounting policy change on the financial statements for 1982-83 was to decrease the allocation of finance charges against operations by \$20.4 million and to increase fixed assets by a corresponding amount.

(7) Overhead Expenditure

A review by the Commission during the year of the basis for the distribution of direct overhead expenditure between operations and fixed assets resulted in a change in the percentage of direct overheads allocated between operations and capital. The effect of this change on the financial statements for 1982-83 was to reduce overheads charged against revenue by \$6.3 million and to increase fixed assets by a corresponding amount.

Bushfires

4.17.10 The Commission has estimated that insurance claims totalling \$141 million could be expected in respect of the bushfires of 16 February 1983 in the areas listed below:

	\$ Million
Macedon/East Trentham	100.00
Cudjee	40.00
Monivae	0.75
Branxholme	0.25
	<hr/>
Total	141.00
	<hr/>

4.17.11 Insurance cover held by the Commission at the time of the fires was \$60 million with an excess of \$2.5 million.

4.17.12 The Commission's financial statements for the year ended 30 June 1983 include a charge of \$45 million as an extraordinary item representing the amount which the Commission expects to pay over and above any recovery from insurance settlements. In addition, a contingent liability of \$57.5 million has been included in the Commission's explanatory notes to the financial statements with respect to forthcoming litigation over the validity of the public liability insurance cover for bushfires.

4.17.13 At 4 November 1983 the Commission had settled claims with property owners in the Macedon/East Trentham area totalling \$32.5 million on the basis of denial of liability.

Depreciation

4.17.14 An audit review in 1981-82 of the Commission's depreciation policy disclosed that a number of practices adopted by the Commission for the depreciation of fixed assets were at variance with Australian Accounting Standards. The extent to which the departures from the standards impacted on the annual depreciation charge had not been determined by the Commission and audit recommended that the Commission take action to provide information which would quantify the effect that the depreciation practices had on the annual depreciation charge.

4.17.15 The area which audit considered to have the greatest significance concerned the calculation of depreciation charges for assets within the transmission and distribution systems. Assets within these systems were regarded by the Commission as having a continuing function and in view of the problems of individual identification and recording, the assets were grouped for depreciation purposes. Depreciation for these assets was assessed using weighted average lives and no adjustment was made for early retirement or for continuance in service beyond assessed lives.

- 4.17.16 In response to the above comments the Commission has quantified a sum of \$1 million as the effect of the departures with respect to assets within the transmission and distribution systems. The extent to which the other departures affect the annual depreciation charge has not been determined and reference is made in the notes to the 1982-83 accounts that quantification of the departures will be included in the scope of a forthcoming major review covering all aspects of depreciation.

Newport D Power Station - Surplus Materials

- 4.17.17 During 1982-83 an amount of \$9 million for surplus materials and plant, arising from the decision to reduce the generating capacity of Newport D Power Station was transferred to the fixed asset account from the deferred charges account. The Commission decided to transfer the amount when it was unable to determine what items made up the balance of the account and concluded it was necessary to resolve the issue for the 1982-83 accounts.
- 4.17.18 Information provided to audit disclosed that plant costing \$1.5 million which had been sold as scrap for \$139 000 and plant costing \$1.5 million, which was stored in the United Kingdom, was subject to sale as obsolete equipment.
- 4.17.19 In view of the above information, the asset account and the depreciation charge for the power station for 1982-83 are overstated. The Commission has indicated to audit that, as additional information has become available since the transfer was made, it would further investigate the matter. However, until this investigation is completed, the \$9 million would remain as a fixed asset.

Bulk Supply - Melbourne City Council

- 4.17.20 The dispute between the Commission and the Melbourne City Council concerning bulk supply electricity tariffs was settled during the year. Under the terms of settlement an amount of \$6 290 373, outstanding and withheld by the Council as being equivalent to the cost of public lighting, was waived in accordance with a direction by the Minister for Minerals and Energy. In terms of the arrangement, the Commission was to receive a cash settlement of \$1.5 million.

Sale of Sinking Fund Securities

- 4.17.21 The Public Authorities (Sinking Fund) Act 1982 provided for the abolition of sinking funds of certain public authorities. The Act removed the necessity for the Commission to provide a sinking fund in respect of any loan raised by it on or after the date of commencement of the Act. The Commission could also, after a period of 3 months from the commencement of the Act, transfer any moneys standing to the credit of the sinking funds to its general funds, provided that no objections were received in writing from the holder of any registered stock issued by the Commission stating that a sinking fund should be continued for the term of their loan. Where such an objection was received from a stockholder the Commission was required to continue to provide a sinking fund in respect of that loan.

4.17.22 During the year, the Commission realised \$16.2 million of sinking fund investments which resulted in a loss on sale of \$1.1 million. A balance of \$360 has been retained as sinking fund investments in accordance with stockholders' directions.

Conclusion

4.17.23 Apart from the above matters and some minor weaknesses brought to the attention of the Commission, the results of the audit proved satisfactory.

4.18 STATE SUPERANNUATION BOARD OF VICTORIA

Introduction

- 4.18.1 The State Superannuation Board of Victoria was established under the Superannuation Act 1958 and is responsible for the administration of the Superannuation Fund established under Section 5 of the Act.
- 4.18.2 The Board is also responsible for the administration of the Pensions Supplementation Fund, the Superannuation Lump Sum Fund and the Parliamentary Contributory Superannuation Fund by reason of the relevant enabling legislation establishing these Funds. In addition, the Board is responsible for the administration of the Constitution (Governor's Pension) Act 1978.
- 4.18.3 The audit of the accounts of the State Superannuation Fund, which were received on 14 September 1983, had not been completed at the date of preparation of this report.

