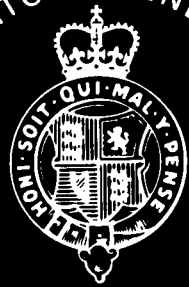


AUDITOR GENERAL



VICTORIA

# Report on Ministerial Portfolios

May 1989

VICTORIA

---

*Report*

of the

**AUDITOR-GENERAL**

on

Ministerial Portfolios

May 1989

---

*Ordered by the Legislative Assembly to be printed*

---

MELBOURNE  
JEAN GORDON GOVERNMENT PRINTER  
1989



1 MACARTHUR STREET  
MELBOURNE, VIC. 3002  
TELEPHONE: 651 6012  
FAX NO 650 5391

May 1989

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

Sir

Under the authority of Section 48 of the Audit Act I transmit a report on the audit of Ministerial Portfolios. This report completes the cycle of my auditing activities in relation to the 1987-88 financial year.

*Yours faithfully*

  
C.A. BARAGWANATH  
*Auditor-General*

---

# CONTENTS

---

	<i>Page</i>
<b>PART 1 FOREWORD</b>	<b>3</b>
<b>PART 2 EXECUTIVE SUMMARY</b>	<b>9</b>
<b>PART 3 AUDIT OF MINISTERIAL PORTFOLIOS</b>	
3.1 Agriculture and Rural Affairs	17
3.2 Arts	24
3.3 Attorney-General	30
3.4 Community Services	38
3.5 Conservation, Forests and Lands	44
3.6 Consumer Affairs	53
3.7 Education	58
3.8 Ethnic Affairs	104
3.9 Health	106
3.10 Housing and Construction	132
3.11 Industry, Technology and Resources	144
3.12 Labour	170
3.13 Local Government	184
3.14 Planning and Environment	188
3.15 Police and Emergency Services	191
3.16 Premier and Cabinet	200
3.17 Property and Services	203
3.18 Sport and Recreation	222
3.19 Tourism	230
3.20 Transport	235
3.21 Treasurer	269
3.22 Water Resources	281
3.23 Parliament	299
<b>PART 4 OTHER ISSUES</b>	
4.1 Disaster Recovery Planning for Computerised Systems	305
4.2 Qualified Audit Opinions on Financial Statements	310

---

# **PART 1**

---

## **FOREWORD**

---

---

# 1.

## FOREWORD

---

Very shortly after my appointment in October 1988, I transmitted to Parliament the Treasurer's Statement for the year ended 30 June 1988, accompanied by my report on that Statement and other matters concerning Victorian public sector resource management.

As one of the prerequisites for appointment to the position of Auditor-General was the ability to deliver authoritative advice to Parliament on the management of public resources, I took the opportunity in my first report to clearly explain the audit role as my predecessors had done in the past.

Recent events have evidenced a questioning, and at times a misunderstanding, of the concepts of audit and accountability in the public sector.

These events have occurred at a time when numerous public reports have led to a heightened awareness of the need to maintain and strengthen the accountability of officials and government organisations.

It is therefore appropriate and indeed important that I now again clarify these concepts with respect to the Victorian public sector.

In basic terms, accountability means the responsibility of those entrusted with the resources of others to account to the owners of those resources.

In the private sector, one of the main mechanisms for achieving accountability is the provision by

management of audited financial statements. Such statements allow shareholders and other interested parties such as creditors to make decisions whether or not to maintain their investments or to continue to provide credit. Many of these decisions are based on an entity's performance as reflected by its profits and it could therefore be said that private sector entities are primarily held accountable through their "bottom line".

The public sector, however, by its very nature differs from the private sector and this has consequential implications for the nature of, and mechanisms used to achieve accountability. Two such important differences which have a direct impact on the concept of accountability in the public sector are:

- ♦ the objectives of the public sector are related not to profit maximisation as is generally the case in the private sector, but rather to the achievement of a diversity of often competing social, political and economic goals on behalf of the public at large. These goals are set in broad terms through the political process and further refined through administrative processes within the government. This diversity of objectives means that "bottom line" accountability is often inadequate in the public sector since it is rarely an accurate reflection of performance; and

- ♦ those who participate in business ventures, be it as sole traders, partners or shareholders in companies, do so **voluntarily**. It is their capital which is at risk. By way of contrast, governments have the power to **compulsorily** acquire financial resources and use this power to tax members of the community. This compulsory power is accepted by taxpayers in the expectation that there will be a full accounting for the use of such resources in terms of probity, legality, economy, efficiency and effectiveness.

In view of such differences, the concept of accountability in the public sector takes on additional significance. In the public sector, those who have been entrusted with the resources of the public at large, and with the power to regulate many aspects of the lives of others, must recognise and respond to the consequential responsibility to fully account to the public for all resources used and for all aspects of their performance.

The concept of accountability has implications for all levels of public administration i.e. agencies, central agencies, the Auditor-General and Parliament. Fulfilment by each level of its responsibilities with respect to accountability makes up the chain of accountability. Should any level be deficient in fulfilling its role, the chain will be broken and the duty of accountability to providers of public sector resources will not be fully satisfied.

Under the Westminster system of parliamentary control of the "public purse", government initiated revenue and expenditure proposals require parliamentary authority before they can be implemented. Once implemented, management of public sector entities, whether government departments, statutory authorities, government controlled companies or other bodies,

must ensure that effective risk management strategies are in place, including the implementation of appropriate internal controls and internal audit. Effective risk management is necessary not only to safeguard public resources but also to ensure the efficient and effective utilisation of those resources for the public benefit in the manner authorised by Parliament.

Management of public sector entities are responsible to their Minister and accountable, through their Minister, to Parliament and ultimately the public. The tabling by Ministers of the audited financial statements of public sector entities under their control is a key mechanism in this process.

To ensure that the chain of accountability is complete and effective, it is Parliament's responsibility to review public sector entities' financial operations and other relevant information available to it. Foremost among such other information are the reports of the Auditor-General which include substantive issues related to public sector resource management. Reports of the Auditor-General are therefore a vital link in the chain of public sector accountability.

One of the principal and traditional objectives of Auditors-General, both in terms of convention and legislative mandate, is the promotion of more efficient and effective resource utilisation in the public sector. This has been translated in the past into a comprehensive audit approach which, in addition to the audit of the accounts of the State and the extent of compliance by agencies with legislation and government directions, entails the review of resource management. In conducting comprehensive audits an assessment has been made in the past of how efficiently and effectively public funds are being managed and suggestions for improvement to existing practices are proposed.

---

The independence of the Auditor-General, which is enshrined in the Audit Act, gives him a great advantage over other review agencies and avoids conflicts of interest which may exist if an agency of the executive arm of government were to be given responsibility for any part of the audit continuum of financial regularity, legal compliance and efficiency and effectiveness. This statutory independence bestows credibility on the Auditor-General's reports to Parliament. Further, the Auditor-General has unique powers of access to the records of government agencies which are stronger than the powers of any other office holder.

The Auditor-General has an unequivocal mandate to conduct financial audits, which have provided, in the past, a foundation for reviews of efficiency and effectiveness. The reports of the Auditor-General to Parliament on the results of these reviews are a vital link in the chain of public sector accountability.



---

## **PART 2**

---

## **EXECUTIVE SUMMARY**

---

---

2.

## EXECUTIVE SUMMARY

---

Key findings arising from the audits of ministerial portfolios are highlighted at the beginning of each individual section within Parts 3 and 4 of the report.

Major findings are summarised below:

<b>ATTORNEY-GENERAL</b>
<ul style="list-style-type: none"><li>◆ Beneficiaries' assets in excess of \$11 million transferred to the ownership of the State Trust Corporation by statute. <i>para 3.3.1</i></li></ul>



<b>CONSERVATION, FORESTS AND LANDS</b>
<ul style="list-style-type: none"><li>◆ Revenue forgone of approximately \$1.8 million per annum from Crown Land occupations. <i>para 3.5.1</i></li></ul>



<b>CONSUMER AFFAIRS</b>
<ul style="list-style-type: none"><li>◆ Legislation is silent on the application of accumulated surpluses of \$16.8 million derived from tenants' bond moneys. <i>para 3.6.1</i></li></ul>

## EDUCATION

- ◆ School bus transportation services:
  - substantial annual cost savings to the Ministry would be likely if fixed-term contracts and periodic re-tendering could be agreed with the Bus Proprietors Association; and
  - there is potential for annual savings of \$7 million to be achieved by streamlining the existing framework.  
*para 3.7.1*
- ◆ Serious financial management problems have been experienced at the Victorian College of the Arts.  
*para 3.7.82*

## HEALTH

- ◆ Need for improved management practices in the development and operation of the Department's 91 Community Health Centres.  
*para 3.9.1*
- ◆ Inadequate disclosure in departmental financial statements of payments amounting to \$1.7 billion from the Hospitals and Charities Fund.  
*para 3.9.37*
- ◆ Lack of strategic planning for the introduction and use of information technology throughout the Department.  
*para 3.9.46*

## HOUSING AND CONSTRUCTION

- ◆ Unsatisfactory level of public housing rental arrears amounting to \$14.4 million.  
*para 3.10.1*

## INDUSTRY, TECHNOLOGY AND RESOURCES

- ◆ Significant deficiencies in the financial position of Gas and Fuel Corporation's subsidiary companies, which are indebted to the Corporation for \$53 million.  
*para 3.11.49*
- ◆ Briquette factory at Morwell not financially viable.  
*para 3.11.85*
- ◆ Office building in West Wodonga not occupied resulting in rental income of approximately \$370 000 forgone.  
*para 3.11.12*
- ◆ Inability of Alpine Resorts Commission to repay liability of \$6.7 million to the State.  
*para 3.11.17*

## LABOUR

- ◆ Poor management practices within many areas of the Department.  
*para 3.12.1*
- ◆ Doubts raised as to whether certain Youth Guarantee expenditure was effective in meeting Guarantee objectives.  
*para 3.12.39*

## POLICE AND EMERGENCY SERVICES

- ◆ Absence of an effective management system to monitor vehicle usage and performance.  
*para 3.15.3*
- ◆ Lack of control and follow-up of outstanding warrants valued at \$42.2 million.  
*para 3.15.8*
- ◆ Deficiencies in the management of outstanding revenue totalling \$9.9 million.  
*para 3.15.15*

## PROPERTY AND SERVICES

- ◆ Deteriorating condition of government buildings in Treasury Reserve due to an inadequate maintenance program.  
*para 3.17.1*

## SPORT AND RECREATION

- ◆ Interest charges on borrowings impacting on the financial viability of the National Tennis Centre.  
*para 3.18.18*

## TOURISM

- ◆ Deterioration of the financial position of subsidiary companies.  
*para 3.19.1*

## TRANSPORT

- ◆ The refurbishment of the Banana Alley vaults was completed 35 months behind schedule with cost overruns of \$2.7 million.  
*para 3.20.20*
- ◆ Webb Dock rail link, built at a cost in excess of \$20 million, is significantly under-utilised.  
*para 3.20.56*
- ◆ Cancellation of a sub-lease at 222 Exhibition Street has cost taxpayers in excess of \$795 000 in dead rent and an estimated \$300 000 if certain fitouts cannot be used by new tenants.  
*para 3.20.84*

## TREASURER

- ◆ Doubt exists as to the future financial viability of the WorkCare Scheme.  
*para 3.21.1*
- ◆ Actuarial projections are that, unless there is an increase in the WorkCare levy, negative cash flows could be experienced by 1989-90.  
*para 3.21.15*

## WATER RESOURCES

- ◆ Need for review of methods of sewage treatment at Werribee Farm to achieve cost efficiencies within environmental standards.  
*para 3.22.15*

## PARLIAMENT

- ◆ Efficiency and effectiveness review of the administration of Parliament undertaken by my Office at the request of the Presiding Officers was tabled by the Speaker in the Legislative Assembly.  
*para 3.23.5*

## LOSSES AND IRREGULARITIES

- ◆ Concern is expressed at the substantial level of losses and irregularities in public sector agencies which exceeded \$2.5 million.

## DISASTER RECOVERY

- ◆ Slow progress in implementing disaster recovery plans by agencies for computerised systems.  
*para 4.1.6*

---

## **PART 3**

---

# **AUDIT OF MINISTERIAL PORTFOLIOS**

---

---

## 3.1

# AGRICULTURE AND RURAL AFFAIRS

---

### KEY FINDINGS

---

- ◆ Victorian Egg Marketing Board operates outside government guidelines.  
*paras 3.1.1 - 3.1.2*
- ◆ Breakdown in internal control procedures for collection of fees at the Melbourne Wholesale Fruit and Vegetable Market.  
*paras 3.1.3 - 3.1.8*



---

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  
Good Food Products Australia 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  
Victorian Dairy Industry Authority  
Victorian Dried Fruits Board  
Victorian Dried Fruits Board Superannuation Fund  
Victorian Egg Marketing Board  
Victorian Fishing Industry Council

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

---

**VICTORIAN EGG MARKETING BOARD**

**Non-compliance with government policies**

**3.1.1** Guidelines are issued by the Premier and Treasurer from time to time to ensure that public bodies comply with government policy. A review by audit highlighted that the Board had not complied with government policies for overseas and domestic travel arrangements, and the engagement of consultants. Details are shown below:

*Travel arrangements*

- ◆ The necessary Overseas Visits Committee (OVC) approvals were not obtained for 6 overseas visits by Board officers which cost \$45 300. While 2 visits had only provisional approval from the OVC, 4 visits were undertaken despite OVC rejection of the Board's travel proposals;
- ◆ One of the visits provisionally approved by the OVC involved expenditure totalling \$15 400 which exceeded the provisionally approved cost of the visit by \$4 000 or 35 per cent; and
- ◆ Overseas and domestic travel was not arranged through the Victorian Tourism Commission.

### Engagement of consultants

- ♦ ministerial approval was not obtained for the engagement of consultants resulting in expenditure totalling \$1.3 million during 1987-88;
- ♦ there were no procedures in place to effectively monitor and evaluate the performance of consultants; and
- ♦ there was no register maintained to record details of consultancy arrangements.

### **3.1.2 There is a need for central agencies to monitor the operation of the policies issued by the Premier and the Treasurer to public bodies.**

#### *Management response*

*The Board's policy is to comply with Government's travel guidelines wherever possible. There have been several occasions where travel has had to be undertaken without OVC's approval. The Board has advised the Minister of this problem during December 1986 and February 1989.*

*The Board's legal advice from its Solicitor is that while due regard should be taken of the Government's policy on overseas travel, the Board must make its own decision as to whether a particular visit is appropriate in terms of the functions and duties of the Board as defined in the Marketing of Primary Products Act 1958.*

*The Board advised the Minister during 1986 that an advertising agency had been appointed and that seeking approval in advance was not practical.*

*Consultancy work was undertaken with a Chartered Accounting firm for advice in relation to a joint venture with the New South Wales Egg Corporation which needed to be acceptable to both parties and for the recruitment and selection of a senior executive.*

*Further services were provided by Consultants in relation to the preparation of senior management job descriptions, advice regarding the implementation of productivity which required independent advice and input.*

*An evaluation of the performance of the advertising program is a key agenda item for each monthly Board Meeting. In most cases the consultancy arrangements listed above related to a particular project and a continuing evaluation of performance was not relevant.*

*The Board had previously taken steps to keep a register of consultancy arrangements, but not its advertising agency, and this procedure unfortunately was not followed in 1987-88. A procedure is now established to ensure a proper record of consultancy arrangements is kept for 1988-89 year and in the future.*

---

## MELBOURNE WHOLESALE FRUIT AND VEGETABLE MARKET TRUST

**3.1.3** Growers who attend the Market on a regular basis pay quarterly fees in advance while growers who use stands within the Market on a casual basis and carrier agents are required to pay a fee or produce a pre-paid ticket as they enter the Market. Fees from casual growers and carrier agents in 1987-88 amounted to \$339 000.

**3.1.4** With the knowledge and co-operation of management audit undertook a site inspection at the Market on 29-30 June 1988 to observe procedures including those related to the collection of fees from casual growers and carrier agents.

**3.1.5** The inspection identified a number of internal control weaknesses and audit concluded that there was no system in force to ensure that all casual growers and carrier agents using stands at the Market paid the appropriate fee.

**3.1.6** An analysis of ticket sales on the night of 29-30 June 1988 disclosed that an unusually high number of tickets were sold compared with sales on other similar nights. Audit could not establish whether the higher ticket sales were due to the audit presence or other factors such as an unusually high number of growers and agents using the Market on that night or whether collections on other nights, when audit was not in attendance, were not being brought to account.

**3.1.7** As a result, audit is of the opinion that it is impossible for the Trust to determine whether all income from this source is being brought to account. The uncertainty surrounding the collection of fees resulted in the Auditor-General's opinion on the Trust's financial statements for 1987-88 being qualified.

### **3.1.8 Audit recommended that:**

- ◆ **internal controls be strengthened over the collection of fees; and**
- ◆ **management conduct unannounced checks to ensure that all Market users have the appropriate permit or ticket.**

#### *Management response*

*The Trust took over the administration and control of the Market some ten years ago. Since that time it has dramatically improved the cash handling procedures within the Market. The efficiency and effectiveness of market operations is dependent on continuing review of practices and procedures in stand allocation and user identification. The Audit comments will be used as the basis for improvement in total quality management of the Trust.*

*The accounting and cash management procedures for the allocation of Grower Stands in the Market is complicated and requires a great deal of skill and practical knowledge by those involved. In auditing these activities it is therefore necessary to understand the complexities of this activity and also the operating procedures within the Market.*

---

## LOSSES AND THEFTS

**3.1.9** The Department has notified my Office that losses and thefts of stores, equipment and a motor vehicle, with a total value of \$24 300, occurred during the period July 1987 to December 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>	Claim on Commonwealth not paid.	Despite several requests, a claim for \$149 000 covering the period 1980-81 to 1984-85 has not yet been paid by the Commonwealth Department of Primary Industries and Energy.
<i>Second Report, 1986-87, p.32</i>	Report on financial reporting and auditing procedures for statutory bodies within the agriculture portfolio.	Legislative amendments have been made and only 4 bodies audited by the Auditor-General within the portfolio do not have adequate reporting requirements. Notwithstanding the changes, 3 other bodies reported late to Parliament.
<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 obtained a legal opinion that it had the power under the <i>Marketing of Primary Products Act 1958</i> to make such advances. No new advances were made during 1987-88 and the balance of outstanding advances at 30 June 1988 was \$18 000.

## Schedule B. Completed/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>				
Department of Agriculture and Rural Affairs	30 June 1988	31 October. <i>Annual Reporting Act 1983, s.8.</i>	24 October 1988	31 October 1988
Citrus Fruit Marketing Board	31 December 1987	31 March. <i>Marketing of Primary Products Act 1958, s.12A (c).</i>	6 July 1988	6 September 1988
Daratech Pty Ltd	30 June 1988	No reporting requirements. Audit conducted at request of Treasurer (b).	8 November 1988	31 March 1988 (a)
Good Food Products Australia Pty Ltd	Period 25 March 1987 to 30 June 1988	No reporting requirements. Audit conducted at request of Treasurer (b).	10 August 1988	27 September 1988
Melbourne Wholesale Fruit and Vegetable Market Trust	30 June 1987	No date specified. <i>Melbourne Wholesale Fruit and Vegetable Market Trust Act 1977, s.19.</i>	1 September 1988	2 September 1988
Melbourne Wholesale Fruit and Vegetable Market Trust	30 June 1988	No date specified. <i>Melbourne Wholesale Fruit and Vegetable Market Trust Act 1977, s.19.</i>	25 January 1989	15 March 1989 (a)
Rural Finance Commission	30 June 1988	No date specified. <i>Rural Finance and Settlement Commission Act 1961, s.27.</i>	16 September 1988	16 September 1988
Tobacco Leaf Marketing Board	31 March 1988	30 June. <i>Marketing of Primary Products Act 1958, s.12A.</i>	11 August 1988	28 September 1988 (a)
Victorian Dairy Industry Authority	30 June 1988	30 September. <i>Dairy Industry Act 1984, s.21.</i>	30 September 1988	30 September 1988

## Schedule B. Completed/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 Dried Fruits Board	31 December 1987	1 May. <i>Dried Fruits Act 1958, s.18A.</i>	4 May 1988	10 June 1988
Victorian Dried Fruits Board Superannuation Fund	31 December 1986	No reporting requirements. Audit conducted at request of Treasurer.	18 April 1988	11 May 1988 (a)
" "	31 December 1987	" "	23 March 1988	11 May 1988 (a)
Victorian Egg Marketing Board	30 June 1988	30 September. <i>Marketing of Primary Products Act 1958, s.12A.</i>	17 August 1988	29 September 1988
Victorian Fishing Industry Council	30 June 1988	30 November. <i>Victorian Fishing Industry Council Act 1979, s.16.</i>	30 November 1988	30 November 1988
<b>Incomplete audits</b>				
Poultry Farmer Licensing Committee	30 June 1988	30 September. <i>Egg Industry Stabilization Act 1983, s.52.</i>	Audit substantially completed. Financial statements subject to Treasurer's approval.	
Poultry Farmer Licensing Review Committee	30 June 1988	30 September. <i>Egg Industry Stabilization Act 1983, s.52.</i>	"	"

(a) Qualified audit report issued.

(b) Audit conducted jointly with the New South Wales Auditor-General.

(c) Section 12A of the *Marketing of Primary Products Act 1958* came into operation on 30 March 1988.

---

## 3.2

# ARTS

---

### KEY FINDING

---

- ◆ Inadequate storage facilities at the Museum of Victoria are causing damage to the State Collections at an estimated rate of \$4 million each year.

*paras 3.2.1 - 3.2.6*

---

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  
Film Victoria  
Geelong Performing Arts Centre Trust  
Library Council of Victoria  
State Film Centre of Victoria Council  
Victorian Arts Centre Trust

Comments on matters of significance arising from the audit of the Council of the Museum of Victoria are discussed below.

---

**COUNCIL OF THE MUSEUM OF VICTORIA**

**Storage facilities**

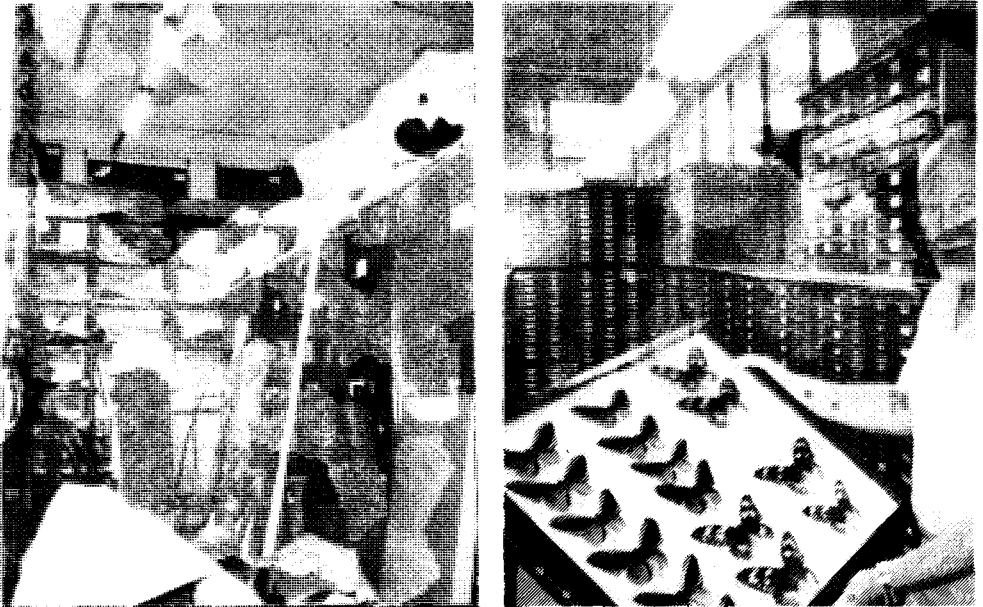
**3.2.1** An important function of the Council of the Museum of Victoria is to develop and maintain the State Collection of natural history, history of human society, and history of science and technology. These historic collections, which are stored at the Museum's city site and suburban locations, have increased over the years and now exceed 15 million items. Although the Collection has not been valued, the Museum considered it would have a minimum value of at least \$200 million.

**3.2.2** An audit review of the adequacy of the Museum's storage facilities disclosed that the premises are ill-equipped to securely store and safely maintain the State Collection. The major findings of the review were that:

- ◆ Most of the Collection is stored in areas where there is no control over temperature and humidity;
- ◆ Storage space available at the Museum's city building is insufficient and consequently cupboards, cabinets and shelves located throughout the building and the basement corridors are cluttered with items of the Collection;
- ◆ Due to the severe shortage of space it has been necessary to close part of the public galleries to provide storage for one of the Museum's most historic and valuable collections. This closure has reduced the area available for public display which is already limited to showing 5 per cent of the Collection at any one time; and



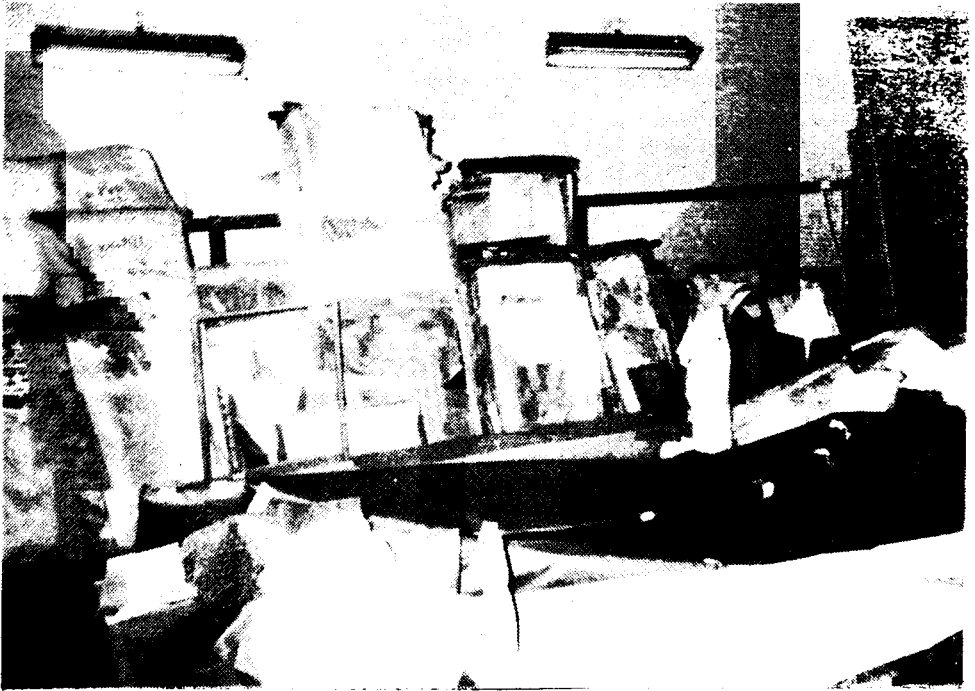
- ◆ Storage facilities at the suburban locations were also inadequate. Audit noted that shelves, cabinets, access corridors and fire escapes were overcrowded with items of the Collection. Apart from the Ornithology and Entomology collections, other items of the Collection were not stored under suitable climatic conditions.



*Examples of overcrowded storage facilities (left) and ideal storage facilities (right).*

**3.2.3** Due to the unsatisfactory storage facilities at the Museum, the State Collection has suffered major damage. In a report prepared by a consultant in 1986 on this matter it was estimated that the Collection would continue to deteriorate at an annual rate of \$4 million. Some examples of damaged items observed by audit included:

- ◆ Aboriginal artefacts that have valuable historic significance; and
- ◆ collections of aircraft engines, horse drawn carriages, reptiles and mammals.



*Unsatisfactory storage of Aboriginal artefacts.*

**3.2.4** The management of the Museum has been concerned with the above problem for some time and has frequently requested improved facilities. As a result of these requests a number of studies costing in excess of \$5 million have been undertaken in relation to the Museum's future development.

**3.2.5** The Government recently announced plans for the development of a new Museum complex with up-to-date facilities. However, audit was advised that new facilities will not be available for several years. In the meantime the deterioration of the Collection will continue, resulting in a substantial loss of the State's heritage.

**3.2.6** To minimise further damage to the Collection while a permanent location is being developed, audit recommended that adequate temporary storage facilities be provided as a matter of urgency.

*Management response*

*The Council of the Museum has approached the Government through the Ministry for the Arts and has requested that adequate storage facilities be provided for the next 4-5 years during the redevelopment of the Museum. To date, no additional space has been provided, however, it is understood that the provision of some additional space is imminent.*

## 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>First Report, 1987-88, p.37</i>	Internal audit arrangements to not implemented in accordance with government policy.	The Ministry has recently appointed an officer to head the unit. The unit's requirements are currently being reviewed by the Ministry.
<b>Council of the Museum of Victoria</b>		
<i>Fourth Report, 1983-84, p.29</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. For the third consecutive year substantial delays occurred in the finalisation of financial statements by the Council. Financial statements for 1987-88 not finalised until 6 February 1989.
<i>Second Report, 1986-87, p.36</i>	Unsatisfactory financial records.	The Council is in the process of improving its financial records.
<b>Film Victoria</b>		
<i>Second Report, 1986-87, pp.38-40</i>	Corporation's operations would be greatly enhanced if additional performance measures were used to critically evaluate the Corporation's activities.	Audit has been advised that the Corporation has developed additional performance measures.
<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.	The Council is to report the estimated value of the State Collection in its 1987-88 financial statements.
<b>Council of Trustees of the National Gallery of Victoria</b>		
<i>Second Report 1986-87, p.37</i>	Loss of colour transparencies with an estimated value of \$30 000.	Position now satisfactory. Transparencies replaced by publisher.
<b>Victorian Arts Centre Trust</b>		
<i>Fourth Report 1982-83, pp.110-11</i>	Several weaknesses in internal control procedures relating to catering operations.	Position now satisfactory as internal control procedures have been strengthened.

## Schedule B. Completed/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>				
Ministry for the Arts	30 June 1988	31 October. <i>Annual Reporting Act 1983, s.8.</i>	4 October 1988	13 October 1988
Council of the Museum of Victoria	30 June 1987	30 September. <i>Museums Act 1983, s.30.</i>	25 May 1988	17 June 1988 (a)
" "	30 June 1988	" "	6 February 1989	9 February 1989 (a)
Council of Trustees of the National Gallery of Victoria	30 June 1988	30 September. <i>National Gallery of Victoria Act 1966, s.17.</i>	8 August 1987	29 September 1988 (a)
Film Victoria	30 June 1988	31 December. <i>Film Victoria Act 1981, s.21.</i>	13 September 1988	16 September 1988
Geelong Performing Arts Centre Trust	30 June 1988	31 December. <i>Geelong Performing Arts Centre Trust Act 1980, s.18.</i>	7 November 1988	13 January 1989 (a)
State Film Centre of Victoria Council	30 June 1988	30 September. <i>State Film Centre of Victoria Council Act 1983, s.14.</i>	28 September 1988	30 September 1988
Victorian Arts Centre Trust	30 June 1988	31 December. <i>Victorian Arts Centre Act 1979, s.17.</i>	1 February 1989	24 February 1989 (a)
<b>Incomplete audits</b>				
Library Council of Victoria	30 June 1988	30 September. <i>Library Council of Victoria Act 1965, s.11C.</i>	Difficulties encountered in the valuation of the State Collection.	

(a) Qualified audit report issued.

---

## 3.3

# ATTORNEY-GENERAL

---

### KEY FINDINGS

- ◆ Beneficiaries' assets in excess of \$11 million transferred to the ownership of the State Trust Corporation by statute.  
*paras 3.3.1 - 3.3.12*
- ◆ Inability to form an opinion on the Corporation's revenue and expenditure for the period.  
*paras 3.3.13 - 3.3.16*
- ◆ Need for more effective control over beneficiaries' assets held in trust by the Corporation.  
*paras 3.3.19 - 3.3.22*

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 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  
Patriotic Funds Council  
State Trust Corporation  
Victorian Institute of Forensic Pathology

Comments on matters of significance arising from the audit of certain of the above entities are discussed in the following pages.

---

## **STATE TRUST CORPORATION**

### **Transfer of beneficiaries' assets**

**3.3.1** The State Trust Corporation was established by the *State Trust Corporation of Victoria Act 1987* on 2 November 1987 to, among other things, take over the functions and assets of the former Public Trust Office.

**3.3.2** At the date of takeover, the former Public Trust Office held assets of \$25.6 million derived from the income received from beneficiaries' funds.

**3.3.3** These assets included:

- ◆ a building at 168 Exhibition Street, Melbourne, formerly occupied by the Public Trust Office and currently occupied by the Corporation, (valued at \$11.1 million in 1987 and originally purchased from beneficiaries' funds in 1972 for \$3.4 million by the then Public Trustee); and
- ◆ moneys totalling \$9.3 million held in the Estate Guarantee Reserve Account (EGRA) which under the previous Act could only be used to cover capital losses on the sale of beneficiaries' investments or to incur expenses to protect the interest of beneficiaries.

**3.3.4** Following receipt of legal advice, audit formed the view that the *State Trust Corporation of Victoria Act 1987*, in particular section 43, had the effect of changing the long-term ownership status of the premises at 168 Exhibition Street, Melbourne, from an investment held on behalf of the beneficiaries to premises acquired from funds borrowed from the beneficiaries.

3.3.5 The Corporation contended that:

- ◆ the building in question had always been owned by the former Public Trust Office; and
- ◆ the premises had been paid for in the past by a loan from beneficiaries' funds.

3.3.6 However, this contention was not supported by evidence made available to audit, in that:

- ◆ **loan agreements did not exist between the beneficiaries and the former Public Trust Office;**
- ◆ **no repayments were ever made by the Public Trust Office to beneficiaries; and**
- ◆ **the premises were recorded in the financial statements of the Public Trust Office as investments held in trust on behalf of the beneficiaries.**

3.3.7 In response to representations made by my Office, the State Trust Corporation referred the matter to the Supreme Court of Victoria for a ruling to clarify the position. In a judgement handed down on 16 December 1988 the Court found that:

- ◆ **the Public Trust Office was not a borrower of the amounts applied under the Public Trustee Act;**
- ◆ section 43 of the State Trust Corporation of Victoria Act clearly applies to past applications under the old Act and **because of section 43** the Corporation:
  - owned the building in its own right;
  - the moneys applied under (the Act) for the purchase of the building are deemed to have been borrowed from the date the moneys were first applied (1972); and
  - the capital gain of \$7.7 million on the land and building belongs to the Corporation.

3.3.8 In addition, the judgement stated that:

*"There is an element of injustice involved because a large sum has been accumulated in EGRA because of the modesty of the rates of interest fixed by the Public Trustee. ... the \$9 million in EGRA is largely interest foregone by the Common Fund holders [beneficiaries], whose only entitlement to interest was at the rates fixed by the Public Trustee.*

*"There are doubtless other anomalies or, perhaps injustices involved in the changes effected by the new Act."*

3.3.9 In view of the Court's comments in relation to injustices and the Corporation's fiduciary role, audit requested the Board to consider whether it still intended to maintain its position in relation to the ownership of the building, the capital gain on the building and the retention of moneys standing to the credit of EGRA.

**3.3.10** The Board provided audit with the following response:

*"Having considered the judgement of Mr. Justice Gray and the Auditor-General's letter, the Directors consider that they are obliged to maintain their position in relation to the ownership of the building, the capital gain on the building, and the moneys standing to the credit of the former Public Trustee's General Account, Building Operations Account, Building Depreciation Account, and Estates Guarantee and Reserve Account, in accordance with the terms of the judgement; namely that all those assets are held by the Corporation in its own right absolutely."*

**3.3.11** With the passing of the State Trust Corporation of Victoria Act in 1987 it is clear that the building at 168 Exhibition Street, Melbourne and the other assets referred to in this report are now legally owned by the Corporation. This means that the Act has retrospectively changed the status of assets previously held in trust for beneficiaries.

**3.3.12** It is pleasing to report that in view of the comments made by Mr. Justice Gray on the anomalies or perhaps injustices involved in the changes effected by the new act and the various representations by my Office, I have been advised that the Attorney-General intends to review the position. I will follow this matter up and report accordingly in 1989-90.

#### **Financial recording**

**3.3.13** In January 1988 extensive discussions were held between audit and the senior management of the Corporation in relation to the preparation of the Corporation's financial statements. As the accounts of the former Public Trust Office were kept on a cash basis audit stressed the need to establish accurate opening balances to ensure all revenue and expenditure for the period was correctly recorded by the Corporation. This was agreed to by management and the opening balances were to be established as a matter of priority.

**3.3.14** However, due to the lack of appropriate financial management expertise within the Corporation at that time, accrued revenue and expenditure at the date of setting up the Corporation was not identified, neither was accrued revenue relating to capital commissions earned at 30 June 1988. The Corporation has now taken steps to rectify previous inadequacies in financial management.

**3.3.15** As a result, the Corporation qualified its own financial statements in the following terms.

*"The accounts of the Public Trustee were prepared on a cash basis only. As stated above, the accounts of the Corporation have been prepared in accordance with standard accounting practice. Due to the perceived difficulties of a fundamental change in accounting practice, the Corporation elected not to attempt to calculate accruals as at the date of establishment, i.e. 2 November 1987, except for employees' entitlements. Except as stated in (..) below, accrual accounting has been adopted as from 30 June 1988."*



---

*"Commissions received includes capital commission actually received during the accounting period in respect of Estates, Trusts or Administrations. The Corporation is not currently in a position to account for capital commission accruals, although it is taking the necessary steps to achieve this as soon as practicable."*

**3.3.16** As the Corporation did not maintain adequate records for the recording of accruals I was not in a position to express an opinion on the Corporation's revenue and expenditure and accrued income as disclosed in the 1987-88 financial statements.

**3.3.17** Due to the matter discussed in paragraphs 3.3.1 to 3.3.12 of this report being referred to the Supreme Court, the Corporation's financial statements were substantially delayed.

**3.3.18** In accordance with the *Annual Reporting Act 1983* the Corporation sought and was granted an extension of time until 28 February 1989 by the Treasurer for the submission of its annual report to the Minister. The financial statements were finally adopted by the Corporation on 3 March 1989.

#### **Assets held in trust**

**3.3.19** Since 1968 audit reports consistently stressed the need for the former Public Trust Office to develop a proper recording system which would enable the Office to provide effective control over Trust assets. Despite this the matter was never resolved in the life of the former Public Trust Office.

**3.3.20** During the course of the audit of the Corporation audit noted that effective control had still not been established over these assets. At the date of this report no centralised register of beneficiaries assets was maintained independently of the current method of asset recording which consisted only of notations on estate files. Furthermore, these files were not stored in a secured location and could be removed for unauthorised purposes. However, I have been advised that since the audit steps have been taken by the Corporation to remedy these problems.

**3.3.21** During December 1988 the Corporation carried out a review on Trust estate files to determine an estimated value of these assets. As a result of this exercise an estimated value of in excess of \$1 000 million has been placed on these assets.

**3.3.22** Audit is concerned that despite the provision of the *State Trust Corporation Act* which requires the Corporation to do all things necessary to ensure adequate control is maintained over beneficiaries' assets, shortcomings still exist in this area. I have recently been advised by the Corporation that a complete computerised register of beneficiaries assets will be established by 30 June 1989.

## 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>		
<i>First Report, October 1982, p.103</i>	Major functions within the Department and its branches should be reviewed by internal audit.	Position now satisfactory. Internal audit unit is now covering major functions of the Department.
<i>Second Report, 1982-83, p.65</i> <i>Third Report, 1983-84, p.33</i> <i>Second Report, 1986-87, p.43</i>	Investment of court funds.	Trust funds invested by the Master of the Supreme Court are being transferred to the State Trust Corporation. The proposed transfer of funds from the County Court to the State Trust Corporation is still under consideration by the judges.
<i>Third Report, 1983-84, p.32</i> <i>Second Report, 1985-86, pp.70-1</i>	Financial statements - debtors had been understated.	The financial statements were qualified with regard to outstanding court fines held at the Information Bureau Registry of the Victorian Police Force. Further comment included in paragraphs 3.15.8 - 3.15.14 of this report under Police and Emergency Services.
<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 the amount of \$3 750 is still outstanding.
<b>Legal Aid Commission of Victoria</b>		
<i>Second Report, 1987-88 p.44</i>	Delays and additional costs incurred in the development and implementation of the computerised legal aid services system.	A further review on the operations of the system disclosed many internal control weaknesses which need to be addressed by the Commission.
<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 now satisfactory. The Council has agreed to submit its annual report to the Attorney-General for tabling in Parliament.

## Schedule B. Completed/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>				
Attorney-General's Department	30 June 1988	31 October. <i>Annual Reporting Act 1983</i> , s.8.	16 November 1988	22 November 1988 (a)
Estate Agents Board	30 June 1988	30 September. <i>Estate Agents Act 1980</i> , s.98.	30 September 1988	14 October 1988
Guardianship and Administration Board	30 June 1988	30 September. <i>Guardianship and Administration Board Act 1986</i> , s.76.	30 September 1988	4 October 1988
Law Reform Commission	30 June 1988	30 September. <i>Law Reform Commission Act 1984</i> , s.30.	23 September 1988	28 September 1988
Legal Aid Commission	30 June 1987	30 September. <i>Legal Aid Commission Act 1978</i> , s.42.	23 June 1988	7 September 1988
" "	30 June 1988	30 September. <i>Legal Aid Commission Act 1978</i> , s.42.	23 September 1988	30 September 1988
Legal Aid Staff Superannuation Fund	30 June 1987	30 September. <i>Legal Aid Commission Act 1978</i> , s.42.	23 June 1988	7 September 1988
" "	30 June 1988	30 September. <i>Legal Aid Commission Act 1978</i> , s.42.	23 September	30 September
Office of the Director of Public Prosecutions	30 June 1988	31 October. <i>Annual Reporting Act 1983</i> , s.8.	19 September 1988	14 October 1988
Office of the Public Advocate	30 June 1988	30 September. <i>Guardianship and Administration Board Act 1986</i> , s.78.	30 September 1988	4 October 1988
Office of the Public Trustee (c)	30 June 1987	30 September. <i>Public Trustee Act 1958</i> , s.62.	10 February 1989	3 March 1989 (a)
" "	1 November 1987	1 November. <i>Public Trustee Act</i> repealed.	10 February 1989	3 March 1989 (a)
Patriotic Funds Council	Period 6 December 1986 to 8 January 1988	No date specified. <i>Patriotic Funds Act 1958</i> , s.28.	(b)	(b)

**Schedule B. Completed/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>
State Trust Corporation	Period 2 November 1987 to 30 June 1988	30 September. <i>Annual Reporting Act 1983</i> s.8.	3 March 1989	3 March 1989 (a)
Victorian Institute of Forensic Pathology	30 June 1988	30 September. <i>Coroners Act 1985, s.74.</i>	29 September 1988	30 September 1988

(a) Qualified audit report issued.

(b) Not applicable.

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

---

## 3.4

# COMMUNITY SERVICES

---

### KEY FINDINGS

- ◆ Deficiencies in procedures for the approval and recording of expenditure in excess of Parliamentary appropriation.  
*paras 3.4.1 - 3.4.6*
- ◆ Need for Department to review personnel practices with the aim of reducing the high level of overtime at Centres.  
*paras 3.4.7 - 3.4.10*

---

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.

Comments on matters of significance arising from the audit of the Department are set out below:

---

## **DEPARTMENT OF COMMUNITY SERVICES**

### **Recording of departmental expenditure**

**3.4.1** The Auditor-General's *Second Report* to Parliament for 1986-87 included comment on a number of deficiencies in the Department's financial management process including problems with the classification of expenditure during the year.

**3.4.2** The Department, in addition to recording all expenditure by program in their own financial records, provides information relating to that expenditure, both in detailed and summary form, to the Department of Management and Budget (DMB). The detailed information is forwarded to the budget and resource management section while the summary form is used to update the Public Ledger.

**3.4.3** During 1987-88 it was noted that the summary information supplied by the Department to DMB was not always in agreement with the information contained in its own records. As a result, the Public Ledger did not always reflect accurate information, as in some instances, it showed expenditure being within the authorised appropriation whereas the Department's records indicated expenditure in excess of the appropriation.

**3.4.4** The reasons for the differences have arisen from the process whereby the Department applies for approval to charge expenditure to an item within a program in excess of the amount appropriated and the approving, or otherwise, of the chargings by the Treasurer.

**3.4.5** Although Treasurer's approval was eventually given for the requested amendments to appropriations or for expenditure in excess of appropriations to be charged to the Treasurer's Advance, audit expresses concern that the Department supplied information which resulted in the Public Ledger being inaccurate.

**3.4.6** **Audit recommends that the Department and DMB determine adequate procedures which will ensure that the department expends moneys only within limits approved by Parliament, or as amended with the approval of the Treasurer. In addition the Department should ensure that information supplied to update the Public Ledgers is at all times accurate.**

---

## Overtime and other allowances

**3.4.7** Payments of overtime and allowances to employees of youth training centres, reception centres and Intellectual Disability Services (IDS) centres totalled in excess of \$17 million in 1987-88. This represented a loading of 24 per cent above the base salary costs of the Centres.

**3.4.8** The proportion of overtime and allowances as a percentage of base salary costs varied significantly between Centres, with the highest proportion being 37 per cent and the lowest 19.6 per cent.

**3.4.9** An audit review of management controls, procedures and processes in relation to the payment of overtime and related allowances revealed the following:

- ◆ Deficiencies existed in the method of determining overtime budgets and improvements could be made to the procedures used for monitoring actual expenditure against budgets;
- ◆ The ratio of salary costs to client numbers varied significantly between Centres, indicating that available departmental resources may not be deployed in the most effective manner;
- ◆ Insufficient staff numbers were employed in certain Centres contrary to minimum staffing requirements agreed upon by the Department. This situation contributed significantly to overtime levels;
- ◆ The extent of alternatives to the payment of overtime, such as the use of temporary or unallocated rostered employees to replace absent staff, varied between Centres and contributed to the variations in the level of overtime payments;
- ◆ Direct care employees at youth training centres and reception centres received a standard fortnightly overtime allocation of 4 hours as a result of current shift arrangements. This represented a major reason for the generally higher level of overtime in these Centres as compared to IDS centres where day shift durations did not necessitate the payment of standard fortnightly overtime;
- ◆ The Janefield Training Centre exercises control over when employees can take recreation leave and time off in lieu. In return for this control, employees are allocated an extra 4 days leave per annum provided they agree to be recalled at no additional cost to the Centre. These arrangements have contributed significantly to overtime costs at this Centre being proportionately lower than other Centres where there is not the same degree of control exercised over when leave can be taken;
- ◆ Staff in all Centres rostered on night duty did not take meal breaks, resulting in the payment of a half hour overtime per day in lieu of a meal break. It was also noted that overtime in lieu of meal breaks was often paid to employees working day shift at Turana, thereby increasing the comparative overtime cost of this Centre. Such a practice may be contrary to industrial awards;

- ◆ The replacement of employees absent on sick leave represented the main unplanned overtime within Centres. Audit observed that the timing of sick leave was related to factors such as the number of consecutive rostered days off, and the availability of penalty rates; and
- ◆ Employees at all Centres were commonly rostered on night duty for periods exceeding 4 weeks. This practice attracts penalty allowances of 15 per cent and consequently increases staffing costs of the Department.

**3.4.10 Audit recommended that the Department review current personnel practices and management procedures with the aim of eliminating practices which contribute to higher levels of overtime and allowances. Specific recommendations included the need for:**

- ◆ a review of methods for allocating staff numbers to Centres and establishing minimum staffing levels;
- ◆ investigation of the most appropriate rostering procedures and shift durations for Centres;
- ◆ consistent use between Centres of alternatives to overtime, such as temporary employees and unallocated rostered employees; and
- ◆ consideration of the current practice of payment of overtime in lieu of meal breaks, and the payment of additional penalty allowances.

*Management response*

*With regard to overtime and other allowances, the Auditor-General's review does not:*

- ◆ *recognise that rostering arrangements are part of a broader fabric of working arrangements covering a wide variety of work practices and industrial agreements which exist for each of the institutions;*
- ◆ *pay regard to the varying supervision needs of clients with differing ages, social problems, intellectual and physical disabilities; and*
- ◆ *adequately recognise the nature and level of alternative costs to government in seeking to minimise overtime expenditure as a single issue.*

*The Department's major institutions are currently the subject of major review in the context of wider service redevelopments which will involve new service models and staffing arrangements. This process is expected to depend to some extent on a downscaling of institutional services and improvements to staff/client ratios.*



*Service redevelopment will provide the mechanism to achieve substantial changes to current working arrangements and will lead towards the outcomes envisaged by the audit recommendations over the next three years.*

*In addition CSV will continue to review working arrangements with a view to improve time practices. Particular opportunities will exist in the context of restructuring as a result of the application of the structural efficiency principle.*

## **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 Community Services</b>		
<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.17</i>	The State has to undertake unnecessary duplication of administrative procedures to recover fees, collected by the Commonwealth, from patients in State benevolent homes.	New collection procedures currently being negotiated with the Commonwealth.
<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.	Consideration has been given by the Department to 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.	Administration of home help services now incorporated in joint Commonwealth/State Home and Community Care Program.
<i>Second Report, 1986-87, p.47</i>	Deficiencies in financial management processes including incorrect classification of expenditure in DMB records, lack of periodic reconciliations between departmental and public ledger records and failure to appropriately certify significant expenditure of the Department.	Improvements made by the Department have overcome certain deficiencies in financial management. Further incorrect classification of expenditure commented on in paragraphs 3.4.1 to 3.4.6 of this report.

---

**Schedule B. Completed/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 audit</b>				
Department of Community Services	30 June 1988	31 October. <i>Annual Reporting Act 1983,s.8</i>	20 October 1988	31 October 1988

---

---

## 3.5

# CONSERVATION, FORESTS AND LANDS

---

### KEY FINDINGS

- ◆ Revenue forgone of approximately \$1.8 million per annum.  
*paras 3.5.1 - 3.5.2*
- ◆ Capacity of new Land Information Management System not fully realised.  
*paras 3.5.3 - 3.5.5, 3.5.7*
- ◆ Extent of assets under the control of committees of management not known.  
*paras 3.5.10 - 3.5.12*
- ◆ There is a need to improve the accountability and monitoring of the activities of committees of management.  
*paras 3.5.13 - 3.5.17*
- ◆ Future options for the continued use of the State Swimming Centre are still unclear.  
*paras 3.5.18 - 3.5.20*

---

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

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

---

**DEPARTMENT OF CONSERVATION, FORESTS AND LANDS**

**Revenue collection**

3.5.1 Previous reports of the Auditor-General to Parliament have commented on the following:

- ◆ failure to either collect outstanding licence fees for occupied Crown land or to terminate tenancies;
- ◆ inability to systematically monitor the usage of Crown land and detect unauthorised or illegal occupations; and
- ◆ inadequate follow-up of debtors, particularly in relation to outstanding timber royalties.

3.5.2 Advice from the Department is that over a number of years considerable revenue, estimated to be approximately \$1.8 million per annum, has been forgone. This has resulted from:

- ◆ the failure to complete the review of agriculture-type usage of occupied Crown land and applicable licence fees; and
- ◆ inability to follow-up approximately 9 000 unauthorised occupations of Crown land.

**3.5.3** During 1987-88 progress was made by the Department in developing the Land Information Management System (LIMS) to monitor Crown land holdings. The Department indicated that funding constraints had restricted the gathering and processing of land information and consequently the management control potential offered by LIMS has not been fully realised to date.

**3.5.4** However, in 1988-89 the Department obtained funding for an initiative known as "*Completion of a fully documented land asset register of Crown land*". The initiative, commenced in October 1988 and to be completed in 1990-91, is aimed at improving the LIMS database and will enable the Department to:

- ◆ take action on unauthorised occupations of Crown land;
- ◆ systematically review uses of Crown land to ensure appropriate licence fees are levied; and
- ◆ identify potentially saleable Crown land.

**3.5.5** The inadequate follow-up of debtors referred to in the Auditor-General's report to Parliament for 1986-87 has been overcome to some extent by the implementation of a computerised accounts receivable system in July 1988 which has led to improved management of debtors raised since that time. Nevertheless, the Department is experiencing some difficulty with debtors' balances carried forward from the previous system caused by the incorrect allocation of receipts and differences in head office and regional records.

#### *Management response*

*The introduction of a modern accounts receivable system, the adaptation of the Land Information Management System (LIMS) data base, and the provisions of special land management resourcing are already resulting in much higher revenue collections in 1988-89, and the identification of potentially saleable Crown land.*

## **Committees of management**

### *Improvement in monitoring and reporting processes*

**3.5.6** There are in excess of 4 300 Crown land reserves in the State for which management responsibility has been delegated to 1 800 committees of management. The delegations have been made by the Minister for Conservation, Forests and Lands principally under the provisions of the *Crown Land Reserves Act 1978*.

**3.5.7** The Department has a responsibility to provide advice to the Minister on the performance of the delegated managers.

**3.5.8** For many years there was no systematic approach by the Department to the administration and monitoring of the delegated management of Crown land reserves. However, in recent times the Department has taken a number of positive steps to improve the management of Crown land reserves including:

- ◆ development of a Land Information Management System (LIMS) to record all Crown land holdings, including details of reserves managed by committees;

- ◆ issuing guidelines on a range of matters such as the setting of objectives and powers and duties of committees, as well as departmental policies on accounting records, financial reports and auditing requirements for committees; and
- ◆ drafting of a proposed Lands Bill to consolidate and modernise existing lands legislation.

**3.5.9 Audit is of the view that these initiatives can be enhanced by improved monitoring and reporting processes of committees of management.**

*Need to determine total resources under the control of committees*

**3.5.10** At present the Department is unable to determine the value of assets at the disposal of committees of management. The Department has conservatively estimated that the value of assets, not including land, exceeds \$100 million. Audit found that although facilities are available on LIMS, financial data was often not recorded due to committees not providing financial statements and to failure by regions to enter data.

**3.5.11** In audit opinion it is not possible for the Department to develop overall plans and strategies for the management of committees or to adequately assess their performance, given the inadequacy of financial information available.

**3.5.12** Various government documents have stressed the need for greater accountability for public assets. In view of this and the Department's need for financial information to effectively manage the activities of committees, audit recommended that, as a matter of urgency, the value of assets under the control of committees be incorporated into LIMS.

*Accountability and reporting of performance*

**3.5.13** An important component of an overall management control system is the setting of objectives and measurement of performance against those objectives. Although the committees have been provided with general guidance on these matters, the Department has not established procedures to ensure that objectives are set by committees to reflect government policy and strategies.

**3.5.14** In view of the magnitude of resources under their control audit recommended that committees be required to prepare, on a regular basis, a report of operations setting out objectives and progress made towards achieving those objectives. Furthermore, audit recommended that consideration be given to including an overall summary of the performance of committees in the annual report of the Department.

*Requirement for systematic review of operations of committees*

**3.5.15** Historically, the Department has had little involvement with committees to ensure that they complied with legislative requirements and government policy. Generally, committees have been allowed to operate autonomously with the Department only becoming involved when requests for assistance were received.

---

**3.5.16** Audit highlighted a number of matters which need to be addressed by the Department. These included:

- ◆ reserves being used for purposes other than those specified under legislation;
- ◆ members continuing to serve on committees after their term of appointment had expired; and
- ◆ regulations concerning the operation of certain reserves not being reviewed for many years with the result that they did not reflect current standards in relation to rights of access and levels of fees and penalties.

**3.5.17** With the introduction of LIMS the Department has established a framework for closer monitoring of committees' activities. **To obtain full advantage from the system it will be necessary for the Department to ensure regions regularly update and review information on LIMS and for this monitoring to be supplemented by periodic inspections of reserves.**

*Management response*

*The Auditor-General's concerns relating to Committees of Management are all noted, and are being addressed. In some cases the ability to resolve issues will depend on capacity to obtain or redirect resources, and to implement new and efficient information systems. Further, it is considered that the success or otherwise in meeting non-economic objectives, as distinct from economic objectives, is often the more important criterion for Boards and Committees of Management of this nature.*

## **STATE SWIMMING CENTRE COMMITTEE OF MANAGEMENT**

### **Design and structural defects in the State Swimming Centre**

**3.5.18** In previous reports of the Auditor-General to Parliament, comment was made on certain design and structural defects in the construction of the State Swimming Centre. The defects included:

- ◆ substantial cracking in walls; and
- ◆ differentials in pool levels indicating settlement of the site.

**3.5.19** Legal proceedings to recover costs and damages against the builder and consulting engineer are currently awaiting hearing before the Supreme Court.

**3.5.20** Consultants and officers from the Ministry of Housing and Construction have indicated that extensive repairs and remedial measures will be required to keep the pool operational in the short to medium-term. Future options for the Swimming Centre are being reviewed by the Department of Sport and Recreation.

## LOSSES AND THEFTS

3.5.21 Losses and thefts of property, which occurred in the period July 1987 to December 1988 are summarised below:

	\$
Department of Conservation, Forests and Lands	49 000
Other organisations within the portfolio	<u>21 000</u>
Total reported	<u>70 000</u>

### 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</i> <i>First Report, 1984-85, p.81</i>	Inadequate procedures to either collect outstanding licence fees for occupied Crown land or terminate tenancies.	A management information system has been implemented to identify unauthorised occupations. Further comments are contained in paragraphs 3.5.1 to 3.5.4 of this report.
<i>Second Report, 1985-86, pp.90-1</i> <i>Second Report, 1986-87, pp.52-3</i>	Deficiencies in the debtors/revenue collection system. Potential interest forgone.	The progressive introduction of a computerised accounts receivable system from July 1988 has improved revenue collection performance. Further comments are contained in paragraph 3.5.5 of this report.
<b>Bundoora Park Committee of Management</b>		
<i>Second Report, 1986-87, p.53</i>	Audits for past 7 years unfinalised due to failure of the Committee to provide satisfactory financial statements.	Financial statements for the past 8 years provided to audit on 8 February 1989. Audit is currently underway.
<b>State Swimming Centre Committee of Management</b>		
<i>Fourth Report, 1983-84, pp.76-7</i>	Action required to recover costs and obtain compensation for structural defects in the Centre's building.	Legal action has been initiated. Further comments are contained in paragraphs 3.5.18 to 3.5.20 of this report.



