

VICTORIA

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*Fourth Report*

of the

**AUDITOR-GENERAL**

for the

Year 1983-84

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*Ordered by the Legislative Assembly to be printed*

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MELBOURNE  
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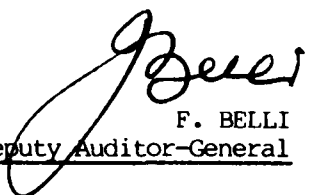
Office of the Auditor-General,  
MELBOURNE. VIC.  
30 April 1985

Sir,

Pursuant to the provisions of the Audit Act 1958, I transmit herewith my fourth 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. The report also includes the results of a comprehensive audit review of the Emerald Hill Restoration Project.

This report is supplementary to my reports dated 18 September 1984, in relation to the Treasurer's Statement for the year ended 30 June 1984, of 31 October 1984 and of 22 January 1985, on the audit of certain departments and statutory bodies during 1983-84.

Yours faithfully,

  
F. BELLI  
Deputy 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 have now presented to Parliament 4 reports in respect of 1983-84, as indicated below.
- 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 The Third Report, prepared on 22 January 1985 and tabled on 3 April 1985, contained 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 covered the operations of certain other statutory bodies which I am required by law to audit.
- 1.1.5 This Fourth Report, which completes my report in respect of 1983-84, covers those departments and statutory bodies 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 As the tabling of this report completes the reporting cycle in respect of audit activities for 1983-84 I wish to acknowledge the contribution made by all members of this Office during this period and the assistance of the Government Printer in the timely printing of the 4 reports. The contributions made by private sector accounting firms employed as agents for certain audits are also acknowledged.

1.2.2 An auditor's responsibilities can be discharged more effectively and economically with the co-operation of those officers whose affairs are being audited. I wish to record appreciation for the co-operation and assistance that management and staff of departments and statutory bodies have extended to staff of this Office and appointed agents during the conduct of their work in 1983-84.

1.2.3 It will be noted that many of the matters referred to in this report represent management shortcomings and irregularities. In essence, audit reports to Parliament are reports by exception, and as such do not purport to be a balanced account of the operations of government departments and statutory bodies. This is why the report may seem to emphasise shortcomings without giving credit for situations where no significant irregularities were observed. Nevertheless, audit endeavours to make constructive recommendations to organisations to overcome such shortcomings. In this respect I also wish to acknowledge the positive way in which most organisations have responded to audit recommendations.

## PART 2

### MATTERS OF SPECIAL INTEREST

#### 2.1 REPORTING AND AUDITING REQUIREMENTS FOR SUBSIDIARY COMPANIES

##### Background

- 2.1.1 I have observed, with some concern, the establishment of subsidiary companies by government departments and statutory bodies. (A subsidiary company is one that is controlled or owned by the parent organisation). My concerns, which arise from the significant level of public funds that may be involved in such companies, are:
- (1) the powers and scope of activities of the subsidiary organisation could extend beyond those authorised or envisaged in the parent body's enabling legislation;
  - (2) the reporting requirements under companies legislation do not specifically relate to the accountability of the body to a Minister or Parliament. In some cases, information on the financial transactions of these organisations is not included or consolidated into the financial statements of the parent organisation, with the result that Parliament is not fully informed of all the financial transactions and commitments of government organisations; and
  - (3) private sector auditors may be appointed by such companies. If these companies are not audited by my Office there is no provision for reporting to Parliament on the financial statements or other matters of general interest to Parliament and parliamentary committees.
- 2.1.2 A review of subsidiary companies of departments and authorities was therefore undertaken by this Office to establish their existing reporting and auditing arrangements.
- 2.1.3 In Victoria, subsidiary companies are operated by tertiary educational institutions, primary product marketing boards, the Health Commission, Gas and Fuel Corporation, Victorian Tourism Commission and the Department of Management and Budget. A list of companies identified by audit is set out in Table 1.
- 2.1.4 The establishment of subsidiary companies by departments and statutory agencies is also a development in other States, particularly in the tertiary education sector.

Table I

Subsidiary Companies Identified by Audit as Operated by Victorian Government Organisations

<u>Parent Organisation</u>	<u>Company</u>	<u>Main Functions</u>
Tobacco Leaf Marketing Board	Australian Leaf Corporation Pty. Ltd.	To purchase and arrange export of non-quota tobacco leaf.
Citrus Fruit Marketing Board	Citrus Fruit Marketing Company Pty. Ltd.	) To provide marketing and trading services to producers and the industry.
"	Citrus Management Company Ltd.	
Deakin University	Deakin Institute for Studies in Education	To contribute to the improvement of school systems and other educational agencies.
"	Deakin Foundation Ltd.	To foster financial support for Deakin University.
"	Durac Ltd.	To promote contract research and consultancy.
La Trobe University	La Trobe University Housing Ltd.	To manage and administer property of the University.
Royal Melbourne Institute of Technology	Meltech Ltd.	Nominee company for the Institute's Union.
"	Technisearch Ltd.	To promote contract research and consultancy by staff.
Victoria College	Victracc Ltd.	To promote contract research and consultancy by staff.
Health Commission	Health Computing Services Vic. Ltd.	To provide computing services for the Health Commission and Victorian public hospitals.
Department of Management and Budget	Aluminium Smelters of Victoria Pty. Ltd.	To manage the Victorian Government's participation in the Portland aluminium smelter project.



<u>Parent Organisation</u>	<u>Company</u>	<u>Main Functions</u>
Gas and Fuel Corporation	Albury Gas Co. Ltd.	To distribute gas and liquid petroleum gas and to sell appliances to customers in Albury.
"	Gas and Fuel Exploration N.L.	To explore for oil and natural gas and to develop any commercial discoveries made.
Victorian Tourism Commission	Sessay Pty. Ltd.	To lease certain buildings for the purposes of the Commission.
"	Victour Properties Ltd.	To promote certain Victorian tourist attractions.
Ministry of Transport	V-Line Industries Pty. Ltd.	To hold shares in joint venture pipeline.

#### Existing Auditing Arrangements

2.1.5 Of the subsidiary companies identified in the review, one company is not audited because it is an exempt proprietary company. In my view, the practice of not appointing an auditor is unsatisfactory in any government owned organisation. The review showed that 16 subsidiary companies are audited by private auditors under companies legislation, including 3 which are also audited jointly by this Office. In a number of cases where private auditors only are appointed, the Auditor-General does not have a formal power of access to subsidiary company records and audit reports, despite the fact that public money and possible future liabilities are involved.

#### Existing Reporting Arrangements

2.1.6 Only 2 parent organisations provide full disclosure of the company's financial information by presenting consolidated financial statements covering the subsidiary company. Two which are audited by private auditors are not referred to at all in the parent organisation's annual report.

#### Recommendations

2.1.7 To overcome the problems identified in paragraphs 2.1.1 - 2.1.4, in my view the following steps should be taken.

(1) Power to form subsidiary companies

As a general principle, the creation of such bodies should be subject to proper ministerial decision where appropriate, and should be authorised under formal legislation. Such legislation should:

- (i) specify objects for the company which are consistent with the powers and objectives of the parent body; and
- (ii) restrict the power of the subsidiary companies to alter the objects of the company as set out in the memorandum and articles.

(2) Accountability

In order to make companies established by government departments and statutory agencies more accountable to Parliament, legislation authorising the establishment of subsidiary companies should:

- (i) appoint the Auditor-General as auditor of all such companies; and
- (ii) require the financial operations and position of such companies to be disclosed, either by way of a separate annual report to Parliament or inclusion in the annual report and financial statements of the parent organisation.

Amendments to legislation covering Deakin and Monash Universities have recently been passed to permit those institutions to create subsidiary companies which are to operate within similar accountability requirements to those which are recommended.

**2.2 OTHER MATTERS OF SPECIAL INTEREST**

2.2.1 Matters of special interest detailed in Part 5: Audit of Statutory Bodies and Part 6 Emerald Hill Restoration Project are identified below:

<u>SUBJECT</u>	<u>PARAGRAPH REFERENCE</u>
<u>State Insurance Office</u>	
Serious financial position of the Office as a result of continuing substantial losses for compulsory third party insurance	5.17.6 - 5.17.12
Loss of the Office for year understated by \$75.8 million and accumulated losses understated by \$317.3 million due to inclusion of future investment income	5.17.15 - 5.17.16
<u>Transport</u>	
Inconsistent accounting treatment of transactions with the Public Account by Transport Authorities.	5.20.12 - 5.20.14
<u>Metropolitan Transit Authority</u>	
Conflict as to which Authority has responsibility for the operation and management of the metropolitan rail service	5.20.20 - 5.20.22

Victorian Arts Centre Trust

Duplicate payments of \$108 000 5.21.10 - 5.21.13

Council of the Museum of Victoria

No complete centralised inventory of exhibits held by the Museum 5.4.10 - 5.4.11

Council of Trustees of the National Gallery of Victoria

No complete centralised inventory of works of art in the State Collection of the Gallery 5.5.8 - 5.5.11

Victorian Tourism Commission

Establishment of 2 wholly owned subsidiary companies not subject to audit by Auditor-General 5.23.10

Emerald Hill Restoration Project

Comprehensive audit of restoration project undertaken by former Housing Commission of Victoria 6.1.1. - 6.2.51

Qualification of Financial Statements

Cancer Institute Board	5.1.7
Construction Industry Long Service Leave Board	5.3.7
Geelong Grain Handling Improvement Authority	5.8.11
Geelong Performing Arts Centre Trust	5.6.7
Metropolitan Transit Authority	5.20.18
Motor Accidents Board	5.10.9
Port of Melbourne Authority	5.12.11
Portland Grain Handling Improvement Authority	5.8.16
Road Construction Authority	5.20.40
Road Traffic Authority	5.20.62
S.E.C. Superannuation Fund	5.15.14
State Employees Retirement Benefits Board	5.16.9 - 5.16.10
State Insurance Office	5.17.4
State Transport Authority	5.20.76
Victorian Arts Centre Trust	5.21.8
Victorian Tourism Commission	5.23.8

### PART 3

#### STATUS REPORT

**3.1** This Part reports on the status of observations and recommendations, relating to the departments and statutory bodies included in Parts 5 and 6 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>
<b>DEPARTMENTS</b>			
<u>MINISTRY FOR PLANNING AND ENVIRONMENT</u>			
1982-83	41	Inadequate control procedures at the Environment Protection Authority concerning assessment of licence fees and processing of computer input.	The Authority has taken action to improve control over assessment of licence fees. Position is unchanged in regard to processing of computer input.
<u>MINISTRY FOR POLICE AND EMERGENCY SERVICES</u>			
1978-79	55	Central Firearms Registry - system weakness.	Position unchanged.
1980-81	172	Internal audit not yet established.	Position unchanged.
1981-82	118	Audit of the police payroll and an examination of leave records revealed various weaknesses in internal control.	Position unchanged.
	118	Charges for departmental services - ineffective follow-up procedures for collection of amounts due.	Corrective action has been taken on this matter.
1982-83	81	Lengthy delays between initial receipting of moneys at police stations and transmission of moneys to head office, causing a loss of interest to the Public Account.	Position has improved due to introduction of centralised collection procedures for major revenue items.
	81	Failure to adjust discrepancies arising from the reimbursement of payments from advance accounts.	Position now satisfactory.

REPORT      PAGE      SUBJECT

STATUS AT DATE OF  
PREPARATION OF THIS  
REPORT

82      Penalty Payments Office - Inadequate controls over access to source documents. No adequate check that action had been taken on all Traffic Infringement Notices before expiration of legal collection period, with consequent loss of revenue. Estimated loss of revenue in excess of \$50 000 for 1982-83 because summonses on unpaid Parking Infringement Notices could not be served within the 12 months time limit.

Action is in course to improve security over source documents. Revised procedures now in operation for Traffic Infringement Notices, however, identified control weakness still exists. Situation relating to Parking Infringement Notices has improved since introduction of word processing equipment at various police centres.

**STATUTORY BODIES**

ALBURY-WODONGA (VICTORIA)  
CORPORATION

1978-79      7      Independent valuation of land  
1979-80      8      and buildings required.  
1980-81      10  
April 82      1  
April 84      14

The Corporation has commenced action to obtain market valuations for all real estate holdings.

1979-80      7      No provision for depreciation  
1980-81      10      has been made on buildings.  
April 82      1

Position unchanged.

April 84      14      Departures from established controls and procedures in relation to land sales and property leasing systems.

Corrective action has been taken on this matter.

CANCER INSTITUTE BOARD

1978-79      11      Private practice income not  
1979-80      15      verifiable by audit.  
1980-81      18  
1981-82      8  
April 84      20

Position unchanged; however, procedures proposed by the Board to apply in 1985-86 should help to resolve this matter.

<u>REPORT</u>	<u>PAGE</u>	<u>SUBJECT</u>	<u>STATUS AT DATE OF PREPARATION OF THIS REPORT</u>
<u>CONSTRUCTION INDUSTRY LONG SERVICE LEAVE BOARD</u>			
1981-82 April 84	5 17	Accounts do not disclose gain or loss on sales or switches of investments at the point of sale.	Position unchanged.
<u>COUNCIL OF TRUSTEES OF THE NATIONAL GALLERY OF VICTORIA</u>			
1980-81	139	Cash collections - internal control weaknesses.	Appropriate action has been taken on this matter.
May 83	43	Works of art - no regular stocktaking, lack of insurance cover.	Position unchanged.
<u>COUNTRY FIRE AUTHORITY</u>			
1981-82	12	Authenticity of statutory contributions should be verified by means of a selective examination of premium returns.	Position unchanged.
April 84	24	Some practices adopted for depreciation of fixed assets are not consistent with Australian Accounting Standards.	Position unchanged.
	24	Transfer by the Authority of interest earned on general account investments to the Sale of Property Fund should be reviewed by the Department of Management and Budget.	Position unchanged.
<u>GOVERNMENT PRINTING OFFICE</u>			
1980-81	54	Sundry debtors - government departments - Department of Management and Budget instruction re payment of accounts within 30 days not being complied with.	Position unchanged. At 30 June 1984, debtors outstanding over 30 days amounted to \$1 632 965.

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REPORT

REPORT    PAGE    SUBJECT

1982-83    23    Job Recording System - the Office should re-assess the usefulness of the System to the invoicing process. There is a need for procedures which ensure invoices for all completed jobs are issued on a timely basis.

The Office discontinued use of the Job Recording System in September 1984. Manual procedures have been introduced to control invoicing of completed jobs.

GRAIN ELEVATORS BOARD

April 84    33    Extent of overpayments of travelling and other expenses to former chairman and former members of the Board for years prior to 1981-82 not yet determined by the Board.

Extent of overpayments now determined by Board (\$7 858). Overpayments to former members have been repaid. An amount of \$5 403 relating to overpayments to former Chairman (\$2 964, balance of 1981-82 overpayments, and \$2 439, prior years) is still outstanding.

34    The Board should determine the extent of overpayments of travelling expenses made since 1979 to senior management, with a view to recovery.

Extent of overpayments now determined (\$8 838). The Ministry of Transport has sought the opinion of the Crown Solicitor on whether overpayments should be recovered.

35    Payments made by the Board for parking fines and certain legal expenses on behalf of officers should be reimbursed by the officers concerned.

The Board has determined to take no further action on these matters.

LEGAL AID COMMISSION

May 83    36    Legislative amendment should be sought to require annual financial statements of the Legal Aid Fund to be prepared on an accrual basis.

Position unchanged.

<u>REPORT</u>	<u>PAGE</u>	<u>SUBJECT</u>	<u>STATUS AT DATE OF PREPARATION OF THIS REPORT</u>
	37	Consideration should be given to creation of an internal audit function.	Funding approvals have been received by the Commission for creation of internal audit function in 1984-85.
April 84	52	The Commission should evaluate the collectability of amounts owed by assisted persons on a regular and timely basis and an estimate of doubtful debts should be included in the notes forming part of the annual financial statements.	Evaluation of amounts owed at 30 June 1984 completed by Commission and an estimate of doubtful debts has been included in the 1983-84 accounts.
<u>LOCAL AUTHORITIES SUPERANNUATION BOARD</u>			
1978-79	58	Unsatisfactory contractual arrangements in respect of service bureau facilities to the Motor Accidents Board.	Agreement now expired. New arrangements are currently being considered by the parties.
1979-80	76		
1980-81	94		
1981-82	40		
	40	Internal control weaknesses in computer operations.	Position unchanged.
	41	An internal audit function should be established.	Internal audit function now established.
April 84	60	Urgent action should be taken to either collect long outstanding debts or create an adequate provision for doubtful debts.	The Board has taken action to finalise these matters.
<u>METROPOLITAN FIRE BRIGADES BOARD</u>			
1982-83	46	Control weaknesses in customer billing procedures for the special service section.	Position has generally improved.
	46	The Board should seek legislative authority for its investments in the unofficial short term money market.	The Board has ceased to invest in areas beyond its legislative authority.



<u>REPORT</u>	<u>PAGE</u>	<u>SUBJECT</u>	<u>STATUS AT DATE OF PREPARATION OF THIS REPORT</u>
<u>METROPOLITAN FIRE BRIGADES SUPERANNUATION BOARD</u>			
1982-83	49	Triennial actuarial investigation of the financial position of the Metropolitan Fire Brigades Superannuation Fund due at 30 June 1982 not yet obtained.	Actuarial investigation of Fund at 30 June 1982 now obtained.
<u>METROPOLITAN TRANSIT AUTHORITY</u>			
1980-81	127	Assets consisting of part of the former Melbourne Underground Rail Loop vested in the former Victorian Railways Board, included in accounts of the former Melbourne Underground Rail Loop Authority.	Position resolved. Assets now vested in Metropolitan Transit Authority.
1982-83	53		
April 84	67		
<u>MOTOR ACCIDENTS BOARD</u>			
1980-81	15	Computer operations contractual relationship - formal agreement to be finalised.	Agreement now expired. New arrangements are currently being considered by the parties.
1981-82	64		
1980-81	15	Bethesda Hospital - agreement to establish a rehabilitation centre not yet finalised.	Agreement not yet finalised, however, Board has deferred financing any additional capital expenditure at the Hospital.
1981-82	62	Contingent liability in respect of income tax for accident victims not disclosed.	Position unchanged.
	64	No authority under Motor Accidents Act 1973 for the Board to underwrite an overdraft of \$400 000 on behalf of Bethesda Hospital.	Crown Solicitor has advised Board underwriting of overdraft is authorised by the legislation.
<u>OFFICE OF THE PUBLIC TRUSTEE</u>			
1980-81	145	Financial statements - amendment to legislation required.	Financial statements prepared for 1983-84. Position unchanged concerning legislation.
1981-82	70		

<u>REPORT</u>	<u>PAGE</u>	<u>SUBJECT</u>	<u>STATUS AT DATE OF PREPARATION OF THIS REPORT</u>
1981-82	74	Delays in banking of certain moneys received.	Position unchanged.
<u>ONION MARKETING BOARD</u>			
1978-79	64	Finalisation of winding-up	Distribution completed. Final liquidator's statement not yet produced for audit.
1979-80	76	delayed pending legal proceedings in respect of large shipment of onions to London.	
1980-81	96		
<u>PORT OF MELBOURNE AUTHORITY</u>			
April 84	74	Land vested in the Authority under the Port of Melbourne Authority Act 1958 should be included in the balance sheet of the Authority.	Position now rectified.
	74	The Authority should consider a more realistic approach to determination of annual superannuation charge against revenue.	Appropriate action has been taken on this matter.
<u>PORT OF PORTLAND AUTHORITY</u>			
1982-83	58	Current account overdrawn by the Authority on a number of occasions without the consent of the Treasurer, as required by the Port of Portland Authority Act 1958.	Practice has been continued by Authority.
<u>POST SECONDARY EDUCATION INSTITUTIONS</u>			
April 84	97	Lack of adequate accounting expertise and resources in T.A.F.E. Colleges.	Some improvement noted by audit in this area.
	97	Lack of reporting to Parliament by Colleges of Advanced Education and T.A.F.E. Colleges and lack of information for Parliament on overall financial operations of tertiary and T.A.F.E. educational area.	Position unchanged.
	97	Inadequacies in form and content of financial statements.	Some improvement noted by audit in 1983 accounts.

STATUS AT DATE OF  
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REPORT

<u>REPORT</u>	<u>PAGE</u>	<u>SUBJECT</u>	
		<u>STATE EMPLOYEES RETIREMENT BENEFITS BOARD</u>	
April 84	85	Extent to which arrears of employee contributions will be collected cannot be determined.	Position unchanged.
	86	Non-compliance with legislative provisions governing payment of employer contributions and interest charged on outstanding employer contributions.	Legislation still being breached. Budget for 1984-85 allowed for a resumption of employer contributions from 1 July 1984 and the payment of arrears and interest due prior to 30 June 1983. No provision has been made for employer contributions for the year ended 30 June 1984.
		<u>STATE INSURANCE OFFICE</u>	
1981-82	82	Practice of recognising future investment income in determining the provision for outstanding claims at balance date should be discontinued.	Practice has been continued by Office.
April 84	89		
April 84	90	Action necessary to ensure the accuracy of all individual outstanding balances relating to employer's liability premiums.	Corrective action has been taken.
	90	Depreciation practice for additions or extensions of existing assets not in accordance with Australian Accounting Standards.	Position unchanged.
	92	Periodical inventory check should be undertaken to establish physical existence of assets recorded in assets register.	Position unchanged.

<u>REPORT</u>	<u>PAGE</u>	<u>SUBJECT</u>	<u>STATUS AT DATE OF PREPARATION OF THIS REPORT</u>
	92	The Office should seek an actuarial estimate from the Government Statist and Actuary of its liability for future contributions to the State Superannuation Fund for employees who are members of the Fund.	Actuarial estimate now obtained.
<u>STATE TRANSPORT AUTHORITY</u>			
1980-81	233	V-Line Industries Pty. Ltd. wholly owned subsidiary - no provision in legislation for accounts to be audited by the Auditor-General.	Position unchanged.
1981-82	107		
<u>VICTORIAN ARTS CENTRE TRUST</u>			
April 84	110	Several weaknesses in internal control procedures in catering operations.	Position unchanged.
<u>VICTORIAN PUBLIC OFFICES CORPORATION</u>			
1981-82	101	The financial viability of the Corporation requires urgent review.	Position unchanged.
<u>VICTORIAN TOURISM COMMISSION</u>			
1982-83	97	An agreement should be formalised with relevant parties concerning recoupment of costs of operating the Transport Information Centre.	Appropriate action has been taken to resolve this issue.

