



VICTORIA

SECOND REPORT
of the
AUDITOR-GENERAL

for the year ended
30 June 1984

VICTORIA

Second Report

of the

AUDITOR-GENERAL

for the

Year ended 30 June 1984

Ordered by the Legislative Assembly to be printed

LIBRARY
OFFICE OF THE AUDITOR-GENERAL
1215
MELBOURNE VIC. 3002

MELBOURNE
F D ATKINSON GOVERNMENT PRINTER
1984



Office of the Auditor-General,
MELBOURNE. VIC.

31 October 1984.

26 March 1986

Sir,

1984 - 85

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

This report is supplementary to my report of ²⁵ 18 September 1984⁵ in relation to the Treasurer's Statement for the year ended 30 June 1984.

⁵ Yours faithfully,

B.J. WALDRON
Auditor-General

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

TABLE OF CONTENTS

	<u>Page</u>
PART 1. BACKGROUND INFORMATION	
1.1 Format of Reports to Parliament	1
1.2 Acknowledgments	1
PART 2. MATTERS OF SPECIAL INTEREST	
2.1 Annual Reporting Act 1983	2
2.2 Failure to Obtain Tender Board Approval	6
2.3 Administrative Arrangements Legislation	9
2.4 Other Matters of Special Interest	9
PART 3 STATUS REPORT	11
PART 4 AUDIT OF DEPARTMENTS	
4.1 Scope of Audit	19
4.9 Agriculture, Department of	39
4.9 Auditor-General, Office of the	39
4.9 Consumer Affairs, Ministry of	39
4.9 Employment and Training, Ministry of	39
4.2 Ethnic Affairs Commission	20
4.3 Health Commission of Victoria	21
4.9 Industrial Affairs, Ministry of	39
4.4 Labour and Industry, Department of	25
4.9 Local Government Department	39
4.5 Minerals and Energy, Department of	27
4.6 Property and Services, Department of	30
4.9 Public Prosecutions, Office of the Director of	39
4.7 State Rivers and Water Supply Commission, Office of the	32
4.8 Water Resources and Water Supply, Ministry of	34
4.9 Youth, Sport and Recreation, Department of	39
PART 5 AUDIT OF STATUTORY BODIES	
5.11 Coal Mine Workers Pensions Tribunal	76
5.8 Country Roads Board	64
5.11 Dandenong Valley Authority	76
5.11 Deakin University	76
5.11 Decentralised Industry Housing Authority	76
5.1 Gas and Fuel Corporation of Victoria	40
5.11 Government Employee Housing Authority	76
5.2 Housing, Director of	44
5.11 Holmesglen Constructions Superannuation Plan	76

	<u>Page</u>
5.11 La Trobe University	76
5.11 Latrobe Valley Water and Sewerage Board	76
5.3 Melbourne and Metropolitan Board of Works	47
5.4 Melbourne, University of	51
5.5 Monash University	53
5.11 Optometrists Registration Board	76
5.8 Road Safety and Traffic Authority	64
5.6 Small Business Development Corporation	55
5.7 State Electricity Commission	57
5.8 Transport - Former Authorities 1982-83	64
5.11 Transport Regulation Board	76
5.11 Victorian Brown Coal Council	76
5.11 Victorian Coal Mine Workers Accident Relief Board	76
5.9 Victorian Development Fund	72
5.11 Victorian Public Authorities Finance Agency	76
5.8 Victorian Railways Board	64
5.10 Zoological Board of Victoria	74

PART 1

BACKGROUND INFORMATION

1.1 **FORMAT OF REPORTS TO PARLIAMENT**

- 1.1.1 I intend to present to Parliament 4 reports in respect of 1983-84, as indicated below, together with special reports on other matters as the occasion demands.
- 1.1.2 The First Report, tabled on 18 September 1984, accompanied the Treasurer's Statement for the year ended 30 June 1984 and contained my report on that Statement, as required by Section 47 of the Audit Act 1958.
- 1.1.3 This Second Report contains audit 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 includes 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, which will be forwarded to Parliament towards the end of 1984, will cover the operations of other statutory bodies which I am required by law to audit, as well as reports on any departments in respect of which an audit report had not been issued prior to 30 September 1984.
- 1.1.5 The Fourth Report, which will be presented later this financial year, will cover those agencies not included in my second or third reports because of:
- . delays in the preparation of financial statements,
 - . balance dates other than 30 June, or
 - . incomplete audits.
- 1.1.6 A separate report on the operations and audited financial statements of the Office of the Auditor-General was transmitted to the Premier on 26 September 1984 for presentation to Parliament in accordance with the Annual Reporting Act 1983.

1.2 **ACKNOWLEDGMENTS**

- 1.2.1 I wish to record my sincere appreciation of the assistance throughout the past year of the Assistant Auditor-General and all other members of the staff of the Office of the Auditor-General and give recognition to their professional competence and dedication to the work of the Office.
- 1.2.2 I also wish to acknowledge the assistance of the Government Printer in the preparation of this report.

PART 2

MATTERS OF SPECIAL INTEREST

2.1 ANNUAL REPORTING ACT 1983

Introduction

- 2.1.1 In my second report to Parliament for the year ended 30 June 1983 I referred with approval to the passing of the Annual Reporting Act 1983, which is a most significant step in improving the accountability of government departments and authorities to Parliament. 1983-84 was the first year of operation of this Act and it is therefore appropriate that I comment on its operation to date. In general, I must express my disappointment at the poor response by a number of departments which failed to present their annual report to the Minister for tabling in Parliament by the required date of 30 September.
- 2.1.2 Under the Act -
- (1) the responsible Minister for each designated department is required to table in each House of Parliament a report of operations and audited financial statements before 30 September in each year or, if that House is not then sitting, within 14 sitting days after the next meeting of that House; and
 - (2) each designated public body is required to submit to its responsible Minister a report of operations and audited financial statements, within 3 months of the end of each financial year, for tabling in each House of Parliament by the Minister within 14 sitting days. If that House is not then sitting, the report is to be tabled by the Minister within 14 sitting days after the next meeting of that House.
- 2.1.3 In both cases there is provision for the Treasurer to grant extensions of time. Where the Minister or the public body is unable to comply with the specific or extended deadlines, this fact and the reasons for it are also required to be reported to Parliament by the responsible Minister.
- 2.1.4 In all, 29 departments and 7 public bodies (State Electricity Commission, Gas and Fuel Corporation, Melbourne and Metropolitan Board of Works, Port of Melbourne Authority, State Transport Authority, Metropolitan Transit Authority and Grain Elevators Board) were declared to be subject to the provisions of the Act. Other public bodies will be designated under the Act on a progressive basis.
- 2.1.5 The form and content of the report on operations and the financial statements are prescribed by way of regulation. The Annual Reporting (Departments) Regulations 1984 were approved by the Governor in Council on 4 September 1984 and the Annual Reporting (Large Trading and Rating Public Bodies) Regulations 1984 on 11 September 1984.

Review of Operations of the Act in 1983-84 - Timeliness of Reporting

2.1.6 The inability of most departments and designated public bodies to meet the time deadlines specified in the Act resulted in the Treasurer approving extensions of time for:

18 out of the 29 designated departments
4 out of the 7 designated public bodies

2.1.7 Details of the extensions of time granted by the Treasurer are set out in Table 1. Table 2 lists those organisations which were able to meet the deadline in respect of financial statements and did not require extensions of time, and sets out the date on which my audit report on their financial statements was signed.

2.1.8 It should also be noted that 6 applications to the Treasurer for extensions of time were not made until after 30 September. All were designated departments:

Ministry of Consumer Affairs; Public Works Department; Law Department; Public Service Board; Department of Conservation, Forests and Lands; and Department of Industry, Commerce and Technology.

2.1.9 It is appreciated that departments and public bodies were placed in some difficulty in the preparation of their annual reports as a result of the late finalisation of the Regulations by the Department of Management and Budget and the need to utilise limited resources in the development of program budgeting. However, early notice of the likely content of the final Regulations was contained in drafts circulated by the Department of Management and Budget in June 1984. Furthermore, as early as March 1984, departments and public bodies had been advised of their specific responsibilities under the Act for 1983-84 and were given some indication of the form and content of the proposed Regulations relating to financial and operations information.

2.1.10 There appear to be a number of reasons for the general failure to meet the reporting deadline:

- (1) In the case of some departments there appears to have been a failure by senior management to have regard to the principles of the Act and a consequent failure to allocate sufficient resources and priority to the preparation of the annual report, including the financial statements.
- (2) Associated with the above point, a number of departments which have not previously prepared annual reports apparently underestimated the skills and resources required to prepare the report on operations and did not plan ahead to ensure the timely preparation of the non-financial data required in the report under the Act. In 4 departments (Local Government Department, Department of Property and Services, Department of Community Welfare Services, and Ministry of Employment and Training) completed financial statements were available for audit within the required period but the report on operations, which I am not required to audit, had not been completed and was the reason for seeking an extension of time.

- (3) Again, in the case of some departments the inadequacy of accounting systems and lack of accounting resources led to delays in finalising the departmental financial statements. As in (2) above, this could have been foreseen and planned for. It must be noted that although 1983-84 was the first year of operation of the Act and Regulations, departments have prepared their own financial statements by direction of the Treasurer for the previous 2 years. These financial statements were similar in form to those prescribed under the Regulations, although, admittedly, they required somewhat less detail.
- (4) In the case of the 2 transport authorities and the Port of Melbourne Authority there have been difficulties in determining the appropriate accounting treatment for certain items and transactions which have required extensive discussion between the authorities, the Department of Management and Budget and this Office. Also, the 2 transport authorities commenced operations during 1983 and considerable time was required to determine the amounts of and allocation of assets and liabilities of the superceded transport organisations.

2.1.11 The failure to meet the deadlines has not been due to delays within my Office in auditing financial statements. I wrote in April this year to all departments and the designated public bodies. In my letter I indicated that, in order for the deadlines to be met, it would be necessary for them to have their financial statements available for audit within 6 weeks of the end of the financial year, leaving this Office approximately 7 weeks in which to complete the audit of the financial statements. With the exception of the Public Works Department none of those organisations for which the Treasurer granted an extension of time submitted acceptable financial statements to this Office within the required period of time. At 15 October, acceptable financial statements had still not been received for audit from the following organisations:

Ministry for the Arts
Department of Conservation, Forests and Lands
Office of Corrections
Education Department
Law Department
Department of Management and Budget
Ministry for Planning and Environment
Ministry for Police and Emergency Services
Department of the Premier and Cabinet

2.1.12 The lateness in completing annual reports could result in Parliament not receiving this information until next year. If this happens then Parliament and the public will not receive the information contained in these annual reports until some 7 or 9 months after the end of the reporting year. This problem arises because Parliament must be sitting before the report can be tabled and made available to Members of Parliament and the public.

2.1.13 The Economic and Budget Review Committee in its 1983 Report on a Review of the Audit Act 1958 recommended that there should be provision for the sending of annual reports to the Speaker of the Legislative Assembly when Parliament is not sitting and that this would be regarded as tabling in Parliament. The reports could thus be made available to both Members of Parliament and the public on a more timely basis. The New South Wales Annual Reports (Statutory Bodies) Act 1984 and the Queensland Financial Administration and Audit Act 1977 both contain such a provision. I am of the view that there should be a similar provision in the Victorian Annual Reporting Act.

TABLE 1

Departments and Designated Public Bodies Requiring Extensions of Time from the Treasurer to Complete Annual Report

<u>Departments</u>	<u>Extension of Time Granted Until</u>
Ministry for the Arts	31/10/84
Department of Community Welfare Services	31/10/84 (2)
Department of Conservation, Forests and Lands	30/11/84
Ministry of Consumer Affairs	30/11/84 (2)
Office of Corrections	31/10/84
Education Department	30/11/84
Ministry of Employment and Training	31/10/84 (1)
Department of Industry, Commerce and Technology	31/10/84
Law Department	31/10/84
Local Government Department	31/10/84 (2)
Department of Management and Budget	31/10/84
Ministry for Planning and Environment	15/11/84
Ministry for Police and Emergency Services	31/10/84
Department of the Premier and Cabinet	31/10/84
Department of Property and Services	31/10/84 (2)
Office of the Public Service Board	31/10/84
Public Works Department	31/10/84 (2)
Ministry of Transport	31/10/84

Designated Public Bodies

Grain Elevators Board	31/1/85 (3)
Metropolitan Transit Authority	31/10/84
Port of Melbourne Authority	31/10/84
State Transport Authority	31/10/84

- (1) Financial statements signed by Auditor-General prior to 30 September 1984. Extension of time granted because of delays in preparing report of operations.
- (2) Completed financial statements available for audit prior to 30 September 1984. Extension of time granted because of delays in preparing report on operations.
- (3) The financial year of the Grain Elevators Board ends on 30 September 1984.

TABLE 2

Departments and Designated Public Bodies Not Requiring an Extension of Time

<u>Departments</u>	<u>Date Audit Report on Financial Statements Signed</u>
Department of Agriculture	20/9/84
Office of the Auditor-General	17/9/84
Ministry of Ethnic Affairs	28/9/84
Health Commission of Victoria	25/9/84
Ministry of Industrial Affairs	26/9/84
Department of Labour and Industry	26/9/84
Department of Minerals and Energy	28/9/84
Office of the Director of Public Prosecutions	28/9/84
Office of the State Rivers and Water Supply Commission	28/9/84
Ministry of Water Resources and Water Supply	26/9/84
Department of Youth, Sport and Recreation	28/9/84
<u>Designated Public Bodies</u>	
Gas and Fuel Corporation of Victoria	21/9/84
State Electricity Commission of Victoria	28/9/84
Melbourne and Metropolitan Board of Works	28/9/84

2.2 FAILURE TO OBTAIN TENDER BOARD APPROVAL

- 2.2.1 In my second report to Parliament for 1982-83 (section 4.1) I referred to the failure of departments in many cases to obtain required Tender Board approvals for the purchase of goods and services. The Department of Management and Budget Regulations 1981 require that, with certain exceptions, Tender Board approval be obtained to the purchase of all goods and services costing more than \$2 000. I expressed the view that action should be taken to ensure that the Regulations are observed, or that if they are considered inappropriate, steps be taken to revise them.
- 2.2.2 The position remained unchanged in 1983-84. During the year numerous cases were noted of failure to obtain Tender Board approval prior to purchase of goods and services. In addition, in many cases required approval from Ministers or the Governor in Council was also not obtained. It appears that some officers are not aware of the requirements of the Regulations, while some appear to simply disregard them. Although not legally empowered to do so, the Tender Board has followed the practice of granting retrospective approval, in order that payments can be made.
- 2.2.3 In my view this matter now requires urgent attention by the Department of Management and Budget.
- 2.2.4 Examples of purchases of more than \$5 000 noted in 1983-84 where Tender Board approval was not obtained before the goods and services were supplied are as follows. In some cases Tender Board approval was sought retrospectively; in other cases no approval was sought.