## Schedule B. Completed/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>				
Department of Conservation, Forests and Lands	30 June 1988	31 October. <i>Annual Reporting Act 1983, s.8.</i>	27 October 1988	31 October 1988
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.	24 February 1988	16 May 1988
Mount Macedon Memorial Cross Committee of Management	31 December 1987	No reporting requirements. Audit conducted at request of Treasurer.	14 February 1989	29 March 1989
" "	31 December 1988	" "	" "	" "
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.	30 June 1988	26 August 1988
Penguin Reserve Committee of Management	30 June 1987	" "	12 April 1988	21 April 1988
Shrine of Remembrance Trustees	30 June 1988	No reporting requirements. Audit conducted at request.	22 November 1988	14 December 1988
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.	17 June 1988	26 August 1988
Victorian Institute of Marine Sciences	31 December 1987	31 March. <i>Victorian Institute of Marine Sciences Act 1974, s.26.</i>	27 May 1988	26 October 1988 (a)
Zoological Board of Victoria	30 June 1988	30 September. <i>Zoological Parks and Gardens Act 1967, s.15F.</i>	16 November 1988	7 December 1988

**Schedule B. Completed/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 Superannuation Fund	30 June 1987	No reporting requirements. Audit conducted at request of Treasurer.	2 March 1988	29 April 1988(a)
<b>Incomplete audits</b>				
Albert Park Committee of Management Incorporated	31 December 1987	No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.	Audit substantially completed.	
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.	Financial statements from the Committee received on 8 February 1989. Audit is currently underway.	
" "	30 June 1982	" "	" "	" "
" "	30 June 1983	" "	" "	" "
" "	30 June 1984	" "	" "	" "
" "	30 June 1985	" "	" "	" "
" "	30 June 1986	" "	" "	" "
" "	30 June 1987	" "	" "	" "
" "	30 June 1988	" "	" "	" "
Olympic Park Management	30 June 1988	" "	Audit substantially completed. Financial statements not finalised.	
Penguin Reserve Committee of Management	30 June 1988	" "	Audit substantially completed.	
Port Bellarine Committee of Management	30 September 1988	No reporting requirements. <i>Post Bellarine Tourist Reserve Act 1981, s.21</i> provides for the the audit of the accounts.	Audit substantially completed.	

Schedule B. Completed/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>
State Swimming Centre Committee of Management	30 June 1988	No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.	Audit substantially completed.	
Yarra Bend Park Trust	30 June 1988	No reporting requirements. Audit conducted at request of Treasurer.	Audit substantially completed.	
Zoological Board of Victoria Superannuation Fund	30 June 1988	No reporting requirements. Audit conducted at request of Treasurer.	Financial statements not received.	

(a) Qualified audit report issued.

---

## 3.6

# CONSUMER AFFAIRS

---

### KEY FINDINGS

- ◆ Tenants' bond moneys held by approved institutions totalled \$59.9 million  
*paras 3.6.1*
- ◆ Legislation is silent on the application of accumulated surpluses of \$16.8 million held in the Residential Tenancies Fund.  
*paras 3.6.5*
- ◆ Interest earnings from bond moneys held by approved institutions not maximised.  
*paras 3.6.10 - 3.6.11*

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:

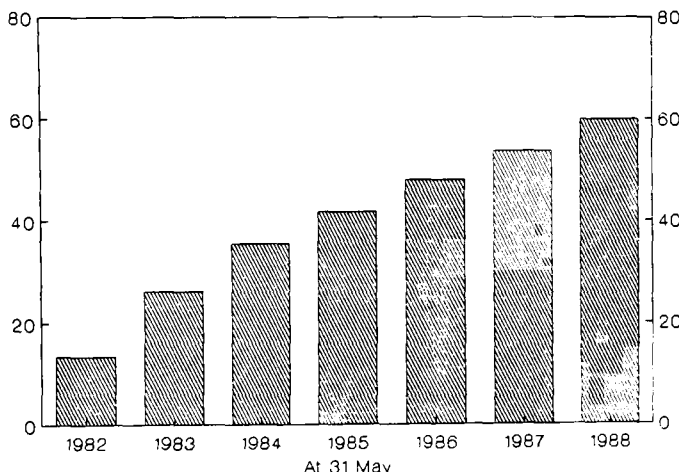
Comments on matters of significance arising from the audit of the Ministry are discussed below.

## MINISTRY OF CONSUMER AFFAIRS

### Tenants' bond moneys

**3.6.1** The *Residential Tenancies Act* 1980 requires landlords or their agents to deposit tenants' bond moneys into trust accounts established with institutions approved by the Treasurer. At 31 May 1988, bond moneys held in trust accounts totalled \$59.9 million. Chart 3.6A illustrates the growth in bond moneys over the past 7 years:

**CHART 3.6A. TENANCY TRUST ACCOUNTS:  
BOND MONEYS HELD  
(\$ million)**



**3.6.2** Interest earned on these trust accounts is paid into the Residential Tenancies Fund, a fund established under the control of the Treasurer for the purpose of administering residential tenancy programs and services. During 1987-88 the receipts of the Fund totalled \$7.5 million, of which interest received from the trust accounts amounted to \$5.5 million.

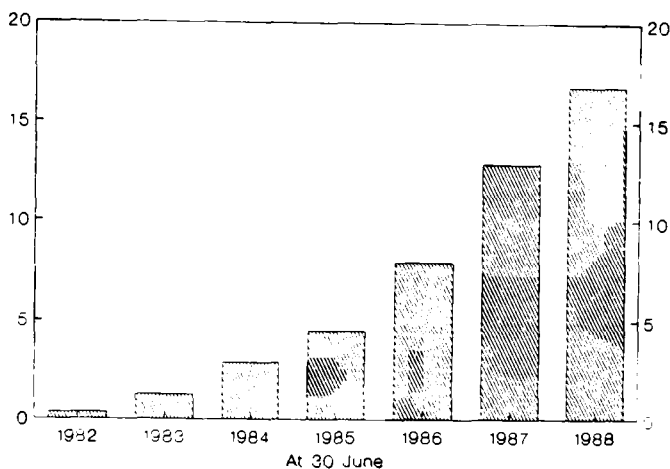
**3.6.3** Moneys paid out of the Fund in 1987-88 included salaries and allowances of \$1.9 million, general expenses of \$496 000, grants to various community tenancy-type organisations of \$575 000 and a loan of \$468 000 to the Ministry of Housing and Construction to assist low-income households to meet bond payments under the Ministry's Bond and Relocation Scheme.

**3.6.4** During 1989, a review was undertaken of various aspects of the Fund's operations. The major findings of the review are set out in the following paragraphs.

#### *Accumulated surplus*

**3.6.5** Although the Act specifies the purpose for which moneys in the Fund may be applied it is silent on how the accumulated funds may be used. Since the commencement of the Fund, annual surplus funds have increased from \$346 000 (1981-1982) to \$3.9 million (1987-1988) resulting in an accumulated surplus at 30 June 1988 of \$16.8 million. Chart 3.6B illustrates the progressive increase in the accumulated surplus in the period from 1982 to 1988:

**CHART 3.6B. RESIDENTIAL TENANCIES FUND:  
ACCUMULATED FUNDS  
(\$ million)**



**3.6.6** At the direction of the Minister a team was established in June 1988 to review the operations of the Fund, including options for the use of the accumulated surplus. The report of the review team is due to be presented to the Minister in May 1989.

#### *Operating costs not accurately allocated*

**3.6.7** Salaries of \$1.9 million are charged to the Fund on the basis of a set number of full-time staff. Audit found that particular officers assigned to the residential tenancies area were also engaged in duties in other areas of Ministry operations.

**3.6.8** Audit also found that in 1987-88 indirect costs in excess of \$250 000, such as rent, WorkCare and superannuation, incurred by the Ministry in administering residential tenancies, were not charged to the Fund.

**3.6.9** Audit recommended that the Ministry review all costs charged to residential tenancies to ensure that it accurately reflects the cost of operating the Fund.

### *Management response*

*The proportion of expenditure charged to the Fund is constantly reviewed from the initiating branch level and also by the Finance Manager in line with methodologies adopted by the Ministry in August 1987. Documentation will be improved for the next financial year. In addition, the Ministry has initiated discussions with the Department of Management and Budget regarding a more precise apportionment of salaries between Fund and Appropriations, and indirect costs.*

### *Variations between terms and conditions applying to approved institutions*

**3.6.10** The terms and conditions contained in agreements with approved institutions in their operation of tenancy trust accounts were neither uniform nor conducive to maximising the return to the Fund. The Ministry has recognised these shortcomings and is currently in the process of negotiating new agreements with the institutions.

**3.6.11** Notwithstanding that better rates could have been negotiated, audit estimated that, had tenants' bond moneys been held with the institutions yielding the highest average interest rate, an additional \$175 000 interest could have been earned during 1987-88.

**3.6.12** The Ministry should consider calling tenders from financial institutions with a view to rationalising and consolidating the administration of tenants' trust accounts. Tender documentation should also specify the accountability requirements in terms of the verification of bond moneys held and interest earned.

### *Management response*

*The Ministry has progressively negotiated improved terms and conditions with banks as they have sought authorised status under the Act. The Ministry has negotiated improved terms in relation to interest payments with existing authorised institutions and is currently negotiating with all authorised institutions in an effort to standardise terms and conditions, and to persuade the banks to consolidate individual accounts into one account in order to provide a higher return.*

*The Ministry has commenced discussions with the Department of Management and Budget on the audit recommendations.*

### *Investigations of estate agents*

**3.6.13** The failure by estate agents and landlords to deposit tenants' bond moneys into a tenancy trust account is a breach of the legislation and has a direct bearing on the earnings of the Fund. The Ministry does not have the authority to examine the accounting records of estate agents, and relies on investigations by the Estate Agents Board to report non-compliance with the legislation.

**3.6.14** Audit is concerned that during 1988 there was a significant reduction in the number of investigations of estate agents by the Board.

### *Management response*

*Discussions have commenced with the Estate Agents Board.*

---

## 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>First Report, 1987-88, p.36</i>	Internal audit arrangements not implemented in accordance with government policy.	In conjunction with the Local Government Department and the Ministry of Planning and Environment an audit section for the 3 departments has now been established and an audit manager appointed.

---

## Schedule B. Completed/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>				
Ministry of Consumer Affairs	30 June 1988	31 October. <i>Annual Reporting Act 1983, s.8.</i>	19 September 1988	23 September 1988

---



## 3.7

# EDUCATION

### KEY FINDINGS

- ◆ School bus transportation services:
  - substantial annual cost savings would be likely if fixed-term contracts and periodic re-tendering could be agreed with the Bus Proprietors Association; and
  - there is potential for annual savings of \$7 million to be achieved by streamlining the existing framework.  
*paras 3.7.1 - 3.7.60*
- ◆ Post-primary school audits are still substantially in arrears and several misappropriations of funds in schools, involving over \$107 000, have been reported.  
*paras 3.7.61 - 3.7.71*
- ◆ Serious financial management problems have been experienced at the Victorian College of the Arts.  
*paras 3.7.82 - 3.7.89*
- ◆ Termination of Monash University's overseas IVF agreement with royalties receivable of \$2.6 million, substantially short of initial expectation of \$20 million.  
*paras 3.7.90 - 3.7.98*
- ◆ Disturbing financial circumstances of 2 subsidiary companies of RMIT Ltd.  
*paras 3.7.99 - 3.7.126*
- ◆ New directions in resource management within the TAFE sector.  
*paras 3.7.129 - 3.7.136*
- ◆ Commonwealth TAFE grants totalling \$14.4 million, normally payable from October 1988, have not been received by the State.  
*paras 3.7.137 - 3.7.144*
- ◆ Concentration by educational bodies on achieving greater efficiency for cleaning services within existing framework rather than on implementation of contract cleaning.  
*paras 3.7.145 - 3.7.153*

---

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

Knowledge Victoria Ltd

Post-secondary education institutions:

4 universities and 4 associated companies of universities;

16 colleges of advanced education;

31 colleges of technical and further education; and

3 institutes of tertiary education.

State Training Board

Victorian Curriculum and Assessment Board

Victorian Post-Secondary Education Commission

Victorian Tertiary Admissions Centre

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

---

**MINISTRY OF EDUCATION - BUS CONTRACTING SERVICES**

**Review summary**

**3.7.1** Engagement of the services of bus contractors for transportation of primary and post-primary students constitutes an important facet of the overall operations of the Ministry of Education. Contractual outlays for student transport services during 1987-88 totalled \$55.3 million.

**3.7.2** An audit review of the provision of transportation services by bus contractors, carried out during 1988, identified several areas which have potential for achievement of substantial efficiency gains. The Ministry of Education has addressed many of these areas in the past, but only limited decisive action has been taken on some of the more sensitive issues. The Ministry is presently gearing itself, through devolution of responsibilities to regional centres, to bring about improved administration of transport services.

---

**3.7.3** In audit opinion, the absence of contract tenure and conventional re-tendering arrangements is an element of the current environment which should be addressed as a matter of priority. Most other factors precluding attainment of higher levels of cost-effectiveness in the provision of bus services can be linked to this basic shortcoming. By simply streamlining existing procedures audit estimated that annual savings of \$7 million could be achieved.

**3.7.4** This report includes detailed audit comment on the following areas addressed during the review:

- ◆ impact of open-ended bus contracts;
- ◆ need for regular reviews of bus route distances;
- ◆ over-compensation of depreciation to bus proprietors;
- ◆ cases of under-utilised bus capacity;
- ◆ transportation of non-government school students;
- ◆ cost implications for the Ministry of the use of buses for multiple purposes; and
- ◆ important safety issues.

**3.7.5** One of the main purposes of the audit review was to assist the Ministry in its consideration of strategic issues associated with student transport services. It is hoped that the review will convey information which may be useful to the Ministry in formulating performance measures to gauge its progress towards improved efficiency. In addition it is hoped that the points raised by audit will facilitate reconsideration by the Ministry of higher-level options for transport services. These options include:

- ◆ cost-benefit analyses to determine the feasibility of certain regions acquiring and utilising their own transport facilities in lieu of contractual avenues; and
- ◆ transfer of some or all elements of the management of student bus services to the Transport portfolio.

## **Background**

**3.7.6** The provision of free school transport was introduced in Victoria in 1944 for the specific purpose of enabling secondary students in isolated country areas to attend State schools without having to reside away from home. At that time, 136 bus services provided transportation for approximately 4 600 students. By contrast, some 1 775 bus services covering around 161 000 kilometres daily were required during 1987-88 to transport approximately 73 000 students.

**3.7.7** Since 1944, the provision of transport services has been extended to State primary school students and, in certain circumstances, to students of non-government schools.

---

**3.7.8** Under the terms of the Ministry's school transportation policy, the 2 specific conditions which must be satisfied before a free bus service is made available to State primary and secondary school students are as follows:

- ◆ for a bus service to a primary school, there must be a minimum of 15 students residing more than 4.8 kilometres from the nearest State primary school or from either an existing school bus service or form of public transport; and
- ◆ for a bus service to a post-primary school, there must be a minimum of 12 students residing more than 4.8 kilometres from the nearest centre of State secondary education or from either an existing school bus service or form of public transport.

**3.7.9** Three major Government reviews of the State's student bus services have been undertaken during the 1980s. The third review, commissioned by the Ministry in 1986, involved engagement of the services of a firm of external consultants. Many of the areas traversed in the 3 reviews were the subject of audit attention during the current project.

**3.7.10** The Ministry is currently well advanced in its plans to devolve the main operational tasks associated with bus services to its regional management. As a prelude to actual implementation of strategies in this area, the Ministry has embarked on the development of a comprehensive computerised information system for the management of bus services and has recently enhanced the quality and timeliness of its payment services to bus contractors.

#### **Open-ended contracts**

**3.7.11** The absence of a specified contract period for the provision by bus proprietors of transportation services is an important feature of the contractual arrangements entered into by the Ministry. Contracts are open-ended and remain in force as long as the need for student transportation exists and the contractor is delivering a satisfactory service.

**3.7.12** The employment of tendering procedures by the Ministry is limited to circumstances involving new services.

**3.7.13** Audit concluded that the open-ended nature of bus contractual arrangements is not conducive to the achievement of maximum efficiency in the management of bus services. Fixed service terms and periodic re-tendering procedures are generally viewed as fundamental to establishing quality assurance mechanisms for large numbers of contracts. It would seem desirable that the Ministry move to incorporate these mechanisms into its overall management program for transport services.

**3.7.14** Competition within the bus services arena is also restricted by the non-use of tendering procedures for certain contracts involving new services. In this regard, bus proprietors previously displaced by the Ministry following discontinuation of services are given first option for contracts involving a new service within their region. This approach, which essentially adopts the principle of "last off first on", was first introduced in August 1984 under an agreement between the Ministry and the Bus Proprietors Association. This practice has the effect of precluding prospective contractors from entering the school bus service market.

**3.7.15** Audit has recommended to the Ministry that:

- ♦ **fixed service terms and periodic re-tendering procedures be introduced for all bus service contracts; and**
- ♦ **in the interim, discussions be arranged with the Bus Proprietors Association aimed at removal of the "last off first on" principle from the deliberative process for contracts involving new services.**

*Management response*

*Contract tenure was originally proposed in the 1983 Report on Conveyance of Pupils. The subsequent 1984 Memorandum of Understanding with the Bus Proprietors Association amended this proposal to provide for 3-5 years tenures re-negotiable with existing contractors. Fixed-term contracts and periodic competitive re-tendering are fundamental to assuring effective resource management. The Metropolitan Transit Authority, for example, has adopted a fixed period of 2 years for its bus contracts. A review of bus contracts will be undertaken during 1989-90 and this matter will be examined then.*

*The recommendation concerning the practice of giving first option on new contracts to bus proprietors previously displaced following discontinuation of a service in that region will also be assessed as part of the review of bus contracts.*

**Accuracy of bus route distances recorded in contracts**

**3.7.16** Many of the standard cost elements within a bus contract have a relationship to kilometres travelled. If, over time, there have been significant changes in the kilometres that need to be travelled by vehicles in the provision of transportation services, audit would expect to see an equivalent variation or movement in the costs needed to be incurred in the provision of those services. With this point in mind, audit visited and measured a selection of bus routes in several regions throughout the State. Audit then compared the findings of the field work with the kilometre measurements taken into account in the computation of contract sums, on which periodic payments to contractors are based.

3.7.17 A comparison of the distances recorded within contracts with distances measured by audit is presented in Table 3.7A:

**TABLE 3.7A. BUS ROUTE DISTANCES,  
CONTRACT RECORDS AND FIELD MEASUREMENTS**

Region	Live running kilometres				Dead running kilometres (a)			
	Number of routes measured	Distances as per -		Variance (1 - 2)	Number of routes measured	Distances as per -		Variance (1 - 2)
		Contract records (1)	Field measurements (2)			Contract records (1)	Field measurements (2)	
BARWON	15	1 478	1 420	58	3	64	3	61
WIMMERA	19	1 869	1 519	350	-	-	-	-
MALLEE	6	606	573	33	2	88	90	(2)
GOULBURN	15	1 527	1 365	162	5	274	176	98
Total	55	5 480	4 877	603	10	426	269	157

(a) The distance travelled from a driver's garage or depot to the first student pick-up point and vice versa from the final student drop-off point.

#### *Live running kilometres - potential cost savings*

**3.7.18** After adjustments to take account of the impact of fixed costs, audit estimated that annual savings of around \$2 million would accrue to the Ministry if the results of the audit sample on live running kilometres were indicative of all student bus services provided across the State.

**3.7.19** The Ministry has recognised the importance of the accuracy of live kilometres travelled in the overall framework in place for the provision of transport services. In fact, a number of reviews in this specific area have been commissioned. In 1984, an inter-departmental review specifically emphasised the importance of route rationalisation and periodic route re-measurements to the overall efficiency of school bus services. As a result of this review, further more detailed studies were undertaken by the Ministry across the whole of the State and quite significant savings (for one region up to \$43 000 per year) were achieved.

**3.7.20** During discussions, Ministry representatives felt that some elements of the above detailed review (which were undertaken under a Commonwealth Employment Program funding arrangement) could have been more comprehensive and, in that respect, they suspected that some areas of potential savings may not have been fully identified.

**3.7.21** The results of the more recent audit analysis highlight the benefits, in terms of improved resource management, which would flow from the introduction of systematic reviews of live kilometre measurements and timely updating of measurement data for contract payment purposes. With this operational framework the Ministry would have some confidence that, in terms of route measurements, it is ensuring that student transport services are being provided in the most cost-effective manner.

---

### *Dead running kilometres - potential cost savings*

**3.7.22** The terms of a bus contract allow contractors to incorporate in the calculations of total distances to be travelled (for purpose of computation of total costs) provision for dead running kilometres.

**3.7.23** Audit calculated that, if its findings on dead running distances were representative of bus routes across the State, potential annual savings of \$1.5 million, in terms of reduced contract payments, could be achieved by the Ministry.

**3.7.24** A significant audit observation in this area related to the fact that the bus proprietors appeared to be the only party aware of the current levels of dead running distances. The records maintained by the Ministry reflected only the particulars of distances to be travelled as specified when the contract was drawn up. Accordingly, any variation to dead running distances (e.g. arising from circumstances where the original contractor had actually sold the contract to another contractor in another location with an automatic impact on the dead running distance) were not recognised or recorded in the central records of the Ministry.

**3.7.25** Audit has recommended that the Ministry:

- ♦ periodically review kilometre measurements of all school bus routes; and
- ♦ establish procedures for timely amendment of contract sums, based on updated measurement data, so that payments to bus proprietors can reflect costs in line with current distances.

#### *Management response*

*It should be noted that the audit sample used by the Auditor-General for measurement of dead running kilometres was very small - only 10 bus routes. This is only 0.6 per cent of the total number of bus routes across the State. It is difficult to place a high level of confidence in State-wide estimates based on such a small sample.*

*The Ministry is keenly aware of the importance of accurate route measurement and route re-measurement. Following the 1983 Report on Conveyancing of Pupils, an extensive program of route re-measurement was undertaken and significant savings in contract payments were achieved. Route re-measurement is a continuing process to be maintained by regions. It has been re-emphasised but may require further regular reviews and more timely contract amendment as recommended by the Auditor-General.*

### **Over-compensation of depreciation to bus proprietors**

**3.7.26** One of the factors that a contractor is permitted to take into account in the calculation of a contract sum is a specified allowance for depreciation.

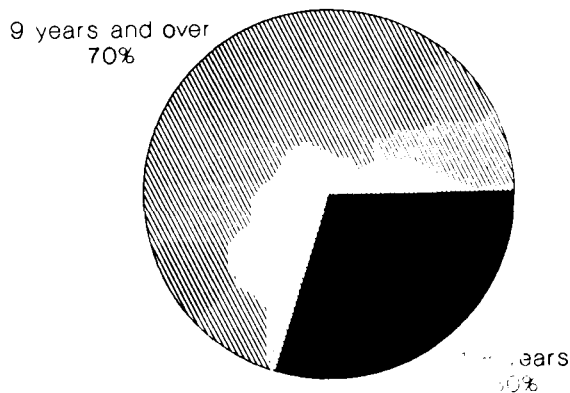
**3.7.27** The cost allowance in respect of the depreciation return agreed between the Ministry and the contractor is based on 80 per cent of the actual cost of the vehicle or list price, whichever is the lower. A depreciation rate of between 12 per cent and 15 per cent is applied depending upon the length of the bus route.

**3.7.28** The most significant aspect of the provision of a depreciation allowance to bus proprietors relates to the fact that the allowance continues to be applied irrespective of whether the capital cost of a vehicle has been fully recouped or reimbursed to the contractor, i.e. the Ministry continues to provide the depreciation payments beyond the assessed depreciable life of a bus.

**3.7.29** On average, the working period for large buses (in excess of 23 seats) is 20 years but, using the recovery base of 80 per cent of cost, the bus proprietor is fully recouped for the cost of the vehicle in just over 8 years. In a similar way, the full period of use of a smaller vehicle (up to 23 seats) is an average of 11 years but the proprietor gains full recovery of the cost of the vehicle after around 6.7 years. It follows, therefore, that bus proprietors receive in the vicinity of 250 per cent of the capital cost of large buses and around 200 per cent for smaller vehicles.

**3.7.30** Chart 3.7B illustrates the number of buses which have been in use for greater than 8 years and which generate over-compensation of depreciation to proprietors on a recurring basis:

**CHART 3.7B. ANALYSIS OF BUS AGES**



Over-compensation to bus proprietors of the depreciation allowance occurs for all buses within this category.

**3.7.31** Audit has considered the above circumstances in terms of the cost implications to the Ministry (i.e. conversion of the over-recovery to a dollar value). It is estimated that the annual amount of over-compensation to proprietors for depreciation on all buses manufactured prior to 1980 (all buses within this category generate over-compensation) is around \$2.5 million. The audit calculations also disclosed that at December 1988 the aggregate amount of over-compensation which has passed to those bus proprietors currently utilising vehicles purchased prior to 1980 is about \$16.5 million.

**3.7.32** The Ministry has, in the past, initiated review action on the appropriateness of the basic rationale for depreciation allowances to proprietors. A review undertaken in 1986 by external consultants basically recommended that depreciation be calculated on the expected useful lives of the buses and that the payment cease at the expiration of this period.



**3.7.33** By way of contrast, the Metropolitan Transit Authority allows depreciation to its contractors based only on the assessed useful life of a bus.

**3.7.34** Audit has recommended that the Ministry arrange early discussions with the Bus Proprietors Association aimed at progressive removal of the recurring impact of depreciation allowances which currently leads to substantial levels of over-compensation to bus proprietors.

*Management response*

*The question of appropriate return on capital for school bus contracts has been the subject of detailed examination by the Ministry. Two external consultancies have been commissioned by the Ministry (in 1985 and 1986) and both recommended replacement of the present separate "depreciation" and "profit" components of the formula with a single "return on capital" component. The consultants' recommended options for alteration to the formula were put to the Bus Proprietors Association but agreement has not yet been reached. The matter will be reviewed as part of the study of bus contracts during 1989.*

**Under-utilised bus capacity**

**3.7.35** Audit analysis of monthly conveyance forms submitted by bus contractors to the Ministry revealed that around 7 per cent of buses (over 120 vehicles) carried less than 65 per cent of seating capacity. Aggregate contract outlays for these buses is about \$3.9 million per year. In 23 cases, actual numbers of students transported were less than 50 per cent of carrying capacity and the annual cost per student transported for individual routes ranged from \$1 100 (lowest) to \$4 790 (highest).

**3.7.36** It became apparent to audit, during this phase of the review, that the Ministry does not systematically monitor and assess the ongoing cost implications of substantial levels of under-utilised carrying capacity. As such, decisions on whether certain routes would benefit from a rationalisation of services, e.g. consolidation with neighbouring routes were not generally addressed.

**3.7.37** Audit has recommended that the Ministry's decision-making process on transport services be extended to provide for:

- ◆ regular reviews of student passenger numbers against maximum carrying capacities; and
- ◆ consideration of avenues available for rationalisation of those bus routes which exhibit low levels of carrying capacity over time.

---

### *Management response*

*There are a number of reasons why school buses may not always be filled to capacity. These include:*

- ◆ Forward planning needs to provide for possible increases in the number of students carried on a given route. Small capacity buses are not permitted to carry standing passengers yet there is a need to allow for increases in numbers;*
- ◆ The numbers of travellers may have diminished on a given route but changing over to a new, smaller bus would cause an increase in the annual contract cost. It is thus often not an economical proposition to replace a large, old bus with a new, small bus. In such cases a small bus would be specified when replacement is necessary;*
- ◆ Often distance and geographical conditions do not permit routes to be combined or rationalised; and*
- ◆ The emergence of a new secondary school may mean that for a limited period existing pupils attend the original school in their area, while new pupils are directed to the new centre.*

### **Multiple utilisation of school buses**

**3.7.38** The standard contractual agreement for bus services does not specifically preclude bus proprietors from utilising their vehicles on activities other than those specified in the contract, i.e. multiple utilisation, provided that the extraneous activities do not in any way impinge upon their service obligations.

**3.7.39** During the visits to regional areas, audit observed that a number of bus contractors utilise their buses for services additional to the provision of daily transport to students. The audit evidence indicated that these additional activities could involve fairly limited services (e.g. school excursions) or services consuming substantial levels of time (e.g. specific transport contracts, major charter functions etc.).

**3.7.40** The important implication of multiple utilisation of buses from the Ministry's perspective is that bus proprietors are reimbursed under Ministry contracts for particular costs (e.g. depreciation and profit returns) on the basis that the buses are used exclusively for daily transportation of students. The Ministry does not maintain specific records of proprietors engaged in multiple utilisation. In such circumstances, there is potential for the Ministry to over-compensate those proprietors who provide services to other parties.

**3.7.41** The Ministry would benefit greatly from incorporation within its information systems of data concerning the nature and sources of remuneration flows of those proprietors engaged in multiple provision of services. The Ministry's deliberative process in this area would likely need to involve negotiations with individual proprietors as well as consultation with those other parties who have engaged the services of the proprietors. Audit understands that both the State Transport Authority and the Metropolitan Transit Authority negotiate adjustments to depreciation payments to their bus contractors in instances involving compensation for depreciation received from multiple sources.

**3.7.42** Audit has recommended to the Ministry that:

- ♦ information systems on school bus contracts be extended to provide for the gathering of data on bus proprietors involved in multiple provision of services;
- ♦ communication links on multiple utilisation of services be established with the 2 transport authorities; and
- ♦ a program of periodic assessments of contracts for proprietors engaged in provision of multiple services be developed.

*Management response*

*The Ministry is aware that the school buses are used for other purposes such as charter and town services, and such usage within school hours has been the subject of a study which has not yet been completed.*

*The Ministry has determined to pursue the costing of multiple usage for State Transport Authority (STA) services at the earliest possible time as well as reviewing many services that may be more appropriately the responsibility of the STA or the Metropolitan Transit Authority.*

**Transportation of students attending non-government schools**

**3.7.43** The Ministry's policy on student transport permits students attending non-government schools to travel on school buses only where spare capacity exists, and no additional expense is incurred by the Ministry.

**3.7.44** As a result of demographic and student population changes over the years, a number of bus contracting services are presently operating within the State predominantly for the conveyance and benefit of students attending non-government schools. Audit identified from an examination of contractors' monthly returns that, for 26 bus routes, non-government school students comprised greater than 70 per cent (in some cases 100 per cent) of students transported.

**3.7.45** The cost involved in the provision of services on those routes predominantly utilised by non-government school students is around \$930 000 per year.

**3.7.46** In discussions with the Ministry on this matter, audit suggested that appropriate amendments be made to the student transport policy to encompass all circumstances warranting transportation of non-government students.

---

### *Management response*

*It is proposed that the next printing of school bus policy documents incorporate appropriate amendments.*

### **Safety issues**

**3.7.47** The scope of the audit review included consideration of safety matters relevant to student transport services. A summary of the main audit findings in this area is presented below.

#### *Overloading of buses*

**3.7.48** In addition to identifying under-utilised carrying capacity, **audit analysis of contractors' conveyance forms showed that 118 buses transport student numbers in excess of carrying capacities. In one case, the capacity was exceeded by as many as 30 students.**

**3.7.49** Data recorded on the conveyance forms are verified and endorsed by principals or school bus co-ordinators. The results of the audit examination indicate that overloading of students has been allowed to occur without signals to the Ministry from principals or bus co-ordinators that corrective action was required. The significance of this situation is reinforced when one looks at the respective responsibilities of the parties involved.

**3.7.50** Bus drivers found to be carrying students in excess of the carrying capacity of the bus are in breach of the Road Traffic Authority regulations, a position which could lead to prosecution action in court. More importantly, from the Ministry's perspective, if a principal or school co-ordinator implicitly condones the carrying of excess passengers (i.e. through endorsements of conveyance particulars provided by contractors), the Ministry may find itself vulnerable to liability for damages arising from injury, should a bus with excess passengers be involved in an accident.

**3.7.51** Audit has suggested to the Ministry that the following avenues be considered to reduce its risk exposure on passenger loadings:

- ◆ communication to all school principals or bus co-ordinators involved with student transport of the importance of effective monitoring of passenger loadings of buses; and
- ◆ expansion of the current policy on passenger loadings to identify the procedures to be followed when instances of overloading are detected, e.g. immediate liaison with the respective bus contractors and, if necessary, arrangement for utilisation of vehicles with appropriate capacity.

### *Management response*

*The Ministry has a guide passenger loading formula which is administered by regions but the overall maximum loading on a bus is determined by the Road Traffic Authority.*

*The Auditor-General has recommended that the Ministry communicate to all principals and bus co-ordinators the importance of effective monitoring and management of passenger loadings to avoid buses carrying excess passengers. This may require improved mechanisms to allow more timely review of contract arrangements where the number of passengers has grown over time. This matter will be considered as part of the school bus contract review in 1989.*

### *Mechanical and physical condition of buses*

**3.7.52** During the course of regional visits, audit observed that a number of buses used by contractors were quite old. A subsequent analysis by audit revealed that over 500 buses (or around 30 per cent of all vehicles used to transport students) were over 20 years old. In addition, **several school bus co-ordinators advised audit field staff that they considered some buses were in need of various repairs or replacement.**

**3.7.53** During discussions on this subject with regional vehicle examiners of the Road Traffic Authority (RTA), audit was advised that very often the annual inspection of school buses resulted in the detection of faults and, on average, 70 to 80 per cent of buses were required to be submitted for a second inspection. In one region, 20 per cent of vehicles required 3 inspections before all faults identified had been rectified. In this environment, the possibility of accidents occurring is greatly increased.

**3.7.54** The Ministry does not have in place procedures under which information on the results of inspections of bus vehicles can be systematically captured and evaluated. While the prime responsibility for ensuring vehicles are maintained in proper condition rests with bus proprietors, it would be desirable for the Ministry to regularly liaise with the RTA on the results of the inspection programs involving school buses. In this way, signals which suggest the need for specific action on the Ministry's part could be instituted, e.g. introduction of more frequent inspections for buses identified as having regular maintenance problems. The possible risk exposure of the Ministry to liability in the event of accidents involving vehicles in need of repair reinforces the importance of some form of formal communication links with the RTA on this subject.

**3.7.55** **Audit recommendations to the Ministry on this subject were:**

- ♦ **the Ministry's monitoring of the performance of bus proprietors in the provision of student transport specifically incorporate consideration of the mechanical and physical condition of bus vehicles;**
- ♦ **regular feedback from the RTA on the results of the inspection program involving school buses be obtained and analysed; and**

- ♦ **specific courses of action, e.g. arrangements for more frequent inspections, be documented for consideration in those circumstances which indicate some cause for concern as to the overall safety of school buses.**

#### *Management response*

*The RTA is responsible for monitoring the mechanical and physical condition of school buses. The RTA sets a very high standard and it is widely claimed that Victoria has the highest bus safety standards of any State in Australia. The RTA undertakes a regular inspection program for school buses. The Auditor-General has noted that 70 to 80 per cent of school bus inspections detect faults requiring re-inspection, however, this may partially be because many bus proprietors use the regular and thorough RTA inspections as a free mechanical diagnosis.*

*An improvement in the physical condition of the school bus fleet could be achieved by significantly reducing the average age of school buses but this would require very significant increases in the total school bus transport budget.*

#### *Limited availability of communication facilities*

**3.7.56** The majority of school bus routes are located in rural areas of the State. Many of the routes extend through areas which are at times prone to seasonal hazards such as bushfire or flooding.

**3.7.57** Given the nature of this environment, audit ascertained the level of direct communication facilities, e.g. 2-way radio communication, which existed between schools, bus co-ordinators and bus drivers. This review disclosed a marked absence of communication facilities between the 3 parties. In addition, audit was advised, during discussion with both drivers and school co-ordinators, that direct communication facilities between drivers and bus depots were not present in most instances.

**3.7.58** It is interesting to note that in one region, 2-way radio communication had been installed in buses as a result of a community program by the local rotary club following a serious accident within the region.

**3.7.59** The availability of 2-way radio communication in all areas of the State for all school bus routes would enhance the overall safety of the student transportation service, e.g. the capacity to immediately notify emergency services in the event of an accident or to provide direct communication to other buses of specific hazards.

**3.7.60** There are, of course, cost implications when considering the introduction of direct communication facilities. Nevertheless, the advantages that would accrue, from the important safety perspective, point to the desirability of early discussions with the Bus Proprietors Association aimed at evaluating options available for installation of direct communication facilities in school buses.

---

### *Management response*

*Provision of 2-way radio communication is becoming more common among larger bus companies. While there would be advantages in the case of emergencies for school buses to be fitted with 2-way radio communications, there are 2 major problems:*

- ◆ *The need for a communications network, to ensure that bus drivers are assured of making contact with someone who can act on information provided by the driver. For small operations in country areas there would not necessarily be a person available to sit beside the radio at either the bus depot, the school or the Police or CFA station; and*
- ◆ *The cost of introducing 2-way radios in all school buses in Victoria is estimated to be in excess of \$10 million.*

*The feasibility of further extension of 2-way radio in specific problem areas will be assessed.*

## **MINISTRY OF EDUCATION - OTHER ISSUES**

### **Arrears of audits of school councils**

#### *Overview of matters addressed in previous audit report*

**3.7.61** One of the more disturbing features of the internal audit problems experienced by the Ministry during 1986-87 concerned the marked escalation in arrears of audits of school councils (audits of post-primary schools are performed by the Ministry's Audit and Review Unit and primary school councils appoint their own auditors).

**3.7.62** Audit views on the seriousness of developments in this area were commented upon in the Auditor-General's *Second Report* for 1986-87, tabled in Parliament in April 1988.

**3.7.63** In the April 1988 report, audit recommended that the Ministry take decisive remedial action on the arrears question so that it could be satisfied that the substantial financial resources channelled to school councils each year (recurrent grants alone in 1987-88 were in excess of \$143 million) had been properly managed. The report referred to an action plan, involving internal resources, developed by the Ministry early in 1988 to specifically address the audit arrears problem in primary and post-primary schools. Audit stressed the importance of systematic application of risk and materiality assessments and coverage of all critical financial management processes within schools as the task of reducing arrears was pursued.

*Assessment of 1987-88 developments and current position*

**3.7.64** A comparison of the audit arrears position at December 1988 and June 1987 is presented in Table 3.7C:

**TABLE 3.7C. STATUS OF SCHOOL COUNCIL AUDITS**

Year	Total audits	Audits not commenced December 1988	Audits not commenced as a percentage of total audits	
			December 1988	June 1987
<b>POST-PRIMARY SCHOOLS (a)</b>				
1984	414	13	3.1	15.4
1985	419	126	30.1	57.7
1986	421	252	59.9	93.8
1987	421	335	79.6	-
			Unsubmitted accounts as a percentage of total audits	
	Total audits	Audited accounts not submitted to Ministry December 1988	December 1988	June 1987
<b>PRIMARY SCHOOLS (b)</b>				
1984	1 614	60	3.7	5.5
1985	1 612	106	6.6	11.8
1986	1 614	179	11.1	53.0
1987	1 612	276	17.1	-

(a) Two chartered accounting firms are currently undertaking 12 audits for 1984 and 98 audits for 1985.

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

**3.7.65** While there has been improvement in the timing of submission of audited accounts by primary schools, the Ministry found that implementation of its internal corrective program for post-primary schools had achieved limited results and that new measures were necessary for the overall arrears position to be effectively resolved. Although the arrears position in respect of post-primary school audits for 1986 and earlier had shown some improvement, the use of internal resources to overcome arrears had precluded commencement of almost 80 per cent of the 1987 audits as at the end of 1988.

**3.7.66** After evaluation of available options, the Ministry determined to utilise, under contractual arrangements, 2 private sector audit firms on the arrears program. At December 1988, 110 of the outstanding audits relating to 1984 and 1985 had been allocated to the 2 firms.

**3.7.67** Audit has recommended that the Ministry move, in the short-term, to expand the use of private sector auditors on the arrears program. Progress achieved with internal resources in the elimination of audit arrears has been limited and, if wider action is not taken, the Ministry may find itself with a continuing arrears problem.



### *Management response*

*The initial contract to assist in reducing the backlog of audits of post-primary schools by the 2 chartered accounting firms has now been completed, with satisfactory results.*

*Consideration has also been given by the Audit Committee to an extension of the contract to further reduce the arrears of audits of post-primary schools during the period April to June 1989.*

### *Recent misappropriations within schools*

**3.7.68** As indicated in an earlier paragraph, audit stressed to the Ministry in the previous year the importance of ensuring that risk and materiality assessments were systematically developed and all critical financial management processes within schools were adequately reviewed as the task of reducing audit arrears was pursued.

**3.7.69** Audit was concerned at the potential ramifications that could flow from a combination of:

- ◆ irregular audit visits to schools;
- ◆ substantial levels of financial resources managed within schools;
- ◆ constraints often experienced within school environments in the implementation of basic internal control procedures, such as segregation of duties;
- ◆ the generally high level of trust and confidence placed by principals and teaching personnel in staff involved in direct handling of funds; and
- ◆ the likelihood of individuals often finding themselves in positions of temptation.

**3.7.70** It is therefore disturbing to find that several misappropriations of funds in primary and post-primary schools, involving in excess of \$107 000, have been reported to the Ministry in the past 12 to 18 months. Details of these misappropriations are summarised in Table 3.7D:

**TABLE 3.7D. RECENT MISAPPROPRIATIONS IN SCHOOLS**

<i>School</i>	<i>Nature of misappropriation</i>	<i>Amount involved</i>	<i>Date of detection of misappropriation</i>	<i>Last audited</i>
Noorinbee Primary School	Cash irregularities and discrepancies by relieving head teacher.	\$1 190	March 1987	(a)1982
Carrum Primary School	Fraudulent negotiation of cheques by principal.	\$47 860	December 1987	1983
McLeod Technical School	Private purchase of goods by teacher using school funds.	\$2 500	May 1988	1986

**TABLE 3.7D. RECENT MISAPPROPRIATIONS IN SCHOOLS - *continued***

<i>School</i>	<i>Nature of misappropriation</i>	<i>Amount involved</i>	<i>Date of detection of misappropriation</i>	<i>Last audited</i>
Yarragon Primary School	Non-banking of cash collections by clerical assistant.	\$4 840	May 1988	1987
Northcote High School	Misappropriation of canteen funds by canteen manager.	\$25 090	December 1988	1984
Hoppers Crossing Secondary College	A wide range of alleged fraudulent actions by registrar including fictitious names on college payroll and private purchases.	\$26 350	December 1988	1985

(a) Books and accounts for 1983 to 1986 lost by previous head teacher.

**3.7.71** In view of the audit arrears position and the disturbing developments in terms of reported cases of misappropriations within schools, audit has emphasised to the Ministry the need for guidance to regional management on the implementation of effective management controls within schools.

*Management response*

*During 1988 the Ministry appointed a special investigator to conduct investigations into misappropriations, frauds etc. at primary and post-primary schools. This appointment allows regional auditors to concentrate on the school audit program without disruption and provides an independent appraisal activity.*

*The Ministry has also received advice during 1988 from the Comptroller-General of the Department of Management and Budget, in relation to the tightening of controls at schools following the Carrum Primary School fraud. In addition, other measures are presently being reviewed in conjunction with school councils, School Improvement Branch etc., including legislative and regulatory changes to further strengthen school financial controls and reporting.*

**Education budget overrun**

**3.7.72** During 1987-88 actual expenditure of the Ministry in respect of its "School Education" program exceeded budget allocations by approximately \$38.3 million. Of this amount, around \$13.1 million arose from the 4 per cent second tier national wage adjustment for teachers, which was effective from March 1988.

**3.7.73** It was necessary for the Ministry to seek the Treasurer's approval to charge the expenditure in excess of budget to the Treasurer's advance pending parliamentary sanction.

**3.7.74** The Ministry has identified that the budget overrun of \$25.2 million (i.e. net of the national wage second tier adjustment) was mainly attributable to the following factors:

- ◆ \$6 million - additional teacher salary costs arising from greater than predicted 1988 school enrolment levels;
- ◆ \$6 million - salary costs of school cleaners in excess of budgeted levels;
- ◆ \$4 million - delays in the signing of an industrial agreement with the Teachers' Federation of Victoria which resulted in a deferral of anticipated productivity gains; and
- ◆ \$2 million - use of emergency teachers within schools in excess of projected levels.

**3.7.75** The Ministry has introduced several measures aimed at improving its overall budget planning and management of salary resources for 1988-89 and beyond. Some of these measures have flowed from industrial negotiations and include:

- ◆ greater flexibility for system transfers of excess teachers to those schools with teacher numbers below approved establishment levels;
- ◆ anticipated annual efficiency gains of \$4 million in labour costs of cleaners;
- ◆ introduction of a pilot project in 1989 under which around 80 schools have been allocated a specific budget for emergency teachers; and
- ◆ freeing up (from 1990) of past restrictions on transfer of technical school teachers to other post-primary schools.

**3.7.76** Audit has stressed to the Ministry the importance of achieving, through systematic monitoring, maximum productivity and efficiency gains from the proposed budget strategies.

## **VICTORIAN POST-SECONDARY EDUCATION COMMISSION**

### **Future direction in higher education**

**3.7.77** Since the issue, in December 1987, by the Commonwealth Government of its policy discussion *Green Paper* on higher education, the Victorian Post-Secondary Education Commission has been particularly active in the development of high-level strategic information relating to the State's current and future higher education environment.

**3.7.78** Some of the important outworkings of the Commission's contributions in this area during 1988 were:

- ◆ preparation in February 1988 of a discussion paper (in response to the Commonwealth Government *Green Paper*) which documented options for the development of higher education structures in Victoria;

- ◆ the issue in May 1988 of the Victorian Government response to the *Green Paper* (the Commission fulfilled a predominant role in the preparation of this document); and
- ◆ evaluation of educational profiles on each university and college of advanced education for attachment to each institution's submission to the Commonwealth Government concerning the 1989-91 funding triennium.

**3.7.79** The Commission's analyses of educational profiles of institutions referred to above were consolidated into a document which was issued by the Commission in August 1988. This document presents the Commission's diagnosis of each institution under 4 principal categories, namely:

- ◆ *Strategic overview* - which includes an assessment by the Commission of each institution's relative ranking in terms of student completion rates, program size, resource utilisation and planning range;
- ◆ *Program priorities* - which links each institution's key program priorities and initiatives with the Government's economic and social justice strategies;
- ◆ *Base load* - which records the Commission's comments on base student load projections (existing student numbers in future years) prepared by the institutions; and
- ◆ *Expansion load* - which includes comment on projections relating to new student places needed to maintain 1988 commencement levels and additional places to service new priority areas identified by institutions.

**3.7.80** All of the recent initiatives taken at both State and Commonwealth levels, concerning the future direction of higher education reinforce the absolute importance of institutions having sound strategic planning systems in place (a fundamental element of such systems would be a corporate or strategic plan) to guide their future strategic direction. Some noticeable progress in this area has been made in recent years by Monash University.

**3.7.81** In view of the important developments underway in the higher education sector, audit recommended that the Commission provide guidance and encouragement to all universities and colleges of advanced education in the development of corporate or strategic planning functions.

---

## VICTORIAN COLLEGE OF THE ARTS

### Deterioration of financial position

**3.7.82** The Victorian College of the Arts has experienced significant problems in respect of its financial position over recent years. Indications of a disturbing trend in this area were initially brought to the attention of the College Council by audit in September 1987. That communication signalled an important warning to the Council that decisive strategic action concerning the overall financial management of the College was urgently needed.

**3.7.83** It was a matter of some concern for audit to find, during a subsequent inspection of the College's operations, that the financial position of the College had deteriorated further during the remainder of 1987 and the first half of 1988. This situation reflected rather poorly on the extent to which the College Council had considered and acted upon issues raised in the earlier audit correspondence.

**3.7.84** At 31 December 1987, the accumulated deficit of the College in respect of recurrent, capital, minor works and equipment funds totalled \$620 000 and had increased to around \$690 000 at June 1988. In a report to the Council issued in September 1988, audit identified that the deterioration in the financial position in 1987 was essentially attributable to:

- ◆ failure by the College to implement comprehensive cost-saving strategies;
- ◆ absence of an effective management reporting process;
- ◆ significant budget overruns on activities such as special College functions, Director's entertainment, liquor, and conference and seminar expenses (aggregate expenditure on these items in 1987 was \$61 800);
- ◆ over-budget expenditure of \$74 000 for part-time music teachers' salaries; and
- ◆ trading deficits in the College canteen operations.

**3.7.85** The report contained recommendations which focussed on the need for adoption by Council of more effective procedures to control the management of College resources. The President of the College Council has since indicated that appropriate action has been taken on the audit recommendations.

### Consultancy review of College operations

**3.7.86** It is important to give recognition to action involving the Victorian Post-Secondary Education Commission in the establishment of a consultancy review to examine the financial position of the Victorian College of the Arts and to determine the direction of its future management strategies. The review was undertaken by an external consultant in conjunction with a senior representative of the Commission.

---

**3.7.87** In a comprehensive report submitted in August 1988, the consultants conveyed to the College Council a wide range of recommendations to guide the future management of the College. These recommendations traversed many areas including:

- ◆ development of a systematic budgetary framework for the College;
- ◆ introduction of more frequent and informative financial reports, incorporating the totality of financial operations;
- ◆ rationalisation of management structures both in management and teaching arenas; and
- ◆ identification of new or improved avenues for generation of revenue.

**3.7.88** In essence, the consultancy report constitutes a blueprint to guide key strategic management decisions of the College in the foreseeable future.

**3.7.89** Audit intends, during the next audit, to review the remedial action taken by Council to improve the overall financial position of the College.

## **MONASH UNIVERSITY**

### **Termination of in-vitro fertilisation agreement**

**3.7.90** The Auditor-General's *Second Reports* for 1985-86 and 1986-87 included comment on an agreement entered into by Monash University during 1985 for the purpose of disseminating in-vitro fertilisation (IVF) skills and services overseas.

**3.7.91** Under the terms of the agreement, the University was 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.

**3.7.92** The 1986-87 *Second Report* commented that no further royalties, beyond an initial advance payment of \$300 000, had been received by the University. Some important developments relating to the IVF agreement, which were identified in that report, 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 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, derived from less than promising financial results, as to when royalties might begin to flow to the University under the agreement.

**3.7.93** The report indicated that, because of the above developments, the University found it necessary to seek the advice of senior commercial counsel in late 1987 on the options available to it under the agreement.

---

**3.7.94** The initial emphasis of the legal advice received by the University was on an avenue available for the University to minimise its legal liability arising from IVFA's activities in the USA. Negotiations with IVFA to pursue this issue proved to be unsuccessful and further legal advice recommended that the University negotiate for a restructure of the original agreement with IVFA.

**3.7.95** In the ensuing discussions with IVFA during 1988, it became evident to the University that the original estimate of royalties totalling \$20 million envisaged under the agreement was most unlikely to be realised and the likelihood of any significant royalty payments flowing from IVFA in the foreseeable future was very remote. As the means of extricating itself from what clearly had become a most difficult situation, the University began negotiations and subsequently reached agreement with IVFA on a course of action aimed at termination of existing arrangements.

**3.7.96** The settlement arrangements between the parties provided, *inter alia*, for a series of payments (final instalment in 1994) totalling only \$2.3 million to be made by IVFA to the University. However, the arrangements also provided that:

- ◆ IVFA would indemnify the University for all activity arising from the original agreement; and
- ◆ IVFA would make no claims against the University in respect of legal action commenced in the USA against one of IVFA's own specialised staff.

**3.7.97** In addition, and quite importantly, the University regained its rights to world-wide development of IVF clinics which were previously held by IVFA.

**3.7.98** In financial terms, the total amount receivable by the University from IVFA of \$2.6 million (final settlement of \$2.3 million plus initial advance payment of \$300 000) appears rather small compared with the initial expectation of \$20 million royalties and the level of skills and technology which has been imparted by the University to IVFA under the agreement. However, audit considers that the course followed by the University in settling this issue was the most viable option to pursue.

## **ROYAL MELBOURNE INSTITUTE OF TECHNOLOGY LTD**

### **Technisearch Ltd and Citytech Pty Ltd - disturbing financial circumstances**

**3.7.99** Technisearch Ltd, a company limited by guarantee, and Citytech Pty Ltd, a company limited by shares, are subsidiaries of the Royal Melbourne Institute of Technology Ltd (the Institute). The financial operations of both companies are not subject to audit by the Auditor-General, however, an annual audit is performed by a firm of chartered accountants, appointed under the terms of the Companies (Victoria) Code.

**3.7.100** Both companies incurred significant operating losses for 1987 and had sizeable levels of indebtedness to the Institute at 31 December 1987. Relevant extracts of the companies' audited 1987 financial statements (the latest available at date of preparation of this report) are presented in Table 3.7E:

**TABLE 3.7E. TECHNISEARCH LTD AND CITYTECH PTY LTD,  
FINANCIAL DATA, 1987  
(\$ million)**

Company	1987 operating loss	Accumulated losses at 31 December 1987	Indebtedness to Institute at 31 December 1987
Technisearch Ltd	0.5	0.7	1.7
Citytech Pty Ltd (a)	2.1	2.1	16.1

(a) The company commenced operation in 1987.

**3.7.101** In the course of undertaking the audit of the Institute, audit conducted a financial analysis of each company.

## Technisearch Ltd

### Overview of company

**3.7.102** Technisearch Ltd fulfils the role of commercial arm to the Institute and in this capacity its principal objects are ". . . to identify, develop and profitably realise business opportunities, to transfer technology and to produce high quality consultancy, educational, training and technical services to national and international clients".

**3.7.103** In practice, Technisearch handles all consultancy projects (services to external clients) and non-accredited educational activities, e.g. short courses, conducted at the Institute. The company engages academic staff of the Institute as project consultants under arrangements, including remuneration, regarded as separate from teaching services rendered on behalf of the Institute. The company retains 20 per cent of gross project income irrespective of the level of its input in the setting up or implementation of a project or course. Any residual project income remaining after all costs are settled is payable to the Institute department involved in the project for use by that department as discretionary funds.

### 1987 financial position

**3.7.104** The 1987 *Directors' Report* for the company discloses that almost \$500 000 of the total accumulated losses at 31 December 1987 of \$709 200 was attributable to the company's Centre for Innovative Development. This Centre has since been disbanded by the company.

**3.7.105** The principal element of the company's indebtedness to the Institute as at 31 December 1987 was an amount of \$1.6 million relating to residual project income due to Institute departments but retained by the company. It would appear that this liability has been allowed to progressively accumulate over the years.



---

**3.7.106** Following discussions with both Institute and company management and examination of available documentation, audit considered that the principal factors contributing to the deteriorating financial position of the company could be summarised as follows:

- ◆ emerging signs of a serious deterioration in the working relationship between staff of the Institute and Technisearch, particularly in respect of communication between the parties, and the perceived level of confidence in each other's capacity to make meaningful contributions to their important corporate partnership;
- ◆ an urgent need for a revamped strategic direction for the company, supported by vibrant and dynamic marketing policies;
- ◆ scope for rationalisation of company staff numbers;
- ◆ deficiencies in the organisational structure; and
- ◆ shortcomings in procedures followed for project management (mainly in respect of project accounting and control and costing methodologies employed).

*Actions initiated by management to redress problems*

**3.7.107** In recent years, both Technisearch and the Institute have become increasingly cognisant of the problems associated with their relationship and have initiated a range of remedial action. Some of the key elements of action taken during 1987 and 1988 were:

- ◆ establishment by the Institute of a working party to review the role of Technisearch. Some 29 recommendations focusing on action necessary by Technisearch, the Institute or both parties flowed from the working party's report issued in February 1988;
- ◆ appointments of a new Chief Executive Officer, Company Secretary and Marketing Manager;
- ◆ adoption in February 1988 of a company strategic plan to guide the future activities of the company and provide the basis for performance measurement;
- ◆ introduction of a revised organisational structure (condensed into 5 key divisions) to complement the new strategic direction;
- ◆ adoption in July 1988 of a comprehensive business plan for the company; and
- ◆ a strong emphasis on the importance of effective marketing.

**3.7.108** Management of both the Institute and Technisearch expressed confidence to audit that the collective impact of the above actions would, in time, lead to a substantive improvement in the overall effectiveness of Technisearch operations and its contribution to the commercial standing of the Institute.

**3.7.109** Audit has emphasised the importance of regular monitoring by the Institute of Technisearch operations and the need for decisive and timely action if further problems are experienced in the future.

---

## Some specific audit observations on Technisearch

### *Non-deduction of taxation from payments to Institute staff*

**3.7.110** As indicated in an earlier paragraph, Technisearch engages academic staff of the Institute as consultants for projects or teaching activities under arrangements, including remuneration, viewed as separate from teaching services rendered on behalf of the Institute.

**3.7.111** Over the years, Technisearch has regarded Institute personnel as independent consultants and, as such, taxation instalments have not been deducted from fees paid by the company to Institute staff.

**3.7.112** Advice provided to the Institute as early as 1981 by a firm of chartered accountants strongly emphasised the view that the relationship between Technisearch and academic staff of the Institute was typically an employer/employee relationship. The accounting firm also drew attention to the impact of its advice on the obligation of Technisearch for payment of payroll tax and arrangement of worker's compensation (now WorkCare) cover.

**3.7.113** Given the close nexus which exists between the Institute and Technisearch, audit recommended that the Institute seek clarification on its practice of classifying its staff as consultants acting for Technisearch.

### *Past subsidisation of Technisearch operations*

**3.7.114** Some aspects of the financial operations of the company have been subsidised in the past by the Institute. The main areas of subsidy have related to non-charging for services of seconded Institute staff (prior to 1986, the salaries of 6 senior seconded staff were provided by the Institute with no reimbursement from Technisearch) and lower than market rentals for use of accommodation by the company of Institute premises. Because of this past subsidisation, the full extent of the deterioration in the financial position of the company is not readily apparent.

**3.7.115** It is pleasing to report that the subsidisation of seconded staff is being progressively phased out under arrangements between the company and the Institute's Director. Also, action is in train to gradually remove the rental subsidy.

**3.7.116** In commending the Institute for its actions on removal of subsidies, audit stressed the importance of the company always having a status which enables it to be viewed, and its performance evaluated, as an independent and viable unit.

## Citytech Pty Ltd

### *Overview of company*

**3.7.117** Citytech Pty Ltd was purchased (under its former title of Kestan Pty Ltd) by the Institute in March 1987 as part of a major acquisition of land bordered by Swanston, A'Beckett, Franklin and Stuart Streets, Melbourne. The vendor party had previously registered the property in the name of Kestan Pty Ltd and the procedure agreed to by the Institute for the purchase of the land also involved the acquisition of the company. Purchase consideration for the property was \$15 million.

---

**3.7.118** The Institute's principal objective in obtaining the above site was to construct a commercial and educational complex within immediate proximity to its existing campus and to alleviate its critical accommodation problems and escalating leasing costs. The project was expected to be pursued in conjunction with a selected joint venture partner from the private sector.

**3.7.119** The purchase transaction was funded through financing arrangements entered into between the Institute and the State Bank. Under these arrangements, which essentially involve use by the Institute of a bill of exchange acceptance and discount facility, the Institute meets debt servicing payments on behalf of Citytech Pty Ltd, with the company recorded as a creditor in the Institute's accounts.

