



Auditor-General of Victoria

Second Report for the year 1985-86

March 1987

PROPERTY OF

Russell Walker

VICTORIA

Second Report

of the

AUDITOR-GENERAL

for the

Year 1985-1986

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Office of the Auditor-General,
MELBOURNE. VIC.

March 1987.

Sir,

In accordance with the Audit Act 1958, I transmit my Second Report covering the audits of departments and public bodies conducted in accordance with the Annual Reporting Act 1983, and the audits of a number of other public sector bodies which I am required by law to audit.

The report contains certain matters arising from the audit of those organisations to 31 January 1987 and also in respect of the 1985/86 financial year.

This report is supplementary to my report of 18 September 1986 in relation to the Treasurer's Statement for the year ended 30 June 1986.

Yours faithfully,

R.G. HUMPHRY
Auditor-General

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

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PREFACE

Basis of Reporting

This report has been prepared pursuant to Section 48 of the Audit Act 1958 which provides that:

"The Auditor-General may in such yearly report, or in any special report which he at any time thinks fit to make, recommend any plans and suggestions that he thinks worthy of adoption for the better collection and payment of public and other moneys and control of stores, and more effectually and economically auditing and examining the public accounts or the accounts of public authorities, and any improvement in the mode of keeping such accounts that at any time is brought to his notice, and generally to report upon all matters relating to such accounts."

The purpose of the report is to outline those matters which are regarded as being of significance to the Parliament in terms of resource management efficiencies, the fairness of annual financial statements of public sector bodies, and the extent of compliance with legislation and government directives.

Type of Reports

The Auditor-General's Reports to Parliament can be categorised as follows:

First Report

- accompanies the Treasurer's annual financial statements and provides comment on the statements together with matters of broad scope interest concerning the operations of public sector organisations.

Second Report

- provides additional comments on matters of broad scope interest and includes a summary of significant matters arising out of the audits of departments and public bodies.

Special Reports

- issued periodically, special reports comment on the findings of major audit reviews in departments and public bodies.

Annual Report of the Office of the Auditor-General

- prepared in accordance with the Annual Reporting Act 1983, it provides an overview of Office activities for the year and incorporates the Office's audited financial statements. It does not contain comments on or references to audit findings etc. contained in the Auditor-General's reports to Parliament.

1985-86 Reports

Reports already issued in respect of the 1985-86 financial year are as follows:

- First Report, tabled 18 September 1986

- Special Reports
 - . 'Court Closures in Victoria,' tabled 19 November 1986
 - . 'Provision of Housing to Government Employees,' tabled 2 December 1986
 - . 'Post-Project Appraisal Procedures within the Public Works Department,' tabled 2 December 1986
 - . 'Internal Audit in the Victorian Public Sector,' tabled 3 December 1986
- Annual Report of the Office of the Auditor-General, tabled 29 September 1986.

Format and Content of the Second Report for 1985-86

This report contains 3 major segments dealing with issues raised during 1985-86 audits and other matters which have arisen up to 31 January 1987. Part 1 provides a summary of major findings; Part 2 discusses across the board issues; Part 3 comments on the results of audits of individual entities, arranged according to Ministerial responsibility.

Each section in Part 3:

- identifies all entities subject to audit by the Auditor-General currently within the Ministerial portfolio;
- comments on matters of significance arising from audits. All entities have been provided with the opportunity to respond to issues raised by audit, and these comments have been summarised and included in the report;
- provides information on the status of all audits as at 31 January 1987, requirements for organisations to report to Parliament, and various important dates concerning the financial statements; and
- updates the status of unresolved issues raised in previous years' Auditor-General's reports.

Information contained in audited financial statements of public sector entities is not reproduced in this Report (refer additional comment paragraph 2.3.7).

For the purposes of the Report the following terminology conventions have been applied:

- *department* refers to administrative units etc in the budget sector, i.e. those entities financed by appropriations whose financial operations are processed through or come under the control of the central accounting system operated by the Department of Management and Budget; and
- *public body* refers to an entity established by separate legislation or other authority which has greater financial autonomy than a department, is generally not funded by appropriations and is not subject to direct accounting and budgetary controls by the Department of Management and Budget.

PART 1

SUMMARY OF MAJOR FINDINGS

1.1

SUMMARY OF MAJOR FINDINGS

Introduction

- 1.1.1 In recent years there has been a significant emphasis directed towards achieving greater resource management efficiencies in government. A major factor influencing this development has been the constrained economic climate and a government and community perception that more must be achieved from existing or even decreased levels of public sector resources. Particular attention has been focused on the size of government deficits, the level and servicing cost of public sector debt and the costs of committed and ongoing government programs.
- 1.1.2 The importance and magnitude of the potential savings to be achieved from efficient public sector resource utilisation is demonstrated by the sheer size of government. For example, in Australia the government sector, like that in other OECD countries, is the largest single entity in the economy. In 1985-86 total public sector outlays in Australia (Commonwealth, State and Local Government) accounted for 43.3% of Gross Domestic Product.

The Need for Effective Financial Management

- 1.1.3 Efficient usage of resources entails a process of effective management, including financial management, of those resources. Broadly defined the objective of financial management in government is to ensure that to the maximum practicable extent resources are acquired and used lawfully, efficiently and effectively. This process takes in elements of policy and planning, budgeting, budget execution and accounting, and reporting and evaluation (including external audit).
- 1.1.4 Audit is a key element of the overall financial management process that provides independent evaluations of:
- financial statements summarising results for a period;
 - the extent to which value for money has been achieved for taxpayers' dollars; and
 - the extent of compliance with legislation.
- 1.1.5 The audit function is therefore concerned with ensuring that public moneys are spent in accordance with stated policy objectives and that public sector operations are conducted in the most efficient manner.

Overall Assessment

- 1.1.6 Auditor-General's reports provide information to Parliament on the adequacy of organisations' resource management and comment on any significant deficiencies and corrective action that has been applied. It is the prerogative of Parliament and of the Executive to act on reports of the Auditor-General as they think fit.

- 1.1.7 In essence, Auditor-General's reports to Parliament are reports by exception and, as such, do not purport to be balanced accounts of the operations of individual government departments and public bodies. This is why these reports may seem to emphasise shortcomings without always giving credit for situations where no significant irregularities were observed or new initiatives taken.
- 1.1.8 In most areas examined by audit during the year the results indicated that, overall, programs were administered in a satisfactory manner, although in some cases certain weaknesses and deficiencies were noted.
- 1.1.9 In a minority of audits, however, it was concluded that financial administration of programs was not satisfactory. Audits in this category are reported on in more detail in Part 3 of this report.

Significant Findings

- 1.1.10 Part 2 of the report contains comments on 'broad scope issues' that have an impact on a range of areas of public sector operations. These comments arise from special reviews undertaken during the year and have direct relevance for central agencies with overall public sector policy responsibility, principally the Department of the Premier and Cabinet and the Department of Management and Budget. The issues involve medium to long term policy considerations that generally need to be addressed as part of the State's overall financial management framework.
- 1.1.11 Of the Part 2 issues identified I place highest priority on the need to further enhance financial information available in the budget sector on asset holdings and obligations. This information can assist Parliament, Ministers and public sector management in such matters as:
- consideration of all available options for decision making at government level and for management within public sector organisations;
 - determination of pricing levels and user charges;
 - asset management, including acquisition and disposal;
 - control of commitment levels; and
 - the assessment of financial viability, trends in equity and management performance.
- 1.1.12 The enhancement of this information would involve the use of accrual accounting concepts in departments. It is recognised that few governments worldwide have implemented accrual accounting for their budget sector operations, although recent advancements have been made or are proposed in the governments of the United States and Canada, and that it would require an extensive commitment for full implementation. Nevertheless, I believe that it is now timely to consider the introduction of accrual accounting in the Victorian budget sector, including its implications on the budget process and possible method and timing of implementation.

1.1.13 There is also a need to upgrade, as a matter of priority, the current level of accountability of public sector companies, trusts and joint ventures. Whilst it is the government's prerogative to participate in these arrangements it is necessary that accountability mechanisms incorporating appropriate establishment, reporting and auditing requirements be instituted.

1.1.14 Part 3 contains comment on the results of audits conducted during the last financial year grouped according to Ministerial portfolio. A range of issues has been identified, but I consider the major matters to be as follows:

Agriculture and Rural Affairs

Victorian Egg Marketing Board

- loans to employees

Attorney-General

Law Department

- inadequate recording of the value of outstanding court fines

Office of Corrections

- employee entitlements of custodial service staff

Victorian Prison Industries Commission

- mismanagement in industry operations

Conservation, Forests and Lands

Department of Conservation, Forests and Lands

- financial management deficiencies

Education

Chisholm Institute of Technology

- inadequacies in management practices

Housing

Director of Housing

- deficiencies of computer system

Industry, Technology and Resources

Victorian Tourism Commission

- inadequate project management and delays in financial reporting

Labour

Department of Labour

- cash management inadequacies

Property and Services

Department of Property and Services

- inadequate monitoring of rentals

Transport

Metropolitan Transit Authority and State Transport Authority

- analysis of authorities' financial operations

Road Traffic Authority

- cash management deficiencies

Treasurer

Accident Compensation Commission and State Insurance Office

- valuation of outstanding claims and supporting investments

Victorian Accident Rehabilitation Council

- delays in payments of accounts

Recognition for Initiatives Taken by Organisations

- 1.1.15 Although the nature of the audit process emphasises the reporting of deficiencies it is also important to note that a number of positive initiatives were taken in 1985-86. For example, in 1985-86 the Treasurer:
- introduced Rate of Return Reporting for major public bodies;
 - released an information paper on Victorian public sector debt and has indicated that details of public sector debt will be included in future Treasurer's statements;
 - brought additional public bodies under the ambit of the Annual Reporting Act 1983;
 - introduced, in conjunction with the Public Service Board, a training program to improve financial management;
 - commenced a major review of the State's financial legislation; and
 - initiated a major review of departments' accounts payable processes.
- 1.1.16 All of these initiatives are important in further developing adequate control over public sector resources. The information on Victoria public sector debt is particularly significant and whilst it does not yet include details of all government commitments it is an important development.
- 1.1.17 The government has also established a working group chaired by the Department of the Premier and Cabinet to oversee and co-ordinate the recommendations of a research report on the funding of non-government agencies. As part of its brief the working group will also be addressing comments and recommendations contained in my First Report for 1985-86.
- 1.1.18 In addition, there were many areas of performance and new initiatives in individual organisations, including:
- the timely and efficient preparation of financial statements by all the major business undertakings gazetted under the Annual Reporting Act 1983, and a number of other smaller bodies such as the Rural Finance Commission;
 - the voluntary preparation of financial statements on an accrual basis by bodies such as the Exhibition Trustees, although there is a legislative requirement to prepare only a statement of cash transactions;
 - the introduction in a number of entities of a new or upgraded internal audit function; and

- the adoption by a number of agencies of an integrated approach to policy development and implementation, such as the recent introduction of a child care policy integrated with the availability of technical and further education programs.

1.1.19 This last year has also seen the release of a number of significant reports by the Economic and Budget Review Committee and the Public Bodies Review Committee, and the holding of Estimates Committee hearings. This level of interest in public sector administration is timely, given the current economic climate and its impact on public sector operations.

Acknowledgments

1.1.20 I would like to acknowledge the co-operation and assistance my officers have received from organisations in the conduct of audits. The growing complexity and scope of government increasingly requires closer and continuous liaison between my staff and officers of auditee organisations. In this respect the co-operation and positive approach to audit recommendations of officers of the Department of the Premier and Cabinet, the Department of Management and Budget and other government agencies is appreciated.

1.1.21 Finally, I would like to express my appreciation to all staff in the Victorian Auditor-General's Office for their efforts over the past 12 months.

PART 2

BROAD SCOPE ISSUES

**A. ACCOUNTABILITY WITHIN THE VICTORIAN
PUBLIC SECTOR**

2.1

GENERAL SUMMARY

Introduction and Background

- 2.1.1 In the course of conducting audits during 1985-86 a number of common issues arose concerning the adequacy of public sector accountability to Parliament. In the following sections of this report these and other issues have been addressed as part of an overall assessment of the adequacy of accountability, in a financial reporting context, of Victorian public sector bodies.
- 2.1.2 Accountability to Parliament of Executive Government is a fundamental feature of the Westminster system of government. It is essential for parliamentary control over the public purse. Equally important is the need for effective accountability to the general public for the billions of dollars of public monies disbursed annually by government bodies.
- 2.1.3 Accountability may be described as the responsibility of those entrusted with authority to account for the manner in which they have discharged their obligations. It encompasses the measurement and reporting of performance through the provision of both financial and non-financial information.
- 2.1.4 With the diversity of public bodies that currently exists in Victoria there is a need to ensure that the necessary level of accountability of these bodies is established and maintained. Depending on the type of entity and the nature of its activities there is a need for suitable accountability mechanisms to be established:
- within the entity's own management structure;
 - between the entity and central agencies;
 - between the entity and the responsible Minister; and
 - between the entity and Parliament.
- 2.1.5 The availability to the Parliament and the public of annual financial statements that accurately report the financial operations and financial position of government bodies is an essential feature of an effective accountability process. To be truly effective as an accountability mechanism and to aid in decision making strategies and policies it is necessary that these statements are:
- accurately compiled and reflect sound internal controls operating in the various bodies;
 - presented in a meaningful and concise manner in accordance with appropriate standards so as to enable informed assessments and comparisons of financial performance;
 - subject to independent external audit; and
 - presented to Parliament in a timely manner;

Principal Findings

- 2.1.6 The principal findings of the review are:

(1) Operation of the Annual Reporting Act 1983 (Section 2.2)

The Act has significantly improved and standardised the quality of financial reporting by departments and major public bodies. There has been satisfactory compliance with the legislation but there is a need to establish additional detailed financial reporting requirements and guidelines.

(2) Reporting to Parliament (Section 2.3)

For a number of public bodies not required to report under the Annual Reporting Act 1983 there are shortcomings and inconsistencies in the reporting of their operations to Parliament. In many such instances:

- there is no requirement for these public bodies to present to Parliament an annual report, including audited financial statements, of their operations. This results in Parliament not being provided with information to assist it in the monitoring and review of the operations of these bodies; and
- where annual reports are required to be presented to Parliament, legislative reporting deadlines have not been established and in a number of cases, even though formally established in legislation, deadlines are not being adhered to, thereby impairing the timely consideration of reports.

(3) Investments in Companies, Trusts and Joint Ventures (Section 2.4)

There are significant public sector equity funds invested in partly or wholly owned companies, trusts and joint ventures. Public sector participation in these arrangements has preceded the creation of corresponding accountability mechanisms with the result that information as to their existence and operations is often not made available to Parliament. The financial reporting and auditing arrangements of these entities also vary.

(4) Uniformity of Accounting Policies and Disclosure Practices (Section 2.5)

Accounting policies and disclosure practices used in the preparation and presentation of financial statements may vary significantly between public sector entities and, as a result, the utility and comparability of similar entities' financial information is impaired. This is a problem more prevalent in entities not reporting under the Annual Reporting Act 1983.

(5) Limitations of Departmental Cash Accounting and Reporting - Case for the Adoption of Accrual Accounting (Section 2.6)

In addition to recording cash transactions, accrual accounting provides a mechanism for recognising and recording total revenues earned and costs incurred, together with asset balances, outstanding liabilities and the extent of community equity. It is used in the financial accounting systems of public bodies but not in departments, where only details of cash receipts and payments are recorded. The emphasis on cash accounting in departments restricts information available to formulate options, take decisions and review the efficiency of public sector activities. It also results in less meaningful information being reported to Parliament on the operations of departments than is available in respect of public bodies.

Recommendations

2.1.7

Whilst in recent years there has been significant reform of public sector financial reporting, the results of the review point to the need to continue with further reforms in order to ensure proper accountability of public sector entities. Recommendations made in Sections 2.2 to 2.6 to improve the financial reporting of public bodies in Victoria include:

- the annual reporting requirements of public bodies, including the reporting of public sector investments in companies, trusts and joint ventures, should be standardised through the bringing of all these bodies under the ambit of the Annual Reporting Act 1983 or, as an interim measure, through blanket amendments to existing individual legislation;
- the formation, powers and scope of operations of public sector companies, trusts and joint ventures should be clearly established in legislation;
- the lack of uniformity in the application accounting policies and financial reporting practices of public sector bodies should be addressed through the release of accounting and reporting guidelines by the Department of Management and Budget; and
- further research needs to be undertaken on the feasibility of introducing accrual accounting in departments. This should incorporate consideration of its implications, including costs and benefits and possible method and timing of implementation.

Current Developments

2.1.8 In a number of areas action is in train to address these recommendations. This includes:

- a current review of the State's financial legislation under the direction of the Comptroller-General;
- the bringing of additional public bodies under the Annual Reporting Act 1983;
- the development of detailed reporting requirements for post-secondary education institutions, superannuation funds and local water and sewerage authorities;
- the current development by the Department of Management and Budget of accountability guidelines in respect of public sector investments in companies, trusts and joint ventures;
- a review of departments' accounts payable systems and processes which is expected to result in the use of accrual accounting techniques for improved management of departments' accounts payable functions; and
- the development of a resource management improvement program which emphasises the development of appropriate skills and infrastructure needed for effective corporate decision making mechanisms.

Response by the Department of Management and Budget (DMB)

2.1.9 The Department of Management and Budget has indicated broad agreement with the recommendations. Comments in respect of the major recommendations are included in the relevant section of the report.

2.2 OPERATION OF THE ANNUAL REPORTING ACT 1983

Introduction

2.2.1 When introduced in 1983 the Annual Reporting Act was the first legislation of its type to be passed in Australia. Its introduction was a major financial management reform initiative that has contributed to a significant upgrading in the timeliness and quality of information provided in respect of both the financial and non-financial operations of the major government bodies.

2.2.2 In the 1985-86 financial year it governed the reporting requirements of:

- the budget sector comprising the 25 departments (Administrative Units and Offices) designated in the Public Service Act 1974; and
- the following 8 public bodies:

Capital Works Authority
Gas and Fuel Corporation of Victoria
Grain Elevators Board
Melbourne and Metropolitan Board of Works
Metropolitan Transit Authority
Port of Melbourne Authority
State Electricity Commission of Victoria
State Transport Authority

2.2.3 The Act provided for the submission to the responsible Minister, within 3 months of the end of the financial year, of a report of operations and audited financial statements for each of these entities. This report was then required to be tabled in Parliament by the responsible Minister by September 30, or if Parliament was not sitting, within 14 sitting days. However, the Act also provides the power for the Treasurer to grant extensions of time to the reporting deadline.

2.2.4 The Act is supplemented by the following Regulations:

Annual Reporting (Administrative Units) Regulations 1985; and
Annual Reporting (Business Undertakings) Regulations 1984.

2.2.5 The Regulations prescribe the form and content of the report of operations and the financial statements and, in a financial reporting context, establish a number of common accounting policies and methods of disclosure.

Audit Comments

Overview of Operations of the Legislation

2.2.6 With the exception of 5 departments, all entities were in a position to submit to their responsible Minister audited financial statements by 30 September. These 5 departments obtained extensions of time from the Treasurer to present their annual reports after the reporting deadline. A number of other departments which had available audited financial statements by 30 September also obtained extensions of time from the Treasurer to present their annual report to Parliament after this deadline.

- 2.2.7 The Auditor-General's Second Report for 1984-85 commented on the general lack of commitment by departments to the preparation of timely, accurate and complete financial statements and the reliance by departments on staff of the Auditor-General's Office to detect omissions and inaccuracies. In 1985-86 the situation has improved marginally and with changes to the Regulations being minimal during the year has resulted, with some exceptions, in a better standard of performance in financial statement preparation.
- 2.2.8 I am pleased to report that, with the exception of one Authority not meeting the 30 September reporting deadline, the comparative situation in respect of the public bodies reporting under the Act is entirely satisfactory. These bodies have demonstrated a clear commitment to the preparation of timely and accurate financial statements in accordance with the Act and the Regulations. It is pleasing that these bodies have in place efficient and reliable systems and processes that, despite the added rigours of full accrual accounting and, in some cases, the preparation in 1985-86 of Rate of Return Reporting supplementary financial statements, permit compliance with the requirements of the legislation.
- 2.2.9 The Capital Works Authority was brought under the ambit of the Annual Reporting Act in 1985-86. As indicated in my First Report for 1985-86 there is now in place a suitable requirement for the auditing and reporting of its financial operations. This alleviates concerns as to the lack of accountability of the Authority which were expressed in the Auditor-General's Second Report for 1984-85.

Annual Reporting (Amendment) Act 1986

- 2.2.10 In December 1986 the Annual Reporting (Amendment) Act 1986 was passed. It enables all Victorian public bodies, including superannuation funds, to be brought under the ambit of the Act. It also includes provision for the adoption of accounting standards by reference in Regulations and provides scope for the production of sector-wide reports, e.g. consolidated reports by industry groupings.
- 2.2.11 With the enactment of the amendments the reporting deadline for the presentation by departments to the responsible Minister of the report of operations and audited financial statements has been extended from 30 September to 31 October. However, the time period for the subsequent tabling of reports in Parliament by the responsible Minister has been reduced from 14 days to 7 days. The 30 September requirement for public bodies with 30 June balance dates remains unchanged. Whilst the extension of the reporting deadline will alleviate time pressures on departments, particularly those which have experienced problems in meeting the deadline due to central budgetary and other commitments, it has the potential to delay the provision of information to Parliament on departmental operations. It is therefore hoped that departments will endeavour to present their annual reports to Parliament well before the 31 October deadline.

Rate of Return Reporting (RRR)

- 2.2.12 In addition to the inclusion in their 1985-86 annual reports of audited historical cost financial statements, unaudited supplementary RRR financial statements, which incorporate the translation of historical cost information into current values, were also provided by 5 of the major business undertakings. Although not prescribed under the Annual Reporting (Business Undertakings) Regulations 1984 the statements were prepared by these bodies at the request of the Treasurer.

2.2.13 The implementation in 1985-86 of RRR in these business undertakings was a significant initiative in respect of further upgrading financial reporting in the public sector. Further comment on RRR is contained in Section 2.7 of this Report.

Recommendations

2.2.14 To assist in the maintenance of an appropriate standard of performance in statement preparation I believe it is now opportune for the **Department of Management and Budget** to issue directions clearly establishing requirements for departments to:

- adequately plan and schedule the critical elements of the annual accounts work programs;
- assign responsibility for the preparation of financial statements to a senior officer; and
- submit draft statements for audit at least 6 weeks prior to the legislative reporting deadline.

2.2.15 To assist in the improvement of the efficiency and comprehensiveness of the annual reporting process in departments it is also necessary that **departments are advised at an early stage of:**

- changes to reporting Regulations; and
- the reporting responsibilities of major transactions and balances e.g. multi-user trust accounts.

2.3

REPORTING TO PARLIAMENT

Introduction

- 2.3.1 As indicated in Section 2.2 of this report the Annual Reporting Act 1983 governs the reporting requirements, including the financial reporting and audit requirements, of all designated departments and of 8 major public bodies.
- 2.3.2 In addition to these major entities there exists a diversity of other public bodies whose size and scale of operations varies from medium to large entities such as the State Bank, public hospitals, post-secondary education institutions, the Totalizator Agency Board and the larger superannuation funds, to small scale entities such as the Optometrists Registration Board and the Dietitians Board of Victoria.
- 2.3.3 The reporting requirements of these entities are contained in the individual legislation or other authorisation constituting their establishment.
- 2.3.4 The findings of an audit review of the accountability arrangements of these bodies, in terms of their legislative requirement to report to Parliament, are contained in the following paragraphs.

Audit Comment

Requirement to Table an Annual Report

- 2.3.5 There is a range of public sector entities which do not have a legislative requirement for accountability to Parliament through the tabling of an annual report (incorporating audited financial statements) of operations. There is therefore no mandatory provision requiring these entities to report annually on the results of their activities, including providing explanations on how and where revenues were raised and expenditures disbursed, what asset holdings were held and the extent of outstanding commitments. Table 2.3A provides a listing of these entities which are subject to audit by the Auditor-General. Apart from the post-secondary education institutions and local water and sewerage authorities, the table contains mostly smaller, less economically significant entities whose initial enabling legislation dates back many years. Details as to legislative reporting requirements for individual entities are contained in Schedule A following each Ministry portfolio analysis in Part 3 of this Report.
- 2.3.6 In addition, there are a number of semi-autonomous entities such as the Victorian Government Printing Office (VGPO), the Medical Board, the Liquor Control Commission and the Office of the Public Trustee whose financial operations are funded through departmental appropriations and whose revenue is paid into the Public Account. There are no individual annual reporting requirements for these entities although their cash transactions are consolidated in departmental financial statements. Some entities, such as the VGPO which is a major trading body, do submit additional financial statements for audit although in a financial reporting context there is no legislative requirement for the preparation, audit or reporting of those statements to Parliament.

Table 2.3A: Bodies Audited by the Auditor-General for which there is No Legislative Requirement to present an Annual Report to Parliament

(1) General

Albert Park Committee of Management
 Bundoora Park Committee of Management
 Cancer Institute Board
 Citrus Fruit Marketing Board
 Departments of the Parliament of Victoria
 Holmesglen Constructions Superannuation Plan
 Legal Aid Commission Staff Superannuation Fund
 Local Authorities Superannuation Board
 Lump Sum Fund
 Marine Board of Victoria
 Mount Macedon Memorial Cross Committee of Management
 Office of the Public Trustee
 Olympic Park Management
 Optometrists Registration Board
 Parliamentary Contributory Superannuation Fund
 Patriotic Funds Council
 Penguin Reserve Committee of Management
 Plumbers and Gasfitters Board
 Port Bellarine Committee of Management
 Shrine of Remembrance Trustees
 State Electricity Commission Employees Retirement and Benefit Fund
 State Electricity Commission Superannuation Fund
 State Swimming Centre Committee of Management
 Surveyors Board
 Tattersall Sweep Consultations
 Tobacco Leaf Marketing Board
 Tobacco Quota Appeals Tribunal
 Victorian Coal Miners' Accidents Relief Board
 Victorian Dried Fruits Board Superannuation Fund
 Victorian Relief Committee
 Victorian Universities Admissions Committee
 Yarra Bend Park Trust
 Zoological Board of Victoria Superannuation Fund

(2) Authority Groupings

Post Secondary Education Institutions:

- 14 Colleges of Advanced Education (comprises 14 out of a total of 16 Victorian Colleges)
- 32 Colleges of Technical and Further Education (comprises all Victorian TAFE Colleges)

Local Water and Sewerage Authorities

- 173 Local Water and Sewerage Authorities constituted under the Water and Sewerage (Restructuring) Act 1983 and the Water Act 1958 (comprises all Victorian Authorities)

Note: The reporting requirements of public sector companies, trusts and joint ventures are referred to in Section 2.4 of the Report.

- 2.3.7 To go some way towards providing information on the financial operations and position of entities not required to report to Parliament the Auditor-General's report has, in previous years, included in each Ministerial portfolio a brief overview of the financial operations and position of these entities. In this year's Report this practice has been discontinued as the external reporting of entities' financial information is regarded not as an audit function but as a proper responsibility of the management concerned.
- 2.3.8 In addition to those entities identified in Table 2.3A there are a number of other public bodies audited by private practitioners which also have no legislative requirement to present annual reports to Parliament. Prominent among these are:
- public hospitals, which in 1985-86 received over \$1 200 million in government funding and had total expenditure in excess of \$1 500 million;
 - local government municipalities, which in 1985-86 received over \$139 million in government funding;
 - a number of public sector companies, trusts and joint ventures; and
 - a number of small boards and authorities in various Ministerial portfolios, e.g. refer paragraphs 3.1.6 to 3.1.8 of this Report.
- 2.3.9 Generally speaking these bodies, in accordance with usual corporate practice, are empowered to select and appoint their own auditor. When private practitioners are appointed, their audit responsibilities, unlike those of the Auditor-General, are generally confined to reporting to the Board members of the public bodies and do not extend to reporting to Parliament.

Reporting Deadlines

- 2.3.10 Not only should information be provided to Parliament but, to be useful, it must be provided in a timely manner to enable prompt analysis.
- 2.3.11 The review indicated that in addition to those entities having no reporting requirements there are also a number of others which, although having a requirement to report to Parliament, have no date by which they have to report. Table 2.3B provides a listing of those entities subject to audit by the Auditor-General for which there is a requirement to report to Parliament but no prescribed reporting deadline. It incorporates a wide range of small to medium size entities, some of which have since been gazetted or are proposed for gazettal under the Annual Reporting Act 1983. Details as to individual entities' legislative requirements are referenced in the Schedule A following each Ministerial portfolio analysis in Part 3 of this Report.

2.3.12

A review of the dates on which financial statements were formally adopted by an entity's Chairman/Chief Executive Officer and the date of the Auditor-General's report on these statements indicated that the majority of public bodies' financial statements were being completed in a timely manner. It is to be noted that this review did not extend to a review of dates on which these statements were then actually tabled in Parliament. The date of signature of the audit report therefore provides only an indication of the earliest date upon which statements could have been provided to Parliament.

Table 2.3B: Bodies Audited by the Auditor-General for which there is a Requirement to Report to Parliament but for which there is no Legislative Requirement to Report By a Prescribed Date

Albury-Wodonga (Victoria) Corporation
Coal Mine Workers Pensions Tribunal
Country Fire Authority
Deakin University
Decentralised Industry Housing Authority
Director of Housing
Hospitals Superannuation Board
LaTrobe University
Local Authorities Superannuation Board
Melbourne College of Advanced Education
Melbourne Wholesale Fruit and Vegetable Market Trust
Metropolitan Fire Brigades Board
Metropolitan Fire Brigades Superannuation Board
Monash University
Pensions Supplementation Fund
Port of Geelong Authority
Port of Portland Authority
Poultry Farmer Licensing Committee
Poultry Farmer Licensing Review Committee
Rural Finance Commission
Small Business Development Corporation
State Employees Retirement Benefits Board
State Superannuation Fund
Swan Hill Pioneer Settlement Authority
Totalizator Agency Board
University of Melbourne
Victorian College of the Arts
Victorian Dried Fruits Board
Victorian Institute of Secondary Education
Victorian Post-Secondary Education Commission

2.3.13

However, there were also a number of entities with financial statements still unfinalised or only available 6 months or more after the end of their most recent financial year end. These entities are itemised in Schedule A to each Ministerial portfolio analysis in Part 3 of this Report. Some of these entities were in breach of their legislative reporting deadline, which varied from 3 to 6 months after the end of the financial year, whilst the remaining entities had no legislative reporting deadline. The timeliness of reporting by local water and sewerage authorities is commented on in paragraphs 3.22.4 and 3.22.5 of this Report.

2.3.14

The date of tabling in Parliament of public bodies' annual reports is recorded at Parliament. However, apart from the Auditor-General's reviews there is no

established monitoring or follow-up mechanism for Parliament to be progressively informed of the timeliness of entities' reporting, i.e. reports outstanding beyond the legislative reporting deadline.

Recommendations

- (1) Uniform legislative annual reporting requirements should be extended to all significant public bodies; specifically as to the preparation of an annual report (including audited financial statements) for presentation to Parliament in a timely manner.**

2.3.15 A logical way of achieving this is to provide for blanket amending legislation applying to individual Acts as an interim measure pending the gazettal of the public bodies under the Annual Reporting Act 1983. In this respect the Annual Reporting (Amendment) Act 1986 now provides scope for gazetting all public bodies under the Annual Reporting Act and is expected to provide a mechanism for achieving the standardisation of reporting requirements for those public bodies.

2.3.16 It is appreciated that the need to individually report to Parliament on the operations of all public sector entities is an area that also warrants consideration. The reporting of consolidated sector-wide information to Parliament may, in many cases, be more relevant; as for instance in the case of the 173 local water and sewerage authorities currently established in Victoria. This may avoid potential 'information overload' situations arising. It is also to be noted that the Annual Reporting Act 1983 already contains a provision for the responsible Minister to exercise the option to merely inform Parliament of the receipt of an entity's annual report where its total payments for the year are less than \$1 million. However, the report is available to members of Parliament upon request.

2.3.17 Further, the standardisation of reporting requirements should include an assessment of the desirability of having 'staggered' financial year ends for similar groups of entities, i.e. the use of a standard 30 June financial year for all entities has implications for the availability of audit resources at this peak period and whether Parliament needs or can absorb all this information at the one time. In this respect a number of public bodies already have balance dates other than 30 June, for example:

31 December	:	Post-Secondary Education Institutions
30 September	:	Grain Elevators Board
31 July	:	Totalizator Agency Board

- (2) An effective monitoring and follow up process is necessary in order for compliance with legislative reporting deadlines to be monitored and where there are instances of delays for these to be made known to Parliament.**

Response by DMB

The need for uniformity in legislative annual reporting requirements is being substantially met by the Annual Reporting Act 1983 and accounting and auditing provisions inserted into enabling legislation for particular public bodies since 1978. Even though the small number of bodies not subject to such provisions is a concern, economically significant bodies are covered by accountability requirements or will be before the 1988-89 financial year.

The Government's Resource Management and Accountability initiative is addressing the need to extend these requirements and, in consultation with the Auditor-General's Office, the future audit coverage of bodies in the public sector.

During 1985-86 application of annual reporting requirements was extended to cover water boards. Appropriate regulations will be prepared before 30 June 1987 to facilitate inclusion of further public bodies within the ambit of the Annual Reporting Act 1983. These include public sector superannuation funds and a diverse range of public bodies receiving a substantial portion of their revenue from the State. In addition, considerable work has been done by the Victorian Post-Secondary Education Commission Working Party with respect to improved annual reporting requirements for Post-Secondary Education Institutions and detailed guidelines are expected to be issued in the near future.

These measures will further enhance the present requirements for most public bodies to report to the Parliament on a uniform and timely basis.

2.4 INVESTMENTS IN COMPANIES, TRUSTS AND JOINT VENTURES

Introduction

- 2.4.1 Recent years have seen an acceleration in the trend to greater Victorian public sector involvement in companies, trust and joint venture arrangements with the private sector as a means of implementing programs and objectives. This development has not only taken place in Victoria but is one common to other Australian States and to the Commonwealth.
- 2.4.2 The major reason for the formation of or participation in these arrangements, in preference to the traditional public sector structures, is to facilitate private sector or government equity participation in major investment projects, generally through the placement of share capital.
- 2.4.3 These arrangements also:
- provide greater flexibility to management through freeing it from some of the constraints placed on departments and public bodies, e.g. employment requirements, policy directives etc;
 - enable the projection of a commercial image in the market place both with customers and suppliers and with the general public;
 - provide a means of clearly segregating a distinct activity not forming part of an entity's major area of operation; and
 - provide a mechanism for a government operation to achieve a separate legal entity status.
- 2.4.4 The following analysis provides a broad overview of the incidence of companies, trusts and joint venture arrangements in the Victorian public sector and provides further comment, following on from comments made in previous Reports of the Auditor-General, as to existing accountability requirements.

Audit Comment

Extent of Public Sector Investment in Companies, Trusts and Joint Ventures

- 2.4.5 In the Fourth Report of the Auditor-General for 1983-84 an audit survey of public sector subsidiary company arrangements was reported upon in which it was found that 17 companies, all wholly government owned, had been established by 11 individual departments or public bodies.
- 2.4.6 In July 1986, as part of a follow-up to the 1983-84 review, all major entities subject to audit by the Auditor-General were requested to advise details of significant investments in companies, trusts and joint ventures. In this respect 'significant' was determined to be 20% or more of total equity. The survey was necessary as there was no central information source for identifying public sector investments in these companies etc.

2.4.7 The survey results indicate that as at 30 June 1986 there were in existence:

(1) Companies

- 34 companies established by 23 public sector bodies or groups of bodies in which there was 100% government ownership;
- 5 companies involving by 5 public sector bodies in which there was equally shared or majority government ownership (between 50% and 99.9% government ownership);
- 17 companies involving 7 public sector bodies in which there was significant minority government ownership (between 20% and 49.9% government ownership);

(2) Trusts

- 3 commercially oriented trusts having government equity of 20% or more (fiduciary funds have been excluded from the analysis); and

(3) Joint Ventures

- 4 joint ventures in which there was significant government and private sector investment (over 20%).

2.4.8 At 30 June total net assets (assets less liabilities) of companies etc. in which there was 50% or more government ownership exceeded \$65 million. Information in respect of these individual companies and trusts is contained in Table 2.4A.

2.4.9 This figure excludes the significant loans and advances, both secured and unsecured, made by public sector parent bodies or other government entities to these companies etc.

2.4.10 In interpreting this information it is important to note that:

- it deals with investments by public bodies subject to audit by the Auditor-General. Arrangements entered into by other public bodies audited by private practitioners, e.g. the State Bank, public hospitals etc., have not been included in the analysis;
- details of companies etc identified were obtained from the public bodies surveyed and therefore may not represent a complete position as at 30 June 1986; and
- the Gas and Fuel Corporation of Victoria, although established as a company, has been excluded from the analysis as its operations are governed by specific enabling legislation.

Accountability Considerations

2.4.11 The establishment of companies, trusts and joint ventures is an important feature of the Government's economic strategy, principally as these arrangements provide vehicles for enabling equity participation in partnerships with the private sector to encourage technology based industries in the State. It is also essential that suitable accountability mechanisms (referred in paragraph 2.1.4) be in place.

Table 2.4A: Details of Major Public Sector Investments (*) in Companies and Commercial Trusts as at 30 June 1986 (or Nearest Balance Date)

(*) Relates to equity investments of 50% or more of total company/trust equity

PARENT ENTITY	COMPANY/TRUST (G) Denotes Company Limited by Guarantee	EQUITY HELD BY PARENT ENTITY %	TOTAL PAID UP CAPITAL (PUC) \$000	TOTAL ASSETS \$000	NET ASSETS (NET LIABILITIES) \$000	NET PROFIT (LOSS) AFTER TAX \$000	AUDIT OF COMPANY/TRUST (AG - AUDITOR-GEN PP - PRIVATE PRACTITIONER NA - NOT AUDITED)	MAIN FUNCTIONS OF COMPANY/TRUST
AGRICULTURE AND RURAL AFFAIRS								
Tobacco Leaf Marketing Board	Australian Leaf Corporation Pty. Ltd.	100	- (Actual PUC \$5)	- (Actual Total Assets \$122)	(1)	-	NA	Purchase and arrange export of non quota tobacco leaf.
Citrus Fruit Marketing Board	Citrus Management Company Ltd. (G)	50	-	486	351	6	PP	Provide administrative services for the Vic. & NSW Citrus Marketing Boards.
Citrus Management Company Ltd. (G)	Citrus Fruit Marketing Company Pty. Ltd.	50	- (Actual PUC \$100)	60	(35)	(22)	PP	Marketing of citrus fruits on behalf of Vic. and NSW Citrus Marketing Boards.
Department of Agriculture and Rural Affairs	Daratech Pty. Ltd.	100	3000	3005	3005	5	AG	Collaborate and invest in agricultural bio-technology with the private sector.
CONSERVATION, FORESTS AND LANDS								
Zoological Board of Victoria	Healesville Sanctuary Trading Pty. Ltd.	100	1	1	1	-	NA	Catering services at Healesville Sanctuary.
EDUCATION								
Minister of Education	Goulburn Valley Driver Training Complex Ltd. (G)	100	-	4358	3903	96	PP	Driver education and training.
"	Royal Melbourne Institute of Technology Ltd. (G)	100	-	36788	15251	2751	AG	Education to students.

PARENT ENTITY	COMPANY/TRUST (G) Denotes Company Limited by Guarantee	EQUITY HELD BY PARENT ENTITY	TOTAL PAID UP CAPITAL (PUC) \$000	TOTAL ASSETS \$000	NET ASSETS (NET LIABILITIES) \$000	NET PROFIT (LOSS) AFTER TAX \$000	AUDIT OF COMPANY/TRUST (AG - AUDITOR-GEN PP - PRIVATE PRACTITIONER NA - NOT AUDITED)	MAIN FUNCTIONS OF COMPANY/TRUST
EDUCATION (CONTD)								
Foyal Melhourne Institute of Technology Ltd.	Meltech Services Ltd. (G)	100	-	-	-	-	PP	Nominee company for the Institute's students union.
"	Technisearch Ltd. (G)	100	-	1565	185	142	PP	Contract research and consultancy.
Minister of Education	Swinburne Ltd. (G)	100	-	14253	3216	(403)	AG	Education to students.
Swinburne Ltd. (G)	Neurometric Systems Pty. Ltd.	75	- (Actual PUC \$3)	61	(36)	(36)	PP	Scientific research and development.
Minister of Education	School of Mines and Industries Ballarat Ltd. (G)	100	-	10610	8577	253	AG	Education to students.
"	Victorian College of Pharmacy Ltd. (G)	100	-	4048	1940	406	AG	Education to students.
Victoria College	Victraac Ltd. (G)	100	-	232	71	71	PP	Contract research and consultancy
Lincoln Institute of Health Sciences	Lincoln Health Services (Nominees) Ltd. (G)	100	-	55	22	2	PP	Acquire properties for lease to the Institute.
Holmesglen College of Technical and Further Education	Glencol Investments Pty. Ltd.	100	- (Actual PUC \$2)	(4)	(4)	(4)	PP	Purchase properties for the College.
The Gordon Technical College	Gotech Ltd. (G)	100	-	157	20	6	PP	Provide contract research and consultancy.

PARENT ENTITY	COMPANY/TRUST (G) Denotes Company Limited by Guarantee	EQUITY HELD BY PARENT ENTITY	TOTAL PAID UP CAPITAL \$000	TOTAL ASSETS \$000	NET ASSETS (NET LIABILITIES) \$000	NET PROFIT (LOSS) AFTER TAX \$000	AUDIT OF COMPANY/TRUST (AG - AUDITOR-GEN PP - PRIVATE PRACTITIONER NA - NOT AUDITED)	MAIN FUNCTIONS OF COMPANY/TRUST
EDUCATION (CONTD)								
Deakin University	Deakin Institute for Studies in Education Ltd.(G)	100	-	99	4	2	AG	Contribute to improvement of school systems and other educational agencies.
"	Deakin University Foundation Ltd.(G)	100	-	2	-	-	AG	Trustee for Deakin University Foundation Trust.
"	Durac Ltd. (G)	100	-	287	230	52	AG	Contract research and consultancy.
La Trobe University	La Trobe University Housing Ltd. (G)	100	-	75	62	21	PP	Provide staff and student housing and manage property of the University.
Universities and Colleges of Advanced Education	Caval Ltd.(G)	100	-	621	264	21	PP	Co-ordinate library usage and purchases for member education bodies.
Melbourne College of Advanced Education and Victoria College	Colleges Superannuation Pty. Ltd.	100	-	-	-	-	PP	Trustee for the Colleges' staff superannuation fund.
HEALTH								
Health Department Victoria	Health Computing Services Victoria Ltd. (G)	100	-	7278	5563	697	PP	Computing services for Health Department Victoria and Victorian Public Hospitals.
INDUSTRY, TECHNOLOGY AND RESOURCES								
Department of Industry, Technology and Resources	Overseas Projects Corporation of Victoria Ltd. (G)	100	-	344	(168)	(168)	AG	Promote private and public sector expertise in overseas countries.
Overseas Projects Corporation of Victoria	AgriProjects Victoria Pty. Ltd.	100	-	-	-	-	PP	Tender for and implement agricultural projects.