## PART 4

### AUDIT OF DEPARTMENTS

#### 4.1 ANNUAL REPORTING BY DEPARTMENTS

4.1.1 In my second report to Parliament for 1983-84, dated 31 October 1984, I referred to the inability of some departments to meet the time deadlines specified in the Annual Reporting Act 1983. In general terms the Act requires the responsible Minister for each designated department to table in Parliament an annual report comprising a report of operations and audited financial statements before 30 September, or if Parliament is not sitting, within 14 days of its next sitting. I pointed out that 18 out of the 29 departments designated under the Act had required extensions of time from the Treasurer for the tabling of their annual reports.

4.1.2 The following 6 annual reports for the year ended 30 June 1984, which have been tabled in the current session of Parliament commenced on 3 April 1985, complete the departmental annual reporting cycle for 1983-84:

- . Law Department
- . Ministry for Planning and Environment
- . Ministry of Transport
- . Ministry for Police and Emergency Services
- . Office of Corrections
- . Education Department

4.1.3 Notwithstanding the provisions of the Annual Reporting Act 1983, Parliament has not, therefore, been provided with timely annual reports in respect of these departments. In several of these cases the annual report had been awaiting tabling for some time since Parliament rose on 2 November 1984. I therefore reiterate the view expressed in my second report of October 1984 that there should be provision in the Act for the sending of annual reports to the Speaker of the Legislative Assembly when Parliament is not sitting and for such action to be regarded as tabling in Parliament. The reports could thus be made available to Members of Parliament and the public on a more timely basis.

4.1.4 An unsatisfactory feature of departmental financial statements prepared under the Annual Reporting Act 1983 has been the failure of several departments to include my audit report on the financial statements in their annual reports in conjunction with those financial statements. The audit report is essential information to lend credibility to the financial statements and I have requested that in any redrafting of the Annual Reporting (Departments) Regulations 1984 this requirement be made clear.

## **4.2 SCOPE OF AUDIT**

4.2.1 This Part contains observations and recommendations arising from the audit of the 2 departments on which I have not previously reported in respect of 1983-84.

4.2.2 The scope of audit for 1983-84 for these 2 departments, both declared under the Annual Reporting Act 1983, 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.

## **4.3 MINISTRY FOR PLANNING AND ENVIRONMENT**

### Introduction

- 4.3.1 The former Department of Planning was abolished as from 1 September 1983 when the Ministry for Planning and Environment was established as a Department by Order-in-Council pursuant to the Public Service Act 1974. The Ministry absorbed the functions of the former Department together with the responsibilities of a number of statutory bodies previously under the control of either the Ministry for Conservation or the Department of Crown Lands and Survey. The bodies included the Environment Protection Authority, Land Conservation Council, Victoria Archaeological Survey and Port Phillip Authority.
- 4.3.2 The Ministry is concerned primarily with developing and implementing policies for the use of private land and for the protection of the environment.

### Financial Responsibilities

- 4.3.3 Major collections of the Ministry and its agencies comprise licence fees for waste discharge, repayment of loans for reconstruction works from owners of areas of historical significance, contribution towards an environmental impact study on pollution, grants from the Commonwealth under the National Estate Program and sales from a plant nursery. Payments by the Ministry include its salaries and wages and general expenses.

## **Audit Observations and Recommendations**

### Departmental Financial Statements

- 4.3.4 The Ministry's ledger records at 30 June 1984 had not been reconciled with the central financial records of the Department of Management and Budget. The Treasurer granted an exemption to the Ministry from the requirement to reconcile its financial records with those of the central agency and permitted the departmental financial statements to be compiled from the records of the Department of Management and Budget.
- 4.3.5 Audit recommended that for the future regular reconciliations of financial records be effected by the Ministry with the records of the Department of Management and Budget.

### Conclusion

- 4.3.6 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 Ministry and its branches, the results of the audit proved satisfactory.

#### **4.4        AUDIT OF OTHER DEPARTMENTS**

4.4.1      The audit of the:

.    Ministry for Police and Emergency Services

is not reported separately as the audit examination proved satisfactory, apart from some weaknesses in and departures from internal controls.



**PART 5**

**AUDIT OF STATUTORY BODIES**

**5.1 CANCER INSTITUTE BOARD**

**Introduction**

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

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

**Statutory Reporting and Auditing Requirements**

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

5.1.3 The financial statements for 1983-84 were adopted by the Board on 18 October 1984 and the audit report was signed on 20 December 1984.

**Financial Operations**

5.1.4 The financial operations as reported by the Board for 1983-84 compared with 1982-83 are summarised hereunder:

	1982-83	1983-84
	\$000	\$000
Income*	28 710	30 199
Expenditure	30 253	31 808
	<hr/>	<hr/>
Deficit	1 543	1 609
	<hr/>	<hr/>

\* The main source of income is derived from the Health Commission.

5.1.5 The deficit for the year excludes prior period adjustments of \$1 624 786 comprising expenditure of \$1 354 270 for annual leave and \$602 627 for depreciation, together with an offsetting income amount of \$332 111 relating to a 1982-83 Health Commission grant payment.

5.1.6 Net assets of the Board at 30 June 1984 were \$29 608 580 (30 June 1983, \$30 236 717).

## Qualification of the Board's Financial Statements

- 5.1.7 The Board's 1983-84 financial statements were subject to the following qualifications:

"Included in the item Private Practice income is an amount of \$379 341 collected from practitioners for the use of Board facilities under agreements which do not provide for Board access to the practitioners' accounting records. Audit was therefore unable to verify whether this was the full amount due to the Board under those agreements".

"Three prior period adjustments have been made through the Operating Fund as set out in Note 3(F). This treatment is required by the Health Commission but is not in accordance with Australian Accounting Standards which require such adjustments to be included in the Statement of Income and Expenditure. In audit opinion this results in the understatement of income by \$332 111 and the understatement of expenses by \$1 956 897 with a net effect of understating the deficit of the year by \$1 624 786".

### **Scope of Audit**

- 5.1.8 The audit covered an examination of the income and expenditure and verification of the assets and liabilities of the Board at 30 June 1984. The work of the Internal Auditor and a firm of private practitioners, which assists in the internal audit function, was reviewed and accepted for the purposes of the audit.

### Conclusion

- 5.1.9 Subject to the qualifications, 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.

## 5.2 CITRUS FRUIT MARKETING BOARD

### Introduction

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

### Statutory Reporting and Auditing Requirements

- 5.2.4 The Marketing of Primary Products Act 1958 requires the Board to prepare statements of account. There is no legislative requirement for the Board to prepare an annual report or to have its audited financial statements tabled in Parliament.
- 5.2.5 The Act also provides for the audit of the financial statements of the Board by the Auditor-General. The financial statements for the year ended 31 December 1983 were received by audit on 6 February 1984 and the audit report was signed on 4 May 1984.

### Financial Operations

- 5.2.6 A summary of the operations of the Board for the year ended 31 December 1983, together with comparative figures for the previous year, is given below:

	1982	1983
	\$	\$
Income		
Remittances - grower contributions	86 783	113 596
Other	513	4 762
	<hr/>	<hr/>
	87 296	118 358
	<hr/>	<hr/>

	1982 \$	1983 \$
Expenditure		
Administration charge paid to Citrus Management Co. Ltd.	18 500	21 420
Board members' fees and allowances	31 900	31 205
Legal and other	24 009	34 342
	<hr/>	<hr/>
	74 409	86 967
	<hr/>	<hr/>
Surplus for year	12 887	31 391
	<hr/>	<hr/>

5.2.7 The net assets of the Board at 31 December 1983 were \$58 722 (31 December 1982, \$27 331).

### **Scope of Audit**

5.2.8 The audit covered an examination and appraisal of the accounting systems operated by the Board and the verification of assets and liabilities of the Board at 31 December 1983.

### **Audit Observations and Recommendations**

#### Disclosure of Equity in Management Company

5.2.9 The memorandum and articles of association of the Management Company provide, in the event of the Management Company being wound up, for the Victorian and New South Wales Marketing Boards to receive equal shares of the Management Company's surplus assets. Furthermore, if the 2 Boards were wound up or dissolved, the Company's surplus assets would be shared equally between the Treasurers of the 2 States.

5.2.10 Audit noted that accumulated funds of the Management Company and its subsidiary at 31 December 1983 amounted to \$372 608 (\$185 100 at 31 December 1982). As the notes to the financial statements did not quantify the Board's equity in the Company, it was necessary to include an explanatory paragraph within the audit report on the financial statements.

5.2.11 Audit recommended quantification of the Board's equity be specifically incorporated in the notes to the accounts for future years. It was also recommended that, in order to enhance disclosure, the Board should consider inclusion in the notes of a brief reference to the distribution position in the event of the 2 Marketing Boards, as well as the Management Company, ceasing to exist.

#### Conclusion

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

## 5.3 CONSTRUCTION INDUSTRY LONG SERVICE LEAVE BOARD

### Introduction

- 5.3.1 The Construction Industry Long Service Leave Board was established from 1 August 1983 under the Construction Industry Long Service Leave Act 1983. It replaces the Building Industry Long Service Leave Board.
- 5.3.2 The main functions of the Board are to provide benefits to employees in the construction industry. In this respect the Board is required to:
- (1) maintain registers of employers and workers in the construction industry;
  - (3) maintain a register of working sub-contractors; and
  - (4) invest and manage funds to meet ongoing and future long service leave payments.

### Statutory Reporting and Auditing Requirements

- 5.3.3 The Act requires the Board, as soon as practicable after the end of each financial year (30 June), but not later than 31 March in the following year, to submit an annual report to the Minister including its financial statements audited by the Auditor-General, for subsequent tabling in both Houses of Parliament.
- 5.3.4 The financial statements for 1983-84 were adopted by the Board on 18 September 1984 and the audit report was signed on 21 December 1984.

### Financial Operations

- 5.3.5 The financial operations of the Board for 1983-84 compared with those of the former Board for 1982-83 are summarised hereunder:

	1982-83	1983-84*
	\$000	\$000
Income	13 765	17 708
Expenditure	5 597	7 051
	<hr/>	<hr/>
Surplus	8 168	10 657
	<hr/>	<hr/>

\* Pursuant to Section 88 of the Act, the Board is deemed to be the same body as its predecessor. The 1983-84 figures are a consolidation of the financial operations of the 2 Boards.

- 5.3.6 Net assets of the Board at 30 June 1984 were \$46 247 820 (30 June 1983, \$35 590 759).

### Qualification of the Board's Financial Statements

- 5.3.7 It was necessary for me to record the following qualification on the Board's financial statements for 1983-84:

"As stated in Note 1 (g) to the financial statements the Board has maintained a policy of switching investments to obtain a better yield. The Board has not included within the Revenue Statement the loss or gain on the 8 sales or switches which were transacted during the year and consequently the amount of the Statement of Assets and Liabilities item Investments does not reflect the true cost of these investments. Audit was unable to determine the amount of these losses or gains and therefore their resultant effect on the Operating Surplus for the year and on the Statement of Assets and Liabilities item Investments."

- 5.3.8 A similar qualification has been attached by me to the Board's financial statements for 1981-82 and 1982-83.

### **Scope of Audit**

- 5.3.9 The audit covered an evaluation and testing of internal controls. Substantive testing of financial transactions was undertaken and assets and liabilities at 30 June 1984 were verified.

### Conclusion

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

## 5.4 COUNCIL OF THE MUSEUM OF VICTORIA

### Introduction

- 5.4.1 The Council of the Museum of Victoria was established under the Museums Act 1983 which was proclaimed to come into operation on 1 July 1983.
- 5.4.2 The Act also dissolved from 30 June 1983 the Building Trustees, established under the State Library National Gallery National Museum and Institute of Applied Science Act 1960, the Council of the Science Museum of Victoria and the National Museum of Victoria Council.
- 5.4.3 The objectives of the Council of the Museum of Victoria include:
- (1) operation and development of the Museum of Victoria;
  - (2) development, maintenance and exhibition of the State Collections of natural history, the history of human society and the history of science and technology; and
  - (3) promotion of the use of these Collections for education and scientific research.

### Statutory Reporting and Auditing Requirements

- 5.4.4 The Act requires the Council to provide to the Minister on or before 30 September in each year a report of its operations during the year ending on the preceding 30 June for tabling in Parliament. The Act also provides for the annual audit of the accounts of the Council by the Auditor-General.
- 5.4.5 The financial statements for 1983-84 were adopted by the Council on 5 February 1985 and the audit report was signed on 16 April 1985.

### Financial Operations

- 5.4.6 The financial operations of the Council for the first year of operations are summarised hereunder:

	1983-84
	\$
Income	827 106
Expenditure	743 791
	<hr/>
Surplus	83 315
	<hr/>

- 5.4.7 Assets totalling \$1 454 561 and liabilities amounting to \$38 955 of the former National Museum of Victoria, the Science Museum of Victoria and the Building Trustees were taken over by the Council on 1 July 1983.
- 5.4.8 Net assets of the Council at 30 June 1984 were \$1 498 921.

## Scope of Audit

- 5.4.9 The audit involved an examination and evaluation of the accounting and other systems and the verification of assets and liabilities of the Council at 30 June 1984.

## Audit Observations and Recommendations

### State Collection of Exhibits

- 5.4.10 The State Collection at the Museum is accounted for in inventory registers which are maintained in a variety of ways, e.g. manually, on micro-fiche and on on-line computer. Effective control by the Council over the State Collection is impaired due to the absence of a complete, comprehensive and centralised register which would facilitate regular stockchecks.
- 5.4.11 Audit recommended that action be initiated by the Council to implement a complete centralised register incorporating all exhibits.

### Chinese Dinosaur Replicas

- 5.4.12 A verbal agreement exists between the Council and the People's Republic of China to share profits equally on the sale of dinosaur replicas prepared in Melbourne.
- 5.4.13 During the year one replica was produced and sold for \$127 131. However, the cost of manufacturing this replica has not been determined and as a result the share of profit due to the Republic remains outstanding.
- 5.4.14 Audit recommended that the Council determine the amount due to the Republic and finalise this matter.

### Investments

- 5.4.15 Investments totalling \$1 328 722 were held by the Council at 30 June 1984. However, some investments remained in the name of the former Science and National Museums.
- 5.4.16 Audit recommended that action be taken to have all investments registered in the name of the Council of the Museum of Victoria.

### Museum Shop

- 5.4.17 Shop operations for the 1983-84 year were as follows:

	\$
Sales	376 153
<u>Less</u> Cost of Goods sold	221 034
	-----
Gross Profit	155 119
<u>Plus</u> Interest received	378
	-----
<u>Less</u> Expenses	155 497
	169 036
	-----
Net Loss	13 539
	-----



5.4.18 Although the gross profit was 41 per cent of sales the final result was a loss of \$13 539. Audit considered the result to be unsatisfactory and recommended that the Council take action to place the shop operation on a proper business footing.

Conclusion

5.4.19 Apart from the above matters and a number of minor matters which were also brought to the attention of the Council, the results of the audit proved satisfactory.

## 5.5 COUNCIL OF TRUSTEES OF THE NATIONAL GALLERY OF VICTORIA

### Introduction

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

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

### Statutory Reporting and Auditing Requirements

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

5.5.3 The financial statements were first received by audit on 14 August 1984. After amendments, final statements were received by audit on 4 February 1985 and the audit report was signed on 15 March 1985.

### Financial Operations

5.5.4 A summary of the financial operations of the Council for 1983-84 compared with 1982-83 is given hereunder:

	1982-83	1983-84
	\$	\$
Income	3 148 385	2 564 643
Expenditure	2 120 373	2 046 145
	<hr/>	<hr/>
Surplus	1 028 012	518 498
	<hr/>	<hr/>

5.5.5 The 1983-84 surplus was \$509 514 lower than that of the previous year and the most significant contributing factors were a reduction in the bequests and donations received together with a fall in income from exhibitions held during the year.

5.5.6 Net assets of the Council at 30 June 1984 were \$7 626 669 (30 June 1983, \$7 040 172).

### **Scope of Audit**

5.5.7 The audit included:

- (1) a review and evaluation of internal controls operative within the National Gallery; and
- (2) verification of the assets and liabilities at 30 June 1984.

## **Audit Observations and Recommendations**

### Register of Works of Art

- 5.5.8 Works of art in the State Collection are accounted for in the registers and listings of the Council's cataloguing and inventory systems. However, the values of the works of art are not recorded in those registers.
- 5.5.9 Registers are maintained by individual curators for various sub-collections of works of art under their control, together with a manual register of the total collections being maintained by the Registrar. At present, the latter register does not record all the items in the curator-controlled sub-collections.
- 5.5.10 Effective control by the Council over the preservation and monitoring of the State Collection is impaired due to the absence of a complete, comprehensive and centralised register which would enable, for example, regular progressive stockchecks by the Registrar independently of the curators.
- 5.5.11 Audit recommended that a formal plan be initiated by the Council to achieve complete registration of all works of art in the State Collection and that in implementing the plan Council give consideration to the use of modern computer technology.

### Conclusion

- 5.5.12 Apart from the above matter, the unresolved matter referred to in the Status Report and other minor matters brought to the attention of the Council, the audit proved to be satisfactory.

## 5.6 GEELONG PERFORMING ARTS CENTRE TRUST

### Introduction

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

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

### Statutory Reporting and Auditing Requirements

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

5.6.3 The financial statements for 1983-84 were first received by audit on 16 November 1984. Amended statements were received on 21 December 1984 and the audit report was signed on 7 March 1985.

### Financial Operations

5.6.4 The financial operations as reported by the Trust for 1982-83 compared with 1983-84 are summarised hereunder:

	1982-83	1983-84
	\$	\$
Income	557 876	578 293
Expenditure	664 149	813 632
	<hr/>	<hr/>
Deficit	106 273	235 339
	<hr/>	<hr/>

5.6.5 The income for 1983-84 included government subsidies totalling \$380 000 (1982-83, \$348 000). The main reasons for the increased deficit were increases in staff expenses, advertising and publicity, repairs and maintenance, and expenses related to entrepreneurial ventures.

5.6.6 Net assets of the Trust at 30 June 1984 were \$8 901 310 (30 June 1983, \$9 107 838).

## Qualification of the Trust's Financial Statements

- 5.6.7 It was necessary for me to record the following qualification on the Trust's financial statements for 1983-84:

"As indicated in Note 1.2 to the accounts the Trust does not provide for depreciation of its buildings which are recorded in the balance sheet at a cost of \$6 191 052. This practice is a departure from Australian Accounting Standards and in my opinion depreciation should be provided on buildings and be shown as an expense in the income and expenditure statement. Based on an anticipated life span of 40 years audit estimates that the annual depreciation charge would be approximately \$155 000 and expenses and the deficit for the year have each been understated by this amount".

### **Scope of Audit**

- 5.6.8 The audit included the evaluation and testing of the Trust's expenditure and revenue systems and the verification of assets and liabilities at 30 June 1984.
- 5.6.9 A firm of private practitioners appointed by the Trust conducts an audit on a regular basis throughout the year. Their audit programs, working papers and reports were examined and evaluated for the purposes of my audit and further testing was undertaken where considered necessary.

### **Audit Observations and Recommendations**

#### Depreciation on Buildings

- 5.6.10 In audit opinion, depreciation should be charged as an expense by means of periodical charges over the estimated useful lives of the buildings. This is consistent with Australian Accounting Standards and the policies adopted by several similar organisations elsewhere in Australia.
- 5.6.11 The estimation by audit of the applicable depreciation charge for the 1983-84 year is based on an anticipated life-span of 40 years for depreciable buildings.
- 5.6.12 Audit recommended that the Trust consider adopting a policy of depreciating buildings, based upon reasonable estimates of useful service lives.

#### Conclusion

- 5.6.13 Subject to the qualification and minor matters brought to the attention of the Trust, the results of the audit proved satisfactory.

## 5.7 GOVERNMENT PRINTING OFFICE

### Introduction

- 5.7.1 The Government Printing Office, as a branch of the Department of Property and Services, is responsible for the design, production and sale of printed and published material and stationery for the Victorian Parliament, government departments and some statutory authorities. The Office is also responsible for certain media advertising.

### Statutory Reporting and Auditing Requirements

- 5.7.2 The operations of the Government Printing Office are financed through the Government Printing Office Working Account, a trust account held in the Department of Management and Budget. The major part of capital expenditure incurred by the Office is financed through the Works and Services Account. These transactions are incorporated in the annual financial statements of the Department of Property and Services.
- 5.7.3 In addition, the Government Printing Office prepares a manufacturing statement, trading and profit and loss statement, balance sheet and statement of sources and applications of funds which do not form part of the departmental financial statements. However, it is anticipated that these statements will be included in the departmental financial statements in the near future.
- 5.7.4 Although there is no statutory requirement for the Auditor-General to express an opinion on these financial statements, such statements have been examined by audit and summarised details are included herein.

### Financial Operations

- 5.7.5 A summary of the manufacturing and trading and profit and loss statements prepared by the Government Printing Office for 1983-84, compared with 1982-83, is given hereunder:

#### Manufacturing Statement

	1982-83	1983-84
	\$	\$
Prime Cost of Goods Manufactured	14 480 898	15 821 817
Manufacturing Expenses	3 114 415	4 177 043
Work in Progress 1 July	3 044 849	2 583 932
	<hr/>	<hr/>
	20 640 162	22 582 792
Less Work in Progress 30 June	2 583 932	3 050 551
	<hr/>	<hr/>
Net Cost of Goods Manufactured	18 056 230	19 532 241
	<hr/>	<hr/>

Trading and Profit and Loss Statement

	1982-83	1983-84
	\$	\$
Net Sales	28 917 986	31 564 535
Less Cost of Goods Sold		
Stock 1 July	2 865 737	3 321 120
Cost of Goods Manufactured	18 056 230	19 532 241
Other Costs	8 728 378	9 447 575
Stock 30 June	(3 321 120)	(3 131 050)
	<hr/>	<hr/>
	26 329 225	29 169 886
	<hr/>	<hr/>
	2 588 761	2 394 649
Less Trading Expenses	1 421 599	1 276 474
	<hr/>	<hr/>
Gross Profit	1 167 162	1 118 175
Less Selling, Administrative and Finance Expenses	1 927 186	2 341 323
	<hr/>	<hr/>
	(760 024)	(1 223 148)
Less Other Operating Income	48 993	67 354
	<hr/>	<hr/>
Operating Loss	(711 031)	(1 155 794)
Less Non-Operating Income	33 278	469 405
	<hr/>	<hr/>
Net Loss before Abnormal Items	(677 753)	(686 389)
Less Abnormal Items	..	414 273
	<hr/>	<hr/>
Net Loss After Abnormal Items	(677 753)	(272 116)
Retained Earnings 1 July	3 024 258	2 346 505
	<hr/>	<hr/>
Retained Earnings 30 June	2 346 505	2 074 389
	<hr/>	<hr/>

5.7.6 Contributions for 1983-84 by the Public Works Department and the Department of Management and Budget in respect of maintenance and renovation expenses and workers' compensation insurance premium respectively, previously included as equities, have now been included in non-operating income.

