

VICTORIA

Third Report

of the

AUDITOR-GENERAL

for the

Year ended 30 June 1984

Ordered by the Legislative Assembly to be printed

MELBOURNE
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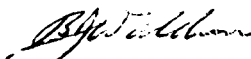
Office of the Auditor-General,
MELBOURNE. VIC.
22 January 1985.

Sir,

Pursuant to the provisions of the Audit Act 1958, I transmit herewith my third report in respect of the 1983-84 financial year covering the audits of certain departments and public bodies declared in accordance with the Annual Reporting Act 1983, and the audits of a number of other statutory bodies, not declared under the Act, which I am required by law to audit.

This report is supplementary to my reports of 18 September 1984, in relation to the Treasurer's Statement for the year ended 30 June 1984, and of 1 November 1984, on the audit of certain departments and statutory bodies during 1983-84.

Yours faithfully,


B.J. WALDRON
Auditor-General

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

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PART 1

BACKGROUND INFORMATION

1.1 **FORMAT OF REPORTS TO PARLIAMENT**

- 1.1.1 I intend to present to Parliament 4 reports in respect of 1983-84, as indicated below, together with special reports on other matters as the occasion demands.
- 1.1.2 The First Report, tabled on 18 September 1984, accompanied the Treasurer's Statement for the year ended 30 June 1984 and contained my report on that Statement, as required by Section 47 of the Audit Act 1958.
- 1.1.3 The Second Report, tabled on 1 November 1984, contained observations and recommendations arising out of the audits of departments and public bodies declared in accordance with the Annual Reporting Act 1983 and in respect of which an audit opinion was provided prior to 30 September 1984. It also included audit observations and recommendations on a number of other statutory bodies which have not been declared under the above Act but which I am required by law to audit.
- 1.1.4 This Third Report contains audit observations and recommendations on those departments and public bodies declared in accordance with the Annual Reporting Act 1983 which were not covered in my second report and in respect of which an audit report was signed prior to 30 November 1984. It also covers the operations of certain other statutory bodies which I am required by law to audit.
- 1.1.5 The Fourth Report, which will be forwarded to Parliament later this financial year for tabling, will cover those agencies not included in my second or third reports because of:
- . delays in the preparation of financial statements,
 - . balance dates other than 30 June, or
 - . incomplete audits.
- 1.1.6 A separate report on the operations and audited financial statements of the Office of the Auditor-General was transmitted to the Premier on 26 September 1984 for presentation to Parliament in accordance with the Annual Reporting Act 1983.

1.2 **ACKNOWLEDGMENTS**

- 1.2.1 I wish to record my appreciation of the co-operation of the departments and statutory bodies referred to in my second report and 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 Departments and Parliament and Part 5: Audit of Statutory Bodies are identified below:

<u>SUBJECT</u>	<u>PARAGRAPH REFERENCE</u>
DEPARTMENTS	
<u>Qualification of Financial Statements</u>	
Law Department	4.7.7
Public Works Department	4.9.6
Ministry of Transport	4.10.6
<u>Department of Industry, Commerce and Technology</u>	
Unco-ordinated use of E.D.P. facilities	4.6.12-4.6.19
<u>Law Department</u>	
Conduct of private business on government property	4.7.18(4)
<u>Department of Management and Budget</u>	
Unclaimed moneys	4.8.6
Failure of Stamp Duties Office to enforce penalties on insurance and assurance business	4.8.18-4.8.21
Land tax assessments	4.8.24
<u>Public Works Department</u>	
Revenue Collection -	4.9.7
(1) project consultancy fees	
(2) property rental	
(3) lease of property	

STATUTORY BODIES

<u>Qualification of Financial Statements</u>	
Estate Agents Guarantee Fund	5.1.6
Geelong Grain Handling Improvement Authority	5.2.19
Hospitals Superannuation Board	5.3.15
Portland Grain Handling Improvement Authority	5.2.14

PART 3

STATUS REPORT

3.1 This section reports on the status of observations and recommendations, relating to the departments and statutory bodies included in Parts 4 and 5 of this report, which were contained in previous reports of the Auditor-General.

<u>Report</u>	<u>Page</u>	<u>Subject</u>	<u>Status at Date of Preparation of this Report</u>
DEPARTMENTS			
<u>DEPARTMENT OF COMMUNITY WELFARE SERVICES</u>			
1982-83	37	Need for clarification of legislative requirements governing payments to the State Transport Authority and the Metropolitan Transit Authority for fare concessions to pensioners.	Position unchanged.
	38	Weaknesses in control procedures over emergency grants paid to bushfire victims. Basic internal controls should be developed for payment of grants to victims of future natural disasters.	The Department has developed control procedures to be followed for future natural disasters.
<u>DEPARTMENT OF CONSERVATION, FORESTS AND LANDS</u>			
1981-82	70	Internal audit at former Ministry for Conservation - unsatisfactory reporting arrangements and district offices not visited.	Internal audit section has been disbanded until the reorganisation of the new Department is finalised.
	71	National Parks Division - effective control over collections by several parks not maintained. Head Office records for licences, permits and lease agreements unsatisfactory.	Corrective action has been taken by the former Ministry for Conservation.
1982-83	41	Internal control weaknesses in relation to the payroll function at the former Ministry for Conservation.	Position now satisfactory.

<u>Report</u>	<u>Page</u>	<u>Subject</u>	<u>Status at Date of Preparation of this Report</u>
	45	Workshops at the former Department of Crown Lands and Survey should be identified as separate cost centres. The workshop costing system should be based on actual costs and integrated with the divisional accounting system.	Position unchanged. The former Department has advised action relating to workshop costing has been deferred pending finalisation of policy in the area.
	84	Certain categories of employees at Werribee Park had been substantially underpaid as a result of incorrect award rates being applied.	Appropriate amendments to wages system have been effected; however, underpayments have not been adjusted.
<u>EDUCATION DEPARTMENT</u>			
1979-80	94	Lease arrangements at Preston Regional Office - requirements of Audit Act and Department of Management and Budget Regulations not complied with.	In March 1984 the Economic and Budget Review Committee reported to Parliament on this matter.
1980-81	94	Department continued to enter into certain arrangements with school councils which circumvented prescribed regulatory and standing directions of the Public Service Board and Department of Management and Budget.	The Department has advised that these practices have now ceased.
	95	Failure of Department to establish an effective internal audit group to monitor, examine and report on its financial operations.	Audit and Review Unit's charter has been extended to cover operations of the Department.
1981-82	77	Education allowances for certain students' needs are not verified in respect of registered schools.	Matter currently under discussion between audit and the Department.
	80	In respect of capitation grants paid to non-government schools, enrolments were accepted without verification.	Matter currently under discussion between audit and the Department.

<u>Report</u>	<u>Page</u>	<u>Subject</u>	<u>Status at Date of Preparation of this Report</u>
1982-83	46	Advance Account - delays in bank reconciliations and loss of interest due to substantial level of idle funds.	The Department has taken corrective action on delays in bank reconciliations. Revised reimbursement procedures introduced to reduce level of idle funds.
	47	Generalised Education Network Information and Utility System (GENIUS) - various issues raised in an audit discussion paper on a review of the payroll sub-system.	Discussions have taken place between audit and the Department. Some matters still under consideration.
	48	Inadequate monitoring procedures relating to compliance by students with certain conditions of studentship agreements. No regular follow-up action to collect repayments due under the agreements.	A working party comprising representatives of the Department and the Department of Management and Budget was established in 1983-84 to examine these issues. Audit understands the respective departments are currently considering the working party's report.
	48	State Primary School Councils - responsibility for receiving and reviewing financial statements of State primary school councils should rest with the Department. Substantial number of councils not meeting legislative requirements to have accounts audited and forwarded to Auditor-General.	At the appropriate time, Department intends to seek legislative amendments to make it responsible for receiving and reviewing financial statements. A sustained effort has been made by the Department to obtain outstanding audited financial statements. Further comment is given in paragraphs 4.5.8 - 4.5.11 of this report.

Report Page Subject

DEPARTMENT OF INDUSTRY, COMMERCE
AND TECHNOLOGY

1981-82	131	Liquor Control Commission - Commission should request interstate Liquor Commissioners or wholesalers to supply details of sales to Victorian licence holders to enable an independent check to be made of interstate liquor purchases.	Position now satisfactory.
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LAW DEPARTMENT

1981-82	103	Major functions within the Department and its branches should be reviewed by internal audit.	Some major functions reviewed by internal audit; however, development of effective internal audit program is impeded by resource constraints. Department is consulting with Public Service Board on this matter.
1982-83	64	A review should be undertaken of cash procedures at all Magistrates' Courts handling large volumes of cash transactions.	Position unchanged. The Department proposes to review this area in 1984-85.
	65	Weaknesses exist in procedures governing investment of County Court funds.	A working party has been established to examine administration of all trust moneys held by courts.
	66	Lack of security over collections by the Corporate Affairs Office and potential interest earnings foregone as a result of banking delays.	Security arrangements now satisfactory. Some reduction in banking delays achieved but audit considers there is scope for further improvement.

<u>Report</u>	<u>Page</u>	<u>Subject</u>	<u>Status at Date of Preparation of this Report</u>
<u>DEPARTMENT OF MANAGEMENT AND BUDGET</u>			
1980-81	20	Under agreements made with other governments certain percentages of the total duty on subscriptions to Victorian consultations are paid to those governments. There is no express or implied provision for these agreements, other than those in respect of Soccer Football Pools, under the provisions of the Tattersall Consultations Act 1958.	Tattersall Consultations Act 1983, operative from 1 January 1984, provides for such agreements.
1981-82	143	Failure to always promptly bank moneys received.	Position has improved but some delays in banking still exist.
	143	Contractors' securities held are not always current for current contracts and include securities which should have been returned to contractors.	Position unchanged.
	145	Stamps Office Clearing Account - a suitable system is necessary to enable reconciliation of balance.	Position unchanged.
	145	Australia Post - sale of duty stamps. The records of the Stamp Duties Office and Australia Post did not agree.	Matter is under review by Stamp Duties Office and Australia Post.
1982-83	71	Employment of consultants - payments were made in some cases prior to receipt of ministerial and Tender Board approvals. Documentation relating to payments to certain consultants still to be provided for audit inspection.	Requisite approvals now obtained before payment but, in certain cases, subsequent to receipt of goods or services. Position concerning documentation now resolved.
	71	Internal control weaknesses in the salaries section.	Position now satisfactory.
	72	Reconciliations of the Public Account bank accounts in arrears.	Position unchanged.
	72	Increased inspectorial activities necessary to cover all revenues collected by the Stamp Duties Office.	Some increase in inspectorial activities occurred during 1983-84.

<u>Report</u>	<u>Page</u>	<u>Subject</u>	<u>Status at Date of Preparation of this Report</u>
	73	Excess stocks of duty stamps held, resulting in storage, security and control problems.	Position now satisfactory.
	74	Difficulties experienced by Stamp Duties Office in the administration of the Financial Institutions Duty Act 1982.	Position now satisfactory.
	74	Urgent consideration should be given to a feasibility study into computerising certain activities of the Stamp Duties Office.	Following the development of an EDP strategic plan, progress has been made towards computerising certain activities of the Stamp Duties Office.
	75	The Tender Board should review the scheme relating to the payment of freight charges for country schools to establish its costs and effectiveness.	Position unchanged.
	75	The Tender Board does not have power to grant retrospective approvals for out of contract purchases.	Although an opinion of the Crown Solicitor obtained by the Board supports audit comment, the Board has continued to issue retrospective approvals to enable departments to pay accounts.
	76	Effectiveness of Payroll Tax - Inspectorial Branch of the Taxation Office considerably reduced due to limited resources.	Appropriate action has been taken on this matter.
	76	Amount of tax to be realised from issue of amended assessments could not be determined.	Position generally remains unsatisfactory. Further comment is given in paragraph 4.8.24 of this report.

<u>Report</u>	<u>Page</u>	<u>Subject</u>	<u>Status at Date of Preparation of this Report</u>
<u>DEPARTMENT OF THE PREMIER AND CABINET</u>			
1981-82	120	Victoria's representation in Japan - expenditure on entertainment being met from funds other than allowances provided for such purpose.	Specific guidelines on entertainment expenditure have now been issued to staff in Japan Office.
<u>PUBLIC WORKS DEPARTMENT</u>			
1982-83	90	Delays in crediting the stores suspense account with the value of issues affect the liquidity of the account and may restrict the purchase of replacement stock.	Department has advised liquidity of stores suspense account is being closely monitored.
	90	A greater depth of analysis of trading results of canteens is required.	Department has advised consideration will be given to undertaking a more detailed analysis of canteen trading.
<u>MINISTRY OF TRANSPORT</u>			
1982-83	93	Special projects should not be commenced without ministerial approval as required by the Ministry of Transport Act 1958.	Ministry of Transport Act 1958 was repealed with effect from 1 July 1983 and therefore such approvals no longer apply.
STATUTORY BODIES			
<u>GRAIN HANDLING IMPROVEMENT AUTHORITIES</u>			
1980-81	63	Doubt on ownership of assets.	The 3 Authorities were abolished on 3 July 1984. All rights, properties, duties and obligations of the Authorities were transferred to the Grain Elevators Board.
	63	No facility to generate income.	
May 83	17	The ownership of assets constructed or financed by certain "authorities" should be clarified.	