*1987 financial results and implications for the Institute*

**3.7.120** The company's operating loss of \$2.1 million for 1987 essentially reflects its limited capacity to generate income to meet financing and other charges associated with the property acquisition. The company's capacity to generate income is basically restricted to rentals derived from leased accommodation within the buildings on the land acquired by the company. In 1987, revenue from this source totalled \$982 000 compared with interest costs and depreciation charges relating to the property of \$1.9 million and \$861 000, respectively.

**3.7.121** It is also relevant to point out that the company's 1987 audited financial statements disclose development costs (mainly consultants' fees) of over \$1 million have not been recorded as operating expenditure but have been capitalised for charging against expected future income from the Citytech project. This figure, together with the property loan liability and interest charges, make up Citytech's indebtedness to the Institute of \$16.1 million at 31 December 1987.

**3.7.122** From the Institute's perspective, the most significant development has been the inability of it and the company to attract a joint venture partner for development of the planned commercial and educational complex, despite an intense search and discussions and negotiations with a number of prospective parties. As a consequence, it has been necessary for the Institute to meet substantial financing charges associated with the borrowings on behalf of Citytech from its own cash flows. This position has continued throughout 1988 with a resultant requirement for the Institute to roll-over bills of exchange with the State Bank. At 31 December 1988, aggregate financing charges met from the Institute's cash resources on account of Citytech Pty Ltd had reached \$3.9 million.



*Part of the Citytech property, previously used as a hotel, which has remained vacant since July 1987.*

#### *Interaction with State Government on Citytech project*

**3.7.123** During the period leading up to purchase of the property in March 1987, frequent communications took place between the Institute and the Treasurer on various aspects of the Citytech development.

**3.7.124** Late in 1986, as pressures emanated from the prospective vendor for clarification of the Institute's position, the Treasurer approved a guarantee for borrowings by the Institute of up to \$16 million. The need for a joint venture partner had been given substantial prominence in the Treasurer's earlier communications.

**3.7.125** Following the difficulties experienced in attracting a project partner, in April 1988 the Institute sought the approval of the Treasurer to a proposal to move from a joint venture arrangement to a site lease development for the Citytech project. In response, in July 1988, the Treasurer expressed agreement to the site lease proposal but specified various timeframes for finalisation of matters, and agreed to share net purchase and holding costs associated with the property on the basis of the Valuer-General's valuation.

**3.7.126** Unless there is an early resolution of the funding for the Citytech project, there will be pressures on the Institute's cash flows.

#### *Management response*

*The management of these subsidiary companies is under constant review by members of Council.*

*Council's actions and management decisions are made in knowledge of the Institute's overall strategies and past and current opportunities.*

---

*Sufficient funds from sources other than Government grants have been provided in Institute budgets to cover these activities.*

## **STATE TRAINING BOARD**

**3.7.127** By Order-in-Council effective from 30 November 1987, the State Training Board 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 which the Victorian Post-Secondary Education Commission may delegate powers and functions.

**3.7.128** For all intents and purposes, the State Training Board replaced the TAFE Board from 30 November 1987, although legislation to establish the Board as a body corporate and the successor-in-law to the TAFE Board has not yet been presented to the Parliament.

### **Resource management within the TAFE sector**

#### *Strategies and initiatives introduced by the State Training Board*

**3.7.129** The emergence of the Board has been accompanied, *inter alia*, by a substantial revamping of funding procedures and the budgetary processes affecting TAFE colleges. In essence, new frameworks are being developed to provide the basis for decision making on the level of Government resources to be channelled to colleges. Greater emphasis is now being directed towards linking funding levels with the performance of or outcomes achieved by colleges with, of course, resultant pressures on colleges for greater efficiency and effectiveness in financial management matters.

**3.7.130** Some of the key features of the Board's strategic framework for improved resource management are summarised below:

- ◆ Introduction, as from 1988, of an annual performance plan for each TAFE college. The performance plans identify new initiatives (programs) which a college agrees to undertake during the year. The new initiatives incorporate specific objectives under the Government's economic and social justice strategies and specify the level of funding allocated to achieve each objective;
- ◆ As a consequence of the 1989 budget discussions, the development of business operations plans for TAFE colleges. These plans require each college to identify a mission statement and corporate objectives to guide the college's future strategic direction; and
- ◆ Implementation from July 1988 of strategies specifically designed to enhance the overall quality of cash management procedures across the State Training System. Elements of these strategies include:

- . establishment within the Board of a cash management unit with system-wide responsibility for cash management tasks (as from 1 July 1988 the Board assumed direct responsibility for the flow of grant funds to colleges through a cash suspense account facility); and
- . negotiation of a "package" with the Board's bankers under which facilities are available for the electronic transfer of funds to colleges as well as a fixed overdraft interest rate and interest earnings on cheque account balances. These facilities are aimed at eliminating the penalty interest costs associated with the increasing use by colleges of unauthorised overdrafts because of productivity and resource pressures.

**3.7.131** In addition to the above initiatives and strategies arising from action by the Board, the TAFE resource management environment has been influenced by the following 2 agreements entered into by the Government with the relevant industrial groups:

- ◆ *TAFE Teaching Service Agreement* - which became effective from 1988 and provided for new working conditions for teachers in return for a new salary and career structure and a second tier salary increase. Productivity trade-offs arising from this agreement included:
  - . increase in average annual teaching hours from 614 hours to 722 hours;
  - . rostered leave for teachers to allow colleges to remain open for 48 weeks of the year in lieu of 38 weeks; and
  - . targeted reductions in costs per student per teaching hour in colleges.
- ◆ *TAFE Management Service Agreement* - which became effective in 1988 and provided for a balanced mix of classifications for senior staff positions across the system and for career opportunities within the TAFE sector.

**3.7.132** In summary, the Board has introduced a range of measures aimed at improving the overall standard of resource management in the TAFE sector. Audit intends to evaluate the overall impact of these measures in future years and of the Board's scrutiny of productivity achievements realised under the 2 industrial agreements.

*Management response*

*The Board will, in addition to strategies itemised in the audit report, utilise Business Operations Plans to monitor financial management of colleges and identify potential deficits before they arise. Business Operations Plans deal with all funds available to colleges and reflect a true position because they do not treat recurrent grants in isolation. Surplus income from other sources, recoupments to recurrent, college business activity and strategies agreed with the State Training Board to balance total college budgets will be monitored through Business Operations Plans.*

---

### *Serious deficit positions in colleges*

**3.7.133** The importance of the Board's recent strategies and initiatives for improved management performance in the TAFE sector, as outlined above, is reinforced by the existence of serious financial positions in several colleges. At 31 December 1987 (1988 financial statements not yet available for audit), 20 colleges had recurrent funding deficits totalling \$10.2 million.

**3.7.134** The Board has moved to address the deteriorating financial position within particular colleges. The main thrust of the Board's action in this area has been:

- ◆ arrangement of budget discussions between the Board and colleges;
- ◆ agreement by the Board to provide an increase in the base funding allocation where areas of definite under-funding have been identified;
- ◆ allocation by the Board of one-off deficit relief funding to some colleges as an interim measure to alleviate immediate financial liquidity problems;
- ◆ a requirement that colleges achieve a balanced budget in 1989; and
- ◆ agreement that particular colleges will initiate actions to "trade-out" of their accumulated deficit positions.

**3.7.135** The Board received a special funding allocation of \$3 million in 1988-89 to alleviate the financial difficulties being experienced in the TAFE sector.

**3.7.136** The Board needs to stress to members of college councils the importance of their role and responsibility in ensuring effective measures are in place to monitor and control the management of financial resources.

### **Financial implications of delays in submitting statements to the Commonwealth**

**3.7.137** Under the terms of the relevant Commonwealth legislation, audit expenditure statements on compliance with funding conditions concerning TAFE grants must be submitted to the appropriate Commonwealth authority no later than 30 September following the year in which grants are provided. In recent years, the Commonwealth has placed substantial significance on the need for States to comply with the 30 September deadline for provision of audit statements. In this regard, the Commonwealth has strictly followed a strategy of withholding grants due to be paid to States under payment cycles commencing from October in those cases where audit statements had not been furnished by the requisite deadline.

**3.7.138** The audit process arranged by the Board with a firm of private practitioners for preparation of 1987 audit statements had not commenced as at the date of preparation of this report.

**3.7.139** Some quite significant implications have emerged as a consequence of the non-provision by the Board of 1987 audit statements to the Commonwealth. The State has not yet received from the Commonwealth funds totalling approximately \$14.4 million in respect of TAFE recurrent and capital grants which, in normal circumstances, would have been remitted to the State in October and December 1988, respectively.

**3.7.140** In discussions with Board management on this issue, audit was advised that the flow of recurrent funds to TAFE colleges and timing of outlays of capital projects has not been affected by the non-availability of Commonwealth funds, as these areas have been financed from the State's financial resources pending ultimate receipt of grant moneys.

**3.7.141** Audit indicated to the Board that the above perspective did not take into account the quite significant opportunity costs to the State from temporary diversion of funds to meet the needs of the TAFE system. For example, if the amount drawn from the Public Account to meet TAFE requirements had been available for investment by the Department of Management and Budget during the period October 1988 to March 1989, as part of the ongoing movement of Public Account funds invested with the Victorian Development Fund, **audit estimates that interest of around \$880 000 would have been earned on behalf of the Public Account.**

**3.7.142** It is emphasised that because the review of the 1987 statements has not yet commenced, it will be some time before the necessary documentation is available for transmission to the Commonwealth and the State becomes eligible to receive the outstanding grants of \$14.4 million.

**3.7.143** It is also relevant to point out that a similar delay occurred in provision by the TAFE Board of the 1986 audit statements. In this respect, statements which were required under the legislation to be forwarded by 30 September 1987 were not furnished until March 1988. As a consequence, Commonwealth recurrent funds totalling \$9.2 million which would have normally been forwarded to the State in October 1987 were not remitted until April 1988. **The opportunity cost to the State of this delay, in terms of investment interest forgone, was around \$560 000.** It is of some concern to audit that a similar time pattern has been allowed occur in respect of the 1987 statements.

**3.7.144** The Board should give a high priority to finalising arrangements for the audit of the 1987 statements so that the State can obtain the Commonwealth funds totalling \$14.4 million, the majority of which would normally have been received early in October 1988.

#### *Management response*

*Action to remedy shortcomings in the procedures used by the TAFE Board to administer Commonwealth grants is now complete. Revised terms of reference for the State Training Board's internal auditor to ensure compliance with relevant Commonwealth legislation and proper procedures in the provision of audit statements have been finalised. Preparation of 1987 audit certificates will be finalised by the end of April 1989 and there is now no impedient to meeting future legislative deadlines.*



---

## CLEANING SERVICES WITHIN EDUCATIONAL INSTITUTIONS

### Update on issues raised in 1987 audit review

**3.7.145** During 1987, audit conducted an extensive review of the provision of cleaning services within primary and post-primary schools (areas within the responsibility of the Ministry of Education), the 4 universities and a selection of colleges of advanced education (CAEs) and technical and further education (TAFE) colleges. The results of this review, which identified potential annual savings from adoption of contractual arrangements for cleaning of around \$51.5 million were incorporated in the Auditor-General's *Second Report* for 1986-87 tabled in the Parliament in April 1988.

**3.7.146** The 1987 review also identified several areas within educational institutions where potential existed for substantial efficiency gains as avenues available for implementation of contract cleaning were pursued.

**3.7.147** In view of the magnitude of the potential annual savings and the existence of industrial factors, the 1986-87 *Second Report* recommended that a co-ordinated approach involving the Ministry of Education, the Victorian Post-Secondary Education Commission (VPSEC), the State Training Board (STB) and the Department of Labour on implementation of contract cleaning be followed.

### *Status of action to implement contract cleaning*

**3.7.148** A further audit review during 1988 disclosed little evidence of a systematic and co-ordinated approach, involving the various parties, towards achievement of more efficient management of cleaning resources across the whole spectrum of the education sector.

**3.7.149** While the Ministry of Education did enter into discussions with the relevant union, the Federated Miscellaneous Workers Union (FMWU), it decided not to proceed in the contract cleaning direction for schools but to concentrate efforts on those areas with potential for efficiency gains, within the context of the existing operational framework for cleaning. In August 1988, the Treasurer formally advised the FMWU of this official strategy.

**3.7.150** The other educational bodies which were included in the 1987 audit review also determined to concentrate on achieving efficiency gains in the management of cleaning resources rather than pursue contract cleaning.

**3.7.151** A summation of the efficiency improvements for cleaning services introduced within the education sector, which are estimated by the respective bodies to generate annual cost savings of around \$4.5 million, is presented below:

- ◆ *Ministry of Education (primary and post-primary schools)*
  - greater flexibility for allocations of cleaning staff to schools (estimated annual saving, \$2.5 million);
  - revised procedures for replacement of cleaning staff on first day of absence (estimated annual saving, \$1.5 million); and

- . more cost-effective mix of full-time and part-time cleaners (estimated annual saving, \$100 000).
- ◆ *Monash University*
  - . revised practices relating to the employment of in-house cleaning staff have been implemented with potential annual savings estimated by the University to be \$264 000.
- ◆ *University of Melbourne*
  - . some of the factors identified in the 1987 audit review as contributing to the University's high staff cleaning costs have been addressed with resultant annual savings of approximately \$150 000 (the University is hopeful that the level of efficiency gains can be substantially increased in future years).

*Management response by Ministry of Education*

*In July 1988 the Ministry of Education undertook a study to estimate the potential savings offered by utilising contract cleaning services in respect to 30 schools. Based on this sample and on Ministry of Education rates of pay and conditions of employment, the Ministry determined that potential savings offered by employing cleaning contractors in all schools would be approximately \$10.3 million. The Ministry therefore decided not to proceed with contract cleaning at this stage but to pursue cost savings within the existing school cleaning arrangements.*

*The Ministry has identified further savings proposals of \$10.9 million per year over 3 to 5 years with the elimination of relief for cleaners on rostered days off and adjustments to some elements of the cleaning formula used to establish entitlement for cleaning services. These matters are currently subject to negotiation with the FMWU.*

*Poor example set by VPSEC and STB*

**3.7.152** Audit found that management within 6 of the 9 CAEs and 10 of the 26 TAFE colleges not included in the audit study were not aware of the detailed findings of the 1987 review. Audit felt that this rather unsatisfactory position reflected poorly on the level of significance the respective overview bodies, VPSEC and the STB, had placed on the results of the review and the extent to which they had advised and encouraged colleges to evaluate the cost-effectiveness of cleaning operations in the light of the audit findings.

**3.7.153** Audit has recommended to both VPSEC and the STB that a more dynamic and decisive approach be followed in the co-ordination and monitoring of progress made by colleges in the achievement of more cost-effective cleaning services.

### *Management response by State Training Board*

*The State Training Board has established a project team, with college representation, to oversight implementation of the recommendations in the Auditor-General's Second Report for 1986-87. Negotiations with relevant unions are proceeding. A database has been established to allow for the effective management of cleaning services in the sector.*

## LOSSES AND THEFTS

**3.7.154** Particulars of losses and thefts of property, which occurred in the period July 1987 to December 1988, notified to my Office by entities within the education portfolio are summarised in Table 3.7F:

**TABLE 3.7F. THEFTS AND LOSSES WITHIN THE EDUCATION PORTFOLIO**

<i>Item</i>	<i>\$</i>	<i>\$</i>
Ministry of Education-		
Misappropriations of funds in schools		106 640
Losses and thefts of equipment		35 608
		<u>142 248</u>
Universities-		
Misappropriations of funds at the University of Melbourne-		
Fraudulent withholding of subscriber funds		
by Box Office Supervisor at the Melbourne		
Theatre Company	30 500	
Fraudulent collusion, involving manipulation		
of invoices, between a University purchasing		
officer and an external supplier of computer		
resources.	<u>15 000</u>	45 500
Losses and thefts of equipment		122 235
		<u>167 735</u>
Colleges of advanced education-		
Losses and thefts of equipment		365 435
TAFE colleges-		
Losses and thefts of equipment		580 950
Minor losses of equipment reported by other entities		9 036
<b>Total reported losses, thefts and misappropriations</b>		<u><b>1 265 404</b></u>

**3.7.155** The major portion of losses and thefts of equipment reported by educational institutions involved computer, video or survey equipment.

---

## 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>Cleaning services within educational institutions</b>		
<i>Second Report, 1986-87, pp.58-66</i>	Potential exists for achieving annual savings of up to \$51.5 million from adoption of contract cleaning throughout the State's education system.	The status of action taken on issues raised in the audit review on cleaning services is outlined in paragraphs 3.7.145 to 3.7.153 of this report.
<b>Ministry of Education</b>		
<i>Second Report, 1982-83, pp.48-9</i>	A substantial number of State primary school councils were not meeting legislative requirements to have accounts audited.	There has been an improvement in the timing of submission of audited accounts by primary schools. Refer paragraphs 3.7.61 to 3.7.71 of this report.
<i>Third Report, 1983-84, p.25</i>		
<i>Second Report, 1986-87, pp.67-8</i>		
<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. A joint working party involving the Ministry and the Department of Management and Budget has been established to assess options available for timing of payment of grants and allowances to schools.
<i>Second Report, 1984-85, pp.53-4</i>	The incidence and control of salary overpayments requires attention.	Net salary overpayments at 30 June 1988 totalled \$1.8 million (30 June 1987, \$1.7 million). The continuing high level of net salary overpayments has prompted the Ministry to consider further initiatives as part of its on-going attempts to minimise the incidence of overpayments.
<i>Second Report, 1985-86, p.98</i>		
<i>Second Report, 1985-86, pp.95-6</i>	Action should be taken to finalise establishment of a computer-based property information system.	Following completion of a Public Service Board review on software design, the Ministry has almost finalised planning for implementation of a new property information system.

## 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.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 has not yet obtained the formal approval of the Treasurer to the non-charging of rentals.
<i>Second Report 1982-83, pp.48-9 Third Report 1983-84, p.25 Second Report, 1986-87, pp.67-8</i>	The level of arrears of audits of post-primary schools (performed by the Ministry's internal audit personnel) had increased substantially.	The Ministry's internal corrective program has achieved limited results and new measures are necessary if the overall arrears problem is to be effectively resolved. Refer paragraphs 3.7.61 to 3.7.71 of this report.
<b>Chisholm Institute of Technology</b>		
<i>Second Report, 1985-86, pp.104-5</i>	Because of serious problems experienced by the Institute, a wide-ranging review of overall financial management procedures was underway.	Position now satisfactory. Through its review program, the Institute has now established a sound foundation for its future financial management.
<b>La Trobe University</b>		
<i>Second Report, 1986-87, pp.70-1</i>	There were significant deficiencies in the development of a new financial accounting and reporting system.	Position now satisfactory following finalisation of the University's major corrective program.
<b>Monash University</b>		
<i>Second Report, 1986-87, pp.71-2</i>	Against a background of developments relating to the overseas IVF agreement, including growing doubts as to the likelihood of receipt of royalties, the University found it necessary to seek the advice of senior commercial counsel.	Following negotiations between the parties, the IVF agreement has been terminated. Relevant particulars are outlined in paragraphs 3.7.90 to 3.7.98 of this report.
<i>Second Report, 1986-87, pp.72-4</i>	In relation to IVF services provided at Epworth Hospital, the University has, for some time, had little involvement with substantial financial activities where its medical staff have been the prime participants.	Position now satisfactory. In March 1988, the University established an associated company for the management and control of services rendered by University staff at Epworth Hospital. The University has a 60 per cent shareholding in the company and all profits are paid to the University for use in medical research and associated areas.

---

**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>Post-secondary education institutions - common issues</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 the process relating to designation of post-secondary education institutions under the <i>Annual Reporting Act</i> , which commenced in 1985, will now be finalised with effect from the 1989 calendar year.
<b>Preston College of TAFE</b>		
<i>Second Report, 1986-87, pp.76-7</i>	Major deficiencies existed in the overall financial management procedures at the College.	The College now forms part of the Northern Metropolitan College of TAFE. Under the purview of an Interim Director, action has been taken to rectify past problems. It is understood that Police investigations are in course concerning certain expenditure incurred by the former College.
<b>TAFE Board (now State Training Board)</b>		
<i>Second Report, 1986-87, pp.77-8</i>	Commonwealth building grants totalling \$2.9 million were distributed by the TAFE Board to colleges substantially in advance of specific requirements. Also, audit statements of expenditure provided to the Commonwealth by the Board contained inaccurate information.	Following a consultancy review, the State Training Board has taken action to improve management control of Commonwealth funds and to strengthen procedures governing provision of audit statements of expenditure to the Commonwealth. Refer paragraphs 3.7.129 to 3.7.132 of this report for comment on the important financial implications to the State of recent delays in submission of annual audit statements to the Commonwealth.

## 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, 1986-87, p.78</i>	In many cases, valuable high technology equipment leased centrally under the State Leasing Facility had been forwarded to colleges without notification to colleges' central administration staff.	Position now satisfactory. The State Training Board has introduced strategies to improve overall communication to colleges on financial management matters.
<b>University sector - common issues</b>		
<i>Second Report, 1986-87, pp.69-70</i>	(1) <i>Administration of Outside Studies Program (OSP).</i> There is a need for more effective arrangements for the exchange of Program information between universities. Also, the full costs of the OSP should be disclosed in the universities' financial statements.	Position unchanged.
	(2) <i>Monitoring of outside earnings of academic staff.</i> Shortcomings exist in the overall management control framework for outside earnings within the 3 universities reviewed by audit.	Position substantially unchanged. Two universities are still considering avenues available for improving their position in this area.

## Schedule B. Completed/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>				
Ministry of Education	30 June 1988	31 October. <i>Annual Reporting Act 1983, s.8.</i>	27 October 1988	31 October 1988
Council of Adult Education	30 June 1987	30 September. <i>Council of Adult Education Act 1981, s.19.</i>	15 July 1988	2 August 1988
Institute of Educational Administration	30 June 1987	31 December. <i>Institute of Educational Administration Act 1980, s.17.</i>	22 March 1988	18 April 1988

## Schedule B. Completed/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>
<i>Post-secondary education institutions -</i>				
<i>Universities and associated companies</i>				
Deakin	31 December 1987	As soon as practicable after 31 March. <i>Deakin University Act 1974, s.37.</i>	1 August 1988	25 August 1988
Durac Limited	31 December 1987	" "	15 April 1988	25 August 1988
Deakin University Foundation Limited	31 December 1987	" "	2 May 1988	25 August 1988
La Trobe	31 December 1987	" "	26 September 1988	21 November 1988
La Trobe University Housing Limited	31 December 1987	" "	24 October 1988	21 November 1988
Melbourne	31 December 1987	No date specified. <i>Melbourne University Act 1958, s.46.</i>	23 November 1988	12 January 1989
Monash	31 December 1987	As soon as practicable after 31 March. <i>Monash University Act 1958, s.41.</i>	20 October 1988	15 December 1988 (a)
Montech Pty Ltd	31 December 1987	" "	7 December 1988	15 December 1988
<i>Colleges of advanced education</i>				
Ballarat	31 December 1987	No reporting requirements. Audit conducted under the authority of the <i>Post-Secondary Education Act 1978, s.27.</i>	30 May 1988	1 August 1988
Bendigo	31 December 1987	" "	17 June 1988	29 August 1988
Chisholm	31 December 1987	" "	13 September 1988	5 December 1988
Footscray	31 December 1987	" "	15 August 1988	19 September 1988
Gippsland	31 December 1987	" "	1 August 1988	10 November 1988



## Schedule B. Completed/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>
Hawthorn	31 December 1987	No reporting requirements. Audit conducted under the authority of the <i>Post-Secondary Education Act 1978, s.27.</i>	31 October 1988	22 November 1988
Institute of Catholic Education	31 December 1987	" "	25 August 1988	9 September 1988
Lincoln Institute of Health Sciences (b)	31 December 1987	" "	23 November 1988	14 December 1988
Melbourne (c)	31 December 1987	As soon as practicable after 31 March. <i>Melbourne College of Advanced Education Act 1982, s.42.</i>	12 September 1988	6 October 1988
Phillip	31 December 1987	No reporting requirements. Audit conducted under the authority of the <i>Post-Secondary Education Act 1978, s.27.</i>	29 March 1988	21 September 1988
RMIT Ltd	31 December 1987	" "	26 October 1988	7 November 1988 (a)
Swinburne Ltd	31 December 1987	No reporting requirements. Audit conducted under the authority of the <i>Post-Secondary Education Act 1978, s.27.</i>	14 April 1988	13 October 1988
Victoria	31 December 1987	" "	12 October 1988	17 November 1988
Victorian College of Pharmacy Ltd	31 December 1987	" "	18 July 1988	19 August 1988
Victorian College of the Arts	31 December 1987	As soon as practicable after 31 March. <i>Victorian College of the Arts Act 1981, s.36.</i>	9 September 1988	21 September 1988

**Schedule B. Completed/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>
Warrnambool	31 December 1987	No reporting requirements. Audit conducted under the authority of the <i>Post-Secondary Education Act 1978, s.27.</i>	11 April 1988	15 November 1988
<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>	12 February 1988	13 April 1988
Box Hill	31 December 1987	" "	31 August 1988	13 December 1988
Broadmeadows	31 December 1987	" "	12 November 1988	6 December 1988
Dandenong	31 December 1987	" "	20 December 1988	28 February 1989
East Gippsland	31 December 1987	" "	29 March 1988	11 October 1988
Flagstaff	31 December 1987	" "	16 November 1988	20 December 1988
Footscray	31 December 1986	" "	28 March 1988	22 April 1988
Frankston	31 December 1987	No reporting requirements. Audit conducted under the authority of the <i>Post-Secondary Education Act 1978, s.27.</i>	26 September 1988	10 January 1989
Gordon	31 December 1987	" "	30 August 1988	13 October 1988
Goulburn Valley	31 December 1987	" "	31 August 1988	24 October 1988
Holmesglen	31 December 1987	" "	17 August 1988	23 September 1988
Loddon-Campaspe	31 December 1987	" "	24 August 1988	24 October 1988

**Schedule B. Completed/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>
Melbourne College of Decoration	31 December 1987	" "	25 November 1988	13 December 1988
Melbourne College of Printing and Graphic Arts	31 December 1987	" "	28 October 1988	29 November 1988
Melbourne College of Textiles	31 December 1987	" "	1 February 1989	17 February 1989
Moorabbin	31 December 1987	" "	8 November 1988	22 November 1988
Newport	31 December 1987	" "	21 December 1988	15 March 1989
Outer Eastern	31 December 1987	" "	30 November 1988	18 January 1989
Preston	31 December 1986	" "	9 March 1988	27 April 1988 (a)
Richmond	31 December 1987	" "	2 February 1988	19 January 1989
RMIT Ltd	31 December 1987	" "	26 October 1988	7 November 1988 (a)
School of Mines and Industries Ballarat Ltd	31 December 1987	No reporting requirements. Audit conducted under the authority of the <i>Post-Secondary Education Act 1978, s.27.</i>	29 November 1988	31 March 1989
South West	31 December 1987	" "	13 April 1988	28 October 1988
Sunraysia	31 December 1987	" "	23 September 1988	13 December 1988
Swinburne Ltd	31 December 1987	" "	14 April 1988	13 October 1988
Wangaratta	31 December 1987	" "	23 September 1988	20 October 1988
William Angliss	31 December 1987	" "	14 November 1988	20 December 1988

**Schedule B. Completed/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>
<i>Institutes of tertiary education (d)</i>				
Wimmera Community	31 December 1987	" "	2 August 1988	27 September 1988
Wodonga	31 December 1987	" "	26 August 1988	17 October 1988
Yallourn	31 December 1987	" "	12 October 1988	21 November 1988
Victorian College of Agriculture and Horticulture	31 December 1987	No reporting requirements. Audit conducted under the authority of the <i>Post-Secondary Education Act 1978, s.27.</i>	9 August 1988	6 September 1988
Western Institute	31 December 1987	" "	13 September 1988	7 November 1988
State Training Board (e)	30 June 1988	30 September. <i>Post-Secondary Education Act 1978, s.60.</i> No specific requirement to include audited financial statements in annual report.	22 March 1989	29 March 1989
Victorian Curriculum and Assessment Board	30 June 1988	30 September. <i>Victorian Curriculum and Assessment Board Act 1986, s.17.</i>	29 September 1988	29 September 1988
Victorian Post-Secondary Education Commission	30 June 1988	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.	10 November 1988	1 December 1988
Victorian Tertiary Admissions Centre	30 June 1988	No reporting requirements. Audit conducted at request of Treasurer.	23 August 1988	5 December 1988
<b>Incomplete audits</b>				
Council of Adult Education	30 June 1988	30 September <i>Council of Adult Education Act 1981, s.19.</i>	Field audit work completed. Revised financial statements not yet received from the Council.	

**Schedule B. Completed/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>
Institute of Educational Administration	30 June 1988	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.	
Knowledge Victoria Ltd	30 June 1988	No reporting requirements. Audit conducted at request of the Treasurer.	Financial statements not yet available for audit	
Post-secondary education institutions -				
<i>Colleges of technical and further education</i>				
Batman Automotive College	31 December 1987	No reporting requirements. Audit conducted under the authority of the <i>Post-Secondary Education Act 1978, s.27.</i>	Field work commenced, however, audit has found it necessary to convey to College management a wide range of deficiencies relating to the financial records which need to be rectified before the audit can be completed.	
Collingwood (f)	31 December 1987	No reporting requirements. Audit conducted under the authority of the <i>Post-Secondary Education Act 1978, s.27.</i>	In view of absorption of the College into the Northern Metropolitan College of TAFE, the 1987 and 1988 audits are being conducted concurrently.	
Footscray	31 December 1987	" "	Field work completed in December 1988, however, a signed management representation to accompany the 1987 financial statements has only recently been received.	
Prahran	31 December 1987	" "	Field work completed in August 1988. Revised financial statements only recently received from the College.	

**Schedule B. Completed/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>
Preston (f)	31 December 1987	" "	In view of the absorption of the College into the Northern Metropolitan College of TAFE, the 1987 and 1988 audits are being conducted concurrently.	

- (a) Qualified audit report issued.  
 (b) Incorporated into La Trobe University as from 1 January 1988.  
 (c) Amalgamated with the University of Melbourne as from 1 January 1989.  
 (d) Wodonga Institute of Tertiary Education was established in October 1987 but did not commence operations until 1988.  
 (e) Since 30 November 1987, functions previously undertaken by the TAFE Board have been carried out by the State Training Board.  
 (f) Preston and Collingwood Colleges were absorbed into the Northern Metropolitan College of TAFE as from September 1988.

---

## 3.8

# ETHNIC AFFAIRS

---

KEY FINDING
◆ The audit of the Ethnic Affairs Commission proved satisfactory.

- ◆ The audit of the Ethnic Affairs Commission proved satisfactory.

---

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

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

There were no matters outstanding.

**Schedule B. Completed/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 audit</b>				
Ethnic Affairs Commission	30 June 1988	31 October. <i>Annual Reporting Act 1983, s.8.</i>	26 August 1988	20 October 1988

---



---

## 3.9

# HEALTH

---

### KEY FINDINGS

- ◆ Need for improved management practices in the development and operation of the Department's 91 Community Health Centres.  
*paras 3.9.1 - 3.9.36*
- ◆ Inadequate disclosure in departmental financial statements of payments amounting to \$1.7 billion from the Hospitals and Charities Fund.  
*paras 3.9.37 - 3.9.40*
- ◆ Lack of strategic planning for the introduction and use of information technology throughout the Department.  
*paras 3.9.41 - 3.9.47*
- ◆ Improved monitoring practices required in relation to grants made to non-government organisations.  
*paras 3.9.61 - 3.9.67*
- ◆ Significant delays in financial reporting by ambulance services.  
*paras 3.9.86 - 3.9.89*
- ◆ Approval not obtained by the Victorian Health Promotion Foundation for the engagement of consultants.  
*paras 3.9.91 - 3.9.93*

---

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**

Ambulance Officers' Training Centre  
Ambulance Services (7)  
Cancer Institute Board  
Dietitians Board of Victoria  
Mental Health Review Board  
Optometrists Registration Board  
Public Hospitals and Nursing Homes (145)  
Psychosurgery Review Board  
Victorian Health Promotion Foundation  
Victorian Nursing Council

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

---

**HEALTH DEPARTMENT VICTORIA**

**Community health centres**

**3.9.1** As part of the development of a Victorian Health Plan to set out the overall direction for health and the way in which future health needs will be met, the Department produced a draft plan in April 1987 to meet the Government's objective of expanding community and home based health services. One of the key components of the plan involved increasing the role of Community Health Centres (Centres).

**3.9.2** The Department is commended for the introduction of a number of initiatives namely:

- ♦ the formulation of a Policy and Program Statement for Centres in May 1987 which outlined the Government's principles and strategies for the development and administration of community health, which included;
  - . community health care services to be delivered by Centres in accordance with regional plans and priorities;
  - . a significant health promotion focus to be provided by Centres to prevent ill-health and develop well-being; and
  - . Centres to play an important role in the co-ordination of community health services and to develop programs for groups with special needs.

- 
- ◆ the development of Health Service Agreements for a number of the Centres;
  - ◆ funding the development of a community health standards program; and
  - ◆ the framing of legislation (not yet proclaimed) relating to Centres.

**3.9.3** As at February 1989 there were 91 Centres operating as individual Centres, satellites of Centres, or attached to Public Hospitals. Health Department Victoria funding of these Centres for 1987-88 totalled \$29 million.

**3.9.4** Audit carried out a review of management practices employed by the Department in developing and operating these Centres and concluded that:

- ◆ in most regions the central policy direction had not been translated into operational plans;
- ◆ there was a need for more emphasis to be placed on marketing of community health services to increase the public's awareness of the services provided by Centres;
- ◆ insufficient staff resources had been allocated to the task of fully achieving the Government's stated policy objectives relating to Centres;
- ◆ the level of monitoring of program efficiency and effectiveness was unsatisfactory; and
- ◆ the meaning of the objective for Centres to provide community development was not clearly defined.

**3.9.5** Detailed comments relating to significant matters arising from the review are set out below.

#### *Regional Plans not Finalised*

**3.9.6** The May 1987 Policy and Program Statement contained an initiative for 1987 for each Health Department Victoria regional office to formulate and commence implementing regional health plans. These plans were to specify the roles and needs for Centres in relation to existing services and resources in the region.

**3.9.7** Audit was advised that although plans had been developed by the 8 departmental regions, 7 of the plans were in draft form awaiting departmental approval.

**3.9.8** A number of Centre personnel located in regions without approved regional health plans were critical of the lack of information provided by the Department concerning the role of Centres in relation to other health providers in the region, and the lack of information on demography and health needs of the region.

**3.9.9** The non-finalisation of regional plans and priorities has meant that there has been insufficient direction given to Centres. The Department's policy objectives require that Centres deliver services which reflect regional plans and priorities. Centre personnel made the comment that the release of regional plans prior to development of individual Health Service Agreements would enable Centres to be more strategically managed.

**3.9.10** In order to maximise the use of available funds and enable Centres to be more strategically managed, audit recommended that the finalisation of health plans be given high priority by the Department.

*Management response*

*Health Department Victoria regards the finalisation of Regional Health Plans as an extremely high priority. The expectation was placed on regions to develop Regional Health Plans 2 years ago. Since that time all have either completed a draft Regional Health Plan, various discussion papers or are in the process of consulting. Audit has reported on the progress at a particular point in time. That point being in many cases at the stage where formal departmental endorsement is required. In almost all cases endorsement has now been given to Regional Health Plans being formally released. This should not be seen as giving Regional Health Plans low priority, but rather as ensuring they are consistent with departmental and Government policy directions. The integration of Community Health Centre plans with wider regional plans is essential for ensuring co-ordination and co-operation between the range of health services available in the community.*

*Scope for Greater Co-ordination of Community Health Services*

**3.9.11** The following agencies and departments are responsible for the funding and management of community health services:

- ◆ The Health Department Victoria, the Department of Community Services Victoria and the Ministry of Education are the principal departments responsible for children's health and community services.
- ◆ The Federal Government (through Medicare) and the Victorian Government (through Community Health Centres, Child Health Medical Officers, and Public Hospital Outpatients' Clinics) are responsible for funding primary medical care provided by doctors.
- ◆ The Department of Community Services Victoria (home help, Meals on Wheels), Health Department Victoria (domiciliary nursing) and the Commonwealth Department of Community Services (home and community care funding) share the responsibility for home care services, particularly for older people.
- ◆ A range of home and community care services is provided by Local Government which also plays an important role in local co-ordination and planning.
- ◆ The Health Department Victoria, the Victorian Accident Rehabilitation Commission and the Commonwealth Department of Community Services fund rehabilitation services.

---

**3.9.12** The audit review disclosed instances where responsibility for the provision of community health services was not clearly defined with the result that certain community health services were provided by various public health providers in some localities. In audit opinion, the Department should undertake a comprehensive review of the extent of community health services provided in selected communities with a view to more effectively co-ordinating the services provided by government agencies.

*Management response*

*Health Department Victoria plans for new services to take into account existing services provided by Health Department Victoria and other departments or agencies within a local community.*

*An understanding of the range of inter-related community services within the community is a key factor used by Regional Directors in framing Regional Health Plans. The Department does not see that a comprehensive review would provide higher quality planning information than would arise from Regional Directors of Health working in consultation with other regionalised government departments.*

**Scope for Added Marketing of Services**

**3.9.13** A survey commissioned by audit disclosed that the reputation of Centres was almost universally favourable. Consumer confidence was derived from the professional nature of the services provided and the perception of friendly, polite and helpful staff.

**3.9.14** The survey also indicated that 47 per cent of respondents were of the view that information concerning the various services provided by the Centres was either not readily available in their respective localities or they did not know whether information was available. Localities in which there appeared to be a lack of marketing activities were also the predominant areas in which a significant number of respondents (24 per cent in total) were not aware of the existence of the Centre in the locality. In addition, 28 per cent of respondents who claimed that they were aware of the Centre in their respective areas either did not know or could not say what services the Centres provided.

**3.9.15** The above responses suggest a likely correlation between limited promotion of service and a lack of awareness of Centres and the services provided.

**3.9.16** In areas where a high percentage of the community was not aware of the services provided (45 per cent), audit recommended that promotion of services be extended in order to ensure that Centres are used to their maximum potential.

### *Management response*

*Health Department Victoria was pleased to observe that the overwhelming majority (76 per cent) of respondents to Audit's survey were aware of Community Health Centres.*

*Not every person in a Community Health Centre's catchment area should be expected to have a detailed need of the Centre's services, it is often enough to know the Centre is there when community health needs arise.*

*The Department does not agree that Community Health Centres are underutilised and so in need of a special marketing effort.*

### **Staff Resourcing of Centres**

**3.9.17** The policy objectives require Centres to provide primary care, chronic support for the disabled, health promotion and community development. In audit opinion, the staff resourcing of some Centres has not been sufficient to enable the policy objectives to be achieved as approximately 20 per cent of Centres had a staff complement of only one to four officers. In the majority of cases these Centres were either attached to the local hospital, serviced a relatively small locality or had only recently been developed.

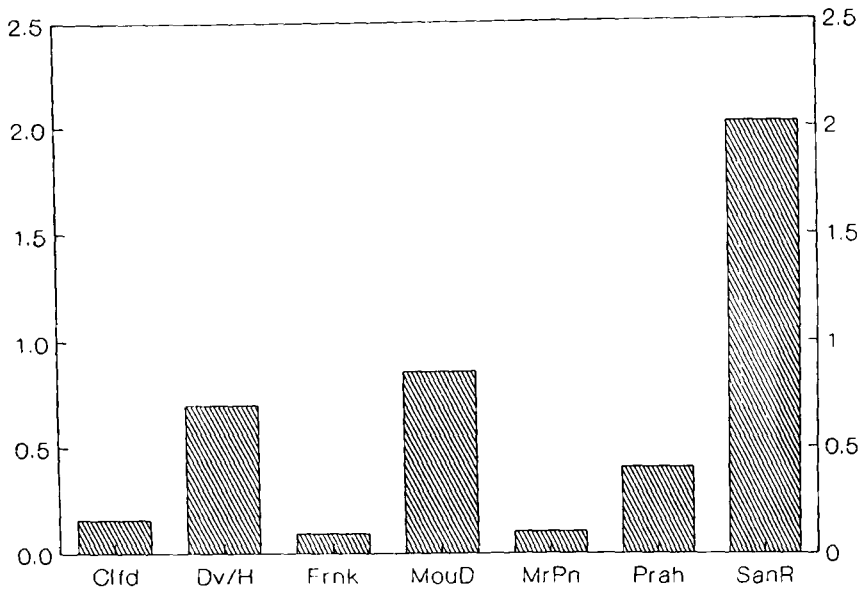
**3.9.18** The reduction in the overall length of stay of patients in public hospitals and the trend of more patients being treated in their communities may require an increase in staff resources in certain Centres in the future.

**3.9.19** Audit realises that the distribution of staff resources to Centres is based on a number of factors in each locality such as:

- ◆ population;
- ◆ the socio-economic status of the area;
- ◆ the level of public and private resourcing;
- ◆ demographic factors; and
- ◆ density of health problems.

**3.9.20** In the absence of any established criteria for the allocation of resources by the Department to Centres, audit reviewed the ratio of staff to population in various areas. The review disclosed instances of a widely variable distribution of staff to population in some localities. An example of such variation, obtained from Departmental records, is indicated in Chart 3.9A which covers certain Centres located in the Department's South Eastern Metropolitan Region.

**CHART 3.9A. COMMUNITY HEALTH CENTRES STAFFING**  
(Staff per 1 000 population)



Clfd - Caulfield  
 DvH - Doveton/Hallam  
 Frnk - Frankston  
 MouD - Mountain District

MrPn - Mornington Peninsula  
 Prah - Prahran  
 SanR - San Remo

**3.9.21** Audit recommended that the Department either ensure that adequate strategies are in place for the under resourced Centres to achieve the stated policy objectives or reassess the complexity of these objectives so that they may be framed in a realistic manner.

**3.9.22** The Department should review variations of Centre staff to population, together with the respective communities' health needs, to ascertain the appropriate staffing levels for each Centre.

*Management response*

*Audit's conclusions about the resourcing of Community Health Centres and the relationship to policy objectives appears to be based on the observation that 20 per cent of centres had a staff complement of 1-4. This was a key part of the Policy and Program statement and the draft Victorian Health Plan analysis of issues affecting community health.*

*In last year's State Budget considerable additional resources were allocated to increasing the availability of staff in existing Centres. This included additional Community Health Centre staff, new Allied Health Services for older people, and the provision of Dental Health services through Community Health Centres. This represents significant action to address resource levels in Community Health Centres.*

---

*The Department recognises that in some isolated areas there will not be a need for a large Community Health Centre which satisfies the full range of Policy objectives, however the response to this should not be to change the direction of the Community Health Program or provide people with resources which are not needed. The response should be to provide the level of community health resources which best fit the needs of the local community, even if these communities are small and isolated.*

*Audit's observations about variations in centre staff population ratios will partly be satisfied by ensuring a consistency of definitions of Community Health Centre catchment areas. The new Health Services Act will resolve this.*

*However, the Department accepts that there is a variability in Community Health Centre staff to population ratios. This can partly be attributed to variable needs and resources within local communities, such as isolation and the existence of other health services.*

*The Department will continue to ensure that any new staff available for Community Health Centres go to areas of greatest need, taking account of population and other indicators of need identified by Audit.*

#### **Monitoring the Effectiveness of Services Provided**

**3.9.23** Audit noted an almost complete absence of performance indicators in the 62 Centres which did not operate under Health Service Agreements.

**3.9.24** Centres operating under Health Service Agreements were required to develop performance indicators as part of the agreement process. Nevertheless a review of indicators listed in agreements revealed that the majority were quantitative in nature (for example, numbers in attendance, percentage of attendance, or number of patient treatments) or included strategies expressed as performance indicators. For example, performance indicators were stated as methods to achieve the goal rather than quantitative and qualitative measurements of the goal outcome. Information provided by these performance indicators would not enable the effectiveness of a particular service or program to be evaluated.

**3.9.25** At the local level only a limited number of Centres surveyed the local community to determine the effectiveness of service delivery.

**3.9.26** To ensure accountability to the Department for Centre programs, Centres are required to submit regular financial and statistical data. Additionally, the Department has recently implemented Health Service Agreements which contain a number of process orientated performance indicators and budgetary agreements. Twenty-nine Centres have entered into agreements with the Department and the aim is to have all Centres on agreements by 1991. While the Centres produce audited annual financial statements, these are not used by the Department for monitoring purposes.



---

**3.9.27** A review by audit of the financial and statistical returns retained by the Department's 3 largest regions revealed that:

- ◆ there was limited program monitoring;
- ◆ only limited random checking by the Department on the accuracy of program information supplied by Centres had been undertaken;
- ◆ at least 15 per cent of returns could not be located by the Department;
- ◆ of those returns received, a number were incomplete; and
- ◆ a large proportion of the statistical information supplied to the central office had limited usage by the Department.

**3.9.28** To enable the efficiency/effectiveness of Centres to be evaluated, the Department should develop procedures to assist Centres with the development of performance indicators with particular emphasis on client outcome indicators.

**3.9.29** Audit recommended that the Department place further emphasis on active monitoring and follow up to increase Centre accountability for program funding.

*Management response*

*The Department accepts the need for performance indicators and better accountability and believes the best way of ensuring this is the full implementation of the Health Service Agreements program. The Department has a 3 year plan for full implementation of Health Service Agreements for 1991 and the concerns raised by Audit should then be resolved.*

*The key financial accountability mechanism is the annual audited report to Community Health centre management committees. The Department is concerned that Audit has focussed on the annual financial and statistical returns as the key mechanism of accountability. The Department is currently replacing this form and establishing a new monitoring system which incorporates the annual audited reports to the Committees of Management. The lack of use by the Department of the existing financial and statistical returns, cited by Audit, reflects the need for a change in the reporting procedures. It is emphasised that the key financial accountability mechanism is through the annual audited reports to the Committees of Management.*

*Few Centres Actively Undertake Community Development*

**3.9.30** Government policy states that Centres should perform various functions including community development.

**3.9.31** Most Centre personnel interviewed by audit indicated that the largest proportion of time was utilised on casework and only a small proportion of resources was applied to community development.

---

**3.9.32** Audit is of the opinion that community development may not have been universally implemented by Centres due to this function not being adequately defined in the policy document. Discussions with senior departmental officials and Centre personnel indicated a variety of opinions as to the meaning of this term.

**3.9.33** **The Department should undertake an appraisal of its policy document to ensure that all concepts are clearly defined and easily understood by community health personnel.**

*Management response*

*The Department agrees with Audit and will incorporate education about community development into the Skill Development Program for Committee Members and Staff.*

*Insufficient Support for Management Committees*

**3.9.34** The Government policy contained a program initiative for 1987 which required education and support programs to be developed for members of Committees of Management.

**3.9.35** Audit enquiries revealed that only 2 of the 8 departmental regions had provided formal training/seminars for members of Committees of Management and that few health service agreements incorporated strategies for the development of skills of Committees of Management. In addition, the review found that procedural guidelines had not been developed to assist newly created Centres.

**3.9.36** In audit opinion, program delivery would be enhanced by the development and delivery of appropriate training courses by the Department for the Committees of Management of Centres. Audit is of the view that when new services are established, the Department should provide such services with documented guidelines to facilitate the establishment of the service, for example, information on employment of staff, recommended size of facilities, insurance needs etc.

*Management response*

*The need for increased support to Committees of Management has been recognised by Health Department Victoria and a program is underway in the following areas:*

- ◆ *roles and responsibility of members of committees;*
- ◆ *workshop for skill development in all areas of operations of management; and*
- ◆ *material to help develop, review and update policy and procedure manuals.*

---

## Payments from the Hospitals and Charities Fund

**3.9.37** 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*.

**3.9.38** In the Auditor-General's *Second Report* to Parliament for 1986-87 audit commented on the inadequate disclosure of payments from the Hospitals and Charities Fund. This situation remained unchanged in 1987-88.

**3.9.39** Payments from the Fund amounted to \$1 663 million in 1987-88 with \$1 533 million (92 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 total payments, the only details provided in the departmental financial statements were the total amount paid to hospitals and nursing homes, community health centres and other subsidised institutions, and payments for minor works.

**3.9.40** **Audit reiterates the comment made last year that 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.**

### *Management response*

*With effect from 1988-89 the Department will provide information in the Department's annual report with respect to 60 major hospitals and Nursing Homes and major expenditure items.*

*With effect from 1988-89 financial year, the Annual Reports of Public Hospitals and State Funded Nursing Homes funded from the Hospital and Charities Fund will be submitted to Parliament by the Minister for Health in accordance with Section 54 of the Health Services Act.*

*These Annual Reports will contain a report of operations during the financial year, plus financial statements prepared in a manner and form approved by the Treasurer. They will therefore provide meaningful information in respect of financial and operating performance. The financial statements will be audited by the Auditor-General.*

*Community Health Centres and other agencies funded from the Hospital and Charities Fund will be registered under the Health Services Act however, they are not yet required to submit annual reports to Parliament.*

*They are required however to submit annual returns to the Health Department Victoria, in accordance with guidelines and criteria developed by the Department of Management and Budget and the Health Department Victoria.*

---

## Information technology

**3.9.41** The Department's Information Technology program is divided into 2 distinct areas:

- ◆ mainframe computing through the use of a computer bureau, Health Computing Services - Victoria Ltd, a company established in 1981 by the former Health Commission; and
- ◆ stand alone processing involving the use of personal computers.

**3.9.42** Payments made to Health Computing Services - Victoria Ltd for 1987-88 amounted to approximately \$5.2 million. Audit established that at least 220 personal computers and 190 printers, costing in excess of \$2.5 million, were located throughout the Department.

**3.9.43** During 1988 the Department implemented several initiatives, namely:

- ◆ the establishment of an equipment and program standardisation policy;
- ◆ the upgrading of computer applications with enhancements to the Financial Information Management System and the Patient Recording System; and
- ◆ the preparation of a strategic plan for certain areas of the Department with a commitment to extend the plan to other areas.

**3.9.44** During 1988 audit undertook a review of information technology management practices associated with the introduction and use of information technology throughout the Department.

**3.9.45** Major findings of the review were as follows:

### *Lack of Strategic Planning*

**3.9.46** A strategic information technology plan had not been implemented for the entire Department although 3 plans/reports on this matter had been prepared since 1985. The lack of a strategic information technology plan outlining adequate policies and guidelines for the development and use of mainframe applications, personal computers and personal computer applications throughout the Department has resulted in:

- ◆ funding being provided on a short-term needs basis rather than in accordance with an established framework;
- ◆ the possibility of funding not addressing the most critical needs;
- ◆ an unsystematic approach to developing, installing and operating information technology facilities;
- ◆ applications lacking transportability, and the sharing of data between applications not always being possible; and

- 
- ◆ a lack of adequate planning for application development and implementation which contributed to the following inefficiencies:
    - Inadequate system documentation had a major impact on a database program (BRAINS), developed in-house at a cost of approximately \$100 000. The program had to be taken over by Health Computing Services - Victoria Ltd due to the departure from the Department of all staff associated with the original development. The cost of takeover amounted to approximately \$3 800 and a monthly maintenance fee of \$1 000;
    - Inadequate definition of needs resulted in a program (PRISM) being purchased at a cost of \$25 000 but never implemented as excessive modifications would have been necessary to enable the program to meet the needs of the Department; and
    - Factors such as poor requirement definition, unsatisfactory processing times, inability to capture all required information and unsatisfactory system testing resulted in various problems associated with the Patient Reporting System, the Department's Payroll System and the Financial Information Management System.

**3.9.47 Audit recommended that the Department expand its strategic plan to cover all areas under its control. The plan should provide for both hardware and software solutions and cover personal computers as well as mainframe applications.**

*Management response*

*Health Computing Services Victoria was established in 1981 by the Health Commission of Victoria. Payments to Health Computing Services largely comprise the operations of centralised payroll, financial and patient systems and are essential for administrative control and performance monitoring.*

*As noted by Audit, the Department completed and issued a strategic plan for information technology in certain high priority areas particularly public hospitals. The Department is committed to extending the plan to cover all aspects of Information Technology.*

*The Department acknowledges some implementation problems with the Patient Reporting System, the Payroll System and the Financial Information Management System. However, the three systems are now producing quality output. The Department will continue to review and improve the systems.*

---

### *Equipment Standardisation Policy not Enforced*

**3.9.48** The review disclosed that the Department had over 65 different models of personal computers from 27 different manufacturers and over 61 different models of printers from 23 different manufacturers. Although in 1988 the Department recommended standardisation of equipment, this policy had not been enforced as the review disclosed that at least a quarter of the personal computers, identified as being purchased in 1988, were of a brand or make not included in the Department's standard equipment list.

**3.9.49** The standardisation of personal computers and related equipment would ensure that programs and data are transportable, quantity discounts are obtained on purchases and maintenance is improved.

#### *Management response*

*Further action will be taken to implement the standardisation policy, taking into account the provisions of the Treasury Regulations. However the guidelines on standardisation do provide for the Department to purchase outside the guidelines where economic and or functional factors support this action.*

### *Lack of Standardised Personal Computer Based Programs*

**3.9.50** The following wide range of personal computer based programs was used throughout the Department:

- ◆ 3 multifunction (spread sheeting, word processing, database, etc);
- ◆ 6 word processing;
- ◆ 4 database; and
- ◆ 4 desk-top publishing.

**3.9.51** Data prepared by most of these programs could not be accessed by the other programs of the same type, and some staff experienced in the use of one program were required to learn a different program for other types of applications.

**3.9.52** Although it is recognised that the Department developed a standardisation policy in 1988, audit was unable to determine the extent of compliance with the policy, due to insufficient departmental records.

**3.9.53** Audit recommended that the Department enforce its policy aimed at standardising the purchase of "off the shelf" programs in order to minimise the cost of purchasing and operating computer applications.

#### *Management response*

*The Department will take steps to standardise word processing programs but believes a small multiple choice of desk top publishing and data base programs is reasonable.*

---

### *Authority to Establish and Operate Health Computing Services - Victoria Ltd*

**3.9.54** As stated in previous Auditor-General's Reports to Parliament, the authority for public sector entities to establish companies is usually not contained specifically in the legislation establishing these bodies. Rather, the authority is interpreted as being contained in *incidental* powers provided to these bodies in the legislation.

**3.9.55** In relation to this issue audit questioned whether the former Health Commission, the forerunner of the Health Department Victoria, had the power to transform the Health Computing Service, in August 1981, into a company limited by guarantee. There does not appear to be any specific legislative power to carry out this action. As Health Computing Services - Victoria Ltd was established under the Companies Act and a private auditor has been appointed, the company is not subject to review or audit by the Auditor-General.

**3.9.56** Audit reiterates the recommendation previously made to Parliament that, as a general principle, the creation of or public sector participation in companies should be authorised under formal legislation which should specify the objects for the company.

#### *Management response*

*The Department is taking action to ensure that Health Computing Services - Victoria Ltd meets the Government's requirements in respect of companies, joint ventures and trusts.*

*A copy of the 1988 Annual Report of the Health Computing Services Victoria Limited was tabled in Parliament in accordance with these requirements.*

### *Non-compliance with Government Regulations and Policies*

**3.9.57** The Health Department Victoria made payments to the Health Computing Services - Victoria Ltd during 1987-88 totalling in excess of \$5 million. The Department did not comply with the Treasury Regulations 1981 and government policies in relation to the purchase of computer equipment and hiring consultants prior to obtaining equipment or services from Health Computing Services - Victoria Ltd.

**3.9.58** The Department should either comply with the government regulations and policy or apply through the necessary channels for a dispensation from these requirements.

#### *Management response*

*The Department will take action in respect of the Audit recommendation.*

### *Inadequate Recording of Equipment and Software*

**3.9.59** The standard register of various categories of assets was deficient in the following areas:

- ◆ a separate consolidated listing of personal computers and associated equipment was not maintained;

- 
- ◆ costs of assets were not included (assets purchased should be differentiated from leased assets);
  - ◆ expensive enhancements to computerised equipment such as "off the shelf programs" and hard disk drives amounting to at least \$500 000 were not recorded; and
  - ◆ the register had not been updated since June 1988 and did not include all personal computers.

**3.9.60** Audit recommended that given the large number of personal computers throughout the Department and the risk of theft, the asset register should be expanded to separately identify all personal computers together with their enhancements, location and cost. The Department needed to ensure that adequate security measures were in place to prevent loss of these attractive items and conduct stock takes on a regular basis.

*Management response*

*The Department has established an asset register. Action will be taken to ensure that the register meets the established guidelines and where appropriate additional information will be provided in respect of personal computers and related assets.*

**Monitoring practices associated with grants made to non-government organisations**

**3.9.61** Audit noted that the Government, in May 1988, released Guidelines for Funding Non-Government Organisations which streamlined funding application procedures and outlined uniform financial accountability requirements. The Government prescribed that the Guidelines were to be phased in over a period of 4 years with compliance voluntary during the first 2 years (1988-89 to 1989-90).

**3.9.62** As part of an on-going review of grants and subsidies, audit concentrated on grants made to non-government organisations and reviewed grant administration practices in the following areas:

- ◆ the Office of Psychiatric Services where grants of \$4.5 million were made to 43 voluntary and other organisations during 1987-88; and
- ◆ the Finance and Administration Section where grants of \$2.4 million were made to 12 research and other bodies during 1987-88.

**3.9.63** Audit found that the practices involved in administering grants were inadequate in terms of achieving proper accountability for the use of grants.



---

**3.9.64** In relation to the review of practices employed by the *Office of Psychiatric Services*, audit identified the following deficiencies in the administration of grants:

- ◆ Although grantee organisations were required to submit itemised statements relating to the income and expenditure of each grant, the grant conditions did not require these statements to be independently audited and an independent opinion to be expressed on whether the grant was applied for the intended purpose. In most cases audited financial statements covering the operations of the entire grantee organisation were forwarded which did not satisfactorily disclose expenditure from grants;
- ◆ Very few grantee organisations complied with the grant conditions requiring a certificate to be given by the qualified accountant responsible for preparing the itemised statement that the grant had been applied for the purpose of carrying out the approved project;
- ◆ The level of central scrutiny involved in monitoring financial information supplied by grantee organisations was minimal and lacked evidencing;
- ◆ Performance indicators to evaluate program delivery had not been developed;
- ◆ With one exception departmental officers had not reviewed the books and accounts of grantee organisations; and
- ◆ Interest income to the State was not maximised as grants were made twice a year rather than on a needs basis.

**3.9.65** With regard to the review of practices followed by the *Finance and Administration Section* of the *Department* in making grants to research and other bodies, the audit revealed that the Department had not formally prescribed terms and conditions in relation to:

- ◆ funding;
- ◆ financial accountability;
- ◆ performance indicators; and
- ◆ levels of performance.

