



Victoria

**Fourth Report
of the
Auditor-General**

for the year 1982-83

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Fourth Report

of the

AUDITOR-GENERAL

for the

Year 1982-83

Ordered by the Legislative Assembly to be printed

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1982-84



Office of the Auditor-General
MELBOURNE, VIC
17 April 1984

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 earlier report of 25 November 1983 covering the audit of certain other statutory bodies.

Yours faithfully,

A handwritten signature in cursive script, appearing to read "B.J. Waldron".

B.J. WALDRON
Auditor-General

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

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PART 1

BACKGROUND INFORMATION

1.1 **FORMAT OF REPORTS TO PARLIAMENT**

- 1.1.1 In future, I propose to present to Parliament 4 reports each year, as indicated below, and I may present special reports on other matters as the occasion demands.
- 1.1.2 The First Report, which was presented to Parliament on 21 September 1983, accompanied the Treasurer's Statement for the year ended 30 June 1983 and contained my report on that 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 The Third Report, which was presented to Parliament on 1 December 1983, covered the operations of certain statutory bodies which I am required by law to audit.
- 1.1.5 This, the Fourth Report, completes the reporting cycle in respect of 1983 and covers 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 FOURTH REPORT**

- 1.2.1 This Fourth Report does not duplicate detailed statements of final accounts of statutory bodies which are required to present audited financial statements to Parliament.
- 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 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 consolidated section on the audits of tertiary educational institutions and Colleges of Technical and Further Education is presented for the first time in this report.

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. Thus it 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 which are 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 in 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 on those statements, 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 Matters of special interest detailed in Part 4: Audit of Statutory Bodies are identified below:

<u>SUBJECT</u>	<u>PARAGRAPH REFERENCE</u>
<u>Qualification of Financial Statements</u>	
Albury-Wodonga (Victoria) Corporation	4.1.8
Building Industry Long Service Leave Board	4.2.7 - 4.2.8
Cancer Institute Board	4.3.9
Hospitals Superannuation Board	4.10.9
Melbourne and Metropolitan Tramways Board	4.16.7
Melbourne Underground Rail Loop Authority	4.17.7
Monash University	4.18.13 - 4.18.14
State Employees Retirement Benefits Board	4.22.11
State Insurance Office	4.23.8
University of Melbourne	4.26.18 - 4.26.19
<u>Albury-Wodonga (Victoria) Corporation</u>	
Land and buildings - possible variance between book and market values, lack of independent valuation	4.1.13 - 4.1.15
<u>Building Industry Long Service Leave Board</u>	
Switching of fixed interest securities	4.2.10 - 4.2.14
<u>Cancer Institute Board</u>	
Verification of private practice income	4.3.11 - 4.3.13
Receipt of moneys - Tasmanian service	4.3.14 - 4.3.18
<u>Grain Elevators Board</u>	
Travelling and other expenses	4.8.10 - 4.8.22
Payment of fines and legal costs of Board officers	4.8.23 - 4.8.24
Board motor vehicles	4.8.25 - 4.8.26
<u>Hospitals Superannuation Board</u>	
Investments in trustee and life assurance companies' schemes	4.10.9

<u>SUBJECT</u>	<u>PARAGRAPH REFERENCE</u>
<u>Housing Commission</u>	
Write-down of vested land	4.11.7
Rental arrears	4.11.14 - 4.11.16
<u>Local Authorities Superannuation Board</u>	
Advance to Epworth Private Hospital	4.14.11 - 4.14.13
<u>Melbourne and Metropolitan Board of Works</u>	
Effect of changes in accounting treatment	4.15.10 - 4.15.11
<u>Melbourne and Metropolitan Tramways Board</u>	
Determination of liabilities	4.16.7
<u>Melbourne Underground Rail Loop Authority</u>	
Overstatement of Loop Development Account	4.17.7
<u>Monash University</u>	
Superannuation and pension scheme investments held in names of fund managers	4.18.13 - 4.18.14
<u>Port of Melbourne Authority</u>	
Effect of changes in accounting treatment	4.19.9
<u>Registry of Co-operative Housing Societies</u>	
Interest subsidies - permanent building societies	4.20.9
Housing assistance schemes	4.20.9
<u>State Employees Retirement Benefits Board</u>	
Arrears of employee and employer contributions	4.22.14 - 4.22.21
<u>State Insurance Office</u>	
Compulsory third party outstanding claims provision - future investment income	4.23.11 - 4.23.13
Sundry debtors	4.23.14 - 4.23.16
Effects of change in accounting treatment	4.23.17 - 4.23.21
<u>University of Melbourne</u>	
Retirement fund investments held in names of fund managers	4.26.18 - 4.26.19
<u>Victorian Public Offices Corporation</u>	
Financial viability of the Corporation	4.28.9 - 4.28.10

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>ALBURY-WODONGA (VICTORIA) CORPORATION</u>			
1978-79	7	Independent valuation of land	Position unchanged (refer paragraphs 4.1.13 - 4.1.15 of this report).
1979-80	8	and buildings required.	
1980-81	10		
April 82	1		
1979-80	7	No provision for depreciation	Position unchanged (refer paragraph 4.1.8 of this report).
1980-81	10	has been made on land and	
April 82	1	buildings.	
1979-80	9	Reserves have not been	
1980-81	12	established for future	Position unchanged.
April 82	1	commitments in accordance with legislation.	
<u>BULDING INDUSTRY LONG SERVICE LEAVE BOARD</u>			
1981-82	5	Accounts do not disclose gain or loss on sale of investments at the point of sale.	Position unchanged (refer paragraphs 4.2.10 - 4.2.14 of this report).
	6	Regular follow-up procedures should be instituted for collection or adjustment of outstanding accounts receivable balances.	Position now satisfactory.
	6	Delays in processing of employer monthly contribution forms should be overcome.	Position now satisfactory.
<u>CANCER INSTITUTE BOARD</u>			
1978-79	11	Private practice income not	Position unchanged (refer paragraphs 4.3.11 - 4.3.13 of this report).
1979-80	15	verifiable by audit.	
1980-81	18		
1981-82	8		
<u>COUNTRY FIRE AUTHORITY</u>			
1981-82	12	Authenticity of statutory contributions should be verified by means of a selective examination of premium returns.	Position unchanged. An investigator will be appointed to confirm the accuracy of premium returns when financial resources permit.

<u>REPORT</u>	<u>PAGE</u>	<u>AUTHORITY</u>	<u>STATUS AT DATE OF PREPARATION OF THIS REPORT</u>
<u>COUNTRY FIRE AUTHORITY (CONTD)</u>			
	12	Interest earned on general account investments incorrectly transferred to the Sale of Property Fund.	Position unchanged (refer paragraphs 4.4.12 - 4.4.14 of this report).
	12	Financial records not maintained satisfactorily.	Position markedly improved in 1982-83.
<u>COUNTRY ROADS BOARD</u>			
1980-81	81	Internal audit not considered to be independent of operational management	An internal auditor has been appointed for the new Authority. Position to be reviewed by audit in current year.
1981-82	141		
	136	National Disaster Relief Grants - more effective follow-up procedures necessary in respect of amounts disbursed to municipal councils in past financial periods.	Follow up procedures now instituted.
<u>DANDENONG VALLEY AUTHORITY</u>			
May 83	10	Long Service Leave Payments Reserve Fund - existing liability should be calculated and contributions to Fund reviewed.	Position now satisfactory.
<u>GRAIN ELEVATORS BOARD</u>			
April 82	6	Internal audit - problems with reporting area and other inadequacies.	Position now satisfactory.
	6	Stock control pesticides - method of control inadequate.	Satisfactory measures have now been implemented.
<u>HOME FINANCE TRUST</u>			
May 83	22	Inadequate controls exist over custody and physical movement of documents held as security for loan advances.	Position unchanged.

<u>REPORT</u>	<u>PAGE</u>	<u>AUTHORITY</u>	<u>STATUS AT DATE OF PREPARATION OF THIS REPORT</u>
<u>HOSPITALS SUPERANNUATION BOARD</u>			
April 82	9	Rental of premises - no formal agreement.	Position unchanged. Public Works Department raised a charge of \$177 149 to 30 June 1981. An additional charge for the period 1 July 1981 to 22 August 1983 (the date the Board vacated the premises) has not yet been raised.
<u>HOUSING COMMISSION</u>			
1979-80	60	Increased rental arrears.	Position unchanged (refer paragraphs 4.11.14 - 4.11.16 of this report).
1980-81	78		
May 83	29	Improved control necessary to safeguard funds in respect of Interest Relief Scheme.	Interest Relief Scheme now abandoned.
<u>LA TROBE UNIVERSITY</u>			
May 83	33	Children's centre - improved control needed over amounts receivable.	Position unchanged. Remedial action being undertaken by Children's Centre Committee of the University.
<u>LEGAL AID COMMISSION</u>			
May 83	36	Legislative amendment should be sought to require annual financial statements of the Legal Aid Fund to be prepared on an accrual basis.	Position unchanged.
	37	Audit considers there is a conflict between requirements of the Legal Aid Commission Act 1978 and the Legal Profession Practice Act 1958 in respect of accounting and auditing provisions associated with operation of the Legal Aid Commission Trust Account.	A legal opinion has now been obtained and the matter is currently under examination by the Commission.
	37	Computerised systems should be adequately documented.	Position now satisfactory. A new system is currently being installed.
	37	Consideration should be given to creation of an internal audit function.	Internal audit not yet established.

<u>REPORT</u>	<u>PAGE</u>	<u>AUTHORITY</u>	<u>STATUS AT DATE OF PREPARATION OF THIS REPORT</u>
<u>LOCAL AUTHORITIES SUPERANNUATION BOARD</u>			
1978-79	58	Unsatisfactory contractual	Contract now signed by State Superannuation Board but not signed by Motor Accidents Board.
1979-80	76	arrangements in respect of	
1980-81	94	service bureau facilities to	Board considers that controls within the Computer Services Division are adequate. It has appointed a new computer manager who is presently reviewing the Division's operations.
1981-82	40	State Superannuation Board, Motor Accidents Board etc.	
	40	Internal control weaknesses in computer operations.	Not yet established. A firm of chartered accountants has recently been appointed to review the need for internal audit.
	41	An internal audit function should be established.	
<u>MELBOURNE AND METROPOLITAN BOARD OF WORKS</u>			
1981-82	50	Major weaknesses exist in relation to physical security over the Board's computer operations centre.	No action has been taken to install an automatic fire extinguisher system but satisfactory remedial measures have been taken in respect of other matters raised.
<u>MELBOURNE UNDERGROUND RAIL LOOP AUTHORITY</u>			
1980-81	127	Assets consisting of part of	Position unchanged (refer paragraph 4.17.7 of this report).
1981-82	53	loop now vested in Victorian Railways Board still included in accounts of Authority.	
<u>MOTOR ACCIDENTS BOARD</u>			
1980-81	15	Computer operations contractual	Position unchanged.
1981-82	64	relationship - formal agreement to be finalised.	
1980-81	15	Bethesda Hospital - payment	Payment for unused beds no longer applicable. An agreement to finance the operations of the rehabilitation centre at the Hospital on a "deficit funding" basis has not yet been formalised.
1981-82	63	for unused beds. Agreement to establish a rehabilitation centre not yet finalised.	

<u>REPORT</u>	<u>PAGE</u>	<u>AUTHORITY</u>	<u>STATUS AT DATE OF PREPARATION OF THIS REPORT</u>
<u>MOTOR ACCIDENTS BOARD (CONTD)</u>			
1981-82	62	Contingent liability in respect of income tax for accident victims not disclosed.	Position unchanged. Legal advice received by the Board indicated it should seek a Court decision in the matter.
	62	Inclusion of general account funds and current liabilities in calculation of outstanding liability is an incorrect accounting treatment.	Satisfactory remedial action taken.
	64	No authority under Motor Accidents Act 1973 for the Board to underwrite an overdraft of \$400 000 on behalf of Bethesda Hospital.	Legal opinion has been sought in the matter.
<u>ONION MARKETING BOARD</u>			
1978-79	64	Finalisation of winding-up	Distribution completed. Final audit nearing completion.
1979-80	76	delayed pending legal	
1980-81	96	proceedings in respect of large shipment of onions to London.	
<u>REGISTRY OF CO-OPERATIVE HOUSING SOCIETIES</u>			
May 83	22	Interest subsidy claims in respect of loans from permanent building societies should be selectively verified.	Position unchanged (refer paragraph 4.20.9(1) of this report).
	22	No specific legislation authorising establishment of housing assistance schemes.	Position unchanged.
	23	Legal opinion should be sought to clarify the legality of Registrar acting as an agent for societies in collection and forwarding of loan repayments to lending banks.	Action is being taken.
	23	Calculation of management costs should be reviewed.	Position unchanged (refer paragraph 4.20.9(3) of this report).
<u>STATE INSURANCE OFFICE</u>			
1981-82	82	Practice of recognising future investment income in determining the provision for outstanding claims at balance date should be discontinued.	Practice continued in 1982-83 year (refer paragraphs 4.23.11 - 4.23.13 of this report).

<u>REPORT</u>	<u>PAGE</u>	<u>AUTHORITY</u>	<u>STATUS AT DATE OF PREPARATION OF THIS REPORT</u>
<u>VICTORIAN PUBLIC OFFICES CORPORATION</u>			
1981-82	101	The financial viability of the Corporation requires urgent review.	Position unchanged (refer paragraphs 4.28.9 - 4.28.10 of this report).
<u>VICTORIAN RAILWAYS BOARD</u>			
1980-81	221	Contracts for road passenger bus services - power to enter into contracts questioned.	Position unchanged in 1982-83. However, the Transport Act 1983 provides the necessary power for the State Transport Authority to enter into such agreements.
1981-82	103		
1980-81	229	Financial accounts - insufficient information disclosed.	Audit of 1982-83 financial accounts not yet finalised.
1981-82	107		
1980-81	233	Vicrail Pipelines Pty. Ltd. wholly owned subsidiary - no provision in legislation for accounts to be audited by Auditor-General.	Position unchanged.
1981-82	107		
<u>ZOOLOGICAL BOARD OF VICTORIA</u>			
1981-82	117	Non-compliance with legislative requirement for preparation of statements of account including a full account of the Board's income and expenditure.	The statements of account for 1982-83 were prepared on an accrual basis.
	118	Overdraft limit of \$50 000 approved by the Treasurer exceeded on several occasions.	Limit exceeded twice in 1982-83. However, position generally improved.
	118	A more detailed system of stock records should be commenced and management should arrange for regular stocktakes.	Position unchanged.
	118	Improved internal control needed over weekly purchases of fruit and vegetables.	Action taken by the Board in January 1984; position now satisfactory.
	118	More regular stocktakes should be undertaken by management to improve internal control at the Souvenir Shop.	Position now satisfactory.

PART 4

AUDIT OF STATUTORY BODIES

4.1 ALBURY-WODONGA (VICTORIA) CORPORATION

Introduction

4.1.1 The Commonwealth of Australia and the States of New South Wales and Victoria entered into an agreement called the "Albury-Wodonga Area Development Agreement" on 23 October 1973. The purpose of the agreement is to promote the growth and development of the Albury-Wodonga area. The agreement provides for the establishment of 3 Corporations - the Albury-Wodonga Development Corporation, which is the principal working body of the project, and 2 State Corporations constituted by Acts of the parliaments of the Commonwealth and the 2 States respectively. The 3 Corporations work as a single entity responsible to the Ministerial Council consisting of the appropriate Commonwealth and State ministers.

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

Statutory Reporting and Auditing Requirements

4.1.3 The Albury-Wodonga Agreement Act 1973 requires the Corporation to forward its audited accounts to the Minister, as soon as is reasonably practicable after 30 June in each year for tabling in Parliament. Section 23 of the Act provides for an annual audit of the accounts of the Corporation by the Auditor-General.

4.1.4 The financial statements for 1982-83 were adopted by the Corporation on 20 September 1983 and the audit report was signed on 14 March 1984.

Financial Operations

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

	1981-82	1982-83
	\$	\$
Income	1 610 950	2 190 744
Expenditure	10 724 229	13 836 881
	<hr/>	<hr/>
Deficit	9 113 279	11 646 137
	<hr/>	<hr/>

- 4.1.6 The deficit was due mainly to the interest charges on funds provided by the Commonwealth and Victorian governments. At 30 June 1983 this interest amounted to \$60 841 008 or 98 per cent (30 June 1982, \$48 629 919 or 96 per cent) of the accumulated deficit of \$62 263 424 (30 June 1982, \$50 598 744).
- 4.1.7 A revised financial agreement between the 3 participating governments has been drawn up under which the obligations of the States to repay to the Commonwealth the loan and capitalised interest would be removed.

Qualification of the Corporation's Financial Statements

- 4.1.8 In 1978-79 and each subsequent year the following qualification has been recorded on the accounts of the Corporation:

"As stated in notes 1 and 8 to the accounts, land and buildings are included at cost plus holding charges and no provision has been made for depreciation.

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

Because of the existence of this recognised variance, and in the absence of an independent valuation, I am unable to express an opinion on whether the balance sheet gives a true and fair view of the state of the affairs of the Corporation as at 30 June 1983".

Scope of Audit

- 4.1.9 The audit work involved substantive testing of various transactions and verification of the annual financial statements.
- 4.1.10 In accordance with arrangements made with the Commonwealth and New South Wales Auditors-General, the detailed audit to trial balance stage of the Victorian Corporation was performed by staff from the New South Wales Auditor-General's Office in conjunction with their audit of the accounts of the New South Wales Corporation. Their work was reviewed by my officers for the purpose of the audit of the Victorian Corporation's annual financial accounts.
- 4.1.11 A firm of chartered accountants appointed by the Albury-Wodonga Development Corporation (Commonwealth body) act as internal auditors. Their work was also reviewed for the purpose of my audit.
- 4.1.12 Matters raised in reports issued by the New South Wales Auditor-General and internal auditors are commented upon in paragraph 4.1.16 of this section.

Audit Observations and Recommendations

Land and Buildings

- 4.1.13 As previously stated, the accounts of the Corporation have been qualified since the year 1978-79. This was based upon the recognition that the book value of land and buildings, which at 30 June 1983 amounted to \$53 877 870 (30 June 1982, \$52 013 104) and represents cost price plus holding charges, may be at variance with market value and that no independent valuation of these assets has been obtained.
- 4.1.14 The Public Bodies Review Committee in their December 1983 report on the Corporation commented that the 2 State Auditors-General have for several years expressed strong reservations about the accounts and that it is most unsatisfactory that no action has been taken regarding the qualification. They recommended that "the agreement of the Ministerial Council be sought to the inclusion in the accounts in the annual report of periodical revaluations of all land owned by the Corporations".
- 4.1.15 Due to the lack of response to previous qualifications, audit has recommended that the matter be referred to the Albury-Wodonga Ministerial Council for further review.

Matters Raised by the New South Wales Auditor-General and Internal Audit

- 4.1.16 Examinations of the sundry debtors - land sales and property leasing systems by staff from the New South Wales Auditor-General's Office and internal auditors revealed several instances of departures from established controls and procedures. Details are as follows:

(1) Land Sales

- (i) departures from the Corporation's pricing and disposal policy e.g. houses were commenced/completed prior to exchange of contracts for the sale of the lots; deposits were not paid when contracts were exchanged;
- (ii) delays of up to 4 months between exchange of contracts and recording of sales in the financial records;
- (iii) breakdown in communication between the property and marketing sections which impaired control over properties and land holdings, e.g. houses recorded as available for sale were found to be incomplete when inspected; a vacant lot believed by the property section to have been sold had not been sold; and
- (iv) failure to settle land sale contracts on due dates and houses left vacant without action to lease or sell.

(2) Property Leasing

- (i) non re-negotiation of rural leases upon expiry of the agreement;
- (ii) Valuer-General's valuation to reassess the rental was not obtained upon re-letting of properties;

- (iii) details of land holdings were not properly recorded in the property details report;
- (iv) irregularities in lease documentation, e.g. property condition reports were not prepared; occupation of premises without a signed lease agreement; non application of the rental valuation as determined by the Valuer General; and
- (v) delays of up to 6 months in re-leasing properties.

4.1.17 These matters were brought to the attention of the Corporation but had not been formally responded to at the date of preparation of this report.

Conclusion

4.1.18 Subject to the qualification of the financial statements, the unresolved matter referred to in the Status Report, and the above matters, the results of the audit proved satisfactory.

4.2 BUILDING INDUSTRY LONG SERVICE LEAVE BOARD

Introduction

4.2.1 The Building Industry Long Service Leave Board was established under the Building Industry Long Service Leave Act 1975. As from 1 August 1983 the Board was abolished and replaced by the Construction Industry Long Service Leave Board.

4.2.2 The main functions of the former Board were:

- (1) to keep a register of private employers employing workers to perform building and construction work;
- (2) to keep a register of working sub-contractors performing building and construction work; and
- (3) to invest and manage funds to meet ongoing and future long service leave payments.

Statutory Reporting and Auditing Requirements

4.2.3 The Building Industry Long Service Leave Act 1975 required the Board to provide to the Minister a report dealing with the general administration and working of the Act, to be laid before both Houses of Parliament. Section 7 of the Act provided for an annual audit of the accounts of the Board by the Auditor-General.

4.2.4 The financial statements for 1982-83 were received by audit on 28 September 1983 and the audit report was signed on 22 December 1983.

Financial Operations

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

	1981-82	1982-83
	\$	\$
Income	11 349 449	13 765 100
Expenditure	4 396 758	5 597 365
	<hr/>	<hr/>
Surplus	6 952 691	8 167 735
	<hr/>	<hr/>

4.2.6 Net assets of the Board at 30 June 1983 were \$35 590 759 (30 June 1982, \$27 423 024).

Qualification of the Board's Financial Statements

- 4.2.7 It was necessary for me to record the following qualification on the Board's financial statements for 1982-83:

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

- 4.2.8 A similar qualification was attached to the Board's financial statements for 1981-82.

Scope of Audit

- 4.2.9 The audit covered an evaluation and testing of internal controls, and verification of the assets and liabilities of the Board at 30 June 1983.