	<u>Total Amount of Contract</u>	<u>Other Comments</u>
	\$	
<u>Ministry for the Arts</u>		
Supply of graphic design services	34 152	
Supply of printing materials	39 508	
Purchase of EDP equipment	9 060	
<u>Education Department</u>		
Bulk accommodation	5 960	
Rental of EDP equipment	72 024	
EDP project expenditure	21 658	
Office equipment rental	5 520	
Consultancy services - accounting system	44 311	
Employment of contract programmer	27 040	
Accommodation	6 662	
Consultancy services - information system	82 187	
Security services	333 000	
<u>Department of Community Welfare Services</u>		
Cleaning services at Jika Jika and Pentridge prisons	58 000	
<u>Public Works Department</u>		
Melbourne Remand Centre Project consultancy services:		
Project direction	390 000	
Review of project proposal	41 000	
Finalisation of project brief	6 300	
Review of project at concept stage	10 122	
<u>Ministry of Police and Emergency Services</u>		
Purchase of equipment for State Emergency Service	66 561	Ministerial approval also not obtained prior to purchase
<u>Ministry of Water Resources and Water Supply</u>		
Consultancy services - accounting and reporting	40 000	Treasurer's approval also not obtained prior to commencement of work. No Tender Board approval sought

	<u>Total Amount of Contract</u>	<u>Other Comments</u>
	\$	
<u>Department of Management and Budget</u>		
Consultancy services:		
Program budgeting, Health	9 357)	In all cases
Program budgeting, TAFE Colleges	26 000)	Tender Board
Acting Comptroller-General position	8 050)	approval was
Portland smelter negotiations	791 715)	obtained on
Melbourne as a Financial Centre project	29 454)	completion of
Economic forecasting	19 800)	project
Reporting on superannuation schemes	10 000)	
Inquiry into workers' compensation	31 851)	No Tender
Advice on financial markets	187 416)	Board approval
Preparation of water service financing booklet	12 400)	) sought

Ministry for Planning and Environment

Purchase of air-monitoring system	16 882	Officers
Purchase of air sampling equipment	10 006	requiring
Architectural consultants	11 000	goods and
"	6 600	services were
"	25 000	personally
Archaeological consultants	23 000	contracting
"	31 400	for them and
"	23 000	were not aware
		of the guide-
		lines for the
		engagement of
		consultants
		and the
		requirements
		for Tender
		Board approval

Ministry of Transport

Consultant for transport study	5 633
"	19 225
"	7 650
"	18 000
"	11 900
"	17 600

2.2.5 Numerous other instances of failure to obtain Tender Board approval for goods and services costing between \$2 000 and \$5 000 were also noted during the year.

2.3 ADMINISTRATIVE ARRANGEMENTS LEGISLATION

- 2.3.1 The Administrative Arrangements Act 1983 came into operation on 21 June 1983. Section 3 of the Act empowers the Governor in Council to make Orders on matters relating to administrative changes. The Governor in Council may also make Orders under Section 4 of the Act specifically concerning the issue or application of moneys appropriated by Parliament, where responsibility for the performance of functions has been transferred from one department to another.
- 2.3.2 During 1983-84, a total of 13 Orders were made by the Governor in Council, 12 under the authority of Section 3 of the Act and one under the authority of Section 4.
- 2.3.3 Some technical problems were experienced by the Department of the Premier and Cabinet in the first year of operation of the legislation. These problems arose mainly from questions of interpretation of the Act and identification of all circumstances under which Orders involving appropriations by Parliament are necessary. It is evident from audit's discussions with the Department of the Premier and Cabinet that action has been taken to avoid the difficulties experienced in 1983-84.

2.4 OTHER MATTERS OF SPECIAL INTEREST

- 2.4.1 Matters of special interest detailed in Part 4: Audit of Departments and Part 5 : Audit of Statutory Bodies are identified below.

SUBJECT

PARAGRAPH REFERENCE

DEPARTMENTS

Qualification of Financial Statements

Ethnic Affairs Commission (1983-84)	4.2.3-4.2.4
Office of the State Rivers and Water Supply Commission (1983-84)	4.7.5

Health Commission of Victoria

An officer of the North West Victorian Ambulance Service misappropriated each of \$72 185 through the payroll system	4.3.7
--	-------

Department of Property and Services

A Returning Officer for the Electoral District of Prahran failed to properly account for \$30 845 advanced to him and was surcharged with that amount on 22 August 1984	4.6.6-4.6.9
---	-------------

SUBJECT

PARAGRAPH REFERENCE

Ministry of Water Resources and Water Supply

Defalcation at the Alberton Port Albert
Waterworks Trust 4.8.10-4.8.15

STATUTORY BODIES

Qualification of Financial Statements

University of Melbourne 5.4.7-5.4.8
Monash University 5.5.6-5.5.7
Road Safety and Traffic Authority (1982-83) 5.8.24
Victorian Railways Board (1982-83) 5.8.36

Small Business Development Corporation

Failure to comply with Motor Transport
Committee guidelines covering the use of
motor vehicles 5.6.7-5.6.10

Victorian Railways Board (1982-83)

Fixed assets - failure to record
and identify certain fixed assets and the
appropriate depreciation charges 5.8.38

Employee leave credits - substantial leave credits
held by certain employees at 30 June 1983 5.8.40-5.8.41

PART 3

STATUS REPORT

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

<u>Report</u>	<u>Page</u>	<u>Subject</u>	<u>Status at Date of Preparation of this Report</u>
---------------	-------------	----------------	---

DEPARTMENTS

DEPARTMENT OF AGRICULTURE

1980-81	53	Internal audit not established.	Internal audit now established.
---------	----	---------------------------------	---------------------------------

MINISTRY OF CONSUMER AFFAIRS

1981-82	72	Motor Car Traders Guarantee Fund - delay in collection of licence fees and failure to always follow-up overdue fees.	Some improvement has been achieved in these areas.
1982-83	42	Interest receivable by the Residential Tenancies Fund could not be verified due to absence of appropriate arrangements with the approved financial institutions and a suitable information system.	Of the 7 approved financial institutions, only 3 have agreed to provide certification of monthly returns by their internal auditors. Position unchanged with regard to lack of uniformity in calculation of interest. The Ministry has communicated with the Department of Management and Budget on costs of establishing a suitable information system.

<u>Report</u>	<u>Page</u>	<u>Subject</u>	<u>Status at Date of Preparation of this Report</u>
<u>HEALTH COMMISSION OF VICTORIA</u>			
1981-82	92	Subsidies paid to Pre-school Centres - action necessary by the Commission to ensure compliance with conditions of subsidy to pre-school centres.	Appropriate action has been taken by the Commission.
	94	Geriatric Supplementary Fund - appropriate measures necessary to authorise the establishment of the Geriatric Supplementary Fund and to regularise payments thereto from the Hospitals and Charities Fund.	The Commission ceased to operate the Geriatric Supplementary Fund with effect from 1 December 1983.
	96	Revenue section - mail remittances should be recorded centrally and forwarded to the revenue section.	Position unchanged.
	96	Expenditure on buildings and equipment from interest earned by patients' trust account investments is considered to be improper. Specific guidelines to regulate expenditure from this source should be established. The provision of financial assistance from the patients' trust account at Aradale Mental Hospital should be reviewed.	A working party established by the Commission to enquire into the management of patients' trust accounts has submitted its report. The recommendations of the working party are under consideration by the Commission.
1982-83	58	Salaries and Personnel Systems - need for uniform leave procedures and policies and improved internal control over calculation of salary payments.	The Commission has taken action to overcome the weaknesses in the salaries and personnel systems.
	59	The 1976 agreement with ambulance services in relation to funding by the Commission should be reviewed.	Matter is under consideration by the Public Bodies Review Committee.
	62	Arrangements at certain psychiatric centres regarding contributions required from pensioners for upkeep are inequitable compared with arrangements in other institutions.	Further comment is given in paragraph 4.3.5 of this report.

<u>Report</u>	<u>Page</u>	<u>Subject</u>	<u>Status at Date of Preparation of this Report</u>
<u>DEPARTMENT OF LABOUR AND INDUSTRY</u>			
1981-82	100	Several weaknesses in internal control in relation to the debtors system.	Further comment is given in paragraphs 4.4.6-4.4.8 of this report.
<u>DEPARTMENT OF MINERALS AND ENERGY</u>			
1981-82	112	Gas Examiner - the maximum statutory rate of 20 cents per consumer does not cover increased operating costs of the Gas Examiner.	Position unchanged.
1982-83	80	Until the review by the Designated Authority of all past royalty payments is completed, audit is unable to confirm accuracy of royalty payments from 1969 to date.	Further comment is given in paragraph 4.5.7 of this report.
<u>DEPARTMENT OF PROPERTY AND SERVICES</u>			
1981-82	124	Government Computing Service - greater control necessary in the accounting for debtors and improved security measures necessary at the I.C.L. installation.	Corrective action taken on control of debtors. Position unchanged in respect of security measures.
	125	Government Information Services - satisfactory stock records not kept and no segregation of duties in bookshop.	Position unchanged in relation to stock records. Segregation of duties has been introduced in bookshop.
1982-83	86	A range of environmental, organisational and operational control weaknesses exist at the Burroughs (B6800/B7700) Centre of the Government Computing Service.	Corrective action has been taken to improve control over unauthorised access and provide back-up power supply. Matters still unresolved include potential hazard of present location and lack of back-up facilities in the event of major disaster.

<u>Report</u>	<u>Page</u>	<u>Subject</u>	<u>Status at Date of Preparation of this Report</u>
<u>OFFICE OF THE STATE RIVERS AND WATER SUPPLY COMMISSION</u>			
1982-83	96	Further approval of the Governor in Council should be obtained for contracts with costs in excess of amounts previously approved.	Position unchanged.
	97	Failure to comply with requirements of the Water Act 1958 concerning preparation of 1983-84 budgets for the Water Supply Stores Suspense Account and the Water Supply Plant and Machinery Depreciation Fund.	Position unchanged. Legislative requirements were also not complied with for 1984-85 budgets.
	97	Inadequate receipting and banking procedures at the Frankston Centre.	Receipting and banking procedures are now satisfactory.
<u>MINISTRY OF WATER RESOURCES AND WATER SUPPLY</u>			
1982-83	94	Failure to obtain ministerial and Tender Board approval for purchase of stores and expenditure on works and services.	Position now satisfactory.
	97	Various matters raised in audit reports of water authorities require attention.	Appropriate action taken in respect of of matters raised.
<u>DEPARTMENT OF YOUTH, SPORT AND RECREATION</u>			
1981-82	156	Stock records - an adequate stock control system is not in operation.	Position unchanged.
1982-83	101	Unsatisfactory procedures for payment of grants from the Racecourses Development Fund and the Greyhounds Racing Grounds Development Fund.	Position unchanged.

<u>Report</u>	<u>Page</u>	<u>Subject</u>	<u>Status at Date of Preparation of this Report</u>
	101	Inadequate follow-up procedures for arrears of loans to racing clubs and other organisations. No security obtained for these loans.	Adequate follow-up procedures for arrears of loans now in place. Crown Solicitor's opinion obtained by Department on need for security for loans cited reasons for current practice but concluded issue was a matter of policy. Audit has recommended adoption of monitoring procedures for all unsecured loans.

STATUTORY BODIES

GAS AND FUEL CORPORATION OF VICTORIA

1982-83	17	The Corporation should seek legal advice to determine whether it is required to comply with the provisions of the Unclaimed Moneys Act 1962.	The Corporation has obtained a legal opinion that it is not subject to the provisions of the Unclaimed Moneys Act 1962.
---------	----	--	---

GOVERNMENT EMPLOYEE HOUSING AUTHORITY

1981-82	21	Accommodation register not yet finalised	Accommodation register is now substantially finalised.
1982-83	19	The continuing loss on rental operations warrants further review by the Authority.	Loss on rental operations remains significant.

DIRECTOR OF HOUSING

Home Finance Trust

May 83	22	Inadequate controls exist over custody and physical movement of documents held as security for loan advances.	Position unchanged.
April 84	40	Unsatisfactory follow-up action in collection of loan arrears due to inadequate staffing in arrears section.	Position unchanged.

<u>Report</u>	<u>Page</u>	<u>Subject</u>	<u>Status at Date of Preparation of this Report</u>
<u>Housing Commission</u>			
1979-80	60	Increased rental arrears.	Position has improved. Rental arrears expressed as a percentage of net rentals due decreased in 1983-84.
1980-81	78		
April 84	47		
1980-81	145	Government Guarantees - Co-operative Societies - Treasurer of Victoria ranks as unsecured creditor in respect of guaranteed loan to a co-operative society in liquidation.	A sum of \$396 495 has now been recovered by the Treasurer out of a guarantee of \$400 500 met in respect of the Broadmeadows Club Co-operative Ltd.
	145	Internal audit section should cover all activities of the Director of Housing.	Internal audit section now covers all activities of the Director of Housing.
<u>Registry of Co-operative Housing Societies</u>			
May 83	22	Interest subsidy claims in respect of loans from permanent building societies should be selectively verified.	Position unchanged.
	22	No specific legislation authorising establishment of housing assistance schemes.	Housing Act 1983 authorises the Director of Housing to manage housing assistance schemes.
April 84	77	No procedures under the housing assistance schemes to ensure co-operative housing societies remit collections promptly.	Position unchanged.
<u>LA TROBE UNIVERSITY</u>			
May 83	33	Children's Centre - improved control needed over amounts receivable.	Position has improved as a result of revised procedures introduced by the University.

<u>Report</u>	<u>Page</u>	<u>Subject</u>	<u>Status at Date of Preparation of this Report</u>
<u>LATROBE VALLEY WATER AND SEWERAGE BOARD</u>			
1981-82	32	All office and laboratory equipment and furniture should be recorded in the asset registers.	Position unchanged.
	32	The failure to keep a satisfactory register to record all agreements and charges due to the Board resulted in the noninvoicing of certain charges for interest, redemption and depreciation.	Position unchanged.
	32	Weaknesses in internal control in respect of salaries and other expenditure.	Position now satisfactory.
1982-83	35	Loan from State Development Fund - estimated net interest cost to the Board of \$6 800 per month on unspent loan funds pending resolution as to whether the Board or the Rural Water Commission is to be responsible for construction of works.	The majority of the loan funds was expended on capital works during 1983-84.
	35	Some investments of the Board were not in a form authorised by the Latrobe Valley Act 1958.	Position now satisfactory.
	35	Practice of Board to allow issuing bank or dealer to retain possession of commercial bills purchased is considered unsatisfactory.	Position now satisfactory.
	35	Incomplete asset registers for "permanent works" items.	Position unchanged.
<u>MELBOURNE AND METROPOLITAN BOARD OF WORKS</u>			
April 84	64	Sundry Accounts Department - delays in the raising of debtors for financed and chargeable works and in follow-up action for some outstanding debts.	Position unchanged.
<u>STATE ELECTRICITY COMMISSION</u>			
1982-83	67	Certain aspects of the Commission's accounting policy for self insurance may be contrary to Australian Accounting Standards and further research is required on the subject.	The Commission has revised its accounting policy for self insurance which is now consistent with Australian Accounting Standards

<u>Report</u>	<u>Page</u>	<u>Subject</u>	<u>Status at Date of Preparation of this Report</u>
	68	The Commission should further consider its accounting policy for long service leave and wages retirement gratuities to ensure consistency with Australian Accounting Standards.	Position now satisfactory.
	70	Asset account and depreciation charge for Newport D Power Station are overstated.	Corrective action has been taken on this matter.
<u>VICTORIAN DEVELOPMENT FUND</u>			
1982-83	87	A number of control weaknesses exist in the Fund's computer system.	Further comment is given in paragraphs 5.9.11-5.9.12 of this report.
<u>ZOOLOGICAL BOARD OF VICTORIA</u>			
1981-82	118	A more detailed system of stock records should be commenced and management should arrange for regular stocktakes.	The Board expects to implement a computerised stock recording system in 1984-85. Regular stocktakes are now carried out.