Pensions Supplementation Fund

- 4.18.4 The Fund was established pursuant to the Pensions Supplementation Act 1966 to meet the cost of supplementing, from 1 April 1966, the pensions of officers who retired on or before 12 July 1961 or the widows of such officers or of those officers who died prior to that date.

Statutory Reporting and Auditing Requirements

- 4.18.5 Section 10 of the Act requires the Board to submit to the Treasurer to be laid before both Houses of Parliament a report dealing with the general administration and operations of the Fund; the adequacy or otherwise of the Fund; and any recommendations in connection with the use of any surplus.
- 4.18.6 There is no statutory provision for the preparation of financial statements or the audit thereof. However, the Board has produced financial statements for the Fund over the years and included these in its report to Parliament. For 1982-83 a balance sheet, a revenue statement and a statement of source and application of funds have been prepared. The audit of the financial statements is undertaken by the Auditor-General as part of the audit of the Superannuation Board.
- 4.18.7 The financial statements of the Fund were adopted on 14 September 1983 and the audit report was signed on 18 October 1983.

Financial Operations

- 4.18.8 The financial operations of the Fund for the last 2 years are summarised hereunder:

	1981-82	1982-83
	\$	\$
Income	79 439 816	96 592 865
Expenditure	79 424 438	96 568 348
	<hr/>	<hr/>
Net Increase in Fund	15 378	24 517
	<hr/>	<hr/>

4.18.9 The net assets of the Fund at 30 June 1983 were \$77 660 (30 June 1982, \$53 143).

Parliamentary Contributory Superannuation Fund

4.18.10 The Parliamentary Salaries and Superannuation Act 1968 provides for the establishment of the Fund. The purpose of the Fund is to provide pensions, retiring allowances and other superannuation benefits to former members of Parliament and their widows.

Statutory Reporting and Auditing Requirements

4.18.11 The Act does not make any provision for the preparation of financial statements or of any form of report on the year's operations. However, the trustees of the Fund have over the years provided Parliament with details of the receipts and payments of the Fund. For the year under review, a balance sheet, a revenue statement and a statement of source and application of funds have been prepared. There is no statutory provision for the audit of the Fund; the audit is undertaken at the request of the Treasurer.

4.18.12 The financial statements of the Fund were adopted on 6 September 1983 and the audit report was signed on 18 October 1983.

Triennial Actuarial Investigation

4.18.13 Pursuant to sub-section 3 of Section 13 of the Parliamentary Salaries and Superannuation Act 1968 a certificate dated 28 September 1981 was received from the Government Actuary certifying to the amounts required from Consolidated Fund for the ensuring 25 years to enable the Fund to meet its future liabilities. The amount of \$4 902 414 was received during 1982-83.

4.18.14 In the Trustees' opinion nothing substantially affecting the ability of the Fund to meet its liabilities has occurred since the last investigation at 30 June 1981. The next actuarial investigation into the state and sufficiency of the Fund will be at 30 June 1984.

Financial Operations

4.18.15 The financial operations of the Fund for 1982-83 are summarised hereunder:

	1982-83
	\$
Income	7 817 194
Expenditure	6 834 964
	<hr/>
Net Increase in Fund	982 230
	<hr/>

4.18.16 The net assets of the Fund at 30 June 1983 were \$18 589 700 (30 June 1982, \$17 607 470)

4.18.17 As this is the first year in which the financial statements have been prepared on an accrual basis, comparative figures for income and expenditure for 1981-82 are not shown.

Superannuation Lump Sum Fund

- 4.18.18 The Fund was established under the Superannuation (Lump Sum Benefits) Act 1981 and came into operation on 1 January 1982. The Fund took over the assets and liabilities and contributors of the Married Women's Superannuation Fund. The Fund covers the payment of superannuation benefits to certain married women and part-time officers and employees of the Public Service.

Statutory Reporting and Auditing Requirements

- 4.18.19 Section 17 of the Act requires the Auditor-General to audit the financial statements of the Fund. However, no reference is made in the Act to the reporting requirements of the Board on the operations of the Fund nor of the nature of the financial statements required to be maintained for the Fund. The Board has prepared a balance sheet, a revenue statement and a statement of source and application of funds for the year ended 30 June 1983.
- 4.18.20 The financial statements were adopted by the Board on 14 September 1983 and the audit report was signed on 18 October 1983.

Actuarial Investigation

- 4.18.21 The Fund is not an actuarial based fund but rather an accumulating fund.
- 4.18.22 Section 16 of the Act provides for an actuarial investigation as to the state and sufficiency of the Annuity Account at 30 June 1983 and thereafter at the expiration of each period of 5 years. However, there is no requirement for an actuarial investigation into the state and sufficiency of the Fund itself. The investigation into the Annuity Account is currently being undertaken.
- 4.18.23 The Annuity Account, which had a balance of \$27 090 at 30 June 1983, provides for future pensions payable to current pensioners as prescribed by Section 10 of the Act.

Financial Operations

- 4.18.24 The financial operations of the Fund for 1982-83 are summarised hereunder:

	1982-83
	\$
Income	1 180 989
Expenditure	2 826 683
	<hr/>
Decrease in Fund	1 645 694
	<hr/>

- 4.18.25 The net assets of the Fund at 30 June 1983, after taking into account a reduction of \$3 033 in the Annuity Account, were \$4 756 324 (30 June 1982, \$6 398 985).
- 4.18.26 As the Fund only came into operation on 1 January 1982, no comparative figures are shown for income and expenditure for the period 1 January to 30 June 1982.