Audit Observations and Recommendations

Switching of Fixed Interest Securities

- 4.2.10 The Board's policy is to buy and sell securities (government and semi-government) as opportunities arise, to increase the earning rate of its funds. Changes to its investment portfolio are achieved by sales to other investors, with or without cash adjustments, in what are described as "switching" or "book value transactions".
- 4.2.11 In the financial accounts of the Board the sales are recorded at book value rather than the switches taking into account the actual market value of the securities at the time of sale.
- 4.2.12 In audit opinion, this practice could result in non-disclosure of profits or losses on switching where book value may differ from the actual market price. For the year 1982-83, the Board's records did not contain sufficient information to enable audit to establish any loss or gain on the 3 disposals which occurred during the year.
- 4.2.13 In its annual report to the Minister for the year 1981-82, the Chairman included the following comments on their method of accounting for such transactions:

"Over the last three financial years the Board has consistently maintained a policy that where the Fund can be managed more efficiently in terms of portfolio return, marketability and maturity requirements, it will switch securities at book value, a procedure which is widely used by private sector institutions to achieve the same aims.

The Accounting Standards do not stipulate any specific treatment for "Book Value" transactions where no profit or loss occurs at point of sale".

4.2.14 Audit considers that application of the Accounting Standards, as issued jointly by the 2 Australian accounting bodies, require the Board to take into consideration the market value of securities disposed of and acquired. Losses or gains on switching could then be recorded in its accounting system and disclosed annually in its Profit and Loss Statement.

Conclusion

4.2.15 Subject to the qualification of the financial statements and a number of minor matters which were brought to the attention of the Board, the results of the audit proved satisfactory.

4.3 CANCER INSTITUTE BOARD

Introduction

4.3.1 The Cancer Institute Board was established under the Cancer Act 1958 with the following objectives:

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

Statutory Reporting and Auditing Requirements

4.3.2 The Cancer Act 1958 requires the Board to forward its audited balance sheet and income and expenditure statement to the Minister as soon as practicable after 30 June each year. Section 54 of the Act provides for an annual audit of the accounts of the Board by the Auditor-General.

4.3.3 The financial statements of the Board for 1982-83 were adopted on 15 December 1983 and the audit report was signed on 5 March 1984.

Financial Operations

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

	1981-82	1982-83
	\$	\$
Income	25 104 587	28 710 178
Expenditure	25 116 429	30 253 569
	<hr/>	<hr/>
Deficit	11 842	1 543 391
	<hr/>	<hr/>

4.3.5 Operating expenditure of the Board is met mainly from moneys appropriated to the Health Commission.

4.3.6 The increase in the deficit for the year was due mainly to:

- (1) an increase of \$302 569 in workers compensation premiums;
- (2) increases in salaries and associated charges; and
- (3) changes in accounting treatment during 1982-83 which increased the deficit by \$712 774. These changes, which are in accordance with Health Commission instructions to hospitals generally, included:

- (i) the introduction of depreciation in respect of furniture plant and equipment where the value of the asset exceeded \$25 000, which increased expenses by \$285 886;
- (ii) the establishment of provisions for long service leave and annual leave, which increased expenses by \$418 667; and
- (iii) the introduction of a provision for bad debts, which increased expenses by \$8 221.

4.3.7 Net assets of the Board at 30 June 1983 were \$30 013 002 (30 June 1982, \$34 354 616). The decrease in net assets for the year was due mainly to the deficit for the year and prior year adjustments arising from the changes in accounting treatment.

4.3.8 The method of accounting for prior year adjustments was in accordance with instructions contained in the Health Commission's Cost Centre Accounting and Budgeting Systems Procedures Manual. Audit sent a letter to the Health Commission advising them that this treatment did not accord with the Accounting Standards promulgated by the Australian accounting bodies which require all prior year adjustments to be shown in the Income and Expenditure Account.

Qualification of the Board's Financial Statements

4.3.9 As in the previous year, I found it necessary to record a qualification on the accounts of the Board. The qualification for the year ended 30 June 1983 reads as follows:

"Private Practice Income included an amount of \$400 078 which was collected under the terms of Section 33(3) of the Cancer Act 1958. Principal accounting records for this activity are neither maintained by, nor accessible to the board, and are therefore not verifiable by audit".

Scope of Audit

4.3.10 The audit covered an examination of the income and expenditure and 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 purposes of the audit.

Audit Observations and Recommendations

Verification of Private Practice Income

4.3.11 Over several years, the Cancer Institute Board entered into agreements with medical practitioners permitting the right of private practice at the Institute. Within these agreements provision was made for the medical practitioner to furnish a monthly return to the Board of the amount of fees charged and collected in the previous month. The practitioner was then obliged to remit to the Board an agreed percentage, based on the schedule fee but the Board had no access to the medical practitioner's records to verify the accuracy of the monthly return.

4.3.12 In an effort to rectify the situation, in 1980 the Board produced a new agreement intended for practitioners admitted to the scheme in future. This agreement included a clause permitting an officer appointed by the Auditor-General to examine the medical practitioner's private records in order to confirm the correctness of the monthly return. However, it was considered by audit that the responsibility for ensuring that moneys due to the Board are in fact collected rested entirely with the Board.

4.3.13 As a consequence, in 1982 the Board adopted a new agreement form which provided for Board verification of private practice income. The revised agreement was to be progressively implemented as each existing agreement expired or when new practitioners were admitted to private practice at the Institute, but with the introduction of Medicare, all private practice agreements at the Institute are currently the subject of review.

Receipt of Moneys - Tasmanian Service

4.3.14 The Board is responsible for a service in Tasmania which involves the operation of 2 clinics, one located at Launceston General Hospital and the other at the Royal Hobart Hospital.

4.3.15 During 1982-83 it came to the attention of the Board that some moneys collected in Tasmania had not been processed through the Institute's accounts. The Board subsequently appointed its internal auditors to investigate the matter.

4.3.16 The internal auditors reported to the Board on 4 January 1983 that there were numerous examples of irregularities in the dealings of trust funds held by the Hobart clinic. However, in their opinion there was no evidence of any practices which could be regarded as fraudulent or of any other serious nature and legal advice to the Board recommended that no action be taken.

4.3.17 Examples of irregularities in the dealings of trust funds included:

- (1) donations of approximately \$13 000 which should have been transferred to Melbourne were deposited to a trust account and used to pay for equipment, furniture, patient amenities and staff travel of the Hobart clinic;
- (2) an amount of \$2 000 donated for the purchase of equipment was paid to a doctor at the University of Tasmania for professional services rendered; and
- (3) lack of documentation to support trust account transactions.

4.3.18 On receipt of the advice, the Board issued a directive to all staff of the Tasmanian service that they were to observe, in all instances, the procedures laid down for accounting for donations. It would appear that no follow-up action had been taken after the issue of these procedures to confirm that all moneys received in Tasmania were being remitted to the Melbourne office. Subsequent to the date of audit, management advised audit that all such moneys standing to the credit of the "private" trust funds had been recorded in the Board's books and accounts.

Conclusion

- 4.3.19 Subject to the qualification of the financial statements, the above matter, and minor matters which were brought to the attention of the Board, the results of the audit proved satisfactory.

4.4 COUNTRY FIRE AUTHORITY

Introduction

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

Statutory Reporting and Auditing Requirements

- 4.4.3 The Country Fire Authority Act 1958 requires the Authority, as soon as practicable after the end of each financial year, to furnish the Minister with a report on its activities, together with audited financial statements, for tabling in Parliament. Sections 24 and 86 of the Act provide for an annual audit of the Authority's books and accounts by the Auditor-General.
- 4.4.4 The financial statements for 1982-83 were adopted by the Authority on 12 September 1983 and the audit report was signed on 12 December 1983.

Financial Operations

- 4.4.5 The financial operations of the Authority relating to the general fund for 1982-83 compared with 1981-82 are summarised hereunder:

	1981-82	1982-83
	\$	\$
Income	31 254 898	38 774 812
Expenditure	29 252 288	36 736 567
	<hr/>	<hr/>
Surplus	2 002 610	2 038 245
	<hr/>	<hr/>

- 4.4.6 In addition to the general fund, the Authority also operates the following separate funds: motor replacement; sale of property; sinking funds - loan; compensation; and superannuation.
- 4.4.7 Although the Authority participates in the Victorian State Superannuation Scheme, it invests its contributions as an employer in a separate fund from which it makes payments to the State Superannuation Scheme as required. The total assets of fund at balance date amounted to \$12 889 394.
- 4.4.8 Total net assets of the Authority at 30 June 1983 were \$50 179 062 (30 June 1982, \$42 216 911).

Scope of Audit

- 4.4.9 The audit covered an evaluation of the systems of internal control, including a review of the operations of the internal audit which maintains a continuous appraisal of the Authority's financial and administrative systems. Financial transactions were tested and assets and liabilities at 30 June 1983 were verified.

Audit Observations and Recommendations

Fixed Assets

- 4.4.10 A review of the valuation basis adopted disclosed that fixed assets were valued at cost or at 1945 valuation in the case of assets acquired before that date.
- 4.4.11 The Authority did not comply with the relevant Accounting Standards issued by the Australian accounting bodies in that:
- (1) depreciation rates were not reviewed annually; and
 - (2) depreciation was charged on the value of assets for the full year irrespective of the date of acquisition.

Sale of Property Fund

- 4.4.12 During the year an amount of \$560 143 was transferred from the general fund to the sale of property fund. This amount represented income earned on general fund investments. The transfer resulted in a reduction of the cash balance of the general account which is required, under Section 81 of the Country Fire Authority Act 1958, to be deducted from the expenditure estimates prepared for the purpose of calculating contributions due from insurance companies and the Government.
- 4.4.13 As reported in my December 1982 report, the Authority has continued this practice as legal advice indicated that there was nothing in the Authority's Act to prohibit such a practice. The transfer led to a reduction of the cash balance of the general fund and resulted in a requirement for the Government and insurance companies to contribute additional moneys to the Authority's fund.
- 4.4.14 Audit recommended that this practice be reviewed by the Department of Management and Budget.

Bank Overdraft

- 4.4.15 Section 82 of the Country Fire Authority Act 1958 limits the Authority's bank overdraft to \$300 000. Two instances were noted where this limit was exceeded, by \$51 245 and \$174 500 respectively.

Loan Funds

- 4.4.16 During the current financial year the Authority received loans of \$4.377 million for approved capital works. At 30 June 1983, \$1.6 million of this amount remained unspent. There were also unspent loan moneys of \$3.7 million carried forward from prior years. The delay in spending these funds was the result of design and construction delays on major capital projects as well as deficiencies in the timeliness of financial reporting for such projects.
- 4.4.17 These surplus moneys were invested on a short-term basis and were earning a rate of interest which was approximately 2 per cent below that payable by the Authority on its borrowings. Audit estimates that these delays have cost the Authority over \$70 000 during the year under review.
- 4.4.18 The Authority advised that the majority of these loan moneys had been used by the end of February 1984 on projects currently in progress.

Manufacturing and Costing System (M.A.C.S.)

- 4.4.19 During the year the Authority entered into a formal agreement with a firm of computer consultants for the supply and installation of a computerised software package (M.A.C.S.) containing general ledger, accounts payable, stock control and manufacturing modules to assist in the control of vehicle production and maintain costing and financial records. This package is compatible with the Authority's existing computer hardware and software and is designed to replace the present outdated systems.
- 4.4.20 A review of the acquisition and implementation procedures disclosed:
- (1) There was no formal feasibility study as to the most suitable replacement for existing systems. The Authority signed the agreement to purchase the package prior to establishing user requirements and/or site testing. Selection appeared to have evolved from verbal advice from the Government Computing Service, written comment by the E.D.P. manager and site inspections by senior Authority staff.
 - (2) Although 80 per cent of the M.A.C.S. package purchase price had been paid, some delays were still being experienced at the date of preparation of this report in implementing the M.A.C.S. package on the Authority's in-house computer.
- 4.4.21 In reply to audit comment, the Authority stated that there were only 2 software packages which would suitably operate on the Authority's existing hardware and meet its needs. The other package was excluded on the basis of complexity and excessive cost. It also stated that the software purchased was protected by world-wide licence, the conditions of which required advance payments.

Conclusion

- 4.4.22 Apart from the above matters, the unresolved matter referred to in the Status Report, and a number of minor control weaknesses which were brought to the attention of the Authority, the results of the audit proved satisfactory.

4.5 DEAKIN UNIVERSITY

Introduction

- 4.5.1 Deakin University was established by the Deakin University Act 1974. The objectives of the University are the provision of tertiary education at university level, and the conduct of research. Apart from the University located at Geelong, it also operates study centres at Melbourne and other places in Victoria.

Statutory Reporting and Auditing Requirements

- 4.5.2 The Deakin University Act 1974 requires the Council of the University to prepare a statement of accounts at 31 December every year for submission within 3 months thereafter to the Auditor-General. The audited financial statements, together with the University's annual report, are required to be forwarded to the Governor-in-Council as soon as practicable after 31 March and for tabling in Parliament. Section 35 of the Act provides for an annual audit of the financial statements by the Auditor-General.

- 4.5.3 The financial statements were received by audit on 31 March 1983 and the audit report was signed on 5 September 1983.

Financial Operations

- 4.5.4 The financial operations of the University for the years ending 31 December 1981 and 31 December 1982 are summarised hereunder:

	1981 \$	1982 \$
Income		
Government grants	18 259 495	20 033 848
Other	2 326 651	2 845 884
	<hr/>	<hr/>
	20 586 146	22 879 732
Expenditure	20 129 310	22 249 534
	<hr/>	<hr/>
Surplus	456 836	630 198
	<hr/>	<hr/>

- 4.5.5 The accumulated funds of the University totalled \$1 938 614 at 31 December 1982 (\$1 308 416 at 31 December 1981).

- 4.5.6 The above figures do not include the financial operations of a number of related operations such as the University's research and consulting company Durac Ltd. and the Deakin Sports Association, nor the University's superannuation schemes as discussed in the following paragraphs.

Superannuation Schemes

- 4.5.7 Several superannuation schemes are in operation at the University for the benefit of the academic and general staff employed by the University. These schemes require each full-time member of staff to either effect an assurance policy with an approved life office or contribute to a superannuation scheme which is managed on behalf of the members by an insurance company. Because of these arrangements the information needed to prepare annual financial statements for each scheme is not available and no information on the schemes is included in the annual report of the University, nor are the schemes subject to my audit.
- 4.5.8 The contributions made by the University to the various superannuation schemes for the year ended 31 December 1982 totalled \$1 409 103 (31 December 1981, \$1 180 996).

Scope of Audit

- 4.5.9 The audit covered the examination and evaluation of systems of internal control, including the work performed by the internal audit section, an overview of the adequacy and effectiveness of environmental controls associated with the operations of the computer centre and verification of assets and liabilities at 31 December 1982.

Conclusion

- 4.5.10 Apart from minor matters which were brought to the attention of the University, the results of the audit proved satisfactory.

4.6 EMERALD TOURIST RAILWAY BOARD

Introduction

- 4.6.1 The Emerald Tourist Railway Board was established under the Emerald Tourist Railway Act 1977 to preserve and operate the historic narrow-gauge steam railway known as "Puffing Billy", which is a tourist attraction in the Dandenong Ranges.

Statutory Reporting and Auditing Requirements

- 4.6.2 The Emerald Tourist Railway Act 1977 requires the Board, before 31 October in every year, to furnish the Minister with a set of its audited accounts for tabling in Parliament. Section 25 of the Act provides for an annual audit of the financial statements by the Auditor-General.
- 4.6.3 The financial statements for 1982-83 were adopted by the Board on 24 October 1983 and the audit report was signed on 9 December 1983.

Financial Operations

- 4.6.4 The financial operations of the Board for 1982-83 and 1981-82 are summarised below:

	1981-82	1982-83
	\$	\$
Income	640 509	662 957
Expenditure	518 791	582 600
	<hr/>	<hr/>
Surplus	121 718	80 357
	<hr/>	<hr/>

- 4.6.5 Net assets of the Board at 30 June 1983 were \$2 134 288 (30 June 1982, \$1 768 575). The increase was due largely to the surplus for the year and government grants amounting to \$285 356.

Scope of Audit

- 4.6.6 The audit covered the evaluation and testing of the Board's revenue and expenditure systems and the 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.

Audit Observations and Recommendations

Non Disclosure of Assets in Financial Statements

- 4.6.7 When the Board was constituted, assets including land, track, rolling stock and buildings were vested in it from the Victorian Railways Board. Except for rolling stock, which is valued at an estimated scrap value, these assets are not included in the Board's balance sheet.

4.6.8 Audit has recommended that all assets vested in the Board be valued and included in the balance sheet.

Conclusion

4.6.9 Apart from the above matter and some minor weaknesses which were brought to the attention of the Board, the results of the audit proved satisfactory.

4.7 GEELONG PERFORMING ARTS CENTRE TRUST

Introduction

4.7.1 The Geelong Performing Arts Centre Trust was established under the Geelong Performing Arts Centre Trust Act 1980. The Trust is required to:

- (1) control and manage the Centre;
- (2) present and produce in the Centre performances and entertainments of any kind whatsoever; and
- (3) promote the use of the Centre by suitable persons and organisations.

Statutory Reporting and Auditing Requirements

4.7.2 The Geelong Performing Arts Centre Trust Act 1980 requires the Trust, not later than 31 December each year, to submit to the Minister a report on its operations for the year, together with the audited financial statements, for tabling in Parliament. Section 17 of the Act provides for an annual audit of the financial statements of the Trust by the Auditor-General.

4.7.3 The financial statements for 1982-83 were received by audit on 13 September 1983 and the audit report was signed on 23 December 1983.

Financial Operations

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

	1981-82	1982-83
	\$	\$
Income	531 682	557 876
Expenditure	708 757	664 149
	-----	-----
Deficit	177 075	106 273
	-----	-----

4.7.5 The income for 1982-83 included a government subsidy of \$322 000 for general purposes (1981-82, \$285 000) and government subsidies of \$26 000 for specific purposes (1981-82, \$46 000).

4.7.6 Net assets of the Trust at 30 June 1983 were \$9 107 838 (30 June 1982, \$8 791 369). The increase for the year, notwithstanding the deficit, was due largely to an increase in the capital fund by way of a government grant (refer paragraph 4.7.10).

Scope of Audit

- 4.7.7 The audit included the evaluation and testing of the Trust's expenditure and revenue systems and the verification of assets and liabilities at 30 June 1983.
- 4.7.8 A firm of private practitioners appointed by the Trust conducts an audit on a regular basis throughout the year. Their audit programs, working papers and reports were examined and evaluated for the purposes of my audit and further testing was undertaken where considered necessary.

Audit Observations and Recommendations

Settlement of Claims

- 4.7.9 At the completion of the construction of the Centre, the builder, the architect and some consultants lodged claims in relation to the completion of the Centre. The total of all claims was \$1 606 324.
- 4.7.10 The Trust denied liability for these claims and the matter proceeded to arbitration where it was agreed that the Trust would pay amounts totalling \$300 000 to the claimants in full settlement of all claims. The settlement was financed by a capital grant from the Ministry for the Arts.

Conclusion

- 4.7.11 Apart from the above matter and a number of minor weaknesses which were brought to the attention of the Trust, the results of the audit proved satisfactory.

4.8 GRAIN ELEVATORS BOARD

Introduction

- 4.8.1 The Grain Elevators Board is established under the Grain Elevators Act 1958 and operates as the bulk grain handling authority in Victoria.

Statutory Reporting and Auditing Requirements

- 4.8.2 The Grain Elevators Act 1958 requires that the Board prepare a report for each year ending 31 October. The Minister is required to lay such report before Parliament on or before 31 December in each year or as soon as may be thereafter. Section 48 of the Act provides for the audit of the financial statements of the Board by the Auditor-General.
- 4.8.3 The financial statements for the year ended 31 October 1982 adopted by the Board were received by audit on 4 May 1983 and the audit report was signed on 9 May 1983.
- 4.8.4 The financial statements for the year ended 31 October 1983 adopted by the Board were received by audit on 2 March 1984 and the audit report was signed on 20 March 1984.

Financial Operations

- 4.8.5 The financial operations of the Board for 1981-82 and 1982-83 compared with 1980-81 are summarised as follows:

	1980-81	1981-82	1982-83
	\$	\$	\$
Income	32 247 539	42 647 789	10 261 650
Expenditure	28 939 393	32 592 851	22 218 539
	-----	-----	-----
Surplus/(Deficit)	3 308 146	10 054 938	(11 956 889)
	-----	-----	-----

- 4.8.6 The main reason for the increase in the surplus in 1981-82 as compared with 1980-81 was a significant increase in the rate claimed by the Board from the Australian Wheat Board for the costs associated with wheat handling.
- 4.8.7 The main factor responsible for the deficit in 1982-83 was the severe drought which resulted in a poor harvest and, as a consequence, a significant reduction in wheat handling charges claimed from the Australian Wheat Board.
- 4.8.8 Net assets of the Board at 31 October 1982 and 31 October 1983 were \$67 102 755 and \$55 145 866 respectively (31 October 1981, \$57 047 817).

Scope of Audit

- 4.8.9 Audit coverage for 1981-82 and 1982-83 consisted of an examination of revenue and expenditure, verification of assets and liabilities at 31 October 1982 and 31 October 1983 and evaluation of the internal auditor's working papers.

Audit Observations and Recommendations for 1981-82

Travelling and Other Expenses - Former Members of Board

- 4.8.10 The Grain Elevators Act 1958 provides that the Chairman and other members of the Board shall be entitled to receive such remuneration and travelling expenses as are fixed from time to time by the Governor-in-Council.
- 4.8.11 Audit examination of claims for travelling and other expenses submitted by the former Chairman and former members of the Board during the year ended 31 October 1982 disclosed the following unsatisfactory features:
- (1) expenses for travelling and overnight accommodation had been paid to the former Chairman and former members of the Board at rates fixed for overnight trips when, in fact, the officials had not been absent overnight from their usual place of residence;
 - (2) on a number of occasions, the former Chairman claimed and was paid accommodation and other expenses even though these expenses had been charged by him to the Board's credit facilities and were subsequently met by the Board;
 - (3) the former Chairman and a former member of the Board charged expenses incurred at restaurants to the Board's credit facilities. For the same expenses, these officials claimed prescribed daily allowances which included an allowance for meals; and
 - (4) certain entertainment expenditure incurred by the former Chairman was not substantiated by satisfactory documentary evidence.
- 4.8.12 Audit examination indicated that certain of the above practices had operated for several years.
- 4.8.13 A separate audit report to the Board on the practices of the former Board members relating to travelling and other expenses was issued on 22 March 1983. On 29 March 1983, the Minister requested the then Chairman of the Board for a detailed explanation and report on the matters raised by audit. The Minister also requested that immediate action be taken to recover amounts overpaid and that procedures be implemented which would ensure that future expense claims are adequately supported and strictly in accordance with prescribed rates and conditions.