**3.9.66** Consequently, the Department was unable to monitor the efficiency of operations and assess whether grant moneys had been applied for the intended purposes.

**3.9.67** **Audit recommended that, in order to administer grants in an effective manner and achieve uniformity in financial and performance accountability of grantee organisations, the Department should take immediate action to comply with the Government's Guidelines for Funding Non-Government Organisations.**

---

### *Management response*

*The Department has already instituted action to ensure that the key elements of the government guidelines are observed, in respect of annual reporting, financial accountability and performance evaluation. In addition, grantee organisations will be registered under the Health Services Act following its proclamation to ensure effective oversight accountability for their operations.*

*The Office of Psychiatric Services already checks and reviews all financial statements from grantee organisations. As part of the review, the operating surplus or deficit is taken into account when deciding the level of funding for the following year.*

*Changes will be made to the frequency of payments in 1989-90 to meet the cash management guidelines.*

### **Psychiatric Institutions**

#### *Differences in charges to patients*

**3.9.68** Prior to 1 July 1986 the Health Department was responsible for all mental health and mental retardation institutions (institutions for the intellectually and physically handicapped).

**3.9.69** In previous reports to Parliament, audit noted that fees to defray the cost of upkeep of patients were levied only on pensioners in those institutions classified as benevolent homes under the provisions of the *Commonwealth Social Services Act 1947*. It was estimated that additional revenue of \$3.8 million per annum would be raised if fees for upkeep were levied on all patients at all mental health and mental retardation institutions.

**3.9.70** The introduction of the Mental Health (Fees) Regulations 1984 provided a means for this anomaly to be resolved in relation to charging patients at mental retardation institutions, which were transferred to the Department of Community Services on 1 July 1986. However, psychiatric institutions (formerly mental health institutions) under the control of the Health Department's Office of Psychiatric Services are not covered by the regulations. It is estimated that of the original \$3.8 million additional revenue, approximately \$2.6 million per annum remains uncollected from patients at these psychiatric institutions.

**3.9.71** Audit therefore recommended that further action be taken to ensure that fees are levied on patients in all institutions.

**3.9.72** Audit was advised in 1988 that the Department was awaiting consideration by Cabinet of a submission on fees.

**3.9.73** This matter still remains unresolved.

---

### *Duplication of Administrative Procedures*

**3.9.74** In the Auditor-General's Second Report to Parliament for 1983-84 it was noted that collection of fees by the Commonwealth from patients in benevolent homes resulted in unnecessary duplication of administrative procedures.

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

**3.9.76** In 1988 action on this matter was deferred until the submission on fees was considered by Cabinet. Audit was advised that the Department is presently pursuing this matter with the Minister for Health.

**3.9.77** This matter remains unresolved.

#### *Management response*

*Action to introduce a system of fees for all long stay patients in psychiatric hospitals and abolish the system of restoration payments is being examined.*

*The Auditor-General's recommendations relating to the current fee arrangements in the State's psychiatric hospitals will be forwarded for the Minister's attention. A decision on further action will be known in the near future.*

### **Reporting and auditing requirements - statutory boards**

**3.9.78** In the Auditor-General's Second Report to Parliament for 1984-85 comment was made in relation to the inadequate and inconsistent statutory provisions in respect of financial reporting and auditing requirements for the following public bodies responsible to the Minister for Health:

- ◆ Advanced Technicians Qualifications Board;
- ◆ Anti-Cancer Council of Victoria;
- ◆ Cancer Institute Board;
- ◆ Chiropractors Registration Board;
- ◆ Chiropractors and Osteopaths Registration Board of Victoria;
- ◆ Cinematograph Operators Board;
- ◆ Dental Board;
- ◆ Dental Technicians Licensing Committee;
- ◆ Dietitians Board of Victoria;
- ◆ Medical Board;
- ◆ Optometrists Registration Board;
- ◆ Pharmacy Board of Victoria;
- ◆ Physiotherapists Registration Board;
- ◆ Plumbers and Gasfitters Board;
- ◆ Victorian Nursing Council; and
- ◆ Victorian Psychological Council.

**3.9.79** In particular, there was a lack of uniform legislation concerning:

- ◆ the form of financial statements;
- ◆ the recipient with whom the financial statements were to be lodged;
- ◆ the year end dates for financial reporting; and
- ◆ the responsibility for the conduct of the audit.

**3.9.80** Audit recommended that legislative amendments be sought to achieve a more consistent and effective reporting mechanism for these bodies.

**3.9.81** A recent review of the current reporting and auditing requirements of these statutory boards indicates that the matter still remains unresolved.

*Management response*

*The Department has deferred action to amend the necessary Acts to enable changes associated with the "Review of Registration for Health Practitioners" to be made at the same time.*

*The Department plans to include standard Clauses similar to those in Sections 53 to 56 of the Health Services Act No. 49 of 1988 in legislation relating to such bodies.*

*Amendments have already been made to the Psychological Practices Act 1965. The Cancer Institute Board is subject to the Health Services Act 1988 and the Plumbers and Gasfitters Board and the Cinematograph Operators Board no longer report to the Minister for Health.*

**3.9.82** The Mental Health Review Board and Psychosurgery Review Board were established on 1 October 1987 pursuant to the *Mental Health Act 1986*. Although separate financial reporting requirements on a commercial basis are prescribed by the *Mental Health Act 1986*, the Treasurer, under the *Annual Reporting Act 1983*, determined that Health Department Victoria include in its report of operations and financial statements for 1987-88 the operations and financial affairs of these bodies on a cash basis. Audit noted that these Boards did not have accounting systems to enable their legislative reporting requirements to be met under the *Mental Health Act 1986*. In subsequent years it is envisaged that both bodies will comply with the reporting requirements of that Act.

## **AMBULANCE SERVICES**

**3.9.83** Under the *Ambulance Services Act 1986* the Auditor-General gained responsibility for the audit of 14 ambulance services and the Ambulance Officers' Training Centre from 1 July 1987. During 1987-88 a restructuring of ambulance services took place which resulted in the original 14 ambulance services being reduced to 7.

---

## **Inadequate legislative requirements for financial reporting**

**3.9.84** The *Ambulance Services Act 1986* does not:

- ◆ prescribe a format and deadline for the preparation of financial statements;
- ◆ require the financial affairs to be included in the published annual reports; and
- ◆ require the audited financial statements to be forwarded to the responsible Minister and tabled in both Houses of Parliament.

**3.9.85** In audit opinion, accountability would be improved by the inclusion of the abovementioned provisions in the legislation.

### *Management response*

*The Department has noted the audit recommendation in respect of financial reporting and will assess the options, including legislative change, that would improve financial accountability.*

## **Delays in financial reporting**

**3.9.86** Audit is aware that the guidelines for the form and content of financial statements were issued by the Health Department's Director of Ambulance Services to ambulance services in July 1988 and that regular meetings of finance managers with the Directorate had been held on a monthly basis. Nevertheless, there has been a significant delay in the finalisation of financial statements by the majority of ambulance services. Only 4 ambulance services signed their 1987-88 financial statements prior to 31 December 1988.

**3.9.87** In audit opinion, delays in financial reporting within the ambulance industry have been caused by a general lack of experience by ambulance personnel in preparing financial statements in the prescribed format. As a consequence a substantial amount of reliance has been placed on audit to assist in finalising the financial statements.

**3.9.88** The failure of authorities to provide financial statements in a timely manner has resulted in:

- ◆ an inadequate level of accountability; and
- ◆ the Director of Ambulance Services not having access to timely information to monitor the financial management of the respective authorities.

**3.9.89** As the Director of Ambulance Services is responsible for monitoring the performance of ambulance services and the Training Centre, audit was of the view that the Director should implement additional procedures, such as the organisation of training courses in financial management, to improve the timeliness of financial reporting by ambulance services.

---

*Management response*

*The Department has already taken action to improve financial management in Ambulance Services and the Ambulance Officers' Training Centre. The Department will conduct training courses in financial management as part of this process and timeliness for financial reporting will be improved to meet acceptable standards and prevent audit delays.*

## **PUBLIC HOSPITALS AND NURSING HOMES**

**3.9.90** Under the terms of the *Health Services Act 1988* the Auditor-General gained responsibility for the external audit of 145 public hospitals and nursing homes as from 1 July 1988. In order to undertake the audit of these organisations, 65 private practitioners have been engaged as agents of the Auditor-General. Matters of significance arising from these audits will be reported in subsequent reports to Parliament.

## **VICTORIAN HEALTH PROMOTION FOUNDATION**

### **Consultants**

**3.9.91** The Victorian Health Promotion Foundation engaged a number of consultants for various projects connected with the establishment and operations of the Foundation without obtaining ministerial approval. The approval of the Minister for the engagement of consultants is a requirement of the guidelines issued by the Treasurer.

**3.9.92** Total consultancy expenditure incurred from the establishment of the Foundation on 24 November 1987 to 30 June 1988 amounted to \$102 000. This amount included 2 separate arrangements with a management consultancy firm to undertake executive searches for 6 senior managerial positions at a total cost of \$70 000, \$30 000 of which was expended in relation to the position of Chief Executive Officer.

**3.9.93** Audit recommended that the Foundation review its procedures and ensure that government guidelines are complied with in future.

*Management response*

*The engagement of the management consultant to employ a Chief Executive Officer and other senior staff took place prior to the setting up of the Foundation's operations. The Acting Chief Executive Officer had clearance from the Foundation's Board and from the Department of Health to employ the management consultant after three tenders were obtained.*

*The Foundation has now established a proposed procedure regarding the engagement of consultants. This proposal has been raised with the Minister of Health by the Foundation's Chairman. The current position is that we are awaiting advice from the Minister to the Chairman of the Foundation.*

## 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 presently pursuing matter with Minister for Health. Refer to comment in paragraphs 3.9.68 to 3.9.73 of this report.
<i>Second Report, 1983-84, p.22-3</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.	Position now satisfactory. New scheme introduced 1 January 1989. Reduction in availability of free travel and amalgamation of 2 separate schemes took place at this time.
<i>Second Report, 1983-84, p.22</i> <i>Second Report, 1984-85, p.73</i>	The State has to undertake unnecessary duplication of administrative procedures to recover fees, collected by the Commonwealth, from patients in State benevolent homes.	Matter remains unresolved. Department presently pursuing this matter with Minister for Health. Refer to comment in paragraphs 3.9.74 to 3.9.77 of this report.
<i>Second Report, 1984-85, p.72</i>	Legislative amendments should 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. Refer to comment in paragraphs 3.9.78 to 3.9.81 of this report.
<i>Second Report, 1986-87, p.86</i>	Significant delays occurred in finalising Health Service Agreements.	Position now satisfactory. Timetables have been established and agreements finalised within their limits.
<i>Second Report, 1986-87, p.87</i>	Financial statements do not provide adequate detail of amounts paid to public hospitals from the Hospitals and Charities Fund.	Matter remains unresolved. Consideration needs to be given by the Department to including more information in 1988-89 accounts. Refer to comment in paragraphs 3.9.37 to 3.9.40 of this report.
<i>Second Report, 1986-87, p.87</i>	Financing of lease liability for the Monash Medical Centre not reported in Health Department Financial Statements.	No further action required. Treasurer has determined that payment will be reported by DMB.
<b>Cancer Institute Board</b>		
<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 satisfactory. Depreciation being charged from 1987-88.

## Schedule B. Completed/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 1988	31 October. <i>Annual Reporting Act 1983, s.8.</i>	25 October 1988	31 October 1988
Ambulance Officers' Training Centre	30 June 1988	No reporting requirements. <i>Ambulance Services Act 1986, s.38</i> provides for the audit of the accounts.	15 December 1988	7 February 1989
Cancer Institute Board	30 June 1988	No reporting requirements. <i>Cancer Act 1958, s.5.</i> provides for the audit of the accounts.	28 September 1988	12 October 1988
Dietitians Board of Victoria	30 June 1988	30 September. <i>Dietitians Act 1981, s.25.</i>	24 November 1988	5 December 1988
Gleneig District Ambulance Service (c)	Period 1 July 1987 to 29 February 1988	No reporting requirements. <i>Ambulance Services Act 1986, s.38</i> provides for the audit of the accounts.	10 January 1989	6 February 1989 (a)
Mental Health Review Board	30 June 1988	30 September. <i>Mental Health Act 1986, s.136.</i>	(b)	-
Optometrists Registration Board	30 June 1988	No reporting requirements. <i>Optometrists Registration Act 1958, s.22.</i>	29 November 1988	6 December 1988
Psychosurgery Review Board	30 June 1988	30 September. <i>Mental Health Act 1986, s.138.</i>	(b)	-
Victorian Health Promotion Foundation	30 June 1988	30 September. <i>Tobacco Act 1987, s.35</i>	30 September 1988	30 September 1988
Victorian Nursing Council	30 June 1988	31 October. <i>Nurses Act 1958, s.40.</i>	21 September 1988	27 September 1988



**Schedule B. Completed/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>				
Ballarat and District Ambulance Service (c)	Period 1 July 1987 to 29 February 1988	No reporting requirements. <i>Ambulance Services Act 1986, s.38</i> provides for the audit of the accounts.		Audit currently being finalised
Geelong and District Ambulance Service (c)	" "	" "		" "
Goulburn Valley Ambulance Service (c)	" "	" "		" "
North Eastern Victoria District Ambulance Service (c)	" "	" "		" "
South Western Ambulance Service (c)	" "	" "		" "
Wimmera District Ambulance Service (c)	" "	" "		" "
Alexandra and District Ambulance Service	30 June 1988	" "		" "
Ambulance Service Victoria -				
Metropolitan Region	30 June 1988	" "		" "
North Eastern Region	1 March 1988 to 30 June 1988	" "		" "
North Western Region	30 June 1988	" "		" "

**Schedule B. Completed/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>
South Eastern Region	30 June 1988	No reporting requirements. <i>Ambulance Services Act 1986, s.38</i> provides for the audit of the accounts.		Audit currently being finalised
South Western Region	1 March 1988 to 30 June 1988	" "	" "	" "
Western Region	1 March 1988 to 30 June 1988	" "	" "	" "

- (a) Qualified audit report issued.  
 (b) Included in Health Department Victoria Financial Statements for the year ended 30 June 1988.  
 (c) Abolished 1 March 1988.

---

## 3.10

# HOUSING AND CONSTRUCTION

---

### KEY FINDINGS

- ◆ Unsatisfactory level of rental arrears amounting to \$14.4 million at 31 December 1988.  
*paras 3.10.1 - 3.10.8*
- ◆ Future housing costs could be contained by regular monitoring of changes in financial or family circumstances.  
*paras 3.10.9 - 3.10.11*
- ◆ Substantial delays in establishing mortgage loans for a large number of participants in the Urban Homesteading Program.  
*paras 3.10.12 - 3.10.14*
- ◆ Delays in occupancy of properties under the Spot Purchase and Upgrade Program resulted in a potential loss in rental income of approximately \$385 000.  
*paras 3.10.15 - 3.10.18*
- ◆ Lack of monitoring of the financial situation of borrowers in receipt of Capital Indexed Loans enabled some borrowers, whose income or financial position had substantially improved, to retain the benefits designed to assist low income earners.  
*paras 3.10.19 - 3.10.23*

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

### Department

Ministry of Housing and Construction

(By an Order in Council under the *Administrative Arrangements Act* 1983, the Ministry of Housing and Construction was established with effect from 14 December 1987.)

### Public bodies

Director of Housing  
Urban Land Authority

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

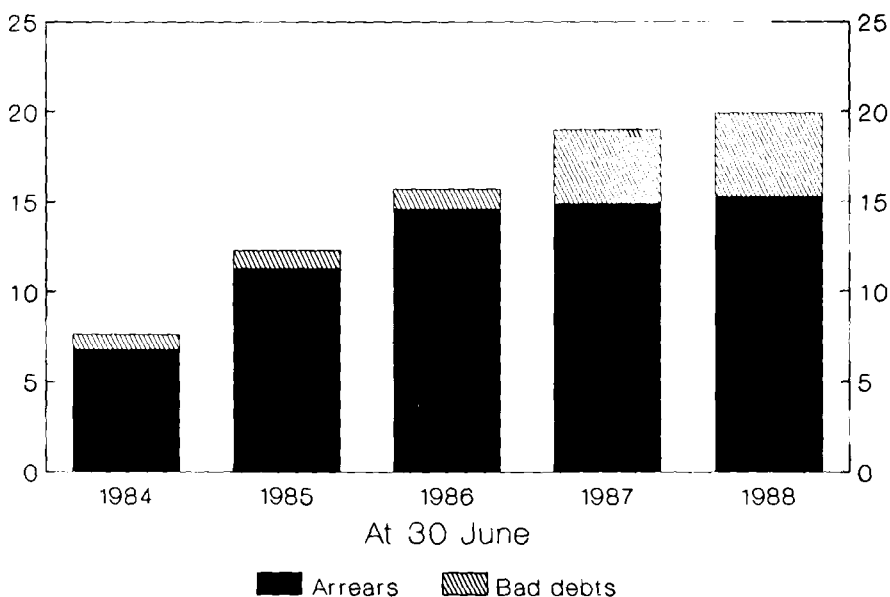
Comments on matters of significance arising from the audit of the Ministry of Housing and Construction are discussed below.

## MINISTRY OF HOUSING AND CONSTRUCTION

### Rental arrears

3.10.1 For the past 3 years audit has expressed concern about the unsatisfactory level of rental arrears. Despite the Ministry giving priority to reducing rental arrears, the level has remained unchanged after taking into account the magnitude of bad debts being written off. Chart 3.10A illustrates the situation:

CHART 3.10.A. RENTAL ARREARS AND BAD DEBTS  
(\$ million)



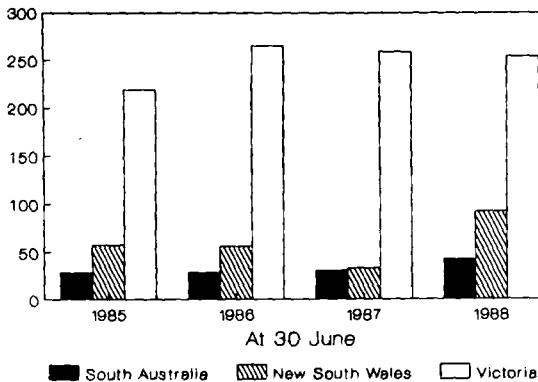
**3.10.2** The high level of rental arrears is attributable, in part, to the dramatic rise in rental arrears in the latter half of 1985 which audit was advised resulted from:

- ◆ the unsettling effect that regionalisation had on job classifications of housing officers involved in arrears control;
- ◆ insufficient resources in regions to effectively undertake arrears work; and
- ◆ delays occurring in the conversion of rental accounting and arrears control systems to a more advanced system.

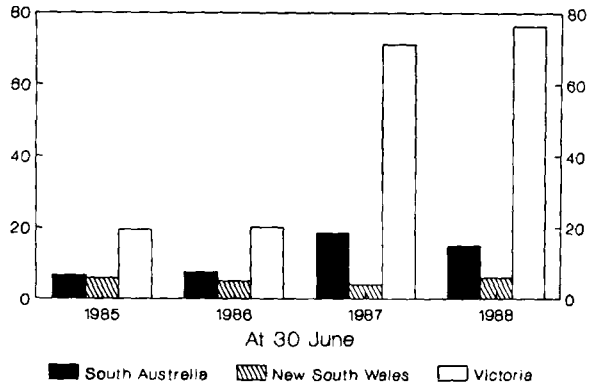
**3.10.3** As a consequence rental arrears for a substantial number of tenants in Victoria rose to a level which has proved difficult to reduce in the short term due to their financial status.

**3.10.4** At 30 June 1988 the severity of the arrears and bad debt problems in Victoria is demonstrated by comparison with housing bodies in other States. Details are shown in Charts 3.10B and 3.10C:

**CHART 3.10B.**  
**AVERAGE RENTAL ARREARS**  
**PER TENANT**  
**(\$)**



**CHART 3.10.C**  
**AVERAGE BAD DEBTS**  
**PER TENANT**  
**(\$)**



**3.10.5** Another factor contributing to the unsatisfactory rental arrears and bad debts situation in Victoria compared to housing bodies in other States is the adoption of different housing policies by various States in relation to rental arrears. In Victoria the emphasis has been to allow low income earners who are in arrears to remain in public housing provided current rental payments are met and some attempt is made to meet arrears over an extended period. Audit was advised that in other States a more stringent approach is adopted for the collection of rental arrears.

---

**3.10.6** Audit examination of the tenant arrears identified problems in the following areas:

- ♦ Rental arrears amounted to \$15.3 million at 30 June 1988 compared with \$14.9 million at 30 June 1987. Average arrears per tenant in Victoria at 30 June 1988 was approximately 2.5 times greater than in New South Wales and 6 times greater than in South Australia;
- ♦ Of the \$15.3 million balance outstanding at 30 June 1988, \$13 million (85 per cent) was outstanding for over 10 weeks;
- ♦ The use of agreements to repay rental arrears is the key method of obtaining arrears payments from low income earners. Tenants on agreements owed \$8.5 million at 17 December 1988 which represented more than 50 per cent of tenants in arrears. Audit examinations showed that 45 per cent of tenants on agreement broke their agreements within 3 months;
- ♦ The Ministry arranged public rental accommodation for 9 764 new tenants between 1 January 1988 and 31 December 1988 of whom 40 per cent were in arrears totalling \$1.15 million at 31 December 1988;
- ♦ Rental rebates which represent the difference between cost rent payable (85 per cent of market rent) and actual rent paid (set at a maximum of 25 per cent of income). Rental rebates are backdated in cases where tenants claim their financial situation entitled them to a rental rebate during a prior period. The backdating of rebates by several district and regional offices amounting to \$4 million between 1 January 1988 and 31 December 1988, which had the effect of reducing rental arrears, were not adequately supported in many instances. In addition, numerous rebates had been backdated beyond the 12 month period allowed by the Ministry guideline; and
- ♦ The magnitude of rental arrears continued to impact on cash flow and as a consequence proceeds from land sales of \$24 million in 1987-88 (\$41 million in 1986-87) were again a significant factor in enabling the housing program to be maintained.

**3.10.7** Between July and December 1988 a further concentrated effort was made to reduce the level of rental arrears. This resulted in a reduction from \$15.3 million at 30 June 1988 to \$14.4 million at 31 December 1988.

**3.10.8** While the Ministry has managed to contain the position of rental arrears in 1988, there is a need for more effective management and careful monitoring of the level of rental arrears associated with tenants on agreements and new tenants, and the processes followed by regions in backdating rebates.

*Management response*

*Total tenant arrears at March 1988 and March 1989 amounted to \$19.9 million and \$14.5 million respectively. Of this reduction (\$5.4 million) \$4.6 million is accounted for by bad debts written off. While these figures indicate a modest turnaround in the total arrears position, this improvement should be seen in the context of an operating environment where net rents receivable have increased by 14 per cent, due to increased rental stock and higher rents charged.*

---

*It is important to note that significant success has been achieved as a result of the priority given to arrears management by the Ministry. In particular, between March 1988 and March 1989, arrears of tenants currently occupying Ministry properties has reduced from \$13.9 million to \$9.6 million. In this same period, the number of tenants in arrears reduced from 33 000 to 18 600.*

*In addition the Ministry is introducing a major corporate information system which will further assist by providing more up to date and appropriate data on tenants' accounts and will substantially reduce the occasions where a backdate of a rebate will be required.*

*The Ministry has recently introduced a specific reporting system which identifies any rental arrears agreements immediately they are broken. This will enable effective remedial action to prevent significant arrears and future bad debts growing.*

### **Permanent occupancy**

**3.10.9** Under the current policy, which is regarded as a public rather than a welfare housing policy, tenants may occupy their allocated rental properties for life, provided they continue to meet their rental payments which are levied at a maximum of 85 per cent of market rental. Whilst eligibility is originally determined by an applicant's (financial/marital/family) circumstances, once a rental property is allocated, continuing eligibility is not affected by any subsequent changes in the tenant's circumstances. At the same time the waiting list of tenants is 34 000.

**3.10.10** During the year audit held discussions with the Ministry on what could be perceived as anomalies arising from the implementation of this policy. In particular, it was pointed out that without a periodic review:

- ◆ certain Ministry houses could be occupied by tenants who are now in a financial position to enable them to rent in the private rental market and meet full market rates; and
- ◆ some Ministry tenants could be occupying dwellings with accommodation far in excess of current needs, for example, a tenant with a grown up family no longer living at home continuing to occupy a 3-4 bedroom house. Such tenants if approached, may be only too willing to "trade down" to a smaller dwelling, thereby reducing their household expenses associated with living in a property in excess of their needs.

**3.10.11** Audit recommended that to ensure future public housing costs are contained and there is an equitable allocation of scarce resources:

- ◆ the Ministry should perform periodic reviews of tenants' financial and family status every 3-5 years; and
- ◆ consideration should be given to requiring:
  - . new tenants, whose income may increase substantially over time, to be provided with incentives to move into the private rental market; and
  - . new tenants, whose family position subsequently reduces over time, to be relocated into more appropriate Ministry stock.

---

### *Management response*

*One of the key principles of public housing in Victoria is not only the charging of an affordable rent, but also security of tenure and social mix within the community. It is inappropriate to dislocate families from their housing/social networks simply due to a change in income circumstances. Often Ministry tenants move in and out of poverty. To provide incentives to move such a client during a period of improved income might expose them to unsatisfactory or unaffordable housing in the private sector if their income position is reversed. Such a change in policy would represent an attack on the family unit and represent a greater cost to them and to the community than having them pay a "cost rent" which recovers the full cost of providing public housing.*

*While the Ministry conducts periodic income reviews of those in receipt of rental rebates to ensure assistance is only provided to those in need, it does not see the necessity for the type of income review proposed by Audit.*

*Innovative low start home finance options are available through the Home Opportunity Loans Scheme should people's circumstances improve and home purchase is their preferred choice.*

### **Urban homesteading**

**3.10.12** The Ministry purchases run-down houses under the Urban Homesteading Program. The program provides for the Ministry to enter into agreements with people with handyman skills, who are unable to save a deposit to buy a home, to undertake the necessary renovations of the dwelling using their labour and skills with the Ministry supplying the materials and job supervision. The agreement provides for a maximum 2 year renovation period after which the homesteader purchases the house by means of a loan provided by the Ministry.

**3.10.13** Audit examination showed that since the inception of the program in 1982, only 29 properties (22 per cent of the 134 agreements) had been upgraded and mortgage loans established. Of the outstanding agreements 58 cases were outstanding for over 3 years, 26 were outstanding for more than 4 years and one was over 6 years old. The outstanding cases which represented \$1 million in revenue as interest on loans and \$3.5 million in mortgage loans were subsequently brought to account. A lack of communication and follow-up procedures within the relevant sections of the Ministry had been a major factor in these delays.

**3.10.14** Audit recommended that in order to minimise the delays and the resulting financial impact:

- ♦ a concerted effort be made to convert the outstanding agreements to loans, where renovation has been completed; and
- ♦ proper follow-up procedures be developed to avoid similar problems occurring in the future.



---

*Management response*

*Action has been taken to convert all outstanding agreements where renovation has been completed and the majority of agreements have been finalised.*

*Procedures have been revised to ensure that conversion to loans commences 120 days prior to project finalisation date thereby eliminating delays previously experienced in completing mortgage documentation.*

**Spot purchase and upgrade**

**3.10.15** Under the Spot Purchase and Upgrade Program, the Ministry purchases suitable dwellings from the private market and then upgrades the properties to the Ministry's standards. Properties are then made available for public rental.

**3.10.16** Audit examination showed that purchased properties were not tenanted until an average of 14 weeks after the settlement date, with some cases exceeding 5 months.

**3.10.17** Audit estimated that after allowing an average of 4 weeks for the period of upgrade, delays of on average 10 weeks resulted in a loss of \$385 000 in rental income.

**3.10.18** Audit recommended in order to ensure that occupancy occurs at the earliest time and rental income is maximised, contracts be signed prior to settlement and upgrading works commence promptly.

*Management response*

*It is not possible to gain adequate access to properties to define upgrading work in sufficient detail for contract purposes until the property is settled and vacated. However, the contractor is being made ready prior to contract definition. The average preparation time of six weeks prior to commencement has been reduced to five weeks during 1988-89 and will be reduced to four weeks in the near future. The actual time for execution of the work is currently five weeks. Procedures to speed up the on site activities are also being reviewed. These and other procedural changes will significantly reduce delays in the occupation of properties.*

**Monitoring of capital indexed loans to low income earners**

**3.10.19** Consistent with the Government's commitment in alleviating family poverty within the context of its Social Justice Strategy, the Ministry, under its Home Ownership Assistance Program, made home ownership accessible to families with low incomes through the granting of Capital Indexed Loans. Instalments are set at a maximum of 25 per cent of the borrower's income while the interest rate varies, being indexed at 3 per cent above the current inflation rate. The loan conditions require all borrowers to notify the Ministry of any substantial change in income.

**3.10.20** The audit examination disclosed that since the inception of the Capital Indexed Loans Scheme in November 1984, 201 or 9.5 per cent of borrowers in receipt of loans amounting to \$10 million had made lump sum payments in excess of \$1 000, often on a regular basis.

**3.10.21** Audit noted that the Ministry had not enforced the loan conditions which require financial details to be submitted by borrowers. The resultant lack of monitoring enabled certain borrowers, whose income or financial position had substantially improved, to obtain the benefits of low interest rates and generous terms of repayment meant for low income earners under the Government's social justice strategy.

**3.10.22** Details of regular lump sum capital repayments totalling in excess of \$30 000 which occurred within the last 3 years are listed in Table 3.10A:

**TABLE 3.10A. LUMP SUM CAPITAL REPAYMENTS IN EXCESS OF \$30 000**

<i>Individual Loan Principal Amount</i> \$	<i>Initial Instalment Date</i>	<i>Repayments Balance</i> \$	<i>Details of Repayments</i> \$	<i>Borrower's Income p.a.</i> \$
45 000	31-07-85	5 000	40 000 in 3 years	11 100
45 000	30-06-85	Nil	Completed repayments on 07-12-87, i.e. 45 000 in 2.5 years	12 800
45 000	30-06-85	5 000	40 000 in 3 years	11 100
45 000	31-05-85	6 000	39 000 in 3 years	11 100
59 000	31-01-87	Nil	Completed repayments on 28-04-88, i.e. 59 000 in 1.25 years	21 500
51 000	31-03-86	11 000	40 000 in 2.25 years	17 600
50 000	28-02-86	4 500	45 500 in 2.25 years	23 500
51 000	28-02-86	14 600	36 400 in 2.25 years	18 000
51 000	31-01-86	17 000	34 000 in 2.25 years	10 600
39 700	30-04-85	6 700	33 000 in 3 years	8 700

**3.10.23** Audit recommended that the Ministry should enforce the loan conditions and monitor the current income or financial position of borrowers.

---

### *Management response*

*The Ministry is currently investigating the incidence of borrowers in a Pilot scheme whose income has increased but who have not advised the Ministry. Where established, repayments will be adjusted accordingly.*

*With regard to non pilot Capil loans, in cases where the Ministry has reason to believe that a borrowers income has substantially changed, e.g., large lump sum repayments, the Ministry will seek details of the borrowers income with a view to adjusting instalment repayments.*

### **Fire proofing facilities - property titles and mortgage documentation**

**3.10.24** The Ministry holds as security for funds loaned to borrowers some 40 000 property titles and mortgage documentation. In addition, a further 50 000 titles are held for rental properties owned by the Ministry.

**3.10.25** The lack of adequate controls over the custody and physical movement of documents held as security for loan advances was raised in the May 1983 Auditor-General's Report to Parliament. Subsequently action was taken to rectify the problems associated with the physical movement of documents, although the fire proofing aspect has not been satisfactorily addressed. In addition, fire proofing facilities over titles for rental properties are also inadequate.

**3.10.26** A partial or total destruction of property titles and mortgage documentation would seriously disrupt the operations of the Ministry and significantly inconvenience the public.

**3.10.27** **Audit is concerned that no action has been taken over a 6 year period to protect against the possible destruction of these documents by obtaining fire proofing facilities.**

#### *Management response*

*Whilst the building in which the above documents are stored is relatively fire safe, it is acknowledged that the level of fire protection for the above documents could be improved, albeit at substantial cost.*

*Steps are being taken to obtain professional advice on available options for improving fire proofing on an interim basis until the final location of the Ministry's Head Office is determined.*

### **Amalgamation with the former Public Works Department**

**3.10.28** On 14 December 1987 the Public Works Department (PWD) was abolished and the Ministry of Housing and Construction was established in order to amalgamate the activities of both housing and public works. At 30 June 1988 the Ministry was not in a position to produce appropriate financial statements due mainly to the incompatibility of the cash basis of financial reporting adopted by the former PWD and the commercial basis used by the Director of Housing.

**3.10.29** During 1987-88 the Ministry was declared an administrative unit under the provisions of the *Annual Reporting Act* 1983 which required it to produce financial statements disclosing the receipts and payments of the public account which came under its responsibility. However, the Ministry prepared financial statements relating to the public account transactions for its construction component only.

**3.10.30** To ensure that all public account transactions are reported by the relevant administrative units, it was recommended that in future the public account transactions also relating to the housing component be included in the Ministry's financial statements.

**3.10.31** The *Housing Act* 1983 also requires the Director of Housing to prepare financial statements, in a form approved by the Treasurer, disclosing the assets, liabilities, income and expenditure of the Director. For the year ended 30 June 1988 the Director of Housing prepared financial statements relating to the housing component only.

**3.10.32** It was also recommended that in future the financial statements of the Director disclose consolidated details of assets, liabilities, income and expenditure of both the housing and construction components.

**3.10.33** Although the accounting systems have remained separate for the housing and construction components, action has been taken to consolidate the accounting information for the year ending 30 June 1989.

*Management response*

*The Ministry has recently obtained the approval of the Department of Management and Budget to report under the Annual Reporting (Contributed Income Sector) Regulations 1988.*

*The decision is expected to be gazetted by 31 May 1989, in time for this approach to be adopted for the preparation of annual accounts for the year ended 30 June 1989. These accounts will disclose consolidated details of assets, liabilities, income and expenditure of both the Housing and Construction components.*

**Theft and losses of stores**

**3.10.34** During the period 1 July 1987 to 31 December 1988, numerous losses of stores, plant and equipment occurred within the various entities in the Housing and Construction sector. Details are summarised in Table 3.10B:

**TABLE 3.10B. THEFTS AND LOSSES OF STORES, PLANT AND EQUIPMENT**

<i>Entity</i>	<i>Value of losses of stores, plant and equipment \$</i>
Ministry of Housing and Construction (Public Works activities)	47 427
Victorian Government Major Projects Unit	485
<b>Total</b>	<b>47 912</b>

## 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 Housing and Construction</b>		
May 1983, p.22	Inadequate controls exist over custody of documents held as security for loan advances.	Position still unsatisfactory due to the lack of fire proofing facilities. Refer to comment in paragraphs 3.10.24 to 3.10.27 of this report.
<i>Fourth Report</i> , 1982-83, p.40	Unsatisfactory arrears follow-up action for housing loans made directly to home purchasers was due to inadequate staffing in the arrears section.	Position now satisfactory as improved procedures have been implemented.
<i>Second Report</i> , 1984-85, p.76-7 and subsequent reports	Level of rental arrears has substantially increased over the previous years.	Level still unsatisfactory. Refer to comment in paragraphs 3.10.1 to 3.10.8 of this report.
<i>Second Report</i> 1985-86 p.122	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. Sales of remaining properties are continuing.
<i>Second Report</i> 1986-87, p.91	The integrity of the rental data base was questioned due to the magnitude of credit balances of current and former public tenants.	All credit balances over \$300 for current tenants were reviewed and adjusted if necessary. A program has been developed to verify the balances of vacating tenants in credit by 30 June 1989.
<i>Second Report</i> 1986-87, p.91	Information produced regarding vacant properties was inaccurate as the central data base was not updated in a timely manner.	Position satisfactory. Manual records maintained. New computerised system to be introduced in April 1989.
<i>Second Report</i> 1986-87, p.91	Problems existed in the identification and follow up procedures for arrears within the Mortgage Relief Scheme.	Position satisfactory. New system introduced which has adequate procedures for arrears identification and follow up.
<i>Second Report</i> 1986-87, p.92	Lack of adequate monitoring, control and recovery procedures relating to the Tenant Purchase Scheme resulted in 21 per cent of outstanding loans being in arrears which totalled \$2.9 million at 30 June 1987.	Improved procedures have been implemented and arrears at 30 June 1988 had fallen to \$2.2 million.
" "	Interest on instalment arrears as per the contracts of sale had not been charged since 1964.	Interest on instalment arrears was being charged from 31 March 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>
<i>Second Report, 1986-87, p.92-3</i>	Apparent irregularities relating to a plumbing maintenance contractor and an electrical maintenance contractor were reported to the Police for investigation. Matters involved over-claiming/over-servicing by maintenance contractors of at least \$228 000.	In relation to the plumbing maintenance contractor there was insufficient evidence to support criminal charges. Police investigations are continuing in relation to the electrical maintenance contractor.

**Schedule B. Completed/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>				
Ministry of Housing and Construction	30 June 1988	31 October <i>Annual Reporting Act 1983</i>	27 October 1988	31 October 1988
Director of Housing	30 June 1988	No date specified. <i>Housing Act 1983, s.12.</i>	4 October 1988	31 October 1988
Urban Land Authority	30 June 1988	30 November, <i>Urban Land Authority Act 1979, s.13.</i>	21 September 1988	12 October 1988
Victorian Government Major Projects Unit	30 June 1988	30 November, <i>Urban Land Authority Act 1979, s.13.</i>	9 November 1988	17 November 1988

## 3.11

# INDUSTRY, TECHNOLOGY AND RESOURCES

### KEY FINDINGS

- ◆ Ineffective control by Department over expenditure of \$2 million on salinity projects.  
*paras 3.11.6 - 3.11.8*
- ◆ Office building in West Wodonga not occupied resulting in rental income of approximately \$370 000 foregone.  
*paras 3.11.12 - 3.11.16*
- ◆ Inability of Alpine Resorts Commission to repay liability of \$6.7 million to the State.  
*paras 3.11.17 - 3.11.20*
- ◆ Weaknesses in controls over cash collection procedures for car parking at Exhibition Buildings has contributed to a loss estimated by audit to be \$985 000 since 1982.  
*paras 3.11.32 - 3.11.39*
- ◆ Significant deficiencies in financial position of Gas and Fuel Corporation's subsidiary companies, which are indebted to the Corporation for \$53 million.  
*paras 3.11.49 - 3.11.51*
- ◆ Qualified audit opinion issued on Gas and Fuel Corporation's financial statements due to inappropriate write-off of gas services and meters valued at \$132 million.  
*paras 3.11.52 - 3.11.58*
- ◆ Inadequate long term planning by the Gas and Fuel Corporation Superannuation Fund over its investment portfolio of \$312 million.  
*paras 3.11.59 - 3.11.67*
- ◆ Briquette factory at Morwell not financially viable.  
*paras 3.11.85 - 3.11.90*

---

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  
Exhibition Trustees  
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  
SEC Employees' Retirement and Benefit Fund  
SEC Superannuation Fund  
Swan Hill Pioneer Settlement Authority  
Victorian Economic Development Corporation  
Victorian Solar Energy Council

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

---

**DEPARTMENT OF INDUSTRY, TECHNOLOGY AND RESOURCES**

**Petroleum royalties**

**3.11.1** The Department is responsible for the day-to-day administration of the *Commonwealth Petroleum (Submerged Lands) Act 1967*. This includes the collection and verification of petroleum royalties in relation to the operations of Bass Strait licences in Victorian off-shore water, although ultimate responsibility lies with the Commonwealth Department of Primary Industry and Energy. Victoria's share of royalties collected from licensees in accordance with the Act amounted to \$143.4 million in 1987-88 (\$147.2 million, 1986-87)

**3.11.2** Since the commencement of oil production from Bass Strait oil-fields in 1969, there had not always been formal agreement and documentation on the principles, practices and procedures developed for the calculation, collection and verification of royalties, together with related administrative arrangements between concerned parties.



---

**3.11.3** Following recommendations made by the Commonwealth Auditor-General in his June 1987 efficiency audit report, entitled *Department of Resources and Energy - Petroleum Royalties and Excise*, a consolidated royalty agreement is being developed by the Commonwealth Government to finalise certain aspects relating to petroleum royalties.

**3.11.4** The on-going review of petroleum royalties by the Department is proceeding and royalties have been verified up to 30 June 1986. It is expected that verification of royalties to 30 June 1989 will be completed before the end of 1989.

**3.11.5** A review by this Office of royalties collected by the Department concluded that there was a need to expand the scope of the verification program currently undertaken by the Department's Royalty Review Unit relating to allowable expenditure.

*Management response*

*The Department has noted the audit comment on the need to expand the scope of the verification program currently undertaken by the Department's Royalty Review Unit.*

**Salinity control**

**3.11.6** The *National Water Resources (Financial Assistance) Act 1978* provides for certain water conservation and management projects to be jointly funded by the Commonwealth and the State. While the Department of Water Resources had overall responsibility for these projects, the Department of Industry, Technology and Resources effectively controlled 2 projects related to salinity control on its behalf. Expenditure on the projects amounted to \$2 million.

**3.11.7** An audit review of expenditure by the Department on these projects revealed:

- ◆ significant delays in paying accounts due to insufficient funds being available and the absence of approved purchase orders to support suppliers' invoices; and
- ◆ instances of competitive quotations, Tender Board approvals and formal contracts not being obtained in accordance with Treasury Regulations or before the commitment of expenditure.

**3.11.8** Although effective control of these projects has now reverted to the Department of Water Resources, audit recommended that the Department of Industry Technology and Resources ensure the adequacy of recording and budgetary systems and compliance with Treasury Regulations for all projects placed under its control in the future.

*Management response*

*Control over the financial administration of the salinity projects was increased when the issues identified in the Audit Report became known late in 1987. Responsibility for the salinity projects was transferred to the Ministry for Water Resources in February 1988.*

---

## Financial assistance to industry

**3.11.9** During 1988 this Office conducted a review of the implementation and administration of certain aspects of that part of the Government's economic strategy relating to financial assistance to industry. The Department of Industry Technology and Resources (DITR) was one of a number of agencies involved with the implementation of the strategy.

**3.11.10** The detailed results of the review were included in a report entitled "*Special Report of the Auditor-General, No. 11 - Financial Assistance to Industry*" which was tabled in Parliament on 22 March 1989.

## Theft of Equipment

**3.11.11** The Department advised audit that, as a result of a break-in, equipment valued at \$13 885 had been stolen.

## ALBURY-WODONGA (VICTORIA) CORPORATION

**3.11.12** The Albury-Wodonga (Victoria) Corporation constructed an office building in West Wodonga at a cost of \$4.4 million. Construction of the building commenced in the last quarter of 1986 and was completed to a stage suitable for tenancy in January 1988.

**3.11.13** The development had strong support from the former Minister for Industry, Technology and Resources who had given assurances to the Corporation that State Government agencies would be prepared to lease space in the building upon its completion.

**3.11.14** In June 1986, discussions for the possible leasing by government agencies commenced between the Corporation and the Department of Property and Services (DPS), the department responsible for the Government's office accommodation needs. Despite the assurance given by the former Minister for Industry, Technology and Resources and repeated requests by the Corporation to DPS, during the period of construction, for finalisation of accommodation requirements, a firm commitment that government agencies would lease space was not provided.

**3.11.15** It was not until November 1988 (over 2 years after lease discussions first commenced and 9 months after the building was suitable for occupancy), that DPS was given approval by a sub-committee of Cabinet to arrange tenancies and a government agency entered into a lease to occupy 50 per cent of the lettable space. In February 1989, the Corporation entered into a lease with DPS for other government agencies to occupy the remainder of the building.

**3.11.16** Audit estimates that in not having the building occupied from the time of completion, the Corporation has foregone gross rental income of approximately \$370 000. However, having regard to the assurance given by the former Minister, audit believes that the Corporation took all reasonable action possible to arrange tenants.

---

*Response by Department of Property and Services*

*The proposal to construct a State Office building in Wodonga originated from the Albury-Wodonga Development Corporation in 1984.*

*The then Minister for Industry, Technology and Resources gave "certain assurances" to the Albury-Wodonga Ministerial Council about the State Government's intentions, but the detail of those assurances, particularly as regards the timing and basis of any State Government occupancy is unclear.*

*The Corporation was advised in December 1985 that no commitment could be given without further information and that the approval of the Treasurer and Minister for Property and Services would be required.*

*At the time of the A.W.D.C. decision in September 1986 to proceed with construction of the building, some key issues including proposed rental levels and economic evaluation by the Department of Management and Budget remained to be resolved.*

*A decision on leasing of the completed building was preceded by negotiations on possible purchase. This did not proceed because of the substantial difference between the Corporation's asking price and the Valuer-General's valuation.*

*Subsequently, the Department of Property and Services was required by the Treasurer to review and cost accommodation alternatives in Wodonga, to examine fitout costs for the A.W.D.C. building and any costs associated with relinquishment of existing leases.*

*This review was carried forward through the Accommodation Task Force and the Government Accommodation Committee of Cabinet and approval to lease given in November 1988.*

## **ALPINE RESORTS COMMISSION**

### **Non-repayment of loan**

**3.11.17** In the Auditor-General's *Second Report* to Parliament for 1986-87, it was reported that, at 31 October 1987 the Commission's loan liability to the Treasurer of Victoria amounted to \$5.2 million. This included \$4.5 million advanced to former committees of management of alpine resorts which were subsequently taken over by the Alpine Resorts Commission.

**3.11.18** Due to an adverse liquidity position resulting from the non-payment of charges by siteholders, the Commission has not made payments of interest and repayments of principal due on these loans since it assumed management responsibility for the alpine resorts.

**3.11.19** The Commission advised in 1988 that it would follow-up with the Treasurer its previous submission that finalisation of the outstanding loan liability be converted to non-repayable advances. At the date of preparation of this report, the matter is still unresolved.

**3.11.20** Currently, the Commission's loan liability to the Treasurer of Victoria amounts to \$6.7 million, of which \$3.5 million is in arrears.

*Management response*

*The Commission has followed up the loans issue, and has requested that the loans be converted to grants. The issue is under negotiation with officers of the Department of Management and Budget. As well, a resolution to the question of on-going recurrent and capital funding support from the Victorian Government is being determined, and the Commission is holding off loan repayments until both issues are settled.*

**Charges**

**3.11.21** In its efforts to become self-funding and to eliminate inconsistencies in charges levied at alpine resorts, the Commission developed policies in relation to site rental charges in 1986-87 and service charges in 1987-88.

**3.11.22** As a result of the application of these policies, the Commission's operating results have improved. However, it was noted that there had been a significant rise in the amounts owed to the Commission.

**3.11.23** Table 3.11A sets out the financial information of the Commission for the 3 years ended 30 June 1988:

**TABLE 3.11A. FINANCIAL OPERATIONS**  
(\$'000)

<i>Item</i>	<i>1987-88(a)</i>	<i>1986-87</i>	<i>1985-86</i>
Operating revenue	11 583	11 156	8 467
Operating surplus/(deficit)	158	917	(1 112)
Debtors at year end	3 252	2 000	9 44

(a) Unaudited

**3.11.24** In audit opinion a number of factors have contributed to the rise in the amounts owed including the delay in the Commission raising invoices and the withholding of payments by siteholders pending the valuation of the leased land which was to be undertaken in February/March 1989 by the Valuer-General.

*Management response*

*The increase in outstanding debt owed to the Commission partly reflects a very poor season at Mt. Buller in 1988. Site rental payments are also being withheld by a large group of ratepayers pending the outcome of site revaluations to take place in 1989. Many ratepayers are concerned that site revaluations will result in very high real rental increases, and are withholding a portion of their rent as a negotiating tactic.*

*Recent efforts by the Commission to recover debts have seen the level fall from \$3.3 million at the end of October 1988 to \$2.0 million at the end of March 1989.*

## Delays in finalisation of 1987-88 financial statements

**3.11.25** Under the *Alpine Resorts Act* 1983 the Commission is required to submit a report of operations, including audited financial statements, to the Minister by 31 December each year.

**3.11.26** At the date of preparation of this report the financial statements of the Commission had not been finalised due mainly to the lack of personnel within the Commission with appropriate financial experience.

### *Management response*

*Since December 1988 the Commission has replaced key finance staff. The 1988-89 accounts will be ready within the prescribed period.*

## COAL CORPORATION OF VICTORIA

**3.11.27** During 1987-88 the State Electricity Commission of Victoria increased the price of briquettes supplied to the Coal Corporation of Victoria by 9.4 per cent.

**3.11.28** In line with government policy on the rate of annual increases in fees and charges, the Corporation was only able to increase the price at which it sold briquettes by 6 per cent.

**3.11.29** The effect of the Government's policy on the financial operations of the Corporation is evidenced by the decrease in the ratio of gross profit to sales over the last 3 years as indicated in Table 3.11C:

TABLE 3.11C. BRIQUETTE OPERATIONS

Item	Unit	1987-88	1986-87	1985-86
Sales	(\$)	28 900	25 218	24 007
Less cost of goods sold	(\$)	26 730	22 776	20 767
Gross profit	(\$)	2 170	2 442	3 240
Ratio of gross profit to sales	(%)	7.5	9.7	13.5

**3.11.30** The eroding of the profit margin will seriously affect the future financial viability of the Corporation and its ability to effectively achieve its objectives.

**3.11.31** The Corporation has informed audit that it has obtained approval from Government to pass on to customers in 1988-89 any increase in the purchase price of briquettes.

---

### *Management response*

*The Corporation is addressing the serious ramifications of the trend in Table 3.11C by actively pursuing productivity and efficiency improvements which reduce expenditure in real terms. In 1987-88 total overhead and discretionary expenditure was only 1.9 per cent greater than in 1986-87 and in 1988-89 it is expected to increase by no more than 3 per cent on 1987-88, that is, there will have been real reductions of the order of 5 per cent in both years. At the same time, the Corporation's personnel strength, which peaked at 87 in mid 1987, has been reduced to 75.*

*The decision by government for price increases in 1988-89 recognises the commercial environment in which the Corporation competes.*

*If future approvals are similarly considered in commercial terms, the Corporation will be able to ensure no customers are supplied with brown coal products at a loss to the Corporation, pricing anomalies are progressively eliminated and the organisation can develop on a sound commercial basis.*

## **EXHIBITION TRUSTEES**

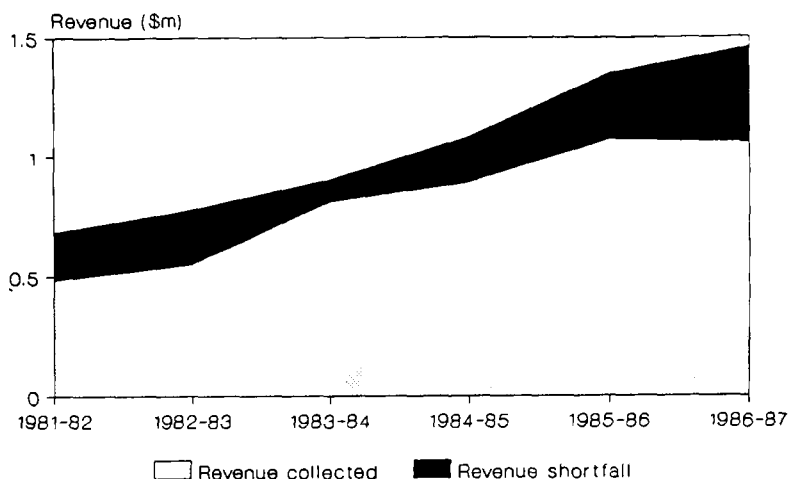
### **Car parking revenue**

**3.11.32** Weaknesses in internal control over cash collection procedures for car parking have been the subject of comment in audit reports since December 1982. Specifically, audit comment has centred on the absence of periodic cash counts, and reconciliations of total tickets sold with parking revenue collected.

**3.11.33** In the reply to the audit report for 1985-86, the Exhibition Trustees indicated their intention to improve controls over car parking revenue by the installation of an automated parking system. Following discussion with audit on this proposal, the Director of the Exhibition Trustees agreed that as car parking statistics indicated that the total number of cars parked at the buildings each year had declined by 19 per cent since 1983-84, an internal review of collection procedures should be undertaken immediately.

**3.11.34** Car parking revenue figures for the period 1981-82 to 1986-87 are illustrated in Chart 3.11B. Collectable revenue has been estimated by audit, based upon 600 000 cars parked each year (as recorded by the Trustees in 1978-79 and 1979-80) multiplied by the average parking price per car for each year from 1981-82 to 1986-87.

**CHART 3.11B. EXHIBITION TRUSTEES CAR PARKING REVENUE**



**3.11.35** In April 1988, the Director formally advised audit that the internal investigation revealed that car parking revenue may have been misappropriated. As a result, a number of officers were suspended and in May and June 1988, 5 officers were charged in relation to misappropriation of parking revenue. Three officers pleaded guilty to the charges and were convicted of misappropriation which, on their own admission, totalled \$15 000. One of these officers has made restitution to the Trust of \$7 960 while negotiations with the other 2 officers are continuing.

**3.11.36** In response to concerns that despite the suspension of the officers the misappropriation of car parking revenue was still occurring, audit conducted a special review during June 1988 of the collection of car parking revenue at the 2 gates of the car park in Rathdowne Street, Carlton. **During a 2 hour period audit observed 32 motorists who paid the parking fee on entering the car park but were not issued with parking tickets.** Consequently, collections amounting to \$90 (approximately) were not brought to account. In the event that this occurrence was representative of a 12 month period, it is the equivalent of approximately \$32 000 per year which is not being brought to account at the Rathdowne Street car park gates. No checks were undertaken by audit at the Nicholson Street gate. As the result of these deficiencies the financial statements of the Trustees were qualified on the basis of the inability to determine whether all income from this source has been brought to account.

**3.11.37** Audit has been advised that work is currently being undertaken to instal an automated car parking system.

**3.11.38** The delay in taking action since the matter was first raised by audit (December 1982) has significantly contributed to the loss of Trust revenue, estimated by audit to be up to \$985 000 since December 1982.

---

**3.11.39** It was recommended that, until the automated car parking system is installed, the Trustees consider the implementation of additional measures to further improve control over the car parking revenue collections of the Trust. These measures should include the close supervision of car parking attendants.

*Management response*

*No research has been done to indicate whether car parking revenue was in decline for reasons other than those put forward by your Office. It is quite apparent throughout the city that there has been a prolific growth in the number of car parking stations within the last 5 to 10 years. The car parking industry is a competitive one. This is clearly evidenced by the Trustees having been approached by no less than 4 car parking operators in recent months to manage car parking operations.*

*There is no objective evidence to verify your estimate of the amount misappropriated which we consider highly speculative.*

*It is not possible, for several reasons, to arrive at a figure for estimated loss based on the 2 hour period of review in June 1988 which was, in any event, well after the date to which your report relates (year ended 30 June 1987). The day in question was a show move-in day and a number of tradespeople were coming in who would not be charged and there were many supervisors for the RMIT exams who held a pass to enter the grounds without payment of a fee. In many instances where regular customers came to the gates they would know the fee and have the money ready and tickets could have been handed to the driver at the same time the driver handed over the fee. We do not believe any overall loss can reasonably be quantified with any degree of certainty.*

*An independent contractor has been appointed to undertake the collection of car parking revenue on the Trust's behalf. The contractors undertake their own daily supervision of car parking attendants which is also supplemented by daily supervision by the Trust's accounting staff. Ticket machines have been introduced which issue printed receipts showing the date, amount received and the car parking attendant issuing the ticket. The machines have a separate audit tape which is checked daily by the accounting section. Rotation of attendants between the various entrances has been introduced as recommended by the auditors.*

*Pending the introduction of the automated car parking system the following additional steps have been undertaken to improve control over car parking revenue collections:*

- ◆ spot checks by accounting staff to ensure parking tickets are always issued whenever a car parking attendant receives a parking fee, and to check as far as practicable that those exhibitors etc. who do not pay on entering the car park do not enter public car parking areas;*



- ◆ *spot checks to verify that cash held by car parking attendants agrees with the total of tickets issued; and*
- ◆ *accounting staff to occasionally take over a car parking entrance for a day to check takings for the day against other daily takings and to remain familiar with day-to-day operations of the car park.*

*The new system to be introduced will address the current design limitations and will also provide for separation of traffic flows which will simplify management of car parking operations.*

## **The Dinner Party**

**3.11.40** During the year, the Trust organised, in conjunction with the Museum of Victoria, an international art exhibition which was entitled "The Dinner Party". The objective of the exhibition was to confirm and celebrate the contribution of women to western civilisation.

**3.11.41** Although the Trustees lacked experience in carrying out such a project they budgeted on the basis that revenue would be sufficient to cover costs. Actual revenue earned was \$163 000.

**3.11.42** Actual results showed that the costs of installing the exhibition and keeping it on display for 3 months had been greatly underestimated. This fact, together with lower than estimated attendances resulted in the project losing \$80 000. The loss does not take into account the cost of Exhibition Trustee and Museum staff.

**3.11.43** In response to audit representations, the Trust management indicated that while it is now well established that the Exhibition Building can be an excellent venue for art-related activities, a much more significant financial role has to be played by sponsors and people wanting to organise particular art activities in the Building. Given the financial drain and human resource limitations, projects such as the Dinner Party would only be undertaken after detailed planning, research and budgeting.

## **GAS AND FUEL CORPORATION OF VICTORIA**

### **Non-recognition of revenue from unbilled gas consumption**

**3.11.44** The Corporation currently recognises revenue from gas sales on the basis of a 2-monthly meter reading and billing cycle. No estimate is made of revenue receivable on unbilled gas consumption at year-end for inclusion as sales revenue in the financial statements. As a result this revenue is not matched to the cost of purchasing and distributing gas consumed.

**3.11.45** It was recommended that the Corporation revise its current policy for revenue recognition and include an estimate of revenue from unbilled gas consumption in future financial statements.