4.18.27 The major reasons for the decrease in the Fund for the year were:

- (1) a substantial number of refunds of contributions; and
- (2) the requirement under Section 3A of the Superannuation Act 1958 for a female who becomes an officer on or after the commencement of the Superannuation (Lump Sum Benefits) Act 1981 to join the Superannuation Fund.

Scope of Audit

4.18.28 The audit of the Pensions Supplementation Fund, the Parliamentary Contributory Superannuation Fund, and the Superannuation Lump Sum Fund consisted of an examination of the contributions and other income of the funds, the pensions and other benefits paid by the funds and the verification of the assets and liabilities of the funds at 30 June 1983.

Audit Observations and Recommendations

4.18.29 The deficiencies in the relevant legislation as to the reporting, form of financial statements to be prepared and the auditing requirements indicate a need to review the legislation and it is recommended that this matter receive urgent consideration.

Conclusion

4.18.30 The results of the audit examination of the funds proved satisfactory.

4.19 TOTALIZATOR AGENCY BOARD

Introduction

- 4.19.1 The Totalizator Agency Board was established under Section 116A of the Racing Act 1958. It is the function of the Board to provide off-course betting on horse, harness and greyhound racing and on Australian rules football.
- 4.19.2 The principal source of income of the Board is commission derived from moneys paid into a totalizator at any one of the Board's 423 offices and from the telephone betting system.

Statutory Reporting and Auditing Requirements

- 4.19.3 The Racing Act 1958 requires the Board within 3 months of 31 July to prepare and submit audited accounts, balance sheets and such reports as properly record the affairs of the Board to the Minister for tabling in Parliament. Section 116Y of the Racing Act 1958 provides for the Auditor-General to audit the financial statements of the Board.
- 4.19.4 The financial statements were adopted by the Board on 13 September 1983 and the audit report was signed on 10 October 1983.

Financial Operations

- 4.19.5 The financial operations of the Board for 1982-83 compared with 1981-82 are summarised as follows:

	1981-82	1982-83
	\$	\$
Income	67 530 444	78 662 497
Expenditure	43 116 404	47 969 385
	<hr/>	<hr/>
Operating surplus	24 414 040	30 693 112
Appropriation to reserves	1 964 652	4 189 092
	<hr/>	<hr/>
Transfer from reserves	22 449 388	26 504 020
	241 200	1 633 000
	<hr/>	<hr/>
Government underwriting	22 690 588	28 137 020
	3 078 880	951 980
	<hr/>	<hr/>
Surplus available for distribution	25 769 468	29 089 000
	<hr/>	<hr/>

- 4.19.6 The increase in income and consequent increase of \$6 279 072 in the operating surplus was due principally to the introduction of after race payouts, extended betting to race starting time and expanded media coverage.

- 4.19.7 The government underwriting of \$951 980 represents money made available under Section 116 I of the Racing Act 1958 by the Government to ensure that the total distribution to racing clubs is equal to not less than 3.525 per cent of T.A.B. turnover for the year. The reduction from \$3 078 880 in the previous year was mainly attributable to the transfer to income of the \$1 633 000 from the late dividends reserve. Further comment on this matter is given in paragraph 4.19.13.
- 4.19.8 In accordance with amendments to various provisions of the Racing Act 1958, the amount appropriated to the development reserve increased from 0.25 per cent to 0.50 per cent of turnover as from 1 August 1982. As a result, the amount transferred to the development reserve increased from \$1 879 652 in 1981-82 to \$4 189 092 in 1982-83.
- 4.19.9 The net assets of the Board at 31 July 1983 were \$34 270 937 (31 July 1982, \$30 081 845).

Scope of Audit

- 4.19.10 The audit covered an evaluation of the systems and internal controls of the Board and concentrated particularly on the racing commission, late dividends, fixed assets, telephone betting and agents' fees systems. Verification of assets and liabilities at 31 July 1983 was undertaken.
- 4.19.11 The programs and working papers of the Board's internal audit division were examined and accepted for the purpose of the statutory audit.

Audit Observations and Recommendations

Effect of Changes in Accounting Treatment

- 4.19.12 Following comment in my December 1982 report, the Board reviewed the depreciation policy on computer equipment. The review resulted in the Board resolving that computer equipment would be depreciated over a 7 year period rather than over 10 years as was the previous Board policy. The depreciation expenses for 1982-83 increased by approximately \$1 498 000 due to the policy change.
- 4.19.13 Under Section 116 O of the Racing Act 1958 the Board treats as income those dividends which in its opinion will not be claimed by the persons entitled to them. The late dividends reserve, a reserve established to meet claims for unpaid dividends previously transferred to income as above, was reduced by Board resolution from 20 per cent to 10 per cent of the aggregate of unclaimed dividends transferred to income over the past 6 years. Consequently, an amount of \$1 633 000 was transferred to income in 1982-83.

Research and Development Costs

- 4.19.14 During the year under review the Board has been developing "in-house" a computerised management information system. A sum of \$85 000, representing the cost of employing consultants to assist in the development of the system, was capitalised in 1982-83.

4.19.15 A review conducted by the internal audit division of the Board indicated that approximately \$100 000, representing costs of Board employees engaged in the development of the management information system, were not capitalised but were charged against the day-to-day operations of the Board.

4.19.16 Audit recommended that:

- (1) identifiable labour costs of Board employees involved in research and development should be capitalised; and
- (2) a consistent policy should be developed for the accounting treatment of all research and development costs.

Agent Relationship

4.19.17 The Board agreed to arrange the manufacture of 150 terminal memory boards at a cost of \$68 250 for the Totalizator Agency Board of Natal, South Africa. The manufacture and loading of the boards was subsequently contracted by the Victorian T.A.B. to 2 private firms.