- 4.8.14 In subsequent correspondence with the Minister, the Board advised of revised procedures to ensure that overpayments do not recur. The final position concerning the extent of overpayments made in 1981-82 was conveyed by the Board to the Minister on 15 August 1983. This position and details of repayments made as at the date of preparation of this report are set out below:

Former Members of Board

	\$
Total overpaid	3 517
Amount since repaid	3 517

Former Chairman

Total overpaid	5 164
Amount since repaid	2 200
Balance to be repaid over 1 1/2 years	2 964

- 4.8.15 In relation to overpayments for years prior to 1981-82, the Board is in the process of determining the extent of overpayments made. When the amounts are known, the Board intends to request recovery from the relevant former members.

Travelling Expenses - Management

- 4.8.16 In 1979 the Board approved a recommendation submitted by the then Chairman that when senior management were required to make country visits, whether or not they stayed overnight, they be paid expenses on a flat daily basis. This approved daily basis was the ruling rate set by the Board under its by-laws applicable to claims for expenses involving absence from headquarters overnight.
- 4.8.17 Audit queried the validity of the Board's action and considered that it had resulted in overpayments to senior management for travel expenses on daily trips since 1979.
- 4.8.18 A legal opinion obtained by the Board indicated that the Board cannot properly make any resolution which is inconsistent with a by-law. The legal opinion confirms audit's view that these travelling expenses were not paid in accordance with the by-laws. The Board advised that action was taken in May 1983 to ensure compliance with its by-laws.
- 4.8.19 The Board does not consider that there is any basis for recovery of the overpayments as management acted in accordance with a resolution of the Board. Audit does not accept this view and considers that the Board should determine the extent of overpayments made to senior management, with a view to recovery.

Overseas Travel

- 4.8.20 Board minutes indicated the following policy in relation to overseas travel:
- (1) all overseas travel must first be approved by the Board;
 - (2) all accommodation reservations must be confirmed before departure;

- (3) whenever possible, travel should not be undertaken alone;
- (4) wives may accompany Board members and/or the General Manager at the Board's expense on alternate trips overseas;
- (5) wherever possible, weekend travel whilst overseas is to be avoided; and
- (6) no work is to be carried out for at least 24 hours immediately upon arrival at the destination when engaged on a long trip.

4.8.21 Audit recommended that the power of the Board to determine a policy whereby the expenses of wives accompanying Board members and/or the General Manager would be met by the Board should be clarified. An opinion obtained from the Board's solicitors stated:

"It is inappropriate for the Board to establish a general policy on overseas travel by wives" and "as each case should be considered 'on its merits', the Board should not adopt a general policy on overseas travel by wives".

4.8.22 During the year the Board approved a payment of \$2 250 towards the air fares and accommodation expenses of the Deputy General Manager's wife in connection with a conference held in the U.S.A., as it was considered by the Board that on this occasion wives would play a significant part in the conference proceedings. The Board has since indicated that it is complying with a subsequent ministerial instruction that all overseas travel must be approved by the Overseas Visits Committee of the Department of the Premier and Cabinet.

Payments of Fines and Legal Costs of Board Officers

4.8.23 Doubts were expressed by audit as to the validity of payments made by the Board for parking fines incurred by its officers and of a contribution towards legal expenses of an officer arising from driving charges. The Board's response stated:

- (1) "The Engineer was considered to be a key staff member and the Board's resources would have been well over stretched if he lost his licence. Additionally the charges were considered to be unfair and therefore the Board decided to contribute \$500 towards the cost of legal expenses. (Subsequently the Engineer was fined \$150 and did not lose his licence)".
- (2) "Staff have been advised accordingly that fines will no longer be reimbursed".

4.8.24 Legal advice subsequently obtained by the Board confirmed the doubts expressed by audit. Audit is of the opinion that the officers concerned should reimburse the Board for these payments.

Board Motor Vehicles

4.8.25 Accessories (mainly airconditioning) were fitted to 3 vehicles purchased for use by senior managers of the Board without the approval of the Motor Transport Committee which is responsible for controlling the use, purchase and disposal of motor vehicles used by government departments and authorities.

4.8.26 In response to an audit comment the Board stated:

"In all three instances, the vehicle acquired was different to the vehicle initially requested as the dealer was unable to supply the ordered vehicle ... therefore it was decided to acquire alternatives offered rather than go through the tortuous procedure of reapplying to the Motor Transport Committee with new quotes." The Board also indicated that the requirements of the Motor Transport Committee would be complied with in future.

Works Contract

4.8.27 A payment of \$67 864 was made by the Board for work carried out on the upgrading of elevators and conveyors at country sites prior to the Board entering into a contract and to the sanctioning of the contract by the Minister, as required under the Grain Elevators Act 1958.

4.8.28 The Board has advised that it will always endeavour to obtain ministerial sanction before work under a contract commences. In audit opinion the legislation requires that all contracts entered into by the Board be sanctioned by the Minister prior to the commencement of the work.

Audit Observations and Recommendations for 1982-83

Contracts

4.8.29 Section 36 of the Grain Elevators Act 1958 requires that the Board obtain ministerial sanction for any contract that exceeds \$50 000 or the performance of which extends over a period exceeding one year. Under the legislation, contracts which fall into these categories have no force or effect without ministerial sanction.

4.8.30 In September 1983, the Board entered into a contract relating to the hire (including supply and delivery) of diesel alternator sets in connection with a bunker storage program. The contract set the hire charge rates for a period of 12 months from November 1983. Based on the anticipated usage of hired equipment, the Board has estimated the cost of the contract to be \$120 000.

4.8.31 The Board did not obtain ministerial sanction for this contract. The Board is of the view that Section 36 of the Act is not applicable as the contract specifies hiring rates only and not an aggregate cost.

4.8.32 Audit considers that the legislation is applicable to contracts entered into by the Board, the cost of which will or is estimated to exceed \$50 000. Audit recommended that the Board obtain ministerial sanction for the contract in question in order to give it legal force or effect.

Temporary Overdraft Facility

4.8.33 Under Section 44 of the Grain Elevators Act 1958 the Board, with the approval of the Treasurer, may obtain advances from any bank or banks by way of loan or overdraft.

- 4.8.34 During the year, the Board's Head Office operating account was overdrawn on several occasions without the approval of the Treasurer. The maximum amount overdrawn at any one time was \$176 420. However, no interest charges were incurred by the Board.
- 4.8.35 Audit recommended that the Board obtain the approval of the Treasurer, as provided under the legislation, to cover overdraft situations which may arise from time to time.

Conclusion

- 4.8.36 Apart from the above matters, which are considered to be of a serious nature, the results of the audit for the 2 years proved satisfactory.

4.9 HOME FINANCE TRUST

Introduction

- 4.9.1 The Home Finance Trust was established under the Home Finance Act 1962. It borrows money from lending institutions which it lends to low income earners for housing purposes by way of first and second mortgages. Repayment of funds borrowed from lending institutions is, subject to approval of the Governor-in-Council, guaranteed by the Treasurer.
- 4.9.2 The Housing Act 1983, proclaimed to operate from 1 January 1984, repealed the Housing Act 1958, the Home Finance Act 1962 and certain other legislation. Pursuant to the provisions of Section 11 of the Housing Act 1983 the Director, who under the legislation is deemed a body corporate, is the successor to the Housing Commission and the Home Finance Trust and all rights, property and assets of those bodies are vested in the Director.

Statutory Reporting and Auditing Requirements

- 4.9.3 Section 14 of the Home Finance Act 1962 provided for an audit of the financial statements of the Trust by the Auditor-General. There was no legislative provision for any report on the Trust's operations, including financial statements, to be presented to Parliament.
- 4.9.4 The financial statements were adopted by the Trust on 18 October 1983 and the audit report was signed on 22 December 1983.

Financial Operations

- 4.9.5 A summary of the income and expenditure of the Trust for 1982-83 compared with 1981-82 is given below:

	1981-82	1982-83
	\$	\$
Income		
Interest receivable from mortgages and investments	3 378 494	4 093 655
Less interest payable to depositors (including overdraft interest)	3 844 627	4 338 003
	<hr/>	<hr/>
Net interest (expense)	(466 133)	(244 348)
Interest subsidy from State Government	689 750	852 314
Other	20 222	18 540
	<hr/>	<hr/>
	243 839	626 506
	<hr/>	<hr/>

	1981-82	1982-83
	\$	\$
Expenditure		
Payment to Department of Management and Budget for salary costs	151 061	307 022
Administration costs - Housing Commission	..	502 036
Provision for doubtful debts	49 864	59 725
Fees - Members of Trust	5 465	3 901
Other	3 965	12 273
	<hr/>	<hr/>
	210 355	884 957
	<hr/>	<hr/>
Net Surplus (Deficit)	33 484	(258 451)
	<hr/>	<hr/>

4.9.6 The increase in salary costs was due to a more stringent cost recovery system being applied by the Department of Management and Budget. A large portion of the administration costs payable to the Housing Commission was related to the installation of a new computer system.

4.9.7 The Trust's balance sheets at 30 June 1983 and 30 June 1982 are summarised below:

	30.6.82	30.6.83
	\$	\$
Accumulated Funds		
Accumulated surplus Home Finance Funds Nos. 1 and 2	1 123 489	865 039
Provision for Interest Fluctuation	150 000	150 000
	<hr/>	<hr/>
Total Accumulated Funds	1 273 489	1 015 039
	<hr/>	<hr/>
Represented by:		
Current Assets		
Term deposits and cash on hand	1 750 040	2 160 040
Sundry debtors	410 439	623 331
	<hr/>	<hr/>
	2 160 479	2 783 371
	<hr/>	<hr/>
Non Current Assets		
Loans secured by mortgage	33 602 939	49 639 828
Less provision for doubtful debts	175 000	200 000
Contracts of sale on repossessed properties	19 786	12 259
Fixed assets	1 881	1 599
	<hr/>	<hr/>
	33 449 606	49 453 686
	<hr/>	<hr/>
Total Assets	35 610 085	52 237 057
	<hr/>	<hr/>

	30.6.82	30.6.83
	\$	\$
Less		
Current Liabilities		
Sundry creditors	1 440 576	1 929 762
Prepayments by mortgagors	398 635	513 957
Deposits by lending institutions and bank overdraft accommodation	11 565 937	13 387 143
	<hr/>	<hr/>
	13 405 148	15 830 862
	<hr/>	<hr/>
Non Current Liabilities		
Deposits by lending institutions and bank overdraft accommodation	20 929 049	35 388 757
Mortgagors equity in repossessed properties	2 399	2 399
	<hr/>	<hr/>
	20 931 448	35 391 156
	<hr/>	<hr/>
Total Liabilities	34 336 596	51 222 018
	<hr/>	<hr/>
Net Assets	1 273 489	1 015 039
	<hr/>	<hr/>

Scope of Audit

- 4.9.8 The audit covered an evaluation of internal controls, an examination of income and expenditure, and the verification of assets and liabilities of the Trust at 30 June 1983.

Audit Observations and Recommendations

Loan Arrears

- 4.9.9 In my May 1983 report I commented on the increase in loan arrears at 30 June 1982. At 30 June 1983 arrears amounted to \$577 692, (\$396 327 at 30 June 1982). Follow-up action in arrears collection was unsatisfactory for the major part of the financial year due to inadequate staffing in the arrears section.

Bad Debts

- 4.9.10 Prior approval from the Treasurer was not obtained for the write-off of \$34 725 bad debts, as required by Regulation 23 of Department of Management and Budget Regulations 1981.

Provision for Interest Fluctuation

- 4.9.11 The provision of \$150 000 for interest fluctuation was originally set up to equalise on an annual basis the difference between the Trust's borrowing and lending rates for some of the mortgage schemes. As this difference is now met by an interest subsidy from the Government, in audit opinion the provision is no longer necessary and should be written back. The Trust has advised audit that this will be done.

Conclusion

- 4.9.12 Apart from the above matters, the unresolved matter referred to in the Status Report, and a number of minor weaknesses in internal control which were brought to the attention of the Trust, the results of the audit proved satisfactory.

4.10 HOSPITALS SUPERANNUATION BOARD

Introduction

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

Statutory Reporting and Auditing Requirements

- 4.10.2 Section 9 of the Hospitals Superannuation Act 1965 requires the Board to submit to the Minister an annual report dealing with the general administration and working of the Act, for tabling in both Houses of Parliament. Sections 17 and 35ZG of the Act provide for the audit of the accounts of the Board by the Auditor-General.
- 4.10.3 The financial statements of the Board for 1982-83 were received by audit on 12 December 1983 and the audit report was signed on 30 December 1983.

Actuarial Investigation

- 4.10.4 Sections 18 and 35ZA of the Hospitals Superannuation Act 1965 require the Board to arrange for triennial actuarial investigations of the Hospitals Superannuation Fund. Every actuarial report is to be tabled in both Houses of Parliament. The next actuarial investigation of the Fund is due at 30 June 1984.

Financial Operations

- 4.10.5 The financial operations of the Board are maintained in several funds and accounts, the 4 main ones being the income statement, management administration account, members' accounts and pensions scheme. A summary of the operations of these accounts for 1982-83 compared with 1981-82 is given below:

(1) Income Statement

	1981-82	1982-83
	\$	\$
Life Assurance Companies' Schemes	974 111	14 785 430
Interest	5 978 096	7 614 720
Other	140 514	127 467
	<hr/>	<hr/>
	7 092 721	22 527 617
Transfer from (to) Income Stabilisation Reserve	2 921 323	(2 949 437)
	<hr/>	<hr/>
Distribution of Income to Members' Accounts and Sundry Funds	10 014 044	19 578 180
	<hr/>	<hr/>

Income from life assurance companies' schemes in 1982-83 was \$14 785 430 compared with \$974 111 in 1981-82, an increase of \$13 811 319. The substantial increase was due to a higher return obtained by the insurance companies on their investments due mainly to the buoyant state of the share market.

The Income Stabilisation Reserve is used to even out year to year fluctuations in investment income and to enable the Board to make a more stable distribution to the members' accounts.

(2) Management Administration Account

	1981-82 \$	1982-83 \$
Management charges:		
Members' Accounts	521 030	598 950
Pension Scheme portion of management expenses	515 920	635 103
Deferred, Disability and Annuities Accounts	21 450	41 140
Distribution of Fund Income	71 204	152 559
Commission and Other Income	19 142	22 510
	<hr/> 1 148 746	<hr/> 1 450 262
Less		
Salaries	563 587	668 781
Other Administrative Expenses	476 574	581 422
	<hr/> 1 040 161	<hr/> 1 250 203
Net Surplus	<hr/> 108 585	<hr/> 200 059

The net surplus of \$200 059 (1981-82, \$108 585) was transferred to the Management Accumulated Fund.

(3) Members' Accounts

	1981-82 \$	1982-83 \$
Contributions and Transfers	11 269 699	12 839 643
Distribution of - Fund Income	7 952 638	15 528 035
- Withdrawal Surplus	801 597	896 630
	<hr/> 20 023 934	<hr/> 29 264 308

	1981-82 \$	1982-83 \$
Less		
Benefits paid or credited to benefits payable	8 083 453	8 374 217
Transfer to withdrawal surplus account	1 086 409	687 156
Management charge	521 030	598 950
Insurance charge	1 056 854	1 230 680
	<hr/>	<hr/>
	10 747 746	10 891 003
	<hr/>	<hr/>
Increase in Members' Funds	9 276 188	18 373 305
	<hr/>	<hr/>

The increase in members' funds for 1982-83 was due mainly to the substantial increase in fund income from life assurance companies' schemes.

(4) Pension Scheme

	1981-82 \$	1982-83 \$
Contributions and Levies Received	6 335 097	9 560 408
Distribution of Fund Income	1 164 816	2 738 450
	<hr/>	<hr/>
	7 499 913	12 298 858
	<hr/>	<hr/>
Less		
Management expenses	515 920	635 103
Pensions and benefits paid	3 712 751	4 788 189
	<hr/>	<hr/>
	4 228 671	5 423 292
	<hr/>	<hr/>
Increase in Pension Scheme Contributors' Funds	3 271 242	6 875 566
	<hr/>	<hr/>

4.10.6 Net assets of the Fund at 30 June 1983 were \$146 199 287 (30 June 1982, \$117 643 151). The increase in net assets for the year is represented by increases in:

Members' Accounts	\$ 18 373 305
Pension Scheme	6 875 566
Other Funds and Reserves	3 307 265
	<hr/>
Total	28 556 136
	<hr/>

Investments

- 4.10.7 At 30 June 1983 the Board's investments totalled \$151 753 235 (30 June 1982, \$122 177 277) consisting of:

	\$	\$
Life Assurance Companies' Schemes		83 252 188
Trustee Company's Scheme		500 000
Semi-Government Stock		
Commonwealth	1 995 479	
Victorian	<u>31 465 743</u>	33 461 222
Mortgage Loans - Victoria		23 075 709
Short-Term Money Market and Bank Deposits		9 450 000
Land and Buildings at Cost		1 514 116
Commonwealth Development Bank		500 000
		<hr/>
Total		151 753 235
		<hr/>

- 4.10.8 At 30 June 1983 funds valued at \$83 252 188 were lodged with 4 insurance companies. These funds, comprising units, are invested by the insurance companies in company shares, property investments, resource investments, company fixed interest securities, interest bearing deposits, secured capital and public sector securities. The Hospitals Superannuation Board receives quarterly valuations of the units held in each company's funds and credits the increase in value to the income account.

Qualification of the Board's Financial Statements

- 4.10.9 It was necessary to record the following qualification on the 1982-83 financial statements of the Board in respect of investments in trustee and life assurance companies' schemes totalling \$83 752 188.

"As indicated in note 1 to the accounts, certain investments of the Fund are held in the names of trustee and life assurance companies. These investments have been included in the accounts on the basis of statements furnished by the abovementioned bodies and have not been independently verified by audit".

Scope of Audit

- 4.10.10 The audit covered an evaluation and testing of the Board's revenue and expenditure systems and the verification of the assets and liabilities of the Board at 30 June 1983.
- 4.10.11 In addition, a firm of private practitioners appointed by the Board conducted an audit on a regular basis throughout the year. Their audit programs and working papers were examined, evaluated and accepted for the purpose of my audit.

Conclusion

- 4.10.12 Subject to the qualification of the financial statements and the unresolved matter referred to in the Status Report, the results of the audit proved satisfactory.

4.11 HOUSING COMMISSION

Introduction

- 4.11.1 The Housing Commission was constituted under the provisions of the Housing Act 1958. The main functions of the Commission are the provision of houses for letting or selling to eligible persons, improvement of existing housing conditions, urban redevelopment and the development and sale of land for housing and related purposes. The major funds allocated to the Commission for housing projects have been those advanced by the Commonwealth in terms of a series of Commonwealth-State Housing Agreements. The current 5 year Commonwealth-State Housing Agreement 1981 came into operation on 1 July 1981.
- 4.11.2 The Housing Act 1983, proclaimed to operate from 1 January 1984, repealed the Housing Act 1958, the Home Finance Act 1962 and certain other legislation. Pursuant to the provisions of Section 11 of the Housing Act 1983 the Director, who under the legislation is deemed a body corporate, is the successor to the Housing Commission and the Home Finance Trust and all rights, property and assets of those bodies are vested in the Director.

Statutory Reporting and Auditing Requirements

- 4.11.3 Section 111 of the Housing Act 1958 required the Commission to finalise its accounts as soon as practicable after 30 June each year. The audited accounts were to be tabled in Parliament by the Minister on or before 30 November or, if Parliament was not sitting, within 14 days after the next meeting of Parliament. Section 112 of the Act required the accounts of the Commission to be audited.
- 4.11.4 The financial statements for 1982-83 were adopted by the Commission on 2 December 1983 and the audit report was signed on 7 February 1984.

Financial Operations

- 4.11.5 The financial operations of the Commission for 1982-83 as compared with 1981-82 are summarised below:

	1981-82	1982-83
	\$	\$
Rental Account	(8 696 065)	..
Sale of Houses and Land	3 701 137	2 882 921
Finance Account	10 899 196	11 627 807
Housing Standards	330 496	474 940
Miscellaneous	(345 187)	4 787
	<hr/>	<hr/>
Surplus	5 889 577	14 990 455
Extraordinary Items	(24 703 460)	(14 752 265)
	<hr/>	<hr/>
(Net Deficit)/Surplus	(18 813 883)	238 190
	<hr/>	<hr/>

4.11.6 For the 1982-83 financial year, the rental account (in particular interest and redemption costs) was supplemented to the extent of \$20 557 697 by way of transfer of Commonwealth (\$12 488 000) and State (\$8 069 697) grant moneys. This was the first year that such treatment was adopted. The net effect of the transfer was to off-set a rental deficit of \$20 557 697.

Extraordinary Expenditure

4.11.7 Pursuant to Section 19 of the Urban Land Authority Act 1979 the Commission has vested certain lands with the Urban Land Authority. Valuations by the Valuer-General necessitated a write-down of such lands by \$13 731 543 during the current year. In addition, the expenses of sales incurred by the Authority, which are required to be paid by the Commission, amounted to \$1 020 722 for the current year.

4.11.8 Net assets of the Commission at 30 June 1983 were \$52 444 395 (30 June 1982, \$51 536 214) resulting in a net increase of \$908 181.

4.11.9 While net assets of the Commission have marginally increased, individual asset holdings in the form of land and properties showed an increase of approximately \$143 million or 18.7 per cent.

4.11.10 The large increase in land and properties was due to extensive capital expenditure programs undertaken throughout the 1982-83 year and was funded largely from sources outside the Commission, namely:

- (1) an increase of approximately \$86 million in capital borrowings, obtained primarily through loans from the State and Commonwealth Governments;
- (2) an increase in advances and grants of approximately \$39 million wholly obtained from State and Commonwealth sources to improve the rental housing situation; and
- (3) a decrease in house and land purchases - loans of approximately \$16 million.

Scope of Audit

4.11.11 The audit covered an evaluation of internal controls together with examination and review of financial systems and transactions and the verification of assets and liabilities of the Commission at 30 June 1983. The work performed by the Commission's internal auditors was reviewed, evaluated and accepted for the purpose of the audit.

Audit Observations and Recommendations

Current Liabilities

4.11.12 Balance day procedures are inadequate as they do not ensure that all sundry creditors are accrued in the financial statements. It was found that only cheques drawn in the first fortnight subsequent to balance date were included in sundry creditors.