Status at Date of
Preparation of this
Report

<u>Report</u>	<u>Page</u>	<u>Subject</u>	
		<u>HOSPITALS SUPERANNUATION BOARD</u>	
April 82	9	Rental of premises (now vacated by Board) - no formal agreement.	Position unchanged. Question of liability of Board to meet rental payments for former premises still not resolved.
		<u>MELBOURNE WHOLESALE FRUIT AND VEGETABLE MARKET TRUST</u>	
1981-82	57	Accountable documents - lack of control over recording and security.	Position now satisfactory.
1982-83	44	Depreciation policy in regard to rail siding not consistent with Australian Accounting Standards.	Position now satisfactory.
	44	Weaknesses in internal control relating to the preparation and payment of salaries and wages.	Corrective action has been taken on this matter.
		<u>RURAL FINANCE COMMISSION</u>	
1982-83	62	Rural Finance Fund - total investment income should be disclosed in Profit and Loss Account and transfers to provisions and reserves disclosed as appropriations in accordance with Australian Accounting Standards.	Accounting treatment of investment income and transfers to provisions and reserves is now in accordance with Australian Accounting Standards.
	62	The Commission should obtain regular independent actuarial advice as to adequacy of provision for superannuation.	The Commission intends to obtain triennial actuarial advice commencing with the 1984-85 financial year.
	62	Provision for doubtful debts is considered to be excessive.	Position now resolved.

<u>Report</u>	<u>Page</u>	<u>Subject</u>	<u>Status at Date of Preparation of this Report</u>
<u>STATE SUPERANNUATION BOARD OF VICTORIA</u>			
May 83	53	The liability for unclaimed refunds of contributions should be ascertained and shown in the financial statements.	Position unchanged.
	54	The subsidiary records of the Reserve Units Account should be reconciled with the general ledger.	Reconciliation completed for 1983-84.
	54	Lack of information contained in the Board's minutes.	Position now satisfactory.
1982-83	75	Deficiencies as to financial reporting and auditing requirements in legislation relating to superannuation funds administered by the Board require urgent consideration.	Position unchanged. Further comment is given in paragraphs 5.3.1 - 5.3.4 of this report.
<u>TOTALIZATOR AGENCY BOARD</u>			
1982-83	78	A consistent policy is necessary for the accounting treatment of research and development costs.	Position unchanged.
<u>VICTORIAN DAIRY INDUSTRY AUTHORITY</u>			
1982-83	83	A number of control weaknesses identified in a review of the Authority's computer installation.	Position is now generally satisfactory.
<u>VICTORIAN ECONOMIC DEVELOPMENT CORPORATION</u>			
May 83	60	The accounts of overseas offices should be prepared on a consistent basis.	Position now satisfactory.
1982-83	90	Formal criteria should be established for determining acceptable security for commercial loans advanced by the Corporation.	Position unchanged.

<u>Report</u>	<u>Page</u>	<u>Subject</u>	<u>Status at Date of Preparation of this Report</u>
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VICTORIAN FISHING INDUSTRY COUNCIL

1982-83	93	Government grant to Council in 1982-83 exceeded amount provided for in the ratio determined by the Treasurer under the Victorian Fishing Industry Council Act 1979.	Position unchanged with regard to 1983-84. New funding arrangements arising from amending legislation will apply to the 1984-85 financial year.
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PART 4

AUDIT OF DEPARTMENTS AND PARLIAMENT

4.1 SCOPE OF AUDIT

4.1.1 The scope of audit for 1983-84 for departments declared under the Annual Reporting Act 1983 and for Parliament included:

- (1) an evaluation of internal controls and subsequent compliance and substantive testing of cash receipts, general payments, salaries and wages;
- (2) a review of internal audit operations, where applicable; and
- (3) verification of financial statements.

4.2 MINISTRY FOR THE ARTS

Introduction

- 4.2.1 The Ministry for the Arts was established under the provisions of the Ministry for the Arts Act 1972. The objectives of the Ministry, as identified in the Act, are to develop and improve the knowledge, appreciation and practice of the arts, to increase their availability and accessibility to the public, and to encourage and assist in the provision of facilities to enable the arts to be performed or displayed.
- 4.2.2 On 18 March 1984 the administration of Victoria's 150th Anniversary Celebrations Committee was transferred to the Ministry from the Department of the Premier and Cabinet.
- 4.2.3 Since 3 April 1984 the Ministry has operated a booth in the Bourke Street Mall in Melbourne selling half price theatre tickets to promote the theatre industry by encouraging people to buy tickets more often, making theatre more accessible to those who may find it difficult to afford a ticket, and providing a centrally located focal point for theatre information.
- 4.2.4 In addition to the central administration, the Ministry consists of the following branches:
- National Gallery of Victoria
 - Museum of Victoria
 - State Library of Victoria
 - State Film Centre of Victoria
- 4.2.5 Although the respective councils for the abovementioned branches are statutory authorities in their own right, moneys are provided in the Appropriation Act to cover salaries and other operating costs. The councils also have other funds under their control.
- 4.2.6 The operations of these councils will be discussed in a later report.

Financial Responsibilities

- 4.2.7 The Ministry's central administration and each of the branches are responsible for the collection and remittal of revenue to the Department of Management and Budget.
- 4.2.8 All salaries and wages are paid by the central administration. Apart from accounts for expenditure of a minor nature which are met from local advances, all general accounts are paid by the central administration.

Scope of Audit

- 4.2.9 In addition to the audit activities identified in paragraph 4.1.1 of this report, a sample of cultural and other grants made by the Ministry was examined to ascertain if ministerial approval had been given for the expenditure and that the necessary control procedures were operating to ensure proper accountability.

Audit Observations and Recommendations

Victoria's 150th Anniversary Celebrations Committee

- 4.2.10 The Victoria's 150th Anniversary Celebrations Committee was established by the State Government to co-ordinate a program of anniversary events in the 1984-85 year. Its activities include the making of grants to both public and private sector organisations for projects related to the anniversary celebrations.
- 4.2.11 Amounts of \$10 million and \$5 million from State and Commonwealth Government funds respectively have been made available for project expenditure.
- 4.2.12 On 12 September 1983 the Premier approved of the construction of a museum of sport, at an estimated cost of \$1.8 million. Subsequently, the Commonwealth Government approved the allocation to this project of \$1 million of the funds it made available.
- 4.2.13 Construction is to be undertaken by a private sector organisation and in April 1984 \$300 000 was advanced to this organisation by the Committee to enable it to invest the money on the short-term money market to help offset the effects inflation may have had on the estimated cost of the project. At the date of the request the project was in the preliminary design stage.
- 4.2.14 The payment of \$300 000 to this organisation was made contrary to Government policy and the Department of Management and Budget instruction, issued in April 1983, which requires that such payments be made to meet the needs of the organisation concerned rather than on a regular basis or prior to actually being required.

Conclusion

- 4.2.15 Apart from the above matter and a number of minor matters brought to the attention of the Ministry, the results of the audit examination proved satisfactory.

4.3 DEPARTMENT OF COMMUNITY WELFARE SERVICES

Introduction

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

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

4.3.2 On 16 August 1983 a separate Office of Corrections was established but the Department of Community Welfare Services continued to administer the State's correctional services until 11 October 1983. On that date the Director-General of Corrections was appointed as Chief Administrator of the Office of Corrections.

Financial Responsibilities

4.3.3 The financial responsibilities of the Department include the payment of the cost of administration of welfare services, grants and subsidies to welfare organisations and certain concessions to pensioners. In addition, the Department is responsible for the collection of revenue for various departmental services.

Audit Observations and Recommendations

Grants for the Purchase of Family Group Homes

4.3.4 During the year the Department paid grants totalling \$787 500 on a dollar for dollar basis to various welfare organisations for the purchase of family group homes. A condition of the subsidy was that, if the property purchased was subsequently sold, half the proceeds must be repaid to the Consolidated Fund.

4.3.5 Audit noted that no formal agreement existed to ensure compliance with the above condition of subsidy and no record of these properties was maintained in the departmental property register.

4.3.6 Audit recommended that the Department enter formal agreements with the funded organisations to ensure that the departmental interests are safeguarded and that all such properties be recorded in the departmental register.

Purchase of Motor Vehicles for Women's Refuges

- 4.3.7 Five motor vehicles were purchased by the Department on behalf of women's refuges. Under this arrangement no sales tax was payable and government fleet discounts were obtained. The vehicles were registered in the name of individuals for and on behalf of the refuges.
- 4.3.8 The Department was advised that the practice of permitting a non-government organisation to purchase a motor vehicle through the Department was, in audit opinion, irregular.

Grants Paid Quarterly in Advance

- 4.3.9 It has been general practice for the Department to pay grants under specific programs to organisations quarterly in advance. In 1983-84, grants paid on this basis totalled approximately \$7 million.
- 4.3.10 Audit estimated that, if the payment basis was changed to a monthly cycle, there could be savings to the State of up to \$56 000 per annum. Audit recommended that the Department consider the feasibility of changing the payment cycle of grants to a monthly basis.

Debtors

- 4.3.11 The Department's debtors ledger balance at 30 June 1984 totalled \$157 155, of which \$105 639 has been outstanding for more than 12 months. The debts arose mainly from overpaid salaries, foster care and assistance payments. Late notification of advice to the Accounts Branch of changes in salary or assistance entitlements was the main reason for the overpayments.
- 4.3.12 Audit recommended that appropriate action be taken to recover long outstanding debts and to revise procedures to minimise the incidence of such overpayments.

Defalcations and Irregularities

- 4.3.13 During 1983-84 the Department notified me, as required by the Department of Management and Budget Regulations 1981, of the following:

(1) Pension Moneys Due to a State Ward

Pension moneys totalling \$1 231, due to a ward of the State, were improperly paid into the private bank accounts of an officer of the Department. The pension cheques had been incorrectly issued in the name of the departmental officer who was the nominated guardian of the State ward. The officer concerned made restitution in full.

The matter was referred to the police who after investigation considered that criminal charges could not be sustained. Revised procedures have been implemented to ensure more effective control.

(2) Falsified Purchase Order

Photographic equipment costing \$841 was acquired by an unknown person on the production of a departmental purchase order which had been stolen from the Department.

Police were advised of the irregularity.

(3) Stolen or Missing Equipment/Cash

Burglaries or thefts occurred at a number of departmental locations including youth hostels and training centres. Items stolen included televisions, video cassette players and small amounts of cash. In all cases the police were advised.

Conclusion

4.3.14 Apart from the above matters, the unresolved matter referred to in the Status Report and a number of minor matters including control weaknesses brought to the attention of the Department, the results of the audit examination proved satisfactory.

4.4 DEPARTMENT OF CONSERVATION, FORESTS AND LANDS

Introduction

- 4.4.1 The Department of Conservation, Forests and Lands was created by Order in Council from 2 November 1983. The order also abolished the Department of Crown Lands and Survey, the Ministry for Conservation and the State Forests Department.
- 4.4.2 As stated by the Department, its objective is to be the State agency responsible to the Government for:
- (1) planning, implementing, monitoring and regulating the use, conservation, care, protection and development of the public lands of the State and their resources;
 - (2) conserving and protecting the State's living resources and water catchments; and
 - (3) assisting landholders in conserving soils, flora, fauna and general amenity.
- 4.4.3 Subject to the finalisation of the organisational structure, interim arrangements have been adopted for the new Department by creating Divisions of Conservation, Forests and Lands.
- 4.4.4 Administration of the following Acts was transferred to the Minister for Conservation, Forests and Lands by order of the Premier from and inclusive of 1 September 1983:
- (1) all Acts or sections of Acts then administered by the Minister of Forests;
 - (2) all Acts or sections of Acts then administered by the Minister of Lands, with the exception of the Port Phillip Authority Act 1966, the Port Phillip Authority (Amendment) Act 1980 and sections 25 to 28 inclusive of the Crown Land (Reserves) Act 1978; and
 - (3) all Acts or sections of Acts then administered by the Minister for Conservation, with the exception of:

Archaeological and Aboriginal Relics Preservation Act 1972
Environment Effects Act 1978
Environment Protection Act 1970
Environment Protection (Penalties) Act 1982
Historic Shipwrecks Act 1981
Land Conservation Act 1970
Victoria Conservation Trust Act 1972
Victoria Conservation Trust Act 1978, and sections 3 (a), 5 (1) (a) and 5 (1) (b) of the Ministry for Conservation Act 1972.

DIVISION OF CONSERVATION

Financial Responsibilities

- 4.4.5 The Fisheries and Wildlife Service collects revenue from the issue of commercial fishing, boating, amateur fishing and wildlife licences. The National Parks Service is responsible for the collection of moneys from fees, permits and sales of publications through national and other State parks, and the divisional bookshop. The Soil Conservation Authority receives revenue from farm water supply services, sale of publications and hire of plant.
- 4.4.6 Revenue collected by these agencies is forwarded to the Division and subsequently remitted to the Department of Management and Budget together with collections of the Division.
- 4.4.7 Salaries and general accounts are paid by the Division on behalf of all agencies. Individual agencies of the Division have responsibility for the acquisition of their stores and services.

Defalcations and Irregularities

- 4.4.8 (1) Losses of Tools and Equipment

Tools and equipment to the value of \$15 000 and \$7 842 were stolen from the Ferntree Gully and Organ Pipes National Parks respectively. Burglaries also occurred at 8 other locations where items totalling \$4 366 were stolen. In all instances, the police were notified.