PARENT ENTITY	COMPANY/TRUST (G) Denotes Company Limited by Guarantee	EQUITY HELD BY PARENT ENTITY	TOTAL PAID UP CAPITAL (PUC) \$000	TOTAL ASSETS \$000	NET ASSETS (NET LIABILITIES) \$000	NET PROFIT (LOSS) AFTER TAX \$000	AUDIT OF COMPANY/TRUST (AG - AUDITOR-GEN PP - PRIVATE PRACTITIONER NA - NOT AUDITED)	MAIN FUNCTIONS OF COMPANY/TRUST
INDUSTRY, TECHNOLOGY AND RESOURCES (CONTD)								
Gas and Fuel Corporation of Victoria	Albury Gas Company Ltd.	100	600.0	10095	9851	434	PP	Distribute gas and sell appliances to customers in Albury.
"	Gas & Fuel Exploration N.I.	100	- (Actual PUC \$2)	479	(26486)	(3358)	PP	Explore for oil and gas and develop commercial discoveries.
Victorian Tourism Commission	SFSSAY Pty. Ltd.	100	- (Actual PUC \$2)	- (Actual (Actual Net Total Assets \$2)	- (Actual Net Liabilities \$39)	3	PP	Tourism operations and lease certain buildings for the Commission.
"	Victour Properties Pty. Ltd.	100	20	423	116	(4)	PP	Tourism development and management of tourism facilities.
"	Wine Victoria Pty. Ltd.	75	10	79	(66)	(77)	PP	Promote wine within Victoria.
Victorian Economic Development Corporation	Victorian Investment Corporation Ltd.	100	17000	29045	17024	24	PP	Facilitate development of high-technology by equity participation.
"	VFDC Leasing Pty. Ltd.	100	50	4059	37	(5)	PP	Provide lease finance to clients.
"	Spring Falls Trust	50	2103	4500	1334	(557)	PP	Development of ski resort.

PARENT ENTITY	COMPANY/TRUST (G) Denotes Company Limited by Guarantee	EQUITY HELD BY PARENT ENTITY	TOTAL PAID UP CAPITAL (PUC) \$000	TOTAL ASSETS \$000	NET ASSETS (NET LIABILITIES) \$000	NET PROFIT (LOSS) AFTER TAX \$000	AUDIT OF COMPANY/TRUST (AG - AUDITOR-GEN PP - PRIVATE PRACTITIONER NA - NOT AUDITED)	MAIN FUNCTIONS OF COMPANY/TRUST
TRANSPORT								
Port of Geelong Authority	Bay City Marina Geelong Pty. Ltd.	50	- (Actual PUC \$6)	- (Actual Total Assets \$6)	- (Actual Net Assets \$6)	-	NA	Construction of marina.
State Transport Authority	V-line Industries Pty. Ltd.	100	1	2299	(1992)	91	PP	Pipeline transporta- tion, road haulage and a retail partnership
Metropolitan Transit Authority	Melbourne Transit Consulting Services Pty. Ltd.	100	- (Actual PUC \$2)	351	- (Actual Net Assets \$2)	-	PP	Consultancy services to Kowloon-Canton Railway Corp. (Hong Kong).
"	MTA Investments Pty. Ltd.	100	- (Actual PUC \$12)	73507	- (Actual Net Assets \$12)	-	PP	Trustee for MTA Superannuation Fund.
TEASURER								
Department of Management and Budget	Bioplantech Ltd.	100	- (Actual PUC \$5)	6	- (Actual Net Assets \$5)	-	AG	Facilitate commercial development of research in biotechnology.
"	Portland Smelter Unit Trust	100	20000	752551	27582	9576	PP	Hold equity in Portland Aluminium Smelter Joint Venture.
Portland Smelter Unit Trust	Aluminium Smelters of Victoria Pty. Ltd.	100	10	52	(4)	(7)	PP	Manage on behalf of the Trustee the Portland Smelter Unit Trust's interest in the Portland Aluminium Smelter Joint Venture.

2.4.12 Comments on the adequacy of existing accountability mechanisms are outlined in the following paragraphs.

1) Power and Scope of Activities

2.4.13 The power for public bodies to establish or hold significant equity in companies, trusts and joint ventures is usually not contained specifically in the legislation establishing these bodies. Rather, the authority is interpreted as being contained in 'incidental' powers provided to these bodies in the legislation. Although in the post-secondary education area 2 differing approaches have been applied. In respect of Universities, specific powers to establish companies have been incorporated into legislation. On the other hand, Colleges of Advanced Education and Technical and Further Education Colleges have relied upon powers to establish companies that are contained in individual College Constitutions, although there is no specific legislative power to do so in the overriding Post-Secondary Education Act 1978.

2.4.14 As indicated in the Economic and Budget Review Committee's 16th Report, 'Accountability Requirements Affecting Subsidiary Companies of Government Organisations with Special Reference to V/Line Industries Pty. Ltd.' November 1986, the powers and scope of activities of companies established under the Companies (Victoria) Code, are interpreted widely. The report demonstrates that the powers and scope of activities of companies can substantially exceed those of the statutory powers of the parent public body thereby effectively extending those authorised powers and activities initially established in legislation by Parliament.

2.4.15 Further, there are:

- generally no formal requirements for Ministerial approval to be obtained prior to the establishment of companies by these public bodies; and
- no policy guidelines setting out the responsibilities and duties of company directors appointed by public sector organisations.

2) Reporting Requirements

2.4.16 The annual reporting requirements in respect of public sector investments in companies, trusts and joint ventures have not been formalised in legislation although the financial reporting of public sector companies is, as for any other registered company, governed by the provisions of the Companies (Victoria) Code. In addition, the Annual Reporting Act 1983 requires the consolidation of the accounts of departments and gazetted public bodies with their subsidiary companies.

2.4.17 There is currently no legislative requirement for the individual reporting to Parliament of the operations of public sector companies, trusts and joint ventures. The Companies (Victoria) Code provisions contain a mechanism for reporting to the shareholders and do not include requirements for public sector companies to also report to the responsible Minister and to Parliament. In this respect although there is no requirement under legislation, the Treasurer does table an Annual Report on the operations of the Portland Smelter Unit Trust. This report includes audited financial statements of the Trust.

- 2.4.18 As a consequence of the non-establishment of detailed reporting requirements in respect of public sector investments in companies, trusts and joint ventures there is inconsistent recognition and disclosure of these investments in parent bodies' financial statements. For example, disclosure practices currently range from full consolidation of subsidiary operations in the parent bodies' financial statements to reference in the statements by way of note; to the attaching of the subsidiaries' financial statements to the parent bodies' statements.
- 2.4.19 Further problems of accounting and disclosure arise in respect of subsidiary companies established by departments where the latter's cash accounting and reporting practices are not capable of consolidation with subsidiaries' accrual reporting required under the Companies (Victoria) Code. In some instances the operations of these subsidiaries are not referred to at all in departments' annual reports, although individual company reports are often separately produced and made available upon request.

Auditing Requirements

- 2.4.20 Investments in companies by public sector entities have to date principally involved the participation in or establishment of exempt proprietary companies or companies limited by guarantee.
- 2.4.21 Under the Companies (Victoria) Code directors of an exempt proprietary company (that is not an unlimited liability company) have the option of appointing an auditor to audit the company's accounts and are not required to lodge financial statements with the Corporate Affairs Office. Companies limited by guarantee are required, in all cases, to appoint an auditor and lodge financial statements.
- 2.4.22 In respect of wholly public owned exempt proprietary companies all but one, the Australian Leaf Corporation Pty. Ltd., established by the Tobacco Leaf Marketing Board, have appointed auditors. There are also a number of exempt proprietary companies, in which there is held significant minority government equity, not subject to audit, either by the Auditor-General or by private practitioners. This is in accordance with the exercise of the option provided under the provisions of the Companies (Victoria) Code. The non-appointment of auditors has occurred despite, in some cases, the investment of substantial government equity funds in these companies and the provision of additional loan advances made to the companies by government bodies.
- 2.4.23 The majority of audited public sector subsidiary companies, trusts and joint ventures are not audited by the Auditor-General but are subject to audit by private practitioners. Where the Auditor-General is the appointed auditor of the parent public sector entity work performed by these auditors is reviewed and assessed as part of the process of the Auditor-General forming an opinion on consolidated financial statements in so far as they incorporate the operations of these companies. However, the Auditor-General has no formal right of access to the financial records maintained by these companies.

Recommendations

- (1) As a general principle, the creation of or public sector participation in companies, trusts and joint ventures should be subject to proper ministerial decision and should be authorised under formal legislation. In respect of the creation of public sector companies such legislation should:**

- (i) specify objects for the company which are consistent with the powers and objectives of the parent body; and
 - (ii) restrict the power of subsidiary companies to alter the objects of the company as set out in the memorandum and articles.
- (2) In order to establish proper accountability requirements for significant public sector investments in companies, trusts and joint ventures it is recommended that:
- a consolidated record of existing public sector investments and type of arrangements be established;
 - clearly defined reporting requirements for these and future investments be established in legislation including the requirement for ultimate reporting to Parliament;
 - the responsibilities and duties of company directors appointed by public sector bodies and the financial reporting requirements relating to the manner in which investments in companies etc. are to be accounted for and disclosed in financial statements be incorporated into appropriate guidelines; and
 - there be a requirement for the mandatory appointment of auditors of companies etc. in which there is the investment of significant government funds.

2.4.24 These recommendations are complementary to those contained in Section 2.3 of this report. They are also consistent with recommendations contained in the Economic and Budget Review Committee's 16th Report previously referred to, and in its April 1983 Report 'Improving Government Management and Accountability: A Report to Parliament on the Audit Act 1983.'

2.4.25 Further comment in respect of the Committee's 16th Report is contained in paragraphs 3.20.65 to 3.20.68 of this Report.

Current Developments

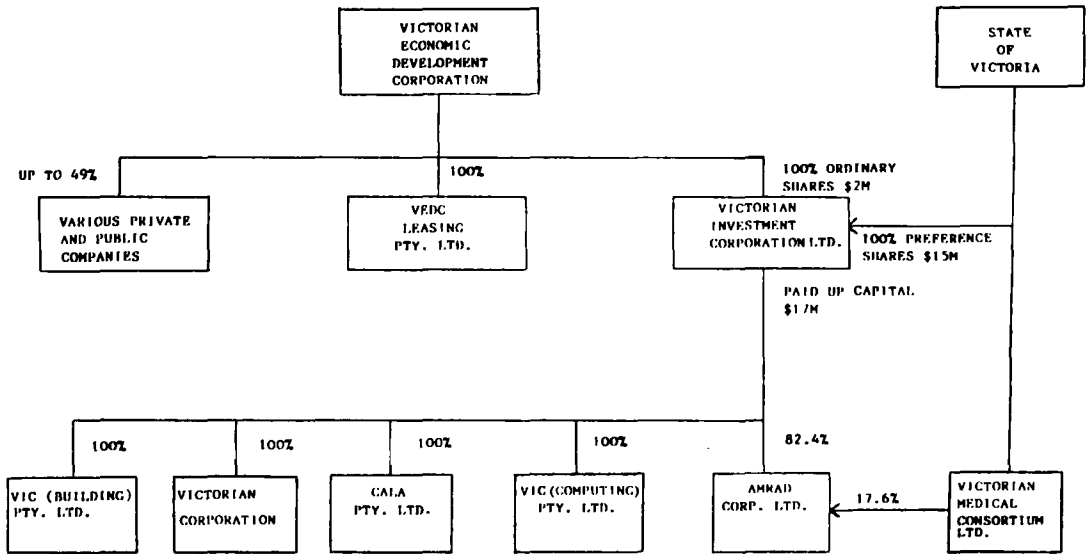
2.4.26 A number of additional public sector companies have been formed since 30 June 1986. The majority of these companies have been formed as ultimate subsidiaries of the Victorian Economic Development Corporation (VEDC).

2.4.27 The current structure of the companies formed by the VEDC, through its wholly owned subsidiary, Victorian Investment Corporation Ltd., has been reproduced on the attached Chart 2.4A as an illustration of the manner in which a public sector body has established a subsidiary company which has in turn formed additional subsidiary companies and in so doing made more removed the process of final accountability to the Minister and to Parliament. Further comment on this issue is contained in paragraphs 3.11.22 to 3.11.24 of this Report.

2.4.28

An audit review of VEDC investments in companies etc. is currently being undertaken.

Chart 2.4A: Investment in Companies by the Victorian Economic Development Corporation



Response by DMB

Guidelines are being developed which will provide an appropriate control and accountability mechanism for non-statutory entities created in the Victorian public sector. It is expected that these guidelines will deal with, inter alia:

- . approval processes for creation or acquisition of the interest in the entity;*
- . scope of powers and duties of the bodies;*
- . reporting of operations and financial position;*
- . liability of officers of these bodies;*
- . relationship with parent or sponsoring public bodies; and*
- . auditing arrangements.*

2.5

UNIFORMITY OF ACCOUNTING POLICIES AND DISCLOSURE PRACTICES

Introduction

- 2.5.1 For informative financial reporting in terms of suitability for decision making and for accountability there is a need to ensure that financial statements are prepared in accordance with appropriate standards and that as far as possible uniform accounting policies and disclosure practices are applied. Inconsistencies in these policies and practices can impair the utility of information to readers particularly through the difficulty it provides in terms of being able to assess and analyse information and make comparisons of performance between similar entities.
- 2.5.2 In respect of public bodies reporting under the Annual Reporting Act 1983, the Annual Reporting (Business Undertakings) Regulations 1984 have played a positive role in improving and standardising public bodies' reporting practices, particularly in those areas, often peculiar to government financial reporting, where existing accounting standards do not provide specific guidance. However, there are a number of accounting policy issues, additional to those already addressed in the Regulations, that need to be prescribed in order to ensure the provision of comparable information on key financial elements in public bodies' financial statements.
- 2.5.3 The financial reporting of public bodies not covered by the Annual Reporting Act 1983 is not subject, apart from the application of Australian accounting standards, to detailed financial reporting requirements. As a result, financial reporting by these bodies is sometimes characterised by the use of inconsistent accounting policies and disclosure practices.
- 2.5.4 Some instances of the use of inconsistent accounting policies and disclosure practices are outlined in the following paragraphs. In a number of cases matters instanced represent a follow-up of items reported previously in the Auditor-General's Second Report for 1982-83. A number of these inconsistencies have resulted in the issue of qualified audit reports on the financial statements of public bodies. These are referred to in paragraphs 2.5.25 to 2.5.35 of this Report.

Audit Comment

Employee Entitlements - Long Service Leave

- 2.5.5 Long Service Leave (LSL) becomes due and payable generally after 10 years service by the employee. To account for its estimated liability in financial statements, public bodies currently employ a range of accounting practices. Table 2.5A provides a summary of information on LSL liability extracted from the major business undertakings' financial statements and supporting records. It indicates that one entity only recognises an accounting liability for LSL in financial statements after 10 years service by employees, whilst the other entities progressively provide for the estimated liability either after the first year of completed service or for various periods in between. LSL accounting practices of other public bodies are similarly diverse and in post-secondary education institutions there is no accounting provision established to account for the costs of long service leave (although supplementary information is disclosed by way of note to the financial statements).

Table 2.5A: Analysis of Major Public Bodies' Long Service Leave Provisions as at 30 June 1986

<u>Authority</u>	<u>Year LSL provided in Financial Statements</u>	<u>LSL Provision in Financial Statements</u> \$000	<u>Total Number of Permanent Employees</u>
Gas and Fuel Corporation of Victoria	1	24 129	5 755
Grain Elevators Board*	5	1 259	611
Melbourne and Metropolitan Board of Works	10	28 942	7 714
Metropolitan Transit Authority	1	18 835	5 177
Port of Melbourne Authority	4	6 432	1 361
State Electricity Commission of Victoria	1	118 290	22 045
State Transport Authority	3	120 262	20 671

* Financial year ended 30 September 1986

2.5.6 The significance and magnitude of LSL liabilities reported in entities' financial statements (as illustrated by entities' average LSL provision per employee) can therefore be influenced as much by choice of accounting policy as by the length of service of employees and average salary rates.

Self-Insurance

2.5.7 Substantial self insurance provisions have been established by the State Electricity Commission (\$65.3 million as at 30 June 1986) and the Melbourne and Metropolitan Board of Works (\$32.9 million as at 30 June 1986) so as to provide a form of internal insurance cover for certain risks not placed with external insurers. Other public bodies whilst also not insuring externally for certain risks do not raise any provision in their financial statements. The differences in accounting treatment not only influence the comparability of public bodies' reported results but also have implications for the adequacy and appropriateness of public bodies' self insurance policies generally.

Government Grants and Contributions

2.5.8 There is a need to ensure that the extent of government grants and contributions provided to public bodies (currently totalling in excess of \$1000 million in respect of bodies audited by the Auditor-General), is clearly identified in their financial statements e.g. for the purpose of assessing the extent of cost recovery from these bodies' own revenues. Public bodies currently employ a range of disclosure methods in financial statements to account for these moneys, ranging from the recognition in statements of these receipts as revenue to the crediting of amounts direct to reserves. Further, in a number of instances it has not been possible to determine the nature of the government contribution (refer paragraph 3.20.3) and in, some cases, the proportion of funds provided for recurrent operations or capital purchases.

Goods and Services Received Free of Charge

2.5.9 In a number of public bodies there are extensive goods and services provided free of charge to the bodies by departments having overall policy responsibility. The extent of this subsidisation ranges from staffing assistance to the provision of work premises and motor vehicles and is no different in principle to the provision of cash grants and subsidies. The accounting treatment in most public bodies' financial statements of this subsidisation of its activities varies from the lack of any recognition at all in the statements to disclosure by way of note. The lack of adequate recognition in financial statements of the extent of subsidisation of activities distorts the reported costs of operations.

2.5.11 For example, Table 2.5B indicates that for the year ended 30 June 1986 salaries and associated costs and operating expenses, amounting to \$20.4 million, were paid on behalf of a number of public bodies by the Ministry for the Arts.

Table 2.5B: Ministry for the Arts, Goods and Services Provided Free of Charge - Year Ended 30 June 1986

<u>Authority</u>	<u>Cost of Operations met by Ministry</u> \$000
Council of the Museum of Victoria	5527
Council of the Trustees of the National Gallery	4939
Library Council of Victoria	8670
State Film Centre of Victoria Council	<u>1272</u>
	<u>20408</u>

2.5.12 These costs have been disclosed in total in the Ministry's financial statements but are not incorporated in these bodies' financial statements other than by way of a note to the statements. As a result any assessment of the cost of operation of these bodies, using information contained in the body of the financial statements, becomes meaningless.

Assets Acquired at No Cost

2.5.13 In a number of public sector entities there are substantial assets employed in which the entity has acquired ownership at no cost or where beneficial use without legal ownership is vested in the entity. The accounting treatment of these assets varies from recognition in financial statements of an estimate of their costs, to the non-disclosure of any asset cost. In order to provide information on resources made available to entities for the conduct of their operations it is necessary that the costs of assets provided be recognised in entities' financial statements. Further comment on this issue is contained in paragraph 2.5.31 of this report.

Community Assets

- 2.5.14 Community assets include assets whose value to the State may be gauged by other measures not purely financial in nature e.g. Art galleries, parks and gardens etc. Expenditure on the purchase and/or construction of fixed assets in which there is a substantial community benefit or ownership has been the subject of varied accounting treatment in a number of entities. For example, the Road Construction Authority, because it regards its roads and bridges as non-revenue earning, does not regard as assets the cost of roads and bridges it constructs. It expenses these construction costs in the year they are incurred. The Road Traffic Authority applies a similar treatment in respect of its traffic signalling system.
- 2.5.15 A related issue concerns the appropriateness of depreciation charges on cultural buildings. The Victorian Arts Centre Trust and the Geelong Performing Arts Centre, for example, have determined that depreciation on their Arts centres is not an appropriate cost for inclusion in their financial statements (refer further comment in paragraph 2.5.30 of this report).

Valuation of Outstanding Claims Liabilities and Supporting Investments

- 2.5.16 The State Insurance Office and the Accident Compensation Commission, in calculating the value of certain outstanding claims liabilities, have recognised the time value of money and discounted these claims to 30 June 1986 present values. The State Insurance Office in arriving at the present value of its outstanding claims, used a discount factor equivalent to its investment rate of return for the last 12 months. However, in accordance with a policy recommendation from the Director-General of the Department of Management and Budget, the Accident Compensation Commission used a discount factor equivalent to the long term Commonwealth bond rate. Whilst the use of discounting has precedence in the general insurance industry (and in actuarial valuations of superannuation funds) and has been accepted by me in these 2 bodies 1985-86 financial statements, it is my opinion that there should be a uniform discount factor applied. If both bodies were to use the long term bond rate, which is a verifiable risk free return, as the appropriate discount factor, then greater certainty and consistency in reporting will be achieved. Further comment on these issues are contained in paragraphs 3.21.23 to 3.21.25 of this Report.
- 2.5.17 A related issue concerns the determination of an appropriate basis for the recording in financial statements of investments maintained to fund these future claims. The State Insurance Office records these investments at the lower of historical cost and market value whilst the Accident Compensation Commission reports its investments at market value. The use of a present value method for the valuation of outstanding claims entails a recognition of the current value of these claims. It is my view that consistency of reporting requires that the investments maintained to provide funds to meet existing claims in a future period should also be reported in financial statements at current (market) value. Pending the issue of an Australian Accounting Standard it is desirable that the basis of valuation of these investments be uniform between authorities. This may be achieved through the release of guidelines by the Department of Management and Budget. Further comment on this issue is contained in paragraph 3.21.26 to 3.21.27 of this Report.

Presentation and Disclosure in Financial Statements

- 2.5.18 The manner of presentation of financial statements of public bodies gazetted under the Annual Reporting Act 1983 is subject to uniform and, in some cases, quite detailed requirements. This is to assist in the provision of comparable information in these bodies' statements.
- 2.5.19 For other bodies the presentation and disclosure practices may vary, particularly in respect of classification of financial elements in financial statements and the information provided in supporting notes to the statements describing accounting policies.

Recommendation

To provide more consistency and uniformity in public sector financial reporting it is recommended that the Department of Management and Budget issue accounting and financial reporting guidelines for application by public bodies. These should be issued with the objective of providing a statement of best practice for those areas of accounting where no specific Australian accounting standards are in place or where specific standardised approaches are desirable.

- 2.5.20 The standardisation of the form of reporting requirements can be achieved by the use of detailed Regulations, however, it is my opinion that this is an inflexible, time consuming and costly exercise. In this respect an alternate mechanism, currently used successfully in the Commonwealth, may be the release of reporting guidelines providing comprehensive guidance on best practice for financial reporting by entities. These can be used to supplement Regulations and assist in improving the efficiency of the existing processes for the determination and approval of appropriate accounting policies.
- 2.5.21 These issues generally involve complex accounting and valuation matters that are not currently addressed in Australian accounting standards issued by the profession and have application for reporting across the Victorian public sector. Further, they need to be considered as part of an overall reporting framework. The Australian accounting profession, through the Public Sector Accounting Standards Board, is currently considering some of these issues and it is anticipated that in the medium term the profession's standards may be used to replace and/or supplement guidelines issued, e.g. by way of reference as is now provided for in the Act.

Current Developments

- 2.5.22 In the Auditor-General's Second Report for 1984-85 mention was made of the establishment of a working party to review the proposed application of the Annual Reporting Act 1983 to Post-Secondary Education Institutions (PSEI). The working party, comprising representatives from the Victorian Post-Secondary Education Commission and a range of PSEIs has recently submitted a final report to the Minister for Education. It is expected that the report will assist the development of detailed reporting requirements for application to PSEIs. Further comment is contained in paragraph 3.7.12 to 3.7.14 of this Report.
- 2.5.23 The Water and Sewerage Authorities (Annual Reporting) Regulations 1986, providing detailed reporting requirements for local water and sewerage authorities, have been issued under the Water and Sewerage Authorities (Restructuring) Act 1983.

2.5.24

Following the passage of the Annual Reporting (Amendment) Act 1986 12 superannuation fund entities have been brought under the Act with effect from the 1986-87 financial year. Detailed reporting provisions for the financial reporting of these funds are now to be implemented.

Response by DMB

The Annual Reporting Act 1983 has had a very significant and positive effect upon consistency of accounting policies and disclosure in the accounts of public bodies and departments. However, it is acknowledged that the diversity of practices which has developed in Victoria over the past century requires considerable further refinement to achieve an acceptable degree of uniformity.

Significant resources are being devoted to the development of further specific requirements to achieve the objectives the Government has set within its financial management strategy. However, it is important that fundamental issues such as the framework and basis of financial reporting to Parliament are properly defined as a matter of urgency. (e.g. with respect to accrual accounting). Policies on a large number of particular issues, including those listed above are being considered but attempts are being made to avoid ad hoc solutions and to set accounting policy from a sound and comprehensive basis.

It is anticipated that the Comptroller-General will continue to issue Accounting Policy Statements in order to communicate new and revised approaches to departments and public bodies.

APPENDIX 2.5A: QUALIFIED AUDIT REPORTS ON FINANCIAL STATEMENTS

Introduction

- 2.5.25 An important component of the Auditor-General's mandate is the auditing of public sector entities' annual financial statements and the issuing of an audit report (commonly also referred to as an audit opinion) on the fairness of those statements, i.e. as to whether these statements accurately reflect, in the Auditor-General's opinion, the results of the entity's financial operations for the year and its financial position at year end.
- 2.5.26 The attaching of a qualified audit report to an entity's financial statements indicates that there is a significant audit reservation as to the accuracy, completeness or manner of presentation of financial information contained in the statements and that readers of the statements may be misled as to the validity of information provided. A qualified audit report does not, however, necessarily always reflect on the quality of an organisation's financial management.

Audit Comment

- 2.5.27 A number of audit reports issued by the Auditor-General on entities' annual financial statements during the period 3 February 1986 to 31 January 1987 were qualified, i.e. subject to some reservation on information presented in the statements. These reservations involved instances where:
- the Auditor-General disagreed with the application of certain accounting policies used in the preparation of financial statements; or
 - there was material uncertainty as to the completeness and accuracy of information contained in the statements.
- 2.5.28 An overview of the types of qualifications and the reasons for them are elaborated upon in the following paragraphs. Detailed references as to the reasons for qualifications of the financial statements of certain individual entities are contained in the Ministerial portfolio analyses in Part 3 of this Report.

Disagreement on Accounting Policies

- 2.5.29 The financial statements of the **Cancer Institute Board** were qualified partly in respect of the non-depreciation of buildings as this was a departure from Australian Accounting Standards. I am concerned that this is a reporting practice common to all public hospitals and the issue is being taken up by my Office with the Health Department.
- 2.5.30 A number of other entities' financial statements, including those of the **Victorian Arts Centre Trust**, the **Geelong Performing Arts Centre Trust** and the **Exhibition Trusts** were also qualified on the grounds of non-depreciation of their buildings. In the case of the **Victorian Arts Centre Trust** depreciation was not provided for the Victorian Arts Centre Complex, which was included in the Trust's balance sheet at a cost of \$257 million as at 30 June 1986. The Trusts regard such buildings as community assets and not of the type that should be depreciated in accordance with the Australian accounting standard dealing with

depreciation (AAS 4). Further, they cite the non-funding of depreciation in budget allocations as a reason for its non-applicability. It is my view that depreciation of the centres is a significant cost element of these public bodies' activities that is integral to the provision of accurate and meaningful financial information on their cost of operations, and therefore that depreciation should be allocated in their statements.

- 2.5.31 A related issue concerns the non-recording in entities' financial statements of assets from which they derive benefit at no cost to the entity, e.g. vested crown land, assets acquired at no cost etc. In order to obtain some consistency in reporting, the Auditor-General's Office has encouraged entities in this situation to bring the value of these assets into their financial statements. This method of accounting is consistent with the requirements of the Annual Reporting Act 1983 for gazetted business undertakings. In this respect the financial statements of the **Alpine Resorts Commission** were qualified because of the non-recognition of substantial land holdings in its financial statements.

Uncertainty as to the Accuracy of Information

- 2.5.32 The last few years have seen the use by a number of public bodies of external investment managers. Significant amounts of funds have been placed with these specialist managers who then assume wide discretionary authority to invest these funds in shares and other financial securities. These investments are held on behalf of the entity by the manager but often are not legally recorded as such. It is not practicable for audit staff to seek access to the records of these investment managers in order to verify financial transactions and holdings relating to the manager's client public sector entities. Therefore, requests were made to the external auditors of the various investment managers for confirmation of investments held on behalf of these entities and the associated investment income. In the case of the following 6 public bodies this confirmation could not be provided:

- **Accident Compensation Commission;**
- **Hospitals Superannuation Board;**
- **Monash University.**
- **State Electricity Commission Employees Retirement and Benefit Fund;**
- **State Electricity Commission Superannuation Fund;**
- **Victorian Dried Fruits Board Superannuation Fund;**

- 2.5.33 Due to the lack of sufficient supporting evidence on investments and investment income, it was therefore necessary to qualify the financial statements of these bodies. My Office has advised the Australian Accounting Research Foundation of these difficulties. Discussions have also been held with the bodies and managers involved and there is some hope for resolution of the problem in 1986-87 accounts.

- 2.5.34 Four departments received qualified audit reports on their financial statements. The **Department of Management and Budget** and the **Law Department** were unable to provide sufficiently accurate information as to the value of outstanding debts; the **Department of Conservation, Forests and Lands** was unable to substantiate \$25 million of book entries transferring expenditure amounts between appropriations; and the **Ministry of Transport's** accounts were qualified because of the failure of the Road Traffic Authority to pay certain receipts, totalling \$26.7 million over the last 3 financial years, into the Public Account. Due to the retention of these moneys the accounts of the **Road Traffic Authority** were similarly qualified.

2.5.35

The financial statements of the **Metropolitan Transit Authority**, the **State Transport Authority** and the **Road Traffic Authority** were qualified due to the uncertainty of the nature of the transactions between these authorities and the Public Account. Further comment on this issue is contained in the Ministry of Transport portfolio analysis in Part 3 of this Report.

2.6 LIMITATIONS OF DEPARTMENTAL CASH ACCOUNTING AND REPORTING – CASE FOR THE ADOPTION OF ACCRUAL ACCOUNTING

Introduction

- 2.6.1 The basis of accounting used in the Victorian budget sector, like that used in other States and the Commonwealth is cash oriented, i.e. accounting and reporting systems have been established to provide information on what cash receipts have been paid to the State and how cash appropriations have been spent.
- 2.6.2 The annual financial statements of departments therefore largely mirror the format of the State's Appropriation Act and provide a measure of accountability in terms of actual spending not exceeding those appropriations.
- 2.6.3 This system of accounting and reporting differs from that used by public bodies and the corporate sector where an accrual method of accounting is employed. Accrual accounting and reporting focuses on resource flows according to the period in which they were generated or consumed. It provides information not only on cash receipts and payments but also on revenues earned in a period for which cash has not been received and records expenditure on goods and services provided for which a cash payment has not been made. Accrual accounting also involves the reporting of assets and outstanding liabilities and brings in cost allocation concepts such as depreciation of assets.

Audit Comment

Adequacy of Cash Accounting Principles

- 2.6.4 At hearings of the Legislative Council Estimates Committee in October 1986 I expressed the view that the non-adoption of accrual accounting by the budget sector results in the reporting of incomplete information to Parliament on its operations. For, whilst the financial statements of Victorian public bodies record information on the full costs and revenues for the reporting period and the details of all assets and outstanding liabilities, the Treasurer's accounts and the accounts of departments record only cash transactions supplemented by some limited information on asset and liability balances.
- 2.6.5 The Annual Reporting (Administrative Units) Regulations 1985 have partly addressed these shortcomings, in an external financial reporting context, through provision for the inclusion in departments' financial statements of some information on year end balances, i.e. debtors, creditors, inventories, cash and bank balances. The Treasurer's financial statement also provides some information on public sector debt, government guarantees etc. However, there is no disclosure of the value and extent of asset holdings such as land, buildings, furniture, equipment, motor vehicles etc, nor are there disclosed all significant outstanding liabilities e.g. employee entitlements such as superannuation, long service leave and recreation leave. These unknown assets and liability values far and away exceed, in terms of total dollars, the asset and liability values currently required under the Regulations to be reported on by departments.

2.6.6 In short, Parliament is being provided with significantly less information on the costs of programs of the budget sector than it is on the operations of public bodies. The provision of information on cash transactions for the year is useful for establishing compliance with limits to appropriations and for balancing bank accounts however, it is hardly sufficient for establishing costs of operations and the overall financial well being of the Victorian public sector. This limitation not only applies to Parliament but also extends to lack of information on the full range of policy options to Ministers and to management in subsequently implementing decisions and in reviewing the efficiency of operations.

Accounting Systems

2.6.7 It will not be possible to adequately provide this additional information until appropriate accrual accounting systems are in place in departments. For example, I reported in my First Report for 1985-86 on the inadequacy of existing asset registers maintained by departments and that departments are not therefore in a position to identify the value and extent of fixed assets which they employ. (Additional comments in respect of this deficiency have been made in Section 2.9 of this report). There are, of course, significant implications leading from the introduction of accrual accounting principles to the budget sector, not the least being the cost of introducing new systems and the need for appropriate training of staff. Its relationship and interaction with the budgetary process also needs to be critically considered.

Utility to Management

2.6.8 It is important to realise that the adoption of accrual accounting principles is a logical extension of the application of program budgeting and can assist in the establishing of appropriate performance measurement criteria. Further, it can serve as a tool for providing budget sector management with the information it needs for effective management decision making.

2.6.9 This can be illustrated by reference to the mechanisms departments currently use to determine the costs of providing services and which often then become the basis for the establishing of appropriate cost recovery charges. In this respect fees and charges of \$273 million were collected by departments in 1985-86.

2.6.10 An audit review of a selection of departments' costing systems and procedures used to determine costs indicated that:

- departments were not generally aware of the true cost of providing services due to the lack of adequate recording systems and documented costing policies identifying cost elements;
- charges for intra-government services often are not based on full cost recovery due to lack of identification of all relevant costs;
- there is no consistency between departments in calculating costs.

2.6.11 The adoption of accrual accounting can provide management with timely and reliable information in order to make proper pricing decisions. It can avoid mistakes caused by drawing source information for these decisions from haphazardly maintained records that are not integrated with the main accounting system and therefore not subject to the discipline, including audit, that this provides.

Recommendation

Further research needs to be undertaken on the feasibility of the introduction of accrual accounting in departments. This should incorporate consideration of its implementations including costs and benefits and possible method and timing of implementation.

Current Developments

- 2.6.12 I mentioned in my First Report for 1985-86 that issues including the appropriateness of accrual accounting for government are being considered as part of a current review, under the direction of the Comptroller-General, of the State's financial legislation. I note also that the Estimates Committee has recommended that the Treasurer consider the desirability, cost and practicality of the progressive adoption of accrual accounting to the State's finances.
- 2.6.13 I support the establishment of these reviews and believe there is value to be gained from the conduct of further research as to the desirability of the introduction of accrual accounting into Victorian inner budget financial accounting and reporting. These reviews will need to include an assessment of the costs and benefits of the introduction of accrual accounting and how it could be implemented using a medium to long term outlook. In this respect any introduction of accrual accounting in the budget sector would place Victoria at the forefront in terms of comparative Australian and overseas practice where cash accounting still predominates.

Response by DMB

The move towards greater use of accrual accounting is supported in principle by the Department of Management and Budget. Extensive consultation will however be necessary with departments before recommendations are made to the Treasurer as to the future basis of external financial reporting of the State's departmental activities.

B. SPECIAL REVIEWS UNDERTAKEN IN 1985-86

2.7

RATE OF RETURN REPORTING

2.7.1 For the 1985-86 financial year unaudited supplementary Rate of Return Reporting (RRR) financial statements, which incorporate the translation of traditionally derived historical cost information into current year values, have been included in the annual reports of 5 of the business undertakings gazetted under the Annual Reporting Act 1983. These organisations are as follows:

Gas and Fuel Corporation of Victoria
Grain Elevators Board
Melbourne and Metropolitan Board of Works
Port of Melbourne Authority
State Electricity Commission of Victoria

2.7.2 In addition, the Rural Water Commission has indicated that it will prepare supplementary RRR financial statements for the 1985-86 financial year. However, at the date of preparation of this report both the historical cost and RRR financial statements have yet to be completed by the Commission.

2.7.3 In introducing RRR the Treasurer has released an information paper 'Public Authority Policy and Rate of Return Reporting', which provides the economic background to RRR and the Department of Management and Budget has released an Accounting Policy Statement (APS 1) providing accounting guidelines for these public bodies. It is currently proposed by the Treasurer that future years' RRR financial statements may be subject to audit by the Auditor-General.

2.7.4 The preparation of RRR statements by these bodies represents a significant step forward in the making available of relevant information to Parliament and the public which is useful for decision making as well as accountability. For example, authorities pricing and major capital investment decisions are linked to targetted rates of return on assets and equity. Together with the calculation of public authority dividend payments under the Public Authorities (Dividends) Act, such decisions are based predominantly on current cost information rather than historical costs.

2.7.5 To assist in the effective implementation of RRR in authorities and to enable audit staff to gain an appreciation of RRR issues and their audit implications, my Office conducted a pilot audit review on 1984-85 current cost information provided by the Port of Melbourne Authority. In addition, although there was no requirement for the audit of the 1985-86 RRR financial statements, special audit reviews of the public bodies' RRR systems and processes were undertaken. The results of these reviews are currently being reported and discussed with the bodies and the Department of Management and Budget.

2.7.6 Whilst there are a number of implementation problems to be overcome, including the establishing of accurate current asset values of the bodies' substantial fixed asset holdings, it is expected that RRR can be used to provide valuable information on their economic performance and complement the reporting of historical cost information.

2.8 EMPLOYEE 'BONA FIDES' AND EMPLOYEE LEAVE ENTITLEMENTS

Introduction

- 2.8.1 The Auditor-General's Second Report for 1984-85 made reference to the findings of a preliminary review of employee leave entitlements with particular emphasis on the extent to which the administration of leave complied with the relevant regulations, determinations and instructions regulating the leave entitlements of public sector employees.
- 2.8.2 It was indicated that further audit attention was to be devoted to this area in 1985-86. The following paragraphs refer to the findings of the additional reviews undertaken.
- 2.8.3 In addition, a special review was undertaken to confirm the 'bona fides' (the existence) of payroll employees from a selection of organisations.

Audit Comment

Employee 'Bona Fides'

- 2.8.4 At a selected number of organisations audit representatives attended at payroll distribution points in order to confirm the 'bona fides' of wage and salary recipients. Apart from minor control deficiencies which are to be, or have already been, brought to the attention of these organisations' management, the results proved satisfactory. Further reviews are to be undertaken as part of 1986-87 audits.

Employee Leave Entitlements

- 2.8.5 In a number of organisations instances of non-compliance with relevant leave requirements were brought to the attention of management for appropriate action. These concerned failures to adequately record leave taken or obtain proper leave authorisations for the accumulation of annual leave entitlements.
- 2.8.6 Specific matters relating to employee leave entitlements have been referred to in Part 3 of this Report in the Ministerial portfolio analysis covering the following entities:
- Law Department (paragraph 3.3.11)
 - Metropolitan Transit Authority (paragraph 3.20.33)
 - State Transport Authority (paragraph 3.20.61).

Unused Annual Leave Entitlements

- 2.8.7 The major finding arising from the employee leave entitlement review was the accumulation of large unused annual leave entitlements in organisations.
- 2.8.8 By way of overall analysis using a 5 week unused leave entitlement per employee as a benchmark (the usual annual entitlement due to employees after the completion of each 12 months service is 4 weeks, or in respect of shift workers 5 weeks) Table 2.8A indicates that, in respect of the 7 major business undertakings gazetted under the Annual Reporting Act, the State Electricity Commission and the State Transport Authority had accumulated average annual leave entitlements per employee in excess of the 5 weeks benchmark. Further

audit comment on leave accumulations at the State Transport Authority is contained in paragraphs 3.20.61 to 3.20.64 of this report. The extent of accumulations at the State Electricity Commission was commented upon in the Auditor-General's Second Report for 1984-85 report. In these 2 bodies there were numerous instances of individual employees having unused annual leave entitlements of 8 weeks or more. The State Electricity Commission has indicated that an action plan to bring unused annual leave for all employees down to a maximum of 30 days has been implemented. Comment by the State Transport Authority follows paragraph 3.20.64 of this Report.

Table 2.8A: Analysis of Authorities' Annual Leave Liability per Employee as at 30 June 1986

<u>Authority</u>	<u>Annual Leave Liability</u> \$000	<u>Number of Eligible Employees</u>	<u>Average Liability per Employee</u> \$	<u>Average Liability per Employee Weeks</u>
Gas and Fuel Corporation of Victoria	11 371	5 755	1 976	4.76
Grain Elevators Board*	1 122	611	1 836	3.97
Melbourne and Metropolitan Board of Works	14 032	7 714	1 819	3.69
Metropolitan Transit Authority	9 055	5 177	1 749	4.28
Port of Melbourne Authority	3 078	1 361	2 262	4.69
State Electricity Commission of Victoria	79 731	22 045	3 617	7.01
State Transport Authority	79 096	20 671	3 826	7.57

* Financial year ended 30 September 1986

2.8.9

In addition to the minimisation of overall salary costs it is desirable both for the maintenance of employee work output and for an organisation's own internal control that employees, as far as possible, take annual leave as it falls due and that annual leave entitlements carried forward by employees are monitored and subject to the necessary approval processes. In this respect it is worthwhile pointing out that a number of the frauds and irregularities that have been itemised in past Auditor-General's reports have only been detected through the rotation of duties whilst a certain employee/s was away on leave.

2.9

ASSET RECORDING

Introduction

2.9.1 The Auditor-General's First Report for 1985-86 contained the results of an audit review of the adequacy of asset registers maintained in departments and the extent to which procedures for the disposal of property complied with legislation and relevant directives. In respect of asset recording in departments it indicated that although corrective measures were being implemented, departments were not in a position to identify the value or the extent of assets they controlled. It was concluded that the lack of reliable information on assets holdings raised wider questions as to the effectiveness of departments asset management practices.

Audit Comment

2.9.2 Additional comments in respect of the adequacy of asset registers maintained at the following departments are included in this report:

- Law Department (paragraph 3.3.7)
- Ministry of Education (paragraph 3.7.5)

2.9.3 Similar reviews were conducted in 1985-86 at a range of public bodies. In the larger bodies apart from a number of minor matters, which have been brought to the attention of management for appropriate action, I am pleased to report that the review indicated that asset recording systems and procedures were found to be operating satisfactorily. However, a number of smaller public bodies were found to have inadequate asset registers established. These deficiencies were brought to the attention of these organisations' management.