4.11.13 Audit recommended that such procedures be reviewed to ensure that all sundry creditors are accrued.

- 4.11.14 Of the \$6 218 452 total rental arrears at 30 June 1983 (30 June 1982, \$4 816 619), rents in arrears 10 weeks or more amounted to \$2 569 959 (30 June 1982, \$2 094 466). Included in this amount was approximately \$665 000 rent which had been in arrears for 12 months or more.
- 4.11.15 The above total rental arrears includes "ex-tenants" rentals of \$1 663 284 at 30 June 1983 (30 June 1982, \$1 201 658). Ex-tenants rentals written-off as uncollectable for 1982-83 amounted to \$367 556 (1981-82, \$400 932). The Commission has increased the provision for doubtful rental debts for 1982-83 from \$600 000 to \$900 000.
- 4.11.16 To minimise the time involved in following up these arrears, audit recommended that the collection procedures be reviewed and appropriate changes made.

Conclusion

- 4.11.17 Apart from the above matters and a number of minor weaknesses in internal control which were resolved during the course of the audit, the results of the audit proved satisfactory.

4.12 LA TROBE UNIVERSITY

Introduction

- 4.12.1 La Trobe University, established under the La Trobe University Act 1964, is responsible for the provision of tertiary education and the promotion of learning and research.

Statutory Reporting and Auditing Requirements

- 4.12.2 The La Trobe University Act 1964 requires the Council of the University to prepare a statement of accounts at 31 December every year for submission within 3 months thereafter to the Auditor-General. The audited financial statements, together with the University's annual report, are required to be forwarded to the Governor-in-Council as soon as practicable after 31 March and for tabling in Parliament. Section 38 of the Act provides for an annual audit of the financial statements by the Auditor-General.
- 4.12.3 The financial statements for 1982 were received by audit on 15 April 1983 and the audit report was signed on 16 December 1983.

Financial Operations

- 4.12.4 The financial operations of the University for the years ending 31 December 1981 and 31 December 1982 are summarised hereunder:

	1981	1982
	\$	\$
Income		
Government grants	38 323 879	41 169 212
Other	3 918 167	5 072 644
	<hr/>	<hr/>
	42 242 046	46 241 856
Expenditure	42 770 910	44 829 376
	<hr/>	<hr/>
(Deficit) Surplus	(528 864)	1 412 480
	<hr/>	<hr/>

- 4.12.5 The accumulated funds of the University totalled \$1 027 393 at 31 December 1982 as against an overall accumulated deficit of \$385 087 at 31 December 1981.

Superannuation Schemes

- 4.12.6 Several superannuation schemes are in operation at the University for the benefit of the academic and general staff employed by the University. These schemes require each full-time member of staff to either effect an assurance policy with an approved life office or contribute to a superannuation scheme which is managed on behalf of the members by an insurance company. Because of these arrangements the information needed to prepare annual financial statements for each scheme is not available and no information on the schemes is included in the annual report of the University, nor are they subject to my audit.

- 4.12.7 The contributions made by the University to the various superannuation schemes for the year ended 31 December 1982 totalled \$2 861 274 (31 December 1981, \$2 661 914).

Scope of Audit

- 4.12.8 The audit covered an examination and evaluation of systems of internal control, including the work performed by the internal audit section and private auditors, and the verification of assets and liabilities at 31 December 1982.

Conclusion

- 4.12.9 Apart from the unresolved matter referred to in the Status Report and minor matters which were brought to the attention of the University, the results of the audit proved satisfactory.

4.13 LEGAL AID COMMISSION

Introduction

- 4.13.1 The Legal Aid Commission was established under the Legal Aid Commission Act 1978 to provide legal aid to disadvantaged persons.
- 4.13.2 An agreement was entered into between the State and the Commonwealth on 20 December 1979 covering their respective levels of funding of legal aid, the sharing of costs and the type of assisted person for which each will be responsible.

Statutory Reporting and Auditing Requirements

- 4.13.3 Section 12 of the Legal Aid Commission Act 1978 requires the Commission to present an annual report of its operations to the Attorney-General during September for tabling in Parliament. Although no legal requirement exists for financial statements to be included in the report, unaudited financial statements are included.
- 4.13.4 Section 42 of the Act provides for an annual audit of the financial statements of the Commission by the Auditor-General. The Commission is required to forward a copy of the audited financial statements to the Attorney-General as soon as is practicable.
- 4.13.5 The financial statements for 1982-83 were adopted by the Commission on 17 February 1984 and the audit report was signed on 15 March 1984.

Financial Operations

- 4.13.6 The Commission commenced operations on 1 September 1981. The financial operations of the Commission for the 10 month period to 30 June 1982 and for 1982-83 are summarised hereunder:

Legal Aid Fund

	1 September 1981- 30 June 1982	1982-83
	\$	\$
Receipts	14 600 009	27 311 971
Payments	14 109 589	25 155 160
	<hr/>	<hr/>
Excess of receipts over payments	490 420	2 156 811
	<hr/>	<hr/>

- 4.13.7 The balance of the Fund at 30 June 1983 was \$2 647 231 (30 June 1982, \$490 420).

Staff Superannuation Fund

- 4.13.8 As from 1 September 1981 the Commission assumed responsibility for the Legal Aid Commission's staff superannuation fund in accordance with Section 52 of the Legal Aid Commission Act 1978. During 1983 the balance date was changed from 30 April to 30 June. For the 14 month period ended 30 June 1983, the Fund had a membership of 5 and made a surplus of \$46 574. The net assets of the Fund at 30 June 1983 were \$180 530.

Trust Account

4.13.9 The Trust Account transactions relate to moneys held in trust for assisted persons or their solicitors. The Trust Account does not form part of the financial statements included in the Commission's annual report. As reported in my May 1983 report to Parliament (paragraph 3.2.15), the Trust Account is audited by a practicing public accountant. The audit was to 31 March 1983 and the end of year balance was verified by this Office.

4.13.10 The financial operations are summarised as follows:

	1 September 1981- 30 June 1982	1982-83
	\$	\$
Receipts	100 996	107 913
Payments	95 702	112 352
	<hr/>	<hr/>
Excess of receipts over payments (payments over receipts)	5 294	(4 439)

4.13.11 The balance of the Account at 30 June 1983 was \$855 (30 June 1982, \$5 294).

Scope of Audit

4.13.12 The audit of the Legal Aid Fund included an examination of receipts, payments, salaries, investments and amounts owed by assisted persons. Transactions of the staff superannuation fund were examined and assets and liabilities at 30 June 1983 were verified. The balance of the Trust Account at 30 June 1983 was also verified.

Audit Observations and Recommendations

Debtors

4.13.13 Under Section 27 of the Legal Aid Commission Act 1978, the Commission may require assisted persons to make contributions towards the Commission's costs as a condition of the granting of legal aid. Any required contribution may subsequently be reviewed to reflect changes in the assisted person's circumstances or changes in the nature and costs incurred on the case. Any assessment or adjustment thereto prior to the conclusion of the case is considered to be an initial assessment; a final assessment is carried out when aid has been terminated.

4.13.14 The amount owed to the Commission by assisted persons at 30 June 1983 was \$5 195 233 and comprised final assessment debtors of \$4 789 543 and initial assessment debtors of \$405 690. These figures are shown by way of a note to the financial statements.

4.13.15 Section 42 of the Act requires the Commission to disclose in the annual financial statements all amounts owed by assisted persons. At the date of audit examination the Commission had not completed the assessment of doubtful debts in respect of amounts owed by assisted persons and therefore no evaluation by audit was possible.

4.13.16 Audit recommended that the Commission evaluate the collectability of the amounts owed by assisted persons on a regular and timely basis and that an estimate of doubtful debts be included in the notes forming part of the annual financial statements.

Conclusion

4.13.17 Apart from the above matters, the unresolved matters referred to in the Status Report, and minor weaknesses which were brought to the attention of the Commission, the results of the audit proved satisfactory.

4.14 LOCAL AUTHORITIES SUPERANNUATION BOARD

Introduction

- 4.14.1 The Local Authorities Superannuation Board was established under the provisions of the Local Authorities Superannuation Act 1958 and is responsible for the administration of several superannuation and pension schemes established under the Act, namely the Benefit Contracts Account, Pensions (Employees) Fund Account, Pensions (Authorities) Fund Account and Insurance Account.
- 4.14.2 The separate schemes provide, on a contributory basis, pensions, retiring allowances and disability benefits for employees of local governing bodies.

Statutory Reporting and Auditing Requirements

- 4.14.3 The current legislation does not provide for any reporting of the Board's operations, but as an administrative practice copies of the Board's annual report are forwarded to all Members of Parliament. Section 33 of the Local Authorities Superannuation Act 1958 provides for the audit of the accounts of the Board by the Auditor-General.
- 4.14.4 The financial statements for the year ended 28 February 1983 were signed by the Board on 18 November 1983 and the audit report was signed on 29 November 1983.

Actuarial Investigation

- 4.14.5 Sections 11G, 11JA and 11JB of the Local Authorities Superannuation Act 1958 require an actuarial investigation into the financial position and sufficiency of the Contracts Account and Pensions Funds every 3 years. The report on the investigation is required to be tabled in both Houses of Parliament.
- 4.14.6 The actuarial report for the 3 years ended 28 February 1982 revealed:
- (1) a surplus of \$19.57 million in the Benefit Contracts Account; and
 - (2) a surplus of \$1.45 million in the Pensions (Employees) Fund.
- 4.14.7 In relation to the Pensions (Authorities) Fund the actuary determined that, pursuant to Section 11JB Of the Act, a contribution of 3.54 per cent (previously 3.14 per cent) of the estimated salaries will be required to recoup the total costs estimated to be charged against the Fund for the ensuing 3 years.

Legislative Changes

- 4.14.8 The Local Authorities Superannuation (Amendment) Act 1982 came into effect from 2 August 1982 and provided as follows:

(1) Increases in minimum benefits

The minimum level of lump sum benefits payable from the Benefit Contracts Account was raised to 10 per cent of adjusted final salary for all years of continuous service (maximum 30 years) regardless of the contributor's date of commencement in the scheme. The increase in the minimum level of lump sum benefit has been achieved by utilisation of the accumulated surplus.

(2) Other provisions

Other amendments provided inter alia for partial conversion of pension entitlements to lump sum payments, deferred benefits, half-yearly indexation of pensions and the merging of the Provident Fund with the Benefit Contracts Account from 1 March 1982.

Financial Operations

4.14.9 The following is a summary of the various accounts and funds operated by the Board:

(1) Benefit Contracts Account

This account covers lump sum benefits and is maintained for the payment of statutory retirement and death and disability benefits. The 1981-82 comparative figures incorporate the Provident Fund in terms of the amending legislation mentioned above.

	1981-82 \$	1982-83 \$
Income		
Contributions	29 891 954	35 875 764
Investment income	20 167 186	25 994 994
Disability beneficiaries - transfer of benefits from other funds	1 396 807	1 707 490
	<hr/>	<hr/>
	51 455 947	63 578 248
Expenditure		
Benefits paid in respect of deaths, withdrawals and retirements	12 843 574	14 064 222
Credited to Disability Beneficiaries Accounts	6 607 948	8 785 346
Contribution towards administration	859 561	978 413
Loss on sale of investments	779 412	627 085
Other	6 999	10 464
	<hr/>	<hr/>
	21 097 494	24 465 530
Surplus	<hr/>	<hr/>
	30 358 453	39 112 718

Statement of Funds:

	28.2.82 \$	28.2.83 \$
Reserves and Other Funds	204 895 762	245 189 945*
Represented by:		
Assets		
Current assets	7 910 106	13 535 788
Investments	202 419 754	237 601 260
Total Assets	210 329 860	251 137 048
Less Current Liabilities	5 434 098	5 947 103
	204 895 762	245 189 945

* Includes \$8 655 548 (1982, \$7 473 240) owing to Disability Beneficiaries.

(2) Pensions (Employees) Fund Account

This account covers the portion of pensions paid from employee contributions.

	1981-82 \$	1982-83 \$
Income		
Contributions	8 342 300	10 125 181
Investment income	4 303 393	6 567 117
	12 645 693	16 692 298
Expenditure		
Refunds on termination of employment	1 977 287	1 894 965
Pensions paid	282 322	403 536
Loss on sale of investments	278 675	70 487
	2 538 284	2 368 988
Surplus	10 107 409	14 323 310

Statement of Funds:

	28.2.82 \$	28.2.83 \$
Reserves and Other Funds	41 559 165	56 200 456
Represented by:		
Assets		
Current assets	3 237 450	2 636 189
Investments	38 369 710	53 696 070

	28.2.82	28.2.83
	\$	\$
Total Assets	41 607 160	56 332 259
Less Current Liabilities	47 995	131 803
	<hr/>	<hr/>
	41 559 165	56 200 456
	<hr/>	<hr/>

(3) Pensions (Authorities) Fund Account

This account covers the portion of pensions paid from employer contributions.

	1981-82	1982-83
	\$	\$
Income		
Contributions	10 694 313	14 428 730
Investment income	1 065 244	1 900 764
	<hr/>	<hr/>
	11 759 557	16 329 494
	<hr/>	<hr/>
Expenditure		
Refunds on termination of employment	292 143	463 196
Pensions paid	6 092 905	9 371 782
Contribution towards administration	275 570	361 655
Lump sum payments	4 466 407	5 178 409
	<hr/>	<hr/>
	11 127 025	15 375 042
	<hr/>	<hr/>
Surplus	632 532	954 452
	<hr/>	<hr/>
Statement of Funds:		
	28.2.82	28.2.83
	\$	\$
Reserves and Other Funds	3 798 861	4 753 313
	<hr/>	<hr/>
Represented by:		
Assets		
Current Assets	4 302 888	5 418 973
Investments	..	600 000
	<hr/>	<hr/>
	4 302 888	5 418 973
Less Current Liabilities	504 027	665 660
	<hr/>	<hr/>
	3 798 861	4 753 313
	<hr/>	<hr/>

(4) Management Account

This account covers administration expenses of the superannuation schemes.

	1981-82 \$	1982-83 \$
Income		
Contribution from other accounts	1 135 131	1 340 068*
Computer Bureau and facilities management fees	3 118 486	3 771 254
Investment income	221 183	233 793
Rental and other income	78 195	103 926
	<hr/>	<hr/>
	4 552 995	5 449 041
Expenditure		
Labour and associated costs	2 519 756	2 830 535
Occupancy expenses	246 933	326 001
Equipment costs	729 403	959 541
Supplies and services	721 032	937 613
Other operating expenses	335 489	377 374
	<hr/>	<hr/>
	4 552 613	5 431 064
Surplus	<hr/>	<hr/>
	382	17 977
Statement of Funds:		
	28.2.82	28.2.83
	\$	\$
Reserves and Other Funds	5 128 740	5 400 578
	<hr/>	<hr/>
Represented by:		
Assets		
Current assets	3 595 962	3 295 280
Investments	927 042	903 932
Land - building and other fixed assets	795 073	1 119 578
Deferred expenditure	181 000	610 000
	<hr/>	<hr/>
Total Assets	5 499 077	5 928 790
Less Current Liabilities	370 337	528 212
	<hr/>	<hr/>
	5 128 740	5 400 578
	<hr/>	<hr/>

* Contribution to Management Account:

The Board adopted the recommendation of the actuary that a charge of \$361 655 be reimbursed fully from the Pensions (Authorities) Fund Account. The remaining \$978 413 was charged to the Benefit Contracts Account.

(5) Insurance Account

No new policies are being written under this scheme as it has been superseded by the benefit contracts scheme. Receipts and payments of the fund consisted mainly of surrender values and matured policies and the payment of the proceeds of these to the beneficiaries. The balance of the fund at 28 February 1982 and 28 February 1983 was \$52.

(6) Investments

At 28 February 1983 the Board's total investments amounted to \$292 801 262 (28 February 1982, \$241 716 507) consisting of:

	\$
Local Government Securities	144 661 169
Semi-Government Securities	44 453 330
Government Guaranteed Loans	33 639 512
Real Estate Mortgages	15 877 000
Properties	33 654 686
Other Authorities	20 513 565
	<hr/>
Total	292 801 262
	<hr/>

Scope of Audit

4.14.10 The audit covered:

- (1) documentation and evaluation of internal control procedures operating in the Board's contribution system;
- (2) detailed review and testing of the following areas of the Board's operations:
 - (i) investment income;
 - (ii) payroll and general expenditure;
 - (iii) payment of Withdrawal Benefits; and
 - (iv) cash inwards system;

and

- (3) verification of assets and liabilities of the Board at 28 February 1983.

Audit Observations and Recommendations

Advance to Epworth Private Hospital

- 4.14.11 The Board has advanced a total of \$24 million secured by first mortgage to Epworth Private Hospital. The advances are subject to government guarantees. During 1982-83 the Hospital failed to fully meet the interest payments due on the loans and at 28 February 1983 was \$2.6 million in arrears. At 2 March 1984 this amount had increased to \$3.32 million.

- 4.14.12 On 2 March 1984 the Hospital obtained a further loan of \$5 million from the State Bank, also subject to government guarantee, and paid the arrears of interest due to the Board. The guarantee is subject to the Hospital providing detailed monthly financial reports to the Department of Management and Budget, and to government representation at meetings of the finance committee of the Hospital.
- 4.14.13 This matter was also referred to in paragraph 3.1.6 of my first report for 1982-83.

Outstanding Debtors

- 4.14.14 Accounts for E.D.P. services totalling \$50 600 and for property rentals totalling \$190 971 rendered by the Board have been outstanding for considerable periods of time. Audit recommended that urgent action be taken to either collect the outstanding amounts or create an adequate provision for doubtful debts. Legal action has been taken in certain cases.

Conclusion

- 4.14.15 Apart from the above matters, the unresolved matters referred to in the Status Report, and a number of minor internal control weaknesses which were brought to the attention of the Board, the results of the audit proved satisfactory.

4.15 MELBOURNE AND METROPOLITAN BOARD OF WORKS

Introduction

- 4.15.1 The Melbourne and Metropolitan Board of Works is constituted under the Melbourne and Metropolitan Board of Works Act 1958. The principal functions of the Board are to supply water, provide sewerage facilities and carry out drainage and river improvement works within the metropolis of Melbourne as defined by the Act. In addition, under the provisions of the Town and Country Planning Act 1961 the Board is a responsible authority for the preparation of planning schemes in the metropolitan area.

Statutory Reporting and Auditing Requirements

- 4.15.2 The Melbourne and Metropolitan Board of Works Act 1958 requires the Board to finalise its accounts within 5 months after the last day of June in every year. Section 49 of the Act provides for an annual audit of the Board's financial statements by the Auditor-General and for such audited statements to be tabled in Parliament.
- 4.15.3 The financial statements for 1982-83 were adopted on 14 November 1983 and the audit report was signed on 16 November 1983.

Financial Operations

- 4.15.4 The Board operates 2 funds: the Metropolitan General Fund, which records the financial transactions in respect of water, sewerage and drainage services to the metropolis, and the Metropolitan Improvement Fund, which records the financial transactions in respect of metropolitan planning, including compensation for land reserved in the Metropolitan Planning Scheme, the development of metropolitan parks and an annual contribution towards the costs of the Underground Rail Loop.
- 4.15.5 The financial operations of the Board for 1982-83 together with comparative figures for 1981-82 are shown hereunder:

	<u>Metropolitan General Fund</u>		<u>Metropolitan Improvement Fund</u>	
	<u>1981-82</u>	<u>1982-83</u>	<u>1981-82</u>	<u>1982-83</u>
	\$000	\$000	\$000	\$000
Operating income	337 486	381 964	28 255	27 835
Less operating expenditure	150 231	197 993	13 730	17 866
	-----	-----	-----	-----
	187 255	183 971	14 525	9 969
Plus net interest received	..	..	3 678	3 738
	-----	-----	-----	-----
	187 255	183 971	18 203	13 707
Less net interest and other expenditure	141 651	170 783	6 328	7 367
	-----	-----	-----	-----
	45 604	13 188	11 875	6 340

	Metropolitan General Fund		Metropolitan Improvement Fund	
	1981-82 \$000	1982-83 \$000	1981-82 \$000	1982-83 \$000
Abnormal item - Braeside land	..	..	1 986	..
Surplus before contribution to Consolidated Fund	45 604	13 188	13 861	6 340
Contribution to Consolidated Fund	..	27 680	..	2 320
Net Surplus (Deficit) for year	45 604	(14 492)	13 861	4 020
Transfer from:				
Rates Equalisation Reserve	5 533	178	11 841	18 741
General Reserve	..	27 680	..	..
Total available for appropriations	51 137	13 366	25 702	22 761
Less appropriations*	50 959	13 366	6 961	13 241
Surplus transferred to Rates Equalisation Fund	178	..	18 741	9 520

*Details of appropriations are:

Fund for Repayment of Loans	5 421	87	..	..
Loans Redeemed from Revenue	10 220	3 032	42	47
Renewals Fund	7 318	..	..	..
Capital Works	28 000	10 247	..	..
General Reserve				
Construction Works	..	..	4 932	9 426
Land Acquisitions Less Sales	..	..	1 987	3 768

4.15.6 For comparative purposes the 1981-82 figures have been recast so as to accord with the accounting treatment adopted by the Board in 1982-83.

4.15.7 Net assets of the Board at 30 June 1983 amounted to \$943.1 million (30 June 1982, \$901.9 million).

Scope of Audit

4.15.8 The audit included the evaluation and testing of the systems of internal control operating in the following areas of the Board's accounting system: rates, water by measure, head office canteen, rent revenues and cash payments. Assets and liabilities of the Board at 30 June 1983 were verified.

- 4.15.9 In addition to the audit tasks carried out by my officers, the work undertaken by the Board's Audit Services Division was evaluated and accepted for the purpose of the audit.

Audit Observations and Recommendations

Effect of Changes in Accounting Treatment

- 4.15.10 Comments on the effect of changes in legislation follow:

(1) Depreciation

The Public Authorities (Sinking Funds) Act 1982 removed the necessity for the Board to maintain a renewals fund. Consequently, the amount of \$61.9 million held in the fund was transferred to the accumulated depreciation account.

(2) Fund for the Repayment of Loans

The Public Authorities (Sinking Funds) Act 1982 also repealed the requirement that the Board provide a sinking fund for the repayment of its loan liability. Consequently, the Board has ceased to provide sinking funds for loans raised except where it has been specifically requested by the lenders to either maintain or establish such sinking funds.

During the year an amount of \$81.3 million, which had been provided previously for sinking fund purposes, was transferred to General Reserve. Had the legislation not been enacted, an amount of approximately \$5.8 million would have been required to be set aside for the year.