- (2) Irregularities in Accounting for Public and Other Moneys

The Department advised that claims for the reimbursement of petty cash expenditure, totalling \$800, had been falsely completed by the Revenue Officer. The sum has since been repaid.

Subsequent advice from the Department is that the officer appeared in the Melbourne Magistrates' Court and was placed on a \$200 good behaviour bond for 12 months.

DIVISION OF FORESTS

Financial Responsibilities

- 4.4.9 District offices and the central administration are responsible for the collection of divisional revenue derived from royalties, sale of forest produce, rentals, loan repayments and miscellaneous sources. Revenue collected is subsequently forwarded to the Department of Management and Budget by the central administration of the Division.
- 4.4.10 Salaries, wages and general accounts are paid by the central administration. District offices are responsible for payment of minor accounts and wages for casual employees.

Audit Observations and Recommendations

Community Education and Information Branch

- 4.4.11 The role of the Division's Community Education and Information Branch is to promote community education and provide public information on forests and forestry. To assist in this role the Branch distributes stocks of publications for sale to the retail outlets at Forestry House and the field divisions upon request.
- 4.4.12 The annual turnover of the various retail outlets was \$141 013 during 1983-84.
- 4.4.13 Audit examination indicated that stock levels at 30 June 1984 were equal to approximately 1 1/2 times the turnover for the year. Furthermore, stocks of certain items, the details of which are listed hereunder, were far in excess of this level.

<u>Publication</u>	<u>Selling Price</u>	<u>Issued Since 1/7/83</u>	<u>Stock on Hand in Units 30/6/84</u>	<u>Approximate No. of Years' Supply on Hand</u>	<u>Stock on Hand at Selling Price 30/6/84</u>
	\$				\$
"All Life is One"	5.00	245	6 815	28	34 075
"Dandenong Ranges"	2.50	481	16 519	34	41 298
"Deer in Australia" (Printing Associates)	20.00	120	888	7	17 760
"Deer in Australia" (Koetung Trust)	20.00	21	458	22	9 160
"Forest and Man"	2.00	225	7 096	31	14 192

- 4.4.14 Audit established that decisions affecting the quantity of items to be printed are made on the recommendation of the Forest Management section of the Division.
- 4.4.15 Audit recommended that management review its policy on the quantities of stock ordered and held with a view to maintaining realistic stock levels.
- 4.4.16 Other internal control weaknesses identified by audit included incomplete and inaccurate recording of stock, the absence of physical stockcounts and access to storage areas not being sufficiently restricted.

Losses of Stores

- 4.4.17 The loss of tools and equipment totalling \$10 342 stolen from various locations throughout the State during the period July 1980 - June 1983 was not notified until 6 January 1984. Losses occurring during 1983-84 totalling \$7 847 were reported on 30 August 1984.
- 4.4.18 The notification of such thefts and losses was not in accordance with Department of Management and Budget Regulations 1981 in that they were not notified forthwith.

DIVISION OF LANDS

Financial Responsibilities

- 4.4.19 The regional and district land offices, together with the central administration, are responsible for the collection of divisional revenue, which is derived mainly from the sale and lease of Crown land and fees and charges for divisional services. The revenue is subsequently forwarded to the Department of Management and Budget by the central administration of the Division.
- 4.4.20 The central administration is also responsible for the payment of salaries and general accounts. Wages and minor local accounts are paid at district offices from advances provided for those purposes.
- 4.4.21 In addition, the central administration is responsible for the collection of revenue and the payment of accounts and salaries on behalf of the Mt. Hotham Alpine Resort Management Committee.

Audit Observations and Recommendations

Debtors - Licences and Leases excluding Metropolitan Area

- 4.4.22 Total revenue charges raised for the year amounted to \$3 032 882. Arrears at 30 June 1984 amounted to \$713 552 of which in excess of \$669 000 was outstanding more than 6 months.
- 4.4.23 Although attention was drawn in my October 1982 report to Parliament to inadequate follow-up procedures for the collection of outstanding moneys, audit examination during the year disclosed that there was still a lack of positive action by the Division to either collect revenue or terminate tenancies in accordance with the provisions of the Land Act 1958.
- 4.4.24 Renewal notices for licences and leases continued to be issued even though previous fees had not been paid, and arrears of grazing and other licences were written off without obtaining the appropriate approvals required under the Department of Management and Budget Regulations 1981.
- 4.4.25 Regional land offices were not provided with current debtors information to enable Lands Inspectors to act upon outstanding debtors and to investigate if the land was still occupied.
- 4.4.26 Audit recommended that regional land offices be provided with timely information in order to determine if Crown land, subject to licence or lease, is in fact being occupied, thereby ensuring that revenue due to the State is brought to account and collected. Audit also recommended that the relevant approvals required under the Regulations to write-off uncollectable moneys be obtained.

Leases - Metropolitan Area

- 4.4.27 Section 134 of the Land Act 1958 provides for the Minister to grant leases of Crown land for purposes other than grazing or agriculture, at a rent approved by him.

- 4.4.28 In 2 instances of rental appraisements (annual rental of \$141 150) ministerial approval had not been obtained. In another instance a lease which expired in October 1982 had not been formally renewed. The amount of rent being charged was not approved by the Minister.

Losses of Equipment

- 4.4.29 During 1983-84 a number of items of equipment valued in total at \$2 500 were stolen from various locations throughout the State. All thefts have been reported to the police.

Conclusion

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

4.5 EDUCATION DEPARTMENT

Introduction

- 4.5.1 The stated objectives of the Education Department are to provide compulsory education for all students between the ages of 6 and 15 years and further education for students beyond this compulsory age.
- 4.5.2 Under the Education Act 1958, the Department is responsible for the acquisition of land for educational purposes, and for the provision, maintenance and equipping of school buildings. The Department employs teachers and other persons to provide teaching and administrative services.
- 4.5.3 Pursuant to Section 7 of the Teaching Service Act 1983, which came into operation on 23 February 1984, the Minister of Education has determined that all offices in the education service are deemed to be offices in the teaching service. All other offices are now deemed to be in the public service.

Financial Responsibilities

- 4.5.4 The central administration of the Department pays the salaries of teachers and support staff and disburses funds to schools for such purposes as school administration, minor maintenance of buildings and grounds, library, materials and class requisites. In addition to payments to meet central and regional operating expenses, the Department disburses grants to support community education and provides additional grants to disadvantaged schools. Capitation grants are made to registered schools. Disbursements were made for technical and further education in post-primary schools and post-secondary educational institutions. After September 1983 responsibility for disbursements to post-secondary institutions was undertaken by the Technical and Further Education Board.
- 4.5.5 The Department's cash collections include charges for departmental services, secondments of teachers to post-secondary educational institutions, broken bond debts and proceeds from sales of former student hostels.

Qualification of the Department's Financial Statements

- 4.5.6 It was necessary to record the following qualification on the 1983-84 financial statements of the Department:

"As stated in Part D of Appendix B of the notes to the financial statements, creditors are calculated on the basis of claims which were on hand awaiting payment at 30 June 1984. In my opinion, the basis used by the Department to determine creditors of \$1 230 497 has resulted in the understatement of creditors arising from the non-recognition of the amounts relating to goods and services received prior to 30 June 1984 but not invoiced to the Department as at that date. Whilst it is not practicable for audit to ascertain the exact amount involved, creditors are understated by an amount in excess of \$5.5 million".

Scope of Audit

- 4.5.7 In addition to the audit activities identified in paragraph 4.1.1 of this report, audit reviewed the operation of the payrolls sub-system of the Generalised Education Network Information and Utility System (GENIUS) which is used to process the teachers', professionals', administrative and cleaners' payrolls.

Audit Observations and Recommendations

Audits of State Primary School Councils

- 4.5.8 Section 15F(2) of the Education Act 1958 requires all school councils to have their accounts audited by a person with appropriate qualifications in accounting and to forward such statements to the Auditor-General as soon as practicable after 31 December in each year.
- 4.5.9 Since 1980-81 in my reports to Parliament I have commented on the poor level of compliance by school councils with the requirements of the Act. During the year the Department requested all the school councils which had not complied with the Act to have their accounts audited and to forward such financial statements to the Auditor-General. Resulting from this departmental action there was some improvement in the level of compliance by school councils.
- 4.5.10 However, at 30 June 1984, in respect of the school year of 1983, of a total of 1739 councils, 949 only had fully complied with the Act. Among the councils which have not submitted audited financial statements are some which have been in default for a number of years.
- 4.5.11 In view of problems associated with obtaining the audited financial statements for prior years, audit agreed with the Department that it should concentrate its resources in ensuring that the current audits for all schools are kept up to date.

Audits of State Post-Primary School Councils

- 4.5.12 The Education Department's Audit and Review Unit, by arrangement, audits the accounts of State post-primary school councils and forwards the financial statements to the Auditor-General in accordance with Section 15F of the Education Act 1958.
- 4.5.13 Audit reports forwarded to the Auditor-General indicated the following breaches of legislative requirements by certain councils:
- failure to call a public meeting at least once in every year and report the proceedings of the council for the period since the date of the last public meeting;
 - failure to present at the yearly public meeting a copy of the audited statements;
 - failure to maintain an up to date register of all assets of the school;
 - failure to keep an up to date register of investments;
 - failure to seek authority for loans and/or bank overdraft; and
 - unauthorised ex-gratia payments made to retiring employees.

4.5.14 The above matters have been followed up by the Audit and Review Unit with the relevant school councils for appropriate action.

Defalcations and Irregularities

4.5.15 During 1983-84 the Education Department notified me as required by the Department of Management and Budget Regulations 1981 of the following defalcations and irregularities.

- | | |
|--------------------------------|--|
| Hawkesdale Primary School | - Staff member found guilty by the County Court of theft of \$3 818 and sentenced to 12 months imprisonment at the Bendigo Day Attendance Centre. Full restitution was made. |
| Brunswick South Primary School | - Officer charged under the Teaching Service Act 1981 with misconduct over misappropriation of \$1 266. Fined \$500 and reprimanded. Full restitution was made. |
| Bentleigh West Primary School | - The Director-General is currently seeking explanation in respect of an alleged misappropriation of \$5 700. |

Minor thefts at 2 High Schools were also reported.

Conclusion

4.5.16 Subject to the qualification and the above matters and a number of minor control weaknesses brought to the attention of the Department, the results of the audit examination proved satisfactory.

4.6 DEPARTMENT OF INDUSTRY, COMMERCE AND TECHNOLOGY

Introduction

- 4.6.1 The Department of Industry, Commerce and Technology was created by Order in Council on 2 November 1983. The order also abolished the Ministry for Economic Development.
- 4.6.2 As stated by the Department, its principal functions are to facilitate, encourage, promote and carry out activities leading to:
- (1) the balanced economic development of the State;
 - (2) the development of industries and business undertakings with particular regard to decentralised industries and business undertakings; and
 - (3) the development of the export capacity of industry and advanced technology industry throughout the State.

Financial Responsibilities

- 4.6.3 The financial responsibilities of the Department include:
- (1) payment of loans, grants and subsidies to various organisations and incentive payments to approved decentralised secondary industries;
 - (2) collection of loan and interest repayments; and
 - (3) payment of salaries and other costs of administering the Department.

Scope of Audit

- 4.6.4 In addition to the audit activities identified in paragraph 4.1.1 of this report audit work was undertaken in the following areas:
- (1) operations of the Department's vehicle fleet; and
 - (2) E.D.P. facilities.

Audit Observations and Recommendations

Use of Government Vehicles

- 4.6.5 The use of government vehicles is governed by guidelines laid down by the Victorian Government Motor Transport Committee. These guidelines provide, inter alia, that:
- (1) vehicles are not to be used for other than official duties;
 - (2) all officers are to be instructed on the use of log books;
 - (3) the number of vehicles in the fleet is to be kept to a minimum and each vehicle is to be used to the maximum; and

(4) unless special circumstances exist, approval would not normally be given for the purchase of vehicles travelling less than 20 000 kilometres annually.

4.6.6 An audit review of procedures and practices covering the operation of the Department's fleet of 20 vehicles disclosed the following departures from the guidelines:

(1) Vehicles were taken home each night by 4 departmental directors and one other senior officer. Details of these journeys were not recorded in log books. In audit opinion, this travel was essentially for private purposes and did not conform with Motor Transport Committee guidelines.

(2) Many instances occurred where details of vehicle travel were not entered in log books, or details entered were inadequate. As such, vehicle usage could not be monitored. Usage of certain vehicles was minimal, with 6 vehicles each travelling less than 20 000 kilometres per annum. One vehicle, used mainly for commuting purposes, travelled only 6 800 kilometres between May 1983 and June 1984.

4.6.7 Audit recommended to the Department that Motor Transport Committee guidelines be complied with and the practice of allowing senior officers to use vehicles for commuting be referred to the Director of the Government Motor Vehicle Fleet for direction.

4.6.8 Audit also considered that the need to retain vehicles for which usage was minimal warranted review and alternative means of travel at a lesser cost should be considered.

Response by Department

4.6.9 The Department advised that the use of motor vehicles for commuting purposes was sanctioned by a former Director-General with the knowledge of the Motor Transport Committee.

4.6.10 Audit was informed by the Motor Transport Committee that although the letter of 2 June 1982 from the Department was not formally responded to, it has never been Committee practice to approve the use of vehicles for purely commuting purposes.