4.19.18 Section 116GA of the Racing Act 1958 requires the Board to obtain the approval of the Minister to act as an agent for other bodies. In audit opinion, the Victorian T.A.B. was acting as an agent for Natal T.A.B. but the Board did not seek the approval of the Minister in this matter. Audit recommended that approval of the Minister be requested to permit the Board to act as an agent for Natal T.A.B.

Conclusion

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

Response by Board

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

- (1) the accounting treatment of research and development costs is considered appropriate and that due to the nature and variety of the development type projects undertaken by the Board, it is neither possible nor prudent to apply a definite policy to the treatment of all labour costs. Each project will be considered separately and treated in the light of circumstances; and
- (2) an approach would be made to the Minister to obtain approval as required under the Racing Act 1958 in regard to Natal T.A.B.

Audit Comment on Response

4.19.21 Audit remains of the opinion expressed in paragraph 4.19.16 that a consistent policy is necessary for the accounting treatment of research and development costs.

4.20 URBAN LAND AUTHORITY

Introduction

- 4.20.1 The Urban Land Authority was established under the provisions of the Urban Land Authority Act 1979.
- 4.20.2 The functions of the Authority are to provide developed and vacant allotments as directed by the Minister of Housing and to facilitate the disposal to the public of lands, both developed and undeveloped, which the Governor-in-Council declares should be disposed of in the public interest.
- 4.20.3 Section 19 of the Urban Land Authority Act 1979 provides for Crown Land to be vested in the Authority for the purpose of development and/or sale. Proceeds of property sales, less any amounts incurred by the Authority in or in relation to the development and sale of the property, are repaid to the owner.

Statutory Reporting and Auditing Requirements

- 4.20.4 The Urban Land Authority Act 1979 requires the Authority to finalise its annual accounts within 2 months of 30 June. Section 13 of the Act provides for the audit of the Authority's financial statements by the Auditor-General. The audited financial statements are to be forwarded to the Minister by 30 November for tabling in Parliament before 31 December or, if Parliament is not sitting, forthwith upon the resumption of the sitting of either House.
- 4.20.5 The financial statements for 1982-83 were made available to audit on 20 September 1983 and the audit report was signed on 18 October 1983.

Financial Operations

- 4.20.6 The financial operations of the Authority for 1982-83 compared with 1981-82 are summarised hereunder:

	1981-82	1982-83
	\$	\$
Income	3 293 223	3 347 036
Expenditure	776 846	792 069
	<hr/>	<hr/>
Operating Surplus	2 516 377	2 554 967
Transfer to provision for decrease in land values	..	(3 363 196)
	<hr/>	<hr/>
Net Surplus (Deficit)	2 516 377	(808 229)
	<hr/>	<hr/>

- 4.20.7 Net assets of the Authority at 30 June 1983 were \$7 643 776 (30 June 1982, \$8 452 005).

Audit Observations and Recommendations

"Keilor Downs"

- 4.20.8 In my December 1982 report I drew attention to undeveloped land at "Keilor Downs" for which the Valuer-General's valuation of 30 June 1980 had been utilised and commented that an adjustment may be necessary when a more recent valuation became available.
- 4.20.9 For the year under review a full valuation of undeveloped land at "Keilor Downs" was completed and the Valuer-General's valuation was adopted. This resulted in a write-down of \$3 058 453 in respect of this estate.

Vested Lands

- 4.20.10 Pursuant to Section 19 of the Act, the Authority has been vested with undeveloped land owned by the Department of Crown Lands and Survey and developed land owned by the Housing Commission. At 30 June 1983 the sales of these lands resulted in surpluses of \$936 374 and \$7 965 767 respectively.
- 4.20.11 For the purposes of accounting for these operations, the Authority has adopted the view that since the vested land is not an Authority asset, transactions relating to these sales should be separated from the Authority's own land sales. Accordingly, the financial statements include only commissions on sales receivable by the Authority from the Department of Crown Lands and Survey and the Housing Commission.

Scope of Audit

- 4.20.12 The audit covered an evaluation of the system of internal controls and selective examination of individual transactions relating to the various accounting systems operated by the Authority and verification of the assets and liabilities at 30 June 1983.

Conclusion

- 4.20.13 Apart from a number of minor weaknesses brought to the attention of the Authority, the results of the audit proved satisfactory.

4.21 VICTORIAN DAIRY INDUSTRY AUTHORITY

Introduction

4.21.1 The Victorian Dairy Industry Authority was established under the Victorian Dairy Industry Authority Act 1977 and is responsible for administering the supply, sale and distribution of milk in the proclaimed milk districts of the State.

4.21.2 The Authority purchases milk produced under contract. It also purchases quantities of non-contract milk, the proceeds of which are paid into 'pools' which are distributed on a monthly basis after the deduction of operating expenses.

Statutory Reporting and Auditing Requirements

4.21.3 The Victorian Dairy Industry Act 1977 requires the Authority to prepare a balance sheet and statement of accounts. Section 20 of the Act provides for an annual audit of the accounts of the Authority by the Auditor-General. The audited financial statements are to be submitted to the Minister on or before the last day of February in each year and laid before both Houses of Parliament.

4.21.4 The financial statements for 1982-83 adopted by the Authority were received by audit on 10 October 1983 and the audit report was signed on 17 November 1983.

Financial Operations

4.21.5 The financial operations of the Authority for 1982-83 compared with 1981-82 are summarised hereunder:

	1981-82	1982-83
	\$	\$
Income	142 803 154	154 736 440
Expenditure	137 737 156	149 996 863
	<hr/>	<hr/>
Transfer to Capital Fund	5 065 998	4 739 577
	4 408 091	4 464 445
	<hr/>	<hr/>
Net Operating Surplus	657 907	275 132
	<hr/>	<hr/>

4.21.6 Net assets of the Authority at 30 June 1983 were \$11 979 541 (30 June 1982, \$12 036 264). The decrease for the year, notwithstanding the operating surplus, was due largely to a reduction in the capital fund by way of amortisation charges for contract compensation.