(3) Contribution to Consolidated Fund

The Public Authorities (Contributions) (Amendment) Act 1983 provided for the Board for the first time to pay into the Consolidated Fund an amount equal to 8.3 per cent of the total revenue of the Board for the 1981-82 financial year. As a result, an amount of \$30 million was paid by the Board into the Consolidated Fund.

- 4.15.11 Comments on the effect of changes in Board policy are as follows:

(1) Special Provision for the Replacement of Long Term Assets

In the past, the Board had not provided for the depreciation of assets having an estimated useful life of more than 50 years. However, recent experience with ageing assets has caused the Board to review this policy. As a consequence, a special provision was made for the depreciation and write-off of long-term assets to the extent of \$19.8 million for the Metropolitan General Fund and \$0.2 million for the Metropolitan Improvement Fund. The effect in 1982-83 was to increase expenses and decrease the surplus of the funds by the above amounts.

(2) Overabsorption of Overheads

Board policy provides for overabsorbed management and administrative costs not directly allocatable to capital works to be charged to a "Distributable Expense Variance Account". During the year, \$9.066 million of these overabsorbed costs were written off against the relevant works assets. There was no effect on the result for the year.

(3) Loans Redeemed from Revenue

In the past, the principal repaid on Principal Reducing Loans was charged to revenue in the year of payment. During the financial year the State Government sanctioned the re-borrowing of such amounts as the repayments fell due. The effect of this change is that an amount of \$8.9 million which previously would have been a charge against revenue has been met by re-borrowing.

Internal Control Weaknesses

4.15.12 A number of internal control weaknesses were noted during the course of the audit. The major areas of audit concern were in relation to the operations of the Sundry Accounts Department:

(1) Delays in Rendering Accounts

Delays of up to 2 months were evident in the raising of debtors for financed works and there were delays averaging 5 months for the raising of debtors for chargeable works. Audit recommended that accounts be raised on a more timely basis.

(2) Overdue Accounts

It was noted in some areas, especially public and benevolent institutions, Crown and recreational land and non-rateable property ledgers, that follow-up action of some outstanding debts had not been taken for up to 10 months. Although the amounts were not large in the context of the Board's total revenue, audit recommended that a more vigorous policy for collection of outstanding accounts be implemented.

Insurance Fund

4.15.13 During the year an amount of \$15.3 million was charged to the Insurance Fund in relation to the re-cladding of the Head Office building. This sum represents the amount borne by the Board after deducting the cash settlement received from litigants to the lawsuit brought by the Board. The case was ultimately settled out of court.

Conclusion

4.15.14 Apart from the above matters and the unresolved matter referred to in the Status Report, the results of the audit proved satisfactory.

4.16 MELBOURNE AND METROPOLITAN TRAMWAYS BOARD

Introduction

- 4.16.1 The Melbourne and Metropolitan Tramways Board operated under the Melbourne and Metropolitan Tramways Act 1958 and was responsible for the construction, maintenance, management and operation of all tramways and certain bus services within the metropolis of Melbourne.
- 4.16.2 The Transport Act 1983 abolished the Melbourne and Metropolitan Tramways Board as from 1 July 1983 and transferred all assets and liabilities of the former Board to the Metropolitan Transit Authority.

Statutory Reporting and Auditing Requirements

- 4.16.3 Section 234 of the Transport Act 1983 required that the annual financial statements for the year ending 30 June 1983 in respect of the former Melbourne and Metropolitan Tramways Board be prepared by the Metropolitan Transit Authority and certified by the managing director and principal accounting officer of the Authority. Section 234 also provided for the financial statements of the Board to be audited by the Auditor-General and presented to the Minister of Transport by 1 December 1983.
- 4.16.4 The financial statements of the Board were duly certified by the relevant Metropolitan Transit Authority personnel on 24 November 1983 and the audit report was signed on 6 January 1984.

Financial Operations

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

	1981-82	1982-83
	\$	\$
Income	105 446 000	120 419 000
Expenditure	111 711 000	131 372 000
	<hr/>	<hr/>
Operating Deficit	6 265 000	10 953 000
	<hr/>	<hr/>

- 4.16.6 Net assets as recorded in the accounts of the Board at 30 June 1983 were \$1 977 000, compared with net liabilities of \$2 093 417 at 30 June 1982. The increase in net assets resulted from contributions of \$1 322 000 received towards construction of major tramways works and \$13 702 000 from leasing arrangements, offset by the deficit for the year.

Qualification of the Board's Financial Statements

4.16.7 It was necessary to record the following qualifications on the Board's financial statements for 1982-83:

"(1) As stated in note 9 to the accounts:

(a) The Board provided an amount of \$1.5 million in the year for Superannuation and Retiring Benefits. The Board indicates it cannot provide an accurate determination of its liability, therefore I am unable to express an opinion on the adequacy of the provision of \$2.5 million.

(b) The Board has not made specific provision in the accounts for sick leave, long service leave and gratuities which it has estimated as amounting to \$23.668 million. As a result, it is my opinion that the liabilities in the balance sheet are understated by an amount of \$23.668 million.

(2) As stated in note 21 to the accounts, the Board has increased the provision for public liability claims from \$3.727 million to \$4.8 million. Included in the \$4.8 million is an amount of \$1.491 million in respect of which the Board cannot provide any evidence to support its estimate and thus I am unable to express an opinion in respect of this portion of the provision for public liability claims."

Scope of Audit

4.16.8 The audit covered the verification of the income and expenditure statement, assets and liabilities at 30 June 1983 and the examination of leasing arrangements. The work of a private practitioner, engaged by the Board to provide a continuous audit of the Board's accounts, was evaluated and accepted for the purpose of the audit.

Conclusion

4.16.9 Subject to the qualification of the financial statements and some minor matters which have been brought to the attention of the Board, the results of the audit proved satisfactory.

4.17 MELBOURNE UNDERGROUND RAIL LOOP AUTHORITY

Introduction

- 4.17.1 The Melbourne Underground Rail Loop Authority was established under the Melbourne Underground Rail Loop Act 1970 to supervise and coordinate the planning, financing and construction of an underground rail loop and ancillary works. It was also responsible for the development of the Museum Station and Flagstaff Station sites and adjacent areas.
- 4.17.2 The Transport Act 1983 repealed the Melbourne Underground Rail Loop Act 1970. As from 1 July 1983 the Metropolitan Transit Authority became the successor authority.

Statutory Reporting and Auditing Requirements

- 4.17.3 Section 234 of the Transport Act 1983 required the Metropolitan Transit Authority to prepare accounts for the former Melbourne Underground Rail Loop Authority for the year ended 30 June 1983. Such accounts were to be certified by the managing director and principal accounting officer of the Metropolitan Transit Authority. The Act required the financial statements to be audited by the Auditor-General and forwarded to the Minister of Transport by 1 December 1983.
- 4.17.4 The financial statements, duly certified by the relevant Metropolitan Transit Authority personnel, were presented to audit on 24 November 1983 and the audit report was signed on 1 December 1983.

Financial Operations

- 4.17.5 The annual accounts of the Authority comprise a statement of financial transactions for the year and a statement of financial position at 30 June 1983.
- 4.17.6 Net assets as recorded in the accounts of the Authority at 30 June 1983 were \$16 064 405 (30 June 1982, \$13 582 447).

Qualification of the Authority's Financial Statements

- 4.17.7 I found it necessary to record the following qualification on the Authority's financial statements for 1982-83:

"As stated in Note 3 to the accounts, the Loop Development Account includes an amount of \$146 988 506 being the cost (as certified by the Authority's principal consultants) of that part of the loop which has been transferred to and is vested in the Victorian Railways Board, now the State Transport Authority. The Loop Development Account also includes administration costs of \$7.39 million and public loan expenses of \$3.77 million which have been identified in note 3 and insurance of \$16.95 million and consultancy costs of \$57.47 million which are not identified in the note. In my opinion a proportion of these costs which total \$85.58 million relates to that part of the loop which has been transferred to the Victorian Railways Board. However, the Melbourne Underground Rail Loop Authority has not determined such proportionate costs.

As a result of the abovementioned transfer, in my opinion, the fixed asset item, Loop Development Account, in the statement of financial position, is overstated by an amount in excess of \$146 988 506."

Scope of Audit

- 4.17.8 The audit covered the examination of contract payments, interest payable and receivable, statutory contributions from other bodies and authorised borrowings and the verification of assets and liabilities at 30 June 1983. The work of a private practitioner who performed the internal audit function for the former Authority was reviewed and accepted for the purpose of the audit.

Conclusion

- 4.17.9 Subject to the qualification of the financial statements, the results of the audit proved satisfactory.

4.18 MONASH UNIVERSITY

Introduction

- 4.18.1 Monash University was established under the Monash University Act 1958 and is responsible for the provision of tertiary education, the advancement of knowledge and its practical application by means of research.

Statutory Reporting and Auditing Requirements

- 4.18.2 The Monash University Act 1958 requires the Council of the University to prepare a statement of accounts at 31 December in every year for submission to the Auditor-General within 3 months thereafter. The audited financial statements, together with the University's annual report are required to be forwarded to the Governor-in-Council as soon as practicable after 31 March and for tabling in Parliament. Section 36 of the Act provides for an annual audit of the financial statements by the Auditor-General.
- 4.18.3 The financial statements were received by audit on 15 April 1983 and the audit report was signed on 12 December 1983.

Financial Operations

- 4.18.4 The financial operations of the University for the years ending 31 December 1981 and 31 December 1982, excluding the superannuation schemes, are summarised hereunder:

	1981	1982
	\$	\$
Income		
Government grants	75 037 813	80 454 616
Other	13 118 474	17 555 655
	<hr/>	<hr/>
	88 156 287	98 010 271
Expenditure	83 832 161	93 605 625
	<hr/>	<hr/>
Surplus	4 324 126	4 404 646
	<hr/>	<hr/>

- 4.18.5 The accumulated funds of the University totalled \$18 491 878 at 31 December 1982 (31 December 1981, \$14 087 232).

Superannuation Schemes

- 4.18.6 The Council of Monash University has established several superannuation schemes for the benefit of academic and general staff. A combined Statement of Income and Expenditure and Balance Sheet of the schemes is published separately in financial statements of the University. These schemes are audited as part of the audit of the books and accounts of Monash University and therefore no separate audit opinion is issued on the schemes.
- 4.18.7 The last actuarial valuation covered the period 1 November 1980 to 31 December 1982.

4.18.8 The superannuation and pension schemes are defined benefits plans managed by a trustee on behalf of the academic and general staff of the University. Members of the schemes contribute varying rates up to 6.3 per cent of their salary to the funds, with the University contributing twice the member's contributions. Benefits provided under the schemes are normally by way of pension upon retirement, death or disability although lump sum payments may be made in certain circumstances.

4.18.9 A summary of the financial operations of the schemes for the years ended 31 December 1981 and 31 December 1982 is as follows:

	1981 \$	1982 \$
Income		
Contributions - University	4 400 659	4 735 628
- Members	2 221 944	2 397 715
Interest and other	10 820 960	7 201 942
	<hr/>	<hr/>
	17 443 563	14 335 285
	<hr/>	<hr/>
Expenditure		
Pension benefits and withdrawals	1 032 029	2 306 946
Operating expenses	57 318	137 084
	<hr/>	<hr/>
	1 089 347	2 444 030
	<hr/>	<hr/>
Surplus for the year	16 354 216	11 891 255
	<hr/>	<hr/>

4.18.10 During 1981 a new defined benefit superannuation scheme was introduced and income of \$6 988 663 was contributed to the fund from the surrender and transfer of endowment policies formally held on behalf of members in previous superannuation schemes. Endowment policies to the value of \$14 310 721 were also transferred to the new scheme.

4.18.11 The state of affairs of the schemes at 31 December 1981 and 31 December 1982 was as follows:

	1981 \$	1982 \$
Accumulated Funds	45 939 074	57 830 329
Represented by:		
Current Assets	1 004 715	605 791
	<hr/>	<hr/>
Investments - Managed funds	31 995 784	54 820 150
- Term deposits	..	2 345 000
- Fixed interest securities	8 079 473	69 100
- Other	4 885 752	..
	<hr/>	<hr/>
	44 961 009	57 234 250
	<hr/>	<hr/>

	1981	1982
	\$	\$
Total assets	45 965 724	57 840 041
Less current liabilities	26 650	9 712
	<hr/>	<hr/>
Net Assets	45 939 074	57 830 329
	<hr/>	<hr/>

- 4.18.12 Managed funds are recorded in the financial statements at prices reflecting the underlying market values of the investments in which the funds share.

Qualification of the University's Financial Statements

- 4.18.13 It was necessary to record the following qualification on the 1982 financial statements of the University:

"as stated in note 7 to the accounts, certain investments of the Superannuation and Pension Schemes are held in the name of fund managers. These investments totalling \$54 820 150 have been included in the accounts on the basis of statements furnished by the fund managers and have not been independently verified by audit".

- 4.18.14 A similar qualification was attached to the University's financial statements for 1981.

Scope of Audit

- 4.18.15 The audit covered an examination and evaluation of accounting systems and procedures of internal control, including the work performed by the University's internal audit section, and verification of assets and liabilities at 31 December 1982.

Audit Observations and Recommendations

Common Fund Investment

- 4.18.16 The common fund was established by the University in 1968. The objectives of the fund were to facilitate the investment of donations to the University and to enable replacement, repairs and maintenance of the assets of the halls of residence.
- 4.18.17 At 31 December 1982, investments of the common fund amounting to \$1 318 534 were held in a managed fund in the name of a custodian trustee. A legal opinion obtained by the University indicated that the University did not have the power to delegate the authority to a third party to manage the investments of the common fund.
- 4.18.18 As a result of the opinion, audit understands that steps are being taken to seek appropriate legislative amendments. In the meantime, action has been taken by the University for the role of the fund manager to revert to its earlier status of investment adviser only.

Conclusion

- 4.18.19 Subject to the qualification of the financial statements and minor matters which were brought to the attention of the University, the results of the audit proved satisfactory.

4.19 PORT OF MELBOURNE AUTHORITY

Introduction

- 4.19.1 The Port of Melbourne Authority was established under the Port of Melbourne Authority Act 1958. It is responsible for the operation of the Port of Melbourne, including the construction and maintenance of docks, wharves and buildings, the dredging of shipping channels and the provision of cranes and mobile equipment for handling various types of cargo. To enable the Authority to carry out its functions, the lands and waterways within the designated port area have been vested in the Authority.
- 4.19.2 Under Section 169 of the Act the Authority was authorised to construct, maintain and operate the World Trade Centre in the Port of Melbourne. During 1982-83 the World Trade Centre became operational.

Statutory Reporting and Auditing Requirements

- 4.19.3 The Port of Melbourne Authority Act 1958 requires the Authority to prepare a balance sheet and statement of accounts. Section 118 of the Act provides for an annual audit of the financial statements of the Authority by the Auditor-General. An audited copy of the balance sheet and statement of accounts is to be laid before both Houses of Parliament.
- 4.19.4 The financial statements for 1982-83 were adopted by the Authority on 30 November 1983 and the audit report was signed on 9 December 1983.

Financial Operations

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

	1981-82	1982-83
	\$	\$
Income	56 137 000	64 358 000
Expenditure	52 081 000	104 553 000
	<hr/>	<hr/>
Surplus (Deficit)	4 056 000	(40 195 000)
	<hr/>	<hr/>

- 4.19.6 The principal reasons for the changes in the results between the years were:
- (1) an additional superannuation charge of \$10 815 000, resulting from an actuarial investigation at 30 June 1981 which disclosed that the value of pensions payable to existing pensioners was understated by that amount in the Authority's accounts;
 - (2) an increase in finance and interest charges and the amortisation of foreign exchange losses totalling \$7 639 000, due partly to the commencement of operations of the World Trade Centre and the expensing of these items which had previously been capitalised;

- (3) an increase in the statutory contribution to the Consolidated Fund from \$1 034 000 in 1981-82 to \$6 million in 1982-83; and
- (4) changes in accounting treatment, as detailed in paragraph 4.19.9, the net effect of which was to increase expenses by \$12 227 000.

4.19.7 Net assets of the Authority at 30 June 1983 were \$39 791 000 (30 June 1982, \$210 330 000). This reduction was due mainly to the abolition of the asset revaluation reserve discussed in paragraph 4.19.9 (1).

Scope of Audit

4.19.8 The audit included the documentation, evaluation and testing of the Authority's major revenue and expenditure systems and the verification of assets and liabilities at 30 June 1983. The supplementary financial statements prepared on a current cost basis were not audited.

Audit Observations and Recommendations

Effect of Changes in Accounting Treatment

4.19.9 A number of changes in accounting treatment adopted by the Authority in 1982-83 are summarised below:

- (1) All assets are now stated at historical cost. In previous years, major assets considered essential to the continued operations of the Authority were valued at replacement cost. The depreciation charge on the difference in value between historical cost and replacement cost was credited to a depreciation adjustment reserve.

The effects of this change in accounting treatment in the financial statements are:

- (i) a reduction in the value of assets by the amount of the asset revaluation reserve, \$130 344 000;
 - (ii) a transfer of the depreciation adjustment reserve of \$19 464 000 to the retained surplus account; and
 - (iii) a reduction in the annual depreciation charge of \$5 184 000.
- (2) During the year the Authority examined the service lives of all assets. Asset service lives will now be reviewed progressively by the Authority over a 3 year cycle. Additional depreciation of \$19 711 000 resulting from the reassessment of service lives of assets has been disclosed in the revenue statement as an abnormal expense.
 - (3) Interest payments of \$2 300 000 have been treated as part of the capital cost of certain works. In previous years, except for expenditure related to the World Trade Centre, such expenditure was charged against operations.

Land Vested in the Authority

- 4.19.10 The fixed assets disclosed in the balance sheet do not include the value of land vested in the Authority under the Port of Melbourne Authority Act 1958 but this information is disclosed by way of a note to the accounts. The value of this land, based on a Valuer-General's valuation of 3 August 1983, is \$131 989 000. In audit opinion this vested land should in future be included in the balance sheet to enable the true state of affairs of the Authority to be disclosed.

Provision for Superannuation

- 4.19.11 The provision for superannuation, as disclosed in the balance sheet, represents the Authority's estimated liability only to existing pensioners. In my third report for 1982-83 I identified the need to develop a consistent approach to the recognition of superannuation liabilities in the financial statements of statutory authorities.

Annual Superannuation Charge Against Revenue

- 4.19.12 The 1982-83 charge of \$4 600 000 (i.e. excluding the additional charge of \$10 815 000 referred to in paragraph 4.19.6(1)) against revenue for superannuation was based on the Authority's portion of pensions paid during the year plus 25 per cent. An actuary has advised the Authority that the annual charge for superannuation should be based on the increase during the year of the Authority's estimated future liability for additional pensions in the year and has supplied a model for use in the calculation of the annual charge.
- 4.19.13 Audit recommended that the Authority consider the use of the model supplied by the actuary for the purpose of calculating the annual superannuation charge as a more realistic way of determining the liability.

Conclusion

- 4.19.14 Apart from the above matters and a number of minor matters which were brought to the attention of the Authority, the results of the audit proved satisfactory.

4.20 REGISTRY OF CO-OPERATIVE HOUSING SOCIETIES

Introduction

- 4.20.1 The Registry of Co-operative Housing Societies, established under the Co-operative Housing Societies Act 1958, is responsible for the registration, administration and inspection of the books and accounts of co-operative housing societies. Over the past few years organisational changes have taken place which have resulted in the Ministry of Housing taking over the administration and allocation of funds derived from Commonwealth-State Housing Agreements to such societies. The Ministry also administers the special housing assistance schemes and interest relief subsidies payable to permanent building societies on behalf of eligible home purchasers.

Statutory Reporting and Auditing Requirements

- 4.20.2 Section 71 of the Co-operative Housing Societies Act 1958 requires the Registrar to submit a report to the Treasurer of Victoria as soon as possible after the end of each financial year, and for such report to be tabled in Parliament. The Act does not make specific provision for the preparation of financial statements or any audit by the Auditor-General.
- 4.20.3 Financial statements and balance sheets for the Home Purchase Assistance Account and the Home Builders Account No. 2 were prepared by the Registry and adopted on 27 October 1983 and the audit reports thereon were signed on 22 December 1983. Information from these financial statements and others prepared by the Registry form part of the Ministry of Housing's receipts and payments financial statements for the year ended 30 June 1983.

Financial Operations

- 4.20.4 The Ministry of Housing administers the Home Purchase Assistance Account and the Home Builders Account No. 2. These accounts are revolving funds, whereby housing loan repayments and moneys received under Commonwealth-State Housing Agreements are re-allocated to co-operative housing societies for further lending.
- 4.20.5 The financial operations for 1982-83 compared with 1981-82 are summarised below:

(1) Home Purchase Assistance Account

	1981-82	1982-83
	\$	\$
Income	17 377 302	19 302 662
Expenditure	15 126 066	16 101 016
	<hr/>	<hr/>
Operating Surplus	2 251 236	3 201 646
	<hr/>	<hr/>

(2) Home Builders Account No. 2

	1981-82	1982-83
	\$	\$
Income	1 536 225	1 585 790
Expenditure	1 374 650	1 354 488
	<hr/>	<hr/>
Operating Surplus	161 575	231 302
	<hr/>	<hr/>

Scope of Audit

- 4.20.6 The audit covered an examination of financial systems and transactions of the Ministry, including an evaluation of internal controls relating to the Registry of Co-operative Housing Societies.

Audit Observations and Recommendations

VILA Computer System

- 4.20.7 The Victorian Loans Computer System (VILA) commenced operations during the year. The system has provision for an edit check to prevent advances being made in excess of a society's approved allocation. Audit checks during the year disclosed discrepancies between the Ministry's records, the VILA computer system and within the VILA computer system. The use of a personal identification device (P.I.D.) by accounts staff to amend VILA system particulars and a fix P.I.D. (under the control of the Chief Finance Officer) which permits access to the data base without any internal validation can override inbuilt control checks.
- 4.20.8 The accessibility of the VILA computer system to accounts staff, the opportunity for altering data and the overriding of edit checks during the implementation phase rendered the computer checks ineffective and are a matter of concern. Audit recommended that effective procedures be implemented immediately in this area.

Matters Raised in Previous Reports

- 4.20.9 Although the following matters had been raised in my May 1983 report and the Ministry of Housing response thereto indicated corrective action being taken, the matters have not been resolved.