---

### *Management response*

*The Corporation recognises revenue from gas sales to large contract consumers, representing 31 per cent of total gas revenue, on a monthly basis which enables reasonable matching of revenue and associated costs.*

*Sales to the balance of consumers are based on a two month meter reading cycle introduced in 1976 at which time it was decided not to provide for unbilled gas. Reading cycles end mid-monthly resulting in the June cycle being completed around 15 July.*

*For the year ended 30 June 1988, the value of unbilled gas is estimated at \$32 million. However, when considering the matching of cost and revenue it is appropriate to also consider payments to the Consolidated Fund, equal to 33 per cent of Natural Gas revenue, under the Public Authorities (Contributions) Act 1966. The last payment each year is based on the April gas reading cycle, meaning that no provision is made to recognise contributions on May and June sales, which could be as high as \$50 million. The net effect on retained earnings at 30 June 1988 would therefore be a reduction of \$18 million.*

*The Corporation concurs that the failure to recognise unbilled gas sales can distort retained earnings and the matching process but believes that any recognition of unbilled revenue must be accompanied by recognition of public authority contribution obligations. The Corporation will review the accounting treatment of these items in the 1989-90 financial year.*

### **Contributions and dividends**

**3.11.46** Statutory contributions and dividends payable by the Corporation are aimed at ensuring an adequate return on the public's "investment" in the Corporation. Contributions and dividends paid to the State and the Victorian Equity Trust (VET) totalled \$262.4 million in 1987-88 (\$248.9 million, 1986-87).

**3.11.47** While acknowledging the aim of these contributions and dividends it was noted that, due to inadequate cash flow, in order to finance these contributions and dividends, the Corporation had to raise additional funds by way of equity and/or new borrowings totalling \$48.3 million in 1987-88 (\$36.1 million, 1986-87) as detailed in Table 3.11D:

**TABLE 3.11D. SOURCES AND APPLICATIONS OF FUNDS**  
(\$'000)

<i>Item</i>	<i>1987-88</i>	<i>1986-87</i>
Funds from operations (excluding statutory contributions)	285 339	309 945
Other sources of funds (excluding borrowings, increase in overdrafts and VET proceeds)	10 023	9 500
	295 362	319 445
Applications of funds (excluding loan repayments and statutory dividends)	81 280	106 573
<b>Surplus</b>	<b>214 082</b>	<b>212 872</b>
<b>Statutory contributions and dividends</b>	<b>262 460</b>	<b>248 972</b>
<b>Shortfall\additional financing necessary</b>	<b>48 378</b>	<b>36 100</b>
Proceeds - VET	50 000	-
Increase/(decrease) in net borrowings	(4 840)	34 644
Increase in bank overdrafts	3 218	1 456
Additional financing obtained to meet shortfall in funds	48 378	36 100

**3.11.48** Concern is expressed at the extent of these additional funding requirements, the associated cost of these funds and the related increased debt exposure of the Corporation. While this exposure to debt was improved by the injection of funds from VET in 1987-88, in the absence of similar future equity funds, it is likely that the Corporation's exposure to external debt will increase significantly each year.

*Management response*

*Current and future cash flows are closely monitored within the Corporation and are the subject of regular discussion with Government. This produces a clear understanding of each party's intentions and, to date, has enabled the Corporation to formulate a funding program which satisfies mutual liquidity requirements.*

**Liability of subsidiary companies**

**3.11.49** The Albury Gas Company Limited, involved in the distribution of gas and sale of gas appliances, and Gas and Fuel Exploration N.L., established to explore for oil and develop commercial discoveries, are wholly-owned subsidiaries of the Corporation.

**3.11.50** Loans by the Corporation to these subsidiary companies at 30 June 1988 totalled \$53 million. Given the significant deficiencies in the financial position of these companies at 30 June 1988, as detailed in Table 3.11E audit expressed concern about the on-going financial viability of the subsidiaries and their ability to repay the loans to the Corporation:

**TABLE 3.11E. SUBSIDIARY COMPANIES**  
(\$'000)

<i>Item</i>	<i>Albury Gas Co. Ltd</i>	<i>Gas and Fuel Exploration N.L.</i>
Loans from the Corporation	10 960	42 067
Accumulated losses	4 916	29 100
Net liabilities	3 786	29 100

**3.11.51** It was recommended that:

- ♦ the operations of the subsidiaries be assessed by the Corporation to determine their future viability; and
- ♦ the likelihood of recovery by the Corporation of loans to the subsidiaries be assessed and adequate provision be made in the Corporation's financial statements to reflect any doubts over this recovery.

*Management response*

*As a result of favourable cash flows, the Albury Gas Company Limited's debt to the Corporation has been reduced in recent years. It is expected that this subsidiary will return an acceptable level of profit in 1988-89 and subsequent years with total indebtedness being eliminated within the next 10 years.*

*Although our exploration effort has not produced a positive cash flow to date, we are confident of recovering all funds advanced to our subsidiary for expenditure in this area. Naturally, the Corporation will continue to assess result from this effort and, as necessary, make the requisite provisions for any diminution in the likelihood of recovering such advances.*

**Write off of assets**

**3.11.52** Under the Corporation's accounting policy, which was changed in 1987-88, gas services and meters with an individual cost of less than \$1 000 are expensed in the year of installation. Previously, the costs of gas services and meters were capitalised on installation and depreciated over the assets' useful lives.

**3.11.53** As a consequence of the change in accounting policy, the written down value of gas services and meters of \$132 million, capitalised in prior years, was charged as an abnormal item of expense in the historical cost financial statements.

---

**3.11.54** The application of the revised accounting policy to the supplementary Rate of Return Reporting financial statements resulted in an abnormal item of expense of \$201.7 million in the statement of return on assets and the return on equity.

**3.11.55** In addition, the cost of gas services and meters installed during the year of \$13.8 million has been charged to both the historical cost profit and loss statement and the statement of return on assets and return on equity.

**3.11.56** In audit opinion, these gas services and meters form an integral part of the Corporation's overall gas distribution asset network and revenue earning capacity, and should therefore be accounted for as Corporation assets and depreciated over the assets' useful lives.

**3.11.57** Consequently the Corporation's 1987-88 financial statements was qualified to the effect that net profit, fixed assets and equity were understated by \$145.8 million in the historical cost financial statements and return on equity, fixed assets and equity were understated by \$215.5 million in the Rate of Return Reporting financial statements.

**3.11.58** It was therefore recommended that the Corporation reconsider its policy in respect of gas services and meters and account for all these items as fixed assets in the 1988-89 financial statements.

*Management response*

*The Corporation has given careful consideration to the policy it adopted in 1987-88 for the treatment of expenditure on gas services and meters. This matter was the subject of discussions between the Corporation's Chairman and the Auditor-General and in the Chairman's address to shareholders at the 1988 Annual General Meeting. As previously stated, the Corporation is of the view that domestic services (i.e. the gas pipe laid in the property of the consumer and the meter attached thereto) are not fixed assets and should be written off as expense items. This view has been accepted by the Corporation's external auditors, G.I. Stevenson & Co., who provided an unqualified report on our 1987-88 Accounts.*

*As nothing further has arisen during the ensuing period to suggest otherwise, I have no cause to believe that the Corporation will have a differing view on this area of policy in the years ahead.*

## GAS AND FUEL CORPORATION SUPERANNUATION FUND

### Investment portfolio

**3.11.59** A summary of the investment portfolio of the Fund is set out in Table 3.11F:

**TABLE 3.11F. FUND INVESTMENT**

<i>Investments in -</i>	<i>30 June 1988</i>		<i>30 June 1987</i>	
	<i>\$'000</i>	<i>%</i>	<i>\$'000</i>	<i>%</i>
Real estate	127 126	41	75 574	27
Shares in listed companies	118 257	38	125 024	44
Shares in unlisted companies	6 223	2	8 267	3
Government securities	29 174	9	30 307	11
Other fixed interest securities	21 879	7	25 543	9
Other investments	10 149	3	15 717	6
<b>Total investments at net market value</b>	<b>312 808</b>	<b>100</b>	<b>280 432</b>	<b>100</b>

### *Real estate investment*

**3.11.60** As illustrated above, the Fund has substantially increased its investment in real estate during 1987-88. This increase, while in part due to increased market value of real estate and the effects of the October 1987 share market downturn on other major investment categories, also reflects the Fund's acquisition of additional real estate in anticipation of a proposed major development. The total value of the Fund's real estate holdings may significantly increase if this development proceeds.

**3.11.61** While recognising the recent good performance of the Fund's real estate investments and the possible long-term potential of property developments, audit expressed concern at the Fund's relatively high level and increasing exposure to this investment category especially as the current real estate holdings comprise of a small number of properties.

#### *Management response*

*Over the years, the Fund's real estate holdings have shown excellent investment performance. The Fund has purchased central business district property in anticipation of a major development in conjunction with other superannuation funds. Under this joint development proposal, the Fund's property portfolio will be in line with actuarial recommendations.*

### *Investment in shares*

**3.11.62** During 1987-88, the Gas and Fuel Corporation Superannuation Fund purchased 5.6 million \$1 shares in Wallace International Ltd as part of a sub-underwriting agreement. These shares were included in the Fund's statement of financial position at 30 June 1988 at a net market value of \$5.6 million.

---

**3.11.63** Substantial trading losses for the year ended 30 June 1988 were reported by Wallace International Ltd resulted in a significant erosion in the net market value of the company's shares. The Fund did not make allowance for the loss on this investment in its financial statements.

**3.11.64** In audit opinion provision for potential losses on this investment should have been made in the Fund's 1987-88 financial statements. Consequently, a qualified audit opinion was issued on the Fund's financial statements.

*Management response*

*The Trustees consider that full disclosure of the diminution in the value of Wallace International shares subsequent to balance date was made in the notes to the financial statements. Furthermore, the Trustees submit that if the reduction in value of these shares was accounted for in the balance sheet at 30 June 1988 then appreciation in the value of other shares after balance date should likewise be accounted for.*

**Investment policies and procedures**

**3.11.65** A review of the Fund's investment operations revealed the following weaknesses:

- ◆ formal investment policies do not exist thus resulting in the lack of an overall investment strategy and guidelines as to the desired mix of investments in the portfolio;
- ◆ insufficient evidence to indicate that investment mix and overall earning rates were taken into account in the approval process;
- ◆ approval by the Trustees for certain investment transactions were not always obtained; and
- ◆ inadequate procedures to ensure that all income due on investments was received.

**3.11.66** The lack of formal policies and the failure to maintain proper procedures in relation to investments may result in inadequate long-term planning to meet the objectives of the Fund, excessive concentration in certain investment types and inadequate control over investment transactions.

**3.11.67** Audit is concerned that losses resulting from poor management decisions may have to be borne by the Corporation in view of the nature of the Fund which provides for the payment of defined benefits to its members.

*Management response*

*The Fund operates in accordance with actuarial guidelines. While formal reports on adherence to these guidelines are only submitted annually, informal reports are conveyed to the Trustees on a regular basis.*

*Short term distortions from actuarial guidelines may occur when major investment transactions are undertaken. However action is taken to remove these distortions in the shortest practical time.*

---

*Market conditions sometimes require immediate decisions and verbal approval of transactions. These decisions are subsequently formally confirmed.*

*Action is being taken to improve systems for the monitoring of the receipt of investment income.*

*The Fund has an outstanding record of profitability and there is insufficient evidence to support audit concern that the Corporation may be called upon to subsidise the Fund.*

## **STATE ELECTRICITY COMMISSION**

### **Benefits to injured employees**

**3.11.68** The WorkCare scheme, which replaced the Workers Compensation Scheme, was established under the *Accident Compensation Act 1985*. These 2 schemes provide compensation for loss of earnings to workers who have sustained work-related injuries. The compensation is in the form of weekly benefit payments during the period of absence by employees.

**3.11.69** The benefit under WorkCare is calculated as a percentage of the workers' normal salaries/wages subject to a maximum weekly benefit of \$457 for the 1987-88 year.

**3.11.70** The Commission estimated that the average weekly compensation rate under the former Worker Compensation Scheme was \$260.

**3.11.71** It is the Commission's policy to pay its injured employees the differences between their normal salaries/wages and the benefit receivable by them under WorkCare/Worker Compensation Scheme during the period of absence (i.e. the employees received their full pay). These make up payments may be made for an indefinite period.

**3.11.72** The Commission estimated that its pre-1987-88 make up pay liability to injured employees under the above schemes was \$20 million. Consequently, this amount was charged to the Commission's profit and loss statement for the 1987-88 year.

**3.11.73** It is noted that the objects of the Act are to:

- ◆ make provision for the effective rehabilitation of injured workers and for their early return to work; and
- ◆ reduce the cost to the Victorian community of accident compensation.



---

**3.11.74** In audit opinion the provision of full salary/wage payments to the Commission's injured employees may not provide employees with an incentive to return to work as envisaged by the WorkCare scheme.

*Management response*

*The Commission has been using a case by case approach in managing work absences due to work injury. This approach helps to ensure that make-up pay does not act as an incentive for workers to remain absent and has proven to have had a significant positive impact on long-term absences.*

*Despite the major inadequacies of the Accident Compensation Act 1985, the Commission has been increasingly successful in rehabilitating our injured workers, ensuring they do not become long-term absentees and also ensuring safety in the workplace.*

**Bulk supply arrangements**

*Inadequate financial arrangements*

**3.11.75** During 1987, audit undertook a review of the Commission's operations in relation to the supply of electricity to various Municipal Electricity Undertakings (MEUs).

**3.11.76** At present there are 11 metropolitan MEUs which obtain electricity from the Commission for re-sale to their customers.

**3.11.77** The Commission's financial arrangements with the MEUs for the year ended 30 June 1988 were based on the 1976-1983 Financial Agreements.

**3.11.78** Audit review of the Agreements revealed that the MEUs are allowed to retain from retail electricity revenue in each year a guaranteed amount together with a margin sufficient to meet reasonable expenses for operations, maintenance, interest on borrowings and loan redemption.

**3.11.79** In audit opinion the *cost plus* nature of the Agreements is inconsistent with the Government's policy on prices which requires containment of costs. In addition, the nature of the Agreements, whereby the Commission effectively provides full reimbursement of reasonable operating costs provides little incentive for individual MEUs to improve operating efficiency through minimisation of costs relative to sales revenue.

**3.11.80** Pursuant to provisions of the Agreements, the Commission in December 1987, gave notice of termination of the Agreements effective from 30 June 1988.

---

**3.11.81** Audit recommended that the Commission ensure future Agreements are structured in such a way that provides the necessary incentives for MEUs to improve efficiency and minimise costs.

*Management response*

*Incentive mechanisms have been provided for under the new arrangements. The profit received by each MEU can either be in the form of a fixed amount or an amount equal to 2.25 per cent of the difference between total revenue earned and total expenditure incurred in operating the MEU.*

**Excessive reimbursement by the Commission to the Municipal Electricity Undertakings**

**3.11.82** The Municipal Electricity Undertaking's, in carrying out their functions under the Agreements, are required to construct or purchase capital assets. The cost of these assets is reimbursed by the Commission by way of payment of the MEUs' reasonable operating costs, which included depreciation charges. In addition, the MEUs are reimbursed by the Commission for loan redemptions and sinking fund payments. These payments relate to loans raised by the MEUs to finance the construction or purchase of the abovementioned assets. Total loan redemption and sinking fund payments claimed by the MEUs amounted to \$6.6 million for 1987-88.

**3.11.83** Audit is of the opinion that the reimbursement to the MEUs of both loan redemption and sinking fund payments and depreciation charges results in the double payment/financing by the Commission of the assets concerned.

**3.11.84** Audit recommended that provision for the reimbursement of one of these items be eliminated in future agreements.

*Management response*

*Provision for such double reimbursements has been removed under the new financial arrangements. However, these payments are now replaced by the provision of an annual Capital Grant to each MEU to assist them in the financing of their undertakings.*

**Is the Commission's briquetting operations profitable?**

**3.11.85** As part of its normal operations, the Commission produces, at its briquette factory in Morwell, briquettes for use in electricity generation. As from 1985-86, briquettes surplus to the Commission's requirements are sold to the Coal Corporation of Victoria under a contract covering the period 9 December 1986 to 30 June 1996.

**3.11.86** An audit review of the briquetting operations disclosed that the costs of producing coal used as input in the production of briquettes, approximates the selling price of briquettes to the Coal Corporation of Victoria. This means that costs incurred in converting coal to briquettes are, at present, not recoverable from the selling price resulting in net losses to the Commission of \$22.7 million in 1985-86, \$22.6 million in 1986-87 and \$22.6 million in 1987-88. The accumulated losses are \$67.9 million for the 3 years.

**3.11.87** In order to break even, the Commission needs to increase the transfer price by approximately 157 per cent. This is obviously not feasible given that under the contract, the annual price increase is limited to the increase in the Consumer Price Index for the previous year ended 30 March. In addition any substantial reduction in operating costs of the briquetting factory will not make the operation financially viable.

**3.11.88** In view of the above, audit is of the opinion that the briquette production in a stand alone business context is not financially viable given the business conditions at 30 June 1988.

**3.11.89** The Commission, in order to improve the long term future viability of the briquetting operations, has reached agreements with:

- ♦ the Government and the Coal Corporation of Victoria, who will contribute \$5 million each towards the \$35 million refurbishment costs of the Morwell Briquette Factory;
- ♦ the Coal Corporation of Victoria, for a higher briquette transfer price from 1 July 1989. This higher price will be reduced by \$2 per tonne as a result of the above capital contribution; and
- ♦ relevant unions, so as to enable realistic reductions in manning levels necessary to achieve savings of \$5 million per year.

**3.11.90** Audit examination of relevant documents revealed that, the Commission under the revised business conditions projects an accumulated cash flow deficit of approximately \$85 million for the period 1 July 1988 to 30 June 1999. Cash flow surpluses are not expected to be generated until the financial year commencing 1 July 1999.

*Management response*

*Management advised that:*

- ♦ *because briquettes are regarded as an integral part of Commission operations, the Agreement with CCV is based on incremental costings;*
- ♦ *the cost of the coal (on an incremental basis) does not exceed the cost of briquette production, nor are the whole of the \$20 million losses attributable to the briquette industry;*
- ♦ *an increase of 157 per cent in the transfer price, whilst on paper is possible, would result in no briquettes being sold anywhere; and*
- ♦ *the audit report in relation to the examination of documents, particularly the projection of an accumulated cash flow deficit of approximately \$85 million, may give a misleading interpretation.*

---

## Misappropriations

**3.11.91** In the Auditor-General's *Second Report* for 1986-87, it was reported that an employee of the Commission was dismissed from employment following the detection of fraudulent transactions amounting to \$27 700.

**3.11.92** The employee was convicted and placed on a 3 months good behaviour bond. Amounts totalling \$7 397 have since been recovered by the Commission. The remaining balance is to be repaid in instalments of \$100 per week in accordance with the Court's order.

**3.11.93** Audit was advised that another employee of the Commission had been dismissed on 13 October 1988 for allegedly using his position to acquire materials not required for Commission activities and also for serious mismanagement practices.

**3.11.94** Police have subsequently charged the dismissed employee with theft after having recovered materials estimated to be worth \$150 000.

## SWAN HILL PIONEER SETTLEMENT AUTHORITY

### Swan Hill Pioneer Settlement Heritage Island appeal

**3.11.95** In 1984 the Authority entered into an agreement with a company for the purpose of raising funds for a historical museum development on Pentall Island, to be known as Heritage Island. Under the terms of the agreement the company undertook to professionally design and conduct a capital fund raising program on behalf of the Authority to raise a minimum of \$500 000 over a 5 year period.

**3.11.96** The cost to the Authority for services provided by the company was estimated to be \$71 000 comprising a professional fee and budgeted expenses. Under the terms of the agreement, if the service fee and campaign expenses paid exceed the donations received by the Authority, over an agreed period, the excess was to be reimbursed by the company.

**3.11.97** At the date of preparation of this report, the total amount paid to the company was \$81 000. However, over this same period donations received amounted to only \$47 000.

**3.11.98** The agreed period ended in mid-1987 and, as a far from satisfactory result was achieved, the Authority in November 1987 attempted, unsuccessfully, to meet with representatives of the company to obtain reimbursement of moneys in accordance with the terms of the agreement.

**3.11.99** Audit was advised that the Authority plans to seek legal advice with a view to recovering the difference between the expenses and donations received.

#### *Management response*

*The Authority is pursuing reimbursement from the company through legal action and with the assistance of the Fund Raising Council of Australia.*

## Downturn in attendances

**3.11.100** A review of the financial statements of the Authority for the 3 years ended 30 June 1988 revealed deteriorating financial operating results. The principal reason for the deterioration in operating results was attributed to a 15 per cent decline in attendances over the last 3 years from 191 000 to 162 000.

**3.11.101** Financial operations over the past 3 years are set out in Table 3.11G:

**TABLE 3.11G. FINANCIAL OPERATIONS**  
(\$'000)

<i>Item</i>	<i>1987-88(a)</i>	<i>1986-87</i>	<i>1985-86</i>
Revenue	1 698	1 590	1 635
Expenditure	1 728	1 613	1 540
Net profit/(loss)	(30)	(23)	95

(a) Unaudited.

## VICTORIAN ECONOMIC DEVELOPMENT CORPORATION

**3.11.102** During 1988 this Office conducted a review of the implementation and administration of certain aspects of that part of the Government's economic strategy relating to financial assistance to industry. DITR was one of a number of agencies involved with the implementation of the strategy.

**3.11.103** The detailed results of the review were included in a report entitled "*Special Report of the Auditor-General, No.11 - Financial Assistance to Industry*" which was tabled in Parliament on 22 March 1989.

---

## 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>		
<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 and audit verification completed in 1987-88 of royalty collections up until 30 June 1986. For further comment refer paragraphs 3.11.1 to 3.11.4 of this report.
<b>Alpine Resorts Commission</b>		
<i>Second Report</i> 1986-87, p.95	Non-repayment of loan liability.	For further comment refer paragraphs 3.11.17 to 3.11.20 of this report.
	Delay in collection of site rental charges.	For further comment refer paragraphs 3.11.21 to 3.11.24 of this report.
<b>Liquor Licensing Commission (formerly Liquor Control Commission)</b>		
<i>Second Report</i> 1985-86, p.128	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.	Matter now resolved. Commission declared as a contributed income sector body under the <i>Annual Reporting Act</i> 1983 with effect for 1988-89 reporting year.
<b>State Electricity Commission</b>		
<i>Second Report</i> 1986-87, p.96	Misappropriation of funds.	For further comment refer paragraphs 3.11.91 to 3.11.94 of this report.
<b>Victorian Economic Development Corporation</b>		
<i>Second Report</i> 1986-87, p.97	Need for enhancement of investment administration and additional performance measures to monitor effectiveness of funds provided.	For further comment refer paragraphs 3.11.102 to 3.11.103 of this report.

## Schedule B. Completed/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>				
Department of Industry, Technology and Resources (b)	30 June 1988	31 October. <i>Annual Reporting Act 1983, s.8.</i>	7 October 1988	14 October 1988
Albury/Wodonga (Victoria) Corporation	30 June 1988	No date specified. <i>Albury Wodonga Agreement Act 1973, s.24.</i>	27 September 1988	31 January 1989
Coal Corporation of Victoria	30 June 1988	31 August. <i>State Electricity Commission (Coal Corporation of Victoria) Act 1984, s.78.</i>	2 August 1988	23 August 1988
Emerald Tourist Railway Board	30 June 1988	31 October. <i>Emerald Tourist Railway Act 1977, s.25.</i>	11 October 1988	6 December 1988
Exhibition Trustees	30 June 1987	30 September. <i>Exhibition Act 1957, s.10.</i>	9 September 1988	9 September 1988 (a)
Exhibition Trustees	30 June 1988	30 September. <i>Exhibition Act 1957, s.10.</i>	25 November 1988	6 December 1988 (a)
Gas and Fuel Corporation of Victoria	30 June 1988	30 September. <i>Annual Reporting Act 1983, s.9.</i>	9 September 1988	7 October 1988 (a)
Gas and Fuel Corporation Super-annuation Fund	30 June 1988	31 December. <i>Annual Reporting Act 1983, s.9.</i>	9 January 1989	17 January 1989 (a)
Geelong Regional Commission	30 June 1988	30 September. <i>Geelong Regional Commission Act 1977, s.24.</i>	23 September 1988	30 September 1988
Latrobe Regional Commission	30 June 1988	30 September. <i>Latrobe Regional Commission Act 1983, s.50.</i>	13 September 1988	23 September 1988
Overseas Projects Corporation of Victoria Limited	30 June 1988	Companies (Victoria) Code	19 September 1988	21 September 1988
Small Business Development Corporation	30 June 1988	No date specified. <i>Small Business Development Corporation Act 1976, s.18.</i>	2 August 1988	25 August 1988

## Schedule B. Completed/incomplete audits - continued

Entity	Financial year ended	Reporting to Parliament	Financial statements signed by entity	Auditor-General's report signed
State Electricity Commission of Victoria	30 June 1988	30 September. <i>Annual Reporting Act 1983, s.9.</i>	19 September 1988	26 September 1988
SEC Employees' Retirement and Benefit Fund	31 August 1987	No reporting requirements. <i>State Electricity Commission Act 1958, s.81</i> provides for the audit of the books and accounts.	19 October 1988	15 December 1988 (a)
SEC Superannuation Fund	30 June 1988	No reporting requirements. <i>State Electricity Commission Act 1958, s.81</i> provides for the audit of the books and accounts.	19 October 1988	22 December 1988 (a)
Victorian Economic Development Corporation	30 June 1988	31 December. <i>Victorian Economic Development Corporation Act 1981, s.43.</i>	23 December 1988	23 December 1988 (a)
Victorian Solar Energy Council	30 June 1988	31 October. <i>Victorian Solar Energy Council Act 1980, s.18.</i>	11 August 1988	31 August 1988
<b>Incomplete audits</b>				
Alpine Resorts Commission	31 October 1988	31 December. <i>Alpine Resorts Act 1983, s.10.</i>	Audit currently being finalised.	
Swan Hill Pioneer Settlement Authority	30 June 1988	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 Licensing Commission (formerly Liquor Control Commission).



---

## 3.12

# LABOUR

---

### KEY FINDINGS

- ◆ Deficiencies in motor vehicle fleet management, including the substantial under-utilisation of vehicles.  
*paras 3.12.1 - 3.12.18*
- ◆ Benefits provided to departmental officers inconsistent with Public Service conditions.  
*paras 3.12.19 - 3.12.20*
- ◆ Concerns raised in relation to a redundancy payment made to a senior officer.  
*paras 3.12.21 - 3.12.22*
- ◆ Entertainment expenses not adequately justified and controlled.  
*paras 3.12.27 - 3.12.28*
- ◆ Doubts raised as to whether certain Youth Guarantee expenditure was effective in meeting Guarantee objectives.  
*paras 3.12.24 - 3.12.25, 3.12.39 - 3.12.42*

---

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

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

---

**DEPARTMENT OF LABOUR**

**Motor vehicles**

**3.12.1** To assist in performing its various inspectorial and counselling functions throughout Victoria, the Department of Labour, which employs approximately 1 000 staff, operates a fleet of motor vehicles. At 31 December 1988 the fleet consisted of 303 vehicles, estimated by audit to have a replacement value of \$4.1 million. The costs associated with the operation of the fleet amounted to approximately \$1.5 million during 1988.

**3.12.2** A review of management practices associated with the operation of the fleet highlighted a number of deficiencies. In audit opinion, the following factors contributed to these deficiencies:

- ◆ the allocation of a substantial proportion of fleet vehicles to individual officers rather than pooling arrangements;
- ◆ shortcomings in information systems and monitoring procedures in relation to motor vehicles; and
- ◆ lack of a long-term, co-ordinated approach to planning for vehicle requirements.

**3.12.3** Inadequancies in fleet management identified by audit are detailed in the following paragraphs.

*Under-utilisation of departmental fleet vehicles*

**3.12.4** Government policies and procedures issued by the Director of the Victorian Government Motor Vehicle Fleet state that government vehicles are expected to travel 20 000 kilometres per year. It is also stated that approval will generally be refused on economic feasibility grounds for the purchase of vehicles which are anticipated to travel less than 10 000 kilometres per year.

**3.12.5** An analysis of actual vehicle usage records maintained by the Department at 1 January 1989 revealed that 59 per cent of departmental vehicles travelled less than 20 000 kilometres per year. Utilisation details are summarised in Table 3.12A:

**TABLE 3.12A. MOTOR VEHICLE FLEET USAGE**

<i>Average annual kilometres travelled</i>	<i>Number of vehicles</i>	<i>Percentage of fleet</i>
0 - 9999	41	14
10000 - 19999	136	45
Over 20000	101	33
Details not available (a)	25	8
<b>Total</b>	<b>303</b>	<b>100</b>

(a) Represents vehicles purchased recently which have not been owned long enough to predict annual usage.

**3.12.6** In addition to overall low utilisation levels, specific instances were noted where vehicles had remained idle for considerable periods of time. For example, it was noted that 6 vehicles purchased by the Department in December 1988 had remained unused in a government car park for 6 to 8 weeks.

**3.12.7** The analysis of vehicle utilisation highlighted the potential for a substantial reduction in the present fleet size and consequently a reduction in the operating costs of the Department. A detailed analysis of the fleet needs to be undertaken with a view to a rationalisation of the current holdings.

*Management response*

*The original submission approved by the Victorian Government Motor Vehicle Fleet Directorate in relation to the purchase of regional cars provided that a third criterion exists for vehicles - availability. The arrangement is that in regional offices 2 cars are provided for every 3 inspectors to ensure that there are always cars available for investigation of accidents.*

*The Department has introduced a reporting mechanism to allow for the devolved management arrangements to provide appropriate feedback on utilisation of the fleet. A project team is being established to look at the potential for rationalisation of current holdings.*

*Use of vehicles for commuting purposes*

**3.12.8** Government policy guidelines indicate that State-owned vehicles are to be used only for official purposes except in cases where they are provided to senior officers as part of the Senior Executive Service Car Scheme, or in special circumstances determined by the Chief Administrator.

**3.12.9** A review of usage records led audit to conclude that a considerable proportion of motor vehicle travel related to the transportation of departmental officers to or from their place of residence. Audit was advised that these arrangements were necessary in circumstances where officers were on call after normal working hours, where officers were required to proceed directly to a work assignment away from the base location on the following day or, in the case of one location, it was considered unsafe to leave vehicles in the carpark overnight.

**3.12.10** However, the usage records relating to cars garaged overnight at private residences did not fully support the above departmental claims.

**3.12.11** In the absence of such justification, the use of departmental vehicles for commuter purposes was contrary to government policy guidelines in many instances.

**3.12.12** To ensure that operating costs are minimised and government policies and procedures concerning the private use of vehicles are followed, audit recommended that the Department review its present practices.

*Management response*

*The proportion of motor vehicles usage which relates to commuting substantially refers to regional managers who must be accessible at all times (regional managers are on 24-hour call), industrial relations officers, and Youth Guarantee and JobLink counsellors who perform out of hours work. In other cases, managers have introduced pooling systems which reduce the amount of time taken in commuting to and from the office and allow an officer to start work at a remote location.*

*Audit's suggestion that the Department analyse the relative cost-benefit of garaging vehicles as opposed to the pool system is useful and will be investigated.*

*Uneconomic hire arrangements*

**3.12.13** During 1988, the Department incurred expenditure amounting to \$106 000 for the hire of motor vehicles from a commercial firm including the long-term hire of 4 vehicles. An examination of hire arrangements disclosed that:

- ◆ Vehicles had been hired by the Department while departmental fleet vehicles were under-utilised; and
- ◆ An analysis of the cost-effectiveness of the long-term hire of vehicles compared with purchase had not been undertaken by the Department. As the hire costs to date in some cases already exceeded the purchase cost of similar vehicles, the economic feasibility of these arrangements was doubtful.

**3.12.14** Audit considered that a substantial proportion of the vehicle hire costs could have been avoided if existing fleet vehicles had been more effectively utilised. The ongoing need and cost-effectiveness of car rental arrangements should be reviewed by the Department.

---

*Management response*

*The Department agrees with audit that it is necessary to review the ongoing need and cost-effectiveness of all car rental arrangements.*

*Unnecessary taxi costs*

**3.12.15** The costs associated with the use of taxis through "Cabcharge" credit facilities amounted to approximately \$36 000 during 1988. A review of these payments revealed that:

- ◆ In many instances taxis were used for travel despite the fact that public transport or departmental vehicles were available; and
- ◆ Details of use, including the travel purpose, was generally not maintained. In the absence of such documentation audit was unable to determine whether the use of taxis was directly related to the roles and functions of the Department.

**3.12.16** In view of the high costs per kilometre associated with the use of taxis, it was recommended that the procedures in place for the use and control of credit facilities be strengthened to ensure that associated costs are minimised.

*Management response*

*The Department is reviewing the procedures in place for the usage and control of "Cabcharge" facilities. The procedures in place for the use of taxis require that staff seek approval prior to obtaining a voucher. The suggestion by audit that departmental vehicles or public transport may be more cost-effective is noted, but there are clearly a number of cases where lack of car parking, lack of public transport or the cost-efficiencies of the officer involved dictate that taxis are more appropriate.*

*Excessive parking costs*

**3.12.17** Audit considered that the 36 parking spaces presently hired by the Department from commercial sources, at a cost of approximately \$106 000 per year, was excessive in view of the fact that government-owned facilities were available within walking distance of the Department.

**3.12.18** The operational need for the present level of parking facilities hired by the Department should be reviewed.

*Management response*

*The Department welcomes the suggestion and is reviewing the operational need for the present level of parking facilities.*

---

## Personnel management practices

### *Remuneration packages inconsistent with Public Service conditions*

**3.12.19** Responsibility for the personnel functions of the Department have been devolved to the various departmental divisions and regions. A review of personnel management practices disclosed instances where practices followed were not in accordance with personnel management guidelines issued by the Public Service Board or where officers were in receipt of benefits not generally available within the Victorian Public Service. Examples of anomalies are detailed below:

- ◆ the reimbursement, on a regular basis, of up to 75 per cent of the private telephone call charges of certain officers;
- ◆ a number of officers did not contribute, as required, towards the operating costs of vehicles provided under the Senior Executive Service Car Scheme;
- ◆ the provision of mobile telephones for use by departmental officers without the required Premier's approval;
- ◆ the payment of an allowance to certain officers, other than senior executive officers, to cover work-related expenses incurred in the nature of hospitality, parking and other out of pocket expenses, even though they receive reimbursement of actual costs incurred for such expenditure;
- ◆ the use of the Senior Executive Service performance allowance as a means of arriving at an agreed level of remuneration (other than on appointment) instead of as a reflection of performance; and
- ◆ a lack of documentation to support the need for and duties of a number of positions, or to indicate that the classification of the positions had been based on an appropriate evaluation of the work value of these positions.

**3.12.20** In view of the Department's role in providing advice on wage policy and work value matters, audit considered these practices were particularly inappropriate.

#### *Management response*

*All large organisations need flexibility to redeploy and assign people to meet corporate objectives. The Department does not consider that the matters raised by audit are numerous or serious. Audit should note that for new officers, the Senior Executive Service performance allowance can be used in the first instance to strike a level of remuneration.*

*The refund of private telephone charges was a condition approved by Cabinet. The non-payment of motor vehicles contribution arose from a minor administrative mistake which has been rectified. However, the Department's Internal Audit Section will be undertaking a review of the practices as part of its program.*

## *Redundancy payment*

**3.12.21** In February 1989, a decision was made within the Department which resulted in a redundancy agreement being reached between a senior officer and the Department. The agreement included a separation payment to the officer of approximately \$60 000 consisting of \$20 000 in leave entitlements and \$40 000 as a severance agreement under the Victorian Public Service Second Tier Agreement on Redeployment and Retraining.

**3.12.22** A number of the circumstances relating to this redundancy were of concern to audit, namely:

- ◆ At the time of his appointment to a senior position in August 1986, the officer sought exemption from contributing to the State Superannuation Fund. He was therefore employed as a temporary officer for 2 years prior to his permanent appointment to the position in September 1988;
- ◆ Subsequent to his permanent appointment the officer was promoted to a more senior position on 30 September 1988. The appointment occurred only months prior to the position being made redundant by the Department. In audit opinion, these circumstances reflect a lack of forward planning with respect to personnel management;
- ◆ The conditions and provisions relating to redeployment and severance payments are not available to temporary officers of the Public Service. Therefore the permanent appointment resulted in a substantial payment to the officer; and
- ◆ The Second Tier Agreement provides that maximum opportunity be provided to redeploy an officer whose position has become redundant, prior to arranging severance. No evidence was available to indicate that redeployment was investigated in the case of this officer. However, a Working Group within the Department of the Premier and Cabinet endorsed the retrenchment on the basis that the Public Service Board and the Victorian Public Service Association had submitted that special circumstances existed in this case and that redeployment would be difficult to arrange in the short-term.

### *Management response*

*Audit draws a conclusion (with their advantage of hindsight) which relies on making a connection of a number of unrelated incidents. Audit also does not acknowledge that the officer referred to was appointed "pending permanency" by the Public Service Board in exactly the same manner as all appointments. The delay in appointment related to the superannuation issue. In effect, therefore, permanency was a fact and not an option and did not result in a payment that could have otherwise been avoided. The Public Service Board investigated redeployment and advised the Working Group that no options existed. All the due processes were adhered to.*

---

## International conference

**3.12.23** In March 1988, the Minister for Labour sponsored an international 3-day conference in Melbourne on youth employment and training. The conference, which was organised in conjunction with the International Confederation of Free Trade Unions, involved representatives of government, employers and unions.

**3.12.24** As part of the arrangements for the conference, the Department paid for the return flight tickets and accommodation costs of the 20 international speakers and key union participants at the conference. These costs, together with other conference expenses, totalling in all over \$140 000, were charged to the Youth Guarantee program.

**3.12.25** There were a number of unsatisfactory matters in relation to this expenditure, namely:

- ♦ whether the total expenditure relating to the conference should have been a charge against the Youth Guarantee program;
- ♦ that in view of the tripartite nature of the conference, consideration should have been given by the Department to recouping a portion of the conference costs; and
- ♦ there was failure to adhere to government policy guidelines relating to the approval of agency-funded overseas travel.

**3.12.26** Audit recommended that procedures be implemented to ensure that in future, all overseas travel arrangements are appropriately justified and approved in line with departmental objectives and government policy guidelines.

### *Management response*

*The audit comments are useful. The Department will implement appropriate procedures.*

## Entertainment expenses

**3.12.27** During the year to 31 December 1988, approximately \$37 000 was expended by the Department on entertainment expenses. It was a matter of concern that in many instances claims for the reimbursement of expenditure made by individual officers were not supported by adequate documentation to justify the claim. In the absence of such documentation, the relevance of the expenditure to meeting the objectives of departmental programs could not be assessed.

**3.12.28** The lack of documentation, together with an absence of budgetary limits, policy guidelines and adequate monitoring procedures had diminished the level of control over such expenditure. Audit recommendations emphasised the need to implement procedures within the Department to address these deficiencies.



---

*Management response*

*All the expenditure claims referred to by audit conformed with Treasury Regulations. It is therefore not true that the documentation is inadequate. The recommendation by audit that the Department develop clear guidelines has been acted on by the Department and a policy statement has been prepared. Procedures have been implemented for the regular monitoring of the expenditure.*

**Building and Construction Industry Training Foundation**

**3.12.29** In line with the Government's strategy concerning industry training, the Department has overviewed the establishment of 3 industry training groups in recent years. The administration of one of these industry groups, the Building and Construction Industry Training Foundation, was undertaken by a project team (including departmental personnel) responsible to the Director of the Department's Building and Construction Industry Division. In this sense, unlike the other 2 industry groups, the Department was closely involved in the financial management of this Foundation.

**3.12.30** During 1987-88, the Foundation received grants totalling \$250 000 from the Department. The financial operations of the Foundation are not subject to audit by the Auditor-General.

**3.12.31** Internal review action by the Department in October 1988 identified several shortcomings in the financial administration of the Foundation. These shortcomings included:

- ◆ significant delays in the recording and reconciliation of financial transactions;
- ◆ parking fees met from Foundation funds for 2 non-Foundation vehicles and one unidentified vehicle, with unsubstantiated payments amounting to \$4 300;
- ◆ an absence of documentation to support particular cash transactions;
- ◆ petrol credit cards issued to 3 departmental officers involved with the Foundation and to the Foundation's word processing operator;
- ◆ the use by the Foundation of departmental "Cabcharge" vouchers; and
- ◆ an absence of formal authorisation for most of the expenditure incurred by the Foundation.

**3.12.32** In addition to the above matters, documentation within the Department indicated that the Foundation had made available a green plate vehicle and parking pass for use by the Department's Corporate Services Division.

**3.12.33** Audit considered that the way in which assets and facilities were readily exchanged between the Department and the Foundation reflected rather poorly on the adequacy of the management control framework established by the Department for operation of the Foundation.

---

**3.12.34** Responsibility for the operations of the 3 industry groups is now with the State Training Board in line with that Board's basic training charter. By arrangement with the Department, effective responsibility for activities relating to the Building and Construction Industry Training Foundation was transferred to the Board in January 1989. The Department has advised that, prior to this transfer, it had ensured all amounts relating to Departmental operations, initially met from Foundation funds, had been charged to the Department.

*Management response*

*As a result of the internal review by the Department's Grant Acquittance Section, the Department arranged to advise the State Training Board of potential problems. The new procedures at the State Training Board take account of this advice. A reconciliation of all the accounts has occurred to ensure that the Department has been properly charged for its activities. The review also resulted in the redesign of internal grant procedures.*

**Delays in collecting registration fees**

**3.12.35** Previous reports of the Auditor-General have been critical of the timing of the Department's revenue billing processes concerning registration fees for shops, factories, boilers and pressure vessels (revenue received in 1987-88 was \$3.1 million) and the absence of effective procedures for identification and follow-up of total revenue receivable.

**3.12.36** An audit review during the current audit cycle again identified shortcomings in revenue management procedures within the Department, although some positive signs have recently surfaced in relation to the Department's overall approach in this area. Relevant audit observations are summarised below:

- ◆ The Department billed in March 1988 for boiler and pressure vessel registrations that expired in the previous December, however, some improvement occurred for the 1989 billing process which was finalised in January 1989;
- ◆ Registration renewals for factories and shops were issued in February and April 1988, respectively, for registrations that expired in the previous December;
- ◆ Second notices for unpaid registrations covering the period ended 31 December 1987 were not issued until April 1988, August 1988 and November 1988 for factories, shops, and boilers and pressure vessels, respectively;
- ◆ The Department's registrations database disclosed that, at 31 December 1988, shop, factory and boiler and pressure vessel registration fees in excess of \$953 000 (\$256 000 at 31 December 1987), remained unpaid. At the time of the audit review, the Department felt the boiler and pressure vessel registrations database contained a large number of inaccurate records which restricted the degree of reliance that could be placed on this figure; and

- ♦ Over 150 000 boiler and pressure vessels are listed on the database as "location unknown", "for resale", "out of use" or "in storage" with no fee raised. In view of the reservations concerning the integrity of the database, it is possible some of the items within this category may involve the raising of a fee.

**3.12.37** Following a Government policy decision, registration fees for shops and factories ceased from January 1989. The Department is hopeful that the reduced level of registration activity will facilitate introduction of even earlier billing than January for boilers and pressure vessels in future years.

**3.12.38** Audit has recommended to the Department that, in view of the long-term nature of the problems concerning revenue management, the achievement of a substantially improved position be pursued as a matter of priority.

*Management response*

*The Department does not accept that \$953 000 in fees remains unpaid as the integrity of the database is questionable. This is caused by non-notification of changes by owners - action which the Department cannot control. The Department believes that the corrective measures it is taking in this area are substantial and will lead to major improvements.*

**Monitoring and assessment of market research and advertising expenditure**

**3.12.39** In the Auditor-General's *Second Report* for 1986-87 comment was made on the absence of benchmarks and adequate monitoring procedures for evaluation of the effectiveness of substantial outlays by the Department on market research and advertising.

**3.12.40** During 1987-88, the major promotional activity of the Department involved an extensive public communication campaign relating to the Youth Guarantee program. Around \$2.6 million was expended on this activity. The Department recognised the importance of evaluating the effectiveness of this expenditure and, in August 1988, engaged consultants to undertake this task and to provide guidance for future promotional strategies.

**3.12.41** The findings of the research undertaken by the consultants raised considerable doubt as to whether the expensive communication campaign had made any meaningful inroads into influencing community attitudes on youth, or had increased the public's awareness and understanding of the Youth Guarantee initiative. In the circumstances, audit has stressed to the Department the importance of ensuring that the results of its periodic evaluations of advertising and research outlays are systematically fed into the decision making process.

**3.12.42** It is pleasing to report that the Department has recently prepared a consultancy procedure manual which encompasses the total consultancy process, including formats for written briefs and contracts. The importance of establishing appropriate evaluative criteria for consultancies is given some prominence in this manual.

---

*Management response*

*The results of evaluation of promotional activity are being taken into account in the decision making process.*

**Asset control**

**3.12.43** It was pleasing to note that information relating to departmental assets had been gathered to facilitate the establishment of a computerised asset register. However, a number of deficiencies needed to be addressed before the system could become fully operational. For example, the movement of assets between locations and the purchase of new items since the establishment of the register had not been recorded. As a consequence, a number of attractive items such as computers, television and video recorders, and a mobile telephone had either not been recorded on the register or had not been identified against the correct location.

**3.12.44** In the absence of a complete and accurate record of departmental assets, such items may be lost or stolen without detection.

*Management response*

*The Department notes the recommendation of audit and is taking appropriate action.*

**LOSSES AND THEFTS**

**3.12.45** The Department has notified my Office that losses and thefts of equipment with a total value of \$18 800 occurred during the period July 1987 to December 1988.

**3.12.46** The major portion of reported items involved the theft of computer and video equipment from the Department's regional office at Preston.

**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.	Position now satisfactory. All outstanding amounts have been recouped from the Commonwealth.

---

---

**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.137 Second Report, 1986-87, pp.109-10</i>	Delays in billing and inadequate follow-up of unpaid registration fees.	Position has improved, however, further action by the Department is required before the problems concerning revenue management are fully resolved. Refer to paragraphs 3.12.35 to 3.12.38 of this report.
<i>Second Report, 1985-86, p.137</i>	Alleged irregularities within the Equipment Safety Branch.	It is understood that Police investigations have been finalised and that charges have been laid against certain individuals.
<i>Second Report, 1986-87, p.107</i>	Failure of the Department to comply with central approval processes for certain expenditure and the engagement of consultants.	Position still not resolved. During 1988, the Department incurred expenditure totalling \$1.7 million (\$1.6 million related to engagement of consultants) prior to obtaining the approval of the Tender Board. In order to fully resolve this problem area, the Department issued instructions late in 1988 to staff which stipulate that the central approval processes relating to particular expenditure (including the engagement of consultants) must always be complied with.
<i>Second Report, 1986-87, p.107</i>	Absence of benchmarks and adequate monitoring procedures for evaluation of the effectiveness of substantial outlays by the Department on market research and advertising.	Position has improved and further corrective action is in course. Refer to paragraphs 3.12.39 to 3.12.42 of this report.
<i>Second Report, 1986-87, p.108-9</i>	Deficiencies in overall management procedures in place for the provision of grants to organisations.	Position not yet resolved. Weaknesses in overall monitoring of grants previously identified by audit were evident for several grants provided by the Department during 1988. The Department is currently developing procedures aimed at improving the overall management of grants.

## 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, 1986-87, p.109</i>	Inadequate monitoring by the Department of activities of co-operatives which received loans under the former Co-operative Development Program. Loans written off during 1986-87 totalled \$55 000 and recovery of a further \$183 000 was considered doubtful.	Recovery by the Department of all outstanding loans appears very doubtful. At 31 December 1988, unpaid loan instalments totalled \$109 600 (total principal owed by co-operatives was \$462 700) and 5 co-operatives had ceased trading or were in liquidation. It is understood that the co-operatives are collectively pressing, through negotiations with the Minister, for all loans to be written off.
<i>Second Report, 1986-87, p.110</i> <i>First Report, 1987-88, p.36</i>	The Department should reassess its decision to disband the Internal Review Branch.	While the Department determined to establish an internal audit unit, it had not been fully established by September 1988, the deadline set under the Government's policy. Action to recruit the remaining personnel to service the unit is now in course.

## Schedule B. Completed/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>				
Department of Labour	30 June 1988	31 October. <i>Annual Reporting Act 1983, s.8.</i>	12 September 1988	26 September 1988
Construction Industry Long Service Leave Board	30 June 1988	31 March. <i>Construction Industry Long Service Leave Act 1983, s.8.</i>	20 September 1988	18 January 1989

---

## 3.13

# LOCAL GOVERNMENT

---

KEY FINDING
◆ The audit within this portfolio proved satisfactory.

- ◆ The audit within this portfolio proved satisfactory.

---

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

Comment on a matter arising from the audit of the Local Authorities Superannuation Board is discussed below.

---

**LOCAL AUTHORITIES SUPERANNUATION BOARD**

**Losses, thefts, defalcations etc.**

**3.13.1** An employee of the Local Authorities Superannuation Board used a photocopy of an official purchase order, which incorporates a sales tax exemption certificate, to order 3 personal computers purported to be for the Board's use but subsequently sold them to private buyers.

**3.13.2** The employee was dismissed and the full cost of the purchases, \$12 744 including sales tax of \$2 124, was recouped from the employee's superannuation pay out.

**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 \$16 405 of the \$61 085 misappropriated by the former paymistress, who was imprisoned for a maximum of 18 months. Civil action was taken to recover the balance (\$44 680). The matter is still being monitored by the Department.



---

**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>Local Government Department</b>		
<i>Second Report, 1986-87, p.112</i>	No consolidated financial reporting to Parliament of municipal councils' operations.	Matter unresolved. Department does not have the resources to undertake this work. A Bill currently before Parliament requires municipalities to provide to the Minister an Annual Report including a report on financial and administration matters. A computerised information system proposal by the Department to the Department of Management and Budget will assist, when implemented, in the compilation, analysis and reporting of municipal operations.
<i>Second Report, 1986-87, pp.112-13</i>	Need for control over enterprises established by municipal councils.	Matter unresolved. Department has taken action to establish a Municipal Enterprise Division to monitor and review municipal enterprises.
<i>First Report, 1987-88, p.37</i>	Internal audit arrangements not implemented in accordance with government policy.	In conjunction with the Ministry of Consumer Affairs and the Ministry of Planning and Environment, an audit section for the 3 departments has been established and an audit manager appointed.
<b>Local Authorities Superannuation Board</b>		
<i>Second Report, 1986-87, pp.113-14</i>	Deficiencies in the financial performance of the operations of Local Authorities Information System (LAIS).	Position now satisfactory. Operations of LAIS ceased on 31 October 1988. Computer operations sold in 1988.
<i>Second Report, 1986-87, p.114</i>	Lack of control over certain expenditure.	Position now satisfactory. Guidelines have been established to control expenditure.
" "	Unreasonable delays in finalising the Board's financial statements.	Position now satisfactory. The Board met its reporting obligations in 1987-88.

## Schedule B. Completed/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>				
Local Government Department	30 June 1988	31 October. <i>Annual Reporting Act 1983, s.8.</i>	20 October 1988	24 October 1988
City of Melbourne Superannuation Fund	30 June 1987	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension of time to 30 June 1988.	29 June 1988	29 June 1988
• •	30 June 1988	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension of time to 31 December 1988.	30 December 1988	19 January 1989
Local Authorities Superannuation Board	29 February 1988	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension of time to 31 July 1988.	22 July 1988	26 July 1988
• •	Period 1 March 1988 to 30 June 1988	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension of time to 31 January 1989.	29 November 1988	19 January 1989

---

## 3.14

# PLANNING AND ENVIRONMENT

---

KEY FINDING
◆ The audits within the portfolio proved satisfactory.

- ◆ The audits within the portfolio proved satisfactory.

---

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  
Loddon-Campaspe Regional Planning Authority  
Plumbers and Gasfitters Board  
Victorian Conservation Trust

---

**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.	Position now satisfactory. In conjunction with the Ministry of Consumer Affairs and Local Government Department an internal audit section for the 3 departments has been established and an Audit Manager appointed.
<i>Second Report, 1986-87, pp.116-17</i>	Kerrup-Jmara Aboriginal Elders Trust. Lack of proper documentation to support disbursement. Failure to prepare and furnish annual reports and audited financial statements.	Position now satisfactory. Documentation now supplied to support disbursement. Ministry advised that financial statements for 1985-86, 1986-87 and 1987-88 have now been completed and audited. Ministry also anticipates that the Trust will formally submit annual reports to the Minister in the near future.
<b>Victorian Conservation Trust</b>		
<i>Second Report, 1986-87, pp.117-18</i>	Involvement of Trust members in administrative functions.	Position now satisfactory. All investment of funds are made by administrative staff in consultation with the Chairman of the Trust's Finance Committee.

## Schedule B. Completed/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>				
Ministry for Planning and Environment	30 June 1988	31 October. <i>Annual Reporting Act 1983</i> , s.8.	5 October 1988	26 October 1988
Historic Buildings Council	30 June 1988	30 September. <i>Historic Buildings Act 1981</i> , s.62	31 August 1988	26 September 1988
Loddon-Campaspe Regional Planning Authority	30 June 1988	30 September. <i>Loddon-Campaspe Regional Planning Authority Act 1987</i> , s.30	24 January 1989	23 February 1989
Plumbers and Gasfitters Board	30 June 1988	No reporting requirement. Audit undertaken by arrangement.	21 March 1989	31 March 1989
Victorian Conservation Trust	30 June 1988	30 September. <i>Victorian Conservation Trust Act 1972</i> , s.10. Minister granted extension time to 30 November 1988	5 December 1988	7 December 1988(a)

(a) Qualified audit report issued.

---

## 3.15

# POLICE AND EMERGENCY SERVICES

---

### KEY FINDINGS

- ◆ Serious breaches of the Treasury Regulations.  
*paras 3.15.1 - 3.15.2*
- ◆ Absence of an effective management system to monitor vehicle usage and performance.  
*paras 3.15.3 - 3.15.7*
- ◆ Lack of control and follow-up of outstanding warrants valued at \$42.2 million.  
*paras 3.15.8 - 3.15.14*
- ◆ Deficiencies in the management of outstanding revenue totalling \$9.9 million.  
*paras 3.15.15 - 3.15.16*
- ◆ Lack of adequate recording and stocktake procedures to control inventory to the value of \$1.2 million.  
*paras 3.15.17 - 3.15.18*
- ◆ Ineffective internal audit coverage.  
*paras 3.15.19 - 3.15.21*

---

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  
Office of Corrections

**Public bodies**

Country Fire Authority  
Metropolitan Fire Brigades Board  
Victorian Prison Industries Commission

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**

**Supply Branch purchase**

**3.15.1** During May 1987, when it became apparent that the budget allocation for uniform purchases would not be fully expended by 30 June 1987, officers of the Victoria Police Force (the Force) Supply Branch approached a supplier in order to purchase unfinished goods and thus fully expend the allocation. While the Force had received Tender Board approval to purchase fabric from the supplier concerned, audit noted the following irregularities with this purchase:

- ◆ Kevlar yarn rather than the fabric approved by the Tender Board was purchased;
- ◆ a "materials received voucher" was signed stating that the yarn had been received when in fact the yarn was still in stock at the supplier's premises;
- ◆ when the fabric was received the invoice raised by the supplier and the "materials received voucher" did not state that payment for the yarn had already been made resulting in an overpayment of \$348 520 in 1987-88;
- ◆ the overpayment was not recouped from the supplier immediately it was discovered as the supplier was experiencing "liquidity problems". At the date preparation of this report approximately \$37 000 is still outstanding; and
- ◆ in order to recoup the overpayment more quickly audit was advised that payment for goods supplied was withheld from a related company.

**3.15.2** Audit was concerned that there were serious breaches of the Treasury Regulations, internal controls were bypassed and a false "materials received voucher" was issued and passed for payment. It was recommended that:

- ◆ the use of "material received vouchers" be restricted to goods received and under the control of the Force;
- ◆ where goods purchased and rates charged differ from those originally approved by the Tender Board further approval should be sought prior to payment being made; and
- ◆ where budget allocations remain unexpended yet committed at the end of the financial year, application be made to the Treasurer under section 26 of the Audit Act 1958 to transfer such funds to the Treasury Trust Fund to enable legal use in the following year.

*Response by Force*

*In general, the Auditors report does not recognise the position of conflict in which the police inevitably find themselves. We are a service organisation driven by public demand and unable to refuse to respond to that demand. Accordingly, the vast majority of our resources people, material and monetary - are devoted to operational matters with an unfortunate reduced emphasis on the kinds of administrative matters adverted to in the report.*

*The Force is aware of the administrative problems which have arisen largely from a growth in demand for our services which has outstripped the growth in resources. The matters referred to in the report are symptomatic of these problems and are being addressed in the following ways.*

*The Supply Branch purchase relates to the rapid supply of ballistic vests to operational police at a time of intense industrial unease and strong political pressure to achieve the supply, either by local manufacture or by direct import at approximately double the cost. Local manufacture, which entailed the introduction of new technology to this country, was selected. This exercise, the first of its kind in Australia, was fraught with difficulty from its inception. These difficulties are regretted and every effort will be made to avoid similar mistakes in the future.*

**Review of motor vehicle usage**

**3.15.3** The Force operates a fleet of approximately 2 000 vehicles including passenger sedans, station wagons, panel vans, four wheel drive vehicles, buses, motorcycles and various specialist vehicles.

**3.15.4** Total investment in the fleet at 30 June 1988 was estimated to be in excess of \$35 million with related operating costs of approximately \$15 million per annum.



**3.15.5** The transport branch of the Force is responsible for fleet management. The function of the branch is to arrange the most economical and efficient purchase, use, maintenance and disposal of motor vehicles used by the Force including the provision of sufficient supplies of fuel, oil, tyres and spare parts, and the training and maintaining of adequate skilled staff.

**3.15.6** A review of the operations of the fleet disclosed that:

- ◆ Trained Police officers are currently employed to perform administrative and mechanical duties. These duties could be effectively carried out by Public Service officers which apart from providing more resources to the Force would provide an estimated saving in payroll costs of \$240 000;
- ◆ Vehicle performance cannot be effectively monitored as adequate records on vehicle details are not maintained by the Force. The fleet management information system used to monitor vehicle usage relies on a manual system and 2 computerised systems that are not compatible. This results in delays in analysing information as well as duplicate records and the need to input identical data into 2 different computer systems. Duplication of records is estimated by audit to cost the Force approximately \$55 000 per annum;
- ◆ The Force has failed to take advantage of discounts for prompt payments offered by suppliers for fuel purchases. It is estimated that due to delays in settling accounts for fuel purchases, discounts of up to \$79 000 have been foregone by the Force. Furthermore contrary to Government policy delays of up to 6 months in the payment of motor vehicle expense claims were noted by audit;
- ◆ Payments supported by photocopied invoices have resulted in duplicate payment for fuel purchases. Audit noted duplicate payments of \$20 000.
- ◆ Police vehicles are serviced every 5 000 km, roughly twice as often as is considered necessary for most vehicles. No analysis has been undertaken to support the necessity for such frequent servicing or the additional maintenance costs.
- ◆ The Workshop stores section has experienced difficulties in assessing required stock levels for spare parts due to the failure of the transport branch to promptly notify them when changes to the type of vehicles are planned. This has led to the over and under stocking of spare parts and has also resulted in delays to the repairs of vehicles;
- ◆ Despite \$280 000 being incurred on vehicle hire costs audit noted that agreements had not been negotiated with hire companies to provide discounts for bulk hiring;
- ◆ Hiring costs were not monitored to enable a proper evaluation of hire or purchase decisions to be made; and
- ◆ There is no evidence that the Force has performed any analysis of costings of the Police workshop to ensure that it is cost effective for the Force to maintain a separate workshop for metropolitan vehicle repairs.