Scope of Audit

- 4.21.7 The audit included the documentation, evaluation and testing of the Authority's expenditure and revenue systems and the verification of assets and liabilities of the Authority at 30 June 1983.
- 4.21.8 In accordance with established practice, a firm of private practitioners is responsible for the audit of each of the monthly pools. The firm operates in conjunction with the Authority's internal audit group. Their audit programs, working papers and reports were examined and evaluated by my officers and were accepted for the purpose of my audit.
- 4.21.9 A review of the computer installation of the Authority was undertaken during the year. The objectives of the review were:
- (1) to assess the adequacy of physical security at the computer site;
 - (2) to evaluate controls built into the communications network to prevent the loss or corruption of data in transmission;
 - (3) to evaluate the adequacy of operating procedures which safeguard the integrity of application programs and data; and
 - (4) to review the procedures implemented to control the system development and maintenance process.

Audit Observations and Recommendations

Internal Audit of Pool Distribution

- 4.21.10 As in recent years, the number of audits of depots/processors conducted during the year by the Authority's internal audit group decreased compared with the previous year. This matter was also commented on in my May 1983 report (paragraphs 3.20.10-3.20.12) However, audit ascertained that internal audit activity had increased in the first quarter of 1983-84 and the Authority indicated it was expected to increase further with the training of new staff.
- 4.21.11 In audit opinion, each depot/processor not covered by the direct payments system should have at least one sales/purchase audit per year.

Direct Payments to Producers

- 4.21.12 In previous audit reports, I have expressed concern about the procedure used by the Authority in paying for its milk purchases through agents (depots etc.). My concern has centred on the possibility that, in the event of default by an agent, the Authority may be required to pay a producer, notwithstanding the fact that the Authority had already made payment to the agent.
- 4.21.13 In May 1983 report, I referred to the intention of the Authority to implement a system of direct payment to farmers and the various factors which had led to the postponement of implementation of the system.

- 4.21.14 A working party was established on 12 November 1982 to resolve the future of the direct payments system and the Authority resolved on 17 March 1983 to progressively introduce direct payments to all holders of milk contracts. Non-contract farmers, not already on the system, would continue to receive payments through agents (depots etc.).
- 4.21.15 In June 1983, farmers supplying milk to 9 depots, approximately 10 per cent of the Authority's total milk purchases, were being paid directly.
- 4.21.16 The Authority is seeking legislative provisions which would enable possible defaults in payments by depots to be met from the pools established under Section 38 of the Act.
- 4.21.17 Until the direct payments system is extended to all farmers, audit remains of the opinion that the Authority is being placed in a position of risk by paying for milk purchases through third parties.

Computer Installation Review

- 4.21.18 The configuration of the computer installation of the Authority includes 21 terminals, 3 of which are at external locations. The current computer system was installed in November 1982 following a review by the Authority of its computer facilities.
- 4.21.19 Audit identified the following weaknesses on which recommendations were made:
- (1) The fire detection system is required to be manually activated. Audit recommended that the system should provide for automatic activation to ensure the system is protected after hours.
 - (2) No formal arrangement had been made with the computer manufacturer or other users of similar equipment to provide backup assistance in the event of a major breakdown or catastrophe in the system. Audit recommended that consideration be given to the preparation of a reciprocal agreement with another user or the manufacturer to provide such backup facilities.
 - (3) A formal contingency plan for emergency situations had not been prepared. Audit recommended that a formal plan be developed for emergency procedures.
 - (4) With all terminals having access to all parts of the system there is a risk of unauthorised access particularly via one of the unsupervised remote terminals. Audit recommended that as an additional safeguard to the current password protection system terminals be dedicated to specific applications.
 - (5) No restriction is placed on E.D.P. staff and certain users on the use of system utility programs which allow access to modify production files. Audit recommended a range of procedures designed to overcome this security weakness.

Conclusion

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

4.22 VICTORIAN DEVELOPMENT FUND

Introduction

- 4.22.1 The Victorian Development Fund, which commenced operations on 26 November 1982, was established under the Public Account (State Development Account) Act 1982.
- 4.22.2 The Fund has 2 component parts, namely:
- . the Cash Management Account; and
 - . the State Development Account.
- 4.22.3 The Cash Management Account and the State Development Account accept deposits from designated accounts and authorities for periods not exceeding 12 months and for periods in excess of 12 months respectively. The moneys in both accounts can be invested in any manner declared by the Governor-in-Council on the recommendation of the Treasurer and may be advanced to the Consolidated Fund for up to 12 months from the Cash Management Account and for periods in excess of 12 months from the State Development Account.

Statutory Reporting and Auditing Requirements

- 4.22.4 The Public Account Act 1958 requires the Treasurer to cause to be prepared a financial report on the Victorian Development Fund within 2 months after the end of the financial year. Section 7G of the Act requires the report to be audited by the Auditor-General prior to being tabled in Parliament.
- 4.22.5 The financial report on the Fund was signed on 31 August 1983 and the audit report on the financial statements was signed on 30 September 1983.