(1) Interest Subsidies - Permanent Building Societies

Under the provisions of the Housing Assistance Act 1981, interest subsidies are available to eligible low income earners receiving loans from permanent building societies. My May 1983 report (paragraph 3.7.15) identified major control weaknesses in the scheme:

- (i) subsidy claims from building societies are paid without any check as to the accuracy thereof;
- (ii) subsidies could be paid in respect of persons who are no longer eligible; and

- (iii) additional subsidies are incurred where mortgage payments are in arrears.

Although the April 1983 reply of the Ministry of Housing advised "these deficiencies will be overcome when Registry inspectors incorporate and follow verification procedures in the audit program for Permanent Building Societies", such procedures were not observed by Registry inspectors during periodic visits to societies.

(2) Housing Assistance Schemes

The Ministry of Housing is responsible for the administration of 4 housing assistance schemes, the first of which commenced in 1977-78. Under these schemes, loans are made available from co-operative building societies to eligible home purchasers at subsidised interest rates. Such loans are financed by bank overdraft guaranteed by the Treasurer of Victoria. At 30 June 1983, loan advances outstanding under the 4 schemes totalled \$61 648 886 (30 June 1982, \$64 209 118).

Further, many societies continue to forward collections on an irregular basis and, as the Ministry operates on overdraft facilities, additional interest is incurred by the Registry. There are no procedures within the Ministry, manual or computerised, to ensure that societies remit collections promptly.

(3) Administration Charge - Home Purchase Assistance Account

The Commonwealth-State Housing Agreement provides for the Home Purchase Assistance Account to be debited by the Department of Management and Budget with "management costs and other outgoings" relating to the operation of the account. However, the agreement does not specify how management costs are to be calculated. The management costs are currently determined on the basis of recouping 1/4 per cent of the average loan advances outstanding.

In my May 1983 report (paragraph 3.7.20) I drew attention to the situation and the fact that charges recouped bear little relationship to the actual costs involved and appear excessive. The charge for 1982-83 was \$733 326 (1981-82, \$979 872). Audit recommended that the determination of the charges should be reviewed.

Conclusion

4.20.10 Apart from the above matters, the unresolved matter referred to in the Status Report and a number of minor internal control weaknesses which were brought to the attention of the Registry, the results of the audit proved satisfactory.

4.21 S.E.C. SUPERANNUATION FUND AND S.E.C. EMPLOYEES' RETIREMENT AND BENEFITS FUND

Introduction

- 4.21.1 The State Electricity Commission Superannuation Fund and the State Electricity Commission Employees' Retirement and Benefits Fund were established by the Commission under the authority of the State Electricity Act 1958. The Commission is the Trustee of each fund as determined by the trust deeds.
- 4.21.2 The Commission, in its capacity as Trustee, is responsible for the administration of the funds and bears all associated administrative costs with the exception of investment expenses which are met directly from the funds.

Statutory Reporting and Auditing Requirements

- 4.21.3 The rules of the funds require the Trustee to prepare a balance sheet and a statement of receipts and disbursements within 6 months of the end of the financial year. There is no provision for this information to be tabled in Parliament.
- 4.21.4 The State Electricity Commission (Amendment) Act 1982, which came into operation on 2 March 1983, provides for the statements of accounts prepared by the Trustee of the funds to be audited by the Auditor-General. This amendment was consequent to a legal opinion, received by the Trustee during 1981-82, which expressed the view that there was an absence of legislative authority for the Auditor-General to undertake the audit of the funds. In the light of this opinion, the audit for 1981-82 was not undertaken by my officers as was the case in previous years but by a firm of private practitioners engaged by the Trustee.
- 4.21.5 The financial statements for 1982-83 were received by audit on 3 November 1983 and the audit report was signed on 6 December 1983.

Actuarial Review

- 4.21.6 In accordance with the rules of the funds the Trustee is required to cause an actuary to carry out an actuarial investigation of the funds at intervals not exceeding 3 years.
- 4.21.7 An actuarial review, due at 30 June 1983, has been carried out on each fund. The report on the review of the Superannuation Fund was received on 24 January 1984, the report relating the Employees' Retirement and Benefits Fund was received on 8 February 1984. At the date of preparation of this report, the recommendations made on the basis of these actuarial reviews were being considered by the Trustee.

Financial Operations

(1) S.E.C. Superannuation Fund

- 4.21.8 The S.E.C. Superannuation Fund is a defined benefits plan managed by the Trustee on behalf of salary employees. The scheme is compulsory for all salaried personnel, who contribute 6.5 per cent of their salaries matched by Commission contributions at a ratio of 2 for 1.

4.21.9 Benefits provided under the plan are by way of lump sum payment and/or pension upon retirement, death or disability. Fund benefits are principally related to the period of contributing service of members and average salary during the final 2 years of membership.

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

	1981-82 \$000	1982-83 \$000
Income		
Investment income	51 847	58 747
SEC of Victoria contributions	41 289	48 626
Members' contributions	13 034	15 265
	<hr/>	<hr/>
Expenditure	106 170	122 638
Benefit payments	38 365	37 861
	<hr/>	<hr/>
Surplus for the year	67 805	84 777
	<hr/>	<hr/>
Net transfers between funds	409	1 099
	<hr/>	<hr/>
Accumulated funds at 1 July	68 214 356 678	85 876 424 892
	<hr/>	<hr/>
Accumulated funds at 30 June	424 892	510 768
	<hr/>	<hr/>

4.21.11 The state of affairs of the Fund at 30 June 1982 and 30 June 1983 was as follows:

	30.6.82 \$000	30.6.83 \$000
Accumulated Funds	424 892	510 768
	<hr/>	<hr/>
Represented by:		
Current Assets		
Funds awaiting investment	128	1 008
Accrued income and receivables	18 674	18 229
Short-term investments	19 818	17 986
Employer contributions retained by SEC of Victoria (interest bearing)	205 454	242 483
	<hr/>	<hr/>
	244 074	279 706
	<hr/>	<hr/>

	30.6.82	30.6.83
	\$000	\$000
Investments (at cost)		
Shares and convertible unsecured notes	79 367	94 240
	-----	-----
Fixed Interest -		
Public securities	36 206	54 591
Mortgages	11 778	11 317
Company debentures	6 079	5 271
	-----	-----
	54 063	71 079
	-----	-----
Property	50 911	89 283
Total Assets	428 415	534 308
Less Current Liability		
Accrued expenditure and payables	3 523	23 540
	-----	-----
Total Net Assets	424 892	510 768
	-----	-----

(2) S.E.C Employees' Retirement and Benefits Fund

- 4.21.12 The S.E.C. Employees' Retirement and Benefits Fund is a defined benefit plan managed by the Trustee on behalf of wages award employees. The scheme is compulsory for all wages personnel who contribute 3.25 per cent of their wages matched by Commission contributions at a ratio of 2 for 1. Benefits provided under the plan are by way of lump sum payment upon retirement, death or disability.
- 4.21.13 The financial operations of the Fund for 1982-83 compared with 1981-82 are summarised hereunder:

	1981-82	1982-83
	\$000	\$000
Income		
SEC of Victoria contributions	10 254	11 590
Members' contributions	5 119	5 777
Investment income	3 491	5 328
	-----	-----
	18 864	22 695
Expenditure		
Benefit payments	6 779	7 051
	-----	-----
Surplus for the year	12 085	15 644
	-----	-----

	1981-82 \$000	1982-83 \$000
Transfers		
Transfer from SEC Superannuation Fund	585	133
Less Transfer to SEC Superannuation Fund	994	1 232
	<hr/>	<hr/>
	(409)	(1 099)
	<hr/>	<hr/>
Accumulated funds at 1 July	11 676	14 545
	18 425	30 101
	<hr/>	<hr/>
Accumulated funds at 30 June	30 101	44 646
	<hr/>	<hr/>
4.21.14 The state of affairs of the Fund at 30 June 1982 and 30 June 1983 was as follows:		
	30.6.82 \$000	30.6.83 \$000
Accumulated Funds	30 101	44 646
	<hr/>	<hr/>
Represented by:		
Current Assets		
Funds awaiting investment	175	771
Accrued income and receivables	2 391	2 090
Short-term investments	495	798
Employer contributions retained by SEC of Victoria (interest bearing)	15 831	27 879
	<hr/>	<hr/>
	18 892	31 538
	<hr/>	<hr/>
Investments (at cost)		
Shares and convertible unsecured notes	4 922	4 877
	<hr/>	<hr/>
Fixed Interest -		
Public Securities	..	2 121
Mortgages	687	671
Company debentures	1 472	1 058
	<hr/>	<hr/>
	2 159	3 850
	<hr/>	<hr/>
Property	5 060	5 055
	<hr/>	<hr/>
Total Assets	31 033	45 320

	30.6.82	30.6.83
	\$000	\$000
Less Current Liability		
Accrued expenditure and payables	932	674
	-----	-----
Total Net Assets	30 101	44 646
	-----	-----

4.21.15 For both funds, the contributions retained by the S.E.C. were held at call and earned interest at a rate of half of one per cent above the maximum private semi-government rate set by the Loan Council at any point of time.

Scope of Audit

4.21.16 The audit of the funds consisted of a review and evaluation of the systems of internal controls relating to the member and employer contributions to the funds, to the income from investments and to pensions and other benefits paid by the funds. Assets and liabilities at 30 June 1983 were verified. The work performed by the internal audit was reviewed and accepted for the purpose of the audit.

Conclusion

4.21.17 Apart from some minor control weaknesses which were brought to the attention of the Trustees, the results of the audit proved satisfactory.

4.22 STATE EMPLOYEES RETIREMENT BENEFITS BOARD

Introduction

4.22.1 The State Employees Retirement Benefits Board was constituted under the State Employees Retirement Benefits Act 1979. The Board is responsible for the administration of the State Employees Benefits Fund which provides, on a contributory basis, superannuation benefits for certain employees of State government departments and certain other officers not otherwise covered by superannuation benefits. The Board provides pensions and lump sum benefits on age retirement, disability and death, and provides a refund of contributions, together with interest thereon, on resignation.

Statutory Reporting and Auditing Requirements

4.22.2 The State Employees Retirement Benefits Act 1979 requires the Board to submit to the Treasurer its report, including the audited accounts, for presentation to both Houses of Parliament as soon as practicable after the audit has been completed. Section 17 of the Act provides for an annual audit of the accounts of the Board by the Auditor-General.

4.22.3 The financial statements were adopted by the Board on 15 December 1983 and the audit report was signed on 4 January 1984.

Actuarial Investigation

4.22.4 Section 18 of the Act requires an actuarial investigation into the financial position of the Fund at 30 June 1982 and at the end of each succeeding period of 3 years.

4.22.5 The actuarial report as at 30 June 1982 was accepted by the Board on 8 September 1983. The report revealed:

- (1) a surplus at 30 June 1982 of \$4.9 million; and
- (2) an accumulated deficit of \$5.3 million arising from payment of retrospective benefits for past service and administration costs in accordance with Section 25 of the Act.

4.22.6 The payment of retrospective benefits for past service creates a deficit in that such payments are made from the members' contributions and later recouped from the employer contributions.

Financial Operations

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

	1981-82 \$	1982-83 \$
Income	12 533 944	21 429 628
Expenditure	8 474 620	13 704 315
	<hr/>	<hr/>
Surplus for year	4 059 324	7 725 313
Less amounts transferred to Members Reserve and Death and Disability Reserve	6 325 304	8 479 861
	<hr/>	<hr/>
Deficit for year transferred to Section 25(2) Accumulated Deficit	(2 265 980)	(754 548)
Add		
Net amount transferred to Members Reserve	6 250 434	8 583 320
Net amount transferred to Death and Disability Reserve	308 537	508 304
	<hr/>	<hr/>
Increase in Fund for year	4 292 991	8 337 076
	<hr/>	<hr/>

4.22.8 The increase in the surplus for the year was due mainly to:

- (1) an increase in the rate of employer contributions from 4.78 per cent to 7.62 per cent effective from 1 August 1982, of which 1.9 per cent is required to reduce the deficit in respect of retrospective benefits and administration costs to 50 per cent by June 1984; and
- (2) a substantial increase in income from investments.

4.22.9 The total accumulated funds and net assets of the Board at 30 June 1983 were \$13 266 874 compared with \$4 929 798 at 30 June 1982.

Investments

4.22.10 At 30 June 1983, investments of the Board totalled \$10 707 873 and consisted of:

	\$
Government and Semi-Government Securities	5 466 790*
Short Term Deposits	2 650 000
Commercial Bills	2 591 083
	<hr/>
	10 707 873
	<hr/>

* Includes \$1 117 150 invested with the State Electricity Commission of Queensland.

Qualification of the Board's Financial Statements

- 4.22.11 It was necessary to record the following qualification on the 1982-83 financial statements of the Board:

"Section 24 of the Act as amended by the State Employees Retirement Benefits (Amendment) Act 1983 provides several options for employees whose contributions to the Board are in arrears due to the failure of the employer to make the necessary deductions from salary payments. In my opinion the amount of \$1 363 953 shown as Contribution Debtors - Employee Contributions in the Board's balance sheet may not be fully realised due to the several options available to employees and I am unable to determine the amount that the Board will realise. In addition, as indicated in Note 6 to the Board's accounts there is a further unascertained amount owing for contributions in respect of employees who were eligible to join the Fund prior to 30 June 1983."

Scope of Audit

- 4.22.12 The audit covered the documentation, evaluation and testing of the Board's contributions, income, expenditure and inward receipts systems. Substantive testing was carried out on all other areas of the Board's financial activities and the assets and liabilities of the Board at 30 June 1983 were verified.
- 4.22.13 In addition to my statutory responsibility to conduct an audit each year, a firm of private practitioners appointed by the Board conducted an audit on a regular basis throughout the year. Their audit programs and working papers were examined and accepted for the purpose of my audit.

Audit Observations and Recommendations

Arrears of Employee Contributions

- 4.22.14 Due largely to the failure of departments to correctly identify all persons eligible to participate in the scheme, a number of employees were not advised at the end of their qualifying period of the requirement to join the Fund. This resulted in a number of eligible employees being in arrears with their contributions. In some cases these arrears exceeded \$1 000.
- 4.22.15 Section 6 of the State Employees Retirement Benefits (Amendment) Act 1983, proclaimed to come into operation on 29 November 1983, allows the employees to elect in whole or in part the degree to which they will pay the arrears of contributions where the employer fails to advise the employee of his eligibility to join the Fund.
- 4.22.16 In its financial statements for 1982-83 the Board has included an amount of \$1 363 953 as arrears of employees' contributions based on the assumption that all employees will elect to pay their arrears. However, in view of the amending legislation, audit was unable to determine the extent to which these arrears will be collected, and the accounts for the year have been suitably qualified.

- 4.22.17 In addition, an unascertained amount exists in respect of arrears of employee and employer contributions resulting from employees who qualified for membership of the Fund prior to 30 June 1983 and whose eligibility for membership has been notified to the Board subsequent to 30 June 1983. The arrears of employee and employer contributions are determined and brought into account when each employee is admitted into the scheme.

Employer Contributions

- 4.22.18 Section 25 of the State Employees Retirement Benefits Act 1979 requires employers (which includes government departments, authorities and technical schools) to pay their contributions to the Fund on a regular basis and provides for interest to be charged on outstanding contributions. Regulation 5 of the State Employees Retirement Benefits Regulations 1983 provides for interest to be charged at the rate of 15 per cent per annum on any amount remaining unpaid for a period in excess of 14 days. At 30 June 1983 arrears of employer contributions stood at \$5.1 million. This had increased to approximately \$15 million at the date of preparation of this report and is increasing at the rate of approximately \$1 million per month.
- 4.22.19 In a letter of 30 September 1982 to the Board the Acting Treasurer indicated that certain legislative changes were envisaged and that they would be retrospective to 1 July 1982. The letter indicated that the employer's contribution would no longer be paid in advance but would be paid when a contributor or his beneficiaries received benefits from the Board. However, during 1982-83 most departments continued to make employer contributions subsequent to the advice of the Minister and a number of departments have continued to make employer contributions since 1 July 1983.
- 4.22.20 To date no legislation to give effect to the Acting Treasurer's announcement has been introduced into Parliament. Further, in its annual report the Board has indicated that no such amendment is now proposed. In addition, the Treasurer has further advised the Board that, pending the results of the current enquiry into public sector superannuation by the Parliamentary Economic and Budget Review Committee, the departments would only pay interest in 1983-84 on the outstanding contributions.
- 4.22.21 Audit expressed concern at the failure to comply with the requirements of the legislation.

Retirement Benefits

- 4.22.22 During the year, payments totalling \$264 772 were made by the Board to employees who had been retrenched. The legislation in force at the time did not provide for such payments but they were authorised by the Treasurer on an "ex gratia" basis. The advice from the Treasurer indicated that an amendment to the Act validating the payments could be anticipated. The amending legislation was passed by Parliament and was proclaimed by the Governor-in-Council to be effective from 29 November 1983.

Conclusion

- 4.22.23 Subject to the qualification of the financial statements, the above matters, and a number of minor matters which were brought to the attention of the Board, the results of the audit proved satisfactory.

4.23 STATE INSURANCE OFFICE

Introduction

- 4.23.1 The State Insurance Office was established under the State Insurance Office Act 1975. The main functions of the Office are to offer workers compensation, comprehensive motor vehicle and compulsory third party insurance. An amendment to the Act extended the Office's franchise into general insurance subsequent to 30 June 1983.

Statutory Reporting and Auditing Requirements

- 4.23.2 The State Insurance Office Act 1975 requires the Insurance Commissioner to provide the Minister in September each year with a statement of accounts of the Office for the financial year. The statement of accounts is required to be tabled in both Houses of Parliament as soon as practicable. Section 18 of the Act provides for the annual audit of the accounts by the Auditor-General.
- 4.23.3 The statement of accounts for 1982-83 was adopted by the Insurance Commissioner on 2 November 1983 and the audit report was signed on 23 December 1983.

Financial Operations

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

	1981-82	1982-83
	\$	\$
Income	490 696 000	586 106 000
Expenditure	620 589 000	745 814 000
	<hr/>	<hr/>
Loss	129 893 000	159 708 000
	<hr/>	<hr/>

- 4.23.5 The loss for the year was due entirely to compulsory third party operations, where premiums raised were less than the level of claims incurred. The cost of settling incurred claims has dramatically increased in recent years due to various decisions handed down by the courts relating to levels of compensation. However, compulsory third party premiums which are set by the Governor-in-Council have not been established at a sufficient level to absorb these claim increases.
- 4.23.6 Net liabilities of the Office at 30 June 1983 were \$234.983 million (30 June 1982, \$75.175 million).
- 4.23.7 The current financial position of the Office is of concern and it is recommended that appropriate action be taken to ensure the Office's financial viability.

Qualification of the Office's Financial Statements

4.23.8 It was necessary to record the following qualification on the statement of accounts for 1982-83:

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

Had the Insurance Commissioner not allowed for future investment income, the following items based on actuarial advice would have been varied:

- (i) the provision for outstanding claims - compulsory third party of \$1 160.452 million would have been \$1 401.935 million, an increase of \$241.483 million;
 - (ii) incurred claims - compulsory third party of \$566.690 million would have been \$544.373 million, a decrease of \$22.317 million;
 - (iii) the loss for the year of \$159.708 million would have been a loss of \$137.391 million, a decrease of \$22.317 million; and
 - (iv) the accumulated loss of \$288.707 million would have been \$530.190 million, an increase of \$241.483 million.
- (2) In my opinion the Insurance Commissioner in allowing for future investment income, based on actuarial advice, has overstated the item net investment income on underwriting provisions of \$149.098 million by \$107.270 million. The overstatement has occurred due to income actually earned during the year being included as future investment income in the previous 2 years. As a consequence the expense item, incurred claims-compulsory third party of \$566.690 million, has been similarly overstated. There was no effect on the result for the year.
- (3) The Insurance Commissioner has included under sundry debtors and unearned premiums - employer's liability an amount of \$3.805 million on account of employer's liability premiums raised but not due until after 30 June 1983. The inclusion of this amount has had the effect of overstating both sundry debtors and unearned premium-employer's liability at 30 June 1983 by \$3.805 million. There was no effect on the result for the year.

In my opinion, premiums should only be brought to account in the period to which the relevant policy of insurance relates.

(4) AS stated in Note 1 (c) to the accounts the Insurance Commissioner this year considered that it was more appropriate in assessing the outstanding claims provision - employer's liability relating to government policies to use case estimates rather than an actuarial assessment. In the previous year the provision relating to these policies was estimated using the actuarial approach.

The effect of this change in the current year was to reduce the provision for outstanding claims employer's liability by \$100.696 million and to transform a loss for this class of insurance of \$83.075 million to a profit of \$17.621 million."

Scope of Audit

4.23.9 The audit covered:

- (1) an examination and testing of the Office's revenue and expenditure;
- (2) the documentation and evaluation of internal control procedures within the employer's liability revenue and the compulsory third party payments systems; and
- (3) the verification of assets and liabilities of the Office at 30 June 1983.

4.23.10 The Office had an internal audit services division operating during 1982-83 and the Insurance Commissioner continued to use the services of a firm of private practitioners during the first 6 months of the year. Internal audit programs, working papers and reports were examined and evaluated by my officers and the work performed by internal audit was accepted for the purposes of my audit.

Audit Observations and Recommendations

Compulsory Third Party Outstanding Claims Provision - Future Investment Income

4.23.11 The compulsory third party outstanding claims provision was determined by an independent actuarial projection of outstanding claims at 30 June 1983. Included in the calculation of the provision was an adjustment to make allowance for an estimate of the anticipated interest that will be earned in future accounting periods on the investments underpinning the provision. The Insurance Commissioner first adopted the practice of allowing for future investment income in 1980-81.

4.23.12 My December 1982 report (paragraphs 3.28.12 - 3.28.17) outlined the reasons why the practice of recognising investment income before it is earned should not be continued. Audit is still of that opinion for the following reasons:

- (1) The objective of the generally accepted accounting principle referred to as the matching concept is to match income earned in a period against costs incurred in the same period so that the financial performance for the period can be determined. By discounting the provision by future investment income the matching concept as a measure of performance is distorted, since income earned and costs incurred for different accounting periods are being matched against each other.

- (2) The policy followed by the Insurance Commissioner is contrary to the recommendations of the Accounting Standards issued by the Australian accounting bodies which state that the profit for a period should take into account revenue and expenses arising in that period.
- (3) The anticipated future investment income may be unattainable due to the following factors:
 - . If the compulsory third party division experiences continued underwriting losses the investments held against the outstanding claims provision will be reduced. As a consequence investments for the full value of the provision for outstanding claims will not be held against the provision but will be reduced by the amount of the accumulated loss relating to compulsory third party.
 - . The period of settlement for claims outstanding at 30 June 1983 has been actuarially estimated to extend over approximately 20 years. All current portfolio investments held by the Insurance Commissioner mature some time within this period and there is no certainty as to the interest rate which will be obtained upon reinvestment of these funds. The earning rate of the funds reinvested may be lower than that obtained on current investments and used by the Insurance Commissioner to determine future investment income.