2.9.4 In comparing the adequacy of asset recording and control systems and procedures between the larger public bodies and departments, there is a wide difference in current performance. A major contributing factor to this situation is the concentration on cash accounting and reporting by departments. Public bodies, on the other hand, have in place accrual accounting systems that require, as a matter of course, a discipline for the recognition and recording of assets and their cost of utilisation (depreciation) and the external reporting of this information in audited financial statements. Further comment on this issue is contained in Section 2.6 of this report.

2.9.5 In this respect it is also relevant to note that the major transport authorities, such as the State Transport Authority, and the Road Construction Authority, experienced initial major problems in establishing a complete record of assets when moving from cash to full accrual accounting in 1983-84. Similar problems confronted the Rural Water Commission when it converted to accrual accounting in 1983-84. The need to provide accurate information as to the value and extent of asset holdings, as an integral component of establishing an accrual accounting system, has now resulted in these authorities putting in place appropriate asset recording systems. Whilst some problems still remain these bodies are to be commended for their efforts. Their experience in coping with the transition to accrual accounting provides valuable precedents for assessing the benefits and costs of the adoption of accrual accounting methods.

Response by DMB

The Department of Management and Budget is currently in the process of considering the Government's Asset Management development strategy. The Department of Property and Services, the Land Sales Task Force and the Department of Management and Budget are devoting significant resources to the identification and sale of under-utilised and surplus properties.

The successful implementation of the Government's policy in the longer-term depends upon comprehensive and reliable records of non-current assets held by departments. Consequently the Department of Property and Services commissioned consultants to examine this matter in 1986 and the recommendations made are presently being considered by the Department of Property and Services and the Department of Management and Budget with a view to developing detailed policy guidelines for consideration by the Treasurer.

PART 3

AUDIT OF MINISTERIAL PORTFOLIOS

3.1

AGRICULTURE AND RURAL AFFAIRS

3.1.1 The Minister for Agriculture and Rural Affairs is responsible for the following entities which are subject to audit by the Auditor-General:

Department

- Department of Agriculture and Rural Affairs

Public Bodies

- Citrus Fruit Marketing Board
- Daratech Pty. Ltd.
- Melbourne Wholesale Fruit and Vegetable Market Trust
- Poultry Farmer Licensing Committee
- Poultry Farmer Licensing Review Committee
- Rural Finance Commission
- Tobacco Leaf Marketing Board
- Tobacco Quota Appeals Tribunal
- Victorian Dairy Industry Authority
- Victorian Dried Fruits Board
- Victorian Dried Fruits Board Superannuation Fund
- Victorian Egg Marketing Board
- Victorian Fishing Industry Council

Audit Comment

3.1.2 Matters of significance arising from the audit of certain of the above entities are discussed below.

DEPARTMENT OF AGRICULTURE AND RURAL AFFAIRS

Cash Management

3.1.3 The following instances affected the Department's ability to maximise the return to the State on cash resources:

- (1) incomplete recoup of plant quarantine inspection costs from the Commonwealth amounting to \$185 000 over the past 6 years;
- (2) payment of certain grants and subsidies to third parties on a quarterly basis rather than on a needs basis;
- (3) interest was not earned on the 32 regional sub-advance accounts which received sub-advances totalling \$227 000; and
- (4) excessive delays of over 2 months in the raising of debit notes for health laboratory services provided to municipal councils.

Response by Department

A retrospective claim has been made on the Commonwealth Department of Primary Industry to recoup the costs. Future claims from the Commonwealth will be made in accordance with the established guidelines.

In accordance with Government policy on the payment of accounts the Department will ensure that payments of grants and subsidies to third parties are not made prior to the actual need for those funds.

The Department is constantly monitoring, reviewing and improving the operations in and control of all Departmental advance accounts. Negotiations are under way with certain banks to have interest credited to balances on Regional Advance Accounts.

The State Chemistry Laboratory is often under extreme pressure to ensure that their certificates which are legal documents are sent within the set legal time limit to enable prosecution cases to proceed. The submission of results must always take precedence over sending debit notes.

The Department will ensure that charges for goods and services are raised on a timely basis so that any delay that may occur in the recovery of outstanding amounts or problems associated with the collection of such debts is overcome.

Stores and Stocktaking

3.1.4 Audit noted a number of deficiencies relating to the control and accounting for stores, details of which are summarised below:

- (1) Due to inadequate stores and accounting records at various departmental units, the Department was unable to determine the actual cost price of certain stores held at 30 June 1986. In these instances the Department elected to disclose, for financial reporting purposes, the estimated cost of such stores, which amounted to \$276 988. This amount represented 18% of general stores on hand at 30 June 1986.
- (2) A number of departmental units had not performed stocktakes during the financial year.

3.1.5 To ensure that stores are adequately protected and properly accounted for, audit recommended that attention be given to improving the recording and administration of stores.

Response by Department

Overall, the Department has attempted to meet the Treasury regulations with respect to the valuation of stores on hand. However, in a number of cases this has not been possible due to staff shortages and staff movements which have created problems in relation to the maintenance of stores records. Action has been taken to rectify this situation. However, this is dependent on the availability of resources necessary to carry out these functions.

Some deficiencies in the stocktake at departmental units are acknowledged. It is anticipated that these deficiencies will be attended to as resources become available.

Reporting and Auditing Requirements - Statutory Boards

- 3.1.6 An audit review was undertaken of the legislative auditing and reporting requirements of the following public bodies which are responsible to the Minister for Agriculture and Rural Affairs but are not subject to audit by the Auditor-General:
- Australian Barley Board
 - Veterinary Board of Victoria
 - Western Metropolitan Market Trust
- 3.1.7 The review indicated that there were inadequate and inconsistent statutory provisions in respect of financial reporting and auditing requirements. In particular, the review disclosed a lack of uniform legislation concerning:
- (1) the form of financial statements and books of account;
 - (2) the audit requirements and responsibility for the conduct of such audits; and
 - (3) the requirement to furnish audited statements of accounts and annual reports to the Minister and Parliament.
- 3.1.8 To improve the accountability of these public bodies to Parliament, it is recommended that legislative amendments be sought to achieve a more consistent and effective reporting mechanism.

RURAL FINANCE COMMISSION

Rural Finance Insurance Fund

- 3.1.9 The Rural Finance and Settlement Commission Act 1961 requires that the Commission maintain the Rural Finance Insurance Fund. The purpose of the Insurance Fund is to insure borrowers' structural improvements and to self insure the Commission's assets. Borrowers are required to insure structural improvements with the Commission or with any insurance company approved by the Commission. At 30 June 1986 the value of insurance coverage underwritten by the Commission amounted to \$153.1 million in relation to borrowers' structural improvements and \$1.8 million in relation to the Commission's assets.
- 3.1.10 Table 3.1A provides information on the financial operations of the Insurance Fund for the 5 year period 1981-82 to 1985-86:

Table 3.1A: Financial Operations of Insurance Fund

	<u>1985-86</u> \$000	<u>1984-85</u> \$000	<u>1983-84</u> \$000	<u>1982-83</u> \$000	<u>1981-82</u> \$000
Balance as at 1 July	3 530	3 094	2 833	2 772	2 496
<u>Plus</u> : Premiums Receivable and Interest on Investments	<u>954</u>	<u>757</u>	<u>695</u>	<u>715</u>	<u>667</u>
	4 484	3 851	3 528	3 487	3 163
<u>Less</u> : Claims Admitted : Fire Authority Contributions and Administration Costs	<u>171</u>	<u>217</u>	<u>240</u>	<u>*458</u>	<u>180</u>
	<u>380</u>	<u>408</u>	<u>445</u>	<u>665</u>	<u>391</u>
	4 104	3 443	3 083	2 822	2 772
<u>Plus</u> : Claims Recovered	<u>-</u>	<u>87</u>	<u>11</u>	<u>11</u>	<u>-</u>
Balance as at 30 June	<u>4 104</u>	<u>3 530</u>	<u>3 094</u>	<u>2 833</u>	<u>2 772</u>

* Majority of such claims related to bushfire disaster

3.1.11

An actuarial assessment of the adequacy of the Insurance Fund had not been performed. The balance of the Fund at 30 June 1986 of \$4.1 million would have been sufficient to cover the cost of claims admitted by the Fund over the past 5 years. When viewed from this perspective, audit recommended that the Commission consider the introduction of a periodical actuarial/specialist review of the Fund to provide an independent appraisal of the adequacy and viability of the Fund.

Response by Commission

The Commission will arrange for an actuarial assessment of the adequacy of the Fund to be undertaken on a two yearly basis although the relatively small size of the fund and the nature and location of the assets insured are likely to produce considerable reservations in the Actuary's observations.

Establishment of Internal Audit Function

3.1.12

It is pleasing to note that during 1986 the Commission appointed a firm of private practitioners to provide a full time internal audit function. To facilitate the extended role of audit, the Commission also established an Audit Committee consisting of the Chairman, the General Manager and a suitably qualified external person.

VICTORIAN EGG MARKETING BOARD

Advances to Employees

- 3.1.13 During 1985, the Board resolved to advance funds to employees in certain approved circumstances, to purchase assets associated with their employment. For the year ended 30 June 1986 the Board advanced funds totalling \$42 200 to 6 employees. This amount comprised \$39 600 for the purchase of used Board vehicles and \$2 600 for the acquisition of computer equipment. In each case, the advance was made on the basis of a formal loan agreement between the Board and the employee which specified an interest rate of 10% for a period which ranged from 4 to 5 years. As from 1 July 1986 the Board increased the interest rate on these advances to 13.5% and amended the agreements to specify the assets which were the basis for the funds being advanced.
- 3.1.14 The Board advised audit that it had relied upon Section 15(e) of the Marketing of Primary Products Act 1958 as authority for making such advances. This Section states that the Board "may enter into and carry out such contracts and do and suffer all such acts, matters and things as are necessary or expedient for the purposes of this Act."
- 3.1.15 In audit opinion, doubt exists as to whether the Board has authority to make loans to employees of the Board and it recommended that the Board obtain legal advice to clarify whether it is empowered to make such advances.

Response by Board

All the agreements covering advances to employees have been re-negotiated to ensure that:

- (1) no fringe benefits tax is payable; and*
- (2) the asset for which the loan has been made is referred to in the agreement.*

Verbal advice received from the Board's legal advisers indicated that the Board had the authority under Section 15(e) of the Act to approve the loans.

Schedule A: Complete/Incomplete Audits

Entities	Financial Year Ended	Reporting to Parliament	Date Financial Statements Signed	Date Auditor-General's Report Signed
Complete Audits				
Department of Agriculture and Rural Affairs	30 June 1986	30 September. Annual Reporting Act 1983 (S.8)	22 September 1986	29 September 1986
Citrus Fruit Marketing Board	31 December 1985	No reporting requirements. Marketing of Primary Products Act 1958 (S.12) provides for the audit of the accounts	26 June 1986	20 August 1986
Melbourne Wholesale Fruit and Vegetable Market Trust	30 June 1985	No date specified. Melbourne Wholesale Fruit and Vegetable Market Trust Act 1977 (S.19)	23 July 1986	12 August 1986
Poultry Farmer Licensing Committee	30 June 1986	No date specified. Egg Industry Stabilization Act 1983 (S.57)	12 September 1986	23 September 1986
Poultry Farmer Licensing Review Committee	30 June 1986	No date specified. Egg Industry Stabilization Act 1983 (S.57)	9 December 1986	12 January 1987

Rural Finance Commission	30 June 1986	No date specified. Rural Finance and Settlement Commission Act 1961 (S.27)	25 August 1986	29 August 1986
Tobacco Leaf Marketing Board	31 March 1986	No reporting requirements. Marketing of Primary Products Act 1958 (S.12) provides for the audit of the accounts	28 July 1986	20 August# 1986
Tobacco Quota Appeals Tribunal	31 March 1986	No reporting requirements. Tobacco Leaf Industry Stabilization Act 1966 (S.22) provides for the audit of the accounts	7 October 1986	31 October 1986
Victorian Dairy Industry Authority	30 June 1986	30 September. Dairy Industry Act 1984 (S.21)	19 September 1986	30 September 1986
Victorian Dried Fruits Board	31 December 1985	No date specified. Dried Fruits Act 1958 (S.18)	6 February 1986	26 March 1986
Victorian Dried Fruits Board Superannuation Fund	30 September 1983	No reporting requirements. Audit conducted at request of Treasurer	3 October 1985	3 March 1986
"	"	Period 1 October 1983 to	"	"
"	"	31 December 1984 *	16 December 1985	3 March 1986
"	"	31 December 1985	29 October 1986	31 January# 1987
Victorian Egg Marketing Board	30 June 1986	30 November. Marketing of Primary Products Act 1958 (S.44)	19 August 1986	5 September 1986
Victorian Fishing Industry Council	30 June 1986	30 November. Victorian Fishing Industry Council Act 1979 (S.16)	17 December 1986	31 January 1987

Incomplete Audits

Daratech Pty. Ltd.	30 June 1986	No reporting requirements. Audit conducted at request of Treasurer.	Company established 25 June 1986. First audit to cover period 25 June 1986 to 30 June 1987.	
Melbourne Wholesale Fruit and Vegetable Market Trust	30 June 1986	No date specified. Melbourne Wholesale Fruit and Vegetable Market Trust Act 1977 (S.19)	21 January 1986	Audit at advanced stage.

* Balance date changed to 31 December

Qualified audit report issued

Schedule B: Status of Matters Raised in Previous Reports

Report	Subject	Status at Date of Preparation of this Report
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Citrus Fruit Marketing Board

Fourth Report 1983-84, p.25	The Board's equity in its management company should be quantified and incorporated in the notes to the financial statements.	Position unchanged.
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Onion Marketing Board

Supplementary
Report
1978-79, p. 64
and subsequent
reports

Finalising of winding-up
delayed pending legal
proceedings in respect of
a large shipment of onions
to London.

Audit of Onion
Marketing Board in
Liquidation now
completed. Board
formally dissolved on
21 October 1986.

Rural Finance Commission

Third Report
1983-84, p. 10

The Commission should obtain
regular independent
actuarial advice as to the
adequacy of provision for
superannuation.

A report was prepared
for the Commission by
the Office of the
Government Statist and
Actuary in July 1985.
In accordance with
the government actuary's
recommendation the
Commission decided to
provide for superan-
nuation on an unchanged
policy basis.

3.2

ARTS

3.2.1 The Minister for the Arts is responsible for the following entities which are subject to audit by the Auditor-General:

Department

- Ministry for the Arts

Public Bodies

- Council of the Museum of Victoria
- Council of Trustees of the National Gallery of Victoria
- Exhibition Trustees
- Film Victoria
- Geelong Performing Arts Centre Trust
- Library Council of Victoria
- State Film Centre of Victoria Council
- Victorian Arts Centre Trust

Audit Comment

3.2.2 Matters of significance arising from the audit of certain of the above entities are discussed below.

MINISTRY FOR THE ARTS

Part-time Appointments of Full-time Government Employees

3.2.3 Circulars were issued by the Premier in 1983 and 1984 covering Government policy on the payment of fees for government employees who are appointed to part-time non-statutory positions. As a general rule government employees were not to receive remuneration in respect of these appointments.

3.2.4 Audit noted 2 instances where employees of the Ministry were appointed to part-time positions and received remuneration for such appointments. Audit considered that these appointments may be in conflict with Government policy and that in both instances the employees hold positions within the Ministry that may influence the funding of the organisations in which they hold part-time appointments.

Response by Ministry

The Ministry considers that the Premier's circular was intended to cover appointments which are Government or non-statutory positions in the service of the State of Victoria, but not appointments by independently elected Boards of Management. Furthermore, the Ministry has for some time had in place internal controls and mechanisms which ensure that no opportunity for a conflict of interest exists.

The Ministry will now seek clarification on this matter from the Department of the Premier and Cabinet, as it is the Ministry's intention to comply with the Premier's circular.

COUNCIL OF THE MUSEUM OF VICTORIA

Delay in Reporting

- 3.2.5 The Council of the Museum has experienced difficulties in preparing its financial statements for the years ended 30 June 1985 and 30 June 1986 due to a shortage of experienced staff and deficiencies in processing and recording procedures. These difficulties resulted in the financial statements for 1984-85 not being completed until October 1986. The financial statements for 1985-86 had not been received by my Office at the date of preparation of this report.
- 3.2.6 The Council is endeavouring to overcome these difficulties and has made a number of new staff appointments.

State Collection of Exhibits

- 3.2.7 In the Auditor-General's Fourth Report for 1983-84, it was indicated that effective control by the Council over the State Collection was impaired due to the absence of a complete, comprehensive and centralised register which would facilitate regular stockchecks of the collection.
- 3.2.8 In the absence of a complete register, the Council does not have effective control over the State Collection and it is recommended that this matter be given high priority.

Response by Ministry

The Museum has now established a committee with representation from both the Museum and the Ministry with a view to commissioning an independent feasibility study into the collection management needs of the Museum. The Department of Management and Budget has had discussions with the committee and fully concurs with the proposed action and the terms of reference for the study which have already been sent out to selective tender.

EXHIBITION TRUSTEES

Annual Accounts

- 3.2.9 Although not required by the Exhibition Act 1957 the Trustees have for the first time prepared their accounts with respect to the years ended 30 June 1984 and 30 June 1985 on an accrual basis. This basis recognises revenues and costs as they are identified and not simply when cash is received and expended. This will assist internal management as well as providing Parliament with better information on the Trustees' operations.
- 3.2.10 Audit commends the Trustees in providing more meaningful information on their activities, notwithstanding delays in completion of the financial statements.

LIBRARY COUNCIL OF VICTORIA

Security and Control of Library Council Collections

- 3.2.11 The Council maintains a centralised register of books and other items comprising the State Collection. However, the effectiveness of this register as a means of asset control is limited as full stocktakes are only undertaken at very infrequent intervals. It is acknowledged that the frequency of the stocktakes is influenced by the magnitude of the task and the resources required, but, in view of the value and importance of the Collection, audit recommended that an alternative technique such as random stocktakes be undertaken on a rotation basis in order that a complete stocktake is conducted over an extended period.
- 3.2.12 In addition, the Council has not assigned a value to the State Collection which would provide management with basic information to make informed decisions on adequacy of security, disposal policy and the need for insurance cover.

Response by Ministry

The State Library of Victoria has a central collection register which was only recently completed after the first ever full stocktake of the total collection. Management recognised the need to continue this practice on a rolling basis and because of the magnitude of the task, a six year period would be warranted. To supplement this process, periodic random stocktakes would be undertaken as a matter of course.

It has been agreed between the Department of Management and Budget and the Ministry that it is not feasible or appropriate to attempt to place a monetary value on some items which are literally irreplaceable. The practice both in Australia and overseas in all collecting cultural institutions is to refer to the collection in the balance sheet without assigning a value.

STATE FILM CENTRE OF VICTORIA COUNCIL

Qualification of Financial Statements

- 3.2.13 The Auditor-General was unable to form an opinion on the financial statements of the State Film Centre of Victoria Council for the years ended 30 June 1984 and 30 June 1985 for the following reasons:
- (1) the Council did not maintaining proper records of its financial transactions in accordance with the legislation;
 - (2) the Council did not undertake a physical stocktake of documentary films, videotapes, periodicals, books and other materials at 12 December 1983 (date assets were vested in the Council) or at any time since that date; and
 - (3) the Council did not include the value of certain assets, such as motor vehicles, furniture, equipment and the stock of catalogues and blank video cassettes, in its balance sheet.

- 3.2.14 The financial statements of the Council for 1985-86 presented to audit included similar deficiencies and inaccuracies and were returned to the Council for amendment. As a consequence, the audit was unable to proceed and was suspended on 1 December 1986. At the date of preparation of this report amended financial statements had not been received from the Council.
- 3.2.15 The Ministry for the Arts has since advised that it is of the view that the existing legislation does not require any further information to be included in the Council's financial statements and that a Crown Solicitor's opinion to clarify the legislative requirements would be sought.
- 3.2.16 Audit recommended that full and complete disclosure of all financial transactions of the Council be included in the financial statements to ensure meaningful information on the Council's operations is available to Parliament.

Response by Ministry

In the absence of the Crown Solicitor's opinion the Ministry considers it inappropriate to provide further comment on anything but a factual account of the events to date.

Schedule A: Complete/Incomplete Audits

Entities	Financial Year Ended	Reporting to Parliament	Date Financial Statements Signed	Date Auditor-General's Report Signed
Complete Audits				
Ministry for the Arts	30 June 1986	30 September, Annual Reporting Act 1983 (S.8)	19 September 1986	30 September 1986
Council of the Museum of Victoria	30 June 1985	30 September, Museums Act 1983 (S.30)	21 October 1986	24 November 1986
Council of Trustees of the National Gallery of Victoria	30 June 1986	30 September, National Gallery of Victoria Act 1966 (S.17)	11 August 1986	24 September 1986
Exhibition Trustees	30 June 1984	30 September, Exhibition Act 1957 (S.10)	8 September 1986	28 October# 1986
" "	30 June 1985	" "	8 September 1986	28 October# 1986
Film Victoria	30 June 1986	31 December, Film Victoria Act 1981 (S.21)	24 October 1986	31 October 1986
Geelong Performing Arts Centre Trust	30 June 1986	31 December, Geelong Performing Arts Centre Trust Act 1980 (S.18)	1 October 1986	12 December# 1986
Library Council of Victoria	30 June 1986	30 September, Library Council of Victoria Act 1965 (S.11C)	29 September 1986	12 December 1986
State Film Centre of Victoria Council	30 June 1984	30 September, State Film Centre of Victoria Council Act 1983 (S.14)	23 January 1986	11 June# 1986
" "	30 June 1985	" "	23 January 1986	1 August# 1986
Victorian Arts Centre Trust	30 June 1986	31 December, Victorian Arts Centre Act 1979	12 November 1986	12 December# 1986

Incomplete Audits

Council of the Museum of Victoria	30 June 1986	30 September, Museums Act 1983 (S.30)	Statements not yet received.
Exhibition Trustees	30 June 1986	30 September, Exhibition Act 1957 (S.10)	Signed statements not yet received by audit.
State Film Centre of Victoria Council	30 June 1986	30 September, State Film Centre of Victoria Council Act 1983 (S.10)	Statements received 24 October 1986 audit suspended 1 December 1986 until substantially improved statements are received by the Office.

■ Qualified audit report issued

Schedule B: Status of Matters Raised in Previous Reports

Report	Subject	Status at Date of Preparation of this Report
Council of the Museum of Victoria		
Fourth Report 1983-84, p. 28	Action should be initiated by the Council to implement a complete centralised register incorporating all exhibits.	Position substantially unchanged. Refer paragraphs 3.2.7 - 3.2.8
Fourth Report 1983-84, p. 28	All investments should be registered in the name of the Council of the Museum of Victoria.	All investments are now registered in the name of the Council.
Fourth Report 1983-84, p. 28	Action should be taken to place the operations of the Museum shop on a proper business footing.	Audit has been advised that positive measures have been taken to place the operations on a business footing.
Council of Trustees of the National Gallery of Victoria		
Fourth Report 1984-85, p. 31	A formal plan should be initiated by the Council to achieve complete registration of all works of art in the State Collection.	Substantial progress has been made on updating asset registers and identification of missing artworks.

Second Report 1984-85, p. 24	Lack of control over income from art exhibitions organised by the International Cultural Corporation of Australia.	A number of exhibitions were held in 1985-86 and a lack of control over revenue still exists.
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Second Report 1984-85, p. 24	Generally accepted accounting practice not adhered to in that a donation of \$25 000 received in August 1985 was incorrectly backdated to June 1985.	Practice correctly adhered to in 1986.
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Library Council of Victoria

Second Report 1984-85, p. 23	Investments placed contrary to the provisions of the Library Council of Victoria Act 1965.	Position now satisfactory. Investments now placed in accordance with the Act.
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Victorian Arts Centre Trust

Fourth Report 1982-83, p. 110	Several weaknesses in internal control procedures relating to catering operations.	The inventory recording system still does not update the general ledger on a daily basis.
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3.3

ATTORNEY-GENERAL

3.3.1 The Attorney-General is responsible for the following entities which are subject to audit by the Auditor-General:

Departments

- Law Department
- Office of Corrections
- Office of the Director of Public Prosecutions

Public Bodies

- Estate Agents Board
- Law Reform Commission
- Legal Aid Commission
- Legal Aid Commission Staff Superannuation Fund
- Office of the Public Trustee
- Patriotic Funds Council
- Victorian Institute of Forensic Pathology
- Victorian Prison Industries Commission

Audit Comment

3.3.2 Matters of significance arising from the audit of certain of the above entities are discussed below.

LAW DEPARTMENT

Qualification of Financial Statements

3.3.3 The 1985-86 financial statements of the Department were qualified on the ground that the Department did not have the necessary systems in place at 30 June 1986 to report the total amount due for outstanding court fines in relation to the administration of justice program. The Department included an estimate of \$21 million for this item in its financial statements. It was not practicable for audit to substantiate this estimate.

3.3.4 Of the \$21 million outstanding, approximately \$20 million is calculated to be the value of outstanding warrants filed at the Police Information Bureau. Computerisation of the records held by the Bureau first commenced in 1978. Since that date extensive resourcing problems and the lack of adequate computer capacity have contributed to this project still being in progress. Although a large proportion of the manual records held since 1973 have been converted to a computerised form, the ability to use this facility to recover or write-off the outstanding penalties is restricted because:

- (1) A large proportion of the warrants issued by the Law Department in earlier years did not contain sufficient information to positively identify offenders.
- (2) Information converted to date has not been authenticated.

- (3) The Police Department maintains it does not have the resources for the timely recording of warrants, of which there was a backlog of over 12 000 at December 1986. In addition, the Police Department has not attempted to process approximately 18 000 warrants generated as a result of a computer system designed to process unpaid parking and traffic infringement notices (PERIN) which was introduced by the Law Department in 1986. These warrants, which are required to be served by Police officers, are accumulating at an average rate of approximately 1 500 warrants per week.
- (4) Facilities are not currently available to access data-banks held by other government agencies, eg. Road Traffic Authority, in an attempt to trace offenders.
- (5) Agreement has not been reached between the Law Department and the Police Department as to a period of time when outstanding warrants are considered irrecoverable and can be written off. Audit has been advised that negotiations are continuing.
- (6) A monetary value for each warrant is currently being recorded on the computer. However, a facility does not exist to extract a listing of the total value of the warrants held. Audit has been informed that the development of this facility is regarded as a low priority, with the corresponding result that the Law Department's financial statements will continue to be qualified in future years for the reasons stated.

3.3.5 The remaining \$1 million represents the value of outstanding warrants held at the various Magistrates' Courts. The Law Department advised that it has made substantial progress towards establishing a cash management system incorporating the computerised registration of all court fines. It is anticipated, therefore, that the value of outstanding warrants held by the various Magistrates' Courts will become quantified in the near future.

3.3.6 Audit recommended that the above issues be actively pursued by the Law Department with the Police Department and the Ministry for Police and Emergency Services, as the ability of the State to enforce penalties imposed and to collect the resulting revenue is being substantially impaired.

Asset Registers

3.3.7 With the exception of motor vehicles and departmental residences, identification and control of assets throughout the various departmental locations was unsatisfactory. Meaningful asset registers were not maintained, nor were assets uniquely identified and subjected to regular stocktakes.

3.3.8 The Department has promptly responded to this deficiency by initiating action to establish a computer-based asset register, to be accompanied by a detailed asset stocktake.

Theft from County Court

- 3.3.9 During the year a maintenance engineer employed at the County Court was charged with offences relating to the theft of over 9 000 litres of diesel fuel from the County Court building. Three thousand litres of fuel were subsequently recovered. The circumstances of the theft involved permitting 3 private contractors to remove fuel at their will, in return for maintenance services being promptly performed at the building when required. Although the engineer was subsequently acquitted, further enquiries are continuing.
- 3.3.10 Audit drew attention to the absence of supervision of the engineer and the breakdown in internal controls which allowed the situation to remain undetected over a long period.

Personnel Practices

- 3.3.11 A review of the various personnel functions within the Department and associated agencies in relation to leave entitlements disclosed the following unsatisfactory practices:
- (1) Certain personnel files, leave records, and medical certificates supporting extended sick leave could not be produced for audit examination.
 - (2) A detailed examination of an extensive selection of personnel records maintained within the Department and associated agencies disclosed that, on average, unsatisfactory matters were found in 38% of records examined. These unsatisfactory matters related mainly to recording/approval of leave, non-compliance with Public Service Board Determinations, and accumulation of leave credits dating back to 1981 without approval.
 - (3) Instances were also noted of failure to record recreation leave taken and leave entitlements due to individual officers for several years.
- 3.3.12 It was recommended that all personnel functions within the Law Department and associated agencies be reviewed by management.

Response by Department

The Department acknowledges the problems raised by audit and procedures to overcome them are being implemented.

Office of Auctioneers

- 3.3.13 Audit drew attention to the poor standard of the books and accounts and the extent to which this situation had continued over an extended period of years without remedial action being taken.
- 3.3.14 As this situation reflected on the Office's responsibility for cash management and efficiency of operations, audit recommended that the activities of the Office be strictly monitored. To enhance the operations of the Office its functions were absorbed into the Estate Agents Board on 1 July 1986.

OFFICE OF CORRECTIONS

Overtime and Penalty Rate Payments

- 3.3.15 During 1985-86 overtime and penalty rate payments in respect of the Office of Corrections' Custodial Services Program amounted to \$10.9 million, which represented 26% of total salary costs for that program.
- 3.3.16 There has been a substantial increase in staffing levels in prisons since the establishment of the Office in late 1983. The staffing increases, which were specifically provided to reduce overtime, were partially redirected to provide for increased activities and contact visits for prisoners.
- 3.3.17 As a result, the anticipated reductions in overtime expenditure have not eventuated. Furthermore, as a result of budget overruns, the Office required an additional Treasurer's Advance of \$1.7 million to meet overtime payments for the period 24 April to 30 June 1986. Audit also noted that, whilst overtime payments and staff levels have been increasing, the daily average population of prisoners and the number of prison sites have remained relatively stable, as illustrated in Table 3.3A.

Table 3.3A: Comparison of Overtime Costs with Staff Levels, Prisoners and Prison Sites

<u>Custodial Services Program</u> (30 June)	<u>1985-86</u>	<u>1984-85</u>	<u>1983-84</u>
Overtime and Penalty Rates	\$10 896 542	\$10 632 444	\$8 283 562
Staff Levels - Uniformed Officers only	1 033	912	782
Daily Average Population of Prisoners	1 916	1 821	1 959
Prison Sites	12	12	12

- 3.3.18 The Office is aware of the sensitive industrial issues involved with overtime. However, the Office also acknowledges the need to improve the efficiency of operations and to reduce overtime costs and is continuing to develop new initiatives to achieve these objectives.

Extended Leave on Account of Sickness

- 3.3.19 A review of sick leave records at 2 prisons (Metropolitan and Pentridge) disclosed that approximately 10% of Custodial Service employees had been absent on extended leave on account of sickness (i.e. periods beyond 3 weeks duration) as can be seen from Table 3.3B.

**Table 3.3B: Officers on Extended Leave – Metropolitan and Pentridge Prisons
(at 30 September 1986)**

<u>Period of Extended Leave</u>	<u>No. of Employees</u>
Between 3 weeks and 6 months	33
In excess of 6 months	5
" " 10 months	5
" " 12 months	9
" " 15 months	5
" " 18 months	7
	—
Total on extended leave	64
	—

3.3.20 Audit was advised that a majority of the above employees were receiving WorkCare benefits in lieu of sick leave as a result of stress from working in a prison environment. Under the WorkCare arrangements the Office is required to make up the balance of an officer's standard salary during the first 12 months.

3.3.21 These absences place a significant financial and operational burden upon the Office. The extent of this problem, which is acknowledged by the Office as serious, cannot be readily determined as a management system does not exist whereby the level of extended leave and its effects on operations, including cost, can be measured at any given time. The absence of such a system is considered to severely restrict management in its efforts to initiate early corrective action.

3.3.22 The Office is attempting to address the problem by reviewing the extent and causes of sick leave and intends appointing 2 welfare officers to assist with rehabilitation. Audit recommended that these efforts continue in order to reduce the adverse effects created, particularly the additional salary costs incurred in replacing staff on extended sick leave. It was further recommended that the Public Service Board be consulted to determine if officers, unable to cope with the pressures of prison employment, could be offered employment in other sections of the public sector.

OFFICE OF THE PUBLIC TRUSTEE

Financial Operations

3.3.23 Although there were no legislative reporting requirements, the Public Trustee prepared financial statements in 1985-86 which were audited by my Office. Amending legislation requiring the Public Trustee to prepare financial statements has been included in the Guardianship and Administration Board Act 1986. However, this particular section of the Act has not yet been proclaimed.

3.3.24 Details of Consolidated Fund and Trust Fund receipts, which relate mainly to fees, commissions and probate duty from the management of estates, and payments comprising salaries and operating expenses, have been reported in the financial statements of the Law Department for 1985-86.

Common Fund

3.3.25 The Public Trustee, in his capacity as executor and administrator of estates and trusts, may invest moneys on behalf of beneficiaries in a common fund.

3.3.26 The moneys in the fund totalling \$198 million at 30 June 1986 (\$177 million at 30 June 1985) are invested and applied in accordance with the Public Trustee Act 1958. An average rate of return of 15.34% on Common Fund investments was achieved in 1985-86.

3.3.27 In 1983, following a review of the operations of the Office of the Public Trustee, the Public Service Board recommended that an independent review be undertaken of the investment portfolio of the Common Fund. In response the Public Trustee engaged the services of a consultant in October 1985 to conduct an investment review.

3.3.28 Observations arising from the investment review included:

- (1) absence of a formal investment policy on an ongoing basis;
- (2) inadequacies in the management information system; and
- (3) inadequate resources to effectively monitor investments.

3.3.29 Recommendations included:

- (1) engagement of an investment manager with wide discretionary powers; and
- (2) development of an integral set of investment policy objectives and an overall management strategy.

Response by Public Trustee

The Office of the Public Trustee has been re-organised to strengthen the finance and investment function, including the appointment of a Finance and Investment Manager at a senior level. In addition, the Public Trustee has entered into an agreement with the State Bank for management of part of the Common Fund.

Custodianship of Estate Assets

3.3.30 In addition to the funds held in the common fund, the Public Trustee has under his control other assets of substantial value, including real estate, motor vehicles and personal property belonging to over 10 000 individuals and estates, the affairs of which are administered by him. These custodial assets, which are conservatively valued at \$1 billion, are not recorded in the financial records of the Public Trustee.

3.3.31 Over many years there have been difficulties in maintaining adequate controls over these assets, mainly due to the absence of a centralised asset register. However, the present Public Trustee has taken steps to include a central asset register in a new computer based accounting, estate administration, and management information system which is planned to be operational in July 1987.

PATRIOTIC FUNDS COUNCIL

Reporting Requirements

- 3.3.32 The Patriotic Funds Council exercises a monitoring role over 701 Patriotic Funds established throughout Victoria with net assets totalling approximately \$42 million at 31 December 1985. Although the Patriotic Funds Act 1958 requires the Council to submit a report to the Minister on matters relating to the administration of the Funds, there is no legislative requirement to present this report to Parliament.
- 3.3.33 At 5 December 1986 the report to the Minister for the year ended 31 December 1985 had not been finalised due mainly to the failure of several of the Funds to submit current financial statements in accordance with the Act.
- 3.3.34 Audit recommended that the Act be reviewed to establish whether an amendment is necessary to require the Council to present to Parliament through the responsible Minister, by a prescribed date, an annual report on its activities and those of the various Funds administered.

VICTORIAN PRISON INDUSTRIES COMMISSION

- 3.3.35 The statutory functions of the Victorian Prison Industries Commission include responsibility for the provision of work for prisoners and the management of prison industrial sites in an effective, efficient and economical manner. Products produced include leisure furniture, farm produce, nails, clothing and various miscellaneous items.
- 3.3.36 The audit of the Commission for 1985-86 has not been finalised at the date of this report due to the extensive delay in receiving satisfactory financial statements, and the volume and complexity of issues encountered during the course of the audit. Reasons for the delay in preparing the statements included failure of the Commission to establish priorities, and to allocate sufficient resources to the task of ensuring their timely production. Eventually the Commission found it necessary to employ a private accounting firm to co-ordinate functions involved in preparation of the statements.
- 3.3.37 Matters of major significance arising from the audit to date related to:
- (1) mismanagement of industry operations;
 - (2) production of leisure furniture;
 - (3) capital works undertaken at Beechworth and Ararat;
 - (4) manufacture of netball skirts; and
 - (5) appointment of and entertainment expenses incurred by General Manager.

Mismanagement of Industry Operations

- 3.3.38 In general, audit considered that the management of the prison industries was below the level expected of a public body responsible for expenditure exceeding \$7 million per annum. This view is based on poor financial controls, revenue projections of more than twice actual receipts, significantly increasing administrative costs which were not reflected in productivity gains, ineffective monitoring of activities, failure to effectively monitor the delegation process, and the absence of long range strategy policies and objectives. In addition, there has not been any increase in the overall employment of prisoners.
- 3.3.39 Inadequacies in performance have been acknowledged by the Commission and the Government. A review process has commenced and initiatives developed include improvements to the administrative, financial and reporting functions of the Commission, revised tendering procedures and formalised contractual agreements.
- 3.3.40 Certain aspects of the Commission's operations involving the General Manager are being investigated by an officer seconded from the Corporate Affairs Office. The investigation does not extend to transactions considered to be of a private nature.

Production of Leisure Furniture

- 3.3.41 A decision was made during 1985-86 to construct industrial production facilities at Ararat and Beechworth Prisons for the purpose of constructing leisure furniture. This decision was based on advice provided by the General Manager to the Commission in February 1985. The advice was based on views provided by a marketing firm which indicated the existence of an active market for leisure furniture, with export potential.
- 3.3.42 Projected sales volumes supplied by the General Manager provided the basis for the initial approval by the Attorney-General for a workshop complex. In May 1985 the Treasurer agreed in principle to funding for the construction of the first stage of the Ararat facilities, with construction commencing in August 1985. Documentation to support the sales projections could not be provided for audit examination.
- 3.3.43 After project approval was received the General Manager employed the marketing firm to undertake market research into the sales potential of leisure furniture. The engagement was made without reference to the Effectiveness Review Committee in accordance with government policy, and the responsible Minister. Competitive quotations were not called.
- 3.3.44 In August 1985 the General Manager requested approval for the construction of an additional workshop costing \$417 000 at the Ararat facility. The request, which was approved by the Attorney-General and the Treasurer, was based on expectation of increased demands for the products and the need to expand the product range. Again, there was no documentation available to audit to support these projections and the marketing firm had not prepared its report at that stage.
- 3.3.45 In December 1985 the General Manager requested approval to construct an industry workshop at Beechworth in order to expand production of the leisure furniture. The basis of the request was further expectation of a commercially viable market and sales projections of \$522 000 per annum.

- 3.3.46 The marketing firm's report dealing with the leisure furniture market was provided to the Commission on 3 January 1986. The report repeated previous recommendations to develop the leisure furniture industry as it was considered that market potential was very good. The report also contained sales projections, product costings and a recommendation that the marketing firm be assigned sales and distribution rights.
- 3.3.47 A detailed audit review of the market research report disclosed serious deficiencies in the product costings and sales projections. In addition, the report did not recognise overheads and special factors, including quality control, affecting production in a prison environment. The deficiencies in sales projections and costings were subsequently confirmed in a study undertaken by the Commission in June 1986, after construction of the above facilities was well advanced.
- 3.3.48 Although the Commission had been favourably advised by the General Manager as to the marketing firm's expertise and sound financial status, information received from a credit agency indicated that the firm's activities were basically related to marketing camping equipment. Unaudited financial statements disclosed an accumulated operating deficiency.
- 3.3.49 Production of the furniture commenced at Ararat in August 1986 and orders to January 1987 were valued at \$35 000 as compared with a sales projection of \$600 000 for 1986-87.
- 3.3.50 Audit drew attention to the large expenditure incurred on production facilities for a product, the demand for which, in audit opinion, was inadequately researched. Serious concern was also expressed at the apparent failure of the Commission to substantiate the information provided on the need for major works before submitting proposals to the responsible Ministers.
- 3.3.51 Other observations included:
- the absence of an effective costing system to identify all costs associated with production; and
 - failure to submit all consultancy proposals to the Effectiveness Review Committee for independent assessment.

Capital Works

- 3.3.52 The Public Lands and Works Act 1964 provides that, except where specified in the legislation of public bodies, the Minister for Public Works shall consider and determine all matters relating to the requisition, tendering, acceptance of contracts and construction of public works and buildings within Victoria.
- 3.3.53 The Commission considered that the Victorian Prison Industries Commission Act 1983 provided sufficient authority for the Commission to enter into major works contracts. Accordingly, the Ararat and Beechworth construction projects were not undertaken by the Public Works Department, this responsibility being retained by the Commission. However, after the Ararat project commenced a Crown Solicitor's opinion dated 4 February 1986 confirmed that the legislation did not provide for building works to be carried out by the Commission.

Details concerning the capital works undertaken were as follows:

(1) Ararat Industrial Facility

Once funding was approved for Ararat in May 1985, the General Manager engaged a firm of project consultants with design responsibility to undertake project supervision. The engagement was made without calling for quotations and without referring the consultancy to the Effectiveness Review Committee, contrary to government policy.

Although the Commission did not have established procedures for tendering and lacked expertise in this area, project tenders were requested. The 2 lowest tenders were subsequently referred to a tender panel for evaluation. The Commission did not attempt a detailed financial and competence analysis of the nominated contractors prior to submission to the panel.

The failure to properly evaluate the contractors was illustrated by the fact that one of the firms, which was recommended by the General Manager, was in the process of being placed in liquidation. In addition, an audit review of Supreme Court documentation disclosed the existence of an affidavit claiming that the firm owed \$50 000 to a company established by the General Manager prior to employment by the Commission. This association was not formally disclosed to the Commission by the General Manager. Although the firm was not selected by the tender panel, audit considered that the tender selection was restricted by the General Manager's action.

It was also established that the successful tenderer employed a consortium of designers, the principal of which was associated with the firm of project consultants employed by the General Manager in May 1985 to undertake project supervision. Audit considered that this association could be regarded as a conflict of interest and may have impaired the independence of the project consultants when certifying expenditure claims submitted by the project designers.

The above arrangement also had the potential to duplicate expenditure in that certain design work undertaken by the consortium could also have been charged for by the project consultants. Such an occurrence could not be readily established as the Commission's financial records did not adequately identify all project design costs incurred by the builder which would result in a reduction in the project consultants' charges.

At the request of the Attorney General in March 1986, the Internal Audit Group within the Law Department undertook a detailed review of the tendering procedures, selection of the contractor and the relationship and role of contractual parties associated with the Ararat project.

The report presented in June 1986 drew attention to potential conflicts of interest, inadequate tendering procedures, the large number of contract variations and the level of the fees paid to the project consultants. The Internal Audit Group considered the consultancy fees to be more than double the industry average.