Financial Operations

- 4.22.6 The financial operations of the Fund for the period 26 November 1982 to 30 June 1983 are shown hereunder:

	<u>Cash Management</u> <u>Account</u> \$	<u>State</u> <u>Development</u> <u>Account</u> \$	<u>Victorian</u> <u>Development</u> <u>Fund</u> \$
Income	19 773 200	2 248 807	22 022 007
Expenditure	19 611 539	2 197 690	21 809 229
	-----	-----	-----
Operating Profit	161 661	51 117	212 778
Payment to Consolidated Fund	100 000	50 000	150 000
	-----	-----	-----
Retained Earnings and Net Assets	61 661	1 117	62 778
	-----	-----	-----

Scope of Audit

4.22.7 The audit covered:

- (1) a detailed evaluation of the systems of internal control in operation with particular emphasis on the E.D.P. operations;
- (2) an examination of the income and expenditure for the period; and
- (3) the verification of assets and liabilities of the Fund at 30 June 1983.

Audit Observations and Recommendations

Non-Compliance with Public Account Act 1958

- 4.22.8 On 30 June 1983 officers of the Victorian Development Fund estimated that the surplus of the Fund for the period ending 30 June 1983 would be approximately \$350 000. The Treasurer then determined pursuant to sub-section (4) of Section 7G of the Public Account Act 1958 that \$250 000 of this estimated surplus be paid from the Victorian Development Fund to the Consolidated Fund.
- 4.22.9 Subsequent to the transfer of the \$250 000 an investigation by officers of the Fund disclosed that the surplus would be in the vicinity of \$213 000 rather than \$350 000 as first estimated. On the basis of this information the Treasurer further determined that:
- (1) only \$150 000 of the surplus would be transferred to the Consolidated Fund pursuant to sub-section (4) of Section 7G of the Public Account Act 1958; and
 - (2) \$100 000 would be paid to the Consolidated Fund pursuant to sub-section (4) of Section 7B of the Public Account Act 1958 as a recoupment in advance of administrative expenses.
- 4.22.10 In audit opinion, the provisions of the Public Account Act 1958 were not complied with in that the transfer of \$150 000 to the Consolidated Fund was made prior to the end of the financial year.
- 4.22.11 Further, sub-section (4) of Section 7B refers to the "recoupment of the costs of administering". At the date of payment no costs which would be subject to recoupment had been incurred. In audit opinion this payment was contrary to the provisions of Section 7B.
- 4.22.12 These matters were also commented on in paragraph 2.2.15 (8) of my first report for 1982-83.
- 4.22.13 In audit opinion, there was also non-compliance with Section 7A of the Public Account Act 1958 in that advances totalling \$172.2 million were made to the Consolidated Fund prior to a determination of the Treasurer. This matter was raised in paragraphs 6.11.10 and 6.11.11 of my second report for 1982-83.

Security of Investments

- 4.22.14 An Order-in-Council of 15 June 1983 requires advances to any corporation to be secured by public securities or negotiable instruments. On 30 June 1983 an amount of \$5 million was invested by the Fund with a merchant bank. However, securities to the value of \$4 million only were held in respect of this investment. The investment was subsequently repaid to the Fund on 1 July 1983.

Purchase of Computer Software

- 4.22.15 A payment of \$47 500 was made by the Department of Management and Budget on behalf of the Fund to a computer software company for the purchase of a licence to use computer software prior to both the approval of the Tender Board and the signing of a licensing agreement.
- 4.22.16 The licensing agreement was not signed until 27 July 1983, 8 months after the Fund commenced using the software.
- 4.22.17 Audit was advised by the Department of Management and Budget that the Tender Board and the Effectiveness Review Committee had been consulted and that the interim payment was essential to ensure continued use of the computer program.

E.D.P. Review

- 4.22.18 The software operating at the Victorian Development Fund involves 2 main systems, an on-line money market system and a batch type general ledger system. Both of these packages were purchased from a computer software company which has written an interface program between them, as well as further developing the 2 packages.
- 4.22.19 During the course of the audit it was observed that the accrued interest receivable and payable amounts as per the general ledger system differed from amounts reported in the on-line money market system. Due to the imbalance between the 2 systems audit undertook a limited review to establish:
- (1) the cause of the imbalance of interest accrued figures as produced by the Victorian Development Fund's computer system;
 - (2) the audit implications of various program errors reported by the Victorian Development Fund's staff; and
 - (3) the reliability of the calculation and accrual of interest, as produced by the Victorian Development Fund's computer software.
- 4.22.20 The results of this review indicated that:
- (1) Two major programming errors in the interface software were established as the major cause of the imbalance between the 2 systems but, without undertaking an indepth review, audit was unable to determine whether these programming errors were the sole cause of the imbalance.

- (2) A report produced by the Victorian Development Fund staff listed 24 programming errors and 21 desired enhancements to the system. Audit considers that there has been no formalisation of the error reporting/recording/correction process although problems have consistently been encountered by the Victorian Development Fund's staff and rectified by the computer software company.
- (3) Reliance could be placed on the software for the interest calculation figures. This is carried out by the on-line money market system.

4.22.21 Other matters which arose out of the review included:

- (1) a lack of any E.D.P. audit capability, which is considered to be a major internal control weakness;
- (2) a lack of control over the use of passwords, which are an integral control feature of any E.D.P. system;
- (3) the failure by the officers of the Fund to follow up reports produced by the system with the resultant non-identification of control breakdowns;
- (4) weaknesses in systems documentation; and
- (5) lack of automatic recovery procedures which required manual amendments to control files.

4.22.22 Audit made certain recommendations in relation to these and other minor control deficiencies and at the date of this report, the officers of the Fund had taken action to remedy items (2) and (3) above.

Conclusion

4.22.23 Apart from the above matters, which are considered to be of a serious nature, the results of the audit proved satisfactory.

4.23 VICTORIAN ECONOMIC DEVELOPMENT CORPORATION

Introduction

4.23.1 The Victorian Economic Development Corporation was established under the Victorian Economic Development Corporation Act 1981.