4.23.13 If any one of the above reasons occurs then the Insurance Commissioner's estimate of future investment income will be unattainable, resulting in either an overstatement of profit or an understatement of losses. By over estimating future investment income a profit that otherwise would not have been earned may result and this could lead to a distribution being made to the Department of Management and Budget.

Sundry Debtors

4.23.14 Sundry debtors of \$56.376 million includes an amount of \$47.911 million for employer's liability premiums. Of this amount \$3.805 million relates to premiums raised during 1982-83 but not due until after 30 June 1983. The statement of accounts was qualified in respect to the above since premium renewals raised prior to balance date relating to policies of insurance subsequent to that date should only be brought to account in the year to which the policy relates.

4.23.15 An examination of individual outstanding accounts relating to employer's liability premiums indicated that in certain instances:

- (1) the Office had failed to adjust its records following notification by the policy holder that the offer of insurances was not to be taken up;
- (2) follow-up action to recover certain outstanding balances was unsatisfactory and resulted in excessive delays in collection.

4.23.16 Audit recommended that appropriate action be taken to ensure the accuracy of all individual outstanding balances and that timely and regular follow-up procedures be maintained.

Effects of Change in Accounting Treatment

4.23.17 In the preparation of the financial statements for the year, the following change in accounting treatment was adopted by the Office.

4.23.18 As referred to in Section 4 of the qualification on the accounts detailed in paragraph 4.23.8 of this report, the method of calculating the employer's liability outstanding claims provision for government policies was varied from that used in the previous year. The variation was adopted to ensure that a proper matching of revenue and expenditure was achieved, since the premium for government policies is based on claims paid during the year and associated charges together with the value of claims outstanding at year-end, calculated using the case estimate method.

4.23.19 The statement of accounts was qualified as the Insurance Commissioner did not disclose the quantitative effect of the change in the accounting policy in the notes to the accounts, as required by the Accounting Standards.

4.23.20 As indicated in paragraph 4.23.18 above there is a direct relationship between the amount of premium and liabilities included in the accounts in respect of government policies. If, however, the liabilities for government policies had been determined in the same manner as all other policies the following items, in addition to the amount of \$100.696 million referred to in paragraph 4.23.8 of this report, would have been included in the accounts:

	\$mill.
Incurred but not reported claims	88.992
Additional handling charges on reported claims	23.999
Apprentice policies - Section 3(7B) of Workers Compensation Act 1958	4.591

4.23.21 The total difference in the estimated liability, using the actuarial and case methods which the Insurance Commissioner has included in the notes to the accounts for the first time, is \$218.278 million. This amount will be included in the premiums charged to the Government in the years in which the actual payments take place.

Property Investments and Fixed Assets

4.23.22 An examination was undertaken of the Office's investments and fixed assets records.

(1) Depreciation

The examination of the records indicated that the Office was not depreciating all assets in accordance with the requirements of the Accounting Standards in that any additions or extensions to existing assets were not being depreciated over the remaining useful life of that asset. Audit recommended that these assets be depreciated in accordance with the current Accounting Standards promulgated by the Australian accounting bodies.

(2) Asset Register

The Office does not undertake a physical inventory of assets recorded in the asset register. Audit recommended that a periodical inventory check be undertaken to establish the physical existence and location of assets recorded in the register.

Superannuation

- 4.23.23 The Office has estimated the liability for its future contributions to the State Superannuation Fund for employees who are members of the Fund. The estimated provision amounted to \$14.201 million at 30 June 1983 and was based on an actuarial model commonly used by employers in the private sector to value their liability. Audit recommended that, to obtain a more informed estimate of the liability, an actuarial estimate be sought from the Government Statist and Actuary who is the actuary for the State Superannuation Fund.

Conclusion

- 4.23.24 Subject to the qualification, the above matters, and a number of minor weaknesses which were brought to the attention of the Insurance Commissioner, the results of the audit proved satisfactory.

4.24 STATE SUPERANNUATION BOARD OF VICTORIA

Introduction

- 4.24.1 In my third report to Parliament for 1982-83 I included comments on the Pensions Supplementation Fund, the Parliamentary Contributory Superannuation Fund and the Superannuation Lump Sum Fund which are administered by the State Superannuation Board. The report also indicated that the audit of the Superannuation Fund had not been completed although the accounts of the Fund had been received by audit. The audit has now been completed and comments are made hereunder.

SUPERANNUATION FUND

Statutory Reporting and Auditing Requirements

- 4.24.2 Section 63 of the Superannuation Act 1958 requires the Board in each year to submit to the Minister a report dealing with the general administration and working of the Act. The report is to be laid before both Houses of Parliament. Although the Act does not specifically require the presentation of a financial report, over the years the Board has provided Parliament with financial statements. Section 8 of the Act requires the accounts relating to the Fund to be audited by the Auditor-General.
- 4.24.3 The financial statements of the Fund for 1982-83 were received by audit on 7 November 1983 and the audit report was signed on 28 November 1983.

Actuarial Investigation

- 4.24.4 Section 10 of the Superannuation Act 1958 requires an actuarial investigation into the state and sufficiency of the Fund every 3 years. The investigation for the triennium ended 30 June 1983 is currently in progress.

Financial Operations

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

	1981-82	1982-83
	\$	\$
Income	143 415 972	147 921 906
Expenditure	65 309 844	75 718 452
	<hr/>	<hr/>
Increase in Fund	78 106 128	72 203 454
	<hr/>	<hr/>

- 4.24.6 The smaller increase in the Fund during 1982-83 compared with 1981-82 was due mainly to losses on the realisation of investments of \$54.2 million, compared with a loss of \$16.5 million in 1981-82. The loss was due to the Board's policy of selling its holdings of low yield securities, sustaining a short-term loss and reinvesting the funds so obtained in high yield securities.

4.24.7 Net assets of the Fund at 30 June 1983 were \$834.6 million (30 June 1982, \$744.6 million).

Investments

4.24.8 At 30 June 1983, investments of the Board totalled \$621 813 948 and consisted of:

	\$	\$
Semi-Government Securities		179 736 125
Commercial Mortgage Loans		135 143 427
Housing Mortgage Loans		
Contributors	76 141 380	
Others	4 275 900	
	-----	80 417 280
Local Government Securities		60 157 696
Government Guaranteed Loans		55 320 000
Indexed Loans		20 000 000
Loans Under Agreement		4 586 235
Commonwealth Securities		4 390 585
Transferable Deposits		4 150 000
Land and Buildings		77 912 600

		621 813 948

4.24.9 All the above investments are valued at cost except for Land and Buildings which are shown at valuation.

Scope of Audit

4.24.10 The audit covered an examination of the financial systems and transactions and included an evaluation of internal controls. Assets and liabilities of the Fund at 30 June 1983 were verified.

Audit Observations and Recommendations

Default in Repayment of Loans to the Board

4.24.11 During the year under review 8 loans totalling \$2 635 000 were the subject of default action by the Board. Six of these loans were satisfactorily discharged; the remaining 2 loans totalling \$1 250 000, which are subject to government guarantee, related to Talinga Home Buyers Co-operative No. 5 Ltd. and the Ballarat Y.M.C.A.

4.24.12 The following is the position in relation to these loans at the date of preparation of this report:

(1) Talinga Home Buyers Co-operative No. 5 Ltd.

On 18 August 1978 the Board advanced \$1 500 000 to the Co-operative for the purchase and development of land in East Doncaster. Security for the loan was a first mortgage on the land and a government guarantee.

The principal of the loan was repayable by 4 instalments as each stage of the sub-division was completed. Stages 1 and 2 were completed and repayments of principal made, leaving a balance owing of \$750 000.

The Co-operative defaulted on interest and principal repayments in 1980-81.

With the approval of the Treasurer it was agreed that the Board acquire the remaining land, consider it as part repayment of the principal, and enter into an agreement with the Urban Land Authority as agent to develop the land.

(2) Ballarat Y.M.C.A.

On 16 October 1980 the Board advanced \$500 000 to the organisation to erect a building complex to house offices and provide recreation, health and fitness services. Security for the loan was by way of mortgages over several properties owned by the organisation and a government guarantee.

The organisation has been placed under official management under Section 342 of the Companies (Victoria) Code. Another loan of \$125 000 to this organisation is commented on in paragraphs 6.20.8 - 6.20.10 of my October 1983 report.

Financial Institutions Duty

4.24.13 The Board has applied for and has been granted exemption from Financial Institutions Duty for the following accounts:

Lump Sum Fund Account;

Superannuation Fund Account;

Government Pensions Account;

Parliamentary Contributory Superannuation Fund Account; and

Pensions Supplementation Fund Account.

4.24.14 The Board has been able to gain exemption from the duty by designating the abovementioned accounts as "Short-Term Dealing Accounts". On examination, it was found that these accounts dealt with transactions other than short-term money market transactions.

4.24.15 Audit recommended that the matter be drawn to the attention of the Comptroller of Stamps for further investigation.

Bank Account Debits Tax

4.24.16 The Board has been charged Bank Account Debits Tax in relation to the various bank accounts that it operates. In audit opinion, the Board is exempt from the payment of this tax as it is an authority of the State as provided for in Section 3 of the Bank Account Debits Tax Administration Act 1982.

4.24.17 Audit recommended that the Board take steps to obtain an exemption certificate for all its current bank accounts.

Conclusion

4.24.18 Apart from the above matters and a number of minor weaknesses in internal control which were brought to the attention of the Board, the results of the audit proved satisfactory.

4.25 TERTIARY EDUCATIONAL INSTITUTIONS AND COLLEGES OF TECHNICAL AND FURTHER EDUCATION

4.25.1 This section covers:

- (1) the 4 universities, which are bodies corporate and operate under separate Acts of Parliament; comments in respect of the 4 universities appear in sections 4.5, 4.12, 4.18 and 4.26 of this report; and
- (2) the institutions subject to the provisions of the Post-Secondary Education Act 1978, comprising 17 Colleges of Advanced Education (C.A.E.'s) and 28 Colleges of Technical and Further Education (T.A.F.E. Colleges). The names of these institutions constituted at 30 June 1983 are listed in Table 1 to this section.

4.25.2 I have found it necessary in this report to draw attention to a number of significant issues arising from the audit of these institutions. In summary these issues are:

- (1) lack of adequate accounting expertise and resources in T.A.F.E. Colleges (paragraph 4.25.6);
- (2) lack of reporting to Parliament by C.A.E.'s and T.A.F.E. Colleges, and lack of information for Parliament on the overall financial operations of this area of activity, including universities (paragraphs 4.25.7 - 4.25.10, 4.25.18); and
- (3) inadequacies in the form and content of financial statements (paragraphs 4.25.19 - 4.25.20, 4.25.22 - 4.25.27).

Establishment, Amalgamation and Separation of Post-Secondary Education Institutions

4.25.3 Colleges of Advanced Education (C.A.E.) established under the Post-Secondary Education Act 1978 resulted from amalgamations and rationalisation of colleges formerly established under the Victoria Institute of Colleges Act 1965 and the State College of Victoria Act 1972.

4.25.4 Under provisions of the above Act, and by Order-in-Council, Colleges of Technical and Further Education (T.A.F.E.) have been progressively established from September 1981. On 30 September 1981, 16 technical colleges were incorporated as T.A.F.E. Colleges in accordance with the Post-Secondary Education Act 1978. To date, an additional 12 colleges have been established.

4.25.5 Under the Act the effective date of incorporation of each institution is the date on which the Governor-in-Council proclamation is published in the Government Gazette. As a result of the incorporation of most institutions being on a date other than 31 December, and the financial year of all institutions ending on 31 December, it was necessary for each college to present 2 separate sets of financial statements for the one financial year.

Difficulties with T.A.F.E. College Financial Statements

4.25.6 The above situation has caused the colleges difficulties in complying with the legislative requirements on the presentation of their financial statements and is one reason for the delays in completing the audit of a number of these institutions. A further important reason has been the inadequate level of accounting expertise in many of the T.A.F.E. Colleges which has given rise to delays in finalising financial statements and difficulties in presenting financial statements on other than a cash basis. This lack of adequate accounting expertise and accounting systems is a matter for serious concern.

Summary of Financial Operations

4.25.7 At present there is no comprehensive financial reporting to Parliament on this area of activity. While the recent Program Budget 1983-84 document (Volume 4) issued by the Department of Management and Budget contains detailed consolidated information concerning total expenditure on Technical and Further Education, no other comprehensive information is available. In particular, the annual report of the Victorian Post-Secondary Education Commission does not report consolidated financial information for C.A.E's and T.A.F.E. Colleges.

4.25.8 The following table, summarising the total financial operations of universities, Colleges of Advanced Education and Colleges of Technical and Further Education indicates the magnitude of this area of activity in terms of the expenditure of public funds.

	<u>Income</u>	<u>Expenditure</u>	<u>Surplus/ Deficit</u>	<u>Accumulated Funds</u>
	<u>\$mill.</u>	<u>\$mill.</u>	<u>\$mill.</u>	<u>31.12.82</u>
				<u>\$mill.</u>
Universities (1)	311.5	297.3	14.2	69.9
Colleges of Advanced Education (2)	268.4	265.8	2.6	25.2
Colleges of Technical and Further Education (3)	94.7	93.9	0.8	12.9
	-----	-----	-----	-----
Totals	674.6	657.0	17.6	108.0
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Note: (1) Details are set out in my report on each University in Sections 4.5, 4.12, 4.18 and 4.26 of this report.

(2) See Table 2 to this section for further details.

(3) See Table 3 to this section for further details.

4.25.9 These figures, which have been prepared within this Office, are approximate only, due to non completion of certain audits, to the difficulty in eliminating all internal financial transfers within some institutions and to limitations in financial reporting by those organisations referred to in paragraphs 4.25.22 - 4.25.27.

- 4.25.10 In my opinion, in view of the magnitude of the aggregate funds flowing through these institutions, the preparation of a comprehensive financial report for this area of activity should be addressed as a matter of priority by the Departments of Management and Budget and Education, and the Victorian Post-Secondary Education Commission with the co-operation of the universities. Such a report would inform Parliament on how funds have been spent throughout these institutions and how such expenditure has been financed.

Statutory Reporting and Auditing Requirements

(1) Universities

- 4.25.11 For 3 of the universities the legislation requires the Council of each body as soon as practicable after 31 March in each year to present an annual report to the Governor-in-Council, together with copies of their audited statements of income and expenditure. Subsequently, such reports are to be laid before the Parliament. The University of Melbourne is required to submit its audited financial statements to the Governor with its annual report as soon as practicable after 1 January each year. These are then required to be laid before the Parliament. All 4 Acts provide for an annual audit of the financial statements by the Auditor-General.
- 4.25.12 The Council of each university has a statutory responsibility to arrange for a continuous audit of its income and expenditure accounts. Each university maintains an internal audit section for this purpose. In accordance with the auditing standards of the professional accounting bodies, the work of the internal audit is examined and evaluated by my officers for the purposes of my audit.
- 4.25.13 In providing the annual audit report on the financial statements, the Auditor-General is required by the respective Acts to certify whether or not the financial statements are correct. The Auditor-General is then required to forward to the Minister of Education a copy of the audited financial statements.

(2) Colleges of Advanced Education and Colleges of Technical and Further Education

- 4.25.14 The Post-Secondary Education Act 1978 requires the Council of each institution to keep proper books and accounts and for such accounts to be audited at least once in each year by the Auditor-General.
- 4.25.15 All colleges have a financial year ending on 31 December and are required to forward financial statements by 31 March to the Auditor-General for audit. The Auditor-General is required to send a copy of all audited financial statements to the Victorian Post-Secondary Education Commission and to the Minister of Education. There is no provision for the tabling of such statements or an annual report in the Parliament.
- 4.25.16 The Councils of both the C.A.E. and T.A.F.E. Colleges are required by the Act to arrange for a continuous audit of the income and expenditure of their institutions. Private practitioners are engaged by the colleges for this purpose. By arrangements with these private practitioners, the working papers are generally being made available to my staff for examination and evaluation.

- 4.25.17 Previously, where T.A.F.E. Colleges had been a component or unit within a College of Advanced Education, their accounts were audited by my Office. Where colleges were former technical schools their accounts (maintained on a receipts and payments basis) were subject to audit by the Audit and Review Unit of the Education Department. In turn, the Department forwarded copies of such audit reports to my Office in accordance with Section 15F of the Education Act 1958.

Reporting and Auditing Issues

Reporting to Parliament

- 4.25.18 The need for reporting to Parliament by C.A.E.'s and T.A.F.E. Colleges, as discussed in paragraphs 4.25.7 and 4.25.10, or alternatively some form of consolidated reporting on their operations by the Victorian Post-Secondary Education Commission, is in my view a matter which requires urgent attention, and would be covered by designating all institutions as public bodies under the Annual Reporting Act 1983.

Approval of Format of Financial Statements

- 4.25.19 Under the separate Acts for the 4 universities and under the Post-Secondary Education Act 1978 in respect of the C.A.E.'s and T.A.F.E.'s, the Auditor-General has the statutory power to approve the form of the financial statements.
- 4.25.20 Having regard to this Office's audit responsibilities, it is considered inappropriate for the Auditor-General to have the power to both approve the form of financial statements and then to be responsible for the audit of such statements. Objectivity is reduced if the same organisation which prescribes reporting requirements also audits adherence to these requirements. In my view all these institutions should in due course become subject to the Annual Reporting Act 1983, which provides for the Treasurer to prescribe the form and content of the financial statements.

Form of Audit Report

- 4.25.21 In providing the annual audit report on the financial statements of the universities the Auditor-General is required by the respective Acts to certify whether or not the statements of accounts are correct. This audit report would be more appropriate and in keeping with current auditing standards if the audit opinion were expressed as "fairly present" rather than as being "correct". However, this matter would also be resolved if the universities became subject to the Annual Reporting Act 1983 which requires that the financial statements "present fairly" the financial operations and position of the organisation.

Limitations in Existing Financial Reporting

- 4.25.22 A number of problems exist concerning financial reporting in this area.

- 4.25.23 Firstly, the financial statements of the 4 universities, C.A.E.'s and T.A.F.E.'s are generally prepared on a modified or partial accrual basis. However, the accounting systems of some of the T.A.F.E. Colleges were not sufficiently advanced to readily produce financial statements on other than a cash basis for the 1982 year.
- 4.25.24 Expenditure of a capital nature on buildings, equipment etc. and on the purchase of consumable stores is written off in the year incurred. Statements of balances disclosing the net difference between current assets and current liabilities also form part of the annual financial statements. Because of the use of the modified accrual basis of accounting a full balance sheet or statement of assets and liabilities, which includes such items as land and buildings, equipment and long term liabilities such as long service leave, is not presented. In my opinion consideration should be given to a move to full accrual accounting.
- 4.25.25 Secondly, in a number of instances the financial statements exclude certain activities of the institution. For example, the financial operations of various companies established by some tertiary institutions to carry out research and consulting services are not reported in the institutions' financial statements, and in some cases various other activities such as housing or staff facilities operations are not included. There is also a lack of consistency between institutions in the extent to which such subsidiary operations are incorporated in consolidated financial statements for the institution or are disclosed in separate sections of the financial statements or are excluded from the financial statements.
- 4.25.26 Thirdly, the existence in some institutions of numerous separate invested funds, which involves earmarking certain receipts for particular purposes, may make it difficult to ascertain the overall financial position of the institution, i.e. the level of liabilities of the institution compared with the level of funds available for current spending. A clear definition of provisions (liabilities) and reserves is necessary.
- 4.25.27 In summary, these difficulties result in a lack of comprehensive and comparable financial reporting by these institutions. Some of these issues have already been taken up with these institutions; others I propose to follow up in relation to next year's audit.

TABLE 1

Colleges of Advanced Education

Ballarat College of Advanced Education
Bendigo College of Advanced Education
Chisholm Institute of Technology
Footscray Institute of Technology
Gippsland Institute of Advanced Education
Hawthorn Institute of Education
Institute of Catholic Education
Lincoln Institute of Health Sciences
Melbourne College of Advanced Education
Phillip Institute of Technology
Royal Melbourne Institute of Technology
Swinburne Limited
Victoria College
Victorian College of Agriculture and Horticulture (constituted 9
February 1983)
Victorian College of the Arts
Victorian College of Pharmacy
Warrnambool Institute of Advanced Education

Colleges of Technical and Further Education

Batman Automotive College of Technical and Further Education
Bendigo College of Advanced Education
Box Hill College of Technical and Further Education
Collingwood College of Technical and Further Education
Dandenong College of Technical and Further Education
Footscray College of Technical and Further Education
Frankston College of Technical and Further Education
Gordon Technical College
Holmesglen College of Technical and Further Education
Melbourne College of Decoration
Melbourne College of Printing and Graphic Arts
Melbourne College of Textiles
Melbourne Technical College of Hairdressing
Moorabbin College of Technical and Further Education
Newport College of Technical and Further Education
Prahran College of Technical and Further Education
Preston College of Technical and Further Education
Richmond College of Technical and Further Education
Royal Melbourne Institute of Technology
Shepparton College of Technical and Further Education
Sunraysia College of Technical and Further Education
Swinburne Limited
The School of Mines and Industries Ballarat Limited
Wangaratta College of Technical and Further Education
Warrnambool Institute of Advanced Education
Whitehorse College of Technical and Further Education
William Angliss College
Yallourn College of Technical and Further Education

TABLE 2

COLLEGES OF ADVANCED EDUCATION - YEAR 1982

<u>College</u>	<u>Income</u>		<u>Expenditure</u>	<u>Surplus/ Deficit</u>	<u>Accumulated Funds</u>	
	<u>Govt. Grants</u>	<u>Other</u>			<u>31/12/82</u>	
	\$	\$	\$	\$	\$	\$
Ballarat	9 125 935	1 318 217	10 321 607	122 545	1 153 868	
Bendigo	9 968 313	979 706	10 461 224	486 795	426 336	
Chisholm	22 479 090	5 935 392	27 910 237	504 245	3 581 002	
Footscray	22 597 564	3 057 682	25 712 889	(57 643)	(144 055)	
Gippsland	7 662 889	939 116	8 231 520	370 485	845 281	
Hawthorn Institute of Education	6 290 000	4 587 302	11 586 805	(709 503)	212 797	
Institute of Catholic Education	5 998 252	821 584	6 519 856	299 980	754 225	
Institute of Early Childhood Develop.*	3 239 000	724 950	3 641 242	322 708	867 479	
Lincoln Institute	10 097 000	744 168	10 547 183	293 985	1 218 140	
Melbourne State College*	14 872 000	2 270 032	19 211 062	(2 069 030)	(167 593)	
Phillip (from 6/1/82)	16 763 000	3 310 605	19 082 723	990 882	2 619 925	
R.M.I.T.	45 996 477	3 890 749	48 625 649	1 261 577	7 674 231	
Swinburne	20 078 000	2 171 114	21 573 004	676 110	3 247 697	
Victoria	26 670 463	1 802 936	28 914 923	(441 524)	1 323 913	
Victorian College of Arts	3 567 000	928 270	4 499 189	(3 919)	143 351	
Victorian College of Pharmacy	3 225 542	880 123	3 736 618	369 047	1 083 895	
Warrnambool	4 919 285	483 593	5 185 699	217 179	402 401	
TOTALS	233 549 810	34 845 539	265 761 430	2 633 919	25 242 893	

* Amalgamated to form Melbourne College of Advanced Education on 1 January 1983

N.B. These figures are prepared on a modified accrual basis. Income includes grants for capital as well as recurrent purposes. Expenditure includes both capital and recurrent outgoings. Some figures are subject to audit.