At the date of preparation of this report actual expenditure on the project was \$3 million as compared to the Treasurer's funding approval of \$2.6 million. The Treasurer's approval had not been obtained for the additional expenditure.

(2) Beechworth Industrial Facility

Following the General Manager's revenue projection of \$522 000 per annum from producing wooden leisure furniture, the Treasurer approved funding of \$1.4 million on 21 March 1986 for construction of the Beechworth facility. Responsibility for the project was again accepted by the Commission despite the Crown Solicitor's advice on 4 February 1986 and their inexperience and lack of expertise in major construction project management.

The project consultants appointed by the General Manager to supervise the Ararat project were also assigned responsibility for this project. The consultants recommended that the Commission accept a proposal tendered by a certain construction firm. Tendering details and procedures could not be produced for audit examination.

The Commission did not properly evaluate the competency and financial stability of the recommended tenderer prior to submission of the proposal to the Minister for Public Works for approval.

The successful tenderer had been removed in 1981 from the Public Works Department's listing of approved contractors, due to unsatisfactory performance, and had been operating voluntarily under a scheme of arrangement. At 30 June 1985 the firm had an accumulated deficiency of \$1.3 million. Despite the firm's doubtful financial status, a contract for construction of the facility at a cost of \$1.4 million was entered into by the Commission on 24 June 1986. At the date of preparation of this report construction was proceeding, with the project consultants estimating a final cost of \$2 million.

- 3.3.55 Audit recommendations related to the need for the Commission to properly evaluate all capital works projects prior to submission to the Attorney General and the Treasurer for approval. It was also recommended that the responsibility for ensuring the satisfactory completion of major works should be that of the Public Works Department.

Manufacture of Netball Skirts

- 3.3.56 In October 1985 an agreement was negotiated with a clothing firm whereby the Commission would manufacture netball skirts for the firm at a cost of \$1.60 per garment. Fabric material was to be provided by the firm.

- 3.3.57 In May 1986 the agreement was varied whereby the material was to be provided by the Commission with the firm agreeing to purchase the garments at a new price of \$3.60 each. The variation was recommended by the General Manager on the basis of increased revenue projections and prisoner employment. Audit calculations indicated that the cost of production would be approximately that of the selling price and, consequently, the arrangement would not be profitable to the Commission. Detailed costing of the product was not undertaken at the time of varying the agreement.

- 3.3.58 Following the new arrangement the approval of the Attorney General and the Treasurer was obtained for the purchase of material valued at \$568 000. The Commission subsequently established in June 1986 that material to the value of \$130 000 had already been purchased on the authority of the General Manager without the approval of the Treasurer as required by the Act. In addition, formal contractual arrangements between the firm and the Commission did not exist.

- 3.3.59 Between January and August 1986 the firm accepted delivery of approximately 75 000 skirts valued at \$280 797. Payments received during this period totalled only \$5 358, despite credit terms being limited to 60 days from month of delivery. In audit opinion insufficient action was taken by the Commission to recover payment and enforce credit terms, despite possessing a knowledge of the firm's potential financial instability and poor credit rating within the industry.
- 3.3.60 In July 1986 the General Manager was requested to cease deliveries, but this action did not occur until 7 August 1986 after further consignments valued at \$36 512 were delivered.
- 3.3.61 The firm has refused to make payment contending that the garments were of poor quality and alterations were required before attempting sales. However, it was not until deliveries ceased that this assertion was made, and none of the garments has been returned. A Supreme Court writ has been issued by the Crown Solicitor in an attempt to recover payment of \$275 439.
- 3.3.62 Materials to the value of \$401 000 have been purchased under the arrangements, and efforts are being made to utilise surplus stocks in the production of additional clothing items.
- 3.3.63 Audit drew attention to the poor contractual arrangements, the ineffective credit controls, and the need for effective job training programs and quality controls within the prison industrial facilities. The Commission also has an urgent need for efficient costing procedures so as to identify product costs before negotiating sales contracts.

Appointment of General Manager

- 3.3.64 The General Manager of the Commission was appointed on 13 August 1984 in accordance with the Victorian Prison Industries Act 1983. An examination of available documentation relating to the position disclosed a lack of detailed information concerning previous employment history and terms and conditions of engagement.
- 3.3.65 Audit recommended that as a basic feature of future senior appointments, job criteria be critically defined and rated against an applicant's past employment history, with the objective of employing persons with the necessary skills to perform the required functions. In addition, the performance of senior management must be periodically assessed in line with improving the overall performance of the Commission.

Entertainment Expenses

- 3.3.66 In 1985-86 the Commission budget provided for \$27 000 to be expended on entertainment, including meals, accommodation and liquor purchases. Actual expenditure as authorised by the General Manager during the year was allocated approximately as follows:

\$

Restaurants	11 810
Motel accommodation/meals	11 938
Head office drink cabinet and minor food items	<u>12 169</u>
	<u>35 917</u>

- 3.3.67 Although a proportion of the expenditure on accommodation and meals was attributed to Commission staff, the restaurant expenses and liquor purchases, averaging in excess of \$100 per working day, were predominantly attributed to the General Manager's personal expenses and entertainment of clients.
- 3.3.68 Audit accepts that the Commission's activities entail entertainment. However, it was considered that the level of entertainment incurred during 1985-86 was excessive and unproductive in generating employment of prisoners and increasing product sales to the private sector.
- 3.3.69 Revenue producing activities were of paramount importance to the Commission as its sales during the year totalled only \$3.1 million or 47% of the projected figure of \$6.5 million. Sales to private industry represented only 20% of this income and were increasing only marginally, the balance of sales being to other government agencies.
- 3.3.70 Audit drew attention to the apparent failure of the Commission to monitor the above situation. It was also recommended that the General Manager's entertainment expenses be defined in the contract of employment. Any variation from this amount should be justified and be subject to approval by the Commission.

Schedule A: Complete/Incomplete Audits

Entities	Financial Year Ended	Reporting to Parliament	Date Financial Statements Signed	Date Auditor-General's Report Signed
Complete Audits				
Law Department	30 June 1986	30 September. Annual Reporting Act 1983 (S.8). Extension of time granted by Treasurer	23 October 1986	30 October 1986
Estate Agents Board	30 June 1986	30 September. Estate Agents Act 1980 (S.98)	16 September 1986	24 September 1986
Law Reform Commission	30 June 1986	30 September. Law Reform Commission Act 1984 (S.30)	29 September 1986	29 September 1986
Legal Aid Commission	30 June 1985	30 September. Legal Aid Commission Act 1978 (S.12)	6 February 1986	12 March 1986
" "	30 June 1986	" "	19 September 1986	23 December 1986
Legal Aid Commission Staff Superannuation Fund	30 June 1985	No reporting requirements. Audited by request	6 February 1986	7 March 1986
" "	30 June 1986	30 September. Legal Aid Commission Act 1978 (S.12)	19 September 1986	23 December 1986
Office of Corrections	30 June 1986	30 September. Annual Reporting Act 1983 (S.8)	22 September 1986	24 September 1986

Office of the Director of Public Prosecutions	30 June 1986	30 September. Annual Reporting Act 1983 (S.8). Treasurer granted extension to 31 October 1986.	8 October 1986	22 October 1986
Office of the Public Trustee	30 June 1986	No reporting requirements. Public Trustee Act 1958 provides for audit of the books and accounts (S.62). A requirement exists however to prepare financial statements.	3 September 1986	31 January 1987
Patriotic Funds Council	Period 23 February 1985 to 5 December 1986	No date specified. Patriotic Funds Act 1958 (S.28)	N/Applic	N/Applic
Incomplete Audits				
Victorian Prison Industries Commission	30 June 1986	30 September. Victorian Prison Industries Commission Act 1983 (S.34)	8 December 1986. Audit in progress. A detailed report is being prepared for submission to the Treasurer.	

¶ Qualified audit report issued

Schedule B: Status of Matters Raised in Previous Reports

Report	Subject	Status at Date of Preparation of this Report
Law Department		
October 1982, p. 103	Major functions within the Department and its branches should be reviewed by internal audit.	Internal audit coverage is still considered to be inadequate due to the under-staffing of the unit.
Second Report 1982-83, p. 64	A review should be undertaken of cash procedures at all Magistrates' Courts handling large volumes of cash transactions.	Action has been taken to resolve this matter satisfactorily with the introduction of improved cash handling procedures.
Second Report 1982-83, p. 65	Weaknesses exist in procedures governing investment of County Court funds.	A working party established to review cash management procedures has not reported to date on the County Court funds.

Third Report 1983-84, p. 32	Financial statements - cash and investment balances, general stores on hand and debtors had been understated.	Position now satisfactory as cash, investment balances and general stores on hand have been recorded in the financial statements. However, financial statements were qualified with regard to outstanding court fines. Further comment is given in paragraphs 3.3.3 - 3.3.6 of this report.
Third Report 1983-84, p. 33	Investments - Magistrates' Courts and the Supreme Court - failure to ensure investment actions are maximised.	Working party established to review cash management procedures has not reported to management.
Third Report 1983-84, p. 34	Suspected defalcation at the Prothonotary's Office.	Investigations by Police Fraud Squad concluded. Insufficient evidence for prosecution.
Third Report 1983-84, p. 35	Control by the Prothonotary's Office over fines for non-attendance as a witness or juror is considered to be unsatisfactory due to inadequate records.	Position unchanged. Matter referred again to Prothonotary for attention in 1986-87.
Second Report 1984-85, p. 28	There is no legislative authority for the Auditor-General to form an opinion on the financial information contained in the Chief Justice's Annual Report to Parliament.	Position unchanged. Matter was referred again to Department of Management and Budget on 7 November 1986.
Second Report 1984-85, p. 29	Recovery of misappropriated trust funds amounting to \$3 750 from a former employee of the Sheriff's Office.	Position unchanged; funds not recovered.

Office of Corrections

Second Report 1984-85, p. 29	Financial statements - financial transactions of the Victorian Prison Industries Fund not included as required by the Annual Reporting (Administrative Units) Regulations 1985.	Position now satisfactory as transactions included in statements. Qualification removed.
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Second Report 1984-85, p. 30	Details of the exchange of goods and services provided free of charge between the Office and the Victorian Prison Industries Commission were not included in the Office's financial statements.	Position unchanged in 1985-86 but details to be included in financial statements for 1986-87.
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Second Report 1984-85, p. 30	Internal audit function should be established.	Position now satisfactory as internal auditor has been appointed.
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Office of the Public Trustee

November 1981, p. 145 December 1982, p. 70	Financial statements - amendment to legislation required.	Financial statements prepared for 1985-86. Amending legislation to be proclaimed in 1987.
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December 1982, p. 74	Delays in banking of certain moneys received by the Public Trustee to which he may not be legally entitled.	Position unchanged in 1985-86. Amending legislation to be proclaimed in 1987.
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3.4

COMMUNITY SERVICES

3.4.1 The Department of Community Services is the only entity subject to audit by the Auditor-General for which the Minister for Community Services is responsible.

Audit Comment

3.4.2 A matter of significance arising from the audit of the above entity is discussed below.

Pensioner Concessions

3.4.3 The Second Report of the Auditor-General for 1982-83 commented that payments to transport authorities for fare concessions were not based on the value of the actual concessions granted to pensioners. Instead, payments were made by the Department based on the amount provided in the annual appropriation.

3.4.4 Audit recommended that the legislative requirements be clarified to establish whether payments are in the nature of a subsidy or represent reimbursement of the value of actual concessions granted to pensioners.

3.4.5 Further review has revealed that no action has been taken by the Department to clarify the legislative requirements and that payments totalling \$17.8 million were made in 1985-86 to the transport authorities.

3.4.6 Audit is concerned that in the absence of legislative clarification it may be possible that the Department is making payments:

- (1) in excess of the actual value of the fare concessions; or
- (2) under-reimbursing the transport authorities and thereby adding to their deficits.

Schedule A: Complete/Incomplete Audits

Entities	Financial Year Ended	Reporting to Parliament	Date Financial Statements Signed	Date Auditor-General's Report Signed
Complete Audits				
Department of Community Services	30 June 1986	30 September, Annual Reporting Act 1983 (S.8)	24 September 1986	30 September 1986

Schedule B: Status of Matters Raised in Previous Reports

Report	Subject	Status at Date of Preparation of this Report
Second Report 1982-83, p. 37	Need for clarification of legislative requirements governing payments to the transport authorities for fare concessions to pensioners.	Position unchanged. Refer paragraphs 3.4.3 - 3.4.6 of this report.
Third Report 1983-84, p. 16	Family group homes - no formal agreement exists with funded organisations to protect departmental interests.	A draft agreement has been prepared but has not yet been formalised.
Third Report 1983-84, p. 17	Debtors - action to be taken to recover long outstanding debts.	Debtors reduced from \$162 805 at 30 June 1985 to \$72 830 at 30 June 1986 due to both significant recoveries and write-off of amounts considered uncollectable.
Third Report 1983-84, p. 17	Grants for specific programs paid quarterly in advance. Department to consider changing the timing of grant payments to monthly so as to increase interest earnings of the public account.	Department has considered such a change in timing but considers it impractical with current staff resources.
Second Report 1984-85, p. 70	Control weaknesses and inefficiencies existing in the system for the payment of pre-school salaries necessitate departmental review of the procedures.	Responsibility transferred from Health Department Victoria. Material matters now resolved.
Second Report 1984-85, p. 71	Guidelines and procedures for administering home help services require improvement in respect of the assessment of applicants, standardisation of fees and conditions and monitoring of the subsidies.	Responsibility transferred from Health Department Victoria. New procedures developed within the Home and Community Care program to be reviewed by audit in in the current year.

3.5

CONSERVATION, FORESTS AND LANDS

3.5.1 The Minister for Conservation, Forests and Lands is responsible for the following entities which are subject to audit by the Auditor-General:

Department

- Department of Conservation, Forests and Lands

Public Bodies

- Albert Park Committee of Management
- Bundoora Park Committee of Management
- Mount Macedon Memorial Cross Committee of Management
- Olympic Park Management
- Penguin Reserve Committee of Management
- Port Bellarine Committee of Management
- Shrine of Remembrance Trustees
- State Swimming Centre Committee of Management
- Victorian Institute of Marine Sciences
- Yarra Bend Park Trust
- Zoological Board of Victoria
- Zoological Board of Victoria Superannuation Fund

Audit Comment

3.5.2 Matters of significance arising from the audit of one of the above entities are discussed below.

DEPARTMENT OF CONSERVATION, FORESTS AND LANDS

Qualification of Financial Statements

3.5.3 During the months of May, June and July 1986 the Department processed a number of journal entries to adjust expenditure within and between programs. The journal entries, which affected recurrent and works and services expenditure, were in excess of \$25 million and the Department was unable to provide supporting documentation to enable audit to verify their validity.

3.5.4 Although I was satisfied that the total recurrent and works and services expenditure was correctly stated, an opinion could not be formed on the allocation of payments to programs as disclosed in the Department's financial statements.

Financial Management and Information Systems

3.5.5 The circumstances which gave rise to the qualification were due, in part, to the inability of the Department's financial management and information systems to provide timely and accurate reports.

3.5.6 For the 1985-86 year, the Department utilised the Financial Recording and Reporting System (FRAR) for financial management and general ledger operations. As a consequence of inadequate systems development to facilitate regionalisation, the Department experienced severe processing difficulties which prevented FRAR reports from being produced on a timely and accurate basis. As a result, management was not in a position to adequately oversee the Department's financial operations or effectively monitor expenditure against Parliamentary Appropriations.

3.5.7 The inadequacy of the Department's financial management and information system contributed to:

- (1) the Department exceeding its salaries and wages appropriation and requiring a Treasurer's Advance of \$4.7 million due mainly to:
 - (i) adequate information systems not being in place to enable the Department to accurately determine and control the number of officers employed; and
 - (ii) average salaries exceeding the rate used in 1985-86 appropriation calculations as a result of a significant level of promotions which eventuated after the restructure of the Department;
- (2) the failure by the Department to effectively monitor and control the operations of the Advance Account, resulting in an unexplained difference in the reconciliation of the Advance at 30 June 1986 of \$216 230; and
- (3) the inability of the Department to effect reconciliations of its financial records with the Department of Management and Budget (DMB) as required by the Treasury Regulations 1981. As a consequence, it was necessary for the Treasurer to approve the inclusion of DMB figures in the Department's financial statements.

3.5.8 As a result of these matters being raised by audit, the Minister for Conservation, Forests and Lands responded immediately by organising a special group which is currently in the process of addressing all matters relating to problems associated with the financial management of the Department. Certain aspects of the FM80 General Ledger and Accounts Payable system, introduced from 1 July 1986 as a replacement for FRAR, will be covered as part of the special group's review.

Response by Department

Journal entries are now being fully documented and explained.

The Human Resource Information System, to be implemented by May 1987, should enable the Department to more effectively monitor and control current salary and wages costs and provide a firm basis for budget purposes.

Over \$1.6 million of the \$4.7 million Treasurer's Advance resulted from award variations and government undertakings made to implement the amalgamation of the former agencies into the Department of Conservation, Forests and Lands.

The Department mainly used the Advance to pay wages which cost over \$35 million in 1985-86. The Department has spent considerable time and effort in attempting to reconcile the Advance Account as at 30 June 1986. The Department now proposes to review the current status of this matter with DMB.

In relation to the failure to reconcile with DMB, the impact of regionalisation on a centralised outdated financial system (FRAR), together with inadequate training and fully documented procedures, caused processing problems.

Except for the Stores Suspense Account the Department has reconciled all accounts for the period ended 31 December 1986.

The implementation of the new computerised accounting system continues to encounter some difficulties. The Department is tackling these on an ongoing basis and DMB have been advised where problems still exist and these have been taken up with a firm of consultants where appropriate.

Cash Management/Interest Foregone

3.5.9

The following matters limited the return to the State on the Department's cash resources in the form of loss of interest on the Public Account.

(1) Debtors/revenue collection system

Deficiencies in the debtors/revenue collection system were as follows:

- no documented standardised procedures for the follow-up of uncollected revenue;
- aged debtors listings were not prepared for management review; and
- inadequate follow-up of debtors (for example at 30 June 1986 timber royalties outstanding for more than 90 days exceeded \$1 million).

The Department advised audit that a computer network for revenue collection was to be developed during 1986-87 and implemented by 1 July 1987.

At 15 January 1987, the project had not commenced. As delays in the collection of debts impose a cost to the State in the form of loss of interest on the Public Account or unnecessary borrowings, it was recommended that the Department give greater priority to the development and implementation of a computerised debtors/revenue collection system.

Response by Department

Due to problems associated with the implementation of FM80 the Department could not resource the accounts receivable project at the scheduled time and this resulted in a revised timeframe being established.

The Department is giving high priority to the development and implementation of the computerised accounts receivable system and it is expected that the system will now be implemented by 1 July 1988.

The Department has issued general guidelines regarding the follow-up of debtors but until the new system is operational only marginal improvement can be expected.

(2) Head office and regional collections

Head office receipting procedures require that collections be allocated to appropriate revenue classifications prior to receipting. Difficulties experienced by the Department in identifying and classifying collections resulted in delays of up to 12 weeks in receipting and banking.

With the exception of one region, all regional collections are held in non-interest bearing accounts until cleared to head office. There were extensive delays in regions forwarding collections to head office and also in head office banking regional cheques.

As a result of these delays opportunities were not taken by the Department to maximise interest earned on the Public Account. Audit estimated that the potential interest foregone would exceed \$80 000 during 1985-86 and when all factors are taken into account, including the inadequate follow-up of debtors, total interest foregone would exceed \$200 000.

Audit recommended that the Department implement a funds transfer system in the medium term and, as a short term measure, arrange for interest to be paid on all bank accounts.

Response by Department

In relation to the head office collections, the Revenue Section has established procedures that will monitor the receipt of revenue collections from regional offices to ensure they are received promptly. Unidentified collections will be paid into the Domestic Suspense Account so that delays in receipting and banking will not occur.

Due to the limitations of the manual revenue system currently in operation, it is inappropriate at this time to introduce electronic funds transfer from regional to head office. The Department of Management and Budget has undertaken to negotiate with the banks to ensure the accounts become interest bearing. Further modifications to allow the Department to bank direct to the public account are also being investigated.

Schedule A: Complete/Incomplete Audits

Entities	Financial Year Ended	Reporting to Parliament	Date Financial Statements Signed	Date Auditor-General's Report Signed
Complete Audits				
Department of Conservation, Forests and Lands	30 June 1986	30 September. Annual Reporting Act 1983 (S.8) Extension of time granted by Treasurer	31 October 1986	21 November 1986
Mount Macedon Memorial Cross Committee of Management	31 December 1982	No reporting requirements. Forests Act 1958 (S50) provides for an audit of the accounts	25 June 1986	Report not given as no specific authority for the Auditor-General to conduct audit.
" "	31 December 1983	" "	25 June 1986	
" "	31 December 1984	" "	25 June 1986	
" "	31 December 1985	" "	25 June 1986	
Port Bellarine Committee of Management	30 September 1986	No reporting requirements. Port Bellarine Tourist Reserve Act 1981 (S.21) provides for the audit of the accounts	27 January 1987	31 January 1987
Victorian Institute of Marine Sciences	31 December 1985	31 March. Victorian Institute of Marine Sciences Act 1974 (S.26)	6 January 1987	31 January 1987
Yarra Bend Park Trust	30 June 1986	No reporting requirements. Audit conducted at request of Treasurer	24 November 1986	12 December 1986
Zoological Board of Victoria	30 June 1986	30 September Zoological Parks and Gardens Act 1967 (S.15F)	29 August 1986	24 September 1986
Incomplete Audits				
Albert Park Committee of Management	31 December 1985	No reporting requirements. Crown Land (Reserves) Act 1978 (S.15) provides for the audit of the accounts		Audit substantially completed. Financial statements not finalised.
Bundoora Park Committee of Management	30 June 1981	No reporting requirements. Crown Land (Reserves) Act 1978 (S.15) provides for the audit of the accounts.		Financial statements for the 6 years to 30 June 1985 were presented for audit in November 1986. Audit was unable to continue due to material deficiencies in the format of accounts. Further discussions in progress.
" "	30 June 1982	" "		
" "	30 June 1983	" "		
" "	30 June 1984	" "		
" "	30 June 1985	" "		
" "	30 June 1986	" "		
Olympic Park Management	30 June 1986	No reporting requirements. Crown Land (Reserves) Act 1978 (S.15) provides for the audit of the accounts		Draft financial statements presented for audit on 27 January 1987.

Penguin Reserve Committee of Management	30 June 1986	No reporting requirements. Crown Land (Reserves) Act 1978 (S.15) provides for the audit of the accounts	30 September 1986	Awaiting resolution of issue affecting financial statements
Shrine of Remembrance Trustees	30 June 1986	No reporting requirements. Audit conducted at request of Treasurer.	Audit substantially completed. Financial statements not finalised.	
State Swimming Centre Committee of Management	30 June 1986	No reporting requirements. Crown Land (Reserves) Act 1978 (S.15) provides for the audit of the accounts	Audit substantially completed. Financial statements not finalised.	
Merribee Park Corporation *	Period 1 July 1984 to 20 January 1985	No reporting requirements. Crown Land (Reserves) Act 1978 (S.15) provides for the audit of the accounts	Audit substantially completed. Financial statements for period ended 20 January 1985 not finalised.	
Zoological Board of Victoria Superannuation Fund	30 June 1986	No reporting requirements. Audit conducted at request of Treasurer	Financial statements have not been presented for audit.	

* Abolished on 20 January 1985

Qualified audit report issued

Schedule B: Status of Matters Raised in Previous Reports

Report	Subject	Status at Date of Preparation of this Report
Department of Conservation, Forests and Lands		
Third Report 1983-84, p. 22 First Report 1984-85, p. 81	Inadequate procedures to either collect outstanding licence fees for occupied Crown Land or terminate tenancies.	Position unchanged. Matter to be addressed in the development of the computerised accounts receivable system.
Second Report 1984-85, p. 40	Inability to reconcile Department's records with those of the Department of Management and Budget.	Reconciliation not effected in 1985-86. Refer paragraphs 3.5.5 - 3.5.8 of this report.
State Swimming Centre Committee of Management		
Fourth Report 1983-84, p. 76	Action required to recover costs and obtain compensation for defective timing equipment and structural defects in the Centre's building.	Position unchanged. Matter referred to DMB for follow-up action.

3.6

CONSUMER AFFAIRS

3.6.1 The Ministry of Consumer Affairs is the only entity subject to audit by the Auditor-General for which the Minister for Consumer Affairs is responsible.

Audit Comment

3.6.2 There were no matters of significance arising from the audit of the above entity.

Schedule A: Complete/Incomplete Audits

Entities	Financial Year Ended	Reporting to Parliament	Date Financial Statements Signed	Date Auditor-General's Report Signed
Complete Audits				
Ministry of Consumer Affairs	30 June 1986	30 September, Annual Reporting Act 1983 (S.8)	10 September 1986	19 September 1986

Schedule B: Status of Matters Raised in Previous Reports

Report	Subject	Status at Date of Preparation of this Report
October 1982, p. 72	Motor Car Traders Guarantee Fund - delay in collection of licence fees and failure to always follow-up overdue	Action was taken to reduce the delay in the collection of licence fees and to control the collection of overdue fees. Position now satisfactory

3.7

EDUCATION

3.7.1 The Minister for Education is responsible for the following entities which are subject to audit by the Auditor-General:

Department

- Ministry of Education

Public Bodies

- Council of Adult Education
- Institute of Educational Administration
- Post-Secondary Education Institutions, which include universities, colleges of advanced education and colleges of technical and further education
- Technical and Further Education Board
- Victorian Curriculum and Assessment Board (formerly Victorian Institute of Secondary Education)
- Victorian Post-Secondary Education Commission
- Victorian Tertiary Admissions Centre (formerly Victorian Universities Admission Committee)

Audit Comment

3.7.2 Matters of significance arising from the audit of certain of the above entities are discussed below.

MINISTRY OF EDUCATION

Unused Properties

3.7.3 During 1985-86, audit carried out a selective review of procedures governing the management of unused properties in operation within the Schools Division of the Ministry.

3.7.4 The review was carried out against a background of an extensive restructuring, including a study of practices relating to property management, which was underway within the Ministry. For example, at the time of the review, increasing attention was being directed within the Schools Division to the reorganisation of school resources as a corollary of declining enrolments.

3.7.5 A number of issues which surfaced during the review were communicated to the Ministry for consideration during its internal evaluation of policies and practices relating to property management. Some of these issues, together with Ministry responses, are summarised in the following paragraphs.

(1) Property information system

The pursuit of efficiency and effectiveness in the management of an organisation's assets is assisted by an adequate management information system. The quality of decisions concerning asset management is substantially influenced by the accuracy and usefulness of information generated by the system.

Details of the Ministry's large property portfolio are recorded on paper files stored in a series of filing cabinets. Manual reports on property acquisitions and disposals are developed from these files.

Over recent years, the Ministry has progressively entered information relating to school buildings on to a computerised data base. Audit detected several instances of properties within this category which had not been recorded on the data base. Also, the rate of progress on conversion of manual data appeared to be spasmodic.

Audit considered that the combination of large volumes of manual records and doubts as to the accuracy of the partially developed computerised data rendered it difficult for the Ministry to be sure that decisions concerning properties were based on complete information and that all properties would be subject to management review on questions of retention or sales action etc.

Audit recommended that the Ministry expedite action to finalise establishment of a comprehensive computer-based property information system.

Response by Ministry

The Ministry advised that it will undertake an evaluation and feasibility study without delay to determine the best approach for implementation of an asset management system. The Ministry will subsequently proceed to establish an asset management system incorporating the specific points raised by audit.

(2) School plantations

The Ministry has for many years maintained numerous properties as pine plantations. The plantations were established primarily for use as educational assets and to generate additional revenue for some schools. At the time of the audit review some 860 plantation sites were held by the Ministry.

The audit review revealed that, in many instances, the plantations were no longer being used for their intended purposes. In addition, administrative, maintenance and fire protection costs were continually incurred in respect of the sites. Audit recommended that the Ministry evaluate the viability of retaining such properties.

Response by Ministry

The Ministry advised that, in many schools, the emphasis has shifted from the plantations as a "cash crop" undertaking to the use of the sites as an environmental learning resource. The choice of plant species and the management of these areas is reflecting this change.

Also, a significant number of schools have lost interest in their plantations and these are now being progressively disposed of.

(3) Revocation of Crown lands vested in Minister

Over the years, Crown land sites have been vested in the Minister for Education for use as school sites. In recent years, with the decline in school enrolments, several of the schools located on Crown land sites have had to be closed.

When schools located on Crown reserves are closed and no longer required for educational purposes, the Ministry requests the Department of Conservation, Forests and Lands (CFL) to revoke the relevant Crown reserve and dispose of the property. Audit found that disposal of several properties in this category had not proceeded because of extensive delays experienced in arranging revocations. At the date of the audit review, 53 revocations, which the Ministry had referred to CFL in 1984 and earlier years, were outstanding.

In some instances, the delays in disposal of properties may adversely impact sales prices ultimately obtained because of deterioration in the condition of the properties and/or vandalism. In addition, expenditure on the properties in the nature of fire protection and general maintenance continued to be incurred by the Ministry.

In discussions with representatives of CFL, audit was advised that revocation of Crown reserves was only one element of the process of disposal of properties. In some instances, CFL experienced delays in disposing of properties due to their remote location or size which made them unattractive to prospective purchasers.

Audit recommended that the Ministry establish closer liaison with CFL to enable revocations to be processed on a timely basis. (Subsequent to the audit review, responsibility for disposal of government properties was transferred from CFL to the Department of Property and Services.)

Response by Ministry

The Ministry will establish a more formal liaison relationship with the Department of Conservation, Forests and Lands for the purpose of achieving a more pro-active process for the revocation of Crown Lands.

(4) Cleaners' residences - rental charges

Under an industrial agreement, the Ministry provides residences to 122 cleaners free of rental charge in return for the provision by the cleaners of reasonable security surveillance of school properties.

The government policy applicable to employee housing at the time of the audit review allowed the charging of rentals at less than market levels only for residences occupied as part of a job requirement. Amendments to this policy, introduced in September 1986, did not vary the above provision relating to rental levels, but the "required to occupy" category of rental housing was limited under the changes to the most essential and demonstrated operational, geographic or essential needs.

Audit considered that the arrangements concerning provision of free rentals to cleaners were not in line with the Government's policy directives and recommended that the Ministry review its practice in this area.

Response by Ministry

The Ministry will expedite implementation of the government policy in regard to residences.

Salary Overpayments

- 3.7.6 At 30 June 1986, salary overpayments to be recouped by the Ministry from teachers and other employees amounted to \$2.4 million. Salary underpayments totalled \$0.9 million, leaving a net overpayment figure at year end of \$1.5 million.
- 3.7.7 The majority of salary over and underpayments relate to employees' absences without leave entitlements. During the year the Ministry introduced on-line processing of leave of absence data within its computerised payroll system. This system enhancement led to a significant improvement in the timing of identification and recording of salary over and underpayments. Under previous procedures, the Leave Unit of the Ministry had been some 9 to 10 months in arrears in the processing of leave of absence data.
- 3.7.8 The Auditor-General's Second Report for 1984-85 commented on the results of a review by audit of procedures relating to the incidence of salary overpayments and controls in operation in this area. A number of recommendations were made to the Ministry as a result of that review. Although the Ministry's response to audit indicated that certain corrective action would be taken, a subsequent review during the course of the 1985-86 audit revealed that much of the corrective action proposed by the Ministry was still to be commenced.
- 3.7.9 However, some signs have now emerged of a more positive approach by the Ministry to this problem. The Ministry has recently initiated strategies which it is confident will lead to identification of the principal causes of overpayments and to improvements in its monitoring and follow-up procedures in this area.

POST-SECONDARY EDUCATION INSTITUTIONS

Introduction

- 3.7.10 The post-secondary education sector in Victoria as at 31 December 1985 (this report covers audits within the sector up to this date) comprised the following categories of institutions:
- the 4 universities within the State, namely Deakin University, La Trobe University, Monash University and the University of Melbourne;
 - the 16 colleges of advanced education (C.A.E.'s);
 - the 31 colleges of technical and further education (T.A.F.E. colleges); and
 - a composite college (Victorian College of Agriculture and Horticulture) which provides both advanced education and technical and further education courses.
- 3.7.11 The following institutions were established during 1986:
- Western Institute of Education (a composite college); and
 - Wodonga College of T.A.F.E.

Working Party on Implementation of Annual Reporting Act 1983 (Post-Secondary Education Institutions)

3.7.12 The Auditor-General's Second Report for 1984-85 referred to the establishment by the Victorian Post-Secondary Education Commission of a working party to provide advice to the Minister on appropriate reporting standards for post-secondary education institutions. The formation of the working party flowed from action initiated by the Treasurer during 1985 to bring such institutions under the ambit of the Annual Reporting Act 1983. This action is aimed at remedying existing deficiencies in the accountability of the post-secondary education sector to Parliament, an issue which has been addressed in previous reports of the Auditor-General.

3.7.13 The working party finalised its deliberations during the latter part of 1986 and submitted a final report to the Minister in December 1986. In my view the results of the efforts of the working party will constitute a positive contribution towards enhancing financial reporting practices in the post-secondary education sector.

3.7.14 I look forward to the early designation of post-secondary education institutions as bodies subject to the annual reporting legislation.

Financial Operations

3.7.15 In the absence of comprehensive reporting to Parliament on the financial operations of the post-secondary education sector, I have continued the practice, commenced in 1982-83, of reporting summaries of the total financial operations for universities, C.A.E.'s, and T.A.F.E. colleges. The following table relating to the 1985 calendar year illustrates the magnitude of the financial activities of the sector:

	<u>Accum'd Funds *</u> <u>31.12.84</u> \$m	<u>Income</u>		<u>Expenditure</u> \$m	<u>Surplus For Year</u> \$m	<u>Accum'd Funds *</u> <u>31.12.85</u> \$m
		<u>Govt. Grants</u> \$m	<u>Other</u> \$m			
Universities	97.4	330.0	90.1	401.7	18.4	115.8
C.A.E.'s	31.1	289.8	37.7	316.3	11.2	42.3
T.A.F.E. Colleges	26.1	232.7	22.3	250.6	4.4	30.5
Composite College**	2.8	10.3	5.2	15.3	0.2	3.0
Totals	157.4	862.8	155.3	983.9	34.2	191.6

* Includes reserves held as assets, unexpended grants, trust moneys or endowments held for specific purposes

** Relates to the Victorian College of Agriculture and Horticulture

MONASH UNIVERSITY

Overseas Commercialisation of In-Vitro Fertilisation

- 3.7.16 As a result of research in the field of In-Vitro Fertilisation (I.V.F.) conducted by the University's scientific and medical personnel, procedures and techniques have been developed to provide assistance to infertile couples. Clinics established in Melbourne have utilised the process successfully for a number of years.
- 3.7.17 During 1985 the University entered into an agreement with an external management team for the purpose of disseminating I.V.F. skills and services overseas. In accordance with a provision of the agreement, the members of the management team subsequently assigned their rights and obligations under the agreement to a company, I.V.F. Australia Pty. Ltd.
- 3.7.18 Under the terms of the agreement, the University is to receive significant royalties from I.V.F. Australia Pty. Ltd. over a period of time in return for exclusive rights to the use of I.V.F. technology in countries outside Australia. The United States of America is the only country to date where commercial development of I.V.F. technology under the agreement has taken place. The agreement provides for inspection of the company's records by an independent auditor and the submission of periodic audited financial statements by the company to enable verification of royalties paid to the University.
- 3.7.19 To date, the University has received from the company an amount of \$300 000 as an advance on royalties, in line with the terms of the agreement.
- 3.7.20 Under the agreement, I.V.F. Australia Pty. Ltd. is required to obtain insurance cover up to specified minimum limits against liabilities which may arise from the use of the I.V.F. process during the term of the agreement and 6 years thereafter. The company has been unable to date to achieve the minimum insurance target in the United States of America due to a dramatic deterioration in the market for professional indemnity insurance in that country. This development required the parties to investigate other means of obtaining adequate insurance cover. In order to ensure that it was fully indemnified against liabilities the University has arranged the required insurance cover locally and is in the process of recouping the costs of such insurance from the company.

CHISHOLM INSTITUTE OF TECHNOLOGY

Caulfield Plaza Shopping Centre - Review Action by Institute

- 3.7.21 The Auditor-General's Second Report for 1984-85 referred to the purchase by the Institute during 1984 of the Caulfield Plaza Shopping Centre. The report addressed, inter alia, the question of arrangements under which services were being provided by staff of the Institute to a business at the Plaza Shopping Centre. The report commented that these staff arrangements had not been formally sanctioned by the Council of the Institute and recommended that the Council examine all aspects relating to the provision of services by Institute staff in this area.

3.7.22 The matter of unauthorised rendering of services by Institute staff at the Shopping Centre surfaced at a time when concerns were emerging at the Institute about the general administration of its finances. As a consequence of these developments, the Council determined to undertake a range of review activities. These review activities which, in the main, were carried out under the overall control and direction of the Institute's Acting Director, per medium of special powers delegated by the Council, proved to be quite substantial in scope and included the engagement of a number of consultants to investigate particular areas of financial management procedures both within the Institute and at the Shopping Centre.

3.7.23 The major findings which flowed from the Council's review process were:

- The former Business Manager of the Institute (the Council entered into an agreement in May 1986, concerning termination of this officer's services) had embarked on a series of unauthorised activities, including the conduct of a trading business at the Plaza Shopping Centre. Many of these activities had serious financial and operational implications for the Institute.
- The ability of the former Business Manager to carry out a wide range of unauthorised actions indicated that major deficiencies existed in the overall financial management procedures at the Institute.
- It was necessary for the Council to promptly initiate a range of remedial actions, including an evaluation of its own position and procedures.

3.7.24 Some of the matters examined by audit are summarised in the remaining paragraphs of this section. However, before proceeding to these matters, it is fair to say that the intensity of the review action initiated by the Institute reflected its firm desire to ascertain the magnitude of existing problems within the financial management area, to take necessary corrective action and to establish a sound foundation for its future financial operations.

Involvement of Former Business Manager in Operation of a Trading Business at the Shopping Centre

3.7.25 The Acting Director engaged a consultant to investigate specific aspects of the financial operations of the Institute. This investigation centred heavily on the involvement of the former Business Manager in the operation of a trading business at the Plaza Shopping Centre. Several of the matters addressed by this consultant and examined by audit are summarised below:

- Unknown to the Council, the former Business Manager registered the trading business in the name of the Institute under the Registration (Health Acts) Regulations.
- The former Business Manager paid, from his personal funds, a fee of \$50 000 for the franchise of the business to the then registered holder of the franchise for all Victorian businesses bearing its commercial name. The Institute subsequently confirmed that this transaction was not accompanied by a formal agreement between the former Business Manager and the other party. The impact of the transaction was that the Institute became involved, without its knowledge, in the conduct of this trading business, an action which was beyond its legislative powers.

- A monthly rental was charged by and remitted to the Institute for the use of the business premises. With regular rental payments being received, the impression conveyed to interested observers at the Institute was one of a normal lessor/lessee relationship.
- The former Business Manager diverted, without authority, Institute funds totalling \$137 458 to the establishment and operation of the business.
- The former Business Manager opened and operated a bank account in the name of the business to record its trading operations. The account was operated outside the Institute's official accounting system, an arrangement which enabled transactions recorded within the account to avoid scrutiny by the Institute and examination by audit.

3.7.26 The unauthorised manner in which the former Business Manager was controlling the financial affairs of the business rendered it difficult for the Institute to subsequently determine whether all trading revenues had in fact been processed through the above-mentioned bank account. A review by a firm of chartered accountants of the operations of the business for the 20 month period ended 2 August 1986, conducted subsequent to the agreement to terminate the former Business Manager's services, reinforced the extent of this difficulty.

3.7.27 The accountants advised that the business had not maintained complete accounting records and, accordingly, the firm could not be absolutely confident as to the validity and accuracy of the financial statements it had prepared. The firm reported that, based on the average margin of products commonly sold at the business, a gross profit shortfall of \$80 490 was evident. The accountants considered that this shortfall may have been attributable to an inaccurate opening stock figure, which was estimated, a lack of control over cash sales or inventories, or a combination of these and other factors.

Other Matters Involving the Former Business Manager

3.7.28 In addition to the matters concerning the former Business Manager's activities described above, the Council became progressively aware, via consultants' reports and other means, of a number of other instances involving unauthorised or improper actions by him. These actions included:

- Operation of 2 unauthorised bank accounts (additional to the account referred to in paragraph 3.7.25 above) into which Institute funds totalling \$21 155 were credited. These accounts were operated outside the Institute's official accounting system and documentation was not available to explain the nature of services rendered to the Institute for the funds credited to the accounts.
- Establishment, in contravention of an Institute directive, of a shoe repair kiosk at the Plaza Shopping Centre. The former Business Manager seconded an employee of the Institute's Staff Club (a separate corporate entity) to operate and manage the business, without the knowledge of the Institute. Equipment and stocks for the business were purchased from funds of the Institute.

- Devising of an arrangement under which he purchased from the Institute in 1982 a station wagon which he used over the years with running expenses met from Institute funds. However, no evidence was available to indicate that the \$8 000 purchase consideration for the vehicle had been paid to the Institute.
- Unauthorised provision to the students' union at the Institute, from Institute funds, of interest free loans in the form of cash advances and payments for goods and services. Cash advances totalling \$100 000 were subsequently repaid by the union.
- Circumvention of prescribed procedures for employment of staff.

Agreement with Former Business Manager - Termination of Services

- 3.7.29 After consideration of the totality of the former Business Manager's actions, the Council sought legal advice as to the most appropriate course of action the Institute should pursue. The legal advice was received on 1 April 1986 and considered at the Council meeting of that date. Council then resolved at this meeting that the former Business Manager's services be terminated forthwith and that all banks holding Institute accounts or accounts pertaining to the Institute be informed of this decision.
- 3.7.30 Although the former Business Manager was officially advised of the Council's decision late on 2 April 1986, he was apparently informed from some source earlier on that day and was able to proceed to the bank and withdraw an amount of \$26 087 from the account used for the operation of the trading business as described in paragraph 3.7.25.
- 3.7.31 The Council's decision of 1 April 1986 concerning the former Business Manager's termination of services became the subject of an appeal by his union to the Industrial Relations Commission for reinstatement. These developments involved the Institute in quite complex negotiations which necessitated the seeking of further legal advice. After consideration of this advice, the Council on 4 May 1986 entered into an agreement with the former Business Manager concerning the termination of his services.
- 3.7.32 The agreement provided for adjustment of the amount of \$50 000 paid by the former Business Manager as a franchise fee for the trading business at the Shopping Centre in the following manner:

	\$
* Transfer to the Institute of the combined balances of the 3 unauthorised bank accounts operated by the former Business Manager	6 686
* Relinquishment by the Institute of any claim to the bank withdrawal of 2 April 1986	26 087
* Net purchase consideration for vehicle used over the years by the former Business Manager	<u>7 000</u>
	<u>39 773</u>

- 3.7.33 The balance of \$10 227 to fully account for the payment of \$50 000 by the former Business Manager was not specifically referred to in the agreement. Audit was advised that the Institute classified this balance as a partial recovery of the establishment costs of \$137 458 which were met without approval from Institute funds.
- 3.7.34 The agreement also provided for payment to the former Business Manager of \$45 151 for pay in lieu of termination notice, leave entitlements and legal fees. Of this total, an amount of \$18 926 related to leave which had been recorded as already taken in the Institute's leave files but which was included in the agreement following claims put forward during the negotiations.
- 3.7.35 Despite the severity of the former Business Manager's past unauthorised actions, the Council, in quite a short period of time, 1 April 1986 to 4 May 1986, deemed it desirable to move from a decision involving dismissal of the former Business Manager to a position in which conditions of a termination settlement, agreeable to him, became the focus of attention. This swift transition process was the result of the Council's assessment of the circumstances which emerged subsequent to 1 April 1986 and of the legal advice on such circumstances provided to it.

