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# Auditor-General of Victoria

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Second

Report

for

the year

1986-87

April 1988

VICTORIA

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*Second Report*

of the

**AUDITOR-GENERAL**

for the

Year 1986–1987

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*Ordered by the Legislative Assembly to be printed*

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Office of the Auditor-General,  
1 Macarthur Street,  
Melbourne, Vic., 3002.

April 1988

The Honourable the Speaker,  
Legislative Assembly,  
Parliament House,  
Melbourne, Vic., 3002.

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 purpose of this 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.

This report contains 3 major segments dealing with issues raised during 1986-87 audits and other matters which have arisen up to March 1988. *Part 1* provides a summary of major findings; *Part 2* discusses across the board issues; and *Part 3* comments on the results of audits of individual entities, arranged according to ministerial portfolio.

In essence, my 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. It is the prerogative of Parliament and of the Executive to act on my reports as they think fit.

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. Appreciation is expressed for the co-operative and positive approach to audit recommendations by officers of the Department of the Premier and Cabinet, the Department of Management and Budget and other government agencies.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'R. G. Humphry', written over a horizontal line.

R. G. HUMPHRY  
*Auditor-General*

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# **PART 1**

## **SUMMARY OF MAJOR FINDINGS**

**Format and content of the Second Report for 1986-87**

- 1.1.1 This report contains 3 major segments dealing with issues raised during 1986-87 audits and other matters which have arisen up to March 1988. *Part 1* provides a summary of major findings; *Part 2* discusses across the board issues; and *Part 3* comments on the results of audits of individual entities, arranged according to ministerial responsibility.

**Major findings**

- 1.1.2 *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. The principal findings of *Part 2* are as follows:

- \* *Investment holdings - impact of share market downturn (section 2.1)*  
Decline in total investment holdings (approximately \$918 million) are evaluated in the context of the substantial market gains which have been made in recent years.
- \* *Debt centralisation (section 2.2)*  
Impact of debt centralisation of \$2.7 billion on the transport authorities.
- \* Other issues in *Part 2* deal with:
  - . Actuarial valuations (*section 2.3*);
  - . Rate of Return Reporting (*section 2.4*);
  - . Developments in financial reporting (*section 2.5*); and
  - . Qualified audit opinions on financial statements (*section 2.6*).

- 1.1.3 *Part 3* of this report contains comments on the results of audits conducted during the last financial year grouped according to ministerial responsibility. A range of significant issues has been identified, but I consider the major matters to be:

**Arts (section 3.2)***Council of the Museum of Victoria*

- \* Unsatisfactory financial records (*paragraph 3.2.3*)

*Exhibition Trustees*

- \* Major restoration program inadequacies (*paragraph 3.2.11*)

*Film Victoria*

- \* Continuing operating deficits (*paragraph 3.2.15*)

**Attorney-General (section 3.3)***Attorney-General's Department*

- \* Court fines not collected (*paragraph 3.3.3*)
- \* Need to maximise court investment returns (*paragraph 3.3.6*)

**Education (section 3.7)**

*Review of cleaning services within educational institutions - potential savings of up to \$51.5 million per annum (paragraph 3.7.3)*

*Ministry of Education*

- \* Arrears of audits of school councils (*paragraph 3.7.52*)

*Administration of Outside Studies Program and monitoring of external earnings of academic staff within universities (paragraph 3.7.61)*

*La Trobe University*

- \* Deficiencies in development of financial accounting and reporting system (paragraph 3.7.64)

*Monash University*

- \* Overseas commercialisation of in-vitro fertilisation (IVF) - current royalties position (paragraph 3.7.68)
- \* IVF services provided by University staff at Epworth Hospital (paragraph 3.7.73)

*Chisholm Institute of Technology*

- \* Technology tower project - financing arrangements (paragraph 3.7.80)

*Phillip Institute of Technology*

- \* Agreement with external radiologist - Medicare claims (paragraph 3.7.83)

*Preston College of Technical and Further Education*

- \* Major deficiencies in financial management procedures (paragraph 3.7.88)

*TAFE Board*

- \* Management of Commonwealth TAFE grants for building projects (paragraph 3.7.96)
- \* Equipment leased under State leasing facility (paragraph 3.7.101)
- \* Misuse of Commonwealth funds provided under the Participation and Equity Program (paragraph 3.7.104)

**Housing (section 3.10)**

*Director of Housing*

- \* Substantial level of rental arrears (paragraph 3.10.3)
- \* Inaccurate information in rental database (paragraph 3.10.8)
- \* Arrears under the Mortgage Relief Scheme (paragraph 3.10.14)
- \* Interest not charged under the Tenant Purchase Scheme (paragraph 3.10.18)
- \* Excessive claims by contractors (paragraph 3.10.21)

**Industry, Technology and Resources (section 3.11)**

*Alpine Resorts Commission*

- \* Non-payment of site rental charges (paragraph 3.11.6)

*Victorian Economic Development Corporation*

- \* Inadequate administration and monitoring procedures for loan and equity investments (paragraph 3.11.22)

*Victorian Tourism Commission*

- \* Deficiencies in financial and project management procedures (paragraph 3.11.27)
- \* Deterioration of the financial performance of subsidiary companies (paragraph 3.11.30)

**Labour (section 3.12)**

*Department of Labour*

- \* Grant allocation and monitoring procedures (paragraph 3.12.9)

**Local Government (section 3.13)**

*Local Authorities Superannuation Board*

- \* Review of financial performance and operations (paragraph 3.13.13)

**Police and Emergency Services (section 3.15)**

*Ministry for Police and Emergency Services*

- \* Under-utilisation of the Police Hospital and substantial operating losses (paragraph 3.15.3)
- \* Inadequacies in the leasing of police premises (paragraph 3.15.7)

**Property and Services (section 3.17)**

*Department of Property and Services*

- \* Review of the operations of the Victorian Government Printing Office (paragraph 3.17.8)

*Victorian Public Offices Corporation*

- \* Delays in fit-out and occupancy of property (paragraph 3.17.15)

**Public Works (section 3.18)**

*Public Works Department*

- \* Deficiencies in project management (paragraph 3.18.3)

**Transport (section 3.20)**

*Metropolitan Transit Authority*

- \* Financial impact of Box Hill Station lease arrangement (paragraph 3.20.18)
- \* "Open ended" incentive fee for Victoria Central Project (paragraph 3.20.24)

*Port of Melbourne Authority*

- \* Financial viability of World Trade Centre (paragraph 3.20.34)
- \* Increased port operating costs (paragraph 3.20.38)

*Road Construction Authority*

- \* Irregularities in property management practices (paragraph 3.20.50)

*State Transport Authority*

- \* Payment of redundancy and WorkCare benefits (paragraph 3.20.60)

**Water Resources (section 3.22)**

*Local water and sewerage authorities*

- \* Failure to provide timely financial information by some water authorities (paragraph 3.22.5)

*Melbourne and Metropolitan Board of Works*

- \* Innovative financing arrangements (paragraph 3.22.14)
- \* Inability to charge interest on overdue accounts (paragraph 3.22.19)

1.1.4 The 1986-87 audits of the following ministerial portfolios proved satisfactory:

- \* Agriculture and Rural Affairs;
- \* Consumer Affairs;
- \* Ethnic Affairs; and
- \* Premier and Cabinet.

**What potential savings have been identified?**

1.1.5 The audit function is 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. As part of this function, my Office evaluates the extent to which value for money has been achieved for taxpayers' dollars.

1.1.6 The report has attempted, where possible, to quantify the estimated potential savings which would be achieved as a result of implementing the audit recommendations. Subject to the necessary industrial agreements being negotiated, potential savings to be obtained as a direct result of audit recommendations would be in excess of \$60 million. However, there are a number of other potential savings which could not be quantified at this stage.

1.1.7 There is also further significant potential for savings in other organisations. As an example, what are the potential savings in the area of cleaning across the Victorian public sector? I would hope that the results of my review in the Education area would encourage other bodies to closely examine their existing arrangements.



### **Improvements in public sector resource management**

1.1.8 Although the nature of the audit process emphasises the reporting of deficiencies, it is also important to note that there has been continued improvement in the State's public sector resource management during 1986-87. In this respect, there have been a number of initiatives, including:

- \* issue of guidelines for the accountability and control of public sector companies, joint ventures and trusts;
- \* issue of regulations which establish uniform accounting and reporting practices for superannuation schemes;
- \* progress on asset recording and reporting in the budget sector;
- \* issue of a policy document entitled *Internal Audit in the Victorian Public Sector - An introduction to the function for Management and Staff* following a government decision to require all departments to establish an internal audit capability; and
- \* steps to improve the timely payment of suppliers' accounts and the monitoring of performance of departments and agencies following the issue of *Accounting Policy Statement No. 2 - Accounts Payable and an Accounts Payable Procedural Manual (APS 2)*.

1.1.9 Substantial progress is being made in improving resource management systems and standards, with particular emphasis on internal audit and management review processes. These measures are increasingly enabling departments and agencies to identify administrative deficiencies and to deal with them. A number of matters dealt with in this report have been brought to light as a result of these government initiatives.

# **PART 2**

## **BROAD SCOPE ISSUES**

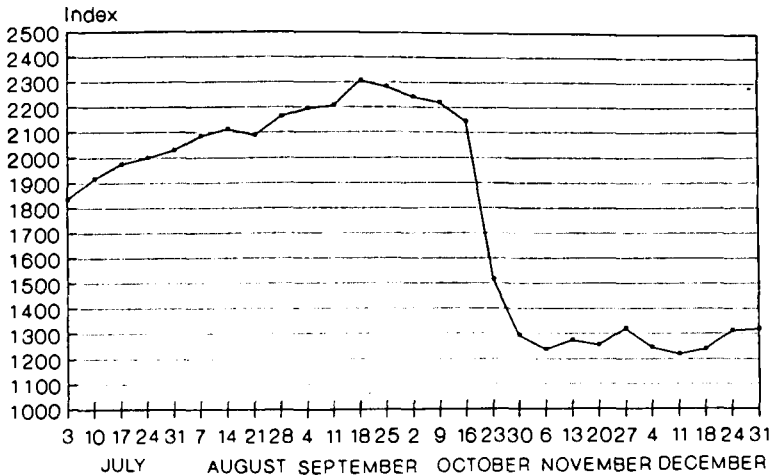
## 2.1

# INVESTMENT HOLDINGS - IMPACT OF SHARE MARKET DOWNTURN

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- 2.1.1 The volatility in Australian and international share market prices over the second half of 1987, particularly as evidenced by the well publicised October downturn in share values, has had a substantial impact on the value of investment holdings of both private and public sector entities.
- 2.1.2 In the private sector there have been concerns as to the severity of the impact of the market movements on the value of companies' equity investment holdings (i.e. shares, convertible notes, units in equity trusts etc.) and the extent to which investors have been kept informed of current market values of these holdings. This has recently culminated in the National Companies and Securities Commission directing listed companies to report the extent of share market losses incurred over the second half of 1987.
- 2.1.3 The effect of the share market movements on Victorian public sector entities' investment holdings has, in a number of cases, also been severe. As the October market downturn occurred some 4 months into the 1987-88 financial year, the impact on investment holdings has not generally been disclosed as a *post-balance date event* in entities' financial statements for the year ended 30 June 1987, i.e. financial statements were generally finalised well before the time of the October downturn.
- 2.1.4 In the interests of providing information to Parliament as to the impact of share market movements on the current values of authorities' investments, I have therefore included in this section of my report an analysis of the types of investment holdings of public sector entities (identified in paragraph 2.1.17) and the impact of the October 1987 share market downturn both in an immediate and longer term context.
- 2.1.5 In summary, the review found that consequent to the October downturn in share prices the market value of entities' total investment holdings was reduced from \$5.7 billion at 30 September 1987 to \$4.8 billion at 31 October 1987. This represented a decline in value of some \$900 million or 16 per cent of the entities' total investment holdings over one month. However, when viewed over the longer term, a more moderate impact can be expected.
- 2.1.6 Investment returns on equities have historically been significantly greater than fixed-interest securities such as Commonwealth bonds and company debentures. A recent survey has indicated that over a 25 year period, the return on equities was 15.3 per cent per annum compared with 7.2 per cent per annum for government securities. Furthermore, share prices in December 1987, which take into account the impact of the October 1987 downturn, are approximately equivalent to share market values current at 30 October 1986. Share prices, as measured by the Australian Stock Exchange all ordinaries index, are currently approximately double 1984 levels. In the short-term, there will however be a substantial decline in investment earnings which will be reflected in the entities' financial statements for the current financial period.
- To what extent have Australian share prices fluctuated over the period July to December 1987?**
- 2.1.7 The Australian Stock Exchange all ordinaries index provides an overall indication of movements in the prices of shares listed on Australian share markets. Chart 2.1A illustrates the movement of the index over the 6 month period July to December 1987.

**CHART 2.1A. MOVEMENT OF THE AUSTRALIAN STOCK EXCHANGE ALL ORDINARIES INDEX**



Source: Australian Stock Exchange.

2.1.8 Notable features of share price movements during the period include:

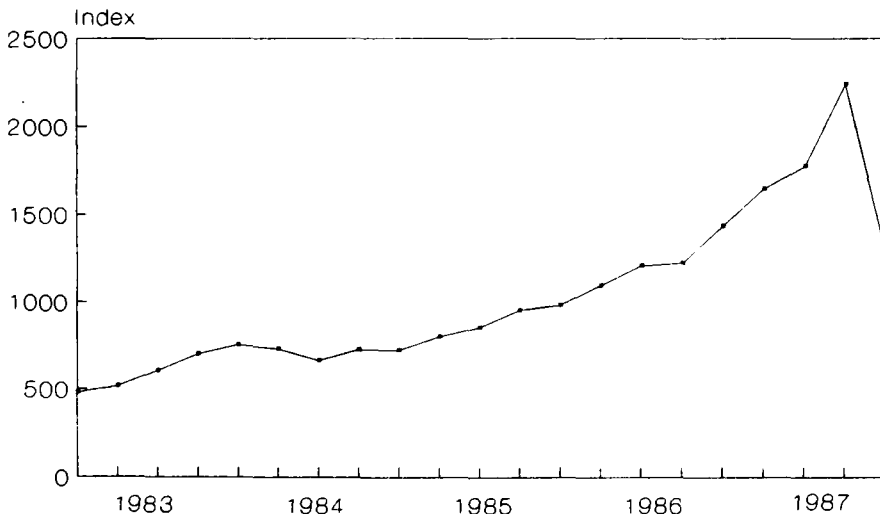
- \* a rise in the index of 532 points (30 per cent) to a daily high of 2 306 during the September quarter;
- \* a fall in the index of 914 points (44 per cent) over the period 19 October to 11 November;
- \* a fall in the index of 900 points (40 per cent) during the December quarter; and
- \* an aggregate decline of 455 points (26 per cent) over the 6 month period July to December.

2.1.9 At 28 March 1988 the index stood at 1 381 points, a rise of 63 points (5 per cent) since 31 December 1987.

**How do these fluctuations compare with movements in share prices over the last 5 years?**

2.1.10 Chart 2.1B below illustrates share price movements of the last 5 years:

**CHART 2.1B. MOVEMENT OF THE AUSTRALIAN STOCK EXCHANGE ALL ORDINARIES INDEX**



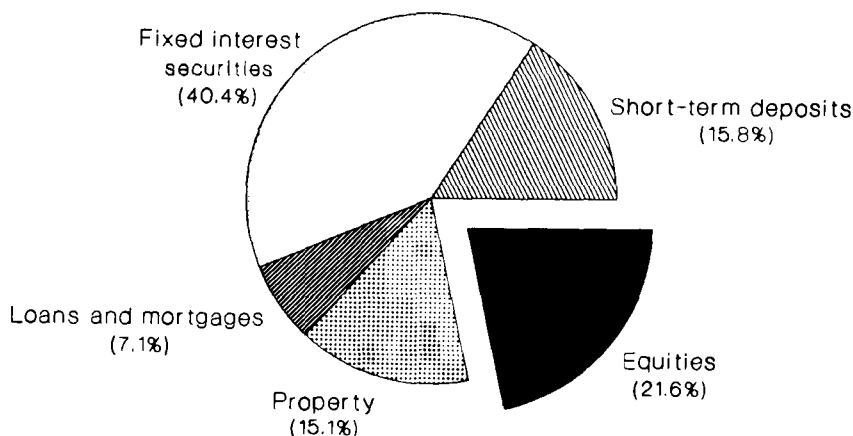
Source: Reserve Bank of Australia.

2.1.11 The chart indicates that December 1987 share prices, which take into account the impact of the October market downturn, are approximately equivalent to share values current at 31 October 1986. The index was approximately double the December 1984 level of 724 points.

**What is the composition of investments currently held by Victorian public sector authorities?**

2.1.12 Investment holdings running into billions of dollars are maintained by Victorian public sector entities. The overwhelming proportion of these funds are held by authorities and funds involved in compensation, superannuation or insurance activities. Investments and associated investment income of these entities are applied to supplement premiums and contributions in the payment of claims and provision for payment for future claims. The composition of these entities' investment balances at 30 June 1987 (or nearest balance date) is illustrated in Chart 2.1C below:

**CHART 2.1C. COMPOSITION OF COMPENSATION, SUPERANNUATION AND INSURANCE ENTITIES' INVESTMENT HOLDINGS, 30 JUNE 1987 (a)**  
(Total holdings \$7 billion, 30 June 1987.)



(a) Based on market value of entities' investments relating to compensation, superannuation or insurance activities.

2.1.13 Entities' investment powers may be limited by specific legislation or Trust Deed, and in some instances, the requirement for approval of the Treasurer of Victoria. The entities' own internally developed investment strategies and guidelines complement these overall restrictions. In a number of entities, external fund managers have been engaged to manage all or part of the investment portfolios.

2.1.14 Because of existing legislative restriction, many Victorian public sector investment-oriented entities, including the State Superannuation Board which administers the State's superannuation scheme (investments at 30 June 1987, \$1 billion), have not been authorised to invest in equity investments. Investments of such entities have therefore been confined to trustee-type investments including government and semi-government securities, deposits with banks and authorised bodies, secured deposits with authorised dealers in the short-term money market, and property and first mortgages. *These restrictions have meant that these entities have been insulated from the effects of the share market decline but have not benefited from the market gains prior to the downturn.*

2.1.15 Following proclamation on 14 October 1987 of relevant provisions of the *Borrowing and Investment Powers Act 1987*, there is now the capacity for wider investment powers to be approved for these entities, i.e. the Act enables designated entities to invest moneys in any manner approved by the Governor-in-Council on the recommendation of the Treasurer.

**Which authorities currently hold significant share market investments?**

2.1.16 There are 10 Victorian public sector entities audited by my Office which individually at 30 June 1987 held share market investments in excess of \$20 million. These entities hold equity investments to assist in the funding of superannuation, insurance or compensation liabilities and are as follows:

- Accident Compensation Commission;
- City of Melbourne Superannuation Fund;
- Gas and Fuel Corporation Superannuation Fund;
- Hospitals Superannuation Board;
- Melbourne and Metropolitan Board of Works Superannuation Fund;
- Monash University;
- State Electricity Commission Superannuation Fund;
- State Insurance Office;
- Transport Accident Commission; and
- University of Melbourne.

**What has been the impact of the October downturn in share prices on the market value of these entities' investment holdings?**

2.1.17 It is estimated by audit that following the October downturn in share prices the market value of the entities' total investment holdings, adjusted for total net cash inflows for October of \$4 million, was reduced from \$5 738 million at 30 September 1987 to \$4 820 million at 31 October 1987. This represented a decline in value of \$918 million or some 16 per cent of the entities' total investment holdings over the month as set out in Table 2.1D below:

**TABLE 2.1D. DECLINE IN MARKET VALUES OF ENTITIES' TOTAL INVESTMENT HOLDINGS, 30 SEPTEMBER TO 31 OCTOBER 1987 (a)**

<i>Entity</i>	<i>\$ million</i>
Accident Compensation Commission	244.5
City of Melbourne Superannuation Fund	15.3
GFC Superannuation Fund	58.2
Hospitals Superannuation Board	43.3
MMBW Employees' Superannuation Fund	59.5
Monash University	8.2
SEC Superannuation Fund	242.0
State Insurance Office	35.5
Transport Accident Commission	184.2
University of Melbourne	27.4
<b>Total</b>	<b>918.1</b>

(a) Based on the difference between market valuations of investments at 30 September and 31 October 1987 adjusted for cash inflows and outflows for the month of October. The information has been provided by the entities and in a number of instances, due to the absence of available data on the applicable dates, estimations of market value of certain investments have been provided.

- 2.1.18 The estimated value of entities' equity investments declined from \$2 328 million at 30 September 1987 to \$1 447 million at 31 October 1987. Without taking account of cash inflows/outflows for October this represented a decline in value of \$881 million or some 37.8 per cent of total equity investment holdings over the month. However, as indicated in paragraph 2.1.11, share values after the downturn were still approximately equivalent to values in place 12 months before the downturn.
- 2.1.19 The Table 2.1E provides an indication of the market value of entities' investments and proportion of equity investment to total investment at 31 December 1987.

**TABLE 2.1E. MARKET VALUES OF ENTITIES' INVESTMENTS HOLDINGS  
(a), AT 31 DECEMBER 1987**

<i>Entity</i>	<i>Equity investments</i>	<i>Total investments</i>	<i>Equity/ total (b)</i>
	(\$m)	(\$m)	(%)
Accident Compensation Commission	268.3	624.4	42.3
City of Melbourne Superannuation Fund	15.0	38.9	38.5
GFC Superannuation Fund	102.2	255.5	40.0
Hospitals Superannuation Fund	80.4	288.7	27.9
MMBW Employees' Superannuation Fund	100.4	222.2	45.2
Monash University (c)	14.0	33.3	42.1
SEC Superannuation Fund	366.4	1 283.5	28.5
State Insurance Office	28.8	588.6	4.9
Transport Accident Commission	247.7	1 435.0	17.3
University of Melbourne (c)	58.5	139.7	41.9
<b>Total</b>	<b>1 281.7</b>	<b>4 909.8</b>	<b>26.1</b>

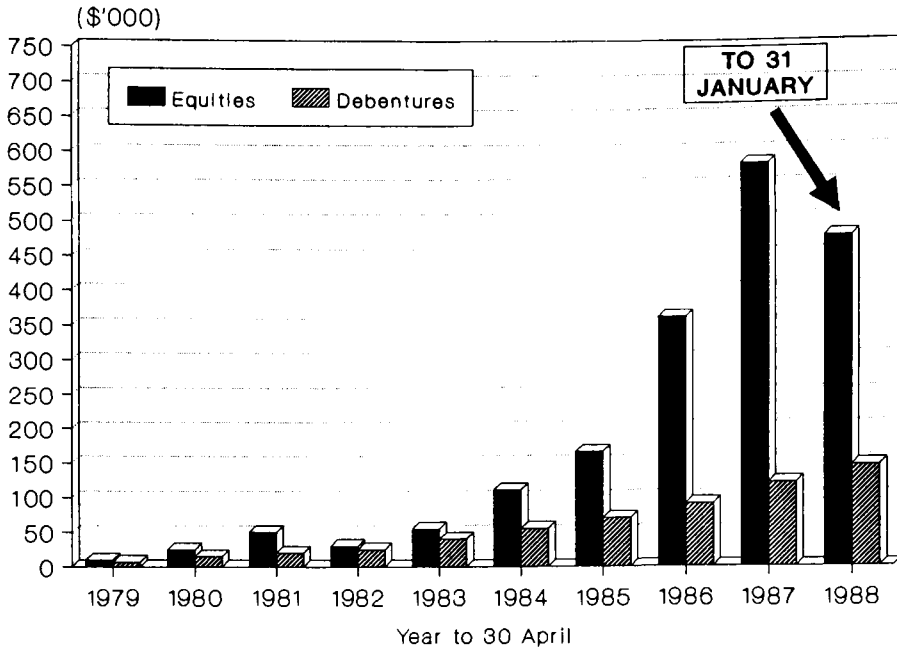
- (a) Based on information supplied by the entities. In a number of instances due to the absence of available data on the applicable date, estimations of market value of certain investments have been provided.
- (b) Percentage proportion of equity investments (both domestic and overseas) to total investment holdings. Equity investments exclude holdings in property trusts.
- (c) Investment holdings included in the table relate only to the entities' superannuation fund and trust investments.

**What additional information should be taken into account in order to put the decline in investment values in a proper perspective?**

*Relationship to investment earnings*

- 2.1.20 Over recent years these entities have generally recorded excellent investment performances which have been substantially assisted through the holding of equity investments.
- 2.1.21 Investment returns on equities have historically been significantly greater than fixed-interest securities such as Commonwealth bonds and company debentures. In this respect Chart 2.1F provides a comparison of average investment returns for equities and debentures over the last 10 years. A recent survey has also indicated that over a 25 year period the return on equities was 15.3 per cent per annum compared with 7.2 per cent per annum for government securities (*Source: "Superfunds", December 1987*). However, depending on the type of investment (e.g. whether the investments are placed in "blue chip" or speculative stocks), there is a premium for the added risk associated with equity investment. In addition, having regard to the more pronounced cyclical fluctuations in equity returns, timing of the placement of the investment is also critical in assessing relative returns over time.

**CHART 2.1F. TEN YEAR CUMULATIVE INVESTMENT RETURNS, EQUITIES AND DEBENTURES (a)**



(a) Based on an investment of \$20 000 placed annually into both ordinary shares and debentures.  
Source: J.B. Were & Son.

- 2.1.22 Large unrealised capital gains have been recognised as investment income by entities in the calculation of 1986-87 investment returns (refer further comments in section 2.5 of this report). Following the substantial decline in the market value of equity investment holdings in the first half of 1987-88 it is apparent that, on the assumption that the market does not recover substantially before 30 June 1988, unrealised losses (paper losses) on these investments will be reflected in entities' 1987-88 financial statements.
- 2.1.23 For the 3 largest entities referred to in Tables 2.1D and 2.1E information on rates of return on investment has been provided. In the case of the *Accident Compensation Commission* and the *SEC Superannuation Fund* rate of return on investments for the year ended 30 June 1987 was +34 per cent per annum and +28.4 per cent per annum, respectively. For the 12 months ended 31 December 1987, rate of return on investments amounted to -7.0 per cent per annum in respect of the *Accident Compensation Commission* and +13.7 per cent per annum for the *SEC Superannuation Fund*. Since the inception of the WorkCare scheme in September 1985 the rate of return on investments held by the *Accident Compensation Commission* has amounted to approximately +15 per cent per annum. The *Transport Accident Commission* achieved a rate of return of +4.4 per cent per annum in its first 12 months of operation to 31 December 1987.
- 2.1.24 An investment performance survey of Australia's major privately managed superannuation funds indicates that the average investment return for these funds for the 12 months ended 31 December 1987 was -0.9 per cent per annum compared with a return of +41.8 per cent per annum for the previous 12 months. (Source: *Investment Measurement Services Pty Ltd.*)
- Proportion of equity investments relative to total investments*
- 2.1.25 The determination of an appropriate investment portfolio mix, including the proportion of total investment held in equities, is a matter for determination by the entities, in accordance with legislation and overall investment strategy.



2.1.26 The increase in the proportion of entities' equity investments relative to total investments over recent years has, in certain cases, been significantly influenced by the rapid increase in market values of equity investments relative to other investments over this period in addition to the placement of new investment in equities.

*Other factors*

2.1.27 Entities generally seek to develop a long-term balanced investment portfolio to match long-term liabilities. As indicated previously, the long-term experience has proven that, although more subject to cyclical fluctuation, equity investment has historically outperformed investment in fixed-interest securities.

2.1.28 Superannuation funds identified in this analysis as being investors in the equity markets are *defined benefits* schemes rather than *accumulation* funds. As a result, the level of members' retirement benefits is not influenced by the rate of return earned on the funds' investments, being related instead to members' years of service and final salary. However, investment earnings rates are important factors in actuarial determinations of the level of members' and employers' contributions required to adequately fund these superannuation schemes.

*Management responses*

*Comments on the analysis were provided by the authorities and funds referred to in paragraph 2.1.16 and by the Department of Management and Budget. Matters raised in these responses not specifically referred to or incorporated in this report included:*

- *Accident Compensation Commission*

*In the case of the Commission investments are required to fund indexed benefits. Historical evidence indicates that fixed-interest only investments do not achieve this result whereas equity investments have a 90 per cent chance of achieving a rate of return greater than the rate of increase in the consumer price index. The equivalent figure for fixed-interest investments is 40 per cent. (Source: Frank Russell International.)*

- *Hospitals Superannuation Board*

*Another factor which should be recognised is that the Board had substantial reserves which had been set aside to protect the Fund against market fluctuations. At 30 June 1987 these reserves were approximately \$20 million.*

- *SEC Superannuation Fund*

*The SEC Superannuation Fund's performance during the 12 months ended 31 December 1987 was excellent and closely followed the best performance identified in the Mercer Campbell Cook and Knight Pooled Fund Investment Performance Survey. For the 3 months to December 1987 the SEC Superannuation Fund was the leading fund.*

- *University of Melbourne*

*The University is a long-term and conservative investor. The cost of the University's total investment holdings at 31 December 1987 was \$41.8 million compared with a market value of \$58.5 million. The market value of investment holdings at 18 March 1988, due to recent advances in the share market was in excess of \$65 million, or 84 per cent of the pre-crash market values of \$77.8 million on 30 September 1987.*

**Why was debt centralisation undertaken?**

- 2.2.1 *Budget Paper No.2 - Budget Strategy and Review, 1986-87* indicated the Government's intention to bring budget sector debt under greater control and lower the cost of debt servicing for organisations dependent on parliamentary appropriation. The increased control and lower servicing cost would be achieved by consolidating the debt of these organisations within the Victorian Public Authorities Finance Agency (VicFin) and centralising debt management.
- 2.2.2 The aims of the debt centralisation strategy were: to provide improved, centralised management of all debt which is a call on the budget; to reduce long-term debt costs; and to realign the time profile of debt service payments with the service potential of the assets financed by debt.
- 2.2.3 Debt centralisation offered the opportunity to:
- \* lower the cost of budget sector debt servicing charges (\$897 million in 1985-86) and to restructure debt liabilities (in excess of \$9 billion in 1985-86) by using modern liability management techniques;
  - \* strengthen the position and reputation of VicFin as a major statutory borrower in the domestic and overseas loan markets;
  - \* increase the liquidity, acceptability and marketability of VicFin stock;
  - \* rationalise administration costs; and
  - \* bring the transport authorities within the same capital expenditure processes that apply to departmental works and services expenditures.

**Who has the strategy affected?**

- 2.2.4 At 30 June 1987, only the transport authorities had been affected by the government strategy on debt centralisation. These comprised the Metropolitan Transit Authority (MTA), the State Transport Authority (STA), the Road Construction Authority (RCA) and the Road Traffic Authority (RTA).

**How was debt centralisation achieved?**

- 2.2.5 The *Transport (Amendment) Act 1986* which authorised the centralisation of transport debt from 12 January 1987 resulted in:
- \* the Victoria Transport Borrowing Agency (VTBA) being abolished and its assets and liabilities transferred to VicFin;
  - \* all indebtedness of the transport authorities to the State, the VTBA or VicFin being extinguished and converted into equity held by the State in each authority; and
  - \* any indebtedness to other debt providers being transferred to VicFin and replaced with equity held by the State in the authorities.

**What was the magnitude of the centralised debt?**

- 2.2.6 Table 2.2A shows the extent of the debt finance, either extinguished or transferred to VicFin, now represented as equity held by the State in the transport authorities:

**TABLE 2.2A. TRANSPORT AUTHORITIES DEBT FINANCE EXTINGUISHED OR TRANSFERRED, AT 12 JANUARY 1987**

<i>Debt finance extinguished or transferred</i>	<i>Transport authorities</i>				<i>Total</i>
	<i>MTA</i>	<i>STA</i>	<i>RCA</i>	<i>RTA</i>	
	<i>(\$m)</i>	<i>(\$m)</i>	<i>(\$m)</i>	<i>(\$m)</i>	<i>(\$m)</i>
Borrowings(a)	1 089.8	466.1	340.5	15.9	1 912.3
Advances from government(b)	1.9	783.1	49.3	-	834.3
<b>Total</b>	<b>1 091.7</b>	<b>1 249.2</b>	<b>389.8</b>	<b>15.9</b>	<b>2 746.6</b>

(a) Transferred to VicFin or extinguished and replaced with State-held equity.

(b) Extinguished and replaced with State-held equity.

Note. Finance leases totalling \$417 million have not been transferred to VicFin. The Ministry of Transport obtained an opinion from the Victorian Government Solicitor which indicated that finance leases were not required to be transferred to VicFin at 12 January 1987 but could be transferred at a later date by arrangement with VicFin.

Source: Transport authorities' annual financial statements at 30 June 1987.

**What has been the impact of debt centralisation on the transport authorities and the Public Account?**

2.2.7 Transport debt centralisation had the following impact:

- \* the transport authorities will no longer be required to borrow to meet deficiencies in operating costs and the annual appropriations to transport authorities will no longer include funds to meet the cost of borrowing;
- \* all financing charges relating to debt extinguished or transferred ceased to be a cost met by the transport authorities from 12 January 1987. The cost of debt transferred to VicFin is met by that agency which, in turn, recoups the cost from the Capital Works Authority (CWA - a body established to borrow moneys as agent of the State). The CWA is funded by annual appropriation;
- \* any future borrowings for transport purposes will be raised by VicFin and on-lent to the CWA which transfers the funds to the Public Account as part of the overall borrowings of the State;
- \* the future cost associated with the operation and development of the State's transport services will not be readily determinable as the full cost of transport services, including relevant financing charges, will not be reported in the transport authorities' financial statements; and
- \* assets constructed by the transport authorities will no longer include a share of the cost of capital.

**What administrative changes are necessary to manage the debt liabilities?**

2.2.8 The Department of Management and Budget (DMB) was to collate and verify the debt finance transferred to VicFin and to develop appropriate information systems. At the date of debt centralisation, basic data on the debt transferred was available, however appropriate information systems had not been implemented to measure, monitor and manage foreign exchange exposures.

2.2.9 The CWA entered into covenants with VicFin whereby the CWA would fund the repayment of borrowings previously undertaken by the former VTBA and VicFin for transport sector purposes. These arrangements were not finalised until 30 June 1987.

2.2.10 Greater attention needs to be given to the administrative and accounting mechanisms necessary to effect change and provide accountability prior to the implementation of new proposals.

- *Response provided by Department of Management and Budget*

*The debt of the transport authorities represents the majority of debt to be centralised. The remaining debt to be centralised, for the South East Medical Centre and the Victorian Arts Centre Trust, is insignificant in comparison and is dependent on the legislative process.*

*The Government centralised transport debt as a means of enhancing efficiency in its management. Since this debt is now managed centrally by the Treasurer, debt service payments are included in relevant Treasurer appropriations. They are not assigned to the transport authorities since these authorities are not responsible for management of the costs. DMB will analyse further, in the context of its consideration of appropriate reporting provisions, the case for assigning finance costs to agencies on a nominal basis.*

- *Response provided by Ministry of Transport*

*Transport was required to borrow funds as a matter of government policy and on the understanding that the portfolio would not be penalised by having to bear the interest costs. Therefore, the cost of debt is not seen as a cost of the transport portfolio but as a cost of government. Debt centralisation has had the impact of bringing the transport authorities in line with other areas of government which provide a social service.*

## 2.3

# ACTUARIAL VALUATIONS

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- 2.3.1 In recent years management of public sector agencies have made greater use of the services of actuaries to provide information mainly on future funding requirements and the valuations of long-term liabilities. In a number of instances actuarially-based information has been incorporated into annual financial statements.
- 2.3.2 Due to the increasing reliance being placed on actuarial calculations, audit conducted a review during 1986-87 regarding the use of actuarially-based information as part of the financial reporting process of public sector agencies.
- 2.3.3 A range of actuarially calculated information obtained by agencies during 1986-87 is illustrated below:
- \* Accident Compensation Commission, \$2 460 million outstanding claims at 30 June 1987;
  - \* Transport Accident Commission, \$2 278 million outstanding claims at 30 June 1987; and
  - \* State Insurance Office, \$322 million outstanding claims - employers' liability (government) at 30 June 1987.
- 2.3.4 A further illustration is the present value of expected future benefit payments to State Superannuation Fund members recently tabled in the Parliament by the Treasurer and estimated at \$19 981 million.

### Actuarial approach

- 2.3.5 In preparing actuarial valuations, actuaries generally utilise computer modelling techniques on data supplied by management and incorporate into the calculations identified trends and assumptions on future expectations.
- 2.3.6 The reliability of a valuation is therefore dependent upon the validity of data used, the reasonableness of trends identified and the accuracy of forecasts.
- 2.3.7 In performing actuarial valuations of long-term liabilities, an actuary may include provision for the following major assumptions:
- Inflation* - general inflationary trend within community;
  - Superimposed inflation* - inflation of claims over and above general inflationary trends associated with court awards;
  - Discount rate* - the rate applied to express the ultimate dollar costs in today's values;
  - Administrative expense* - the future overhead cost of making payments;
  - Probabilities* - the likelihood of death, disablement, retirement or other events from derived or published tables; and
  - Impact of change* - influence of legislative or other change upon future payment patterns.
- 2.3.8 The necessarily inherent subjective nature of actuarial assumptions and the impact variations to such assumptions have on final valuations can be demonstrated as follows:
- \* the Accident Compensation Commission arranged for 2 actuarial valuations to be provided at 30 June 1987 using separate consulting actuaries. The variation occurring between the two valuations, \$843 million or 34 per cent, is explained by the significantly different benefit termination rates applied and differing assessments of the impact of the 1987 WorkCare review; and

- \* the value placed upon the outstanding claims liability transferred from the State Insurance Office to the Transport Accident Commission on 1 January 1987 varied between organisations by \$387 million or 18.6 per cent. The difference in valuations can be attributed to differing assumptions, relating to legislative and management reforms, included in the model of the Transport Accident Commission actuary.

2.3.9 **Actuaries face a difficult task in assessing the relative weights of many variables. Therefore, care needs to be taken that conclusions are drawn not only from the amount of the estimated liability, but also the assumptions underlying the valuation.**

#### **Reporting of actuarial information**

2.3.10 The audit review disclosed that there is a wide variation in the reporting of actuarial information in the annual financial statements of public sector agencies.

2.3.11 While the financial statements of agencies such as the State Insurance Office and the Accident Compensation Commission adequately disclose details of actuarial techniques and assumptions employed, others provided less detail.

2.3.12 **Financial statements should incorporate adequate information on the actuarial method adopted and of the major assumptions incorporated in the model. Significant changes in actuarial methods or assumptions and the consequential financial impact compared with the previous year, should also be disclosed.**

#### **Integrity of data provided to actuary**

2.3.13 The results of actuarial valuations can be significantly influenced by small errors in the data provided to the actuary. Audit noted that the provision of incorrect information resulted in the understatement of a liability of government to a superannuation fund of \$26 million in 1985-86. That amount was subsequently adjusted in 1986-87.

2.3.14 **Senior management of agencies have a responsibility to ensure the completeness and accuracy of data prior to submission to the actuary.**

#### **Should additional actuarial valuations be obtained?**

2.3.15 As actuarial estimates are playing an increasingly important role in government decision making and parliamentary review, it is important that the assessments are subject to testing. It is noted that a recent amendment to the *Accident Compensation Act 1985* now requires the Accident Compensation Commission to obtain at least 2 independent actuarial estimates each year on the value of outstanding claims.

2.3.16 **This initiative is welcomed and should be applied in all instances where material actuarial calculations are used.**

#### **Do agencies require guidelines?**

2.3.17 Actuarially-based calculations are a very important and necessary technique to assist in establishing the full extent of liability of public sector agencies. Due to the magnitude of the liabilities involved, and their impact on the policies and operations of the agencies concerned, it is important that particular issues be dealt with by agencies on a consistent basis. Agencies currently utilising actuarial advice are now experienced in this area. However, it would be useful for this experience to be incorporated into guidelines for the benefit of all public sector agencies. Guidelines could address issues such as:

- \* the circumstances surrounding the need for actuarial advice;
- \* the terms and conditions of appointment of actuaries;
- \* broad direction as to general assumptions included in actuarial models;
- \* management responsibility in regard to information provided to an actuary; and
- \* reporting requirements of valuations undertaken by actuaries.

2.3.18 **It is recommended that the Department of Management and Budget arrange for the issuing of guidelines to assist agencies in the event that they are required to utilise actuarial advice.**

*Management response*

*Guidelines in relation to actuarial advice are being prepared by the Department of Management and Budget.*

## 2.4 RATE OF RETURN REPORTING\*\*

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### What is Rate of Return Reporting?

- 2.4.1 Rate of Return Reporting (RRR) was introduced as an important part of government policies aimed at improving the efficiency and accountability of Victoria's public authorities. It is a method of financial reporting which enables authorities' performance to be measured and assessed, after taking into account the effects of inflation.

### What are the differences between RRR and conventional reporting?

- 2.4.2 The accounting framework generally in use in Australia and overseas is based upon historical cost conventions. Historical cost accounting generally records the original purchase price of assets with returns being measured as a percentage of original cost.

- 2.4.3 The *Fifth Report* of the Public Bodies Review Committee issued in October 1981 identified that pricing decisions tended to be based on historical costs and highlighted problems arising from a failure to recognise the impact of inflation. A further key issue identified by the Committee was the absence of a basis for assessing the performance, especially financial performance, of the large commercial authorities.

- 2.4.4 The principal objective of introducing RRR therefore is to ensure that information *useful in making economic decisions* is available.

- 2.4.5 RRR provides a framework for reporting information where:

- \* the cost of utilisation or depreciation of physical assets is based on current costs;
- \* the impact of changing price levels on monetary items, such as debtors and creditors, is recognised; and
- \* information is provided on 2 key financial targets established by the Government. These targets are the return on assets (before finance charges) and the return on the State's equity.

- 2.4.6 The Government considers a target of 4 per cent rate of return on assets (after allowing for inflation) to be a realistic way of measuring the performance of authorities. The return on the State's equity is governed by the provisions of the *Public Authorities (Dividends) Act* 1983 and is limited to 5 per cent of the public equity.

### To which organisations does RRR apply?

- 2.4.7 Authorities producing RRR information are:

Gas and Fuel Corporation of Victoria (GFC);  
Grain Elevators Board (GEB);  
Melbourne and Metropolitan Board of Works (MMBW);  
Port of Melbourne Authority (PMA);  
Rural Water Commission (RWC); and  
State Electricity Commission of Victoria (SECV).

### Are RRR financial statements audited?

- 2.4.8 RRR financial statements were published as supplementary information in relevant authorities' annual reports in 1985-86. This RRR information and the related systems were reviewed by my Office and reports designed to assist the authorities were provided to management.

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\*\* This material has been prepared in consultation with officers of the Department of Management and Budget and their assistance is appreciated.



2.4.9 In 1986-87, RRR financial information for the GFC, MMBW and SECV was audited and supplementary statements were included in the annual reports of these authorities. The RRR information included in the annual reports of the other authorities was again reviewed by my Office.

**What were the findings of the 1986-87 audits?**

2.4.10 *Accounting Policy Statement No. 1 - Rate of Return Reporting (APS 1)*, issued by the Comptroller-General, Department of Management and Budget, details accounting principles and practices to be used in the preparation of RRR financial statements. In my opinion the RRR financial statements of the SECV and MMBW provided meaningful information and were prepared properly. GFC did not determine the value of its fixed assets in accordance with *APS 1* nor did it reassess the useful lives of all fixed assets and these issues resulted in a qualified audit opinion. The results of audit reviews of RWC, PMA and GEB are currently being reported and discussed with the bodies and the Department of Management and Budget.

**What are the policy guidelines for RRR?**

2.4.11 The March 1981 Public Bodies Review Committee Report on *Audit and Reporting of Public Bodies* indicated "... the lack of consistency in format and content of the annual reports of public bodies in Victoria has made most of them meaningless to the Parliament and the public for the purpose of performance evaluation".

2.4.12 The *Annual Reporting Act* 1983, and in particular the Annual Reporting (Business Undertakings) Regulations 1984, now apply *inter alia* to the 5 major commercial public authorities and set out the minimum information to be provided in both the report of operations and the financial statements.

2.4.13 The introduction of RRR under the Annual Reporting Act is a further step towards improving the flow of financial information relevant to economic decision making and strengthening accountability. *APS 1* was revised in August 1987 for application to 1986-87 financial statements.

**What is meant by return on assets?**

2.4.14 Under RRR the return on assets is calculated by deducting operating expenses (including depreciation based on the current cost of assets) from operating revenue.

2.4.15 The Victorian Government has determined that public authorities will aim to achieve a long-term target real rate of return on assets, currently set at 4 per cent. This means that authorities are required to price their products so as to generate or move towards achieving a 4 per cent rate of return on the average written-down current cost of assets in service. The return on assets so generated is then available to meet real finance charges and to provide a return on equity.

2.4.16 This policy is designed to be achieved without real increases in charges. The Government and the authorities have put major emphasis on greater operational efficiency and cost reductions.

2.4.17 Information on the 3 major authorities for the financial year 1986-87 is shown in Table 2.4A below:

**TABLE 2.4A. REAL RATES OF RETURN FOR MAJOR AUTHORITIES**

<i>Item</i>	<i>Unit</i>	<i>SECV</i>	<i>MMBW</i>	<i>GFC(a)</i>	<i>Total</i>
Written-down current cost of assets-in-service (average for year)	(\$m)	9 689.1	6 294.1	1 244.2	17 227.4
Return on assets	(\$m)	611.9	205.2	75.3	892.4
Real rate of return on average assets-in-service	(per cent)	6.3	3.3	6.0	-

(a) GFC audited RRR financial statements were qualified with respect to this information.