4.6.11 The Department has since issued new procedures on the use of official vehicles.

E.D.P. Facilities

4.6.12 A computing strategy plan prepared for the Department by a consultant in 1982 recommended the purchase of a mini-computer system at a cost of approximately \$210 000. The system was to enhance the decision-making process within the Department and to provide a data-bank of information for industry.

- 4.6.13 Following approval by the Effectiveness Review Committee the Department informed the supplier in September 1983 of its intention to purchase and install the computer as soon as possible, subject to funds being available later that month. Acting upon this advice, the supplier delivered the computer to the Department's premises in December 1983. Although the computer was stored at the Department's premises, delivery was not formally acknowledged as funds for the purchase were not available at the time.
- 4.6.14 Due to a lack of sufficient expertise within the Department, arrangements were made with the Government Computing Service in May 1984 for an officer to be seconded to oversee the installation.
- 4.6.15 Tender Board approval to purchase the computer and associated hardware and software at a cost of \$313 933 was finally given in July 1984.
- 4.6.16 Despite the imminent installation of the mini-computer, 3 micro-computers were purchased in June 1984, at a cost of \$40 161, for use by individual officers. Audit established that programming support for one micro-computer would be provided at a cost of approximately \$50 000.
- 4.6.17 Audit drew attention to the uncontrolled and unco-ordinated use of E.D.P. facilities within the Department which may result in excessive costs and ineffective use of information. Specific comments related to the following matters:
- (1) The Department's E.D.P. development is based on the strategy plan prepared in 1982. In audit opinion, several aspects of this plan were outdated or deficient and there is an urgent need for development of a new strategy plan and an implementation schedule for application systems. Application systems were implemented on an "ad hoc" basis.
 - (2) The strategy plan recommended formation of an E.D.P. internal review group to "co-ordinate use and development of computer facilities". This group was not formed, and as a result audit found that no individual or policy group would accept overall responsibility for the use of E.D.P. facilities and information management within the Department.
 - (3) There was a lack of co-ordination and questionable deployment of Departmental resources when E.D.P. equipment and software was purchased for individual use.
 - (4) A number of individuals using micro-computers currently access many sources of data primarily for their own use. Unless this data is rationalised, consolidated and made available to all interested personnel, the Department will lose the benefits of data rationalisation and duplication of information at additional expense could result.
- 4.6.18 Audit recommended to the Department that an internal review group be established and high priority be given by the group to revising the Department's computing strategy plan.

Response by Department

- 4.6.19 The Department acknowledged that the E.D.P. strategy plan was obsolete. A sub-committee has been established which will be responsible for the planning of E.D.P. based and other management information systems within the Department.

Conclusion

- 4.6.20 Apart from the above matters and issues relating to internal controls and management responsibility, the results of the audit were generally regarded as satisfactory.

4.7 LAW DEPARTMENT

Introduction

- 4.7.1 The Law Department states that it is responsible for:
- (1) the provision of an effective and efficient legal system within the State;
 - (2) the continuous review of legislation under the Attorney-General's jurisdiction; and
 - (3) the provision of staff, facilities and services to the courts, legal assistance to the Government and the management of Royal Commissions and boards of inquiry.

- 4.7.2 The Law Department comprises the central administration, which includes the Office of the Attorney-General, and the following offices:

Courts Administration
Corporate Affairs Office
Registrar General's Office and Office of Titles
Office of the Public Trustee
Court Reporting Branch
Chief Parliamentary Counsel's Office
Crown Solicitor's Office
Government Shorthand Writer's Office

- 4.7.3 Comment on the Office of the Public Trustee will be included in a later report.
- 4.7.4 The Office of the Director of Public Prosecutions was established during 1983 under the Director of Public Prosecutions Act 1982. The results of the audit of this Office, which previously formed part of the Law Department, were given in my second report for 1983-84, tabled in Parliament on 1 November 1984.

Financial Responsibilities

- 4.7.5 The central administration is responsible for the payment of salaries and other expenses of the Department and its branches, including the Office of the Public Trustee and of the Office of the Director of Public Prosecutions.
- 4.7.6 Revenue is collected by the various branches and agencies and remitted directly to the Department of Management and Budget with the exception of the following, which remit revenue collections to the Law Department:

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

Qualification of the Department's Financial Statements

4.7.7 I found it necessary to record the following qualification on the Department's financial statements for 1983-84.

"The Treasurer granted the Department an exemption under Section 8 (3) of the Annual Reporting Act 1983 from complying with the requirements of the Annual Reporting (Departments) Regulations 1984 in relation to providing information on:

- (1) cash and investment balances relating to trust moneys of the Public Trustee's Common Fund, the Senior Master's Common Fund and minors' trust accounts held by the County Court, Magistrates' Courts and the Crimes Compensation Tribunal;
- (2) the amount of general stores on hand in the Courts Administration Division; and
- (3) debtors of the Courts Administration Division for all outstanding court penalties.

Whilst it is not practicable for audit to ascertain the exact amounts involved, in my opinion the following items at 30 June 1984 have been understated:

- (1) cash and investment balances by an amount in excess of \$235 million;
- (2) general stores on hand at the Courts Administration Division by an amount in excess of \$500 000; and
- (3) debtors of the Courts Administration Division by an amount in excess of \$27.5 million."

Scope of Audit

4.7.8 In addition to the audit activities identified in paragraph 4.1.1 of this report, further audit work was undertaken by my Office on the books and accounts of 50 Magistrates' Courts, the Master of the Supreme Court and the Prothonotary of the Supreme Court. An examination of fees under the Commonwealth-State Scheme for Co-operative Companies and Security Regulation was conducted at the Corporate Affairs Office. In addition, the internal audit section of the Law Department conducted a further 13 audits of Magistrates' Courts.

COURTS ADMINISTRATION

Introduction

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

Financial Responsibilities

- 4.7.10 Clerks of Magistrates' Courts, the Registrar of the County Court and the Senior Master of the Supreme Court are responsible for the collection of penalties imposed by the courts and trust moneys arising from court decisions.

Audit Observations and Recommendations

Infant Investments - Magistrates' Courts

- 4.7.11 Resulting from court actions, orders are often made requiring moneys to be held and invested on behalf of infants.
- 4.7.12 During 1983-84, several audit reports drew attention to the failure by Clerks of Courts to maintain up to date investment records and to regularly review infant investments. On many occasions interest received on investments was lower than that available from similar investments due to the failure to redeem and re-invest these funds to obtain higher interest rates.
- 4.7.13 Audit is of the opinion that infant investments would be better managed by a single body with wide investment powers.

Response by Department

- 4.7.14 The Department agreed with audit comments and has advised that infant investments are being considered in the review being undertaken of the administration of all court trust moneys. In the meantime, all Clerks of Courts have been instructed to maintain up to date investment records and where low interest bearing Savings Bonds are held they be redeemed and re-invested in bank investment savings accounts.

The Masters Office of the Supreme Court - Common Funds

- 4.7.15 Common Funds held and invested by the Court on behalf of beneficiaries amounted to \$77.7 million at 30 June 1984.
- 4.7.16 Audit recommended that a feasibility study be undertaken to determine if the rate of return on Common Fund investments could be increased and if benefits could be gained from having the Public Trustee manage the Common Funds. Such a study could also determine if cash savings and increased efficiency could be achieved from computerisation of the Common Fund accounting system.

Response by Department

- 4.7.17 The Department has formed a working party to examine the administration of trust funds relating to the Supreme Court, the County Court and Magistrates' Courts.

Prothonotary of the Supreme Court

- 4.7.18 The prime function of the Prothonotary's Office is to issue and file various legal documents on matters under the jurisdiction of the Supreme Court. Pursuant to the Supreme Court Act 1958, fees payable in the form of duty stamps are attached to the documents.

(1) Suspected Defalcation

The Law Department notified my Office on 25 June 1984 of a suspected defalcation at the Prothonotary's Office. A preliminary internal investigation by the Department revealed that 38 Notice of Trial documents, which each carry up to \$300 in duty stamps, were missing. The investigation covered the period May 1980 to February 1984 and the missing documents related to the period from June 1980 to July 1983. The Department requested the Police Fraud Squad to investigate the matter and inquiries were continuing at the date of preparation of this report.

(2) Court Fees

Audit examination revealed serious internal control weaknesses, in particular, incomplete file documentation, no accountability regarding the assessment and collection of search fees, and the failure to cancel duty stamps.

In view of the lack of effective control over court fees, audit made certain recommendations to correct the situation, including a proposal that the Department should re-consider the present use of duty stamps as a means of payment of court fees.

Action Taken by Prothonotary and Department

The Prothonotary has advised staff of the appropriate method of cancelling duty stamps. For a number of years the Department has been aware of the problems associated with duty stamps and is at present examining alternative methods of payment.

Substantial improvements, which include continuous checks, have been made in relation to the recording and filing of court documents and the accounting for fees payable thereon.

(3) Bulk Search Fees

Companies pay for bulk searches undertaken by them by means of duty stamps. Audit examination of the operations of the Prothonotary's Office indicated a complete lack of control, in particular:

- (i) company representatives had free access to court files;
- (ii) security over court files was non-existent; and
- (iii) fees paid were determined by the companies, not the Prothonotary's Office.

Audit recommended that the system be reviewed with a view to devising a more effective search and payments system.

Action Taken by Prothonotary and Department

New procedures have been adopted in relation to the assessment and accountability of bulk search fees. As the Prothonotary considers that court files concerning civil cases are public documents, access by company representatives will continue provided documents are not removed.

(4) Conduct of Private Business on Government Property

Audit established that due to the lack of departmental funds to meet demands for photocopying facilities and to provide a service which could not have been provided otherwise, with the approval of the Department the Prothonotary entered into a private lease agreement for the installation of a photocopy machine. The Prothonotary advised that copying fees received are deposited in a separate bank account and are used to meet operating costs, including lease charges. Any shortfall would be his personal responsibility as the lessee of the machine. An audit request to examine the financial records was denied on the basis that the lease was a private agreement between the Prothonotary and the photocopying company and did not involve public moneys.

Audit questioned the legality of an arrangement whereby a private scheme is operated in a public office. Audit was also concerned at the Department's failure to ensure accountability for funds generated by the photocopy machine.

Audit recommended that the private lease agreement be terminated forthwith and that responsibility for the arrangements be vested in the Department. In addition, the Department should require the Prothonotary to account for all moneys received and expended during the period he operated the lease.

(5) Recording of Fines Imposed by the Supreme Court

Control over fines for non-attendance as a witness or juror, imposed by the Supreme Court, is considered to be unsatisfactory. Apart from the notice of fine, there is no permanent record of the fine and notifications of such fines sent to the Prothonotary's Office are not accountable documents. Audit recommended that an accountable record of fines imposed be maintained.

(6) Investment of Court Funds

Funds held by the Prothonotary's Office include payments into court and bail moneys. At 30 June 1984 these funds amounted to \$2 229 093 and \$188 500 respectively.

Audit examination disclosed that:

- (i) approaches by the Prothonotary to the bank maintaining the accounts led to interest being paid on deposits from 1 January 1983, where previously interest was not paid; and
- (ii) accumulated interest amounting to \$62 681, representing earnings since 1 January 1983, was held in the Prothonotary Fund Account. At the request of audit this money was paid into the Consolidated Fund on 13 June 1984.

The Department's attention was drawn to Section 203A of the Supreme Court Act 1958 as amended by the Courts (Powers of Investment) Act 1983 which enables such funds to be invested in higher yielding securities. Furthermore, the Act requires investment income to be paid into the Consolidated Fund.

Audit recommended that the Prothonotary take steps to increase investment earnings by firstly determining the daily cash requirements and then investing the remaining funds in investments providing a higher rate of return than that presently received;

Conclusion

4.7.19 Apart from the matters raised in the audit observations and recommendations section herein and a number of minor internal control weaknesses brought to the attention of the Department and/or its branches or offices, the results of the audit examination proved satisfactory.

4.8 DEPARTMENT OF MANAGEMENT AND BUDGET

Introduction

4.8.1 The Department of Management and Budget was created by Order-in-Council of 12 October 1982. The functions of the Department which were detailed in the Order-in-Council can be broadly described as:

- (1) to participate in the development of advice to government on policies and priorities and to strengthen financial budgeting and control systems of departments and authorities to ensure that they are linked to the program priorities of government and are monitored through a management control system;
- (2) to develop improved approaches to financial management including advice on resource policy and management, monitoring of cash flows, maintenance of centralised investments, and to advise on and, where necessary, manage the financial assets of the State and maximise the return thereon to the State;
- (3) to co-ordinate and monitor the financial management, economic policy and budgetary requirements of government;
- (4) to set budgetary parameters and financial and economic management standards for departments and public authorities and to continually evaluate and review project, program and management effectiveness;
- (5) to set accounting standards to be met by both departments and public authorities; and
- (6) to ensure that government expenditures are properly authorised by and reported to Parliament and to manage the collection of the revenues of the government.

4.8.2 As the central accounting office of the State, the Department is responsible for the central processing of the financial transactions of departments and the preparation of the Treasurer's Statement for presentation to Parliament.

4.8.3 The Department comprises the central administration and the following 4 offices:

Office of the Government Statist and Actuary
Stamp Duties Office
State Tender Board
Taxation Office.