Review of Overall Financial Management Procedures

- 3.7.36 In accordance with powers delegated from the Council, the Acting Director, in late 1985, engaged a consultant to review the effectiveness of the overall financial procedures of the Institute. Such action was designed to complement the investigative process relating to the activities of the former Business Manager, as described in earlier paragraphs.
- 3.7.37 However, the Council of the Institute, after consultation with the Minister for Education, resolved in February 1986 to expand this review and to appoint a new consultant to consider, on a wider scale, issues associated with financial management.
- 3.7.38 In May 1986, the consultant reported to Council on 2 identified major problems, namely:
- failure of the Institute's Finance Branch to produce reliable and timely accounting information; and
 - lack of adequate controls and procedures in a number of financial and administrative areas.
- 3.7.39 The consultant made certain recommendations to overcome the above problems. Council adopted these recommendations and provided the Acting Director with interim powers to undertake immediate remedial action. Several of the recommendations have since been implemented including appointment of 5 experienced professional and support staff to positions in the Institute's Finance Branch and Supply Department.
- 3.7.40 The Council has also taken action on its own position and procedures in the light of specific matters reported directly to it by the consultant.

3.7.41 In addition to the above remedial action, the Institute has proceeded on a number of other fronts to rectify identified management weaknesses. This action has included:

- centralisation of all banking operations;
- sale of the franchise relating to the trading business with which the former Business Manager had been involved; and
- engagement of an estate agent to manage, on behalf of the Institute, the activities of the Caulfield Plaza Shopping Centre.

3.7.42 Implementation of the Institute's full range of corrective actions will, of necessity, require some time to reach fruition.

Termination Settlement - Former Director

3.7.43 The former Director of the Institute was appointed by the Council to the position of Director on 1 January 1983. The contractual arrangements governing his appointment provided, inter alia, for a term of employment of 8 years.

3.7.44 Because of irreconcilable differences of opinion which emerged during 1985 between Council and the former Director, the parties agreed on 9 July 1985 that, as part of a negotiated settlement, the former Director would resign on or before 31 December 1985. He subsequently tendered his resignation to the Council, effective from 31 December 1985.

3.7.45 The terms of the former Director's settlement were ratified by Council on 1 October 1985 and in doing so Council determined that he be deemed, during the period up to 31 December 1985, to be on special leave when travelling overseas and that, when in Australia, he undertake special duties as directed by Council until such time as his resignation takes effect. Evidence was not available at the Institute to indicate if any special duties were actually allocated to or undertaken by the former Director in the period up to 31 December 1985.

3.7.46 Under the terms of settlement agreed with the Council, the former Director received a range of benefits consisting of lump sum payments, reimbursement of travel and accommodation expenses and continuation of various entitlements up to the effective date of his resignation as Director. A summary of the benefits which accrued to the former Director under the termination package is presented below:

- * Lump sum payments - received in instalments a total net sum of \$290 000
- * Reimbursement of travel and accommodation expenses - reimbursed for travel and accommodation expenses totalling \$44 697 incurred for travel to the United Kingdom to seek alternative employment and for removal expenses to the United Kingdom
- * Payment of salary and existing entitlements up to 31 December 1985 - paid salary and existing entitlements in respect of motor vehicle, telephone, superannuation, housing loan interest and recreation and long service leave up to 31 December 1985

- * Payment to Australian Taxation Office - an amount of \$88 641, computed by the Institute as the tax payable in respect of benefits received by the former Director, was paid by the Institute

3.7.47 The Institute has not formulated a specific policy relating to termination arrangements for academic staff or persons engaged for a fixed term (such as the former Director's case). Having regard to its experiences with the former Director's termination, audit recommended that the Institute give consideration to establishment of a policy specifically governing termination arrangements for academic personnel and fixed term appointments.

Action by Minister

3.7.48 The Minister for Education has advised me of the various actions taken by him to ensure that the problems identified in the financial management of the Institute were satisfactorily addressed and resolved. The information conveyed by the Minister is presented below:

My attention was drawn to potential deficiencies in financial management at the Institute on receipt of a copy of the audited 1984 financial statements for the Institute in December 1985. On receipt of those statements and the copy of the auditor's report I wrote to the Institute requesting advice on specific issues raised in that report as well as a copy of the Institute's response to the matters raised in the audit inspector's report.

I also arranged for the Chairman of the Victorian Post-Secondary Education Commission to maintain a continuous liaison with the Institute through the Acting Director.

As a result of those actions I became convinced that there were weaknesses in the financial management of the Institute which required closer scrutiny. I therefore arranged in February 1986 to meet with representatives of the Council to receive a report of actions which the Council had taken to overcome weaknesses which had been identified.

In determining a future course of action I was conscious of two basic principles, namely:

(a) that in the best interests of strengthening the financial management capacity of the Institute it was important that the Institute itself take action to correct any weaknesses;

(b) that correction of weaknesses could only be accomplished over a period of time.

Accordingly, the actions which I initiated involved observance of these two principles as well as continuous monitoring.

As a result of meeting with members of Council of the Institute and a report from the Chairman of the Victorian Post-Secondary Education Commission, it became apparent that in addition to the detailed investigations which were in train there was a need for an overarching investigation of the financial management of the Institute. The Council accepted my advice that an independent consultant be appointed, with terms of reference as agreed between the Acting Director and the Chairman of the Commission.

The consultant has submitted a series of confidential reports to the Council which have also been forwarded to me. As a result of subsequent discussions with representatives of the Council, and receipt of written reports from the Council, about actions taken on the basis of those reports, I am aware of the steps taken to strengthen the internal financial accountability of the Council.

With respect to the severance of the employment of the former Business Manager and the Director of the Institute, I note that the actions taken by the Institute were always on the basis of legal advice. In particular, when I became aware of the negotiations between the Council and the Director, I sought an assurance that any arrangements between the Council and the Director would be in accordance with the legal principles governing the termination of a contract of employment for a fixed term. This I did, and I also received advice of the Crown Solicitor that "..... the financial terms of the settlement appear to be reasonable".

In the past there have been significant deficiencies in the financial management of the Institute, and of the financial accountability of the Council. I believe that as a result of the investigations undertaken, and the follow-up actions initiated, the financial management of the Institute is now on a sound footing.

TECHNICAL AND FURTHER EDUCATION BOARD

Preparation of Financial Statements

- 3.7.49 As commented on in the Second Report of the Auditor-General for 1984-85, it was necessary to withdraw audit staff from the audit of the Board's accounts for the year ended 30 June 1985 because of the incomplete state of financial records.
- 3.7.50 Unfortunately, attempts by my staff during 1986 to bring up to date the audit of the Board's accounts have again proved to be difficult, with the result that the 1984-85 audit is still not finalised.

3.7.51

Details of the major matters which required attention by the Board before both the 1984-85 and 1985-86 audits could be completed were communicated to the Board in December 1986. These matters related mainly to the manner of presentation of information in the financial statements, action required on certain items which were either overstated or understated in the statements and material items of income and expenditure which were not disclosed in the statements.

3.7.52

As finalisation of the audit of the Board's accounts had extended over an inordinately long period of time, audit recommended that the above matters be attended to without further delay. The Board recently responded on the matters and it is anticipated that the 1984-85 and 1985-86 audits can be finalised in the near future.

Schedule A: Complete/Incomplete Audits

Entities	Financial Year Ended	Reporting to Parliament	Date Financial Statements Signed	Date Auditor-General's Report Signed
Complete Audits				
Ministry of Education	30 June 1986	30 September. Annual Reporting Act 1983 (S.8)	26 September 1986	29 September 1986
Council of Adult Education	30 June 1985	30 September. Council of Adult Education Act 1981 (S.19)	21 February 1986	17 March 1986
Institute of Educational Administration	30 June 1985	31 December. Institute of Educational Administration Act 1980 (S.17)	24 February 1986	3 March 1986
" "	30 June 1986	" "	9 October 1986	18 October 1986
Post-Secondary Education Institutions				
Universities				
Deakin (and associated companies)	31 December 1985	As soon as practicable after 31 March. Deakin University Act 1974 (S.37)	6 June 1986	29 July 1986
La Trobe	31 December 1985	As soon as practicable after 31 March. La Trobe University Act 1964 (S.41)	15 September 1986	22 September 1986
Melbourne	31 December 1985	No date specified. Melbourne University Act 1958 (S.46)	12 August 1986	9 September 1986
Monash	31 December 1985	As soon as practicable after 31 March. Monash University Act 1958 (S.41)	27 June 1986	27 August 1986
Colleges of Advanced Education				
Ballarat	31 December 1985	No reporting requirements	28 May 1986	13 June 1986
Bendigo	31 December 1985	No reporting requirements	25 March 1986	23 June 1986
Chisholm	31 December 1985	No reporting requirements	27 October 1986	3 December 1986
Footscray	31 December 1985	No reporting requirements	16 May 1986	5 June 1986

Gippsland	31 December 1985	No reporting requirements	18 March 1986	16 July 1986
Hawthorn	31 December 1985	No reporting requirements	22 May 1986	24 June 1986
Institute of Catholic Education	31 December 1985	No reporting requirements	27 March 1986	13 August 1986
Lincoln Institute of Health Sciences	31 December 1985	No reporting requirements	5 May 1986	5 June 1986
Melbourne	31 December 1985	As soon as practicable after 31 March. Melbourne College of Advanced Education Act 1982 (S.42)	30 June 1986	17 July 1986
Phillip	31 December 1985	No reporting requirements	26 March 1986	1 August 1986
R.M.I.T. Ltd	31 December 1985	No reporting requirements	6 June 1986	23 July 1986
Swinburne Ltd	31 December 1985	No reporting requirements	26 May 1986	1 August 1986
Victoria	31 December 1985	No reporting requirements	28 May 1986	24 June 1986
Victorian College of the Arts	31 December 1985	As soon as practicable after 31 March. Victorian College of the Arts Act 1981 (S.36)	16 April 1986	31 July 1986
Victorian College of Pharmacy Ltd	31 December 1985	No reporting requirements	1 May 1986	5 June 1986
Warrnambool	31 December 1985	No reporting requirements	27 May 1986	5 June 1986
--- Colleges of Technical and Further Education				
Batman Automotive College	31 December 1984	No reporting requirements	14 February 1986	21 February 1986
" "	31 December 1985	" "	14 May 1986	23 July 1986
Rendigo	31 December 1985	No reporting requirements	17 June 1986	30 July 1986
Box Hill	31 December 1981	No reporting requirements	21 June 1985	24 February 1986
" "	31 December 1982	" "	21 June 1985	24 February 1986
" "	31 December 1983	" "	21 June 1985	24 February 1986
" "	31 December 1984	" "	13 February 1986	24 February 1986
" "	31 December 1985	" "	12 June 1986	4 July 1986
Broadmeadows	31 December 1985	No reporting requirements	13 June 1986	1 August 1986
Collingwood	31 December 1985	No reporting requirements	3 July 1986	22 September 1986
Dandenong	31 December 1984	No reporting requirements	5 February 1986	10 February 1986
" "	31 December 1985	" "	25 June 1986	7 July 1986
Flaestaff	31 December 1984	No reporting requirements	12 December 1985	21 February 1986
" "	31 December 1985	" "	21 July 1986	30 July 1986

Footscray	31 December 1984	No reporting requirements	13 February 1986	3 March 1986
" "	31 December 1985	" "	30 June 1986	16 July 1986
Frankston	31 December 1985	No reporting requirements	30 July 1986	1 August 1986
Gordon	31 December 1984	No reporting requirements	6 June 1985	7 February 1986
" "	31 December 1985	" "	12 June 1986	26 June 1986
Goulburn Valley*	31 December 1984	No reporting requirements	18 December 1985	24 February 1986
" "	31 December 1985	" "	11 June 1986	30 July 1986
Holmesglen	31 December 1985	No reporting requirements	26 June 1985	9 July 1986
Melbourne College of Decoration	31 December 1984	No reporting requirements	19 December 1985	3 March 1986
" "	31 December 1985	" "	18 July 1986	2 September 1986
Melbourne College of Printing and Graphic Arts	31 December 1984	No reporting requirements	28 February 1986	13 March 1986
" "	31 December 1985	" "	18 June 1986	17 July 1986
Melbourne College of Textiles	31 December 1985	No reporting requirements	6 August 1986	5 September 1986
Moorabbin	31 December 1985	No reporting requirements	18 June 1986	7 July 1986
Newport	31 December 1984	No reporting requirements	23 December 1985	18 February 1986
" "	31 December 1985	" "	9 September 1986	16 September 1986
Outer Eastern	31 December 1985	No reporting requirements	29 May 1986	1 August 1986
Prahran	31 December 1985	No reporting requirements	26 May 1986	13 June 1986
Preston	31 December 1984	No reporting requirements	5 March 1986	22 April 1986
" "	31 December 1985	" "	16 July 1986	30 July 1986
Richmond	31 December 1985	No reporting requirements	13 June 1986	26 June 1986
R.M.I.T. Ltd	31 December 1985	No reporting requirements	6 June 1986	23 July 1986
Sunraysia	31 December 1985	No reporting requirements	20 June 1986	16 September 1986
Swinburne Ltd	31 December 1985	No reporting requirements	26 May 1986	1 August 1986
School of Mines and Industries Ballarat Ltd	31 December 1985	No reporting requirements	21 May 1986	17 July 1986
Wangaratta	31 December 1985	No reporting requirements	21 April 1986	5 June 1986
Warrnambool	31 December 1985	No reporting requirements	26 March 1986	23 June 1986
Whitehorse	31 January 1984	No reporting requirements	8 March 1985	24 February 1986

* Name changed from the Shepparton College of TAFE as from 1 July 1986

William Angliss	31 December 1984	No reporting requirements	15 January 1986	21 February 1986
" "	31 December 1985	" "	17 July 1986	3 July 1986
Wimmera Community	31 December 1985	No reporting requirements	21 July 1986	13 August 1986
Yallourn	31 December 1984	No reporting requirements	11 October 1985	18 February 1986
Composite College				
Victorian College of Agriculture and Horticulture **	31 December 1985	No reporting requirements	29 July 1986	9 September 1986
Victorian Institute of Secondary Education	31 December 1985	As soon as practicable after 31 March. Victorian Institute of Secondary Education Act 1976 (S.17)	18 September 1986	24 December 1986
Victorian Post-Secondary Education Commission	30 June 1986	As soon as practicable after 30 June. Post-Secondary Education Act 1978 (S.21). No specific requirement to include audited financial statements in annual report	8 October 1986	15 October 1986
Victorian Universities Admission Committee	30 June 1986	No reporting requirements. Audit conducted at request of Treasurer	24 November 1986	4 December 1986
Incomplete Audits				
Council of Adult Education	30 June 1986	30 September. Council of Adult Education Act 1981 (S.19)	Field work completed by this Office in November 1986. Revised financial statements only recently received from Council.	
Technical and Further Education Board	30 June 1985	30 September. Post-Secondary Education Act 1978 (S.60) No specific requirement to include audited financial statements in annual report	Revised financial statements for 1984-85 and 1985-86 only recently received from Board.	
" "	30 June 1986	" "		
Colleges of Technical and Further Education ***				
Yallourn	31 December 1985	No reporting requirements	Audit resources were withdrawn in May 1986 due to incomplete state of financial records.	
Victorian Institute of Secondary Education	30 June 1986	As soon as practicable after 31 March. Victorian Institute of Secondary Education Act 1976 (S.17)	The Institute was replaced by the Victorian Curriculum and Assessment Board as from 1 July 1986. Final audit of Institute's accounts for 6 months ended 30 June 1986 is in course.	

** This college provides both advanced education and technical and further education courses.

Qualified audit report issued

***The East Gippsland Community College was formally established as a TAFE College in 1985, but is not listed as it did not commence operations in that year.

Schedule B: Status of Matters Raised in Previous Reports

Report	Subject	Status at Date of Preparation of this Report
Ministry of Education		
Second Report 1982-83, p. 48	State primary school councils - responsibility for receiving and reviewing financial statements of State primary school councils should rest with the Ministry. Substantial number of councils were not meeting legislative requirements to have accounts audited.	Legislative amendment making the Ministry responsible for receiving financial statements became operative in May 1986. The position of outstanding audited financial statements is still causing some concern.
Second Report 1984-85, p. 48	Inadequate accountability for recurrent grants to government schools in that statements submitted did not always disclose grants and related expenditure adequately.	The Ministry has developed a computer package for school accounting to facilitate the link between budgets and specific grants.
Second Report 1984-85, p. 49	Payment of grants and allowances to schools on a monthly basis should be evaluated to ensure interest earnings of the State are maximised.	The Ministry is still awaiting the views of the Department of Management and Budget on this issue.
Second Report 1984-85, p. 52	Adequacy of rate of 25% per cent applied to salaries to cover on-costs of seconded teachers requires evaluation by the Department of Management and Budget.	Position unchanged. Information not yet provided by the Department of Management and Budget on the adequacy of cost recovery charges.
Second Report 1984-85, p. 53	The incidence and control of salary overpayments requires attention.	Position currently under review by Ministry. Refer paragraphs 3.7.6 - 3.7.9 of this report
Second Report 1984-85, p. 54	Numerous very slow moving publications with substantial stocks on hand were held by the Victorian Government Printing Office for sale on behalf of the Ministry.	Position has substantially improved during 1985-86.

Post-Secondary Education Institutions

Second Report 1984-85, p. 60	Services rendered by Chisholm Institute of Technology staff to a business at the Caulfield Plaza Shopping Centre without the authority of the Institute Council.	Substantial review undertaken by the Council. Refer paragraphs 3.7.21 - 3.7.42 of this report
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Technical and Further Education Board

Second Report 1984-85, p. 61	Postponement of audit for year ended 30 June 1985 due to the incomplete state of the financial records of the Board.	Audit for year ended 30 June 1985 remains outstanding. Refer paragraphs 3.7.49 - 3.7.52 of this report.
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3.8

ETHNIC AFFAIRS

3.8.1 The Ethnic Affairs Commission is the only entity subject to audit by the Auditor-General for which the Minister for Ethnic Affairs is responsible.

Audit Comment

3.6.2 There were no matters of significance arising from the audit of the above entity.

Schedule A: Complete/Incomplete Audits

Entities	Financial Year Ended	Reporting to Parliament	Date Financial Statements Signed	Date Auditor-General's Report Signed
Complete Audits				
Ethnic Affairs Commission	30 June 1986	30 September, Annual Reporting Act 1983 (S.8)	11 September 1986	19 September 1986

Schedule B: Status of Matters Raised in Previous Reports

There were no matters outstanding.

3.9

HEALTH

3.9.1 The Minister for Health is responsible for the following entities which are subject to audit by the Auditor-General.

Department

- Health Department Victoria

Public Bodies

- Cancer Institute Board
- Dietitians Board of Victoria
- Optometrists Registration Board
- Victorian Nursing Council

Audit Comment

3.9.2 Matters of significance arising from the audit of certain of the above entities are discussed below.

HEALTH DEPARTMENT VICTORIA

Patients' Trust Accounts

3.9.3 At 30 June 1986 funds totalling \$14.5 million were held by the Department on behalf of patients in psychiatric institutions. Previous audit reports have included comments on the use, by institution management, of interest earned on these patient funds for expenditure on buildings and equipment. Audit recommended that specific guidelines be established to regulate expenditure from this source.

3.9.4 The Mental Health Act 1986 when proclaimed will include provision for:

- an amount representing interest at a prescribed rate to be proportionately credited to each patient's account; and
- surplus interest on patients' investments which may be expended for the benefit or use of patients generally.

3.9.5 The Department is currently developing systems to enable compliance with the requirements of the new legislation. In the meantime, expenditure of interest earned on patients' investments has been frozen.

Free Travel Scheme

3.9.6 The Department operates a scheme providing free travel on the State public transport system for people of limited means attending for treatment at public hospitals. The cost of the scheme in 1985-86 was \$370 751.

3.9.7 The Second Report of the Auditor-General for 1983-84 identified inadequate control over the operations of the scheme in respect of establishing the bona fides of applicants for free travel and inadequate authorisation and accounting procedures relating to the control and reconciliation of travel vouchers and tickets.

3.9.8 In addition, it was noted that the Department meets the full fare costs of providing travel under the scheme even though approximately two thirds of the scheme users are pension cardholders and thereby entitled to concessional fare rates.

3.9.9 At the date of preparation of this report, audit was not aware of action being taken by the Department to resolve these matters.

CANCER INSTITUTE BOARD

Qualification of Financial Statements

3.9.10 Audit was unable to verify private practice income amounting to \$397 236 as existing agreements between the Board and private practitioners' do not provide for access to practitioners' accounting records. New agreements have been drafted which provide for access to the private practitioners' records. These agreements, to be progressively implemented in 1986-87, should eliminate the need for future qualification of the financial statements in relation to this matter.

3.9.11 A further qualification of the financial statements was included in 1985-86 in respect of the Board's policy of not providing for depreciation of building improvements which were recorded in the Board's balance sheet at \$25 565 678. This practice was a departure from the Australian Accounting Standard on the depreciation of non-current assets.

Schedule A: Complete/Incomplete Audits

Entities	Financial Year Ended	Reporting to Parliament	Date Financial Statements Signed	Date Auditor-General's Report Signed
Complete Audits				
Health Department Victoria	30 June 1986	30 September, Annual Reporting Act 1983 (S.8)	22 September 1986	29 September 1986
Cancer Institute Board	30 June 1986	No reporting requirements	19 September 1986	1 October 1986 #
Dietitians Board of Victoria	30 June 1986	30 September, Dietitians Act 1981 (S.25)	30 September 1986	7 October 1986
Optometrists Registration Board	30 June 1986	No reporting requirements	1 October 1986	1 October 1986
Victorian Nursing Council	30 June 1986	31 October, Nurses Act 1958 (S.40)	21 October 1986	27 October 1986

Qualified audit report issued

Schedule B: Status of Matters Raised in Previous Reports

Report	Subject	Status at Date of Preparation of this Report
Health Department Victoria		
October 1982, p. 96	Expenditure on buildings and equipment from interest earned on patients' trust account investments is considered improper. Specific guidelines to regulate expenditure should be established.	Legislation has been enacted to address this problem. Refer paragraphs 3.9.3 - 3.9.5 of this report.
Second Report 1982-83, p. 62 and subsequent reports	Arrangements at certain psychiatric centres regarding contributions required from pensioners for upkeep are inequitable compared with arrangements in other institutions.	Matter remains unresolved. A working party has been established to consider patient fees in psychiatric facilities.
Second Report 1983-84, p. 22 Second Report 1984-85, p. 73	The collection of fees by the Commonwealth from patients in benevolent homes results in unnecessary duplication of administrative procedures.	Position unchanged. Audit recommends that the working party looking into patient fees also give consideration to this matter.
Second Report 1983-84, p. 22	Inadequate controls exist within the free travel scheme to establish the bona fides of applicants and the authorisation and accounting for travel vouchers. Full cost of travel met for pensioners rather than the concessional rate.	Position unchanged. Refer paragraphs 3.9.6 - 3.9.9 of this report.
Second Report 1984-85, p. 70	Control weaknesses and inefficiencies existing in the system for the payment of pre-school salaries necessitate departmental review of the procedures.	Material matters resolved. Responsibility transferred to the Department of Community Services.

Second Report 1984-85, p. 71	Guidelines and procedures for administering home help services require improvement in respect of the assessment of applicants, standardisation of fees and conditions and monitoring of the subsidies.	Refer to section 3.4 of this report on Community Services portfolio.
Second Report 1984-85, p. 72	Legislative amendments be sought to achieve adequate and consistent requirements in respect of financial reporting by and auditing of statutory bodies responsible to the Minister for Health.	Review of requirements currently being undertaken by the Department.

Cancer Institute Board

Supplementary Report 1978-79 p.11 and subsequent reports	Income from the use of hospital facilities by private practitioners not verifiable by audit.	Position unchanged, but procedures proposed by the Board to apply in 1986-87 should resolve this matter. Refer paragraphs 3.9.10 - 3.9.11 of this report.
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3.10

HOUSING

3.10.1 The Minister for Housing is responsible for the following entities which are subject to audit by the Auditor-General:

Public Bodies

- Director of Housing
- Urban Land Authority

Audit Comment

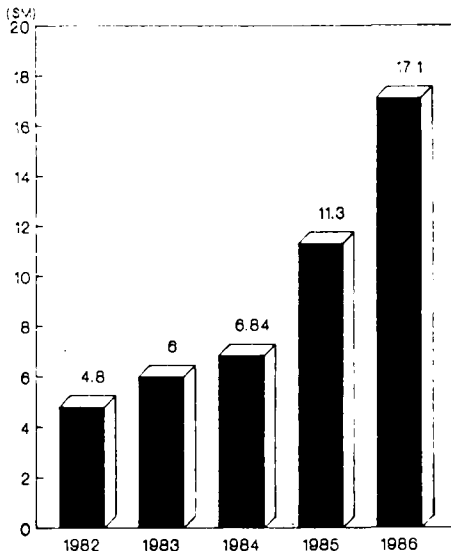
3.10.2 Matters of significance arising from the audit of one of the above entities are discussed below.

DIRECTOR OF HOUSING

Rental Arrears

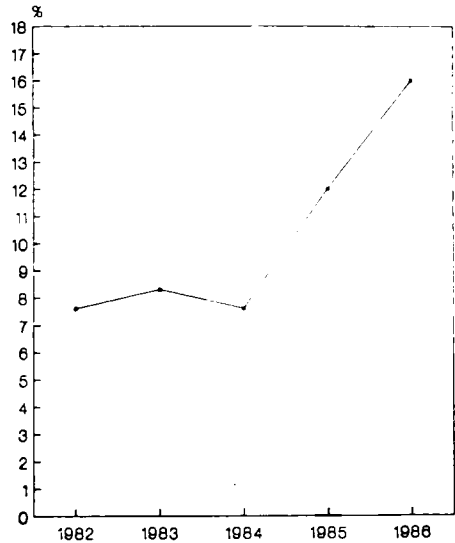
3.10.3 Over recent years there has been an increase in the level of rental arrears faced by the Director of Housing in its rental operations both in absolute terms and as a percentage of total collectable rent as illustrated in the following charts.

**Chart 3.10A: Rental Arrears
(as at 30 June)**



■ Rental arrears

**Chart 3.10B: Rental Arrears as a % of
Collectable Rent**



3.10.4 As at 31 January 1987 rental arrears were \$19.7 million.

3.10.5 Details relating to the provision for doubtful debts and rental arrears written off as bad debts over the past 4 years, were as follows:

Table 3.10A: Provision for Doubtful Debts and Rental Arrears Written Off

<u>Year</u>	<u>Provision For Doubtful Debts</u> \$m	<u>Rental Arrears Written Off</u> \$m
1982-83	0.9	0.42
1983-84	1.683	0.81
1984-85	3.663	0.99
1985-86	6.005	1.11

3.10.6 The increasing level of outstanding debtors has significant financial implications for the operations of the Director of Housing. The inability to maintain the debts at a reasonable level has resulted in a loss of revenue with a consequent reduction in the flow of available cash. By the utilisation of other resources such as the proceeds from land sales, the housing program has been effectively maintained. However, if the progressive erosion of the available revenues from rental collection persists it would be necessary to either cut back and prioritise scheduled housing programs or alternatively borrow additional funds to maintain existing programs at an added cost to the State.

3.10.7 Given the socio-economic environment in which the Director operates, it is recognised that the collection of outstanding rent from tenants will continue to be a difficult task for management in the foreseeable future. Nevertheless, it is important that the level of overall debt be closely monitored to ensure that remedial action is taken at an early stage.

3.10.8 Audit has constantly reviewed the increasing balance of debtors and sought management response to remedial action taken.

Response by Director of Housing

The reduction of rental arrears has been given the highest priority. Actions taken which include the appointment of an additional 40 staff have not had the impact on funds as great as management had hoped.

The factors that affect its ability to reduce arrears include elements of:

- *tenants' low income and money management ability;*
- *the economic climate;*
- *pressure of increasing work loads on staff; and*
- *the inability of current computer systems to provide up to date information to regional offices.*

The method of dealing with its vacated tenants accounts and write-off procedures is being reviewed.

Management of Housing Operation Management Executive System (HOMES)

- 3.10.9 In June 1984 the Director of Housing agreed to the development by external consultants of a major computer system to improve its housing services to the public. The system, known as HOMES, was to be progressively introduced over a 2 year period and comprises 6 modules and associated software at an anticipated cost of approximately \$4 million.
- 3.10.10 At 30 June 1986 only 2 modules had been accepted and were in operation. Two modules had been developed but not accepted whilst specification work only had been conducted on the remaining 2 modules. Costs of the project to 30 June 1986 were in excess of \$5 million.
- 3.10.11 Given the difficulties being encountered in the implementation of the system, action was taken to reassess the acceptance of the testing strategy. Problems were identified in this reassessment which resulted in management appointing an independent consultant to evaluate the complexities of the system at that time. The results of that review indicated amongst other matters that there was a need for the system hardware to be doubled in capacity and that the existing software was not suitable for the overall project.

Response by Director of Housing

The matter has been the subject of ongoing review by senior management, and options are currently being considered.

Deficiencies in Computerised Loan Records

- 3.10.12 In January 1985, the Director of Housing introduced a new type of loan known as a Capital Indexed Loan (CAPIL). The borrowers' fortnightly repayments are determined in accordance with their earning capacity and the interest rate set at the annual inflation rate plus 3%. Repayments in the initial stages are less than the interest charges due on the loan. The subsequent earning capacity of the borrower will eventually recover the capitalised interest charges and the escalation of the property values will enable the borrower to maintain an equity in the property. At 30 June 1986, there were 1 241 direct CAPIL loans outstanding, totalling approximately \$54 million.
- 3.10.13 Significant modifications to the existing computerised mortgage loan system were necessary to deal with the CAPIL system. Due to non adherence to formal procedures governing the conversion and testing of new programs, several of the new CAPIL programs were released into production prior to being adequately tested and accepted by user groups. Consequently, many of the loan details maintained in the system were incorrectly recorded. As at 31 December 1985, some 1 200 loan particulars were identified as inaccurate or incomplete.
- 3.10.14 On becoming aware of difficulties with the computerised system, staff established manual subsidiary records. After several unsuccessful attempts, the reconstruction of the computerised records was finalised in August 1986. Quarterly statements to borrowers as to their loan status were not provided prior to this reconstruction being completed. However, although some borrowers did not receive statements for over 18 months, borrowers continued to maintain their fortnightly instalment payments.

Response by Director of Housing

Areas of concern raised by audit have been recognised and appropriate action taken.

Land Reserves for Recreational Purposes

- 3.10.15 When a developer subdivides land for housing development a portion of the land being developed is required to be set aside for recreation purposes as parks and gardens and is transferred by the developer to the respective local government body.
- 3.10.16 However, where land has been developed by the Director of Housing, reserves set aside for recreational purposes have not been registered in the name of the respective local government body. The Director of Housing may risk public liability action as a result of an injury occurring to persons on these lands.

Response by Director of Housing

It is now current practice for land set aside for recreational purposes to be transferred to the respective council on approval of the plans of subdivision. Action is being taken to identify all reserves established by the Ministry on its lands and have them transferred to the relevant council.

Commercial Properties

- 3.10.17 The Director of Housing owns approximately 220 commercial properties including a hotel, shopping centres and various shops which it leases.
- 3.10.18 The initial acquisitions generally occurred as part of the establishment of housing estates in order to provide estate tenants with local commercial businesses. The capital value of these properties at 30 June 1986 was approximately \$14 million. There has been no formal review in recent years to consider sale or retention of these holdings. Consequently, by retention of these properties the Director of Housing may be foregoing the potential to fund the purchase of additional properties/land in areas of housing need.

Response by Director of Housing

The Ministry has initiated a program to dispose of its surplus properties including commercial holdings. It is envisaged that sales of the Ministry owned commercial properties will commence in early 1987.

Schedule A: Complete/Incomplete Audits

Entities	Financial Year Ended	Reporting to Parliament	Date Financial Statements Signed	Date Auditor-General's Report Signed
Complete Audits				
Decentralized Industry Housing Authority*	30 June 1986	No date specified. Decentralized Industry (Housing) Act 1973 (S.16)	27 August 1986	9 September 1986
Director of Housing	30 June 1986	No date specified. Housing Act 1983 (S.12)	28 August 1986	17 September 1986
Urban Land Authority	30 June 1986	30 November. Urban Land Authority Act 1979 (S.13)	18 September 1986	24 September 1986

* Abolished on 1 July 1986

Schedule B: Status of Matters Raised in Previous Reports

Report	Subject	Status at Date of Preparation of this Report
Director of Housing		
May 1983, p. 22	Inadequate controls exist over custody and physical movement of documents held as security for loan advances.	Action taken to improve controls but position still unsatisfactory.
May 1983, p. 22	Interest subsidy claims in respect of loans from permanent building societies should be selectively verified.	System is being reviewed and action taken to verify certain aspects of claims.
Fourth Report 1982-83, p. 40	Unsatisfactory follow-up action in collection of loan arrears due to inadequate staffing in arrears section.	Position unchanged. Loan arrears at 30 June 1986 were \$1 538 506.
Fourth Report 1982-83, p. 77	No procedures under the housing assistance schemes to ensure co-operative housing societies remit collections promptly.	Position unchanged. Action to improve situation is in process.

Second Report
1983-84, p. 46

Death Benefits Scheme -
reserve substantially
higher than necessary.
Actuarial review
recommended.

In 1985-86 separate
reserve discontinued and
scheme transactions
accounted for in normal
operations.

3.11 INDUSTRY, TECHNOLOGY AND RESOURCES

3.11.1 The Minister for Industry, Technology and Resources is responsible for the following entities which are subject to audit by the Auditor-General:

Department

- Department of Industry, Technology and Resources

Public Bodies

- Albury/Wodonga (Victoria) Corporation
- Alpine Resorts Commission
- Coal Corporation of Victoria
- Emerald Tourist Railway Board
- Gas and Fuel Corporation of Victoria
- Latrobe Regional Commission
- Liquor Control Commission
- Overseas Projects Corporation of Victoria Ltd
- Small Business Development Corporation
- State Electricity Commission of Victoria
- SEC Employees' Retirement and Benefit Fund
- SEC Superannuation Fund
- Swan Hill Pioneer Settlement Authority
- Victorian Economic Development Corporation
- Victorian Solar Energy Council
- Victorian Tourism Commission

Audit Comment

3.11.2 Matters of significance arising from the audit of certain of the above entities are discussed below.

DEPARTMENT OF INDUSTRY, TECHNOLOGY AND RESOURCES

Offshore Petroleum Royalties

3.11.3 The verification of petroleum royalties is performed by the Royalty Review Unit of the Petroleum Division of the Department. The Unit was established in 1983 and has since then been involved in catching up with a backlog of work dating back to 1969.

3.11.4 Substantial progress has been made by the Unit in recent years with the backlog of work now completed to 30 June 1983. In accordance with the agreement between the Commonwealth Department of Resources and Energy and the Commonwealth Auditor-General the audit report for the year ended 30 June 1983 was issued on 16 July 1986.

3.11.5 The Royalty Review Unit is in the process of finalising its verification of royalty payments from 1 July 1983 to 30 June 1985.

Cobia 2 - Determination of the Location of the Well Head

- 3.11.6 During the early days of oil production from the Cobia 2 Sub-Sea Completion, ESSO-BHP disputed the designated authority's determination of the location of the well head. This had financial implications in determining the quantum of royalties paid by the licensees.
- 3.11.7 Victorian Supreme Court writs were issued against the then designated authority, the Minister for Minerals and Energy, by the licensees seeking recovery of a proportion of the royalty paid in respect of petroleum recovered from the Cobia 2 Sub-Sea well plus interest.
- 3.11.8 The hearing came before the Supreme Court during January 1985 and the reserved judgment went in favour of the licensees. An appeal was subsequently lodged to the full court and, in a unanimous decision in April 1986, the court upheld the appeal. ESSO-BHP has now been granted leave to appeal to the High Court.

ALPINE RESORTS COMMISSION

Former Committees of Management

- 3.11.9 Over the past 2 years the Commission has progressively assumed control of a number of former committees of management which had been mainly under the control of the Department of Conservation, Forests and Lands. Of the committees taken over, the Auditor-General was responsible for the audit of the committees of management of Mt. Baw Baw, Mt. Buller and Mt. Hotham.
- 3.11.10 Audit noted that there were many inadequacies and inconsistencies in the manner in which the former committees of management accounted for their activities. Examples included:
- (1) failure to establish proper general ledger systems;
 - (2) varying bases for determining annual service contributions payable by site holders;
 - (3) lack of effective control over entry fees to some resorts; and
 - (4) internal control weaknesses in relation to payroll and cash receipting systems.
- 3.11.11 These inadequacies and inconsistencies led to:
- (1) the Commission inheriting a number of diverse problems which has led it to fully review the associated accounting systems with a view to introducing proper management controls on a consistent basis across all resorts with particular emphasis on a centralised approach; and
 - (2) delays in the preparation of satisfactory financial statements of the former committees of management.

3.11.12 As can be seen from Schedule A to this section of the report there were numerous delays in the preparation of financial statements of former committees of management. At the date of preparation of this report the financial statements of the former Mt. Baw Baw Committee of Management were still subject to audit for the period 1 July 1981 to 12 May 1986 due mainly to the financial statements for the period not having been received until January 1987.

3.11.13 In addition, over the period 1 October 1982 to 16 April 1985, the former Mt. Hotham Committee of Management could not reconcile its holdings in the Mt. Hotham Alpine Resort Fund maintained in the Department of Management and Budget and the variance at 16 April 1985 of \$31 480 was adjusted to agree with the records of the Department of Management and Budget. The financial statements of the former committee were qualified over this matter during the abovementioned period.

1985-86 Financial Statements of the Commission

3.11.14 At the date of preparation of this report the financial statements of the Commission had not been finalised due mainly to problems being encountered in incorporating the financial records of the former committees of management which were taken over during the year into the books and accounts of the Commission.

Qualification of 1984-85 Financial Statements of the Commission

3.11.15 The financial statements were qualified on the following grounds:

- Vested Crown land valued at \$71.8 million, together with other land for which the Commission accepts substantially all the risks and benefits incidental to ownership, had not been disclosed in the balance sheet as a Commission asset.
- Service charges received in advance amounting to \$137 090 had been incorrectly included as revenue for the financial year.
- The Commission's liability for employee entitlements for long service leave and annual leave had not been included.

3.11.16 The bringing to account of revenue in advance and the failure to provide for employee entitlements are not in accordance with generally accepted accounting practice and affected the result of the operations of the Commission by an indeterminate amount.

Response by Commission

The Commission considered that the disclosure of the valuation of the land in the notes to the accounts was adequate. In addition, the Commission indicated that the other issues will be resolved for the 1985-86 financial statements.

Cash Management

3.11.17 During 1984-85 substantial funds were held in the Commission's bank account and did not earn interest. Audit recommended that the Commission take action to negotiate a satisfactory rate of interest on these moneys and subsequently this was achieved by the Commission.

3.11.18 While the Commission has power under its Act to obtain a bank overdraft it decided not to avail itself of this facility and has resorted to a close monitoring of its cash flows. However, the cash flow of the Commission has been adversely affected by:

- the payment of substantial outstanding creditors taken over from former committees of management; and
- delays in invoicing site holders.

3.11.19 The reduced cash flow, together with delays in the receipt of supporting documents from the various resorts to support invoices, led to delays in the payment of accounts during 1984-85 and 1985-86. Nevertheless, there has been a substantial improvement in 1986-87 and for the month of December 1986 the position was as follows:

Table 3.11A: Payment of Accounts

	<u>No. of Accounts</u>	<u>% of Total</u>	<u>Amount \$</u>	<u>% of Total</u>
Variation from due date:				
<u>Early</u>				
Over 21 days	45	28	35 337	13
8-21 days	53	34	159 452	59
4-7 days				
<u>Due Date</u> + 3 days	5	3	18 861	7
<u>Late</u>				
1-30 days	31	19	18 521	6
31-60 days	9	5	28 445	10
61-90 days	4	3	673	1
Over 90 days	11	8	10 018	4
<u>Total</u>	<u>158</u>	<u>100</u>	<u>271 307</u>	<u>100.00</u>

LIQUOR CONTROL COMMISSION

Lack of Reporting Requirements in Legislation

3.11.20 The Commission was established as a public body under the Liquor Control Act 1968 to control the licensing and supervise the conduct of all liquor outlets in Victoria.

- 3.11.21 Whilst the operating results of the Commission are amalgamated into the financial statements of the Department of Industry, Technology and Resources, it has been noted by audit that there are no financial reporting requirements contained in the Act and that the financial statements included in the annual reports of the Commission are lacking in a number of respects. Audit recommended that consideration be given to amending the Liquor Control Act 1968 with the objective of bringing the financial reporting requirements of the Commission into line with other public bodies.

VICTORIAN ECONOMIC DEVELOPMENT CORPORATION (VEDC)

Victorian Investment Corporation Limited

- 3.11.22 On 27 June 1986 the VEDC established a company called Victorian Investment Corporation Limited which has established 5 other companies subsequent to 30 June 1986. There is currently no legislative requirement for the VEDC to report the results of operations of these subsidiary companies nor for the auditors of these subsidiaries to report their findings to Parliament.
- 3.11.23 Previous reports of the Auditor-General have highlighted the issue of possible break-down in the chain of accountability to Parliament through the establishment of subsidiary companies. Refer also Section 2.4 of this report.
- 3.11.24 Consistent with that view, audit recommended that suitable legislative amendments to the Victorian Economic Development Corporation Act 1981 be initiated, without delay, to provide for the VEDC to report to Parliament the financial operations of the Victorian Investment Corporation Limited and any other subsidiaries that may be established in the future.

Response by Corporation

It is not necessary to have the Act amended, even though there is no legislative requirement to report on the activities of the Victorian Investment Corporation Ltd., a separate set of financial statements that comply with the Companies Code is published in the VEDC's Annual Report to Parliament.