## What is meant by return on equity and dividends?

- 2.4.18 The *Public Authorities (Dividends) Act* 1983 introduces the concept of public equity, defined to be the difference between the written-down current value of assets-in-service and the value of operating liabilities. This measure provides an indication of the investment which the people of Victoria have in an authority. The Act provides for an annual dividend of up to 5 per cent of the public equity of an authority to be paid to the Consolidated Fund in recognition that the equity has been provided by the people of Victoria and that they should receive a reasonable return on this equity.
- 2.4.19 Return on equity is calculated by deducting real finance charges from the return on assets. In terms of *APS 1*:
- "The return on equity measures the net movement in wealth of the entity over the financial year. It is the increase in the equity holders' stake in the authority after adjustments for inflation and, in that context, includes amounts for gains and losses on holding monetary assets and liabilities.
- "In determining the amount of dividend to be distributed, consideration is given to a range of other factors including the desired capital program, the ability to borrow to finance that program, the implied gearing ratio and conditions in financial markets."
- 2.4.20 It must be noted that the "bottom line" of return on equity is not a figure which necessarily represents the amount which will be distributed as a dividend.
- 2.4.21 Return on equity and dividends in the financial year 1986-87 for the 3 major authorities are shown in Table 2.4B below:

**TABLE 2.4B. RETURN ON EQUITY AND DIVIDENDS FOR MAJOR AUTHORITIES**

<i>Item</i>	<i>Unit</i>	<i>SECV</i>	<i>MMBW</i>	<i>GFC(a)</i>	<i>Total</i>
Public equity, 1 July 1986	(\$m)	3 111.9	3 904.1	540.8	7 556.8
Public equity, 30 June 1987	(\$m)	4 209.9	3 822.1	601.4	8 633.4
Return on equity (ROE), 1986-87	(\$m)	299.2	124.4	56.9	480.5
Dividends paid in 1986-87	(\$m)	70.0	65.0	32.7	167.7
Dividends paid in 1986-87 as a percentage of public equity at 1 July 1986	(per cent)	2.2	1.7	6.0	-
Dividends from 1986-87 ROE (b)	(\$m)	95.0	77.0	30.5	202.5
Dividends from 1986-87 ROE as a percentage of public equity at 30 June 1987	(per cent)	2.3	2.0	5.1	-

(a) Figures subject to reservation on the audit of the financial statements.

(b) These amounts are transfers to the Dividend Distribution Reserve. Dividend payments to the consolidated fund (to a maximum of 5 per cent of the opening public equity) will occur in 1987-88.

## What are some of the applications of RRR?

### *Performance measurement*

- 2.4.22 Victoria's major authorities generally operate in an environment where there is no competition. Before the introduction of RRR there was limited information which could be used to assess whether authorities were efficient in supplying services. RRR information provides one important method of measuring how authorities are performing.

*Decision making*

- 2.4.23 RRR provides enhanced information for decision making by the Government and management of the authorities. The real rate of return on assets is a key figure when making decisions on prices to be charged by the authorities. Decisions on areas where cost reductions can be made and operational efficiencies achieved are also made possible by consideration of RRR information.

*Victorian Equity Trust*

- 2.4.24 The Government has recently announced plans for the establishment of the Victorian Equity Trust which will raise equity capital from the public in 1988. RRR figures are to be used in financial information supplied in relation to the Trust.

## 2.5 DEVELOPMENTS IN FINANCIAL REPORTING

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2.5.1 The objective of financial reporting in the public sector is to provide information that is necessary for making and evaluating economic decisions and to enable management to discharge its responsibility of accountability to the Parliament and the community.

### **What have been the developments in financial reporting during 1986-87?**

2.5.2 I am pleased to note that the Department of Management and Budget has taken a number of recent initiatives which are outlined in the following paragraphs.

### *Annual Reporting (Public Sector Superannuation Schemes) Regulations 1987*

2.5.3 The Annual Reporting (Public Sector Superannuation Schemes) Regulations 1987 established uniform accounting and reporting practices for superannuation schemes, including the incorporation, by reference, of specific Statements of Accounting Standards.

### *Guidelines for companies, joint ventures and trusts*

2.5.4 Guidelines for public sector companies, joint ventures and trusts were issued in October 1987. The main features of the guidelines are:

- \* they apply to companies, joint ventures or trusts over which a Minister has control;
- \* prior to an agency creating or acquiring a controlling interest in such entities the approval of the Treasurer or Cabinet is required;
- \* each agency is required to prepare a "Statement of Objects", which is to be approved by the controlling Minister or Cabinet;
- \* audited financial statements of such entities are required to be tabled in Parliament except for information which the Minister considers to be commercially confidential; and
- \* a register of such entities is to be maintained by the Department of Management and Budget.

2.5.5 Audit has recommended further enhancements to these guidelines as set out in paragraph 2.5.20.

### *Valuation of investments*

2.5.6 In 1986-87 the Accident Compensation Commission, the State Insurance Office and the Transport Accident Commission valued their investments at market values with movements in the current values (unrealised gains) being brought to account in their operating statements for the year. The consistent application of this valuation method was recommended in my *Second Report* for 1985-86 as a means of improving the quality of financial reports.

### *Self-insurance*

2.5.7 An amendment to the Annual Reporting (Business Undertakings) Regulations 1984 now specifies that a liability for self-insurance is only to be created in defined circumstances.

### *Contributed income sector regulations*

2.5.8 Draft regulations were prepared for the purpose of prescribing greater uniformity in accounting policies and disclosure practices for economically significant public bodies currently outside the ambit of the *Annual Reporting Act* 1983. The draft regulations were circulated to relevant agencies for discussion with a view to becoming effective in 1987-88.

## **Is there scope for further improvement to the quality of financial reporting?**

2.5.9 Significant scope still remains to improve the quality of financial reporting in the Victorian public sector. In this regard the following paragraphs identify specific instances of existing inadequacies in reporting requirements, accounting policies and disclosure practices.

### *Changes in administrative arrangements*

2.5.10 Changes arising from administrative arrangements are frequently not accompanied by the development of appropriate reporting processes by the agencies affected by such arrangements. Examples are:

- \* implementation of the debt centralisation strategy prior to the development, by the Department of Management and Budget, of supporting information systems to measure, monitor and manage foreign exchange exposures; and
- \* the absence of any specific guidance concerning the appropriate treatment to be adopted to account for the assets and liabilities transferred from the Ministry of Transport to the port authorities.

2.5.11 **Agencies should determine appropriate reporting mechanisms in the implementation of administrative arrangements.**

### *Management response*

*The Department of Management and Budget will take steps aimed at giving greater emphasis to the reporting and systems implications of future changes in administrative arrangements.*

### *Development of accounting guidelines*

2.5.12 The *Second Report* for 1985-86, identified examples of varied accounting policies and disclosure practices such as inconsistencies in accounting practices adopted for the recognition of employee entitlements and for the valuation of investments. It was recommended that the Department of Management and Budget should issue accounting and financial reporting guidelines for application by public bodies, and that these guidelines "... 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".

2.5.13 In 1986-87, certain agencies entered into complex and innovative financing and investing techniques such as options, futures and debt defeasance arrangements. The absence of specific Australian Accounting Standards, combined with the complex nature of these techniques, led to a variety of accounting and financial reporting practices. As an interim measure, discussions between my officers and the agencies concerned resulted in a consistent basis being applied in financial reporting for 1986-87.

2.5.14 **An urgent need remains for the development of guidelines related to specific matters such as accounting for new financial instruments and techniques, which are not addressed by the Regulations under the Annual Reporting Act or Australian Accounting Standards.**

### *Management response*

*The Department of Management and Budget has commenced a project on developing an accounting policy statement for accounting and reporting of financial instruments.*

### *Accountability for assets such as Crown land*

2.5.15 There are currently a number of public sector agencies which are not reporting certain assets in their financial statements.

- 2.5.16 **Where a public sector agency accepts all the risks and benefits incidental to ownership of an asset, whether it be Crown land, the buildings on such land, a vested asset or a donated asset, that agency should be held accountable for that asset and it should be valued and included in the agency's financial statements.**

*Management response*

*An asset recording and reporting project has been commenced by the Department of Management and Budget with the aim of achieving improved accounting and, for the first time, reporting of departmental fixed assets as part of annual reports. All assets will be required to be recorded and reported, but the question of valuation of certain classes of community assets, such as parks and monuments, remains complex and requires further consideration.*

*Recognition of long-term liabilities*

- 2.5.17 Long-term liabilities such as a superannuation scheme's liability for members' benefits are liabilities of the applicable scheme and should be recognised as such in the financial statements.

- 2.5.18 These long-term liabilities are not, in all instances, being recognised. Specifically, the Annual Reporting (Public Sector Superannuation Schemes) Regulations 1987 do not require disclosure, within the financial statements, of a scheme's liability for members' benefits. This approach is not consistent with the position adopted in the exposure drafts, issued by the Australian Accounting Research Foundation, on superannuation plan reporting.

- 2.5.19 **Long-term liabilities should be recognised in the financial statements. In this regard the Annual Reporting (Public Sector Superannuation Schemes) Regulations 1987 should be amended to require the inclusion, in the superannuation schemes' financial statements, of the liability for members' benefits.**

*Management response*

*This matter will be reviewed by the Department of Management and Budget on issue of an Australian Accounting Standard on Superannuation Fund Reporting.*

*Public sector participation in companies, joint ventures and trusts*

- 2.5.20 The guidelines for public sector participation in companies, joint ventures and trusts need further enhancement as follows:

- \* the establishment of suitable reporting requirements for significant minority interests;
- \* the need for Parliament to be advised of instances of non-reporting where the applicable Minister has considered the matter to be commercially confidential;
- \* the methods of consolidation in parent body accounts;
- \* the content of annual reports; and
- \* the duties and obligations of public sector appointed company directors.

- 2.5.21 **To further enhance the level of accountability for public sector participation in companies, joint ventures and trusts the matters detailed above should be incorporated into the guidelines covering these entities.**

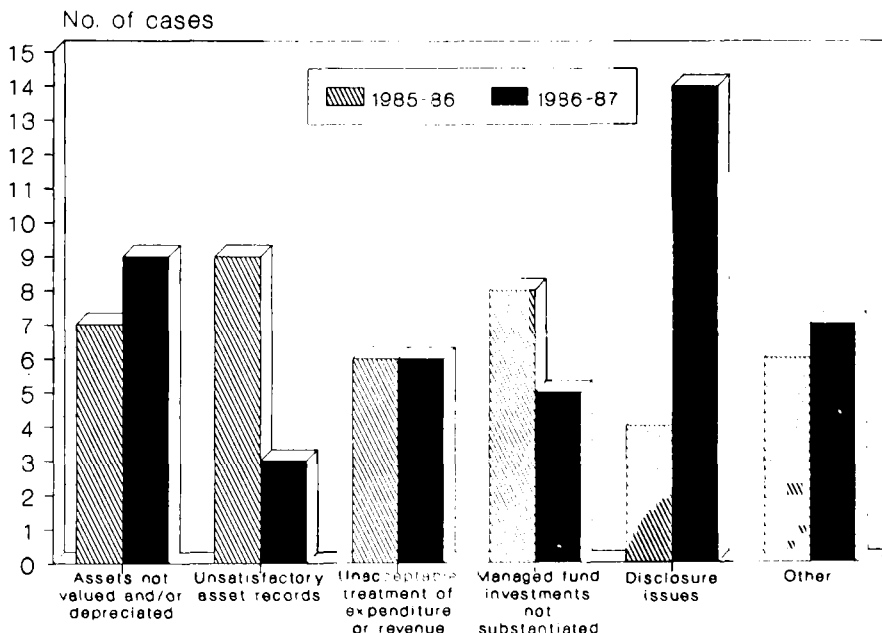
*Management response*

*The Department of Management and Budget will give further consideration to the issues raised.*

## 2.6 QUALIFIED AUDIT OPINIONS ON FINANCIAL STATEMENTS

- 2.6.1 The Auditor-General's function entails, among other duties, the auditing of public sector entities' annual financial statements and the issuing of an audit opinion on the fairness of those statements.
- 2.6.2 The issuing of a qualified audit opinion on 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 need to take into account the audit reservations in assessing the validity of information provided.
- 2.6.3 The *Second Report* for 1985-86 provided an overview on qualified audit opinions issued during the period covered by that report. During that period, 40 qualified opinions were issued (10 per cent of total opinions issued) compared with 44 qualified opinions (11 per cent of total opinions issued) for the period covered by this report.
- 2.6.4 Generally the qualified opinions related to situations where:
- \* the Auditor-General disagreed with the application of certain accounting policies used in the preparation of financial statements; or
  - \* there was significant uncertainty as to the completeness and accuracy of information contained in the financial statements.

**CHART 2.6A. QUALIFICATION OF FINANCIAL STATEMENTS BY ISSUE**



- 2.6.5 Depreciation, which is the allocation of the cost of an asset over its useful life, is a significant operating cost which should be recognised in an entity's financial statements to avoid overstating the operating results for the year. The continuing failure of certain entities to charge depreciation, even after having their financial statements qualified in previous years, is disappointing.
- 2.6.6 The financial statements of the *Cancer Institute Board, Exhibition Trustees, Geelong Performing Arts Centre Trust, Shire of Stawell (water and sewerage components), State Transport Authority, Victorian Arts Centre Trust* and *Victorian Prison Industries Commission* were qualified for the non-depreciation of assets.
- 2.6.7 In relation to investments managed by external investment managers, the primary issue of concern continues to be the lack of sufficient supporting evidence on these investments and the related investment income. 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. Confirmations were not provided in the cases of the *Hospitals Superannuation Board, Monash University, State Electricity Commission Employees' Retirement and Benefit Fund, State Electricity Commission Superannuation Fund* and *Zoological Board of Victoria Superannuation Fund*.
- 2.6.8 In regard to disclosure issues in financial statements, examples were:
- \* the *Department of Water Resources* regarding the omission of the public account transactions of the *Rural Water Commission*;
  - \* the *Gas and Fuel Corporation of Victoria's* Rate of Return Reporting financial statements concerning certain departures from Accounting Policy Statement No. 1 *Rate of Return Reporting*;
  - \* the *Port of Geelong Authority* and the *Port of Melbourne Authority* neither of which prepared a consolidated statement of performance for the year;
  - \* the *Metropolitan Transit Authority, Road Construction Authority, Road Traffic Authority* and *State Transport Authority* concerning the treatment adopted for contributions received from government; and
  - \* the *Rural Water Commission* regarding the appropriateness of the accounting treatment for certain Consolidated Fund transactions.
- 2.6.9 Other qualified audit opinions issued on the completeness and accuracy of information included:
- \* the *Council of the Museum of Victoria* where the quality of records were such that I was unable to form an opinion on the financial statements;
  - \* the *Mornington Peninsula and District Water Board* concerning the appropriateness of the accounting treatment adopted for payments for the supply of water;
  - \* the *State Superannuation Fund* and the *Emergency Services Superannuation Scheme* concerning the accounting treatment adopted for the value of members' funds to be transferred from the Fund to the Scheme; and
  - \* the *Transport Accident Commission* concerning the lack of independent verification of a variation in actuarial valuations of \$387.4 million.



# **PART 3**

## **AUDIT OF MINISTERIAL PORTFOLIOS**

## 3.1 AGRICULTURE AND RURAL AFFAIRS

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- 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

- 3.1.2 The audit of the above entities proved satisfactory and it is pleasing to note that several matters outstanding in previous years have been resolved. Comments on matters arising from the audit of certain of the above entities are discussed below.

### DEPARTMENT OF AGRICULTURE AND RURAL AFFAIRS

#### Have reporting and auditing requirements been improved?

- 3.1.3 In my *Second Report* for 1985-86 I made reference to:
- \* bodies audited by me for which there is no legislative requirement to present an annual report to Parliament;
  - \* bodies audited by me for which there is a legislative requirement to report to Parliament but with no legislative requirement to report by a prescribed date; and
  - \* bodies not subject to my audit.

- 3.1.4 During 1987, the Minister for Agriculture and Rural Affairs established a working party to make recommendations in respect of the financial reporting and auditing procedures for statutory bodies within his portfolio. A report was issued on 28 August 1987 by the working party which included the recommendation that all statutory bodies be brought under the *Annual Reporting Act* 1983. The report is awaiting consideration.

### VICTORIAN EGG MARKETING BOARD

#### Wholly-owned company

- 3.1.5 During 1987, the NSW Egg Corporation and the Victorian Egg Marketing Board agreed to merge their manufactured product divisions through the formation of a wholly-owned company named Good Food Products Australia Pty Ltd to sell egg products on the local and export markets.

- 3.1.6 The participating authorities envisage that the joint venture will result in greater efficiency in the management of resources involved in the manufacture and marketing of egg products. Cost savings to the authorities and increased benefits to producers and consumers are expected. The company will lease egg product plant from participating shareholders, employ staff and purchase eggs for manufacture into egg products. Board assets will not be sold to the company.
- 3.1.7 It is intended that, depending on the company's performance with manufactured egg products, consideration will be given to the company expanding into other activities such as the marketing of eggs. Any expansion of activities is to be referred to the parent boards for approval.
- 3.1.8 The agreement provides that the company shall be audited jointly by the Auditors-General of Victoria and New South Wales, and the first audit will be for the period from 31 March 1987 to 30 June 1988.

#### **Schedule A. Status of matters raised in previous reports**

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<b>Department of Agriculture and Rural Affairs</b>		
<i>Second Report, 1985-86, p. 57</i>	Inability of Department to maximise the return to the State on cash resources.	Position generally satisfactory, however a claim for \$149 000 covering the period 1980-81 to 1984-85 has not yet been paid by the Department of Primary Industries and Energy. Some further improvement needed in revenue collection.
<i>Second Report, 1985-86, p. 58</i>	Inadequate stores and accounting procedures.	Position now considered satisfactory. All departmental units undertook annual stocktakes during 1986-87 and details of stocks held at year end were included in the Department's financial statements as part of the annual reporting requirements.
<i>Second Report, 1985-86, p. 59</i>	Reports and auditing requirements of agricultural bodies.	Further comment refer paragraphs 3.1.3 to 3.1.4 of this report.
<b>Citrus Fruit Marketing Board</b>		
<i>Fourth Report, 1983-84, p. 25</i>	The Board's equity in its management company should be quantified and incorporated in the notes to the financial statements.	Position now satisfactory. Equity in management company disclosed in the notes to the financial statements.
<b>Rural Finance Commission</b>		
<i>Second Report, 1985-86, p. 59</i>	An actuarial assessment on the adequacy of the Rural Finance Insurance Fund had not been performed.	Position now satisfactory as an actuarial assessment was obtained during 1986-87. The fund was considered adequate to cover the potential insurance liability.
<b>Victorian Egg Marketing Board</b>		
<i>Second Report, 1985-86, p. 61</i>	The Board should obtain legal advice to clarify whether it is empowered to make advances to employees.	The Board is seeking further clarification on this matter by obtaining an opinion from the Victorian Government Solicitor concerning the Board's powers under the <i>Marketing of Primary Products Act 1958</i> to make such advances.

## Schedule B. Complete/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
<b>Complete audits</b>				
Department of Agriculture and Rural Affairs	30 June 1987	31 October. <i>Annual Reporting Act</i> 1983, s.8.	30 October 1987	30 October 1987
Citrus Fruit Marketing Board	31 December 1986	No reporting requirements. <i>Marketing of Primary Products Act</i> 1958, s.12 provides for the audit of the accounts.	17 June 1987	29 June 1987
Daratech Pty Ltd	Period 25 June 1986 to 30 June 1987	No reporting requirements. Audit conducted at request of Treasurer.	2 March 1988	15 March 1988
Melbourne Wholesale Fruit and Vegetable Market Trust	30 June 1986	No date specified. <i>Melbourne Wholesale Fruit and Vegetable Market Trust Act</i> 1977, s.19.	21 January 1987	25 February 1987
Poultry Farmer Licensing Committee	30 June 1987	No date specified. <i>Egg Industry Stabilization Act</i> 1983, s.57.	10 September 1987	13 January 1988
Poultry Farmer Licensing Review Committee	30 June 1987	No date specified. <i>Egg Industry Stabilization Act</i> 1983, s.57.	18 November 1987	27 January 1988
Rural Finance Commission	30 June 1987	No date specified. <i>Rural Finance and Settlement Commission Act</i> 1961, s.27.	1 September 1987	7 September 1987
Tobacco Leaf Marketing Board	31 March 1987	No reporting requirements. <i>Marketing of Primary Products Act</i> 1958, s.12 provides for the audit of the accounts.	16 July 1987	9 September 1987 (a)
Tobacco Quota Appeals Tribunal	31 March 1987	No reporting requirements. <i>Tobacco Leaf Industry Stabilization Act</i> 1966, s.22 provides for the audit of the accounts.	8 February 1988	19 February 1988
" "	1 April 1987 to 30 June 1987 (b)	" "	8 February 1988	19 February 1988
Victorian Dairy Industry Authority	30 June 1987	30 September. <i>Dairy Industry Act</i> 1984, s.21.	30 September 1987	30 September 1987
Victorian Dried Fruits Board	31 December 1986	No date specified. <i>Dried Fruits Act</i> 1958, s.18.	23 March 1987	23 April 1987
Victorian Egg Marketing Board	30 June 1987	30 November. <i>Marketing of Primary Products Act</i> 1958, s.44.	19 August 1987	16 October 1987
Victorian Fishing Industry Council	30 June 1987	30 November. <i>Victorian Fishing Industry Council Act</i> 1979, s.16.	30 November 1987	30 November 1987

**Schedule B. Complete/incomplete audits - continued**

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
<b>Incomplete audits</b>				
Melbourne Wholesale Fruit and Vegetable Market Trust	30 June 1987	No date specified. <i>Wholesale Fruit and Vegetable Market Trust Act 1977</i> , s.19.	Audit substantially completed. Financial statements not finalised.	
Victorian Dried Fruits Board Superannuation Fund	31 December 1986	No reporting requirements. Audit conducted at request of Treasurer.	Audit substantially completed.	

(a) Qualified audit report issued.

(b) Abolished from 1 July 1987.

## 3.2

## ARTS

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- 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

- 3.2.2 Comments on matters of significance arising from the audit of certain of the above entities are discussed below.

### COUNCIL OF THE MUSEUM OF VICTORIA

#### Unsatisfactory financial records

- 3.2.3 The *Museums Act* 1983 requires the Council of the Museum of Victoria to keep proper accounts and records of all transactions of the Council.
- 3.2.4 The Council did not finalise its 1985-86 financial statements until 26 February 1988 and at the date of the preparation of this report, the 1986-87 financial statements had not been finalised.
- 3.2.5 An audit examination of the financial records for 1985-86 disclosed that the Museum did not maintain proper records of its financial transactions in that:
- \* cash register tapes relating to cash receipts of \$744 000 brought to account were unable to be produced for audit examination;
  - \* although the total amount banked over the period of the audit generally agreed with amounts recorded on receipts, the examination disclosed that, on a daily basis, there were substantial under and over bankings;
  - \* there was a lack of documentation to support the classification of transactions within the financial records;
  - \* proper records to support the value of stock held by the Museum's shops were not maintained; and
  - \* land, buildings and other real and personal fixed assets were not quantified or valued.
- 3.2.6 In addition, an amount of \$3 254 was reported missing from the Museum's coffee shop safe on 9 February 1986. Police inquiries into this matter proved to be inconclusive.
- 3.2.7 The Council was aware of serious weaknesses in their procedures as early as December 1985. However, several matters remained unresolved.
- 3.2.8 Due to matters referred to above, I was unable to form an opinion on the Council's 1985-86 financial statements and public moneys were placed at risk as controls were not in place to ensure that misappropriation had not occurred.

### *Management response*

*The Council of the Museum became aware of weaknesses in the financial procedures in place in the Museum of Victoria during 1985-86 and immediately requested the Ministry for the Arts to restructure the Finance Section. As a result additional staff were appointed during 1986-87 and early 1987-88. However, these staff increases have now been off-set by the impact of the staff freeze which has not allowed the filling of several subsequent vacancies to proceed. Council considers that there is a risk of internal control failure if this short-staffing situation is permitted to continue.*

*Council agrees with audit comments, however, at February 1988 the only matter remaining unresolved concerns the valuation of land, buildings and other assets.*

*Subject to the weaknesses in internal controls over commercial operations receipts and a failure to retain for audit inspection computer input documents, in the opinion of Council, the financial statements present fairly the financial transactions during 1985-86.*

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

### **Loss of colour transparencies**

- 3.2.9 In 1983 the National Gallery of Victoria entered into a contract with a publisher to provide a book on the Gallery. Following completion of the publication in February 1987 the publisher advised that 289 colour transparencies with an estimated value in excess of \$30 000 supplied by the Gallery had been lost from the publisher's premises.
- 3.2.10 The Gallery advised that it is presently negotiating with the publisher for replacement of the transparencies.

## **EXHIBITION TRUSTEES**

### **Great Hall renewal project**

- 3.2.11 A major restoration program was carried out on the Great Hall of the Royal Exhibition Building at a cost of \$4.7 million, with a substantial portion of this cost relating to the replacement of the floor. The original estimate for the project was \$3 million.
- 3.2.12 An audit review during 1986-87 of the economy and efficiency of the floor replacement project indicated that:
- \* the installation of a timber floor in preference to concrete increased the project cost due to the need to provide adequate floor loading capacities and to meet fire protection requirements, factors which were not taken into account in the original estimate in 1983;
  - \* notwithstanding the additional cost, the timber floor loading capacity was below international standards;
  - \* the number of protective coatings applied to the floor was not in accordance with the architect's specifications;
  - \* generally, the exhibitors and promoters, the main users of the Hall, were not in favour of replacing the Great Hall floor in timber;
  - \* major damage has since been caused to the floor to the extent that its life span is likely to be considerably less than the 40 years initially estimated;
  - \* there was a need for a specific maintenance program to be established by the Trustees; and
  - \* there was a need for the Trustees to conduct a post-project review.

3.2.13 In addition, audit noted that the project was commenced prior to the required ministerial approval being obtained. Before reaching the decision the Minister referred the matter to the Historic Buildings Council for advice. It is noted that in giving advice the Historic Buildings Council is not required under its enabling legislation to address economic matters associated with alterations to buildings of historical and architectural importance.

3.2.14 Notwithstanding the historical importance of the building, audit is of the opinion that the decision to install a wooden floor places restrictions on the use of the building. In addition, poor project management, together with inadequate supervision of exhibits, has already contributed to a reduction in the estimated life span of the new floor.

- *Management response*

*The Trustees and Management are of the unanimous view that the above project was responsibly assessed and carried out. It is considered that the importance of the contract, particularly in relation to the provision of fire protection equipment and services through underground concrete tunnels, has been under-estimated and that there has been undue emphasis put on whether or not the timber floor should have been replaced in concrete.*

*By installing a new timber floor the Trustees believe that they were able to preserve the fabric of an historical building with the following advantages:*

- \* *that the timber floor was cheaper than a concrete floor;*
- \* *that the floor loading capacity requirements for exhibitions was at an acceptable international standard;*
- \* *despite assertions made to the contrary the Trustees believe it will have a lifespan exceeding that of the previous floor (104 years), but no less than 40 years; and*
- \* *it has enabled the Trustees to hold public events which over recent years were not possible.*

*Users of the Hall have been enthusiastic in their response to the completed project. The floor is maintained on a regular basis and its management is the subject of a continuing review.*

*The cost of, and management proposals for, the project were reviewed independently and accepted by the Government which also approved of the funding arrangements.*

*The scope of the entire project was based on the Trustees' assessment of the building and was not imposed upon them from outside agencies such as the Historic Building Council.*

**Audit considers that the management response provided by the Trustees is inconsistent with the evidence obtained during the audit.**

- *Response provided by Historic Building Council*

*While the Historic Building Council has no statutory obligations to consider particular economic issues, such issues are consistently considered on issuing permits for buildings on the Historic Building Register and in dealing with approvals to alter buildings on the Government Buildings Register.*

## FILM VICTORIA

### Continuing operating deficits

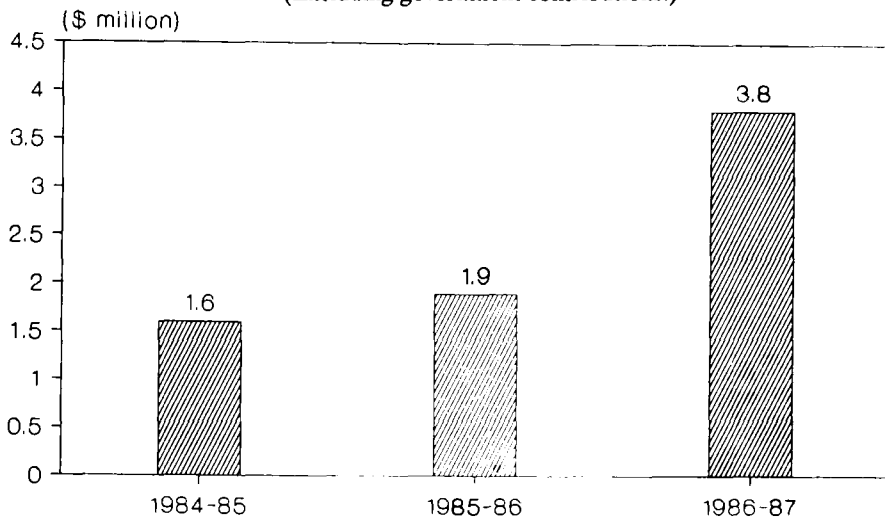
3.2.15 The broad objective of the Corporation is to encourage the development of an economically and culturally viable film and television industry in Victoria. In accordance with the *Film Victoria Act 1981* the Corporation is required to carry out its functions in an efficient and economical manner.



3.2.16 Government has supported Film Victoria over the past 3 years with grants totalling \$13.3 million being provided to the Corporation. Of this amount \$12.2 million was provided for direct assistance to the industry and \$1.1 million for operating costs of the Corporation. Grants made to the Corporation by the Ministry are provided in advance of the Corporation's requirements. However, in relation to assistance provided to the industry, the contracts negotiated contain conditions that must be met by the recipients, and finalisation of contracts can lead to further delays of 6 months or more until the funds are paid out. During such periods, the Corporation invests the funds in short-term deposits. In line with government policy, the support provided to the industry through the Corporation is on a commercial basis, where possible, and direct recovery of public funds is sought. In 1986-87 government grants were no longer provided to meet the Corporation's operating costs. Audit noted that substantial funds (\$678 000 in 1986-87, compared with \$578 000 in 1985-86) had been generated by the Corporation from the short-term deposits and the income generated applied to meeting operating costs.

3.2.17 A review of the Corporation's operating results disclosed that in 1986-87 the annual deficit increased from \$1.8 million (excluding government contributions) to \$3.8 million, an increase of \$2 million or 107 per cent (\$1.9 million or 95 per cent in real terms). Chart 3.2A illustrates the annual deficits excluding government contributions of the Corporation since 1984-85.

**CHART 3.2A. FILM VICTORIA, ANNUAL DEFICITS**  
(Excluding government contributions.)



Figures expressed in constant 1986-87 prices.

3.2.18 The Corporation's established performance indicators in determining whether its objectives have been met is the measurement of industry activity within Victoria.

3.2.19 Audit recognises that investment in the Australian film industry is of a high risk nature. However, in audit opinion, the Corporation's operations would be greatly enhanced if additional performance measures such as acceptable recovery rates on investments in the various segments of the industry were established and used to critically evaluate the Corporation's activities.

*Management response*

*The financial results of Film Victoria are not considered relevant indicators of the Corporation's performance. The level of Victorian film and television production, along with cultural activities in the State of Victoria, is the basis on which Film Victoria's performance is measured. The increase in the levels of Victorian production, against total Australian production, over recent years is a yardstick for measurement of performance, for example:*

<i>Year</i>	<i>Australian production</i>	<i>Victorian production</i>	<i>Victorian percentage</i>
1984-85	210	48	23
1985-86	169	55	33
1986-87	180	75	42

*In line with the Victorian Government's Strategy introduced in 1987, Film Victoria has introduced performance measures to apply to the various broadranging areas of industry support. The results may not be known for 12 to 18 months due to lead time involved.*

#### **Schedule A. Status of matters raised in previous reports**

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<b>Ministry for the Arts</b>		
<i>Second Report, 1985-86, p.65</i>	Two instances of employees of the Ministry appointed to part-time, non-statutory positions and in receipt of fees.	Position now satisfactory. The officers concerned have resigned their part-time positions.
<b>Council of the Museum of Victoria</b>		
<i>Fourth Report, 1983-84, p.28</i> <i>Second Report, 1985-86, p.65</i>	Action should be initiated by the Council to implement a complete centralised register incorporating all exhibits.	Position unchanged.
<i>Second Report, 1985-86, p.65</i>	Delays in finalising financial statements.	Position unchanged. Financial statements for 1985-86 not finalised until 26 February 1988. Financial statements for 1986-87 not finalised.
<b>Council of Trustees of the National Gallery of Victoria</b>		
<i>Second Report, 1984-85, p.24</i>	Lack of control over income from art exhibitions organised by the International Cultural Corporation of Australia.	Position satisfactory, as appropriate controls now in place.
<b>Library Council of Victoria</b>		
<i>Second Report, 1985-86, p.66</i>	Physical stocktakes of State Collection undertaken at infrequent intervals.	Position unchanged.
" "	State Collection not valued.	Position unchanged.
<b>State Film Centre of Victoria Council</b>		
<i>Second Report, 1985-86, pp.66-7</i>	Deficiencies in financial reporting.	Position now satisfactory as Council has identified and valued all assets.
<b>Victorian Arts Centre Trust</b>		
<i>Fourth Report, 1982-83, p.110</i>	Several weaknesses in internal control procedures relating to catering operations.	Audit has been advised that action has been taken by the Trust to strengthen internal control in this area. Further audit review to be undertaken in 1987-88.

## Schedule B. Complete/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
<b>Complete audits</b>				
Ministry for the Arts	30 June 1987	31 October. <i>Annual Reporting Act 1983, s.8.</i>	15 October 1987	29 October 1987
Council of the Museum of Victoria	30 June 1986	30 September. <i>Museums Act 1983, s.30.</i>	26 February 1988	29 February 1988 (a)
Council of Trustees of the National Gallery of Victoria	30 June 1987	30 September. <i>National Gallery of Victoria Act 1966, s.17.</i>	10 August 1987	29 September 1987
Exhibition Trustees	30 June 1986	30 September. <i>Exhibition Act 1957, s.10.</i>	13 July 1987	24 August 1987 (a)
Film Victoria	30 June 1987	31 December. <i>Film Victoria Act 1981, s.21.</i>	28 October 1987	30 October 1987
Geelong Performing Arts Centre Trust	30 June 1987	31 December. <i>Geelong Performing Arts Centre Trust Act 1980, s.18.</i>	10 November 1987	15 February 1988 (a)
Library Council of Victoria	30 June 1987	30 September. <i>Library Council of Victoria Act 1965, s.11C.</i>	18 September 1987	9 October 1987
State Film Centre of Victoria Council	30 June 1986	30 September. <i>State Film Centre of Victoria Council Act 1983, s.14.</i>	11 December 1987	31 December 1987
" "	30 June 1987	" "	11 December 1987	31 December 1987
Victorian Arts Centre Trust	30 June 1987	31 December. <i>Victorian Arts Centre Act 1979, s.17.</i>	24 December 1987	31 December 1987 (a)
<b>Incomplete audits</b>				
Council of the Museum of Victoria	30 June 1987	30 September. <i>Museums Act 1983, s.30.</i>	Signed statements not yet received by audit.	
Exhibition Trustees	30 June 1987	30 September. <i>Exhibition Act 1957, s.10.</i>	Signed statements not yet received by audit.	

(a) Qualified audit report issued.

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

*Departments*

Attorney-General's Department  
Office of Corrections  
Office of the Director of Public Prosecutions

*Public bodies*

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

- 3.3.2 Comments on matters of significance arising from the audit of certain of the above entities are discussed below.

**ATTORNEY-GENERAL'S DEPARTMENT**

**Court fines not collected**

- 3.3.3 Fines imposed by magistrates are recorded in registers maintained by the courts. The Clerk of Courts notifies offenders of the penalty imposed and issues warrants if fines are not paid. If an offender cannot be located the warrant is forwarded to the Information Bureau of the Victorian Police Force for filing. When an offender is subsequently located the warrant is executed and any fine collected is forwarded to the court.
- 3.3.4 At 30 June 1987, an audit review of uncollected court fines indicated that of the total of \$41.3 million outstanding, \$19.1 million was under the control of the courts and \$22.2 million related to unexecuted warrants held at the Information Bureau.

(1) *Courts*

In 1986-87, for the first time, the Department quantified outstanding fines under the control of courts. Clerks of Courts are required to keep a listing of fines outstanding for periods in excess of 3 months (other than those filed at the Bureau), however the Department is not in a position to readily identify the total outstanding fines at any particular point in time. Audit has been advised that a 5 year plan has been developed to computerise the Magistrates' Court system which, among other things, will assist senior management of the Department to effectively control and monitor outstanding fines in the future.

(2) *Information Bureau*

As in previous years the Force provided the Department with an estimate of the value of outstanding warrants held by the Bureau at 30 June. Despite the financial magnitude of the fines outstanding, the only follow-up action currently undertaken is that by the Force which conducts a routine check of its records whenever a person is detained. Due to the inadequacies in the Bureau's records it was not practicable for audit to substantiate the estimate and as a consequence the financial statements of the Department were again qualified.

3.3.5 In audit opinion, the shared responsibility for the control and follow-up of outstanding fines has adversely affected the revenue collections of the State. As the Department is responsible for the raising and reporting of the outstanding fines, audit endorses the current initiatives of the Department which are aimed at transferring the enforcement function from the Force to the Department.

*Management response*

*The Department has long recognised that more efficient and effective systems of control are required. These will only be possible with the introduction of its planned computerisation of Victorian courts, which is currently under way.*

*Concerning warrants for outstanding fines held at the Police Information Bureau, an initiative by this Department which is aimed at transferring the enforcement function from the Victorian Police Force to the Sheriff's Office is currently being considered by a working party on the "Sheriff's package" to be incorporated in a proposed Sheriff's Office Bill. Such a transfer, if affected, offers the only real scope for improving debt recovery rates.*

**Court investments**

3.3.6 Audit reviewed investments managed and administered by the Supreme Court, County Court, Magistrates' Courts and the Crimes Compensation Tribunal on behalf of infants, estates, persons of unsound mind and amounts paid into court in accordance with various Acts. Investments held in trust at 30 June 1987 are detailed in Table 3.3A below:

**TABLE 3.3A.  
INVESTMENTS HELD IN TRUST**

<i>Court</i>	<i>\$ million</i>
Supreme Court	120.0
County Court	47.0
Crimes Compensation Tribunal	3.0
Magistrates' Courts	<u>0.2</u>
<b>Total</b>	<b>170.2</b>

3.3.7 Each court has its own investment strategy which has resulted in yields ranging from 9 per cent to 15.3 per cent per annum for medium to long-term investments. In audit opinion, the returns achieved on medium to long-term investments by the various courts are in many instances well below returns obtained by other government agencies. The varying strategies are not conducive to optimising returns on investments and consequently some beneficiaries are disadvantaged.

3.3.8 To maximise the return on investments, audit recommended that the funds held by the courts should be pooled and managed by a specialised investment group.

*Management response*

*The Department has in course a strategy to transfer the investments managed by the respective courts and Tribunal to a centralised investment pool. The status of the arrangements are as follows:*

- \* Supreme and County Court. *Agreement has been reached with the Judges, Masters and officers of the courts to transfer the management of investments held in trust to the State Trust Corporation. It is planned to implement this agreement by May 1988.*
- \* Magistrates' Courts and Crimes Compensation Tribunal. *Officers of the courts' Management Division commenced discussions with the Magistracy and the Tribunal to effect similar arrangements to that agreed with the higher jurisdiction courts. It is envisaged that transfer of investments to the State Trust Corporation will be no later than September 1988.*

### **Computerisation of systems at the Corporate Affairs Office**

- 3.3.9 In 1984 the Corporate Affairs Office commenced a computerisation program with the aim of providing a more responsive and efficient service to the business and financial sector. Initially, only records relating to registered businesses and companies were to be computerised. During the implementation of the project the Office decided to integrate the receipting and revenue functions as well.
- 3.3.10 An audit review of the implementation of this system disclosed that:
- \* implementation commenced without a long-term strategic plan for the computerisation of the Office; and
  - \* detailed user requirements were not specified.
- 3.3.11 During the course of implementation it was realised that the system could not fully meet the needs of the Office, and as a consequence, the Corporate Affairs Commissioner (appointed in 1985) directed that a review of the project be undertaken and that a proper strategic plan to underpin the computerisation of the Office be developed.
- 3.3.12 In audit opinion substantial delays and additional costs have been incurred due to inadequate management of the project in its initial stages. However, it is pleasing to note that positive action was taken to minimise any further delays and additional costs to the State. The system became fully operational in June 1987.

#### *Management response*

*The Corporate Affairs Office computerisation strategy is now clearly defined and under strict management control. Detailed user requirements are required on all projects prior to any decision to implement new systems and amend existing ones.*

### **Misappropriation of cash**

- 3.3.13 Audit has been advised by the Department that an amount totalling \$1 016 had been stolen from the Supreme Court between 4 June 1987 and 10 February 1988. The matter has been notified to the police and is now pending investigation.

## **LEGAL AID COMMISSION OF VICTORIA**

### **Development of computerised legal aid services**

- 3.3.14 The Commonwealth and the States reached agreement in 1982 on the viability of jointly developing computerised legal aid services throughout Australia. Under this approach it was anticipated that certain cost savings would be achieved and a degree of standardisation of legal services would be provided.
- 3.3.15 An audit review of the development of the computer system in Victoria indicated:
- \* an amount of \$354 000 was committed by the State for the development and implementation of a computerised legal aid services system. Due to problems associated with the implementation and expansion of legal aid services, a further approval of \$300 000 was provided to enable the project to be completed. Total expenditure to date is in excess of \$650 000. This does not include salary costs of approximately \$120 000 or funds provided by the Commonwealth;

- \* the project, which commenced in mid 1983 and was due for completion in 1984, was only 85 per cent operational at the date of preparation of this report; and
- \* due to delays in implementation, additional computer bureau charges of \$695 000 were incurred by the Commission.

3.3.16 Further enhancements to the system during implementation accounted for some additional cost. However, the administrative arrangements of the project between the Commonwealth and the State was the main contributing factor to cost overruns and ineffective project management.

*Management response*

*The approval of \$354 000 was for hardware and software only. Additional but separate approval was given for salary costs.*

*The further approval of \$300 000 was given in 1984-85 as part of the overall capital costs involved in significant expansion of the Commission's activities. Most of this cost was required for that expansion and was therefore necessary regardless of any delay in the project.*

*While computer bureau charges were incurred they were not entirely "additional" as during that time they enabled the maintenance of a client index of 275 650, the processing of approximately 166 000 accounts, the processing of 36 477 debtors' records and the production of associated management reports.*

*The primary difficulty is correctly reported as being the fact that the Commission did not have sole control. This rested with Victoria together with 4 other States and the Commonwealth.*

## OFFICE OF CORRECTIONS

### Deferral of construction of Barwon Training Centre

3.3.17 As part of an integrated master plan aimed at the development of strategies for correctional facilities, the Government approved the purchase of land at Lara in 1984 for the construction of a prison and a staff training college.

3.3.18 With respect to the staff training college, some \$930 000 was incurred on various consultancies and minor works up to October 1985 when the then Attorney-General expressed reservations about its location and directed that all works cease while alternatives were considered. After consultation with the then Minister for Public Works the Attorney-General directed the project to proceed. Minor works contracts commenced in August 1985 and were completed on 2 May 1986.

3.3.19 On 22 April 1986, the Treasurer gave approval for the main contracts of the project to proceed. However, prior to tenders being called, the training college project was deferred on 9 September 1986 at the direction of the then Attorney-General. At that stage it was estimated by the Public Works Department that an additional \$11.4 million would be required to complete the project. At the date of preparation of this report, total project costs incurred on construction of the training college were \$1.2 million.

3.3.20 Audit has been unable to ascertain the reason for the deferral of this project which has led to government funds being tied up on a project for an indefinite period without any benefit to the State.

*Management response*

*The Office has indicated that there were seen to be positive cost savings from co-locating the college and the prison and for that reason a single contract for site works was let for both the prison and the college as a number of services were designed to service both locations.*

*However, due to cuts in Commonwealth funding to the States and the need to immediately construct a new female prison farm, the construction of the college was seen as a lower priority and consequently funds were not sufficient for it to proceed. The letting of the contract was therefore put on hold.*

*Now that the current new prison program is nearing completion, it is the Office's strong desire to continue the Barwon college project. Funds have been sought to this end in the 1988-89 budget. The Office understands that the preliminary works undertaken on the college site remain viable.*

*While the Office would have benefited from having the new college available for its use, the funds invested in the college site will assist to reduce considerably the final end cost of the college when approval is given to complete the project.*

### **Review of prison operations**

- 3.3.21 An audit review of the operations of Pentridge Prison and Metropolitan Reception Prison (which are located at Coburg) including the Prisoners' Welfare Amenities Account was carried out during the year.
- 3.3.22 The review disclosed a number of minor weaknesses such as delays in banking, inadequate authorisation of expenditure, failure to seek reimbursement from the Office of Corrections of certain expenditure from the Advance Account and inadequacies in stocktaking procedures. These matters have been reported to the Office of Corrections which is currently taking action.