5.7.7 The abnormal item represents amounts contributed in prior years by the Department of Management and Budget in respect of workers' compensation insurance premiums previously treated as equities.

5.7.8 The main reason for the Government Printing Office incurring a net loss of \$686 389 (before abnormal items) was that predetermined production charge rates, based on estimated expenditure for 1983-84, were insufficient to recoup actual expenditure incurred in respect of work carried out for government departments and some statutory authorities.

Balance Sheet as at 30 June 1984

	30.6.83	30.6.84
	\$	\$
<b>Equity Funds</b>		
Treasurer's Advance to Working Account	3 004 405	3 004 405
Works and Services Allocations to Assets	5 836 064	5 741 400
D.M.B. Payment - Workers' Compensation Insurance Premiums	414 273	..
Retained Earnings	2 346 505	2 074 389
	<hr/>	<hr/>
	11 601 247	10 820 194
	<hr/>	<hr/>
<b>Represented by:</b>		
Current Assets	10 835 147	13 137 169
Less Current Liabilities	2 521 349	5 245 069
	<hr/>	<hr/>
Working Capital	8 313 798	7 892 100
	<hr/>	<hr/>
<b>Fixed Assets</b>		
Motor Vehicles, Office Equipment, Machinery and Equipment (at cost)	4 290 855	5 263 795
Provision for Depreciation	(1 409 018)	(1 889 411)
Works provided by Public Works Department	405 612	..
	<hr/>	<hr/>
	3 287 449	3 374 384
	<hr/>	<hr/>
	11 601 247	11 266 484
Less Long Term Liability - Loan from State Development Fund	..	446 290
	<hr/>	<hr/>
Net Assets	11 601 247	10 820 194
	<hr/>	<hr/>

**Scope of Audit**

- 5.7.9 The audit included the documentation, evaluation and testing of the Office's major revenue and expenditure systems and the verification of assets and liabilities at 30 June 1984.

Conclusion

- 5.7.10 Apart from the unresolved matter referred to in the Status Report, the results of the audit proved satisfactory.



**5.8 GRAIN HANDLING IMPROVEMENT AUTHORITIES  
(covering 1 November 1983 to 2 July 1984)**

Introduction

- 5.8.1 Pursuant to Section 4 of the Grain Handling Improvement Authorities (Abolition) Act 1984 the 3 authorities, namely, the Country Grain Handling Improvement Authority, the Geelong Grain Handling Improvement Authority and the Portland Grain Handling Improvement Authority, were abolished on 3 July 1984 and their rights, properties, duties and obligations were transferred to the Grain Elevators Board.
- 5.8.2 The financial operations of the 3 authorities covering the period 1 November 1983 to 2 July 1984 are summarised hereunder.

**COUNTRY GRAIN HANDLING IMPROVEMENT AUTHORITY**

Financial Operations

- 5.8.3 The financial operations of the Authority for the period 1 November 1983 to 2 July 1984 compared with 1982-83 are summarised as follows:

	Year ended 31.10.83	1.11.83 to 2.7.84
	\$	\$
Income	172 015	97 096
Expenditure	152 374	100 835
	<hr/>	<hr/>
Surplus (Deficit)	19 641	(3 739)
	<hr/>	<hr/>

- 5.8.4 Net assets of the Authority at 2 July 1984 were \$85 254 (31 October 1983, \$88 993).
- 5.8.5 The operating deficit resulted mainly from the rate of interest paid on the unexpended loan being higher than the interest rate received from the short-term investment of those funds.

**Scope of Audit**

- 5.8.6 The audit covered substantive testing of the Authority's revenue and expenditure for the period and verification of assets and liabilities at 2 July 1984.

**GEELONG GRAIN HANDLING IMPROVEMENT AUTHORITY**

Financial Operations

- 5.8.7 The financial operations of the Authority for the period 1 November 1983 to 2 July 1984 compared with 1982-83 are summarised as follows:

	Year ended 31.10.83	1.11.83 to 2.7.84
	\$	\$
Income	70 631	164 195
Expenditure	651 686	635 360
	<hr/>	<hr/>
Deficit	581 055	471 165
	<hr/>	<hr/>

5.8.8 Net liabilities for the Authority at 2 July 1984 were \$1 708 609 (31 October 1983, \$1 237 444).

5.8.9 The decrease in the operating deficit was due primarily to the substantial increase in interest income arising from the investment of unexpended loan funds.

5.8.10 The Authority has no specific legislative power to generate income and so be assured of its ability to meet loan obligations. Income earned during 1983-84 was derived from short-term investments of loan funds.

#### Qualification of the Authority's Financial Statements

5.8.11 It was necessary to record the following qualifications on the financial statements of the Authority for the period 1 November 1983 to 2 July 1984:

"As stated in note 2 to the accounts, the amount of \$2 263 367 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 2 July 1984".

#### **Scope of Audit**

5.8.12 The audit comprised substantive testing of the Authority's revenue and expenditure for the period and verification of assets and liabilities at 2 July 1984.

### **PORTLAND GRAIN HANDLING IMPROVEMENT AUTHORITY**

#### Financial Operations

5.8.13 The financial operations of the Authority for the period 1 November 1983 to 2 July 1984 compared with 1982-83 are summarised as follows:

	Year ended 31.10.83	1.11.83 to 2.7.84
	\$	\$
Income	51 357	71 055
Expenditure	758 975	620 226
	<hr/>	<hr/>
Deficit	707 618	549 618
	<hr/>	<hr/>
Income	51 357	71 055
Expenditure	758 975	620 226
	<hr/>	<hr/>
Deficit	707 618	549 618
	<hr/>	<hr/>

5.8.14 Net liabilities of the Authority at 2 July 1984 were \$1 330 361 (31 October 1983, \$781 190).

5.8.15 The decrease in the operating deficit was due primarily to the shorter accounting period which had the effect of reducing the interest expense from \$756 742 (12 months period) to \$616 997 (8 months period). The Authority has no specific legislative power to generate income and so be assured of its ability to meet loan obligations. Income earned during 1983-84 was derived from short-term investment of loan funds.

#### Qualification of the Authority's Financial Statements

5.8.16 It was necessary to record the following qualifications on the financial statements of the Authority for the period 1 November 1983 to 2 July 1984:

"As stated in note 2 to the accounts, the amounts of \$307 100 and \$4 428 005, 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 2 July 1984".

#### **Scope of Audit**

5.8.17 The audit comprised substantive testing of the Authority's revenue and expenditure for the period and verification of assets and liabilities at 2 July 1984.

#### Conclusion

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

**5.9 LATROBE REGIONAL COMMISSION**

Introduction

- 5.9.1 The Latrobe Regional Commission was established under the Latrobe Regional Commission Act 1983 which came into operation on 6 December 1983.
- 5.9.2 The principal objectives of the Commission as stated in the Act are to:
- (1) co-ordinate the planning of the economic, physical, environmental and social development of the Latrobe region;
  - (2) improve the co-ordination of and facilitate the development of major projects in the region;
  - (3) assist the implementation of State policies in relation to the region;
  - (4) assist in the economic development of the region; and
  - (5) involve the regional community in decision-making in relation to the region.

Statutory Reporting and Auditing Requirements

- 5.9.3 The Act requires the Commission as soon as practical after the end of each financial year, but no later than the following 30 September, to submit audited statements of accounts to the Minister and to each municipality in the region. Section 49 of the Act provides for the annual audit of the accounts of the Commission by the Auditor-General.
- 5.9.4 The financial statements for the period ended 30 June 1984 were adopted by the Commission on 23 October 1984 and the audit report was signed on 20 December 1984.

Financial Operations

- 5.9.5 The financial operations of the Commission for the period from formation on 6 December 1983 to 30 June 1984 are summarised hereunder:

	6.12.83 to
	30.6.84
	\$
Income	265 366
Expenditure	95 575
	<hr/>
Surplus	169 791
	<hr/>

- 5.9.6 Net assets of the Commission at 30 June 1984 were \$169 791.

## **Scope of Audit**

5.9.7 The audit consisted of:

- (1) an examination of financial systems and transactions, including an evaluation of internal controls and the degree of compliance with relevant statutes and regulations; and
- (2) verification of assets and liabilities of the Commission at 30 June 1984.

## **Audit Observations**

### Municipal Contributions

5.9.8 Under the provisions of Section 47 of the Act the municipalities in the Latrobe region are required to contribute to the Commission in each financial year "an amount equal to one-third of the estimates of expenditure approved by the Treasurer" in relation to carrying out the administrative functions of the Commission.

5.9.9 The Department of Industry, Commerce and Technology was advised by the Department of Management and Budget in March 1984 to "pursue the relevant portion of the 1983-84 costs being recouped against the municipalities contribution in 1984-85".

5.9.10 Audit established that the Commission was not advised of this request and consequently the municipalities in the region were not informed of the contribution payable for 1983-84, which was calculated at \$64 288.

5.9.11 The Treasurer agreed to a request from the Department of Industry, Commerce and Technology in November 1984 that no action be taken to recover the outstanding municipal contributions.

5.9.12 Audit drew attention to the breakdown in communication between the Department and the Commission which effectively resulted in a loss of revenue to the Commission of \$64 288. The need for closer liaison in the future was emphasised.

### Conclusion

5.9.13 Apart from the above matters and minor matters brought to the attention of the Commission, the results of the audit examination proved satisfactory.

## 5.10 MOTOR ACCIDENTS BOARD

### Introduction

- 5.10.1 The Motor Accidents Board was established as a body corporate on 17 August 1973, under the provisions of the Motor Accidents Act 1973. It is responsible for administering the various provisions of the Act which deal mainly with protecting persons from financial hardship as a result of accidents involving motor cars registered in Victoria.
- 5.10.2 Accounts of accident victims including such items as medical services, ambulance services, loss of income within certain limits, housekeeping and other allied expenses are paid by the Board. The payments are made regardless of fault and do not prejudice the rights of injured parties to common law actions.
- 5.10.3 The Board derives its income from calls on authorised insurers, interest on investments and from a surcharge on drivers licence fees.
- 5.10.4 The Act also provides for a rehabilitation account to be used by the Board to assist certain motor car accident victims in medical and vocational rehabilitation.

### Statutory Reporting and Auditing Requirements

- 5.10.5 The Act requires the Board to finalise its accounts within 3 months of 30 June each year and to forward its audited statements to the Minister by 31 December to be laid before both Houses of Parliament. The Act also provides for an annual audit of the accounts of the Board by the Auditor-General.
- 5.10.6 The financial statements of the Board were adopted on 28 September 1984 and the audit report was signed on 7 January 1985.

### Financial Operations

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

	1982-83	1983-84
	\$000	\$000
Income	79 564	103 128
Expenditure	81 780	95 518
	<hr/>	<hr/>
(Deficit) Surplus	(2 216)	7 610
	<hr/>	<hr/>

- 5.10.8 Net assets of the Board at 30 June 1984 were \$17 364 785 (30 June 1983, \$9 754 766).

### Qualification of the Board's Financial Statements

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

"The Board follows an accounting policy whereby certain payments made late in the financial year are not included as expenses but are deferred until the next financial year. The deferred expenses are included as sundry debtors in the balance sheet rather than as an expense for the year. An amount of \$1.4 million in respect of such payments was included in the balance sheet item - sundry debtors at 30 June 1984 (\$0.4 million, 30 June 1983). As a consequence of this treatment, in my opinion, the balance sheet item - sundry debtors has been overstated by \$1.4 million and the income and expenditure statement item in the general account - benefits paid understated by \$1 million."

### **Scope of Audit**

- 5.10.10 The audit included the confirmation of income received from calls made on authorised insurers, interest received on investments, income from drivers licence surcharge and benefits paid to accident victims. The assets and liabilities of the Board at 30 June 1984 were verified.
- 5.10.11 A continuous audit is carried out by a firm of private practitioners appointed for that purpose by the Board and an internal auditor, an employee of the Board. My audit covered an examination and evaluation of their audit programs, working papers and reports. The work performed by these auditors was accepted for the purposes of my audit.

### **Audit Observations and Recommendations**

#### Deferred Expenditure

- 5.10.12 In relation to the matter of deferred expenditure referred to in the audit qualification in paragraph 5.10.9 above, the Board's management has indicated that appropriate action would be taken in 1984-85 to ensure that all expenditure is correctly recorded in the Board's accounts.

#### Payments to Alfred Hospital

- 5.10.13 As part of the Board's rehabilitation program, the Board has made payments to the Alfred Hospital to fund a road trauma service and intensive care facilities. Although letters detailing the funding arrangement have been exchanged between the Board and the Hospital no formalised agreement has been entered into.
- 5.10.14 Audit considers the Board's present arrangements with the Alfred Hospital to be unsatisfactory and recommends that it enter into a formal agreement.

#### Agreements between the Board and Applicants for Financial Assistance towards Home Alterations

- 5.10.15 It is the Board's policy to aid the return of motor accident victims to a suitable environment within their homes. This objective is achieved by the Board partly meeting the cost of alterations to victims' homes. Such arrangements are subject to an agreement between the Board and the owners of the home in which the victim resides. Under the agreement the victim is required to live at the premises for a period of at least 5 years from the date of the accident. The Board may seek to recover any part of its contributions towards such home alterations in the event of an agreement being breached by the other party.

5.10.16 Legal opinion obtained from the Board's solicitors raised some doubt as to the Board's powers under the provisions of the Motor Accidents Act 1973 to enter into such agreements. Despite such legal opinion, the Board has continued to enter into such agreements. In audit opinion, if the Board is to continue the practice it should seek legislative authority to do so.

#### Conclusion

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



## 5.11 PORT OF GEELONG AUTHORITY

### Introduction

- 5.11.1 The Port of Geelong Authority was established under the Port of Geelong Authority Act 1958 and is responsible for the management, control and development of the Port of Geelong.

### Statutory Reporting and Auditing Requirements

- 5.11.2 The Act requires the Authority, as soon as practicable after 31 December in each year, to present to the Governor-in-Council audited financial statements. Copies of such statements are to be laid before both Houses of Parliament. The Act also provides for an annual audit of the accounts of the Authority by the Auditor-General.
- 5.11.3 The financial statements for 1984 were adopted by the Authority on 26 February 1985 and the audit report was signed on 22 March 1985.

### Financial Operations

- 5.11.4 The financial operations of the Authority for 1984 compared with 1983 are summarised hereunder:

	1983	1984
	\$000	\$000
Revenue	13 070	17 490
Expenditure	10 075	12 561
	<hr/>	<hr/>
Net Profit	2 995	4 929
	<hr/>	<hr/>

- 5.11.5 The increase in profits between 1983 and 1984 was due mainly to an increase in trade through the port. In 1983 the level of trade was adversely affected by the drought. Net assets of the Authority at 31 December 1984 were \$51 049 000 (31 December 1983, \$45 782 000).
- 5.11.6 The Authority currently is in a strong financial position as it has a working capital ratio (i.e. ratio of current assets to current liabilities) of 4.55 with long term borrowings of only \$455 000.

### **Scope of Audit**

- 5.11.7 The audit included the documentation, evaluation and testing of the Authority's revenue and expenditure systems and the verification of the assets and liabilities of the Authority at 31 December 1984.

### **Audit Observations and Recommendations**

#### Land Vested in the Authority

- 5.11.8 The balance sheet item fixed assets does not include the value of land vested in the Authority under the Port of Geelong Authority Act 1958. In audit opinion the value of vested land, which the Authority may use to generate income and which it has power to sell, should be included in the balance sheet to more fully disclose the financial position of the Authority.

## Conclusion

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

**5.12 PORT OF MELBOURNE AUTHORITY**

Introduction

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

Statutory Reporting and Auditing Requirements

- 5.12.3 The Authority has been declared a public body for the purposes of the Annual Reporting Act 1983 and is required within 3 months after the end of the financial year, or such other period as approved by the Treasurer, to submit an annual report to the Minister.
- 5.12.4 Under that Act, the annual report is required to contain:
  - (1) a report of the Authority's operations during the financial year; and
  - (2) audited financial statements for the financial year.
- 5.12.5 The financial statements are required to be audited by the Auditor-General pursuant to the provisions of the Annual Reporting Act 1983.
- 5.12.6 The Minister of Transport sought and was granted extensions to 31 December 1984 for the presentation of the annual report to Parliament.
- 5.12.7 The financial statements for 1983-84 were adopted by the Authority on 23 November 1984 and the audit report was signed on 19 December 1984.

Financial Operations

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

	1982-83	1983-84
	\$000	\$000
Revenue	63 347	71 537
Expenditure	97 542	83 954
	<hr/>	<hr/>
Net Loss	34 195	12 417
	<hr/>	<hr/>

5.12.9 The principal reasons for the net loss for the year were:

- (1) the superannuation liability for current contributors has been brought to account for the first time and this resulted in an additional charge in the year of \$8 155 000; and
- (2) additional superannuation of \$6 734 000, being charged against revenue as a result of an actuarial investigation which disclosed that the value of the Authority's liability to current pensioners, as at 1 July 1983, was understated by this amount.

5.12.10 Net assets of the Authority at 30 June 1984 were \$153 363 000 (30 June 1983, \$39 791 000). The increase was due mainly to the bringing to account of vested land valued at \$131 989 000.

#### Qualification of the Authority's Financial Statements

5.12.11 It was necessary to record the following qualification on the Authority's financial statements for 1983-84:

"As stated in Note 1(b)(ii) to the accounts the Authority has not disclosed either the useful service lives or depreciation rates used for each fixed asset class. Such information is required to be disclosed by the Annual Reporting (Large Trading and Rating Public Bodies) Regulations 1984."

#### **Scope of Audit**

5.12.12 The audit included the documentation, evaluation and testing of the Authority's major revenue and expenditure systems and the verification of assets and liabilities at 30 June 1984. The supplementary financial statements prepared on a current cost basis were not audited.

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

##### Non-Compliance with the Regulations

5.12.13 The Annual Reporting Act 1983 requires the financial statements to be prepared in the format provided in the Annual Reporting (Large Trading and Rating Public Bodies) Regulations 1984 except when the Treasurer grants an exemption from complying with specific Regulations.

5.12.14 The Regulations require the following disclosure for each class of depreciable asset:

- (1) the depreciation methods used;
- (2) the useful lives or depreciation rates used;
- (3) the total depreciation allocated for the period;
- (4) the gross amount of depreciable assets and the related accumulated depreciation; and
- (5) any change from the preceding year in the depreciation method used and the useful life and depreciation rate applied.

- 5.12.15 The Authority indicated in its notes to the accounts that it failed to disclose the useful lives or depreciation rates used due to the large number of assets with varying useful lives within asset classes. The Authority did not seek an exemption from this requirement from the Treasurer.

Loan Allocation

- 5.12.16 The Authority's net loan allocation set by the Treasurer of Victoria for 1983-84 was \$17 million. Audit examination disclosed that the above limit was exceeded by \$1 922 144.

Conclusion

- 5.12.17 Subject to the qualification, the above matters and a number of minor matters which were brought to the attention of the Authority, the results of the audit proved satisfactory.

## 5.13 PORT OF PORTLAND AUTHORITY

### Introduction

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

### Statutory Reporting and Auditing Requirements

- 5.13.2 The Act requires the Authority, as soon as practicable after 30 June in each year, to present to the Governor-in-Council audited financial statements. Copies of such statements are to be laid before both Houses of Parliament. The Act also provides for an annual audit of the accounts of the Authority by the Auditor-General.
- 5.13.3 The financial statements for 1983-84 were adopted by the Authority on 8 January 1985 and the audit report was signed on 13 February 1985.

### Financial Operations

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

	1982-83	1983-84
	\$000	\$000
Income	6 031	5 193
Expenditure	5 924	5 850
	<hr/>	<hr/>
Surplus (Deficit)	107	(657)
	<hr/>	<hr/>

- 5.13.5 Net assets of the Authority at 30 June 1984 were \$4 054 000 (30 June 1983, \$4 711 000).
- 5.13.6 The operating deficit reflects a reduction in the government grant which the Authority receives each year to meet any estimated shortfall between its revenue and expenditure. For 1983-84, the grant was \$400 000 (1982-83, \$2 500 000). This reduction was partly offset by an increase in revenue from wharfage and shipping services due to increases in trade during the year.

### **Scope of Audit**

- 5.13.7 The audit included the documentation, evaluation and testing of the Authority's revenue and expenditure systems and the verification of the assets and liabilities of the Authority at 30 June 1984.

### **Audit Observations and Recommendations**

#### Loan Liability - Treasurer of Victoria

- 5.13.8 No loan funds were advanced by the Treasurer to the Authority during the year ended 30 June 1984. Advances at 30 June 1984 remained at \$3 822 900.

- 5.13.9 For a number of years the Treasurer has approved the deferment of the payment by the Authority of interest in respect of the loan advances. On 12 July 1984 the Authority requested from the Department of Management and Budget details of interest charges in respect of the year ended 30 June 1984 and applied to the Treasurer for the deferment of payment of such interest. However, at the date the financial statements were adopted by the Authority, the Department of Management and Budget had not supplied the details requested.
- 5.13.10 The accumulated deferred interest at 30 June 1983 totalled \$4 369 804. Such amount is not included in the Authority's accounts; however, reference is included in the notes to the accounts.

#### Contracts

- 5.13.11 The Act provides that the Authority shall not enter into any contract involving expenditure of an amount exceeding \$30 000 without first obtaining the written consent of the Minister.
- 5.13.12 During 1983-84 the Authority entered into agreements for the construction of a storage area. The total cost of the project was estimated at \$200 000. The Authority did not apply for ministerial approval until July 1984 and the approval was not given until October 1984.

#### Conclusion

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

## 5.14 POST SECONDARY EDUCATION INSTITUTIONS

### Introduction

5.14.1 In my fourth report to Parliament for 1982-83, I commented for the first time on the important area of post secondary education, embracing:

- the 4 Universities within Victoria; and
- the institutions subject to the provisions of the Post Secondary Education Act 1978, covering 17 Colleges of Advanced Education (C.A.E.) and 28 Technical and Further Education Colleges (T.A.F.E.).

5.14.2 In the report, I drew attention to a number of significant issues arising from the audit of these institutions, the most important being:

- (i) inadequacies in the form and content of financial statements;
- (ii) deficiencies in reporting to Parliament and lack of information for Parliament on the overall financial operations of this area of activity; and
- (iii) lack of adequate accounting expertise and resources in T.A.F.E. Colleges.