PART 4

AUDIT OF DEPARTMENTS

4.1 SCOPE OF AUDIT

4.1.1 The scope of audit for 1983-84 for departments 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 the departmental financial statements prepared in accordance with the Annual Reporting (Departments) Regulations 1984.

4.2 ETHNIC AFFAIRS COMMISSION

Introduction

4.2.1 The Ethnic Affairs Commission was established under the Ethnic Affairs Commission Act 1982. The principal objectives of the Commission are:

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

Financial Responsibilities

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

Qualification of the Commission's Financial Statements

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

"In 1983-84, Parliament appropriated moneys for ethnic affairs to the Ethnic Affairs Commission. Pursuant to the Annual Reporting Act 1983, the Ministry of Ethnic Affairs, as set out in Part B of Schedule 2 to the Public Service Act 1974, was declared to be the relevant reporting department. However, the accompanying financial statements reflect the financial operations of the Ethnic Affairs Commission during 1983-84 but have been titled Ministry of Ethnic Affairs to comply with the Annual Reporting Act 1983."

4.2.4 The financial statements of the Commission were prepared in accordance with the Annual Reporting (Departments) Regulations 1984 and were titled "Ministry of Ethnic Affairs" to comply with the Order in Council, dated 19 June 1984, which listed the departments that were required to meet the provisions of the Annual Reporting Act 1983. It is understood that the declaration of the Ministry of Ethnic Affairs as a department under the Annual Reporting Act 1983 arose as a result of the Ministry being incorrectly declared as a department in lieu of the Ethnic Affairs Commission in Part B of Schedule 2 of the Public Service Act 1974. No moneys were appropriated by Parliament to a department titled "Ministry of Ethnic Affairs" in 1983-84. In view of this technical error, it was necessary for me to qualify the accounts of the Ethnic Affairs Commission.

Conclusion

4.2.5 Apart from the qualification and some minor matters brought to the attention of the Commission, the results of the audit examination proved satisfactory.

4.3 HEALTH COMMISSION OF VICTORIA

Introduction

- 4.3.1 The Health Commission of Victoria was established under the Health Commission Act 1977. The statutory responsibilities of the Commission include the oversight, supervision, maintenance and co-ordination of health services in Victoria.
- 4.3.2 The Commission operates principally through the following 4 divisions:
- . Hospitals Division, covering public general hospitals, private hospitals and nursing homes, and charitable institutions and benevolent societies;
 - . Mental Health Division, covering mental and psychiatric hospitals, psychiatric services, training centres, alcohol and drug services;
 - . Public Health Division, covering public health, general health, school, maternal and child health services; and
 - . Mental Retardation Division, covering mental retardation services.

Financial Responsibilities

- 4.3.3 The Health Commission is responsible for the financial arrangements for public health, hospitals, mental retardation and mental health. In addition, grants and subsidies are made to voluntary health organisations to assist with the funding of their operations.

Scope of Audit

- 4.3.4 In addition to the audit activities identified in paragraph 4.1.1 of this report, audit undertook an examination of:
- (1) the financial procedures relating to Commonwealth pension payments received by patients at State mental institutions; and
 - (2) the internal control procedures relating to the free travel service provided for pensioners and other persons of limited means travelling on public transport to State public hospitals or other approved institutions.

Audit Observations and Recommendations

State Mental Institutions

- 4.3.5 The following audit observations were made:

(1) Differences in the Charging of Patients with Maintenance Fees.

In Victoria there are 35 mental hospitals and mental retardation centres administered by the Commission, of which 12 are classified as "benevolent homes" pursuant to the Commonwealth Social Services Act 1947. Under the provisions of the Commonwealth Act, the Commission is entitled to and makes a charge to pensioners to defray the cost of their upkeep in "benevolent homes". There is no charge for the upkeep of patients at the other 23 institutions. Audit noted that Section 113 of the Mental Health Act 1959 allows regulations to be drawn up providing for fees and/or charges to be levied on patients for accommodation, care or services rendered in any State institution. At the date of audit no such regulations had been drawn up.

If the Commission levied fees for upkeep on all patients at all mental hospitals and mental retardation centres then, based on Commonwealth pension rates at 1 May 1984, at least \$3.8 million per annum in additional revenue would be raised.

Audit recommended that the Commission review the charges levied on all patients for upkeep at mental institutions to overcome the inequity that currently exists where some patients are charged but no charges are levied on others.

(2) Duplication of Administrative Procedures

Mental institutions classified as "benevolent homes" presently notify the Commonwealth of the admission and discharge dates of pensioner patients. This procedure enables the Commonwealth to advise the respective mental institutions of the amounts which may be claimed as a maintenance charge for each pensioner patient. In order to obtain payment of the Commonwealth maintenance charge, the mental institutions are required to prepare and submit quarterly returns using the information supplied by the Commonwealth. In audit opinion, this results in an unnecessary duplication of administrative procedures.

Audit recommended that the Commission review these administrative procedures with the Commonwealth with a view to having the maintenance charge paid directly to the Commission each fortnight based on the original information supplied by the mental institutions.

Free Travel Scheme

4.3.6 Audit noted the following in relation to the scheme for free travel to public hospitals and approved institutions:

- (1) The Commission operates a scheme providing free travel on the State public transport system for pensioners and other persons of limited means attending public hospitals or other approved institutions. Travel costs of the scheme in 1983-84 amounted to \$270 537.

An audit review of the financial procedures relating to the operations of the scheme indicated a number of control weaknesses and deficiencies. These included:

- the failure of the Commission to establish the "bona fides" of travel applicants prior to the issue of travel vouchers and tickets; and
- inadequate authorisation and accounting procedures relating to the control and reconciliation of travel vouchers and tickets received, issued and on hand.

Audit recommended that the Commission review these procedures to overcome the control deficiencies identified.

- (2) In addition, it was noted that the Health Commission meets the State transport authorities' "full fare" costs of providing travel under the scheme although approximately two thirds of scheme users are pension cardholders and thereby entitled to concessional fare rates. It has been estimated by audit that if travel payments under the scheme relating to pensioner claimants were made by the Commission on the basis of concessional fare rates, a reduction of approximately \$90 000 in the scheme's cost outlay for the year would have been achieved.

Audit recommended that the Commission pursue with the relevant transport authorities the feasibility of travel payments to pensioner applicants being made on the basis of the authorities' concessional fares.

Defalcations and Irregularities

4.3.7 During 1983-84 the Commission notified audit of the following:

- (1) North West Victorian Ambulance Service - Cash Misappropriation

An officer of the Service misappropriated cash of \$72 185 through the payroll system.

Following police investigations the officer was charged with 80 counts of misappropriation covering the period from July 1981 to June 1983. The case was heard at the County Court, Mildura on 15 December 1983 and the officer was sentenced to 3 years imprisonment and ordered to pay compensation of \$72 185 to the North West Victorian Ambulance Service.

Recovery of the compensation from the officer was unsuccessful and consequently action was undertaken against the auditor appointed by the Health Commission which resulted in a payment of \$47 794 from the auditor's insurer. This sum related to the moneys misappropriated after 30 June 1982 which apparently was the period of liability covered by the insurer. Further action to recover the balance from the auditor is being considered.

(2) Stolen Cash and Equipment

Burglaries or thefts occurred at a number of departmental locations including mental hospitals and a youth centre. Items stolen included video equipment valued at \$2 990 and small amounts of cash.

In most cases the police were advised. An amount of \$1 600 was recovered from insurance.

Conclusion

- 4.3.8 Apart from the matters raised above, the unresolved matter referred to in the Status Report and a number of minor control weaknesses brought to the attention of the Commission and/or its branches or offices, the results of the audit examination proved satisfactory.

4.4 DEPARTMENT OF LABOUR AND INDUSTRY

Introduction

4.4.1 The Department of Labour and Industry was established under the Labour and Industry Act 1958. The Department provides administrative, regulatory inspection and training services, and works in liaison with other State and Commonwealth Departments of Labour.

4.4.2 The stated functions of the Department are:

- (1) supervision and regulation of factories, shops and other premises; and
- (2) policing of legislation relating to lifts and cranes, boilers and pressure vessels and scaffolding.

Financial Responsibilities

4.4.3 Departmental revenue includes fees for registration or inspection of factories, shops, boilers and pressure vessels, lifts and cranes and scaffolding.

4.4.4 To December 1983, the Department of Labour and Industry provided administrative services associated with the payment of salaries and wages and general expenses on behalf of the Ministry of Consumer Affairs. Up to April 1984, revenue of the Ministry was processed through the Department for transfer to the Department of Management and Budget. The Ministry has now assumed full responsibility for its own revenue collections and the payment of its salaries and wages and general expenses.

4.4.5 The Department of Labour and Industry also co-ordinates the preparation of payrolls for the Construction Industry Long Service Leave Board and the Liquor Control Commission.

Audit Observations and Recommendations

Shop Registration Revenue

4.4.6 As stated in my second report for 1982-83, the control over shop registrations is unsatisfactory and it is not possible to establish whether:

- (1) the shop listing register is complete;
- (2) all revenue due to the State for shop registrations has been collected; and
- (3) appropriate follow-up action has been taken to identify and recover outstanding fees.

4.4.7 Shop registrations for 1983-84 produced revenue of \$1 915 366.

- 4.4.8 Following audit comment, the Department in March 1984 engaged an additional 14 inspectors for a period of 12 months under the Community Employment Program. In the period March to July 1984, collections by these inspectors totalled approx. \$228 000. As the program is to operate for 12 months only, audit considers it essential that more permanent arrangements be made to ensure that all revenue due is collected.

Boiler and Pressure Vessel Registration Revenue

- 4.4.9 The Boilers and Pressure Vessels Act 1970 deals with the application for registration, inspection of and the payment of registration and annual renewal fees for boiler and pressure vessels. Fees payable on registration or renewal are prescribed by regulation under the Act and are reviewed on an annual basis.
- 4.4.10 The Act requires all manufacturers, importers and subsequent owners to register their boiler or pressure vessel. Whenever a boiler or pressure vessel is sold the Act requires the seller to give written notice stating the name and address of the person to whom the vessel was sold.
- 4.4.11 Audit noted that there were a substantial number of notifications of sale for which corresponding applications for registration had apparently not been received by the Department. In this regard a recent survey by the Technical Services unit responsible for these registrations suggested that the potential revenue loss to the State, based on the minimum fee of \$22 as prescribed for 1984, would be approximately \$4 752 000 or 2.5 times the total revenue collected for boilers and pressure vessels in the year 1983.
- 4.4.12 Audit recommended that a complete and up-dated register be compiled of all boilers and pressure vessels placed in service in Victoria to assist in the collection of all revenue due to the State.
- 4.4.13 As from 1 July 1984, responsibility for the boiler and pressure vessel registrations was transferred to the Ministry of Employment and Training.

Conclusion

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

4.5 DEPARTMENT OF MINERALS AND ENERGY

Introduction

4.5.1 The stated principal objectives of the Department of Minerals and Energy are:

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

Financial Responsibilities

4.5.2 The Department collects fees for a variety of licences, leases and permits associated with mining and extractive activities.

4.5.3 Payments by the Department include salaries, general administrative expenses and the cost of other services provided by the divisions of the Department - Energy Conservation, Oil and Gas, Geological Survey, Hazardous Materials and Mining.

4.5.4 The Department is also responsible for the administration of the Petroleum (Submerged Lands) Act 1967 which includes the verification of and accounting for offshore petroleum royalties payable under that Act.

Scope of Audit

4.5.5 In addition to the audit activities identified in paragraph 4.1.1 of this report, audit undertook a progressive monitoring of the accounting and collection procedures for petroleum royalties.

Audit Observations and Recommendations

Offshore Petroleum Royalties

4.5.6 The Commonwealth Petroleum (Submerged Lands) Act 1967, which is applicable to areas beyond the 3 mile territorial sea, governs the exploration, recovery and royalty basis of Bass Strait petroleum. The Designated Authority under the Act is the Minister for Minerals and Energy, and the Department, in its support role, is responsible for the administration of the legislation in respect of waters adjacent to Victoria, which involves the verification of and accounting for petroleum royalties.

4.5.7

My second report for 1982-83 referred to certain issues and developments concerning the determination and collection of offshore petroleum royalties, together with a review of the Department's internal monitoring program for the verification of such payments. Succeeding paragraphs summarise the current status of issues identified in that report, together with progress and developments on other relevant matters.

(1) Royalty Collections

Petroleum royalties paid by licensees in 1983-84 amounted to \$258.9 million, of which \$173.7 million was allocated to the State in accordance with the provisions of the Petroleum (Submerged Lands) Act 1967. This compares with the State's 1982-83 share of \$120.1 million.

The substantial increase in State royalty revenues for the year of approximately 44.6 per cent has been brought about predominantly by the effect of production from the Fortescue Field which was brought on stream in June 1983. Production from this field is classified as excise free oil by the Commonwealth, and in 1983-84 was not subject to Commonwealth excise duty. This increased the base upon which royalty was calculated and as a consequence resulted in higher royalty returns to the State. In addition, royalty returns have increased following a rise in overall petroleum production for the year from Bass Strait.

(2) Audit Verification of Royalties

As agreed between the Department of Minerals and Energy, the Commonwealth Department of Resources and Energy, the Commonwealth Auditor-General and the Victorian Auditor-General, the records of the royalties, fees and other moneys collected by the Victorian Department of Minerals and Energy on behalf of the Commonwealth are audited by the Auditor-General of Victoria.

Revised procedures were instituted in February 1983 for the collection and verification of royalties. These include an arrangement for the Victorian Auditor-General to provide the Commonwealth Department of Resources and Energy with an audit report concerning financial information contained in reports and statements prepared by the Victorian Department of Minerals and Energy.

At this time I am unable to provide audit certificates for the 1982-83 and 1983-84 financial years as envisaged by the Commonwealth Department of Resources and Energy until the Victorian Department has completed the project commenced in 1983 of verifying the past royalty payments made by licensees since the commencement of production in 1969. This project is scheduled for completion in the current year. In addition, the format and content of the proposed audit certificate and statements for Commonwealth purposes are the subject of final agreement between the relevant parties.

(3) Petroleum Measurement and Accounting Manual

The licensees petroleum measurement and accounting manual documents all aspects of the production and accounting streams of the royalty system and provides the detailed basis upon which the total of royalty payable under the Act is calculated. I have previously reported that this manual was in need of amendment to account for legislative and other developments.

At the date of preparation of this report, draft amendments have been prepared by the licensees and are currently being considered by the Victorian Department. It is proposed that the manual be updated on an annual basis.

Cobia 2 Sub-sea Completion - Ascertainment of Wellhead

- 4.5.8 Over the last 3 years Victorian Supreme Court writs have been issued against the Minister for Minerals and Energy by the licensees seeking recovery of a proportion of royalty paid, plus interest, in respect of the Cobia 2 sub-sea completion. The dispute concerns the method used to ascertain wellhead value for royalty purposes and is expected to be dealt with by the Court in late 1984. To date, writs have been issued relating to royalty payments made from January 1981 to September 1983. Payments in dispute amount to \$836 204.