### **Schedule A. Status of matters raised in previous reports**

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<b>Attorney-General's Department</b>		
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-resourcing of the unit.
<i>Second Report, 1982-83, p.65</i> <i>Third Report, 1983-84, p.33</i>	Investment of court funds.	Investments to be managed by the State Trust Corporation. Transfer of funds to be finalised by September 1988. Further comment is given in paragraphs 3.3.6 to 3.3.8 of this report.
<i>Third Report, 1983-84, p.32</i> <i>Second Report, 1985-86, pp.70-1</i>	Financial statements - cash and investment balances, general stores on hand and debtors had been understated.	Position now satisfactory in regard to cash, investment balances and general stores on hand as they have now been recorded in the financial statements. In relation to debtors, the financial statements were qualified with regard to outstanding court fines held at the Information Bureau Registry of the Victorian Police Force. Further comment is given in paragraphs 3.3.3 to 3.3.5 of this report.
<i>Third Report, 1983-84, p.35</i>	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.	Function transferred to Sheriff's Office from January 1988. Audit will review position during 1987-88.
<i>Second Report, 1984-85, p.28</i>	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.	Matter now satisfactory. Chief Justice agreed that Auditor-General's opinion on the financial information in the report is desirable.
<i>Second Report, 1984-85, p.29</i>	Recovery of misappropriated trust funds amounting to \$3 750 from a former employee of the Sheriff's Office.	The matter has been referred to the Victorian Government Solicitor for legal action to recover misappropriated funds. To date an amount of \$3 750 is still outstanding.



## Schedule A. Status of matters raised in previous reports - *continued*

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<i>Second Report, 1985-86, p.71</i>	Asset registers - with the exception of motor vehicles and departmental residences control over assets was unsatisfactory.	Position now satisfactory as the Department has initiated action to establish a computer-based asset register.
<i>Second Report, 1985-86, p.72</i>	Theft of diesel fuel from County Court.	Position resolved. Three persons were charged and convicted. One person was charged but found not guilty.
<b>Estate Agents Board</b>		
<i>Second Report, 1985-86, p.72</i>	Poor standard of books and accounts at former Office of Auctioneers.	Position now satisfactory. Operations of the Office transferred to the Estate Agents Board on 1 July 1986.
<b>Office of Corrections</b>		
<i>Second Report, 1985-86, p.73</i>	During 1985-86, 26 per cent of total salary costs were attributed to overtime and penalty rates.	The Office is continuing to develop new initiatives to improve the efficiency of operations and to reduce overtime costs. Further improvement required.
<i>Second Report, 1985-86, p.73</i>	Significant number of custodial service employees have been absent during the year on extended sick leave (i.e. periods beyond 3 weeks duration).	Matter unresolved. 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.
<b>Office of the Public Trustee</b>		
<i>Second Report, 1985-86, pp.74-5</i>	Common Fund - average rate of return on investments of 15.34 per cent, absence of formal investment policy on an ongoing basis, inadequacies in the management information system and inadequate resources to effectively monitor investments.	State Trust Corporation established 2 November 1987. Further audit review to be undertaken in 1987-88.
<i>Second Report, 1985-86, p.75</i>	Custodianship of estate assets - conservatively valued at \$1 billion - are not recorded in the financial records of the Public Trustee. Also difficulties in maintaining adequate controls over these assets due to the absence of a centralised asset register.	" "
<b>Patriotic Funds Council</b>		
<i>Second Report, 1985-86, p.76</i>	Reporting requirements. There is no provision in the Patriotic Funds Act to table the annual report in Parliament.	Position unchanged, however, the Attorney-General tabled the 1985 annual report in Parliament.
<b>Victorian Prison Industries Commission</b>		
<i>Second Report, 1985-86, pp.76-82</i>	Matters of major audit significance were: <ul style="list-style-type: none"> <li>* mismanagement of industry operations;</li> <li>* production of leisure furniture;</li> <li>* capital works undertaken at Beechworth and Ararat;</li> <li>* manufacture of netball skirts; and</li> <li>* appointment of, and entertainment expenses incurred by, the former General Manager.</li> </ul>	The Commission has initiated action on the issues raised by audit and recommendations are being progressively implemented by management. Further review to be undertaken in 1987-88.

## Schedule B. Complete/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
<b>Complete audits</b>				
Attorney-General's Department	30 June 1987	31 October. <i>Annual Reporting Act</i> 1983, s.8.	19 October 1987	30 October 1987 (a)
Office of Corrections	30 June 1987	31 October. <i>Annual Reporting Act</i> 1983, s.8.	19 October 1987	26 October 1987
Office of the Director of Public Prosecutions	30 June 1987	31 October. <i>Annual Reporting Act</i> 1983, s.8.	13 October 1987	23 October 1987
Estate Agents Board	30 June 1987	30 September. <i>Estate Agents Act</i> 1980, s.98.	28 September 1987	30 September 1987
Guardianship and Administration Board	Period 1 April 1987 to 30 June 1987	30 September. <i>Guardianship and Administration Board Act</i> 1986, s.76.	30 September 1987	14 October 1987
Law Reform Commission	30 June 1987	30 September. <i>Law Reform Commission Act</i> 1984, s.30.	29 September 1987	14 October 1987
Office of the Public Advocate	Period 1 April 1987 to 30 June 1987	30 September. <i>Guardianship and Administration Board Act</i> 1986, s.78.	30 September 1987	14 October 1987
Patriotic Funds Council	Period 6 December 1986 to 8 January 1988	No date specified. <i>Patriotic Funds Act</i> 1958, s.28.	(b)	(b)
Victorian Institute of Forensic Pathology	30 June 1987	30 September. <i>Coroners Act</i> 1985, s.74.	30 September 1987	8 October 1987
Victorian Prison Industries Commission	30 June 1986	30 September. <i>Victorian Prison Industries Commission Act</i> 1983, s.34.	17 February 1987	24 March 1987 (a)
" "	30 June 1987	" "	16 September 1987	27 October 1987 (a)
<b>Incomplete audits</b>				
Legal Aid Commission	30 June 1987	30 September. <i>Legal Aid Commission Act</i> 1978, s.42.	Satisfactory financial statements not yet produced for audit.	
Legal Aid Commission Staff Superannuation Fund	30 June 1987	30 September. <i>Legal Aid Commission Act</i> 1978, s.42.	Satisfactory financial statements not yet produced for audit.	
Office of the Public Trustee	30 June 1987	30 September. <i>Public Trustee Act</i> 1958, s.62.	Financial statements not finalised due to the bank reconciliation of the Common Fund not being completed. At the date of preparation of this report bank reconciliations for March 1987 to June 1987 remain outstanding.	
" "	Period 1 July 1987 to 1 November 1987 (c)	" "	" "	

(a) Qualified audit report issued.

(b) Not applicable.

(c) Absorbed into State Trust Corporation from 2 November 1987.

## 3.4

## COMMUNITY SERVICES

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- 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.
- 3.4.2 Comments on matters of significance arising from the audit of the Department are discussed below.

### DEPARTMENT OF COMMUNITY SERVICES

#### **Financial management and information systems and the impact of machinery of government changes**

- 3.4.3 Machinery of government changes resulted in the transfer in July 1986 of a number of programs to the Department of Community Services from Health Department Victoria (HDV). These transfers significantly increased the Department's responsibilities, resulting in the doubling of the volume of transactions processed in 1986-87 and a major increase in departmental expenditures for the year.
- 3.4.4 The expansion in responsibilities in 1986-87 placed substantial pressure on the financial functions of the Department and the existing financial systems and procedures were, in a number of instances, unable to cope with the major increase in processing workload.
- 3.4.5 Audit was advised by the Department that matters compounding these pressures included:
- \* delays in the transfer of staff from HDV;
  - \* delays in finalising and providing funding under new program structures; and
  - \* in certain instances, existing departmental systems and staffing experiencing difficulty in effectively managing the additional responsibilities.
- 3.4.6 Major deficiencies identified by audit in the Department's 1986-87 financial management processes, which resulted in large discrepancies existing throughout the year between the Department of Management and Budget (DMB) and departmental records, included:
- \* incorrect classification by the Department of \$13 million of program expenditure in DMB records. The Department advised that these incorrect classifications were necessary in order to ensure timeliness of payments and that anticipated program payments would not exceed established parliamentary appropriations;
  - \* incorrect allocation of certain salary and operating costs in DMB records due to supplier delays in implementing an upgraded departmental computer system designed to allocate salary and operating expenses across programs; and
  - \* failure by the Department to prepare periodic reconciliations between the financial records of the Department and the records of DMB. In this respect it was noted that a certification had been provided to DMB stating that the financial records of the Department at 31 January 1987 were in agreement with the records of DMB when the necessary reconciliation had not been carried out.
- 3.4.7 Adjustments to correct the DMB records and bring them into line with departmental records were subsequently effected. In a number of instances this process included obtaining, under the provisions of the *Appropriation (1986-87, No. 1) Act* 1986, the Treasurer's approval authorising revised budgetary allocations either by means of transfers between appropriation items or by allocations from the Treasurer's Advance.

- 3.4.8 Additional deficiencies relating to the operation of the Department's 1986-87 financial management processes were:
- \* failure to certify expenditure totalling \$75 million in accordance with the Treasury Regulations 1981 prior to payment; and
  - \* inadequate monitoring and control of the transactions of the Advance Account.
- 3.4.9 Because of the deficiencies in the Department's monitoring and control of its 1986-87 financial transactions and balances, departmental management and DMB faced particular difficulties in being able to adequately monitor expenditure against program appropriations during 1986-87.
- 3.4.10 Revised financial management systems and the level of resources necessary to process and control the significant increase in the Department's program responsibilities had not been adequately developed and implemented by all agencies concerned following the transfer of the additional responsibilities.
- 3.4.11 Once the issue had been identified, the Department devoted significant resources to correcting and updating its financial records and reconciling to the records of DMB, and succeeded in eliminating any significant inaccuracies by 30 June 1987. In addition, subsequent action was taken to ensure that 1986-87 payments were certified and accurately reflected in the Department's records. I was therefore satisfied that the departmental financial statements correctly stated program expenditures for 1986-87.
- 3.4.12 Audit also noted that in 1986-87 the Department has made progress in improving its financial management procedures, particularly in respect of new systems to enable routine completion of the reconciliation to DMB records and maintenance of up-to-date bank and advance account reconciliations.
- 3.4.13 **The Department needs to continue its emphasis on upgrading procedures to appropriately authorise, monitor and control expenditure against parliamentary appropriations. These procedures should be subject to on-going review to ensure their continuing adequacy and effectiveness of operation. The Department also needs to continue its commitment of ensuring it has the necessary expertise to implement and oversee its financial management operations.**
- 3.4.14 **At both the central agency and departmental level attention needs to be given to the administrative and accounting mechanisms necessary to effect change and provide accountability when implementing new proposals.**

*Management response*

*As noted by audit, the Department experienced a number of difficulties in the management of accounting transactions following the machinery of government changes. By the end of the financial year, however:*

- \* *financial records were adjusted and reconciled with DMB; and*
- \* *new systems were developed and implemented to ensure that reconciliation problems could not recur.*

*Despite the difficulties noted by audit in the monitoring of expenditure:*

- \* *the total departmental expenditure for the year was consistent with budget; and*
- \* *the agreed level of productivity improvements savings were obtained.*

*It should also be noted that, while formal certification of payments to certain non-government organisations was not able to be undertaken for a period because of resource shortages:*

- \* *all payments were within budget; and*
- \* *no errors in payments have been identified.*

*In conclusion, it should be said that, while the machinery of government change caused the Department to carefully prioritise accounting and financial management tasks, and to focus staffing and management attention on major areas of difficulty as these emerged, the end of year budget and accounting systems outcomes have been more than satisfactory.*

#### Schedule A. Status of matters raised in previous reports

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<i>Second Report, 1982-83, p. 37 1985-86, p. 86</i>	Need for clarification of legislative requirements governing payments to the transport authorities for fare concessions to pensioners.	Position unchanged.
<i>Second Report, 1983-84, p. 22 1984-85, p. 73</i>	The collection of fees by the Commonwealth from patients in benevolent homes results in unnecessary duplication of administrative procedures.	Responsibility for intellectual disability institutions transferred from Health Department Victoria. Current actions by the Department are aimed at eliminating this duplication of procedures.
<i>Third Report, 1983-84, p. 16</i>	Family group homes - absence of formal agreements with funded organisations.	Position now satisfactory as agreements have been finalised.
<i>Third Report, 1983-84, p. 17</i>	Grants for specific programs paid quarterly in advance. Department to consider changing to monthly grant payments so as to increase interest earnings of the public account.	Following a Cabinet Committee review of grants and subsidies, the Department is to review the timing of grant payments.
<i>Second Report, 1984-85, p.71</i>	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.	New procedures developed within the Home and Community Care Program. Audit review commenced but not completed.

#### Schedule B. Complete/incomplete audit

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
<b>Complete audit</b>				
Department of Community Services	30 June 1987	31 October. <i>Annual Reporting Act 1983, s.8.</i>	2 October 1987	30 October 1987

## 3.5

# CONSERVATION, FORESTS AND LANDS

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- 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 Incorporated  
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

- 3.5.2 There has been a marked improvement in the overall financial management of departmental expenditure during the year. However, comments on continuing problems with the Department's debtors/revenue system and on the Bundoora Park Committee of Management are provided below.

### DEPARTMENT OF CONSERVATION, FORESTS AND LANDS

#### Has the collection of revenue improved?

- 3.5.3 In previous reports deficiencies were identified in the Department's debtors/revenue collection system, particularly in relation to grazing and occupation licences and the inadequate follow-up of outstanding timber royalties. For the 1986-87 year there was generally no improvement, due mostly to the restrictions imposed by outdated systems and equipment.
- 3.5.4 Audit noted that:
- \* renewal notices for grazing and occupation licences were issued 9 months and 6 months late, respectively. As a result, only \$660 000 in licence revenue was collected in 1986-87, compared with \$1.9 million in 1985-86;
  - \* royalty collection performance deteriorated and at 30 June 1987 timber royalties outstanding for more than 90 days exceeded \$2 million (1985-86, \$1 million). Delays in processing and incorrect allocation of receipts to debtors' records hampered follow-up action of outstanding royalties; and
  - \* penalty interest is rarely imposed on overdue royalty accounts.
- 3.5.5 As a result of the above, audit estimated that at least \$250 000 potential interest was foregone.
- 3.5.6 The Department is to implement a computerised accounts receivable system by July 1988. While the new system will facilitate improved collection procedures, audit recommended that immediate measures, such as targeting of large accounts, be adopted to improve cash collection and thereby reduce the amount of potential interest foregone.

### *Management response*

*The lower receipts for grazing and occupation licences in 1986-87 reflects mainly a deferral in revenue collections, rather than a revenue loss.*

*The computerised accounts receivable system will be implemented progressively from 1 July 1988 and will provide on-line debtors' information to support prompt debt collection and follow-up procedures.*

*Reconciliation of head office and regional debtor records is currently being undertaken and improved debt follow-up procedures are being implemented in the regions which should result in reduced outstanding debts.*

### **BUNDOORA PARK COMMITTEE OF MANAGEMENT**

- 3.5.7 The Committee is responsible for the management of a golf course and other amenities at Bundoora Park. By Order-in-Council, the Auditor-General was appointed auditor of the Committee of Management from 1 July 1980.
- 3.5.8 The audits of the Committee's accounts for the last 7 financial years have not been finalised due to inadequate financial records and unsatisfactory financial statements. The failure of the Committee to provide satisfactory financial statements is of concern to audit and has been brought to the attention of the Department of Conservation, Forests and Lands on a number of occasions. The Department is attempting to resolve the issue.

### **Schedule A. Status of matters raised in previous reports**

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<b>Department of Conservation, Forests and Lands</b>		
<i>Third Report, 1983-84 p.22 First Report, 1984-85 p.81</i>	Inadequate procedures to either collect outstanding licence fees for occupied Crown land or terminate tenancies.	Position unchanged. Further comments are contained in paragraphs 3.5.3 to 3.5.6.
<i>Second Report, 1984-85, p.40 1985-86, p.89</i>	Inability to reconcile Department's records with those of the Department of Management and Budget.	Position now satisfactory. Reconciliation effected in 1986-87.
<i>Second Report, 1985-86, p.89</i>	Failure to effectively monitor and control the Advance Account resulting in unexplained difference in the reconciliation of the Advance at 30 June 1986 of \$216 230.	Position now satisfactory. Advance reconciled at 30 June 1987.
<i>Second Report 1985-86, pp.90-1</i>	Deficiencies in the debtors/revenue collection system. Potential interest foregone calculated to exceed \$200 000.	Generally there was no improvement. However, some short-term measures, such as interest to be paid on all bank accounts, have been implemented. Further comments are contained in paragraphs 3.5.3 to 3.5.6.
<b>State Swimming Centre Committee of Management</b>		
<i>Fourth Report, 1983-84, p.76</i>	Action required to recover costs and obtain compensation for defective timing equipment and structural defects in the Centre's building.	A consulting engineer's preliminary report indicated that extensive repairs and remedial measures to the pool will be required. The future of the complex is under review and the report is being evaluated by the legal officer of the former Public Works Department for possible legal proceedings.

## Schedule B. Complete/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
<b>Complete audits</b>				
Department of Conservation, Forests and Lands	30 June 1987	31 October. <i>Annual Reporting Act 1983, s.8.</i>	9 October 1987	30 October 1987
Albert Park Committee of Management Incorporated	31 December 1985	No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.	17 June 1987	9 September 1987
Mount Macedon Memorial Cross Committee of Management	31 December 1986	No reporting requirements. Audit conducted at request of Treasurer.	13 January 1988	20 January 1988
Olympic Park Management	30 June 1986	No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.	20 August 1987	21 September 1987
Penguin Reserve Committee of Management	30 June 1986	No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.	30 September 1986	8 May 1987
Port Bellarine Committee of Management	30 September 1987	No reporting requirements. <i>Port Bellarine Tourist Reserve Act 1981, s.21</i> provides for the audit of the accounts.	16 February 1988	15 March 1988
Shrine of Remembrance Trustees	30 June 1986	No reporting requirements. Audit conducted at request of Treasurer.	29 May 1987	19 August 1987(a)
" "	30 June 1987	No reporting requirements. Audit conducted at request of Treasurer.	3 March 1988	15 March 1988
State Swimming Centre Committee of Management	30 June 1986	No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.	17 March 1987	10 August 1987
Victorian Institute of Marine Sciences	31 December 1986	31 March. <i>Victorian Institute of Marine Sciences Act 1974, s.26.</i>	8 October 1987	16 October 1987
Werribee Park Corporation	Period 1 July 1984 to 20 January 1985(b)	No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.	6 April 1987	25 February 1988
Yarra Bend Park Trust	30 June 1987	No reporting requirements. Audit conducted at request of Treasurer.	15 December 1987	15 March 1988



## Schedule B. Complete/incomplete audits - *continued*

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Zoological Board of Victoria	30 June 1987	30 September. <i>Zoological Parks and Gardens Act 1967, s.15F.</i>	2 October 1987	16 October 1987
Zoological Board of Victoria Superannuation Fund	30 June 1986	No reporting requirements. Audit conducted at request of Treasurer.	14 October 1987	14 January 1988(a)
<b>Incomplete audits</b>				
Albert Park Committee of Management Incorporated	31 December 1986	No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> 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. <i>Crown Land Reserves Act 1978, s.15</i> provides for the audit of the accounts.	Refer paragraphs 3.5.7 to 3.5.8	
" "	30 June 1982	" "	" "	
" "	30 June 1983	" "	" "	
" "	30 June 1984	" "	" "	
" "	30 June 1985	" "	" "	
" "	30 June 1986	" "	" "	
" "	30 June 1987	" "	" "	
Olympic Park Management	30 June 1987	No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.	Audit substantially completed. Financial statements not finalised.	
Penguin Reserve Committee of Management	30 June 1987	No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.	Audit substantially completed. Financial statements not finalised.	
State Swimming Centre Committee of Management	30 June 1987	No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.	Audit substantially completed. Financial statements not finalised.	
Zoological Board of Victoria Superannuation Fund	30 June 1987	No reporting requirements. Audit conducted at request of Treasurer.	Audit substantially completed. Financial statements not finalised.	

(a) Qualified audit report issued.

(b) Abolished on 20 January 1985.

## 3.6

# CONSUMER AFFAIRS

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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.

3.6.2 The audit of the Ministry proved satisfactory.

### Schedule A. Status of matters raised in previous reports

There were no matters outstanding.

### Schedule B. Complete/incomplete audit

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<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
<b>Complete audit</b>				
Ministry of Consumer Affairs	30 June 1987	31 October. <i>Annual Reporting Act 1983, s.8.</i>	18 August 1987	30 September 1987

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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

Victorian Post-Secondary Education Commission

Victorian Tertiary Admissions Centre

3.7.2 The following matters of significance arising from the audit of bodies within the education sector are commented on in this part of the report:

- \* **Review of cleaning services within educational institutions - potential savings of up to \$51.5 million per annum** (*paragraph 3.7.3*)
- \* **Ministry of Education** (*paragraph 3.7.52*)
  - . Arrears of audits of school councils
  - . Ministry Audit and Review Unit
- \* **Administration of Outside Studies Program and monitoring of external earnings of academic staff within universities** (*paragraph 3.7.61*)
- \* **La Trobe University** (*paragraph 3.7.64*)
  - . Deficiencies in development of financial accounting and reporting system
- \* **Monash University** (*paragraph 3.7.68*)
  - . Overseas commercialisation of in-vitro fertilisation (IVF) - current royalties position
  - . IVF services provided by University staff at Epworth Hospital
- \* **Chisholm Institute of Technology** (*paragraph 3.7.80*)
  - . Technology tower project - financing arrangements
- \* **Phillip Institute of Technology** (*paragraph 3.7.83*)
  - . Agreement with external radiologist - Medicare claims
- \* **Preston College of Technical and Further Education** (*paragraph 3.7.88*)
  - . Major deficiencies in financial management procedures
- \* **TAFE Board** (*paragraph 3.7.94*)
  - . Management of Commonwealth building grants
  - . Equipment leased under State leasing facility
  - . Misuse of Commonwealth funds provided under the Participation and Equity Program.

## CLEANING SERVICES WITHIN EDUCATIONAL INSTITUTIONS

3.7.3 During 1987, audit carried out a review of the provision of cleaning services within primary and post-primary schools (Ministry of Education), the 4 universities and a selection of colleges of advanced education (CAEs) and technical and further education (TAFE) colleges. Expert advice on measurement of schools and other aspects of the review was provided by the Ministry of Education. This assistance was greatly appreciated.

3.7.4 Audit concluded that there were opportunities for substantial savings to be achieved by:

- \* adoption of contract cleaning across the whole spectrum of the educational sector; and
- \* reviewing existing arrangements relating to the employment of in-house cleaning staff to address expensive and outmoded practices.

### Potential savings from adoption of contract cleaning

3.7.5 The principal finding from the review was that potential exists for achieving savings, estimated by audit to be up to \$51.5 million per annum, by adopting contractual arrangements for cleaning throughout the State's education system. Industrial agreements currently in place directly influence employment arrangements in the education system.

3.7.6 The extent to which contract cleaning is currently utilised by educational bodies is shown in Table 3.7A below:

**TABLE 3.7A.**  
**EXTENT OF CONTRACT CLEANING**  
(Based on cleaning area.)

<i>Education group</i>	<i>Contract cleaning</i>
	(per cent)
Schools	0.2
Universities	43.0
Colleges of advanced education	34.0
TAFE colleges	32.0

3.7.7 To illustrate savings options available, audit calculated the prime cleaning cost measure, labour and materials per square metre, in 3 contract cleaning categories and compared the results with costs currently incurred by bodies with employed staff. Details of the estimated potential annual savings for each of the categories are presented in Table 3.7B below:

**TABLE 3.7B. POTENTIAL ANNUAL SAVINGS, CONTRACT CLEANING**

<i>Education group</i>	<i>Potential annual savings from contract cleaning based on -</i>				
	<i>Average cost per square metre</i>		<i>Average cost per education group</i>	<i>Average cost achieved in an operation external to education system (\$8.67)</i>	<i>Lowest average cost within education system (\$7.28)</i>
	<i>Employed staff</i>	<i>Contract cleaning</i>			
	(\$)	(\$)			
Schools	12.98	9.39	21.2	25.7	34.6
Universities	13.53	7.28	2.3	1.8	2.3
CAEs	14.13	9.93	3.0	4.4	5.9
TAFE	18.59	13.87	2.9	7.5	8.7
<b>Total</b>			<b>29.4</b>	<b>39.4</b>	<b>51.5</b>

**What are the factors giving rise to the substantial cost differences between the employment of cleaning staff and contract cleaning?**

- 3.7.8 Audit found that the following main factors contribute to the markedly higher costs associated with employment of cleaners:
- \* the impact of terms and conditions of employment;
  - \* the absence within most employing bodies of specific performance criteria, based on cost and time measures, necessary for effective monitoring of the cleaning function;
  - \* a failure by many employing bodies to systematically determine and update area measurements of premises cleaned; and
  - \* uneconomical practices for the purchase of cleaning materials.
- 3.7.9 Moves to adopt contract cleaning give rise to some new administrative procedures, e.g. tendering arrangements and mechanisms for monitoring of contract performance. However, the additional costs associated with these procedures would be offset by reductions in personnel and payroll functions related to the employment of cleaners.
- 3.7.10 Recommendations for the introduction of contract cleaning have been conveyed by audit to the Ministry of Education and to those post-secondary education institutions (with employed cleaning staff) covered by the audit review. Given the existence of industrial factors, a co-ordinated approach involving the Ministry of Education, the Victorian Post-Secondary Education Commission, the State Training Board and the Department of Labour would seem highly desirable.
- 3.7.11 **Clearly, the magnitude of the potential annual savings, estimated by audit to be up to \$51.5 million, that would accrue from the extension of contract cleaning arrangements throughout the education system warrants the strongest consideration by the various parties.**

**Potential savings from existing practices**

- 3.7.12 Areas where audit considered there was potential for gains, as avenues available for introduction of contract cleaning were pursued, are commented on in the following paragraphs.

*Ministry of Education*

- 3.7.13 The terms and conditions of employment of school cleaners are derived from an industrial agreement, entered into in 1973 and updated in 1985 following a review by the parties involved.
- 3.7.14 The overall level of school cleaning costs incurred by the Ministry, inclusive of an annual payroll of around \$71.5 million, is heavily influenced by the long standing industrial agreement covering over 4 100 cleaners.

*Allocation of cleaning hours to schools*

- 3.7.15 The industrial agreement provides that the Ministry shall determine the cleaning hours entitlement for each school. Using a specific cleaning formula, the area measurements for each school are divided by a standard hourly cleaning rate to determine the total cleaning hours per week and, hence, the number of cleaners required.
- 3.7.16 There have been no amendments to either the standard hourly rate or the cleaning formula since 1973. Further, the Ministry does not systematically review its central records on area measurements for schools, from which cleaning time requirements are established. Accordingly, the Ministry is not well placed to establish that an accurate basis exists for allocation of cleaning services across schools.
- 3.7.17 Data compiled by audit on cleaning costs per student and cleaning area per student showed a pattern of wide variations across surveyed schools. A summary of the 2 measures is presented in Table 3.7C.

**TABLE 3.7C.  
CLEANING COST AND AREA PER STUDENT**

<i>Range</i>	<i>Annual cost per student</i>	<i>Area per student</i>
	(\$)	(sq.m.)
Highest	589	46.3
Lowest	81	5.9
Average	236	18.5

3.7.18 Audit considered the above variations may be attributable to:

- \* the inclusion by schools of unoccupied spaces as cleaning areas for the purpose of calculating total cleaning time;
- \* the frequency of cleaning of particular areas may not be consistent with the extent of usage of such areas, e.g. rooms cleaned daily but only utilised once or twice a week; and
- \* large glass areas of schools which are cleaned on an irregular basis but included in calculation of weekly cleaning hours.

3.7.19 The results of the audit analysis on cleaning cost and area per student reinforce the overall thrust of the Ministry's wider amalgamation strategy for particular schools. The analysis also serves to illustrate the potential for excessive cleaning costs if a standard area per hour basis is uniformly applied without consideration of individual features of a school, e.g. substantial areas of under-utilised space.

3.7.20 **The Ministry should:**

- \* review the framework it has utilised since 1973 in determining the allocation of cleaning hours to schools; and
- \* establish standards for such measures as cost per student and cleaning area per pupil when determining the basis for future funding to schools for cleaning.

*Management response*

*The Ministry has taken steps to improve the operation of school cleaning and its management control procedures at the various levels of administration. The regionalisation of the administration, introduction of establishment control procedures, processes to be introduced relating to school measurements and improved reporting mechanisms will improve the system. With regard to the formula for allocating cleaning time, the Ministry will be discussing variations to the formula with the FMWU in the near future.*

*With regard to cleaning cost per student, the Ministry is developing a revised method of allocating funds to schools through the School Grant which will be implemented over the next 2 years. The funding basis for cleaning costs will relate to school entitlement which in turn is directly related to enrolment and standard building area or actual building area, whichever is the lesser. "Standard building area" is that area provided for by current facilities standards based on enrolments and school type.*

*Replacement of cleaners on first day of absence*

3.7.21 The industrial agreement under which cleaners are employed stipulates that every effort must be made to employ a relief cleaner for the first day of absence on rostered days off (RDOs) and sick leave. The working agreements in the CAE and TAFE sectors do not contain a similar condition. Also the New South Wales and South Australian cleaners' awards are silent on the policy of replacement of staff on the first day of absence.

3.7.22 Audit estimated the annual cost to the Ministry of replacement of cleaning staff on the first day of absence was in the vicinity of \$2 million. In addition, discussions with representatives of schools during the review indicated that the requirement to hire suitable relief staff to cover the first day's absence, often at short notice, imposes a significant additional administrative burden on schools.

3.7.23 **There are grounds for the Ministry to initiate discussions under the current agreement aimed at varying the terms relating to replacement of staff.**

*Management response*

*The Ministry and FMWU have reached agreement to reduce the employment of relief cleaners to replace cleaners who are absent. The new procedures provide for non-replacement of cleaners who are absent for half their normal hours on the first day of any absence, except rostered days off. With respect to rostered days off, replacement will only occur for 50 per cent of time a cleaner is absent, either in terms of days or hours on a particular day.*

*Staff mix (full-time and part-time cleaners)*

3.7.24 Part-time cleaners employed by the Ministry receive a loading equivalent to 15 per cent of the full-time hourly rate. In addition, they are entitled to pro-rata sick leave, recreation leave and RDOs.

3.7.25 There are currently no restrictions on schools in terms of the number of part-time cleaners that may be employed. At the time of the audit review, the Ministry's records showed that over 150 schools were employing 2 or more part-time cleaners, and, in one instance, 9 part-time cleaners were engaged.

3.7.26 If schools were required to employ as many full-time cleaners as possible, e.g. schools with cleaning time allocations greater than 40 hours be required to employ full-time cleaners, audit estimated that annual savings of approximately \$330 000 would accrue to the Ministry.

3.7.27 **Schools with cleaning time allocations in excess of 40 hours should be required to employ the maximum number of full-time cleaners.**

*Management response*

*An arrangement is in operation to reduce the number of part-time cleaners in schools. A review of the practice will be undertaken in the light of the audit comments.*

*Purchasing practices - cleaning materials and equipment*

3.7.28 Audit examination of the purchasing practices of schools indicated that, on average, schools purchased approximately 33 per cent of cleaning materials and equipment from the Ministry's central store with the remainder acquired directly from commercial suppliers. The audit examination also revealed that the average costs of materials and equipment purchased from the central store were approximately 45 per cent less than the cost of goods purchased from private suppliers. Audit estimated that, if all schools were required to purchase cleaning supplies from the Ministry's central supply store, the annual savings to the Ministry would be around \$4.2 million.

3.7.29 The savings in financial terms are quite substantial and point to the desirability of the Ministry encouraging schools to acquire materials and equipment for cleaning purposes from the central supply centre. However, before meaningful conclusions can be reached on the overall effectiveness of such an approach, other factors need to be considered including:

- \* the capacity of the central store to service the needs of all schools in a timely manner; and
- \* the matters which have influenced decisions by schools to purchase goods from commercial suppliers. The main reasons relayed to audit by schools were:

- . inordinate delays by the central store in the delivery of supplies;
- . dissatisfaction with the quality of goods handled by the central store; and
- . the availability of assistance in the form of training and instruction from commercial suppliers on the use and storage of materials.

3.7.30 If the Ministry ultimately moved to the adoption of contractual arrangements for the provision of cleaning services, the cost of materials and equipment would be subsumed within cleaning contracts. In addition to the substantial cost savings that would accrue to the Ministry from the use of contracts, other savings would be likely to be derived from a consequential decrement in the level of functions undertaken by the supply store, reduced transport costs of the store and the elimination of uneconomic external purchasing practices currently adopted by many schools. In audit opinion, these factors reinforce the advantages in terms of more efficient resource management that would be derived from contract cleaning.

3.7.31 **In evaluating the advantages which would flow from contract cleaning, the Ministry needs to take into account cost savings which would result from the non-requirement of schools to purchase cleaning materials and equipment. As an interim measure, steps should be taken to eliminate uneconomical practices for the purchase of cleaning supplies currently followed in a large number of schools.**

*Management response*

*The Ministry will include consideration of audit comments in its deliberations on contract cleaning. Also, the Ministry is examining the service provided to schools by the central store and the audit comments will be considered in conjunction with that review.*

*University sector*

3.7.32 Of the amount of up to \$2.3 million identified in Table 3.7B as the potential annual savings to the university sector, if contract cleaning was fully adopted, \$2.2 million or 96 per cent is attributable to Melbourne and Monash Universities.

*University of Melbourne*

3.7.33 Only 18 per cent of the University's cleaning activities are handled by employed staff, the balance being subject to contractual arrangements. With these contractual arrangements, the University has achieved a high level of cost-effectiveness, with an average cost per square metre of \$7.33. As illustrated in Table 3.7B the contractual arrangements in the university sector (which involves only Melbourne and Deakin Universities) are undertaken at the lowest average cost for the whole education system.

3.7.34 Despite the small component of employed cleaners, annual savings of \$1.5 million could be generated if the University was able to achieve for employed staff the cost levels for contract cleaning currently experienced in the university sector. Audit measured the average cleaning cost per square metre for employed staff at the University as \$36.75 compared with the sector's average contract cleaning cost of \$7.28.

3.7.35 Factors identified by audit as contributing to the University's high staff cleaning costs are summarised below:

- \* approximately 29 per cent of total staff cleaning time is absorbed on non-cleaning duties. Audit estimated the direct labour cost to the University of these activities to be \$400 000 per annum;
- \* of the 57 full-time cleaners employed at the University, 11 are employed to fulfill a relieving function for absent cleaners. The other 2 universities with employed staff do not use relief cleaners but manage replacement of absent cleaners by re-allocation of duties within the core workforce. The annual costs associated with employment of these cleaners are estimated by audit to be in excess of \$200 000;



- \* twenty-nine of the University's cleaning staff work a 32.5 hour week but receive remuneration based on the cleaners' award working week of 38 hours. There was no evidence at the University to indicate that this practice was derived from a formal industrial agreement between the University and the relevant union. Audit estimated that the annual cost of the payment of wages without corresponding service was \$70 000; and
- \* the University has traditionally determined the number of staff required for cleaning purposes based on past cleaning practices and perceived cleaning requirements. The University's management information systems do not readily provide details of area measurements or performance criteria to enable monitoring of cleaning activities.

3.7.36 **In light of the above matters, the University needs to evaluate the cost-effectiveness of its practices relating to employment of cleaning staff. The above issues also reinforce the importance of the University continuing to explore avenues available for the introduction of contractual arrangements for cleaning across the whole of the University.**

*Management response*

(1) *Cost-effectiveness of management practices*

*Moves to progressively reduce the number of staff involved with non-cleaning duties commenced about 2 years ago, and a significant budget reduction of about \$100 000 is provided in the University's budget this year. Significant industrial relations and redundancy arrangements are involved and the process will therefore be a lengthy one.*

*The need for a small pool of relief cleaners is desirable, in our view. The present pool of 11 is much too large (created by recent changes in contract) and will be reduced.*

*The situation of cleaners working less than 38 hours per week is a historical situation. The matter has been a subject of dispute with the FMWU for some 5 years. It is presently the University's main objective in the negotiations for the second-tier increase.*

*The University's records of areas cleaned have been drastically changed by the constant moves and re-allocation of duties between contract and in-house cleaners. The process of re-measuring areas was commenced last November, but it is a time-consuming process. It is agreed that this is essential management information. The use of cleaning standards is a desirable objective, but with many different types of buildings, floor surfaces as well as difficulty in other than technical staff cleaning laboratories, is not as simple as is stated.*

(2) *Contract cleaning*

*The University has been progressively moving to contract cleaning over more than 10 years. Nearly 200 in-house cleaners, have been reduced to less than 70. This process has been part of an ongoing strategy to restructure cleaning services. As a result, it is acknowledged that the critical comments made, are to a significant degree correct. The University has been moving to correct them, but historical problems of this nature take a long time to correct, particularly as major industrial issues are involved.*

*Monash University*

3.7.37 Audit calculated the cleaning cost per square metre achieved by the University to be \$10.26 which contrasts with the average cost for contract cleaning in the university sector of \$7.28. If the average cost for the university sector was applied to the University, potential annual savings of around \$650 000 would be possible.

3.7.38 Audit considered that the quality of cleaning at the University was of a high standard. However, the current level of cleaning costs, relative to costs for contractual cleaning achieved in the University sector, indicates that scope exists for improving the cost-effectiveness of the overall cleaning function.

3.7.39 **There is a need for the University to pursue all avenues available, including the introduction of contractual arrangements, for improving the cost-effectiveness of the cleaning function.**

*Management response*

*It is recognised that there is scope for improving the cost-effectiveness of the cleaning function and the University will continue to monitor and evaluate cleaning performance in the manner recommended.*

*CAE and TAFE sectors*

*Cost-effectiveness of contract cleaning*

3.7.40 The major scope for savings in this sector relates to contract cleaning. As illustrated in Table 3.7B, annual savings in cleaning costs of up to \$5.9 million and \$8.7 million could be achieved in the CAE and TAFE sectors, respectively, from use of contract cleaning.

3.7.41 Audit found the major reason for the additional costs associated with employment of staff to be the absence within surveyed colleges of satisfactory information systems for identification of area measurements and the allocation of cleaning time based on specific features of individual areas. In addition, most of the colleges with employed staff visited by audit had not developed specific performance criteria for monitoring the overall cost-effectiveness of cleaning operations. With this environment, decisions on cleaning tend to reflect past practices which, because of industrial factors, become difficult to change.

3.7.42 Audit has conveyed the overall results of the review to the Victorian Post-Secondary Education Commission, the State Training Board and those colleges visited by audit.

*RMIT Ltd*

3.7.43 The Institute's full-time cleaning staff work a 36 hour week but receive remuneration (as prescribed in the relevant industrial agreement) based on a working week of 38 hours.

3.7.44 There was no evidence at the Institute to indicate that the practice involving payments without equivalent service had been formally agreed between the Institute and the relevant union. Audit estimated that the annual cost of the practice in respect of the Institute's full-time cleaners is in the vicinity of \$52 000.

3.7.45 Audit also noted that other trade employees of the Institute (approximately 200) render services on a 36 hour basis but receive an additional 2 hours remuneration. The cost to the Institute for payments made without equivalent service for these employees would be substantive.

3.7.46 **The Institute should evaluate the appropriateness of the existing practice and determine the justification for payments made to staff in excess of services rendered.**

*Management response*

*RMIT is in the position of paying its cleaning staff wages as set in the award for a 38 hour week, although our full-time staff are actually working a 9 day fortnight based on a 36 hour week. We can understand your concern about this over-award situation. However, what is being implemented is a policy as determined by RMIT Council in 1978.*

*In brief, following a claim by the VTHC for a 36 hour week for its members, and a lengthy industrial dispute, RMIT Council determined that our award staff (including cleaners) would become subject to the same policy on hours of work as applied to the administrative and technical staff. As previously stated, this policy is that staff work on a 9 day fortnight based on an 8 hour day, which in effect means a 72 hour fortnight or a 36 hour week. Other colleges within the post-secondary education sector also have award-based staff who work hours less than those set in the relevant award.*

#### *Impact of industrial agreements on cleaning costs*

- 3.7.47 Industrial agreements on cleaning within the TAFE and CAE sectors were introduced with effect from April 1986 and January 1987, respectively.
- 3.7.48 For colleges which utilised contractual arrangements prior to the agreements, additional cleaning costs have resulted from a requirement, under the agreements, for contractors to remunerate staff on the same terms and conditions as staff employed by other colleges.
- 3.7.49 Of the 6 colleges included in the audit survey which had adopted contractual arrangements prior to the agreements, 3 colleges (1 CAE, 2 TAFE) had incurred additional cleaning costs totalling \$114 000. Information with respect to the other 3 colleges was not available. Audit estimates that the aggregate additional costs which have accrued to all CAE and TAFE colleges, which utilised contractual cleaning arrangements prior to the 2 agreements, to be approximately \$700 000 per annum.

#### **Health and safety issues**

- 3.7.50 During the course of the review, audit considered the extent to which attention was given by educational bodies to health and safety matters relevant to the cleaning function. In summary, audit found:
- \* shortcomings in practices followed in some schools and colleges for the storage and security of cleaning materials including:
    - . cleaning storerooms left open during normal hours;
    - . an ad hoc approach to labelling of bottles particularly in terms of type, potency and restrictions on use of chemical contents; and
    - . cleaning containers not properly stoppered and, in some instances, stored in confined, poorly ventilated areas;
  - \* schools were not readily aware of information on and the importance of safe handling techniques for cleaning materials. Emphasis in purchase decisions tended to be placed on the overall effectiveness of cleaning products with minimal attention to health and safety aspects;
  - \* in most educational bodies, training programs on cleaning techniques and the handling and use of cleaning materials and equipment were not undertaken; and
  - \* there was a need for uniform health and safety standards on cleaning practices within educational bodies.



Cleaning fluids stored in unmarked fruit juice containers in a college of advanced education.

3.7.51 The results of this aspect of the review have been conveyed to all bodies visited by audit.

*Comment provided by Department of Labour*

*These issues have also been raised with the Department of Labour and action has been initiated by the Department to ensure that educational bodies are fully aware of, and effectively undertake, their responsibilities in relation to health and safety matters.*

## MINISTRY OF EDUCATION

### Arrears of audits of school councils

3.7.52 During 1986-87, there was a marked escalation in the level of arrears of audits of post-primary schools undertaken by the Ministry's Audit and Review Unit (Schools Division). In addition, many primary school councils, which appoint their own auditors, had not submitted audited accounts to the Unit. The extent of the arrears position at 30 June 1987, which arose from significant resource and management problems in the Review Unit, is illustrated in Table 3.7D below:

**TABLE 3.7D. STATUS OF SCHOOL COUNCIL AUDITS, AT 30 JUNE 1987**

<i>Audit year</i>	<i>Total audits</i>	<i>Audits not commenced</i>	<i>Audits not commenced as a percentage of total audits</i>
<b>Post-primary schools</b>			
1984	414	64	15.4
1985	419	242	57.7
1986	421	395	93.8
<hr/>			
	<i>Total audits</i>	<i>Audited accounts not submitted to Ministry</i>	<i>Unsubmitted accounts as a percentage of total</i>
<b>Primary schools (a)</b>			
1984	1 614	90	5.5
1985	1 612	191	11.8
1986	1 614	855	53.0

(a) The *Education Act* 1958 requires councils of primary schools to appoint auditors and submit audited financial statements to the Ministry.

3.7.53 As substantial financial resources are channelled to school councils each year (recurrent grants alone passed to schools in 1986-87 were in excess of \$135 million), it became clear to the Ministry that decisive corrective action was necessary. Until some improvement was achieved, the Ministry could not conclude with any confidence that resources provided to schools had been properly managed.

3.7.54 The Ministry has commenced action aimed at overcoming the audit arrears problem in post-primary schools and in improving the timeliness of submission of audited accounts of primary schools. It is understood the characteristics of the program in place for bringing audits up to date include:

- \* selective review of transactions for earlier years;
- \* application of risk and materiality concepts;
- \* imposition of disciplined time budgets; and
- \* development of a specified time frame for reporting of the activities of the Unit.

3.7.55 It is important that risk and materiality assessments employed by the Ministry in the audit verification process are systematically developed and uniformly applied. It is also important to ensure that all critical financial management processes within schools are adequately reviewed as the task of reducing arrears is pursued.

#### *Management response*

*While acknowledging the resource and management problems experienced by the Audit and Review Unit (Schools Division) during 1986-87, the Ministry still considers the situation of audit backlogs of post-primary schools as a continuing problem for 1988. To address this problem, action plans have been implemented. A revised and shortened audit plan for post-primary schools has been introduced along with performance standards on timing and quality.*

*The primary school situation however has not deteriorated. The figures shown by audit reflect a timing bias. Audited annual statements are generally lodged later than July. At November 1987, for instance, the number of non-compliance for 1986 was 380. This is a 56 per cent reduction in outstanding reports over 4 months. There appears to be a hard core of around 95 primary schools which historically have not lodged returns. These are being addressed at the regional level.*

### Misappropriation of cash

- 3.7.56 The Ministry has advised audit, under the terms of the *Audit Act* 1958, that investigations of suspected fraud at Carrum Primary School have disclosed discrepancies totalling \$48 000. The Ministry has referred the matter to the Chief Commissioner of Police for further investigation.