Financial Responsibilities - Central Administration

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

- (1) collection and banking of the revenues of the State and financial management of the Public Account;
- (2) operation of the Government of Victoria drawings accounts for those departments on the centralised salaries system;

- (3) administration of the centralised Financial Reporting and Recording (FRAR) system;
- (4) payment of accounts for some departments;
- (5) monitoring of expenditure against parliamentary authority, warrant authority and trust account balances;
- (6) allocation of expenditure authorities, subject to the approval of the Treasurer, from the "Advance to the Treasurer";
- (7) control over the public debt of the State;
- (8) administration of the Unclaimed Moneys Act 1962;
- (9) administration of that portion of the Commonwealth Wages Pause Employment Program that relates to government departments; and
- (10) payment of its own staff salaries and administrative expenses, together with the salaries of all its branches and certain authorities under the administration of the Treasurer.

Scope of Audit

4.8.5 In addition to the audit activities identified in paragraph 4.1.1 of this report, additional audit tasks undertaken included:

- (1) an examination of the Treasurer's cash book and related documents in accordance with Section 29 of the Audit Act 1958;
- (2) a detailed examination of investment transactions and the verification of investments at 30 June 1984;
- (3) a review of the operations of the Government of Victoria drawings accounts;
- (4) a review of the operations of the Registrar of Unclaimed Moneys; and
- (5) an examination of contractors' securities lodged by certain departments as required by the Department of Management and Budget Regulations 1981.

Audit Observations and Recommendations

Unclaimed Moneys

4.8.6 The Unclaimed Moneys Act 1962 provides for moneys, paid by companies incorporated in Victoria and firms, which are legally payable to the owner and which have remained unpaid for not less than 12 months to be paid to the Registrar of Unclaimed Moneys.

- (1) Administration of the Act

Section 13 of the Unclaimed Moneys Act 1962, provides the Registrar of Unclaimed Moneys with the power to appoint a person to inspect a company's or firm's records for the purpose of ascertaining whether they have complied with the various sections of the Act, particularly the section requiring companies or firms to forward unclaimed moneys to the Receiver of Revenue. The Act also provides for penalties to be imposed for non compliance with the Act.

Audit tests of the Registrar's records, carried out during the year disclosed:

- (i) that the records of companies and firms had never been inspected and that penalties had never been imposed;
- (ii) many instances where unclaimed moneys had not been forwarded to the Receiver of Revenue within the period stipulated in the Act;
- (iii) that a number of companies which had paid unclaimed moneys to the Receiver of Revenue for a number of years had now ceased to do so; and
- (iv) that several large companies incorporated in Victoria had never forwarded unclaimed moneys to the Receiver of Revenue.

Audit recommended that action be taken to review the operations of the Registrar to ensure that the provisions of the Act are complied with.

(2) Transfers from the Unclaimed Moneys Fund to the Consolidated Fund

Section 12 of the Act requires that moneys paid to the Unclaimed Moneys Fund be transferred to the Consolidated Fund after 3 months. During the year \$258 029, which was paid into the Unclaimed Moneys Fund in December 1983, was not transferred to the Consolidated Fund until brought to the notice of the Registrar by audit in June 1984.

Audit recommended that in future transfers be made in accordance with the Act.

(3) Overall Review of the Act

A review of the provisions of the Unclaimed Moneys Acts operating in other States, particularly New South Wales, indicated that there is scope to review the provisions of the Victorian Act to:

- (i) broaden the base to make the provisions of the Act applicable to all organisations carrying on business within Victoria;
- (ii) reduce the delay between the notification of unclaimed moneys and the payment into the Unclaimed Moneys Fund;
- (iii) impose a statutory time limit during which claims for refunds may be lodged by owners of unclaimed moneys; and
- (iv) increase the amount of unclaimed moneys to be advertised in the Government Gazette from the current level of \$10 to a more realistic figure.

Comptroller-General's Division

- 4.8.7 The Division, which was established in 1982, is headed by the Comptroller-General who reports directly to the Director-General. The Division is considered by audit to be essential to the efficient and effective financial management of the State.
- 4.8.8 The Division is divided into 3 Branches, namely:
- (1) Accounting Policy and Systems;
 - (2) Bureau of Internal Audit; and
 - (3) Accounting Operations.
- 4.8.9 Due to the inability to recruit a suitable person, the Comptroller-General's position was filled on a temporary basis by a consultant until 20 July 1984. Since that date no person has acted in the position, however, an appointment was made to the position in October 1984.
- 4.8.10 At the date of preparation of this report, the position of Director of the Accounting Policy and Systems Branch had remained unfilled for almost 2 years.
- 4.8.11 The Bureau of Internal Audit Branch was established in the Division with a staff establishment of 3 persons. The Director of the Bureau was appointed in June 1983. Since then one officer responsible for development, training and policy duties has been appointed, together with an E.D.P. specialist.
- 4.8.12 The investigations section of the Accounting Operations Branch has a staff establishment of 5 and currently 2 positions are vacant.
- 4.8.13 Audit is concerned that the delays in appointing senior staff to the Comptroller-General's Division has and will continue to seriously affect the ability of the Department to develop improved approaches to financial management.

Accounting Records - State Development Program

- 4.8.14 Works financed under the State Development Program are funded from repayable advances made from the Works and Services Account. The accounting records maintained by the Department are inadequate in that the records only provide details of the receipts and payments for the current financial year. No records are maintained to record the outstanding advances at a given point in time.
- 4.8.15 Audit recommended that a high priority be given to the development of proper accounting records for this program in 1984-85.

STAMP DUTIES OFFICE

Introduction

- 4.8.16 The Stamp Duties Office is responsible for the administration of the Stamps Act 1958, the Business Franchise (Tobacco) Act 1974, the Business Franchise (Petroleum Products) (Licence Fees) Act 1979, the Hospital Benefits (Levy) Act 1982, the Financial Institutions Duty Act 1982, the Energy Consumption Levy Act 1982 and the collection of duty under the Cattle Compensation Act 1958.

Financial Responsibilities

- 4.8.17 The Stamp Duties Office is responsible for the collection of taxes, duties, fees and levies imposed under the above-mentioned Acts of Parliament. The Office is also responsible for paying its operating expenses.

Audit Observations and Recommendations

Failure to Enforce Penalties on Insurance and Assurance Companies

- 4.8.18 Section 97 of the Stamps Act 1958 requires companies to lodge, by the 21st day of each month, a return detailing the total amount of premiums chargeable with stamp duty in the preceding month and to pay duty at the rate of 7 per cent of the amount of all premiums received by the companies in the preceding month.
- 4.8.19 Since 9 December 1983, the legislation has provided for a penalty of 10 per cent of the amount payable if the return is lodged later than the 21st day of the succeeding month. However, the Comptroller may mitigate or remit the penalty.
- 4.8.20 Due to procedures not being followed during the period 9 December 1983 to 30 June 1984 no action was taken by the Office to impose the penalty provided in the Act. In 3 cases examined by audit, potential penalty income totalling approximately \$750 000 was foregone by the failure to impose the penalty provided for in the Act.
- 4.8.21 Audit recommended that action be taken to follow up outstanding returns and, where necessary, to impose the penalty provided in the Act. In addition, audit recommended that mitigations and remissions be formally recorded.

TAXATION OFFICE

Introduction

- 4.8.22 The Taxation Office is responsible for the administration of the Land Tax Act 1958, the Payroll Tax Act 1971, the Gift Duty Act 1971 and the Probate Act 1962.

Financial Responsibilities

- 4.8.23 The Taxation Office is responsible for the assessment and collection of probate duty, land tax, gift duty and payroll tax. Gift duty and probate duty were abolished on 1 January 1983 and 1984 respectively. However, the Office continued to collect these duties during 1983-84 on account of duties accruing prior to those dates. The Office is also responsible for paying its operating expenses.

Audit Observations and Recommendations

Land Tax Assessments

- 4.8.24 In my first report to Parliament for 1983-84 on the Treasurer's Statement, which was tabled on 18 September 1984, I detailed in paragraph 2.2.11 (pages 17 and 18) the significant factors, established by the Taxation Office, which have affected the assessment and collection of land tax over the past 6 years. Particular emphasis was given to the factors affecting the collections in 1983-84.

Delays in Banking

- 4.8.25 During 1983-84 the Taxation Office failed on a number of occasions to comply with the Department of Management and Budget Regulations 1981 which require collections to be banked on a daily basis. The main reason for the delays is the large number of receipts issued between the seventh and tenth days of the month.
- 4.8.26 The following are examples which were noted during the course of the audit:
- (1) In January 1984, the total payroll tax collections for the month were \$75 679 310, of which:
 - (i) \$21 768 000 was banked on the day of receipt;
 - (ii) \$45 341 879 was banked the following day; and
 - (iii) \$8 569 371 was held in the Office over the weekend.
 - (2) Collections remitted with incomplete information were not banked until all the relevant information was obtained. During February 1984, 1165 remittances totalling \$6 189 193 were held over from daily banking due to the lack of complete information.
 - (3) Land tax collections are generally processed during the 2 days following receipt and are banked on the fourth day after receipt.
- 4.8.27 As the amounts involved are considerable, substantial losses of interest to the State resulted.
- 4.8.28 Audit discussed the delays in bankings with senior management and they have undertaken to take action to review the banking procedures of the Office.

Conclusion

- 4.8.29 Apart from the matters raised in the audit observations and recommendations sections herein, the unresolved matters referred to in the Status Report and a number of minor control weaknesses brought to the attention of the Department and/or its branches or offices, the results of the audit examination proved satisfactory.

4.9 PUBLIC WORKS DEPARTMENT

Introduction

4.9.1 The Public Works Department's principal objectives, as stated by the Department, are:

- (1) to be the major building design, construction and maintenance authority of the Government of Victoria; and
- (2) to purchase or lease buildings, property, offices and other accommodation on behalf of the Government.

4.9.2 The Department operates and maintains control over its activities through 3 divisions:

Administration
Building
Property and Services.

4.9.3 From 1 July 1983, by Order in Council under the Administrative Arrangements Act 1983, the responsibility for the administration of the various Acts relating to ports and harbours, which had been previously administered by the Minister of Public Works, was transferred to the Minister of Transport.

Financial Responsibilities

4.9.4 The administration division includes the accounts branch which is responsible for the payment of claims, general expenses and salaries and wages, the control of stores and plant, the collection of revenue and financial reporting to client departments.

4.9.5 During 1983-84 the Department continued to administer the financial transactions relating to ports and harbours under the savings provision of the Administrative Arrangements Act 1983.

Qualification of the Department's Financial Statements

4.9.6 I found it necessary to record the following qualification on the Department's financial statements for 1983-84:

"The Treasurer granted the Department exemptions under Section 8(3) of the Annual Reporting Act 1983 from complying with the requirements of the Annual Reporting (Departments) Regulations 1984 which relate to debtors and creditors.

As stated in Notes (v) and (y) of Appendix E of the notes to the financial statements, debtors are calculated on the basis of invoices despatched but unpaid as at 30 June 1984 and creditors are calculated on the basis of claims which had been passed for payment at 30 June 1984, in accordance with the Treasury Regulations 1981 but were unpaid. In my opinion, the basis used by the Department to determine debtors of \$922 787 and creditors of \$7 743 983 included in Notes 2 and 5 of Appendix B, do not necessarily incorporate the value of all debtors and creditors of the Department at 30 June 1984. It was not practicable for audit to determine the amount of any debtors or creditors omitted."

Audit Observations and Recommendations

Revenue Collection

4.9.7 Audit comments relate to:

(1) Project Consultancy Fees

Section 7 of the Public Lands and Works Act 1964 provides for the Minister of Public Works to enter into arrangements or agreements with any person or body involved in a public project.

The Minister entered into a co-ordinator's consultancy agreement with a company, known as the South Eastern Medical Complex Limited, which is constructing the medical centre and related facilities known as the South Eastern Medical Complex at Clayton. The agreement, which was effective from 10 March 1983, requires the Department to provide project management skills and administrative, secretarial, accounting and other related services. For each month the services are provided the company is required to pay the Department a service fee equal to the actual costs incurred by the Department in providing the services.

Audit examined the Department's involvement under the terms of this agreement and established that at 30 June 1984 the Department had not notified the company of the costs incurred in providing the services. However, it had estimated the costs for the period 10 March 1983 to 30 June 1984 to be \$227 187.

Audit recommended that, in accordance with the agreement, the Department recoup the actual costs incurred in providing the services to the company and that, in future, the service fees be collected on a monthly basis.

(2) Property Rental

The Department is responsible for a number of properties which it rents to statutory authorities and private bodies. A review by audit of internal control procedures in relation to the rental of these properties disclosed the following unsatisfactory features:

- (i) During 1983-84 the Department did not maintain a complete listing of all properties which it had available for rental. Audit was advised that a computer system is currently being implemented to provide details of all properties.
- (ii) Rent due was not always raised in the Department's debtors records. At 30 June 1984 a total of \$83 853 had not been recorded.
- (iii) Regular reviews of the debtors records were not undertaken to determine tenants in arrears, so that follow-up action could be taken.

Audit recommended that the Department review its procedures for the raising and collection of rents.

(3) Lease of Property - 107-109 Rathdowne Street, Carlton

The above property, which consists of a pair of double storey Victorian terrace houses, was leased by the Department to the Australian and New Zealand College of Psychiatry on 9 April 1964, at an annual rent of \$20. Such rental, which was set by the government of the day, is still applicable.

The Department was unable to enter into a formal lease at that time as the freehold title of the property had not been transferred to the Crown.