---

**3.15.7** The above issues need to be addressed as a matter of priority to ensure the management of the Force's vehicle fleet is effective and complies with Government policy.

*Response by Force*

*A review of the Transport Branch has been conducted by the Inspectorate. A public service officer had been appointed Fleet Manager and work is advanced on the acquisition of the E.D.P. Fleet Management System.*

**Outstanding warrants**

**3.15.8** At 30 June 1988 the Force advised that the value of outstanding warrants held by the Information Bureau for the Police Force (IBR) to be collected by Force members on behalf of the Attorney-General's department was \$42.2m (\$22.2m at 30 June 1987).

**3.15.9** In a previous audit review on the Ministry of Police and Emergency Services in 1986-87 audit was unable to substantiate the estimate of \$22.2m at 30 June 1987 as the IBR did not have sufficient controls to ensure the reliability of its statistical information.

**3.15.10** Audit review of the IBR during 1987-88 indicated no improvement had been made to controls at the IBR. As a consequence, audit was again unable to substantiate the figures for outstanding warrants provided by the Force for the year ended on that date.

**3.15.11** According to police records in the year under review the level of outstanding warrants has increased by \$20 million. Despite the frequent reporting of this issue it still remains unresolved.

**3.15.12** Audit was advised that responsibility for executing court warrants for monetary fines is planned to be transferred from the Force to the Sheriff's Office within the Courts Management Division of the Attorney-General's Department during the 1988-89 financial year. However the control over warrants issued prior to the responsibility being transferred to the Attorney-General's department will remain with the Force.

**3.15.13** While the above transfer will ensure that the outstanding warrants held by the IBR do not continue to escalate and Force members will no longer be involved in collection of fines it is a matter of concern that \$42.2 million remains outstanding.

**3.15.14** Audit recommended that:

- ♦ action be taken to improve the operations of the IBR to provide accurate and meaningful information; and
- ♦ the Force follow-up the outstanding warrants that remain under their control on a regular basis.

### *Response by Force*

*In relation to outstanding warrants, it must be appreciated that warrants have no intrinsic value and the quantum of outstanding money is purely notional. The sum total has grown over many years because of inherent difficulties in locating and identifying offenders who are the subject of the warrants. No assumptions can be made about collecting any of this money, or at what cost. Nevertheless, periodic attempts are, and will continue to be, made to follow-up outstanding warrants. The records kept by the Force are accurate and meaningful for this purpose.*

### **Amounts owed to the Consolidated Fund**

**3.15.15** As at 30 June 1988 the Consolidated Fund was owed \$9.9 million in relation to outstanding infringement notices, WorkCare payments, services provided by the Police Hospital, licences and police supervision provided by the Force to various organisations. A review of procedures operating in the Force indicated significant deficiencies in the management, recording and follow-up of outstanding debts including:

- ♦ A backlog in the processing of infringement notices (\$3.6 million at 30 June 1988) which has continued to increase and at the date of preparation of this report is estimated by audit to be in excess of \$14 million. Although the majority of these notices may have been paid within the stipulated time the backlog in processing has seriously impaired the effectiveness of the follow-up of outstanding amounts;
- ♦ Records in relation to WorkCare payments were unable to be reconciled with the records of the State Insurance Office (SIO) resulting in the Force's records being greater by \$1.6 million at 30 June 1988. It is claimed by SIO that the amount represents payments which have been made by SIO but have not been deducted from the Force's records;
- ♦ Members without private health cover are not invoiced for services provided by the Police Hospital. At 30 June 1988 Police Hospital debtors of approximately \$86 000 were outstanding for periods greater than 6 months; and
- ♦ The failure to enter into formal agreements with outside organisations for the provision of Police services has resulted in disputed claims by the parties involved and delays in payments of account.

**3.15.16** It was recommended that the Force introduce debt recovery procedures in line with the guidelines provided by the Department of Management and Budget in August 1986 which provide for the efficient and effective management of debts owed to the State.

### *Response by Force*

*Not all of the amounts listed as being owed to the Consolidated Fund can be properly classified as debts e.g. unpaid infringement notices, services provided to certain members by the Police Hospital and the provision of police services to outside organisations. The recovery of debts owed in relation to WorkCare and the Police Hospital is being vigorously pursued.*

---

*The adoption of ad-hoc and outdated manual systems to immediately meet legislative or Government policy changes has contributed largely to the backlog of infringement notices. The proper solution is the installation of modern efficient systems at the outset and for the costs of this implementation to be provided as part of the legislation/policy costs. A mandatory user pays policy for the provision of police services to outside organisations cannot be enforced until relevant legislation is altered.*

## **Police Uniform Store**

**3.15.17** The balance of stock held at the Police Uniform Store at 30 June 1988 was approximately \$1.2 million. A review of the recording and stocktaking procedures at the Store disclosed the following inadequacies which has resulted in the Force being exposed to a significant risk of loss:

- ◆ Contrary to Treasury Regulations which provide for a complete stocktake at least once in every year it was noted that stocktakes were only performed on selective items;
- ◆ The value of a sample of items counted at a physical stocktake undertaken by the Uniform branch was approximately \$124 400 less than the amount recorded in the perpetual inventory records. No attempt was made to investigate the cause of the discrepancies; and
- ◆ The inventory records at the store were inadequate to enable effective control to be maintained over these assets.

**3.15.18** It is essential that management ensure that a recording system is developed so as control can be maintained over these assets and that regular reconciliations between physical and perpetual stock levels are performed and variances investigated.

### *Response by Force*

*Interim controls, which are admittedly inadequate, are in place in the Police Uniform Store and the Force desires to install a modern assets control system as soon as possible.*

## **Internal audit**

**3.15.19** The Government, in recognising the need for internal reviews to assist management, has provided strong leadership to public sector entities. In September 1987 the Government agreed that all budget sector departments be required to establish and maintain an adequate internal audit function within 12 months from existing resources.

**3.15.20** Despite the above direction a review of the internal audit unit in operation at the Force disclosed that it was significantly under resourced to allow for effective review of the organisation's operations.

**3.15.21** In view of the poor level of internal control operating in the Force audit is of the opinion that immediate action should be taken to upgrade the Internal Audit Unit especially in view of the planned EDP upgrade and the withdrawal of monthly inspections at police stations.

### *Response by Force*

*An effective internal audit unit is supported and is staffed having regard to the overall objectives and priorities of the Force. Moreover, within the Force management structure there are others who are tasked in part to perform a role similar to internal audit by assessing systems, evaluating how matters are undertaken and by making appropriate recommendations for improvement.*

## **LOSSES AND THEFTS**

**3.15.22** My Office has been advised of losses and thefts of equipment and stores for the period 1 July 1987 to 31 December 1988 in relation to the Country Fire Authority and the Ministry of Police and Emergency Services of \$167 300 and \$42 500 respectively.

### **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 <i>First Report</i> 1987-88, p.	Internal audit arrangements not implemented in accordance with government policy.	Three positions created however two positions are vacant. Audit considers that a unit of this size is unsatisfactory. For further comment refer to paragraph 3.15.19 of this report.
<i>Second Report</i> 1986-87, p.120	Underutilisation of the Police Hospital and substantial losses incurred in its operation should be addressed by management.	Working party formed to consider the future of the Police Hospital.
<i>Second Report</i> 1986-87, p.121	Leasing of Police premises not undertaken in an economic efficient and effective manner resulting in additional costs being incurred.	Many matters unresolved, however the Force established a leasing section to ensure that the buildings offered for leasing are suitable and cost effective.
<b>Country Fire Authority</b>		
<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.
<b>Office of Corrections</b>		
<i>Second Report</i> 1985-86, p.73	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.

## 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</i> 1985-86, p.73	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 the development of a WorkCare management information system, and the appointment of appropriate offices to provide counselling.
<i>Second Report</i> 1986-87, p.45	Construction of Barwon Training Centre deferred on 9 September 1986. Costs incurred were \$1.2 million and PWD estimated completion of project would cost a further \$11.4 million.	Project still deferred.
<b>Victorian Prison Industries Commission</b>		
<i>Second Report</i> , 1985-86, p.76-82	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 continued to take action on the issues raised by audit and recommendations are being progressively implemented by management.

## Schedule B. Completed/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>				
Ministry for Police and Emergency Services	30 June 1988	31 October. <i>Annual Reporting Act 1983.</i>	27 October 1988	28 October 1988
Office of Corrections	30 June 1988	31 October. <i>Annual Reporting Act 1983.</i>	25 October 1988	31 October 1988
Country Fire Authority	30 June 1988	30 September. <i>Annual Reporting Act 1983.</i>	2 September 1988	30 September 1988
Metropolitan Fire Brigades Board	30 June 1988	30 September. <i>Annual Reporting Act 1983.</i>	4 October 1988	13 October 1988
Victorian Prison Industries Commission	30 June 1988	30 September. <i>Victorian Prison Industries Commission Act 1983, s.34.</i>	10 February 1989	21 February 1989 (a)

(a) Qualified audit report issued.

---

## 3.16

# PREMIER AND CABINET

---

KEY FINDING	
◆	Internal audit arrangements not implemented in accordance with government policy. <i>ref .. Schedule A</i>

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

\* The Office of the Auditor-General was independently audited by Peat Marwick Hungerfords, chartered accountants.

### Public body

Victorian Relief Committee

The audit of the Department proved satisfactory, however, certain issues raised in previous reports had not been resolved.

## 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>Premier and Cabinet</b>		
<i>First Report, 1987-88, p.37</i>	Internal audit arrangements not implemented in accordance with government policy.	Position unresolved. Discussions still taking place regarding the resourcing of a unit.
<b>Public Service Board</b>		
<i>First Report, 1987-88, p.37</i>	Internal audit arrangements not implemented in accordance with government policy.	Position unresolved. Possibility of a shared resource with the Department of Premier and Cabinet under consideration.



## Schedule B. Completed/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>				
Department of the Premier and Cabinet	30 June 1988	31 October. <i>Annual Reporting Act 1983, s.8.</i>	26 October 1988	4 November 1988
Office of the Auditor-General	30 June 1988	31 October. <i>Annual Reporting Act 1983, s.8.</i>	11 October 1988	11 October 1988
Office of the Public Service Board	30 June 1988	31 October. <i>Annual Reporting Act 1983, s.8.</i>	25 October 1988	7 November 1988
Victorian Relief Committee	30 June 1988	30 September. <i>Victorian Relief Committee Act 1958, s.7A.</i>	25 October 1988	10 November 1988

---

## 3.17

# PROPERTY AND SERVICES

---

### KEY FINDINGS

- ◆ The lack of preventative maintenance for government buildings will result in costly repairs and replacements in the future.  
*paras 3.17.1 - 3.17.9*
- ◆ Deteriorating condition of certain buildings in the Treasury Reserve.  
*paras 3.17.10 - 3.17.17*
- ◆ Health and safety hazards, particularly at the State Chemistry Laboratory.  
*paras 3.17.18 - 3.17.26*

---

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

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

---

**DEPARTMENT OF PROPERTY AND SERVICES**

**Provision of building maintenance**

**3.17.1** During the year, audit conducted a review of building maintenance (urgent and essential and minor works) provided by the Department to determine the extent to which the service had been provided in an effective, efficient and economical manner.

**3.17.2** The review involved a survey of 6 departments whose buildings are serviced by the Department and site inspections of the buildings located in the Treasury Reserve. Overall, audit concluded that:

- ◆ maintenance costs will increase significantly in future years as a result of building maintenance being performed on an "ad hoc" rather than on a planned basis;
- ◆ the Department is not meeting the needs of all client departments; and
- ◆ the absence of a preventative maintenance program, together with a lack of adequate funding, has contributed significantly to the general "run-down" condition of government-owned buildings situated in the Treasury Reserve. In the case of the State Chemistry Laboratory, located at 3-5 Treasury Place, this neglect has contributed to significant health and safety hazards.

**3.17.3** Further comments on the findings of the review are outlined in the following paragraphs.

*Preventative maintenance*

**3.17.4** Building repairs are effected essentially on a needs basis. The Department does not have in place a preventative maintenance program whereby buildings are inspected on a planned basis for the purpose of identifying potential problems which, if not attended to at an early stage, could result in costly repairs or replacements in future years.

---

### *Timeliness and quality of maintenance services*

**3.17.5** When the need arises for an urgent and essential repair to a government-owned building, the client department contacts the relevant property manager at the Department of Property and Services who, in turn, contacts the Ministry of Housing and Construction and arranges for the repair to be carried out. Discussion with the Department highlighted that, unless a complaint is received from the client department, the property manager does not undertake follow-up action to ensure that the repair was effected and/or that the quality of work was to the client's satisfaction. In addition, certain responses to the audit survey referred to tardiness in the performance of required maintenance and unsatisfactory workmanship.

### *Management information systems*

**3.17.6** The Department does not maintain a management information system to record details of repairs and maintenance for each building. The Ministry of Housing and Construction, which actually performs the maintenance work or arranges for it to be performed as agent for the Department, does maintain this information, but it is not utilised by the Department of Property and Services. Accordingly, management does not have information readily available to consider building replacement or retention options and the adequacy and timeliness of maintenance. In this regard it is interesting to note that the Government Employee Housing Authority (GEHA) has developed a facility known as the "Life Cycle Costing" model which, when fully operational, will provide management with an invaluable tool for, among other things, managing the maintenance of their housing stock.

**3.17.7** Furthermore, a draft proposal was prepared recently by the Ministry of Housing and Construction for the management of government facilities including procurement, on-going support (maintenance, cleaning etc.), rehabilitation and, ultimately, disposal or demolition and replacement. If it is adopted, the proposal will be of assistance to the Department.

### *Result of client survey*

**3.17.8** In order to assess the extent to which the Department has been successful in meeting its clients' needs, audit undertook a survey of 6 departments. The survey inquired into such things as the promptness of service, quality of workmanship, disruptions to client service delivery and whether any delays have impacted on the health and safety of staff.

**3.17.9** Overall, the responses suggested that the service provided by the Department is not satisfactory, in that:

- ◆ One Department did not receive responses to most of its written requests for maintenance;
- ◆ Three departments had experienced unsatisfactory workmanship and one department often required additional work within a very short period of time; and

- ◆ Three departments had encountered excessive delays, ranging from 6 months to 4 years, in the satisfactory completion of maintenance projects. Examples were given of where delays had impacted on the health and safety of staff and the security of buildings and contents, and had impeded delivery of services.

### *Management response*

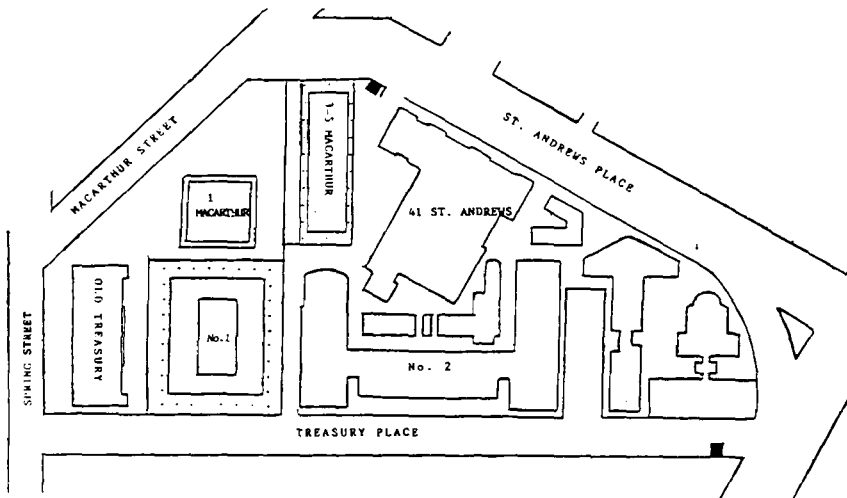
*Additional funding to enhance the Department's public offices maintenance program is being sought. Currently, government buildings are scheduled for maintenance on a priority basis and as resources permit.*

*A prioritised list of the major maintenance requirements for each public office is being prepared to support submissions for major funding on an urgency basis.*

*A detailed specification for a management information system has been completed. Funding for the procurement and installation of the system is being sought for the 1989-90 financial year. Relevant aspects of the GEHA "Life Cycle Costing" model will be incorporated in the system. Access to the Ministry of Housing and Construction's draft facilities management proposal has also been sought.*

### **Inadequate maintenance of buildings at Treasury Reserve**

**3.17.10** A number of government-owned buildings are situated in an area known as the Treasury Reserve which is bounded by Spring Street, Macarthur Street, Treasury Place and St. Andrews Place. During 1987-88 the Department expended \$540 000 on maintenance for these buildings. Over the years, repairs and maintenance services to these buildings have been provided on an "ad hoc" basis.



*Treasury Reserve.*

---

**3.17.11** An inspection of this area by audit identified the consequences of such a policy:

- ◆ Drainage facilities at the Old Treasury building had not been cleaned for over 15 years. The consequential blockage from the accumulation of dirt and debris has resulted in frequent flooding and subsequent damage to records stored in the basement of the building;
- ◆ Blocked drains in the surrounds of 1 Treasury Place have contributed to water seepage into the basement carpark and chauffeurs' rest area and caused concern to the Department regarding possible structural damage to the building. The damage caused by this seepage was most evident in the toilets of the rest area and the rusted air vent on the ground floor of the building;
- ◆ Spouting on the roof top of 41 St Andrews Place was in urgent need of repair. However, because of the poor condition of the roofing gantry, it was unsafe for workmen to climb on to the roof of the building to carry out the repair. Consequently, on wet days, water leakage causes damage to the interior of the building. Audit was informed that the water damage could have been avoided had the roofing gantry been regularly maintained;
- ◆ Over the years the theatre auditorium of the State Film Centre has been subjected to rain water leakage from its roof. In turn, this has created a potential safety hazard due to the extensive electrical wiring within the false ceiling. Water leakage can also cause damage to films and equipment and discomfort to theatre audiences and staff. Efforts to solve the leakage problem by the installation of gutters in the ceiling and the application of sealants on broken paving slabs situated on the plaza area directly above the auditorium have been largely unsuccessful. Further investigation by the Department has revealed that because the original waterproofing membrane under the paving slabs has deteriorated, the only solution is to remove the existing slabs over the entire plaza area and apply a new rubberised water-proofing membrane. However, as the cost of this exercise is considered by the Department to be prohibitive, it is proposed to replace the broken slabs and apply more sealants. Hence the potential hazards will remain, and the additional funds will be wasted;
- ◆ During a storm in March 1989 which caused a power failure at the Reserve, emergency lighting for 1 Macarthur Street and 1 Treasury Place was found to be totally inadequate. At 1 Macarthur Street this failure, together with flooding of the stairwells, created a safety problem which has still not been corrected. Officers were only able to exit the building through the stairwell, but because there was no proper emergency lighting, they were forced to descend the stairs in virtual darkness. Audit was informed this problem could also have been avoided if regular maintenance of the emergency lighting had been undertaken;
- ◆ Two floors in the rear portion of a building located at 41 St Andrews Place, which were damaged by fire in 1983, have not been repaired since that date due to the lack of funds;

- ◆ Floor crossovers connecting 1 Macarthur Street with 1 Treasury Place, which have been closed for security purposes, are now almost impassable as they are being used for the storage of furniture. This action has not only created a safety hazard if the crossovers were required as possible fire escapes but also it is an untidy area which is in full view of the general public;
- ◆ In respect of the building facade of 3-5 Macarthur Street, audit noted that although the continued deterioration has created a safety problem due to the risk of falling fragments it has taken over 2 years for tests to be conducted to ascertain the best method of effecting repairs. Repair work, estimated in November 1988 to cost \$275 000, commenced in January 1989; and
- ◆ In addition to the above, audit noted a number of the buildings on the Treasury Reserve and surrounds are in a general state of disrepair and untidiness. Audit sighted:
  - deterioration of precast building facade panels;
  - paint flaking off building exteriors;
  - mould on internal walls from water seepage; and
  - cracks in stairs and buildings.



*Example of damaged building facade.*

### *Management response*

*All of the specific issues mentioned by audit were identified by the Department some time ago. Most have already been rectified as resources have become available. Further action is planned to deal with those that remain. As with any other government program, maintenance works must be undertaken on a priority basis and with regard to available funds.*

*A consultancy project to identify the costs of refurbishment, to an acceptable level, of Treasury Reserve buildings was commenced in April 1989 and is due to be completed in June 1989. The consultant's report will be considered by an Accommodation Task Force consisting of representatives of the Departments of Management and Budget, Premier and Cabinet, and Property and Services and recommendations will be made to an Accommodation Committee of Cabinet.*

*The Department is preparing a master plan for the more effective utilisation of all Treasury Reserve buildings. The present uses of the Treasury Reserve are being reviewed as part of this planning process.*

*Pending the completion of this review, temporary repairs to the State Film Centre are considered to be cost-effective in the short-term.*

*In respect of the building facade at 3-5 Macarthur Street repair work is due to be completed by June 1989.*

### **Air-conditioning equipment maintenance**

**3.17.12** The Department is responsible for the repair and maintenance of all major air-conditioning equipment in all State Government-owned buildings. The annual cost of this service, which encompasses some 58 buildings, is around \$700 000.

**3.17.13** A selective review of individual property files maintained by the Department in relation to Treasury Reserve buildings indicated that a number of air-conditioning units were either malfunctioning or in need of urgent repairs and maintenance. Examples included:

- ◆ The presence of asbestos at 1 Macarthur Street has prevented maintenance to the air-conditioning system being carried out over the past 4 years. The lack of maintenance has also led to complaints of excessive cooling in the lower floors and excessive heat in the upper floors; and
- ◆ One of the chiller-compressors at 1 Macarthur Street, which had been in service for 18 years, was in November 1987 identified as needing an overhaul. At that time there was a risk of sudden breakdown and extensive failure, possibly at high cost. Although funding was approved in November 1987 the chiller-compressor was not replaced until November 1988.

**3.17.14** In 1987 there was concern over the possible existence of the legionella bacteria (which has the propensity to grow in improperly maintained air-conditioning systems) in the cooling towers of certain buildings located in the Treasury Reserve.



**3.17.15** A subsequent inspection of the tower at 1 Macarthur Street by an officer from the former Public Works Department identified deterioration of tower components due to corrosion, inadequate chemical treatment of water and the presence of asbestos.

**3.17.16** It is pleasing to note that since December 1988 the Department has engaged contractors to undertake preventative maintenance of the air-conditioning equipment. Under these arrangements the contractor performs a detailed inspection of the equipment at regular intervals and advises when repairs are required. The inspection is based upon a program prescribed by the equipment manufacturer and is overseen by a maintenance engineer from the Department.

**3.17.17** Given the incidence of air-conditioning equipment faults which occurred prior to the introduction of these arrangements, it is evident to audit that the "ad hoc" basis of maintenance was inadequate.

*Management response*

*As noted by audit, procedures are now in place for regular servicing of air-conditioning equipment by contractors under the supervision of the Department's engineers.*

*The cooling towers are regularly checked for the presence of legionella bacteria and have been free of the bacteria since the major overhaul which followed the detection of the bacteria several years ago.*

*Any refurbishment proposal for 1 Macarthur Street will include removal of asbestos which will enable proper maintenance of the air-conditioning system for this building.*

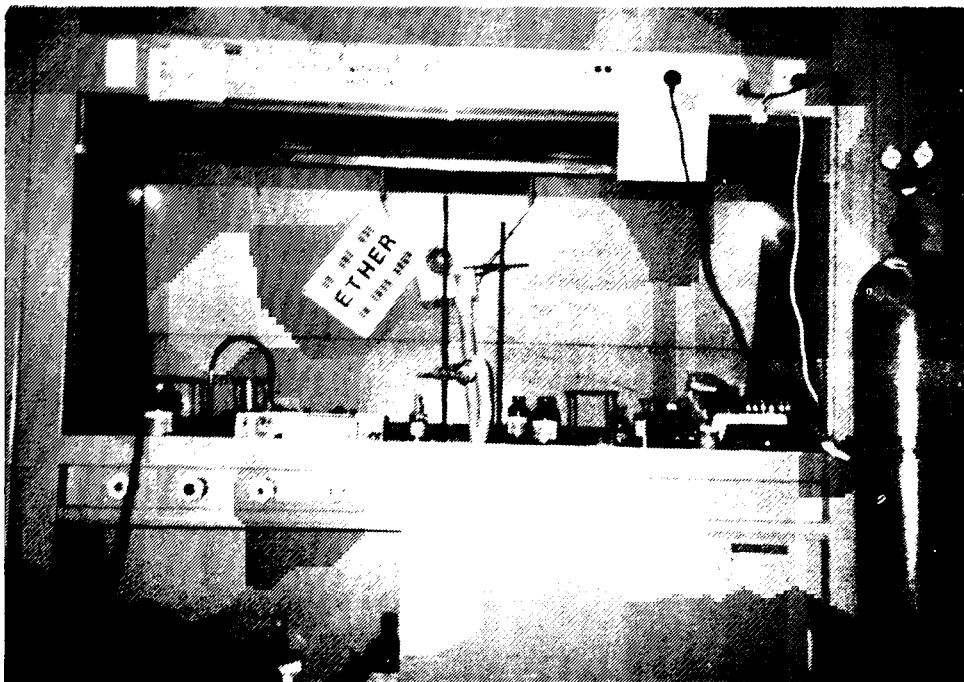
**Health and safety issues at the State Chemistry Laboratory**

**3.17.18** The building situated at 3-5 Macarthur Street is occupied by the State Chemistry Laboratory and 4 other government departments including the Victorian Government computer facilities. The laboratory contains some \$10 million worth of equipment.

**3.17.19** Safety inspections of the laboratory by its internal safety committee in 1983 and again in 1985 identified a number of major concerns. A particular concern was the hazardous air-contamination caused by the seriously defective air handling system. In essence, the findings of the 2 reviews were that the requirements of today's laboratory far exceeded the existing mechanical plant capabilities.

**3.17.20** The mechanical plant in the building was designed for a laboratory environment which required limited fume hood/fume cupboard operations. Dramatic temperature variations within adjoining sections is a common occurrence when more than 5 fume cupboards are in operation. To compound the problem further, there is only one return air outlet per level. Its location within the main corridor impacts on the system which is trying to maintain the appropriate pressure balance between laboratory and fume cupboard.

**3.17.21** The unbalanced air pressures result in undiluted exhaust fumes bleeding back into the laboratory through the exhaust outlets not operational at the time. The laboratory then becomes inundated with noxious fumes and vapours which are inhaled by staff working within the area.



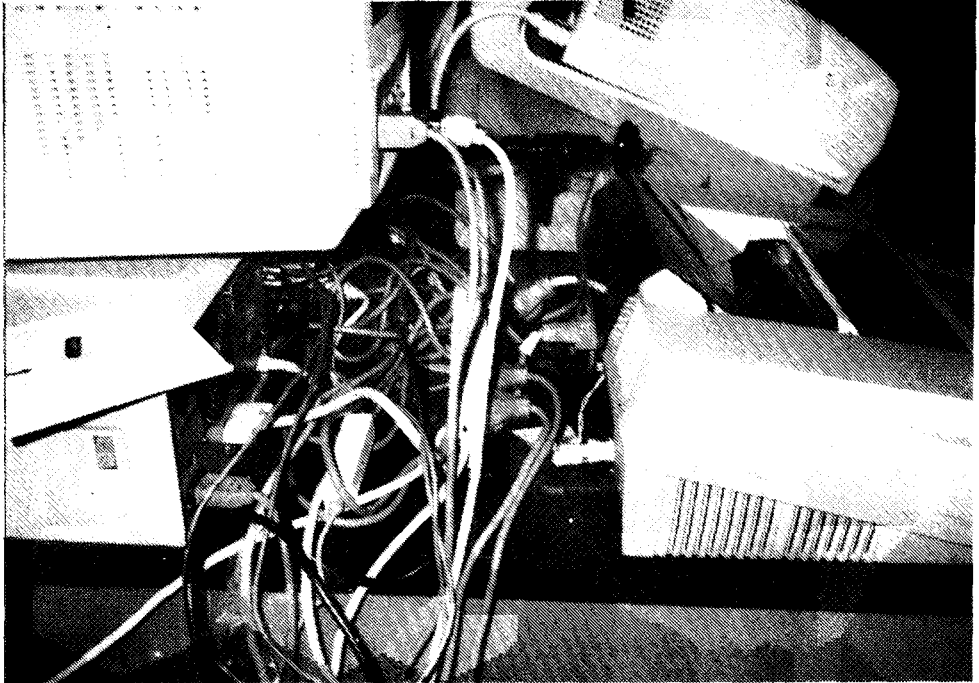
*Fume cupboard - State Chemistry Laboratory.*

**3.17.22** Although upgrading of the facilities at an estimated cost of \$400 000 was approved by the Department of Management and Budget in February 1984, the project did not proceed because of problems associated with asbestos-based insulation and fire isolation products within the building. The project has now been postponed indefinitely and staff continue to be exposed to potential health hazards.

**3.17.23** The safety inspections also identified that the "ad hoc" basis of effecting repairs and maintenance was contrary to generally accepted practices in this type of environment. There is no regular maintenance plan for electrical, water and gas facilities and air lines and outlets throughout the building. Such inspections are a regular occurrence in most large chemistry laboratories. Delays of up to 2 years for medium type maintenance and a few weeks for minor maintenance were experienced. Further, a high proportion of the building had not had any maintenance since its construction in 1972. The absence of regular maintenance has led to a general deterioration of the building, including:

- ◆ corrosion to walls, ceilings, air-conditioning ducts and wiring; and
- ◆ a faulty storm water drainage system on the roof of the building, together with cracks in parts of the ceiling, which is causing rainwater leakage and damage to the interior of the building.

**3.17.24** An increased usage of electrical equipment has increased the need for power points. Audit noted that in some areas of the laboratory, this demand has been supplemented by the use of power boards and extension leads rather than installation of new outlets. This action has created potential electrical hazards and in one instance has already contributed to a fire in the laboratory.



*Poorly designed wiring at State Chemistry Laboratory.*

**3.17.25** It is obvious that the absence of regular maintenance to this building has contributed to the existing occupational health and safety hazards now faced by the occupants. Given the significance now placed on occupational health and safety by the Government, it is incomprehensible that these known hazards have been allowed to exist for so long.

**3.17.26** Audit recommended that the Department:

- ◆ review the effectiveness of its current "ad hoc" basis of maintenance, including the long-term effects;
- ◆ adopt a more active role in the maintenance process by ensuring repairs are effected in a timely manner and that they satisfy the clients' needs;
- ◆ develop a management information system to record all details associated with the repair and maintenance of government owned and leased buildings. For this purpose the Department should consider the facilities developed by GEHA and the Ministry of Housing and Construction which can also provide forecasts of future funding requirements for building maintenance and replacement; and

- ♦ reassess, as a matter of urgency, the adequacy of working conditions at the State Chemistry Laboratory.

*Management response*

*Given the current review of uses of Treasury Reserve buildings as part of the Treasury Reserve master plan development, major expenditure on the State Chemistry Laboratory at 3-5 Macarthur Street is considered unrealistic at this stage.*

*In the meantime, some minor work has been undertaken to upgrade the air handling system and the installation of a sufficient number of power outlets has been completed.*

**VICOMP computer installation site**

**3.17.27** Comment on a range of environmental, organisational and operational control weaknesses at the VICOMP computer installation site located at 3-5 Macarthur Street has been included in audit reports since 1982-83. Although the organisational and operational control weaknesses have now been overcome, the site has remained vulnerable to certain environmental hazards.

**3.17.28** The installation is located in close proximity to the State Chemistry Laboratory in which highly flammable liquids and chemicals, oxidants, poisons and gases are stored. In the event of any fire and/or explosion or even flooding, VICOMP considers that the safety facilities at the site, such as sprinkler systems, fire doors and drainage systems are inadequate to cope with the disaster.

**3.17.29** Although the vulnerability of the installation has been known for several years, it is of concern to audit that such risks have been permitted to continue.

*Management response*

*The Ministry of Housing and Construction was contacted in late 1988 to identify all environmental risk factors and provide an estimate of costs to eliminate them. An interim report was submitted in April 1989 and is now under consideration by the Department.*

*A study into the feasibility of developing a secure computer site in the Melbourne suburbs is proposed for 1989-90 to assist in long-term planning for computer facilities.*

*The relocation of the State Chemistry Laboratory to a more appropriate site is being considered in the context of the Treasury Reserve master plan.*

---

## Disposal of surplus properties

**3.17.30** My *Special Report No. 9 on Land Utilisation*, presented to Parliament in November 1987, included comment on 2 important government initiatives, namely:

- ◆ the progressive classification of Crown land into either public land (areas which are to remain in public ownership for the benefit of present or future generations) or government land (parcels held or used by the Government for its operational purposes); and
- ◆ the establishment in July 1986 of an Asset Sales Task Force to identify vacant or under-utilised government properties with the view to disposal.

**3.17.31** The report stated that while audit supports the concept of disposing of surplus properties for the best obtainable price, certain issues should be considered, including:

- ◆ avoidance of premature disposal of sites;
- ◆ extreme care should be taken to ensure accommodation needs are not supplemented by leasing arrangements which, in the long-term, may negate the short-term benefits from cash proceeds;
- ◆ potential development sites should be excluded from the current sales program in view of the long-term advantages from constructing office accommodation as opposed to leasing, and the need for forward planning of accommodation; and
- ◆ funding from asset sales will only be available over a limited period and in addition, annual revenue from leasing/licensing to the private sector will be permanently reduced.

**3.17.32** With these issues in mind, audit undertook a review of the Assets Sales Program as it affects the Department during the year.

**3.17.33** The review found that, overall, a number of mechanisms had been set in place aimed at ensuring properties are properly assessed as to their strategic worth to government. In essence, this assessment process involves the following 4 stages:

- ◆ Properties considered for disposal are initially assessed by the Government Land Bureau, a unit established within the Department with responsibility for the management of land classified as government land. This assessment process involves, among other things, consideration of accommodation requirements of other government departments, financial evaluations in respect of future leasing/licensing income and current market valuations of the property and reviews of surveyors' reports on the suitability of properties. In certain instances, consultants may be engaged or working committees established to undertake a more detailed evaluation of the strategic worth of a property ;

- ◆ Bureau recommendations for disposal are then referred to the Asset Management Review Committee convened by the Department of the Premier and Cabinet, comprising representatives from various departments including those which have interests in the property. This Committee considers the broader issues associated with the disposal including government initiatives and local issues;
- ◆ Prior to formally authorising disposal, Cabinet, through one of its committees established to review government assets, undertakes a final review to consider, primarily, the overall "political" ramifications of disposal; and
- ◆ When approved by Cabinet, the Government Land Bureau then arranges for the property to be disposed of by auction or tender.

**3.17.34** In audit opinion, the processes established to assess the strategic worth of a property and procedures for disposal when formally approved were considered adequate. However, the following issues were noted during the audit review:

- ◆ In approximately 90 per cent of cases, the results of the assessments undertaken by the Government Land Bureau, which in turn form the basis of their recommendation for disposal or retention, were not recorded. Consequently, it was unclear as to why the property was deemed surplus to government requirements;
- ◆ Audit identified a number of instances where the disposal process was somewhat protracted. On one occasion 2 years elapsed from the date a property was identified as being surplus to government requirements to the date of sale. This had led to occasions where unoccupied houses have been subjected to vandalism and one instance of rubbish being dumped on vacant land; and
- ◆ In respect of the disposal of single parcels of land, the Bureau did not have information at its disposal which would facilitate prompt identification of adjoining parcels of land. As a result, the opportunity of combining 2 or more parcels of government land into one and hence increasing the potential for a better return on the assets, may be foregone. Audit was advised that action has been taken by the Department on this matter.

**3.17.35** In order to enhance the overall effectiveness of the mechanisms set in place for the disposal of surplus assets, audit recommended that:

- ◆ all recommendations by the Bureau to the Asset Management Review Committee be supported with a summation of the issues associated with the disposal and the basis for their recommendation;
- ◆ consideration be given to categorising assets so that those deemed to be of less significance could be disposed of in a more timely manner; and
- ◆ prompt attention be given to enhancing the information base available to the Government Land Bureau.

### *Management response*

*The Government Land Bureau has instituted a procedure to ensure that the issues associated with the disposal of every parcel of land are properly recorded.*

*It should be noted that of all land parcels disposed of, approximately 10 per cent of parcels represent 90 per cent of the value realised. For these 10 per cent exhaustive and detailed documentation is prepared.*

*Due to a large backlog of low value land parcels identified for disposal, procedures have been introduced to streamline the process of disposal.*

*The identification of adjoining parcels of Crown land cannot be readily addressed until a Statewide cadastral map of Crown land becomes available. The development of improved land information systems through the LANDATA project is addressing this issue.*

### **Deficiencies in revenue collection procedures at the Land Titles Office**

**3.17.36** The Land Titles Office, which has responsibility for the registration of all dealings with land in Victoria, collects a substantial amount of revenue (\$60.8 million and \$49.7 million in 1987-88 and 1986-87, respectively).

**3.17.37** In the past, audit has commented on internal control weaknesses over revenue collection procedures at the Office. More recently, the Internal Audit Group has also drawn attention to similar control weaknesses. These included:

- ◆ inadequate segregation of duties associated with cash receipting and banking procedures;
- ◆ delays in processing mail remittances which in turn lead to delays in depositing funds in the Public Account and the subsequent loss of interest earnings;
- ◆ inadequate control over search permits;
- ◆ non-recording of the composition of the Trust Account balance; and
- ◆ inadequate recording of accountable document details.

**3.17.38** The Internal Audit Group also identified that the existing procedures did not provide assurance that all revenue receivable was fully recovered from clients.

**3.17.39** With effect from 1 July 1988, the Office became responsible for the collection of stamp duty on land dealings on behalf of the Stamp Duty Office. Under this arrangement, the public are able to pay stamp duty (except in certain complex cases) at the time of registering their dealings at the Land Titles Office. Revenue from this source for 1988-89 is expected to be in the vicinity of \$115 million. It is understood that the introduction of these changes has further highlighted a need to enhance the revenue collection procedures at the Land Titles Office. Particular concern has been the failure of the Office to reconcile, on a daily basis, revenue receivable as recorded on the computerised lodgement system with amounts receipted.

---

**3.17.40** Given the magnitude of revenue now collected by the Office, audit is concerned at the apparent slowness of the Office in attending to deficiencies in revenue collection procedures. If not overcome, this may lead to fraudulent practices and cash management deficiencies.

*Management response*

*A number of steps have been taken to overcome the weaknesses identified in the Land Titles Office's revenue collection procedures. These include:*

- ♦ *cash receiving and banking duties are being performed by different officers;*
- ♦ *mail remittances are being banked within 24-hours on average;*
- ♦ *search permits are being destroyed after use;*
- ♦ *the trust account, which is little used, will be closed on 1 July 1989; and*
- ♦ *records of accountable documents are being kept as prescribed.*

*The 2 concerns expressed about recovery of revenue are being met by:*

- ♦ *cancelling lodgements where the correct fees are not paid on the day of lodgement; and*
- ♦ *investigating immediately any dishonoured cheques.*

*Since February 1989, reconciliations are being performed on a daily basis. Outstanding reconciliations from the earlier part of the financial year are being progressively completed.*

**Overpayment of salaries**

**3.17.41** During the year, the Department identified an overpayment of salary in excess of \$10 500 to an officer located at the Land Titles Office. Investigations by the Department disclosed that the overpayment occurred because an arrears payment was incorrectly input into the computerised system as a permanent rather than temporary change. The error, which was made in March 1986, was not corrected until September 1987 even though the officer concerned had queried the payment on 2 occasions. The overpayment is now being recovered by fortnightly payroll deductions.

**3.17.42** Further instances of overpayments, including one for \$1 000, were also found by audit and the Department's Internal Audit Group. Although the majority of cases involved minor amounts, the relatively high incidence of the errors was of particular concern to audit. Audit was also concerned that although internal control weaknesses over payroll processing, including input preparation and checking, were brought to the attention of the Department by audit in May 1986, corrective action has not been taken.

**3.17.43** Given the incidence of overpayments, audit recommended that the Department reassess the risks associated with their current payroll processing procedures.



### *Management response*

*Corrective action to overcome weaknesses in the Department's payroll processing procedures was commenced in November 1988. Actions taken include:*

- ◆ *input preparation and checking procedures have been reviewed and adjusted work practices introduced;*
- ◆ *a restructuring of the Pay Office has enabled the adjusted work practices to be put into place and streamlined the processing of transactions; and*
- ◆ *a monitoring and review procedure has been introduced to minimise incidents of overpayments.*

## **VICTORIAN PUBLIC OFFICES CORPORATION**

### **Delays in finalising 1986-87 financial statements**

**3.17.44** For the year ended 30 June 1987, the Corporation members' certification in respect to the financial statements was as follows: *"In accordance with Section 15(2)(c) of Victorian Public Offices Corporation Act 1974, the attached balance sheet as at 30 June 1987, together with the notes thereto, is certified as correct".*

**3.17.45** By limiting the certification to the balance sheet the Corporation members failed to fulfil the fundamental requirement of management to accept responsibility for the financial statements of their organisation. The members' certification did not provide any assurance that the statements of income and expenditure, receipts and payments, and sources and applications of funds present fairly the results of the Corporation's operations for the year. Furthermore, the members had not indicated whether at the date of signing the statements they were aware of any circumstances which would render any particulars included in the statements to be misleading or inaccurate.

**3.17.46** The audit of the Corporation for 1986-87 was completed during October 1987. Because of the practice employed by the Corporation of circulating the financial statements to individual members for signature, some 12 months elapsed before signed financial statements were eventually provided for certification by the Auditor-General.

**3.17.47** It was noted that the 1987-88 financial statements were signed by the Corporation on 17 November 1988, and that the members provided a full certification attesting to the financial position and fair presentation of the Corporation's financial transactions.

### *Management response*

*The certification was performed in accordance with the requirements of the Victorian Public Offices Corporation Act 1974 as amended by the Victorian Public Offices Corporation (Amendment) Act 1979, with particular reference to section 15(2). In that context legal requirements have been complied with fully.*

*Audit's comment regarding the fundamental requirement of management to accept responsibility for financial statements is noted and agreed.*

*Hence, while the legal requirements were met in respect of the 1986-87 accounts, the practice was changed in respect of the 1987-88 accounts (as noted by audit) to go beyond the legal requirements to more truly reflect the doctrine of management responsibility.*

*This changed practice will be continued for all future accounts during the life of the Corporation.*

*The delay, in respect of the 1986-87 accounts, in providing signed financial statements was caused by several factors, chief among them being the circulation to individual members for signature, as noted by audit.*

### **Financial viability of the Victorian Public Offices Corporation**

**3.17.48** The financial viability of the Corporation has been the subject of audit comment for several years. During 1987-88 the Corporation found it necessary to obtain from the Public Account special advances totalling \$2.5 million to enable it to meet loan commitments. At 30 June 1988 the Corporation's liability in respect of outstanding special advances totalled \$4.2 million.

**3.17.49** In 1985, the Corporation determined to wind-up its operations and transfer its functions to the Minister for Property and Services. Legislation to effect this change has been incorporated in the Lands Bill. Due to problems in finalising other aspects of this Bill, its presentation to Parliament has been delayed. In order to avoid further undue delay in winding-up the Corporation, the matter has now been referred to the Treasurer by the Department of Property and Services.

### **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>Supplementary Report, 1980-81, p.54</i>	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.	Implementation by departments of accounts payable procedures prepared by the Department of Management and Budget together with action taken by the Office have continued to reduce the overall level of sundry debtors.

---

**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, 1982-83, pp.87-8</i>	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 weaknesses remain. Refer paragraphs 3.17.27 to 3.17.29 of this report.
<i>Third Report, 1983-84, p.44</i> <i>Second Report 1985-86, p.148</i>	The Department does not maintain a complete listing of all properties available for rental.	A consultant's study on information requirements has been completed. Development of an improved property information system is now progressing.
<i>Second Report, 1985-86, pp.146-9</i>	The definition employed by the Department for reporting unproductive or dead rentals did not provide Parliament with a realistic assessment of such rentals.	Position now satisfactory. The Department has varied reporting practices in line with audit recommendations.
<i>Second Report, 1986-87, p.125</i>	The Department was pursuing with Telecom the recovery of telephone communication overcharges. Audit suggested consideration be given to establishing a facility which would assist in the identification of excessive or unauthorised use of telephones.	Position now satisfactory. The Department has recovered \$366 000. A facility to monitor actual telephone use against specific standards has been implemented.
<i>Second Report, 1986-87, p.126</i>	The operations of the Office have been the subject of a special review by external consultants.	The review has now been completed and recommendations are being progressively implemented.

**Victorian Public Offices Corporation**

<i>December, 1982, p.101</i>	The financial viability of the Corporation requires urgent review.	Position unchanged.
<i>Second Report, 1986-87, pp.126-7</i>	Due to delays in completing fit-out works, a 10 storey property owned by the Corporation had remained unoccupied since December 1986.	Occupancy of 8 floors earmarked for the Office of the Director of Public Prosecutions and the Attorney-General's Department was completed in June 1988 and October 1988, respectively. A final decision on who is to occupy the remaining 2 floors has not yet been reached.

## Schedule B. Completed/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>				
Department of Property and Services	30 June 1988	31 October. <i>Annual Reporting Act 1983, s.8.</i>	10 November 1988	16 November 1988
Government Employee Housing Authority	30 June 1988	31 December. <i>Government Employee Housing Authority Act 1981, s.23.</i>	2 December 1988	14 December 1988
Surveyors Board(a)	30 June 1988	Audit conducted under the authority of the <i>Surveyors Act 1978, s.28.</i>	3 November 1988	16 November 1988
Victorian Public Offices Corporation	30 June 1987	31 October. <i>Victorian Public Offices Corporation Act 1974, s.17.</i>	15 November 1988	17 November 1988
Victorian Public Offices Corporation (a)	30 June 1988	" "	17 November 1988	17 November 1988
<b>Incomplete audits</b>				
State Electoral Office	(b)	Returning officers are required to submit financial returns within 6 months of an election. <i>Constitution Act Amendment Act 1958, s.161.</i>	Financial returns relating to the October 1988 election have not been received by audit.	

- (a) With effect from 1987-88, the annual reports of these bodies were included in the annual report of the Department of Property and Services.  
 (b) Not applicable.

---

## 3.18

# SPORT AND RECREATION

---

### KEY FINDINGS

- ◆ Doubt over collection of loans provided by the Department to sporting and recreational bodies.  
*paras 3.18.1 - 3.18.5*
- ◆ Interest charges on borrowings impacting on the financial viability of the Tennis Centre.  
*paras 3.18.18 - 3.18.22*
- ◆ Equipment acquired free of sales tax for private caterer at Tennis Centre.  
*paras 3.18.15 - 3.18.17*
- ◆ Irregularities in betting at Totalizator Agency Board.  
*paras 3.18.23 - 3.18.35*

---

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

Comments on matters of significance arising from the audit of certain of the above bodies are discussed below.

---

**DEPARTMENT OF SPORT AND RECREATION**

**Non-performing loans**

*Australia Games Foundation*

**3.18.1** As indicated in the Auditor-General's *Second Report* for 1984-85 the Government provided funds totalling \$1.3 million to the Australia Games Foundation for the staging of the inaugural Australia Games in 1985. The funding, which was provided by the Department of Management and Budget (DMB), consisted of grants totalling \$1 million and a loan of \$262 500 repayable on 31 December 1991.

**3.18.2** The staging of the Games resulted in a substantial financial loss to the promoters (a non-profit company) and repayment of the loan, upon which interest of \$100 400 had accrued at 30 June 1988, is considered highly doubtful.

*Ballarat YMCA*

**3.18.3** In 1980 the Department granted an interest-free loan of \$125 000 to the Ballarat YMCA for building development. After meeting the first instalment of \$25 000 no further repayments were made. In June 1987, the Minister for Sport and Recreation approved a moratorium on repayments until 31 March 1989. Although at the date of preparation of this report repayment had not been made, it is understood that further negotiations are continuing between the YMCA and DMB.

**3.18.4** In addition to the above amount, the YMCA has a loan liability of \$360 000 to DMB on which no repayment has been made, and \$500 000 due to the State Superannuation Board in the year 2000.

**3.18.5** The above examples illustrate the risk factor involved in public funding of major sporting and recreational activities through the provision of loans to private organisations. Of concern is that the Annual Reporting (Administrative Units) Regulations 1985 do not provide for the disclosure of bad and doubtful debts in the annual financial statements of administrative units.

## NATIONAL TENNIS CENTRE TRUST (NTCT)

### Financing of Centre

**3.18.6** The construction cost of the Centre was initially financed by short-term borrowings from the Victorian Public Authorities Finance Agency (VicFin). The borrowings were at market rates of interest and were subject to variations resulting from market movements.

**3.18.7** In an effort to secure long-term finance and to reduce the loan interest charges which were severely impacting upon the Centre's profitability, the Department of Management and Budget (DMB) co-ordinated an arrangement whereby a unit trust was established to secure a 12 year operating lease on the Centre, with the NTCT being appointed as managers. In return for the lease, the unit trust lodged a security deposit of \$92.5 million with the NTCT which was used to repay the existing loan liability of \$86.6 million, including interest to VicFin on 8 January 1988.

**3.18.8** To fund the above transaction the unit trust obtained short-term finance from the State Bank. This finance, which was subject to market interest rates, was repayable on 30 September 1988. The overall intention of the arrangement was to attract institutional investors prepared to offer long-term finance at interest rates below prevailing market rates. In return for this concession, the institutional investors were to become lessees of the Centre, and be able to obtain a taxation benefit by claiming depreciation on component parts of the Centre.

**3.18.9** It was decided not to proceed with seeking support from institutional investors as the Australian Taxation Office had commenced action to disallow similar schemes in the private sector.

**3.18.10** As a result of the deferral of the scheme the NTCT was left with a security deposit of \$92.5 million repayable on 30 September 1988 upon which interest was steadily accumulating. To enable repayment of this debt a new arrangement was entered into whereby the unit trust was replaced as lessee of the Centre by the Flinders Park Partnership which is owned 95 per cent by a subsidiary of the State Bank and 5 per cent by a subsidiary company established by the NTCT.

**3.18.11** Under the new arrangement the State Bank provided \$104.5 million to its subsidiary, thereby enabling the Partnership to lodge a security deposit of \$110 million (which included \$5.5 million contributed by the NTCT subsidiary) with the NTCT. The security deposit was subsequently utilised by the NTCT as shown in Table 3.18A:

TABLE 3.18A. ALLOCATION OF \$10M SECURITY DEPOSIT LODGED WITH NTCT

<i>Item</i>	<i>\$ million</i>
Repayment of security deposit lodged by unit trust	92.5
Interest on above security deposit	9.2
Discharge of overdraft facility provided by State Bank	5.5
Retained to cover transaction costs and to assist with internal cash flow	2.8
<b>Total</b>	<b>110.0</b>

**3.18.12** The security deposit of \$110 million is to be repaid by the NTCT to the Partnership over a 9 year period. These repayments will be offset by rentals of approximately \$112 million receivable by the NTCT from the Partnership over this period. At the expiration of the 9 year period the NTCT will be required to provide \$104.5 million to the State Bank subsidiary in return for its shareholding in the Partnership. Payments that effectively service this capital amount are based on a variable percentage below market interest rates. Assuming an average interest rate of 14 per cent over the 9 year period, the servicing payments would approximate \$118 million.

**3.18.13** This new arrangement will be monitored by audit in 1989.

**3.18.14** Audit acknowledges that transactions which have occurred were entered into on the basis of the NTCT and DMB attempting to reduce the level of finance charges which are severely impacting on the ability of the Centre to become self sufficient.

**3.18.15** In addition to the arrangements outlined the NTCT purchased catering equipment valued at approximately \$1 million free of sales tax on behalf of a private caterer. The purchase, which represented approximately a 20 per cent saving on cost, was to enable the private caterer to establish operations. As the caterer provided the funds to the NTCT to enable the purchase of the equipment, ownership, of the equipment and the benefits incidental to ownership including taxation deductions for depreciation, rests with the caterer. The NTCT has the option to purchase the equipment at an agreed value from the caterer at the expiration of the catering agreement.

**3.18.16** While it is acknowledged by audit that the NTCT receives financial benefit from the catering service, the purchase of the equipment free of sales tax for the use of another party has, in audit opinion, exposed the NTCT to a sales tax liability.

**3.18.17** Concern is expressed by audit that:

- ◆ failure to negotiate long term financial arrangements prior to construction of the Centre has resulted in additional finance charges being incurred; and
- ◆ the Trust entered into an arrangement to purchase assets free of sales tax on behalf of a private caterer.

*Management response*

*The NTCT Trust has at all times recognised interest costs as a significant operating cost and monitored such costs accordingly. The Unit Trust Financing structure was not proceeded with for the following reasons:*

- . *the emergence of a financing structure which offered greater benefits than the Unit Trust scheme would provide.*
- . *in August 1988, the Australian Tax Office cast doubt on the validity of such arrangements.*



---

*The NTCT established the alternative financing structure promptly, to gain the advantage of the favourable long term interest rate as early as practicable. While simpler arrangements may have been established earlier they would not be expected to be as favourable as the current financing structure. In the longer-term it is unlikely that the failure to negotiate long-term financial arrangements prior to construction will result in substantial additional interest charges being incurred.*

*The legal advice given to the Trust is that the engagement of a private caterer to operate the permanent catering equipment on behalf of the Trust does not expose the caterer or the Trust to a sales tax liability.*

## **Financial viability**

**3.18.18** The market study and financial analysis undertaken in 1984 considered that the combination of a tennis venue and mass entertainment centre was the most appropriate option for the Centre. However, the report also concluded that *"although it was unlikely that any of the options available would generate sufficient funds to meet interest and loan repayments at current commercial rates, each of the options considered would generate positive cash flows over a 20 year project life which could be utilised to meet varying proportions of these costs."*

**3.18.19** Due to the current high level of interest rates and the magnitude of borrowings required to finance the capital cost of the Centre of \$94 million, the level of finance charges now being incurred is having a severe impact upon the profitability of the Centre. For the year ended 30 June 1988 the NTCT reported an operating loss of \$4.3 million after providing for interest charges of \$5.3 million. Under the short-term financing arrangements in place in 1987-88, interest rates payable fluctuated between 10.5 and 13.4 per cent per year in line with market movements.

**3.18.20** In recognition of this problem, an arrangement was considered by DMB during 1987-88 whereby long-term finance for the Centre was to have been provided, with interest rates that were to be below commercial rates, in return for taxation benefits for private investors. Under current financial arrangements negotiated in October 1988 as outlined previously, the NTCT over a 9 year period is obliged to meet annual repayments on \$110 million, allow for loan servicing charges of approximately \$118 million, and provide for a capital repayment of \$104.5 million at the expiration of this period. These charges are partially offset by rentals receivable of approximately \$112 million during this period.

**3.18.21** In a recent internal review of its operations the NTCT acknowledged that finance charges need to be reduced and various alternatives were considered, including the provision of government grants to offset charges, and the reduction of loan liability through an injection of government funds.

**3.18.22** In addition, audit considers that, to ensure the long-term viability of the Centre, every effort must be made to increase utilisation of the Centre thereby generating additional revenue.

---

### *Management response*

*The 1984 market study and financial analysis concluded that under one set of broad alternative marketing assumptions a positive rate of return ranging from 7.3 per cent to 15.3 per cent could be achieved. The report did not consider alternative financing arrangements, or the likely cost of capital, and did not address the issue of profitability under favourable financing structures.*

*Operating losses after interest were expected in the early years of operation of the National Tennis Centre. The 1987-88 loss after interest also reflected initial start-up costs and less than 6 months operating revenues. The NTCT recognises the need for efficiency in current and future operations and this aspect is being consistently monitored.*

*The two issues of (a) generating additional revenue for the centre and (b) reducing the cost of financing the centre by altering the financial structure, financial support arrangements, or the debt/equity ratio are both monitored closely by the NTCT and this will continue.*

*The NTCT concurs with audit's view with respect to the issue of Centre utilisation. The Australian Open has been very successful and the NTCT, with the assistance of consultants, is currently reviewing marketing arrangements for the Centre to ensure that all opportunities to obtain additional entertainment revenues are exploited.*

## **TOTALIZATOR AGENCY BOARD**

### **Credit betting by agents**

**3.18.23** During the period July 1987 to December 1988, the services of 7 agents were terminated by the Board as a result of their involvement in unauthorised credit betting. Recovery of the losses incurred of \$165 000 is expected by the Board, except for an amount of \$50 000 which has been written off as a bad debt.

**3.18.24** The Board is currently reviewing its control procedures in an endeavour to eliminate this practice.

### **Disruption to operations**

**3.18.25** The Board suffered a computer systems malfunction prior to the first race on 4 June 1988 which stopped one of the Board's computers from automatically collating and transmitting pools to the Moonee Valley central site. This situation resulted in:

- ◆ approximate dividends being displayed and final dividends being declared on incomplete pool totals; and
- ◆ the delay in declaration of dividends contributing to a low level of re-investment.

**3.18.26** The Board estimated that turnover of approximately \$1 million was lost because of the malfunction, which was identified as a software error created at the time of installing the new "All-Up" betting system.

---

**3.18.27** While this occurrence represents the second significant, although unrelated, malfunction in the past 12 months, the Board maintains that such problems are most unusual, an assessment which is supported by the very high level of computer operational up-time.

### **Irregularities in telephone betting**

**3.18.28** During the year a fraudulent scheme was perpetrated whereby large unauthorised bets on less fancied runners in provincial greyhound meetings were made against selected client accounts in order to inflate small betting pools. The perpetrators then placed their own bets on more favoured runners with a likelihood of much higher dividends due to the inflated pools.

**3.18.29** This misuse of accounts was quickly detected and resulted in charges being laid by the Victoria Police Racing Squad against a number of casual telephone betting clerks and external accomplices for the theft of a total sum of \$101 000.

**3.18.30** The Board has since introduced a number of enhancements to existing procedures to minimise the likelihood of such misuse of telephone betting accounts.

### **Late betting on greyhound races**

**3.18.31** During the year, a situation arose where delays in receiving the race close/sell messages by the Board's computer from the race venue, together with the advent of "Sky Channel" and the direct telecast of greyhound meetings, created opportunities for punters to assess the race and place bets for a number of seconds after the start of the race.