### Ministry Audit and Review Unit

- 3.7.57 One of the objectives of the Ministry at the time of its establishment in November 1985, was to improve the co-ordination of policy, resource management and planning across the education portfolio.
- 3.7.58 Complementing this move towards portfolio-wide activities was the creation in January 1987 within the Ministry of a new internal audit and review unit, (titled Ministry Audit and Review Unit), with a charter which extends to all agencies in the education portfolio. The Ministry has also established an audit committee with external representation to specifically embrace this new portfolio-wide audit framework.
- 3.7.59 The actions taken to establish the new audit and review unit and a special audit committee represent positive steps towards establishment of improved mechanisms for reviewing and evaluating operations throughout the portfolio.

## POST-SECONDARY EDUCATION INSTITUTIONS

- 3.7.60 The following table illustrates the magnitude of the financial activities of the post-secondary education sector during 1986:

**TABLE 3.7E. POST-SECONDARY EDUCATION SECTOR, FINANCIAL ACTIVITIES**

<i>Institution (number)</i>	<i>Accum'd funds (a) 1.1.86</i>	<i>Govt. grants</i>	<i>Other income</i>	<i>Expenditure</i>	<i>Surplus for year</i>	<i>Accum'd funds (a) 31.12.86</i>
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Universities (4)	118.4	354.3	111.1	454.0	11.4	129.8
CAEs (16)	42.9	349.2	44.5	387.6	6.1	49.0
TAFE colleges (32)	30.5	263.0	34.2	291.4	5.8	36.3
Composite college (1) (b)	3.0	11.2	5.9	17.2	(0.1)	2.9
Institute of Tertiary Education (1) (c)	-	0.3	-	0.1	0.2	0.2
<b>Total</b>	<b>194.8</b>	<b>978.0</b>	<b>195.7</b>	<b>1 150.3</b>	<b>23.4</b>	<b>218.2</b>

(a) Includes reserves held as assets, unexpended grants, trust moneys and endowments held for specific purposes.

(b) Relates to the Victorian College of Agriculture and Horticulture.

(c) Relates to the Western Institute.

## **Administration of Outside Studies Program and monitoring of external earnings of academic staff within universities**

3.7.61 During the 1986 inspection of the universities, audit reviewed 2 issues which were common to the activities of the university sector. These issues related to administration of the Outside Studies Program and to mechanisms in place for the monitoring of earnings of academic staff from external sources. A summary of the results of the 2 reviews is presented below.

### *(1) Administration of Outside Studies Program (OSP)*

- \* During 1986, 388 academic staff at the 4 universities participated in the OSP with aggregate time consumed equivalent to about 145 person-years. Outlays in the form of salaries and travel grants for the year totalled approximately \$7.9 million;
- \* In all 4 universities, audit found the Program to be well administered and controlled in line with the relevant guidelines. In most instances, reports by staff on the results of their involvement in the Program had been issued and, in some cases, seminars had been arranged to enable Program participants to make presentations to other staff at their university;
- \* There is a need for more effective arrangements for the exchange of Program information between universities. Audit suggested that establishment of an information network between the 4 universities would assist:
  - . decisions concerning the extent of resources to be allocated to the Program each year;
  - . minimisation of duplication across universities of involvement in the Program; and
  - . identification of those areas of research or study warranting priority for inclusion in the Program; and
- \* The only OSP information specifically disclosed in the universities' financial statements related to travel grants paid to Program participants. Audit recommended that future financial statements disclose the full costs, i.e. including salaries and on-costs, incurred annually in the administration of the OSP.

### *(2) Quality of mechanisms in place for monitoring of outside earnings of academic staff*

- \* The administrative guidelines in the 3 universities reviewed (La Trobe, Melbourne and Monash) include provision for staff to generate revenue from external sources, subject to a range of rules and conditions;
- \* While primary responsibility for overseeing compliance with prescribed conditions rightly rested with individual departments of the universities, independent control mechanisms were not in place to ensure that staff involved in outside work had obtained requisite approvals or, in the case of Monash and Melbourne, that specified limits on time or earnings were not exceeded;
- \* The conditions applicable to outside earnings of staff at La Trobe University did not specify limits on the maximum number of hours staff may devote to outside work or the extent of earnings which may be derived from external sources; and
- \* An absence of effective independent overview procedures for outside earnings tended to weaken each university's overall capacity to establish that:
  - . excessive time was not consumed on outside activities; and

. the university was reimbursed for all resources, e.g. equipment, material, telephones, lighting or other facilities which may have been utilised by staff for private purposes.

3.7.62 The above observations relate to outside earnings of general academic staff at the universities. Some further significant factors emerged from a review of the operational environment in place for services rendered by medical staff of Monash and Melbourne Universities at teaching hospitals. These factors are summarised below:

- \* in addition to an annual clinical loading for sessions of teaching received from their universities, medical staff at the hospitals render other medical services which generate revenue to the universities (fees for pathology and other tests) and which allow staff to generate private earnings; and
- \* the 2 universities are not well placed to verify revenue receivable from teaching hospitals or to identify instances where private earnings of medical staff at the hospitals have exceeded the maximum limit (25 per cent of gross salary) for outside earnings because:
  - . the collection and remittance of funds to the universities, although handled by university staff, are performed outside the control of the financial procedures of each university;
  - . university staff also handle transactions relating to private earnings of medical staff generated at the teaching hospitals; and
  - . decisions concerning the classification of revenue as either university income or private earnings rest with medical staff.

3.7.63 The purpose of the above audit comments is to illustrate the shortcomings which existed in the 3 universities' management control systems in the area of outside earnings and is not intended to convey criticism of the framework under which academic staff are able to engage in outside income-earning activities. The universities have indicated they were hopeful of being able to improve their overall information and control systems for this facet of their operations.

## **LA TROBE UNIVERSITY**

### **Deficiencies in development of financial accounting and reporting system**

3.7.64 During 1986, the University progressively experienced a number of significant problems associated with implementation of its new financial accounting and reporting system. In essence, these problems were derived from significant deficiencies in the overall approach adopted in the development and commissioning of the new system. The deficiencies identified by audit during a detailed system review included:

- \* inadequate system planning including the lack of detailed cost estimates of staff and hardware requirements;
- \* the absence of an effective steering committee to provide on-going monitoring of system development;
- \* poor consultation with users of the system during the development stage;
- \* a lack of experienced technical staff trained in tasks associated with system development;
- \* no involvement by internal audit to assess adequacy of system controls in place for key processing functions;
- \* formal records of system development costs had not been maintained and project costs were not systematically monitored and controlled; and
- \* a number of critical operational problems including concerns over database integrity, security of access and insufficient hardware capacity.



- 3.7.65 The system problems experienced by the University became so substantive that it was forced to embark on a major corrective program, which included the establishment of a special working party.
- 3.7.66 Audit was pleased to respond to an invitation from the working party to discuss the results of the audit review and to provide suggestions which could be considered as part of the remedial process.
- 3.7.67 The working party finalised its deliberations in August 1987 and concluded that the overall level of integrity of the database had been restored. The working party recommended that the University persist with the new finance system and provide sufficient hardware and personnel resources to enable its full implementation. It is understood action is now in train to implement the recommendations.

#### *Management response*

*In general terms, we acknowledge that the development and implementation process of the system left something to be desired. In part this was due to shortcomings clearly within the University's control and in part due to circumstances over which the University had little control. In the latter category, the main item being the rapid deterioration in performance of the old hardware which in turn led to a hurried implementation of the new system on upgraded hardware at the beginning of 1986.*

*In relation to the former, the University took action in 1986 to correct the shortcomings by significantly strengthening the project management and enhancing hardware facility. As a result of this action, the integrity of the accounting data was re-established and significant inroads were made into a program of improving the quality of reporting from the system. This enabled audit to agree that the problems concerning integrity have been resolved.*

*The program of improvements has continued throughout 1987 leading to improved user confidence in the system. We now believe that the system provides up-to-date accurate information on the University's financial affairs.*

### **MONASH UNIVERSITY**

#### **Overseas commercialisation of in-vitro fertilisation - current royalties position**

- 3.7.68 My *Second Report* for 1985-86 referred to an agreement entered into by the University during 1985 for the purpose of disseminating in-vitro fertilisation (IVF) skills and services overseas. Under the terms of the agreement, the University is to receive royalties up to a maximum of \$20 million from IVF Australia Pty Ltd (IVFA) over a period of time in return for exclusive rights to the use of IVF technology in countries outside Australia. At the date of preparation of this report, no further royalties, beyond an initial advance payment of \$300 000, had been received by the University.
- 3.7.69 Some important developments relating to the IVF agreement which occurred during 1987 were:
- \* an approach by IVFA that consideration be given to mutual termination of the agreement;
  - \* increasing concern by the University as a result of a substantial expansion in the overseas equity structure of IVF Australia (USA) Ltd (a wholly-owned subsidiary of IVFA until July 1986) and a perceived consequential weakening of the University's position; and
  - \* pessimistic predictions by IVFA as to when royalties might begin to accrue to the University.
- 3.7.70 In light of the above factors, the University has become increasingly concerned at the overall direction being taken by IVFA and whether such direction can be seen to be complementary to the meeting of IVFA's financial obligations under the agreement.

3.7.71 The University has found it necessary to seek legal advice on the options available to it under the agreement. The initial advice from its solicitors was received early in October 1987. Following consideration of this advice, the University has recently moved to obtain the advice of senior commercial counsel.

3.7.72 In addition to monitoring the above developments, audit reviewed procedures followed by the University to satisfy itself that no further royalties were receivable in respect of 1986 and the nature of the arrangements finalised between the parties concerning professional indemnity insurance cover. My 1985-86 *Second Report* indicated that the University was attempting to recoup from IVFA the cost of professional indemnity insurance which it had taken out locally due to difficulties encountered by IVFA in the USA. A summary of the audit findings is set out below.

(1) *IVF royalties*

- \* Audited financial statements from IVFA covering the 12 months ended 31 December 1986 were not available at the University to enable audit verification that no further royalties beyond the advance of \$300 000 were receivable in 1986.
- \* Unaudited consolidated financial statements at 31 December 1986 and 30 June 1987 relating to IVF Australia (USA) Ltd disclose a somewhat bleak picture of financial results to date of IVFA and indicate that it may be some time before royalties begin flowing to the University.
- \* There are some conditions of the agreement relating to the payment of royalties which the University is yet to formally arrange with IVFA. Audit recommended that these matters which included the appointment of an independent auditor to periodically inspect the records of IVFA, be attended to so that the University can be in a position to satisfy itself that amounts receivable under the terms of the agreement are clearly identified in each year.

(2) *Professional indemnity insurance*

- \* The maximum cover the University was able to raise locally (premium cost \$48 000) fell short of the specified insurance limit per IVF clinic embodied in the agreement.
- \* In subsequent negotiations, IVFA agreed to meet 50 per cent only of the premium cost alleging that other costs not originally envisaged in the agreement had emerged. The University accepted this contribution without prejudice and rejected the assertion concerning additional costs. The University formally advised IVFA that its non-compliance with the important conditions relating to insurance constituted a breach of the agreement.

*Management response*

*As reported by audit, the University has moved to seek the advice of senior commercial counsel. Other matters raised will be acted upon during 1988.*

**In-vitro fertilisation services provided by University staff at Epworth Hospital**

3.7.73 Since the late 1970s, medical staff of the University have been providing services at the Epworth Hospital in Richmond. These services fall into 3 categories namely:

- \* pathology services - provided by the Melbourne Family Medical Centre (MFMC);
- \* embryology services - provided by the Infertility Medical Centre (IMC); and
- \* ultra sound testing - provided by the Foetal Monitoring Service (FMS).

3.7.74 The pathology and embryology services constitute the key elements of the in-vitro fertilisation program at the Hospital.

- 3.7.75 Audit examined the nature of the financial relationship of the University with the 3 service activities. Some of the issues which surfaced during the course of the review are summarised below:
- \* there was an absence of early documentation at the University relating to the establishment of the services and their relationship with the University;
  - \* accounting records of the 3 services were maintained outside the financial systems and control of the University;
  - \* audited financial statements have not been provided in respect of the financial activities of the 3 service centres;
  - \* the University has not been in a position to be able to monitor or verify earnings of its medical staff derived from services rendered on behalf of the 3 service centres. Staff of the Faculty of Medicine are permitted to earn up to 25 per cent of gross salary from external sources with any excess payable to the University; and
  - \* the University has in 1986, for the first time, recouped from the service centres the cost of services rendered by all medical staff. The amount recouped for 1986 was in excess of \$550 000.

3.7.76 An indication of the magnitude of the financial activities of the services in recent times can be derived from the following summary of unaudited financial data covering the last 3 financial years:

**TABLE 3.7F. FINANCIAL DATA OF THE MFMC,  
IMC AND FMS**

<i>Item</i>	<i>1984-85</i>	<i>1985-86(a)</i>	<i>1986-87(a)</i>
	(\$'000)	(\$'000)	(\$'000)
Assets	1 197	1 541	2 081
Income from service fees	1 460	1 579	2 427
Salaries and wages	492	613	975

(a) Includes only data relating to the IMC and the MFMC.

Source: Unaudited statements made available to the University.

- 3.7.77 The question as to whether the 3 service centres are in fact part of the University's organisational framework has, of course, significant implications for the University. In discussions on this issue, audit was informed that some preliminary investigative work had been undertaken some time ago but, despite the financial implications to the University, progress had been somewhat tardy. In essence, the University found itself for some time distanced from the scene of substantial financial activities where its medical staff have been the prime participants.
- 3.7.78 It is pleasing to report that during 1987 the University has accelerated its investigations and actions in this area. Such action has taken the form of the seeking of legal advice on the status of the service centres, involvement of the internal auditor in an attempt to determine the accuracy and reliability of the financial records of the centres, and the development of proposals for the establishment by the University of an associated company (including agreement with medical staff on allocation of equity in the company) for the management and control of the financial activities of the 3 service centres.
- 3.7.79 At the time of completion of the audit, the University was in the process of finalising its deliberations in this area.

### *Management response*

*The University company referred to above (IMC Pty Ltd) is now in operation. The University has already received a substantial payment from the company of \$500 000 under the new arrangements and further payments will be received in 1988 and subsequent years. Other details are currently being finalised.*

## **CHISHOLM INSTITUTE OF TECHNOLOGY**

### **Technology tower project - financing arrangements**

- 3.7.80 In 1985, the Institute initiated contractual arrangements for the construction of a technology office tower on a site adjacent to its Caulfield campus. Construction of the office tower was subsequently finalised in November 1987 at a cost of \$15.5 million.
- 3.7.81 Under financing arrangements established for the project, construction of the office building was initially funded from a combination of internal reserves (\$7.5 million) and external borrowings (\$8 million). On completion of construction, the building was sold to a unit trust owned by the 2 banks which provided the initial external funding. This unit trust then leased back the building to Pelletray Pty Ltd, a company established by the Institute. In turn, Pelletray Pty Ltd became responsible for the leasing of office space in the tower and the meeting of leaseback obligations to the unit trust. After 10 years, Pelletray Pty Ltd will have the option of purchasing the building.
- 3.7.82 The following 3 aspects of the financing arrangements in place for the technology tower project were raised by audit with the Institute:

(1) *Establishment of Pelletray Pty Ltd*

The use of a company to manage the leasing of office space and the settlement of leaseback obligations means that a very significant segment of the financial operations of the Institute will not be subject to my audit. However, under guidelines for public sector companies issued by the Government in October 1987, the Minister is required to present each year to the Parliament an annual report on Pelletray Pty Ltd incorporating financial statements audited under the Companies (Victoria) Code.

(2) *Monitoring of occupancy levels*

The financial viability of the project is heavily dependent upon the generation of sufficient lease income to meet the ongoing leaseback obligations. In the event of unexpected revenue shortfalls, the Institute may not be able to readily transfer funds to Pelletray Pty Ltd. In such circumstances, regular monitoring by the Institute of occupancy patterns and achievement of revenue projections will be vital.

(3) *Tax-based financing*

Under the financing arrangements, the unit trust, as owner of the tower, will have the opportunity to claim tax deductions in connection with the building. Audit was informed by the Institute that tax considerations were taken into account by the parties when reaching agreement on the level of lease rentals payable by Pelletray Pty Ltd under the leaseback facility.

The matter of public sector entities entering into financing arrangements which enable a tax advantage to accrue to another party raises the question as to whether there is an overall benefit to the taxpayer from such arrangements. While, in this project, the Institute receives a benefit in the form of lower financing costs, there may be a reduction in tax revenue to governments as a whole.

- *Management response*

- Item (3) - Tax-based financing*

- The Institute made full disclosure of the proposed technology tower project arrangements and received endorsement thereof from the appropriate government bodies including the Department of Management and Budget and the Minister for Education.*

- The Institute cannot comment on the propriety of involvement by public entities in financing arrangements of this nature.*

- *Comment provided by Department of Management and Budget*

- It is important to note that one of the objectives of the project was to provide accommodation for private sector tenants. The Department was advised that these tenants would be likely to be in high technology fields and would not only support current activities but also contribute to new developments in their respective fields.*

- The Government was prepared to support the financing structure, which attracts some of the taxation benefits available to the private sector, because much of the space available in the tower is to be leased to the private sector.*

- The Government took into consideration the fact that almost all of the finance was being supplied by the State Bank and, to the extent that the financing structure attracted tax benefits, this was to be from State, not Commonwealth, sources. The technology tower was considered to be an ideal opportunity to implement the Government's policies outlined in the Technology Statement aimed at the collaboration between public and private sectors in the commercialisation of research and development. The construction of the tower encourages technology companies to cluster near an important educational institution so as to achieve an effective interface between research conducted in its specialised technology centres and private sector commercial development.*

## **PHILLIP INSTITUTE OF TECHNOLOGY**

### **Agreement with external radiologist - Medicare claims**

- 3.7.83 In 1985, the Institute entered into an agreement with an external radiologist, for the provision of radiological services relating to x-rays of patients taken by the Institute's chiropractic clinics. This agreement was not sanctioned by the Institute's Council, however, it did have the approval of a Management Committee established to oversee the operations of the clinics.
- 3.7.84 Under the arrangements between the radiologist and the Institute, the radiologist completed and forwarded to Medicare benefit assignment forms received from the Institute. The radiologist subsequently transferred to the Institute approximately 50 per cent of amounts claimed to cover the use of the Institute's facilities.
- 3.7.85 Following questions raised by the Commonwealth Health Insurance Commission in April 1986, the Institute sought legal advice on the procedures in place and determined to cease the use of Medicare assignment forms. At the time of this action, funds totalling \$39 200 had been received from the radiologist.
- 3.7.86 The legal advice received was that the forwarding of Medicare assignment forms by the Institute to the radiologist was in breach of the *Health Insurance Act 1978* and the Medicare benefits had been claimed unjustifiably.
- 3.7.87 **Audit is concerned that the Institute's School of Chiropractic was able to enter into a significant agreement with an outside party without Council approval. The Council should evaluate the adequacy of procedures currently in place for the channelling of information to it on significant activities of the Institute and the ongoing impact of such activities.**

### *Management response*

*The existing internal control systems are considered adequate for the control of expenditure. To further the control of income, it is now intended to amend the regulations to provide that, where services are to be provided by the Institute and which are estimated to earn \$20 000 per annum or more, the Business Manager is to be advised prior to any agreement being made. The Business Manager will use his discretion in matters to be brought to the attention of Council.*

## **PRESTON COLLEGE OF TECHNICAL AND FURTHER EDUCATION**

### **Major deficiencies in financial management procedures**

- 3.7.88 The 1986 audit of the College commenced in November 1987 due to delays in the submission of financial statements by the College. Early in the audit process, a number of matters were identified which gave rise to wider concern as to financial management procedures in place at the College.
- 3.7.89 The audit review disclosed that the financial position of the College deteriorated substantially during 1986. At 31 December 1986, the College had an accumulated deficit of around \$900 000 compared with an accumulated surplus of \$120 000 at 31 December 1985, an overall deterioration in excess of \$1 million.
- 3.7.90 Audit found that the deterioration in the financial position was essentially attributable to major deficiencies in overall financial management procedures at the College. These deficiencies included:
- \* Failure of the College Council to ensure that the financial operations of the College were effectively monitored;
  - \* The absence of satisfactory management and financial control systems;
  - \* Substantial travel and entertainment claims incurred by the Central Administration of the College. The majority of this expenditure was authorised by the former Business Manager (resigned February 1988), however, in most cases supporting documentation was not available to indicate that the expenditure had been incurred for College purposes. A review of expenditure vouchers indicated:
    - . extensive use, on an on-going basis, of charge accounts established at local hotels involving meal and liquor services. College funds used for these services during 1986 and 1987 totalled in excess of \$39 000;
    - . frequent use of Cabcharge facilities, including travel from the College to the former Business Manager's residence; and
    - . reimbursement of claims for expenditure of a personal nature;
  - \* Capital expenditure of \$1.1 million in 1986 for minor works and equipment in excess of funds available (part of this expenditure related to refurbishment of the Central Administration);
  - \* Commonwealth grants totalling \$297 000 provided to the College in 1986 for specific purposes were used to fund recurrent operations;
  - \* Hobby courses administered by the College in 1986 were subsidised to the extent of \$190 000 from recurrent funds; and
  - \* Trading deficits in the College's bookshop and canteen operations.
- 3.7.91 The Government has recently initiated action aimed at establishing a sound framework for the future financial management of the College. This action has been taken on 2 fronts, namely:

- (1) a project involving external consultants and representatives of the State Training Board to review the finances of the College, including its capacity to meet 1988 budgetary commitments, and the overall adequacy of management procedures; and
- (2) the secondment of an acting Director to the College.

3.7.92 At the date of preparation of this report audit was awaiting receipt of revised 1986 financial statements from the College. A detailed report on the results of the 1986 audit is in course of preparation.

3.7.93 **It is a matter for concern that financial management problems of the nature outlined above were allowed to develop at the College. What transpired can only cast doubt on the quality of procedures followed by the Council to control the management of College resources.**

*Response provided by the State Training Board*

*The Acting General Manager of the State Training Board attended the Council Meeting of the College held on 17 March 1988. At that meeting the members of the Council resolved to resign their positions.*

*Members of the Council took the view that they were not kept properly informed by College managerial staff at critical times in the past of the true nature of the College's financial position.*

*On identifying difficulties in 1987, the Council moved to take action to rectify the situation by commissioning independent reports on the financial administration of the College. These and other reports revealed the extent and seriousness of management problems facing the College.*

**TECHNICAL AND FURTHER EDUCATION BOARD (TAFE BOARD)**

3.7.94 By Order-in-Council effective from 30 November 1987, the State Training Board (STB) was established to co-ordinate and administer the Government's training policies and the technical and vocational training services provided by the State and its public authorities. In addition, under the terms of the same Order, the Office of the State Training Board was established as an associated administrative unit of the State and a body to whom the Victorian Post-Secondary Education Commission may delegate powers and functions.

3.7.95 For all intents and purposes, the STB replaced the TAFE Board from 30 November 1987, although, at the date of preparation of this report, legislation to establish the STB as a body corporate and the successor-in-law to the TAFE Board was still to be presented to the Parliament.

**Management of Commonwealth TAFE grants for building projects**

3.7.96 During the 1986 audits of TAFE colleges, audit found that Commonwealth funds totalling \$2.9 million, provided to the State under the *States Grants (Tertiary Education Assistance) Act 1984* for approved TAFE building projects, had been distributed by the TAFE Board to colleges substantially in advance of specific requirements.

3.7.97 The majority of the funds were distributed to the colleges in September and December 1986 and were either fully or substantially unspent at October 1987. In one case, grants allocated late in 1984 were substantially unspent at December 1987. For some colleges the application of grant funds was not scheduled to take place until March 1988.

3.7.98 The amounts in question formed part of larger sums specified in the Commonwealth legislation for use on major building programs underway in the colleges and had been earmarked in the Board's records and in remittance advices to the colleges for the purchase of furniture or equipment. It appeared that the deferral of expenditure was designed to ensure that the acquisition of furniture or equipment synchronised with the completion of the building program.

3.7.99 Audit recommended that a re-assessment of all procedures relating to the use of Commonwealth grants be undertaken by the STB. It is understood that the STB has recently appointed a consultant to review procedures followed for the distribution and expenditure of Commonwealth grants.

3.7.100 It is a matter for concern that:

- \* Commonwealth funds were forwarded to colleges by the TAFE Board well in advance of the need for such funds; and
- \* certificates of expenditure provided to the Commonwealth indicated that work to the value of the grants had been carried out when, in fact, the funds were held for acquisition of furniture and equipment at a later date.

*Management response (responses to issues concerning TAFE Board were provided by the Minister responsible for post-secondary education)*

*A consultant has been employed to investigate this matter and when a final report is available action will be taken to implement appropriate controls and procedures.*

#### **Equipment leased under State leasing facility**

3.7.101 During 1986, high technology equipment, leased centrally under the State Leasing Facility and with a cost value in excess of \$10 million, was provided by the TAFE Board to TAFE colleges.

3.7.102 During the course of college audits for the year ended 31 December 1986, audit found many instances where the central administrative staff of colleges were not aware that the equipment had been received at their colleges and, as a consequence, details of the leased equipment were not recorded in the colleges' asset registers or accounted for as part of the colleges' asset control procedures.

3.7.103 There is a need for the STB to confirm with the central administrative personnel of colleges that all equipment provided under the leasing facility had been received and was subject to the colleges' ongoing asset management and control procedures. There is also a need for the Board to review the overall procedures in place for communications with colleges on matters with substantial financial management or control implications.

#### *Management response*

*With respect to equipment leased under the State leasing facility, the consultant involved with the Commonwealth grants project is also currently reviewing this matter. At the time of providing this advice, a report had not been completed. On receipt of the report, action will be taken to implement appropriate management procedures and control mechanisms.*

#### **Misuse of Commonwealth funds provided under the Participation and Equity Program**

3.7.104 During 1987, the Government initiated an extensive review of a number of aspects of financial management procedures within the TAFE sector. The review program involved the engagement of several external consultants and was undertaken under the overall direction of a special consultant based at the TAFE Board.

3.7.105 An important element of the above program was a detailed review of the management of Commonwealth Participation and Equity Program (PEP) funds provided to the TAFE sector during the period 1984 to 1987.

3.7.106 The principal finding of the PEP review was that funds in excess of \$168 000 had been utilised for purposes not directly related to approved PEP programs. The consultant reported that 3 TAFE colleges had received funds from the TAFE Board and had applied these funds in accordance with arrangements determined by certain officers of the TAFE Board. In effect, the Colleges had acted as repositories for funds on behalf of the TAFE Board as part of a plan designed by Board officers.

3.7.107 Of the sum involved more than \$84 000 was channelled by the Board to Holmesglen TAFE College for subsequent application through that college's accounting system on the design and fit-out of office space leased and used by the TAFE Board.



- 3.7.108 In addition to the above matters, an amount of \$116 000, representing the unspent portions of funds held at the colleges, was identified during the review. This amount was subsequently returned to the Board. The consultant also established PEP funds in excess of \$155 000, provided to the State for 2 specific programs had been applied by the TAFE Board for other purposes in earlier years.
- 3.7.109 The STB has been in contact with the Commonwealth Department of Employment, Education and Training in respect of all of the above issues. Arrangements are being made for the aggregate amount involved, over \$439 000, to be refunded to the Commonwealth.
- 3.7.110 The Board decided, on the basis of legal advice from the Government Solicitor, not to initiate legal action against 2 of the Board's officers who had been responsible for controlling the application of PEP Funds, as their actions were not considered to be fraudulent and the 2 officers had not personally gained from their actions. One of the officers has since resigned. The STB has sought further advice from the Government Solicitor on whether charges should be laid under the disciplinary provisions of the Public Service Act.
- 3.7.111 **Periodic reviews of the administration of resources is an important management function. The results of the above review on PEP funds illustrate the benefits which can flow from effective use of this management tool.**

*Management response*

*As indicated above, advice was sought from the Government Solicitor concerning the actions of 2 officers of the TAFE Board. One officer has since resigned and the advice of the Counsel was that charges in accordance with the disciplinary provisions of the Public Service Act should be discontinued. The advice of the Counsel has now been received concerning the second officer and it is his view that there is no specific evidence which would indicate that the officer's explanation (given in response to the proposed charge) is untruthful. Further, Counsel advised that charges should be withdrawn in this instance and accordingly appropriate action has been taken.*

**Schedule A. Status of matters raised in previous reports**

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<b>Ministry of Education</b>		
<i>Second Report, 1982-83, p.48</i>	A substantial number of State primary school councils were not meeting legislative requirements to have accounts audited.	A strategy has been developed by the Ministry to improve timeliness of submission of audited accounts by primary schools. Refer paragraphs 3.7.52 to 3.7.55
<i>Second Report, 1984-85, p.49</i>	Payment of grants and allowances to schools on a monthly basis should be evaluated to ensure interest earnings of the State are maximised.	Position unchanged. The Ministry is in the process of examining the implications of advice provided by the Department of Management and Budget on this matter.
<i>Second Report, 1984-85, p.52</i>	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 now satisfactory. In May 1987, the Department of Management and Budget advised government agencies that all future on-cost recoveries are to be based on a rate of 45 per cent.
<i>Second Report, 1984-85, p.53 1985-86, p.98</i>	The incidence and control of salary overpayments requires attention.	Net salary overpayments at 30 June 1987 totalled \$1.7 million (30 June 1986, \$1.5 million). The Ministry is hopeful that initiatives introduced during 1986-87 will minimise the incidence of overpayments in future years.

**Schedule A. Status of matters raised in previous reports - continued**

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<i>Second Report, 1985-86, pp.95-6</i>	Action should be taken to finalise establishment of a computer-based property information system.	The Ministry is in the process of finalising arrangements with the Public Service Board for the provision of consultancy services relating to software design for a new property information system.
<i>Second Report, 1985-86, p.96</i>	The viability of retaining school plantations should be evaluated.	Position now satisfactory. Plantations are now sold by the Ministry if no financial benefit or curriculum use can be obtained from them.
<i>Second Report, 1985-86, pp.97-8</i>	Inordinate delays were encountered in the revocation of Crown lands vested in the Minister of Education and the subsequent disposal of the property.	Closer liaison has been established by the Ministry with the Department of Property and Services which the Ministry hopes will expedite subsequent revocation and disposal of properties.
<i>Second Report, 1985-86, p.97</i>	The provision of free rental of residences to cleaners was not in line with government policy directives.	There have been no changes in the arrangements under which residences are provided rent free to cleaners. The Ministry is in the process of obtaining the formal approval of the Treasurer to the non-charging of rentals.
<b>Post-secondary education institutions</b>		
<i>Second Report, 1985-86, p.99</i>	Progress on designation of post-secondary education institutions as bodies subject to the <i>Annual Reporting Act 1983</i> .	The Department of Management and Budget anticipates that designation under the <i>Annual Reporting Act</i> will now be effective from the 1988 calendar year.
<b>Chisholm Institute of Technology</b>		
<i>Second Report, 1985-86, p.104</i>	Because of serious problems experienced by the Institute, a wide-ranging review of overall financial management procedures was underway.	Position is substantially improved. Through its review program, the Institute has made a great deal of progress in establishment of a sound foundation for its future financial management. Audit will review the position during the 1987 audit.
<b>Technical and Further Education Board</b>		
<i>Second Report, 1984-85, p.61 1985-86, pp.107-8</i>	The 1984-85 and 1985-86 audits of the Board's accounts could not be finalised because of the incomplete state of the financial records.	Position now satisfactory. The Board submitted financial statements for the 2 years on 27 April 1987 and the audits were finalised in May 1987.

**Schedule B. Complete/incomplete audits**

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
<b>Complete audits</b>				
Ministry of Education	30 June 1987	31 October. <i>Annual Reporting Act 1983, s.8.</i>	8 October 1987	23 October 1987
Council of Adult Education	30 June 1986	30 September. <i>Council of Adult Education Act 1981, s.19.</i>	21 January 1987	9 February 1987

Schedule B. Complete/incomplete audits - *continued*

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
<b>Post-secondary education institutions -</b>				
<i>Universities</i>				
Deakin (and associated companies)	31 December 1986	As soon as practicable after 31 March. <i>Deakin University Act 1974, s.37.</i>	19 May 1987	3 July 1987
LaTrobe (and associated company)	31 December 1986	As soon as practicable after 31 March. <i>LaTrobe University Act 1964, s.41.</i>	22 September 1987	15 January 1988
Melbourne	31 December 1986	No date specified. <i>Melbourne University Act 1958, s.46.</i>	25 September 1987	10 December 1987
Monash (and associated company)	31 December 1986	As soon as practicable after 31 March. <i>Monash University Act 1958, s.41.</i>	8 September 1987	27 November 1987 (a)
<i>Colleges of Advanced Education</i>				
Ballarat	31 December 1986	No reporting requirements. Audit conducted under the authority of the <i>Post-Secondary Education Act 1978, s.27.</i>	14 April 1987	29 June 1987
Bendigo	31 December 1986	" "	18 March 1987	8 July 1987
Chisholm	31 December 1986	" "	30 April 1987	11 September 1987
Footscray	31 December 1986	" "	28 July 1987	25 September 1987
Gippsland	31 December 1986	" "	6 April 1987	30 June 1987
Hawthorn	31 December 1986	" "	27 July 1987	9 September 1987
Institute of Catholic Education	31 December 1986	" "	14 July 1987	27 July 1987
Lincoln Institute of Health Sciences	31 December 1986	" "	7 July 1987	9 September 1987
Melbourne	31 December 1986	As soon as practicable after 31 March. <i>Melbourne College of Advanced Education Act 1982, s.42.</i>	25 May 1987	24 July 1987
Phillip	31 December 1986	No reporting requirements. Audit conducted under the authority of the <i>Post-Secondary Education Act 1978, s.27.</i>	17 March 1987	9 October 1987
RMIT Ltd	31 December 1986	" "	15 September 1987	5 October 1987
Swinburne Ltd	31 December 1986	" "	31 March 1987	9 September 1987

Schedule B. Complete/incomplete audits - *continued*

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Victoria	31 December 1986	" "	7 May 1987	8 September 1987 (a)
Victorian College of Pharmacy Ltd	31 December 1986	No reporting requirements. Audit conducted under the authority of the <i>Post-Secondary Education Act 1978, s.27.</i>	1 April 1987	8 September 1987
Victorian College of the Arts	31 December 1986	As soon as practicable after 31 March. <i>Victorian College of the Arts Act 1981, s.36.</i>	15 September 1987	25 September 1987 (a)
Warrnambool	31 December 1986	" "	15 May 1987	15 September 1987
<i>Colleges of Technical and Further Education</i>				
Box Hill	31 December 1986	" "	30 March 1987	30 October 1987
Broadmeadows	31 December 1986	" "	1 September 1987	1 October 1987
Collingwood	31 December 1986	" "	26 August 1987	12 November 1987
Dandenong	31 December 1986	" "	28 October 1987	24 December 1987
East Gippsland	Period 1 May 1986 to 31 December 1986	" "	16 June 1987	28 January 1988
Flagstaff	31 December 1986	" "	16 June 1987	22 July 1987
Frankston	31 December 1986	" "	30 June 1987	16 October 1987
Gordon	31 December 1986	" "	7 May 1987	25 November 1987
Goulburn Valley	31 December 1986	" "	30 July 1987	30 October 1987
Holmesglen	31 December 1986	" "	17 June 1987	31 July 1987
Loddon-Campaspe (b)	31 December 1986	" "	14 May 1987	3 August 1987
Melbourne College of Decoration	31 December 1986	" "	11 July 1987	9 October 1987
Melbourne College of Printing and Graphic Arts	31 December 1986	" "	15 October 1987	29 February 1988
Melbourne College of Textiles	31 December 1986	" "	26 May 1987	9 October 1987
Moorabbin	31 December 1986	" "	16 April 1987	6 July 1987
Newport	31 December 1986	" "	19 February 1988	29 February 1988

Schedule B. Complete/incomplete audits - *continued*

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Outer Eastern	31 December 1986	" "	16 October 1987	29 October 1987
Prahran	31 December 1986	" "	29 May 1987	18 November 1987
Richmond	31 December 1986	" "	13 April 1987	22 September 1987
RMIT Ltd	31 December 1986	" "	15 September 1987	5 October 1987
School of Mines and Industries Ballarat Ltd	31 December 1986	" "	24 June 1987	2 February 1988
South West (c)	31 December 1986	" "	22 May 1987	26 October 1987
Sunraysia	31 December 1986	" "	18 August 1987	23 September 1987
Swinburne Ltd	31 December 1986	" "	31 March 1987	9 September 1987
Wangaratta	31 December 1986	" "	29 July 1987	9 September 1987
William Angliss	31 December 1986	" "	17 June 1987	27 July 1987
Wimmera Community	31 December 1986	" "	12 June 1987	16 October 1987
Wodonga	Period 2 July 1986 to 31 December 1986	" "	30 December 1987	29 February 1988
Yallourn	31 December 1985	" "	3 February 1988	29 February 1988
" "	31 December 1986	" "	3 February 1988	29 February 1988
<i>Institute of Tertiary Education</i>				
Western Institute	Period 23 July 1986 to 31 December 1986	" "	18 December 1987	23 February 1988
<i>Composite College</i>				
Victorian College of Agriculture and Horticulture	31 December 1986	" "	30 April 1987	9 June 1987
Technical and Further Education Board (d)	30 June 1985	30 September. <i>Post-Secondary Education Act 1978, s.60. No specific requirement to include audited financial statements in annual report.</i>	27 April 1987	7 May 1987
" "	30 June 1986	" "	27 April 1987	7 May 1987

Schedule B. Complete/incomplete audits - *continued*

Entity	Financial year ended	Reporting to Parliament	Financial statements signed by entity	Auditor-General's report signed
" "	30 June 1987	" "	27 November 1987	22 February 1988
Victorian Curriculum and Assessment Board	30 June 1987	30 September. <i>Victorian Curriculum and Assessment Board Act 1986, s.17.</i> Extension of time granted by Minister.	19 February 1988	29 February 1988
Victorian Institute of Secondary Education (e)	Period 1 January 1986 to 30 June 1986	As soon as practicable after 31 March. <i>Victorian Institute of Secondary Education Act 1976, s.17.</i>	29 January 1987	13 February 1987
Victorian Post-Secondary Education Commission	30 June 1987	As soon as practicable after 30 June. <i>Post-Secondary Education Act 1978, s.21.</i> No specific requirement to include audited financial statements in annual report.	14 October 1987	11 November 1987
Victorian Tertiary Admissions Centre	30 June 1987	No reporting requirements. Audit conducted at request of Treasurer.	21 January 1988	1 February 1988
<b>Incomplete audits</b>				
Council of Adult Education	30 June 1987	30 September 1987. <i>Council of Adult Education Act 1981, s.19.</i>	Field audit work completed in November 1987. Revised financial statements only recently received from the Council.	
Institute of Educational Administration	30 June 1987	31 December. <i>Institute of Educational Administration Act 1980, s.17.</i>	Financial statements only recently received from the Institute. Field audit work currently underway.	
Post-secondary education institutions - <i>Colleges of Technical and Further Education</i>				
Batman Automotive College	31 December 1986	No reporting requirements. Audit conducted under the authority of the <i>Post-Secondary Education Act 1978, s.27.</i>	Revised financial statements only recently received from the College. Field audit work completed.	
Footscray	31 December 1986	" "	Revised financial statements only recently received from the College. Field audit work completed.	
Preston	31 December 1986	" "	Awaiting receipt of revised financial statements. Refer paragraphs 3.7.88 to 3.7.93 for problems identified during audit.	

(a) Qualified audit opinion.

(b) Previously the Bendigo College of Technical and Further Education. Name changed from 3 June 1987.

(c) Previously the Warrnambool College of Technical and Further Education. Name changed from 7 January 1987.

(d) Since 30 November 1987, functions previously undertaken by the TAFE Board have been carried out by the State Training Board.

(e) Replaced by the Victorian Curriculum and Assessment Board from 1 July 1986.

## 3.8

## ETHNIC AFFAIRS

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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.

3.8.2 The audit of the Commission proved satisfactory.

### Schedule A. Status of matters raised in previous reports

There were no matters outstanding.

### Schedule B. Complete/incomplete audit

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<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor- General's report signed</i>
<b>Complete audit</b>				
Ethnic Affairs Commission	30 June 1987	31 October. <i>Annual Reporting Act 1983, s.8.</i>	4 September 1987	30 September 1987

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- 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

- 3.9.2 Comments on matters of significance arising from the audit of Health Department Victoria are discussed below.

**HEALTH DEPARTMENT VICTORIA**

**Implementation of health service agreements**

- 3.9.3 The principal objective of the Health Service Agreements Program is to implement an output and performance orientated approach to management of health agencies through a process of negotiated service agreements.
- 3.9.4 As part of the Program the Department is progressively implementing individual agreements with health agencies which include public hospitals, community health centres and psychiatric institutions. Pilot agreements were entered into with 4 public hospitals during 1986-87. The Department extended the program to a further 47 agencies in 1987-88 including 31 public hospitals.
- 3.9.5 The agreements provide for:
- \* establishment of clear objectives for each agency;
  - \* agencies being accountable for performance in relation to agreed targets within negotiated funding levels; and
  - \* greater responsibility and flexibility for agency management.
- 3.9.6 Overall, the initiative to place greater responsibility on hospital management to improve services is commended.
- 3.9.7 The Department advised that an ongoing independent evaluation of the pilot study has been undertaken. An audit review of the implementation of agreements disclosed that significant delays occurred in finalising agreements entered into for 1987-88 and, consequently, agencies may not achieve the agreed performance targets.
- 3.9.8 **The implementation and effectiveness of the Program would be enhanced by the Department finalising future agreements in a timely manner.**

*Management response*

*The Department has an on-going independent evaluation process via the Health Agreements Consultative Committee which is chaired by a Vice President of the Australian Hospitals Association and includes representatives from hospitals, other health agencies and unions. In addition 2 independent reports have been completed in November 1986 and in January 1988, respectively.*

*Extension of the agreements to a further 47 agencies involved a significant workload for all participants. Many issues were required to be dealt with sensitively and carefully, and it was deemed inappropriate to establish tight deadlines in the first year of the program.*



## **Payments from the Hospital and Charities Fund**

- 3.9.9 Operating and capital funds are provided to public hospitals, nursing homes and other subsidised institutions from the Hospital and Charities Fund, which was established in accordance with the *Hospital and Charities Act 1958*.
- 3.9.10 Payments from the Fund amounted to \$1 514 million in 1986-87 with \$1 403 million (93 per cent) being provided for the operations of public hospitals and nursing homes. Although transactions of the Fund represent 77 per cent of the Department's payments, the only details provided in the departmental financial statements were the total amount paid to hospitals and nursing homes, non-hospitals and community health centres, and for minor works.
- 3.9.11 **In audit opinion the Department should take account of materiality in determining the level of disclosure in its financial statements in order that meaningful information is provided to Parliament.**
- 3.9.12 Audit noted that payments of \$1.2 million were made from the Fund to reimburse hospitals for salary costs of their staff seconded to the Department. In audit opinion these payments should have been met from the Department's annual appropriations for salaries.
- 3.9.13 **Such practices deprive Parliament of being informed of the true cost of operating the Department and circumvents parliamentary control.**

### *Management response*

*The Department reports the overall financial operations of the Hospital and Charities Fund to Parliament. Individual institutions provide separate audited financial statements to the Department and, in addition, publish detailed audited annual reports for the wider community.*

*Since the late 1970s it was the practice of the Department to reimburse salary costs of staff seconded for various duties. In 1986-87 this practice was stopped for most seconded staff and the 1987-88 budget reflects this change. However, it is the view of the Department that the regular rotation of some staff between the Department and health agencies enhances the Department's relationships with agencies and develops skills which are of benefit to the system as a whole. Thus, costs of staff working on specific hospital or system-wide issues should continue to be reflected as agency rather than departmental costs.*

## **Monash Medical Centre - financing of operating lease liability**

- 3.9.14 The Monash Medical Centre leases hospital buildings from the South Eastern Medical Complex Ltd, the company responsible for financing and constructing the facilities.
- 3.9.15 The Centre's liability under this lease was previously subsidised by parliamentary appropriation within the "Short-Term Hospital Services" program of the Department. The estimate for 1987-88 of \$23.2 million has, however, been included within Program 726 "Transfer and Other Payments", a program under the control of the Treasurer. While the Auditor-General is not the auditor for either the Centre or the company it is understood that operating lease commitments at 30 June 1987 totalled \$237.6 million.
- 3.9.16 **Audit recommended that in future, the funds provided for the financing of this lease be appropriated under the Department's hospital services program in order to provide more meaningful financial information in relation to the delivery of hospital services under this program.**

## Schedule A. Status of matters raised in previous reports

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<b>Health Department Victoria</b>		
<i>Second Report, 1982-83, p.62 and subsequent reports</i>	Arrangements at certain psychiatric centres regarding contributions required from pensioners for upkeep are inequitable compared with arrangements in other institutions.	Matter remains unresolved. Department awaiting consideration by Cabinet of submission on fees.
<i>Second Report, 1983-84, p. 22</i>	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.	Review of the free travel scheme is currently being undertaken by the Department.
<i>Second Report, 1983-84, p.22 1984-85, p.73</i>	The collection of fees by the Commonwealth from patients in benevolent homes results in unnecessary duplication of administrative procedures.	Matter remains unresolved. Action by Department deferred until submission on fees is considered by Cabinet.
<i>Second Report, 1984-85, p. 72</i>	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.	Matter unresolved. Action to implement consistent reporting and auditing requirements has not been taken.
<b>Cancer Institute Board</b>		
<i>Supplementary Report, 1978-79, p.11 and subsequent reports.</i>	Income from the use of hospital facilities by private practitioners not verifiable by audit.	Matter now resolved as new agreement implemented.
<i>Second Report, 1985-86, p.116</i>	Board does not provide for depreciation on building improvements valued at \$25.5 million (at 30 June 1986).	Position unchanged (at 30 June 1987).