5.14.3 Some progress has been made towards overcoming these problems, details of which are given later in this section of the report.

### Summary of Financial Operations

5.14.4 As indicated in my fourth report for 1982-83, there is no overall financial reporting to Parliament covering the activities of this sector. The annual report of the Victorian Post Secondary Education Commission does not contain consolidated financial information for C.A.E.s and T.A.F.E. Colleges. While the recent Budget Information Paper No. 2 "Supplementary Program Information 1984-85" issued by the Department of Management and Budget contains consolidated information regarding total expenditure on Technical and Further Education no other comprehensive information is available on any of the financial activities of the sector.

5.14.5 The following table prepared by my Office summarises the total financial operations of Universities, C.A.E.s and T.A.F.E. Colleges. As is evidenced by the figures in the table the level of public funds expended by this sector is significant.



SUMMARY OF FINANCIAL OPERATIONS  
POST SECONDARY EDUCATION INSTITUTIONS

	<u>Accum'd</u>	<u>Income</u>		<u>Expend-</u>	<u>Surplus/</u>	<u>Accum'd</u>
	<u>Funds #</u>	<u>Govt.</u>	<u>Other</u>	<u>iture</u>	<u>Deficit</u>	<u>Funds #</u>
	<u>31.12.82</u>	<u>Grants</u>				<u>31.12.83</u>
	<u>\$mill.</u>	<u>\$mill.</u>	<u>\$mill.</u>	<u>\$mill.</u>	<u>\$mill.</u>	<u>\$mill.</u>
Univer- sities (1)	70.6	273.3	61.1	321.4	13.0	83.6
C.A.E.s (2)	27.3	241.0	31.1	267.2	4.9	32.2
T.A.F.E. Colleges (3)	19.8	139.6	13.3	153.1	(0.2)	19.6
<b>TOTAL</b>	<b>117.7</b>	<b>653.9</b>	<b>105.5</b>	<b>741.7</b>	<b>17.7</b>	<b>135.4</b>

Note: (1) See Table 1 to this section for further details on Universities.

(2) See Table 2 to this section for further details on C.A.E.s.

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

# Includes reserves whether held in the form of assets, unexpended grants, trust moneys or endowments for specified purposes.

5.14.6 As reported in my fourth report to Parliament for 1982-83, I reiterate that in my view, considering the level and magnitude of aggregate funds flowing through these institutions, the preparation of a comprehensive report on the financial operations of the post secondary education sector should be addressed as a matter of priority.

5.14.7 The need for proper accountability of public funds provided for various educational purposes cannot be overemphasised. I strongly recommend that a Committee be formed comprising representatives from the Departments of Education and Management and Budget, the Victorian Post Secondary Education Commission, the Technical and Further Education Board and the Universities with overall responsibility for the preparation of an annual consolidated report on the financial operations of post secondary educational institutions. This report should be laid before the Parliament and therefore provide it with relevant and timely information as to the sources and applications of funds within the post secondary education sector.

Statutory Reporting and Auditing Requirements

(1) Universities

5.14.8 There are 4 Universities in Victoria, 3 located in the metropolitan area and one in Geelong. These Universities are bodies corporate, provide tertiary education at university level, are involved in various research activities, and are operating under various Acts as follows:

- University of Melbourne - Melbourne University Act 1958
- Monash - Monash University Act 1958
- La Trobe - La Trobe University Act 1964
- Deakin - Deakin University Act 1974

- 5.14.9 Other than for Melbourne University, the Acts require the Councils of each University to prepare annual financial statements for submission to the Auditor-General by 31 March each year. The legislation further provides that an annual report, together with copies of audited statements of income and expenditure, shall be transmitted to the Governor-in-Council and subsequently such reports shall be laid before Parliament.
- 5.14.10 Melbourne University is required to submit its annual report, together with its audited financial statements, to the Governor as soon as practicable after 1 January each year, and subsequently such report is laid before the Parliament.
- 5.14.11 All Universities have a financial year ending on 31 December. The Council of each University has a statutory responsibility to arrange for a continuous audit of the income and expenditure in its accounts. The Auditor-General has the responsibility, pursuant to the fore-mentioned Acts, for the annual audit of the financial statements.
- 5.14.12 Audit comments in respect of the financial operations of the Universities for the year ended 31 December 1983 are contained in my second report to Parliament for the year ended 30 June 1984.

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

- 5.14.13 The Post Secondary Education Act 1978 requires the Council of each institution to keep proper books and accounts and for such accounts to be audited at least once in each year by the Auditor-General.
- 5.14.14 The Councils of both C.A.E.s and T.A.F.E. Colleges are required by the Act to provide for a continuous audit of the income and expenditure of their institutions. The legislation further provides that all Colleges have a financial year ending on 31 December and are required to forward financial statements by 31 March to the Auditor-General for audit.
- 5.14.15 The Auditor-General is required to send a copy of all audited financial statements to the Minister for Education and to the Victorian Post Secondary Education Commission. There is no provision for the tabling of an annual report or of financial statements in the Parliament by C.A.E.s and T.A.F.E. Colleges.

**Audit Observations and Recommendations**

Non-requirement to Report to Parliament

- 5.14.16 As indicated earlier, C.A.E.s and T.A.F.E. Colleges do not report their activities to Parliament. In view of the level of funds flowing through these organisations it is my opinion that this aspect should be addressed as a matter of urgency. The problem could be overcome by bringing educational institutions under the ambit of the Annual Reporting Act 1983.

### Form and Content of Financial Statements

- 5.14.17 Pursuant to the Post Secondary Education Act 1978 and the 4 separate Universities Acts, the Auditor-General has the statutory power to approve the form of the financial statements. In view of my responsibility for auditing such statements, it is considered inappropriate that I should also prescribe the form of such statements.
- 5.14.18 As with previous years there are inadequacies and limitations in the form and contents of financial statements. Some steps towards improvement in this area have taken place.
- 5.14.19 During 1983-84 a Committee was established by the Victorian Association of Business Managers to formulate a standard accounting approach for the preparation of financial statements by T.A.F.E. Colleges. A proposed format for the financial statements was developed by a sub-committee, which format was accepted by me as an interim measure for the purposes of presentation of T.A.F.E. College financial statements for the 1984 year only.
- 5.14.20 Similarly, the Universities have established a working party with the view of standardising and improving the form and contents of financial statements presented by Universities.
- 5.14.21 Colleges of Advanced Education have not recently taken any steps to standardise and improve their financial reporting.
- 5.14.22 I consider it vitally important that the progress made to date towards greater accountability by post secondary education institutions is not halted. This thrust should be maintained to develop a set of financial statements for consideration by the Treasurer should these institutions be brought under the ambit of the Annual Reporting Act 1983.

### Inadequacies of the Underlying Accounting System

- 5.14.23 Currently, the majority of post secondary education institutions use a modified accrual system as their accounting basis. Expenditure on capital items, equipment and stores are written off in the year in which they were incurred. Similarly, not all long term liabilities are recognised and reported.
- 5.14.24 A full Balance Sheet or Statement of Assets and Liabilities is not presented, but rather a Statement of Balances which in the main discloses the net difference between current assets and current liabilities. The effect of this approach is that items such as fixed assets are excluded from the Statement of Balances; similarly, long term liabilities are not disclosed. A move towards full accrual accounting is considered essential if the user of financial statements is to get an accurate understanding of the financial operations and state of the affairs of the entity.
- 5.14.25 The use of fund accounting also makes it difficult for the reader to get a clear picture of the overall level of funds available to institutions. A consolidated statement of income and expenditure should, however, assist users. Further, the existence of numerous separate invested funds involving the earmarking of certain receipts for particular purposes, may make it difficult to assess the overall financial position of these institutions. A clear definition of provisions and reserves is deemed necessary.

### Delays in Submission of Financial Statements

- 5.14.26 Under the provisions of the Post Secondary Education Act 1978, all C.A.E.s and T.A.F.E. Colleges are required to submit, by 31 March in each year, financial statements for audit by the Auditor-General.
- 5.14.27 In respect of the C.A.E.s, 4 Colleges failed to submit financial statements for 1983 by 31 March 1984, while 13 T.A.F.E. Colleges (approximately 46 per cent) had not done so by 15 August 1984. I therefore had to write to the Technical and Further Education Board on 20 August 1984 about the non-receipt of the financial statements. In effect the financial statements were not submitted even though it was 8 months after the required balance date and 5 months after the required statutory deadline of 31 March. At the date of preparation of this report, all financial statements for 1983 had been received by this Office with the exception of the accounts of Box Hill T.A.F.E. College which are still outstanding.

### Accounting Expertise

- 5.14.28 The inadequate level of accounting expertise in many of the T.A.F.E. Colleges during the year 1982 gave rise to delays in finalising financial statements and difficulties in presenting such statements on other than a cash basis. Although during the year 1983 there was a general improvement in the accounting systems of some of the T.A.F.E. Colleges, many of the problems encountered during the 1982 year carried forward into the 1983 year. These factors tended to contribute to delays in submission of financial statements by the statutory date of 31 March 1984.
- 5.14.29 During the course of the audit of some institutions it was noted that although qualified staff was available, at times services of private practitioners were used to perform basic accounting functions such as reconciling bank accounts and various clearing accounts.

### Conclusion

- 5.14.30 The difficulties in timely, consistent and comprehensive financial reporting would be solved to some extent if the post secondary education institutions were brought under the ambit of the Annual Reporting Act 1983. The Treasurer would then be in a position to prescribe the form and contents of the financial statements and all institutions would then be required to table an annual report in Parliament. Such a move, in my opinion, is essential if the ultimate aim of providing Parliament with a consolidated report on the operations of the post secondary education sector is to be achieved.

TABLE 1

Universities - Year 1983

<u>University</u>	<u>Accumulated Funds</u>		<u>Income</u>		<u>Expenditure</u>	<u>Surplus</u>	<u>Accumulated Funds</u>
	<u>31.12.82</u>	<u>31.12.1983</u>	<u>Govt. Grants</u>	<u>Other</u>			
	\$	\$	\$	\$	\$	\$	\$
Deakin	2 585 956	2 585 956	21 424 500	3 001 425	24 343 745	82 180	2 668 136
La Trobe	1 027 393	1 027 393	43 856 526	5 379 847	48 687 820	548 553	1 575 946
Melbourne	48 456 809	48 456 809	122 539 731	34 931 753	148 124 135	9 347 349	57 804 158
Monash	18 491 878	18 491 878	85 503 952	17 763 806	100 271 703	2 996 055	21 487 933
Totals	70 562 036	70 562 036	273 324 709	61 076 831	321 427 403	12 974 137	83 536 173

N.B. These figures are compiled from financial statements prepared on a modified accrual basis. Revenue includes grants for capital as well as recurrent purposes. Expenditure includes both capital and recurrent outgoings.

TABLE 2

Colleges of Advanced Education - Year 1983

College	Accumulated Funds		Income		Expenditure	Surplus/ Deficit	Funds 31.12.1983
	31.12.82	\$	Govt. Grants	Other			
Ballarat	1	153 868	9 686 500	1 345 592	11 015 227	16 865	1 170 733
Bendigo		426 967	10 007 100	1 637 262	11 190 396	453 966	880 933
Chisholm	3	544 893	23 387 100	2 530 167	26 585 007	(667 740)	2 877 153
Footscray		(144 055)	12 997 000	1 906 350	13 867 677	1 035 673	891 618
Gippsland		845 281	9 027 816	1 001 181	10 148 246	(119 249)	726 032
Hawthorn		280 087	6 626 000	844 468	7 191 803	278 665	558 752
Institute of Catholic Education		754 225	6 239 600	597 105	6 878 189	(41 484)	712 741
Lincoln Institute of Health Sciences	1	218 140	10 880 000	870 719	11 357 795	392 924	1 611 064
Melbourne		833 152	18 759 000	1 683 569	20 458 532	(15 963)	817 189
Phillip	2	619 926	18 234 000	3 520 227	20 966 375	787 852	3 407 778
R.M.I.T.	7	674 230	48 664 296	4 020 540	52 139 036	545 800	8 220 030
Swinburne	3	247 811	21 966 000	2 026 165	23 472 865	519 300	3 767 111
Victoria	1	323 913	25 669 000	3 279 415	27 536 407	1 412 008	2 735 921
Victorian College of Arts		143 351	3 973 285	1 104 301	4 890 199	187 387	330 738
Victorian College of Pharmacy	1	083 895	3 125 980	1 159 626	4 035 387	250 219	1 334 114
Victorian College of Agriculture and Horticulture (from 8 March 1983)	1	854 305	6 569 441	3 050 824	9 647 149	(26 884)	1 827 421
Warnambool		403 953	5 213 500	527 329	5 803 339	(62 510)	341 443
Totals		27 263 942	241 025 618	31 104 840	267 183 629	4 946 829	32 210 771

N.B. These figures are compiled from financial statements prepared on a modified accrual basis. Income includes grants for capital as well as recurrent purposes. Expenditure includes both capital and recurrent outgoings. Figures in respect of the Victorian College of Agriculture and Horticulture are subject to audit.

TABLE 3

Colleges of Technical and Further Education - Year 1983

College	Accumulated Funds		Income		Expenditure	Surplus/ Deficit	Funds 31.12.1983		
	31.12.82	\$	Govt. Grants	Other				\$	\$
Batman Automotive College	117 128		1 526 349	39 437	1 471 096	94 690	211 818		
Bendigo	141 638		4 346 659	180 090	4 707 219	(180 470)	(38 832)		
Box Hill (1)	-		-	-	-	-	-		
Collingwood	488 581		5 123 941	772 530	5 849 311	47 160	535 741		
Dandenong	454 684		3 758 088	727 150	4 722 128	(236 890)	217 794		
Footscray	62 652		13 465 408	1 253 415	14 611 026	107 797	170 449		
Frankston	82 180		8 979 296	842 213	9 502 238	319 271	401 451		
Gordon	240 482		9 161 766	879 289	10 209 862	(168 807)	71 675		
Holmesglen	810 977		8 976 407	689 060	8 213 739	1 451 728	2 262 705		
Melbourne College of Decoration	147 518		1 238 864	113 886	1 317 005	35 745	183 263		
Melbourne College of Hairdressing	119 833		1 176 917	321 365	1 328 962	169 320	289 153		
Melbourne College of Printing and Graphic Arts	837 974		1 530 909	221 362	299 062	(546 791)	291 183		
Melbourne College of Textiles	232 814		1 147 579	289 923	1 547 691	(110 189)	122 625		
Moorabbin	1 051 930		3 741 796	897 979	4 556 530	83 245	1 135 175		
Newport	(172 970)		2 570 593	175 478	2 653 273	92 798	(80 172)		
Prahran	586 244		4 883 406	319 718	5 591 973	(388 849)	197 395		
Preston	(205 089)		11 939 253	1 172 006	13 420 791	(309 532)	(514 621)		
Richmond	450 420		2 213 952	247 149	2 308 322	152 779	603 199		
R.M.I.T.	2 199 330		26 479 506	765 282	28 518 275	(1 273 487)	925 843		
Shepparton*	81 453		3 282 285	532 697	3 708 784	106 198	187 651		
Sunraysia*	922 120		1 950 146	468 698	2 104 858	313 986	1 236 106		
Swinburne	953 693		6 896 218	262 124	7 506 809	(348 467)	605 226		
School of Mines and Industries Ballarat Limited (2)	9 073 291		5 555 176	497 838	6 200 281	(147 267)	8 926 024		

TABLE 3 (Continued)

Colleges of Technical and Further Education - Year 1983

College	Accumulated Funds		Income		Expenditure	Surplus/ Deficit	Funds
	31.12.82	31.12.1983	Govt. Grants	Other			
Wangaratta*	225 154		968 588	57 442	1 091 318	(65 288)	159 866
Warrnambool	46 035		1 485 793	40 483	1 546 488	(20 212)	25 823
Whitehorse	32 647		2 471 850	212 953	2 298 398	386 405)	419 052
William Angliss	164 442		2 406 733	878 605	3 035 452	249 886	414 328
Yallourn*	708 995		2 303 741	440 905	2 795 686	(51 040)	657 955
Totals	19 854 156		139 581 219	13 299 077	153 116 577	(236 281)	19 617 875

(1) Figures for Box Hill not available.

(2) Funds at 30.12.83 comprise:

Recurrent Funds	(558 554)
Unexpended Committed Funds	63 919
Non Recurrent Capital Reserve	9 420 659
	<hr/>
	8 926 024

N.B. These figures are compiled from financial statements prepared on a modified accrual basis. Income includes grants for capital as well as recurrent expenses. Expenditure includes both capital and recurrent outgoings. Figures in respect of Colleges marked (\*) are subject to audit.



## **5.15 S.E.C. SUPERANNUATION FUND AND S.E.C. EMPLOYEES' RETIREMENT AND BENEFITS FUND**

### Introduction

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

### Statutory Reporting and Auditing Requirements

- 5.15.3 The rules of the funds require the Trustee to prepare a balance sheet and a statement of receipts and disbursements within 6 months of the end of the financial year. There is no provision for this information to be tabled in Parliament.
- 5.15.4 The State Electricity Commission (Amendment) Act 1982, which came into operation on 2 March 1983, provides for the statements of accounts prepared by the Trustee of the funds to be audited by the Auditor-General.
- 5.15.5 The financial statements of both funds for 1983-84 were received by audit on 26 October 1984 and the audit reports were signed on 19 November and 13 December 1984, for the S.E.C. Employees' Retirement and Benefits Fund and S.E.C. Superannuation Fund respectively.

### Actuarial Review

- 5.15.6 The Trustee is required to arrange for an actuarial investigation into the state and sufficiency of each fund to be carried out at intervals not exceeding 3 years.
- 5.15.7 The last actuarial report covered the 3 year period ended June 1983 and revealed in actuarial deficits of \$67.5 million for the Superannuation Fund and \$57.9 million for the Employees' Retirement and Benefits Fund.
- 5.15.8 To fund these actuarially determined deficits the State Electricity Commission is contributing as follows:

(1) Superannuation Fund

An amount equal to 2 per cent of salaries over a period of 15 years in addition to the ratio of 2:1 of employee contributions (effective 1 July 1984).

(2) Employees' Retirement and Benefits Fund

An amount equal to 0.65 per cent of wages over a period of 25 years in addition to the ratio of 2:1 of employee contributions (effective from 1 July 1983).

- 5.15.9 In addition to the deficits relating to basic benefits, the Commission has a liability to beneficiaries through the Superannuation Fund for pension supplementation based on changes in the consumer price index. The actuary has calculated the present value of these obligations in respect of existing and future beneficiaries at \$540 million. The Commission is meeting these costs on a "pay as you go" basis and in 1983-84 \$11.3 million was charged against revenue of the Commission.

Financial Operations

(1) S.E.C. Superannuation Fund

- 5.15.10 The S.E.C. Superannuation Fund is a defined benefits plan managed by the Trustee on behalf of salary employees. The scheme is compulsory for all salaried personnel, who contribute 6.5 per cent of their salaries matched by Commission contributions at a ratio of 2:1.
- 5.15.11 Benefits provided under the plan are by way of lump sum payment and/or pension upon retirement, death or disability. Fund benefits are principally related to the period of contributing service of members and average salary during the final 2 years of membership.
- 5.15.12 The financial operations of the Fund as presented by the Trustee for 1983-84 compared with 1982-83 are summarised hereunder:

	1982-83 \$000	1983-84 \$000
Income		
Investment income	58 747	78 831
S.E.C. of Victoria contributions	48 626	53 774
Members' contributions	15 265	17 208
	<hr/>	<hr/>
	122 638	147 813
Expenditure		
Benefit payments	37 861	52 337
	<hr/>	<hr/>
Surplus for the year	84 777	95 476
	<hr/>	<hr/>
Transfers		
Transfer to S.E.C. Employees' Retirement and Benefits Fund	(133)	(317)
Transfer from S.E.C. Employees' Retirement and Benefits Fund	1 232	1 235
	<hr/>	<hr/>
	1 099	918
	<hr/>	<hr/>
Net Surplus	85 876	96 394
Accumulated funds at 1 July	424 892	510 768
	<hr/>	<hr/>
Accumulated funds at 30 June	510 768	607 162
	<hr/>	<hr/>

5.15.13 The state of affairs of the Fund at 30 June 1983 and 30 June 1984 was as follows:

	30.6.83 \$000	30.6.84 \$000
Accumulated Funds	510 768	607 162
Represented by:		
Current Assets		
Funds pending investment	1 008	610
Accrued income and receivables	18 229	10 384
Short-term investments	17 986	64 650
Employer contributions retained by S.E.C. of Victoria (interest bearing)	242 483	..
	279 706	75 644
Investments (at cost)		
Shares and convertible unsecured notes	94 240	105 431
Fixed interest -		
Public securities	54 591	205 020
Mortgages	11 317	9 254
Company debentures	5 271	4 455
	71 079	218 729
Property		
Managed Funds	89 283	117 250
	..	93 039
Total Assets	534 308	610 093
Less Current Liabilities		
Accrued expenditure and payables	23 540	2 931
Total Net Assets	510 768	607 162

Qualification of the S.E.C. Superannuation Fund's Financial Statements

5.15.14 It was necessary to record the following qualification on the 1983-84 financial statements of the S.E.C. Superannuation Fund.

"Investments shown in the balance sheet under the headings 'Institutional' amounting to \$80 905 000 and 'International', \$12 134 000 are held in the names of management service companies and a life assurance company. These investments have been included in the accounts on the basis of statements finalised by the abovementioned bodies and could not be independently verified by audit".