VICTORIAN TOURISM COMMISSION

Delay in Finalisation of 1985-86 Financial Statements

- 3.11.25 Under the Victorian Tourism Commission Act 1982 the Commission is required to report its operations, including audited financial statements, to the Minister by 31 December each year. For the past 3 financial years, the Commission has failed to comply with this requirement. The delay in completion of the financial statements was due mainly to the lack of personnel within the Commission with appropriate financial experience.
- 3.11.26 Audit recommended to the Commission that a complete appraisal of the accounting function be undertaken and appropriate staffing levels be determined.

Commission Involvement in Chinatown Precinct

- 3.11.27 In its role of promoting Victoria as a tourist destination the Commission makes grants, loans and subsidies to a number of organisations for the purpose of developing tourist attractions.

- 3.11.28 Over the past 2 years the Commission had made financial contributions towards the establishment of the Museum of Chinese Australian History, an incorporated association situated within the Chinatown Precinct in the City of Melbourne. The management, development and promotion of the Precinct is undertaken by a Committee established by the Chinatown Historic Precinct Act 1984.
- 3.11.29 The Act also provides for the establishment of a Chinatown Historic Precinct Fund which is controlled by the Melbourne City Council and funded by parliamentary appropriations, collections and borrowings.
- 3.11.30 The Museum of Chinese Australian History, the Chinatown Historic Precinct Committee and the Melbourne City Council are not required to be audited by the Auditor-General.
- 3.11.31 In outline the proposal for establishment and funding arrangements for the Museum were as follows:

(1) Proposal for establishment of Museum

In promoting the development of the Chinatown Precinct the Committee proposed to establish a Museum of Chinese Australian History and in 1984 a submission was presented to Victoria's 150th Anniversary Board to obtain a grant for the purchase of a suitable building. The proposal was approved by the Premier and in 1985 a grant of \$250 000 was provided to the Commission towards the purchase of a building for the Museum.

Approval to payment of the grant to the Commission was given on the conditions that:

- the grant would be used to acquire a building to house the Museum;
- the body to run the Museum would be a non-government body, i.e. an incorporated association;
- there were to be no ongoing costs to government for setting up and running of the Museum.

The building was compulsorily acquired by the Ministry for Planning and Environment and possession was given to the Museum. Prior to the compulsory acquisition the building was leased by the previous owners to Sessay Pty Ltd, a subsidiary company of the Commission. A compensation claim against the Government by the previous owners of the building is pending.

(2) Funding of the project

The Chairman of the Commission indicated that the original feasibility study for the Museum provided for an optimum development of \$3.5 million, to be financed mainly through fund raising activities. The target for fund raising was subsequently revised to \$1.5 million but the response from the corporate sector and the Chinese community was poor and the necessary funding failed to eventuate.

Notwithstanding the failure to raise funds by public subscription a draft Chinatown Action Plan prepared by the Commission and the Melbourne City Council highlighted the value of the proposed Museum as a central activator and tourist attraction. With the approval of the then Minister for Industry, Technology and Resources, the Commission decided to proceed with the development of the Museum and an initial provision was made in the 1984-85 appropriation of the Department of Industry, Technology and Resources (ITR).

In addition to the grant from the 150th Anniversary Board, the following funding was made available to the Chinatown Project from various parliamentary appropriations during 1984-85 and 1985-86:

Table 3.11B: Funding to Chinatown Project

		\$000
1984-85	Tourism Program 663 - Tourism Strategy	955
1985-86	Tourism Program 476 - Tourism Strategy	684
" "	Program 473 - Incentive and other development payments, etc.	<u>170</u>
		1 809
" "	Program 573 - Central Business District	<u>240*</u>
	Total to 30 June 1986	<u>2 049</u>

* *Paid direct to Melbourne City Council by the Ministry for Planning and Environment*

3.11.32 During 1985-86 an audit review was conducted of the payments made by the Commission to or on behalf of the Chinatown Historic Precinct Committee and the Museum of Chinese Australian History to ascertain whether funds were disbursed in accordance with agreed terms and conditions and whether the Commission had management systems in place to monitor the application of such funds by the recipient bodies.

3.11.33 Significant matters arising from the review were:

(1) Project management

Audit examination indicated that the Commission did not have adequate budgetary systems in place to ensure government funds provided by the Commission to the Precinct Committee and the Museum were properly controlled. The Commission had not prepared or received from either body a business plan of the project covering budgeted costs and anticipated funding from private sources and government until 1985, when substantial moneys had already been committed on Museum works.

Further, audit could not establish whether project management guidelines had been laid down to ensure that:

- the Museum project was adequately supervised;
- progress payments were fully supported by progress reports and on-site inspections;

- responsibility for incurring and reporting of expenditures was clearly established by the relevant bodies;
- objectives were being achieved efficiently within approved resource allocations; and
- continual evaluations were undertaken to establish that the project was progressing satisfactorily and, where necessary, corrective action implemented to rectify shortcomings and/or deficiencies.

Response by ITR

Grants made available to the Precinct and the Museum were monitored by the Commission through its representation on the Precinct Committee and through membership of the Board of the Museum. However, in the light of audit comments on the Chinatown Precinct project and the more general criticism of departments in the First Report of the Auditor-General for 1985-86, the adequacy of monitoring procedures of the Industry, Technology and Resources portfolio agencies is being reviewed.

(2) Role of Commission personnel

Audit was informed that the Chairman of the Commission was also the Chairman of the Precinct Committee as well as being a member of the Museum Committee and that a Commission officer acted as project manager on the Museum project.

The Commission considered the involvement on the project by its Chairman and one of its officers as project manager provided the means of closely monitoring the progress of the project on an on-going basis. Audit expressed some reservations in accepting that an objective and independent evaluation could take place, having regard to the potential conflict of interest which may have arisen as a result of the Chairman concurrently authorising the disbursement of government funds and assuming responsibility for Precinct works.

Response by ITR

While no conflict of interest is seen in the role of the Chairman and Commission officers in the close supervision of the Chinatown Precinct activities, responsibility for matters relating to the Museum is being transferred to the Ministry of Arts during 1986-87, with appropriate adjustment to administrative arrangements.

(3) Compliance with Precinct legislation

Under the Precinct legislation the Chinatown Historic Precinct Fund constitutes the statutory mechanism for management and control of financial transactions relating to Precinct projects. Audit noted that, of the total contributions by the Commission from annual appropriations to 30 June 1986, \$1 808 820, only \$1 235 212 was paid into the Fund in accordance with the legislation.

Audit was of the opinion that the balance, \$573 608, paid by the Commission by-passed the financial control framework embodied in the legislation. The Act provides for scrutiny by the Melbourne City Council of the financial transactions relating to the fund; consequently, some \$573 608 escaped such scrutiny. Of this amount, \$391 240 was paid to the Museum Committee to cover operating expenses in 1984-85 and 1985-86. The balance, \$182 368, was paid to meet debts incurred on behalf of both the Museum Committee and the Precinct Committee.

Response by ITR

It is normal practice for all funds allocated by the Commission from its appropriation for the development of the Precinct to be paid to the Chinatown Historic Precinct Fund. Some minor instances have occurred where Precinct project development costs were met directly by the Commission. These resulted from cumbersome administrative arrangements which are now being rectified.

(4) Acquisition of Museum building

Audit noted that the Land Monitoring Division of the Department of Management and Budget was not officially advised by the Commission of the property transaction until the Museum building was acquired. Government guidelines require property transactions of \$100 000 or more to be approved by the Land Monitoring Division.

Response by ITR

As this was a compulsory acquisition now being undertaken by the Department of Property and Services that Department subsequently informed the Land Monitoring Unit of the transaction.

Schedule A: Complete/Incomplete Audits

Entities	Financial Year Ended	Reporting to Parliament	Date Financial Statements Signed	Date Auditor-General's Report Signed
Complete Audits				
Department of Industry, Technology and Resources	30 June 1986	30 September, Annual Reporting Act 1983 (S.8).	25 September 1986	26 September 1986
Alpine Resorts Commission	31 October 1985	31 December, Alpine Resorts Act 1983 (S.10)	15 August 1986	15 October 1986
Albury/Wodonga (Victoria) Corporation	30 June 1986	No date specified, Albury Wodonga Agreement Act 1973 (S.24)	24 September 1986	31 October 1986
Coal Corporation of Victoria	30 June 1986	31 August, State Electricity Commission, (Coal Corporation of Victoria) Act 1984 (S.78)	29 July 1986	8 August 1986
Emerald Tourist Railway Board	30 June 1986	31 October, Emerald Tourist Railway Act 1977 (S.25)	20 October 1986	3 November 1986
Gas and Fuel Corporation of Victoria	30 June 1986	30 September, Annual Reporting Act 1983 (S.9)	12 September 1986	15 September 1986
Lalrobe Regional Commission	30 June 1986	30 September, Lalrobe Regional Commission Act 1983 (S.50)	12 September 1986	17 September 1986
Overseas Projects Corporation of Victoria Limited (company)	Period 13 March 1985 to 30 June 1986	Companies Code (Victoria)	25 November 1986	1 December 1986

Small Business Development Corporation	30 June 1986	No date specified. Small Business Development Corporation Act 1976 (S.18)	25 August 1986	28 August 1986
State Electricity Commission of Victoria	30 June 1986	30 September. Annual Reporting Act 1983 (S.9)	10 September 1986	12 September 1986
S.F.C. Employees' Retirement and Benefit Fund	30 June 1986	No reporting requirements. State Electricity Commission Act 1958 (S.81) provides for the audit of the books and accounts	30 September 1986	14 November 1986
S.F.C. Superannuation Fund	30 June 1986	No reporting requirements. State Electricity Commission Act 1958 (S.81) provides for the audit of the books and accounts	30 September 1986	14 November 1986
Swan Hill Pioneer Settlement Authority	30 June 1985	No date specified. Swan Hill Pioneer Settlement Act 1974 (S.25)	15 September 1986	24 September 1986
" "	30 June 1986	" "	17 December 1986	7 January 1987
Victorian Economic Development Corporation	30 June 1986	31 December. Victorian Economic Development Corporation Act 1981 (S.43)	19 September 1986	31 October 1986
Victorian Solar Energy Council	30 June 1986	31 October. Victorian Solar Energy Council Act 1980 (S.18)	22 August 1986	28 August 1986
Victorian Tourism Commission	30 June 1985	31 December. Victorian Tourism Commission Act 1982 (S.27)	14 March 1986	30 April 1986
Former Committees of Management:				
Mt Buller Alpine Reserve Committee of Management	31 December 1982	No reporting requirements	31 December 1985	3 April 1986
" "	31 December 1983	" "	31 December 1985	3 April 1986
" "	31 December 1984	" "	21 January 1986	3 April 1986
" "	Period 1 January 1985 to 7 May 1985	" "	21 January 1986	3 April 1986
Mt Hotham Alpine Resort Management Committee	30 September 1981	No reporting requirements	Not dated	13 June 1986
" "	30 September 1982	" "	Not dated	13 June 1986
" "	30 September 1983	" "	Not dated	13 June 1986
" "	30 September 1984	" "	Not dated	13 June 1986
" "	Period 1 October 1984 to 16 April 1985	" "	Not dated	13 June 1986
Incomplete Audits				
Alpine Resorts Commission	31 October 1986	31 December. Alpine Resorts Act 1983 (S.10)	Interim audit commenced. Financial statements not yet presented for audit.	
Victorian Tourism Commission	30 June 1986	31 December. Victorian Tourism Commission Act 1982 (S.27)	Financial statements not provided.	

Former Committee of Management:

Mt Raw Reserve Committee of Management	Alpine	30 June 1982	No reporting requirements	Financial statements not provided.
"	"	Period 1 July 1982 to 31 December 1982	"	"
"	"	31 December 1983	"	"
"	"	31 December 1984	"	"
"	"	Period 1 January 1985 to 14 May 1986	"	"

Qualified audit report issued

Schedule B: Status of Matters Raised in Previous Reports

Report	Subject	Status at Date of Preparation of this Report
Department of Industry, Technology and Resources		
October 1982, p. 112	Gas Examiner - the maximum statutory rate of 20 cents per consumer does not cover increased operating costs of the Gas Examiner.	Position unchanged.
Second Report 1982-83, p. 80	Until the review of all past royalty payments is completed, audit is unable to confirm the accuracy of royalty payments from 1969 to date.	Substantial improvement in position. Refer further comment paragraphs 3.11.3 - 3.11.5 of this report.
Second Report 1983-84, p. 29	Victorian Supreme Court writs were issued by the licensees seeking recovery of a proportion of the royalty paid, plus interest, in respect of the Cobia 2 Sub-Sea Completion.	Refer comments in paragraphs 3.11.6-3.11.8. of this report.
Victorian Economic Development Corporation		
Third Report 1982-83, p. 90	Formal criteria should be established for determining acceptable security for commercial loans advanced by the Corporation.	Position has improved. Will continue to be monitored by audit.

3.12

LABOUR

3.12.1 The Minister for Labour is responsible for the following entities which are subject to audit by the Auditor-General:

Department

- Department of Labour

Public Body

- Construction Industry Long Service Leave Board

Audit Comment

3.12.2 Matters of significance arising from the audit of one of the above entities are discussed below.

DEPARTMENT OF LABOUR

Cash Management

3.12.3 The following observations were made by audit concerning the Department's cash management systems.

- (1) Recoveries from the Commonwealth

Grant payments totalling \$1.1 million were made by the Department to organisations to establish and administer group apprenticeship schemes. Under the grant arrangements a part of this expenditure is recovered quarterly from the Commonwealth.

A review of procedures relating to the recoup of expenditure from the Commonwealth revealed that:

- the Department did not have effective procedures in place to ensure that all recoups due were in fact received by the Department; and
- delays occurred in the submission of recoup claims to the Commonwealth.

Audit made a number of recommendations including the requirement that future claims be submitted to the Commonwealth on a timely basis.

Response by Department

A review of the scheme revealed that at 30 June 1986 \$287 949 remained unrecouped and action has now been taken to recover the outstanding amounts.

All other audit recommendations had been implemented including the establishment of a debtors ledger.

(2) Registration fees

Fees totalling \$6 million (1984-85, \$6.3 million) for the registration of shops, factories, boilers and pressure vessels were collected by the Department during the year.

A review of the Department's systems and procedures relating to the raising and collection of these fees revealed that there were delays in billing and follow-up of unpaid fees was inadequate. In addition, the Department lacked adequate procedures to verify the accuracy and completeness of registration fees receivable.

Audit recommended that to improve the cash management of the registration system:

- (i) charges be levied for all properties and items required to be registered;
- (ii) registration renewal notices be issued prior to expiry dates, allowing adequate time for the collection of fees; and
- (iii) follow-up and collection of all unpaid fees be made on a timely basis.

Response by Department

A review had been undertaken of fees and charges and ways to improve the billing and processing of fees. The recommendations resulting from that review were still under consideration, however, as an immediate step, the Department will advance the billing of the 1987 shop registrations.

The Department advised that it does not have the staff resources to adequately follow up all unpaid fees.

Alleged Irregularities

3.12.4 The Department advised that an internal investigation had been conducted into the following alleged irregularities:

- (1) two officers set up a company under false names and used their positions to benefit the company;
- (2) an officer improperly issued certificates of competency to applicants not properly qualified; and
- (3) two officers enjoyed favours from clients which could conflict with the discharge of their duties.

3.12.5 As a result of these alleged irregularities, 4 officers have resigned and one officer has been requested to explain certain actions which may constitute breaches of the Public Service Act. Police enquiries are continuing.

Schedule A: Complete/Incomplete Audits

Entities	Financial Year Ended	Reporting to Parliament	Date Financial Statements Signed	Date Auditor-General's Report Signed
Complete Audits				
Department of Labour	30 June 1986	30 September. Annual Reporting Act 1983 (S.8)	17 September 1986	29 September 1986
Construction Industry Long Service Leave Board	30 June 1986	31 March. Construction Industry Long Service Leave Act 1983 (S.8).	19 September 1986	22 October 1986
Hairdressers Registration Board *	31 December 1985	No date specified. Hairdressers Registration Act 1958 (S.10)	4 April 1986	6 May 1986

* Abolished on 1 July 1986

† Qualified audit report issued.

Schedule B: Status of Matters Raised in Previous Reports

Report	Subject	Status at Date of Preparation of this Report
Construction Industry Long Service Leave Board		
December 1982, p. 6 and subsequent reports	Accounts do not disclose gains or losses on sales or switches of investments at the point of sale.	Financial statements qualified in 1985-86. Gains and/or losses on investment switches transacted during the period 1 July 1985 to 31 March 1986 not brought to account. The Board changed its policy in April 1986. Gains or losses now brought to account.

3.13

LOCAL GOVERNMENT

3.13.1 The Minister for Local Government is responsible for the following entities which are subject to audit by the Auditor-General:

Department

- Local Government Department

Public Body

- Local Authorities Superannuation Board

Audit Comment

3.13.2 A matter of significance arising from the audit of one of the above entities is discussed below.

LOCAL GOVERNMENT DEPARTMENT

Advance Account

3.13.3 During the audit it was observed that the Department had not reconciled the advance account for several months which was of concern considering the misappropriation of funds that occurred in the account in 1985. Regular reconciliation of the advance account is necessary to ensure the timely detection of errors or irregularities in the operations of the account.

3.13.4 At the date of preparation of this report the Department had balanced the account to 31 January 1987 and was taking action to ensure the account was balanced regularly.

Schedule A: Complete/Incomplete Audits

Entities	Financial Year Ended	Reporting to Parliament	Date Financial Statements Signed	Date Auditor-General's Report Signed
Complete Audits				
Local Government Department	30 June 1986	30 September, Annual Reporting Act 1983 (S.R)	15 September 1986	23 September 1986
Incomplete Audits				
Local Authorities Superannuation Board	28 February 1986	No reporting requirements. However, the Board has presented an unaudited report to all members of Parliament	Audit substantially completed. Financial statements not signed by Board.	

Schedule B: Status of Matters Raised in Previous Reports

<u>Report</u>	<u>Subject</u>	<u>Status at Date of Preparation of this Report</u>
Local Government Department		
Second Report 1984-85, p. 91	Irregularities in payroll system.	Paymistress convicted of misappropriation of funds amounting to \$61 000.

3.14

PLANNING AND ENVIRONMENT

3.14.1 The Minister for Planning and Environment is responsible for the following entities which are subject to audit by the Auditor-General:

Department

- Ministry for Planning and Environment

Public Bodies

- Historic Buildings Council
- Plumbers and Gasfitters Board

Audit Comment

3.14.2 A matter of significance arising from the audit of one of the above entities is discussed below.

MINISTRY FOR PLANNING AND ENVIRONMENT

Internal Review Section

3.14.3 It is pleasing to note that, during 1985-86, the Ministry established an Internal Review Section which is to undertake high priority investigations and reviews with the objective of improving the efficiency and effectiveness of operations.

3.14.4 The Section currently comprises one officer who, after consultation with the Ministry's Corporate Planner, reports to the Chief Administrator.

3.14.5 The Ministry approached development of the Internal Review Section with the objective that the new function would exhibit some but not all of the characteristics of an internal audit unit. To illustrate this point, there is no formal charter which documents such matters as the Section's role and responsibilities, independence, planning procedures, relationship with management, reporting arrangements and liaison with representatives of the Auditor-General. Also, the ambit of the Section's activities does not specifically embrace all of the critical management and financial control systems within the Ministry.

3.14.6 Audit recommended that, as the new Section develops and becomes an integral component of the Ministry's operations, consideration be given to extending its structure and modus operandi to equate with the standards of internal audit issued by the Bureau of Internal Audit of the Department of Management and Budget.

Schedule A: Complete/Incomplete Audits

Entities	Financial Year Ended	Reporting to Parliament	Date Financial Statements Signed	Date Auditor-General's Report Signed
Complete Audits				
Ministry for Planning and Environment	30 June 1986	30 September. Annual Reporting Act 1983 (S.8)	26 September 1986	29 September 1986
Historic Buildings Council	30 June 1986	30 September. Historic Buildings Act 1981 (S.62)	23 September 1986	29 September 1986
Incomplete Audits				
Plumbers and Gasfitters Board	30 June 1986	No reporting requirements	Field audit work completed. Revised financial statements not yet received.	

Schedule B: Status of Matters Raised in Previous Reports

There were no matters outstanding.

3.15

POLICE AND EMERGENCY SERVICES

3.15.1 The Minister for Police and Emergency Services is responsible for the following entities which are subject to audit by the Auditor-General:

Department

- Ministry for Police and Emergency Services

Public Bodies

- Country Fire Authority
- Metropolitan Fire Brigades Board

Audit Comment

3.15.2 There were no matters of significance arising from the audit of the above entities.

Schedule A: Complete/Incomplete Audits

Entities	Financial Year Ended	Reporting to Parliament	Date Financial Statements Signed	Date Auditor-General's Report Signed
Complete Audits				
Ministry for Police and Emergency Services	30 June 1986	30 September, Annual Reporting Act 1983 (S.8)	17 October 1986	27 October 1986
Country Fire Authority	30 June 1986	No date specified, Country Fire Authority Act 1958 (S.24)	8 September 1986	7 October 1986
Metropolitan Fire Brigades Board	30 June 1986	No date specified, Metropolitan Fire Brigades Act 1958 (S.48)	12 November 1986	27 November 1986

Schedule B: Status of Matters Raised in Previous Reports

Report	Subject	Status at Date of Preparation of this Report
Ministry for Police and Emergency Services		
First Report 1980-81, p. 172	Internal audit not yet established.	One position to be created during 1986-87.
Country Fire Authority		
December 1982, p. 12	Authenticity of statutory contributions should be verified by means of a selective examination of premium returns.	Position unchanged.

Fourth Report
1982-83, p. 24

Two practices adopted for depreciation of fixed assets are not consistent with Australian Accounting Standards.

Depreciation rate now reviewed annually. Apart from motor vehicles, position unchanged regarding depreciation of assets purchased during the year.

Fourth Report
1982-83, p. 24

Transfer by the Authority of interest earned on general account investments to the Sale of Property Fund should be reviewed by the Department of Management and Budget.

Position unchanged, but legislative changes are proposed regarding investment income.

3.16

PREMIER AND CABINET

3.16.1 The Premier is responsible for the following entities which are subject to audit by the Auditor-General:

Departments

- Department of the Premier and Cabinet
- Office of the Auditor-General
- Office of the Public Service Board

Public Body

- Victorian Relief Committee

Audit Comment

3.16.2 There were no matters of significance arising from the audit of the above entities.

Schedule A: Complete/Incomplete Audits

Entities	Financial Year Ended	Reporting to Parliament	Date Financial Statements Signed	Date Auditor-General's Report Signed
Complete Audits				
Department of the Premier and Cabinet	30 June 1986	30 September, Annual Reporting Act 1983 (S.8)	18 September 1986	24 September 1986
Office of the Auditor-General	30 June 1986	30 September, Annual Reporting Act 1983 (S.8)	24 September 1986	24 September 1986
Office of the Public Service Board	30 June 1986	30 September, Annual Reporting Act 1983 (S.8)	19 September 1986	24 September 1986
Victorian Relief Committee	30 June 1986	No reporting requirements. Audited at request of Treasurer	24 November 1986	3 December 1986

Schedule B: Status of Matters Raised in Previous Reports

There were no matters outstanding.

3.17

PROPERTY AND SERVICES

3.17.1 The Minister for Property and Services is responsible for the following entities which are subject to audit by the Auditor-General:

Department

- Department of Property and Services

Public Bodies

- Government Employee Housing Authority
- State Electoral Office
- Surveyors Board
- Victorian Public Offices Corporation

Audit Comment

3.17.2 Matters of significance arising from the audit of certain of the above entities are discussed below.

DEPARTMENT OF PROPERTY AND SERVICES

Lease Rentals

3.17.3 The Department is responsible, inter alia, for the provision of Government-owned and leased accommodation for occupation by departments and some public bodies. The Department currently manages some 2 500 properties. In 1985-86, payments by the Department on account of lease rentals totalled \$45.3 million. Revenue derived during the year from leased properties managed by the Department amounted to \$4.2 million.

3.17.4 Audit examination during the year of lease rental activities of the Department focused on the following 3 areas:

- procedures employed for the monitoring of rental payments for vacant premises (unproductive or dead rentals);
- leasing records (incorporating records relating to both rentals payable and rentals receivable); and
- reporting of lease commitments.

(1) Monitoring of unproductive rentals

A significant initiative taken by the Department was the introduction of a vacancy management report on unproductive rentals. The report, which is produced on a fortnightly basis, has enabled the Department to more effectively identify and monitor unproductive rentals.

The definition adopted by the Department for such rentals is:

"rental incurred on unoccupied premises where a fitout is not being undertaken, or where the projected fitout completion date has been exceeded".

The Department calculated unproductive rentals paid on unoccupied space for 1985-86 to be \$360 237 and included details relating to this amount in its annual report presented to Parliament.

The Department does not classify as unproductive rentals cases where fitout activity does not commence in accordance with the anticipated fitout program. To illustrate this position, rentals on properties at 50 and 60 Market Street, initially the subject of leasing negotiations by the Metropolitan Transit Authority, have not been included in the Department's calculations. The fitout programs for both buildings commenced in March 1986, in excess of 3 months after the date originally scheduled. (Comment relating to the delays in occupancy of the 2 buildings is contained in paragraphs 3.20.30 - 3.20.32 of this report on the Transport ministerial portfolio). Because the original estimated fitout completion date of September 1986 had not expired, the Department did not include these properties in its calculations for the year.

By arrangement with the Minister for Transport, the Department has assumed responsibility for finalisation of the leases for both premises. Under the leasing arrangements which are about to reach finality, rent in respect of 50 Market Street (the whole of the building is leased) will be due and payable from 1 September 1985 and for 60 Market Street rent will be due and payable from 1 July 1985 for various floors of the building. Because of the delays in commencement of fitout programs for both buildings, audit considered that a more accurate figure for unproductive rentals for the 2 buildings would take into account the period from the date when the rent becomes due and payable up to the actual fitout commencement date, i.e. the deferred or delayed date.

Unproductive rentals payable for unoccupied space at both 50 and 60 Market Street under this approach amount to in excess of \$1 million (50 Market Street, \$600 000, 1 September 1985 to 28 February 1986, and 60 Market Street, \$456 847, 1 July 1985 to 28 February 1986).

Inclusion within calculations of amounts determined on the above basis leads not only to the reporting to Parliament of a more realistic assessment of unproductive rentals for a given period, it also serves to focus attention on the accountability of those parties whose decisions give rise to the extension of periods when space is unoccupied and any resultant additional costs incurred.

Accordingly, audit recommended to the Department that future unproductive rental calculations cover all cases where variations to fitout schedules occur and that, in circumstances involving floor by floor occupancy, unproductive rental calculations continue until the deferred fitout program for each floor commences. Audit recognised that such variations may often be outside the direct control of the Department (e.g. the Public Works Department has responsibility for implementation of fitout programs involving premises to be occupied by departments). As such, information on unproductive rentals periodically reported to Parliament and other external parties on this expanded basis should ideally identify within the reported data the component of such rentals which was subject to direct control of the Department.

Audit also considered that the Department should calculate, monitor, and periodically report rentals paid in respect of unoccupied space during periods of fitout activity, irrespective of the fact that such rentals fall outside the ambit of its definition of unproductive rentals. Evaluation of actual performance against standards formulated for fitout programs, and the reporting of comparative information on an annual basis, would seem to constitute positive action by the Department in its role of ensuring maximum economy and efficiency in property management functions.

(2) Leasing records

Details of all leased premises for which the Department is responsible are maintained on individual files. In addition, a separate manual card system is maintained which summarises information pertaining to rentals payable and is used as a basis for preparation of monthly cheques to lessors.

Questions arose during the audit concerning the integrity of the manual records maintained by the Department. During the year the Department identified an overpayment of rentals of \$51 835 relating to a property for the period 1 October 1984 to 30 April 1986. This overpayment was apparently attributable to poor documentation of rental information concerning the property. Some limited audit testing of property records also identified instances where information recorded on cards had not been updated to reflect changes in occupancy. Lack of co-ordination between sections within the Department on property data contributed to a number of the recording problems.

Some degree of confidence in the accuracy of recorded data can be derived from regular physical inspections of leased properties. However, audit was informed that, because of resource constraints, regular inspections by the Department covering the major segments of the portfolio had not been carried out during the year.

Mindful of the importance of an accurate and reliable data base and reporting system to the economic and efficient management of its leasing portfolio, the Department has developed, and is currently in the process of finalising implementation of, a computerised property management information system. It is understood that this system, which is expected to become fully operational during 1987, will overcome past problems associated with the manual property records. It is also anticipated that the new system will provide the Department with a capacity to routinely track and highlight rentals paid during fitout programs.

The Department also plans to introduce a systematic approach to physical inspection of properties in conjunction with implementation of the new information system and has taken action to improve co-ordination of activities between sections within its Property Division.

(3) Rentals receivable

A review of records maintained in relation to rentals receivable disclosed that the problems concerning accuracy of data in the rentals payable area of the Department (mentioned in point (2) above) were also evident in the rentals receivable area.

Examples of these problems were:

- overcharging of rentals of \$75 549 involving different tenants being charged rental for an area occupied by one tenant; and
- an instance where rental cards recorded a property as vacant and, as such, the charging of rentals had ceased, whereas perusal of the relevant property file revealed that the particular premises were still in fact occupied by the lessee.

It is understood that the action currently in course to improve recording procedures within the rentals payable area, as described above, will also embrace procedures dealing with rentals receivable.

Audit review of the records relating to rentals receivable also disclosed that a number of properties are leased by the Department at extremely low rental charges, some as low as \$1 per annum.

The Department has consulted with the Department of Management and Budget concerning the introduction of rentals based on market rates for such properties. It is understood that final decisions have not yet been made on the subject.

(4) Reporting of lease commitments

During 1985-86, the Department entered into lease agreements for the leasing of accommodation at 78 locations for periods ranging from 1 to 12 years (with options) at an estimated annual charge of \$5.4 million. The Department included information relating to these new leasing arrangements in its financial statements for the year in line with the requirements of the regulations under the Annual Reporting Act 1983.

In view of the magnitude of the leasing portfolio of the Department, audit recommended that the Department give consideration to extending its lease reporting base to encompass leasing commitments in respect of its entire leasing portfolio. Action along these lines would provide Parliament with more complete information on the financial impact of leasing decisions. The classification framework for the reporting of lease commitments at balance date, embodied in Australian Accounting Standard 17, "Accounting for Leases", was suggested by audit as a useful basis for presentation of such aggregate data.

Internal Audit

- 3.17.5 It is pleasing to note that the Department established an internal audit section during 1985-86. The section commenced operation with the appointment of a senior officer as from August 1986. This officer reports directly to the Chief Administrator. A charter setting out the role and responsibilities of the function has been approved by the Chief Administrator. The charter indicates that this important independent appraisal activity will embrace, on a systematic basis, the critical financial and management control systems within the Department.

VICTORIAN PUBLIC OFFICES CORPORATION

Financial Viability of the Corporation

- 3.17.6 The matter of financial viability of the Corporation, which has been raised in previous reports, is still not finalised.

3.17.7 During 1985-86 the Corporation found it necessary to obtain from the Department of Management and Budget special advances totalling \$870 000 to enable it to meet loan commitments.

3.17.8 As part of its policy to rationalise property management, the Government has determined to discontinue the existence of a separate property corporation. It is understood that legislation to provide for termination of the Victorian Public Offices Corporation will be brought before Parliament during the 1987 Autumn Session.

Schedule A: Complete/Incomplete Audits

Entities	Financial Year Ended	Reporting to Parliament	Date Financial Statements Signed	Date Auditor-General's Report Signed
Complete Audits				
Department of Property and Services	30 June 1986	30 September. Annual Reporting Act 1983 (S.8). Extension of time granted by Treasurer.	15 October 1986	23 October 1986
Government Employee Housing Authority	30 June 1986	31 December. Government Employee Housing Authority Act 1981 (S.23).	29 October 1986	31 October 1986
State Electoral Office	N/Applic	Returning officers are required to submit financial returns within 6 months of an election. Constitution Act Amendment Act 1958 (S.161).	Financial returns relating to the March 1985 State election and various by-elections, have been progressively examined by the Chief Electoral Officer and forwarded to the Auditor-General. Audit examination of these returns is in course.	
Surveyors Board	30 June 1986	No reporting requirements.	8 October 1986	24 December 1986
Incomplete Audits				
Victorian Public Offices Corporation	30 June 1986	31 October. Victorian Public Offices Corporation Act 1974 (S.17).	Field audit work completed. Revised financial statements not yet received.	

Schedule B: Status of Matters Raised in Previous Reports

Report	Subject	Status at Date of Preparation of this Report
Department of Property and Services		
Second Report 1982-83, p. 86	A range of environmental, organisational and operational control weaknesses exist at the Burroughs (B6800/B7700) Centre of the Government Computing Service.	Although some improvements have been made, environmental control weaknesses remain.

Third Report
1983-84, p. 44

Department did not maintain a complete listing of all properties available for rental.

A manual card system is maintained but not regularly updated. To improve control, a computerised property management information system has been developed which is expected to become operational in 1986-87. Refer paragraph 3.17.4 of this report.

Third Report
1983-84, p. 44

Regular review of debtors' records not undertaken to determine tenants in arrears, so that follow-up action could be taken.

The Department now undertakes a regular review of debtors' records.

Government Employee Housing Authority

December
1982, p. 21

Accommodation register not yet finalised.

Computerised accommodation register is nearing finalisation.

Third Report
1982-83, p. 19

The continuing loss on rental operations warrants further review by the Authority.

Loss on rental operations remains significant. However, position is expected to improve following changes in government policy introduced in September 1986 under which:

- all new tenants within properties which are not required to be occupied as a job requirement will pay market rentals; and
- all properties with clear titles within the "not required to be occupied" category are to be identified and sold.

Supplementary
Report 1980-81,
p. 54

Sundry debtors of Victorian
Government Printing Office
- government departments.
Instruction of Department of
Management and Budget re
payment of accounts within
30 days not being complied
with.

The Office has not yet
completed its manual
ageing of debtors as at
30 June 1986. A
computerised debtors
system has been
implemented for 1986-87.
The Department of
Management and Budget is
currently examining the
recommendations of a
special task force which it
established during 1986 to
review accounts payable
procedures in departments.

State Electoral Office

Second Report
1983-84, p. 31

Surcharge of \$30 845 on
Returning Officer for
Prahran, pursuant to sub-
section 1 of Section 37 of
the Audit Act 1958, for
failing to properly account
for moneys advanced to him
in respect of the April
1982 State election.

Documentation relating
to the April 1982 election
accounts for Prahran was
anonymously delivered to
the State Electoral Office
in July 1986. The
enabled me to issue a
acquittance to the
Returning Officer for the
amount of \$30 845
advanced to him. The
Crown Solicitor has
initiated action to recover
legal costs from the
Returning Officer.

Victorian Public Offices Corporation

December 1982,
p. 101

The financial viability
of the Corporation requires
urgent review.

Position unchanged.
However, it is understood
that legislation is planned
to terminate the activities
of the Corporation. Refer
paragraphs 3.17.6 - 3.17.8
of this report.

3.18

PUBLIC WORKS

- 3.18.1 The Public Works Department is the only entity subject to audit by the Auditor-General for which the Minister for Public Works is responsible.

Audit Comment

- 3.18.2 A matter of significance arising from the audit of the above entity is discussed below.

Irregularities - Works Orders

- 3.18.3 Resulting from examinations conducted to the Public Works Department's internal auditor, the Department advised audit of irregularities relating to payments to contractors for work authorised by works orders issued by 2 senior inspectors of works.

- 3.18.4 Investigations carried out by the Department disclosed that the work in question had either not been carried out, had been only partly completed or had been carried out at a site other than that stated on the works order.

- 3.18.5 Both officers were charged by the Department with offences under the Public Service Act 1973. In addition, one of the officers was fined, demoted by the Department and subsequently suspended without pay subject to appeal, and was also charged by the Police with a number of offences. The other officer was dismissed from the Victorian Public Service. It is understood that Police enquiries into this former officer's actions are continuing.

- 3.18.6 In both cases the irregularities were able to be carried out due to a deficiency in the works orders system whereby it was not necessary for the client to verify that the work had been undertaken. Payment was made to the contractor on the certification by the works inspector that the work being claimed for had been completed. Audit has been informed that the deficiency in the system has been rectified by the requirement that the client now has to certify as to the completion of work before payment is made. In addition, the internal auditor monitors, on an on-going basis, expenditure related to works orders to see that the work being paid for has been carried out.

Schedule A: Complete/Incomplete Audits

Entities	Financial Year Ended	Reporting to Parliament	Date Financial Statements Signed	Date Auditor-General's Report Signed
Complete Audits				
Public Works Department	30 June 1986	30 September. Annual Reporting Act 1983 (S.8)	12 September 1986	24 September 1986

Schedule B: Status of Matters Raised in Previous Reports

There were no matters outstanding.

3.19

SPORT AND RECREATION

3.19.1 The Minister for Sport and Recreation is responsible for following entities which are subject to audit by the Auditor-General:

Department

- Department of Sport and Recreation

Public Bodies

- Greyhound Racing Control Board
- Harness Racing Board
- National Tennis Centre Trust
- Totalizator Agency Board

Audit Comment

3.19.2 There were no matters of significance arising from the audit of the above entities.

Schedule A: Complete/Incomplete Audits

Entities	Financial Year Ended	Reporting to Parliament	Date Financial Statements Signed	Date Auditor-General's Report Signed
Complete Audits				
Department of Sport and Recreation	30 June 1986	30 September, Annual Reporting Act 1983 (S.8).	12 September 1986	24 September 1986
Greyhound Racing Control Board	31 July 1986	31 October, Racing Act 1958 (S.81)	30 October 1986	31 October 1986
Harness Racing Board	31 July 1986	31 October, Racing Act 1958 (S.47)	3 October 1986	31 October 1986
National Tennis Centre Trust	30 June 1986	31 August, National Tennis Centre Act 1985 (S.20)	26 August 1986	29 August 1986
Totalizator Agency Board	31 July 1986	No date specified, Racing Act 1985 (S.116Y)	1 October 1986	16 October 1986

Schedule B: Status of Matters Raised in Previous Reports

Report	Subject	Status at Date of Preparation of this Report
Department of Sport and Recreation		
Second Report 1982-83, p. 101	Unsatisfactory procedures for payment of grants from the Racecourses Development Fund and the Greyhounds Racing Grounds Development Fund.	Position now satisfactory.

Totalizator Agency Board

Third Report
1983-84, p. 67

A lack of segregation of
duties in the area of
investments.

Position now
satisfactory.

Second Report
1984-85, p. 109

The non-formalisation and
testing of a disaster plan
at the Board's computer
centre.

Matter under
attention.

3.20

TRANSPORT

3.20.1 The Minister for Transport is responsible for the following entities which are subject to audit by the Auditor-General:

Department

- Ministry of Transport

Public Bodies

- Grain Elevators Board
- Marine Board of Victoria
- Metropolitan Transit Authority
- Port of Geelong Authority
- Port of Melbourne Authority
- Port of Portland Authority
- Road Construction Authority
- Road Traffic Authority
- State Transport Authority

Audit Comment

3.20.2 Matters of significance arising from the audit of certain of the above entities are discussed below. While discussion includes an analysis of Metropolitan Transit Authority and State Transport Authority operations, it should be noted that both of these Authorities have made significant progress in enhancing the presentation of financial information since their establishment on 1 July 1983 and are to be commended.

MINISTRY OF TRANSPORT

Transactions between Transport Authorities and the Public Account

3.20.3 Since the establishment of the Transport Authorities in 1983, each Authority, i.e. Metropolitan Transit Authority (MTA), Road Construction Authority (RCA), Road Traffic Authority (RTA) and State Transport Authority (STA), has reported in a different manner identical transactions between itself and the Public Account, which are authorised under the Transport Act 1983 and the Appropriation Acts.

3.20.4 Neither Act indicates the nature of these transactions and the Department of Management and Budget (DMB) had not provided direction as to the manner in which such transactions, aggregating in excess of \$480 million in 1985-86, should be reported. As a result, audit was not able to determine whether the transactions had been reported by the Authorities in the appropriate manner.

3.20.5 As action had not been taken to resolve the issue at the date of completion of the audit the financial statements of the MTA, RTA and STA were again qualified in 1985-86.

3.20.6 Amendments to the Transport Act 1983 subsequent to balance date relating to the mechanism by which Transport Authorities are to be funded in the future may assist in resolving this issue. However, audit will continue to monitor this matter during 1986-87.

- 3.20.7 Details of the qualifications are included in this section of the report dealing with the respective Authorities.

Response by Ministry

The accounting treatment of moneys paid to and from the Public Account has been resolved by the enactment of the Transport (Amendment) Act 1986 which provides that all moneys received by way of financial accommodation including borrowings and leases in the past shall be shown as equity held by the Government of Victoria.

Legislative Changes Subsequent to Balance Date

- 3.20.8 The 1985-86 financial statements of the Transport Authorities disclose all costs and liabilities relating to the current operations of the State's transport service. However, the Transport Act 1983 was amended to transfer transport debt to the Victorian Public Authorities Finance Agency (VicFin) with the funds necessary to repay the debts being provided to VicFin from the Public Account. As a consequence the future borrowing costs associated with operating the State's transport service may not be readily available.
- 3.20.9 Given the significance of the costs associated with borrowing, it is important that these costs can be identified to ensure complete information on the operation of the State's transport service is available to enable public accountability and effective internal decision making and review.

Response by Ministry

As noted by audit all financial liabilities will be taken over by the Victorian Public Authorities Finance Agency and future borrowings and refinancing of loans for STA, MTA, RTA and RCA will be undertaken by this financial arm of the Treasurer. However, funds required by the Transport Authorities to meet operating costs and capital commitments will be appropriated from the Public Account. Therefore the mix of funds (loans, taxes etc.) received from the Government will not be determinable by the Transport Authorities. In this way the funding of the Authorities is now akin to the funding of other services provided by the Government which involve a social benefit to the general public e.g. Education.

The Ministry indicated that it intends to discuss the accounting treatment and future disclosure of matters relating to the centralisation of debt with both the Department of Management and Budget and the Office of the Auditor-General early in 1987.

Qualification of Financial Statements

- 3.20.10 The 1985-86 financial statements of the Ministry were qualified on the grounds that they did not comply with the Annual Reporting (Administrative Units) Regulations 1985 in that they did not include certain fees and charges collected by the RTA.

- 3.20.11 In audit opinion the fees and charges should have been paid by the RTA to the Consolidated Fund and, in accordance with the above mentioned Regulations, should have been included in the financial statements of the Ministry. The 1983-84 and 1984-85 financial statements of the Ministry were qualified on the same grounds.
- 3.20.12 Further comment on the grounds for the qualification relating to the payment of fees and charges to the Consolidated Fund is contained in this section of the report under the RTA.
- 3.20.13 I am pleased that action has been taken to clarify this matter. The introduction of the Road Safety Act 1986 in December 1986 provides for the above fees to be retained by the RTA.

Response by Ministry

The Road Safety Act 1986, which was passed in the Spring Session of Parliament, resolves the matters raised by audit. Section 103(8) approves the past practice of paying Motor Car Act fees into the general fund of the Authority while Section 97 empowers the Authority to retain fees in its general fund with the approval of the Treasurer.