## Schedule B. Complete/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
<b>Completed audits</b>				
Health Department Victoria	30 June 1987	31 October. <i>Annual Reporting Act 1983, s.8.</i>	28 October 1987	30 October 1987
Cancer Institute Board	30 June 1987	No reporting requirements. <i>Cancer Act 1958, s.54.</i> provides for the audit of the accounts.	2 October 1987	16 November 1987 (a)
Dietitians Board of Victoria	30 June 1987	30 September. <i>Dietitians Act 1981, s.25.</i>	21 January 1988	8 February 1988
Optometrists Registration Board	30 June 1987	30 September. <i>Optometrists Registration Act 1958, s.22.</i>	10 February 1988	15 February 1988
Victorian Nursing Council	30 June 1987	31 October. <i>Nurses Act 1958, s.40.</i>	27 October 1987	9 November 1987

(a) Qualified audit report issued.

## 3.10

# HOUSING\*\*

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

### *Public bodies*

Director of Housing  
Urban Land Authority

The Victorian Government Major Projects Unit, established during the year under the *Urban Land Authority Act 1979*, is responsible to the Minister responsible for Major Projects (Minister for Agriculture and Rural Affairs) and is included in this section of the report.

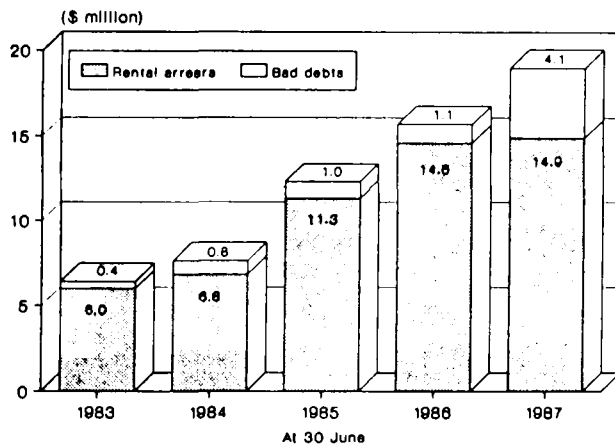
3.10.2 Comments on matters of significance arising from the audit of the Director of Housing are discussed below.

### DIRECTOR OF HOUSING

#### Rental arrears

3.10.3 In recent years, audit has commented on the unsatisfactory level of rental arrears. Although the Director of Housing has identified the reduction of arrears as a major priority, the position at 30 June 1987, taking into account the magnitude of bad debts written off, had not improved as illustrated in Chart 3.10A below:

CHART 3.10A. RENTAL ARREARS AND BAD DEBTS



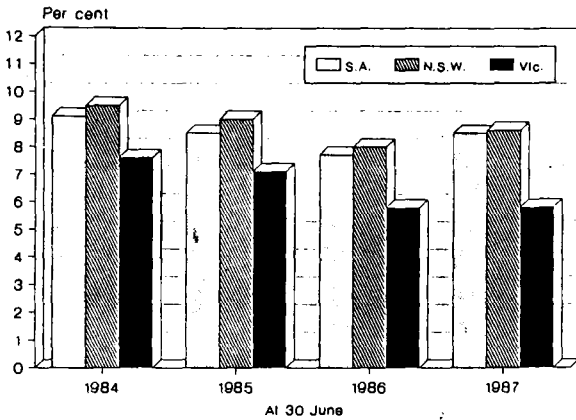
Source: Financial statements and associated records of the Director of Housing.

3.10.4 At 30 June 1987 the severity of the arrears problem in Victoria compared with housing bodies in other States is demonstrated below:

- \* Victoria which has 57 550 rental properties had rental arrears of \$14.9 million after bad debts of \$4.1 million had been written off;
- \* New South Wales which has 108 961 rental properties had rental arrears of \$3.6 million after bad debts of \$400 000 had been written off; and
- \* South Australia which has 58 884 rental properties had rental arrears of \$1.8 million after bad debts of \$1.1 million had been written off.

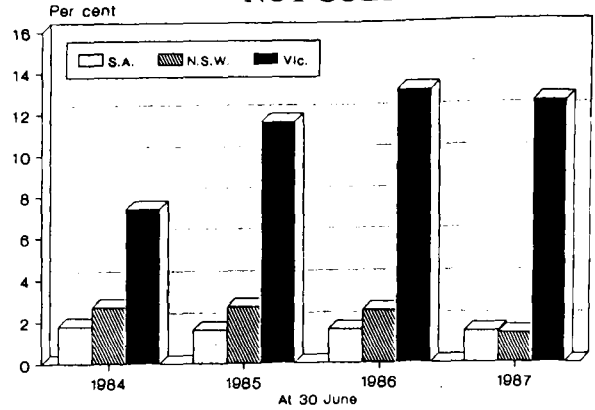
\*\* As a result of machinery of government changes, the Public Works Department was abolished in 1987-88 and its functions were merged to form the Ministry of Housing and Construction.

**CHART 3.10B.  
UNEMPLOYMENT RATES**



Source: Australian Bureau of Statistics.

**CHART 3.10C.  
PERCENTAGE OF RENT  
NOT COLLECTED**



Source: Financial statements of relevant State housing authorities.

- 3.10.5 While the level of unemployment is only one factor which may contribute to the magnitude of arrears, an analysis comparing unemployment figures between various States revealed that Victoria, despite having the lowest unemployment had the highest rental arrears. Audit concluded that factors such as poor follow-up procedures, the effect of regionalisation, the failure of proposed computerised systems and the lack of integrity of the rental database had a greater impact on the substantial level of rental arrears than the inability of tenants to meet rental payments due to being unemployed.
- 3.10.6 A review of rental arrears was conducted by senior officers of the Department of Management and Budget and the Department of Premier and Cabinet during July 1987, but at the date of preparation of this report, audit had not been advised of the outcome of the review.
- 3.10.7 **The reasons for Victoria's poor performance compared with other States in the management of rental arrears is a matter for concern and management should take the necessary action to safeguard against possible defalcations occurring. The inability to manage rental arrears continues to impact on cash flow and as a consequence proceeds from land sales of \$41 million in 1986-87 became a significant factor in enabling the housing program to be maintained.**

*Management response*

*The Ministry agrees that unemployment rates are not a significant factor in the above inter-State comparisons and confirms that the operational factors mentioned have more bearing on the matter. However, the Ministry believes another factor is the expansion of its stock and client base by 17 per cent over the last 3 years combined with major expansions in demand for other client services while its staff resources increased by only 7 per cent during the same period.*

*Due to the low income of the vast majority of our tenants, arrears are generally not recoverable in lump sums. Formal agreements to repay rent plus an extra sum off arrears are the Ministry's key method of arrears control. Given low income earners' capacity to pay, these agreements to repay arrears are for very small dollar amounts and often take a long time to clear debts. The process of arrears reduction is necessarily therefore a slow business.*

*The Ministry has continued to give rental arrears the highest management priority and has been tackling the issue of rental arrears on many fronts which include enhancement of management information systems and recruitment of additional staff.*

## **Integrity of the rental database**

### *Credit balances*

- 3.10.8 The individual balances recorded in the rental database are largely inaccurate. A database report in June 1987 indicated that approximately 24 000 (47 per cent) of current public tenants had credit balances totalling \$2.6 million and former tenants were shown to have credit balances of approximately \$1 million. An audit analysis of credit balances disclosed that 338 current tenants had credit balances in excess of \$1 000 totalling \$572 000 and 204 ex-tenants had credit balances in excess of \$1 000 totalling \$426 000.
- 3.10.9 **The level of credit balances raises questions on the integrity of the database including the individual debtor's balances. In fact the level of credit balances recorded in the database was adjusted by \$1.7 million at 30 June 1987 due to errors detected.**

### *Vacant rental properties*

- 3.10.10 Periodically the database produces information on vacant rental properties on a regional basis.
- 3.10.11 Senior management was advised by my officers during the course of the 1985-86 audit of problems relating to the management of vacant properties.
- 3.10.12 A review by audit during 1986-87 revealed that the situation had not improved. Details of the audit findings are summarised below:
- \* information produced from the central database reports was inaccurate as the database was not updated in a timely manner. For example in March 1987 a database report indicated that there were 1 920 vacant properties whereas regional offices' records disclosed actual vacancies of 626;
  - \* due to errors in the central database, regional offices maintained their own records relating to vacant properties; and
  - \* reports were not provided by the current system outlining the reasons why the properties were vacant. The disclosure of this information would assist management in making decisions concerning vacant properties.
- 3.10.13 **Inaccurate vacant rental property details recorded in the rental database has resulted in:**
- \* **management not being in a position to monitor vacancy rates and thereby being unable to maximise revenue collection; and**
  - \* **additional administrative costs associated with maintaining duplicate records at head office and in the regions.**

### *Management response*

*In both instances, management agreed with the audit findings and indicated that positive measures would be implemented to restore the integrity of the current database and improve procedures in operation concerning vacant rental properties.*

## **Mortgage Relief Scheme**

- 3.10.14 The Mortgage Relief Scheme was established in October 1982 to assist home purchasers experiencing genuine difficulty meeting loan repayments. Under this Scheme assistance was provided in the form of interest free loans of up to \$10 000, within a 2 year period, with an objective to enable home purchasers to either regain sufficient earning capacity to resume full repayments or make alternative housing arrangements. Loans are repayable normally over a 10 year period.
- 3.10.15 At 30 June 1987 the amount repayable in respect of loans provided under the Scheme totalled \$4.6 million (30 June 1986, \$4 million).

- 3.10.16 An audit review of the loan system indicated that it could not provide satisfactory arrears details. As a result, problems occurred in the identification and follow-up of arrears. The audit review of the system indicated that 80 per cent of current borrowers were in arrears and 20 per cent of these had made no repayments at all. The high proportion of arrears and inadequate follow-up procedures led the Director to increase the provision for doubtful debts from \$231 000 to \$880 000.
- 3.10.17 During the course of the review audit expressed concern with management's inability to determine whether the Scheme was cost-effective due to the non-retention of information considered necessary to effectively measure performance of the Scheme against its objectives.

*Management response*

*Action is being taken to implement a more appropriate recording system which would also assist in improvement in the follow-up procedures.*

*Without proper recording of the loan details no worthwhile analysis can take place and it is very difficult to determine if the Scheme is cost-effective.*

**Tenant Purchase Scheme**

- 3.10.18 Between 1956 and 1981 the Tenant Purchase Scheme enabled approximately 50 000 tenants to purchase the properties they had been renting from the former housing authority. The contracts of sale provided for payment over a maximum of 45 years at interest rates ranging from 3.75 per cent to 12.5 per cent per annum.
- 3.10.19 An audit review of the operation of the Scheme during 1986-87 revealed the following matters:
- \* a lack of adequate monitoring, control and recovery procedures contributed to 4 841 purchasers (21 per cent) being in arrears totalling \$2.9 million at 30 June 1987;
  - \* although the contract of sale specifically provided for interest to be charged on instalment arrears, interest had not been charged since 1964. Audit estimated that the consequent loss of interest would exceed \$1 million; and
  - \* the computerised Housing Operation Management Executive System (HOMES), when implemented, was to charge interest on arrears instalments. The failure in recent years of HOMES to perform in line with expectations has resulted in interest not being charged. Difficulties experienced with the implementation of HOMES were raised in my 1985-86 report to Parliament.
- 3.10.20 **The failure to collect and charge interest on instalment arrears resulted in revenue collection not being maximised with a consequential impact on the delivery of housing programs.**

*Management response*

*Management has taken a number of major steps to improve its overview of the arrears collection performance. In spite of a lack of resources to pursue the collection of these arrears, the gradual deterioration in the arrears position has been arrested.*

*A small team has been established to tackle the longer-term arrears cases in the main problem areas. Since the deferral of the proposal to charge interest on arrears due to the non-implementation of HOMES, studies of various options have revealed that interest can be charged by amending the existing system. The new arrangements are nearly finished and it is proposed to charge interest on arrears from the end of March 1988.*

**Excessive claims by contractors**

- 3.10.21 Audit was advised by the Director of 2 apparent irregularities involving over-claiming/over-servicing by maintenance contractors of at least \$228 000. Detailed comments follow:

(1) *Over-claiming of approximately \$120 000 by a plumbing maintenance contractor*

A subsequent internal investigation of a sample of works claimed by the contractor revealed:

- (i) duplication of claims for work performed;
- (ii) no evidence in some instances of inspections being performed by the contractor; and
- (iii) substantial over-charging of time taken to perform service works.

Moneys due to the contractor of approximately \$45 000 have been held pending the finalisation of this matter.

(2) *Over-servicing of at least \$108 000 by an electrical maintenance contractor*

The internal investigation which concentrated on the period from December 1985 to November 1986 indicated extensive over-charging of both time worked and quantities of goods used by the contractor.

In view of the internal investigation findings and the contractor having worked on housing construction and maintenance contracts for over 20 years, it appears the actual amount of unwarranted claims would be considerably more than \$108 000.

It appears that one of the main reasons for the over-charging not being detected at an earlier stage was the lack of proper inspections of works being carried out.

Moneys due to the contractor of approximately \$75 000 have been held and negotiations initiated to recover all amounts over-charged.

3.10.22 Both of the abovementioned matters have been reported to the Police for investigation. As a result of the findings of the internal investigation in these 2 cases, action has been taken by the Director to establish a maintenance audit function within its Internal Audit Branch to ensure that:

- \* there is no further over-servicing by maintenance contractors; and
- \* work being claimed is carried out adequately and that the price charged is reasonable.

**Misappropriation of rental collections**

3.10.23 Audit was advised by the Director of the misappropriation of rental collections amounting to approximately \$16 000 by a country agent. Full restitution was made and the agent was convicted in the Magistrates' Court and given a 3 months suspended sentence.

**Schedule A. Status of matters raised in previous reports**

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<b>Director of Housing</b>		
May 1983, p.22	Inadequate controls exist over custody and physical movement of documents held as security for loan advances.	Movement of documents now adequately recorded, however due to the lack of fire proofing facilities the custody aspect is still unsatisfactory.
May 1983, p.22	Interest subsidy claims by permanent building societies in respect of loans to low income earners should be selectively verified.	Position now satisfactory. Adequate verification procedures are now in place.

## Schedule A. Status of matters raised in previous reports - *continued*

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<i>Fourth Report, 1982-83, p.40</i>	Unsatisfactory arrears follow-up action for housing loans made directly to home purchasers was due to inadequate staffing in arrears section.	Staff increased and follow-up action improved. Loan arrears at 30 June 1987 were \$1.5 million.
<i>Fourth Report, 1982-83, p.77</i>	Lack of procedures under the housing assistance schemes to ensure co-operative housing societies remit collections promptly.	Position now satisfactory as improved procedures have been implemented.
<i>Second Report, 1985-86, p.121</i>	Significant deficiencies and excessive delays in the implementation of the major computer system - Housing Operation Management Executive System (HOMES).	Only 2 of the 6 modules have been accepted and are operational. Following legal action instigated by the Director of Housing, settlement was reached with the external consultants.
<i>Second Report, 1985-86, p.122</i>	Absence of strategy to assess the viability of retention of 220 commercial properties.	Sales of a substantial number of commercial properties occurred in 1986-87 with the remaining properties to be sold in the near future.

## Schedule B. Complete/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Date financial statements signed</i>	<i>Date Auditor-General's report signed</i>
<b>Complete audits</b>				
Director of Housing	30 June 1987	No date specified. <i>Housing Act 1983, s.12.</i>	22 September 1987	30 September 1987
Urban Land Authority	30 June 1987	30 November. <i>Urban Land Authority Act 1979, s.13.</i>	20 October 1987	30 October 1987
Victorian Government Major Projects Unit	30 June 1987	30 November. <i>Urban Land Authority Act 1979, s.13.</i>	11 November 1987	11 November 1987



## 3.11 INDUSTRY, TECHNOLOGY AND RESOURCES

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- 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  
Gas and Fuel Corporation Superannuation Fund  
Geelong Regional Commission  
Latrobe Regional Commission  
Overseas Projects Corporation of Victoria Ltd  
Small Business Development Corporation  
State Electricity Commission of Victoria  
State Electricity Commission Employees' Retirement and Benefit Fund  
State Electricity Commission Superannuation Fund  
Swan Hill Pioneer Settlement Authority  
Victorian Economic Development Corporation  
Victorian Solar Energy Council  
Victorian Tourism Commission

- 3.11.2 Comments on matters of significance arising from the audit of certain of the above entities are discussed below.

### ALPINE RESORTS COMMISSION

#### Non-repayment of loan liability

- 3.11.3 At 31 October 1987, the Commission's loan liability to the Treasurer of Victoria amounted to \$5.2 million, including \$4.5 million advanced to former Committees of Management which were subsequently taken over by the Alpine Resorts Commission.
- 3.11.4 Payments of interest and repayments of principal have not been made on these loans since the Commission assumed management responsibility for the alpine resorts. As a result, arrears at 31 October 1987 amounted to \$2.2 million.
- 3.11.5 Audit was informed that payments have not been made due to the adverse liquidity position of the Commission and negotiations are being undertaken with the Department of Management and Budget with a view to obtaining the Treasurer's approval to convert the loans to non-repayable advances.

*Management response*

*The Auditor-General's comments and recommendations are noted. The Commission will follow-up with the Treasurer, through the Minister for Industry, Technology and Resources, previous submissions on the matter with a view to finalisation of outstanding loan liability.*

### **Site rental charges**

- 3.11.6 To achieve its aim of self-funding and to promote consistency between alpine resorts, the Commission has resolved to develop rental and service charge policies. As part of this process, a site rental policy was adopted in 1986-87 resulting in a substantial increase in assessed revenues during the financial year. However, due to the non-payment of a substantial portion of these site rental charges there has been a significant increase in debtors from \$940 000 at 31 October 1986 to \$2 million at 31 October 1987.
- 3.11.7 Audit was advised that a number of factors have contributed to delays in the collection of amounts due, including:
- \* strong opposition by siteholders to the level of charges; and
  - \* questioning by siteholders of the legality of rental charges.
- 3.11.8 Legal advice provided to the Department of Industry, Technology and Resources in December 1987 supported the authority of the Commission to levy rental charges.

#### *Management response*

*The Commission is endeavouring to collect all outstanding debts through regular debtors follow-up action. However, as a major part of the debts are in dispute, the Commission is unable to enforce legal proceedings to finalise collection at this stage.*

### **SMALL BUSINESS DEVELOPMENT CORPORATION**

#### **New Enterprise Incentive Scheme**

- 3.11.9 The New Enterprise Incentive Scheme (NEIS) is a joint Commonwealth/State Government funded assistance package administered by the Corporation which is designed to encourage unemployed persons in the establishment of small businesses.
- 3.11.10 Findings of an audit review of the Corporation's administration of NEIS were as follows:
- \* existence of a substantial number of doubtful debts relative to loan balances outstanding;
  - \* procedures in place were inadequate to safeguard Corporation interests where business assets acquired from NEIS loan funds were converted to personal assets by borrowers, or funds were not used for the intended purposes;
  - \* uncertainties in relation to the Commonwealth/State agreement and the operating guidelines;
  - \* duplication of monitoring by Commonwealth and State offices;
  - \* funding arrangements were unclear with respect to the use of interest earned on loan repayment moneys and the responsibility for bad debt write offs; and
  - \* liaison visits, designed to provide advice and business counselling, were not performed on a timely basis.
- 3.11.11 **It was recommended that revised procedures be introduced to overcome these deficiencies.**

#### *Management response*

*The Corporation has instigated corrective action on all matters raised by audit.*

### **STATE ELECTRICITY COMMISSION**

#### **Misappropriation of funds**

- 3.11.12 On 23 March 1988, audit was advised of the detection of fraudulent transactions initiated by a Commission employee resulting in a defalcation of \$27 700. The employee has been dismissed from Commission employment and Commission and police investigations are continuing.

## VICTORIAN ECONOMIC DEVELOPMENT CORPORATION

### Victorian Investment Corporation Ltd

- 3.11.13 The Auditor-General's *Second Report* to Parliament for 1985-86 included an analysis of the extent and adequacy of existing accountability and control mechanisms governing public sector investments in companies, joint ventures and trusts. Major concerns identified in the report related to deficiencies in the accountability of these bodies to Parliament. It was concluded in the report that public sector participation in these companies, joint ventures and trusts had preceded the establishment of suitable accountability mechanisms.
- 3.11.14 A diagram was included in the report which detailed the growth in complexity of the corporate structure of the Victorian Economic Development Corporation (VEDC) and its (then) subsidiary, the Victorian Investment Corporation Ltd (VIC Ltd).
- 3.11.15 Further expansion of the activities of VIC Ltd, including the investment of funds in additional subsidiary and associated companies, has occurred during 1986-87 and into 1987-88. In addition, the equity base of the company has been strengthened through the purchase of \$14 million in ordinary share capital by the State in the name of the Treasurer of Victoria and the Minister for Industry, Technology and Resources.
- 3.11.16 With respect to the 1986-87 financial year there was no statutory or other requirement for VIC Ltd to present an annual report of its operations to Parliament. Further, while VIC Ltd remains a wholly-owned government company, the diversification of equity holders has resulted in VIC Ltd no longer being controlled by the VEDC. In financial reporting terms, the operations of VIC Ltd have therefore not been reported upon as a subsidiary company in the VEDC 1986-87 annual report.
- 3.11.17 It is understood however, that the Treasurer has undertaken to arrange for the tabling of VIC Ltd's 1986-87 annual report in Parliament.
- 3.11.18 In October 1987 guidelines relating to public sector participation in companies, joint ventures and trusts were approved by State Cabinet. The guidelines which are effective from April 1988, address many of the issues raised in the Auditor-General's *Second Report* for 1985-86, and provide for public sector controlled companies, joint ventures and trusts to prepare an annual report of operations for tabling in Parliament.
- 3.11.19 **Audit will continue to monitor developments in respect of public sector investments in companies, joint ventures and trusts by organisations such as VIC Ltd and the VEDC and the suitability of accountability mechanisms governing public moneys channelled through them.**

#### **Dividend on government equity**

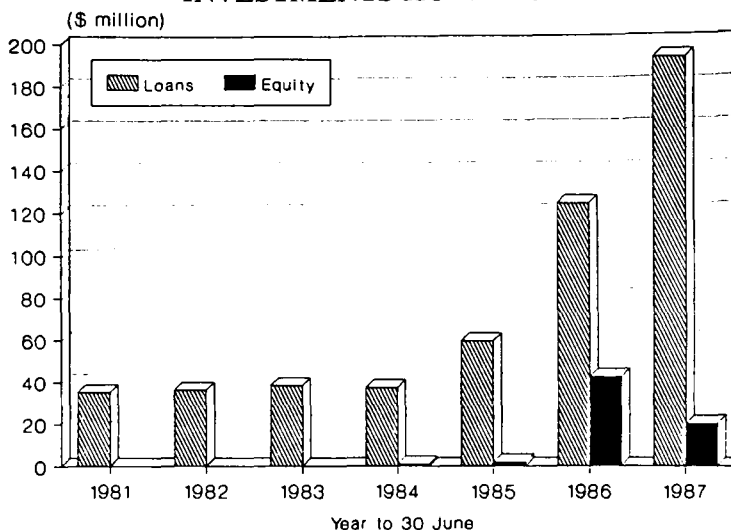
- 3.11.20 The capital structure of the VEDC has been significantly strengthened in recent years through the conversion of government loans to equity capital contributed by the Government.
- 3.11.21 Over the last 2 years, the Corporation has been required to pay a dividend to the Government amounting to \$1.2 million in 1985-86 and \$4.9 million in 1986-87. These dividend payments represented a rate of return on capital invested (in historical cost terms) of 3.7 per cent and 15 per cent, respectively.

#### **Loan and equity investments - review of management controls**

- 3.11.22 The VEDC is a development financier implementing the State's economic strategy which seeks to enhance the competitiveness of the trade exposed industries. The Corporation's lending and equity investment policy is directed towards providing development funds to business at commercial yet attractive interest rates, and with a lesser concern for security. Applications for financial assistance are judged on commercial viability as well as potential benefit to the Victorian economy.

3.11.23 Since 1981 the VEDC has provided loan advances and equity investments totalling \$441 million. Balances of loan advances outstanding and equity investment holdings over this period are illustrated in Chart 3.11A below:

**CHART 3.11A. LOAN ADVANCES OUTSTANDING AND EQUITY INVESTMENTS HOLDINGS**



3.11.24 The provision for doubtful debts on loan balances and diminution in value of equity investments increased from \$1 million in 1984 (2.3 per cent of loan and equity investments) to \$10 million in 1987 (5.2 per cent of loan and equity investments). In addition, provision for doubtful debts was made in 1986-87 of a further \$3.2 million in respect of loan guarantees of \$12.4 million provided by the Corporation.

3.11.25 An audit review of the Corporation's management control systems and guidelines for loan and equity investments was undertaken in 1986-87. Major findings of the review were as follows:

- \* certain quantitative targets relating to the Corporation's financial assistance strategy have been established and adhered to by the Corporation. However, a comprehensive process of measuring performance has yet to be developed by the Corporation that enables progressive monitoring of the extent to which assistance provided to business has been effective in meeting the aims of each project and in stimulating the State's economy in line with the State's economic strategy, e.g. in terms of creation of new jobs and exports. As a result it is not possible to assess whether financial assistance provided by the Corporation has achieved its intended purpose and had the desired aggregate impact in terms of the State's economic strategy;

- \* the absence of centrally available information on loans and other forms of assistance provided by the State's various lending agencies to individual entities has resulted in these agencies being unable to establish and monitor the total amount of assistance provided by the State to individual entities.

It is acknowledged that assistance is provided by agencies according to the eligibility criteria of various schemes. However, the inability of agencies to monitor the level of government assistance already provided to individual entities provides the potential for these entities to obtain assistance from a multiplicity of State agencies which, on a cumulative basis, they may not be entitled to receive;

- \* guidelines, including Corporation procedures for the evaluation, approval and monitoring of loan and equity investments, have remained in draft form for over 2 years and do not document comprehensive guidance as to established Corporation policy and practice;

- \* a number of deficiencies were identified in respect of the processes followed for the evaluation, approval and monitoring of loan and equity investments. These deficiencies included:
  - . approved applications for assistance were not always accompanied by adequate business plans;
  - . audited financial statements of businesses in receipt of Corporation assistance were not always obtained and reviewed;
  - . instances of incomplete credit checks prior to approval of assistance to applicants; and
  - . the absence of a register of pecuniary interests of Corporation Board members and senior staff; and
- \* inadequate returns on a number of equity investments culminating in the provision by the Corporation in 1986-87 of \$1.2 million for loss on equity investments. However, these poor returns have in a number of cases been mitigated by profits obtained on the sale of investments, including the sale in 1986-87 of the Corporation's holding in the Hong Kong Bank of Australia for a profit on disposal of \$10.4 million.

3.11.26 **Audit recommended that loan and equity investment administration procedures be enhanced and adequately documented. It was also recommended that additional performance measures and a database of significant government financial and other assistance provided to individual entities be developed in order to assist in the monitoring of the effectiveness of funds provided.**

*Management response*

*The Auditor-General's report is noted and the Corporation is working to correct weaknesses outlined in the report.*

*Corporation equity investments are made in newly formed businesses, and are for the longer term. It is not anticipated that early returns will be forthcoming due to the time needed to establish new businesses.*

*There is no requirement for the Corporation to have a register of pecuniary interests, however if required, the Corporation would establish such a register.*

**VICTORIAN TOURISM COMMISSION**

**Financial management**

3.11.27 Findings of an audit review of the Commission's financial management during 1985-86 and 1986-87 were as follows:

- \* performance targets had not been established since the inception of the Commission in 1983 despite the requirement of the legislation;
- \* lack of effective budgetary control over major areas of the Commission's operations;
- \* significant delays until March 1987 in the recording and reconciliation of the Commission's transactions and balances;
- \* inadequate debt raising and collection procedures resulting in approximately \$400 000 (30 per cent) of retail debts due to the Commission at 30 June 1987 being outstanding for periods in excess of 90 days; and
- \* control deficiencies relating to the recording and monitoring of fixed assets.

3.11.28 Consultant's reviews have been undertaken of the Commission's structure and operations, including tourism promotion and sales. Audit was advised by the Commission that the conclusions and recommendations of the reviews are currently being implemented or subject to detailed consideration by the Commission.

- 3.11.29 The Commission has accepted that there is a need for a major appraisal of its operations and since 30 June 1987 has devoted significant resources to overcome shortcomings and deficiencies in the management process.

*Management response*

*Major management and Commission restructure in the first half of 1987-88 has enabled introduction of wide ranging reforms of financial management and procedures, including computerised accounting, budget controls and timely reporting. Performance targets will be established for 1988-89. New procedures comply with relevant accounting and financial regulations and standards. System and procedural improvements are continuing.*

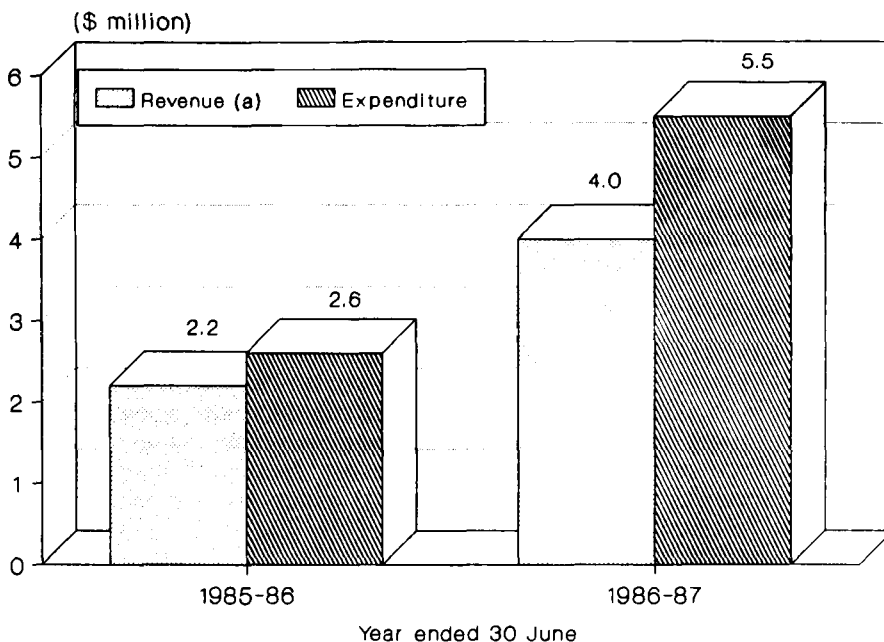
**Subsidiary and associated companies**

- 3.11.30 During 1986-87 the Commission controlled 3 subsidiary companies, none of which were subject to my audit. These were Victour Properties Pty Ltd, Wine Victoria Pty Ltd and Sessay Pty Ltd. In addition, the Commission has since acquired a significant minority equity in World Congress Centre Melbourne Pty Ltd, a company established to own and manage a convention centre currently being constructed adjacent to the World Trade Centre.
- 3.11.31 The consolidated accumulated deficit increased to \$6.1 million at 30 June 1987 (\$3.7 million at 30 June 1986) of which \$2.6 million (\$773 000 at 30 June 1986) was attributable to the operations of the Commission's subsidiary companies.
- 3.11.32 Comments on the financial operations of Victour Properties Pty Ltd and Wine Victoria Pty Ltd, in so far as they relate to the involvement of the Commission, are provided in the following paragraphs.

*Victour Properties Pty Ltd*

- 3.11.33 The company is a wholly-owned subsidiary and was established in 1984 to develop and operate tourist facilities on a commercial basis. Facilities managed by this company in 1986-87 included Mt Buffalo Chalet, Rawson Holiday Resort and Seven Creeks Run.
- 3.11.34 A significant deterioration in the operating results of the company occurred in 1986-87 resulting in a reported deficit on operations of \$1.5 million. This deficit was incurred despite the receipt by the company of Commission subsidies totalling \$584 000 and assets provided at little or no cost by other public bodies. At 30 June 1987 the company's accumulated deficit amounted to \$2.2 million. An analysis of the company's financial operations to date is provided in Chart 3.11B.

**CHART 3.11B. VICTOUR PROPERTIES PTY LTD, REVENUE AND EXPENDITURE**



(a) Revenue includes subsidies received from VTC: 1985-86, \$207 000; 1986-87, \$584 000.

3.11.35 Factors contributing to the substantial deficit in 1986-87 included:

- \* increased salary costs of \$1 million resulting from a full year's operations of tourist facilities;
- \* increased interest payments of \$308 000; and
- \* the provision for a payroll tax penalty of \$158 000 resulting from the failure of the company to pay its liability within the statutory period.

3.11.36 In addition, the decline in the company's liquidity as indicated by the ratio of current assets to current liabilities reducing from 139 per cent at 30 June 1986 to 13 per cent at 30 June 1987 and the use of borrowings to assist in the financing of the company's operations, are indicative of problems in maintaining adequate cash flow to meet its commitments.

3.11.37 As a result of these factors the company's 1986-87 financial statements were subject to audit qualification by the company's appointed auditor on the grounds that the company's ability to meet its debts as and when they fall due is dependent on the continuing financial support of the Commission.

3.11.38 In conjunction with revised government tourism strategy to reduce direct public sector participation in the operation of tourist facilities, the operations of Victour Properties Pty Ltd are being phased down and its assets progressively sold.

*Wine Victoria Pty Ltd*

3.11.39 Wine Victoria Pty Ltd was established in April 1985 to promote the Victorian wine industry which has to date involved the establishment of a wine promotional centre as part of the Flinders Street Banana Alley construction project. The Commission held 75 per cent of issued capital of the company at 30 June 1987 with the balance held by the Victorian Wine Industry Association.

- 3.11.40 Income has not as yet been generated by the company with the result that the company's initial establishment and operating costs have been substantially met through borrowings. The company reported a deficit on operation of \$246 000 in 1986-87 (\$77 000 in 1985-86).
- 3.11.41 In 1987-88 the Commission contributed additional equity capital of \$500 000 in Wine Victoria Pty Ltd while the company has also arranged an additional loan facility of \$1.2 million. This additional financing has become necessary due to costs associated with delays in the construction of the promotional centre.
- 3.11.42 **Project management procedures and the financial viability of the companies operations of Victour Properties Pty Ltd and Wine Victoria Pty Ltd require close monitoring by the Commission to ensure that public funds invested in the companies are utilised effectively.**

*Management response*

*Subsequent to July 1987, the new management of the Victorian Tourism Commission is now closely monitoring the operations of Victour Properties Pty Ltd and Wine Victoria Pty Ltd. The Commission has significantly phased down its role of asset management and operation, enabling resource redeployment into new strategic areas as outlined in Victoria's economic strategy document "Victoria, The Next Decade". The ownership and operation of tourist assets are activities best left to the private sector. Divestment of Victour Properties Pty Ltd assets is continuing, leading to the eventual wind up of the company.*

**Project management**

*Geelong Transport Museum*

- 3.11.43 A site in Geelong was purchased for \$1.8 million in September 1985 for use as a transport museum. This site is still to be utilised for its intended purpose.
- 3.11.44 Concern was expressed by audit that:
- \* based on equivalent net investment returns on \$1.8 million available over the period, delays in the utilisation of the site for the intended purpose had resulted in an opportunity cost to the State of approximately \$450 000; and
  - \* a comprehensive feasibility study and review of the viability of the project was not completed prior to purchase of the site.
- 3.11.45 Title to the site has now been transferred by the Commission to the Geelong Regional Commission for a nominal consideration of \$1. The Geelong Regional Commission is to conduct a further examination of the financial viability of establishing a transport museum on the site.

*Maldon low cost accommodation complex*

- 3.11.46 The Maldon complex has been constructed with the aim of providing low cost accommodation to facilitate the development of tourism in the area.
- 3.11.47 Construction of the complex was announced in 1984 with an estimated cost of \$750 000 and an expected completion date of July 1986. Further consultancy and feasibility studies established the cost of the project at \$1.2 million with a revised completion date of July 1987. The project was substantially completed in December 1987 at a cost of approximately \$1.5 million and is planned to open in April 1988.
- 3.11.48 Major reasons for the revised completion date and the significant cost increases from the original estimate were:
- \* inflationary effects since the 1984 cost estimate;
  - \* construction not commenced until August 1986 while awaiting revised design documents and approval for the appointment of a construction company;
  - \* detailed surveys revealing site instability resulting in increased design and construction costs;



- \* variations of the original design and proposed facilities; and
- \* difficulties in obtaining sub-contractors to complete certain areas of construction.

3.11.49 **Comprehensive feasibility studies (including more detailed consideration of the financial viability and expected completion dates of projects) and construction design plans should be completed prior to the commitment of expenditure in order that assets are effectively utilised.**

*Management response*

*The policy of undertaking comprehensive feasibility studies and construction design plans prior to expenditure commitments is accepted, and was applied to Maldon. This policy will continue.*

**Commission involvement in Chinatown Precinct**

3.11.50 Since 1984-85, the Commission has made financial contributions to the development of the Chinatown Precinct in the City of Melbourne, including the establishment of the Museum of Chinese Australian History. The management, development and promotion of the Precinct is undertaken pursuant to the provisions of the *Chinatown Historic Precinct Act 1984*.

3.11.51 The Act also provides for the establishment of a Chinatown Historic Precinct Fund. This Fund constitutes the statutory mechanism for management and control of financial transactions relating to Precinct projects by providing for control and scrutiny by the Melbourne City Council of the transactions of the fund.

3.11.52 In my *Second Report* for the year 1985-86, it was noted that contributions of \$573 000 by the Commission to Precinct projects up until 30 June 1986 were not paid into the Fund and therefore by-passed the financial control framework embodied in the legislation.

3.11.53 Audit noted that in 1986-87 a further \$1.5 million was allocated to finance these projects of which \$393 000 was not paid into the Fund. This included an amount of \$300 000 paid directly to the Museum of Chinese Australian History in June 1987 for establishment of a building fund.

3.11.54 **Audit reiterates the need for all contributions relating to Precinct projects to be paid to the Chinatown Historic Precinct Fund to ensure compliance with the financial controls embodied in the Act.**

*Management response*

*Since 1 July 1987, all contributions to Precinct projects were paid to the Chinatown Historic Precinct Fund. This policy will continue.*

**Schedule A. Status of matters raised in previous reports**

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<b>Department of Industry, Technology and Resources</b>		
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.	The <i>Gas and Fuel Corporation (Amendment) Act 1987</i> , when promulgated, will repeal the <i>Gas Act 1969</i> and thus remove the office of Gas Examiner and the surcharge of 20 cents per consumer. The functions of the Gas Examiner will then be carried out by the Gas and Fuel Corporation of Victoria.
<i>Second Report</i> , 1982-83, p.80	Until the Department's review of all past royalty payments is completed, audit is unable to confirm the accuracy of royalty payments from 1969 to date.	Department's review now completed. Audit verification of royalty collections for the 3 years ended 30 June 1986 is currently being finalised.

## Schedule A. Status of matters raised in previous reports - *continued*

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<i>Second Report, 1983-84, p.29</i>	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.	Matter resolved in the licensee's favour in a June 1987 judgment of the Full High Court of Australia.
<b>Alpine Resorts Commission</b>		
<i>Second Report, 1985-86, p.127</i>	Delays in finalising the financial statements of the former Mt Baw Baw Alpine Reserve Committee of Management for period 1 July 1981 to 12 May 1986.	Financial statements received and audit now completed.
	Delays in finalising the Commission's 1985-86 financial statements due mainly to problems encountered in incorporating the financial records of former committees of management.	Position now satisfactory following completion of 1985-86 financial statements.
	Vested land had not been disclosed in the Commission's balance sheet as an asset.	Certain vested land has now been included in the financial statements as an asset.
<b>Liquor Control Commission</b>		
<i>Second Report, 1985-86, p.128</i>	Lack of reporting requirements. The enabling legislation should be amended to bring the financial reporting requirements of the Commission into line with other public bodies.	Position unchanged. <i>Liquor Control Act 1968</i> was repealed and replaced by the <i>Liquor Control Act 1987</i> (assented to on 1 December 1987). The Act however, does not make provision for the reporting and audit of the Commission.
<b>Victorian Economic Development Corporation</b>		
<i>Third Report, 1982-83, p.90</i>	Formal criteria should be established for determining acceptable security for commercial loans advanced by the Corporation.	Criteria being considered as part of an overall review of the Corporation's loan and equity investment policies and guidelines.
<i>Second Report, 1985-86, p.129</i>	Legislation changes should be made to the <i>Victorian Economic Development Corporation Act 1981</i> to provide for the reporting to Parliament of the financial operations of the Victorian Investment Corporation Limited.	The Victorian Investment Corporation Limited is no longer a subsidiary of the Victorian Economic Development Corporation. Refer to comments in paragraphs 3.11.13 to 3.11.19 of this report.
<b>Victorian Tourism Commission</b>		
<i>Second Report, 1985-86, p.129</i>	Delays in the completion of the financial statements due mainly to the lack of personnel within the Commission with appropriate financial experience.	Matter now resolved, as 1985-86 and 1986-87 financial statements have been finalised.
	Deficiencies in monitoring of the development of the Chinatown Precinct including the lack of clear project management guidelines and budgetary systems and non-compliance with legislative requirements for funding provided by the Commission.	Issues now substantially resolved. However, further instances of non-compliance with legislative funding requirements still exist. Refer comment in paragraphs 3.11.50 to 3.11.54 of this report.

## Schedule B. Complete/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
<b>Complete audits</b>				
Department of Industry, Technology and Resources (b)	30 June 1987	31 October. <i>Annual Reporting Act 1983, s.8.</i>	9 October 1987	23 October 1987
Albury/Wodonga (Victoria) Corporation	30 June 1987	No date specified. <i>Albury Wodonga Agreement Act 1973, s.24.</i>	5 January 1988	10 February 1988
Alpine Resorts Commission	31 October 1986	31 December. <i>Alpine Resorts Act 1983, s.10.</i>	28 May 1987	18 June 1987
" "	31 October 1987	" "	22 January 1988	29 February 1988
Coal Corporation of Victoria	30 June 1987	31 August. <i>State Electricity Commission (Coal Corporation of Victoria) Act 1984, s.78.</i>	26 August 1987	31 August 1987
Emerald Tourist Railway Board	30 June 1987	31 October. <i>Emerald Tourist Railway Act 1977, s.25.</i>	6 October 1987	9 November 1987
Gas and Fuel Corporation of Victoria	30 June 1987	30 September. <i>Annual Reporting Act 1983, s.9.</i>	9 October 1987	14 October 1987 (a)
Gas and Fuel Corporation Superannuation Fund	30 June 1987	30 November. <i>Annual Reporting Act 1983, s.9.</i>	23 December 1987	4 January 1988
Geeelong Regional Commission	30 June 1987	30 September. <i>Regional Commission Act 1977, s.24.</i>	24 September 1987	30 September 1987
Latrobe Regional Commission	30 June 1987	30 September. <i>Latrobe Regional Commission Act 1983, s.50.</i>	23 September 1987	29 September 1987
Overseas Projects Corporation of Victoria Limited	30 June 1987	Companies (Victoria) Code.	21 September 1987	30 September 1987
Small Business Development Corporation	30 June 1987	No date specified. <i>Small Business Development Corporation Act 1976, s.18.</i>	24 September 1987	30 September 1987
State Electricity Commission of Victoria	30 June 1987	30 September. <i>Annual Reporting Act 1983, s.9.</i>	16 September 1987	22 September 1987
State Electricity Commission Employees' Retirement and Benefit Fund	30 June 1987	No reporting requirements. <i>State Electricity Commission Act 1958, s.81</i> provides for the audit of the books and accounts.	19 November 1987	25 November 1987
State Electricity Commission Superannuation Fund	30 June 1987	No reporting requirements. <i>State Electricity Commission Act 1958, s.81</i> provides for the audit of the books and accounts.	19 November 1987	25 November 1987
Victorian Economic Development Corporation	30 June 1987	31 December. <i>Victorian Economic Development Corporation Act 1981, s.43.</i>	16 October 1987	3 December 1987 (a)

## Schedule B. Complete/incomplete audits - *continued*

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Victorian Solar Energy Council	30 June 1987	31 October. <i>Victorian Solar Energy Council Act 1980, s.18.</i>	5 August 1987	12 August 1987
Victorian Tourism Commission	30 June 1986	31 December. <i>Victorian Tourism Commission Act 1982, s.27.</i>	27 April 1987	29 April 1987
" "	30 June 1987	" "	30 December 1987	20 January 1988 (a)
<i>Former Committee of Management</i>				
Mt Baw Baw Alpine Reserve Committee of Management	30 June 1981	No reporting requirements.	11 February 1987	16 April 1987
" "	30 June 1982	" "	"	"
" "	Period 1 July 1982 to 31 December 1982	" "	"	"
" "	31 December 1983	" "	11 February 1987	16 April 1987
" "	31 December 1984	" "	"	"
" "	Period 1 January 1985 to 14 May 1986	" "	"	"
<b>Incomplete audit</b>				
Swan Hill Pioneer Settlement Authority	30 June 1987	No date specified. <i>Swan Hill Pioneer Settlement Act 1974, s.25.</i>	Audit currently being finalised.	

(a) Qualified audit report issued.

(b) Includes the financial transactions relating to the Liquor Control Commission.

- 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

- 3.12.2 Comments on matters arising from the audit of the Department of Labour are discussed below.