Management and Financial Audit Unit

- 4.5.9 The functions of the unit embrace management and financial audits within all areas of the Victorian Department, including the verification of Bass Strait petroleum royalties received from licensees under the Petroleum (Submerged Lands) Act 1967.
- 4.5.10 During the year audit reviewed the work undertaken by the unit. In addition to the ongoing verification of the royalty calculation process a major part of the unit's work undertaken in 1983-84 related to the review of royalty payments made by the Bass Strait licensees since the commencement of production in 1969. As indicated in previous reports, these payments are still subject to verification by the Department in terms of the 1980 agreement between the Department and the licensees. Verification of these payments by the Audit Unit is now at an advanced stage and it is anticipated that the arrears of royalty verification will be cleared during 1984-85.

Conclusion

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

4.6 DEPARTMENT OF PROPERTY AND SERVICES

Introduction

4.6.1 The Department of Property and Services was created by Order in Council in 1978. In addition to the central administration, the following offices form part of the Department:

Government Computing Service
Government Information Centre
Government Courier Service
Government Printing Office
Registry of Births, Deaths and Marriages
Public Record Office
State Electoral Office
Director, Victorian Government Motor Vehicle Fleet

4.6.2 The stated functions of the Department are to:

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

Financial Responsibilities

4.6.3 The central administration of the Department is responsible for collecting the revenue of the Government Computing Centre, the State Electoral Office, the Government Information Centre and branches of the Public Record Office. Revenue collected by the Registry of Births, Deaths and Marriages and the Government Printing Office is the responsibility of those offices.

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

Scope of Audit

4.6.5 In addition to the audit activities identified in paragraph 4.1.1 of this report, audit undertook an examination of the accounts relating to the conjoint election held on 3 April 1982 and various by-elections.

Audit Observations and Recommendations

Surcharge - Returning Officer for the Electoral District of Prahran

- 4.6.6 Under the terms of the Constitution Act Amendment Act 1958, Returning Officers are required to forward to the Auditor-General a summary of transactions, together with receipts, accounts and vouchers relating to the election within 6 months of polling date.
- 4.6.7 In respect of the conjoint election held on 3 April 1982, the Returning Officer for the Electoral District of Prahran failed to properly account for moneys advanced to him. Despite a number of requests, follow-up action and personal contact by both the Office and the Chief Electoral Officer over a period of time failed to provide me with the necessary documentary evidence so as to enable me to acquit the expenditure in terms of the Act.
- 4.6.8 On 26 June 1984 the Returning Officer was required, pursuant to Section 36 of the Audit Act 1958, to show cause as to why he should not be surcharged with the amount of \$30 845.15 advanced to him to defray expenditure incurred in conducting the election.
- 4.6.9 As the Returning Officer failed to show cause, on 22 August 1984 he was surcharged with the above amount. Under the Act, the Treasurer has the responsibility for collecting the surcharge. The Treasurer was advised of details of the surcharge as required under the Audit Act 1958.

Government Printing Office - Trading Accounts

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

Conclusion

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

4.7 OFFICE OF THE STATE RIVERS AND WATER SUPPLY COMMISSION

Introduction

- 4.7.1 The State Rivers and Water Supply Commission was established under the Water Act 1958. The Commission is responsible for the conservation and distribution of rural water resources and the control of water from all rivers, streams and other natural sources in Victoria, with the exception of the Melbourne metropolitan area. Its functions also include drainage, flood protection and flood plain management and the control of salinity and water pollution. The Commission exercised a supervisory role over the operations of water authorities until 31 December 1983. This function was transferred to the Ministry of Water Resources and Water Supply on 1 January 1984.

Financial Responsibilities

- 4.7.2 Revenue received by the Commission is mainly from rates and charges levied for the supply of water and related services to approximately 175 000 ratepayers outside the metropolitan area of Melbourne. Most of the revenue is collected at district centres throughout the State and is remitted to head office.
- 4.7.3 Salaries and general accounts are paid by the central administration of the Commission whilst district centres are responsible for the payment of wages and minor accounts.
- 4.7.4 The Commission is currently responsible for the control and custody of assets totalling approximately \$960 million. These consist mainly of dams, reservoirs, trunk mains, reticulation mains, plant, machinery and buildings.

Qualification of the Commission's Financial Statements

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

"The Works and Services payments for the Blue Rock Dam project, included in the financial statements of the Commission, do not include an amount of \$1.17 million paid on 5 July 1983 under a contract for the construction of the dam. The payments for 1983-84 have therefore been understated by an amount of \$1.17 million.

The 1982-83 financial statements of the Commission, which included the amount of \$1.17 million as a payment, were also subject to qualification".

Scope of Audit

- 4.7.6 In addition to the audit activities identified in paragraph 4.1.1 of this report, audit undertook on examination of the procedures for the calling, lodging and processing of tenders.

Audit Observations and Recommendations

Water Supply Plant and Machinery Depreciation Fund

- 4.7.7 Section 49 of the Water Act 1958 requires the written sanction of the Minister for the withdrawal of moneys from the Fund. During the year \$206 260 was withdrawn from the Fund for the purchase of replacement motor vehicles without the approval of the Minister.

Cardinia Fluoridation Plant

- 4.7.8 An agreement was entered into between the Commission and the Melbourne and Metropolitan Board of Works for the Board to construct a "cross-connection" between the Board's main and the Commission's main, downstream of the Board's Cardinia fluoridation plant in order to supply fluoridated water directly into the Commission's main. The Commission's share of the cost of the works was \$360 000.
- 4.7.9 Section 36A of the Water Act 1958 empowers the Commission to enter into such an agreement subject to the approval of the Governor in Council. Audit enquiries disclosed that Governor in Council approval was not obtained.

Conclusion

- 4.7.10 Apart from the qualification, the unresolved matters referred to in the Status Report and the above matters, the results of the audit examination proved satisfactory.

4.8 MINISTRY OF WATER RESOURCES AND WATER SUPPLY

Introduction

- 4.8.1 The Ministry of Water Resources and Water Supply was established under the Water Resources Act 1975 with the stated function to ensure the efficient utilisation of the water resources of Victoria.
- 4.8.2 The Local Authorities Division of the State Rivers and Water Supply Commission, which was responsible for the oversight of water authorities, was transferred to the Ministry from 1 January 1984.
- 4.8.3 The Ministry was abolished on 30 June 1984 and was replaced by the Department of Water Resources.

Financial Responsibilities

- 4.8.4 The State Rivers and Water Supply Commission performed the administrative functions of the Ministry during 1983-84.

WATER AUTHORITIES

Introduction

- 4.8.5 Under the provisions of Section 169 of the Water Act 1958 water authorities are required to be audited by the Auditor-General or an audit inspector.
- 4.8.6 The Water and Sewerage Authorities (Restructuring) Act 1983, which came into operation on 7 June 1983, provided for the restructuring of urban water and sewerage authorities throughout the State. While reducing the total number of authorities responsible for the supply of water and sewerage services, the Act for the first time subjected the activities of former sewerage authorities to my audit.
- 4.8.7 The reduction in the number of authorities was achieved through the abolition of certain water trusts and sewerage authorities and:
- (1) the constitution of new Water Boards; or
 - (2) the transfer of the functions of the former authorities to Municipalities or to the Melbourne and Metropolitan Board of Works.
- 4.8.8 In 1983-84, 88 Water Trusts, 59 Sewerage Authorities and 10 Local Governing Bodies were abolished and their functions taken over by 45 Water Boards and 30 Municipal Councils. In addition, 7 authorities were absorbed into the Melbourne and Metropolitan Board of Works. Eighty eight Water Trusts remained in existence at 30 June 1984.
- 4.8.9 During 1983-84, I continued to use the services of private practitioners to conduct the audit of a large number of authorities. Overall, 134 bodies were audited and, as indicated in sub-paragraph 6 of paragraph 4.8.16, it was necessary to defer the audit of a number of bodies due to their failure to prepare certain financial statements.

Audit Observations

Defalcation - Alberton Port Albert Waterworks Trust

- 4.8.10 An audit inspection of the books and accounts of the Trust for the year ended 31 December 1979 was undertaken between 23 March 1981 and 10 April 1981 during which time it was intended to carry out both the 1979 and 1980 audits. This was not possible as the financial records for 1980 had not been written up by the Trust Secretary.
- 4.8.11 Subsequent to the inspection amended financial statements for 1979 were received from the Trust on 22 December 1981 and following further amendments the audit report on the statements was signed on 16 March 1982. The unsatisfactory situation was brought to the attention of the Chairman and Commissioners of the Trust by letter of 16 March 1982.
- 4.8.12 On 30 November 1982, audit visited the office of the Trust for the purpose of conducting the audit of the books and accounts of the Trust for the 1980 and 1981 financial years. The financial records of the Trust were not written up to date and on 7 January 1983 the Chairman of the Trust was advised that the audit could not proceed until the records were up to date and the financial statements had been prepared.
- 4.8.13 On 19 January 1983, audit advised the Minister of the failure of the Trust's former Secretary to keep the books and accounts of the Trust up to date and to prepare annual financial statements of the operations of the Trust. The letter to the Minister referred to the years ended 30 September 1980 and 1981.
- 4.8.14 Following advice from the Commission on 12 August 1983 of a suspected defalcation, an audit investigation conducted during November 1983 revealed a misappropriation of funds of approximately \$31 000 by the former Secretary relating to the period December 1980 to July 1983.
- 4.8.15 Charges were laid by the police and at the hearing on the Sale County Court on 16 October 1984 the former Secretary of the Trust pleaded guilty, was convicted and placed on a 12 months good behaviour bond. Full restitution had been made in August 1984.

Breaches of Certain Provisions of the Water Act 1958

- 4.8.16 The following breaches of certain provisions of the Water Act 1958 were brought to the attention of the Minister:

(1) Depreciation

There were 17 breaches of Section 285 of the Act relating to depreciation. These may be summarised as:

- (i) failure to fund the depreciation provision in full or in part;
- (ii) withdrawal of funds without ministerial authority;
- (iii) failure to invest funds in accordance with the Act; and
- (iv) failure to adjust the annual depreciation charge for new works.

(2) Writing-off of Uncollectable Amounts

Eleven instances were noted where amounts were written off contrary to the provisions of Section 360 of the Act, which requires the recommendation of the Auditor-General or an audit inspector and ministerial approval prior to the writing-off of moneys considered to be uncollectable.

As indicated in my 1981-82 report on the Treasurer's Statement (paragraph 4.27.13) and re-iterated in my second report for 1982-83, I am of the opinion that it should be the responsibility of the Department of Water Resources, not of audit, to recommend the writing-off of such moneys, and the current legislation should be reviewed.

(3) Borrowings

Two authorities borrowed funds in excess of the amounts authorised by the Governor in Council under Sections 286 and 288 of the Act.

(4) Investments

Two authorities invested moneys in securities not authorised by Section 306A of the Act.

(5) Banking of Moneys

Section 171 of the Act requires authorities to bank moneys collected at least once in every 7 days. It was noted that, at various times, 15 authorities failed to comply with this requirement.

(6) Annual Financial Statements

Twenty two authorities were reported to the Minister for Water Supply for failure to keep their books and accounts up to date and ready for inspection and audit at all times during the year, as required by Section 168 of the Act. Details of the authorities and the financial years to which the requests were directed are listed at the end of this section. Further, a number of authorities failed to prepare certain financial statements as soon as possible after the end of the financial year, as required by Section 172 of the Act.

(7) Estimates

Sixteen audit reports drew attention to a breach of Section 333 of the Act, in that certain items of expenditure exceeded the amounts provided for in the estimates and in that the additional expenditure had not been specifically approved by the Minister. Such additional expenditure is, in terms of the Act, to be "deemed and taken to be unlawful".

(8) Other

These included the failure to:

- (i) establish and fund a Long Service Leave Payments Reserve Fund as required by Section 160C of the Act;

- (ii) gazette mains in accordance with Section 207 of the Act;
- (iii) include private works constructed by sub-dividers under Section 307AA of the Act in the books and accounts of the authority; and
- (iv) create a sinking fund as required by Section 303 of the Act.

Other Matters Brought to the Attention of the Ministry

4.8.17 These matters included:

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

4.8.18 Water authorities are an integral part of the overall operations of the State and it is pleasing to note that the Department of Water Resources, a new body established on 1 July 1984 under the provisions of the Water (Central Management Restructuring) Act 1984, is in the process of conducting training sessions for administrators of these authorities. Two of my officers had the opportunity to participate in these sessions.

4.8.19 As a consequence of this initiative taken by the new Department, I look forward to an overall improvement in the standard of reporting by the authorities.

Details of Authorities Reported to the Minister

<u>Name of Authority</u>	<u>Financial Statements Year/s Ended</u>
<u>Waterworks Trusts</u>	
Avoca	31 December 1983
Axedale	31 December 1983
Broadford	30 September 1983
Colbinabbin	31 December 1983
Elmore	31 December 1983
Euroa	31 December 1983
Fish Creek	31 December 1981, 1982 & 1983
Foster	31 December 1983
Gisborne	30 September 1983
Leamonth	31 December, 1981, 1982 & 1983
Moyhu	31 December 1982 & 1983
Murchison	31 December 1983
Shire of Numurkah	30 September 1983
Shire of Rutherglen	31 December 1983
Springhurst	31 December 1983
Sunbury	31 December 1983
Tatura	31 December 1981, 1982 & 1983
Winchelsea	31 December 1983

<u>Name of Authority</u>	<u>Financial Statements</u> <u>Year/s Ended</u>
<u>River Improvement Trust</u>	
Shire of Alberton	31 December 1983
Fifteen Mile Creek	31 December 1982 & 1983
Mitta Mitta	31 December 1983
Shire of Upper Murray	31 December 1982 & 1983

4.9 AUDIT OF OTHER DEPARTMENTS

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

- Department of Agriculture
- Office of the Auditor-General
- Ministry of Consumer Affairs
- Ministry of Employment and Training
- Ministry of Industrial Affairs
- Local Government Department
- Office of the Director of Public Prosecutions
- Department of Youth, Sport and Recreation

PART 5

AUDIT OF STATUTORY BODIES

5.1 GAS AND FUEL CORPORATION OF VICTORIA

Introduction

- 5.1.1 The Gas and Fuel Corporation of Victoria was established under the Gas and Fuel Corporation Act 1950.
- 5.1.2 The stated objectives of the Corporation are to:
- (1) ensure a safe, economical and effective supply of gas to the people of Victoria;
 - (2) promote the efficient use of gas in those applications where it can effectively contribute to meeting the energy demands of modern society; and
 - (3) operate as an efficient business enterprise at a level of profit consistent with its role as a publicly owned utility.

Statutory Reporting and Auditing Requirements

- 5.1.3 By Order in Council, dated 19 June 1984, the Gas and Fuel Corporation of Victoria was declared to be a public body for the purposes of the Annual Reporting Act 1983. Under that Act, the Corporation is required to prepare financial statements in the manner and in the form prescribed under the Annual Reporting (Large Trading and Rating Public Bodies) Regulations 1984. The Act also requires the report of operations and audited financial statements to be laid by the Minister before each House of Parliament by 30 September in each year or, if that House is not then sitting, within 14 days after the meeting of that House. Section 12 of the Act provides for an audit of the financial statements by the Auditor-General.
- 5.1.4 The financial statements for 1983-84 were adopted by the Corporation on 24 August 1984 and the audit report was signed on 28 September 1984.