4.23.2 The main objectives of the Corporation are to:

- (1) increase the rate of growth of the production of goods and services in Victoria;
- (2) increase employment opportunities;
- (3) increase the development of manufacturing and tourist industries throughout the State, particularly in country areas;
- (4) expand tourist accommodation and facilities throughout the State; and
- (5) promote the export of Victorian produce, products and services into interstate and overseas markets.

Statutory Reporting and Auditing Requirements

4.23.3 The Victorian Economic Development Corporation Act 1981 requires the Corporation to prepare at the end of each financial year a statement of accounts including such information as is necessary to give a true and fair view of the financial transactions and the state of affairs of the Corporation. Section 43 of the Act provides for the audit of the Corporation's accounts by the Auditor-General. Audited statements must then be forwarded to the Minister, for tabling in Parliament, no later than 31 December each year.

4.23.4 The financial statements were adopted by the Corporation on 26 October 1983 and the audit report was signed on 9 November 1983.

Financial Operations

4.23.5 The financial operations of the Corporation for 1982-83 compared with 1981-82 are summarised hereunder:

	1981-82	1982-83
	\$	\$
Income	6 883 859	7 499 148
Expenditure	5 998 667	6 822 261
	<hr/>	<hr/>
Surplus	885 192	676 887
	<hr/>	<hr/>

4.23.6 Net assets of the Corporation at 30 June 1983 were \$4 997 624 (30 June 1982, \$4 120 737). Apart from the surplus for the year, the increase in net assets was due to a capital grant from the State Government.

Qualification of Corporation's Financial Statements

- 4.23.7 It was necessary to again record the following qualification in the audit report on the financial statements:

"The Victoria Promotion Committee, whose property, liabilities, contracts etc. were transferred to the Victorian Economic Development Corporation as from 1 July 1981, was a body which had its derivation from a trust arrangement dated 22 March 1956 which established the responsibilities of the trustees of the Victorian Promotion Trust Fund.

The Victorian Economic Development Corporation Act 1981 which authorised the said transfer refers to a committee established by the State Development Decentralisation and Tourism Act 1978.

On the evidence available, there is only one organisation called the Victoria Promotion Committee, namely the committee established under the above trust arrangement, and that it was the property, liabilities, contracts etc. of that committee which were intended to be transferred under the terms of the Victorian Economic Development Corporation Act 1981".

- 4.23.8 The Corporation has sought an amendment to the Victorian Economic Development Corporation Act 1981 in respect of this matter. At the date of audit, amending legislation had not been enacted.

Scope of Audit

- 4.23.9 The audit covered an examination and appraisal of the financial systems in operation at the Corporation. The assets and liabilities of the Corporation at 30 June 1983 were verified.

- 4.23.10 The Corporation engaged the services of a firm of private practitioners as internal auditor. Internal audit programs, work papers and reports were examined as part of the overall examination of internal control. For the purposes of my audit, work undertaken by the firm at the Corporation's overseas offices was accepted.

Audit Observations and Recommendations

Security for Loans

- 4.23.11 Formal criteria had not been established as to what could be regarded as acceptable security for commercial loans advanced by the Corporation.

- 4.23.12 Audit is of the opinion that formal criteria should be established in order that:

- (1) intending borrowers become informed as to the Corporation's loan security requirements; and
- (2) a consistent approach is adopted by the Corporation when assessing securities for loan applications.

Conclusion

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

4.24 VICTORIAN FISHING INDUSTRY COUNCIL

Introduction

- 4.24.1 The Victorian Fishing Industry Council was established under the Victorian Fishing Industry Council Act 1979. The objective of the Council is to promote all phases of the fishing industry with particular emphasis given to product and market development. The Council also advises the Minister for Conservation on the formulation of policies concerning the industry.

Statutory Reporting and Auditing Requirements

- 4.24.2 The Victorian Fishing Industry Council Act 1979 requires the Council to finalise its accounts within 28 days after 30 June. Section 16 of the Act provides for an annual audit of the accounts of the Council by the Auditor-General. The legislation also requires the Council to forward its audited financial statements to the Minister on or before the last day of November in each year.
- 4.24.3 The financial statements were received by audit on 7 October 1983 and the audit report was signed on 23 November 1983.

Financial Operations

- 4.24.4 The financial operations of the Council for 1982-83 and 1981-82 are summarised hereunder:

	1981-82	1982-83
	\$	\$
Income	116 428	144 644
Expenditure	119 941	169 381
	<hr/>	<hr/>
Net Loss	3 513	24 737
	<hr/>	<hr/>

- 4.24.5 Net assets of the Council at 30 June 1983 were \$8 718 (30 June 1982, \$33 455).

Scope of Audit

- 4.24.6 The audit covered:
- (1) testing of contributions received from government and private industry;
 - (2) a review of the system of internal control over purchase of goods and services and payment of creditors' accounts; and
 - (3) verification of assets and liabilities at 30 June 1983.

Audit Observations and Recommendations

Government Grant

- 4.24.7 Section 15 of the Victorian Fishing Industry Council Act 1979 provides for the Council to receive a grant determined by the Treasurer, based on contributions the Council receives from the fishing industry. The ratio for 1982-83 was \$2 from the Government for every \$1 received from the fishing industry.
- 4.24.8 Based on expected contributions of \$35 000 during the year from the fishing industry, a grant of \$70 000 was provided to the Council by way of an appropriation from the Ministry for Conservation which was included in a total appropriation to the Council of \$78 750. However, the Council received only \$29 482 from the fishing industry during 1982-83 and as such the amount of the grant to the Council exceeded that provided for in the ratio determined by the Treasurer by \$11 036.