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

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

5.15.16 The financial operations of the Fund as presented by the Trustee for 1983-84 compared with 1982-83 are summarised hereunder:

	1982-83 \$000	1983-84 \$000
Income		
S.E.C. of Victoria contributions	11 590	14 288
Members' contributions	5 777	6 493
Investment income	5 328	7 842
	<hr/>	<hr/>
	22 695	28 623
Expenditure		
Benefit payments	7 051	9 115
	<hr/>	<hr/>
Surplus for the year	15 644	19 508
	<hr/>	<hr/>
Transfers		
Transfer from S.E.C. Superannuation Fund	133	317
Transfer to S.E.C. Superannuation Fund	(1 232)	(1 235)
	<hr/>	<hr/>
	(1 099)	(918)
	<hr/>	<hr/>
Net Surplus	14 545	18 590
Accumulated funds at 1 July	30 101	44 646
	<hr/>	<hr/>
Accumulated funds at 30 June	44 646	63 236
	<hr/>	<hr/>

5.15.17 The state of affairs of the Fund at 30 June 1983 and 30 June 1984 was as follows:

	30.6.83 \$000	30.6.84 \$000
Accumulated Funds	44 646	63 236
	<hr/>	<hr/>

	30.6.83	30.6.84
Represented by:	\$000	\$000
Current Assets		
Funds pending investment	771	351
Accrued income and receivables	2 090	1 799
Short-term investments	798	8 303
Employer contributions retained by S.E.C. of Victoria (interest bearing)	27 879	..
	<hr/>	<hr/>
	31 538	10 453
	<hr/>	<hr/>
Investments (at cost)		
Shares and convertible unsecured notes	4 877	9 745
	<hr/>	<hr/>
Fixed interest -		
Public securities	2 121	24 225
Mortgages	617	515
Company debentures	1 058	856
	<hr/>	<hr/>
	3 850	25 596
	<hr/>	<hr/>
Property	5 055	18 920
	<hr/>	<hr/>
Total Assets	45 320	64 714
Less Current Liabilities		
Accrued expenditure and payables	674	1 478
	<hr/>	<hr/>
Total Net Assets	44 646	63 236
	<hr/>	<hr/>

5.15.18 During the year the State Electricity Commission reviewed its policy of retaining the employer contributions for both funds and decided that, with effect from 1 July 1983, such contributions would be paid to the operating accounts of both funds.

5.15.19 The contributions retained prior to 1 July 1983, amounting to \$242 483 000 (S.E.C. Superannuation Fund) and \$27 879 000, (S.E.C. Employees' Retirement and Benefits Fund) were progressively paid to the funds during the year.

### **Scope of Audit**

5.15.20 The audit of the funds consisted of a review and evaluation of the systems of internal control relating to the member and employer contributions to the funds, the income from investments, and pensions and other benefits paid by the funds. Assets and liabilities at 30 June 1984 were verified. The work performed by the internal audit was reviewed and accepted for the purpose of the audit.

## Conclusion

- 5.15.21 Subject to the qualification of the S.E.C. Superannuation Fund's financial statements and some minor control weaknesses which were brought to the attention of the Trustee, the results of the audit proved satisfactory.

## 5.16 STATE EMPLOYEES RETIREMENT BENEFITS BOARD

### Introduction

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

### Statutory Reporting and Auditing Requirements

- 5.16.2 The Act requires the Board to submit to the Treasurer its report, including the audited accounts, for presentation to both Houses of Parliament as soon as practicable after the audit has been completed. The Act also provides for an annual audit of the accounts of the Board by the Auditor-General.
- 5.16.3 The financial statements were adopted by the Board on 13 November 1984 and the audit report was signed on 20 December 1984.

### Actuarial Investigation

- 5.16.4 Section 18 of the Act requires an actuarial investigation into the financial position of the Fund at 30 June 1982 and at the end of each succeeding period of 3 years. The next actuarial investigation is due as at 30 June 1985.

### Financial Operations

- 5.16.5 The financial operations of the Board for 1983-84 compared with 1982-83 are summarised as follows:

	1982-83	1983-84
	\$000	\$000
Income	21 430	31 222
Expenditure	13 704	16 413
	<hr/>	<hr/>
Surplus for year	7 726	14 809
Less amounts transferred to Members Reserve and Death and Disability Reserve	8 480	9 729
	<hr/>	<hr/>
(Deficit) Surplus for year	(754)	5 080
	<hr/>	<hr/>

- 5.16.6 The improved result for the year was due mainly to:
- (1) increases in employer and employee contributions of \$4 771 883 and \$2 747 289 respectively, resulting from an increase in fund membership of approximately 25 per cent;
  - (2) an increase of \$1 401 678 in interest on outstanding employer contributions resulting from the failure of employers to make payments of contributions; and
  - (3) an increase of \$796 449 in income from investments.
- 5.16.7 The total accumulated funds and net assets of the Board at 30 June 1984 were \$29 981 782 compared with \$13 266 874 at 30 June 1983.

Investments

- 5.16.8 Details of investments held by the Board of 30 June 1983 and 30 June 1984 are as follows:

	1983	1984
	\$000	\$000
Short Term Deposits	2 650	4 542
Government and Semi-Government Securities	5 467	10 458
State Development Account	..	3 000
Commercial Bills	2 591	..
	<hr/>	<hr/>
	10 708	18 000
	<hr/>	<hr/>

Qualification of the Board's Financial Statements

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

"The Board has included in the Balance Sheet as part of Contribution Debtors - Employee Contributions an amount of \$825 281. This amount represents contributions due from employees identified as being eligible to join the Fund prior to 30 June 1984 if they all elected to pay the full contributions. However, Section 24 of the Act provides several options covering the extent to which such employees may contribute. The exercise of these options may result in not all of the above amount being collected by the Board. In addition, as indicated in Note 6 to the Board's accounts, there is a further unascertained amount owing for contributions by employees who were eligible to join the Fund prior to 30 June 1984 but had not joined the Fund at that date. Audit is unable to determine the amount the Board will realise from each of these categories of employee".

- 5.16.10 This is the second year that the financial statements of the Board have been qualified on these grounds (refer Status Report in Part 3 of this report).

**Scope of Audit**

- 5.16.11 The audit included the documentation, evaluation and testing of the Board's contributions, income, expenditure and inward receipts systems. The assets and liabilities of the Board at 30 June 1984 were verified.



5.16.12 In addition to my statutory responsibility to conduct an audit each year, a firm of private practitioners appointed by the Board conducted an audit on a regular basis throughout the year. Their audit programs and working papers were examined and accepted for the purpose of my audit.

Conclusion

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

## 5.17 STATE INSURANCE OFFICE

### Introduction

5.17.1 The State Insurance Office was established under the State Insurance Office Act 1975 and offers:

- (1) compulsory third party contracts of insurance to motor car owners under the Motor Car Act 1958;
- (2) contracts of insurance to employers against their liability under the Workers Compensation Act 1958;
- (3) insurance in relation to motor cars and other general insurance.

### Statutory Reporting and Auditing Requirements

5.17.2 The State Insurance Office Act 1975 requires the Insurance Commissioner to provide the Minister, in September each year, with a statement of accounts of the Office for the financial year and for the statement of accounts to be tabled in both Houses of Parliament as soon as practicable. The Act also provides for the annual audit of the accounts by the Auditor-General.

5.17.3 The statement of accounts for 1983-84 was adopted by the Insurance Commissioner on 31 August 1984 and the Treasurer's approval to the format of the accounts was provided to audit on 8 October 1984. The audit report was signed on 6 December 1984.

### Qualification of the Office's Financial Statements

5.17.4 It was necessary to record the following qualification on the statement of accounts for 1983-84:

"1. As stated in Note 2(c) to the financial statements the provision for outstanding claims was established on an actuarial basis to which certain adjustments were made. In relation to compulsory third party insurance a further adjustment was also made to allow for future investment income. In my opinion, no deduction for future investment income should have been made against the provision for outstanding claims as this practice recognises income prior to it being earned. As a consequence of this practice, in my opinion:

- (i) the expense item claims paid and outstanding - compulsory third party, has been understated by \$75.8 million, such amount being based on actuarial advice, and the loss for the year has been similarly understated; and
- (ii) the balance sheet items outstanding claims and accumulated losses - compulsory third party, have been understated by an amount of \$317.3 million. This amount represents total future investment income recognised since the adoption of this accounting practice in 1980-81 and includes the amount of \$75.8 million for 1983-84.

2. The provision for claims experience discount was increased by \$5.3 million in 1983-84 to a total of \$17 million as at 30 June 1984. The documentation provided in support of this provision did not enable audit to determine the adequacy of the provision.
3. Included in the provision for outstanding claims is an amount of \$45 million, an increase of \$10 million in 1983-84, for the estimated cost of outstanding claims relating to asbestosis, industrial deafness and tenosynovitis injuries. The documentation provided in support of this provision did not enable audit to determine the adequacy of this component of the provision."

Financial Operations

5.17.5 The financial operations reported by the Office for 1983-84 compared with 1982-83 are summarised hereunder:

	1982-83	1983-84
	\$000	\$000
Income	586 106	697 684
Expenditure	745 814	1 174 658
	<hr/>	<hr/>
Loss	159 708	476 974
	<hr/>	<hr/>

- 5.17.6 The loss of \$477 million for the year reported by the Office consisted of a loss of \$484.5 million for compulsory third party insurance and a profit of \$7.5 million for other insurance including employers liability, comprehensive motor vehicle and other types of general insurance. The loss on compulsory third party insurance was arrived at after deducting \$75.8 million for anticipated future investment income which was the subject of the audit qualification.
- 5.17.7 The Insurance Commissioner has indicated that the increase in compulsory third party claims paid and outstanding can be attributed to a number of decisions handed down by the courts under common law which in turn have increased community awareness and expectations as to the level of compensation that may be negotiated without resorting to litigation. Also, changes in legislation have increased both the cost and the number of incurred claims.
- 5.17.8 The current compulsory third party premium rates, set by the Governor-in-Council, have not been increased since January 1983 and, together with investment income, were insufficient to meet incurred underwriting costs in 1983-84.
- 5.17.9 Net liabilities, i.e. the excess of liabilities over assets, of the Office at 30 June 1984 were \$712 million. However, if the Office had not adopted a policy of allowing for future investment income in 1980-81, the net liabilities at 30 June 1984 would have been \$1 029.3 million.

5.17.10 As a consequence of losses incurred in the previous 3 years on compulsory third party operations, net liabilities of the Office have increased rapidly during that period. The following schedule illustrates the increase in the level of net liabilities since 1981-82:

<u>Net Liabilities of the Office</u>	<u>1981-82</u> \$000	<u>1982-83</u> \$000	<u>1983-84</u> \$000
On the basis that Future Investment Income is included	75 175	234 983	711 957
On the basis that Future Investment Income is excluded	338 975	476 466	1029 257

5.17.11 In my fourth report for 1982-83 (refer paragraph 4.23.7), I commented that the financial position of the Office at 30 June 1983 was of concern and recommended that appropriate action be taken to ensure the Office's financial viability.

5.17.12 Attention is again drawn to the serious financial position in which the Office is now placed. If losses of this magnitude are allowed to continue, substantial funding from the Consolidated Fund will be required as the operations of the Office are guaranteed by the Government.

### **Scope of Audit**

5.17.13 The audit included:

- (1) an examination and testing of the Office's revenue and expenditure systems;
- (2) the documentation and evaluation of internal control procedures within the comprehensive motor vehicle revenue and the general insurance claim systems; and
- (3) the verification of assets and liabilities of the Office at 30 June 1984.

5.17.14 A review of the plans, programs, reports and working papers of the Office's internal audit services division was undertaken during the audit. The work performed by internal audit was accepted for the purposes of my audit.

### **Audit Observations and Recommendations**

#### Future Investment Income

5.17.15 The estimate of the outstanding claims provision - compulsory third party of \$1 669.7 million was determined by a consulting actuary in line with the Insurance Commissioner's policy of allowing for future investment income. The provision was adjusted by \$317.3 million for investment income anticipated to be earned in future accounting periods from the investments held to meet the claims liability for this class of business at 30 June 1984. The Insurance Commissioner has not, however, adopted the practice of recognising future investment income in the calculation of the outstanding claims for employers liability. The calculation of employers liability outstanding claims is also based on an actuarial estimate and has a claims settlement period similar to that for compulsory third party claims.

5.17.16 In my December 1982 report (paragraphs 3.28.12 to 3.28.17) and my fourth report for 1982-83 (paragraphs 4.23.11 to 4.23.12) I commented upon the practice of recognising investment income before it is earned and why it should be discontinued. Audit is still of this opinion for the following reasons:

- (1) The anticipated investment income may be unattainable due to the following factors:
  - (i) If the compulsory third party operations continue to experience underwriting losses, then the investments held to meet the outstanding claims provision will be further eroded and consequently the level of anticipated income from investments brought to account in previous years will not be achieved.
  - (ii) The period of settlement for claims outstanding at 30 June 1984 has been actuarially estimated to extend over approximately 20 years and all current portfolio investments held by the Insurance Commissioner mature some time within this period. There is no certainty that the interest rate obtainable upon reinvestment of these funds will be the same as or greater than that currently being earned. If this situation does not occur, then anticipated investment income brought to account in previous accounting periods will not be earned by the Office. This will result in either an overstatement of profits or an understatement of losses in respect to the years in which future investment income was included in the calculation of outstanding claims.

In relation to (1)(i) it is pointed out that this is the third successive year in which the Office has experienced substantial losses through the operation of compulsory third party insurance.

In my opinion, these losses have impacted upon the ability of the Office to achieve the projected future income and this in fact has been recognised by the Insurance Commissioner in lowering the average yield used in determining future investment income to discount the provision for outstanding claims.

Audit notes that the allowance for future investment income, which was first adopted by the Insurance Commissioner in 1980-81, has been progressively reduced in recent years by adjusting the average yield used in the actuarial calculation of the allowance from 11 per cent in 1981-82 to 6.7 per cent in 1983-84.

- (2) The objective of the generally accepted accounting principle referred to as the matching concept is to match income earned in a period against costs incurred in the same period so that the financial performance for the period can be determined. The policy adopted by the Insurance Commissioner is a deviation from this concept, since the future investment income used to discount the outstanding claims liability at balance date will be earned in a number of future accounting periods and is not related to the income earned in the current accounting period.

- (3) The policy followed by the Insurance Commissioner is contrary to the recommendations of the Accounting Standards issued by the 2 Australian accounting bodies which state that the profit for a period should take into account revenue and expenses arising in that period.

#### Claims for Industrial Hazards

- 5.17.17 The Insurance Commissioner's estimate for outstanding claims - fire, accident (excluding compulsory third party) and marine etc., included an amount of \$45 million for future claims relating to asbestosis, industrial deafness and tenosynovitis injuries.
- 5.17.18 Audit enquiries revealed that the estimate relating to these industrial hazards had not been based on past payment patterns but had been subjectively estimated by management, since little was known at balance date of the potential liability of these types of injuries. Due to the subjective nature of the estimates, audit was unable to determine the reliability of this component of the provision.

#### Claims Experience Discount

- 5.17.19 Included in the accounts is a provision of \$17 million relating to claims experience discount to be allowed to employers liability policy holders on their 1984-85 insurance premiums. Since the discount is based on policy holders' previous claims experience, an adjustment against the previous year's premium was made by providing for a provision at balance date to bring to account the discount expense in the correct accounting period.
- 5.17.20 An examination of the documentation to support the calculation of this provision disclosed that the provision had been subjectively estimated by management and audit was unable to verify the reliability of the estimate.

#### Superannuation

- 5.17.21 In my fourth report for 1982-83 (paragraph 4.23.23) audit recommended that to obtain a more informed estimate of the Office's liability for its future contributions to the State Superannuation Fund for employees who are members of the Fund, an actuarial estimate be sought from the Government Statist and Actuary who is the actuary to the State Superannuation Fund.
- 5.17.22 In response to the recommendation, the Office obtained from the Government Statist and Actuary a calculation of the liability as at 30 June 1984. The estimate disclosed that the provision as at 30 June 1984 calculated by the Office was understated by \$9.5 million. Consequently, the additional liability was apportioned between the Office's operating divisions and included as an abnormal item in the Profit and Loss statements for the 1983-84 year.

## 5.18 STATE SWIMMING CENTRE COMMITTEE OF MANAGEMENT

### Introduction

- 5.18.1 The State Swimming Centre Committee of Management was established by Order-in-Council dated 12 May 1980, pursuant to the provisions of the Crown Land (Reserves) Act 1978. The functions of the Committee are to improve, maintain and control land temporarily reserved for recreation purposes.

### Statutory Reporting and Auditing Requirements

- 5.18.2 The Act requires the Committee to furnish annually to the Director-General of Conservation, Forests and Lands, unless otherwise directed by him, a statement of income and expenditure and balance sheet. The Act also requires that the books and accounts of the Committee be audited by the Auditor-General.
- 5.18.3 The financial statements for 1983-84 were received by audit on 15 March 1985 and the audit report was signed on 22 April 1985.

### **Scope of Audit**

- 5.18.4 The audit included an examination and evaluation of the accounting and other systems and the verification of assets and liabilities of the Committee at 30 June 1984.

### **Audit Observations and Recommendations**

#### Construction of State Swimming Centre

- 5.18.5 In my report to Parliament dated 15 June 1983, on works contracts in Victorian government departments and authorities, I included comments relating to certain shortcomings identified by audit relative to the construction of the State Swimming Centre.
- 5.18.6 Matters raised in that report and action (if any) taken since, are detailed below:

(1) Electronic Timing Equipment

Audit reported that electronic timing equipment, installed at a cost of \$65 472, failed to operate satisfactorily and eventually was replaced with equipment from another supplier at a cost in excess of \$82 000. The Department of Youth, Sport and Recreation indicated that any recovery of the original cost was unlikely.

At the date of preparation of this report, no costs have been recovered or damages sought from responsible parties associated with providing the original equipment.

(2) Design and Structural Defects

My report indicated that the Centre has serious design and structural defects typified by:

- (i) substantial cracking in the walls;

- (ii) differentials in pool levels, indicating settlement of site;
- (iii) a leakage from the diving pool calculated by management to be in excess of 40 000 litres per day; and
- (iv) "lifting" of wall, floor and pool tiling.

Subsequent to my report, management advised audit that there has been further cracking in the walls and movements in the main and diving pools. The pool movements have caused inadequate filtration and drainage. Some original tiling in and around the pools has continued to lift. Works to contain pool leakage and repairs to tiling have been carried out by the contractors at no cost to the Committee. However, leakage tests have not been conducted recently, due to heavy pool bookings.

(3) Solar Heating System

Audit also indicated that the solar heating system installed at a cost of approximately \$135 000 did not incorporate adequate provision for cooling when the pool temperature exceeded an acceptable limit of 28°C. The P.V.C. piping specified for the system buckled under the temperatures generated and various sections had to be replaced with copper piping at an additional cost. It was anticipated that all P.V.C. piping would ultimately require replacement at the expense of the Committee.

Subsequent to my report an investigation conducted by the pool manager disclosed that replacement parts estimated to cost \$39 460 were necessary for the heating system to achieve satisfactory performance, while energy savings would be minimal. The Committee opted not to proceed with the necessary replacements but instead decided to disconnect the solar heating system.

5.18.7 Audit was unable to ascertain whether the Committee, Public Works Department or the former Department of Youth, Sport and Recreation was responsible for follow-up action and recommended that the organisations determine:

- (1) what action, if any, can be taken to recover costs or damages from responsible parties associated with providing the original electronic timing equipment; and
- (2) responsibility for design and structural defects in the Centre's building with a view to obtaining compensation from appropriate parties.

Conclusion

5.18.8 Apart from the above matters and a number of minor weaknesses which were brought to the attention of the Committee, the results of the audit proved satisfactory.



## **5.19 TATTERSALL**

### Introduction

- 5.19.1 Tattersall Consultations, which embrace Tattslotto, Soccer Pools and a variety of other lotteries such as Super 66, are promoted and run by the estate of the late George Adams (the promoter) under licence granted by the Treasurer pursuant to the Tattersall Consultations Act 1958.
- 5.19.2 On 19 December 1983 the licence under seal of the Treasurer, which had operated since 23 June 1954, was extended to allow the promoter to operate from 1 January 1984 to 30 June 1991.
- 5.19.2 On 1 January 1984, enactment of the Tattersall Consultations Act 1983 extensively amended the above legislation increasing the duty payable to the Treasurer and prescribing that under certain conditions a proportion of the promoter's net profit also be paid into the Public Account.
- 5.19.4 The amending Act also established the Lotteries Development Fund in the Public Account for the purpose of research and development in the conduct of Consultations and for the acquisition of property for such purposes. Part of the promoter's profit is credited to the Lotteries Development Fund.

### Statutory Reporting and Auditing Requirements

- 5.19.5 Under former legislation my responsibility in respect of Tattersall Consultations and Soccer Pools was to verify the total subscriptions collected, the duty payable to the Treasurer, and that the composition of the prizes pool was in accordance with the Act.
- 5.19.6 Enactment of the amending legislation extended my responsibility to form an audit opinion on the accounts kept by the promoter, and for appropriate audit access to records.
- 5.19.7 Section 8A(b) of the Act now requires the promoter within 2 months after 30 June of each financial year to prepare a statement of accounts in a form appropriate to its activities. The Act also provides for an audit of the statement of accounts by the Auditor-General. There is no statutory requirement for these statements to be tabled in Parliament.
- 5.19.8 The final financial statements were received by audit on 11 January 1985 and the audit report was signed on 24 January 1985.

### Promoter's Contributions to Public Account

- 5.19.9 Duty paid by the promoter to the Public Account during 1983-84 was \$202 698 000 (1982-83, \$192 203 000) details of which appear on page 19 of my first report for the year ended 30 June 1984. In addition, a contribution of \$1 327 000 was paid by the promoter into the Public Account during 1984-85. This contribution represented that portion of the promoter's net profit for the period 1 January 1984 to 30 June 1984 determined in accordance with the provisions of Section 6(1A) of the Tattersall Consultations Act 1983.

### **Scope of Audit**

- 5.19.10 The audit comprised substantive testing of subscriptions collected and duty payable to the State. Income and expenditure for the 6 months period ended 30 June 1984 was examined. Assets and liabilities at 30 June 1984 were verified.
- 5.19.11 The substantive work of the Government Inspectors engaged through the Department of Youth, Sport and Recreation and the audit performed by the registered company auditor engaged by the promoter were examined, evaluated and used for the purpose of my audit.

### **Conclusion**

- 5.19.12 Apart from matters of a minor nature brought to the attention of the promoter, the results of the audit examination proved satisfactory.