**3.18.32** Although the Board's Internal Audit Group and inspectors of the Racing and Gaming Division of the Department of Sport and Recreation had already commenced investigations of this problem, the situation received considerable media coverage in May 1988.

**3.18.33** These investigations reached the following conclusions:

- ◆ communication lines were causing delays in the transmission of messages from the race venue to the Moonee Valley central site and, to a lesser extent, a further delay between the central site and the Board; and
- ◆ the on-course totalizator mobile computer unit's software also contributed to the delay.

**3.18.34** Although the responsibility for race closure still resides with the on-course totalizator, the Board also took action to independently close the selling of all races from its race day operations centre. The communication and software problems have been rectified and departmental inspectors have been instructed to give particular attention to the closures at all race tracks.

### **Theft of funds**

**3.18.35** A number of hold-ups and burglaries occurred at retail sales network outlets during the year. An amount of \$80 000 (1986-87, \$115 000) was taken, of which \$28 000 (1986-87, \$50 000) was recovered.

## 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 Sport and Recreation</b>		
<i>Second Report, 1986-87, p.134</i>	Timeliness of remittances by racing clubs.	Improvement has taken place in the payment of overdue commissions and fractions.
<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.	Provision for a dual computer site has been made in the Box Hill Telephone Betting development. Finalisation of the disaster recovery plan awaits introduction of new technology to replace the existing CRISP computer system.

## Schedule B. Completed/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>				
Department of Sport and Recreation	30 June 1988	31 October. <i>Annual Reporting Act 1983, s.8.</i>	16 September 1988	13 October 1988
Greyhound Racing Control Board	31 July 1988	31 October. <i>Racing Act 1958, s.81.</i>	13 January 1989	18 January 1989
Harness Racing Board	31 July 1988	31 October. <i>Racing Act 1958, s.47.</i>	31 October 1988	17 November 1988
National Tennis Centre Trust	30 June 1988	31 August. <i>National Tennis Centre Act 1985, s.20.</i>	30 September 1988	30 September 1988
Totalizator Agency Board	31 July 1988	No date specified. <i>Racing Act 1958, s.116y.</i>	27 September 1988	13 October 1988

---

## 3.19

# TOURISM

---

KEY FINDING
<ul style="list-style-type: none"><li>◆ Deterioration of the financial position of subsidiary companies. <i>paras 3.19.1 - 3.19.13</i></li></ul>

---

As a consequence of a machinery of government change in December 1987, the Victorian Tourism Commission ceased to be part of the statutory responsibilities of the Minister for Industry, Technology and Resources, and is now responsible to the Minister for Tourism.

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

Comments on matters of significance arising from the audit of the Commission are discussed below.

---

## **VICTORIAN TOURISM COMMISSION**

### **Subsidiary companies**

**3.19.1** During 1987-88, the Commission controlled 2 subsidiary companies, which were not subject to my audit. These were Wine Victoria Pty Ltd and Victorian Snow Resorts Pty Ltd (in liquidation). A further subsidiary, Sessay Pty Ltd, was disposed of by the Commission in July 1987.

**3.19.2** Comments on the operations of these companies, in so far as they relate to the activities of the Commission, are provided in the following paragraphs.

#### *Victorian Snow Resorts Pty Ltd (in liquidation)*

**3.19.3** Victorian Snow Resorts Pty Ltd, formerly known as Victour Properties Pty Ltd, was established in 1984 to develop and operate tourist facilities on a commercial basis.

**3.19.4** In the Auditor-General's *Second Report* for 1986-87 concern was expressed at the deterioration in the operating results of the company, the decline in the company's liquidity and the practice of using borrowings to assist in financing the company's operations.

**3.19.5** During 1987-88, the company was placed in liquidation and its assets are being progressively sold in line with a revised government strategy to reduce direct public sector participation in the operation of tourist facilities.

**3.19.6** The liquidator of the company has advised that the Mt Buffalo Chalet, the major remaining asset of the company at 30 June 1988, may be transferred to a joint venture vehicle together with a related \$2 million loan. In the event of such transfer the liquidator anticipates that the company will be solvent.

**3.19.7** In the absence of this transfer, the liquidator has estimated that, based on figures at 31 October 1988, the company will have a deficiency in net assets of \$1.1 million with further contingent liabilities of approximately \$1 million.

---

**3.19.8** Due to the uncertainty surrounding the solvency of Victorian Snow Resorts Pty Ltd (in liquidation), I was unable to express an opinion on the presentation in the Commission's 1987-88 financial statements of the loan of \$2 million to the subsidiary.

*Wine Victoria Pty Ltd*

**3.19.9** Wine Victoria Pty Ltd was established in 1984 to promote the Victorian wine industry and to develop a promotional centre as part of the Flinders Street Banana Alley project.

**3.19.10** The company did not generated any income to 30 June 1988 and incurred an operating loss of \$154 000 in 1987-88 (\$246 000, 1986-87). The costs of operations have been mainly met by equity funds provided by the Commission and borrowings. The promotional centre did not commence operations until October 1988.

**3.19.11** Capital construction costs of the promotional centre amounted to \$693 000 at 30 June 1988. To assist in the financing of the construction, the Commission in 1987-88 borrowed \$500 000 from the Victorian Economic Development Corporation (VEDC) for investment in the company. This increased the Commission's equity to 97.5 per cent (75 per cent in 1986-87) of the company's issued capital.

**3.19.12** Audit examination revealed that this loan was repaid to the VEDC on the Commission's behalf in March 1988 by the Department of Industry, Technology and Resources. However, the Commission continued to carry this liability in its accounts until advised by audit of the above transaction.

**3.19.13** At 30 June 1988 the company had a loan liability of \$400 000 (30 June 1987, \$300 000) to the VEDC. Interest payable on this and previous loans was met by the Department of Industry, Technology and Resources and was not reflected in the financial statements of the company.

**Deficiencies in the management agreement of the Maldon accommodation complex**

**3.19.14** The Maldon accommodation complex was constructed with the aim of providing low-cost accommodation to facilitate tourism in the area. The Auditor-General's *Second Report* for 1986-87 included comment on the reasons for delays in the completion of this project and associated cost escalations from the initial estimated cost of \$750 000.

**3.19.15** Construction and fit-out of the complex was completed in March 1988 at a final cost of approximately \$1.5 million. The complex commenced operation in April 1988. A 12 month management agreement with effect from 1 March 1988 was entered into by the Commission for operation of the complex.

**3.19.16** Audit review of this management agreement revealed the following deficiencies:

- ◆ Under the terms of the agreement, the appointed managers shared 50 per cent of gross profit on catering activities but had no rights to profits from the letting of accommodation. This arrangement may cause managers to promote catering in preference to accommodation activities, thereby adversely affecting the Commission's aim to provide low cost accommodation;
- ◆ Profit sharing arrangements were based only on gross profit of catering activities without reference to operating costs. This clause provided insufficient incentive for the minimisation of operating costs which are met by the Commission; and
- ◆ The agreement contained provisions for accountability by the managers, but there was insufficient detail of control procedures, recording systems and the format and content of reports to be supplied to the Commission. It was noted that reports provided by the complex management during 1988 did not allow for easy assessment of operating results and the financial position of the complex.

**3.19.17** In response to audit representations, the Commission advised that the agreement was terminated in January 1989 and that revised management arrangements have now been implemented which have improved the performance of the complex.

#### **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, pp.129-33 1986-87, p.103</i>	Deficiencies in monitoring of the development of the Chinatown Precinct, including the lack of clear project management guidelines and budgetary systems and by-passing of legislative requirements for funding provided by the Commission.	Matters substantially resolved. Further instance of non-compliance with legislative funding requirements in relation to July 1987 payment of \$39 500. However, remaining 1987-88 funding of \$300 000 was in compliance with the legislation.
<i>Second Report, 1986-87, p.99</i>	Significant deficiencies in financial management practices and procedures including lack of performance targets and budgetary controls, inadequate procedures in relation to debt raising and collection and lack of control over fixed assets.	Some improvements made during 1987-88 in financial management practices, however, further action is required.



**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, 1986-87, p.100</i>	Project management procedures and the financial viability of subsidiary companies require close monitoring by the Commission to ensure effective use of public funds.	A subsidiary company, Victorian Snow Resorts Pty Ltd, placed in liquidation. Further capital injection to Wine Victoria Pty Ltd. Refer comment in paragraphs 3.19.1 to 3.19.13 of this report.
<i>Second Report, 1986-87, p.102</i>	Need for comprehensive feasibility studies, and construction design plans prior to commitment of expenditure to major capital projects such as the proposed Geelong Transport Museum and Maldon low-cost accommodation complex.	Reduced emphasis on the development and ownership of major tourism projects following changes in government policy. Responsibility for the proposed transport museum transferred to the Geelong Regional Commission. Refer paragraphs 3.19.14 to 3.19.17 of this report for further comment on the Maldon low-cost accommodation complex.

**Schedule B. Completed/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 audit</b>				
Victorian Tourism Commission	30 June 1988	31 December. <i>Victorian Tourism Commission Act 1982, s.27.</i>	31 January 1989	27 February 1989(a)

(a) Qualified audit report issued.

## 3.20

# TRANSPORT

### KEY FINDINGS

- ◆ Centralisation of transport debt finance has removed a significant cost from transport operations.  
*paras 3.20.2 - 3.20.6*
- ◆ The refurbishment of the Banana Alley vaults was completed 35 months behind schedule with cost overruns of \$2.7 million.  
*paras 3.20.20 - 3.20.33*
- ◆ Webb Dock rail link, built at a cost in excess of \$20 million, is significantly under-utilised.  
*paras 3.20.56 - 3.20.60*
- ◆ Benefits from the abolition of private vehicle registration renewal fees may flow to the business community contrary to government policy.  
*paras 3.20.79 - 3.20.83*
- ◆ Cancellation of a sub-lease at 222 Exhibition Street has cost taxpayers in excess of \$795 000 in dead rent and an estimated \$300 000 if certain fitouts cannot be used by new tenants.  
*paras 3.20.84 - 3.20.97*
- ◆ System for collection of transport accident charges is open to abuse. Potential exists to raise an additional \$1.8 million per annum in revenue.  
*paras 3.20.115 - 3.20.119*

---

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 (MTA)  
MTA Investments Pty Ltd  
MTA Superannuation Fund  
Port of Geelong Authority (PGA)  
Port of Geelong Authority Superannuation Fund  
Port of Melbourne Authority (PMA)  
Port of Portland Authority (PPA)  
Road Construction Authority (RCA)  
Road Traffic Authority (RTA)  
State Transport Authority (STA)  
Transport Accident Commission (TAC)

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

---

**PORTFOLIO COMMENTS**

**Amalgamation of transport authorities**

**3.20.1** The government has recently announced its intention to amalgamate the operations of the MTA and the STA into a new organisation to be known as the Public Transport Corporation. Also, it is proposed that the RCA and the RTA be combined to become the Roads Corporation. The existing authorities are expected to be abolished as from 30 June 1989 with the new Authorities likely to commence on 1 July 1989 subject to the Parliament passing suitable enabling legislation.

**Impact of debt centralisation on transport authorities performance**

**3.20.2** On 12 January 1987 the debt finance of the transport authorities (MTA, RCA, RTA and STA) was centralised except for certain finance leases.

**3.20.3** Transport debt centralisation has had the following impact:

- ◆ the composition of the debt liabilities transferred to the State and the on-going borrowing for transport purposes are not available as they are not being separately recorded at a central agency level;
- ◆ the on-going debt servicing charges are not separately determined and are not reflected as part of the transport authorities' cost of operations, therefore the full cost of providing transport services is no longer available. This reflects the view of the Ministry of Transport that the debt centralisation has had the impact of bringing the transport authorities in line with other areas of government which provide a social service;

- ◆ economic decisions are made by the authorities without taking into account the cost of debt servicing; and
- ◆ the external published financial statements of the transport authorities no longer include a significant cost, i.e. debt financing charges, and the related government subsidy.

**3.20.4** The assessment of the transport authorities achievement of their stated objectives requires appropriate criteria to be developed so that performance can be measured. This requires some specification as to whether the authorities are undertaking a commercial function or are designed purely to meet the government's fundamental economic and social objectives. Any confusion concerning an organisation's objectives can hamper management actions. Conflict can arise where there is incompatibility between external objectives related to social service or public interest, and internal objectives related to normal commercial practices.

**3.20.5** In the Auditor-General's Second Report for 1986-87, reference was made to the fact that the Department of Management and Budget proposed to "analyse further, in the context of its consideration of appropriate reporting provisions, the case for assigning finance costs to agencies on a nominal basis". I am still awaiting the results of this analysis.

**3.20.6** In my opinion, until financing costs are reported by the various transport authorities, nominally or otherwise, the standard of disclosure remains less than adequate and falls far short of the standards envisaged by the Annual Reporting Act and Regulations and the government commitment to program budgeting.

*Management response*

*As a result of legislation passed in 1986, the debt of the Inner Budget transport authorities has been transferred to VicFin.*

*This change brings the budget sector transport authorities in line with the method of funding adopted for other Government inner budget sector organisations. Such organisations do not report any finance costs in their financial statements; nor do the Budget papers or the Treasurer's Finance Statement allocate such costs. Rather, they are recorded against the Treasurer's Program No. 726 Transfer and Other Payments, reflecting the Treasurer's management of public sector debt as part of aggregate budget policy and management.*

*Given the Government's policy on centralisation of the Transport Debt, there is no lack of disclosure of reporting in terms of the Annual Reporting Act nor is there a diminution of the government's commitment to program budgeting. The financing costs are disclosed in the Treasurer's Program 726 whilst all other operational costs are disclosed in the various transport programs.*

**Further audit comment**

**The Treasurer's Program No. 726 for 1987-88 does not disclose the individual financing costs of the 4 transport authorities. A similar situation exists in 1988-89.**

---

## Deficit movements

**3.20.7** As a consequence of the introduction of debt centralisation in 1987, it would have been reasonable to expect that the deficits of the public transport authorities (MTA and STA) would reduce in future periods.

**3.20.8** Audit noted that the MTA's net deficit for 1987-88 was \$69.2 million compared with \$48.0 million in 1986-87. Although there was no impact as a result of debt centralisation (lower finance charges were offset by a reduction in government subsidy), the Authority's deficit increased by \$21.2 million or 44 per cent as a result of higher expenditures, particularly the expansion of the private bus program.

**3.20.9** In the case of the STA, the net deficit for the year was \$45.6 million compared with \$126.6 million in 1986-87 (a reduction of \$81 million or 64 per cent). Audit noted that \$46.1 million of the reduction was related to debt centralisation and \$33.7 million resulted from the reduction in superannuation expenses attributable to a reduced workforce brought about by various management initiatives.

### *Management response*

*During the period 1982-83 to 1987-88 recurrent appropriations to fund the combined MTA/STA deficits have fallen by 9 per cent in real terms, after excluding debt servicing costs.*

*This performance has been achieved at a time when fare prices and grain freight rates have been kept below CPI increases and reflects the success of many work practice changes implemented in railway operations.*

## Deficiencies in internal management reporting

**3.20.10** The transport authorities which are substantially supported by government appropriations (MTA, RCA, RTA and STA) prepare annual financial statements using commercial accounting principles.

**3.20.11** Audit review has indicated that the management of these organisations (either corporate management or the Authority's Board of Management) and central agencies (such as the Ministry of Transport and the Department of Management and Budget) *do not* monitor or control these authorities using management reports prepared in a manner which is consistent with year end external reporting.

**3.20.12** Audit is concerned with the reliance placed on cash accounting information for monitoring purposes at a central agency level and, in some instances, at an executive management and Board level.

**3.20.13** Commercial based accounting and reporting focuses on resource flows according to the period in which they were generated or consumed. It provides information not only on cash receipts and payments but also on revenues earned in a period for which cash has not been received and records expenditure on goods and services provided for which a cash payment has not been made. In addition, it also involves the reporting of assets and outstanding liabilities and includes cost allocation concepts such as depreciation of assets.

**3.20.14** Therefore, audit is of the view that internal management reports, used for control and monitoring purposes, should be based on commercial accounting principles and be prepared using the same accounting policies and procedures used to prepare year end external financial reports. Cash information should be a natural by-product of a commercial based accounting system.

*Management response*

*The transport authorities are required to report on a cash basis for Department of Management and Budget purposes throughout the year and on an accrual basis for the financial statements at year end in accordance with the Annual Reporting Act. As a result of cash as well as accrual requirements, the Authorities are required to control, monitor and report for both areas and as such are meeting their reporting obligations to their respective Boards.*

**MINISTRY OF TRANSPORT**

**Special projects**

**3.20.15** The *Appropriation (1987-88, No. 1) Act 1987* authorised the Ministry of Transport to spend up to \$6.7 million on special projects.

**3.20.16** In 1987-88, this appropriation was fully expended on projects approved by the Minister for Transport. Audit's review of this expenditure indicated that the role and nature of this appropriation had not been defined and guidelines had not been developed to evaluate such projects.

**3.20.17** Examples of special projects undertaken by the Ministry include:

- ◆ Station Improvement Works \$240 000
- ◆ Asphaltting of Metropolitan Station Carparks \$225 000

**3.20.18** In normal circumstances this expenditure would have been undertaken by the Metropolitan Transit Authority.

**3.20.19** There has been a reluctance by the Ministry to define the nature and scope of special projects, therefore audit can only conclude that this appropriation is a general fund which can be used in a discretionary manner by the Minister.

*Management response*

*The following definition and scope of Special Projects has now been formally adopted within the Ministry. Funds made available for the Minister through the Special Projects allocation, are to be expended on projects/activities which fall into any of the following categories:*

- ◆ *transport projects and activities which facilitate the co-ordination and/or provision of transport services;*
- ◆ *transport related projects and activities that require "seed funding" or are considered to be "one-off" activities or projects that occur during the year for which no funding has been made elsewhere in the portfolio's budget;*

- ◆ *grants to transport industry related organisations; and*
- ◆ *transport related projects and activities that have community and/or social interests and benefits.*

*The two projects mentioned, properly fall within the purposes of the Minister's Special Projects allocation.*

## **METROPOLITAN TRANSIT AUTHORITY (MTA)**

### **Banana Alley project**

**3.20.20** In 1982 the refurbishment of the Banana Alley vaults (which were originally constructed in 1890) was identified as part of Stage 2 of the Flinders Street Station Redevelopment with the intention of transforming the area into a tourist venue on the Yarra river.

**3.20.21** In October 1984 the Banana Alley project commenced at an estimated cost of \$1.8 million and a completion date of December 1985 (15 months later).

**3.20.22** Audit review of the project noted:

#### *Cost and time overruns*

**3.20.23** In June 1986 the responsibility for the Banana Alley project was transferred from the Ministry of Transport to the MTA with the clear direction that the project be completed in a timely and cost efficient manner taking into account that the project was already 6 months behind schedule.

**3.20.24** The project was eventually finalised in November 1988 at a total cost of \$4.5 million, \$2.7 million above the original cost estimate, and 35 months behind the original target completion date.



*Banana Alley vaults, November 1988.*

**3.20.25** At the date of project transfer to the MTA, the project had already been under development for 21 months (40 per cent above estimated completion time) and expenditure to that date was \$2.5 million (39 per cent above the 1984 estimated completion cost).

**3.20.26** The MTA did not re-assess the viability of continuing the project or investigate alternate courses of action as it had been instructed by the Ministry of Transport to complete the project.

*Leasing arrangements, rentals and recoupment of fitout costs*

**3.20.27** Tentative arrangements for leasing the majority of the 18 vaults have been in hand since June 1986. However, there have been protracted delays in the finalisation of leases due to:

- ◆ continuing disagreements regarding lease terms and conditions originally set by the Ministry of Transport; and
- ◆ the reluctance of prospective tenants to sign leases until the major tenant commenced operations.

**3.20.28** Fourteen vaults were leased between September 1987 and October 1988 but the MTA is only collecting rentals from 5 of the 14 occupied vaults due to:

- ◆ delays in finalising the leasing arrangements; and
- ◆ failure to obtain practical completion certificates for works undertaken which is a necessary pre-requisite for rentals to commence.

**3.20.29** Table 3.20A shows the level of outstanding rentals and fitout costs:

**TABLE 3.20A. OUTSTANDING RENTALS AND FITOUT COSTS**

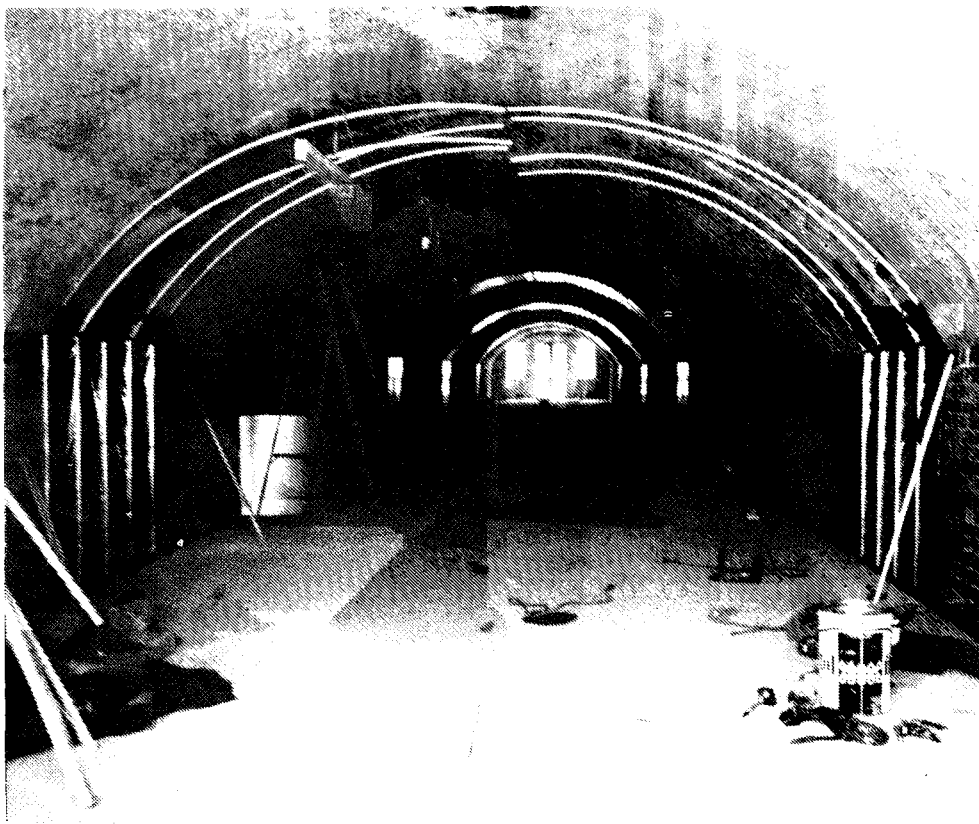
	<i>Potential Yearly Rental (1) \$</i>	<i>Invoices Raised \$</i>	<i>Collections \$</i>	<i>Amounts Outstanding as at 11 April 1989</i>	
				<i>\$</i>	<i>%</i>
Rentals	202 354	78 162	40 563	37 599	48
Fitout	-	276 280	141 743	134 537	49
<b>Total</b>	<b>202 354</b>	<b>354 442</b>	<b>182 306</b>	<b>172 136</b>	<b>49</b>

(1) Based on 1986 agreed rates.

*Ongoing problems*

**3.20.30** In audit opinion the concept of the Banana Alley project was to develop the area as a tourist precinct. The success of the project depends upon providing areas which are attractive to tourists.





*Interior of Vault, Banana Alley, November 1988.*

**3.20.31** Audit noted that the vaults suffered from water seepage and that the MTA accepted no responsibility for such damage. Also, the general area surrounding the vaults was not well maintained and access to the area was inhibited by parked vehicles.

#### *Post project appraisal*

**3.20.32** The MTA has not undertaken a post project appraisal to identify:

- ◆ the success of the project in light of its original objectives; and
- ◆ potential problems (e.g. seepage, the dependence on the continued viability of the major tenant) which may impact on the continuing viability of the project.

#### *Conclusion*

**3.20.33** In audit opinion, the Banana Alley project was not properly evaluated prior to its inception and was poorly managed. The ultimate success of the project will depend on its appeal to tourists etc and on its general ambience and aesthetic qualities which could be inhibited by poor external and internal appearances.

### *Management response*

*The Authority recruited an experienced project manager for this project, and therefore does not accept that the project was poorly managed. Until post project assessment is completed, it is premature for the Authority to comment on the effectiveness/quality of the Authority's management of the project.*

*The Authority is ensuring that the Melbourne City Council carries out the regular cleaning and maintenance of the gardens as agreed with the Department of Planning and Environment. It is not agreed that the complex suffers from "poor external and internal appearances".*

*The vaults are unique and train noise and vibration and potential for seepage are clearly recognised. Rectification of the seepage is a major engineering task which is not viable. However, it is not anticipated that water penetration will cause any damage to the structure which cannot be maintained in accordance with obligations under the leases.*

*The Authority is actively pursuing unpaid rentals and fitout costs and at 31 January 1989 only \$37 599 was owing for rent and \$111 643 for fitouts - both matters are the subject of current legal actions.*

### **Hong Kong joint venture**

**3.20.34** The MTA was 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.

**3.20.35** The project is now complete and the system is fully operational.



*Yuen Long Station - Hong Kong, November 1988.*

---

**3.20.36** Audit has reviewed the Authority's involvement in the project and noted the following:

*Did the Authority's involvement in the Consortium achieve its targets?*

**3.20.37** Included in the objectives for involving the MTA in the joint venture were the desires to:

- ◆ promote the export of Victorian expertise in light rail to the Asian Pacific region; and
- ◆ increase Victorian development and employment opportunities.

**3.20.38** While the Hong Kong venture provided an international forum for the MTA to demonstrate its expertise in light rail, there are, at present, no on-going major light rail projects for which the MTA has a significant involvement. Audit has been informed that there are prospects for major contracts presently being pursued but they are unlikely to result in major contracts prior to the end of 1989.

**3.20.39** Due to operational and industrial problems 30 of the 70 light rail vehicles required for the Hong Kong system had to be assembled in Queensland. Also, the delivery of light rail vehicles and trains for the Melbourne system was delayed to ensure the Hong Kong project was completed on time, thus avoiding damages to the Consortium for late delivery of light rail vehicles. Therefore the benefits arising from the Hong Kong project were not fully retained within Victoria and improvements to the Victorian network were delayed because of the Hong Kong project.

#### *Damages claim*

**3.20.40** In October 1986 the Consortium entered into a preliminary agreement to carry out and complete certain additional works in connection with the development of an interchange. Certain disputes arose as to the responsibility of the Consortium to proceed with works under the preliminary agreement.

**3.20.41** On 28 September 1987 a settlement was reached whereby the Consortium agreed to pay damages of \$HK 25 million (\$AUS 4.5 million) over 2 years commencing 21 October 1987. Although initial indications were that the Consortium would be recovering part or all of the settlement moneys this is now considered highly unlikely, therefore the budgeted profitability of the project has been reduced by \$AUS 2.2 million.

**3.20.42** Audit discussions with key personnel located in Hong Kong indicated that, had more extensive preliminary work been undertaken, the Consortium would not have entered into the preliminary agreement without amending the contract terms.

#### *Profit recognition*

**3.20.43** The construction of the light rail system is now complete and would have been fully operational on 8 August 1988 (as scheduled) except for a Hong Kong Government decision to delay the opening of the system by one month.

**3.20.44** The Authority's original profit forecast from its involvement in the joint venture was \$HK 33.2 million (\$AUS 6 million). The actual profit taken up by the Authority was only \$HK 11.2 million (\$AUS 1.83 million) as at 30 June 1988.

---

## Conclusion

### 3.20.45 Audit recommended that the MTA:

- ♦ review its involvement in the joint venture to evaluate the costs, benefits and performance against objectives; and
- ♦ capitalise on the expertise obtained from this venture and actively seek new ventures while ensuring that the Melbourne transport service is not being adversely affected.

#### *Management response*

*The Authority and its consulting subsidiary are actively seeking to capitalise on the expertise obtained from this venture through opportunities to provide consulting services to a large number of overseas projects in various states of planning. No adverse impact on the Melbourne transport service is envisaged in pursuing these opportunities, in fact benefits have flowed to the Melbourne System.*

*It is also pointed out that only 8.5 per cent of the Australian Contract value of the light rail vehicles was transferred outside of Victoria and therefore the benefits of the contract were substantially retained within Victoria.*

*As far as the damages claim is concerned, this arose due to unforeseen soil conditions and the Consortium had little or no option in settling the claim (\$4.5 million). Despite this, the contract remains profitable.*

## Land holdings

**3.20.46** As a consequence of the observations contained in the Auditor-General's *Special Report No. 9 - Land Utilisation* it was recommended that the MTA:

- ♦ undertake a physical inspection of all properties to verify the accuracy of the property register, including property values, and reconcile the values contained in the register to the financial records; and
- ♦ commence action to progressively identify and obtain professional valuations on all property holdings for inclusion in the 1987-88 financial statements.

**3.20.47** Audit investigation revealed that:

- ♦ A valuer had been appointed and was progressively conducting valuations on 20-25 per cent of properties within the rental portfolio as they become due for rent review. However, these valuations were not included in the financial records;
- ♦ A committee was established within the MTA to:
  - progressively identify all surplus land commencing with the most valuable regions; and
  - simultaneously establish a property register which will enable the valuation process to progress. It is anticipated the property register would be completed by late 1989; and
- ♦ The MTA is presently considering a number of valuation methods.

---

**3.20.48** Audit recommended that the MTA continue to identify all its property holdings and establish a property register which reconciles to its financial records.

*Management response*

*An Asset Recording and Reporting working party involving representatives of DMB and the Transport Portfolio has been established to investigate the appropriate measures to identify and record land holdings.*

**Rental of properties**

**3.20.49** In 1986-87 audit was unable to determine the accuracy of income derived from the rental of properties because the existing debtors system was deficient in recording rental debtors.

**3.20.50** A further review in 1987-88 revealed that:

- ◆ as a consequence of the property register remaining incomplete the tenancy recording system continued to contain inaccurate information; and
- ◆ the MTA continued to operate two separate debtors systems resulting in the inefficient use of resources.

**3.20.51** Audit recommended that the MTA develop a tenancy recording system and a centralised debtors system to enable more efficient management of rental properties and ensure rents are raised and collected in a timely manner.

*Management response*

*The implementation of centralised rental collection procedures should be completed by the end of the current fiscal year. One of the measures is to transfer rent collection activities at stations to a centralised point. Criteria for a property management system are being reviewed in light of the possible amalgamation with the STA property group under the proposed Public Transport Corporation.*

**Losses of stores and equipment**

**3.20.52** The Authority reported losses and thefts of stores, equipment and cash valued at \$51 000.

**PORT OF MELBOURNE AUTHORITY (PMA)**

**Wharf crane operations**

**3.20.53** The PMA owns approximately 20 wharf cranes (spread throughout various port areas) which are hired by stevedoring companies for cargo handling activities. Table 3.20B illustrates the financial performance of crane operations:

**TABLE 3.20B. FINANCIAL PERFORMANCE (PROFIT/LOSS) OF  
CRANE OPERATIONS  
(\$'000)**

<i>Year</i>	<i>Container Cranes</i>	<i>Electrical Cranes</i>	<i>Total</i>
1985-86	(193)	(279)	(472)
1986-87	(72)	(124)	(196)
1987-88	527	(134)	393
1988-89(a)	508	(118)	390

(a) Six months to December 1988.

**3.20.54** An audit review of the wharf crane operations revealed that:

- ◆ regular reporting and monitoring of the financial performance of crane operations was not undertaken;
- ◆ electrical cranes were operating at a loss. A review of electrical crane utilisation rates revealed that 5 cranes located at Appleton Dock were under-utilised, 2 cranes located at South Wharf had not been used since 1986-87 due to structural deficiencies in the wharf and 3 cranes at Station Pier had not been used for at least 3 years;
- ◆ a container crane located at Victoria Dock was significantly under-utilised compared with container cranes located at Swanson Dock;
- ◆ an internal PMA evaluation (in May 1987) of Swanson Dock container crane operations revealed that one crane was technically obsolete and in poor operating condition thereby reducing the efficiency of port operations. The PMA's Board deferred a decision to sell the crane pending a future review of all container cranes. At 9 May 1988 no review had been undertaken, however, the crane continued to be used by the PMA;
- ◆ there was a 2.5 year delay between the PMA's decision to purchase a new container crane and the acceptance of the tender. Although the majority of the delay was not attributable to the PMA, a number of delays occurred within the PMA; and
- ◆ the lowest tender for the new container crane was received from an overseas manufacturer. It was noted that, although the overseas tender was the lowest, even with the application of preference penalties (for assessment purposes) in accordance with government purchasing policies, the PMA was directed by the Victorian Cabinet to accept the preferred Australian tender. The PMA incurred an additional estimated cost of up to \$3 million as a result of the delays in the acceptance of the tender and the final selection of the Australian manufacturer.

**3.20.55 To improve the management of wharf cranes and ensure that electrical cranes make a positive contribution to the PMA's revenue, audit recommended that:**

- ◆ a process be established to facilitate regular monitoring and reporting of the financial performance of crane facilities;
- ◆ crane utilisation rates and maintenance procedures be reviewed to determine whether cost savings could be made from a rationalisation of container berths and cranes or a revision of work practices. Alternatively, hire charges could be revised to ensure the costs of providing cranes are fully recouped; and
- ◆ steps be taken to ensure that unnecessary delays do not occur in the tender evaluation/negotiation/ acceptance process which may result in increased costs.

*Management response*

*A new general ledger and job costing system which will be operative from July 1989 will have the capacity to provide management with regular financial performance reports. In the interim, financial reporting is being monitored by an informal process based on available financial reports.*

*The issue of positive financial returns on electrical crane operations is currently being addressed within the Authority's pricing policy review which will restructure rates and charges. A review of the Appleton Dock electrical crane is nearing completion and will address crane usage, maintenance requirements and areas where efficiency and effectiveness can be improved.*

*The current forecast demand and utilisation for container berths and cranes has formed part of an overall berth rationalisation study which is nearing completion.*

*The delays that occurred in the purchase of the new container crane were not fully within the Authority's control.*

*One of the cranes at Station Pier has been disposed of and the sale of the remaining two has been deferred upon the request of the Bayside Development Project who wish to use the cranes for tourist purposes. The two cranes at South Wharf are to be disposed of during 1988-89.*

*The main factor inhibiting greater utilisation of the container crane at 16 Victoria Dock was the temporary occupancy of 17 Victoria Dock by one port user. Since the relocation of this port user, the crane's utilisation has increased.*

*A review of the container crane utilisation and the provision for a replacement of the No. 3 crane at Swanson Dock was completed in July 1988 and Board approval was given for its replacement on 30 November 1988. No. 2 crane at Swanson Dock has been sold and a replacement crane was commissioned in November 1988.*

---

## Webb Dock rail link project

**3.20.56** In 1983 the State Government approved the construction of a rail link between Webb Dock and the Spencer Street rail yards at an estimated cost of \$18.2 million. The major purpose of the project was to alleviate the costly road transportation of containers between the dock and the rail yards and therefore encourage increased trade to Victoria.

**3.20.57** The former Railway Construction and Property Board and its successors, the Ministry of Transport, and the STA, were responsible for the management of the project. The PMA was to be responsible for the construction and maintenance costs of the rail track within its boundaries.

**3.20.58** The rail link was opened in February 1986. The total cost of work performed by the PMA was \$662 000.

**3.20.59** The audit review revealed that:

- ◆ the financial arrangements and organisational responsibilities of the PMA and the STA, in respect to the operation and maintenance of the line, had not been formally resolved; and
- ◆ the utilisation benefits that were anticipated to accrue from this project (which cost the State in excess of \$20 million) were yet to be fully realised. It was noted that actual rail container trade for 1987-88 was 28 per cent below that forecast at the beginning of the project.

**3.20.60** Audit recommended that:

- ◆ the financial arrangements and organisational responsibilities for the rail sidings located on PMA land be formalised as soon as possible; and
- ◆ in view of the substantial investment in the development of Webb Dock and the associated rail link, the PMA in conjunction with the STA should take action to maximise the utilisation of these facilities.

### *Management response*

*This matter is the subject of ongoing investigation between PMA and STA. The upgrading of the rail link to accommodate standard gauge trains is being strongly pursued.*

## Loss on commercial contract

**3.20.61** In July 1986 the PMA entered into a contract with the Australian Department of Defence for the manufacture of 2 aluminium frigate superstructure modules. The modules were constructed at the PMA's Williamstown Workshop and were completed in 1987-88 at a total cost of \$1.5 million.

**3.20.62** The PMA incurred a loss of \$842 000 from undertaking this commercial contract because:

- ◆ the price tendered by the PMA was insufficient to cover the total cost of manufacture; and
- ◆ the PMA lacked experience in aluminium fabrication (to naval standards) and suitable trained personnel to undertake the work.



### Management response

The PMA entered into this contract on a "direct cost" basis so as to utilise labour that would otherwise have been underutilised. The PMA covered its direct costs and made a contribution to fixed costs, from this contract. In financial terms the authority was better off by taking on the work than it would have been by rejecting it.

The PMA does not use this pricing basis for its normal workload, but may continue to selectively price this way where circumstances provide an opportunity to use resources that would otherwise be underutilised.

### Has the financial performance of the port improved in 1987-88?

**3.20.63** In 1986-87, an audit review of port activity and port operating expenses, over a 3 year period, indicated that the cost of operating the port had increased relative to movements in port activity.

**3.20.64** Table 3.30C compares the performance of the port over the past 2 years:

TABLE 3.20.C. ANALYSIS OF PORT OPERATING EXPENSES

Item	Unit	1987-88	1986-87
Revenue tonnes	('000 tonnes)	21 688	19 853
Total port operating expenses	(\$'000)	83 061	84 095
Expenses per revenue tonne	(\$)	3.83	4.24

**3.20.65** Audit noted that the financial performance of the port had improved during 1987-88. A 10 per cent reduction in the operating costs, relative to the movement in port activity, occurred largely due to:

- ♦ a 9 per cent increase in trade (revenue tonnes); and
- ♦ the gradual implementation of improvement/rationalisation plans in regard to work practices and facilities used in order to improve the overall port efficiency.

### Losses of stores and equipment

**3.20.66** The Authority reported losses of stores and equipment valued at \$21 000.

### ROAD CONSTRUCTION AUTHORITY (RCA)

#### Road expenditure

**3.20.67** The RCA incurs expenditure in relation to the construction of the road network. The RCA's policy is to write-off all costs associated with the construction of roads which effectively means that the State's road network is not recorded as an asset in the RCA's financial statements.

**3.20.68** Road expenditure is not capitalised and recorded as an asset of the RCA as legal title to the land over which the road network is built is transferred into the name of the State once the roadwork is completed.

**3.20.69** In December 1987 a proposed statement of accounting concepts was issued by the Australian Accounting Bodies which included a statement relating to the *Definition and Recognition of Assets*.

**3.20.70** The proposed statement of accounting concepts includes three criteria to determine when assets should be recognised for accounting purposes. According to this statement an asset should be recognised where:

- ◆ the item provides some future economic benefit to the organisation;
- ◆ the organisation has effective control over the use of the item; and
- ◆ a transaction has taken place.

**3.20.71** Audit review of this proposed statement of accounting concepts in relation to road expenditure indicates that there is a strong case for the RCA to capitalise road construction costs.

**3.20.72** It was recommended that the RCA undertake a review of its asset recognition and valuation policies in light of the proposed statement of accounting concepts to ensure that its treatment of road expenditure is appropriate.

#### *Management response*

*The RCA is committed to a policy of capitalisation of roads. The DMB Asset Recording and Reporting working party of which the RCA is a participant has agreed to the following:*

*"The valuation of roads should consist of a valuation of the land on which the road is built and a valuation of the constructed portion of the road. Construction costs should be determined as a dollar rate per lane kilometre for each classification of declared road under the Transport Act 1983."*

*A working party is being formed to co-ordinate the drawing up of policy, ensuring that information systems are adequate and developing an implementation and timetable schedule.*

#### **Acquisition of computer systems**

**3.20.73** During 1986 the RCA recognised the need to introduce new systems into its regional operations in order to:

- ◆ replace outdated manual systems;
- ◆ introduce accrual accounting principles at a regional level;
- ◆ facilitate the Authority's decentralisation program; and
- ◆ introduce computer skills at a regional level.

**3.20.74** The RCA implemented a business computer system in 1987 at a direct cost of \$1.2 million.

**3.20.75** Audit reviews indicated that at the time of system implementation the RCA did not have a detailed strategic plan for the acquisition of computer equipment and systems.

---

**3.20.76** In the case of the system, the RCA did not involve users in the system design or evaluation process and did not undertake any feasibility studies. Audit noted that the system had been operating for a year and no post project appraisal had been undertaken to ascertain whether the system was performing as expected and that the RCA's objectives had been achieved.

**3.20.77** In audit opinion, the system has introduced the benefits of computerisation and commercial accounting to regional operations, but it may not have been the most efficient or effective solution considering the RCA's objectives for introducing the system.

*Management response*

*The introduction of the system was based on a business decision to derive immediate benefits from the introduction of computer based financial systems (mainly accounts payable) into its regional offices. The RCA is satisfied the benefits have been achieved.*

*The report criticises the system but overlooks the fact that the system's implementation is one of the most successful, fast and cost-effective system implementations ever undertaken within the RCA. Despite some early problems the system is now widely accepted throughout the RCA, so much so that it has been decided to extend the life of the system until the 1990-91 financial year and to upgrade all RCA systems in line with it.*

**Losses of stores and equipment**

**3.20.78** The Authority reported losses of stores and equipment valued at \$27 000.

**ROAD TRAFFIC AUTHORITY (RTA)**

**Registration categories**

**3.20.79** In August 1987 the government announced that, as part of its initiatives designed to assist families, registration renewal fees for "Private A" vehicles would be reduced by \$25 from 1 January 1988 and that as from 1 July 1988:

- ◆ registration renewal fees less than \$25 would be abolished;
- ◆ all other registration renewal fees would be cut by 50 per cent;
- ◆ motor cycle renewal fees would be abolished; and

from 1 July 1989 all "Private A" registration renewal fees would be abolished.

**3.20.80** Audit examination of the vehicle registration data base maintained by the RTA indicated that there were 2 codes used to record private vehicle registrations, namely:

- PA for vehicles used solely for social, domestic and pleasure purposes; and
- PB for vehicles used for private and business purposes.

---

**3.20.81** Audit noted that the abolition of private vehicle registration renewal fees was designed to relieve the burden on the family unit. Audit review indicated that there were a significant number of vehicles owned by companies which were recorded on the vehicle registration data base under code PA. Therefore, the benefit of the abolition of renewal fees for "Private A" vehicles will be experienced by a wider cross-section of the community than intended by the government policy.

**3.20.82** The review also indicated a number of vehicles recorded on the vehicle data base with a garaging address of "Highways of Australia". This address is inserted where vehicles do not have a normal garaging address and applies to vehicles which are constantly travelling throughout Australia. The abolition of renewal fees will affect this type of registration which does not appear to be the intention of the government policy.

**3.20.83** Audit recommended that:

- ♦ the RTA review the vehicle data base to ensure that only those vehicles used solely for social, domestic and pleasure purposes benefit from the abolition of private vehicle registration renewal fees; and
- ♦ the registration requirements of vehicles which are constantly garaged in non-permanent locations be addressed with emphasis on the need for a separate code for registration renewal fees and TAC charge. It may be appropriate that such vehicles be registered under the Interstate Road Transport Act.

*Management response*

*The Authority will take action to ensure that abuses of the commercial/private coding are eliminated or at least further minimised.*

*It is not possible to gauge whether or not this is a serious problem but the Authority will continue to pursue this matter.*

**Rental of 222 Exhibition Street**

**3.20.84** The establishment of the Transport Accident Commission (TAC), in December 1986, brought about the amalgamation of the operations of the former Motor Accidents Board and the compulsory third party insurance section of the State Insurance Office. As a consequence of this amalgamation of activities the TAC operations were located at 35 Spring Street and 530 Little Collins Street. During 1987 additional accommodation was leased at 16-20 Flinders Lane.

**3.20.85** The RTA was also experiencing problems with accommodation and geographic dispersion of activities and were seeking opportunities to relocate several key operational areas.

**3.20.86** As both organisations had a common chairman and there was an expectation that the RTA and TAC would become one entity at some future date it was decided that it would be beneficial for both organisations to share accommodation facilities and integrate various corporate service functions.

**3.20.87** A facility that would accommodate 1 000 employees was sought which would include the TAC activities and the Road Safety, Corporate Services and Traffic Management divisions of the RTA.

**3.20.88** With the consent of the Minister for Transport and the Treasurer a lease agreement was signed for accommodation at 222 Exhibition Street Melbourne.

#### *Lease arrangements*

**3.20.89** The TAC entered an agreement to lease levels 7 to 20 of 222 Exhibition Street covering a total floor space of 18 578 square metres. The lease was signed on 10 March 1988 for a term of 15 years with rentals subject to review every 2 years.

**3.20.90** The lease agreement has 3 components, as detailed in Table 3.20D:

**TABLE 3.20D. LEASE COMPONENTS**

Stage	Floors	<i>Rent payable per annum \$</i>
1	Levels 8 - 17	3 948 890
2	Level 7	450 100
3	Levels 18 - 20	1 298 050
		5 697 040

**3.20.91** The action taken to lease significant floor space for the RTA and TAC is at variance with the views contained in the Auditor-General's Special Report No. 9 - Land Utilisation which stated that government owned premises may be a more viable and cost effective long term solution for public sector accommodation requirements.

#### *Cancellation of sub-lease*

**3.20.92** The RTA entered into a sub-lease agreement with the TAC for 7 646 square metres of floor space representing 41 per cent of total floor space leased by the TAC.

**3.20.93** In August 1988 a new Chairman was appointed to the RTA pending the proposed amalgamation of the Authority with the RCA. At that time the decision to move to 222 Exhibition Street was re-assessed in light of the decentralised operations of the road authorities, the availability of accommodation at existing premises and long-term service efficiencies. Based on these criteria the RTA did not proceed with the sub-lease.

**3.20.94** The TAC was responsible for the payment of rent and fitout costs of 222 Exhibition Street and had agreed to recoup appropriate costs from the RTA. At 6 February 1989 the RTA had paid \$500 000 for rental and \$2.3 million for fitout costs to the TAC and was endeavouring to recoup \$500 000 as an overpayment.

**3.20.95** As a consequence of RTA's decision not to proceed with the occupation of 222 Exhibition Street it has incurred rental expenses of \$485 000 on unoccupied space. In December 1988 the Department of Property and Services took over RTA's sub-lease of the premises and since that date has incurred dead rent in excess of \$310 000.

**3.20.96** The RTA also incurred fitout costs totalling \$1.8 million for which no benefit has been derived. Audit has been informed that the Department of Police and Emergency Services has occupied sections of the vacated space and has accepted the accompanying fitout valued at \$1 million. Audit was also informed that the remaining fitout costs (\$800 000) should be recovered from new tenants.

**3.20.97** In audit opinion, the cancellation of the RTA sub-lease has cost taxpayers in excess of \$795 000 in dead rent. In addition there is a further potential cost of \$300 000 as not all of the services included in the fitout are likely to be used by new tenants.

*Management response*

*The remaining space (Floor 15 and part Floor 16) has been made available to another government agency since 13 December 1988. The fitout of that space cost \$750 000 and is based on an open space plan which represents a minimum fitout and therefore cannot be regarded as a "potential cost".*

*Due to the proposed amalgamation of the RCA and RTA it would have been inefficient for RTA to continue its planned move to 222 Exhibition Street. Savings from this amalgamation will more than offset the dead rent. The RTA dead rent represents an unavoidable cost given that the Authority's accommodation strategy has changed and must be regarded as a minimal cost given the present over supply of central business district office accommodation.*

**Losses of stores and equipment**

**3.20.98** The RTA reported thefts and losses of cash, stores and equipment valued at \$14 000.

**STATE TRANSPORT AUTHORITY (STA)**

**Transfer, redeployment and redundancy scheme**

**3.20.99** 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.

**3.20.100** In 1986-87, audit noted that \$16.8 million had been expended on payments of accrued leave for employees participating in the TRR scheme, lump sum payments to non-TRR recipients and other indeterminate recurrent expenditure.

**3.20.101** In 1987-88, \$5.7 million was expended on lump sum payments of accrued leave and other recurrent expenditure.

**3.20.102** In audit opinion the expenditure of \$5.7 million (1986-87, \$16.8 million) was not directly related to the TRR scheme and should not have been charged against the Works and Services appropriation.

*Management response*

*The Ministry of Transport disagrees with audit as the Works and Services appropriations provided for funding the scheme included payment of outstanding leave entitlements as this was part of the inducement to accept the scheme.*

**Post construction audits**

**3.20.103** The Capital Projects Appraisal Section of the STA has responsibility for undertaking post construction audits in addition to its responsibility to perform appraisals on all capital projects prior to the projects being approved. In addition major projects are subject to a completion review by the Authority's project management department.

**3.20.104** Audit noted that post-construction audits were given a low priority and were only undertaken when staff were available. While a post construction audit plan was established for projects commenced in the 1987 calendar year, audit is concerned that only 5 of the 20 planned audits have been completed to date.

**3.20.105** Audit recommended that post construction audits be prioritised according to risk and materiality and the results of these audits be used in planning future projects to ensure economy, efficiency and effectiveness in the use of resources.

*Management response*

*Approximately 12 post construction audits have been completed or are nearing completion. These audits evaluate the achievement of benefits resulting from projects. The Ministry of Transport has also established a Division to monitor major project expenditures and benefits during and at the completion of projects.*

**Employee leave entitlements**

**3.20.106** The Authority is the legal employer of V/Line staff and employees assigned to the Rail Division of the MTA.

**3.20.107** Audit has noted, over several years, the excessive accumulation of employee leave entitlements (being annual leave and leave granted as a result of the 38 hour week agreement).

**3.20.108** Table 3.20E illustrates the significance of the excessive accumulation of leave:

**TABLE 3.20E. AVERAGE LIABILITY PER EMPLOYEE**

	<i>June 1988</i>	<i>June 1987</i>
	<i>\$</i>	<i>\$</i>
V/Line	3 980	3 646
MTA (Rail)	5 644	5 312

**3.20.109** Until the STA , in conjunction with the MTA, accepts the need to reduce this liability the excessive burden on operations will continue to the detriment of the STA's cost recovery objectives.

### *Management response*

*Since 1985, the Authority has reduced its staff by over 3 500 resulting in a reduction in leave liability of \$7.4 million in real terms since then.*

*The Authority is committed to reducing excessive accumulation of leave entitlements by employees. However, the Authority is undergoing significant changes and therefore has had to maintain some flexibility with respect to reducing excessive leave entitlements while at the same time ensuring that operations remain unaffected.*

### **Losses, thefts and irregularities**

**3.20.110** The STA has reported the following defalcations/thefts of cash during 1988:

- ◆ A relieving Stationmaster located at Maryborough Station absconded leaving a cash shortage of \$5 975. The person's services were terminated and all moneys owed to the individual by the Authority were offset against the shortage leaving an unrecoverable balance of \$2 224; and
- ◆ A clerk misappropriated \$17 000 from the Main Booking Office at Spencer Street Station. Victorian Transit Police were notified and the clerk was charged on summons. The clerk's services were terminated. He agreed to make restitution by transferring all pay and leave entitlements to the Authority and the Court has ordered the remaining balance (\$4 400) to be paid by weekly \$50 instalments.

**3.20.111** The STA also reported other thefts and losses of stores and equipment valued at \$202 000 of which \$17 000 was attributed to STA personnel.

### **TRANSPORT ACCIDENT COMMISSION (TAC)**

#### **Impact of changes in actuarial assumptions**

**3.20.112** The annual financial statements of the TAC disclose a profit of \$207.7 million for 1987-88 whereas for the 6 months ended 30 June 1987 the TAC incurred a loss of \$80.3 million. Although the financial periods are not comparable it is still obvious that a dramatic change has occurred.

**3.20.113** Audit analysed the causes of the turnaround in performance and noted the following key points:

- ◆ investment income for 1987-88 was \$18 million which was significantly lower than that reported in 1987 (6 months) of \$114.8 million as a consequence of the October 1987 sharemarket crash; and
- ◆ a reassessment of actuarial valuation assumptions, particularly the rate of superinflation (being inflation of claims over and above the general inflationary trends associated with court awards) which was reduced from 10 per cent to 2.5 per cent based on a lower than projected value of common law payments, resulted in \$365 million adjustment to the value of outstanding claims liabilities as at 1 July 1987 and consequently the recognition of an abnormal revenue item in the profit and loss statement.



**3.20.114** Audit noted that the adjustments to the actuarial assumptions, which were necessary in order to reflect the emerging experience of the transport accident scheme, have had a significant impact on the financial results achieved by the TAC in 1987-88. To enable meaningful comparisons to be made of the Commission's operating performance over time audit recommended that there should be included in future financial reports a full disclosure of changes in actuarial assumptions and the bases for these changes.

*Management response*

*The audit observation that investment income was significantly depleted fails to acknowledge that the performance of the portfolio was well above the mean performance of portfolios monitored by Frank Russell Australia. These portfolios include other large Government, Semi Government and Municipal Authorities as well as known private sector organisations.*

*The Commission acknowledges that adjustments to actuarial assumptions can have a material effect on the financial results but considers the annual accounts fully disclose the changes and their impact. Actuarial valuations and the reduction in outstanding liabilities reflect the Commission's management performance in settlement costs and claims management.*

*Trends in historical data support the reassessment of actuarial assumptions from time to time. The estimates of claims liabilities should always reflect the best and latest data available and the claims experience is being carefully monitored by the Commission to ensure that actuarial estimates are always soundly based.*

*The methodology for determining the outstanding liability for claim settlements for the closed Compulsory Third Party Scheme has been changed from one based on projected cash flows to a case estimate based valuation method. The Commission and its consulting actuary consider that this method will provide a more satisfactory basis for estimating future claims liability not only for the CTP but also for the emerging TAC scheme.*

**Abuse of the transport accident charge system**

**3.20.115** The transport accident charge levied on vehicle owners is based on a zonal concept of risk (high, medium, low) which is related to the postcode of the address where the vehicle is usually garaged. At 1 July 1988 the transport accident charges for vehicles used for private and business purposes were:

- ◆ high risk zone - \$257 per annum;
- ◆ medium risk zone - \$225 per annum; and
- ◆ low risk zone - \$193 per annum.

**3.20.116** Audit became concerned that scope existed for vehicle owners to pay a lower transport accident charge if they declared that their vehicle was garaged outside the high risk zone.

**3.20.117** Audit noted that the system operated by the RTA to raise and collect such charges on behalf of the TAC did not require the vehicle owner to substantiate the principal garaging address of the vehicle and the RTA did not undertake any procedure to examine the accuracy of the information provided by vehicle owners.

**3.20.118** Audit investigations revealed that the system for raising the transport accident charge was subject to abuse. Several instances were detected of vehicle owners who, despite declaring that their vehicle was garaged outside the high risk zone, actually garaged their vehicle in the high risk zone at their principal place of residence. If all vehicle owners were charged a transport accident charge based on their principal place of residence then there is potential for the scheme to generate an additional \$1.8 million per annum.

**3.20.119** In audit opinion abuse of the transport accident charge would be reduced by improved monitoring by the TAC, or consideration being given to:

- ◆ basing the charge on the vehicle owners principal place of residence (which has the potential of raising an additional \$1.8 million per annum); or
- ◆ Introducing a flat fee across the State.

*Management response*

*Premium evasion is a concern to the Commission and is receiving special attention. Various initiatives to prevent minimisation of the Transport Accident Charge by vehicle owners are being examined by the Commission. The potential loss of \$1.8 million per annum referred to by the Auditor-General must be regarded as minimal in an annual premium revenue of some \$560 million.*

*Fee setting is a matter for the Government and a proposal for a flat fee is inconsistent with Government policy.*

**Temporary staff**

**3.20.120** Salary expenses incurred in 1987-88 for temporary staff totalled \$2.7 million which represented more than 20 per cent of the TAC's normal salary payments for the year.

**3.20.121** The hiring of large numbers of temporary staff occurred during the formation of the Commission in January 1987. However, given that it has been over 18 months since the TAC came into existence, the current number of temporary staff seems unusually high.

**3.20.122** Audit recommended that the TAC undertake a review of its staffing requirements including the number of temporary staff employed to determine the most cost effective mix of permanent and temporary staff.

---

### *Management response*

*The Commission has a strategy of ensuring the most cost-effective mix of permanent and temporary staff taking into consideration the human resources required to work through the outstanding common law claims. This mix is reviewed on an on-going basis and in the meanwhile provides flexibility to vary staff levels as the Commission's workload varies until a permanent base workload becomes clear. Given the relative "newness" of the Commission the permanent workload may not become clear for some time.*

### **Dead rent**

**3.20.123** By 15 October 1988 the TAC had completed moving into new premises at 222 Exhibition Street. However, as a result of this relocation to new premises, rental was being paid for unoccupied office space at 35 Spring Street. If the premises remain unoccupied until 30 June 1989 (the lease expiry date) the potential cost of dead rent is \$649 200. However, the Commission has informed audit that negotiations are proceeding to sub-lease the remaining floor space.

**3.20.124** In audit opinion, given that the lease agreement for the TAC's new premises was signed in March 1988, the Commission should have arranged to sub-lease its existing premises at that time. As a result of not having done so avoidable costs were incurred.

### *Management response*

*The Commission has actively sought to arrange sub-leases prior to vacating 35 Spring Street. Two-thirds of the space has been sub-let. The new facilities at 222 Exhibition Street have already provided for improved efficiencies which will more than offset "dead rent".*

## **QUALIFIED AUDIT REPORTS**

**3.20.125** In 1987-88, 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**

**3.20.126** During 1987-88, the MTA, the RCA and the RTA received government contributions for works and services expenditure totalling \$541.4 million of which \$277.3 million (51 per cent) was regarded as revenue of the authorities and \$264.2 million (49 per cent) was deemed to be contributed capital in the authorities that was held by the State. The allocation between income and contributed capital was made by the authorities, in consultation with the Ministry of Transport and the Department of Management and Budget, on the basis of how the funds were expended during the year (specifically, moneys spent on acquiring fixed assets were regarded as being provided for capital purposes and therefore represented contributed capital).

**3.20.127** As the *Appropriation (1987-88, No. 1) Act* 1987 did not differentiate between the amounts provided for capital and operating purposes, audit was unable to determine whether the amounts provided to the MTA, RCA and RTA were reported in an appropriate manner in their annual financial statements.