Special Projects

- 3.20.14 The Appropriation (1985-86, No. 1) Act 1985 provided for the Ministry to spend up to \$16 million on special projects. The Ministry has defined special projects as those approved by the Ministry which are designed to improve, develop and better co-ordinate railway, tramway and road transport in Victoria.
- 3.20.15 An examination of special projects expenditure for 1985-86 revealed that general operating expenses of the Ministry including EDP/word processing costs, postage, telephone and office requisites totalling \$238 000 had been charged to the appropriation line item - special projects.
- 3.20.16 It is my view that the above expenditure on operating expenses did not fall within the Ministry's definition of special projects and therefore should not have been charged to this item. As a consequence, the Ministry's financial statements for 1985-86 did not adequately disclose the total operating expenses of the Ministry.
- 3.20.17 It was recommended that, in future, the Ministry's operating expenses be correctly allocated and that budgetary controls over special projects be strengthened.

Response by Ministry

The 1986-87 budget for the Ministry has been more appropriately allocated between the various sub-programs. In particular a more realistic operating budget has been established and this will allow a more appropriate allocation and recording of expenses.

MARINE BOARD OF VICTORIA

Legislative Reporting Requirements

- 3.20.18 The Marine Board of Victoria operates under the provisions of the Marine Act 1958. The Act requires that the accounts of all moneys received and disbursed by the Board as successor of the Pilot Board constituted under the Passengers, Harbors and Navigation Statute 1865 be audited once at least in every year by the Auditor-General.
- 3.20.19 The legislation does not contain any statutory requirements for the Board to prepare an annual report on its activities. However, a report was presented to the Minister for Transport providing information and statistics concerning the Board's activities for the 1984-85 financial year. The financial statements of the pilotage account which disclose pilotage collections totalling \$7.5 million, prepared by the Board and certified by me, were not included in the annual report.
- 3.20.20 In order to ensure adequate information is provided to both the Minister for Transport and to Parliament it is considered that the Act should be amended to incorporate reporting provisions which require the Board to formally submit an annual report on its total operations to the Minister for Transport for tabling in Parliament.
- 3.20.21 The Board's responsibilities also include the collection of tonnage charges, shipping dues and other charges totalling \$11.1 million, which are included in the Ministry of Transport's financial statements and tabled in Parliament.

Response by Board

The Marine Act 1958 is presently under review. It is intended that a redraft should be submitted to Parliament during 1987. The audit comments have been noted and have been considered in the redraft.

METROPOLITAN TRANSIT AUTHORITY (MTA)

Qualification of Financial Statements

- 3.20.22 The MTA's financial statements for 1985-86 were qualified on the grounds that the MTA treated moneys totalling \$279.9 million received from the Public Account (other than contributions towards operating expenses and subsidies) as interest free loans, and treated payments to the Public Account (proceeds of borrowings and sale of assets) as repayments of such loans. As the Appropriation (1985-86, No. 1) Act 1985 and the Transport Act 1983, under whose provisions the transactions occurred, did not indicate whether the amounts were loans or repayment of loans, audit was unable to form an opinion as to whether the transactions had been reported in the appropriate manner.
- 3.20.23 The 1983-84 and 1984-85 financial statements of the MTA were qualified on the same grounds.

Response by MTA

The accounting treatment of moneys paid to and from the Public Account has been resolved by the enactment of the Transport (Amendment) Act 1986 which provides that all moneys received by way of financial accommodation including borrowings and leases in the past shall be shown as equity held by the Government of Victoria.

- Analysis of the Financial Operations of the MTA

- 3.20.24 A significant long term aim of the MTA developed at its inception is to make progress towards a 50% cost recovery rate based on all cash operating costs excluding finance charges and pensions. The MTA advised that in the past 3 years increased subsidies have been required to meet the recurrent costs associated in operating the additional services provided and that its borrowing program has been in accordance with the government's overall public sector financing strategy.
- 3.20.25 The MTA's published financial statements have been prepared in accordance with the Annual Reporting Act 1983 and Australian Accounting Standards, except for the above qualification. In order to obtain a clearer picture of the performance of the MTA, audit has recognised all costs and has analysed the reported annual deficit after excluding government subsidies and after allocating those unusual items to the year to which the transactions actually related. Audit considered it necessary to take into account the effect of these unusual items in carrying out the comparative analysis with earlier years. The audit analysis indicated that:
- the annual deficit after excluding government subsidies and after allocating those unusual items to the year to which they actually related increased by \$83.9 million (\$55.6 million in real terms) in 1985-86 compared with the equivalent figure for 1984-85 (refer paragraph 3.20.26(1));
 - the subsidies received from Government sources increased by \$65.8 million or 24% (\$48.5 million or 17% in real terms) compared with 1984-85 (refer paragraph 3.20.26(1));
 - the overall cost recovery rate based on the MTA's revenue and expenditure after excluding government subsidies and after allocating unusual items to the year to which they actually related decreased from 31.7% in 1984-85 to 29.7% in 1985-86 (refer paragraph 3.20.26(2));
 - the disclosure of operating revenue and expenditure by mode of transport would provide information that can be used to properly analyse the performance of the MTA (refer paragraph 3.20.26(3));
 - borrowings totalling \$28.7 million were used to meet operating costs (refer paragraph 3.20.26(4));
 - the liability for borrowings including finance leases totalled \$1 289 million at 30 June 1986 compared with \$1 030 million at 30 June 1985 an increase of \$259 million or 25%. In real terms this represents an increase of \$181 million or 16% (based on constant 1985-86 prices by applying the Australian Bureau of Statistics implicit price deflator for gross non-farm product); and

- finance charges totalled \$170.8 million in 1985-86 compared with \$133.5 million in 1984-85, an increase of \$37.3 million or 28% (\$28.7 million or 20% in real terms).

3.20.26

Comments on certain of these matters follow.

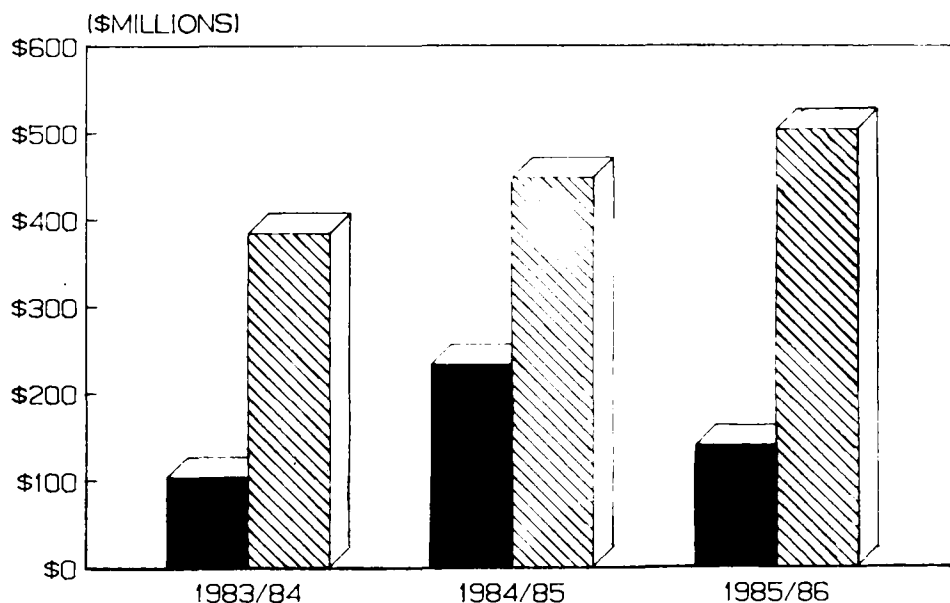
(1) Annual deficit and government subsidies

The MTA's published annual deficit for the year was \$139.8 million compared with \$218.9 million in 1984-85, a reduction of \$79.1 million.

Audit analysed the annual deficit after excluding government subsidies (\$332.8 million in 1985-86) and after allocating those unusual items (\$31.2 million in 1985-86) to the year to which the transactions actually related. After the above adjustments by audit, the adjusted annual deficit increased by \$83.9 million (\$55.6 million in real terms) from \$419.9 million in 1984-85 to \$503.8 million in 1985-86. A substantial portion of the increase in the adjusted annual deficit relates to an increase in the finance charges of \$37.3 million or 28% (\$28.7 million or 20% in real terms).

Chart 3.20A shows the comparison between the annual deficit disclosed in the MTA's financial statements and the annual deficit after excluding government subsidies and after adjustment to disclose unusual items in the year to which the transactions actually related (as calculated by audit). Figures in the chart are expressed in constant 1985-86 prices by applying the Australian Bureau of Statistics implicit price deflator for final consumption expenditure - government.

- Chart 3.20A: Reported Annual Deficit Compared with Annual Deficit Excluding Government Subsidies and After Adjustment for Unusual Items (MTA)

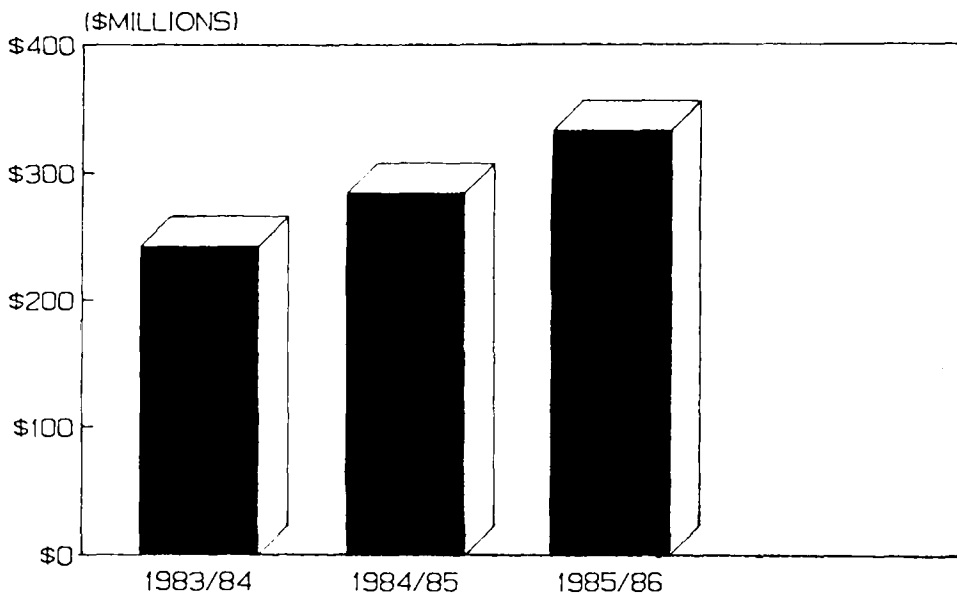


- Annual deficit as per published financial statements - adjusted to 1985-86 constant prices.
- ▨ Annual deficit after excluding government subsidies and after adjustment for effect of unusual items - adjusted to 1985-86 constant prices.

The MTA's accumulated deficit after excluding government subsidies amounted to \$1 265.1 million over 3 years to 30 June 1986. In 1985-86 the subsidies received from government sources increased by \$65.8 million or 24% (\$48.5 million or 17% in real terms) to \$332.8 million bringing the total amount of subsidies received from government sources since the MTA's incorporation on 1 July 1983 to \$814.5 million.

Chart 3.20B illustrates the subsidies received from government sources during the 3 years since the MTA's incorporation. Figures in the chart are expressed in constant 1985-86 prices by applying the Australian Bureau of Statistics implicit price deflator for final consumption expenditure - government.

- **Chart 3.20B: Government Subsidies (MTA)**



Adjusted to 1985-86 constant prices

(2) Cost recovery rate

As indicated in paragraph 3.20.24 a significant long term aim of the MTA is to make progress towards a 50% cost recovery rate. The MTA advised that the cost recovery rate is based on all cash operating costs excluding finance charges and pensions. In my view to obtain an accurate indication of the performance of MTA full recognition of all costs should be made when determining the overall cost recovery rate.

The overall cost recovery rate as calculated by audit, based on the MTA's revenue and expenditure after excluding government subsidies and after allocating unusual items to the year to which they actually related, has slightly decreased from 31.7% in 1984-85 to 29.7% in 1985-86.

(3) Disclosure of operating revenue and expenditure

In 1985-86 the MTA adopted a change in the method of disclosing operating expenses. It is now the practice of the MTA to disclose operating expenses for their different classes such as labour, labour on-costs, services and supplies, traction energy and depreciation, rather than disclose operating expenses for each mode of transport (ie. Tram, Bus and Train) as in past years. In addition fare revenue is disclosed according to the point of sale rather than where it is earned (ie. apportioned between tram, bus and train revenue depending on the mode of transport used).

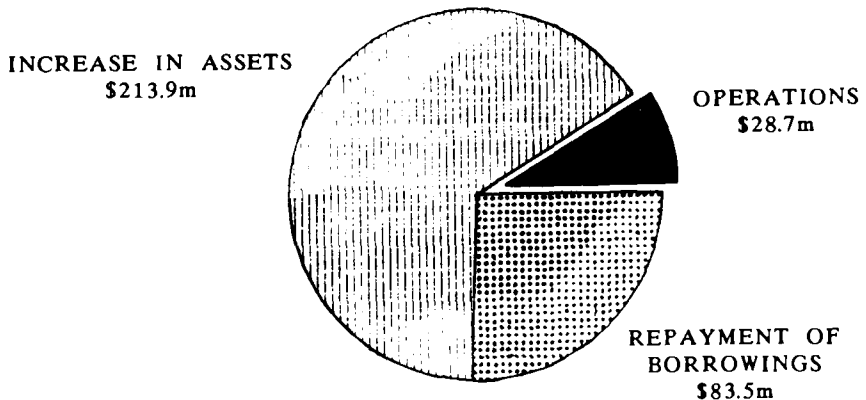
The MTA advised that the introduction of the multi-modal ticketing scheme is an initiative which encourages the public to utilise all modes of the integrated public transport system however at the same time the scheme makes it difficult to attribute revenue to each mode of transport.

Whilst recognising the initiative of the multi-modal ticketing scheme, it is my opinion that the disclosure of operating revenue and expenditure by mode of transport would provide information necessary to properly analyse the performance of the MTA.

(4) Funding of operations

During 1985-86 the MTA applied borrowings totalling \$28.7 million towards operating costs. Chart 3.20C illustrates how MTA's borrowings totalling \$326.1 million have been applied.

Chart 3.20C: Application of MTA Borrowings (\$millions)



This is further illustrated by an abridged version of the MTA's statement of sources and applications of funds which is set out in Table 3.20A.

Table 3.20A: Sources and Applications of MTA Funds (abridged)

<u>Sources of Funds</u>	<u>Operations</u>		<u>Borrowings</u>	
	<u>1985-86</u> <u>\$000</u>	<u>1984-85</u> <u>\$000</u>	<u>1985-86</u> <u>\$000</u>	<u>1984-85</u> <u>\$000</u>
From operations	173 045	180 123		
Government contributions	382 930	286 722		
Sale of assets	22 676	9 401		
Increase in creditors and liabilities	11 204	22 935		
Reduction in cash and investments	-	37 110		
Borrowings including finance leases			326 123	286 256
Total funds available	589 855	536 291	326 123	286 256
<u>Less Applications of Funds</u>	<u>Operations</u>		<u>Capital</u>	
	<u>1985-86</u> <u>\$000</u>	<u>1984-85</u> <u>\$000</u>	<u>1985-86</u> <u>\$000</u>	<u>1984-85</u> <u>\$000</u>
Operations	618 540	552 908		
Redemption of loans and repayment of finance leases			83 527	61 270
Increase in assets			213 911	208 369
Total application of funds	618 540	552 908	297 438	269 639
(Shortfall) excess in funds	(28 685)	(16 617)	28 685	16 617

The practice of borrowing moneys to cover operating costs, if continued in future years, may affect the overall financial viability of the State's transport system.

It was recommended that the use of borrowings to meet operating expenses be reviewed.

Response by MTA

Over the last 3 years the MTA has extensively modernised rolling stock and infrastructure, introduced a multi-modal ticketing system, improved MetRail train availability and on-time running and improved passenger services e.g. opening of loop stations, Bundoora Tram line extensions, extended bus services, all of which resulted in increased patronage. Improved services do not always result in immediate additional revenue and therefore in order to fund the operations of these services it has been necessary to raise debt and lease finance and to call on the Public Account for additional funding. Already it can be seen that this expenditure is now generating positive results as the Appropriation (1986-87, No. 1) Act indicates that in real terms government subsidies to MTA will not increase in 1986-87.

One of the performance indicators for public transport is to progress towards 50% cost recovery for MTA. The basis of the cost recovery is simply stated as all cash operating costs excluding finance charges and pensions. However, the rates quoted by audit are based on full accrual accounting and are not comparable with the MTA's performance indicators. In selecting an appropriate level and basis of cost recovery the social service aspect of much of the public transport operation, together with the need to set a target which is both achievable and aims for improved performance, is taken into account.

Previous disclosure of operations was a combination of both generic and functional items. The dissection now given provides information which the user of the financial statements readily understands and previously often requested. It should be noted that with multi-modal tickets the dissection of revenue between tram, train and bus can only be estimated from the collection and analysis of patronage survey data which may not be appropriate for annual reporting purposes. However, a move towards a dissection of operations on both bases will be made in future years.

With regard to the practice of borrowing moneys to cover operating costs, attention is drawn both to the DMB Information Paper No. 2 on Victorian Public Sector Debt (December 1986, pages 36 and 37) and the 1986-87 Budget Speech. Both papers outline the concept of the capital cost of borrowing and the Government's policy on this issue.

Metropolitan Rail Operations (MetRail)

- 3.20.27 The Transport Act 1983 provides the MTA with the overall responsibility for operating a transport service and facilities for passengers and freight within the Melbourne metropolitan area. Although the MTA has had the management responsibility for the operations of this service since 1 July 1983, the service has been provided by the STA employees in accordance with the Act. MetRail is the operating division which accounts for and co-ordinates metropolitan rail operations.
- 3.20.28 A ministerial direction was issued to formalise the administrative arrangements for the STA to provide a metropolitan rail service. In accordance with this direction, the STA has charged the MTA costs that relate to the provision of the metropolitan rail service since 1 July 1983.
- 3.20.29 Whilst the existing legislation and administrative arrangements do not allocate total responsibility for the operations of MetRail to one of the Authorities, it is pleasing to note that steps are being taken to enhance the efficiency of the administration of MetRail.

Response by MTA

A working party was established by the Minister in 1985 to review the status of MetRail. One of the terms of reference of this review was to recommend which Authority, MTA or STA, should be responsible for the operation and management of MetRail. The working party has provided recommendations for consideration.

• Rental of Property

3.20.30 In January 1985 approval was given for the establishment of new accommodation for MetRail operations. The MTA leased the properties at 50 and 60 Market Street from 1 September 1985 and 1 July 1985 respectively. However, the fitting out of these properties did not commence until 5 March 1986 with progressive occupancy commencing on 12 July 1986.

3.20.31 Delays between the taking up of the leases and the fitout and occupancy of the buildings is a matter of concern. Rent due and payable from the commencement of the leases to date of progressive occupancy was approximately \$1.8 million. Of this amount approximately \$1 million relates to the rent due and payable on unoccupied space for the period up to the commencement of the deferred fitout programs.

Response by MTA

The objective of leasing 50 and 60 Market Street was to consolidate the accommodation of MetRail office staff located in 12 various sites around the city.

Agreement in principle to lease the properties was reached by the Treasurer, Minister for Transport and Minister for Property and Services in early 1985. In July 1985 the Minister for Transport directed that a re-assessment be made of MTA's original proposal to lease these properties in the light of constrained budgets being set for the MTA for 1985-86.

The Minister was particularly concerned that Government accommodation standards and practices were adhered to, that costs were minimised in respect of space and furnishings and that maximum use of existing furniture was achieved. A steering committee was established to oversee lease finalisation and fit-out of the buildings.

Significant financial benefits occurred from this review. The cost of the fit-out of the two buildings was reduced from the original estimate by \$1.2 million and rationalisation of the proposed occupancy of the buildings enabled the accommodation within the complex of 140 STA Workshops Division staff who were planned to occupy alternative leased office accommodation with a rental saving of \$300 000 per annum.

In addition to addressing these aspects, it was considered imperative that the leases should not be finalised before 1985-86 budget issues for MTA were resolved and funding for the project was assured.

3.20.32 Further comment relating to unproductive rental of properties is contained in paragraph 3.17.4 of this report on the Property and Services ministerial portfolio.

• Annual Leave

3.20.33 The MTA's policy in relation to annual leave does not permit employees to accrue more than 40 days. A review of the employee leave records revealed that 226 employees, including employees in key control areas, had in excess of 40 days recreation leave credits.

3.20.34 It was recommended that the MTA take action to ensure that its policy in relation to accrued annual leave is adhered to.

Response by MTA

The requirement that staff should not accrue more than 40 days recreational leave was enunciated when the Personnel Policies and Procedures Manual was promulgated in October 1985. Substantial accrual had accumulated prior to that time. Every endeavour will be made to reduce the level of outstanding leave within the constraints of the operations of the MTA.

Theft of Moneys

3.20.35 A theft occurred at 223 Flinders Street with a loss of cash amounting to \$20 000. This matter was subject to an internal investigation and was reported to the Police. At the date of preparation of this report, audit was advised that no funds had been recovered.

ROAD CONSTRUCTION AUTHORITY (RCA)

Qualification of Financial Statements

3.20.36 The financial statements of the RCA were qualified for 1985-86.

3.20.37 Under RCA's accounting policy, which was changed in 1984-85, it charges as expenditure the cost of acquiring all properties actually used for roadworks during the year. Those properties acquired but not used at balance date are disclosed as assets. Previously, the cost of all properties acquired was charged as expenditure in the year of purchase. As a consequence of the change in accounting policy, \$146.5 million was brought to account as an asset in 1984-85. A review by RCA in 1985-86 resulted in an additional amount of \$35.9 million being brought to account as an asset. In addition, it also revalued properties acquired for roadworks by \$32.9 million.

3.20.38 Audit examination of the property asset register disclosed inaccuracies as at 30 June 1986 due to:

- (1) the inclusion of a number of properties which had, in fact, been sold or incorporated into roadworks prior to that date;
- (2) the omission of a number of properties which had not been used for roadworks at that date; and
- (3) the inclusion of revalued properties at incorrect values.

3.20.39 It was not practicable for audit to identify all properties concerned and consequently, audit was unable to form an opinion as to the adequacy or otherwise of the value of the asset item, land and buildings acquired for roadworks.

3.20.40 A similar opinion was given on the 1984-85 financial statements of the RCA.

Response by RCA

Comments by audit on this matter are noted. An extensive examination of property records was undertaken in 1985-86 as part of an ongoing process of providing an accurate register of all property assets. To assist in developing and maintaining an accurate Property Asset Register a computer based property acquisition and management system is being developed and installed in 1986-87. It might be appreciated that the drawing together of records relating to residual sections of land over sixty years has been a massive task; nevertheless, the accuracy of the Property Asset Register is improving each year.

• Overpayment to Contractor

- 3.20.41 During 1985-86 the RCA paid \$192 000 to a contractor for work which had not been performed. The overpayment occurred due to an error in the assessment of the extent of the work completed.
- 3.20.42 The contractor was unable to complete the contract due to financial difficulties. After allowing for costs associated with completing the work, liquidated damages and an amount due to the contractor, a net amount of \$209 000 is owed by the contractor. However, the RCA considers it unlikely that this amount will be recovered as the contractor is now in liquidation.
- 3.20.43 It was recommended that the RCA investigate the circumstances relating to the above overpayment with a view to strengthening internal control in the assessment of work performed by contractors and approval of subsequent payments.

Response by RCA

Problems arose with the periodic assessment of works and quantities when making progress payments to this contractor. However in line with accepted practice the RCA retained \$149 000 as a security deposit and retention moneys pending satisfactory completion of the contract.

As the contractor was unable to complete the contract the RCA charged the contractor for the completion of the work including liquidated damages. The net result being that the contractor owed RCA \$209 000. The contractor's inability to complete the contract could not have been foreseen by the RCA and the debt to the RCA arises from this inability and not from an overpayment to the contractor.

Nevertheless action has been taken to strengthen internal control in the assessment of work performed and the approval of subsequent payments to contractors.

Annual Accounts

- 3.20.44 Following the introduction of the Transport Act 1983, the RCA experienced difficulties in producing its annual financial statements within the legislative timeframe. It is pleasing to note that the RCA was able to prepare the annual accounts of 1985-86 on time, thereby ensuring audited financial statements were presented to the Minister for Transport by the legislative deadline of 30 September, as required by the Transport Act 1983.

ROAD TRAFFIC AUTHORITY (RTA)

Qualification of Financial Statements

- 3.20.45 The financial statements of RTA for 1985-86 were qualified on the following grounds:

- (1) Treatment of appropriations from the Public Account

The RTA offset an amount of \$6 million paid into the Public Account, under the provisions of the Transport Act 1983, against an amount of \$55.6 million received from the Public Account under the provisions of the Appropriation (1985-86, No. 1) Act 1985 and reported the balance as income in the income and expenditure statement. As neither of the Acts indicates whether or not the amounts appropriated were revenue grants by the Government, and the amounts paid to the Public Account were reductions of such revenue grants, audit was unable to form an opinion as to whether the transactions had been reported in the appropriate manner.

Response by RTA

The accounting treatment of moneys paid to and from the Public Account has been resolved by the enactment of the Transport (Amendment) Act 1986 which provides that all moneys received by way of financial accommodation including borrowings and leases in the past shall be shown as equity held by the Government of Victoria.

- (2) Retention of fees levied under the Motor Car Act 1958

During the period 1 July 1983 to 30 June 1986 the RTA collected and retained certain fees levied under the Motor Car Act 1958 amounting to approximately \$26.7 million. The Motor Car Act 1958 does not prescribe how such fees are to be applied other than for Learner Driver Appointment and Test Fees which are required to be paid into the Consolidated Fund.

The management of the RTA were of the opinion that fees referred to above were trading revenue and as such could be retained by the RTA pursuant to Section 66(3)(c) of the Transport Act 1983. However, the term "trading revenue" is not defined by this Act nor is there any proviso that Section 66 shall apply notwithstanding anything in any other Act. It was audit's opinion that without a

clear definition, trading revenue is restricted to fees set under the Transport Act 1983 and therefore, the RTA should have paid the amounts collected into the Consolidated Fund.

A similar opinion was expressed on the 1983-84 and 1984-85 financial statements of the RTA.

I am pleased that action has been taken to clarify this matter. The introduction of the Road Safety Act 1986 in December 1986 provides for the above fees to be retained by the RTA.

Response by RTA

The Road Safety Act 1986, which was passed in the Spring Session of Parliament, resolves the matters raised by audit. Section 103(8) approves the past practice of paying Motor Car Act fees into the general fund of the Authority while Section 97 empowers the Authority to retain fees in its general fund with the approval of the Treasurer.

Funding of Administrative Costs

3.20.46 The RTA raises an annual charge to recoup administrative costs from the RCA on the premise that certain moneys collected and paid into the Public Account by the RTA are subsequently appropriated from the Public Account to the RCA towards financing its operations. In 1985-86 the charge raised was \$21.2 million. As the RTA acts as an agent in the collection of moneys for the Consolidated Fund and the RCA does not receive any funds directly from the RTA, it is considered by audit that this charge should not be raised against the RCA.

3.20.47 As a result of the above practice and the fact that the RTA and the RCA are both funded by way of parliamentary appropriations, it is my opinion that the cost to the State of funding each individual Authority's operations is not accurately disclosed in the Treasurer's statement of receipts and payments of the Consolidated Fund.

3.20.48 It was recommended that the parliamentary appropriation to the RTA include an allocation to cover all administrative costs incurred in the collection of funds on behalf of the Consolidated Fund.

Response by RTA

Audit comments are noted. The matter is under review and should be finalised in time for the preparation of the 1987-88 budget.

Delays in Processing of Mail Remittances

3.20.49 Registration fees including third party insurance premiums collected by the RTA totalled \$585 million in 1985-86, of which approximately \$175 million was received through the mail at the RTA's head office.

- 3.20.50 An examination of renewal of registrations received through the mail revealed that during the 1985-86 financial year the average delay between receiving the mail in the mail room and the banking of moneys was approximately 7 working days. An estimate of the potential loss of interest on unbanked moneys held by the RTA was approximately \$800 000 for the 1985-86 financial year.
- 3.20.51 A further examination for the 3 months ended 30 September 1986 revealed that delays of 6 working days were still occurring in the processing of renewals of registrations received through the mail.
- 3.20.52 Audit acknowledges that, due to the nature and volume of mail received, it may not always be possible to bank all moneys on the same day they are received. Furthermore, audit supports the following action which is being taken by the RTA to reduce the delays in processing:
- (1) implementation of a new management information system which monitors delays in processing;
 - (2) introduction of a new automated processing system which is currently in the final stages of implementation;
 - (3) encouraging the public to pay their registration renewals at banks (a facility introduced in November 1982); and
 - (4) utilisation of overtime.

Response by RTA

Reductions in the time taken to process mail remittances are constantly being achieved and further reductions in the delays in processing are planned with the introduction of the Automated Receipts Processing System. The system is currently being phased in and should allow clear renewals to be processed within 24 hours.

As well as system technology, processing time is also dependent upon the requirements to pre-process a significant proportion of receipts, manpower costs and fluctuations in workload. The RTA contends that given these circumstances a reasonable processing delay of 3 to 4 days should have been taken into account and therefore the extent of the opportunity cost as quoted by audit is questioned.

Irregularity Relating to Receipt of Secret Commission

- 3.20.53 Following extensive police investigation, 2 RTA officers were charged with 100 counts of receiving secret commissions to the value of \$22 000. The charges related to the 2 officers undertaking pre-registration vehicle inspections at various car yards and retaining the fees for their own use.
- 3.20.54 As a result of a County Court trial in November 1986, one of the officers was found guilty on 38 counts and sentenced to 2 years imprisonment, while the other was cleared of all charges.

STATE TRANSPORT AUTHORITY (STA)

Qualification of Financial Statements

- 3.20.55 The STA's financial statements for 1985-86 were qualified on the grounds that the STA treated moneys totalling \$173.5 million received from the Public Account for capital works, together with amounts made available to predecessor Authorities, as interest free loans from the State Government. Moneys totalling \$165.4 million paid into the Public Account in accordance with Section 66 of the Transport Act 1983 (borrowings and proceeds of sales of assets) were treated as repayments of such loans. The difference between the amounts received and paid has been treated within the STA's balance sheet as equity.
- 3.20.56 The Annual Reporting (Business Undertakings) Regulations 1984 require that the transactions be reported in accordance with their nature. As neither the Transport Act 1983 nor the Appropriation (1985-86, No. 1) Act 1985 indicates whether the transactions represent loans by State Government or repayment of such loans, and whether the difference represents equity, audit was unable to conclude whether the transactions had been reported in the appropriate manner.
- 3.20.57 The 1983-84 and 1984-85 financial statements of the STA were qualified on the same grounds.

Response by STA

The accounting treatment of moneys paid to and from the Public Account has been resolved by the enactment of the Transport (Amendment) Act 1986 which provides that all moneys received by way of financial accommodation including borrowings and leases in the past shall be shown as equity held by the Government of Victoria.

Analysis of the Financial Operations of the STA

- 3.20.58 A significant long term aim of the STA developed at its inception is to make progress towards a 50% cost recovery for passenger services and a full cost recovery for freight services based on all cash operating costs excluding finance charges and pensions. The STA advised that in the past 3 years increased subsidies have been required to meet the recurrent costs associated in rationalising services and that its borrowing program has been in accordance with the government's overall public sector financing strategy.
- 3.20.59 The STA's published financial statements have been prepared in accordance with the Annual Reporting Act 1983 and Australian Accounting Standards, except for the above qualification. In order to obtain a clearer picture of the performance of the STA, audit has recognised all costs and has analysed the reported annual deficit after government subsidies and after allocating those unusual items to the year to which the transactions actually related. Audit considered it necessary to take into account the effect of these unusual items in carrying out the comparative analysis with earlier years. The audit analysis indicated that:

- the annual deficit after excluding government subsidies and after allocating those unusual items to the year to which they actually related increased by \$75.2 million (\$51.6 million in real terms) in 1985-86 compared with the equivalent figure for 1984-85 (refer paragraph 3.20.60(1));
- the subsidies received from government sources increased by \$62.7 million or 31% (\$49.6 million or 23% in real terms) compared with 1984-85 (refer paragraph 3.20.60(1));
- the overall cost recovery rate based on the STA's revenue and expenditure after excluding government subsidies and after allocating unusual items to the year to which they actually related decreased from 40.6% in 1984-85 to 34.3% in 1985-86 (refer paragraph 3.20.60(2));
- the disclosure of operating expenses by operating divisions or activities would provide information that can be used to properly analyse the performance of the STA in progressing towards achieving its stated long term objectives (refer paragraph 3.20.60(3));
- borrowings totalling \$36.2 million were applied towards operating costs (refer paragraph 3.20.60(4));
- the liability for borrowings including finance leases totalled \$796.2 million at 30 June 1986 compared with \$603.9 million at 30 June 1985, an increase of \$192.3 million or 31.8%. In real terms this represents an increase of \$146.7 million or 22.6% (based on constant 1985-86 prices by applying the Australian Bureau of Statistics implicit price deflator for gross non-farm product); and
- finance charges totalled \$65.3 million in 1985-86 compared with \$44.3 million in 1984-85, an increase of \$21 million or 47.4% (\$18.1 million or 38.3% in real terms).

3.20.60 Comments on certain of these matters follow:

(1) Annual deficit and government subsidies

The STA's published annual deficit for the year was \$221.5 million compared with \$161.5 million in 1984-85 an increase of \$60 million.

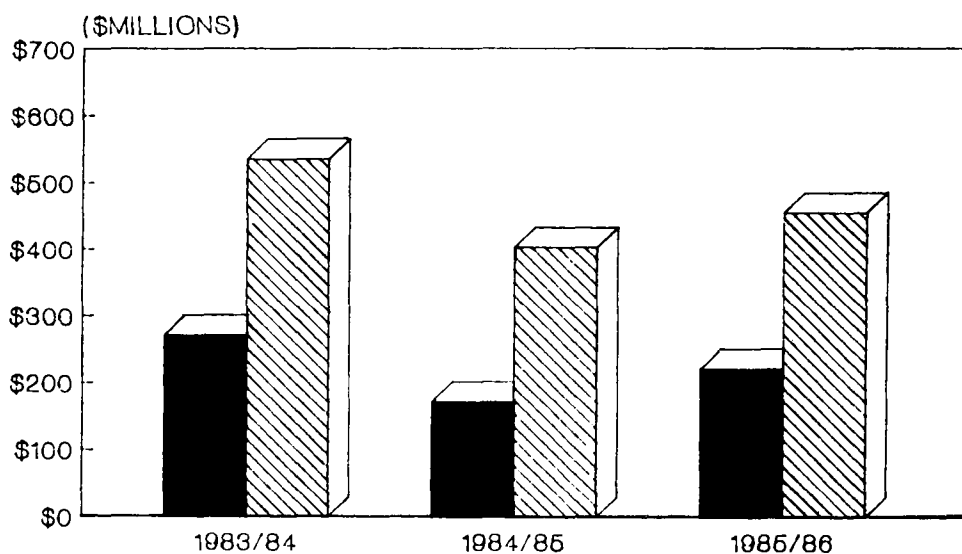
The major reasons for the increase in the annual deficit are:

- (i) the increase in finance charges of \$21 million (47.4%) to \$65.3 million;
- (ii) industrial disputes; and
- (iii) a downturn in freight revenue due to the reduced grain harvest.

Audit analysed the annual deficit after excluding government subsidies (\$264.8 million in 1985-86) and after allocating those unusual items (\$31.2 million in 1985-86) to the year to which the transactions actually related. After the above adjustments by audit, the adjusted annual deficit increased by \$75.2 million (\$51.6 million in real terms) from \$379.9 million in 1984-85 to \$455.1 million in 1985-86.

Chart 3.20D shows the comparison between the annual deficit disclosed in the STA's financial statements and the annual deficit after excluding government subsidies and after adjustment to disclose unusual items in the year to which the transactions actually related (as calculated by audit). Figures in the chart are expressed in constant 1985-86 prices by applying the Australian Bureau of Statistics implicit price deflator for final consumption expenditure - government.

Chart 3.20D: Reported Annual Deficit Compared with Annual Deficit Excluding Government Subsidies and After Adjustment for Unusual Items (STA)



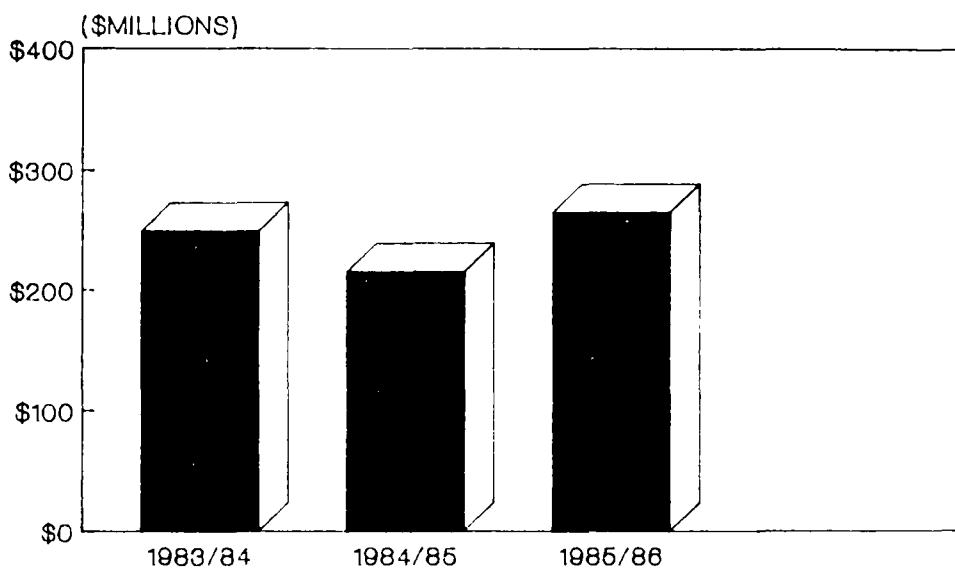
■ Annual deficit as per published financial statements - adjusted to 1985-86 constant prices.

▨ Annual deficit after excluding government subsidies and after adjustment for effect of unusual items - adjusted to 1985-86 constant prices.

The STA's accumulated deficit after excluding government subsidies amounted to \$1 310.5 million over 3 years to 30 June 1986. In 1985-86 the subsidies received from government sources increased by \$62.7 million or 31% (\$49.6 million or 23% in real terms) to \$264.8 million bringing the total amount of subsidies received from government sources since the STA's incorporation on 1 July 1983 to \$687.6 million.

Chart 3.20E illustrates the subsidies received from government sources since the STA's incorporation. Figures in the chart are expressed in constant 1985-86 prices by applying the Australian Bureau of Statistics implicit price deflator for final consumption expenditure - government.

Chart 3.20E: Government Subsidies (STA)



Adjusted to 1985-86 constant prices

(2) Cost recovery rate

A significant long term aim of the STA is to make progress towards a 50% cost recovery for passenger services and a full cost recovery for freight services. The STA advised that the cost recovery rate is based on all cash operating costs excluding finance charges and pensions. In my view to obtain an accurate indication of the performance of STA full recognition of all costs should be made when determining the actual cost recovery rate.

The overall cost recovery rate, as calculated by audit, based on the STA's revenue and expenditure after excluding government subsidies and after allocating unusual items to the year to which they actually relate, has decreased from 40.6% in 1984-85 to 34.3% in 1985-86.

(3) Disclosure of operating expenses

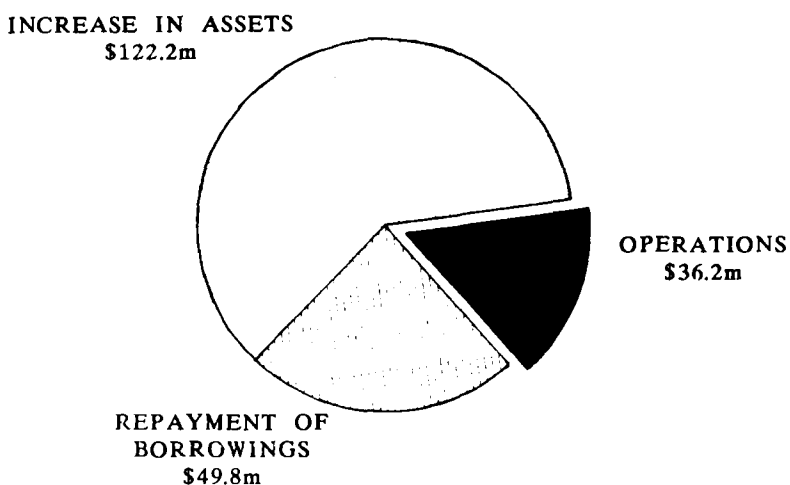
In 1985-86 the STA adopted a revised method of disclosing operating expenses. It is now the practice of the STA to disclose operating expenses in respect of their different classes such as labour, labour on costs, services and supplies, diesel oil and depreciation and amortisation. In previous years a combination of both operating divisions or activities and classes of expenditure was used as the basis for disclosing operating expenses.

It is my opinion that the disclosure of operating expenses by operating divisions or activities would provide information necessary to properly analyse the performance of the STA, in progressing towards achieving its stated long term aim relating to cost recovery levels for passenger and freight services.

(4) Funding of operations

During 1985-86 STA applied borrowings totalling \$36.2 million towards operating costs. Chart 3.20F illustrates how STA's borrowings totalling \$208.2 million have been applied.

Chart 3.20F: Application of STA Borrowings (\$millions)



This is further illustrated by an abridged version of the STA's statement of sources and applications of funds which is set out in Table 3.20B.

Table 3.20B: Sources and Applications of STA Funds (abridged)

<u>Sources of Funds</u>	<u>Operations</u>		<u>Borrowings</u>	
	<u>1985-86</u> <u>\$000</u>	<u>1984-85</u> <u>\$000</u>	<u>1985-86</u> <u>\$000</u>	<u>1984-85</u> <u>\$000</u>
From operations	234 938	254 683		
Government contributions	272 888	250 456		
Sale of assets	5 923	6 442		
Net change in liabilities and inter authority account	9 136	(21 965)		
Borrowings including finance leases			<u>208 172</u>	<u>147 713</u>
Total funds available	<u>522 885</u>	<u>489 616</u>	<u>208 172</u>	<u>147 713</u>
<u>Less Applications of Funds</u>	<u>Operations</u>		<u>Capital</u>	
	<u>1985-86</u> <u>\$000</u>	<u>1984-85</u> <u>\$000</u>	<u>1985-86</u> <u>\$000</u>	<u>1984-85</u> <u>\$000</u>
Operations	559 037	471 851		
Increase in assets			122 250	152 662
Redemption of loans and repayment of finance lease liabilities			<u>49 770</u>	<u>12 816</u>
Total application of funds	<u>559 037</u>	<u>471 851</u>	<u>172 020</u>	<u>165 478</u>
(Shortfall) excess in funds	<u>(36 152)</u>	<u>17 765</u>	<u>36 152</u>	<u>(17 765)</u>

The practice of borrowing moneys to cover operating costs, if continued in future years, may affect the overall financial viability of the State's transport system.