TABLE 3

COLLEGES OF TECHNICAL AND FURTHER EDUCATION - YEAR 1982

College	Income		Expenditure	Surplus/ Deficit	Accumulated Funds 31/12/82
	Govt. Grants	Other			
	\$	\$	\$	\$	\$
Batman Automotive College	849 169	39 553	835 903	52 819	117 128
Bendigo	4 315 200	233 656	4 467 623	81 233	286 674
Box Hill*					
Collingwood	3 538 017	620 700	4 051 359	107 358	488 581
Dandenong	2 464 528	516 048	2 694 644	285 932	2 205 879
Footscray (from 17/11/82)	1 817 898	211 000	4 348 708	(2 319 810)	62 652
Frankston	3 239 656	971 154	3 989 586	221 224	82 180
Holmesglen (from 6/1/82)	7 700 694	972 872	8 108 297	565 269	812 466
Melbourne College of Decoration*					
Melbourne College of Hairdressing*					
Melbourne College of Printing & Graphic Arts	1 454 986	183 914	935 357	703 543	837 974
Melbourne College of Textiles	690 294	275 635	887 943	77 986	232 814
Moorabbin	2 422 999	484 658	2 110 461	797 196	1 051 930
Newport (from 17/11/82)	133 448	30 521	1 174 095	(1 010 126)	(172 970)
Prahran	4 578 421	394 385	4 605 221	367 585	586 244
Preston	10 844 790	1 149 170	12 433 355	(439 395)	(205 089)
Richmond	1 306 156	304 236	1 350 951	259 441	1 499 481
R.M.I.T.	25 330 570	1 036 191	26 327 594	39 167	2 199 330
Shepparton*					
Sunraysia	1 484 807	439 473	1 624 533	299 747	922 119
Swinburne	6 747 864	350 431	7 207 123	(108 828)	953 807
Wangaratta*					
Warrnambool	1 371 086	53 615	1 412 169	12 532	47 587
Whitehorse	1 257 987	282 968	1 524 446	16 509	32 647
William Angliss	1 217 506	493 497	1 622 470	88 533	164 442
Yallourn	1 420 088	652 765	1 233 434	839 419	708 995
TOTALS	84 186 164	9 696 442	92 945 272	937 334	12 914 871

* Figures for Box Hill, Shepparton and Wangaratta TAFE's, Melbourne College of Decoration and Melbourne College of Hairdressing not available.

N.B. These statements are prepared on a modified accrual basis. Income includes grants for capital as well as recurrent purposes. Expenditure includes both capital and recurrent outgoings. Some figures are subject to audit.

The accounts of Gordon Technical College and The School of Mines and Industries Ballarat Limited for 1982 were not subject to audit by this Office; accordingly, the relevant figures are not included here.

4.26 UNIVERSITY OF MELBOURNE

Introduction

- 4.26.1 The University of Melbourne operates under the Melbourne University Act 1958. The University's objectives are the provision of tertiary education and various research activities.

Statutory Reporting and Auditing Requirements

- 4.26.2 The Melbourne University Act 1958 requires the Council of the University to prepare financial statements for submission to the Auditor-General as soon as practicable after 1 January each year. The annual report of the University containing the audited financial statements is required to be forwarded by the Council to the Governor and for tabling in Parliament. Section 41 of the Act provides for an annual audit of the financial statements by the Auditor-General.
- 4.26.3 The financial statements were received by audit on 29 June 1983 and the audit report was signed on 12 December 1983.

Financial Operations

- 4.26.4 The financial operations of the University for the years ending 31 December 1981 and 31 December 1982 are summarised hereunder:

	1981	1982
	\$	\$
Income		
Government grants	100 122 510	112 871 203
Other	26 669 308	31 768 813
	<hr/>	<hr/>
Expenditure	126 791 818	144 640 016
	<hr/>	<hr/>
Surplus	1 419 765	7 782 237
	<hr/>	<hr/>

- 4.26.5 The accumulated funds of the University totalled \$48 456 809 at 31 December 1982 (\$40 674 572 at 31 December 1981).
- 4.26.6 The above consolidated figures do not include those of the Melbourne University Press, the financial statements of which relate to the year ended 30 September 1982. Accumulated funds for this operation totalled \$1 783 602 at 30 September 1982 (30 September 1981, \$1 559 555).

Superannuation Schemes

- 4.26.7 The Council of the University of Melbourne has established a number of superannuation schemes for the benefit of academic and general staff.

- 4.26.8 Financial statements of the 2 major funds, the Samuel Gillott University Provident Fund and the Academic Staff Retirement Fund, are separately reported within the published financial statements of the University. The audit of both funds forms part of the audit of the books and accounts of the University of Melbourne.
- 4.26.9 Under an amendment to the University's own regulations no new members have been admitted as from 30 April 1983. Current members have been granted the option to transfer to the Superannuation Scheme for Australian Universities. New staff members are required to join this scheme.
- 4.26.10 Benefits provided from the funds are normally by way of pension upon retirement, death or disability, although lump sum payments may be made in certain circumstances.
- 4.26.11 Actuarial valuations of the funds are required at periods not exceeding 3 years.

Samuel Gillott University Provident Fund

- 4.26.12 The Fund was established in 1923 and is a defined benefits plan managed by trustees on behalf of certain staff of the University, mainly in the non-academic areas. The last actuarial valuation covered the period 1 January 1980 to 30 September 1982.
- 4.26.13 A summary of the financial operations of the Fund for the years ended 31 December 1981 and 31 December 1982 is as follows:

	1981	1982
	\$	\$
Income		
Contributions - University	2 628 357	3 006 460
- Affiliated Organisations	37 157	35 292
- Members	1 117 190	1 299 698
Interest and Other	5 166 612	3 860 461
	<hr/>	<hr/>
	8 949 316	8 201 911
	<hr/>	<hr/>
Expenditure		
Pension benefits and withdrawals	2 503 349	2 903 293
Operating expenses	175 185	275 612
	<hr/>	<hr/>
	2 678 534	3 178 905
	<hr/>	<hr/>
Surplus for year	6 270 782	5 023 006
	<hr/>	<hr/>

4.26.14 The state of affairs of the Fund at 31 December 1981 and 31 December 1982 was as follows:

	1981 \$	1982 \$
Accumulated Fund	34 896 690	39 919 696
<hr/>		
Represented by:		
Current Assets	292 568	384 154
<hr/>		
Investments		
Company Shares	22 004 295	23 927 987
Freehold Properties	6 034 460	7 260 408
Company Debentures and Notes	3 673 756	4 860 858
Other	3 102 537	3 615 586
<hr/>		
	34 815 048	39 664 839
<hr/>		
Total Assets	35 107 616	40 048 993
Less Current Liabilities	210 926	129 297
<hr/>		
	34 896 690	39 919 696
<hr/>		

Academic Staff Retirement Fund

4.26.15 The Fund was established in 1979 and is a defined benefits plan for academic staff of the University who were appointed on or after the first day of May 1979, or who were members of the Staff Superannuation Scheme on that date and elected to join the new Fund. An actuarial valuation of the Fund has not yet been carried out.

4.26.16 A summary of the financial operations of the Fund for the years ended 31 December 1981 and 31 December 1982 is as follows:

	1981 \$	1982 \$
Income		
Contributions - University	2 192 890	2 580 888
- Affiliated Organisations	14 194	31 427
- Members	1 135 810	1 312 907
Interest and Other	434 377	2 198 681
<hr/>		
	3 777 271	6 123 903
<hr/>		
Expenditure		
Pension benefits and withdrawals	679 864	982 740
Operating expenses	107 137	150 854
<hr/>		
	787 001	1 133 594
<hr/>		
Surplus for year	2 990 270	4 990 309
<hr/>		

4.26.17 The state of affairs of the Fund at 31 December 1981 and 31 December 1982 was as follows:

	1981	1982
	\$	\$
Accumulated Fund	32 168 677	38 843 877
Represented by:		
Current Assets	166 173	462 995
Investments - Funds at Life Offices	24 980 793	14 902 783
- Company Shares	2 084 318	7 447 358
- Fixed Deposits	2 650 000	6 047 106
- Semi-Government Stock	..	3 035 680
- Freehold Property	1 264 375	2 710 083
- Other	1 177 183	4 322 800
	32 156 669	38 465 810
Total Assets	32 322 842	38 928 805
Less Current Liabilities	154 165	84 928
Net Assets	32 168 677	38 843 877

Qualification of the University's Financial Statements

4.26.18 It was necessary to record the following qualification on the 1982 financial statements of the University:

"As stated in note 6 to the accounts, certain investments of the Academic Staff Retirement Fund are held in the name of fund managers. These investments, totalling \$14 902 783, have been included in the accounts on the basis of statements furnished by the fund managers and have not been independently verified by audit".

4.26.19 A similar qualification was attached to the University's financial statements for 1981.

Scope of Audit

4.26.20 The audit covered an examination and evaluation of accounting systems and procedures of internal control, including the work performed by the internal audit section of the University, and the verification of assets and liabilities at 31 December 1982.

Conclusion

4.26.21 Subject to the qualification of the financial statements and minor matters which were brought to the attention of the University, the results of the audit proved satisfactory.

4.27 VICTORIAN ARTS CENTRE TRUST

Introduction

4.27.1 The Victorian Arts Centre Trust was established by the Victorian Arts Centre Act 1979. The Trust is responsible for:

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

4.27.2 The activities operated by the Trust include B.A.S.S. Victoria (a computerised ticketing service), the Sidney Myer Music Bowl and a catering service at the National Gallery.

Statutory Reporting and Auditing Requirements

4.27.3 The Victorian Arts Centre Act 1979 requires the Trust to prepare a statement of accounts at the end of each financial year. Section 17 of the Act provides for an annual audit of the financial statements of the Trust by the Auditor-General. The Trust is also required to report to the Minister on its operations no later than 31 December in each year and such report, including the audited financial statements, is required to be tabled in Parliament.

4.27.4 The financial statements for 1982-83 were received by audit on 27 October 1983 and the audit report was signed on 5 December 1983.

Financial Operations

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

	1981-82	1982-83
	\$	\$
Income	2 432 944	5 946 440
Expenditure	4 550 454	9 017 989
	<hr/>	<hr/>
Operating Deficit	2 117 510	3 071 549
Government Grants	26 280 000*	16 850 000*
	<hr/>	<hr/>
Balance available for capital and other purposes (transferred to Accumulated Fund)	24 162 490	13 778 451
	<hr/>	<hr/>

* Capital works and services \$15 million (1981-82, \$25 million), operations \$1 850 000 (1981-82, \$1 280 000).

- 4.27.6 The Trust earned rental income totalling \$943 269 from the concert hall's first year of operation. Expenditure charged against this rental income totalled \$1 360 111, resulting in an excess of expenditure over income of \$416 842.
- 4.27.7 The box office operations of B.A.S.S. Victoria incurred a loss of \$62 344 for the year (1981-82, \$326 834) bringing accumulated losses to \$1 119 939 at 30 June 1983.
- 4.27.8 Expenditure of \$36 205 092 on the concert hall and theatre projects during the year brought the total construction costs of these projects to \$194 453 038 at 30 June 1983. In September 1976 the approved estimated completion cost was \$97 661 000, which at 30 June 1983 had risen to \$209 791 203. This current estimate does not include allowances for the effect of future inflation, variation of costs or future interest charges on borrowings.
- 4.27.9 Net assets of the Trust at 30 June 1983 were \$158 871 304 (30 June 1982, \$145 092 853).

Changes in Accounting Treatment

- 4.27.10 Under an agreement with a car parking company, the Trust continued to receive a percentage of the gross returns from motor vehicle parking and service charges at the Gallery Car Park. As disclosed in note 1(e) to the financial statements of the Trust, the method of accounting for income from the car park was changed to an accrual basis during the year. As a result of the change, the income of the Trust for the year included an amount of \$139 723 representing revenue due from the car parking company at 30 June 1983.

Scope of Audit

- 4.27.11 The audit covered an examination and appraisal of the revenue and expenditure systems and the verification of assets and liabilities of the Trust at 30 June 1983.

Audit Observations and Recommendations

Catering

- 4.27.12 The catering service at the National Gallery and the concert hall is managed by a firm of caterers under an agreement with the Trust. On 1 July 1982, to reduce accounting service fees and obtain direct access to accounting information, the Trust assumed responsibility for certain accounting functions previously carried out by the catering company under the agreement. During 1982-83, the catering company retained responsibility for monthly stocktaking and the employment and payment of all catering staff.
- 4.27.13 Several weaknesses in internal control procedures in catering operations were noted by audit:
- (1) The Trust had no direct means of ensuring that receipts from catering operations were deposited intact to the Trust bank account. Audit recommended that the Trust verify all catering receipts directly with cash register generated sales summaries.

- (2) All catering stocks are purchased by the caterer on behalf of the Trust and are received into catering stores by staff employed by the caterer. During 1982-83 the Trust did not operate an inventory recording system to update its general ledger balances on a daily basis. Any updating, including year-end, was based on the results of the periodic stocktakes by the caterer.

Audit recommended that an inventory recording system, incorporating continual control over stores movements, be introduced and that Trust employees monitor the periodic stocktakes, especially at the end of the financial year.

Conclusion

- 4.27.14 Apart from the above matters and a number of minor weaknesses in internal control which were brought to the attention of the Trust, the results of the audit proved satisfactory.

4.28 VICTORIAN PUBLIC OFFICES CORPORATION

Introduction

- 4.28.1 The Victorian Public Offices Corporation was established under the Victorian Public Offices Corporation Act 1974 and consists of the Minister of Public Works, the Treasurer, the Premier and the Minister for Conservation, Forests and Lands. The function of the Corporation is to provide such public offices as are required from time to time for the Government of Victoria.
- 4.28.2 Professional and administrative services are made available through the Public Works Department at no charge to the Corporation. The Public Works Department also maintains public offices owned by the Corporation and implements all accommodation decisions.
- 4.28.3 The Corporation, in carrying out its duties under the Act, is assisted by the State Accommodation Committee which consists of persons appointed by the Corporation to examine such areas as:
- (1) the needs of the Government in relation to public offices; and
 - (2) the methods available for providing, managing and maintaining public offices.

Statutory Reporting and Auditing Requirements

- 4.28.4 The Victorian Public Offices Corporation Act 1974 requires the Corporation to prepare a balance sheet and statements of receipts and payments and income and expenditure. Copies of the financial statements are required to be forwarded to the Minister of Public Works before 31 October each year and laid before both Houses of Parliament. Section 15 of the Act provides for an annual audit of the financial statements of the Corporation by the Auditor-General.
- 4.28.5 The financial statements of the Corporation for 1982-83 were received by audit on 21 November 1983 and the audit report was signed on 29 November 1983.

Financial Operations

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

	1981-82	1982-83
	\$	\$
Income	614 117	735 363
Expenditure	668 548	970 117
	<hr/>	<hr/>
Deficit	54 431	234 754
	<hr/>	<hr/>

- 4.28.7 Net assets of the Corporation at 30 June 1983 were \$20 631 279 (30 June 1982, \$20 130 688). The increase was due to properties with a financial value of \$732 000 being transferred to the Corporation by the Government, offset by the deficit for the year.

Scope of Audit

- 4.28.8 The audit covered the documentation, evaluation and testing of the revenue and expenditure systems and the verification of assets and liabilities of the Corporation at 30 June 1983.

Audit Observations and Recommendations

Financial Viability of the Corporation

- 4.28.9 Additional borrowings of the Corporation during the year totalling \$1.5 million have increased the amount outstanding for borrowings to \$7 367 410 at 30 June 1983 (30 June 1982, \$6 195 367). Further, the total income of \$735 363 earned by the Corporation was not sufficient to cover the outgoings of \$1 255 020 for interest and principal payments for the year.
- 4.28.10 As a consequence, the matter of the financial viability of the Corporation, which was also referred to in my December 1982 report to Parliament, requires urgent attention by the Corporation. Advice has been received that the Corporation has deferred making any decisions subject to the outcome of the machinery of government proposals currently being considered in relation to the Public Works Department.

Conclusion

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

4.29 WORKERS COMPENSATION BOARD

Introduction

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

Statutory Reporting and Auditing Requirements

- 4.29.2 Section 82 of the Workers Compensation Act 1958 requires the Registrar of the Board to submit to the Minister in August each year audited financial statements of the Workers Compensation Board Fund for the year ended on 30 June. These statements are to be laid before both Houses of Parliament as soon as practicable. Section 82 also provides for an annual audit by the Auditor-General of the financial statements of the Board.
- 4.29.3 The financial statements for 1982-83 were finalised by the Board on 12 October 1983 and the audit report was signed on 23 December 1983.

Workers Compensation Board Fund

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

Financial Operations

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

	1981-82	1982-83
	\$	\$
Income	2 506 800	3 208 068
Expenditure	2 298 416	2 787 526
	<hr/>	<hr/>
Surplus	208 384	420 542
	<hr/>	<hr/>

- 4.29.7 Net assets of the Fund at 30 June 1983 were \$842 511 (30 June 1982, \$421 969).

Workers Compensation Board Common Fund

4.29.8 Compensation granted by the Board to minors and in the case of fatal accidents (other than weekly payments) is held in trust for the benefit of the persons entitled to it. All such moneys in the Board's custody are invested in a common fund and interest earnings on the investments are apportioned among all such persons.

4.29.9 The common fund comprised:

	30.6.82	30.6.83
	\$	\$
Cash - State Bank	(131 051)	890 420
Debentures in Sewerage Authorities, Water Trust etc.	10 450 000	9 500 000
Inscribed Stock and Debentures		
Victorian Semi-Government Authorities	13 860 000	10 860 000
Others	2 300 000	2 000 000
Bank Accepted Bills	2 469 709	5 239 618
Bank Guaranteed Loans	2 635 000	4 785 000
Letters of Credit	3 300 000	11 300 000
Mortgage Loans	10 624 900	11 494 900
Secondary Mortgage Market Securities	19 145 800	17 194 850
Accrued Interest	481 439	401 687
	<hr/>	<hr/>
	65 135 797	73 666 475
	<hr/>	<hr/>

Scope of Audit

4.29.10 The audit covered an evaluation of the accounting systems and internal controls maintained by the Board, an examination of income and expenditure, and verification of the assets and liabilities of the Fund at 30 June 1983.

Conclusion

4.29.11 Apart from minor weaknesses which were brought to the attention of Board officers, the results of the audit proved satisfactory.

4.30 AUDIT OF OTHER STATUTORY BODIES

4.30.1 The audits of the following statutory bodies are not reported separately as these audit examinations proved satisfactory, apart from some minor weaknesses in and departures from internal controls:

- * Council of Adult Education
- * Decentralised Industry Housing Authority
- * Film Victoria
- * Institute of Educational Administration
- * Motor Accidents Board
- * Port of Geelong Authority
- * Victorian Brown Coal Council
- * Victorian Institute of Secondary Education
- * Victorian Post-Secondary Education Commission
- * Victorian Solar Energy Council

4.30.2 At the date of preparation of this report the audit of the following statutory bodies had not been finalised:

- * Dandenong Valley Authority
- * Zoological Board of Victoria

4.30.3 The position with regard to the audit of the 4 transport authorities:

- * Country Roads Board
- * Road Safety and Traffic Authority
- * Transport Regulation Board
- * Victorian Railways Board

is given in the following paragraphs.

4.30.4 The Transport Act 1983 was assented to on 23 June 1983. The provisions of the Act relating to the financial statements for the year ended 30 June 1983 of the Country Roads Board, Road Safety and Traffic Authority, Transport Regulation Board and Victorian Railways Board, came into operation on 1 July 1983. The provisions required that the statements were to be prepared by the successor authorities i.e. Road Construction Authority in respect of the Country Roads Board, Road Traffic Authority in respect of the Road Safety and Traffic Authority and the Transport Regulation Board and State Transport Authority in respect of the Victorian Railways Board. In previous years the financial statements of the Victorian Railways Board had been prepared on a modified accrual basis and the statements of the other bodies on a cash basis, i.e. a statement of receipts and payments.

4.30.5 The provisions of the new Act further provided that the financial statements were to include such information as was necessary to give a true and fair view of the financial transactions and state of affairs of each former authority, i.e. a statement of income and expenditure and a balance sheet. The Act also provided that the statements were to be subject to my audit.

4.30.6 Financial statements signed by the appropriate officers of the State Transport Authority, the Road Traffic Authority and the Road Construction Authority were received in my Office on 30 November 1983, 2 December 1983 and 9 February 1984 respectively.

- 4.30.7 Audit examination of the statements and associated records disclosed a number of problems due mainly to the move to accrual accounting, both in the accounting procedures adopted for certain transactions and in the format of and disclosure contained in the statements.
- 4.30.8 Following discussions held between officers of the Audit Office, the authorities concerned and representatives of the Ministry of Transport and the Department of Management and Budget, various amendments have been made to the original statements submitted to me, with the exception of the statements of the Victorian Railways Board. However, there are still a number of problems which have not been finally resolved and which will affect the financial statements in ensuing years. For this reason comments on the Country Roads Board, Road Safety and Traffic Authority, Transport Regulation Board and Victorian Railways Board have not been included in this report.