**DEPARTMENT OF LABOUR**

**Are expenditure approval procedures being followed?**

- 3.12.3 Approval processes for agency expenditure are specified in the Treasury Regulations 1981, with additional procedures relating to the engagement of consultants contained in guidelines issued by the Premier. The purpose of these procedures is to ensure that the most economic and cost-effective expenditure decisions are taken on behalf of taxpayers.
- 3.12.4 In previous reports I have drawn attention to the Department's failure to comply with government guidelines and to adhere to necessary accountability processes.
- 3.12.5 A review of departmental expenditure to 31 December 1987 disclosed:
- \* payments totalling \$512 100 were made to 7 suppliers without obtaining the approval of either the Treasurer or the Tender Board;
  - \* payments totalling \$338 200 were made to 2 suppliers prior to Treasurer's approval being obtained; and
  - \* 3 consultancies with fees exceeding \$659 000, including those identified above, were arranged prior to assessment by the Effectiveness Review Committee and without public tender.

*Management response*

*Because of the high priority nature of the particular activities concerned, certain approval procedures were not followed. The Department has developed internal procedures to ensure that formal approvals are obtained in all cases in the future.*

**Is expenditure on market research and advertising adequately monitored and evaluated?**

- 3.12.6 Under the Department's Occupational Health and Safety and Youth Guarantee Programs, consultants were engaged to conduct market research and advertising campaigns. At 31 December 1987, costs of consultancies for market research and advertising campaigns exceeded \$535 000 and \$1 370 000, respectively.
- 3.12.7 The Department was unable to provide evidence to audit indicating:
- \* the basis on which monitoring and assessment of the market research consultancy had been undertaken; and
  - \* that appropriate benchmarks and objectives had been set at the commencement of the advertising campaigns or that the effectiveness of the campaigns had been evaluated.
- 3.12.8 To ensure that State funds are spent economically and effectively it is necessary to establish appropriate benchmarks and objectives at the commencement of consultancies so that objective evaluations can be performed during and at the conclusion of the consultancies.

### *Management response*

*Considerable work has been undertaken in the last 3 months to upgrade project specification and contract documentation within the Department to ensure more effective monitoring and control of consultancy assignments.*

*The evaluation of advertising campaigns, particularly those aimed at achieving change in attitudes such as "Back Attack" are difficult to evaluate in the short term. The major effectiveness measure will be the achievement of an ongoing reduction in the incidence of back injuries as indicated by accident statistics over a number of years.*

### **Grants to organisations**

3.12.9 In 1986-87 the Department provided grants totalling \$10.6 million to various organisations including trade unions and employer groups for the purposes of upgrading skills within the workforce, increasing employment opportunities, and improving occupational health and safety in the workplace.

3.12.10 Audit review found:

- \* grants, loans and expenses totalling \$5.8 million were made to various organisations from the Department's Corporate Services Program - Special Projects. The funds were provided to achieve objectives included in other departmental programs such as Occupational Health and Safety, and Training.

As a consequence the Program expenditure figures disclosed in the Department's financial statements are not all inclusive in that all costs associated with each Program are not recorded under the appropriate Program heading;

- \* funds were given to organisations in advance of immediate requirements;
- \* there was insufficient documentation to support departmental claims of field visits undertaken to monitor expenditure by recipient organisations; and
- \* at 29 February 1988 reports by qualified auditors, required under grant conditions, had not been received from recipient organisations to support the proper expenditure of grants made in 1985-86 totalling \$8 million. In addition audit reports are outstanding for many completed projects funded in 1986-87. As a consequence, there are delays in the recovery of unexpended funds by the Department.

3.12.11 As part of the review audit also examined grants provided by the Department to unions and employer groups. Grants of this nature totalled \$1.5 million in 1986-87 and \$2.2 million to date in the current year. Grants of varying amounts were provided for a number of purposes such as immigrant information services, education and training needs, women's employment and a survey of union members.

3.12.12 Comments on specific grants included:

- \* a job placement project received further grants totalling \$47 000 subsequent to field officer's reports stating that the project's objectives were not being achieved. The total assistance to this project exceeded \$88 000; and
- \* the Department's monitoring procedures failed to ensure the production of a mural costing approximately \$13 000 at the Victoria Project portrayed the required occupational health and safety themes.



Part of a mural for which grant moneys were provided to depict occupational health and safety.

- 3.12.13 **The Department should ensure that grants are provided on a needs basis and are spent in accordance with grant conditions in an economical and efficient manner.**

*Management response*

*The Department has already initiated action to improve grant agreements to more clearly specify expected departmental requirements, ensure funds are paid in accordance with project requirements and enable more effective follow-up.*

**Assistance to co-operative business enterprises**

- 3.12.14 Under the Co-operative Development Program which commenced in 1982-83, loan funds totalling \$596 000 and technical assistance were provided to co-operative business enterprises. The Program was discontinued in 1986 because of its relative lack of success and more pressing departmental priorities.
- 3.12.15 During 1986-87 approximately \$55 000 of loan funds advanced under the Program was written-off by the Department due to the liquidation of 1 co-operative business. At 31 December 1987, the recovery of a further \$183 000 was considered doubtful as 7 co-operatives were either in liquidation or had ceased trading by that date.
- 3.12.16 **Audit considered that in earlier years the Department failed to adequately monitor the trading activities and results of the co-operatives, and did not provide them with continuing financial and technical advice as required under the terms of the Program. Appropriate action by the Department is necessary to minimise the risk of further co-operative business failures and to safeguard the security of outstanding loans.**

*Management response*

*Due to resource difficulties and the low priority of the Program, resources have been devoted to larger and more critical areas.*

**Delays in collecting registration fees**

- 3.12.17 In my 1985-86 *Second Report*, comment was made on delays in the collection and follow-up of registration fees for shops, factories, boilers and pressure vessels, and the lack of adequate procedures to verify the accuracy and completeness of registration fees receivable.

- 3.12.18 The situation did not improve during 1986-87 and it was noted that:
- \* the Department continued its practice of billing in March for boiler and pressure vessel registrations that expired in the previous December;
  - \* second notices for unpaid boiler and pressure vessel registrations for the license period ended 31 December 1986 were not issued until November 1987;
  - \* at 31 December 1987, shop, factory, boiler and pressure vessel registration fees totalling in excess of \$256 000 remained unpaid. Little follow-up action had been initiated by the Department to collect the outstanding fees; and
  - \* over 25 400 pressure vessels with potential fees exceeding \$300 000 are listed by the Department as "location unknown". Little attempt had been made by the Department to establish whether registration fees are receivable on these vessels.
- 3.12.19 The Department has advised that the situation has improved in recent months with the introduction of new collection procedures and the installation of a new upgraded computer system.

*Management response*

*Steps have been taken to update the registration database and improve billing procedures. Additional resources have been devoted to this area in recent months and the billing and revenue system is being upgraded. Registrations for 1988 were billed in November 1987.*

**Is there a need for an internal review function within the Department?**

- 3.12.20 An internal review branch was established in August 1986 to provide a range of independent advice on issues related to corporate planning and management performance. In November 1986 the branch was disbanded as executive management determined that material provided by the branch was not as relevant and as detailed as that which could be provided by divisional directors.
- 3.12.21 Audit is concerned that the Department has not perceived the contribution that an independent internal review or audit function can make towards improving the efficiency and effectiveness of departmental activities.
- 3.12.22 **In view of the complexity of the Department's operations and the increasing significance the Government has attached to the establishment and role of internal audit within agencies as a means of improving public accountability and financial management, audit recommended that the Department reassess the decision to disband the internal review branch.**

*Management response*

*The establishment and resourcing of an internal review/audit unit has been referred to the departmental executive for detailed consideration.*



## Schedule A. Status of matters raised in previous reports

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<b>Department of Labour</b>		
<i>Second Report, 1985-86, p. 136</i>	Inadequate procedures to recoup expenditure from the Commonwealth.	The Commonwealth is now directly responsible for funding arrangements. An amount of \$14 000 is still to be recouped by the Department.
<i>Second Report, 1985-86, p. 137</i>	Delays in billing and inadequate follow-up of unpaid registration fees.	Refer to further comment provided in paragraphs 3.12.17 to 3.12.19 of this report.
<i>Second Report, 1985-86, p. 137</i>	Alleged irregularities within the Equipment Safety Branch.	Police inquiries are continuing.

## Schedule B. Complete/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
<b>Complete audits</b>				
Department of Labour	30 June 1987	31 October. <i>Annual Reporting Act 1983, s.8.</i>	2 October 1987	12 November 1987
Construction Industry Long Service Leave Board	30 June 1987	31 March. <i>Construction Industry Long Service Leave Act 1983, s.8.</i>	23 September 1987	18 December 1987

- 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 bodies*

City of Melbourne Superannuation Fund  
Local Authorities Superannuation Board

- 3.13.2 Comments on matters arising from the audit of 2 of the above entities are discussed below.

### LOCAL GOVERNMENT DEPARTMENT

#### Non-reporting of municipal councils' operations

- 3.13.3 Local government in Victoria is administered by 210 municipal councils whose powers and duties are set out in the *Local Government Act 1958*.
- 3.13.4 In spite of the substantial revenues generated and expenditures incurred by municipal councils (\$1 880 million and \$1 883 million, respectively, for the year ended 30 September 1986), at present there is no consolidated comprehensive financial reporting to Parliament on their activities.
- 3.13.5 **The requirement to table in Parliament an aggregate financial report on municipal councils, similar to that currently produced by the Australian Bureau of Statistics, should be addressed.**

*Management response*

*The Department concurs with the concept of an aggregate report to Parliament on the 210 councils and will arrange discussions with officers of the Department of Management and Budget on the matter. However, there are a number of practical constraints in the preparation of the document such as the need for additional resources, including EDP facilities, and the need for councils to promptly finalise their financial reports and provide them to the Department.*

#### Need for control over enterprises established by municipal councils

- 3.13.6 In recent years municipal councils have increased their participation in commercially-based activities. However, such activities can involve substantial financial risks to local communities, as occurred with the City of Sale, where a company established by the council in 1984 to oversee the development of a shopping centre became insolvent.
- 3.13.7 The *Local Government Act 1958* was amended in January 1987 to enable councils to enter into economic development projects and joint ventures, subject to the approval of the Minister for Local Government and the Treasurer, including the setting up of corporate structures (companies) for the purpose of carrying out projects. The Department has established a Municipal Enterprise and Economic Development Unit to control and monitor such ventures and to administer the provisions of the Act.
- 3.13.8 At the date of preparation of this report, 37 councils have submitted proposals involving 49 entrepreneurial projects, of which 4 have so far been approved by the Minister and the Treasurer.
- 3.13.9 While guidelines have been set down for evaluating ventures to the approval stage, procedures have not been finalised for continuous, on-going project monitoring by the Department.

- 3.13.10 My *Second Report to Parliament* for 1985-86 addressed the issue of the growing Victorian public sector involvement in companies, trusts and joint ventures and, in October 1987, the Department of Management and Budget (DMB) issued *Guidelines for Public Sector Companies, Joint Ventures and Trusts*.
- 3.13.11 Audit was advised by the Department that it considers councils to be outside the area of the public sector to which the DMB guidelines refer.
- 3.13.12 Audit considers that the principles embodied in the guidelines would be of assistance to municipal councils to enhance accountability and the Department has sought clarification on this matter.

### **LOCAL AUTHORITIES SUPERANNUATION BOARD**

#### **Review of Board operations**

- 3.13.13 A separate division of the Local Authorities Superannuation Board known as the Local Authorities Information Systems Division provides:
- \* computer services to the Board;
  - \* bureau processing and facilities management services to local government and other bodies; and
  - \* software products development and marketing aimed at local government and the private sector.
- 3.13.14 In recent years, income generated from the Division's activities was not sufficient to meet operational and development costs, and accumulated losses of the Division reached \$9.6 million in 1987.
- 3.13.15 In March 1987, the Board commissioned outside consultants to undertake a review of the Division's operations. Upon the consultants' findings being conveyed to the Minister for Local Government, State Cabinet, acting on the Minister's advice commissioned another consultant, in late 1987, to conduct a further review into the financial performance and operations of the Division as well as into the Board generally. The major observations made by the government appointed consultant are summarised below:
- \* the Board lacked organisational direction and attention to strategic planning;
  - \* the reporting method used by the Division was inadequate. Failure by the Board to acquire adequate and timely information was seen as having contributed to the loss;
  - \* project management skills were lacking within the Division and the provision of services to external organisations had, in many cases, proved uneconomical; and
  - \* there was evidence that, even after allowing for certain extenuating factors, the Board was outperformed by other investment fund managers in the marketplace.
- 3.13.16 The consultant's recommendations included:
- \* modification of the Board's management style to make it more performance-oriented;
  - \* establishment of improved management reporting systems within the Board;
  - \* the provision of a number of options relating to the financial viability of the Division; and
  - \* the use of external fund managers to manage the Board's investments.
- 3.13.17 Overall the Board has accepted the consultant's observations and is gradually implementing the recommendations.

### *Management response*

*The causes of the accumulated losses incurred by the Local Authorities Information Systems Division have been thoroughly investigated by the Board's management, assisted by independent consultants and by the consultant appointed by the Government. A new business plan has been developed for the Division which has been endorsed by the Government's consultant. The losses incurred by the Division should be seen in the historical perspective of a business which has successfully served local government for more than 20 years.*

*In relation to the investment performance, the Board did not accept the comparisons on which the consultant's comments were based. Given its restrictive investment powers, the Board considered its earning performance to be satisfactory.*

### **Control over certain expenditure**

3.13.18 Audit observed that there had been a lack of management control over certain expenditure which audit considered to be excessive. This expenditure included:

- \* payments for rental of chauffeur-driven cars to various airports, a practice that had been instituted by a former executive of the Board;
- \* payments for accommodation expenses claimed within the Melbourne area by Board staff stationed in Melbourne; and
- \* interstate visits invariably entailed luxurious hotel accommodation.

### *Management response*

*All of the expenses incurred were authorised by the various divisional directors. In relation to interstate visits, these often entail attendances at conferences. In these cases, it is appropriate and beneficial for conference delegates to stay at the conference venue. To minimise costs, the Board takes advantage of any discounts offered.*

### **Timeliness of financial reporting**

3.13.19 Over a number of years, unreasonable delays have occurred in finalising the financial statements of the Board. For 1986-87, the Board's financial statements were not finalised until approximately 11 months after its balance date of 28 February 1987.

3.13.20 In December 1987 the several funds and accounts operated by the Board were brought under the ambit of the *Annual Reporting Act* 1983. Substantial improvements will be required in the current year by the Board to meet the requirements of the Act and to submit to the Minister, within 3 months after the end of the financial year, an annual report containing a report of operations and financial statements for the financial year.

### *Management response*

*The Board will be able to complete future accounts, and its annual report, within 5 months of the end of the financial year, the period which the Board believes will be granted to superannuation schemes to finalise their financial statements. This can be achieved due to realignment of procedures and the implementation of new financial systems.*

## Schedule A. Status of matters raised in previous reports

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<b>Local Government Department</b>		
<i>Second Report, 1984-85, p.91</i>	Irregularities in payroll system.	The Department has recouped \$16 395 of the \$61 085 misappropriated by the former paymistress. Civil action is being taken to recover the balance (\$44 690).

## Schedule B. Complete/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
<b>Complete audits</b>				
Local Government Department	30 June 1987	31 October. <i>Annual Reporting Act</i> 1983, s.8.	23 October 1987	29 October 1987
Local Authorities Superannuation Board	28 February 1986	No reporting requirements. <i>Local Authorities Superannuation Act</i> 1958, s.33 provides for the audit of the accounts.	5 March 1987	18 March 1987
" "	28 February 1987	" "	20 January 1988	29 February 1988
<b>Incomplete audit</b>				
City of Melbourne Superannuation Fund	30 June 1987	30 September. <i>Annual Reporting Act</i> 1983, s.9. Treasurer granted extension of time to 29 February 1988 and a further extension of time has been requested.	Difficulties experienced by the Trustees of the Fund in finalising the financial statements.	

## 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  
Victorian Conservation Trust

- 3.14.2 Comments on matters of significance arising from the audit of certain of the above entities are discussed below.

### MINISTRY FOR PLANNING AND ENVIRONMENT

#### Kerrup-Jmara Aboriginal Elders Trust

- 3.14.3 The Kerrup-Jmara Aboriginal Elders Trust was established in December 1984 as part of the terms relating to the settlement of litigation arising from the siting of the Portland aluminium smelter.

- 3.14.4 The trustees of the Trust are the Kerrup-Jmara Aboriginal Elders Corporation and 2 government representatives. Under the terms of the trust deed, the Treasurer established a trust fund within the Public Account during 1984-85 and a government contribution of \$1.5 million was credited to the fund in that year. Moneys credited to the fund may only be applied on projects approved by the trustees or in connection with the administration of the fund.

- 3.14.5 The Ministry for Planning and Environment assumed responsibility for the administration of the trust fund from the Department of the Premier and Cabinet with effect from 1 July 1986 (although financial transactions up to October 1986 were handled by that Department). The transactions of the fund during 1986-87 are summarised in Table 3.14A below:

**TABLE 3.14A. KERRUP-JMARA ABORIGINAL ELDERS TRUST FUND, TRANSACTIONS, 1986-87**

<i>Item</i>	<i>\$'000</i>
Balance, 1 July 1986	557.6
Interest on investments	69.5
	627.1
Payments	204.8
Balance, 30 June 1987	422.3

- 3.14.6 The following issues were raised by audit with the Ministry:

(1) *Documentation to support fund disbursements*

Documentation provided by the Trust to the Ministry to support disbursements from the fund during 1986-87 took the form of unsigned copies of minutes of meetings of the Trust. The disbursements, some of which were categorised as advances to be subsequently repaid to the fund, were made to either the Kerrup-Jmara Aboriginal Elders Corporation for specific projects or to the Trust's operating account (maintained outside the Public Account) for general administrative purposes. Audit recommended that action be taken to improve the quality of documentation provided by the trustees to support fund disbursements.

(2) *Annual reporting of operations of trust*

Under the trust deed, the trustees are required to prepare and furnish to the Premier, by 30 September each year, an annual report, incorporating audited financial statements on the activities of the fund. The only annual report prepared to date by the trustees is the report covering the inaugural period of the Trust's operations, December 1984 to June 1985.

Audit recommended that the Ministry pursue with the trustees the preparation of annual reports for 1985-86 and 1986-87.

- 3.14.7 **It is important that the Ministry obtains sufficient information to satisfy itself that all disbursements from the fund are clearly consistent with the relevant powers of the trustees under the trust deed. It is also important that procedures are established for timely submission by the trustees of future annual reports of the Trust.**

*Management response*

*In the absence of any formal advice and procedures concerning the operations of the Trust, the Ministry believed that:*

- \* *the trustees under the provisions of the trust deed had responsibility for ensuring that those funds were applied on projects approved by them, or in connection with the administration of the fund; and*
- \* *that annual audited reports would be provided to ensure compliance with the above.*

*The controls exercised were therefore purely over the investments maintained with the Victorian Development Fund. However, action is currently being taken by the Ministry to ensure that more complete documentation is provided by the trustees to support future fund disbursements and more timely reporting by the trustees.*

**VICTORIAN CONSERVATION TRUST**

**Mortgage investment by Trust**

- 3.14.8 In September 1987, the Chairman of the Trust advised me, under the terms of the *Audit Act 1958*, that the Law Institute had informed the Trust of an investigation it was conducting into matters pertaining to the legal practice of one of the trustees of the Trust. In this regard, the Law Institute had obtained a Supreme Court Order which provided for the appointment of a Receiver to administer the affairs of the trustee's legal practice.
- 3.14.9 In addition to the information relating to the investigation, the Law Institute advised the Trust that a matter involving a financial transaction of the Trust had surfaced during its inquiries. This matter concerned an amount of \$100 000 paid by the Trust in September 1985 to the trustee, in his capacity as a solicitor and trustee, for investment as a mortgage loan on behalf of the Trust.
- 3.14.10 Shortly after the Trust became aware of the activities of the Law Institute, the trustee elected to stand aside pending completion of the Institute's investigations.
- 3.14.11 When the information from the Law Institute was received, the Trust moved quickly to assess the status of security over the funds which it had advanced, and to ascertain the nature of the trustee's participation in transactions relating to the mortgage investment. In summary, this action by the Trust revealed that:
- \* when the sum of \$100 000 was passed to the trustee, the property purported to represent the security for the Trust's investment was already encumbered by first and second mortgages;
  - \* at no time since September 1985 was the loan secured by a registered mortgage of the subject property;
  - \* the trustee was a director of companies which owned the subject property and that, over time, various documents were signed by the trustee dealing with the subject property in a manner totally inconsistent with the position stated to the Trust that the land was mortgaged to secure the Trust's funds;

- \* the subject property was sold in September 1987, with 29 January 1988 as the date of settlement (the Trust subsequently recovered on this date funds due to it under the loan transaction); and
  - \* all amounts payable to the Trust by way of interest on the mortgage loan were received by the Trust on or about the due dates.
- 3.14.12 The steps taken by the Trust on this matter included the provision of legal advice on the propriety of actions taken by the trustee. Very soon after this advice was received by the Trust, the trustee submitted his resignation as a Trust member.
- 3.14.13 In addition to the above mortgage investment, the Trust placed a number of bank term deposit investments through the trustee during 1986-87. Principal and interest payments were, in all cases, received by the Trust on the due dates. However, in the light of the developments in this matter, the Trust determined to review existing procedures relating to investment of funds and implementation of financial decisions generally. As an interim step pending completion of this review, all decisions concerning investment of funds are now referred to the Trust's administrative staff for implementation.
- 3.14.14 **As a matter of principle, board/council members should not become involved in the administrative functions in support of the boards that they are serving.**

#### Schedule A. Status of matters raised in previous reports

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<b>Ministry for Planning and Environment</b>		
<i>Second Report, 1985-86, p.141</i>	Structure and ambit of operations of new Internal Review Section be gradually extended to equate with internal audit standards issued by the Department of Management and Budget.	The Ministry has taken some action along the lines suggested by audit. The Ministry is considering whether the ambit of the Section's activities should specifically embrace all critical management and control systems.

#### Schedule B. Complete/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
<b>Complete audits</b>				
Ministry for Planning and Environment	30 June 1987	31 October. <i>Annual Reporting Act</i> 1983, s.8.	5 October 1987	26 October 1987
Historic Buildings Council	30 June 1987	30 September. <i>Historic Buildings Act</i> 1981, s.62.	9 October 1987	2 November 1987
Plumbers and Gasfitters Board	30 June 1986	No reporting requirements. Audit undertaken by arrangement.	30 January 1987	25 February 1987
" "	30 June 1987	" "	23 December 1987	23 February 1988
Victorian Conservation Trust	30 June 1987	30 September. <i>Victorian Conservation Trust Act</i> 1972, s.10. Minister granted extension of time.	8 December 1987	21 December 1987(a)

(a) Qualified audit report issued.



## 3.15

# POLICE AND EMERGENCY SERVICES

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- 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

- 3.15.2 Comments on matters of significance arising from the audit of the Ministry for Police and Emergency Services are discussed below:

### MINISTRY FOR POLICE AND EMERGENCY SERVICES

#### Management of Police Hospital

- 3.15.3 The current Police Hospital, constructed in November 1981 at a cost of \$1.8 million, provides for both in-patient and out-patient care to members of the Victorian Police Force. Services provided comprise medical and convalescent care while specialist services, theatre and investigative facilities are provided by Prince Henry's Hospital. The Police Hospital is fitted out and staffed for a maximum of 20 in-patients, but has space to accommodate 30 beds.



Police Hospital located at the rear of Prince Henry's Hospital in South Melbourne.

- 3.15.4 During 1986-87 an audit review of the Police Hospital was undertaken to determine whether:
- \* the objectives for its establishment and operation were being satisfactorily met; and
  - \* services were being provided in the most economical, efficient and effective manner.

3.15.5 Significant matters arising from the review concerning utilisation and financial operations of the Police Hospital are set out below:

*(1) Utilisation of the Police Hospital*

Audit noted that despite the relatively high rate of physical and stress-related problems experienced by members of the Force, the Police Hospital had been substantially under-utilised. From 1983-84 to 1986-87 the Police Hospital had an average occupancy level of only 32 per cent (6.3 beds per day) compared with the average daily occupancy level of other similar sized hospitals of 70 per cent, and public hospitals which exceeded 75 per cent.

In the event of an accident requiring hospital treatment, members are generally taken to the nearest available public hospital. In some cases members are taken to Prince Henry's Hospital for medical treatment and then transferred to the Police Hospital for convalescent care.

Audit was advised by members of the Police Association and senior management of the Force that many members did not use the Police Hospital mainly due to:

- \* the wide dispersion of members throughout the State which made it impractical; and
- \* the perception that medical information recorded at the hospital may be used in assessing members for promotion.

The low occupancy rate resulted in the resources of the Police Hospital not being efficiently utilised. Nursing staff were provided to service up to 20 in-patients per day, however, during the 4 years under review there was only an average of 27 days per year (7.3 per cent) when the number of in-patients exceeded 10. On average, the hospital employed in excess of 3 persons for every in-patient.

*(2) Financial operations*

The State meets the cost of operating the Police Hospital after offsetting recoups from private health funds, WorkCare and the Transport Accident Commission.

The Police Hospital recorded an operating loss on a cash basis of \$437 000 for 1986-87. This loss would have exceeded \$900 000 if it had been calculated on an accrual basis by accounting for all operating and non-operating costs such as superannuation, telephones and depreciation. Audit estimated that for 1986-87 the average bed cost per patient per day on a cash basis was in the order of \$330 of which the State subsidised an average of \$195 per patient per day. On an accrual basis these figures would have been approximately \$540 and \$405, respectively.

Financial management controls were deficient in the following respects:

- \* expected income and expenditure cash flows were not submitted to the Force;
- \* the Force was not aware of the total cost of operating the Police Hospital and did not prepare financial statements on its operations; and
- \* management control systems did not exist to enable an assessment of the economy, efficiency and effectiveness of operations of the Police Hospital.

3.15.6 In view of the significant under-utilisation of the Police Hospital and substantial losses incurred in its operation, further consideration needs to be given as to the future use and viability of the Police Hospital.

### *Management response*

*The Force, the Police Hospital's Committee of Management and Police Association acknowledge that the Police Hospital is not fully utilised by members and efforts have been made to publicise its services. If usage does not increase, the Force will consider reducing staff levels at the Hospital, provided the standard of care does not decline as a result, and examine the possibility of admitting personnel other than members of the Force.*

*It is hoped that the Police Hospital will become more cost-effective if patronage can be stimulated, revenue can be increased, and by economising with goods and services. To increase accountability and allow timely decision making, revised arrangements will be made for regular detailed financial reporting, and recording and projection of revenue and expenditure.*

*The proposed closure of Prince Henry's Hospital might require the Police Hospital to transfer to another major metropolitan hospital or to expend more funds to upgrade facilities and medical services at the present site. Unless patronage of the Police Hospital is markedly increased and funding aspects of the operation can be clarified, the Hospital's financial status will not improve. All of these related issues will be thoroughly examined by the Force in consultation with the Police Association, Department of Management and Budget and the Hospital's Committee of Management.*

### **Leasing of police premises**

- 3.15.7 In response to a growing need for additional accommodation for police personnel, the leasing of privately-owned premises by the Force has increased significantly over recent years. At 31 December 1987, the Force had 44 leased premises throughout the State at a total annual cost in excess of \$5 million.
- 3.15.8 During 1986-87 a review of 10 premises leased by the Force within a 3 kilometre radius of the Melbourne GPO, was undertaken by audit. The annual lease cost of these premises totalled \$3.8 million. In conducting this review, particular attention was placed on the complex at 412 St Kilda Road. Audit was advised that the consolidation of various police units in this complex was expected to result in a more efficient and effective use of police accommodation space and an anticipated consequential reduction in accommodation costs. The review disclosed a number of unsatisfactory features in the management of leased accommodation. Significant matters arising from the review were:
- \* delays in occupying certain leased premises, most notably the 412 St Kilda Road complex where audit estimated that over \$4.5 million was paid for floor space which remained unoccupied for periods of up to 28 months. No occupancy occurred during the first 18 months;
  - \* the capital fit-out costs for the premises at 412 St Kilda Road increased from an initial estimate of \$4 million in November 1984 to a final fit-out cost of almost \$9 million;
  - \* the complex at 412 St Kilda Road has floor space of approximately 16 000 square metres spread over 15 floors. Audit found that, in December 1987, approximately 20 per cent of available floor space was utilised in the provision of dining, interview, conference and examinations facilities which included 6 dining rooms, 11 mess rooms, 31 interview rooms, 28 locker rooms, 11 briefing/conference rooms and 12 project/training rooms. Excluding space for these facilities and for computer and other equipment, audit estimates that, based on the number of members occupying the complex at a given point of time, the average floor space available per member to be 25 square metres. This compares with budget sector allowances of 15 square metres per person. In audit opinion, the amount of floor space allocated to each member was excessive; and

- \* in acquiring additional accommodation, acceptance of substandard sites resulted in significant expenditure on renovations and maintenance. For example, approximately \$90 000 was spent on extensive repairs to the premises located at 24 Upper Esplanade, St Kilda (which was leased at \$93 600 per annum) in the first 2 years of occupation.

3.15.9 To ensure that the leasing of police premises is undertaken in an economic, efficient and effective manner, audit recommended that:

- \* management take action to ensure that occupancy takes place without undue delays in order to minimise leasing payments for unoccupied space;
- \* the current estimating procedures for the costs associated with the fitting-out of leased premises be reviewed;
- \* the usage of existing floor space occupied by the Force at the 412 St Kilda Road complex be evaluated;
- \* increased emphasis be placed on the selection of leased sites to ensure that the cost of future maintenance and repairs is kept to a minimum; and
- \* the Force assess whether the anticipated reduction in accommodation costs through the consolidation at 412 St Kilda Road was achieved.

#### *Management response*

*The delay in fitting-out the St Kilda Road police complex was comparable to other similar projects and was not excessive given to the complexity of the changing accommodation priorities of the task. Fitting-out was carried out by another government agency on behalf of the Force.*

*The planned staged occupancy of the St Kilda Road police complex was disrupted by several organisational changes following government initiatives, which markedly affected the original accommodation plans and required re-estimation of fit-out costs. The initial fit-out estimate of \$4 million was purely tentative and acknowledged as such by all concerned, at the time. Major items (such as \$1 million to install the new IBM mainframe) substantially increased the actual costs above the initial \$4 million, but that initial and tentative estimate was necessary to commence the project. The Force has introduced a computerised estimating program to standardise procedures for establishing costs in construction projects; in the past such estimates were provided by other government agencies on behalf of the Force. Estimates sometimes turned out to be lower than the final accepted tender.*

*The average floor area per occupant at the complex was based on the relevant formula. Any exemption has been negotiated by the Force with the Department of Property and Services for special needs, e.g. file storage. Due processes were complied with.*

*The Department of Property and Services offers premises to the Force. The Force has established a Leasing Section to ensure that buildings are suitable and will be cost-effective. In the past, the Force had been reluctantly compelled to accept, renovate and adapt some premises to satisfy urgent accommodation needs.*

*In conjunction with the government departments involved in leasing, fit-out and construction of police premises, the Force will continue to strive for economy and efficiency in obtaining accommodation for its members.*

## Schedule A. Status of matters raised in previous reports

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<b>Ministry for Police and Emergency Services</b>		
<i>First Report</i> 1980-81,p.172	Internal audit not yet established.	One position created and filled. However, audit considers that a unit of this size is unsatisfactory.
<b>Country Fire Authority</b>		
December 1982,p.12	Authenticity of statutory contributions should be verified by means of a selective examination of premium returns.	Position now satisfactory as Authority has appointed an officer to carry out this function.
<i>Fourth Report</i> 1982-83,p.24	Two practices adopted for depreciation of fixed assets are not consistent with Australian Accounting Standards.	Depreciation rate now reviewed annually. However, with the exception of motor vehicles, depreciation of assets purchased during the year requires further review.
<i>Fourth Report</i> 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 now satisfactory as the Authority has ceased this practice.

## Schedule B. Complete/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
<b>Complete audits</b>				
Ministry for Police and Emergency Services	30 June 1987	31 October. <i>Annual Reporting Act</i> 1983, s.8.	9 November 1987	11 November 1987
Country Fire Authority	30 June 1987	No date specified. <i>Country Fire Authority Act</i> 1958, s.24.	21 October 1987	10 November 1987
Metropolitan Fire Brigades Board	30 June 1987	No date specified. <i>Metropolitan Fire Brigades Act</i> 1958, s.48.	16 September 1987	28 September 1987

## 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

3.16.2 The results of the audit of the above entities proved satisfactory.

### OFFICE OF THE AUDITOR-GENERAL

3.16.3 In order to provide more meaningful information on the operations of the Office, the financial statements for 1986-87, drawn up in accordance with the requirements of the *Annual Reporting Act* 1983 were supplemented by the inclusion of statements prepared in accordance with generally accepted accounting principles.

3.16.4 The supplementary financial statements disclosed that the net cost of operating the Office in 1986-87 was \$5.3 million compared with the net *cash* outlay of \$3.7 million. The difference in reported cost under the accrual system, \$1.6 million, reflected the inclusion of expenditure such as employees' benefits, superannuation, depreciation and services provided to the Office by other agencies. The recognition of these costs is consistent with the system of accounting used by public bodies in the non-budget sector and the corporate sector.

3.16.5 Both the *cash* and *accrual* financial statements were independently audited by Peat Marwick Hungerfords, Chartered Accountants.

### Schedule A. Status of matters raised in previous reports

There were no matters outstanding.

### Schedule B. Complete/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
<b>Complete audits</b>				
Department of the Premier and Cabinet	30 June 1987	31 October. <i>Annual Reporting Act</i> 1983, s.8.	25 September 1987	16 October 1987
Office of the Auditor-General	30 June 1987	31 October. <i>Annual Reporting Act</i> 1983, s.8.	15 September 1987	18 September 1987
Office of the Public Service Board	30 June 1987	31 October. <i>Annual Reporting Act</i> 1983, s.8.	25 September 1987	16 October 1987
Victorian Relief Committee	30 June 1987	No reporting requirements. Audited at request of Treasurer.	15 July 1987	27 November 1987

- 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

- 3.17.2 Comments on matters of significance arising from the audit of certain of the above entities are discussed below.

**DEPARTMENT OF PROPERTY AND SERVICES**

**Overcharging of telephone communications**

- 3.17.3 The Department is responsible for the payment of expenses (rent, metered calls and minor works) for approximately 25 000 telephone handsets located within buildings occupied by departments. In 1986-87, payments by the Department on account of telephone expenses totalled \$3.2 million.

- 3.17.4 The Department, in December 1986, engaged a team of consultants to undertake a physical stocktake of all telephones located within government-occupied buildings in the Central Business District. The results of the stocktake were compared with Telecom records for the purpose of verifying that the charges levied by Telecom on the Department were only for government lines. An important outcome of this process was the identification and subsequent recovery by the Department of overcharges by Telecom in excess of \$250 000. The Department is currently pursuing with Telecom the recovery of a further \$60 000 which it considers also falls within the overcharges category.

- 3.17.5 In assessing the benefits derived from the Department's initiative, audit suggested there was also a need to consider the establishment of usage criteria or standards which would assist in the identification of excessive or unauthorised use of telephones.

*Management response*

*The Department advised that a facility to monitor actual telephone use against specific performance standards is expected to be available under major changes to the administration of the State's telephone communication services currently being implemented. Under these changes, communication services will be provided by Vistel, a government-owned company set up in early 1987. It is envisaged that ultimately each department will be responsible for the management and control of its telephones and for the payment of invoices rendered by Vistel.*

**Alleged irregularity**

- 3.17.6 The Department advised that an internal investigation was undertaken into an anonymous allegation that in allocating cleaning contracts, a departmental officer had, in return for financial advantages, given preferential treatment to a particular firm. The departmental officer resigned in April 1987. Following completion of the internal investigation in this area in August 1987, the matter was referred to the Police Fraud Squad. The investigating officer has since concluded that there was no evidence of a criminal offence.

3.17.7 Arising from the internal investigation were a number of recommendations aimed at improving the effectiveness of management control systems and procedures employed in the administration of cleaning contracts which have been adopted by the Department.

#### **Victorian Government Printing Office - major government review program**

3.17.8 The results of audit reviews of particular aspects of the Victorian Government Printing Office's (VGPO) operations have been commented upon in reports of the Auditor-General to Parliament since 1982-83. Matters addressed by audit have included:

- \* delays in issue of invoices for completed jobs;
- \* production charge-out rates insufficient to recoup actual costs has been the main reason for past losses; and
- \* deficiencies in inventory management practices.

3.17.9 In addition, the Department of Property and Services has undertaken several studies of the VGPO's structure and procedures.

3.17.10 During 1986, the Government determined to embark on a major review program aimed at establishing the optimum role and direction for its printing organisation. As part of this program, the Department of Property and Services engaged a firm of management consultants to carry out an extensive review of the VGPO's current position and procedures, to identify options for its future role and to develop a business plan for the approved option. The consultants were also engaged to examine the finances of the VGPO as unaudited 1986-87 financial statements submitted to the Department by the VGPO disclosed an operating loss of \$1.7 million.

3.17.11 In December 1987, on completion of the initial phase of the program, the consultants reported a range of shortcomings in organisational procedures and practices including:

- \* ineffective management decision-making and controls;
- \* significant deficiencies in pricing, costing and inventory systems;
- \* inadequate use of printing equipment; and
- \* problems in the areas of industrial relations and marketing.

3.17.12 The consultants recommended that the Government adopt a strategy for the VGPO to become a competitive printer. This recommendation was subsequently approved and a number of actions have been initiated.

3.17.13 On the financial performance of the VGPO, the Government has engaged a chartered accountant to develop an appropriate management reporting framework, with a strong focus on pricing and costing systems.

3.17.14 The full review is expected to be finalised in April 1988.

### **VICTORIAN PUBLIC OFFICES CORPORATION**

#### **Delays in fit-out and occupancy of property**

3.17.15 The Corporation entered into an agreement to purchase a 10 storey property at 565 Lonsdale Street in 1985-86 at a cost of \$22.2 million, payable in 4 instalments over 13 months and including interest of \$820 000. The property was acquired primarily for the provision of accommodation for the Attorney-General's Department and the Office of the Director of Public Prosecutions. The purchase arrangements were handled on the Corporation's behalf by the Department of Property and Services.



3.17.16 My *Special Report No. 9 on Land Utilisation*, presented to Parliament in November 1987, included a reference to the above purchase. The report commented that, although construction of the building on the acquired site (the purchase arrangements provided for construction of the building by the vendor) was completed in December 1986, the building remained empty and fit-out works, originally planned for completion in September 1987 were still to commence.



Property located at 565 Lonsdale Street.

3.17.17 A revised fit-out which provided for the 5 floors earmarked for the Office of the Director of Public Prosecutions to be completed by May 1988, and the 3 floors for the Attorney-General's Department by July 1988, did not commence until early 1988. At the date of preparation of this report, a final decision on who is to occupy the remaining 2 floors had not been reached.

3.17.18 The substantial delay in fit-out activity for the building was essentially attributable to 2 factors, namely:

- (1) a legal dispute with the vendor which led to a Supreme Court writ being served on the Corporation in March 1987. The writ was based on 4 issues, one of which involved the question as to whether the vendor had the right to manage the fit-out works. The vendor claimed that this right formed part of the project agreement. From the Corporation's perspective, i.e. in line with procedures being followed by the Department of Property and Services, arrangements had been proceeding on the basis that the former Public Works Department would be managing the fit-out program. In fact, prior to commencement of the court case, that Department had entered into contractual arrangements with other parties for the performance of tasks associated with the fit-out program. On the advice of Counsel for the Corporation, the dispute was settled out of court in August 1987. Under the terms of settlement, the Corporation was required to pay the vendor the sum of \$500 000 plus legal costs of \$74 800; and
- (2) indecision on the part of the 2 user agencies in determining their precise accommodation requirements.

3.17.19 The Office of the Director of Public Prosecutions currently occupies leased premises. Because of the delays encountered with the fit-out program, it was necessary to extend leasing arrangements for the Office beyond September 1987. Based on the Office's monthly rental charge, additional leasing costs of \$103 400 will have been incurred by May 1988, the revised fit-out completion date for the area to be occupied by the Office.

3.17.20 **Having regard to its drawn out and costly experiences with this purchase transaction, audit recommended to the Corporation that:**

- \* an evaluation of the circumstances underlying the legal dispute in relation to the project be undertaken to determine if any facets of the Department of Property and Services management strategies require revision; and
- \* the Corporation explore with the Department of Property and Services avenues under which the accountability of client agencies, for decisions on accommodation needs, can be emphasised and subjected to greater scrutiny.

*Response provided by Department of Property and Services*

*An evaluation of the circumstances underlying the legal dispute has been considered in line with, and as part of, a review of the function of the Department's Property Division. The new organisation structure, and related work practices, have the effect of bringing functions, previously handled separately by specialist groups, into a number of multi-disciplinary teams. Had this structure been in place in March 1987 the cause of the legal dispute would have been unlikely to have arisen as the officer responsible for negotiating the lease would have been working closely with the officer arranging the fit-out (if, indeed, it had not been the same person).*

*The risk of a recurrence will be further reduced when staff from the Office Fit-Out Group of the Public Works Department are transferred into the Property Division, in consequence of recent machinery of government changes.*

*Concerning the matter of substantial indecision on the part of the 2 user agencies in determining their precise accommodation requirements, situations of this nature will continue until such time as agencies become accountable for the costs of their accommodation (including, inter alia, fit-out costs). The recent Property Division review included a strong recommendation to this effect as did Special Report No. 9 by the Auditor-General, at paragraph 1.3.57. To put these recommendations into effect, the Division is presently establishing delegation packages in respect of accommodation procurement and running costs.*

## Schedule A. Status of matters raised in previous reports

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<b>Department of Property and Services</b>		
<i>Second Report</i> 1982-83, p.86	A range of environmental, organisational and operational control weaknesses exist at the Burroughs (B6800/B7700) Centre of VICOMP (formerly the Government Computing Service).	Organisational and operational control weaknesses have been overcome, however, certain environmental control weaknesses remain.
<i>Third Report</i> 1983-84, p.44 <i>Second Report</i> 1985-86, p.148	The Department does not maintain a complete listing of all properties available for rental.	Computerised system became operational in 1986-87. However, due to system shortcomings, consultants have been engaged to improve the system.
<i>Second Report</i> 1985-86, p.146	The definition employed by the Department for reporting unproductive or dead rentals did not provide Parliament with a realistic assessment of such rentals.	The Department proposes to vary its reporting practices in line with audit recommendations. Audit to review in 1987-88.
<i>Second Report</i> 1985-86, p.148	A number of properties are leased by the Department at extremely low rental charges.	Position now satisfactory. Market rentals are now being charged.
<i>Second Report</i> 1985-86, p.149	The Department's reporting of lease commitments was restricted to new agreements entered into during the financial year.	Position now satisfactory. Leasing commitments in respect of the Department's entire leasing portfolio were reported in 1986-87.
<b>Government Employee Housing Authority</b>		
December 1982, p.21	Accommodation register not yet finalised.	Position now satisfactory. The register has been finalised.
<i>Third Report</i> 1982-83, p.19	The continuing loss on rental operations warrants further review by the Authority.	Position now satisfactory as, in line with revised government policy directives, the Authority now charges market rentals.
<b>Victorian Government Printing Office</b>		
<i>Supplementary Report</i> , 1980-81, p.54	Sundry debtors of Victorian Government Printing Office - government departments. Instruction of Department of Management and Budget concerning payment of accounts within 30 days not being complied with.	Some improvement has occurred following implementation by departments of accounts payable procedures prepared by the Department of Management and Budget. The operations of the Office have been the subject of a special review by external consultants. Refer paragraphs 3.17.8 to 3.17.14 of this report.
<b>Victorian Public Offices Corporation</b>		
December 1982, p.101	The financial viability of the Corporation requires urgent review.	Position unchanged. During 1986-87 the Corporation found it necessary to obtain from the Public Account special advances totalling \$814 000 to enable it to meet loan commitments. At 30 June 1987 the Corporation's liability in respect of outstanding special advances totalled \$1.7 million. Legislation to terminate the activities of the Corporation is now expected to be brought before the Parliament during the 1988 Autumn Session.

## Schedule B. Complete/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
<b>Complete audits</b>				
Department of Property and Services	30 June 1987	31 October. <i>Annual Reporting Act 1983, s.8.</i>	8 October 1987	14 October 1987
Government Employee Housing Authority	30 June 1987	31 December. <i>Government Employee Housing Authority Act 1981, s.23.</i>	10 December 1987	18 December 1987
State Electoral Office	(a)	Returning officers are required to submit financial returns within 6 months of an election. <i>Constitution Act Amendment Act 1958, s.161.</i>	Audit examination of financial returns relating to the March 1985 State election and various by-elections was completed during 1986-87.	
Surveyors Board	30 June 1987	No reporting requirements. Audit conducted under the authority of the <i>Surveyors Act 1978, s.28.</i>	2 September 1987	10 February 1988
Victorian Public Offices Corporation	30 June 1986	31 October. <i>Victorian Public Offices Corporation Act 1974, s.17.</i>	13 April 1987	24 April 1987
<b>Incomplete audit</b>				
Victorian Public Offices Corporation	30 June 1987	31 October. <i>Victorian Public Offices Corporation Act 1974, s.17.</i>	Field audit work completed during October 1987. Signed financial statements not yet received.	

(a) Not applicable.