Financial Operations

- 5.1.5 The financial operations of the Corporation and the consolidated figures of the Corporation and its subsidiaries for 1983-84 compared with 1982-83 are summarised as follows:

	Gas and Fuel Corporation		Consolidated	
	1982-83 \$000	1983-84 \$000	1982-83 \$000	1983-84 \$000
Sales	459 527	553 743	464 123	559 376
Less Cost of Sales	114 213	130 393	117 097	133 465
	<hr/>	<hr/>	<hr/>	<hr/>
Net Sales	345 314	423 350	347 026	425 911
	<hr/>	<hr/>	<hr/>	<hr/>
Less				
Statutory Contribution to Consolidated Fund	90 800	142 800	90 800	142 800
Expenditure	237 201	234 869	246 653	247 000
	<hr/>	<hr/>	<hr/>	<hr/>
	328 001	377 669	337 453	389 800
	<hr/>	<hr/>	<hr/>	<hr/>
Operating Profit	17 313	45 681	9 573	36 111
Add Profit on Sale of Fixed Assets	702	255	702	255
	<hr/>	<hr/>	<hr/>	<hr/>
Net Profit	18 015	45 936	10 275	36 366
Add Retained Earnings 1 July	17 428	30 015	9 222	14 069
	<hr/>	<hr/>	<hr/>	<hr/>
	35 443	75 951	19 497	50 435
	<hr/>	<hr/>	<hr/>	<hr/>
Less				
Retiring Allowances Adjustment for Prior Years	..	2 828	..	2 828
Statutory Dividend to Consolidated Fund Preference Shares Dividend	..	25 000	..	25 000
Transfer to General Reserves	676	676	676	676
	<hr/>	<hr/>	<hr/>	<hr/>
	4 752	305	4 752	305
	<hr/>	<hr/>	<hr/>	<hr/>
	5 428	28 809	5 428	28 809
	<hr/>	<hr/>	<hr/>	<hr/>
Retained Earnings 30 June	30 015	47 142	14 069	21 626
	<hr/>	<hr/>	<hr/>	<hr/>

- 5.1.6 Net assets of the Corporation and its subsidiaries at 30 June 1984 were \$120.8 million (30 June 1983, \$111.6 million).
- 5.1.7 During the year, the Public Authorities (Contributions) Act 1966 was amended to provide for the Gas and Fuel Corporation to transfer to the Consolidated Fund each month during the financial year a contribution of an amount equal to 33 per cent of the total revenue of the Corporation, as agreed by the Treasurer and the Corporation. The contribution to Consolidated Fund increased from \$90.8 million in 1982-83 to \$142.8 million in 1983-84.
- 5.1.8 The Public Authorities (Dividends) Act 1983 required the Gas and Fuel Corporation of Victoria to transfer to the Consolidated Fund \$25 million as a dividend in respect of the 1983-84 financial year.

Scope of Audit

- 5.1.9 The audit included the evaluation and testing of the Corporation's computerised accounts payable, payroll, annual leave and long service leave systems (utilising the Audit Reporter software package). Assets and liabilities at 30 June 1984 were verified. The work of the private auditors and the internal auditors of the Corporation was reviewed and accepted for the purposes of my audit.

Audit Observations and Recommendations

Retiring Allowances

- 5.1.10 Prior to the current financial year the Corporation made provision for retiring allowances payable to employees not covered by superannuation. Following a decision of the Board on 27 January 1984, the accounts for 1983-84 included an additional provision for retiring allowances to cover payments to employees for recognised years of service prior to joining the Superannuation Fund. The change in policy has increased the charge against revenue for retiring allowances to \$322 000 for 1983-84 (\$115 000, 1982-83). In addition to the above charge a further amount of \$2 828 000 was provided in respect of the total liability for new employee benefits for previous financial years and was adjusted directly against retained earnings at the beginning of the financial period.
- 5.1.11 Although this accounting treatment of adjusting a prior period sum against retained earnings does not accord with the accounting standard issued by the Australian professional bodies, it does comply with the requirement effective from 1 July 1984 for employee benefits under the Annual Reporting (Large Trading and Rating Public Bodies) Regulations 1984.

Annual Reporting Act 1983

- 5.1.12 As indicated in paragraph 5.1.3, the Gas and Fuel Corporation was declared a public body under the Annual Reporting Act 1983. Section 12 of the Act provides for an audit of the financial statements by the Auditor-General. The provisions of this Act prevail over any reporting and auditing provisions of any other Act.

5.1.13 It was considered by the Corporation that the private auditors appointed by the shareholders under the provisions of the Gas and Fuel Corporation Act 1958 should continue with their appointed role. Consequently, the Corporation sought the endorsement of the Treasurer to their proposed action that both the Auditor-General and the private auditors would continue to report on the Corporation's financial statements. The Corporation has sought a legal opinion on the matter.

5.1.14 The Treasurer indicated to the Corporation that, based on advice available to him, he had no objection to the Corporation preparing its annual report and financial statements on the basis that both the Auditor-General and the private auditors report thereon. With respect to the 1983-84 financial statements, I have reported separately on those statements in accordance with the Annual Reporting Act 1983 whereas the private auditors have reported in accordance with the Gas and Fuel Corporation Act 1958. In previous years, a joint audit report was signed by the private auditors and myself under the Gas and Fuel Corporation Act 1958.

Creditors - Accounts Payable System

5.1.15 In my previous December 1982 and 1983 reports, references were made to the lack of satisfactory reconciliation of the trade creditors account in the general ledger with the individual creditors balances in the creditors ledger. This reconciliation weakness continued during 1983-84.

5.1.16 The variation in the records was mainly due to a lack of interface between the stores and creditors ledgers which necessitated independent postings of transactions into each system and resulted in untimely and inconsistent input to the 2 ledger systems.

5.1.17 An interface designed by the Corporation as the result of an internal task force recommendation was put into operation in late 1983-84 so as to simultaneously process input into the 2 systems. Since its implementation, the reconciliations for the months of June, July and August 1984 prepared by the Corporation have disclosed a consistent variation of \$130 917 between the 2 ledgers.

5.1.18 Audit recommended that the Corporation write off the variation between the 2 ledgers once management are satisfied that the variation is unreconcilable and that the interface between the stores and creditors ledgers is operating effectively.

Conclusion

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

5.2 DIRECTOR OF HOUSING

Introduction

- 5.2.1 The Director of Housing was established by the Housing Act 1983 as a body corporate to be the successor to the Housing Commission and the Home Finance Trust from 1 January 1984. In addition, various House Purchase Assistance Schemes previously administered by the Registry of Co-operative Housing Societies have also been taken over by the Director of Housing.
- 5.2.2 The Housing Act 1983 provides for all rights, property, assets and liabilities of the Housing Commission and Home Finance Trust to be vested in the Director. Accordingly, all the assets and liabilities of the Housing Commission and the Home Finance Trust were transferred to the Director of Housing on 1 January 1984. The assets and liabilities of various house purchase assistance schemes previously managed under the auspices of the Registry of Co-operative Housing Societies were also transferred to the Director of Housing on 1 January 1984.
- 5.2.3 The financial statements for the Housing Commission and the Home Finance Trust were prepared for the final 6 months of operations to 31 December 1983. The financial statements for the Director of Housing were prepared for the 6 months of operations to 30 June 1984.

Statutory Reporting and Auditing Requirements

- 5.2.4 Section 28 of the Housing Act 1983 requires the Director at the end of each financial year (30 June) to prepare a statement of accounts in the manner and form approved by the Treasurer. It also provides for an audit of the accounts and records of the Director by the Auditor-General.
- 5.2.5 The accounts of the Housing Commission and Home Finance Trust were required to be prepared, audited by the Auditor-General and presented to Parliament under the now repealed Housing Act 1958 and Home Finance Act 1962 respectively.
- 5.2.6 The financial statements were adopted and signed on the following dates.

	<u>Housing Commission</u>	<u>Home Finance Trust</u>	<u>Director of Housing</u>
6 months ended	31.12.83	31.12.83	30.6.84
Adopted by Authority	14.9.84	17.9.84	14.9.84
Audit Report signed	26.9.84	26.9.84	26.9.84

Financial Operations

- 5.2.7 A comparative summary of the operating results of the former Housing Commission and the Director of Housing is provided hereunder:

	<u>Former Housing Commission</u>		<u>Director of Housing</u>
	<u>12 months to 30 June 1983</u>	<u>6 months to 31 Dec.1983</u>	<u>6 months to 30 June 1984</u>
	\$000	\$000	\$000
Results from:			
Rental Operations*	..	..	..
Finance Operations	11 628	4 231	7 543
Profit/(Loss) on Sale of Properties	2 803	237	(55)
Others	559	315	185
	-----	-----	-----
	14 990	4 783	7 673
Abnormal Items			
Vested Land			
Write Downs/Write back	(13 731)	..	3 059
Other Costs	(1 021)	(539)	..
Profit on Sale of Holmesglen	..	408	..
Provision for Long Service Leave	..	..	(3 387)
	-----	-----	-----
Net Operating Result	238	4 652	7 345
	-----	-----	-----

*The break even result in the rental operations was achieved by the transfer of untied grant moneys to meet the deficit in the rental account:

	<u>12 months to 30 June 1983</u>	<u>6 months to 31 Dec.1983</u>	<u>6 months to 30 June 1984</u>
	\$000	\$000	\$000
Rental Deficit prior to transfer of untied grants	20 558	15 110	13 987

5.2.8 As shown below, substantial increases in rental rebates allowed to Director of Housing tenants had a major effect on the increased deficit for the year:

	<u>12 months to 30 June 1983</u>	<u>6 months to 31 Dec.1983</u>	<u>6 months to 30 June 1984</u>
	\$000	\$000	\$000
Rental Rebates Allowed	29 557	16 776	20 831

5.2.9 It should be noted that the Director of Housing also includes the operations of the Home Finance Trust.

Scope of Audit

- 5.2.10 The audit covered a review and evaluation of internal controls and selected testing of financial transactions. The assets and liabilities of the several authorities at the respective balance dates were verified. The work performed by the Director's internal auditors was reviewed, evaluated and accepted for the purpose of the audit.

Audit Observations and Recommendations

Death Benefit Scheme

- 5.2.11 The Death Benefit Scheme was introduced in 1977 as an optional mortgage insurance on loans advanced by the Director. For a prescribed contribution the Director will, in the event of the borrower's death, forego loan principal outstanding. The Death Benefit Scheme Reserve amounted to \$21.7 million at 30 June 1984.
- 5.2.12 Audit examination of the claims history of the scheme indicates that the reserve is substantially higher than that necessary to fund the scheme.
- 5.2.13 Audit recommended an actuarial review of the fund be undertaken on a triennial basis in order that the Director of Housing can take appropriate action in relation to the contribution needs of the funds.

Conclusion

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

5.3 MELBOURNE AND METROPOLITAN BOARD OF WORKS

Introduction

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

Statutory Reporting and Auditing Requirements

5.3.2 The Board 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 to submit an annual report to the Minister.

5.3.3 Under the Act, the annual report is required to contain a report of the Board's operations during the financial year, together with financial statements for the year.

5.3.4 The 1983-84 financial statements, which are required to be audited by the Auditor-General pursuant to the provisions of Section 12 of the Annual Reporting Act 1983, were adopted by the Board on 24 September 1984 and the audit report was signed on 28 September 1984.

Financial Operations

5.3.5 The Board is required to operate 2 funds, namely:

- (1) the Metropolitan General Fund in which are recorded the financial transactions for water, sewerage and drainage services to the metropolis; and
- (2) the Metropolitan Improvement Fund in which are recorded the financial transactions for metropolitan planning, including compensation for land reserved in the Metropolitan Planning Scheme, the development of metropolitan parks and an annual contribution towards the costs of the underground rail loop.

5.3.6 In the past the Board presented the results of its financial operations separately under each fund. For the 1983-84 financial year the Board decided to present one Income Statement thus combining the financial operations of both funds. The following statement details the operations of the 2 funds.

	Metropolitan General Fund		Metropolitan Improvement Fund	
	1982-83 \$000	1983-84 \$000	1982-83 \$000	1983-84 \$000
Income	381 964	499 223	31 573	31 774
Expenditure	368 776	444 221	25 233	29 009
	<hr/>	<hr/>	<hr/>	<hr/>
	13 188	55 002	6 340	2 765
	<hr/>	<hr/>	<hr/>	<hr/>
Less Contribution to Consolidated Fund	27 680	..	2 320	..
	<hr/>	<hr/>	<hr/>	<hr/>
Net Surplus (Deficit) for year	(14 492)	55 002	4 020	2 765
Transfer from:				
Rates Equalisation Reserve	178	..	18 741	9 520
General Reserve	27 680	2 400	..	..
	<hr/>	<hr/>	<hr/>	<hr/>
Total available for appropriations	13 366	57 402	22 761	12 285
Less appropriations*	13 366	57 402	13 241	3 450
	<hr/>	<hr/>	<hr/>	<hr/>
Surplus transferred to Rates Equalisation Fund	..	..	9 520	8 835
	<hr/>	<hr/>	<hr/>	<hr/>
*Details of appropriations are:				
Public Authority Dividend#	..	55 000	..	..
Fund for Repayment of Loans	87	(192)	..	..
Loans Redeemed from Revenue	3 032	2 594	47	49
Capital Works	10 247	..	..	..
General Reserve				
Construction Works	..	..	9 426	3 651
Land Acquisitions Less Sales	..	..	3 768	(250)
	<hr/>	<hr/>	<hr/>	<hr/>
	13 366	57 402	13 241	3 450
	<hr/>	<hr/>	<hr/>	<hr/>

#Shown by way of contribution to Consolidated Fund, as provided for in the Public Authorities (Contributions) (Amendment) Act 1983 for 1982-83.

5.3.7 Net assets of the Board at 30 June 1984 amounted to \$975.7 million (30 June 1983, \$943.1 million).

Scope of Audit

- 5.3.8 The audit included the evaluation and testing of the systems of internal control operating in the following areas: documents of title, cash receipts and banking, rates, revenue from rate, town planning and encumbrances certificates, sanitary services and pan fees, and payments - including salaries and wages. Assets and liabilities of the Board at 30 June 1984 were verified.
- 5.3.9 In addition, the work undertaken by the Board's Audit Services Division was evaluated and accepted for the purpose of the audit.

Audit Observations and Recommendations

Effect of Changes in Accounting Treatment

- 5.3.10 During 1983-84, changes in accounting treatment introduced by the Board resulted in an increase of \$47.2 million in the operating surplus for the year. Details were as follows:

(1) Capitalisation of Interest

In past years, the cost of loan borrowings required to fund major capital works in progress were charged as an expense in the year incurred. Under regulations promulgated under the Annual Reporting Act 1983, the cost of funds used to finance major works in progress during 1983-84 were capitalised. Major works are deemed by the Board to be those costing \$0.5 million or more and that have a construction period in excess of one year.

This change in policy resulted in such costs forming part of the specific major works. When the works are brought into working condition the full cost (including the cost of funds) will be depreciated over the expected useful life of the asset.

In 1983-84 this change in policy has resulted in an amount of \$33.0 million being capitalised and carried forward for matching against future years' income.

(2) Capital Contributed by External Sources

Under its Act the Board can enter into an agreement with a land owner to construct or install water supply, sewerage and drainage works. In such instances, the owner of the land may be required to make a contribution towards the cost of headworks, outfall sewers, etc. provided by the Board.