## 5.20 TRANSPORT

### Introduction

- 5.20.1 This section of my report covers the operations of the Metropolitan Transit Authority, the Road Construction Authority, the Road Traffic Authority and the State Transport Authority.
- 5.20.2 The Authorities were established as from 1 July 1983. Details of the successor and former Authorities are as follows:

<u>Successor Authority</u>	<u>Former Authority</u>
Metropolitan Transit Authority	- Melbourne and Metropolitan Tramways Board and Melbourne Underground Rail Loop Authority
Road Construction Authority	- Country Roads Board
Road Traffic Authority	- Road Safety and Traffic Authority and Transport Regulation Board
State Transport Authority	- Railway Construction and Property Board and Victorian Railways Board

### Statutory Reporting and Auditing Requirements

- 5.20.3 The Metropolitan Transit Authority and the State Transport Authority were declared public bodies for the purposes of the Annual Reporting Act 1983. That Act provides that the Authorities submit to the Minister within 3 months after the end of the financial year, or such other period as directed by the Treasurer, an annual report containing financial statements audited by the Auditor-General.
- 5.20.4 The Treasurer granted a number of extensions of the date on which the Authorities were required to submit their financial statements to the Minister, with the final date being set at 31 December 1984.
- 5.20.5 Both Authorities signed their financial statements on 20 December 1984 and the audit reports were signed on 21 December 1984.
- 5.20.6 The Road Construction Authority and the Road Traffic Authority are required under the Transport Act 1983 to submit to the Minister, as soon as practicable after the end of the financial year but not later than 30 September, an annual report containing financial statements. The Act further provides that the financial statements be audited by the Auditor-General.
- 5.20.7 Both Authorities signed their financial statements on 21 December 1984. The audit report on the financial statements of the Road Traffic Authority was signed on 15 February 1985, while the audit report on the Road Construction Authority was signed on 21 February 1985.

## Transactions between the Authorities and the Public Account

### (1) Introduction

- 5.20.8 The Transport Act 1983 provides, inter alia, that the Authorities pay to the credit of the Works and Services Account in the Trust Fund, which forms part of the Public Account, the proceeds of the sale of assets and loan borrowing unless otherwise approved by the Treasurer. For the 1983-84 year the Treasurer gave approval for the proceeds from the sale of assets to be credited to the Consolidated Fund, which forms part of the Public Account, and for the Authorities to pay into their General Fund moneys borrowed for the purpose of meeting loan redemptions.
- 5.20.9 The capital works programs of the Authorities were met from funds appropriated under the provisions of the Works and Services Appropriation Act 1983.
- 5.20.10 Similar transactions to those referred to above took place in the 1982-83 financial year between the Public Account and the former transport authorities and in my report to Parliament in October 1984 (paragraph 5.8.7.) I referred to certain problems which arose in regard to the accounting procedures to be adopted for such transactions. Reference was also made to the legislative requirements relating to payments to and payments from the Public Account which are contained in unrelated enactments and, therefore, in audit opinion the payments to the Public Account should have been reported separately from moneys received from the Public Account, i.e. they should not be offset against each other.

### (2) Inconsistencies in Accounting Treatment

- 5.20.11 The Annual Reporting (Large Trading and Rating Public Bodies) Regulations 1984 which had applied only to the Metropolitan Transit Authority and the State Transport Authority, provided that payments from the Public Account to the Authorities which represented capital moneys originally paid to the Public Account were to be reported in accordance with the nature of the transaction. The Regulations do not, however, specify what is or who determines the nature of the transaction. Also the Regulations did not address how capital moneys paid by the Authorities to the Public Account were to be reported.
- 5.20.12 Summarised hereunder is the treatment given by each of the Authorities to the transactions with the Public Account.

\* State Transport Authority - payments to the Public Account were treated as repayments of Advances from State Government taken over from the former Victorian Railways Board and monies received from the Public Account were treated as new advances. A note to the financial statements explained the transactions and the reason why the balance between advances received and repaid was not treated as a liability, i.e. the Department of Management and Budget was unable to provide details of the conditions of repayment. The Authority treated the balance as part of Equity.

\* Metropolitan Transit Authority - a note was attached to the financial statements explaining that moneys received from the Public Account were treated as Advances from State Government or Contributed Capital and payments to the Public Account as repayments of advances.

- \* Road Construction Authority - moneys received from the sale of assets and the Public Account were treated as income and payments to the Public Account were treated as expenses.
- \* Road Traffic Authority - payments to the Public Account were offset against moneys received from the Public Account. There was no indication in the financial statements or the notes to the accounts that the transactions had taken place.

5.20.13 It is apparent that there needs to be action taken by the Ministry of Transport and the Department of Management and Budget in consultation with the Authorities to standardise the manner in which these transactions are to be reported.

5.20.14 As stated earlier, it is my opinion that the payments to the Public Account and moneys received from the Public Account should have been reported separately. The only Authority to report in this manner was the Road Construction Authority. In respect of the other Authorities I found it necessary to record a qualification on their financial statements reporting that I was unable to form an opinion as to whether the transactions had been reported in the appropriate manner.

## **METROPOLITAN TRANSIT AUTHORITY**

### Introduction

5.20.15 The Metropolitan Transit Authority was established to operate transport services inside the Melbourne metropolitan area. However, if the Minister so determines, the Authority can operate outside the Melbourne metropolitan area. The main functions of the Authority as defined in the Transport Act 1983 are:

- (1) to provide, manage and, in accordance with government policy, to operate transport services and facilities for passengers and freight;
- (2) to arrange with the State Transport Authority, transport operators or other persons or bodies for the provision of transport services and facilities;
- (3) to co-ordinate transport services;
- (4) to develop integrated ticket systems;
- (5) to develop new modes of transport;
- (6) to investigate and to promote and undertake research into any matter related to the performance of its functions, powers or duties;
- (7) to provide, manage and operate tourist and recreational facilities; and
- (8) to compete for work on the open market.

### Financial Operations

5.20.16 The financial operations of the Metropolitan Transit Authority for the year are summarised below:

	1983-84
	\$000
Revenue	222 573
Government Subsidies	167 628
	<hr/>
Expenditure	390 201
	482 094
	<hr/>
Net Deficit	(91 893)
	<hr/>

5.20.17 Net assets of the Authority at 30 June 1984 were \$154.7 million.

### Qualification of the Authority's Financial Statements

5.20.18 It was necessary to record the following qualification on the Authority's financial statements for 1983-84:

"As stated in Note 23 the Authority has treated the difference between the payments to and from the Public Account referred to in that note as Contributed Capital.

As neither the Works and Services Appropriation Act 1983 nor the Transport Act 1983, under whose provisions the transactions occur, indicate the nature of the transactions, i.e. whether or not the amounts appropriated were contributions of capital and the amounts paid to the Public Account were reductions of contributions of capital, I am unable to form an opinion as to whether the transactions have been reported in the appropriate manner".

### **Scope of Audit**

5.20.19 The audit included the review of the revenue and expenditure systems and the verification of the assets and liabilities of the Authority at 30 June 1984. The Authority engaged a firm of private practitioners to conduct a continuous audit of the tram and bus operations of the Authority. Their work was reviewed and accepted for the purposes of my audit.

### **Audit Observations and Recommendations**

#### Metropolitan Rail Operations (MetRail)

5.20.20 (a) Administrative Arrangements

The Metropolitan Transit Authority's functions include the provision of transport services within the metropolitan area. Such services include railway services.

The Act specifies that 2 of the functions of the State Transport Authority are:

- to be the employing authority for all officers engaged in the provision of railway and railway ancillary services in the State of Victoria; and
- to control and maintain all railway and railway ancillary equipment and facilities.

During 1983-84 the State Transport Authority established and staffed a division referred to as MetRail to co-ordinate and account for metropolitan rail operations, such operations being the responsibility of the Metropolitan Transit Authority.

Expenditure incurred by the State Transport Authority in carrying out metropolitan rail operations was charged to the Metropolitan Transit Authority. Revenue arising from such operations was collected by the State Transport Authority and passed on to the Metropolitan Transit Authority.

5.20.21 The existing legislation and administrative arrangements as outlined above result in a conflict as to which Authority has, in practice, the final responsibility for the operation and management of the metropolitan rail service.

5.20.22 In audit opinion, this matter needs to be addressed before the metropolitan rail operations can be properly accounted for and managed.

5.20.23 (b) Financial Arrangements

In the year under review the determination of costs and revenue applicable to metropolitan rail operations was made under the terms of an agreement between the Metropolitan Transit Authority and the State Transport Authority. The agreement was in draft form only, to which a number of amendments were made. Such amendments were not authorised in writing.

5.20.24 Audit recommended that the basis for the determination of costs and revenue applicable to the metropolitan rail operations be set down in a formalised agreement.

5.20.25 (c) Financial Transactions

An audit review of costs charged to the Metropolitan Transit Authority by the State Transport Authority for the metropolitan rail operations and of revenue received by the Metropolitan Transit Authority from those operations disclosed that it had not:

- (i) monitored and reviewed costs charged;
- (ii) analysed the basis or reasons behind certain charges to ascertain whether such charges were appropriate to metropolitan rail operations; and
- (iii) analysed or reviewed revenue collections.

- 5.20.26 Audit recommended that to enable control to be established over revenue and expenditure applicable to metropolitan rail operations the Metropolitan Transit Authority should implement suitable monitoring procedures and analysis techniques.

#### Vesting of Suburban Trains

- 5.20.27 The Transport Act 1983 gives the Minister of Transport the power to transfer assets and liabilities from one Authority to another under an order published in the Government Gazette. The Act further provides that the order shall be laid before and is subject to disallowance by Parliament.
- 5.20.28 Certain suburban trains vested in the Authority were subsequently made subject to sale and leaseback agreements. In these instances the agreements were entered into before the order was laid before Parliament. Audit recognises that the provision regarding disallowance could, if Parliament was not sitting, inhibit the ability of the Authority to enter into financial arrangements such as the sale and leaseback of equipment until such time as Parliament reconvenes. However, if vesting orders are subsequently disallowed by Parliament the financial arrangements relating to the orders would be breached.
- 5.20.29 Audit recommended that the legislation be reviewed.

#### Transfer of Metropolitan Railway Land

- 5.20.30 On 8 August 1984 a vesting order was gazetted transferring to the Metropolitan Transit Authority land held by the State Transport Authority and used for metropolitan railway purposes. This order included the Melbourne Underground Railway Loop, the value of which has been brought to account in the financial statements of the Authority at 30 June 1984. The remaining land was not brought to account as the value of such land and associated liabilities, if any, could not be determined at the time the order was made. The value of the remaining land will be brought to account in the 1984-85 financial year.
- 5.20.31 It was recommended that, prior to the gazettal of vesting orders, all pertinent matters be researched and addressed.

#### Public Liability Provision

- 5.20.32 The Metropolitan Transit Authority is a self insurer for all public liability settlements less than \$1 million. For settlements greater than \$1 million but less than \$5 million the Authority holds insurance cover. Settlements greater than \$5 million are covered by an insurance policy taken out by the Victorian Government. Each year the Authority charges against the year's operations the amount of the adjustment required to bring the Provision for Public Liability in line with the estimated liability at 30 June. In estimating the liability the Authority uses fixed amounts for certain classes of unsettled claims.
- 5.20.33 A review of procedures relating to the assessment of the public liability provision at 30 June 1984 showed that there was a lack of documentation detailing:



(i) the Authority's policy and procedures; and

(ii) how the fixed amounts for unsettled claims were determined.

5.20.34 It was recommended that these matters be addressed by the Authority.

#### Conclusion

5.20.35 Subject to the qualification and the other matters referred to above, the results of the audit proved satisfactory.

### **ROAD CONSTRUCTION AUTHORITY**

#### Introduction

5.20.36 The functions of the Authority as defined in the Transport Act 1983 are:

- (1) to maintain, upgrade, vary and extend the State's declared road network;
- (2) in connection with municipalities, to assist in the maintenance, upgrading and construction of other roads;
- (3) subject to agreement with the Road Traffic Authority to purchase, design, construct, erect, install, maintain and operate traffic signals and other traffic facilities for the purposes of traffic management and control;
- (4) to determine load limits and advisory speed limits for any road, bridge or culvert and to determine maximum speed limits for travel on roads under construction or repair or over bridges or culverts;
- (5) to provide and maintain roadside reserves adjacent to any road for the use or enjoyment of persons using any such road;
- (6) to establish guidelines and requirements for the issue of vehicle mass and dimension permits;
- (7) to compete on the open market for road construction and other projects; and
- (8) to investigate and to promote and undertake research into any matter related to the performance of its functions, powers or duties.

#### Financial Operations

5.20.37 The financial operations of the Authority for 1983-84 are summarised hereunder:

	1983-84
	\$000
Income	492 843
Expenditure	534 180
	<hr/>
Deficit	41 337
	<hr/>

- 5.20.38 It is pointed out that the Authority is essentially funded by government on a cash basis whereas the financial statements are drawn up on an accrual basis. Therefore, funds are not provided to meet expenditure which was incurred but not paid in the period. Such expenditure includes employee benefits, e.g. superannuation and long service leave, for which actual payments will not be made until some time in the future.
- 5.20.39 Net liabilities (i.e. excess of liabilities over assets) of the Authority at 30 June 1984 were \$300 182 000.

#### Qualification of the Authority's Financial Statements

- 5.20.40 It was necessary to record the following qualification on the Authority's financial statements for 1983-84:

"As stated in note 7.2 to the financial statements, the Authority owns properties which were acquired for road works but have not yet been used for that purpose. At 30 June 1984 these properties, which were valued at \$136.77 million, had not been recognised as an asset in the financial statements. In my opinion these properties should have been disclosed as an asset in the statement of assets and liabilities and accordingly the item Land and Buildings is understated by \$136.77 million and the item Accumulated Deficit is overstated by the same amount."

#### **Scope of Audit**

- 5.20.41 The audit included the documentation, evaluation and testing of the revenue and expenditure systems and the verification of assets and liabilities of the Authority at 30 June 1984.

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

##### Properties Acquired for Road Works

- 5.20.42 The Authority owns properties which were acquired for road works but have not yet been used for that purpose. At 30 June 1984 these properties, which have an assessed value of \$136.77 million, were not recognised as an asset in the statement of assets and liabilities. Under the Authority's accounting policy, the cost of property acquisitions is charged to road expenditure in the statement of financial transactions in the year of purchase. However, while awaiting use in road works a property may be rented out or, if a decision is made that the property is no longer required for road works, may be sold. Rent earned and the full value of a sale are treated as income in the statement of financial transactions.
- 5.20.43 During the 1983-84 financial year proceeds from the sale and rental of these properties totalled \$11.53 million. As these properties may provide future benefit from rental or sale, it is audit opinion that their cost should not be written off in the year of purchase but that they should be brought to account as assets.

### Temporary Financial Accommodation

- 5.20.44 Section 76 of the Transport Act provides that the Authority may obtain advances or financial accommodation in such manner as is approved by the Treasurer on the recommendation of the Minister. During the financial year the Authority borrowed funds by way of overdraft on 28 occasions without obtaining prior approval. The maximum amount overdrawn was \$1.8 million and the minimum was \$.068 million.

### Natural Disaster Relief Grants

- 5.20.45 Grants for the restoration of roads and bridges damaged by natural disasters are made available to municipal councils by the State from the Victorian Natural Disasters Relief Account. Grants provided to municipal councils are conditional upon subsequent submission to the Authority of documentary evidence of such expenditure.
- 5.20.46 The audit of the Authority's accounts for the year 1983-84 disclosed that documentary evidence supporting approved expenditure had not been submitted to the Authority for amounts totalling \$287 307 and \$353 688 disbursed to municipal councils during the periods 1974-75 to 1979-80 and 1981-82 respectively.

### Transfer of Assets to Other Authorities

- 5.20.47 On 1 July 1983 the traffic facilities program became the responsibility of the Road Traffic Authority. In the previous financial year the former Country Roads Board (now the Road Construction Authority) was responsible for this program. During the 1983-84 financial year traffic facilities program assets, valued at \$1 779 000, which included equipment associated with traffic signal co-ordination, 5 motor vehicles and traffic facilities installation stock, were transferred from the Road Construction Authority to the Road Traffic Authority.
- 5.20.48 Section 81 of the Transport Act 1983 provides that the Minister may transfer assets and liabilities from one Authority to another Authority after publishing an order in the Government Gazette covering any such transfer.
- 5.20.49 At the date of audit an order covering these items had not been prepared.
- 5.20.50 This matter was brought to the attention of officers of the Authority by audit. Consequently, an agreement was entered into between the Road Construction Authority and the Road Traffic Authority to formalise the transfer of these assets. The Minister acknowledged the existence of this agreement.

### Land and Buildings Owned by the Authority (excluding properties acquired for road works)

- 5.20.51 The Authority's financial records did not contain the historical cost of all land and buildings. For those assets for which a value was not recorded, the Authority placed a value on the assets at 30 June 1984, such values being provided by officers of the Authority who were not qualified valuers, or by registered valuers who were independent of the Authority.

- 5.20.52 Audit has recommended that the Authority should in future:
- (1) record the historical cost of all land and buildings acquired; and
  - (2) ensure all buildings are depreciated in accordance with the accounting standards issued by the 2 Australian accounting bodies.

#### Depreciation - Plant and Motor Vehicles

- 5.20.53 The Authority operated a computerised plant value reporting system which recorded information related to plant and motor vehicles, including depreciation charges. An examination of this record disclosed that:
- (1) in a number of instances the accumulated depreciation was greater than the cost of the item;
  - (2) in some instances no depreciation had been charged; and
  - (3) depreciation was not charged on the cost of additions or extensions which became an integral part of plant items.
- 5.20.54 In addition, depreciation rates are not reviewed on a regular basis in accordance with the accounting standards issued by the 2 Australian accounting bodies.
- 5.20.55 Audit recommended that the Authority take action to remedy the position.

#### Conclusion

- 5.20.56 Subject to the qualification, the above matters and a number of minor matters which were brought to the attention of the Authority, the results of the audit proved satisfactory.

### **ROAD TRAFFIC AUTHORITY**

#### Introduction

- 5.20.57 The main functions of the Authority as defined in the Transport Act 1983, are:
- (1) to provide registration and licensing procedures and systems in connection with transport;
  - (2) to develop and implement road safety strategies and develop promote and administer road safety education and training programs;
  - (3) to develop and implement traffic management strategies and practices;
  - (4) to specify road accident prevention practices and to promote the adoption of such practices within the community;

- (5) to develop and supervise regulations applicable to road traffic;
- (6) to purchase, design, construct, erect, instal, maintain and operate traffic signals;
- (7) to investigate and to promote and undertake research into any matter related to the performance of its functions, powers and duties; and
- (8) to compete for work on the open market.

5.20.58 In addition to the Authority's powers, duties and functions under the Transport Act 1983, other powers, duties and functions are conferred on the Authority by other legislation including the Motor Car Act 1958, the Motor Boating Act 1961 and the Chattel Securities Act 1981.

#### Financial Operations

5.20.59 The financial operations of the Authority for 1983-84 are summarised hereunder:

	1983-84
	\$000
Income	78 243
Expenditure	91 501
	<hr style="width: 100%;"/>
Deficit	13 258
	<hr style="width: 100%;"/>

5.20.60 It is pointed out that the deficit is that the Authority is essentially funded by government on a cash basis whereas the financial statements are drawn up on an accrual basis. Therefore, funds are not provided to meet expenditure which was incurred but not paid in the period. Such expenditure includes employee benefits, e.g. superannuation and long service leave, for which actual payments will not be made until some time in the future.

5.20.61 Net liabilities i.e. excess of liabilities over assets of the Authority at 30 June 1984 were \$87 624 000.

#### Qualification of the Authority's Financial Statements

5.20.62 It was necessary to record the following qualification on the Authority's financial statements for 1983-84:

"During 1983-84 the Authority paid to the Public Account, to the credit of the Works and Services Account, under the provisions of the Transport Act 1983, an amount of \$4.2 million being the proceeds of borrowings by the Authority.

The Authority received from the Public Account by way of appropriations under the provisions of the Works and Services Appropriation Act 1983 an amount of \$30.1 million.

In the Authority's books of account the amount of \$4.2 million paid to the Public Account has been offset against the amount of \$30.1 million received from the Public Account and the balance reported as income in the income and expenditure statement.

As neither the Transport Act 1983 nor the Works and Services Appropriation Act 1983 indicate the nature of the transactions, i.e. whether or not the amounts appropriated were revenue grants by Government and the amounts paid to the Public Account were reductions of such revenue grants, I am unable to form an opinion as to whether the transactions have been reported in the appropriate manner.

During the year the Authority collected and retained certain fees levied under the Motor Car Act 1958 amounting to approximately \$8 million, such amount being reported as income in the income and expenditure statement.

In my opinion such fees constitute moneys payable by the Authority to the Consolidated Fund and, therefore, income has been overstated and the deficit for the year understated by approximately \$8 million and the value of creditors included in the balance sheet has been similarly understated."

#### **Scope of Audit**

- 5.20.63 The audit included the documentation, evaluation and testing of the revenue and expenditure systems and the verification of assets and liabilities of the Authority at 30 June 1984.

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

##### Fees Levied under the Motor Car Act 1958

- 5.20.64 The Authority retained certain fees collected during 1983-84 totalling approximately \$8 million which were levied under the Motor Car Act 1958.
- 5.20.65 The Motor Car Act 1958 does not prescribe how such fees are to be applied. Section 11 of the Audit Act 1958 provides that where no mode of applying a fee is prescribed by law, then the fees shall form part of the Consolidated Fund.
- 5.20.66 The above matter was raised by audit with the Authority. In reply the Authority, following receipt of an opinion from its legal officer, held that the fees collected were trading revenue and, therefore, could be retained by the Authority under the authority of Section 66(3)(c) of the Transport Act 1983. The term "trading revenue" is not defined by the Act nor is there any proviso that Section 66 shall apply notwithstanding anything in any other Act. Audit considers that trading revenue would be restricted to fees set under the Transport Act or by the Authority and, therefore, the Authority should have paid the amounts collected to the Consolidated Fund.

- 5.20.67 Audit recommended that the following action be taken by the Authority:
- (1) seek an amendment to the Motor Car Act 1958 so as to prescribe how the fees in question are to be applied; and/or
  - (2) seek an amendment to the Transport Act 1983 so as to define what constitutes "trading revenue" under that Act.

5.20.68 Audit has recently been advised by the Ministry of Transport that the retention of the fees by the Authority had been agreed to by the Department of Management and Budget. Notwithstanding this action, in audit opinion the legal position needs to be resolved.

#### Transfer of Assets from Other Authorities

5.20.69 On 1 July 1983 the traffic facilities program became the responsibility of the Road Traffic Authority. In the prior financial year the former Country Roads Board (now the Road Construction Authority) was responsible for this program. During the 1983-84 financial year traffic facilities program assets, valued at \$1 779 000, which included SCRAM computer cabins and associated equipment, 5 motor vehicles and traffic facilities installation stock, were transferred from the Road Construction Authority to the Road Traffic Authority. Further comment on this matter is contained in this report in the section on the Road Construction Authority (paragraphs 5.20.47 - 5.20.50).

#### Conclusion

5.20.70 Subject to the qualification, the above matters and a number of minor matters which were also brought to the attention of the Authority, the results of the audit proved satisfactory.