It was recommended that the use of borrowings to meet operating expenses be reviewed.

Response by STA

Over the last 3 years major initiatives have been taken to improve services and to increase cost-effectiveness e.g. extensive modernisation of rolling stock and infrastructure and rationalisation of freight services. To finance this it has been necessary to raise debt and lease finance and to call on the Public Account to fund these services. However this expenditure will result in future costs savings, improved services and additional revenue earning capacity for STA. In addition positive measures were taken to reduce manpower levels by nearly 900 employees (including managerial and operational staff) during 1985-86 as a result of imposition of staff ceilings in August/September 1985. It should be noted that a trend is already apparent with a reduction both in real and nominal terms in Government subsidies in 1986-87 (refer Appropriation (1986-87, No. 1) Act).

One of the performance indicators for public transport is to progress towards 50% cost recovery for passenger services and 100% cost recovery for freight operations. The basis of the cost recovery is simply stated as all cash operating costs excluding finance charges and pensions. However, the rates quoted by audit are based on full accrual accounting and are not comparable with the STA's performance indicators. In selecting an appropriate level and basis of cost recovery the social service aspect of much of the public transport operation, together with the need to set a target which is both achievable and aims for improved performance, is taken into account.

The disclosure of expenses in a generic classification was initiated to assist the provision of consistent disclosure of expenses both between the STA and MTA and within each Authority. Previous disclosure was a combination of both generic and functional items. The dissection now given provides information which the user of the financial statements readily understands and previously often requested. However, a move towards a dissection of expenses on both bases will be made in future years.

With regard to the practice of borrowing moneys to cover operating costs attention is drawn both to the DMB Information Paper No. 2 on Victorian Public Sector Debt (December 1986, pages 36 and 37) and the 1986-87 Budget Speech. Both papers outline the concept of the capital cost of borrowing and the Government's policy on this issue.

Accumulated Employee Leave Entitlements

- 3.20.61 The STA's policy in relation to outstanding leave does not permit the deliberate accumulation of leave and places responsibility on Department/Section Managers to ensure that any outstanding leave is taken as soon as practicable. The usual annual leave entitlement for employees is 4 weeks. However, approximately 45% of STA's employees are entitled to 5 weeks leave as they are engaged on shift work.
- 3.20.62 The STA's liability for accrued annual leave and accrued leave as a result of the 38 hour week agreement totalled \$79.1 million at 30 June 1986. Based on the total number of staff (20 671 at 30 June 1986), there is on average a liability of approximately \$3 826 to every employee of the STA. This represents approximately 7.5 weeks leave owing to each employee.
- 3.20.63 A detailed review which was undertaken of leave records on the computerised payroll personnel system relating to 2 sections of the STA covering 1 118 employees revealed that 10% of the total number examined had in excess of 8 weeks accrued leave credits.
- 3.20.64 It was recommended that the STA review the current level of accrued leave with the view to adopting more definitive policies and practices.

Response by STA

The accumulation of annual leave and days in relation to the 38 hour week has been the subject of action by STA for some time. As the 38 hour week is progressively introduced for all employees it is anticipated that the liability for accumulated leave accrued in lieu of the 38 hour week will diminish.

It should be noted that the 38 hour week was implemented at "no extra cost" to the Public Account as it is being financed through cost savings in other areas, in particular through significant changes in work practices.

Procedures are already in place to monitor and ensure that leave is taken as it accrues and is not accumulated. Reports are regularly submitted to the Ministry of Transport which show on average in 1985-86 that transport operations personnel (V/Line) are taking leave at a rate which is greater than that required to take all current leave. Although the position is improving leave taken by MetRail personnel in this period did not reach the rate necessary to take all current leave.

As outlined above progress is being made in this area, however a significant reduction in the liability associated with these employee leave entitlements will only be apparent in the medium to long term.

V/Line Industries Pty. Ltd.

- 3.20.65 V/Line Industries Pty. Ltd. is a wholly owned subsidiary of the STA. The subsidiary company has a 25% interest in a joint venture with several oil companies that own a petroleum pipeline between Altona and Somerton. In addition, the subsidiary company has entered into an equal partnership agreement with a company to operate a retail outlet for railway magazines, books, videos, memorabilia and model railways.
- 3.20.66 The subsidiary company also commenced a road haulage business on 27 July 1985 with the acquisition of the assets and goodwill of a transport company for a consideration of \$490 000. However, the subsidiary company ceased its road haulage operations on 13 March 1986 and relevant assets have since been sold. Losses incurred by the subsidiary company totalling \$568 000 as a result of operating the road haulage business and through the purchase and disposal of the relevant assets were reimbursed by the Ministry of Transport.
- 3.20.67 The subsidiary company's financial statements for the year ended 31 December 1985, which were audited by a firm of private practitioners, disclosed a net profit of \$90 000 for the year and accumulated losses of \$992 000. A summary of the subsidiary company's operating results for the year ended 31 December 1985 were disclosed in the notes to the STA's financial statements.
- 3.20.68 As the result of matters raised in previous reports of the Auditor-General to Parliament, the Economic and Budget Review Committee conducted an inquiry into the accountability requirements affecting subsidiary companies of government

organisations with special reference to V/Line Industries Pty. Ltd. The Committee, in its report to Parliament in November 1986 on this matter, indicated that in order to make subsidiary companies, such as V/Line Industries Pty. Ltd., more accountable to Parliament, legislation authorising their establishment should require their financial operations and position to be disclosed, either by way of a separate annual report to Parliament or inclusion in the annual report and the financial statements of the parent organisation and that the Auditor-General audit such companies. Further comment on this issue is made in Section 2.4 of this report.

Response by STA

The comments relating to V/Line Industries Pty. Ltd. are currently being reviewed in conjunction with the recommendations put forward by the Economic and Budget Review Committee in their report to Parliament which addresses the accountability requirements of subsidiaries of Government organisations.

Schedule A: Complete/Incomplete Audits

Entities	Financial Year Ended	Reporting to Parliament	Date Financial Statements Signed	Date Auditor-General's Report Signed
Complete Audits				
Ministry of Transport	30 June 1986	30 September, Annual Reporting Act 1983 (S.8).	23 September 1986	30 September [#] 1986
Grain Elevators Board	30 September 1986	31 December, Annual Reporting Act 1983 (S.9)	11 December 1986	17 December 1986
Marine Board of Victoria	30 June 1986	No reporting requirements. Section 74 of the Marine Act 1958 requires that the Auditor-General audit the Pilotage Account which is administered by the Marine Board of Victoria.	24 November 1986	12 December 1986
Metropolitan Transit Authority	30 June 1986	30 September, Annual Reporting Act 1983 (S.9)	23 September 1986	30 September [#] 1986
Port of Geelong Authority *	31 December 1985	No date specified. Port of Geelong Authority Act 1958 (S.86)	7 April 1986	22 May 1986
Port of Melbourne Authority	30 June 1986	30 September, Annual Reporting Act 1983 (S.9)	24 September 1986	30 September 1986
Port of Portland Authority	30 June 1986	No date specified. Port of Portland Authority Act 1958 (S.44)	21 November 1986	11 December 1986
Road Construction Authority	30 June 1986	30 September, Transport Act 1983 (S.67)	29 September 1986	30 September [#] 1986
Road Traffic Authority	30 June 1986	30 September, Transport Act 1983 (S.67)	19 September 1986	30 September [#] 1986
State Transport Authority	30 June 1986	30 September, Annual Reporting Act 1983 (S.9)	23 September 1986	30 September [#] 1986
Victoria Transport Borrowing Agency**	30 June 1986	30 September, Transport Act 1983 (S.67)	13 October 1986	18 October 1986

* The Port Authorities (Amendment) Act 1986 provides for the Authority's balances date to be changed from 31 December to 30 June. The current reporting period is to cover 1 January 1986 to 30 June 1987.

[#] Qualified audit report issued

** Abolished on 12 January 1987

Schedule B: Status of Matters Raised in Previous Reports

Report	Subject	Status at Date of Preparation of this Report
Ministry of Transport		
Fourth Report 1983-84, p. 81	Problems associated with the disclosures in the Transport Authorities financial statements of transactions between the Public Account and the Authorities. The Ministry of Transport and the Department of Management and Budget need to consult with the Authorities to standardise the manner in which the transactions are reported.	Refer paragraphs 3.20.3 - 3.20.7 of this report. Further review by audit required in 1986-87.
Second Report 1984-85, p. 115	Audit examination of special project expenditure indicated a lack of disclosure within the annual financial statements of the Ministry as to the nature and extent of projects undertaken during the year.	Item disclosed in 1985-86 financial statements. Matter now resolved.
Grain Elevators Board		
Fourth Report 1982-83, p. 33	Overpayment of travelling and other expenses to former chairman totalling \$7 603 (\$5 164 in 1981-82 and \$2 439 in prior years).	An amount of \$5 400 is still outstanding. The Board has authorised its solicitor to take legal action to recover these funds.
Metropolitan Transit Authority		
Fourth Report 1983-84, p. 83	Administrative arrangements and legislation relating to the operation and management of metropolitan rail operations need to be addressed to enable such operations to be properly accounted for and managed.	Refer paragraphs 3.20.27 - 3.20.29 of this report. Further review by audit required in 1986-87.

Fourth Report 1983-84, p. 84	Agreement for determining costs and revenue applicable to metropolitan rail operations should be formalised.	MTA indicated that an agreement has been reached for determining applicable costs and revenue; however, the agreement will not be formalised in writing.
Fourth Report 1983-84, p. 84	To enable control over costs and revenue applicable to metropolitan rail operations, suitable monitoring and analysis techniques should be implemented.	Costs and revenues relating to metropolitan rail operations are being maintained and analysed. Position now satisfactory.
Fourth Report 1983-84, p. 85	Legislation relating to orders for vesting of assets between Authorities should be reviewed.	MTA indicated that the need to review the legislation no longer exists as the area of concern i.e. sale and lease back of vested assets will not occur in the future.

Port of Melbourne Authority (PMA)

Second Report 1984-85, p. 115	An actuarial investigation in 1985 revealed a shortfall of \$3.8 million, as at 30 June 1984, in the Members Superannuation Fund. The PMA has brought to account an amount of \$0.7 million as abnormal items in 1984-85.	An additional amount of \$0.9 million was brought to account in 1985-86. The balance of the shortfall of \$2.2 million has only been disclosed in the notes to the PMA's financial statements, pending a further actuarial review in 1987.
Second Report 1984-85, p. 115	In December 1983, the Government requested the PMA to prepare detailed plans for a State Convention Centre. In addition, the Treasurer gave an undertaking that the development costs would be reimbursed.	At 30 June 1986 the PMA had incurred costs amounting to \$1.3 million for the design phase of the project but it has not been reimbursed for the costs incurred.

Port of Portland Authority (PPA)

Third Report 1982-83, p. 58	Current account overdrawn by the PPA on a number of occasions without the consent of the Treasurer as required by the Port of Portland Authority Act 1958.	Current account was not overdrawn during 1985-86. Position now satisfactory.
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Road Construction Authority

Third Report 1982-83, p. 90	Adjustments required to depreciation records relating to plant and motor vehicles.	Some action has been taken but a number of adjustments are still required.
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Road Traffic Authority

Fourth Report 1983-84, p. 91	Legal position regarding retention by the RTA of certain fees levied under the Motor Car Act 1958 needs to be resolved.	In December 1986 the Road Safety Act 1986 was introduced which will enable the RTA to retain these fees. Refer paragraph 3.20.45 of this report.
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State Transport Authority

Supplementary Report 1981, p. 233 December 1982, p. 107	No provision in legislation for accounts of V/Line Industries Pty. Ltd., a wholly owned subsidiary of STA, to be audited by Auditor-General.	Refer paragraphs 3.20.65 - 3.20.68 of this report. Further review by audit required in 1986-87.
Fourth Report 1983-84, p. 94	The recording system is inadequate to establish the existence and cost of individual assets and determine an appropriate depreciation charge.	The updating of the recording system was completed during 1985-86 and position now satisfactory.
Fourth Report 1983-84, p. 95	Track and related infrastructure - in audit opinion the present accounting policies in relation to depreciation, maintenance and deferred maintenance require review.	STA indicated that the accounting policies relating to track and related infrastructure are currently under review.

3.21

TREASURER

3.21.1 The Treasurer is responsible for the following entities which are subject to audit by the Auditor-General:

Departments

- Department of Management and Budget

Public Bodies

- Accident Compensation Commission
- Accident Compensation Tribunal
- Bioplantech Limited
- Capital Works Authority
- Coal Mine Workers' Pensions Tribunal
- Emergency Services Superannuation Scheme
- Hospitals Superannuation Board
- Metropolitan Fire Brigades Superannuation Board
- Parliamentary Contributory Superannuation Plan
- State Employees Retirement Benefits Board
- State Insurance Office
- State Superannuation Board administering:
 - . Holmesglen Constructions Superannuation Plan
 - . Lump Sum Fund
 - . Pensions Supplementation Fund
- Tattersall Sweep Consultations
- Transport Accident Commission
- Victorian Accident Rehabilitation Council
- Victorian Building Societies Council
- Victorian Coal Miners' Accidents Relief Board
- Victorian Development Fund
- Victorian Public Authorities Finance Agency
- Workers Compensation Board

Audit Comment

3.21.2 Matters of significance arising from the audit of certain of the above entities are discussed below.

DEPARTMENT OF MANAGEMENT AND BUDGET

Qualification of Financial Statements

3.21.3 The 1985-86 financial statements of the Department of Management and Budget (DMB) were qualified on the grounds that the State Taxation Office did not have satisfactory systems in place at 30 June 1986 to provide accurate figures for outstanding land tax and outstanding payroll tax.

3.21.4 The Department included in the financial statements estimates of \$63.8 million for land tax and \$14.7 million of payroll tax.

- 3.21.5 Audit was unable to form an opinion on the reliability of the estimated figures for outstanding land tax because:
- the amount of \$63.8 million represented the value of assessments on issue less an estimated figure of \$5.8 million on account of anticipated cancellations. There was no evidence available to audit as to how the estimate was arrived at; and
 - the data file still has inaccurate records which may result in a large number of assessments on issue at 30 June having to be cancelled thereby rendering the debtors figure inaccurate. It was not practicable for audit to determine the assessments concerned.
- 3.21.6 The State Taxation Office acknowledged the problems with the data file. The Office has indicated that it will continue its efforts, which during 1985-86 significantly improved the accuracy of data held, to obtain an accurate, complete and up to date data file.
- 3.21.7 In respect of outstanding payroll tax the amount of \$14.7 million included estimates of amounts payable under proofs of debt lodged in the case of liquidated companies, arrangements entered into by the Commissioner and assessments made under Section 18(2) of the Payroll Tax Act 1971. Audit could not determine the adequacy or otherwise of the estimates.

ACCIDENT COMPENSATION COMMISSION

- 3.21.8 The Accident Compensation Commission commenced operations on 1 September 1985 as the key organisation within the Government's WorkCare system.
- 3.21.9 The functions of the Commission include the collection of the WorkCare levy, the assessment and payment of claims and the promotion and funding of rehabilitation.

Qualification of Financial Statements

- 3.21.10 The 1985-86 financial statements of the Commission were qualified on the following grounds:

(1) Outstanding WorkCare claims

The Commission disclosed in the notes to its financial statements that, as it had been in operation for only 10 months, the data available on which to make long term estimates of claims costs was very limited.

The report on the valuation of outstanding WorkCare claims, prepared by the consulting actuary to DMB, indicated, in part, that errors had been uncovered in source data, there was no clear evidence as to the pattern of termination rates, and 12 months of actual payment data was not sufficient to estimate payment patterns for the next 50 years.

Due to the relatively short period of time in which WorkCare had been in operation and the reservations expressed by the actuary, I was unable to form an opinion on the reliability of the actuarial valuation of estimated outstanding claims amounting to \$534.7 million at 30 June 1986.

(2) Investments and investment income

Investments made on behalf of the Commission by Fund Management Agents were registered in the name of nominee companies with the Commission as beneficial owner. Investments were included in the Commission's accounts on the basis of statements furnished by the respective Agents. Advice obtained from the external auditor of one of the 3 respective Agents was not sufficient to enable me to independently verify investments totalling \$126.4 million and associated investment income of \$5.8 million included in the accounts.

Actuarial Valuations

- 3.21.11 In May 1986 the Commission advised that both internal and external valuations of outstanding WorkCare claims were to be obtained as at 30 June 1986. Costs associated with obtaining these valuations comprised costs in relation to obtaining the internal valuation, which were not readily ascertainable, and a fee of \$101 000 for the services of an independent external actuary.
- 3.21.12 In addition, on 25 September 1986 DMB arranged for the Commission to be provided with an independent valuation of outstanding claims which was subsequently adopted by the Commission for inclusion in its annual financial statements.
- 3.21.13 In audit opinion, such costs may have been avoided if better planning had taken place by initially consulting with DMB as to the preferred valuation approach to be adopted.
- 3.21.14 Audit recommended that, in future, the Commission should consider the desirability of consulting with DMB prior to obtaining actuarial services in order to determine the objective, nature and extent of valuations to be obtained.

Response by Commission

The Commission advised that it did not accept that the objectives, nature and extent of the annual valuations were a matter for DMB. Subject to any direction given to the Commission by the Minister, the annual valuation is under control of the Board of Management of the Commission. It is noted that the Act does not require a formal actuarial valuation of the Commission's liabilities.

Internal Audit

- 3.21.15 A review of the internal audit section revealed the lack of a defined audit charter and no use of E.D.P. and statistical audit techniques. Audit recommended that these matters be addressed to ensure that the internal audit section operates as an effective management tool.

Response by Commission

The Commission replied that an Internal Audit charter was being prepared and that EDP audit functions would be performed by a firm of chartered accountants.

MOTOR ACCIDENTS BOARD

- 3.21.16 The Motor Accidents Board was abolished on 31 December 1986 following the repeal of the Motor Accidents Act 1973. The Transport Accident Commission became the successor in law to the Board as from 1 January 1987.

Internal Fraud

- 3.21.17 A former employee of the Motor Accidents Board and 2 outside accomplices were charged by the Police with the theft of Board funds totalling \$137 820.
- 3.21.18 Subsequently, the Board engaged a firm of chartered accountants to undertake a detailed review of the controls associated with the claims payable system. The Board has informed audit that the recommendations arising from the review have been implemented.

Fraudulent Claims

- 3.21.19 During the year there was considerable media coverage regarding fraudulent accident claims made on the Board by the public.
- 3.21.20 Enquiries made by audit indicated that the Board was very conscious of its responsibility to control the incidence of fraudulent claims. This was illustrated by the appointment of a senior officer who has developed a fraud prevention strategy aimed at early identification of bogus claims.

STATE INSURANCE OFFICE

- 3.21.21 For the financial period under review the Office continued to be the sole underwriter in the State of compulsory third party insurance. However, with the establishment of the Transport Accident Commission, the Office's function in this regard ceased on 31 December 1986.
- 3.21.22 The comments contained in this section of my report relating to the valuation of outstanding claims liabilities and investments will also apply to the financial statements of both the Transport Accident Commission and the Accident Compensation Commission.

Valuation of Outstanding Claims Liabilities

- 3.21.23 The Office adopted the present value method for valuing both the compulsory third party and commercial employers outstanding claims liabilities. This method of valuation has the effect of reporting long term liabilities in current dollar values by reducing the estimated ultimate liability by the application of a discount factor to compensate for future changes in the value of money. In valuing the claims liabilities at 30 June 1986, the Office applied a discount factor of 13.96% which was established by reference to the estimated earning rate of the Office for the year. The discount factor applied to arrive at present value varied from the actual earning rate following a decision by the Office to exclude from the calculation the substantial profits earned during the year from the sale of investment properties.

3.21.24 I am concerned that the use of internally established rates can have significant impact upon the valuation of the outstanding claims liability and, therefore, the financial results of the Office for the year. This concern is, I believe, supported by the following comments taken from the 18th report to Parliament of the Economic and Budget Review Committee in December 1986 entitled "State Insurance Office: The Accounting Measurement of Compulsory Third Party Outstanding Claims Liabilities.":

"The choice of discount rate is crucial in the present value approach as it may significantly affect the final estimate and hence policy decisions concerning premiums and required levels of reserves. If the objective is to achieve greater comparability of income with expenditure and assets with liabilities, the actual earnings rate of the investment fund seems to provide an appropriate discount rate. An alternative may be a long term Government bond rate. This, possibly lower, rate would perhaps be more prudent. The Comptroller-General, in fact, suggested a rate marginally below the earnings rate of the SIO's total investment fund."

3.21.25 In my opinion the Office should apply the average long term bond rate to value such liabilities. As well as relieving the Office of the responsibility for establishing the discount factor, the use of this rate would have the effect of reporting the liability on a consistent basis and enable meaningful comparison between financial years.

Response by Office

The use of an external factor will be considered in future accounts.

Valuation of Investments

3.21.26 Because of the magnitude of the amounts involved one of the most significant factors to be considered when assessing the financial viability of the Office is its ability to meet the future outstanding claims liability. The balance sheet reports the investments, which largely underpin the outstanding claims liability, at historical cost. In addition, the notes to the financial statements provide information regarding the market value of such investments at balance date.

3.21.27 In audit opinion, accounting policies should be consistent in terms of valuing assets and liabilities and, given that the liability for outstanding claims is reported in today's dollar values, it follows that the balance sheet should also record the investment value in current terms. The adoption of such a policy would more readily enable assessment of the financial position of the Office.

Response by Office

The Board has established a review to determine if it is appropriate to account for investments at market value.

Outstanding Claims - Employers Liability

3.21.28 The introduction of the Accident Compensation Commission has placed the Office's employers liability operations in a "run-off" situation, whereby the Office has to continue to meet claims covered by former policies.

- 3.21.29 In recent years claims settlements have continually exceeded estimates and in 1985-86 the claims payments were 19% higher than had been previously estimated.
- 3.21.30 Prior to 1985-86 the Office had included a special provision to meet unforeseen costs arising out of possible retrospective legislation, subsequent court decisions and other emerging work related diseases. As at 30 June 1985 the amount provided was \$50 million. However, it was decided that the valuation of the outstanding claims provision at 30 June 1986 would not include the \$50 million special provision.
- 3.21.31 It is understood that traditionally insurance companies are not favoured by a "run-off" situation and, in his report, the actuary has warned that "future deterioration as in 1985-86 may occur". Having regard to these matters and the Office's decisions, it is possible that the valuation at 30 June 1986 may not provide adequate cover. In the event that the eventual cost of settling all claims exceeds the assets available to meet such claims, the shortfall would need to be met from the Office's general operating reserves.
- 3.21.32 Audit considered that the Office needs to closely monitor claims and payments patterns so that any unfavourable trends that may emerge can be identified and incorporated in future actuarial valuations.

Response by Office

The Office will monitor the run-off of the claims and the consulting actuary will incorporate the emerging trends in his valuation of the outstanding claims.

VICTORIAN ACCIDENT REHABILITATION COUNCIL

- 3.21.33 The Victorian Accident Rehabilitation Council commenced operations on 1 September 1985 to provide rehabilitation services under the WorkCare system.

Delays in the Payment of Accounts

- 3.21.34 A preliminary review of the approval system at the Victorian Accident Rehabilitation Council and the payment systems of Claims Administration Agents, appointed by the Accident Compensation Commission, revealed extensive delays in the processing and payment of accounts received from private rehabilitators. Although the systems in operation did not enable the number of accounts remaining unpaid to be readily ascertained, the Council estimated in November 1986, from information supplied by private rehabilitators, that approximately 2 500 accounts remained unpaid for services provided between March and September 1986.
- 3.21.35 Audit enquiries indicated that delays in payment had occurred due to the following factors:
- (1) systems employed by the Council to approve the large volume of rehabilitation treatment plans and associated accounts for payment were inadequate;
 - (2) Claims Administration Agents experienced difficulties in employing and retaining experienced staff;

- (3) a system had not been developed to inform management of the nature and extent of outstanding accounts; and
- (4) some private rehabilitators were not submitting accounts on a timely basis and the standard of accounts presentation was poor.

3.21.36 In October 1986 the Council implemented revised procedures to process rehabilitation accounts in a more efficient manner. A review of the situation in January 1987 indicated that measures taken by the Council have reduced the backlog of unpaid accounts.

Response by Council

In July 1986 the Council took action on the slow payment of rehabilitation provider accounts. A task force consisting of a representative of DMB, the Accident Compensation Commission and the Council was established to ascertain the extent and reasons for unpaid accounts. The introduction of the improved payment system, in October 1986, together with the commissioning of consultants in February 1987 to finalise any outstanding payments to providers, by March 1987, will remove any residual problems.

Schedule A: Complete/Incomplete Audits

Entities	Financial Year Ended	Reporting to Parliament	Date Financial Statements Signed	Date Auditor-General's Report Signed
Complete Audits				
Department of Management and Budget	30 June 1986	30 September. Annual Reporting Act 1983 (S. 8) Extension of time granted by Treasurer	24 September 1986	30 September 1986
Accident Compensation Commission	Period 1 September 1985 to 30 June 1986	30 September. Accident Compensation Act 1985 (S. 38)	29 September 1986	30 September 1986
Accident Compensation Tribunal	Period 1 September 1985 to 30 June 1986	30 September. Accident Compensation Act 1985 (S. 79)	7 November 1986	13 November 1986
Bioplantech Limited	Period 16 May 1985 to 30 June 1986	No reporting requirements. Audit conducted at request of the Treasurer and under Companies (Victoria) Code	12 November 1986	25 November 1986
Capital Works Authority	28 May 1985 to 30 June 1985	No reporting requirements. Audit conducted at request of the Treasurer.	24 September 1986	10 October 1986
" "	30 June 1986	30 September. Annual Reporting Act 1983 for period to 30 June 1986	24 September 1986	10 October 1986
Coal Mine Workers' Pensions Tribunal	30 June 1986	No date specified. Coal Mines Act 1958 (S. 128)	21 October 1986	30 November 1986
Holmesglen Constructions Superannuation Plan	30 June 1986	No reporting requirements. Audit conducted at request of Treasurer	20 November 1986	19 December 1986
Hospitals Superannuation Board	30 June 1986	No date specified. Hospitals Superannuation Act 1965 (S. 9)	14 November 1986	3 December 1986
Lump Sum Fund	30 June 1986	No reporting requirements. Audit conducted under Superannuation (Lump Sum Benefits) Act 1981 (S. 17)	17 December 1986	31 January 1987
Metropolitan Fire Brigades Superannuation Board	30 June 1986	No date specified. Metropolitan Fire Brigades Superannuation Act 1976 (S.7)	23 September 1986	27 November 1986

Motor Accidents Board	30 June 1986	31 December. Motor Accidents Act 1973 (S. 86)	20 December 1986	23 December 1986
Parliamentary Contributory Superannuation Fund	30 June 1986	No reporting requirements but the trustees report annually to Parliament. Audit conducted at request of Treasurer	29 January 1987	31 January 1987
Pensions Supplementation Fund	30 June 1986	No date specified. Audit conducted at request of Treasurer	29 January 1987	31 January 1987
State Employees Retirement Benefits Board	30 June 1986	No date specified. State Employees Retirement Benefits Act 1979 (S. 11)	18 December 1986	24 December 1986
State Insurance Office	30 June 1986	30 September. State Insurance Office Act (S. 24)	17 September 1986	16 October 1986
State Superannuation Fund	30 June 1986	No date specified. Superannuation Act 1958 (S. 63)	11 December 1986	31 January 1987
Tattersall Sweep Consultations	30 June 1986	No reporting requirements. Tattersall Consultations Act (S. 8A)	30 October 1986	2 December 1986
Victorian Accident Rehabilitation Council	1 September 1985 to 30 June 1986	30 September. Accident Compensation Act 1985 (S. 177)	30 September 1986	30 September 1986
Victorian Building Societies Council	30 April to 30 June 1986	30 September. Building Societies Act 1986 (S.24)	15 October 1986	20 October 1986
Victorian Coal Miners' Accidents Relief Board	30 June 1986	No reporting requirements. Coal Mines Act 1958 provides for audit of books and accounts (S. 81)	15 August 1986	20 November 1986
Victorian Development Fund	30 June 1986	30 September. Public Account Act 1958 (S. 7G)	28 August 1986	26 September 1986
Victorian Public Authorities Finance Agency	30 June 1986	30 September 1986. Victorian Public Authorities Finance Act 1984. (S.14)	30 September 1986	18 October 1986
Workers Compensation Board	30 June 1985	August. Workers Compensation Act 1958 (S.82)	30 July 1986	11 September 1986
"	1 July 1985 to 31 August 1985	"	30 July 1986	11 September 1986

Qualified audit report issued

Schedule B: Status of Matters Raised in Previous Reports

Report	Subject	Status at Date of Preparation of this Report
Department of Management and Budget		
Second Report 1981-82, p. 143	Contractors' securities held are not always current for current contracts and include securities which should have been returned to contractors.	Legislative amendment enacted which requires custodial responsibility for contractors' deposits to be an individual departmental matter.

Second Report 1981-82, p. 145	Stamps Office Clearing Account - a suitable system is necessary to enable reconciliation of balance.	The matter is being addressed as part of the EDP strategic plan.
Second Report 1981-82, p. 145	Australia Post - sale of duty stamps. The records of the Stamp Duties Office and Australia Post did not agree.	Treasurer approved write-off of \$98 502 to bring records into agreement.
Second Report 1984-85, p. 12	The Tender Board does not have the power to grant retrospective approvals for out of contract purchases. Continuance of departments failing to obtain Tender Board approval before purchasing goods and services.	Treasury Regulation amended so that Tender Board can recommend that the Treasurer approve the payment of accounts which had not complied with Treasury Regulations relating to acquisi- tion of goods and services.
Second Report 1982-83, p. 76 Second Report 1984-85, p. 124	Amount of land tax to be realised from issue of amended assessments could not be determined.	Although integrity of the land tax data base has been improved, the Taxation Office continued to include in its financial statements an estimate of outstan- ding land tax. Audit is still unable to form an opinion on the reliability of the estimate. Refer paragraphs 3.21.5 to 3.21.6 of this report.
Third Report 1983-84, p. 38-39	Unclaimed moneys. Audit recommended that action be taken to review the operations of the Registrar to ensure that the provisions of the Unclaimed Moneys Act 1962 are complied with. Audit also recommended that a review of the provisions of the Act be undertaken.	Action has commenced to review the operations and provisions of the Unclaimed Moneys Act.

Second Report 1984-85, p. 124	Payroll tax debtors could not be accurately estimated. Recommendation that suitable systems be developed to enable tax owing at balance date to be accurately determined.	Position unchanged. Refer paragraph 3.21.7 of this report.
Second Report 1984-85, p. 24	Failure to determine the status of moneys expended by the former Victorian Railways Board.	Transport Amendment Act 1986 provides that such moneys are to be treated as equity contributions by Government
Hospitals Superannuation Board		
Third Report 1980-81, p. 9	Rental of premises (now vacated by Board) - no formal agreement.	On advice from DMB the Board is in the process of negotiating an appropriate rental to cover the period 4 September 1979 to 19 August 1983.
Motor Accidents Board		
Third Report 1980-81, p. 15	Bethesda Hospital - agreement to establish rehabilitation centre not yet finalised.	The agreement has been finalised and signed by both parties.
Third Report 1981-82, p. 62	Contingent liability in respect of income tax for accident victims not disclosed.	Position unchanged. Board advised that a current court case could resolve the issue.
Fourth Report 1983-84, p. 44	Absence of formalised agreement with Alfred Hospital governing funding of road trauma service and intensive care facilities.	Agreement has been finalised and implemented by both parties.
Fourth Report 1983-84, p. 44	The Board should seek legislative authority for its practice of entering into agreements with accident victims for financial assistance towards home alterations.	Audit has been informed by the Board that they did not consider there was a need for legislative authority and that the present practice will be continued by the Transport Accident Commission.

State Insurance Office

Second Report 1984-85, p. 128	Need for improved reporting practices of outstanding liabilities in addition to that presently undertaken using present values (relates mainly to compulsory third party insurance).	Transport Accident Compensation Act 1986 transferred responsibility for compulsory third party insurance claims from the State Insurance Office to the Transport Accident Commission. The SIO had adopted some of the suggested reporting improvements for 1985-86
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State Superannuation Board

Second Report 1984-85, p. 130	Need for legal opinion to resolve apparent conflicts between provisions of Superannuation Act 1958 and Pensions Supplementation Act 1966 in relation to pension entitlement for commutation of pensions.	Board is requesting legislative amendment to resolve this matter.
Second Report 1984-85, p. 131	Variation in income from cash options caused by suspect data provided to actuary.	This matter has been resolved during 1985-86.

Victorian Development Fund

Second Report 1982-83, p. 87 Second Report 1983-84, p. 73	A number of control weaknesses exist in the fund's computer system.	The VDF has considered audit recommendations and implemented only one of the suggested actions.
Second Report 1983-84, p. 73	Need for fidelity guarantee insurance.	Position unchanged. VDF management have reviewed current position and see no need for insurance protection.

Second Report
1984-85, p. 131

Need to seek legislative
amendment to allow VDF to
enter into forward currency
exchange contracts on
behalf of other public
bodies.

Situation has not
recurred during
period under
review. No change to
legislation has
taken place

3.22

WATER RESOURCES

3.22.1 The Minister for Water Resources is responsible for the following entities which are subject to audit by the Auditor-General:

Department

- Department of Water Resources

Public Bodies

- Dandenong Valley Authority
- Latrobe Valley Water and Sewerage Board
- Local Water and Sewerage Authorities
- Melbourne and Metropolitan Board of Works
- Rural Water Commission

Audit Comment

3.22.2 Matters of significance arising from the audit of certain of the above entities are discussed below.

LOCAL WATER AND SEWERAGE AUTHORITIES

3.22.3 The oversight of the 173 local water and sewerage authorities is the responsibility of the Department of Water Resources. The audit of the authorities is conducted by private auditors as agents of the Auditor-General.

Timeliness of Financial Reporting

3.22.4 A significant number of water authorities have failed to prepare financial statements either within the statutory reporting date as required by the Water and Sewerage Authorities (Restructuring) Act 1983 or in a timely manner in accordance with the Water Act 1958. At the date of preparation of this report 95 audits for the following accounting periods remained outstanding due to the failure by authorities to prepare financial statements:

<u>Number of Audits</u>	<u>Financial Statements</u> <u>Year/s Ended</u>
11	31.12.84
18	30.6.85, 30.9.85, 31.12.85
66	30.6.86, 30.9.86

3.22.5 A considerable amount of time has been spent by my Office in contacting water authorities in an attempt to have their financial statements audited in accordance with the legislation. On 1 August 1986 I wrote to the Director-General of Water Resources to express my concern at the significant number of water authorities which had failed to prepare financial statements. The oversight of timely presentation of financial statements is clearly not an audit responsibility and I am strongly of the view that the Department of Water Resources should implement a monitoring system to ensure that the water authorities comply with the relevant legislation.

Response by Department

The Department advised that it would pursue the outstanding financial statements and had revised its system of monitoring the progress of authorities in the preparation of their financial statements.

Consolidation of Financial Records

- 3.22.6 In the Auditor-General's Second Report for 1984-85 comment was made on the significant number of water boards and certain municipalities which continued to maintain separate accounting records for each former water trust/sewerage authority as if each body continued to exist. As some authorities continued with this practice during 1985-86 I must again report that the duplication of the records is a waste of resources, conflicts with the benefits arising from the restructure within the water industry, and increases audit time and therefore the fees that the authorities pay for audit services.
- 3.22.7 It is recommended that the Department of Water Resources encourage and, if necessary, assist those authorities who continue to maintain separate accounting records.

Fixed Asset Registers

- 3.22.8 Several of my agents reported inadequacies in the recording of fixed assets by water authorities. In particular, a number of authorities had either not prepared or had inadequate fixed asset registers to support the cost of works in the balance sheet and the depreciation charge in the operating statement.
- 3.22.9 It was noted that the Department of Water Resources is currently undertaking a review of fixed asset management by water authorities which should, when finalised, assist authorities in the accounting for their fixed assets.

RURAL WATER COMMISSION

Financial Statements

- 3.22.10 At the date of preparation of this report the audit of the Commission's 1985-86 financial statements had not been finalised.
- 3.22.11 The principal reasons for the delays by the Commission in finalising its financial statements were:
- (1) delays in completing its fixed asset register in order to fairly reflect the value of fixed assets in the balance sheet and consequently the correct depreciation charge in the profit and loss statement; and
 - (2) a lack of procedures to ensure that the information required for the preparation of the financial statements is produced in a timely manner.

3.22.12

Over the past 2 years the Commission, as successor body to the State Rivers and Water Supply Commission, has seen significant changes in organisational structure and financial management strategy. The change by the Commission from a cash to an accrual based reporting system, whilst operating from a cash appropriation by Parliament, has been challenging and some difficulties have been encountered in developing the necessary reporting systems and procedures. Although the Commission will not be faced with the major task of completing the fixed asset register during 1987 which has contributed to the delay of the 1986 financial statements, it will need to significantly improve its annual reporting systems and procedures if the statutory reporting date of 30 September is to be met.

Schedule A: Complete/Incomplete Audits

Entities	Financial Year Ended	Reporting to Parliament	Date Financial Statements Signed	Date Auditor-General's Report Signed
Complete Audits				
Department of Water Resources	30 June 1986	30 September. Annual Reporting Act 1983 (S.8).	17 September 1986	24 September 1986
Lalrope Valley Water and Sewerage Board	30 June 1986	31 December. Lalrope Valley Act 1958 (S.53)	3 November 1986	12 November 1986
Melbourne and Metropolitan Board of Works	30 June 1986	30 September. Annual Reporting Act 1983 (S.9)	17 September 1986	23 September 1986
Incomplete Audits				
Dandenong Valley Authority	30 September 1986	31 March. Dandenong Valley Authority Act 1963 (S.40)		
Local Water and Sewerage Authorities	Further comment in paragraphs 3.22.3# - 3.22.9 of this report.			
Rural Water Commission	30 June 1986	30 September. Water Act 1958 (S.43F)		

#Qualified audit report issued for 13 authorities.

Schedule B: Status of Matters Raised in Previous Reports

Report	Subject	Status at Date of Preparation of this Report
Local Water and Sewerage Authorities		
Second Report 1984-85, p.141	Misappropriation of funds amounting to \$180 000 at Geelong and District Water Board.	Board employee charged. Court proceedings to commence March 1987.

Rural Water Commission

Second Report
1984-85,
p. 139-140

Accounting treatment for
moneys paid into the Public
Account by the Commission
requires review by the
Commission in consultation
with the Department of
Management and Budget.

Position unchanged.

3.23

PARLIAMENT

Introduction

- 3.23.1 The Parliament is composed of the Crown (represented by the Governor), the Legislative Council and the Legislative Assembly which collectively form the legislature.
- 3.23.2 The Legislative Council and Legislative Assembly are serviced by 5 Parliamentary Departments namely;
- (1) the Department of the Legislative Council which provides technical and administrative support services for the Legislative Council and its committees;
 - (2) the Department of the Legislative Assembly which provides technical and administrative support services for the Legislative Assembly and its committees;
 - (3) the Parliamentary Library which provides specialised information and research services to Members of Parliament, parliamentary committees and their associated research and academic staff;
 - (4) the Parliamentary Debates (Hansard) Department which reports and publishes the debates of Parliament in the official report Hansard and reports minutes of evidence taken by parliamentary committees; and
 - (5) the Joint House Committee which co-ordinates the provision of the ancillary services necessary to facilitate the operations of the legislature. These services include financial management and all accounting services, the operation of the Refreshment Rooms, the maintenance of parliamentary gardens and buildings, and the management of all State electorate offices.
- 3.23.3 Officers of the Parliament are employed under the provisions of the Parliamentary Officers Act 1975 and as such are not subject to the conditions of the Public Service Act 1974.
- 3.23.4 Under the Parliamentary Officers Act 1975 the persons holding the offices of Clerk of the Legislative Council, Clerk of the Legislative Assembly, Librarian, Chief Reporter of the Victorian Parliamentary Debates and Secretary of the House Committee are designated "permanent heads" of the respective parliamentary departments.

Financial Transactions

- 3.23.5 As there is no legislative requirement to present audited financial statements to Parliament, the payments of the Parliament of Victoria for the year ended 30 June 1986, together with comparative figures for the previous year, are detailed below on a parliamentary department/program basis:

<u>Legislative Council Program</u>	<u>1985-86</u> <u>\$000</u>	<u>1984-85</u> <u>\$000</u>
Members' Salaries and Expenses	2 629	2 476
Committee Expenses (incl. Select Committee)	560	626
Payroll Tax	195	185
Parliamentary Printing	245	170
Office Staff Salaries and Expenses	<u>522</u>	<u>464</u>
	<u>4 151</u>	<u>3 921</u>
<u>Legislative Assembly Program</u>		
Members' Salaries and Expenses	4 865	4 259
Committee Expenses (incl. Select Committee)	454	556
Payroll Tax	373	332
Parliamentary Printing	1 016	1 134
Office Staff Salaries and Expenses	<u>1 345</u>	<u>1 256</u>
	<u>8 053</u>	<u>7 537</u>
<u>Parliamentary Library Program</u>		
Payroll Tax	28	27
Salaries and Payments in the Nature of Salary	492	446
Administrative Expenses	118	84
Parliamentary Printing	<u>15</u>	<u>32</u>
	<u>653</u>	<u>589</u>
<u>Parliamentary Debates Program</u>		
Payroll Tax	58	51
Salaries and Payments in the Nature of Salary	934	907
Administrative Expenses	42	22
Parliamentary Printing	<u>1 818</u>	<u>1 313</u>
	<u>2 852</u>	<u>2 293</u>
<u>Parliamentary Support Services Program</u>		
Payroll Tax	277	265
Salaries and Payments in the Nature of Salary	4 297	3 762
Administrative Expenses	520	564
Refreshment Rooms	549	505
Members' Accommodation	499	744
Electorate Offices - Expenses	2 390	1 568
Electorate Offices - Adaptations	753	63
Other Expenses	<u>763</u>	<u>749</u>
	<u>10 048</u>	<u>8 220</u>
Total Payments	<u>25 757</u>	<u>22 560</u>

Schedule A: Complete/Incomplete Audits

Entities	Financial Year Ended	Reporting to Parliament	Date Financial Statements Signed	Date Auditor-General's Report Signed
Complete Audits				
Department of the Parliament of Victoria	30 June 1986	No requirement to report. Audit conducted under S. 31 of Audit Act 1958	1 October 1986	2 December 1986
State Parliament Refreshment Rooms	30 June 1986	No requirement to report. Audit conducted at request of Parliamentary House Committee	19 January 1987	31 January 1987

Schedule B: Status of Matters Raised in Previous Reports

There were no matters outstanding.