In accordance with the regulations under the Annual Reporting Act 1983, these contributions are brought to account as income in the year in which they are received, whereas in previous years contributions of this nature were credited to the Capital Contributed by External Sources Reserve.

For 1983-84 the change in accounting treatment resulted in additional revenue of \$12.4 million being brought to account.

(3) Capital Works Contributed by External Sources

Where contributions are received for the whole or part of the capital cost of works, and where works are taken over at no cost to the Board, the assets are valued at actual or estimated costs and the Capital Contributed by External Sources Reserve is credited with the amount contributed or the value of the works taken over.

The regulations under the Annual Reporting Act 1983 require that contributions received for capital works be amortised over the life of the asset to which the contribution relates. In accordance with this requirement an amount of \$16.6 million has been amortised and brought to account as operating revenue in 1983-84 and a similar amount has been charged as depreciation during the year.

(4) Profit and Loss on Disposal of Non-Current Assets

Profit and loss on the disposal of assets (including land and buildings) in the normal course of business are taken into account under either Income or Expense as appropriate.

In previous years, it was the Board's practice to credit any profits from the sale of assets to the General Reserve. In 1983-84 such profits amounting to \$1.6 million were brought to account as operating revenue.

(5) Real Estate Sales

In the past, revenue from the sale of real estate was recognised on a cash basis. In 1983-84 revenue was recognised at the point of entering into contractual arrangements and resulted in additional revenue of \$0.2 million being recognised.

Losses and Thefts of Stores

5.3.11 During the year the Board notified audit that stores, plant and equipment valued at \$78 768 had either been lost or stolen. Of this amount the Board recovered \$55 494 from its self insurance scheme thereby reducing the net loss to \$23 274.

5.3.12 In the majority of instances where theft was involved the police were notified.

Conclusion

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

5.4 UNIVERSITY OF MELBOURNE

Introduction

- 5.4.1 The University of Melbourne operates under the provisions of the Melbourne University Act 1958 and is responsible for the provision of tertiary education and the promotion of learning and research.

Statutory Reporting and Auditing Requirements

- 5.4.2 The Act requires the Council of the University to prepare financial statements for submission to the Auditor-General for audit as soon as practicable after 1 January each year. The annual report of the University containing the audited financial statements is required to be forwarded by the University's Council to the Governor for subsequent tabling in Parliament.
- 5.4.3 The financial statements were adopted on 8 August 1984 and the audit report was signed on 17 September 1984.

Financial Operations

- 5.4.4 The financial operations of the University for the years ended 31 December 1982 and 31 December 1983 are summarised hereunder:

	1982 \$000	1983 \$000
Income		
Government grants	112 871	122 540
Other	31 769	34 931
	<hr/>	<hr/>
Expenditure	144 640	157 471
	136 858	148 124
	<hr/>	<hr/>
Surplus	7 782	9 347
	<hr/>	<hr/>

- 5.4.5 The accumulated funds and reserves of the University totalled \$57.8 million at 31 December 1983 (\$48.4 million at 31 December 1982). Trust funds totalling \$39.3 million in 1983 (\$31.6 million in 1982) are included in this balance. Expenditure from the majority of these trust funds is restricted to particular purposes.
- 5.4.6 The above consolidated figures do not include those of the Melbourne University Press, the financial statements of which relate to the year ended 30 September 1983. Accumulated funds and reserves for this operation totalled \$1 960 010 at 30 September 1983 (\$1 793 005 at 30 September 1982).

Qualification of the University's Financial Statements

- 5.4.7 It was necessary to record the following qualification on the 1983 financial statements of the University:

"As stated in note 6 to the accounts, certain investments of the Academic Staff Retirement Fund are held in the name of fund managers. These investments, totalling \$19 789 412, have been included in the accounts on the basis of statements furnished by the fund managers and have not been independently verified by audit".

- 5.4.8 A similar qualification was attached to the University's financial statements for 1981 and 1982.

Scope of Audit

- 5.4.9 The scope of the audit included an evaluation of the major systems of internal control, including the work performed by the University's internal audit section, and the verification of the balances of accounts at 31 December 1983.

Audit Observations and Recommendations

- 5.4.10 During 1983-84 the University of Melbourne notified me of the following:

A cash shortage of \$20 482 was identified in the professorial laboratory accounts of the Department of Obstetrics and Gynaecology at the Royal Women's Hospital. This shortage occurred during the period August 1980 to September 1983.

At the date of this report, part restitution of \$2 600 had been received from the former employee considered responsible for this loss. As no further payments have been made in respect of the balance of \$17 882, the University notified the police and their insurers of the cash shortage.

The University has taken action to strengthen internal control in the department concerned.

Conclusion

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

5.5 MONASH UNIVERSITY

Introduction

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

Statutory Reporting and Auditing Requirements

- 5.5.2 The Act requires the Council of the University to prepare a statement of accounts at 31 December in every year for submission within 3 months to the Auditor-General for audit. The audited financial statements, together with the University's annual report, are required to be forwarded to the Governor in Council as soon as practicable after 31 March for subsequent tabling in Parliament.
- 5.5.3 The financial statements were adopted on 9 August 1984 and the audit report was signed on 10 September 1984.

Financial Operations

- 5.5.4 The financial operations of the University for the years ended 31 December 1982 and 31 December 1983, excluding the superannuation schemes, are summarised hereunder:

	1982 \$000	1983 \$000
Income		
Government grants	80 455	85 504
Other	17 556	17 764
	<hr/>	<hr/>
	98 011	103 268
Expenditure	93 606	100 272
	<hr/>	<hr/>
Surplus	4 405	2 996
	<hr/>	<hr/>

- 5.5.5 The accumulated funds of the University totalled \$21.5 million at 31 December 1983 (\$18.5 million, 31 December 1982).

Qualification of the University's Financial Statements

- 5.5.6 It was necessary to record the following qualification on the 1983 financial statements of the University:

"As stated in note 7 to the accounts, investments of the Superannuation and Pension Schemes are held in the name of fund managers. These investments totalling \$78 076 645 have been included in the accounts on the basis of statements furnished by the fund managers and have not been independently verified by audit".

- 5.5.7 A similar qualification was attached to the University's financial statements for 1981 and 1982.

Scope of Audit

- 5.5.8 The audit covered an examination and evaluation of accounting systems and procedures of internal control, including the work performed by the University's internal audit section. Assets and liabilities as disclosed in the statement of balances at 31 December 1983 were verified.

Audit Observations and Recommendations

Monash University Foundation

- 5.5.9 The Council of the University approved the establishment of a Foundation to be named the Monash University Foundation. A Trust Deed for its establishment and future regulation was formalised on 28 July 1983 between the Monash University and 5 Trustees who comprise the Vice-Chancellor and 4 members of the Council. The University is the sole beneficiary of the Foundation.
- 5.5.10 During 1983, the University made available as original capital to the Foundation a sum totalling \$10 266 579 from its general auxiliary activities and general donations accounts. After meeting administration costs and other outgoings in each year, the Trustees may at their discretion distribute the income to the University for the purposes of promoting and encouraging the aims and objects of the University.
- 5.5.11 However, under the terms of the Trust Deed, the Trustees shall endeavour to ensure that the original capital is preserved both in total and is incremented by way of application of income to offset the effects of inflation on the value of the original capital.
- 5.5.12 The University may provide additional funds to the Foundation from such sources as further gifts, bequests donated or bequeathed for unspecified purposes and the proceeds of any public appeal.
- 5.5.13 The Trustees are required to maintain proper accounts of all dealings and to arrange for an annual audit. No formal appointment of an auditor has yet been made by the Trustees. The transactions of the Foundation have been audited by my officers as part of the books and accounts of Monash University and therefore no separate audit opinion has been provided on the Foundation.
- 5.5.14 Net surplus on operation of the Foundation for the 5 months period ended 31 December 1983 amounted to \$304 671 and accumulated funds at that date totalled \$10 571 250.

Conclusion

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

5.6 SMALL BUSINESS DEVELOPMENT CORPORATION

Introduction

5.6.1 The Small Business Development Corporation was established under the Small Business Development Corporation Act 1976 to do all things possible to assist small business.

Statutory Reporting and Auditing Requirements

5.6.2 Section 18 of the Small Business Development Corporation Act 1976 requires the Corporation to prepare and submit to the Minister a report, together with annual financial statements, as soon as practicable after 30 June in each year for tabling in both Houses of Parliament. The Act does not provide for an audit of the Corporation's accounts. However, at the request of the Treasurer, the Auditor-General accepted responsibility for the audit from 1 July 1983. Prior to this date the audit was undertaken by a firm of private practitioners.

5.6.3 The financial statements for 1983-84 were adopted by the Corporation on 19 September 1984 and the audit report was signed on 28 September 1984.

Financial Operations

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

	1982-83	1983-84
	\$	\$
Income	1 316 379	1 555 243
Expenditure	1 305 805	1 583 866
	<hr/>	<hr/>
Surplus (Deficit)	10 574	(28 623)
	<hr/>	<hr/>

5.6.5 Net assets of the Corporation at 30 June 1984 were \$168 561 (30 June 1983, \$197 184)

Scope of Audit

5.6.6 The audit included the evaluation and testing of the Corporation's accounting procedures and internal controls. Assets and liabilities at 30 June 1984 were verified.

Audit Observations and Recommendations

Use of Motor Vehicles

5.6.7 The Corporation is required to comply with the Motor Transport Committee's "Statement of Practices" and Government policy which, inter alia, requires that:

- (1) all extras to a vehicle must be approved by the Motor Transport Committee;
- (2) all government vehicles should have government number plates; and
- (3) vehicles must not be taken home by officers or employees unless they return from official duties late at night or are required to proceed direct to a site the following morning.

5.6.8 An audit review of procedures and practices covering the operation of the Corporation's 5 vehicles disclosed the following departures from the guidelines:

- (1) All motor vehicles are of 6 cylinders and have air conditioning and AM/FM radio cassettes and, of these, 3 vehicles have power steering. Audit was advised that accessories in these vehicles were not approved by the Motor Transport Committee.
- (2) All vehicles have private number plates.
- (3) Log books to monitor the usage of each vehicle were not maintained.
- (4) Vehicles were taken home each night and the keys held by individual officers entrusted with the operation of the car. Audit was advised that it was necessary for the staff to take vehicles home as the car parking facilities were inadequate.
- (5) In one instance audit noted that when an officer was recently on recreation leave the car used by that officer was not made available for use by other officers.

5.6.9 Failure of the Corporation to effectively monitor vehicle usage also contributed to a situation whereby a Corporation Counsellor was paid distance allowances for the use of a private vehicle. Later in the year a rental vehicle was provided to the Counsellor in lieu of using his own vehicle. Total expenditure during 1983-84 was approximately \$4 400.

5.6.10 Audit recommended to the Corporation that:

- (1) Motor Transport Committee guidelines be complied with; and
- (2) action be taken to ensure that vehicle usage is effectively monitored in order to obtain maximum benefit from resources available.

Conclusion

5.6.11 Apart from the matters raised above and minor issues relating to government directives, the results of the audit proved satisfactory.

5.7 STATE ELECTRICITY COMMISSION

Introduction

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

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

Statutory Reporting and Auditing Requirements

5.7.2 By Order in Council, dated 19 June 1984, the State Electricity Commission of Victoria was declared to be a public body for the purposes of the Annual Reporting Act 1983. Under that Act, the Commission is required to prepare financial statements in the manner and in the form prescribed under the Annual Reporting (Large Trading and Rating Public Bodies) Regulations 1984. The Act also requires the report of operations and audited financial statements to be laid by the Minister before each House of Parliament by 30 September in each year or, if that House is not then sitting, within 14 days after the meeting of that House. Section 12 of the Act provides for an audit of the financial statements by the Auditor-General.

5.7.3 The financial statements for 1983-84 were adopted by the Commission on 30 August 1984 and the audit report was signed on 21 September 1984.

Financial Operations

5.7.4 The financial operations of the Commission for 1983-84 compared with 1982-83 are summarised hereunder. For comparative purposes the 1982-83 figures have been restated to conform with the accounting treatment adopted for 1983-84.

	1982-83 \$000	1983-84 \$000
Revenue	1 298 637	1 481 853
Expenditure	1 192 740	1 370 304
	<hr/>	<hr/>
Profit before extraordinary items	105 897	111 549
Less:		
Provision for claims for bushfire losses	45 000	..
	<hr/>	<hr/>
Net profit for year	60 897	111 549
Add		
Transfer from General Reserve	..	4 063
	<hr/>	<hr/>
Total Available for Appropriation	60 897	115 612
Public Authority Dividend	23 705*	103 900
	<hr/>	<hr/>
Balance of revenue transferred to General Reserve	37 192	11 712
	<hr/>	<hr/>

*In 1982-83, a statutory contribution of \$82.5 million was payable to the Consolidated Fund under the Public Authorities (Contributions) Act 1966 of which a sum of \$58.8 million had been provided in 1981-82.

5.7.5 The net assets of the Commission increased from \$219.3 million at 30 June 1983 to \$237.5 million at 30 June 1984.

5.7.6 After allowing for a number of changes in accounting treatment which are further commented upon in paragraphs 5.7.8-5.7.9, the net surplus for the year increased from \$60.9 million in 1982-83 to \$111.5 million in 1983-84. This was due mainly to the fact that no provision for bushfire claims was necessary in 1983-84 (\$45 million, 1982-83).

Scope of Audit

5.7.7 A number of the Commission's financial systems were examined during 1983-84, including domestic electricity sales, contract and materials payments, salaries and settlement of bushfire claims. A review of the plans, programs, reports and working papers of the internal auditor was undertaken and accepted for the purpose of the audit. The Commission's assets and liabilities at 30 June 1984 were verified.

Audit Observations and Recommendations

Effect on Net Profit from Changes in Accounting Practices

5.7.8 During 1983-84, the Commission made a number of changes to accounting practices, a summary of which and their effect on profit for the year is as follows:

	<u>Effect on Profit</u> \$ Million
Overhead (Services) Distribution	40.0 Increase
Finance Charges	11.1 Increase
Newport D "Delay" Costs	10.4 Decrease
Material Price Variance	4.7 Decrease
Estimated Doubtful Debts	1.5 Decrease
	—
Net increase in profit	\$34.5 Million
	—

5.7.9 These changes in accounting treatment conform with the Annual Reporting (Large Trading and Rating Public Bodies) Regulations 1984.

(1) Overhead (Services) Distribution

During 1983, the Commission undertook a detailed review of its cost allocation methods in relation to overhead expenditure. The principal objective of the review was to ensure that the allocation of expenditure between capital and operations was in accordance with "best practice".

The report of the Working Group made a number of recommendations which were adopted by the Commission to be effective from 1 July 1983 and which necessitated the following changes to accounting principles and practices:

- (i) the capitalisation of a proportion of administrative overheads which had previously been entirely expensed against revenue;
- (ii) the proportion of interest costs formerly expensed is now allocated through the overhead distribution system between capital and operations; and
- (iii) wherever practicable, direct costs are to be allocated directly to the appropriate capital or operating accounts in lieu of being charged to overhead accounts.

The estimated combined effect of the above changes in 1983-84 was to capitalise an amount of \$40 million in lieu of being charged to operational expenses.

The decision by the Commission to capitalise a proportion of the administrative overheads is a departure from the conservative accounting practice to charge all such expenditure to operations in the year. The conservative approach is generally adopted because the future benefits of such costs are difficult to measure in financial terms unless they are directly related to the construction of a fixed asset. The underlying assumption that supports the Commission's decision is that a significant portion of the costs of administration are directly related to capital works. Although their practice is not common in Australia, it is common practice overseas.