### **STATE TRANSPORT AUTHORITY**

#### Introduction

- 5.20.71 The State Transport Authority was established to operate transport services outside the Melbourne metropolitan area. However, if the Minister so determines, the Authority can operate inside the metropolitan area.
- 5.20.72 The objects and functions of the State Transport Authority are contained in the enabling legislation and include, inter alia,
- to provide, manage and operate transport services and facilities for passengers and freight;
  - to arrange with the Metropolitan Transit Authority and others for the provision of transport services and facilities;
  - to control and maintain all railway and railway ancillary equipment and facilities within the State; and
  - to operate as the employing authority for all officers engaged in the provision of rail related services within the State.

## Financial Operations

5.20.73 The financial operations of the Authority for the year are summarised as:

	1983-84
	\$000
Revenue	219 898
Government Subsidy	216 953
	<hr/>
Income	436 851
Expenditure	676 684
	<hr/>
Net Loss	239 833
	<hr/>

5.20.74 Net liabilities (i.e. the excess of liabilities over assets) of the Authority at 30 June 1984 totalled \$1 589.2 million, comprising:

Accumulated deficits brought forward from the former Victorian Railways Board and the former Railway Construction and Property Board	\$000 839 378
Provision for superannuation pensions for existing employees to 30 June 1983	510 000
Loss for the year	239 833
	<hr/>
	1 589 211
	<hr/>

5.20.75 The Provision for Superannuation for existing employees of \$510 million, brought to account during the year, takes into account the liability arising from service in the former authorities.

## Qualification of the Authority's Financial Statements

5.20.76 I found it necessary to record the following qualification on the financial statements of the Authority for 1983-84:

"As stated in Note 6 to the accounts the Authority has been unable to align the fixed asset values in its financial records with physical assets. As the asset recording system does not identify individual assets, audit was unable to carry out tests to determine the existence and valuation of individual assets included in the item Fixed Assets and consequently, is unable to determine the adequacy or otherwise of the depreciation charge for the year of \$20.625 million.

As stated in Note 10(1) to the accounts the Authority received from the Public Account, by way of appropriations from the Works and Services Account under the provisions of the Works and Services Appropriation Act 1983 relating to Transport, an amount of \$169.8 million. At the direction of the Ministry of Transport the Authority received from the Metropolitan Transit Authority an amount of \$19.6 million such amount having been originally appropriated to the Metropolitan Transit Authority from the Works and Services Account.



Under the provisions of the Transport Act 1983 the Authority paid to the Public Account, to the credit of the Works and Services Account, an amount of \$71.9 million being the proceeds of borrowings and, to the credit of the Consolidated Fund, an amount of \$120 million being the proceeds from the sale of assets.

The difference between the amounts paid to and received from the Public Account has been treated as a reduction of the balance of the account recorded in the equity section of the Balance Sheet as 'Advances from Government'.

The Annual Reporting (Large Trading and Rating Public Bodies) Regulations 1984 require that amounts paid by the Crown to the Authority which represent capital moneys paid by the Authority to the Public Account shall be reported in the Balance Sheet in accordance with the nature of the transactions and an appropriate note shall be included explaining what each amount represents. The amounts reported in the Balance Sheet shall include those moneys paid to the Public Account including moneys borrowed by the Authority and moneys resulting from the disposal by the Authority of any real or personal property.

As neither the Works and Services Appropriation Act 1983 nor the Transport Act 1983 indicate the nature of the transactions, i.e. whether or not the amounts appropriated were repayable advances and the amounts paid to the Public Account were redemptions of such advances, I am unable to form an opinion as to whether the transactions have been reported in the appropriate manner or in accordance with the regulations.

As stated in Note 6(4) to the accounts the Authority has not disclosed either the useful service lives or depreciation rates used for each fixed asset class. Such information is required to be disclosed by the Annual Reporting (Large Trading and Rating Public Bodies) Regulations 1984".

### **Scope of Audit**

- 5.20.77 The audit included an examination of various aspects of the Authority's revenue and expenditure systems and the verification of the assets and liabilities of the Authority at 30 June 1984.

### **Audit Observations and Recommendations**

#### **Fixed Assets**

- 5.20.78 In relation to the fixed assets of the State Transport Authority audit noted the following:

(1) **Recording System**

The asset recording system of the Authority does not permit the identification and determination of the cost and accumulated depreciation of individual assets or enable any reconciliation of physical assets to financial records. The Authority has disclosed the problem in the notes to the accounts and noted that a computerised fixed asset recording system was being installed during 1983-84 to overcome this problem. Although work proceeded on this project, the system may not be fully implemented for several years due to problems associated with asset revaluations.

(2) Depreciation

Due to inadequacies of the fixed asset recording system, the calculation of an appropriate depreciation charge was determined upon the basis of the overall value of distinguishable classes of assets instead of being determined in respect of individual assets. It is anticipated that the introduction of the fixed asset recording system will enable an appropriate depreciation charge to be calculated.

The Authority did not seek exemption from the Treasurer to exclude from its annual financial statements the details of the useful lives of all major assets. The disclosure of this information is prescribed in the Annual Reporting (Large Trading and Rating Public Bodies) Regulations 1984.

(3) Track and Related Infrastructure

The Authority has adopted a policy of non-depreciation of track and related infrastructure as it considers that the asset is maintained at full effectiveness with damage or deterioration made good as it occurs. Maintenance costs are charged to the year in which they are incurred. A review of this policy has indicated a lack of detailed evidence to support the contention that the asset is maintained in a fully effective condition. Further, the policy fails to recognise the need to allocate a portion of the cost of the asset to the period in which the asset is used.

In audit opinion, an extensive review of the accounting policies associated with track, including depreciation, preventive maintenance and deferred maintenance should be undertaken to ensure that the policies reflect the operating situation and are in accordance with generally accepted accounting standards.

(4) Capitalisation Policy

The Authority had no documented policy to ensure that all significant assets were identified and recorded. However, during the year a draft policy of asset capitalisation was prepared with the intention that the policy be implemented in 1984-85.

Borrowings

5.20.79 In relation to borrowings of the State Transport Authority, audit noted the following:

\$20 million indexed loan

Upon its commencement, the Authority took over a \$20 million indexed loan. The moneys had been appropriated to the former Victorian Railways Board under the State Development Program and were repayable by the Authority. The former Board had spent the funds on new suburban rail carriages.

During the year, the carriages were transferred to the Metropolitan Transit Authority. The State Transport Authority, the Metropolitan Transit Authority and the Department of Management and Budget agreed that the liability for repayment of the indexed loan be transferred to the Metropolitan Transit Authority. This transfer of responsibility was achieved by the payment of \$20 million by the State Transport Authority to the Metropolitan Transit Authority.

As the assets were also transferred to the Authority, along with the liability, the actual transfer of funds to the Metropolitan Transit Authority was unnecessary. Therefore, in audit opinion, the Authority has effectively given an unintentional gift of \$20 million to the Metropolitan Transit Authority.

Defalcations and Irregularities

5.20.80 During 1983-84, the State Transport Authority notified the Auditor-General of the following irregularities:

58 Cash Robberies	\$26 665
65 Cash Shortages	\$ 4 447
135 Loss of stores etc.	Not determined

5.20.81 In the case of cash robberies, there were 40 instances of robberies from suburban railway stations the operations of which are the responsibility of MetRail. In most instances the Investigation Division of the Authority has conducted investigations into robberies.

Conclusion

5.20.82 Subject to the qualification, the unresolved matter referred to in the Status Report, the above matters and a number of other minor comments which have been brought to the attention of the Authority, the results of the audit proved satisfactory.

## 5.21 VICTORIAN ARTS CENTRE TRUST

### Introduction

5.21.1 The Victorian Arts Centre Trust was established under the Victorian Arts Centre Act 1979. The Trust is responsible for:

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

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

### Statutory Reporting and Auditing Requirements

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

5.21.4 The financial statements for 1983-84 were received by audit on 16 August 1984. The statements provided on that date did not comply with requirements of the Act and were withdrawn. Amended statements were received in my Office on 27 December 1984 and the audit report was signed on 4 March 1985.

### Financial Operations

5.21.5 The financial operations as reported by the Trust for 1983-84 compared with 1982-83 are summarised as follows:

	1982-83	1983-84
	\$	\$
Income	6 109 287	8 448 150
Expenditure	9 180 836	13 041 034
	<hr/>	<hr/>
Operating Deficit	3 071 549	4 592 884
Government Grants	16 850 000*	17 635 000*
	<hr/>	<hr/>
Balance available for capital and other purposes (transferred to Accumulated Fund)	13 778 451	13 042 116
	<hr/>	<hr/>

\* Capital Works and Services \$15 million (1982-83, \$15 million), operations \$2 635 000 (1982-83, \$1 850 000).

- 5.21.6 Expenditure of \$30 284 281 on the concert hall and theatre projects during the year brought the total construction costs of these projects to \$224 737 319. At 30 June 1984 the approved estimated completion cost had risen to \$224 915 064, compared with \$97 661 000 at September 1976. This estimate does not allow for the effect of future inflation, variation of costs or future interest charges on borrowings.
- 5.21.7 Net assets of the Trust at 30 June 1984 were \$172 500 541 (30 June 1983, \$158 871 304).

#### Qualification of the Trust's Financial Statements

- 5.21.8 It was necessary for me to record the following qualification on the financial statements of the Trust for the year ending 30 June 1984:

"During the 1983-84 year the Trust capitalised interest of \$6 869 020 paid on moneys borrowed and used for building the Arts Centre which comprises a concert hall and theatres complex. As the concert hall was operational for the whole of the year, in my opinion the interest related to the building of the concert hall, estimated by audit to be \$1 934 993, should have been shown as an expense in the income and expenditure statement and consequently the deficit for the year has been understated by this amount.

As indicated in Note 1(b) to the accounts the Trust has not provided for depreciation of buildings which are recorded in the Trust's balance sheet at a cost of \$227 631 726. This practice is a departure from Australian Accounting Standards and in my opinion depreciation should have been provided on buildings and been shown as an expense in the income and expenditure statement. Based on an anticipated life span of 40 years audit estimates that the annual depreciation charge on the buildings, which were operational during 1983-84, would be approximately \$1 823 783 and, therefore, the expenses and the deficit for the year have been understated by this amount".

#### **Scope of Audit**

- 5.21.9 The audit included an examination and appraisal of the revenue and expenditure systems and the verification of assets and liabilities of the Trust at 30 June 1984.

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

##### Duplicate Payments

- 5.21.10 Audit examination revealed weaknesses in the processing procedures and authorisation controls in the payments system operating at the Trust. Different references were assigned to identical invoices for input to the computer, thus circumventing the in-built computer controls to ensure rejection of such identical invoices. In addition, the controls relating to the authorisation of payment of the invoices did not operate in the responsible department of the Trust. As a consequence of these weaknesses, duplicate payments could occur.
- 5.21.11 Detailed examination by audit of payments made by the Trust during the 1983-84 year revealed duplicate payments totalling \$108 399.
- 5.21.12 Audit recommended to the Trust that it undertake a review of its procedures for the authorising and processing of accounts for payment.

- 5.21.13 The Trust has advised audit that all the amounts overpaid have been recovered and that certain procedures in relation to the authorising and processing of accounts for payment have been amended.

Asset Registers

- 5.21.14 Asset registers maintained to record furniture and equipment of the Trust were incomplete at 30 June 1984 and therefore could not be reconciled with the financial records.
- 5.21.15 Audit was advised verbally by the Trust that the delay in updating the asset registers was due to the high level of activity at the Trust during the opening of the theatres complex. Whilst the difficulties are acknowledged, it is audit opinion that, in order for the Trust to properly account for furniture, equipment and other assets, the cost of which exceeds \$4.2 million, the registers should be updated without delay.

Conclusion

- 5.21.16 Subject to the qualification, the unresolved matter referred to in the Status Report, the above matters and some minor weaknesses brought to the attention of the Trust, the results of the audit proved satisfactory.

## 5.22 VICTORIAN PUBLIC OFFICES CORPORATION

### Introduction

- 5.22.1 The Victorian Public Offices Corporation was established under the Victorian Public Offices Corporation Act 1974 and consists of the Minister of Public Works, the Treasurer, the Premier and the Minister for Conservation, Forests and Lands. The function of the Corporation is to provide such public offices as are required from time to time for the Government of Victoria.
- 5.22.2 Professional and administrative services are made available through the Public Works Department at no charge to the Corporation. The Public Works Department also maintains public offices owned by the Corporation and implements all accommodation decisions.

### Statutory Reporting and Auditing Requirements

- 5.22.3 The Act requires the Corporation to prepare a balance sheet and statements of receipts and payments and income and expenditure. Copies of the financial statements are required to be forwarded to the Minister of Public Works before 31 October each year and laid before both Houses of Parliament. The Act also provides for an annual audit of the financial statements of the Corporation by the Auditor-General.
- 5.22.4 The financial statements of the Corporation for 1983-84 were received by audit on 29 November 1984 and the audit report was signed on 21 December 1984.

### Financial Operations

- 5.22.5 The financial operations of the Corporation for 1983-84 compared with 1982-83 are summarised as follows:

	1982-83	1983-84
	\$	\$
Income	735 363	1 745 415
Expenditure	970 117	10 815 863
	<hr/>	<hr/>
Deficit	234 754	9 070 448
	<hr/>	<hr/>

- 5.22.6 The principal reason for the deficit for the year was a loss on revaluation of properties amounting to \$9 479 470, offset by a profit on sale of properties amounting to \$1 032 530.
- 5.22.7 Net assets of the Corporation of 30 June 1984 were \$11 653 986 (30 June 1983, \$20 631 279). The decrease was due mainly to the loss on revaluation of assets and additional borrowings by the Corporation during the year.

## Scope of Audit

- 5.22.8 The audit included an examination of the accounting and other systems and the verification of assets and liabilities of the Corporation at 30 June 1984.

## Audit Observations and Recommendations

### Continuing Deficits of the Corporation

- 5.22.9 The Corporation sold 5 properties during the 1983-84 financial year which resulted in a profit on sale of \$1 032 530. Income earned by the Corporation from other sources totalling \$712 885 was not sufficient to cover the outgoings of \$1 310 967 in respect of total expenditure and principal repayments during the current year. Further, during 1983-84 the Corporation borrowed \$1.8 million which increased the amount outstanding in respect of borrowings to \$8 863 342 at 30 June 1984 (30 June 1983, \$7 367 410).
- 5.22.10 As a consequence, the matter of the financial viability of the Corporation, which was first brought to attention in my December 1982 report to Parliament, requires urgent attention by the Corporation.
- 5.22.11 The Director-General of the Public Works Department has indicated that the Corporation members are aware of the position but have deferred making any decisions subject to the outcome of the machinery of government proposals currently being considered in relation to the Public Works Department.

### Loss on Revaluation of Properties

- 5.22.12 The Corporation adopted a policy during 1983-84 of reviewing its property valuations biannually. The revaluation of properties performed by the Valuer-General during 1983-84 resulted in a loss on revaluation of \$9 479 470. The following properties account for the majority of the loss:

	Cost	Valuer-General's	Loss on
	\$	Valuation	Revaluation
	\$	\$	\$
Geelong State Offices 34-38 Lt. Malop Street Geelong (construction completed December 1978)	11 135 123	5 200 000	5 935 123
Ballarat State Offices Cnr. Doverton & Mair Sts. Ballarat (construction completed October 1980)	5 289 157	2 350 000	2 939 157
	<hr/>	<hr/>	<hr/>
	16 424 280	7 550 000	8 874 280
	<hr/>	<hr/>	<hr/>



- 5.22.13 In response to an audit inquiry into the large diminution of these property values, which represents 54 per cent of the original cost, the Corporation's Acting Secretary stated that:

"The Corporation constructed offices at Ballarat and Geelong at an all-up cost of \$16 424 280. However, it sometimes happens that actual costs can be more than the price which a particular property might achieve on the open market because of particular demand and supply conditions in various segments of the property market. These buildings have been built for the long term efficiency in delivering public services for the people of Geelong and Ballarat."

#### Building Project - Bendigo Public Offices

- 5.22.14 During 1983-84 an amount of \$329 494 relating to this project was written off and disclosed as abnormal expenditure in the income and expenditure statement, as the Corporation had decided that this project would not proceed. This amount related to engineering, design, architectural and preliminary works expenses incurred on this project in prior years.

#### Depreciation of Buildings

- 5.22.15 The annual financial statements of the Corporation included for the first time depreciation of non-current assets. Appropriate documentary evidence in support of the assessment of the useful lives of buildings could not be produced for audit.
- 5.22.16 Audit recommended that, in future, architects', engineers' or valuers' reports be obtained to support the assessment of the useful lives of buildings.

#### Purchase of 166 Wellington Parade, East Melbourne

- 5.22.17 On 28 June 1984 the Corporation purchased the above property from the Crown at a total cost of \$6 579 046. This property is currently being occupied by the Department of Agriculture which also occupied the property prior to the purchase by the Corporation.
- 5.22.18 Section 7 of the Victorian Public Offices Corporation Act 1974 details the duties of the Corporation as follows: "... to provide such public offices as are from time to time required in and for the government of Victoria." Section 9 of that Act gives power to the Corporation to purchase land and to compulsorily acquire land.
- 5.22.19 Prior to the purchase from the Crown the Corporation had investments of approximately \$8.3 million built up by annual borrowings and sales of property.
- 5.22.20 To overcome doubt over the legality of this purchase, a legal opinion was obtained by the Corporation on 20 January 1984 which confirmed that the Corporation was empowered to proceed with the proposal to purchase this property.
- 5.22.21 In seeking the legal opinion the Corporation indicated that one of the main reasons for the purchase of this property was to enable the transfer of moneys from the Corporation Trust Account (Public Offices Fund) into the Consolidated Fund.

5.22.22 In the interests of full disclosure, in audit opinion an appropriate change to the legislation to enable the movement of funds to take place would have been preferable to the action taken.

Conclusion

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

## **5.23 VICTORIAN TOURISM COMMISSION**

### Introduction

5.23.1 The Victorian Tourism Commission was established by the Victorian Tourism Commission Act 1982.

5.23.2 The objectives of the Commission are to:

- (1) market Victoria as a tourist destination for interstate and international travellers;
- (2) increase:
  - . the number of travellers in Victoria,
  - . the period during which travellers or tourists stay at destinations in Victoria,
  - . the use of tourist facilities in Victoria;
- (3) increase the amount of travel within Victoria and the use of tourist facilities in Victoria by Victorians;
- (4) improve and develop tourist facilities in Victoria;
- (5) support and co-ordinate the provision of tourist facilities in Victoria; and
- (6) provide more efficient and effective utilisation of investment in travel and tourism within Victoria.

### Statutory Reporting and Auditing Requirements

5.23.3 The Commission is deemed to be an administrative unit by virtue of column one of the second schedule of the Public Service Amendment Act 1984. In addition, the operations of the Commission are governed by the enabling legislation.

5.23.4 Section 27 of the Victorian Tourism Commission Act 1982 provides for an annual audit of the accounts of the Commission by the Auditor-General. The Act also requires the Commission to furnish to the Minister, not later than 31 December in each financial year, audited financial statements for the year ended 30 June. Copies of these statements are required to be laid before both Houses of Parliament.

5.23.5 The financial statements of the Commission were received by audit on 21 December 1984 and the audit report was signed on 9 January 1985.

### Financial Operations

5.23.6 The financial operations of the Commission for 1983-84 are summarised as follows:

	1983-84
	\$
Income*	8 836 633
Expenditure	8 758 193
	<hr/>
Surplus	78 440
	<hr/>

\* Includes government grants of \$5 402 583.

No comparative figures have been included for 1982-83 as the Victorian Tourism Commission was only established on 10 May 1983.

- 5.23.7 The accumulated deficit of the Commission at 30 June 1984, after allowance for a credit of \$339 732 which related to capital expenditure provided to the Commission from the Works and Services Account, was \$82 388 (\$500 560 at 30 June 1983).

#### Qualification of the Commission's Financial Statements

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

"The accounts of Victour Properties Pty. Ltd. and Sessay Pty. Ltd., which are attached to the financial statements of the Victorian Tourism Commission were not subject to my audit and, consequently, I express no opinion on the financial statements of these companies".

#### **Scope of Audit**

- 5.23.9 The audit covered an examination of the income and expenditure and verification of the assets and liabilities of the Board at 30 June 1984. The work of a firm of private practitioners was reviewed and accepted for the purposes of the audit.

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

##### Subsidiary Companies

- 5.23.10 During the year the Commission established 2 wholly owned subsidiary companies namely Sessay Pty. Ltd. and Victour Properties Pty. Ltd. The firm of private practitioners appointed as private auditors by the Commission was also appointed as the auditor of Sessay Pty. Ltd. for the period to 30 June 1984. Victour Properties Pty. Ltd. did not appoint an auditor for the period to 30 June 1984.

##### Conclusion

- 5.23.11 Subject to the qualification and a number of minor weaknesses brought to the notice of the Commission, the results of the audit proved satisfactory.

## 5.24 AUDIT OF OTHER STATUTORY BODIES

### Completed Audits

5.24.1 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:

- . Albert Park Committee of Management
- . Albury/Wodonga (Victoria) Corporation
- . Alpine Resorts Commission
- . Ballarat College of Advanced Education
- . Batman Automotive College
- . Bendigo College of Advanced Education
- . Bendigo College of Technical and Further Education
- . Chisholm College of Advanced Education
- . Collingwood College of Technical and Further Education
- . Dandenong College of Technical and Further Education
- . Dandenong Valley Authority
- . Emerald Tourist Railway Board
- . Film Victoria
- . Footscray College of Advanced Education
- . Footscray College of Technical and Further Education
- . Frankston College of Technical and Further Education
- . Gippsland College of Advanced Education
- . Gordon College of Technical and Further Education
- . Grain Elevators Board
- . Hairdressers Registration Board
- . Hawthorn College of Advanced Education
- . Historic Buildings Council
- . Holmesglen College of Technical and Further Education
- . Institute of Catholic Education
- . Legal Aid Commission
- . Library Council of Victoria
- . Lincoln Institute of Health Sciences
- . Local Authorities Superannuation Board
- . Marine Board of Victoria
- . Melbourne College of Advanced Education
- . Melbourne College of Decoration
- . Melbourne College of Hairdressing
- . Melbourne College of Printing and Graphic Arts
- . Melbourne College of Textiles
- . Metropolitan Fire Brigades Board
- . Metropolitan Fire Brigades Superannuation Board
- . Moorabbin College of Technical and Further Education
- . Newport College of Technical and Further Education
- . Office of the Public Trustee
- . Phillip College of Advanced Education
- . Port of Geelong Authority Superannuation Fund
- . Poultry Farmer Licensing Committee
- . Poultry Farmer Licensing Review Committee
- . Prahran College of Technical and Further Education
- . Preston College of Technical and Further Education
- . Richmond College of Technical and Further Education
- . Royal Melbourne Institute of Technology (College of Advanced Education)
- . Royal Melbourne Institute of Technology (College of Technical and Further Education)

- School of Mines and Industries Ballarat Limited
- State Relief Committee
- State Parliament Refreshment Rooms
- Surveyors Board of Victoria
- Swinburne College of Advanced Education
- Swinburne College of Technical and Further Education
- Tobacco Quota Appeals Tribunal
- Victoria College of Advanced Education
- Victorian College of the Arts
- Victorian College of Pharmacy
- Victorian Dried Fruits Board
- Warrnambool College of Advanced Education
- Warrnambool College of Technical and Further Education
- Whitehorse College of Technical and Further Education
- William Angliss College of Technical and Further Education
- Yarra Bend Park Trust
- Zoological Board of Victoria
- Zoological Board of Victoria Superannuation Fund

### **Incomplete Audits**

5.24.2 At the date of this report, the following audits were not finalised due to:

- (1) financial statements not presented for audit; or
- (2) incomplete financial statements presented and subject to adjustment; or
- (3) audit in progress or not yet commenced.