Conclusion

- 4.24.9 Apart from the above matter and another minor weakness brought to the attention of the Council, the results of the audit proved satisfactory.

4.25 VICTORIAN INSTITUTE OF MARINE SCIENCES

Introduction

4.25.1 The Victorian Institute of Marine Sciences was established under the Victorian Institute of Marine Sciences Act 1974. The objectives of the Institute are generally to advance scientific research, technological development and knowledge in marine sciences.

Statutory Reporting and Auditing Requirements

4.25.2 The Victorian Institute of Marine Sciences Act 1974 requires the Institute to finalise its accounts within 3 months after 31 December in every year and to submit them to the Auditor-General for audit. Section 24 of the Act provides for an annual audit of the accounts of the Institute by the Auditor-General.

4.25.3 The financial statements were received by audit on 31 March 1983 and the audit report for the year 1982 was signed on 27 July 1983.

Financial Operations

4.25.4 The financial operations of the Institute for the years ended 31 December 1982 and 31 December 1981 are summarised hereunder:

	1981	1982
	\$	\$
Income	275 369	171 798
Expenditure	234 101	202 229
	-----	-----
Surplus (deficit)	41 268	(30 431)
	-----	-----

4.25.5 Net assets of the Institute at 31 December 1982 were \$72 500 (31 December 1981, \$100 730).

Scope of Audit

4.25.6 The audit covered an examination of income and expenditure for the year, and the verification of assets and liabilities at 31 December 1982.

Audit Observations and Recommendations

Asset Register

4.25.7 Audit examination of the asset register of oceanographic equipment revealed that it had not been kept up to date. It was observed that:

- (1) not all items of equipment purchased during the year were recorded in the register; and
- (2) the details of lost items of equipment were not removed from the register.

4.25.8 Audit recommended that the register be kept up to date.

Conclusion

4.25.9 Apart from the above and a number of minor matters brought to the attention of the Institute's management, the audit proved satisfactory.

Response by Institute

4.25.10 The reply from the Ministry for Conservation dated 16 September 1983 stated that the Institute had noted the observations made by the auditor and that the recommendations would be incorporated in the Institute's accounting procedures.

4.26 VICTORIAN TOURISM COMMISSION

Introduction

- 4.26.1 The Victorian Tourism Commission (V.T.C.) was established by the Victorian Tourism Commission Act 1982 which came into operation on 11 May 1983, abolishing the Victorian Government Travel Authority (V.G.T.A.).
- 4.26.2 The objectives of the Commission are to:
- (1) market Victoria as a tourist destination for interstate and international travellers;
 - (2) increase:
 - . the number of travellers in Victoria;
 - . the period during which travellers or tourists stay at destinations in Victoria;
 - . the use of tourist facilities in Victoria.
 - (3) increase the amount of travel within Victoria and the use of tourist facilities in Victoria by Victorians;
 - (4) improve and develop tourist facilities in Victoria;
 - (5) support and co-ordinate the provision of tourist facilities in Victoria; and
 - (6) provide more efficient and effective utilisation of investment in travel and tourism within Victoria.

Statutory Reporting and Auditing Requirements

- 4.26.3 Section 27 of the Victorian Tourism Commission Act 1982 provides for an annual audit of the accounts of the Commission by the Auditor-General. The Act also requires the Commission to furnish to the Minister, not later than 31 December in each financial year, audited financial statements for the year ended 30 June. Copies of these statements are required to be laid before both Houses of Parliament.
- 4.26.4 The financial statements of the Commission were received by audit on 2 November 1983 and the audit report was signed on 18 November 1983.

Financial Operations

- 4.26.5 The financial operations of the Commission/Authority for 1982-83 compared with the financial operations of the Authority for 1981-82 are summarised hereunder:

	V.G.T.A. 1981-82 \$	V.T.C. and V.G.T.A. Year to 30 June 1983 \$
Income	5 381 937	6 997 231
Expenditure	5 767 038	7 517 593
Deficit	385 101	520 362

4.26.6 The accumulated deficit of the Commission at 30 June 1983, after allowance for a credit of \$121 000 which related to capital expenditure provided to the Commission from the Works and Services Account, was \$500 560 (\$101 298 at 30 June 1982).

Scope of Audit

4.26.7 Regular audits of the Victorian Government Travel Authority and the Victorian Tourism Commission were undertaken during the year by private practitioners appointed by the Authority and Commission.

4.26.8 My audit covered a review of the work carried out by the private practitioners and an examination of selected procedures and records. The assets and liabilities of the Victorian Government Travel Authority and the Victorian Tourism Commission were verified at 10 May 1983 and 30 June 1983 respectively.

Audit Observations and Recommendations

Transport Information Centre - Cost Recoupment

4.26.9 The majority of costs incurred by the Commission in operating the Transport Information Centre are by informal agreement to be recouped from Vic Rail and the Ministry of Transport. The Commission and the Ministry of Transport are in dispute over the amount owing for the year ending 30 June 1983. Due to the lack of a formal agreement, the Commission may be unable to recover approximately \$32 000 from the Ministry.

4.26.10 Audit recommended that the Commission take appropriate action to formalise an agreement with the parties concerned.

Appointment of Consultant

4.26.11 Both the Victorian Government Travel Authority Act 1977 and the Victorian Tourism Commission Act 1982 provided for the appointment of consultants with the approval of the relevant minister.

4.26.12 The former chairman of the Victorian Government Travel Authority was appointed as a consultant from 1 July 1982. However, ministerial approval for the appointment could not be produced for audit examination.

Conclusion

4.26.13 Apart from the above matters and a number of minor weaknesses brought to the notice of the Commission, the results of the audit proved satisfactory.