(2) Finance Charges

Finance charges representing net interest on loan borrowings, loan floatation expenses etc. are capitalised during the construction of major capital projects until the project either in part or in its entirety commences commercial service. These charges form part of the value of the project and are written off as depreciation during the working life of the asset.

In respect of multi-unit power projects such as Loy Yang, finance charges are distributed in proportion to the total expenditure on each unit, with the capitalisation ceasing from the date of commencement of commercial service of each unit. This policy represents a departure from that which applied when Yallourn W (units 3 and 4) entered commercial service. At that time, capitalisation of finance charges ceased for both units when unit 3 entered commercial service and unit 4 was still being completed.

Following audit comment on the likely impact of such a policy in the context of a project of the scale of Loy Yang, the Commission reviewed its policy and resolved that there was a need for the progressive phasing out of capitalisation of finance charges as each unit entered commercial service.

Unit 2 of Loy Yang was commissioned on 30 May 1984 and, under the revised policy, finance charges of \$11.1 million for the 3 units still under construction were capitalised rather than being expensed. The change in accounting policy will be more significant in 1984-85 when approximately \$200 million is likely to be capitalised.

(3) Newport D. Power Station - Delay Costs

As stated in my December 1983 report, an amount of \$9 million, representing surplus plant and materials arising from the decision to reduce the generating capacity of the power station, was transferred to the fixed asset account from the deferred charges account. The report also noted that certain items of equipment had been sold or were subject to sale as obsolete equipment. Subsequent investigations by the Commission resulted in surplus equipment totalling \$7.1 million being written off during 1983-84.

The Commission also resolved to write off the balance of \$3.3 million, arising from the costs of storage of this surplus plant, in lieu of the progressive reduction of the balance to the end of 1985-86. The effect of these accounting changes was to add \$10.4 million to operating expenses in 1983-84.

(4) Material Price Variance

The Commission maintains a computer based system for the purchase and issue of stores for construction and maintenance purposes. Any variance between the purchase and issue price from stores is recorded in a material variance account. At 30 June 1984 the debit balance of this account was \$10.2 million.

Investigations by the Commission disclosed that the debit balance at 30 June 1984 arose from:

- (i) the exclusion of surcharges from the issue price used for stock issues e.g. freight, cartage and packing; and
- (ii) the exclusion of overheads on the issue price of goods manufactured.

As a result, the \$10.2 million balance of the variance account at 30 June 1984 was distributed by the Commission as follows:

- (i) \$4.7 million to appropriate operating expenses and \$2.9 million to fixed asset accounts in accordance with the value of 1983-84 issues from store;
- (ii) \$1.5 million to construction and maintenance stocks; and
- (iii) \$1.1 million to unissued spare equipment.

Audit understands that the Commission is giving attention to this problem.

(5) Estimated Doubtful Debts

The Commission made provision in the financial statements for estimated doubtful debts of 30 June to accord with generally accepted accounting practice. The amount provided for at 30 June 1984 was \$1.5 million.

This decision was also influenced by the withdrawing of the requirement for customers to lodge a security deposit with the Commission to partially cover any back debts which may arise.

Comment on Other Expenditure Items

5.7.10 The financial statements of the Commission for 1983-84 incorporate a number of expenditure items on which further comment follows:

<u>Expenditure Items</u>	<u>Effect on Expenditure</u> \$ Million
Power Project Commissioning Expenditures	36.9 Increase
Long Service Leave	21.8 Increase
Hazelwood Power Station	22.6 Increase
Planning Expenditures	8.1 Increase
	—
	89.4 Million
	—

(1) Power Project Commissioning Expenditures

Prior to unit 2 of Loy Yang Power station becoming available for commercial service, commissioning expenditure totalling \$36.9 million was incurred to test the unit's performance and to familiarise personnel in the operation and maintenance of the plant.

The Commission advised me on 4 September 1984 that this expenditure could not be clearly identified as contributing to the revenue earning capability of the power station in future years. Consequently, the full amount of \$36.9 million was written off in 1983-84.

(2) Long Service Leave

Provision has been made in the accounts of the Commission for long service leave benefits accruing to employees having regard to the estimated legal liability and the probability of other employees becoming entitled to benefits on completion of 10 years service. At 30 June 1983, the balance of the provision account was \$63.6 million whereas the estimated liability was \$89.6 million.

During 1983-84, the Commission provided an additional sum of \$21.8 million over and above the annual charge of \$13.0 million so as to "catch up" the shortfall between the balance held in the provision account and the estimated liability of the benefits accruing to employees. At 30 June 1984, the balance of the provision account was \$97.4 million.

(3) Hazelwood Power Station

In 1981 the Commission commenced a major reconstruction program on the generating units 1, 2 and 4 at Hazelwood Power Station. Reconstructions of units 1 and 2 were completed during 1984 at a total cost of \$62.8 million. These costs were capitalised on the basis that the reconstruction work on the units would extend their service lives.

Work on unit 4 commenced in 1982 and was substantially completed by 30 June 1984 at a total cost of \$22.6 million. The Commission determined that the work on unit 4 constituted a major overhaul only and as such the costs associated with the unit were not capitalised. Consequently, the amount of \$22.6 million was written off against revenue during 1983-84.

(4) Planning (Preliminary and Feasibility) Expenditures

During 1983-84 the Commission formally adopted an accounting policy for expenditures arising from preliminary and feasibility works in respect of future capital projects. The policy provides for the charging of such expenditures against revenue as incurred and where such expenditures lead to a capital project they are written back and added to the cost of the project if they are material in amount.

Planning expenditures totalling \$8.1 million were charged against income in 1983-84 in compliance with the policy.

Alcoa

- 5.7.11 Under the terms and conditions of an agreement signed between Alcoa Australia Limited and the Victorian Government on 12 March 1982 Alcoa was required to pay to the Commission "minimum and holding charges" if it failed to take electricity on completion of the supply works to the Portland aluminium smelter site. The "minimum and holding charges" consisted of the estimated electricity income lost by the Commission as a consequence of Alcoa not taking supply together with maintenance, depreciation and interest charges incurred by the Commission for the supply works.
- 5.7.12 On 1 October 1983 the supply works were completed and as from that date Alcoa were invoiced on a monthly basis to 30 June 1984 for minimum and holding charges totalling \$36.6 million. The Commission was advised not to take action to collect the amounts owed by Alcoa having regard to the negotiations that were being undertaken between Alcoa and the Government as to the future of the Portland smelter.
- 5.7.13 In November 1983, the Commission was advised by the Treasurer that the Government would reimburse the Commission the full 1983-84 budgeted amount of \$38.6 million for "minimum and holding charges". This amount, being \$2 million in excess of the amount invoiced to Alcoa, was received on 30 June 1984.
- 5.7.14 In July 1984 the Government announced that agreement had been reached with Alcoa and that work on the Portland smelter would resume in November 1984. The Government also advised that it would reimburse the Commission for the net costs associated with the deferral of the Portland smelter.

Employer Contributions to SEC Superannuation Funds

- 5.7.15 The Commission, in its capacity as trustee for the SEC Superannuation Employees and Retirement and Benefits Funds, 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. Prior to 1983-84, contributions representing the employer portion payable to the funds were held by the Commission until required by the trustees of the superannuation funds.
- 5.7.16 This policy was reviewed during 1983-84 and it was decided by the Commission that, as from 1 July 1983, employer contributions would be paid to the funds as soon as the liability was incurred. In addition, employer contributions retained by the Commission to 30 June 1983, totalling \$270.4 million, were paid to the trustees of the fund during 1983-84.

Conclusion

- 5.7.17 Apart from the matters raised above and a number of minor control weaknesses brought to the attention of the Commission, the results of the audit proved satisfactory.

5.8 TRANSPORT - FORMER AUTHORITIES 1982-83

5.8.1 This section of my report covers the operations of the former Country Roads Board, Road Safety and Traffic Authority and Victorian Railways Board for the 1982-83 financial year. For comments on the Transport Regulation Board see section 5.11 of this report.

5.8.2 Under the provisions of the Transport Act 1983 which was assented to on 23 June 1983, all 4 authorities were abolished as from 1 July 1983 and were succeeded by the:

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

5.8.3 During 1982-83 the financial transactions of the Country Roads Board, Transport Regulation Board, Road Safety and Traffic Authority and Victorian Railways Board were transacted through the Public Account which is operated by the Department of Management and Budget. The transactions were recorded, on a cash basis, in the Department of Management and Budget's accounting system and, except for the Country Roads Board's records relating to the Westgate Bridge operations, they were initially recorded on a cash basis in the authorities' records.

5.8.4 Section 234 of the Transport Act 1983 required the successor authorities to prepare and present, not later than 1 December 1983, a statement of accounts for 1982-83 which included such information as was necessary to give a true and fair view of the financial transactions and the state of affairs of the former statutory bodies. This required the former authorities' accounting records to be extended to include accruals.

5.8.5 The Act also provided for an audit of the accounts of the former authorities by the Auditor-General.

5.8.6 I indicated in my fourth report to Parliament for the 1982-83 year, that the audit of the Country Roads Board, Victorian Railways Board, Transport Regulation Board and Road Safety and Traffic Authority had not been completed because of a number of problems associated with the accounting procedures adopted for certain transactions and the format of and disclosure contained in the statements of those former statutory authorities.

5.8.7 The transactions concerned related to payments by the authorities to the Public Account (i.e. the Consolidated Fund and the Works and Services Account), being the proceeds from the sale of assets and borrowings, and payment from the Public Account to the authorities, being amounts provided under the various Appropriation Acts. As the payments to and from the Public Account were made under legislative provisions contained in unrelated enactments, the question arose as to whether the accounting procedures adopted by the authorities for the payments should be ones that disclosed them as being related, i.e. offset against each other, or as being unrelated, i.e. each transaction be disclosed. It was finally resolved that the payments were unrelated and that all transactions should be disclosed.

COUNTRY ROADS BOARD

Introduction

- 5.8.8 The former Country Roads Board was established under the Country Roads Act 1958 and its main functions were to supervise the construction and maintenance of State highways, main roads, freeways, forest roads and tourist roads. In addition to these functions the Board was made responsible, under the West Gate Bridge Authority (Transfer of Functions) Act 1982, for exercising the powers, authorities and duties of the former West Gate Bridge Authority, from 1 July 1983.

Financial Statements

- 5.8.9 The statement of accounts of the former Board for the year 1982-83 was first provided to audit on 9 February 1984. Amended statements were received by audit on 1 May 1984 and the general ledger and journals were completed and provided to audit on 1 August 1984. The audit report was signed on 6 August 1984.

Scope of Audit

- 5.8.10 The audit of the Board included:
- (1) an examination and evaluation of the systems in operation which related to rental revenue, loan liabilities and expenditure;
 - (2) a detailed review and evaluation of controls in operation over the collection of revenue at the West Gate Bridge;
 - (3) an examination of the system for processing and recording land acquisitions;
 - (4) a detailed evaluation of the internal audit function; and
 - (5) the verification of assets and liabilities of the Board at 30 June 1983.

Audit Observations and Recommendations

Loan Borrowings

- 5.8.11 Pursuant to Section 37A (2) of the Country Roads Act 1958, all moneys borrowed by the Board were to be paid into the Works and Services Account held in the Public Account. An examination of the loan borrowings by the Board revealed that of the total borrowings for the year, \$21 465 000 (excluding temporary finance), only \$8 500 000 was credited to the Works and Services Account held in the Public Account.
- 5.8.12 In audit opinion the amount of \$12 965 000, which was used to redeem loans falling due in 1982-83, should have been paid into the Works and Services Account.

Recording of Land and Buildings Owned by the Board

- 5.8.13 The Board had not recorded the historical costs of some land and buildings purchased by it. A valuation for land and buildings which were in service at 30 June 1983 was assessed by either officers of the Road Construction Authority or registered valuers who were independent of the Authority.
- 5.8.14 Audit has been given to understand that the successor authority, the Road Construction Authority, is in the process of developing a new recording system. Audit has recommended that the Authority should:
- (1) in future, record the historical cost of all land and buildings acquired; and
 - (2) obtain any valuations required for its annual reporting purposes, including those reported as at 30 June 1983, from registered valuers who are independent of the Authority.

Depreciation - Plant and Motor Vehicles

- 5.8.15 The Board 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:
- (1) In a number of instances the accumulated depreciation was greater than the cost of the item.
 - (2) There were some instances where no depreciation had been charged.

- 5.8.16 Audit recommended that the successor authority take action to remedy the position.

Depreciation Rates

- 5.8.17 The rates used in the calculation of depreciation were set by the Board in 1971. Audit has recommended to the successor authority that the adequacy of the rates being used be reviewed periodically.

Natural Disaster Relief Grants

- 5.8.18 Grants for the restoration of roads and bridges damaged by natural disasters are made available by the State from the Victorian Natural Disasters Relief Account. During the previous 8 years the grants were made either to the Board for reimbursement of expenditure incurred or, in the case of main and unclassified roads, to municipal councils for relief and restoration works. Grants provided to municipal councils were conditional upon subsequent submission to the Board of documentary evidence of such expenditure.
- 5.8.19 In my October 1982 report to Parliament on the Board's accounts for the 1981-82 year, I indicated that the Board's monitoring activities with regard to expenditure by municipal councils of natural disaster relief grants needed more effective follow-up procedures. I also indicated, in the Status Report section of my fourth report to Parliament for the year 1982-83, that the Board had instituted follow-up procedures.

- 5.8.20 The audit of the Board's accounts for the year 1982-83, however, disclosed that documentary evidence supporting approved expenditure had not been submitted to the Board for amounts totalling \$463 755 and \$1 392 050 disbursed to municipal councils during the periods 1974-75 to 1979-80 and 1981-82 respectively.

Conclusion

- 5.8.21 Apart from the above matters and a number of minor matters which have been brought to the attention of the successor authority, the Road Construction Authority, the results of the audit proved satisfactory.

ROAD SAFETY AND TRAFFIC AUTHORITY

Introduction

- 5.8.22 The Road Safety and Traffic Authority was established in 1971 under the Road Traffic (Safety and Traffic Authority) Act 1970. The functions of the Authority were to carry out research and investigation into road accident prevention, to promote road accident prevention practices and to cause the council of any municipality to adopt road accident prevention practices which were specified by the Authority.

Financial Statements

- 5.8.23 The statement of accounts of the Authority for the 1982-83 year was first presented to audit on 1 December 1983. The statement was later withdrawn by the Road Traffic Authority and an amended statement presented to audit on 13 April 1984. The audit report was signed on 25 July 1984.

Qualification of the Authority's Financial Statements

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

"During the year the Authority paid an amount of \$1.5 million being the proceeds of a loan raised by the Authority to the Works and Services Account operated by the Department of Management and Budget and received from that Department an amount of \$1.5 million, such amount being appropriated to the Authority under the provisions of the Works and Services Appropriation Act 1982. These transactions were not included in the Statement of Financial Transactions.

As these transactions with the Department of Management and Budget were not legally contingent upon each other, in my opinion, both transactions should have been disclosed in the Statement of Financial Transactions. Therefore, in my opinion, both the collections and expenditure of the Authority are understated by \$1.5 million".