### FINANCIAL STATEMENTS NOT PRESENTED

	<u>Year Ended</u>
Bundoora Park Committee of Management	4 years to 30 June 1984
Council of the State Film Centre of Victoria	30 June 1984
Mt. Macedon Memorial Cross Committee of Management	3 years to 31 December 1984
Olympic Park Management	30 June 1984
Onion Marketing Board (in liquidation)	30 June 1982
Shrine of Remembrance Trustees	30 June 1984

### INCOMPLETE FINANCIAL STATEMENTS SUBJECT TO ADJUSTMENT

	<u>Year Ended</u>
Box Hill College of Technical and Further Education	31 December 1981* 31 December 1982 31 December 1983

\* Period 1 October 1981 to 31 December 1981

	<u>Year Ended</u>
Exhibition Trustees	30 June 1984
Mt. Baw Baw Alpine Reserve Committee of Management	2 years to 31 December 1983
Mt. Hotham Alpine Reserve Committee of Management	4 years to 30 September 1984
Plumbers and Gasfitters Board	2 years to 30 June 1984
Swan Hill Pioneer Settlement Authority	30 June 1984
Technical and Further Education Board	30 June 1984
Victorian College of Agriculture and Horticulture	31 December 1983*
* Established on 8 March 1983	
Victorian Dried Fruits Board Superannuation Fund	30 September 1983 31 December 1984*
* Balance date changed to 31 December	

Werribee Park Corporation 30 June 1984

AUDITS IN PROGRESS OR NOT YET COMMENCED

	<u>Year Ended</u>
Country Fire Authority	30 June 1984
Mt. Buller Alpine Reserve Committee of Management	2 years to 31 December 1983
Shepparton College of Technical and Further Education	31 December 1983
Sunraysia College of Technical and Further Education	31 December 1983
Wangaratta College of Technical and Further Education	2 years to 31 December 1983
Yallourn College of Technical and Further Education	31 December 1983

## **PART 6**

### **EMERALD HILL RESTORATION PROJECT**

#### **6.1 INTRODUCTION**

- 6.1.1 In my report to Parliament of October 1984 on Comprehensive Audits, covering government stores operations and departmental cash management, I outlined the moves adopted by my Office in the conduct of comprehensive audits.
- 6.1.2 This Part reports the findings of a comprehensive audit conducted on the Emerald Hill Restoration Project, undertaken by the Ministry of Housing and its predecessor the Housing Commission.
- 6.1.3 The report identifies certain weaknesses in systems and procedures in the restoration project and provides audit comments on those weaknesses. These comments are intended to be constructive and to encourage improvements in systems and procedures, thus achieving greater value for money. As a general observation it can be said that the review of the Emerald Hill project indicates that there are lessons to be learned which will enable future projects of this nature to be better planned and managed.
- 6.1.4 I wish to acknowledge the positive way in which the Ministry of Housing has responded to the recommendations contained in this report. In my view this indicates both the constructive nature of the audit recommendations and the extent to which government managers are increasingly accepting their accountability for the efficient and effective use of resources.

#### **6.2 REPORT ON THE REVIEW**

##### **Background**

- 6.2.1 In January 1984, an audit review group was established to review the Emerald Hill Restoration Project currently under development by the Ministry of Housing (the Ministry).
- 6.2.2 The Emerald Hill project is one of several initiatives commenced by the Ministry's antecedent body, the Housing Commission of Victoria, designed to preserve unique areas of inner Melbourne. All projects and contracts entered into by this former body are the responsibility of the Ministry.
- 6.2.3 The project, which commenced in 1974 with major works due for completion in early 1985, involves the renovation and restoration of over 100 architecturally significant commercial shops and dwellings on 2.16 hectares of land within the City of South Melbourne and their leasing by the Ministry to residential and commercial tenants.



6.2.4 The site was purchased in 1974 for \$3.5 million after the Commonwealth Government agreed to provide a 30 year loan. Moneys were advanced on condition that the State enter into a formal agreement with the Commonwealth and that the interested bodies (Ministry, South Melbourne Council and Commonwealth Government) co-ordinate the rehabilitation program. This was achieved through the establishment of a Liaison Committee (known formally as the Emerald Hill Liaison Committee). An agreement known as the Commonwealth/State Emerald Hill Agreement was entered into under the Land Commission's Financial Assistance Act 1973.

6.2.5 The audit review utilised the comprehensive audit methodology and considered the adequacy of financial and management controls over the project's 10 year life to ensure value for money from total expenditure of over \$8 million on re-development.

### **Objectives of the Review**

6.2.6 The objective of the review was to determine whether the purchase and restoration aspects of the project had been conducted in accordance with legislation, housing policy and sound management practice, thereby ensuring proper accountability of public funds and that moneys were spent in an economic and efficient manner.

6.2.7 It is acknowledged that historically valuable properties have been retained through this project. However, the focus of the audit review was on ascertaining whether the project was adequately planned and managed, thus ensuring that costs were not any higher than necessary.

### **Scope and Conduct of the Review**

6.2.8 The scope of audit enquiry for the project encompassed:

- (1) Site Selection and Purchase: Investigations were undertaken to determine whether the purchase and development was conducted in accordance with legislation, housing policy and/or Ministerial direction operative at the time.
- (2) Financial and Management Controls: Enquiries were made to determine whether the Ministry regularly reviewed:
  - the project's financial status; and
  - the adequacy of management controls over renovation.

6.2.9 The terms of reference for the study were supplied to the permanent head of the Ministry prior to commencement of the review.

6.2.10 Following completion of the review a detailed draft report was made available to the Ministry prior to release of this document. Relevant comments from the Ministry on audit observations have been incorporated in this report.

## **General Summary of Audit Observations**

- 6.2.11 The review generally concludes that the project was inadequately planned and at times inadequately administered, with consequent delays and cost over-runs which should have been avoided. Of particular concern are the \$7.2 million interest costs to the Ministry which may have been reduced had the estate been managed in full accord with the objectives set out in the Agreement.
- 6.2.12 The review also identifies a failure to establish realistic budgets and lengthy delays in finalising the renovation strategy plan, which contributed to inadequate financial management of the project.
- 6.2.13 However, it is recognised that not all these failings were of the Ministry's making. The short notice at which the Ministry was required to commence the project also contributed to the problems identified in the review.
- 6.2.14 In selecting this project for review it was recognised that it was an unusual project for the Ministry to undertake. Previous restoration projects in Melbourne have been undertaken by government bodies such as the Public Works Department, but not by the Ministry.

## **Detailed Audit Observations and Comments**

### Project Planning and Site Purchase

#### Observations

- (1) No detailed financial feasibility study was undertaken prior to purchase, to determine whether the project would be financially viable, and if not, the possible size of the deficit which would be incurred, and no detailed physical survey of the buildings was made prior to purchase.
  - (2) The property was purchased for \$3.5 million notwithstanding a valuation of \$3.27 million by the Valuer-General.
- 6.2.15 A detailed feasibility study was not undertaken prior to purchase to establish the physical condition of the buildings and the cost of renovation. Thus, the Ministry did not establish in advance the likely financial implications of the project. The reason for the lack of a detailed study and proper financial planning prior to purchase appears to have been the haste with which the site was purchased, largely the result of pressure exerted on the Ministry by both the Commonwealth Government and South Melbourne Council to proceed quickly with the project.
- 6.2.16 Review of the preliminary studies stage disclosed that the Ministry and the Liaison Committee took 4 years (1974 to 1978) to arrive at a renovation strategy plan. In audit opinion this period of time was excessive and was a contributing factor to the Commonwealth refusing to re-negotiate the agreement. The delay appears to be due to a lack of adequate experience in restoration works and some disagreements within the Emerald Hill Liaison Committee (comprising representatives from all parties to the Agreement) which took time to resolve.

- 6.2.17 Had a detailed physical survey of the buildings been undertaken at the commencement of the project major problems encountered later in the project, such as white ant infestation and rising damp, which contributed to cost over-runs should have been identified at that stage. Although a number of studies, including physical inspections, were undertaken in the course of preparing the renovation strategy plan these did not identify these problems.
- 6.2.18 Audit observed that this was the Ministry's first major restoration project following a long period of concentration on slum clearance rather than restoration. There are indications that adequate experience in restoration as opposed to clearing and replacement projects was not available within the Ministry. Considering the size of the project, audit was of the opinion that the Ministry should not have commenced such an ambitious project until all aspects had been evaluated.
- 6.2.19 The Valuer-General was requested in January 1974 to undertake a detailed valuation of the property. His report put the market value of the property at \$3.27 million. Notwithstanding this, with the approval of the State and Commonwealth Governments the property was purchased for \$3.5 million, the amount of a stated offer received by the owners 9 months earlier.

\* Ministry Reply

- 6.2.20 In response to the above observations the Ministry stated:
- (1) "The speed with which the estate was purchased did not allow time to prepare a feasibility study. It was purchased to save and retain a unique precinct of late 19th Century Victorian architecture for the people of Victoria and the decision was taken at a political level."
  - (2) "The estate was purchased for restoration and rehabilitation, not for redevelopment as was the basis for the Valuer-General's valuation".

Financial Results

Observations

- (1) The project does not presently generate sufficient income to meet operating expenses or recoup the capital cost of restoration works, and the resulting deficit is entirely a charge against other operations of the Ministry. In audit opinion any portion of costs attributable to the historical preservation aspect of the project should have been met by those organisations which are party to the Commonwealth Agreement and concerned with historic building preservation.
- 6.2.21 There was an accumulated deficit of \$2.08 million at 30 June 1984 and the project has never made a surplus. It is not likely that the project will become financially viable in the future given that the Ministry has little opportunity of realising any capital appreciation by sale of the properties. Major factors contributing to this are the capital cost over-run, interest on Commonwealth loan moneys and the need to subsidise the rental of welfare tenants.

6.2.22 Total capital expenditure on the project to 30 June 1984 was \$8.7 million. Commonwealth advances for the project to 30 June 1984 totalled \$3.5 million and Ministry funds advanced totalled \$6.1 million. Major expenditure incurred by the project to 30 June 1984 included:

<u>Item</u>	<u>Accumulated Totals</u> <u>at 30 June 1984</u> \$	<u>Comment</u>
Interest on Commonwealth Loan	3.6 million	An estimated \$7.2 million will be paid over full term
Interest on Ministry Funds	978 330	
Rebates to Welfare Tenants	250 440	\$63 142 recorded in 1983-84 (rose by 16 per cent over previous year)
Accumulated Deficit	2.08 million	Loss of \$207 174 recorded in 1983-84.

6.2.23 The rate of return on the Ministry's overall rental operations was compared with that of the Emerald Hill project. The analysis showed that whilst overall rental operations run at a loss, due to the large welfare tenant component, this project incurred a negative rate of return approximately 3 times greater than for other estates.

6.2.24 The major source of income is from the lease of commercial properties. A total of \$699 266 was received in gross rents during the 1983-84 financial year. Approximately 70 per cent of this was from the 96 commercial properties.

6.2.25 Major costs of rehabilitation have been borne solely by the Ministry. Although the Ministry made representations to the South Melbourne Council, the National Trust, the Australian Heritage Commission and other bodies for financial assistance, no moneys were provided to the Ministry.

6.2.26 If the project was expected to be financially less viable than other Ministry housing projects because of the preservation aspect, it is questionable that it should be fully borne by the Ministry.

6.2.27 In audit opinion, any portion of costs attributable to the historical preservation aspect of the project should have been met by those organisations which are party to the Commonwealth Agreement or concerned with historic building preservation.

\* Ministry Reply

6.2.28 Rent received from public housing tenants within the estate is based upon ability to pay rather than the cost of acquisition or renovation, a feature of welfare housing. Thus the Ministry felt it was not appropriate that welfare tenants' rentals be structured to meet the cost of renovations.

6.2.29 With regard to comments concerning the project's financial viability the Ministry stated:

- (1) "This is a historical preservation project and the Ministry is charged with completing it in an efficient and responsible manner".
- (2) "It is difficult to compare a basically historical project with welfare housing and it is inappropriate to compare projects that have different objectives".
- (3) "The value of the project today represents a substantial asset to the Government. The Estate is now valued between \$13 million and \$15 million by the Ministry's Property Manager".
- (4) "Each of the other organisations (South Melbourne Council) which was party to this agreement were asked to contribute financially to the rehabilitation of this estate. However, all declined".
- (5) "'This project incurred a negative rate of return approximately 3 times greater than for other estates.'

This is to be expected and a similar situation would occur with any project which commenced at this time. It is recognised that our large number of older dwellings which individually create an operating surplus tend to offset the operating deficit primarily caused by the higher capital costs of more recently acquired stock".

\* Further Audit Comment

6.2.30 In considering the capital appreciation of the project assets referred to in (3) above, allowance must be made for the amount of capital expenditure incurred, the general increase in property values in South Melbourne over the 11 years of the project, and the stated objective of the project which is restoration not property development for future disposition.

Budgetary Procedures

Observations

- (1) The actual capital costs of restoring properties substantially exceeded the original estimates due to the lack of realistic assessment of required expenditure at that time and subsequent decisions to undertake enhanced standards of renovation.
- (2) There had been no review of the project's financial viability since August 1980 when major works commenced, and this review was not adequate to determine the likely financial result and led to the adoption of invalid budget estimates.
- (3) The Ministry contravened the loan agreement with the Commonwealth Government by failing to regularly submit financial statements for audit by my Office.

- 6.2.31 The actual capital cost of restoring properties substantially exceeded the estimate prepared by the consultant. As mentioned earlier, a realistic assessment of their physical condition and estimate of expenditure needed to bring the properties to a habitable standard had not been prepared at the time of that estimate. The actual cost of works in the period 1981 to 1983 amounted to over \$3.3 million compared with the original estimate of \$2.2 million based on the figures calculated by the consultant. This was largely due to enhanced standards of renovation subsequently decided on.
- 6.2.32 Examples of instances where the actual cost of renovation exceeded the original estimates because of changes in renovation strategy are as follows:

<u>Property</u>	<u>Estimate</u>	<u>Actual</u>
	\$	\$
8 Perrins Street	18 100	28 370
253 Dorcas Street	10 000	35 000

- 6.3.33 Although budget figures for individual properties were revised to take account of changes in the renovation strategy, no reassessment was made of the overall financial result of the project. The project's financial viability was evaluated in several studies between 1975 and 1980. The last evaluation prior to the audit review was undertaken for the Ministry by a consultant using the discounted cash flow method and was completed in August 1980. However, this review consisted of the consultant calculating the maximum costs that could be incurred if the project were to break even. These estimated costs were then adopted as budget figures without any consideration of their validity. Thus the review was not an assessment of the likely financial results.
- 6.2.34 Budget review procedures within the Ministry do not provide for regular review of individual sub-components of a program (Emerald Hill is part of the Ministry's overall rehabilitation budget) to be carried out by senior management outside the Development and Property Division, which is responsible for all housing rehabilitation and construction in the Ministry.
- 6.2.35 Clause 5.5 of the Emerald Hill Agreement requires the Ministry to prepare detailed financial statements and a Commonwealth certificate in respect of income and expenditure for independent certification by the Auditor-General. At the time of completion of the audit review financial statements had not been received for the financial years 1981-82 and 1982-83. Thus an audit opinion had not been given as to whether moneys had been expended in accordance with the conditions of the loan. (These financial statements were subsequently received in this Office on 11 January 1985).

\* Ministry Reply

- 6.2.36 The Ministry agrees that the original renovation budget was unrealistic. Very strict financial controls are now enforced and there are detailed procedures governing the letting of contracts for renovation works.
- 6.2.37 "Included in the examples of instances where the actual cost of renovation exceeded the original estimates is the property at 253 Dorcas Street.

Our last comments pointed out that the original estimate of \$10 000 was for minor maintenance to the inside of the unit only. The final cost of \$35 490 was for complete renovation of the dwelling and the facade restoration of all 8 dwellings in the row.

If this explanation is accepted then this property should not be quoted as an example of cost over run."

- 6.2.38 "A financial evaluation was in fact carried out immediately after receiving a copy of your exposure draft last year. The evaluation was completed on 6 July 1984 and the conclusion was that the annual operating deficit should cease in June, 1985 and from then onward there should be an operating surplus. This prediction must however be reviewed with the introduction of cost rents and a further evaluation is now necessary".

### Managerial Control

#### Observations

- (1) Inadequate managerial control over renovation works at times during the project's 10 year history has resulted in the need to repeat some renovations. Repetitive or secondary maintenance was estimated by audit to be in excess of \$240 000.
- (2) Significant delays in commencing and completing the works resulted in the Commonwealth Government refusing to re-negotiate the financial arrangements which resulted in additional cost to the State.
- (3) Estate management practices were inadequate as no major review of rents or the managing agents' performance was undertaken until 5 years after acquisition.
- (4) The level of delegation of authority entrusted to senior officers for the approval of projects appears to be excessive.

#### (A) Secondary Maintenance

- 6.2.39 Various documents examined by audit identified the nature of works required and alerted management as to the reasons for secondary maintenance, e.g.

- (1) "Apart from excessive charges, other disquieting aspects relate to renovation contract works which are arranged by consultant firms. It appears that there are serious omissions from specifications and apparently work is not adequately supervised, if at all."
- (2) "Maintenance works on many occasions have been found to be far from satisfactory and over priced."

- 6.2.40 In audit opinion, the need to repeat primary works is a reflection of poor management control and supervision.

6.2.41 Audit enquiries indicated that secondary maintenance in the building industry should not occur where initial works had been adequately documented and supervised.

\* Ministry Reply

6.2.42 With respect to secondary maintenance the Ministry stated that:

"Secondary maintenance on this estate is the result of unrealistic budgets being set in the first place. With the policy change after June 1981, secondary maintenance will virtually cease. However, it must be understood that there will always be a larger maintenance factor involved in rehabilitated buildings than new buildings and a maintenance programme in Emerald Hill will need to continue".

(B) Failure to Re-negotiate Financial Arrangements

6.2.43 The Commonwealth Agreement under which the Commonwealth Government advanced moneys for the project provided for a later review of the financial arrangements to enable Victoria to be able to meet its financial obligations for the project from the revenue of the estate (i.e. to break even) subject to the estate being managed in accordance with the objectives referred to in the Agreement. Delays by the Ministry in compiling and implementing the approved program resulted in the Commonwealth refusing to re-negotiate the Agreement on the grounds that "the Estate had not been managed in full accord with the objectives set out in the agreement..."

6.2.44 Total repayment of principal and interest over the 30 year loan will amount to \$10.7 million of which \$7.2 million represents interest. Had Victoria exercised its option to re-negotiate the terms of financial assistance within the 5 years review period, these costs may have been reduced. Of the \$7.2 million interest component, approximately \$5.2 million will be incurred subsequent to 30 June 1984.

\* Ministry Reply

6.2.45 In response, the Ministry indicated that considerable effort has been made to re-negotiate more favourable terms without success:

"...The Commonwealth should be again asked to consider the re-negotiation of the agreement and that representation be at Minister/Director level."

(C) Estate Management Practices

6.2.46 A review of estate management practices disclosed:

(1) Private real estate agents were appointed by the Ministry on 8 April 1974 to manage all residential and commercial properties. Although initially appointed for a period of 6 months they continued to manage the estate until December 1980 when the Housing Services Division assumed responsibility for residential tenancies.



No detailed written directions were given to the estate agents at the time of their appointment, covering matters such as lease and rental arrangements, rent collection and tenant responsibility for maintenance. A delay of 6 years occurred before such guidelines were issued.

- (2) In the period 1974 to 1979 there were no major rent reviews. Following a consultant's report on this and other matters, rentals were increased to reflect market rates. The report also stated that:

"Inconsistencies in rentals applying to commercial properties and letting at rentals below that necessary for renovation expenditure have been characteristic problems ... largely as a consequence of insufficient communication between project staff and the managing agents".

\* Ministry Reply

- 6.2.47 The Ministry stated:

"This occurred prior to 1980 and since then both items have been attended to".

(D) Delegation of Authority

- 6.2.48 Pursuant to Section 35 of the Housing Act the Director of Housing can delegate some of his powers to subordinate staff under a formal instrument of delegation. The General Manager, Group and Branch Managers of the Development and Property Division can approve tenders and construction projects to a certain amount, e.g. the General Manager has authority to approve tenders and enter into contracts to the value of \$2 000 000. Group Managers are limited to \$500 000. A comparison of these delegations with other government departments suggests that the level of delegation within the Ministry may be excessive, e.g. the Director-General of the Public Works Department can approve of amounts only up to \$250 000.

- 6.2.49 In view of the apparent disparity in delegations of authority between government agencies, audit considered review of the Ministry's delegation levels appeared warranted.

\* Ministry Reply

- 6.2.50 The Ministry, in response stated:

"...the delegations to the Development and Property Division management were not the cause of budget over-runs etc. Many examples given were years before there was a Development and Property Division (May 1981) when delegations were not given. The cost over-runs reflected the actual cost of the works - the budget based on a theoretical rate of return were inadequate as experience showed".

## **General**

### Other Ministry Comments

6.2.51 The written reply to the draft audit report included the following general observations:

- (1) "The criticisms in your report relate basically to the period prior to 1980. The Ministry of Housing has certainly corrected the problems which emerged from the initial years of this project".
- (2) "The Emerald Hill Project was an historical/preservation project, hence it is unfair to criticise the Ministry for not frequently assessing the financial viability of it".