Although the St. Nicholas Hospital (Sale of Land) Act 1982 transferred the property to the Crown on 21 December 1982, at the time of the audit the Department had not negotiated a formal lease agreement with the occupier at a more realistic rental charge.

Losses of Stores and Equipment

4.9.8 During 1983-84 the Department notified a number of losses of stores and equipment, valued in total at \$13 147. The main losses were:

- (1) telephone handsets valued at \$4 180, which were stolen from 7 Parliament Place, Melbourne; and
- (2) equipment valued at \$1 050, which was stolen from 115 Spring Street, Melbourne.

4.9.9 In both instances the police were notified of the loss.

Conclusion

4.9.10 Subject to the qualification, the above matters and a number of minor matters brought to the attention of the Department, the results of the audit proved satisfactory.

4.10 MINISTRY OF TRANSPORT

Introduction

- 4.10.1 The Ministry of Transport was originally established under the provisions of the Ministry of Transport Act 1958. The Ministry now operates under the Transport Act 1983 which repealed the Ministry of Transport Act 1958 from 1 July 1983. The general objectives of the Ministry, as stated in the Act, are to improve the efficiency and effectiveness of transport facilities and networks to meet the needs of the community.
- 4.10.2 By Orders in Council under the Administrative Arrangements Act 1983 the Minister of Transport was made responsible for the administration of the various Acts relating to ports and harbours as from 1 July 1983, such Acts having previously been administered by the Minister of Public Works, and for the administration of the Grain Elevators Act 1958, as from 6 September 1983, such Act having previously been administered by the Minister of Agriculture.

Financial Responsibilities

- 4.10.3 The Ministry is responsible for the collection of fees for the use of port and harbour facilities other than those under the control of the port authorities at Melbourne, Geelong and Portland.
- 4.10.4 The Ministry is responsible for the payment of contributions towards the operating costs of public transport authorities, and for the payment of the general expenses of operating the Ministry, including payments related to the operation of ports and harbours.
- 4.10.5 During 1983-84 the Public Works Department, by arrangement, administered on behalf of the Ministry the financial transactions relating to ports and harbours.

Qualification of the Ministry's Financial Statements

- 4.10.6 It was necessary to record the following qualification on the financial statements of the Ministry for 1983-84:

"The Annual Reporting (Departments) Regulations 1984 require that the financial statements of a department in respect of a financial year shall include information with respect to all financial transactions of the Public Account during that year which relate to any public body which comes within the administration of the responsible Minister. The Road Traffic Authority is a public body which comes within the administration of the Minister of Transport and during the year the Authority collected and retained certain fees levied under the Motor Car Act 1958 amounting to approximately \$8 million. In my opinion, such fees constituted moneys payable by the Authority to the Consolidated Fund and as such the transactions should have been reported in the financial statements of the Ministry for 1983-84."

Audit Observations and Recommendations

Salaries and Allowances

- 4.10.7 The following audit comments are made relating to salaries and allowances:

(1) Accounting Treatment of Salary Recoups

The Ministry's financial statements for 1983-84 indicated that the payment for salaries and allowances of the Ministry amounted to \$963 195 and was arrived at as follows:

	\$
Salaries and Allowances	2 451 376
Less Recoups	1 488 181
	<hr/>
	963 195
	<hr/>

Included in the amount recouped was an amount of \$1 480 000 paid to the Ministry by the following transport authorities - State Transport Authority, Metropolitan Transit Authority, Road Construction Authority and Road Traffic Authority.

Audit understands that the recoup did not relate to specific salary costs but was the amount determined by the Victorian Transport Directorate to be paid by the authorities towards the salary costs incurred by the Ministry. The Victorian Transport Directorate comprises the Minister of Transport, the Director-General and Deputy Director-General of Transport, the Managing Directors of the transport authorities, a nominee of the Treasurer and such other persons as the Minister may appoint.

The Appropriation (1983-84, No. 1) Act 1983 indicated that the Ministry was to recoup \$1 480 000. However, the accounting treatment given to the recoups by the Ministry of crediting the amount to the salaries and allowances account is a departure from the normal practice, which is to show such an amount as a receipt to the Consolidated Fund-Recoup of Administrative Expenses.

(2) Officers Seconded to the Ministry

Section 7 of the Transport Act 1983 provides for the Minister of Transport, with the consent of the Minister administering the department or public authority concerned, to make use of the services of any officer or employee of the public service or a public authority. During 1983-84 a number of officers were seconded to the Ministry from other government departments and public authorities. In the majority of cases, the salaries of the officers were met by their respective departments or authorities.

Of the 71 officers on secondment at 30 June 1984, the Ministry did not meet the salary costs of 67 of those officers. Audit has been unable to quantify the amount involved. The Ministry's financial statements made no reference to the fact that the Ministry did not meet the salary costs of all seconded officers and, therefore, the statements do not reflect the total costs of administration.

Losses of Stores and Equipment

- 4.10.8 Losses of stores and equipment of the Ports and Harbors Division notified during 1983-84 amounted to \$2 862, and included the theft of a life raft valued at \$1 539. The police were notified of the theft.

Conclusion

- 4.10.9 Subject to the qualification, the unresolved matters referred to in the Status Report, the above matters and a number of minor internal control weaknesses brought to the attention of the Ministry, the results of the audit examination proved satisfactory.

4.11 AUDIT OF OTHER DEPARTMENTS

4.11.1 The audits of the following designated departments are not reported separately as these audit examinations proved satisfactory, apart from some weaknesses in and departures from internal controls:

- . Office of Corrections
- . Department of the Premier and Cabinet
- . Office of the Public Service Board

4.12 AUDIT OF PARLIAMENT

4.12.1 The audit of the Parliament of Victoria is not reported separately as the audit examination proved satisfactory, except for some weaknesses in and departures from internal controls.

PART 5

AUDIT OF STATUTORY BODIES

5.1 ESTATE AGENTS BOARD

Introduction

- 5.1.1 The Estate Agents Board was established under the Estate Agents Act 1980 with responsibility for licensing, monitoring, audit and the inspection, discipline and education of estate agents in Victoria. With the consent of the Governor in Council the Board can prescribe the maximum commission or rate of commission that estate agents and real estate agents may receive.

Statutory Reporting and Auditing Requirements

- 5.1.2 The Act was amended (effective 21 March 1984) to give the Auditor-General responsibility for the audit of the 2 Funds maintained by the Board. Prior to this date the annual audit was undertaken by a firm of private practitioners appointed by the Board. The Auditor-General entered into a contract with the firm of private practitioners to extend their audit of the financial statements to 30 June 1984, with the final responsibility for the audit resting with the Auditor-General.
- 5.1.3 The Act requires the Board before 30 September in every year to submit to the Minister audited accounts for tabling in both Houses of Parliament.

- 5.1.4 The financial statements for 1983-84 were adopted by the Board on 28 September 1984 and the audit report was signed on 26 October 1984.

Financial Operations

- 5.1.5 (1) Trust Account Deposit Fund

The Act requires all licensed estate agents to lodge a specified percentage (presently 40 per cent) of the average minimum daily balance of their trust account balances for the previous year ended 30 June in the Trust Account Deposit Fund maintained by the Board. The purpose of this Fund is to form an investment base with interest earned being transferred to the Estate Agents Guarantee Fund.

Deposits held on behalf of estate agents at 30 June 1984 were \$27 301 987 (30 June 1983, \$27 186 707).

- (2) Estate Agents Guarantee Fund

Moneys from this Fund are used to compensate persons who suffer pecuniary loss by reason of a defalcation committed by licensed agents and to meet the administrative costs of the Board.

The financial operations of the Fund for 1983-84, compared with 1982-83 are summarised hereunder:

	1982-83	1983-84
	\$	\$
Income	5 759 652	5 104 595
Expenditure	2 121 995	1 730 358
	<hr/>	<hr/>
Surplus	3 637 657	3 401 237
	<hr/>	<hr/>

In 1983-84 claims paid by way of compensation totalled \$122 248 (1982-83, \$191 525).

The balance of the Fund at 30 June 1984 was \$7 707 282 (30 June 1983, \$4 468 049).

Qualification of the Financial Statements

5.1.6 It was necessary to record the following qualification on the financial statements relating to the Estate Agents Guarantee Fund:

"As stated in note 1(b) to the accounts, the Fund has a provision for sick leave of \$200 546 representing the amount of accumulated sick leave entitlements of Board employees at 30 June 1984. I am of the opinion that the accumulation of sick leave entitlements does not constitute a liability to the Fund as there is no provision for employees to be paid for the amount of sick leave benefits not taken at date of termination. The inclusion of this provision has the effect of overstating the item - Creditors, Accrued Expenses and Provisions by an amount of \$200 546 and understating the item - Unappropriated Surplus of Guarantee Fund as at 30 June 1984 by a similar amount. In addition, the operating surplus for 1983-84 has been understated by \$100 275 which represents the amount of sick leave entitlements charged as an expense during the year."

Scope of Audit

5.1.7 The scope of audit included a review of the financial statements and an evaluation of the working papers and documentation prepared by the contract auditors.

Conclusion

5.1.8 Subject to the qualification and a number of minor matters brought to the attention of the Board, the results of the audit examination proved satisfactory.

5.2 GRAIN HANDLING IMPROVEMENT AUTHORITIES (covering 1982-83)

Introduction

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

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

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

Statutory Reporting and Auditing Requirements

5.2.3 The Act requires each authority to provide the Minister with a copy of its audited financial statements. The Minister is required to table such audited statements before both Houses of Parliament within 3 weeks after their receipt if Parliament is then sitting or (if Parliament is not then sitting) within 3 weeks after the next meeting of Parliament.

5.2.4 The Act also provides for the audit of the financial statements by the Auditor-General.

5.2.5 The financial statements for the year ended 31 October 1983 were adopted by the respective authorities on 7 June 1984 and the respective audit reports were signed on 7 November 1984.

Future of the Authorities

5.2.6 In my November 1983 report reference was made to the establishment of a working party, approved by the Treasurer, to consider the problems which had arisen from administration of the authorities' enabling legislation. The working party agreed that formal approval should be sought to the winding up of the 3 authorities. As a result, the Grain Handling Improvement Authorities (Abolition) Act 1984 was proclaimed and assented to by the Governor in Council on 8 May 1984. Section 4 of the Act provides for the abolition of the 3 authorities and the transfer of their rights, properties, duties and obligations to the Grain Elevators Board. The transfer took effect from 3 July 1984.

COUNTRY GRAIN HANDLING IMPROVEMENT AUTHORITY

Financial Operations

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

	1981-82	1982-83
	\$	\$
Income	208 037	172 015
Expenditure	150 509	152 374
	<hr/>	<hr/>
Surplus	57 528	19 641
	<hr/>	<hr/>

5.2.8 Net assets of the Authority at 31 October 1983 were \$88 993 (31 October 1982, \$69 352).

5.2.9 A reduction in income for the year was due to lower rates of interest earned by the Authority from short-term investment of an unexpended loan of \$1.2 million.

Scope of Audit

5.2.10 The audit covered substantive testing of the Authority's revenue and expenditure and verification of assets and liabilities at 31 October 1983.

PORTLAND GRAIN HANDLING IMPROVEMENT AUTHORITY

Financial Operations

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

	1981-82	1982-83
	\$	\$
Income	370 981	51 357
Expenditure	452 605	758 975
	<hr/>	<hr/>
Deficit	81 624	707 618
	<hr/>	<hr/>

5.2.12 After taking into account an amount of \$35 328 written back against prior years' results, net liabilities of the Authority at 31 October 1983 were \$781 190 (31 October 1982, \$108 900).

5.2.13 The further deterioration of the financial position at 31 October 1983 was due to higher interest expense incurred in 1982-83 following the raising by the Authority of additional loans totalling \$3.3 million. The Authority has no specific legislative power to generate income and so be assured of its ability to meet loan obligations. Income earned during 1982-83 was derived from short-term investments of loan funds.

Qualification of the Authority's Financial Statements

5.2.14 It was necessary to record the following qualifications on the accounts of the Authority for the year ended 31 October 1983:

"As stated in note 2 to the accounts, the amounts of \$307 100 and \$4 524 527, shown in the balance sheet as expenditure on fixed assets and assets under construction respectively, represent expenditure relating to the construction of improved grain handling facilities at the Portland terminal.

The land on which the Authority constructs or finances the construction of assets is neither owned by nor leased to the Authority. Because of the consequential uncertainties concerning the ownership of the fixed assets and assets under construction disclosed in the accounts, I am unable to express an opinion on whether the accompanying balance sheet presents fairly the state of the affairs of the Authority at 31 October 1983".

Scope of Audit

- 5.2.15 The audit comprised substantive testing of the Authority's revenue and expenditure and verification of assets and liabilities at 31 October 1983.

GEELONG GRAIN HANDLING IMPROVEMENT AUTHORITY

Financial Operations

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

	1981-82	1982-83
	\$	\$
Income	24 884	70 631
Expenditure	469 978	651 686
	<hr/>	<hr/>
Deficit	445 094	581 055
	<hr/>	<hr/>

- 5.2.17 After taking into account an amount of \$37 868 written back against prior years' results, net liabilities of the Authority at 31 October 1983 were \$1 237 444 (31 October 1982, \$694 257).