Scope of Audit

- 5.8.25 The scope of audit included:
- (1) an examination and evaluation of the systems operating in relation to revenue, purchase of stores and expenditure;
 - (2) a detailed review of controls over the Authority's assets and liabilities; and

- (3) an examination of the financial statements as at 30 June 1983 prepared by the successor authority, the Road Traffic Authority.

Audit Observations and Recommendations

Traffic Control Equipment

- 5.8.26 The statement of assets and liabilities at 30 June 1983 included traffic control equipment with a value of \$199 850. Audit examination of asset records revealed that these assets had not been delivered to the Road Safety and Traffic Authority but were held by suppliers at balance date.
- 5.8.27 The practice of paying for equipment which has not been delivered contravenes the Department of Management and Budget Regulations 1981.

Fixed Assets

- 5.8.28 The review of fixed assets revealed that a complete, up to date asset register detailing the date of acquisition, value, depreciation rates and location of motor vehicles, equipment and furniture and fittings, was not maintained by the Authority. Schedules to support the furniture and fittings and equipment figures in the statement of assets and liabilities were derived from stocktakes undertaken after balance date.
- 5.8.29 Audit recommended that, in future, complete up to date asset records be maintained by the successor authority.

Superannuation

- 5.8.30 No allowance had been made in the Authority's statement of assets and liabilities, as at 30 June 1983, in relation to a superannuation liability for either existing or retired employees, as suitable data was not available to calculate the liability.
- 5.8.31 Audit was advised that the successor authority was endeavouring to obtain the necessary information from the State Superannuation Board for inclusion of the liability in its statement of accounts for 1983-84.

Conclusion

- 5.8.32 Subject to the qualification and the above matters, which have been brought to the attention of the Road Traffic Authority, the results of the audit proved satisfactory.

VICTORIAN RAILWAYS BOARD

Introduction

- 5.8.33 The Victorian Railways Board was established under the Railways Act 1958. Its main function was to maintain an efficient railway service. All revenue collected by the Board was, in accordance with legislation, revenue collected on account of the Consolidated Fund. All expenditure of the Board was met from parliamentary appropriations from the Consolidated Fund and the Works and Services Account.

Financial Statements

- 5.8.34 In previous years the Board prepared financial statements which were on a modified accrual basis. However, I was not required by legislation to report on those statements. The Board's financial transactions, on a cash basis, were included in the Treasurer's Statement and I reported on the Board's operations as recorded in that Statement. This is the first time that I have been required by legislation to audit and report upon the statement of accounts of the Board.
- 5.8.35 The statement of accounts of the former Victorian Railways Board was presented to audit on 30 November 1983. The statement was subsequently withdrawn and was re-presented on 9 August 1984 and the audit report was signed on that date.

Qualification of the Board's Financial Statements

- 5.8.36 I found it necessary to record the following qualification on the 1982-83 financial statements of the Board:

"In previous years the Board presented to Parliament financial statements prepared on a modified accrual basis. The 1981-82 comparative figures shown in the statements are unaudited, as there was no legislative provision for an audit of those accounts.

As indicated in Note 1 (ii) to the accounts, the Board was unable to align the fixed asset values in its financial records with the 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 assets included in the item Fixed Assets.

Note 19 to the accounts indicates that the financial value of those sections of the Melbourne Underground Rail Loop which are vested in the Board in accordance with the approval of the Governor-in-Council have not been included in the Board's accounts. Based on a certificate issued to the Melbourne Underground Rail Loop Authority by its Consulting Engineers, the value of this asset is in excess of \$146 million. In my opinion, the asset value should have been included in the Board's accounts and the assets and equity of the Board are accordingly understated by an amount in excess of \$146 million.

The Board has recognised as a liability an amount of \$429 million for its liability for pensions payable to retired employees. Although the amount was actuarially calculated, audit was unable to obtain details of the data on which the calculation was made and, therefore, was unable to determine the adequacy or otherwise of the provision".

Scope of Audit

- 5.8.37 Audit concentrated on:
- (1) verification of cash receipts and payments of the Board;
 - (2) examination of payroll systems operating in selected accounting offices;

- (3) examination of the passenger revenue system, including a review of the passenger accounting system;
- (4) examination of the sale and leasing of rolling stock;
- (5) examination of the Board's loan raising activities;
- (6) examination and review of the work performed by the Board's internal audit section;
- (7) comprehensive review of selected aspects of the freight accounting system;
- (8) examination of the records of the Board's lost property store;
- (9) examination of various statements prepared by the Board in relation to funds made available under Commonwealth legislation and requiring an audit report by the Auditor-General; and
- (10) examination and verification of the statement of accounts prepared in accordance with the Transport Act 1983, including the verification of the Board's assets and liabilities.

Audit Observations and Recommendations

Fixed Assets

5.8.38 In relation to the fixed assets of the Board audit noted the following:

(1) **Recording System**

The asset recording system of the Board did 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 annual accounts of the Board disclosed that such a problem existed and indicated that a computerised fixed asset recording system was to be introduced. Also there was an indication of the intention to revalue all assets at the same time. During the 1983-84 year work proceeded on this project.

(2) **Capitalisation Policy**

The Board had no documented policy to ensure that all significant assets were identified and recorded. However, during the 1983-84 financial year, progress had been made in formulating a suitable policy for asset capitalisation.

(3) **Depreciation**

Due to the inadequacies of the fixed asset recording system, the calculation of an appropriate depreciation charge became a mathematical exercise instead of being an allocation of asset consumption over the pattern of contribution to the revenue earning activities of the Board. It is anticipated that the introduction of the fixed asset recording system will enable appropriate depreciation charges to be calculated.

(4) Melbourne Underground Rail Loop

Due to various vestings made by the Governor-in-Council the Board had effective ownership of completed sections of the Melbourne Underground Rail Loop. In accordance with a ministerial direction made in the 1981-82 financial year, the Board had not recorded the relevant assets in the accounts. In my opinion, the value of the asset should be included in the accounts of the Board.

Due to the introduction of the Transport Act 1983, the ownership of the Loop has been divided between the State Transport Authority and the Metropolitan Transit Authority. In my opinion, action should be taken to ensure that the Loop is owned by one Authority in accordance with the objectives and functions outlined in the Transport Act 1983.

Vic Rail Pipelines Pty. Limited

- 5.8.39 The Board held, as an investment, shares and debentures totalling \$3.186 million in the Vic Rail Pipelines Pty. Limited. At 30 June 1983 the company owed the Board \$2.82 million, being accrued debenture interest. Due to a continued pattern of losses made by the company the Board increased the provision for doubtful debts by \$2.82 million and created a provision for diminution of investment totalling \$1.043 million.

Employee Leave Entitlements

- 5.8.40 The Board used a computerised system to determine the extent of employee leave entitlements as at 30 June 1983. The review of the entitlements revealed instances of:

- (1) employees with leave credits in excess of 100 days; and
- (2) employees with leave entitlements in lieu of public holidays in excess of 100 days.

- 5.8.41 In audit opinion, an extensive review of employee leave credits should be undertaken to ensure that excessive holdings of leave are not accumulated.

Superannuation

- 5.8.42 For the first time, the Board had taken into account the employer's liability for superannuation by creation of a provision. Such provision was based on an actuarial valuation performed by the Government Statist and Actuary on pension records held by the State Superannuation Board. Audit was unable to form an opinion on this item due to a lack of sufficient documentary evidence being available.

Conclusion

- 5.8.43 Subject to the qualification, the above matters and a number of other weaknesses which have been brought to the attention of the Board, the results of the audit proved satisfactory.

5.9 VICTORIAN DEVELOPMENT FUND

Introduction

- 5.9.1 The Victorian Development Fund was established under the Public Account (State Development Account) Act 1982.
- 5.9.2 The Fund consists of 2 component parts, namely:
 - (1) the Cash Management Account; and
 - (2) the State Development Account.
- 5.9.3 Deposits from authorities and designated Trust Funds for periods not exceeding 12 months are credited to the Cash Management Account; deposits for periods in excess of 12 months are credited to the State Development Account.
- 5.9.4 Moneys standing to the credit of both accounts can be invested in any manner declared by the Governor in Council on the recommendation of the Treasurer. Moneys may also be advanced to the Consolidated Fund for up to 12 months from the Cash Management Account and for periods in excess of 12 months from the State Development Account.

Statutory Reporting and Auditing Requirements

- 5.9.5 The Public Account Act 1958 requires a financial report on the Victorian Development Fund to be prepared within 2 months after the end of the financial year. Section 7G of the Act requires the report to be audited by the Auditor-General prior to being tabled in Parliament.
- 5.9.6 The financial statements of the Fund for 1983-84 were adopted on 20 July 1984 and the audit report was signed on 26 September 1984.

Financial Operations

- 5.9.7 The financial operations of the Fund for the year ended 30 June 1984 and for the period 26 November 1982 to 30 June 1983 are shown hereunder:

	<u>Cash</u> <u>Management</u> <u>Account</u>	<u>State</u> <u>Development</u> <u>Account</u>	26.11.82- 30.6.83	<u>Victorian</u> <u>Development</u> <u>Fund</u>
	1983-84	1983-84	\$000	1983-84
	\$000	\$000		\$000
Income	39 449	28 012	22 022	66 823*
Expenditure	37 762	27 954	21 809	65 078*
	-----	-----	-----	-----
Operating Profit	1 687	58	213	1 745
Payment to Consolidated Fund	..	..	150	..
	-----	-----	-----	-----
Retained Earnings and Net Assets	1 687	58	63	1 745
	-----	-----	-----	-----

* Inter-account transactions of \$638 000 eliminated in the consolidation of the 2 accounts.

Scope of Audit

5.9.8 The scope of the audit included:

- (1) a detailed evaluation of the systems of internal control in operation, with particular emphasis on the E.D.P. operations;
- (2) an examination of the income and expenditure for the period; and
- (3) the verification of assets and liabilities of the Fund at 30 June 1984.

Audit Observations and Recommendations

Advances to the Consolidated Fund

5.9.9 An advance of \$10 million made from the State Development Account to the Consolidated Fund on 3 May 1984 was repaid on 27 June 1984. The repayment of the advance on that date was made contrary to the provisions of Section 7E of the Act which requires advances from the State Development Account to the Consolidated Fund to be made for periods in excess of 12 months.

Fidelity Guarantee Insurance

5.9.10 There is an inherent security risk in the handling of documents and the number of transactions of the Fund is of considerable magnitude. Generally the Government does not carry fidelity guarantee insurance; however, audit considers that, due to the special circumstances, adequate insurance should be arranged to protect the assets of the Victorian Development Fund.

Review of Computer Controls

5.9.11 An audit review of certain computer controls, undertaken during the year, revealed the following weaknesses:

- (1) lack of adequate fire protection inside and outside the computer room;
- (2) lack of adequate back-up facilities and no contingency plan in the event of a serious disruption to the Fund's system;
- (3) unrestricted access of the Manager to the operating system and files of the computer system; and
- (4) unsatisfactory arrangements with the supplier for the maintenance of the computer software.

5.9.12 Audit recommended that action be taken to overcome the abovementioned weaknesses.

Conclusion

5.9.13 Apart from the matters raised above and a number of minor internal control weaknesses which were brought to the attention of the General Manager of the Fund, the results of the audit examination proved satisfactory.

**5.10 ZOOLOGICAL BOARD OF VICTORIA
(covering 1982-83)**

Introduction

5.10.1 The Zoological Board of Victoria was established under the Zoological Parks and Gardens Act 1967, and is responsible for the administration and control of the following zoological parks:

- (1) Royal Melbourne Zoological Gardens
- (2) Sir Colin Mackenzie Zoological Park
- (3) Werribee Zoological Park

5.10.2 The principal functions of the Board are defined in the legislation and include the exhibition of specimens, scientific study, instruction and entertainment of the public.

Statutory Reporting and Auditing Requirements

5.10.3 The Act requires the Board to prepare statements of account at 30 June each year and forward the audited accounts to the Minister by 30 September for tabling in Parliament. The Act also provides for the annual audit of the accounts of the Board by the Auditor-General.

5.10.4 The financial statements for 1982-83 were adopted by the Board on 29 June 1984 and the audit report on the accounts was signed on 30 July 1984. The delay in the Board providing financial statements for 1982-83 was caused by its adoption of accrual based accounting.

Financial Operations

5.10.5 The operations of the Board, which were prepared on an accrual basis for the first time in 1982-83, are summarised hereunder:

	Royal Melbourne Zoological Gardens	Sir Colin MacKenzie Zoological Park	Werribee Zoological Park	Total 1982-83
	\$	\$	\$	\$
Income	3 841 831	1 240 860	203 423	5 286 114
Expenditure	3 831 973	1 120 269	197 358	5 149 600
	<hr/>	<hr/>	<hr/>	<hr/>
Net Surplus	9 858	120 591	6 065	136 514
	<hr/>	<hr/>	<hr/>	<hr/>
Net assets/ (liabilities) at 30 June 1983	(556 215)	205 368	42 889	(307 958)

5.10.6 The balance sheet of the Board discloses only those capital improvements undertaken in the 1982-83 financial year. The total value of capital improvements is currently being determined by the Valuer-General for inclusion in the 1983-84 financial statements.

Scope of Audit

5.10.7 The audit involved an examination and evaluation of the accounting and other systems and the verification of assets and liabilities of the Board at 30 June 1983.

Audit Observations and Recommendations

Cash Collections and Bankings

- 5.10.8 Revenue collections at the Sir Colin Mackenzie Zoological Park during 1982-83 totalled \$806 000, of which \$753 000 related to admission charges. Audit examination of the collections and banking systems revealed many unsatisfactory features such as failure to properly control the issue and use of tickets, receipt books and invoices, the failure to balance and bank takings on a daily basis and to regularly account for the change float of \$2 000.
- 5.10.9 Audit recommended that the Board review its cash collections and banking procedures and implement proper controls to ensure that income by way of ticket sales is not at risk.

Payroll

- 5.10.10 The 1982-83 payroll for Werribee Zoological Park and Royal Melbourne Zoological Gardens totalled approximately \$2.4 million. Audit examination indicated that documentation relating to appointments and promotions etc. was missing from personnel files and payroll records were incomplete.
- 5.10.11 Audit recommended to the Board that it review its payroll procedures and remedy the weaknesses identified, as failure to do so may result in substantial overpayments to Board employees.

Asset Registers

- 5.10.12 Asset registers were not maintained at any of the Board's accounting offices.
- 5.10.13 Audit recommended that the Board establish and maintain asset registers so that it would have effective control over its assets.

Conclusion

- 5.10.14 Apart from the matters raised above and a number of minor control weaknesses brought to the attention of the Board, the results of the audit proved satisfactory.

5.11 AUDIT OF OTHER STATUTORY BODIES

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

- Coal Mine Workers Pensions Tribunal
- Dandenong Valley Authority
- Deakin University
- Decentralised Industry Housing Authority
- Government Employee Housing Authority
- Holmesglen Constructions Superannuation Plan
- La Trobe University
- Latrobe Valley Water and Sewerage Board
- Optometrists Registration Board
- Transport Regulation Board
- Victorian Brown Coal Council
- Victorian Coal Mine Workers Accident Relief Board
- Victorian Public Authorities Finance Agency

CENTRAL
 MELBOURNE VIC. 3002

LIBRARY
 OFFICE OF THE AUDITOR-GENERAL
 12th FLOOR 1 MACARTHUR ST.,
 MELBOURNE VIC. 3002