## 3.18

## PUBLIC WORKS\*\*

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

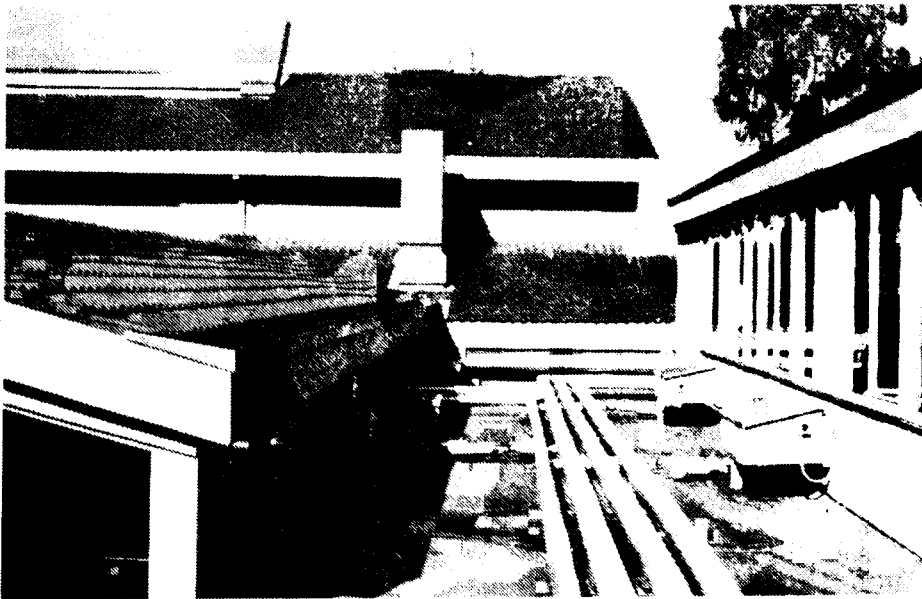
3.18.2 Comments on matters of significance arising from the audit of the former Department are discussed below.

### **Delays in rectifying damage caused by design faults**

3.18.3 A review of major contracts revealed that in 1987-88, an amount of \$243 000 was finally allocated by the Ministry of Education to enable extensive modifications to be made to the roof of the Glen Waverley special school for physically disabled students. The school, which was completed in February 1979, has experienced roofing problems which have caused leaking since that date. The Public Works Department has been aware of the problem since 1979, but superficial repairs, carried out by the contractor and other private tradesmen, have failed to rectify the fault. In addition, of the many accidents involving staff and disabled children slipping on wet floors, 9 accidents have been serious enough to be officially reported to the Ministry of Education.

3.18.4 A number of consultants' reports requested by the Department at a cost of approximately \$44 500 have noted that the problem is due to:

- \* the design of the roof drainage system which allows water to be deposited on a portion of the flat roof;
- \* the waterproof covering on the flat roof surface being incorrectly applied; and
- \* the acceptance by the Department of the waterproof covering which was inappropriate for application in this area, and was contrary to the original specifications.



A section of the Glen Waverley special school roof which experiences significant drainage problems.

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\*\* As a result of machinery of government changes, the Public Works Department was abolished in 1987-88 and its functions were merged to form the Ministry of Housing and Construction.

3.18.5 Audit also noted that:

- \* while the design of the roof was unconventional no tests were carried out by the Department to determine the adequacy of the roof's drainage systems prior to the construction of the school;
- \* the cost of rectifying the problem should have been met by the contractor, however a 25 year warranty over the application of the roofing material became null and void due to:
  - . urgent repairs being carried out on the roof by the school;
  - . damage caused by frequent maintenance traffic on the roof to repair the school's air conditioning unit; and
  - . damage caused by children playing on the roof over weekends;
- \* delays in rectifying the problem were mainly attributable to the time taken to define and find an appropriate solution for the problem and determine whether the Department or the contractor was responsible to effect the repairs; and
- \* the Department did not request funding for these repairs from the Ministry of Education until October 1985.

3.18.6 **The fact that this matter has remained unresolved for 9 years can only cast doubt on the efficiency and effectiveness of the management of this project by the departments involved, particularly when the safety of staff and disabled children has been at risk.**

• *Management response*

*The Public Works Department was unable to enforce the warranty over the roof as the school arranged for repairs by unauthorised contractors. This was done without the approval of the Public Works Department.*

*The matter has remained unresolved for 9 years as:*

- \* *the Public Works Department was not funded to finance rectification works other than for minor urgent works; and*
- \* *the Ministry of Education was not prepared to fund rectification works until 1987-88.*

• *Response provided by Ministry of Education*

*The management of the former Eastern Region of the Schools Division first became aware of the problem in May 1985 when a reference appeared in Hansard.*

*Following discussions at that time with the Public Works Department, the latter Department made a request for funds amounting to \$70 000 for a replacement membrane.*

*While the funding request was included in the Region's Works and Services Program, more information about the proposed capital outlays was considered to be necessary and, accordingly, further discussions were entered into with the Public Works Department.*

*The Public Works Department recommended a suitable solution early in 1987-88 and a firm funding commitment followed.*

*Any earlier works associated with water damage etc. would have been arranged directly between the school and the Public Works Department in accordance with standard operational policies at that time.*

**Heatherton Hospital redevelopment project**

- 3.18.7 In 1984, the Public Works Department (PWD) undertook, as project manager, a major project to convert the Heatherton Hospital from a tuberculosis sanatorium to a psychiatric hospital to meet the urgent need for psychiatric accommodation.

3.18.8 The redevelopment works, which commenced in September 1984, reached practical completion in October 1986 with occupation occurring in April 1987, 2 years after the completion date specified by the Health Department Victoria (HDV). The project was estimated at \$5.4 million however, the final cost exceeded \$8 million.

3.18.9 Audit review of the project revealed that:

- \* the initial HDV brief for the project accepted by PWD did not identify requirements which would ensure overall cost control and the development of accurate plans and designs;
- \* internal review procedures to ensure that all aspects of the project were adequately planned and controlled were not complied with;
- \* weaknesses in the design and development of the project were not identified;
- \* considerable time and cost was required to rebuild structurally unsound works which were not identified prior to the commencement of the project;
- \* unsatisfactory progress by the contractor delayed the project; and
- \* contractor performance reports have yet to be completed in accordance with PWD requirements.

3.18.10 There were significant control weaknesses in project management resulting in delays to the project and substantial cost overruns and these have been conveyed to the Department.

*Management response*

*The urgency of the project required fast tracking which precluded detailed investigations of the structure prior to commencement.*

*Additional costs were incurred due to a number of factors including:*

- \* *structural deficiencies which could not have been anticipated without partial destruction of the building;*
- \* *client-initiated variations; and*
- \* *delay costs due to industrial disputes associated with the deregistration of the Builders' Labourers Federation which entitled the contractor to costs under the Government's Code of Conduct, together with costs for the extension of the project due to the contingent structural deficiencies, together with the client-initiated variations.*

**Schedule A. Status of matters raised in previous reports**

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<i>Second Report, 1985-86, p. 153</i>	<i>Irregularities - Works orders.</i>	<i>Position now satisfactory. Additional internal controls implemented by the Department.</i>

**Schedule B. Complete/incomplete audit**

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
<b>Complete audit</b>				
Public Works Department	30 June 1987	31 October. <i>Annual Reporting Act 1983, s.8.</i>	13 October 1987	23 October 1987

- 3.19.1 The Minister for Sport and Recreation is responsible for the 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

- 3.19.2 Comments on matters of significance arising from the audit of the Department of Sport and Recreation are discussed below.

**DEPARTMENT OF SPORT AND RECREATION**

**Timeliness of remittances by racing clubs**

- 3.19.3 The Department is responsible for monitoring and administering the collection of revenue due to the State from on-course and off-course totalizator betting.

(1) *Commissions*

Racing clubs are required to remit commissions collected from on-course and off-course totalizators to the Treasurer of Victoria within 14 days of the race meeting.

A number of instances were noted where racing clubs were in arrears. In particular, 2 clubs were consistently in arrears by an average of 42 and 129 days, respectively, for race meetings held in 1986-87.

Audit estimates that interest earnings in excess of \$240 000 were lost to the State during 1986-87 due to the late payment of commission, with a further loss of approximately \$55 000 for the period 1 August 1987 to 31 December 1987.

(2) *Fractions*

Racing clubs are required to pay to the Treasurer of Victoria by 31 January and 31 July in each year, the balance of unpaid dividends (fractions) resulting from the rounding of dividends. Amounts totalling \$2.2 million (due from 49 clubs by 31 January 1987) and \$2.3 million (due from 23 clubs by 31 July 1987) were not received by the required date.

Audit estimates interest earnings of approximately \$60 000 was lost to the State due to the late payment of fractions.

- 3.19.4 Amendments to the *Racing Act* 1958, effective from May 1987, increased penalties for late payment of commission and fractions. Letters to racing clubs advising of the increased penalties have had some effect, however the penalty clauses for late payment of commissions and fractions have still not been used.

*Management response*

*Timely remittance by race clubs of totalizator commissions and fractions was accorded high priority in 1986-87 and initiatives taken by the Department have now resulted in significant improvements. The Department intends to further develop the computerisation of the totalizator records system.*



*The Department regards the imposition of penalties on honorary personnel to be a means of last resort or where it is clear that late payments are deliberate. Such is rarely the case.*

*The 2 clubs referred to by audit as consistently being in arrears have since regularised their payments. The Department will continue to closely monitor payments from these clubs in future.*

#### Schedule A. Status of matters raised in previous reports

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<b>Totalizator Agency Board</b>		
<i>Second Report, 1984-85, p.109</i>	Need for a major disaster recovery plan at the Board's computer centre.	A disaster recovery plan is in the final stages of completion. The plan provides for purchase and installation of off-site back-up.

#### Schedule B. Complete/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
<b>Complete audits</b>				
Department of Sport and Recreation	30 June 1987	31 October. <i>Annual Reporting Act 1983, s.8.</i>	5 October 1987	14 October 1987
Greyhound Racing Control Board	31 July 1987	31 October. <i>Racing Act 1958, s.81.</i>	9 November 1987	11 November 1987
Harness Racing Board	31 July 1987	31 October. <i>Racing Act 1958, s.47.</i>	8 October 1987	11 November 1987
National Tennis Centre Trust	30 June 1987	31 August. <i>National Tennis Centre Act 1985, s.20.</i>	12 August 1987	26 August 1987
Totalizator Agency Board	31 July 1987	No date specified. <i>Racing Act 1958, s.116Y.</i>	1 October 1987	14 October 1987

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 Geelong Authority Superannuation Fund

Port of Melbourne Authority

Port of Portland Authority

Road Construction Authority

Road Traffic Authority

State Transport Authority

Transport Accident Commission

3.20.2 Matters of significance arising from the audit of certain of the above entities are summarised below:

- \* **Ministry of Transport** (*paragraph 3.20.3*)
  - . Operating expenses incorrectly charged
- \* **Grain Elevators Board - Stolen equipment** (*paragraph 3.20.9*)
- \* **Metropolitan Transit Authority** (*paragraph 3.20.10*)
  - . Cost recovery rate
  - . Hong Kong joint venture legal settlement
  - . Financial impact of Box Hill Station lease arrangement
  - . "Open ended" incentive fee for Victoria Central Project
- \* **Port of Geelong Authority** (*paragraph 3.20.27*)
- \* **Port of Geelong Authority Superannuation Fund** (*paragraph 3.20.31*)
- \* **Port of Melbourne Authority** (*paragraph 3.20.34*)
  - . Financial viability of World Trade Centre
  - . Increased port operating costs
  - . Rate of return on assets
- \* **Road Construction Authority** (*paragraph 3.20.44*)
  - . Need for post-project review procedures
  - . Debt centralisation
  - . Irregularity in property management practices
  - . Loss of personal computers
- \* **Road Traffic Authority** (*paragraph 3.20.53*)
  - . Amounts owed to local councils for school crossing supervisors
- \* **State Transport Authority** (*paragraph 3.20.56*)
  - . Cost recovery rates
  - . Payment of redundancy and WorkCare benefits
  - . Disposal of surplus assets
  - . Minimal post-construction reviews undertaken
  - . Stolen train radios
- \* **Transport Accident Commission - insufficient filing of claim documentation** (*paragraph 3.20.69*)
- \* **Qualified audit reports** (*paragraph 3.20.72*)

## MINISTRY OF TRANSPORT

### Ministry of Transport - special projects

- 3.20.3 The *Appropriation (1986-87, No. 1) Act* 1986 provided for the Ministry to spend up to \$12.9 million on special projects which are defined by the Ministry as projects approved by the Minister for Transport to improve, develop and better co-ordinate railway, tramway and road transport in Victoria.
- 3.20.4 In 1986-87, the Ministry continued to charge operating costs (accommodation expenses totalling \$596 000) to this appropriation item.
- 3.20.5 In audit opinion the above expenditure on operating expenses does not fall within the definition of special projects and as a consequence the Ministry's financial statements for 1986-87 do not adequately disclose the operating expenses of the Ministry.
- 3.20.6 **The Ministry should ensure that only expenditure which falls within the definition of special projects be charged to this appropriation item.**

#### *Management response*

*In future only expenditure directly relating to special projects will be funded through the Special Projects appropriation.*

### Transfer of ports and harbours operations to port authorities

- 3.20.7 The Ministry of Transport entered into arrangements with the port authorities (being the Port of Geelong Authority, the Port of Melbourne Authority and the Port of Portland Authority) for them to undertake the functions performed by the Ports and Harbours Division of the Ministry from 1 October 1986. As part of these arrangements, all assets and liabilities of the Ports and Harbours Division were to be transferred to these port authorities.
- 3.20.8 **At the date of preparation of this report, land and land-based assets were yet to be transferred from the Ministry.**

#### *Management response*

*The transfer of land and land-based assets to the port authorities is currently under review and is expected to be resolved in the current year.*

## GRAIN ELEVATORS BOARD

### Stolen equipment

- 3.20.9 The Board has indicated that an item of equipment, valued at \$25 000, was stolen from its Elmore bunker site. This matter has been reported to the Victoria Police.

## METROPOLITAN TRANSIT AUTHORITY

### Has the recovery of operating costs improved in 1986-87?

- 3.20.10 The Metropolitan Transit Authority (MTA) net loss for the year was \$48 million compared with \$139.8 million in 1985-86, a reduction of \$91.8 million (66 per cent).
- 3.20.11 The significant factor which influenced this reduction in the loss was the centralisation of the MTA's debt finance (see section 2.2 of this report). As a consequence of debt centralisation, the MTA was not required to meet financing charges (except for finance leases) for the second half of 1986-87 and did not have to borrow to meet operating costs as was the case in 1985-86.
- 3.20.12 An analysis of the reported operating results of the MTA revealed that the cost recovery rate excluding finance charges and government subsidies improved marginally from 36 per cent in 1985-86 to 37 per cent in 1986-87 when expressed in constant 1986-87 prices.
- 3.20.13 **Excluding the impact of debt centralisation, the MTA's cost recovery rate has remained relatively constant over the past 4 years.**

### *Management response*

*It is more appropriate to compare the net loss before finance charges, government subsidies and any abnormal items.*

*The level of subsidisation provided for operations has decreased in real terms.*

*The Authority adopts a cost recovery rate based on all cash costs excluding pensions and finance charges. The Authority's performance should be considered in conjunction with other financial and non-financial performance indicators, e.g. seat kilometres which increased by 39 per cent over the 4 year period.*

**Audit considers that to obtain an accurate indication of the performance of the MTA, full recognition of all costs should be made.**

### **Hong Kong joint venture**

- 3.20.14 The MTA is a participant in a joint venture (Consortium) to design, construct and maintain a light rail transit system in the North Western New Territories of Hong Kong.
- 3.20.15 In October 1986 the Consortium was required to enter into an agreement to carry out additional works in connection with the development of the Yuen Long modal interchange. Prior to work commencing, disputes arose as to the responsibility of the Consortium to proceed with the work prescribed by the agreement.
- 3.20.16 On 28 September 1987 a settlement was reached whereby the Consortium would pay damages of \$4.4 million (HK\$25 million) over 2 years commencing on 21 October 1987. The MTA has taken up its share of the agreed settlement, \$2.2 million, as a liability in its financial statements for the year ended 30 June 1987.
- 3.20.17 **Based on current projections, the impact of the settlement will be substantial as it approximates 37 per cent of the MTA's forecast profit (\$6 million) from the venture. However, the joint venture still remains a profitable activity for the Authority.**

### *Management response*

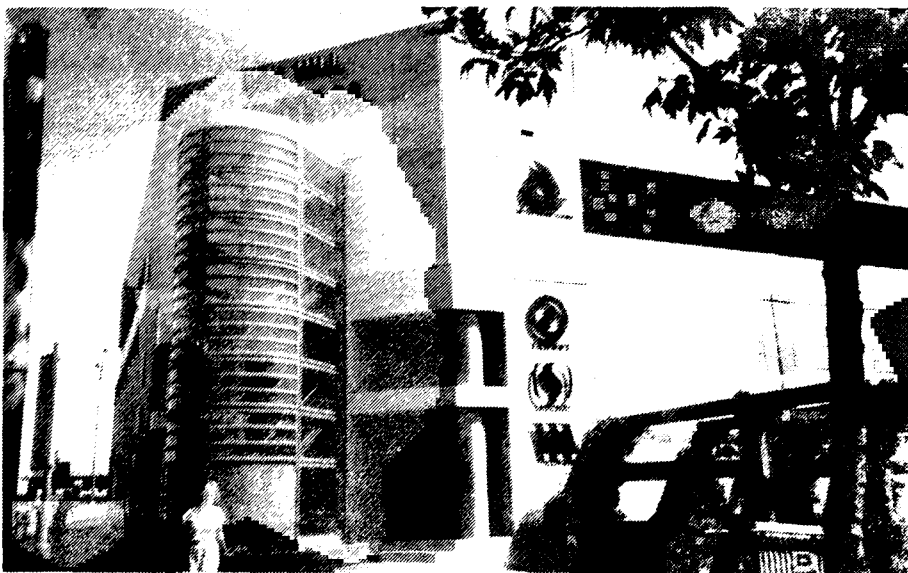
*Inclusion of the Yuen Long settlement in the forecast profit indicates the worst possible position as some part of this cost may be recovered.*

*In the current circumstances the MTA anticipates that the project will record a profit when completed.*

### **Box Hill Station Redevelopment Project**

- 3.20.18 The Box Hill Transport Centre development included a bus modal interchange, car parking facilities and a shopping complex. These facilities were additional to the reconstruction of a modernised Box Hill Station and were undertaken with the aim of recouping the cost of the station redevelopment and providing social benefits to the local community.
- 3.20.19 As a result of an arrangement made in November 1983 the cost of this additional development was met by the appointed developer in return for which a long-term lease over the development land was granted. Following changes in administrative responsibilities, the MTA became responsible for the project and signed the lease with the developer (lessee) in October 1985.
- 3.20.20 The lease contained the following provisions:
- \* an initial term of 30 years;
  - \* 12 renewal options of 10 years each;
  - \* no rental payable in the first 8 years, then a minimum guaranteed rental (fixed for 32 years) or a percentage of the developer's net income from the Centre, whichever is greater;
  - \* no rental review for the first 40 years (i.e. original lease term plus one option period); and

- \* MTA to contribute to certain lessee operating costs and pay a 15 per cent surcharge to cover reimbursement of the lessee's administrative costs.



Box Hill Transport Centre, March 1988.

3.20.21 In carrying out a review of the lease arrangement audit noted that:

- \* within the MTA there was a lack of on-going knowledge concerning the project as responsibility for design, construction and preliminary leasing arrangements had been handled by several other authorities (being the former Victorian Railways Board, the former Railway Construction and Property Board, and the State Transport Authority [STA]);
- \* the MTA was required to enter into this lease arrangement as the terms of the lease had been agreed by the STA prior to the transfer of the project to the MTA;
- \* there appeared to be no projections as to the viability of the 1983 leasing arrangement or its ability to achieve its objectives; and
- \* there was no evidence to indicate whether MTA management was monitoring the on-going financial commitment imposed by the lease arrangement.

3.20.22 An analysis of the current status of the lease indicated:

- \* the present minimum guaranteed rental income from the development site is \$8 million (\$250 000 per annum for 32 years) whereas the development site is valued between \$19 million and \$22 million and should achieve a 9 per cent return per annum (based on recent market estimates). Thus revenue foregone is estimated to be at least \$13.7 million over the first 8 years of the lease and \$1.5 million per annum for each of the subsequent 32 years (assuming minimum guaranteed rentals) because of the use of non-market rentals and the extended lease period prior to a rental revision. These calculations would show a worse result if audit took into account any appreciation in property values over the period;
- \* the MTA's contribution towards nominated lessee operating costs, including the surcharge, totalled \$455 000 in 1986-87. Over the first 40 years of the lease these costs would total \$70.4 million (assuming a 6 per cent inflationary increase per annum). With a minimum guaranteed rental to the MTA of \$8 million over the corresponding period there would be a shortfall of \$62.4 million; and

- \* for the MTA to recover its contribution to operating costs and for the State to be able to commence to recoup the cost of station redevelopment it would be necessary for the developer to achieve a minimum net income from the Centre of \$782.4 million over the 32 years (an average of \$24.5 million per annum). On present indications, the rental revenue required to cover the MTA's contribution to lessee operating costs is substantial and is dependent on the sustained profitability of the Centre.

3.20.23 **Audit concluded that the lease does not favour the MTA as the terms and conditions are not viable to the Authority and are unlikely to achieve the original objectives of the arrangement. The lease arrangement is also likely to be a significant drain on the MTA's resources over many years. Audit recommended that future arrangements of this nature be carefully analysed to ensure that there will be a positive return to the engaging authority and the State.**

*Management response*

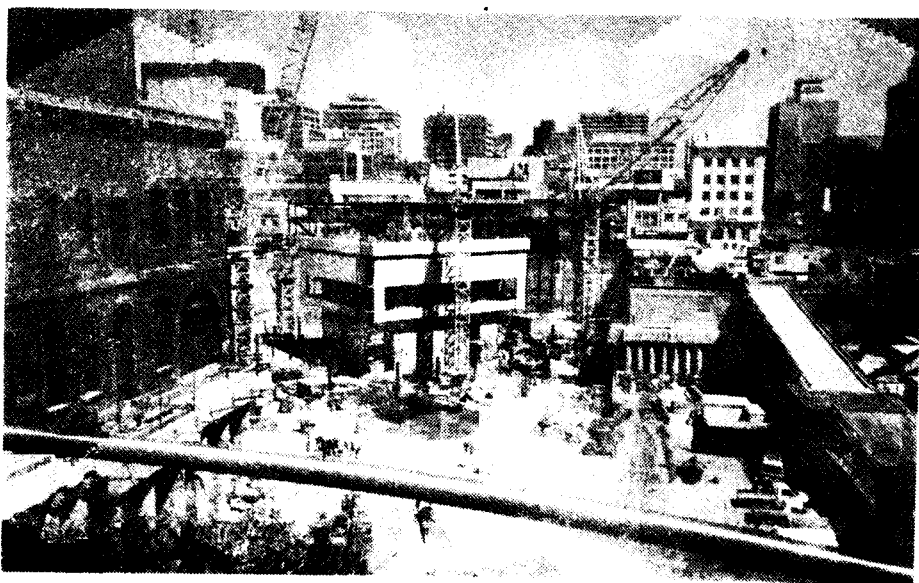
*The land valuation used by audit to determine revenue foregone does not reflect property values at the time of the lease negotiations. Also, no allowance is made for the obligations placed on the developer to provide extra facilities such as the bus interchange and for the considerable risk associated with this novel and complex development which was designed to marry both social and commercial objectives. When these factors are considered, it is doubtful that any revenue is foregone. In addition, the analysis does not acknowledge the prospect that a greater than minimum rental can be achieved.*

*The outgoings met by the Authority, which relate to transit areas only, must be set off against the enormous benefit accruing from the total development including the provision of the modal interchange and the promotion of further development in this business centre.*

*Finally, any analysis should include figures in net present value terms. An analysis undertaken in light of the above factors and in net present value terms would show the likely cost to the Authority of \$3 million over the 40 years compared with the figure determined by audit.*

**Victoria Central Project - payment of incentive fee**

3.20.24 As part of the construction of the Museum Station it was determined that the "above ground" area of the site should be developed. A property consultant was engaged to promote the development site on the undertaking that an incentive fee would be paid for services rendered.



Victoria Central Project, March 1988.

3.20.25 At the date of the engagement of the property consultant the project's expected development cost was \$250 million and the incentive fee was anticipated to be 4 per cent of development cost (i.e. \$900 000). When the property consultant's services were completed a dispute arose as to the incentive fee to be paid. This matter was settled with a payment of \$2 million to the property consultant, being \$1.6 million incentive fee, \$500 000 escalation costs less \$100 000 consultancy costs previously paid.

3.20.26 As a result of a review of the payment of the incentive fee, audit recommended that where promotional consultants are engaged:

- \* legal advice should be obtained prior to entering into any arrangement to ensure the interests of the engaging authority are protected and legislative requirements are not compromised;
- \* the basis of any incentive fee should not be of an "open ended" nature which could expose the engaging authority to excessive or unpredictable costs; and
- \* decision making should be based on sound, timely advice designed to maximise the benefit (or minimise the cost) of such activities to the engaging authority.

*Management response*

*Victoria Central is a unique development which justified the payment of fees beyond the scope of commissions envisaged under relevant legislation. The consultant's role included the preparation of a comprehensive marketing strategy on an international scale in a market that was significantly depressed. The strategy has resulted in a project which is the largest commercial capital project in Melbourne.*

## PORT OF GEELONG AUTHORITY

### Bay City Marina Geelong Pty Ltd

3.20.27 Bay City Marina Geelong Pty Ltd is an exempt proprietary company established, and jointly owned, by the Port of Geelong Authority (PGA) and the Royal Geelong Yacht Club with assets totalling \$1.8 million at 30 June 1987. The company was formed to construct a boating marina in Corio Bay on land, and over the sea bed, leased from the PGA. The company will lease the constructed berths to the yacht club and the PGA.

3.20.28 As an exempt proprietary company there is no statutory obligation for annual financial statements to be prepared and an auditor to be appointed. The PGA has not ensured full public accountability of the company, or the PGA's benefits from the company, by providing audited financial statements of the company to the Minister for Transport or by publishing the audited financial statements of the company in the PGA's annual report.

3.20.29 Audit recommended that the PGA ensure full public accountability of its involvement in the company, Bay City Marina Geelong Pty Ltd, by adopting reporting and auditing practices which are consistent with the guidelines for companies, joint ventures and trusts issued by the Department of Management and Budget.

*Management response*

*As an exempt proprietary company there is no legal requirement to have the company's operations audited and due to the limited nature of the company's activities it was not considered necessary to conduct an audit. Nevertheless, this matter will be given further consideration.*

### Domestic travel practices

3.20.30 Audit noted several instances where business class air travel instead of economy class travel was used by PGA officers. This class of travel does not comply with the domestic travel guidelines issued by the Premier.

*Management response*

*Audit's observation is noted. Variation from the guidelines occurred where travel was purchased as part of a package; where travel was undertaken in the employee's own time; or where managers travelled in the company of existing and prospective clients and it was considered appropriate that the class of travel be equivalent to that accepted as normal by the client.*

**PORT OF GEELONG AUTHORITY SUPERANNUATION FUND**

- 3.20.31 The Port of Geelong Authority operates a separate Superannuation Fund established under the provisions of the Port of Geelong Authority (Superannuation) Regulations 1972.
- 3.20.32 The regulations do not contain any statutory requirement for the Fund to present audited financial statements and a management report to contributors, the Minister and to Parliament.
- 3.20.33 In order to ensure that the Fund's reporting accords with modern practices, including full public accountability, it was recommended that the regulations be amended to incorporate appropriate reporting provisions.

*Management response*

*Audit's recommendation is acknowledged. However it should be noted that audited financial statements of the Fund are included in the Authority's annual report tabled in Parliament.*

**PORT OF MELBOURNE AUTHORITY**

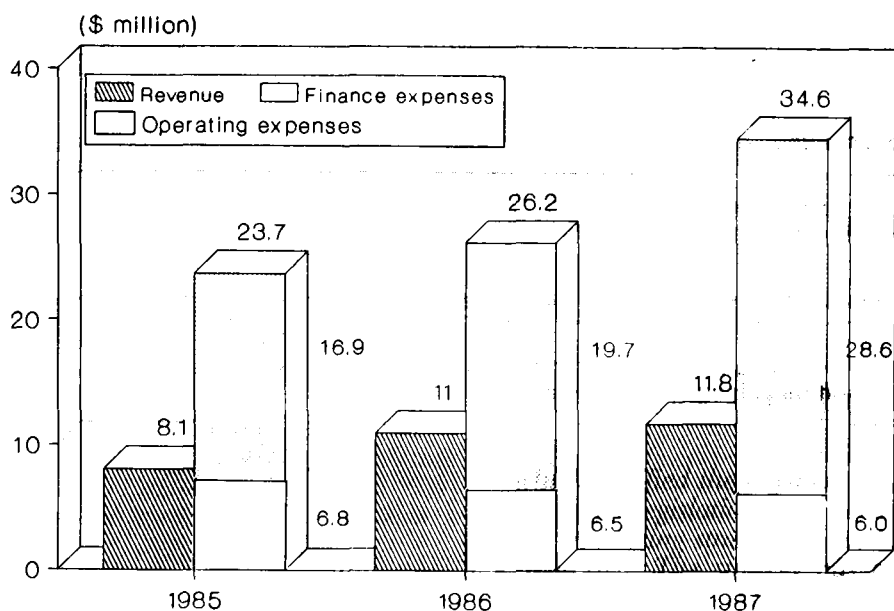
**What has been the impact of using offshore loans to construct the World Trade Centre?**

- 3.20.34 An audit review of the World Trade Centre (WTC) indicated that, in audit opinion, the use of offshore loans to construct the WTC has resulted in the Centre not being a profitable venture for the Port of Melbourne Authority (PMA).
- 3.20.35 The analysis revealed that the net loss incurred by the PMA from operating the Centre increased substantially from \$14.2 million in 1985-86 to \$22.8 million in 1986-87 (60 per cent). As the WTC is fully occupied by tenants it is unlikely that any future improvement in revenue would be substantial. Expenses can only be effectively reduced if offshore loans are reduced by repayment or refinancing. Audit has calculated that an increase in rental revenue of 190 per cent (based on 1986-87 financial information) is required if the WTC is to cover its total operating costs and a higher rise is required if the Centre is to achieve a reasonable rate of return. Such a rental increase is unlikely in the present economic climate.
- 3.20.36 Given that no substantial increase in rental revenue can be expected, the operation of the Centre is likely to sustain further losses due to the significant finance charges associated with offshore loans. This illustrates the substantial risk associated with financing an asset such as the WTC in a currency other than that in which its revenue is denominated.



### CHART 3.20A. WTC REVENUE COMPARED WITH TOTAL EXPENSES

(In constant 1986-87 prices.)



- 3.20.37 A decision has been taken to sell the WTC for several reasons including the substantial financing costs associated with its construction. The PMA has indicated that the WTC will only be sold if appropriate financial returns are obtained. Since May 1987 all offshore loans have been fully protected by foreign currency hedging arrangements.

#### Management response

The Authority had already undertaken an exhaustive study into the operations of the World Trade Centre prior to audit's review. The decision to act on the findings of the Authority's study was independent of the recommendations made by audit.

#### Are port operating expenses responsive to port activity?

- 3.20.38 An audit review of port activity (including the movement of empty containers) and port operating expenses indicated that there had been a slight reduction in activity over a 3 year period which had been accompanied by an increase in port operating expenses.

TABLE 3.20B. ANALYSIS OF PORT OPERATING EXPENSES

Item	Unit	1986-87	1985-86	1984-85
Revenue tonnes	('000 tonnes)	19 823	19 898	20 225
Percentage decrease	(per cent)	0.4	1.6	(a)
Total port operating expenses	(\$'000)	82 771	75 866	70 515
Expenses per revenue tonne	(\$)	4.17	3.81	3.48
Expenses per revenue tonne (in 1986-87 constant prices)	(\$)	4.17	4.08	3.97
Annual increase in expenses per revenue tonne (in 1986-87 constant prices)	(per cent)	2.2	2.8	(a)

(a) Not applicable.

- 3.20.39 The results of the review indicated that there may be some inflexibility or non-responsiveness of port operating expenses to changes in port activity and/or an inability by the PMA to achieve savings by providing services in a more cost-effective manner. It may also indicate that the continuing mechanisation and automation of the port is impacting the PMA's costs which can only be recouped through increased trade or prices.
- 3.20.40 Given the Government's twin objectives of providing a highly efficient and effective port service as an essential aid to trade and limiting the increase in fees and charges to the increase in the Consumer Price Index (i.e. no real increase in fees), any increase in the PMA's cost of providing services will not be compensated for by higher charges and thus will result in higher costs per revenue tonne.

*Management response*

*The extensive review of the Authority's corporate strategy and the move towards implementing the findings of the review was a result of the Authority's own initiative and was independent of audit's recommendations.*

**Rate of return on assets**

- 3.20.41 Since 1985-86 the PMA has prepared Rate of Return Reporting (RRR) financial statements based on guidelines issued by the Department of Management and Budget, i.e. *Accounting Policy Statement No. 1 - Rate of Return Reporting (APS 1)*.
- 3.20.42 The PMA's Rate of Return Reporting financial statements for 1986-87 disclosed a negative real rate of return on assets of 4.2 per cent compared with a positive real rate of return on assets of 2.7 per cent in 1985-86. However these rates of return may not be reliable as an audit review of the PMA's current cost fixed asset recording and reporting system and valuation policies indicated various deficiencies which, in audit opinion, resulted in the valuation of assets not being in accordance with the Accounting Policy Statement.
- 3.20.43 Any meaningful assessment of the PMA's ability to achieve the Government's target rate of return on assets of 4 per cent will not be practical until such time as the PMA resolves the problems associated with its asset valuation policies and current cost fixed asset recording and reporting system.

*Management response*

*Action is being taken to resolve the problems associated with the asset valuation policies and the current cost fixed asset recording and reporting system.*

**ROAD CONSTRUCTION AUTHORITY**

**Has the Authority implemented adequate post-project review procedures?**

- 3.20.44 During 1986-87 the Road Construction Authority (RCA) expended \$59 million on bridge construction projects of which \$36 million (61 per cent) represented works undertaken by outside contractors.
- 3.20.45 As a result of a review of project management procedures in relation to bridge construction, audit recommended that:
- \* post-project review procedures be established to ensure projects are undertaken in an efficient and effective manner; and
  - \* information reporting systems are implemented to provide senior management with information necessary to properly evaluate and monitor construction works.

*Management response*

*A post-project review process is being implemented, commencing with new projects of \$2 million and above.*

### **Debt centralisation**

- 3.20.46 Audit noted that the RCA still undertook repayments of principal and payments of interest to the Works and Services Account in relation to fixed instalment loans and advances which were converted to government equity as part of the transport debt centralisation process.
- 3.20.47 The value of these debts at 12 January 1987 was \$3.8 million for fixed instalment loans and \$16.6 million for advances from the Works and Services Account.
- 3.20.48 The RCA has advised that its 1987-88 appropriation includes funds for the repayment of principal and payment of interest on these debts.
- 3.20.49 **Audit recommended that the RCA should not be required to make payments related to non-existent debts.**

#### *Management response*

*The Authority has obtained approval from the Department of Management and Budget to reduce the 1987-88 appropriations by the amount of funds provided to service the extinguished debts.*

### **Irregularity in property management practices**

- 3.20.50 The Authority undertook a review of its Property Management (Maintenance) Section which highlighted that:
- \* basic procedural weaknesses provided staff with an opportunity to manipulate the allocation of work to "favoured" contractors; and
  - \* there had been mismanagement by certain staff members in the performance of their duties.
- 3.20.51 As a result of this review, a staff member resigned and other staff were placed on probation.

#### *Management response*

*Control procedures have been improved by:*

- \* *job rotation schemes;*
- \* *improved tendering procedures;*
- \* *retaining minimum furniture and fittings; and*
- \* *improved control over access to storage facilities.*

### **Loss of personal computers**

- 3.20.52 The Authority has reported the loss of 2 IBM personal computers, valued at \$36 000. The Victoria Police have been notified of these losses.

## **ROAD TRAFFIC AUTHORITY**

### **School Crossing Supervisors' Scheme**

- 3.20.53 The School Crossing Supervisors' Scheme involves the reimbursement of local councils for hiring school crossing supervisors.
- 3.20.54 During 1986-87 \$4.6 million of funding provided by the Government was paid to local councils as part of this Scheme. A further \$2.4 million was estimated to be owed to local councils at 30 June 1987 for services performed by school crossing supervisors during 1985, 1986 and 1987. This amount represents 50 per cent of the 1987-88 government funding provided to the Road Traffic Authority (RTA) for this Scheme.
- 3.20.55 **Audit is concerned at the extent, and growth, of moneys owed by the RTA to local councils for this Scheme.**

#### *Management response*

*Revised procedures and funding arrangements have been introduced from the start of the 1988 school year which should decrease the level of accrued expenditure in future years.*

## STATE TRANSPORT AUTHORITY

### Has the recovery of operating costs improved in 1986-87?

- 3.20.56 The State Transport Authority (STA) net loss for the year was \$126.6 million compared with \$221.5 million in 1985-86, a reduction of \$94.9 million (43 per cent).
- 3.20.57 The significant factor which influenced this reduction in the loss was the centralisation of the STA's debt finance (see section 2.2 of this report). As a consequence of debt centralisation the STA was not required to meet financing charges (except for finance leases) for the second half of 1986-87 and did not have to borrow to meet operating costs as was the case in 1985-86.
- 3.20.58 An analysis of the reported operating results of the STA revealed that the overall cost recovery rate excluding finance charges and government subsidies decreased marginally from 38 per cent in 1985-86 to 37 per cent in 1986-87 when expressed in constant 1986-87 prices.
- 3.20.59 **Excluding the effects of debt centralisation, the cost recovery rates of the STA have remained broadly constant in recent years.**

#### *Management response*

*It is more appropriate to compare the net loss before finance charges, government subsidies and any abnormal items.*

*Subsidisation (excluding subsidies for finance charges) decreased in both nominal and real terms.*

*The Authority adopts a cost recovery rate which is based on all cash costs excluding pensions and finance charges. The Authority's performance should be considered in conjunction with other financial and non-financial performance indicators.*

**Audit considers that to obtain an accurate indication of the performance of the STA, full recognition of all costs should be made.**

### Transfer, Redeployment and Redundancy Scheme

- 3.20.60 The Transfer, Redeployment and Redundancy (TRR) Scheme was introduced in 1986 with the aim of reducing the STA's workforce by 2 300 before 1990. During 1986-87 \$40.8 million was expended from the parliamentary appropriation provided for the Scheme of which \$7.5 million was spent on payments of accrued leave entitlements to employees participating in the Scheme, and \$9.3 million was spent on lump sum payments to non-TRR recipients and on other recurrent expenditure.
- 3.20.61 Audit also noted instances where recipients of benefits made available under the TRR scheme were also receiving WorkCare benefits.
- 3.20.62 **In audit opinion, expenditure totalling \$16.8 million was not used for TRR purposes and should not have been charged against the TRR Scheme appropriation.**
- 3.20.63 **It is understood that other transport authorities may offer a similar TRR Scheme to their employees. Audit has recommended that the transport authorities ensure that their management information and control systems are able to detect or prevent unfair advantage being taken of both schemes resulting in increased costs to the State.**

#### *Management response*

*The funding of \$40.8 million was provided to meet both the redundancy benefits and employee leave benefits paid to employees who left the Authority as a result of the impact of the TRR Scheme.*

*The Transport portfolio is well aware of the situation that allows an employee to be the recipient of both WorkCare and a TRR package and every effort is made to ensure that this occurrence is minimised. The Authority has now established a policy of not offering a redundancy package to those employees on WorkCare and takes an active role in the rehabilitation of these employees.*

**Has the STA taken steps to identify and dispose of surplus assets?**

3.20.64 In January 1987 audit identified that the STA was holding 3 000 obsolete and unserviceable railway wagons, with a further 3 000 wagons expected to become unserviceable over the next 5 years, and 30 sections of railway line which had not been used for periods up to 10 years.

3.20.65 The STA has taken some steps to address the problem of identification and disposal of surplus assets. At October 1987, approximately 3 860 wagons had been disposed of raising in excess of \$1.6 million and 5 closed lines had been dismantled and the track recovered used in upgrading existing lines or sold for scrap. Appropriation includes funds for the

**Post-construction reviews of major capital investment projects**

3.20.66 In November 1984 the STA adopted a policy of undertaking post-construction reviews of all capital projects which exceeded \$5 million. However in 1985-86 when capital expenditure totalled \$118 million no such reviews were conducted. In 1986-87 capital expenditure totalled \$99 million and only 1 post-construction review had commenced.

3.20.67 Audit recommended that post-construction reviews be undertaken to identify significant variations in time, quality and cost of projects so that improvements can be achieved in the management of future capital expenditure.

*Management response* review of its Property Management (Maintenance)

*A program of post-construction reviews is being pursued in respect of projects undertaken in accordance with V/Line's investment policy and appraisal procedures introduced in July 1984. As these projects are of a long-term nature there is a significant lag prior to the reviews commencing.*

**Stolen train radios**

3.20.68 The Authority has indicated that 10 train radios, valued at \$38 000, have been stolen over a 3 year period. The Transit Police and the Victoria Police have been notified of these thefts.

**TRANSPORT ACCIDENT COMMISSION**

3.20.69 The Transport Accident Commission was established in December 1986 to administer the revised transport accident compensation scheme which included the finalisation of outstanding claims transferred from the former Motor Accidents Board (MAB) and the State Insurance Office (SIO).

3.20.70 The Commission was responsible to the Treasurer however, from 1 January 1988, it forms part of the ministerial responsibilities of the Minister for Transport.

**Does the Commission maintain adequate supporting claim documentation?**

3.20.71 In the course of the audit of the Commission, claim files were examined to ensure that payments made and recorded on the claims database were valid and accurately recorded. This review revealed that 90 per cent of claim files examined did not contain all documentation to support payments. The lack of documentation on claim files could result in a defalcation as occurred at the former MAB and resulted in the recent prosecution of several former employees of the former Board.

*Management response*

*The backlog in the placement of claim documentation on case files has been eliminated.*

... of moneys owed by the RTA to local councils

... have been introduced from the start of  
... level of accrued expenditure in future

## QUALIFIED AUDIT REPORTS

- 3.20.72 In 1986-87, it was necessary to issue qualified audit reports on the financial statements of several transport authorities. The reasons for the qualified audit reports are discussed below.

### **Government contributions for Works and Services expenditure**

- 3.20.73 During 1986-87 the Metropolitan Transit Authority (MTA), the Road Construction Authority (RCA), the Road Traffic Authority (RTA) and the State Transport Authority (STA) received government contributions for works and services expenditure totalling \$659.4 million of which \$318.2 million (48 per cent) was regarded as income of the authorities and \$341.2 million (52 per cent) was deemed to be contributed capital in the authorities held by the State. The allocation between income and contributed capital was made by the authorities, in consultation with the Ministry of Transport, on the basis of how the funds were expended during the year (specifically, the moneys spent on acquiring fixed assets were regarded as being provided for capital purposes).
- 3.20.74 As the *Appropriation (1986-87, No. 1) Act 1986* does not differentiate between the amounts provided for capital and operating purposes, audit was unable to determine whether the amounts provided to the MTA, RCA, RTA and STA were reported in an appropriate manner in their annual financial statements.
- 3.20.75 **In audit opinion, future Appropriation Acts would be enhanced if allocations differentiated between funds provided for capital and operating purposes. In the absence of any specific indication of Parliament's intention, the Department of Management and Budget needs to provide advice as to the intended purpose of government contributions to ensure they are able to be correctly reported within the accounts of the transport authorities.**

#### *Management response*

*The treatment adopted reflects the actual application of the funds received and is based on the accounting concept of capital. Treatment adopted was agreed with the Department of Management and Budget.*

### **Non-depreciation of track and related infrastructure assets**

- 3.20.76 The annual financial statements of the State Transport Authority (STA) were also qualified for the non-depreciation of track and related infrastructure assets valued at \$244.9 million.
- 3.20.77 Depreciation which is an allocation of the cost of an asset over its useful life is a significant operating cost which should be recognised in the STA's financial statements to avoid understating the deficit for the year.
- 3.20.78 **Audit recommended that the STA adhere to generally accepted accounting standards and depreciate this class of asset.**

#### *Management response*

*The Authority cannot agree that track depreciates in value as the assets are fully maintained by the Authority. The STA has engaged a consulting firm to review this policy.*

### **Non-consolidated financial statements**

- 3.20.79 The annual financial statements of the Port of Geelong Authority (PGA) and the Port of Melbourne Authority (PMA) disclosed the financial transactions of the ports and harbours operations in Statements of Income and Expenditure and the results of their commercial operations in profit and loss statements. According to generally accepted accounting principles, the financial statements should disclose a consolidated view of the operations of the authorities. The financial statements of the PGA and the PMA were qualified for 1986-87 as they failed to present consolidated statements of the respective authority's financial transactions for the year.
- 3.20.80 **Audit recommended that the authorities prepare a consolidated statement of their ports and harbours and commercial operations.**

### *Management response*

*The consolidation of non-commercial ports and harbours activities with the commercial operations would distort the commercial results of the authorities, however this matter is to be reviewed during 1988.*

### **Non-disclosure of segment financial information**

- 3.20.81 The annual financial statements of the PMA were also qualified as they did not disclose segment financial information in relation to the PMA's property operations and port operations as required by Australian Accounting Standards.
- 3.20.82 In audit opinion, segment financial information should be disclosed in accordance with Australian Accounting Standards to enable the performance of the PMA to be better understood by the users of the financial statements.