- 5.2.18 The further deterioration of the financial position at 31 October 1983 was mainly due to higher interest expense incurred in 1982-83 following the raising by the Authority of additional loans totalling \$2.8 million. The Authority has no specific legislative power to generate income and so be assured of its ability to meet loan obligations. Income earned during 1982-83 was derived from short-term investments of loan funds.

Qualification of the Authority's Financial Statements

- 5.2.19 It was necessary to record the following qualifications on the accounts of the Authority for the year ended 31 October 1983:

"As stated in note 2 to the accounts, the amount of \$1 963 297 shown in the balance sheet as expenditure on fixed assets, represents expenditure in respect of the construction of a rail loop by the State Transport Authority and the amount of \$1 228 620, shown in the balance sheet as expenditure on assets under construction, represents expenditure relating to the construction of improved grain handling facilities at the Geelong terminal.

The land on which the Authority constructs or finances the construction of assets is neither owned by nor leased to the Authority. Because of the consequential uncertainties concerning the ownership of the fixed assets and assets under construction disclosed in the accounts, I am unable to express an opinion on whether the accompanying balance sheet presents fairly the state of the affairs of the Authority at 31 October 1983".

Scope of Audit

- 5.2.20 The audit comprised substantive testing of the Authority's revenue and expenditure and verification of assets and liabilities at 31 October 1983.

Conclusion

- 5.2.21 Subject to the qualifications on the financial statements of the Portland and Geelong Grain Handling Improvement Authorities, the results of the audits proved satisfactory.

5.3 SUPERANNUATION AND RETIREMENT BENEFIT SCHEMES

- 5.3.1 My April 1982 report contained the findings of a special review undertaken by my Office of the nature, constitution, funding and general administration of major public sector superannuation and retirement benefit schemes. This review identified a number of unsatisfactory features concerning the operations of and accountability for such schemes. I expressed the view that there was a need to review the legislative and other provisions relating to the audit, operation and reporting of superannuation and retirement benefit schemes in the Victorian public sector.
- 5.3.2 On 21 December 1982 the Governor in Council referred an Inquiry into Public Sector Superannuation to the parliamentary Economic and Budget Review Committee. The Committee was required to inquire into a number of relevant issues and report its findings to Parliament.
- 5.3.3 In a submission that I made to the Committee I expressed the opinion "that it is an appropriate time to consider whether the Governor-in-Council should declare public sector superannuation schemes as public bodies under the Annual Reporting Act 1983. These superannuation schemes have financial implications for government and the organisation concerned as well as implications of equity between employers and mobility of employees and as such, both the government and the Parliament should scrutinise their operations".
- 5.3.4 I was pleased to note the Committee's findings that it "believes that Public Sector Superannuation Schemes should be declared as public bodies under the Annual Reporting Act 1983." The Treasurer has since announced the Government's intention to bring a number of superannuation and retirement benefit schemes under the provisions of the Annual Reporting Act 1983.
- 5.3.5 Reference was made in my second report for 1983-84 (Section 5.11) to audits of superannuation schemes already completed.

HOSPITALS SUPERANNUATION BOARD

Introduction

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

Statutory Reporting and Auditing Requirements

- 5.3.7 The Act 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. The Act also provides for the audit of the accounts of the Board by the Auditor-General.

5.3.8 The financial statements of the Board for 1983-84 were adopted by the Board on 20 November 1984 and the audit report was signed on 30 November 1984.

Actuarial Investigation

5.3.9 Sections 18 and 352A of the Act require the Board to arrange for triennial actuarial investigations into the financial position of the Funds. Every actuarial report is to be tabled in both Houses of Parliament.

5.3.10 The last actuarial report covered the 3 year period ended 30 June 1981. The next actuarial investigation of the Funds which is due as at 30 June 1984 is currently in course.

Financial Operations

5.3.11 The financial operations of the Funds are maintained in several accounts, the 4 main ones being the Income Statement, Management Administration Account, Members' Accounts and Pension Scheme. A summary of the operations of these accounts for 1983-84 compared with 1982-83 is given below:

(1) Income Statement

	1982-83 \$000	1983-84 \$000
Life Assurance Companies' Schemes	14 785	9 478
Interest	7 615	9 510
Other	127	93
	<hr/>	<hr/>
	22 527	19 081
Transfer from (to) Income Stabilisation Reserve	(2 949)	2 095
	<hr/>	<hr/>
Distribution of Income to Members' Accounts and Sundry Funds	19 578	21 176
	<hr/>	<hr/>

Income from life assurance companies' schemes in 1983-84 was \$9 478 128 compared with \$14 785 430 in 1982-83, a decrease of \$5 307 302. The substantial decrease was due to lower returns obtained by the assurance companies on their investments during the year.

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

	1982-83 \$000	1983-84 \$000
Transfers to meet management charges:		
Members' Accounts	599	671
Pension Scheme portion of management expenses	635	798
Deferred, Disability and Annuities Accounts	41	43
Distribution of Fund Income	153	172
Commission and Other Income	22	14
	<hr/>	<hr/>
	1 450	1 698
Less	<hr/>	<hr/>
Salaries	669	765
Other administrative expenses	581	805
	<hr/>	<hr/>
	1 250	1 570
	<hr/>	<hr/>
Net Surplus	200	128
	<hr/>	<hr/>

The net surplus was transferred to the Management Accumulated Fund.

(3) Members' Accounts

	1982-83 \$000	1983-84 \$000
Contributions and Transfers	12 840	14 440
Distribution of - Fund Income	15 528	16 148
- Withdrawal Surplus	896	1 059
	<hr/>	<hr/>
	29 264	31 647
Less	<hr/>	<hr/>
Benefits paid or credited to benefits payable	8 374	10 243
Transfer to withdrawal surplus account	687	928
Management charge	599	671
Insurance charge	1 231	1 421
	<hr/>	<hr/>
	10 891	13 263
	<hr/>	<hr/>
Increase in Members' Funds	18 373	18 384
	<hr/>	<hr/>

(4) Pension Scheme

	1982-83	1983-84
	\$000	\$000
Contributions and Levies Received	9 560	11 356
Distribution of Fund Income	2 739	3 420
	<hr/>	<hr/>
	12 299	14 776
	<hr/>	<hr/>
Less		
Management expenses	635	798
Pensions and benefits paid	4 788	6 262
	<hr/>	<hr/>
	5 423	7 060
	<hr/>	<hr/>
Increase in Pension Scheme Contributors' Funds	6 876	7 716
	<hr/>	<hr/>

5.3.12 Net assets of the Funds at 30 June 1984 were \$170 949 462 (30 June 1983, \$146 199 287). The increase in net assets for the year is represented by increases (decreases) in:

	\$000
Members' Accounts	18 384
Pension Scheme	7 716
Other Funds and Reserves	(1 350)
	<hr/>
Total	24 750
	<hr/>

Investments

5.3.13 At 30 June 1984 the Board's investments totalled \$176 711 921 (30 June 1983, \$151 753 235) consisting of:

	\$	\$
Life Assurance Companies' Schemes		98 234 660
Semi-Government Stock		
Commonwealth	7 253 140	
Victorian	<u>41 194 974</u>	48 448 714
Mortgage Loans		22 533 634
Short-Term Money Market and Bank Deposits		5 375 000
Land and Buildings at Cost		1 620 141
Commonwealth Development Bank		499 772
		<hr/>
Total		176 711 921
		<hr/>

- 5.3.14 At 30 June 1984, investments which consist of units lodged with 3 assurance companies were valued at \$98 234 660. These investments comprise 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

- 5.3.15 It was necessary to record the following qualification on the 1983-84 financial statements of the Board in respect of investments in assurance companies' schemes totalling \$98 234 660:

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

Scope of Audit

- 5.3.16 Audit evaluated and tested the Board's revenue and expenditure systems and verified the assets and liabilities at 30 June 1984.
- 5.3.17 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

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

STATE SUPERANNUATION BOARD OF VICTORIA

Introduction

- 5.3.19 The State Superannuation Board of Victoria was established under the Superannuation Act 1958 and is responsible for the administration of the Superannuation Fund.
- 5.3.20 The Board is also responsible for the administration of the Pensions Supplementation Fund, the Superannuation Lump Sum Fund and the Parliamentary Contributory Superannuation Fund, by reason of the relevant enabling legislation establishing these Funds. In addition, the Board is responsible for the administration of the Constitution (Governor's Pension) Act 1978.

Superannuation Fund

Statutory Reporting and Auditing Requirements

- 5.3.21 Section 63 of the Act 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.

5.3.22 The financial statements of the Fund for 1983-84 were adopted by the Board on 31 October 1984 and the audit report was signed on 30 November 1984.

Actuarial Investigation

5.3.23 Section 10 of the Act requires an actuarial investigation into the state and sufficiency of the Fund every 3 years.

5.3.24 At the date of preparation of this report the investigation for the triennium ended 30 June 1983 was in progress but had not been finalised.

5.3.25 Audit is concerned at the delay in finalising the actuarial investigation and recommended that the Board require the actuary to submit his report without further delay.

Financial Operations

5.3.26 The financial operations of the Fund for 1983-84 compared with 1982-83 are summarised hereunder:

	1982-83 \$000	1983-84 \$000
Income	147 921	228 773
Expenditure	75 718	88 519
	<hr/>	<hr/>
Increase in Fund	72 203	140 254
	<hr/>	<hr/>

5.3.27 The substantial increase in the Fund during 1983-84 compared with 1982-83 was due mainly to:

- (1) the increase in interest on investments; and
- (2) a profit of \$2.4 million on realisation of investments. In 1982-83 the Board incurred a loss of \$54.2 million on such realisations. An explanation for this loss was provided in paragraph 4.24.6 of my fourth report for 1982-83.

5.3.28 Net assets of the Fund at 30 June 1984 were \$975.2 million (30 June 1983, \$834.6 million).

Investments

5.3.29 At 30 June 1984, investments of the Fund totalled \$756.7 million (30 June 1983, \$621.8 million) and consisted of:

	\$000	\$000
Semi-Government Securities		150 779
Commercial Mortgage Loans		124 951
Government Guaranteed Loans		96 320
Land and Buildings		91 640
Housing Mortgage Loans		
Contributors	77 348	
Others	3 707	
	<hr/>	81 055

	\$000
Commonwealth Securities	80 192
Local Government Securities	59 812
Indexed Loans	58 787
Transferable Deposits	8 950
Loans Under Agreement	4 251
	<hr/>
	756 737
	<hr/>

5.3.30 All the above investments are valued at cost with the exception of:

- (1) Land and Buildings which are shown at 30 June 1983 valuation plus costs incurred for the year ended 30 June 1984; and
- (2) Indexed Loans which have been indexed in accordance with the terms and conditions of the loan agreements.

Pensions Supplementation Fund

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

Statutory Reporting and Auditing Requirements

5.3.32 The Act requires the Board to submit to the Treasurer to be laid before both Houses of Parliament a report dealing with the general administration and operations of the Fund, the adequacy or otherwise of the Fund, and any recommendations in connection with the use of any surplus.

5.3.33 There is no statutory provision for the preparation of financial statements or the audit thereof. However, the Board has produced financial statements of the Fund over the years and included these in its report to Parliament. The audit of the financial statements is undertaken by the Auditor-General as part of the audit of the Superannuation Board.

5.3.34 The financial statements of the Fund were adopted on 3 October 1984 and the audit report was signed on 18 October 1984.

Financial Operations

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

	1982-83	1983-84
	\$000	\$000
Income	96 593	116 715
Expenditure	96 568	116 696
	<hr/>	<hr/>
Net Increase in Fund	25	19
	<hr/>	<hr/>

5.3.36 The net assets of the Fund at 30 June 1984 were \$97 064 (30 June 1983, \$77 660).

Parliamentary Contributory Superannuation Fund

- 5.3.37 The Fund was established under the Parliamentary Salaries and Superannuation Act 1968. The purpose of the Fund is to provide pensions, retiring allowances and other superannuation benefits to former members of Parliament or their dependants.

Statutory Reporting and Auditing Requirements

- 5.3.38 There is no statutory provision for the preparation of financial statements or the audit thereof. However, the Board has produced financial statements of the Fund. The audit is undertaken at the request of the Treasurer.
- 5.3.39 The financial statements of the Fund were adopted on 10 September 1984 and the audit report was signed on 3 October 1984.

Triennial Actuarial Investigation

- 5.3.40 Section 13 of the Act provides for an actuarial investigation to be made at the expiration of each period of 3 years as to the state and sufficiency of the Fund.
- 5.3.41 At the completion of each investigation the actuary is also required to certify the amount that is required to be paid from the Consolidated Fund to the Fund in each financial year for the ensuing 25 years, to enable the Fund to meet its liabilities.
- 5.3.42 Arising out of the 1981 actuarial valuation, the actuary determined that an amount of \$4 902 414 was required to be paid from the Consolidated Fund in 1983-84 and the amount was received during the year.
- 5.3.43 The next actuarial investigation into the state and sufficiency of the Fund will be as at 30 June 1984.

Financial Operations

- 5.3.44 The financial operations of the Fund for 1983-84 compared with 1982-83 are summarised hereunder:

	1982-83	1983-84
	\$000	\$000
Income	7 817	8 278
Expenditure	6 835	1 934
	<hr/>	<hr/>
Net Increase in Fund	982	6 344
	<hr/>	<hr/>

- 5.3.45 The main reason for the large increase in the Fund for the year was that no lump sum payments were made during 1983-84, whereas \$4 976 140 was paid in 1982-83.
- 5.3.46 The net assets of the Fund at 30 June 1984 were \$24 933 375 (30 June 1983, \$18 589 700).

Superannuation Lump Sum Fund

- 5.3.47 The Fund was established under the Superannuation (Lump Sum Benefits) Act 1981. The Fund covers the payment of superannuation benefits to certain married women and part-time officers and employees of the Public Service.
- 5.3.48 The Fund can be described as an accumulating fund rather than an actuarial based fund.

Statutory Reporting and Auditing Requirements

- 5.3.49 The Act requires the Auditor-General to audit the financial statements of the Fund. However, no reference is made in the Act to the reporting requirements of the Board on the operations of the Fund nor of the nature of the financial statements required to be maintained for the Fund.
- 5.3.50 The financial statements were adopted by the Board on 31 October 1984 and the audit report was signed on 22 November 1984.

Actuarial Investigation

- 5.3.51 Within the Fund there is an Annuity Account which provides for future pensions payable to current pensioners as prescribed by Section 10 of the Act. The balance in the Account was \$23 100 at 30 June 1984 (30 June 1983, \$27 090).
- 5.3.52 Section 16 of the Act provides for an actuarial investigation as to the state and sufficiency of the Annuity Account to be made at the expiration of the financial year ending on 30 June 1983 and thereafter as at the expiration of each period of 5 years. However, there is no requirement for an actuarial investigation into the state and sufficiency of the Fund itself.
- 5.3.53 At the date of preparation of this report the actuarial investigation of the Annuity Account as at 30 June 1983 was in progress but had not been finalised.
- 5.3.54 Audit is concerned at the delay in finalising the actuarial investigation.

Financial Operations

- 5.3.55 The financial operations of the Fund for 1983-84 compared with 1982-83 are summarised hereunder:

	1982-83	1983-84
	\$000	\$000
Income	1 181	1 036
Expenditure	2 827	564
	<hr/>	<hr/>
(Decrease) Increase in Fund	(1 646)	472
	<hr/>	<hr/>

- 5.3.56 The net assets of the Fund at 30 June 1984, after taking into account an increase of \$1 373 in the Annuity Account liability, were \$5 229 817 (30 June 1983, \$4 756 324).

5.3.57 The main reason for the turnaround in the Fund during 1983-84 was the substantial reduction of refunds of contributions and interest thereon to females who became officers on or after the commencement of the Superannuation (Lump Sum Benefits) Act 1981 and joined the Superannuation Fund.

Scope of Audit

5.3.58 The audit of the Superannuation Fund, the Pensions Supplementation Fund, the Parliamentary Contributory Superannuation Fund, and the Superannuation Lump Sum Fund consisted of an examination of the contributions and other income of the funds, the pensions and other benefits paid by the funds and the verification of the assets and liabilities of the funds at 30 June 1984. In addition, the work performed by the internal auditor was evaluated. The audit of the properties section of the Board was undertaken by a firm of private practitioners, whose work was reviewed and accepted for the purpose of the audit.

Audit Observations and Recommendations

Internal Audit Function

5.3.59 A review of the internal audit function of the Board revealed that it was not operating in a satisfactory manner. It was noted that the Board is currently upgrading the internal audit function. In conjunction with the upgrading, audit recommended that the internal auditor should:

- (1) develop a statement of responsibilities which clearly outlines his authority, objectives, the scope of audit and reporting functions; and
- (2) submit a program of intended audit coverage at the commencement of each financial year.

5.3.60 Both documents should be submitted to and approved by the Board.

Interest on Housing Loans

5.3.61 A selective examination of the interest charged on 5 and 10 year fixed interest housing loans revealed that, in a number of cases, the rate of interest charged had not been reviewed and updated in accordance with the terms of the loans.

5.3.62 Failure to review the rate of interest charged on a timely basis led to loss of interest income to the Board.

Conclusion

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

5.4 TOTALIZATOR AGENCY BOARD

Introduction

5.4.1 The Totalizator Agency Board was established under the Racing Act 1958. It is the function of the Board to provide off-course betting on horse, harness and greyhound racing and on Australian rules football.

5.4.2 The principal source of income of the Board is the commission earned on totalizator investments.

Statutory Reporting and Auditing Requirements

5.4.3 The Act requires the Board within 3 months of balance date, 31 July, to prepare and submit audited accounts, balance sheets and such reports as properly record the affairs of the Board to the Minister for tabling in Parliament. The Act also provides for the Auditor-General to audit the financial statements of the Board.

5.4.4 The financial statements were adopted by the Board on 26 September 1984 and the audit report was signed on 8 October 1984.

Financial Operations

5.4.5 The financial operations of the Board for the years 1983-84 and 1982-83 are shown below:

	1982-83	1983-84
	\$000	\$000
Income	78 662	93 471
Expenditure	47 969	55 862
	<hr/>	<hr/>
Operating surplus	30 693	37 609
Appropriation to reserves	4 189	5 129
	<hr/>	<hr/>
Transfer from reserves	56 504 1 633	32 480 ..
	<hr/>	<hr/>
Government underwriting	28 173 952	32 480 2 069
	<hr/>	<hr/>
Surplus available for distribution	29 089	34 549
	<hr/>	<hr/>

5.4.6 The increase in income and consequential increase of \$5 460 000 in the operating surplus was due principally to bets now being accepted up to race starting time and additional media coverage.

5.4.7 The government underwriting of \$2 068 972 represents money made available under Section 116 I of the Racing Act 1958 by the Government to ensure that the total distribution to participating clubs is equal to not less than 3.525 per cent of T.A.B. turnover for the year.

- 5.4.8 The net assets of the Board at 31 July 1984 were \$39 304 726 (31 July 1983, \$34 270 937).

Scope of Audit

- 5.4.9 The audit included an evaluation and review of the Board's revenue and expenditure internal control systems, substantive testing of the racing commission earned, late dividends, telephone betting and agents' fees, together with the verification of assets and liabilities of the Board at 31 July 1984.
- 5.4.10 The programs and working papers of the Board's Internal Audit Division were examined and accepted for the purpose of the audit.

Audit Observations and Recommendations

Internal Audit Charter

- 5.4.11 Under a reorganised management structure implemented in May 1984 the Corporate Assurance Section was placed under the responsibility of the Internal Audit Division.
- 5.4.12 The function of the Corporate Assurance Section includes corporate planning services, development of manuals and standards and systems assurance. These functions are not compatible with Internal Audit which is required to provide an independent review of such matters.
- 5.4.13 Audit recommended that the Board review this situation.

Investments

- 5.4.14 In January 1984 Internal Audit reported a lack of segregation of duties in the area of funds investments.
- 5.4.15 Although proposals made by management in July 1984 suggested enhancements to improve internal control, such procedures had not been implemented at date of preparation of this report.
- 5.4.16 Audit recommended that given the magnitude of investments (\$45.6 million as at 31 July 1984) undertaken by the Board the proposal should be implemented forthwith.

Thefts and Cash Shortages

- 5.4.17 During the year, the contracts of 3 agents were terminated as a result of unexplained cash shortages disclosed in internal audits. At the date of writing this report the Board is in the process of recovering these shortages.
- 5.4.18 Fourteen holdups and 3 break-ins occurred during 1983-84, the total amount stolen being \$144 271. A number of arrests have been made and charges laid.

Conclusion

- 5.4.19 Apart from the matters raised above, the unresolved matter referred to in the Status Report and a number of minor control weaknesses brought to the attention of the Board, the results of the audit examination proved satisfactory.

5.5 VICTORIAN DAIRY INDUSTRY AUTHORITY

Introduction

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

5.5.2 The Authority purchases milk produced under contract. It also purchases quantities of non-contract milk in respect of which the proceeds of sale are paid into 'pools' which are distributed on a monthly basis after the deduction of associated expenses.

Statutory Reporting and Auditing Requirements

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

5.5.4 The financial statements for 1983-84 were adopted by the Authority on 20 September 1984 and the audit report was signed on 13 November 1984.

Financial Operations

5.5.5 The financial operations of the Authority for 1983-84 compared with 1982-83 are summarised hereunder:

	1982-83	1983-84
	\$000	\$000
Income	154 736	162 747
Expenditure	149 996	158 391
	<hr/>	<hr/>
Transfer to Capital Fund	4 740	4 356
	4 465	4 400
	<hr/>	<hr/>
Net Operating Surplus (Deficit)	275	(44)

5.5.6 The deficit for the year was due mainly to the Authority charging \$228 000 against income in respect of a doubtful debt arising out of a major debtor, Woodruff's Dairies Pty. Ltd., having been placed in receivership.

5.5.7 Net assets of the Authority at 30 June 1984 were \$11 569 437 (30 June 1983, \$11 979 541). The decrease for the year was due largely to a reduction in the capital fund by way of amortisation charges for contract compensation.

Scope of Audit

5.5.8 The audit covered:

- (1) the documentation, evaluation and testing of the Authority's major revenue and expenditure systems including the Farm Payments Application System;
- (2) a review of the work performed by the Authority's private auditors and internal examiners who provide a continuous audit of the transactions relating to the Authority's purchase and sale of milk; and
- (3) the verification of assets and liabilities of the Authority at 30 June 1984.

Audit Observations and Recommendations

Security for Amounts Due to the Authority

- 5.5.9 Milk processors who purchase milk from the Authority may be required, under the Act, to lodge a form of security with the Authority.
- 5.5.10 During the year one of the larger processors, Woodruff's Dairies Pty. Ltd., went into receivership. At 30 June 1984 the indebtedness of this company to the Authority amounted to \$569 810, of which approximately 40 per cent was estimated to be irrecoverable. The Authority had not obtained a security from the company despite several attempts to do so.
- 5.5.11 Audit noted that the Authority had subsequently taken action to obtain outstanding securities from all other processors.

Conclusion

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

5.6 VICTORIAN ECONOMIC DEVELOPMENT CORPORATION

Introduction

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

5.6.2 The main objectives of the Corporation as stated in the Act are to:

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

Statutory Reporting and Auditing Requirements

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

5.6.4 The financial statements for 1983-84 were adopted by the Corporation on 21 September 1984 and the audit report was signed on 25 October 1984.

Financial Operations

5.6.5 The financial operations of the Corporation for 1983-84 compared with 1982-83 are summarised hereunder:

	1982-83	1983-84
	\$000	\$000
Income	7 499	8 005
Expenditure	6 822	7 668
	<hr/>	<hr/>
Surplus	677	337
	<hr/>	<hr/>

5.6.6 Net assets of the Corporation at 30 June 1984 were \$23 110 919 (30 June 1983, \$4 997 624). Apart from the surplus for the year, the increase in net assets was due to a capital grant of \$17.8 million from the State Government.

Scope of Audit

- 5.6.7 The audit included an examination and appraisal of the financial systems in operation at the Corporation. Assets and liabilities of the Corporation at 30 June 1984 were verified.
- 5.6.8 The Corporation engaged the services of a firm of private practitioners as internal auditors. Internal audit programs, work papers and reports were examined as part of the overall examination of internal control. For the purposes of my audit, work undertaken by the firm at the Corporation's overseas offices was accepted.

Audit Observations and Recommendations

Insurance

- 5.6.9 The Victorian Economic Development Corporation adopted a policy in 1982-83 whereby all companies or persons receiving loans from the Corporation must arrange appropriate insurance cover with an insurance company with which the Corporation has a concession agreement. Under the concession agreements, which are held with 28 large insurance companies, the companies are obliged to notify the Corporation of any cancellations or variations to insurance policies in which the Corporation has an interest.
- 5.6.10 While the above arrangements are considered satisfactory, audit established there were a considerable number of loan agreements negotiated in previous years where insurance in the first instance was not taken out with insurance companies holding concession agreements.
- 5.6.11 Where these circumstances existed no action has been taken by the Corporation to ensure that insurance policies remain current or provide adequate coverage. Accordingly, the Corporation cannot be certain if all its interests are protected in the event of fire or other defined risks.
- 5.6.12 Audit recommended that a review be undertaken of all loan agreements in order to identify where insurance cover is not subject to a concession agreement. Evidence of current insurance cover should then be obtained.
- 5.6.13 In addition, audit recommended that all mortgagees be encouraged to arrange cover with insurance companies holding concession agreements. In the absence of this occurring the Corporation should establish a register of loans where insurance cover is not subject to a concession agreement, and take steps to ensure that evidence of adequate cover is provided annually.

Conclusion

- 5.6.14 Apart from the matters raised above, the unresolved matter referred to in the Status Report and a number of minor matters brought to the attention of the Corporation, the results of the audit examination proved satisfactory.

5.7 **AUDIT OF OTHER STATUTORY BODIES**

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

- . Council of Adult Education
- . Dietitians Registration Board
- . Greyhound Racing Control Board
- . Harness Racing Board
- . Institute of Educational Administration
- . Liquor Control Commission
- . Melbourne Wholesale Fruit and Vegetable Market Trust
- . Rural Finance Commission
- . Tobacco Leaf Marketing Board
- . Urban Land Authority
- . Victoria Transport Borrowing Agency
- . Victorian Dried Fruits Board
- . Victorian Egg Marketing Board
- . Victorian Fishing Industry Council
- . Victorian Institute of Marine Sciences
- . Victorian Institute of Secondary Education
- . Victorian Nursing Council
- . Victorian Post-Secondary Education Commission
- . Victorian Solar Energy Commission
- . Victorian Universities Admissions Committee
- . Workers Compensation Board