### *Management response*

*The requirement to segment property operations from port operations will be reassessed in light of the sale of the World Trade Centre.*

### **Assessment of variation in actuarial valuations**

- 3.20.83 The Transport Accident Commission (TAC) assumed responsibility for the settlement of claims relating to transport accidents that occurred prior to 1 January 1987 which had been managed by the former Motor Accidents Board (MAB) and the State Insurance Office (SIO). The valuation of transferred claims prepared by the actuary employed by the SIO totalled \$2 465 million whereas the actuary engaged by the TAC valued these claims at \$2 077 million. The TAC's actuary provided an explanation and reconciliation of the variance (\$387 million, or 19 per cent) between the 2 valuations. Audit requested independent confirmation of the changes in the underlying conditions which gave rise to the variation.
- 3.20.84 No independent assessment was obtained therefore the financial statements of the TAC were qualified as audit was unable to determine which valuation was the more appropriate.

### *Management response*

*The TAC does not agree that further independent opinion was necessary. The actuary provided sound advice based on parameters set by senior management and additional advice would not provide further meaningful information.*

## **Schedule A. Status of matters raised in previous reports**

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<b>Ministry of Transport</b>		
<i>Fourth Report, 1983-84, p.81 Second Report, 1985-86, p.156</i>	Problems associated with the disclosure 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 these transactions are reported.	Matter resolved by the enactment of the <i>Transport (Amendment) Act 1986</i> which provides that all moneys previously received by way of financial accommodation shall be shown as equity held by the Government.
<i>Second Report, 1985-86, p.158</i>	Operating expenses of the Ministry funded from the appropriation item - Special Projects.	Position unchanged. Refer paragraph 3.20.3 to 3.20.6 of this report.
<b>Grain Elevators Board</b>		
<i>Fourth Report, 1982-83, p.33</i>	Overpayment of travelling and other expenses to former chairman.	Position now satisfactory as the amount was repaid in February 1988.

## Schedule A. Status of matters raised in previous reports - *continued*

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<b>Marine Board of Victoria</b>		
<i>Second Report, 1985-86, p.159</i>	The enabling legislation does not contain a requirement for the Board to prepare an annual report on its activities for presentation to Parliament.	Position unchanged. The Board has indicated that this matter will be considered in the review of the <i>Marine Act</i> 1958.
<b>Metropolitan Transit Authority</b>		
<i>Fourth Report, 1983-84, p.83</i> <i>Second Report, 1985-86, p.165</i>	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.	Assets and liabilities relating to MetRail have been transferred to MTA except for employee leave entitlements.
<i>Fourth Report, 1983-84, p.84</i>	Agreement for determining costs and revenue applicable to metropolitan rail operations should be formalised.	Position unchanged. The MTA has indicated that an agreement has been reached for determining applicable costs and revenue, however, the agreement will not be formalised in writing.
<i>Second Report, 1985-86, p.160</i>	Analysis of the financial operations of the MTA indicated: * significant increases in annual deficit and government subsidy; * decrease in overall cost recovery rate; and * borrowings used to meet operating costs.	Refer to comments in paragraph 3.20.10 to 3.20.13 of this report for current status.
<i>Second Report, 1985-86, p.163</i>	Lack of disclosure of operating expenses by mode of transport does not enable proper analysis of performance.	Position unchanged. The MTA indicated that additional disclosure may occur in future years.
<i>Second Report, 1985-86, p.166</i>	Employees in key areas had in excess of 40 days recreation leave credits.	Position unchanged.
<b>Port of Melbourne Authority</b>		
<i>Second Report, 1984-85, p.115</i>	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 1987 the PMA had expended \$1.8 million on the project. By the end of 1987 the PMA had received \$1.3 million from DMB and \$1.9 million from the financiers of the project. At the date of preparation of this report no refund had been made pending advice from DMB.
<i>Second Report, 1984-85, p.115</i>	An actuarial investigation in 1985 revealed a shortfall of \$3.8 million, at 30 June 1984, in the Members Superannuation Fund. The PMA had brought to account an amount of \$700 000 in 1984-85 and \$900 000 in 1985-86 as abnormal items. The balance of the shortfall, \$2.2 million, had been disclosed in the notes to the PMA's financial statements, pending a further actuarial review in 1987.	Matter now resolved. An actuarial review in 1986-87 indicated that, due to changes in benefit entitlements since the previous assessment and a change in the actuarial assumption, the shortfall no longer existed.
<b>Road Construction Authority</b>		
<i>Third Report, 1982-83, p.90</i>	Adjustments required to depreciation records relating to plant and motor vehicles.	Position now satisfactory as required adjustments have been made.



**Schedule A. Status of matters raised in previous reports - *continued***

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<i>Second Report, 1985-86, p.167</i>	Qualification of the RCA's financial statements on the basis of significant inaccuracies in the Authority's property register which supported the asset item, land and buildings acquired for roadworks.	Position satisfactory. The RCA has taken action to revise and update the property register so that it adequately supports the asset item.
<i>Second Report, 1985-86, p.168</i>	Overpayment to contractor who subsequently went into liquidation.	The RCA was unable to recover any moneys and with Treasurer's approval the debt has been written off.
<b>Road Traffic Authority</b>		
<i>Fourth Report, 1983-84, p.91</i> <i>Second Report, 1985-86, p.169</i>	Legal position regarding retention by the RTA of certain fees levied under the <i>Motor Car Act</i> 1958 needs to be resolved.	Position now satisfactory as the <i>Road Safety Act</i> 1986 which became operative in 1987 provides for these fees to be retained by the Authority.
<i>Second Report, 1985-86, p.170</i>	Appropriateness of the Authority raising a charge to recoup administrative costs from the Road Construction Authority.	Position unchanged. Matter to be corrected in 1988-89 budget deliberations.
<i>Second Report, 1985-86, p.170</i>	Delays in processing registration fees and transport injury protection fees collected by the RTA.	Audit examination of registration renewals during 1986-87 revealed an average delay in banking of 5 days (8 days, 1985-86) resulting in a potential loss of interest on unbanked moneys of \$470 000 (\$800 000, 1985-86). A further examination for the 3 months ended 30 September 1987 revealed that the average delay in banking had been reduced to 2 days.
<b>State Transport Authority</b>		
<i>Supplementary Report, 1981, p.233, December 1982, p.107</i> <i>Second Report, 1985-86, p.179</i>	No provision in legislation for accounts of V/Line Industries Pty Ltd, a wholly-owned subsidiary of STA, to be audited by the Auditor-General.	Position unchanged; however the Authority has complied with DMB guidelines on this matter.
<i>Fourth Report, 1983-84, p.95</i>	Track and related infrastructure - in audit opinion the present accounting policies in relation to depreciation, maintenance and deferred maintenance require review.	Refer paragraph 3.20.76 to 3.20.78 of this report regarding qualification of STA accounts on this issue.
<i>Second Report, 1985-86, p.178</i>	Excessive accumulation of employee leave credits.	Overall position unchanged; however V/Line employee leave credits have decreased whilst MetRail leave credits have increased.
<i>Second Report, 1985-86, p.172</i>	Analysis of the financial operation of the STA indicated: * significant increases in annual deficit and government subsidy; * decrease in overall cost recovery rate; and * borrowings used to meet operating costs.	Refer to comments in paragraph 3.20.56 to 3.20.59 of this report for current status.

## Schedule B. Complete/incomplete audits

Entity	Financial period ended	Reporting to Parliament	Financial statements signed by entity	Auditor-General's report signed
<b>Complete audits</b>				
Ministry of Transport	30 June 1987	31 October. <i>Annual Reporting Act 1983, s.8.</i>	21 October 1987	23 October 1987
Grain Elevators Board	30 September 1987	31 December. <i>Annual Reporting Act 1983, s.9.</i>	14 December 1987	31 December 1987
Marine Board of Victoria	30 June 1987	No reporting requirements. Section 74 of the <i>Marine Act 1958</i> requires that the Auditor-General audit the Pilotage Account which is administered by the Marine Board of Victoria.	29 February 1988	29 February 1988
Metropolitan Transit Authority	30 June 1987	30 September. <i>Annual Reporting Act 1983, s.9.</i>	30 September 1987	30 September 1987(a)
Port of Geelong Authority(b)	30 June 1987	No date specified. <i>Port of Geelong Authority Act 1958, s.86.</i>	3 February 1988	10 February 1988(a)
Port of Geelong Authority Superannuation Fund (b)	30 June 1987	No reporting requirements. Section 4 of the Port of Geelong Authority (Superannuation) Regulations 1972 requires the Fund to be audited by the Auditor-General.	3 February 1988	10 February 1988
Port of Melbourne Authority	30 June 1987	30 September. <i>Annual Reporting Act 1983, s.9.</i>	23 September 1987	30 September 1987(a)
Port of Portland Authority	30 June 1987	No date specified. <i>Port of Portland Authority Act 1958, s.44.</i>	23 December 1987	30 December 1987
Road Construction Authority	30 June 1987	30 September. <i>Transport Act 1983, s.67.</i>	28 September 1987	30 September 1987(a)
Road Traffic Authority	30 June 1987	30 September. <i>Transport Act 1983, s.67.</i>	28 September 1987	30 September 1987(a)
State Transport Authority	30 June 1987	30 September. <i>Annual Reporting Act 1983, s.9.</i>	25 September 1987	30 September 1987(a)
Transport Accident Commission (c)	30 June 1987	30 September. <i>Transport Accident Act 1986, s.33.</i>	30 September 1987	30 September 1987(a)
Victoria Transport Borrowing Agency(d)	11 January 1987	30 September. <i>Transport (Amendment) Act 1983, s.3.</i>	27 August 1987	30 September 1987

(a) Qualified audit report issued.

(b) The *Port Authorities (Amendment) Act 1986* provides for the Authority's balance date to be changed from 31 December to 30 June. The current reporting period covers 1 January 1986 to 30 June 1987. The Superannuation Fund balance date was amended so that it aligned with the balance date of the Authority.

(c) Financial period 1 January 1987 to 30 June 1987.

(d) Abolished on 12 January 1987.

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

*Department*

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 Fund  
 State Employees Retirement Benefits Board  
 State Insurance Office  
 State Superannuation Board administering:  
 . Holmesglen Constructions Superannuation Plan  
 . Lump Sum Fund  
 . Pensions Supplementation Fund  
 . Superannuation Fund  
 Tattersall Sweep Consultations  
 Victorian Accident Rehabilitation Council  
 Victorian Building Societies Council  
 Victorian Coal Miners' Accidents Relief Board  
 Victorian Development Fund  
 Victorian Public Authorities Finance Agency

- 3.21.2 Comments on matters of significance arising from the audit of certain of the above entities are discussed below.

**ACCIDENT COMPENSATION COMMISSION**

**Financial viability of the WorkCare scheme**

- 3.21.3 A key financial objective for WorkCare is for the scheme to be fully funded by 1995 assuming an average employer levy contribution of 2.4 per cent of wages.
- 3.21.4 Claims for the 22 month period from 1 September 1985 to 30 June 1987 substantially exceeded the original WorkCare costings anticipated for this period. As a consequence, the Commission recorded an accumulated deficit of \$1 706 million at 30 June 1987.
- 3.21.5 In view of the claims experience and projected future liabilities, the ability of the scheme to become fully funded in future years is most unlikely under existing funding arrangements. This problem is currently being addressed by government and a joint parliamentary committee, with a view to major reforms to the scheme. Comment on this matter was included in the audit opinion on the 1986-87 financial statements.

## EMERGENCY SERVICES SUPERANNUATION SCHEME

3.21.6 The Emergency Services Superannuation Scheme (ESSS) was established on 1 January 1987 as a defined benefits scheme for officers employed in the emergency services areas and represents the Government's first move into industry-based superannuation schemes. Emergency services employees had the option of transferring to the ESSS from their existing superannuation schemes, provided they elected to do so by 31 December 1987. Employees commencing after 31 December 1987 are required to contribute to the ESSS.

### Transfer of assets to ESSS from other funds

3.21.7 The *Emergency Services Superannuation Act* 1986 did not provide any basis for determining the value of members' funds to be transferred to ESSS from the existing superannuation schemes. As a result, amounts to be transferred inevitably became the subject of protracted negotiation between the existing schemes, the ESSS and the Department of Management and Budget.

3.21.8 Agreements have been negotiated with the Metropolitan Fire Brigades Superannuation Board and the Hospitals Superannuation Board. However, at the date of preparation of this report agreements had not been reached with the State Superannuation Board (SSB).

3.21.9 The Government Actuary recommended a transfer of \$21.3 million for transferring members but the ESSS considered that assets equal to the full accrued value of members' funds of \$57 million should be transferred.

3.21.10 The financial statements of ESSS therefore did not include the transfer of members' funds from the SSB and as a consequence a qualified audit opinion was issued for 1986-87.

### Borrowings by the ESSS to meet lump sum payments

3.21.11 Because of delays experienced by ESSS in receiving moneys from previous schemes and the Consolidated Fund, and as a significant number of benefits were paid to members in the first 6 months, it became necessary to borrow \$46 million to meet the shortfall.

3.21.12 It was noted that:

- \* the terms for repayment of the loans had yet to be determined and was dependent on expected future cash inflows, particularly the receipts due from the Consolidated Fund for the Government's share of benefits paid by ESSS to former contributors to the SSB which totalled \$48.8 million at 30 June 1987; and
- \* had the prior fund transfers been timely, moneys transferred to the Scheme could have been used to fund the payment of lump sum benefits. Audit estimated that savings of not less than \$230 000 in interest expenses could have been achieved by the ESSS in the 6 months to 30 June 1987.

3.21.13 Guidelines for determining transfer values need to be developed to ensure the timely transfer of funds between schemes following reforms of public sector superannuation schemes.

## STATE INSURANCE OFFICE

### Income tax liability

3.21.14 The *State Insurance Office Act* 1984 requires the Office to pay to the Consolidated Fund an amount equivalent to the income tax that would have been payable if the Office was not a State-owned enterprise. It has been the practice of the Office to obtain advice on an annual basis from taxation consultants as to the liability for the equivalent of income tax, as the Act is not definitive in relation to the calculation of a taxation liability.

- 3.21.15 Advice received can vary markedly as was illustrated in relation to the transfer of the Compulsory Third Party (CTP) business segment of the Office to the Transport Accident Commission on 31 December 1986. This transfer resulted in a net gain to the Office of \$1 427 million.
- 3.21.16 The advice received from taxation consultants as to the notional taxation liability for 1986-87 and the effect of the transfer of CTP business to the Commission on such a liability concluded that the transfer was a capital transaction with no income tax consequences. The advice also suggested a second opinion be obtained as the various alternatives canvassed in the advice ranged from a taxable amount of \$2 892 million to accumulated tax losses of \$1 221 million. The Office accepted the latter alternative and did not seek a second opinion.
- 3.21.17 In view of the nature and magnitude of the amounts involved attention was drawn to the need for determination by an independent source appointed by the Treasurer.

#### **Implementation of life insurance strategies**

- 3.21.18 The Life Division commenced operations in February 1986 with 3 insurance products. The decision to enter into life insurance was taken following advice from a firm of consultants that this segment of the insurance industry was expected to enjoy significant growth. The advice also included recommendations which were regarded as essential for effective entry into life insurance, including employment of qualified experienced life insurance staff, the provision of a suitable range of products and establishment of an effective distribution network.
- 3.21.19 Since life insurance operations commenced market penetration by the Office has been negligible.
- 3.21.20 If it is resolved to enter this competitive form of insurance, and to ensure its commercial viability, it will be necessary to adopt a strategic plan to co-ordinate clearly defined operational objectives, policies and procedures for the on-going operations of the Life Division.

#### *Management response*

*In June of 1987, the Board of Management of the State Insurance Office adopted a Corporate Mission Statement which envisages the introduction of life insurance proceeding on the basis of:*

- \* *fully informed decisions on the genuine needs of Victorian households;*
- \* *fully informed decisions on the profit opportunities offered; and*
- \* *products which clearly define and protect the rights of the consumer.*

*In each of these areas we have taken positive steps to ensure that viable and worthwhile life insurance products will be available to the people of Victoria. We anticipate that our market share will improve as our plans are implemented.*

### **STATE SUPERANNUATION BOARD OF VICTORIA**

#### **Superannuation Fund**

- 3.21.21 The Superannuation Fund is a scheme designed to provide retirement and other benefits to permanent staff of the Victorian Public Service and other participating authorities. Although benefits are payable in the form of pensions, retiring members may convert up to 50 per cent of their pension entitlement into a cash option.

#### *Is the scheme funded?*

- 3.21.22 Fortnightly contributions by members are paid into the Fund, together with income generated from investment of members' contributions. The Government does not make any contribution to the Fund until the pension is paid to the member.

*Liability for superannuation benefits*

- 3.21.23 Following a review of the management of Victorian public sector superannuation schemes by the Economic and Budget Review Committee, in 1984 the Committee recommended that future actuarial reports should disclose the Government's liability.
- 3.21.24 In recognition of the above concept which encourages full disclosure of the cost of government, I am of the view that the Government's accrued liability to the Fund in respect of the past service of members should be actuarially determined and reported as an asset in the accounts of the Fund together with the overall liability of the Fund to members. No provision has been made by government for funding this liability nor is it disclosed in the accounts of the Treasurer.
- 3.21.25 The value of the above liability had not been determined at the date of preparation of this report pending an actuarial study.
- 3.21.26 In the 1987-88 Budget the Treasurer announced that this superannuation fund would close to new entrants and be replaced by a new scheme. Legislation to effect this change is currently before Parliament.
- 3.21.27 **All accrued superannuation liabilities should be appropriately disclosed in financial statements of superannuation funds. In addition the total government liability should be disclosed in the accounts of the Treasurer.**
- *Management response*  
*The accrued liability for superannuation benefits must be met by the Consolidated Fund or other participating authorities. It is not a liability of the Fund generated from members' contributions.*
  - *Response provided by Department of Management and Budget*  
*The accrued liability for superannuation benefits must be met by the Consolidated Fund or other participating authorities. Most participating authorities already disclose their accrued superannuation liabilities. The Consolidated Fund liability is being calculated.*

**Schedule A. Status of matters raised in previous reports**

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<b>Department of Management and Budget</b>		
<i>Third Report, 1983-84, pp.38-9 Second Report, 1985-86, p.192</i>	Unclaimed moneys. Audit recommended that action be taken to review the operations of the Registrar to ensure that the provision of the <i>Unclaimed Moneys Act</i> 1962 are complied with. Audit also recommended that a review of the provisions of the Act be undertaken.	Position unchanged. A review of the Unclaimed Moneys Act was deferred as DMB has placed a low priority on this task.
<i>Second Report, 1982-83, p.76 1984-85, p.124 1985-86, p.184</i>	Amount of land tax to be realised from issue of amended assessments could not be determined.	Position now satisfactory. The Taxation Office provided financial information in respect of land tax outstanding from debtors.
<i>Second Report, 1984-85, p.124 1985-86, p.185</i>	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 now satisfactory. Payroll tax owing at balance date considered accurate.

**Schedule A. Status of matters raised in previous reports - *continued***

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<b>Accident Compensation Commission</b>		
<i>Second Report, 1985-86, p.185</i>	Actuarial valuation of estimated outstanding claims could not be relied on due to actuary's reservations on available data.	Position now satisfactory as actuary considered available data to be reliable.
<i>Second Report, 1985-86, p.186</i>	One of the Commission's fund managers was unable to provide adequate confirmation in respect to investments held and income earned on behalf of the Commission. Consequently \$126.4 million of investments recorded at balance date could not be independently verified by audit.	Position now satisfactory as confirmations were received in 1986-87 from auditors of all fund managers.
<i>Second Report, 1985-86, p.186</i>	Costs associated with obtaining actuarial valuations of outstanding WorkCare claims may have been avoided if better planning had taken place by initially consulting with DMB as to the preferred valuation approach to be adopted.	Situation did not recur in 1986-87. The Commission advised that it did not accept that 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.
<i>Second Report, 1985-86, p.186</i>	A review of the internal audit section revealed the lack of a defined audit charter and no use of EDP and statistical audit techniques.	Position now satisfactory as internal audit charter has been promulgated and a firm of chartered accountants has been appointed to conduct the EDP audit function for the Commission.
<b>Hospitals Superannuation Board</b>		
<i>Third Report, 1980-81, p.9</i>	Outstanding rental for premises vacated by the Board.	Position now satisfactory as the Board has paid a negotiated rental amount.
<b>State Insurance Office</b>		
<i>Second Report, 1985-86, p.187</i>	Need for an appropriate discount rate, preferably the average long-term bond rate, to be applied in the valuation of outstanding claims liabilities.	Position in 1986-87 satisfactory as the rate used was the appropriate yield that will be obtained on Commonwealth Bonds, over the settlement pattern of the outstanding claim, using the bond rates at 30 June 1987.
<i>Second Report, 1985-86, p.188</i>	Accounting policies should be consistent in terms of valuing assets and liabilities.	Position now satisfactory as the basis of valuing investments has been changed from historical cost to market value in the 1986-87 accounts.
<b>Victorian Accident Rehabilitation Council</b>		
<i>Second Report, 1985-86, p.189</i>	Extensive delays in the processing and payment of accounts received from private rehabilitators.	A revised accident rehabilitation monitoring and payment process is to be introduced in 1987-88 with the expectation of overcoming the reported deficiencies. Audit will review new system in 1987-88.
<b>Victorian Development Fund</b>		
<i>Second Report, 1982-83, p.87 1983-84, p.73 1985-86, p.194</i>	A number of control weaknesses exist in the VDF's computer system.	The VDF has acted upon the recommendations with exception to the preparation of a detailed contingency plan, which is currently being prepared.

## Schedule A. Status of matters raised in previous reports - *continued*

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<i>Second Report, 1983-84, p.73 1985-86, p.194</i>	Need for fidelity guarantee insurance.	Position unchanged. VDF management have reviewed current position and see no need for insurance protection.
<i>Second Report, 1984-85, p.131 1985-86, p.195</i>	Need to seek legislative amendment to allow the VDF to enter into forward currency exchange contracts on behalf of other public bodies.	Situation did not recur in 1986-87. No change to the legislation has taken place.

## Schedule B. Complete/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
<b>Complete audits</b>				
Department of Management and Budget	30 June 1987	31 October. <i>Annual Reporting Act 1983, s.8.</i>	29 October 1987	30 October 1987
Accident Compensation Commission	30 June 1987	30 September. <i>Accident Compensation Act 1985, s.38.</i>	30 September 1987	30 September 1987(a)
Accident Compensation Tribunal	30 June 1987	30 September. <i>Accident Compensation Act 1985, s.79.</i>	30 September 1987	30 September 1987
Bioplantech Limited	30 June 1987	No reporting requirements. Audit conducted at request of Treasurer and under Companies (Victoria) Code.	27 November 1987	30 November 1987
Capital Works Authority	30 June 1987	31 October. <i>Annual Reporting Act 1983, s.8.</i>	30 September 1987	30 September 1987
Coal Mine Workers' Pensions Tribunal	30 June 1987	No date specified. <i>Coal Mines Act 1958, s.128.</i>	16 December 1987	22 December 1987
Emergency Services Superannuation Scheme	Period 1 January 1987 to 30 June 1987	30 September. Treasurer granted extension of time to 31 December.	16 December 1987(a)	31 December 1987(a)
Holmesglen Constructions Superannuation Plan	30 June 1987	No reporting requirements. Audit conducted at request of Treasurer.	15 December 1987	28 December 1987
Hospitals Superannuation Board	30 June 1987	30 September. <i>Hospitals Superannuation Act 1965, s.9.</i> Treasurer granted extension of time to 31 December.	21 December 1987	31 December 1987
Lump Sum Fund	30 June 1987	No reporting requirements. Audit conducted under <i>Superannuation (Lump Sum Benefits) Act 1981, s.17.</i>	20 January 1988	5 February 1988



Schedule B. Complete/incomplete audits - *continued*

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Metropolitan Fire Brigades Superannuation Board	30 June 1987	31 October. <i>Annual Reporting Act 1983, s.8.</i> Treasurer granted extension of time to 31 December.	28 December 1987	31 December 1987
Motor Accidents Board	Period 1 July 1986 to 30 December 1986(b)	31 December. <i>Motor Accidents Act 1973, s.86.</i>	13 July 1987	30 September 1987
Parliamentary Contributory Superannuation Fund	30 June 1987	31 October. <i>Annual Reporting Act 1983, s.8.</i> Treasurer granted extension of time to 31 December.	3 December 1987	31 December 1987
Pensions Supplementation Fund	30 June 1987	No date specified. Audit conducted at request of Treasurer.	20 January 1988	5 February 1988
State Employees Retirement Benefits Board	30 June 1987	30 September. <i>State Employees Retirement Benefits Act 1979, s.11.</i> Treasurer granted extension of time to 31 December.	17 December 1987	30 December 1987
State Insurance Office	30 June 1987	30 September. <i>State Insurance Office Act 1984, s.24.</i>	10 November 1987	11 November 1987
Superannuation Fund	30 June 1987	30 September. <i>Superannuation Act 1958, s.63.</i> Treasurer granted extension of time to 31 December.	3 December 1987	31 December 1987(a)
Tattersall Sweep Consultations	30 June 1987	No reporting requirements. <i>Tattersall Consultations Act 1958, s.8A.</i>	13 August 1987	29 February 1988
Victorian Accident Rehabilitation Council	30 June 1987	30 September. <i>Accident Compensation Act 1985, s.177.</i> No extension granted. Statements prepared late.	14 October 1987	22 October 1987
Victorian Building Societies Council	30 June 1987	30 September. <i>Building Societies Act 1986, s.24.</i> Extension of time not sought from Treasurer. Statements late.	8 December 1987	7 January 1988
Victorian Coal Miners' Accidents Relief Board	30 June 1987	No reporting requirements. <i>Coal Mines Act 1958, s.81.</i> provides for audit of books and accounts.	16 December 1987	22 December 1987
" "	Period 1 July 1987 to 23 December 1987 (c)	" "	5 January 1988	2 February 1988

Schedule B. Complete/incomplete audits - *continued*

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Victorian Development Fund	30 June 1987	30 September. <i>Public Account Act 1958, s.79.</i>	21 August 1987	28 August 1987
Victorian Public Authorities Finance Agency	30 June 1987	30 September. <i>Victorian Public Authorities Finance Act 1984, s.14.</i>	13 October 1987	22 October 1987

(a) Qualified audit report issued.

(b) Motor Accidents Board abolished on 31 December 1986.

(c) Fund wound up on 23 December 1987.

- 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

Edithvale - Seaford Wetlands Environmental Area Committee of Management

Latrobe Valley Water and Sewerage Board

175 local water and sewerage authorities

Melbourne and Metropolitan Board of Works

Melbourne and Metropolitan Board of Works Provident Fund

Melbourne and Metropolitan Board of Works Superannuation Scheme

Patterson River Recreational Area Committee of Management

Rural Water Commission of Victoria

Tirhatuan Park Recreational Area Committee of Management

- 3.22.2 Comments on matters of significance arising from the audit of certain of the above entities are discussed below.

**DEPARTMENT OF WATER RESOURCES**

**Need to amend annual reporting requirements**

- 3.22.3 The 1986-87 financial statements of the Department did not include receipts (\$86.6 million) and payments (\$100.1 million) of the Public Account relating to the Rural Water Commission of Victoria. Although the financial statements of the Department complied with the requirements of the *Annual Reporting Act* 1983, I found it necessary to issue a qualified opinion on the statements as they did not, in my opinion, present fairly the overall position concerning Public Account transactions falling within the policy responsibility of the Minister for Water Resources.
- 3.22.4 **It is my opinion that the Regulations under the Annual Reporting Act 1983 require amendment to ensure that all transactions of the Public Account falling within the policy responsibility of Ministers be included within their departmental financial statements.**

**LOCAL WATER AND SEWERAGE AUTHORITIES**

**Timeliness of financial reporting**

- 3.22.5 The oversight of the 175 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.
- 3.22.6 In my *Second Report* for 1985-86, I commented on the significant number of water authorities that had failed to prepare financial statements within the statutory reporting deadline of 4 months after balance date prescribed by the *Water and Sewerage Authorities (Restructuring) Act* 1983 or in a timely manner in accordance with the *Water Act* 1958.
- 3.22.7 An update of the position revealed that the situation has not improved during the period covered by this report. The number of financial statements not provided for audit increased from 95 in February 1987 to 110 in February 1988 and related to 78 water authorities (44 per cent). The balance of water authorities are, however, maintaining a satisfactory level of reporting. The 26 water authorities (15 per cent) listed in Table 3.22A had not provided financial statements for financial periods ended 31 December 1986 or earlier.

**TABLE 3.22A. WATER AUTHORITIES WHICH HAD NOT PROVIDED FINANCIAL STATEMENTS FOR PERIODS ENDED 31 DECEMBER 1986 OR EARLIER**

<i>Water authority</i>	<i>Financial statements not provided for the period ended -</i>
Shire of Alberton River Improvement Trust	31.12.86
Avon-Macalister Rivers Management Board	31.12.86
Axedale Water Board	30.06.85, 30.06.86
Axedale Waterworks Trust (a)	30.06.84
Barnawartha Waterworks Trust(a)	30.06.84
Cann Valley Water Board	30.06.86
Chiltern Water Board	30.09.84, 30.09.85, 30.09.86
Chiltern Waterworks Trust (a)	30.06.84
Deakin Water Board	30.06.85, 30.06.86
Fifteen Mile Creek Improvement Trust	31.12.86
Goulburn Water Board	30.06.86
King Parrot Creek Improvement Trust(a)	04.06.85
King Valley Water Board	30.06.85, 30.06.86
Kowree Water Board	30.06.86
Merrigum Waterworks Trust (a)	30.06.84
Mid-Goulburn Rivers Management Board	31.12.85, 31.12.86
Mitchell River Improvement Trust	31.12.85, 31.12.86
Shire of Myrtleford	30.09.86
Rodney Water Board (b)	30.06.85, 30.06.86
Seymour Shire River Improvement Trust (a)	31.12.84, 04.06.85
Tatura Waterworks Trust (a)(b)	30.06.84
Shire of Upper Murray River Improvement Trust	31.12.85, 31.12.86
Violet Town Water Board	30.06.86
Violet Town Waterworks Trust (a)	30.06.84
Waranga Water Board	30.06.85, 30.06.86
Wonthaggi-Inverloch Water Board	30.06.86

(a) Ceased to exist as a result of amalgamations within the water industry.

(b) Financial statements provided but do not cover the required accounting period.

3.22.8 The failure of authorities to provide financial statements in a timely manner has resulted in:

- \* an inadequate level of accountability to the ratepayers and the Minister;
- \* the Department of Water Resources not having access to timely information to centrally monitor the economy and efficiency of water authorities;
- \* insufficient information being provided to enable the Department of Water Resources to accurately assess the financial viability and eligibility of authorities for financial assistance; and
- \* the Department being unable to prepare a consolidated financial position for the water industry on a timely basis.

3.22.9 In order to identify the causes of untimely financial reporting, audit conducted a survey covering all water authorities. Factors identified as contributing to delays in financial reporting were:

- \* a lack of understanding of reporting responsibilities within the industry;
- \* difficulties experienced by authorities in preparing financial statements in the prescribed format; and
- \* a lack of accounting expertise in authorities.

- 3.22.10 While the Annual Reporting Regulations for the water industry, which came into force on 1 July 1986, provide for uniformity in reporting, greater comparability and added disclosure of information to enhance accountability, in my opinion the detailed reporting standards would be better expressed as guidelines to allow more flexibility.
- 3.22.11 In addition, legislation does not prescribe a reporting deadline for river improvement trusts or require the Minister to report to Parliament the failure of any authority to provide audited financial statements.
- 3.22.12 Both the Department and audit are concerned about the failure of authorities to provide timely financial information and the effectiveness of the operation of the Regulations.

*Management response*

*The Department:*

- \* *has repeatedly emphasised the responsibility of authorities in relation to reporting. This has been done by correspondence, training courses, visits to authorities etc. However, until professional management can be achieved, the purpose and use of financial management will not be understood by authorities, and hence the standard of reporting will not improve;*
- \* *considers that despite years of monitoring format and virtually preparing financial statements for authorities, the standard of reporting in the industry has not improved. The Department supports qualified accountants being employed to prepare financial statements and considers that specialist expertise would also enhance the overall financial management of local authorities;*
- \* *will be undertaking a review of the reporting regulations with a view to allowing greater flexibility and ensuring that the requirements are suitable for industry use and accountability purposes; and*
- \* *supports legislative reforms that will allow the Minister to take appropriate action where accountability requirements are not met. This will be pursued as part of the new Water Law Legislation.*

**Rationalisation of audit arrangements**

- 3.22.13 A number of initiatives, currently under consideration by my Office, include rationalising the number of agents on a regional basis. Fewer agents will promote greater efficiency in contract auditing arrangements as agents will be able to specialise in performing water authority audits which should lead to an improvement in the quality of audits and a reduction in costs.

**MELBOURNE AND METROPOLITAN BOARD OF WORKS**

**New financing arrangements**

- 3.22.14 In recent years, the Melbourne and Metropolitan Board of Works has adopted various financing strategies aimed at reducing finance charges and assisting its management of cash flows. Some of these strategies are outlined below.

*(1) Defeasance of debt*

During 1986-87 the Board entered into a number of debt defeasance arrangements involving a foreign currency loan, domestic loans and a finance lease with an aggregate value of \$95 million. Under such arrangements, the obligation to repay the loan principal is "in substance" assumed by third parties for a consideration. As a consequence, the third party will meet the loans at maturity and the value of the loans has therefore been excluded from the balance sheet of the Board. The notes to the financial statements provide a full explanation of the transactions and identify the contingent liability of the Board in the event of the third party failing to meet its obligation.

(2) *Principal liability assumption*

In June 1987, the Board received \$18.8 million from a private sector company and assumed the liability for principal repayments at maturity totalling \$26.6 million in respect of certain of that company's debentures. In the previous year, a similar transaction resulted in the Board receiving \$68.5 million for a future liability for principal repayments of \$105.7 million. In both instances the liability for interest remained with the private sector company. This arrangement enabled the Board to generate cash flows to restructure its loans repayment program. In addition, it enhances the security available to the debenture holders in that the charge over the assets of the company is replaced by a government guarantee. It also enables the companies to continue to claim interest payments as a tax deduction on the defeased debt.

3.22.15 In 1986-87 the Board's enabling legislation did not contain specific authority for the Board to enter into the abovementioned arrangements, however, the introduction of the *Borrowing and Investment Powers Act 1987* provides for the Board to enter into financial arrangements generally, subject to the necessary approvals.

3.22.16 Careful consideration will need to be given by the Board as to whether the above financing arrangements fall within the ambit of the *Borrowing and Investment Powers Act 1987*. There is a need for appropriate accounting standards to ensure that an adequate level of financial reporting is maintained, and a request has been made to the Australian Accounting Research Foundation.

*Management response*

*The Board entered into all arrangements in accordance with general legal powers contained within its legislation and with the approval of the Treasurer. The Board, as a leader in innovative financing techniques, will necessarily be embarking on arrangements where there is no specific legislative provision in its attempt to continue to reduce financing costs. However, in all cases, the Board will continue to obtain all the necessary approvals.*

**Liabilities for employee work-related injury or death**

3.22.17 From September 1985 the Board became a self-insurer under the *Accident Compensation Act 1985*. Under the Act, the Board is required to make provision in its financial statements, based on actuarial assessment, for its liabilities in respect of employee injury or death. The Board's actuary assessed the liability at 30 June 1987 to be \$6.9 million.

3.22.18 In view of the magnitude of the Board's provision for outstanding claims, and the fact that the Board is the only statutory authority acting as a self-insurer, audit recommended during the 1986-87 audit that the Board conduct a cost-benefit analysis to determine whether its position as a self-insurer was the most appropriate strategy.

*Management response*

*A cost-benefit analysis, initiated by the Board in October 1987 and completed in January 1988, on the first 10 months of operations as a self-insurer revealed that it was financially advantageous for the Board to remain as a self-insurer. Future analysis will be undertaken based on industry levy rates.*

**Revenue billing and collection - rates and water by measure**

3.22.19 During the year, audit reviewed the Board's systems and procedures for revenue billing and collections. The review disclosed that the Board's enabling legislation does not confer on the Board the authority to charge interest on arrears of rates and charges. In contrast, the enabling legislation of other public sector agencies provides for the levying of interest on overdue amounts. Audit estimated that if the Board had the power to charge interest on overdue accounts, a minimum of \$2.5 million interest could be earned by the Board.

3.22.20 Audit also noted that:

- \* a number of debtors with balances in excess of \$10 000, relating mainly to large entities, remained outstanding for long periods of time;
- \* regular ageing analyses, which assist in the identification and follow-up of long outstanding debtors, were found to be deficient; and
- \* many credit balances, resulting from overpayments by ratepayers, remained unrefunded for lengthy periods.

3.22.21 Audit recommended that the Board consider:

- \* seeking amendments to its enabling legislation to provide the authority to charge interest on overdue accounts;
- \* developing integrated computer systems to assist with the identification and follow-up of aged debtors; and
- \* reviewing its existing procedures in respect of refunding overpayments by ratepayers.

*Management response*

*The Board:*

- \* *has, to date, concentrated on the largest outstanding debtors and has reduced the total level of outstandings from \$25.2 million at 30 June 1986 to \$24.3 million at 30 June 1987. This represents a 3.6 per cent improvement over the past 12 months;*
- \* *supports an amendment to its enabling legislation to enable it to charge interest on all outstanding amounts;*
- \* *has completed the development of aged debtors listings which is being used in the follow-up of all outstanding amounts; and*
- \* *has issued instructions requiring the prompt refund of credit balances in excess of a specified amount.*

**Contract irregularities**

3.22.22 The Board conducted an internal investigation into allegations that an employee of the Board responsible for awarding plant hire contract had allocated contracts to a firm of which the employee was a director. The investigation revealed that there was a conflict of interest and the employee subsequently resigned from the Board.

3.22.23 In addition to the above investigation, a review of plant hire procedures and controls was undertaken by the Board which identified areas for improvement. Audit is pleased to note that the Board took prompt action on the findings of the review.

**RURAL WATER COMMISSION OF VICTORIA**

**Qualification of financial statements**

3.22.24 Although the Commission has taken a number of initiatives in recent years aimed at providing meaningful financial reporting, difficulties have continued to be experienced as to the most appropriate reporting systems and procedures to be adopted given that the Commission operates as a "quasi" budget sector entity. That is a statutory authority whose revenue is required to be paid into the Consolidated Fund and whose business activities are financed from the annual appropriations provided by Parliament.

3.22.25 Over the years payments into the Consolidated Fund by the Commission have exceeded the annual appropriations provided by Parliament. The composition of the excess, which according to the Commission totalled \$7 million at 30 June 1987, could not be verified by audit. The amount was included in the Commission's financial statements as a debt due from the Victorian Government. Legally, moneys paid into the Consolidated Fund can only be re-allocated by parliamentary appropriation.

3.22.26 In addition, in 1986-87, the Commission included in its accounts grants for community service projects of \$10.4 million as operating revenue. The Appropriation (1986-87, No. 1) Act did not specifically provide that the grants were for community service projects and the Commission could not produce sufficient evidence to support the accounting treatment adopted. As a result of the above 2 issues, the financial statements were qualified.

3.22.27 Audit recommended that, in consultation with the Department of Management and Budget, the Commission review the method of funding from the Public Account with a view to removing their operations from the budget sector.

*Management response*

*As part of its financial management strategy the Commission is reviewing its projected future operating results and financial position with a view to moving the Commission into the non-budget sector. There have been ongoing discussions with the Department of Management and Budget relating to this matter and to problems associated with being part of the budget sector but, at the same time, being required to prepare financial statements that reflect the Commission's primary role as a government business enterprise.*

**Irregularities - materials received vouchers**

3.22.29 The Commission conducted an internal review which disclosed that, in late June 1987, a number of material received vouchers totalling \$54 000 were raised prior to the receipt of goods. The irregularity was detected before payment was made to the supplier.

3.22.30 Steps have been taken by the Commission to ensure that such practices do not occur in the future.

**Schedule A. Status of matters raised in previous reports**

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<b>Local water and sewerage authorities</b>		
<i>Second Report, 1984-85, p.141</i>	Misappropriation of funds amounting to \$180 000 at Geelong and District Water Board.	Board employee committed for trial.
<i>Second Report, 1985-86, pp. 196-7</i>	Failure by a significant number of authorities to prepare financial statements on a timely basis.	Position substantially unchanged. Refer to comments in paragraph 3.22.5 to 3.22.12 of this report.
" "	Several authorities continued to maintain separate accounting records for each water and sewerage function as if the former bodies continued to exist.	Position substantially unchanged.
" "	Inadequacies in the recording of fixed assets by water authorities.	Review of fixed asset management within the industry undertaken by the Department of Water Resources is continuing, and is expected to be completed by August 1988.
<b>Rural Water Commission of Victoria</b>		
<i>Second Report, 1984-85, pp.139-40</i>	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. Refer comment in paragraph 3.22.24 to 3.22.27 of this report.



## Schedule B. Complete/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
<b>Complete audits</b>				
Department of Water Resources	30 June 1987	31 October. <i>Annual Reporting Act 1983, s.8.</i>	19 October 1987	27 October 1987 (a)
Dandenong Valley Authority	30 September 1986	31 March. <i>Dandenong Valley Authority Act 1963, s.40.</i>	17 March 1987	26 March 1987
" "	30 September 1987	" "	15 March 1988	28 March 1988 (a)
Rural Water Commission of Victoria	30 June 1986	30 September. <i>Water Act 1958, s.43F.</i>	6 May 1987	11 June 1987 (a)
" "	30 June 1987	" "	21 October 1987	11 November 1987 (a)
Latrobe Valley Water and Sewerage Board	30 June 1987	31 December. <i>Latrobe Valley Act 1958, s.53.</i>	10 September 1987	11 November 1987
Melbourne and Metropolitan Board of Works	30 June 1987	30 September. <i>Annual Reporting Act 1983, s.9.</i>	25 September 1987	30 September 1987
Melbourne and Metropolitan Board of Works Provident Fund	30 June 1987	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension of time to 30 November 1987.	27 November 1987	30 November 1987
Melbourne and Metropolitan Board of Works Superannuation Scheme	30 June 1987	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension of time to 30 November 1987.	27 November 1987	30 November 1987
<b>Incomplete audits</b>				
Edithvale-Seaford Wetlands Environmental Area Committee of Management	30 June 1987	No reporting requirements. <i>Dandenong Valley Authority Act 1963, s.31A</i> provides for the audit of the accounts.	Audit in progress. The accounts as presented to audit are currently being redrafted.	
Local water and sewerage authorities	Further comment in paragraphs 3.22.5 to 3.22.12 of this report.			
Patterson River Recreational Area Committee of Management	30 June 1987	No reporting requirements. <i>Dandenong Valley Authority Act 1963, s.31A</i> provides for the audit of the accounts.	Audit in progress. The accounts as presented to audit are currently being redrafted.	
Tirhatuan Park Recreational Area Committee of Management	30 September 1987	" "	" "	

(a) *Qualified audit report issued.*

- 3.23.1 The Parliament of Victoria 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 Committees are the chief administrative officers of the respective parliamentary departments.
- 3.23.5 At the request of the Presiding Officers, audit conducted a review of the administrative efficiency of the departments of Parliament. The review was completed in late 1987 and a report forwarded to the President of the Legislative Council and the Speaker of the Legislative Assembly early in 1988.

#### Financial transactions

- 3.23.6 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 1987, together with comparative figures for the previous year, are detailed below on a parliamentary department/program basis:

TABLE 3.23A. PARLIAMENT OF VICTORIA, PAYMENTS

Program	1986-87	1985-86
	(\$'000)	(\$'000)
Legislative Council Program -		
Members' salaries and expenses	2 809	2 629
Committee expenses (incl. Select Committee)	760	560
Payroll tax	222	195
Office staff salaries and expenses	607	522
	4 398	3 906

**TABLE 3.23A. PARLIAMENT OF VICTORIA, PAYMENTS - *continued***

<i>Program</i>	<i>1986-87</i>	<i>1985-86</i>
	<i>(\$'000)</i>	<i>(\$'000)</i>
<b>Legislative Assembly Program -</b>		
Members' salaries and expenses	5 176	4 865
Committee expenses (incl. Select Committee)	652	454
Payroll tax	399	373
Parliamentary printing	2 478	(a)3 094
Office staff salaries and expenses	1 412	1 345
	<u>10 117</u>	<u>10 131</u>
<b>Parliamentary Library Program -</b>		
Payroll tax	30	28
Salaries and payments in the nature of salary	533	492
Administrative expenses	134	118
	<u>697</u>	<u>638</u>
<b>Parliamentary Debates Program -</b>		
Payroll tax	60	58
Salaries and payments in the nature of salary	982	934
Administrative expenses	38	42
	<u>1 080</u>	<u>1 034</u>
<b>Parliamentary Support Services Program -</b>		
Payroll tax	296	277
Salaries and payments in the nature of salary	4 724	4 297
Administrative expenses	529	520
Refreshment rooms	576	549
Members' accommodation	9	499
Electorate offices -		
Expenses	2 974	2 390
Adaptions	186	753
Other expenses	823	763
	<u>10 117</u>	<u>10 048</u>
<b>Total payments</b>	<b>26 409</b>	<b>25 757</b>

(a) Figures recast for comparative purposes.

**Schedule A. Status of matters raised in previous reports**

There were no matters outstanding.

**Schedule B. Complete/incomplete audits**

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
<b>Complete audits</b>				
Parliament of Victoria	30 June 1987	No reporting requirements. Audit conducted under <i>Audit Act 1958, s.31.</i>	23 December 1987	13 January 1988
State Parliament Refreshment Rooms	30 June 1987	No reporting requirements. Audit conducted at request of Parliamentary House Committee.	16 February 1988	15 March 1988