---

**3.20.128** In audit opinion, future Appropriation Acts would be enhanced if allocations differentiated between funds provided as Contributed Capital (i.e. equity held in the Authority by the State) and revenue supplementation. In the absence of any specific indication of Parliament's intention, the Department of Management and Budget should 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*

*This is not a matter within Transport's control.*

*The treatment adopted reflects the actual application of the funds received and is based on accepted accounting concepts.*

*DMB endorses the Transport approach and has for some years been aware of the Auditor-General's views but does not consider it appropriate to change the existing appropriation process of Government.*

**Further audit comment**

**It is disappointing that the various transport authorities, the Ministry of Transport and the Department of Management and Budget, have failed to take appropriate action since 1987 to resolve this matter.**

**Non-depreciation of track and related infrastructure assets**

**3.20.129** The annual financial statements of the STA were qualified as track and related infrastructure assets valued at \$289.6 million were not subject to depreciation.

**3.20.130** Audit has raised this matter over several years. During 1987-88 the Authority reviewed and re-affirmed its policy of non-depreciation of track and related infrastructure assets.

**3.20.131** Depreciation, which is an allocation of the cost of an asset over its economic life, is a significant operating cost which should be recognised in the STA's financial statements to avoid understating the deficit for the year and overstating the value of those assets.

*Management response*

*There is a world wide diversity of accounting opinion as to whether or not this class of asset should be depreciated over its life.*

*The Authority's policy of non-depreciation of track and related infrastructure is not a departure from Australian Standards and Regulations as these assets are not regarded as depreciable assets as defined by those standards, i.e. these assets do not have a limited useful life since maintenance restores them and technical obsolescence does not apply. Commercial obsolescence is recognised when a line is closed.*

*It is unlikely that either method is distorting the operating expenditures disclosed by the authority to any significant extent as repairs/maintenance costs on these assets may approximate annual depreciation charges.*

---

### **Further audit comment**

**It should be noted that, in contrast, the MTA does depreciate its track and infrastructure assets.**

### **Non-disclosure of Crown land**

**3.20.132** The annual financial statements of the MTA and the STA disclose land which is owned by the respective authorities. However, both authorities have exclusive use of designated areas of Crown land which is not recorded as an asset of the authorities.

**3.20.133** As the authorities accept substantially all the risks and benefits incidental to ownership of the land it should be valued and recorded as an asset of each Authority.

#### *Management response*

*The Department of Management and Budget Working Party on Asset Recording and Reporting, together with Transport, is currently addressing the issues of taking up Crown land in the financial statements of Transport Authorities. Also it will be recommended to the Working Party that Crown land should be transferred to the Authorities. A note to this effect will be included in the 1988-89 financial statements.*

### **Treatment of accumulated losses**

**3.20.134** The accounts of the MTA were also qualified as the balance sheet item "Reserves" included \$92 million relating to the accumulated losses of a predecessor authority which should have been reported as part of the MTA's accumulated deficit.

#### *Management response*

*The 1989 financial statement will be presented in the manner suggested.*

### **Non-consolidated financial statements**

**3.20.135** The annual financial statements of the PGA and the PMA disclose 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.

**3.20.136** Generally accepted accounting principles require organisations to present consolidated accounts of all their operations. Accordingly, the PGA's and PMA's accounts were qualified as they failed to provide consolidated statements. This matter was also reported in 1986-87.

#### *Management response*

*Consolidation of the non-commercial operations with the commercial operations would distort the Authority's operating result as a commercial organisation and would be misleading to readers of the financial statements. This view is reinforced by the Marine Act which in fact prescribes the continued separation of the commercial operations from the operations of associated ports. The issue of consolidating both sets of financial statements is being examined by a working party.*

### Further audit comment

It should be noted that, in contrast, the PPA prepares consolidated statements of its financial transactions and financial position at 30 June.

### Non-disclosure of segment financial information

**3.20.137** The annual financial statements of the Port of Melbourne Authority were also qualified as they did not disclose segment financial information in relation to the PMA's property operations and port activities as required by Australian Accounting Standards. This matter has been raised in prior years without resolution.

**3.20.138** Audit has recommended that segment financial information be disclosed so that users of the financial statements are better able to assess the performance of the Authority.

#### *Management response*

*The Minister was granted an exemption by the Treasurer from compliance because steps were being taken to sell the World Trade Centre which was the main property operation and also to allow consistency with the previous years.*

*The World Trade Centre has now been sold and therefore segment reporting on this account is not an issue.*

### Overall audit comment

**3.20.39** Audit is concerned at the number of times it has been necessary to qualify annual financial statements of the various transport authorities. Many of the issues have remained unresolved for a number of years.

**3.20.140** Further comment on qualified audit reports is contained in section 4.2 of this report.

### 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>Second Report, 1985-86, p.158</i> <i>Second Report, 1986-87, p.137</i>	Operating expenses of the Ministry funded from the appropriation item - Special Projects.	Position satisfactory. Operating expenses not charged to Special Projects in 1987-88.
<i>Second Report, 1986-87, p.137</i>	Land and land-based assets not transferred to Port Authorities.	Position unchanged. Working party established to address implications of <i>Marine Act</i> 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 <i>Marine Act</i> 1958 does not contain a requirement for the Board to prepare an annual report on its activities for presentation to Parliament.	Position unchanged for 1987-88. The <i>Marine Act</i> 1988 which was introduced in December 1988 requires the Marine Board to prepare an annual report for presentation to Parliament from 1988-89.
<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. During 1987-88 MTA and STA entered into an agreement to transfer such entitlements yet this was not proceeded with at year end. The agreement was revoked on 5 April 1989. The issue will be resolved by the proposed amalgamation of MTA and STA.
<i>Fourth Report, 1983-84, p.84</i>	Agreement for determining costs and revenue applicable to metropolitan rail operations should be formalised.	Position satisfactory. MetRail has now been integrated into the operations of the Authority therefore the need for an agreement no longer exists.
<i>Second Report, 1985-86, p.160</i> <i>Second Report, 1986-87, p.137</i>	Analysis of the financial operations of the MTA indicated a decrease in overall cost recovery rate.	Cost recovery rate remained constant in 1987-88.
<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.
<i>Second Report, 1985-86, p.166</i>	Employees in key areas had in excess of 40 days recreation leave credits.	Position unchanged.
<i>Second Report, 1986-87, p.138</i>	Hong Kong joint venture expected to achieve a reduced profit.	Refer to comments in paragraphs 3.20.43 to 3.20.45 of this report for current status.
<b>Port of Geelong Authority</b>		
<i>Second Report, 1986-87, p.141</i>	Bay City Marina Geelong Pty Ltd should be subject to audit.	Position unchanged.

---

**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>Port of Geelong Authority Superannuation Fund</b>		
<i>Second Report, 1986-87, p.142</i>	No legislative requirement for audited financial to be presented to fund members and to Parliament.	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, DMB had advanced \$1.3 million to meet project development costs. At 30 June 1988, \$851 000 was unspent and had not been refunded to DMB. Appropriate refund has been arranged to be paid to DMB.
<i>Second Report, 1986-87, p.142</i>	Finance charges associated with offshore loans used to construct the World Trade Centre have made the Centre an unprofitable venture.	World Trade Centre was sold in 1988. All offshore loans were fully hedged in 1987-88.
<i>Second Report, 1986-87, p.143</i>	Port operating expenses were not responsive to altered port activity.	Position improved. Refer to comments in paragraphs 3.20.63 to 3.20.65 of this report for current status.
<i>Second Report, 1986-87, p.144</i>	Reported rate of return on assets is not accurate due to asset valuation and recording problems.	Position unchanged.
<b>Road Construction Authority</b>		
<i>Second Report, 1986-87, p.144</i>	Post construction audits were not undertaken.	Position has improved with the implementation of a post construction review process however the extent of coverage is still considered inadequate. Post construction reviews have been implemented at Ministry level.
<b>Road Traffic Authority</b>		
<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 will be resolved on the amalgamation of RTA and RCA.
<i>Second Report, 1985-86, p.170</i>	Delays in processing registration fees and transport injury protection fees collected by the RTA.	Position improved. Attention needs to be directed towards processing prior to weekends and public holidays.



## 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, 1986-87, p.145</i>	Outstanding liabilities for School Crossing Supervisors Scheme are increasing as a percentage of available appropriation.	In 1987-88 the accrued expense represented 56 per cent of the 1988-89 appropriation (1986-87 50 per cent). Measures introduced from 1 July 1988 to reduce outstanding liabilities.
<b>State Transport Authority</b>		
<i>Supplementary Report, 1981, p.233 December 1982, p.107 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.	The company was sold after 30 June 1988.
<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 paragraphs 3.20.129 to 3.20.131 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.	Position unchanged. Refer to comments in paragraphs 3.20.106 to 3.20.109 of this report for current status.
<i>Second Report, 1985-86, p.172 Second Report, 1986-87, p.146</i>	Analysis of the financial operation of the STA indicated a decrease in overall cost recovery rate.	Cost recovery rates improved in 1987-88.
<i>Second Report, 1986-87, p.146</i>	TRR appropriation not expended on TRR activities.	Position unchanged. Refer to in paragraphs 3.20.99 to 3.20.102 of this report for current status.
<i>Second Report, 1986-87, p.147</i>	Post construction audits have not been performed.	Marginal improvement noted. Refer to paragraphs 3.20.103 to 3.20.105 of this report for additional comments.
<b>Transport Accident Commission</b>		
<i>Second Report, 1986-87, p.147</i>	Claims documentation was not attached to claim files.	Position satisfactory. Documents now attached to claim files.

## Schedule B. Completed/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>				
Ministry of Transport	30 June 1988	31 October. <i>Annual Reporting Act</i> 1983, s.8.	24 October 1988	31 October 1988
Grain Elevators Board	30 Sept. 1988	31 December. <i>Annual Reporting Act</i> 1983, s.9. Treasurer granted extension of time to 28 February 1989.	21 December 1988	30 December 1988
Marine Board of Victoria	30 June 1988	No reporting requirements. Section 74 of the <i>Marine Act</i> 1958 requires that the Auditor-General audit the Pilotage Account which is administered by the Marine Board of Victoria.	8 March 1989	13 March 1989
Metropolitan Transit Authority	30 June 1988	30 September. <i>Annual Reporting Act</i> 1983, s.9. Treasurer granted extension of time to 14 November 1988.	31 October 1988	31 October 1988(a)
MTA Investments Pty Ltd	30 June 1988	No reporting requirements. Audit conducted at request of Treasurer and under Companies (Victoria) Code.	27 September 1988	14 December 1988
MTA Superannuation Fund	30 June 1988	30 September. <i>Annual Reporting Act</i> 1983, s.9. Treasurer granted extension of time to 31 December 1988.	27 September 1988	14 December 1988
Port of Geelong Authority	30 June 1988	No date specified. <i>Port of Geelong Authority Act</i> 1958, s.86.	18 October 1988	18 November 1988(a)

## Schedule B. Completed/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>
Port of Geelong Authority Superannuation Fund	30 June 1988	No reporting requirements. Section 4 of the Port of Geelong Authority (Superannuation) Regulations 1972 requires the Superannuation Fund to be audited by the Auditor-General.	18 October 1988	18 November 1988
Port of Melbourne Authority	30 June 1988	30 September. <i>Annual Reporting Act</i> 1983, s.9.	29 September 1988	30 September 1988(a)
Port of Portland Authority	30 June 1988	No date specified. <i>Port of Portland Authority Act</i> 1958, s.44.	5 December 1988	16 December 1988
Road Construction Authority	30 June 1988	30 September. <i>Transport Act</i> 1983, s.67.	7 November 1988	11 November 1988(a)
Road Traffic Authority	30 June 1988	30 September. <i>Transport Act</i> 1983, s.67.	4 November 1988	11 November 1988(a)
State Transport Authority	30 June 1988	30 September. <i>Annual Reporting Act</i> 1983, s.9. Treasurer granted extension of time to 14 November 1988.	31 October 1988	31 October 1988(a)
Transport Accident Commission	30 June 1988	30 September. <i>Transport Accident Act</i> 1986, s.33.	28 September 1988	30 September 1988

(a) Qualified audit report issued.

---

## 3.21

# TREASURER

---

### KEY FINDINGS

- ◆ Doubt exists as to the future financial viability of the WorkCare Scheme.  
*paras 3.21.1 - 3.21.16*
- ◆ Expert advice provided to the Accident Compensation Commission stated that for the Scheme to be fully funded in accordance with government policy the levy needs to be increased substantially from 2-4 per cent of wages to 5 per cent from 1 July 1989.  
*para 3.21.14*
- ◆ Actuarial projections are that unless there is an increase in the WorkCare levy, negative cash flows could be experienced by 1989-90.  
*para 3.21.15*

---

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 Board  
Hospitals Superannuation Board  
Metropolitan Fire Brigades Superannuation Board  
Parliamentary Contributory Superannuation Fund  
SIO Services Pty Limited  
SIO Superannuation Pty Limited  
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 Development Fund  
Victorian Public Authorities Finance Agency

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**

**3.21.1** The Auditor-General's *Second Report* for 1986-87 drew attention to the unlikelihood of the key objective of the WorkCare scheme, i.e. it being fully funded by 1995, being achieved. This position had arisen from actual claims substantially exceeding original WorkCare costings and existing funding arrangements being unlikely to meet projected future liabilities. The report also stated that the problems were being addressed by the Government and a Joint Parliamentary Committee.

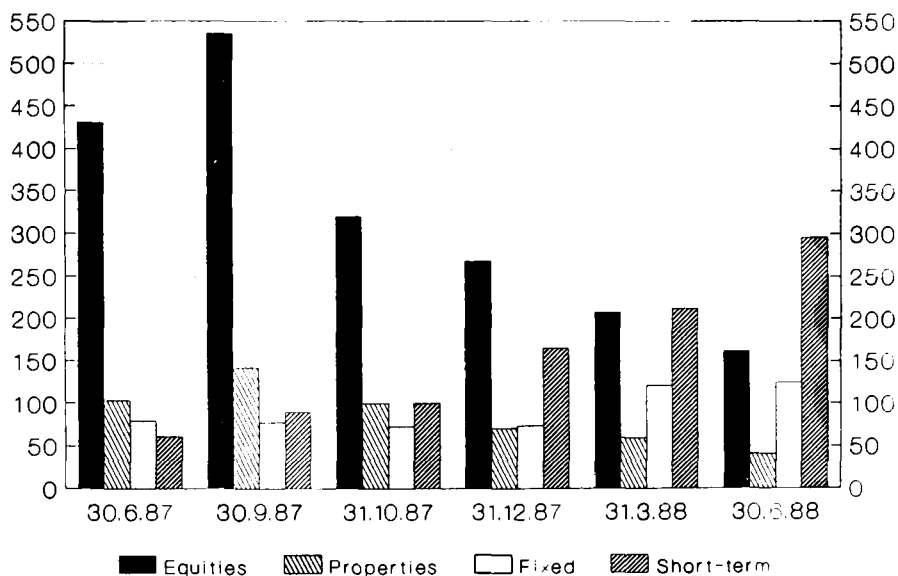
**3.21.2** For the 1987-88 year the Commission incurred a loss of \$450 million (1987 \$1 416 million) and at 30 June 1988 had an accumulated deficit of \$2 156 million (1987 \$1 706 million).

**3.21.3** The result for 1987-88 was arrived at after taking into account a net loss on investment income of \$85 million (1987, Profit \$159 million) due principally to the downturn in the sharemarket in October 1987.

**3.21.4** Following the downturn, the Commission introduced limitations as to the extent to which its external fund managers could invest Commission funds in the sharemarket. At 30 June 1988, 19 per cent of the investment portfolio arranged by fund managers was held in shares, as against 51 per cent at 30 June 1987.

**3.21.5** Table 3.21A illustrates the changes during 1987-88 in the mix of investments arranged by the external fund managers:

**TABLE 3.21A. INVESTMENT MIX**  
(\$ million)



**3.21.6** As stated above, a key financial objective of WorkCare was that sufficient levy and investment income would be generated over the first 10 years of the Scheme to cover the costs of all claims and expenses paid over that period.

**3.21.7** Levy rates which were increased from 1 September 1987 raised the average levy rate from 2.2 per cent to 2.4 per cent of wages. The Government has indicated that this rate will be maintained at least until 1990.

**3.21.8** The operation of the Scheme, since its inception on 1 September 1985 to 30 June 1988, disclosed a dramatic variation in actual claims incurred compared with the original WorkCare costings.

**3.21.9** The funding level has declined from 59.7 per cent to 26.4 per cent in the period involved, whereas the original WorkCare costings envisaged that funding would increase in that period from 56.6 per cent to 74.1 per cent.

**3.21.10** Table 3.21B provides a comparison of actual and projected WorkCare funding levels:

**TABLE 3.21B. COMPARISON OF ACTUAL AND PROJECTED WORKCARE FUNDING LEVELS**  
(\$ millions)

Factor	Actual (10 mths)	1985-86 Projected (12 mths)	1986-87		1987-88	
			Actual	Projected	Actual	Projected
Funds available (Total assets - current liabilities)	428	432	754	859	774	1 291
Funds required (Outstanding claims)	717	763	2 460	1 266	2 930	1 742
Funding level	59.7%	56.6%	30.7%	67.8%	26.4%	74.1%

**3.21.11** The current funding level takes into account the projected recovery of an amount, estimated to be \$300 million, from prior insurers, as a result of an amendment in May 1988 to the *Accident Compensation Act* 1985. The effect of the amendment was that prior insurers would be required to contribute to benefits paid to workers for injuries for which contributing factors existed prior to the introduction of WorkCare.

**3.21.12** In addition to the number of claims incurred, which was the major factor, other reasons for the disparity in funding levels are:

- ◆ The proportion and duration of long-term claims, i.e claims which involve more than 12 months of weekly compensation payments, are expected to comprise one in every 8 claims with weekly compensation benefits. It is acknowledged that the position has improved over the previous year when approximately one in every 6 claims with weekly compensation benefits were expected to be long-term claims.
- ◆ An insufficient levy rate; and
- ◆ The loss attributed to the stock market crash.

**3.21.13** The Commission sought the views of its consulting actuaries on financial projections relating to future funding of the Scheme based on the 10 year funding objective.

**3.21.14** One actuary, although indicating a significant improvement in claims experience when compared to previous assumptions, concluded that:

- ◆ the Commission, on current and projected claims experience, would experience a negative cash flow in 1990-91;
- ◆ the Commission's assets would be exhausted in 1994-95 if levy rates continued at 2.4 per cent of remuneration; and

- ◆ a substantial increase in the levy rate above the 2.4 per cent rate would be necessary in succeeding years to meet the 10 year full funding objective. The actuary estimated that the fully-funded levy rates required are:
  - from 1 July 1989 - 5 per cent of wages for 6 years; or
  - from 1 July 1990 - 5.5 per cent of wages for 5 years.

**3.21.15** A report provided by the other consulting actuary estimated that, under the 2.4 per cent average levy contribution, the Commission would continue to experience major funding difficulties culminating in a negative cash flow by the end of 1989-90. The actuary also indicated that if the funding position of WorkCare was to be improved, action would be required to reduce benefit payments or increase the levy rate.

**3.21.16** A major review of WorkCare was completed by the Government in July 1987 which resulted in a number of major legislative and administrative reforms designed to encourage injured workers to return to work and to improve claims administration procedures. Recommendations relating to recoveries of amounts from prior insurers were subject to further consideration by a Joint Parliamentary Committee, established in November 1987. The Government's aim was that the reforms and subsequent amendments introduced in early 1988 would have a significant impact on the cost of the Scheme.

## **STATE INSURANCE OFFICE (SIO)**

### **Disposal of written-off motor vehicles**

**3.21.17** A "total loss" or write-off occurs where SIO assess that an insured damaged vehicle cannot be repaired economically. If the insured body does not wish to retain the damaged vehicle SIO would normally dispose of the vehicle by auction. Written-off vehicles within the metropolitan area are auctioned publicly, whereas vehicles in the country are usually sold by tender.

**3.21.18** The total amount recovered from the sale of written-off vehicles in 1987-88 was in excess of \$6 million.

**3.21.19** An audit review was undertaken of the procedures for disposal of vehicles which had been assessed as a write-off.

**3.21.20** Findings were as follows:

- ◆ procedures for the assessment and subsequent disposal of written-off vehicles were not documented by means of an SIO procedure manual;
- ◆ vehicles were retained at panel beaters' premises for excessive periods of time after they had been assessed as write-offs, resulting in additional storage costs having to be met by SIO, together with the risk of further damage and/or theft;
- ◆ potential exists for items to be removed without authority from written-off vehicles as a result of failure to ensure that tow authority dockets are completed by respective parties;



- ◆ to ensure maximum returns are obtained, SIO policy stipulates that written-off vehicles are to be disposed of by auction. However, audit noted numerous occasions where vehicles were sold by tender directly to panel beaters; and
- ◆ a stocktake performed by audit revealed discrepancies between stock records and vehicles actually held at the auction yard.

**3.21.21 Audit recommended that the SIO document procedures relating to the disposal of written-off vehicles, and monitor compliance, to ensure maximum returns are provided to SIO.**

*Management response*

*SIO is proud of the major changes it has been able to introduce in the control procedures used in the sale of wrecks. We consider the statements made are misleading in view of the following:*

- ◆ *Procedures to be followed for assessment and subsequent disposal of written-off vehicles are documented in a Training Manual updated in September 1985. As a result of the audit a further update has been completed.*
- ◆ *There is strict adherence to the procedures relating to the removal of vehicles from panel beaters' premises whenever possible. SIO paid 7 per cent less for storage charges in the 12 months ended 30 December 1988 compared to the 12 months under review even though storage charges increased by 46 per cent from \$6.00 to \$8.80 on 1 January 1988 and volumes increased by 3 per cent. It should be noted that the total paid for storage in the 1988 period was \$115 770.*
- ◆ *In 1984 Tow Authority Dockets were distributed by SIO to our contract tow firms. Procedures have not been adhered to and new procedures have been instituted and enforced.*
- ◆ *Claim procedure is to auction all metropolitan vehicles not retained by our clients unless it is considered economically advantageous to accept a tender. During the period under review 3 903 vehicles were written-off. Of these, 582 or 14.9 per cent were sold by tender, 480 in the country and 102 in the metropolitan area. Contrasting with this 2 703 (69 per cent) were sold by auction and the balance retained by our clients or dumped as being uneconomical to sell.*

*In cases where we accepted a tender we believe it was economically advantageous to SIO in that it was equal to or in excess of the assessed salvage value. Sales were authorised by a senior officer independent of the assessor.*

- ◆ *A manual control is held at Head Office. We are not aware of any vehicles that have not been fully accounted for. Records will be further enhanced by the introduction of the new SIO Information Systems presently under development.*

---

## VICTORIAN DEVELOPMENT FUND

### Investment in futures

**3.21.22** The Victorian Development Fund (VDF), which comprises the Cash Management Account (CMA) and State Development Account (SDA), provides the State's budget sector and non budget sector agencies with a facility to invest surplus funds. The VDF, in turn, invests in the money market or by way of providing both short and long term financing to the State's budget sector.

**3.21.23** Futures are contracts that are entered into for the delivery of a commodity (e.g. 90 day bank bills) at a future date. Whether a profit or loss is made on the transaction will depend on the market conditions prevailing at the future date. In a futures contract that is not considered a hedge, the parties entering into the contract are speculating that the conditions in the future will be to their favour and consequently, make a profit from the transactions.

**3.21.24** In an audit review in 1986-87 it was noted that the Treasurer had stipulated in respect of futures contracts, "The net open position (futures contracts outstanding) was not to be greater than 110 per cent of the total assets of the Cash Management Account".

**3.21.25** As it was considered by audit that the above guideline implied an authority to speculate in the trading of futures contracts, it was recommended that the VDF clarify this position with the Department of Management and Budget to ensure that speculative transactions were consistent with Government guidelines.

**3.21.26** It was also recommended that if speculation via futures contracts was formally authorised that, at the inception of a futures contract, the VDF should document the rationale for which the contract was undertaken (i.e. to hedge an existing position or for the purpose of speculation). This was to assist in the monitoring of trading performance and in establishing appropriate accounting treatments which may differ depending on the contract nature.

**3.21.27** Following this recommendation the Treasurer issued the following amended guidelines in respect of the investment powers of the CMA and SDA:

*" . . . In the case of a future contract which could not be classified as a hedge in accordance with the definitions contained in the American Accounting Standard (FAS 80), the net open position of such contracts is not to be greater than 100 per cent of the total assets of either the CMA or SDA".*

**3.21.28** While audit expresses concern at the degree to which authority is given to speculate in futures contracts i.e. up to 100 per cent of the respective assets of both the CMA or SDA, it is noted that to do so is consistent with Government policy. It is also noted that the VDF has taken steps to ensure that at the inception of the contract the rationale for the contract is formally documented.

---

### *Management response*

*The amended guidelines issued by the Treasurer in regard to futures contracts contain two parts. Firstly, there are limitations on the maximum net open positions which clearly fall within the definition of a "hedge" as contained in the American Accounting Standard FAS80. The second part of those guidelines permits the VDF to enter into futures contracts which might not fall within the definition of a hedge under FAS80.*

*Under FAS80 only two categories exist and if a futures contract is deemed not to be a hedge for any reason then it would be classified as being "speculative" under FAS80. The inclusion of the second part of the guidelines ensures that there can never arise an occasion where any futures contract could be said, by virtue of a different opinion on the wording of FAS80, to be not within the guidelines issued by the Treasurer.*

*Because of the policies adopted by the management of the VDF, it should be recognised that:*

- ◆ the VDF does not speculate (in the sense of taking undue risks) in any of its activities including its use of futures contracts;*
- ◆ all futures contracts entered into by the VDF are undertaken on the basis that, in the VDF's opinion, they satisfy the definition of a "hedge" as defined by FAS80; and*
- ◆ the net open position of futures contracts is subject to very stringent monitoring by management as one would expect in any major financial institution.*

*The 1987-88 profit results clearly indicate that not only is the VDF a professional operation but also that the policies adopted by management are appropriate to circumstances.*

### **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, p.38-9 Second Report, 1985-86, p.192</i>	<i>Unclaimed moneys. Audit recommended that action be taken to review the operations of the Registrar to ensure that the provisions of the <i>Unclaimed Moneys Act 1962</i> are complied with. Audit also recommended that a review of the provisions of the Act be undertaken.</i>	<i>Position unchanged. A review of the Unclaimed Moneys Act was deferred as DMB has placed a low priority on this task.</i>

---

**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, 1986-87, p.156</i>	Total government liability for superannuation benefits should be disclosed in the accounts of the Treasurer.	Matter unresolved. DMB has indicated that the liability has been calculated but was not included in the 1987-88 Treasurer's Statement.
<b>Accident Compensation Commission</b>		
<i>Second Report, 1986-87, p.153</i>	Ability of the WorkCare scheme to become fully funded unlikely under existing funding arrangements.	For further comment refer sections 3.21.1 to 3.21.16 of this report.
<b>Emergency Services Superannuation Scheme</b>		
<i>Second Report, 1986-87, p.154</i>	Agreement with State Superannuation Board for transfer of members' funds not finalised.	Matter still not finalised. Partial transfer of \$30 million made by State Superannuation Board during 1987-88.
<b>Victorian Accident Rehabilitation Council</b>		
<i>Second Report, 1985-86, p.189-90</i>	Extensive delays in the processing of accounts received from private rehabilitators.	As from 1 July 1988 payment of all rehabilitation claims handled by one agent. Further improvement is required.
<b>Victorian Development Fund</b>		
<i>Second Report, 1982-83, p.87-8</i> <i>Second Report, 1983-84, p.73</i> <i>Second Report, 1985-86, p.174</i>	Lack of a detailed contingency plan for the VDF's computer system.	Position now satisfactory as now contingency plan in operation.

---

## Schedule B. Completed/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>				
Department of Management and Budget	30 June 1988	31 October. <i>Annual Reporting Act 1983, s.8.</i>	21 October 1988	9 November 1988
Accident Compensation Commission	30 June 1988	30 September. <i>Accident Compensation Act 1985, s.38.</i>	23 September 1988	3 November 1988
Accident Compensation Tribunal	30 June 1988	30 September. <i>Accident Compensation Act 1985, s.79.</i>	30 September 1988	12 October 1988
Bioplantech Limited	30 June 1988	No reporting requirements. Audit conducted at request of Treasurer and under Companies (Victoria) Code.	7 November 1988	12 December 1988
Coal Mine Workers' Pensions Tribunal	30 June 1988	No date specified. <i>Coal Mines Act 1958, s.128.</i>	18 November 1988	29 November 1988
Holmesglen Constructions Superannuation Plan	30 June 1988	No reporting requirements. Audit conducted at request of Treasurer.	16 November 1988	29 November 1988
Hospitals Superannuation Board	30 June 1988	30 September. <i>Hospitals Superannuation Act 1965, s.9.</i> Treasurer granted extension of time to 31 December.	16 January 1989	31 January 1989
Lump Sum Fund	30 June 1988	No reporting requirements. Audit conducted under <i>Superannuation (Lump Sum Benefits) Act 1981, s.17.</i>	25 January 1989	7 February 1989

## Schedule B. Completed/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 1988	31 October. <i>Annual Reporting Act 1983</i> , s.8. Treasurer granted extension of time to 31 December.	30 November 1988	19 January 1989
Parliamentary Contributory Superannuation Fund	30 June 1988	31 October. <i>Annual Reporting Act 1983</i> , s.8. Treasurer granted extension of time to 31 December.	25 January 1989	3 February 1989
Pensions Supplementation Fund	30 June 1988	No reporting requirement. Audit conducted at request of Treasurer.	25 January 1989	8 March 1989
SIO Services Pty. Limited	30 June 1988	No reporting requirements. Audit conducted at request of Treasurer and under Companies (Victoria) Code.	2 September 1988	29 September 1988
SIO Superannuation Pty. Limited	30 June 1988	. . .	2 September 1988	29 September 1988
State Employees Retirement Benefits Board	30 June 1988	30 September. <i>State Employees Retirement Benefits Act 1979</i> , s.11. Treasurer granted extension of time to 31 December.	8 February 1989	20 March 1989
State Insurance Office	30 June 1988	30 September. <i>State Insurance Office Act 1984</i> , s.24.	2 September 1988	29 September 1988
Superannuation Fund	30 June 1988	30 September. <i>Superannuation Act 1958</i> , s.63. Treasurer granted extension of time to 31 January.	6 February 1989	31 March 1989 (a)
Tattersall Sweep Consultations	30 June 1988	No reporting requirements. <i>Tattersall Consultations Act 1958</i> , s.8A.	30 August 1988	9 February 1989
Victorian Accident Rehabilitation Council	30 June 1988	30 September. <i>Accident Compensation Act 1985</i> , s.177.	30 September 1988	12 October 1988

**Schedule B. Completed/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 Building Societies Council	30 June 1988	30 September. <i>Building Societies Act 1986, s.24.</i> Extension of time not sought from Treasurer. Statements late.	9 November 1988	16 November 1988
Victorian Development Fund	30 June 1988	30 September. <i>Public Account Act 1958, s.7G.</i>	26 September 1988	30 September 1988
Victorian Public Authorities Finance Agency	30 June 1988	30 September. <i>Victorian Public Authorities Finance Act 1984, s.14.</i>	30 September 1988	31 October 1988
<b>Incomplete audit</b>				
Capital Works Authority	30 June 1988	31 October. <i>Annual Reporting Act 1983, s.8.</i>	Audit currently being finalised.	
Emergency Services Superannuation Board	30 June 1988	30 September. Treasurer granted extension of time to 31 December.	Audit currently being finalised.	

(a) Qualified audit report issued.

---

## 3.22

# WATER RESOURCES

---

### KEY FINDINGS

- ◆ Failure of water authorities to submit financial statements.  
*paras 3.22.3 - 3.22.7*
- ◆ Liability of Woodend Water Board for damages of up to \$15 million arising from 1983 bushfires.  
*paras 3.22.13 - 3.22.14*
- ◆ Breaching of environmental standards at Werribee Sewerage Farm.  
*paras 3.22.21 - 3.22.28*
- ◆ Certain sewage treatment processes are not cost-effective.  
*paras 3.22.29 - 3.22.31*
- ◆ Long term development strategy needed for Werribee Farm operations.  
*paras 3.22.32 - 3.22.36*
- ◆ Failure to recover wage overpayments to water bailiffs.  
*paras 3.22.47 - 3.22.49*
- ◆ Failure to rectify inadequacies in financial reporting by the Rural Water Commission of Victoria.  
*paras 3.22.50 - 3.22.56*



---

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  
170 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 Employees' Superannuation Fund  
Patterson River Recreational Area Committee of Management  
Rural Water Commission of Victoria  
Tirhatuan Park Recreational Area Committee of Management

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

---

**DEPARTMENT OF WATER RESOURCES**

**Inadequacies in financial reporting**

**3.22.1** The financial statements of the Department have been qualified for the past 2 years on the basis that the Department did not include the receipts and payments of the Public Account relating to the Rural Water Commission of Victoria. As I have previously reported, 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.

**3.22.2** In view of the fact that the financial statements have now been qualified for 2 years, it is disappointing that, to date, no effective communication has taken place between officers of the Department and the Department of Management and Budget to ensure that the issue giving rise to the qualifications is resolved.

**LOCAL WATER AND SEWERAGE AUTHORITIES**

**Timeliness of financial reporting**

**3.22.3** The oversight of the 170 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.

**3.22.4** In my *Second Reports* for 1985-86 and 1986-87, 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.

**3.22.5** An update of the position revealed that the situation has marginally improved during the period covered by this report. The number of financial statements not provided for audit decreased marginally from 110 in February 1988 to 93 in March 1989 and related to 59 water authorities. The balance of the water authorities are, however, maintaining a satisfactory level of reporting. The 23 water authorities listed in Table 3.22A had not provided financial statements to audit for financial periods ended 31 December 1987 or earlier:

**TABLE 3.22A. WATER AUTHORITIES WHICH HAD NOT PROVIDED FINANCIAL STATEMENTS FOR PERIODS ENDED 31 DECEMBER 1987 OR EARLIER**

<i>Water authority</i>	<i>Financial statements not provided</i>			
Barnawartha Waterworks Trust(a)	30.06.84			
Chiltern Water Board	30.09.84	30.09.85	30.09.86	30.09.87
Chiltern Waterworks Trust(a)	30.06.84			
Deakin Water Board	30.06.85	30.06.86	30.06.87	
King Parrot Creek Improvement Trust(a)	04.06.85			
Mid-Goulburn Rivers Management Board	31.12.85	31.12.87		
Seymour Shire River Improvement Trust(a)	04.06.85			
Avon-Macalister Rivers Management Board	31.12.86	31.12.87		
Cann Valley Water Board(a)	30.06.86	30.06.87	30.09.87	
Fifteen Mile Creek Improvement Trust	31.12.86	30.06.87		
Goulburn Water Board	30.06.86	30.06.87		
King Valley Water Board	(b)30.06.86	(b)30.06.87		
Portland Water Board	(b)30.09.86	30.09.87		
Shire of Alberton Improvement Trust	31.12.86	31.12.87		
Shire of Korong	(b)30.09.86	30.09.87		
Shire of Myrtleford	30.09.86	30.09.87		
Bendigo Creek Improvement Trust	31.12.87			
Bullock Creek Improvement Trust	31.12.87			
Kowree Water Board	30.06.87			
Lough Calvert Drainage Trust	31.12.87			
Mitchell River Management Board	31.12.87			
Pakenham Water Board	30.09.87			
Shire of Korumburra River Improvement Trust	31.12.87			

(a) Ceased to exist as a result of amalgamations within the water industry.

(b) Financial statements provided which are not in accordance with the Water and Sewerage Annual Reporting Regulations 1986.

**3.22.6** 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.

**3.22.7** 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.

#### **Rationalisation of audit arrangements**

**3.22.8** In 1982-83 it was decided to use the services of private auditors as agents of the Auditor-General to undertake the audit of all local water and sewerage authorities. The need for this arrangement arose from the lack of adequate internal staffing resources and the arrears of audits which had accumulated.

**3.22.9** In my 1986-87 *Second Report* I made reference to certain initiatives which were under consideration relating to the abovementioned arrangements. It was envisaged that the use of fewer agents would lead to:

- ♦ greater efficiency in the contract auditing arrangements as agents would be able to specialise in performing water authority audits; and
- ♦ an improvement in the quality of audits and a reduction in costs.

**3.22.10** The initiative to rationalise the auditing arrangements was only taken after:

- ♦ extensive consultations with the appropriate central agencies, namely, the Department of Water Resources, Local Government Department and Department of the Premier and Cabinet;
- ♦ the water industry was advised of the proposal in February 1988, at a seminar when the Auditor-General addressed some 100 representatives of the industry;

- ◆ a detailed analysis was undertaken of the advantages and disadvantages associated with the rationalisation of auditing arrangements, including the impact on the whole water industry and recognising that some inconvenience could occur to individual authorities; and
- ◆ ensuring that rationalisation was in the best financial interests of the State.

**3.22.11** The rationalisation process was achieved by calling tenders for the audit of water authorities in the various regional areas of Victoria. By this process, the number of agents conducting such audits was reduced from approximately 50 to 10.

**3.22.12** Although the revised arrangements have been in place for some 6 months, I consider that the perceived benefits of the rationalisation are already evident. In particular, specialisation by agents has improved the overall quality of the audits conducted.

### **Woodend Water Board**

**3.22.13** On 15 April 1988 a disclaimer of opinion was issued by the Auditor-General on the financial statements of the Woodend Water Board for the year ended 30 September 1986, on the basis that material uncertainty existed as to the extent of the Board's liability for claims for damages arising from bushfires on 1 February 1983.

**3.22.14** Due to extended delays by the Board in finalising its financial statements for the year ended 30 September 1987, the audit of the Board's operations for that year has not been completed. However, on available evidence the Board has been served with approximately 90 writs and summonses, and it has been suggested that the aggregate value of these claims and legal costs could be up to \$15 million. In this context an award for damages of \$550 000 with legal costs estimated at \$200 000 was awarded to the first claimant in a decision announced in the Supreme Court on 5 April 1989. The Board's solicitors are currently holding an amount of \$3.8 million representing proceeds of \$3 million obtained under the Board's public liability policy, and accumulated interest to date.

### **MELBOURNE AND METROPOLITAN BOARD OF WORKS**

#### **Review of the operations of Werribee Farm**

**3.22.15** Werribee Farm, which was established in 1897, covers an area of 10 850 hectares and is responsible for treating approximately 65 per cent of Melbourne's sewage. An average daily sewage flow of 470 megalitres is treated at the Farm by utilising 3 treatment methods, prior to discharge into Port Phillip Bay.

**3.22.16** The treatment methods in use are:

- ◆ *Land Filtration* - From October to April each year prepared land is progressively inundated with sewage, with the sewage being purified as it filters through the soil;

- ♦ *Grass Filtration* - From May to September each year sewage is purified by being continuously trickled over graded areas planted with rye grass; and
- ♦ *Lagoon Treatment* - Sewage is passed by gravitation through a series of lagoons, with purification occurring through a natural process of sedimentation, digestion, aeration, bacterial and algal activities. This method is used all year.

**3.22.17** In addition to the Farm's primary objective of treating Melbourne's sewage, large numbers of beef cattle and sheep are held for grazing purposes as part of the land and grass filtration processes, and to achieve returns from vacant land forming part of the complex.

**3.22.18** A major capital works program associated with upgrading treatment systems is currently in progress, with recognition being given to the impact of replacing the Main Outfall Sewer by the Western Trunk Sewer by 1993.

**3.22.19** During 1988-89 audit conducted a review of management practices, procedures and controls in operation at Werribee Farm. The review concluded that in recent years the Board has devoted considerable resources to improving management practices, controls and procedures at the Farm. However, there are a number of major concerns in relation to operations which, in audit opinion, need to be addressed, including:

- ♦ environmental standards established by the Environment Protection Authority (EPA) are being breached on occasions by the Board;
- ♦ use of the lagoon process to treat sewage would be more cost-effective, but environmental problems associated with the process need to be overcome;
- ♦ despite various consultancy studies undertaken since 1973, a long-term development strategy plan specific to Werribee Farm has not been finalised; and
- ♦ as progressive upgrading of treatment processes and facilities occurs, the need to retain extensive land holdings supporting a large-scale livestock operation warrants review, particularly in view of Werribee Farm's primary function to serve as a sewage purification plant.

**3.22.20** Further comments on these issues are provided in the following paragraphs.

Environmental standards not always met

**3.22.21** Werribee Farm discharges treated effluent into Port Phillip Bay at 5 outlets which are licenced by the EPA. The licence conditions include specifications as to:

- ♦ maximum rates of discharge into the Bay;
- ♦ quality of effluent, which is largely measured by the level of biochemical oxygen demand (BOD) in the effluent; and
- ♦ various other components found in effluent.



*The EPA's sampling point for the Lake Borrie Outlet.*

**3.22.22** The licences also clearly stipulate that the Board shall not cause or permit to be discharged into the atmosphere odours which, when experienced beyond a specified area, are obnoxious or unduly offensive.

**3.22.23** The Board has a laboratory at the Farm which conducts testing programs to monitor the requirements of the EPA licences. Data produced are periodically made available to the EPA, in conjunction with explanations for breaches of environmental standards that have occurred.

**3.22.24** Audit examination of available data disclosed that during 1988 significant breaches of licence conditions, mainly in relation to BOD levels in effluent, occurred at 4 of the 5 discharge outlets. Reasons for these breaches could be attributed to a variety of causes including climatic changes, flow diversions, soil characteristics, deficiencies occurring in treatment processes etc.

**3.22.25** In 1986-87, the Board conducted a survey into Werribee Farm odour, the results of which concluded that the Farm was the source of most of the unpleasant or very unpleasant odours experienced by local communities. These odours emanate from the lagoons, open channels and grass filtration areas within the Farm.

**3.22.26** The Board has attempted to address the above problems through referring the EPA breaches to consultants for advice and by commencing a program in 1989 to install aerators on the lagoons to reduce the emission of odorous gasses.

**3.22.27** While the above actions may produce some improvements, breaches of EPA requirements are likely to continue until such time as sewage treatment processes are further refined, albeit possibly at a high capital cost. To further compound this issue, the EPA has recently indicated to the Board its intention to impose more stringent environmental constraints on Werribee Farm in the near future.

**3.22.28** Audit recommended that the Board ensure that existing consultancy studies address the capability of the Farm's treatment processes to meet future EPA licence conditions and to evaluate what measures can be taken to further improve existing treatment systems. In recognition of the large capital outlay and increased operational costs likely to be associated with improvements, high priority needs to be assigned to this area of operations when future Board budgets are determined.

*Management response*

*The Board has a major ongoing program costing \$10 million per year of upgrading and constructing new treatment facilities at Werribee to improve effluent quality, reduce odours and increase treatment capacity.*

*The Board considers that the breaches of the EPA licence are of minor environmental consequence and is working closely with the EPA on studies of Port Phillip Bay to ensure that the health of the Bay is protected. These studies will be an aid in setting future EPA licences for Werribee Farm.*

Cost-effectiveness of treatment processes

**3.22.29** Of the total Farm area of 10 850 hectares, 7 282 hectares are used for the treatment of sewage with the remaining area used for sludge drying (68 hectares) and dry pastures (3 500 hectares). Table 3.22B illustrates the areas absorbed by the 3 treatment processes and average operating costs per megalitre treated during 1987-88:

**TABLE 3.22B. COMPARISON OF TREATMENT SYSTEMS IN 1987-88**

<i>Treatment process</i>	<i>Existing area</i>	<i>Volume treated</i>	<i>Average cost per ML treated</i>	<i>Volume treated per ha</i>
	<i>(ha)</i>	<i>(ML)</i>	<i>(\$)</i>	<i>(ML)</i>
Lagoons	1 485	92 157	57.50	62
Grass filtration	1 516	38 689	141.64	25
Land filtration	4 281	35 134	149.10	8

**3.22.30** As can be seen from Table 3.22B the lagoon treatment process which was initially introduced in the 1940s has considerable advantages over the other methods in terms of operational costs per megalitre treated and the significantly smaller area of land required. At present, the lagoon process is used for the treatment of approximately only 55 per cent of the total sewage inflow to the Farm.

**3.22.31** Notwithstanding the advantages to be gained in terms of reduced operational costs and more effective land utilisation, the lagoon process has certain disadvantages in relation to causing odour problems and the quality of effluent discharged into Port Phillip Bay. Action required to alleviate these problems will increase treatment costs. **Nevertheless, audit considers that unless operational costs associated with the land processes can be substantially reduced, emphasis should be given in the future to the treatment of sewage by the more cost effective lagoon process, provided environmental problems can be overcome. This action would also provide scope for a large proportion of the Farm holdings to be disposed of or put to alternative use.**

*Management response*

*The Farm is recognised internationally for its cost-effective and environmentally sound sewage treatment processes. Notwithstanding this, the Board is committing considerable resources to achieve reductions in the operating costs of the various processes.*

*The audit recommendation that the existing land and grass filtration processes be phased out and all sewage be treated by lagoon processes would have major implications to the Board. If all sewage was treated by the existing lagoons, the EPA licence would be continually breached. If new lagoons were constructed to replace the decommissioned processes, and treat all current flows to acceptable environmental standards, the Board would incur additional interest and operating costs of \$11.5 million per year which would increase the Farm's treatment costs by 30 per cent.*

*However, in the long term, the most cost-effective way of providing for the increased treatment capacity necessary in the future and to achieve the environmental standards reflected in the EPA licence is to upgrade existing lagoon systems and convert some poor quality land areas to new lagoons. This is part of the Board's future strategy and works program for the Farm. There should continue to be a mix of lagooning and land treatment processes for most cost-effective operation.*

Long-term strategy for Werribee Farm

**3.22.32** The Board has undertaken various studies dating back to 1973 in relation to long-term planning for Melbourne's sewerage system and purification facilities. These studies have resulted in a number of major improvements to the system and have impacted to varying degrees upon the Farm's operations. Over the past 15 years, a number of capital projects have been undertaken at the Farm, although it remains obvious that a continuing need exists to extensively upgrade existing facilities.

**3.22.33** The Board's achievements are acknowledged by audit. However, it remains of concern that issues that were identified as early as 1973, such as odour control, the need to ensure protection of Port Phillip Bay and the need to upgrade treatment facilities, have still not been fully addressed despite the numerous studies undertaken.



---

**3.22.34** In conjunction with the above concerns, the Board has not finalised a long-term development strategy specifically for the operations of Werribee Farm, despite the major role it plays in Melbourne's sewerage system. The Board did appoint consultants in 1985 to conduct the first stage of a strategy development for the Farm. The assignment was completed in August 1986 and the consultants were re-appointed in December 1986 to carry out the second stage of the study, which is still in progress.

**3.22.35** Audit expressed concern at the extended delays that have occurred in finalising a long-term development plan. **In the absence of such a plan, potential could exist that capital works undertaken at the Farm may not necessarily reflect the future role demanded of the Farm in Melbourne's sewerage system development.**

**3.22.36** Audit recommended that once the consultancy study currently in progress is completed, a strategic long-term development plan for the Farm be finalised and acted upon with a minimum of delay.

*Management response*

*The Board has long-term strategic planning for the Werribee Farm:*

- ◆ 1986 Sewerage System Strategy - 50 years; and
- ◆ 1987 Werribee Treatment Complex Works Program - 15 years.

*All capital and development works at Werribee are based on these strategy programs, which are regularly updated.*

*In addition, the Board has engaged consultants to help produce a 50 year Development Strategy for Werribee Farm. This will examine such issues as future effluent standards, odour reduction, increased sewage flows, costs, agricultural and livestock operations etc. It is due for completion later this year.*

**Livestock operations**

**3.22.37** At 30 June 1988 Werribee Farm supported 22 640 head of livestock (predominantly sheep and beef cattle) valued at approximately \$3.8 million. In addition to Farm holdings, 530 hectares were leased by the Board at Point Wilson for grazing purposes.

**3.22.38** Livestock are primarily used to control plant growth occurring as part of the land and grass filtration treatment processes. When not required for these processes, the livestock graze on 4 030 hectares of *dry* pastures, which also serve to act as *buffer zones* between the Farm and the community.

**3.22.39** A consultancy review undertaken for the Board in 1988 concluded that the livestock and agricultural activities were well run, but drew attention to the absence of clearly defined objectives and strategies in relation to these activities.

**3.22.40** Audit advised the Board that it was important to develop objectives and long-term strategies in relation to livestock operations in view of the following factors:

- ◆ As the Farm's primary purpose is to act as a sewage purification plant, livestock numbers and land holdings need only be kept to a level compatible with the treatment processes employed. In this regard, the need for the Board to lease additional land for grazing purposes warrants evaluation;
- ◆ Livestock are not required as part of the lagoon treatment process. Accordingly if, as recommended by audit, the land and grass filtration processes are phased out, the need for large land holdings and livestock numbers will diminish leaving opportunities for disposal or alternative use of surplus holdings;
- ◆ If livestock operations are to continue at current levels, the Board needs to evaluate the composition and breeds of livestock held in order to consistently achieve the best returns. It was noted that the consultancy study drew attention to sheep operations being only marginally profitable;
- ◆ In anticipation of technological advances and improved treatment methods, opportunities will arise for disposal or alternative use of large tracts of land previously required as *buffer zones* with the community; and
- ◆ If disposal of land surplus to operational requirements is contemplated in the future, recognition will need to be given to the impact upon the large and varied native bird population which the Farm supports.

**3.22.41** It was recommended that the Board ensure that the above issues are adequately addressed by the consultants currently engaged in the development of a long-term strategy for the Farm.

*Management response*

*The livestock operations form an integral part of the land treatment processes and as such return over \$3 million per year of income and assist in offsetting some of the costs of treating sewage.*

*The Farm management is very conscious of maximising the returns from the livestock operations to achieve the lowest overall cost of treating sewage. Agricultural consultants have been engaged to review the current operations and recommend any alternative agricultural options.*

*The Farm is well aware of the other issues mentioned in this section of the report and they are being addressed in the development strategy studies.*

---

## Conference facilities

**3.22.42** The Werribee Farm complex includes conference facilities consisting of a Board room and a theatre capable of accommodating 250 persons. The building was built in 1979 without due consideration being given to a demonstrated need for such a large facility, as further evidenced by the fact that to date it has been largely under-utilised. In recognition of this fact the Board has since March 1987 actively encouraged the use of the facility by private organisations and other government agencies.

### *Management response*

*The usage of the conference facilities both by private organisations and the Board is increasing.*

## Water supply agreement with Mornington Peninsula and District Water Board

**3.22.43** On 11 November 1987 the Board entered into an agreement to supply water to the Mornington Peninsula and District Water Board (MPDWB). The agreement provided, *inter alia*, for a fixed annual payment of \$4.9 million by the MPDWB to the Board for a period of 20 years.

**3.22.44** The Board recognises the \$4.9 million received annually from the MPDWB as revenue in its financial statements. However, the MPDWB does not record the payment as an expense, but as a progressive reduction of a liability of \$98 million initially recorded as an aggregation of the fixed amounts payable under the agreement over the 20 year period. In turn, the MPDWB created an intangible asset of \$98 million which is to be progressively amortised over a period of 100 years according to the volume of water supplied under the agreement.

**3.22.45** The Department of Water Resources agrees with my Office that the agreement is open to varying interpretations as to the proper accounting treatment and has indicated that the 2 agencies involved would need to seek elaboration on the existing arrangements to resolve the issue.

**3.22.46** As this matter could potentially impact upon both Board's financial performance and has remained unresolved for over 2 years, it was recommended that the Minister intervene to bring about prompt resolution.

## RURAL WATER COMMISSION OF VICTORIA

### Overpayment of wages to water bailiffs

**3.22.47** In November 1986 the Commission advised the Department of Management and Budget (DMB) that, during the years 1983 to 1986, overpayments of wages to water bailiffs had occurred. The advice indicated that the amount of the overpayments had resulted from a misinterpretation of pay award determinations.

**3.22.48** In the reply to the Commission's advice, DMB requested that a schedule be provided detailing the overpayments made to each employee. The Personnel Branch of the Commission produced a schedule of overpayments in August 1987 which totalled approximately \$463 000, excluding an assessment of the value of days taken in lieu of overtime.

**3.22.49** It is now some 3 years since the overpayments to the water bailiffs occurred and 2 years since DMB requested the Commission to provide details. These long delays mean that it is now difficult to instigate any action to recover the moneys overpaid as many of the water bailiffs have since retired or resigned. **In audit opinion, there is little possibility of recovering the overpayments, particularly as the Department of Labour advised in September 1986 that overpayments resulting from a misinterpretation of an award are not recoverable in law.**

*Management response*

*The delay in providing DMB with a schedule detailing the overpayments made to each employee is completely irrelevant to the recovery of moneys overpaid. The Commission was advised in September 1986 that the overpayments were not recoverable. The detailed schedule of overpayments is required by DMB to support the request for a write off under the Treasury Regulations and has no bearing on the recovery of the amounts overpaid.*

**Inadequacies in financial reporting**

**3.22.50** The Commission's financial statements have been qualified since 1984-85. The issues involved in the 1987-88 qualification are the Commission's treatment of community services grants amounting to \$11.6 million, and the Current Account with the Victorian Government of \$16.5 million. Both of these issues have been raised previously.

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

**3.22.52** The qualification of the Commission's financial statements over the years indicates that there is a significant audit reservation as to the presentation of financial information contained in the statements and that readers of the statements are not fully informed as to the effect of the qualified items on the operations of the Commission.

**3.22.53** It is a matter of concern that the Commission and the Department of Management and Budget (DMB) have not resolved the issues raised by the Auditor-General each year since 1984-85.

*Management response*

*The Commission disagrees with the audit comments as it is of the opinion that the accounting treatment adopted in respect of the items subject to qualification is appropriate and is fully disclosed in the financial statements for the benefit of readers of the statements.*

*Support for the accounting treatment adopted was obtained from a Partner in a major chartered accounting firm.*

---

**3.22.54** The Commission is required by section 43F of the *Water Act* 1958 to present audited financial statements to the Minister for Water Resources by 30 September each year. Audit reports in previous years have referred to unreasonable delays by the Commission in finalising its financial statements.

**3.22.55** Despite the attention drawn to this issue, the 1987-88 financial statements were not adopted by the Commission until 14 November 1988.

**3.22.56** Audit recommended that the Commission improve its procedures for the preparation and finalisation of its financial statements in order to ensure compliance with the reporting requirements of the *Water Act*.

*Management response*

*Although difficulties have been encountered in the past, the Commission is confident it can meet reporting deadlines in the future.*

**Internal audit**

**3.22.57** The Commission is required by the *Water Act* 1958 to develop and maintain an adequate internal audit system.

**3.22.58** In spite of the above legislative requirement, in 1987-88 the Internal Audit Section of the Commission comprised a team of only 2 officers. One officer has since left the Commission. The failure of the Commission to ensure that the Internal Audit Section can provide adequate coverage leaves management at risk.

**3.22.59** The following major observations were also noted in relation to the Internal Audit Section:

- ♦ The Section did not conduct any testing at Regional Centres. As more authority is being progressively given to regional staff it is considered important that internal audit include regional examinations within the scope of its audit work; and
- ♦ The Section was not involved in the verification and review of the Commission's financial statements.

**3.22.60** Audit recommended that the Commission reassess its commitment to the maintenance of an adequate internal audit function in accordance with its enabling legislation and government policy on this issue. The Internal Audit Section needs to extend its existing audit approach to providing the Chief Administrator with high level independent advice on economy and efficiency in the use of resources available to the Commission, and to include audits of regional centres. Participation in the verification of the Commission's financial statements should also be undertaken.

### *Management response*

*The Commission is in the process of assessing the role of internal audit within the Commission. A decision has already been made by the Board of Management to set up an Audit Committee comprising 2 Board members and an independent person from outside the Commission with extensive auditing experience.*

*The Commission sees internal audit as a key management control and is committed to internal audit having the resources to operate as a viable unit.*

## **THEFTS AND LOSSES OF STORES**

**3.22.61** During the period 1 July 1987 to 31 December 1988, numerous losses of stores, plant and equipment occurred within the various entities in the Water Resources sector. Details are summarised in Table 3.22C:

**TABLE 3.22C. THEFTS AND LOSSES OF STORES,  
PLANT AND EQUIPMENT**

<i>Entity</i>	<i>Value of losses of stores plant and equipment</i>
Melbourne and Metropolitan Board of Works	145 589
Local water and sewerage authorities	77 512
Rural Water Commission of Victoria	38 939
Dandenong Valley Authority	21 230
Department of Water Resources	600
<b>Total</b>	<b>283 870</b>

## 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 Water Resources</b>		
<i>Second Report, 1986-87, p.161</i>	Regulations under the <i>Annual Reporting Act</i> 1983 require amendment to ensure that all transactions of the Public Account falling within the policy responsibility of Ministers are included within their departmental financial statements.	Position unchanged. Refer to further comments in paragraph 3.22.1 to 3.22.2 of this report.
<i>First Report, 1987-88, pp.36-7</i>	Internal audit arrangements not implemented in accordance with government policy.	The Department has arranged for the Bureau of Internal Audit to conduct a review of the Water and Sewerage Board Loans Approval process during 1988-89.
<b>Local water and sewerage authorities</b>		
<i>Second Report, 1984-85, p.141</i>	Misappropriation of funds amounting to \$180 000 at the Geelong and District Water Board.	Board employee committed for trial.
<i>Second Report, 1985-86, pp.196-7</i>	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.
" " p.197	Inadequacies in the recording of fixed assets by water authorities.	Review of fixed assets management within the industry undertaken by the Department of Water Resources is continuing. Although the review was expected to be completed by August 1988, it is now envisaged that a report will be issued by June 1989.
<i>Second Report, 1985-86, pp.196-7</i> <i>Second Report, 1986-87, pp.161-3</i>	Failure by authorities to provide financial statements in a timely manner.	Position substantially unchanged. Refer to further comments in paragraph 3.22.3 to 3.22.7 of this report.
<i>Second Report, 1986-87, p.163</i>	Rationalisation of audit arrangements on a regional basis under consideration by the Office of the Auditor-General.	Rationalisation of audit arrangements finalised in September 1988. Refer to further comments in paragraph 3.22.8 to 3.22.12 of this report.

## 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>Melbourne and Metropolitan Board of Works</b>		
<i>Second Report, 1986-87, pp.164-5</i>	The review of the Board's systems and procedures for revenue billing and collections 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.	Position unchanged.
<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 to further comments in paragraph 3.22.50 to 3.22.56 of this report.

## Schedule B. Completed/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>				
Department of Water Resources	30 June 1988	31 October. <i>Annual Reporting Act 1983, s.8.</i>	17 October 1988	27 October 1988(a)
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.	6 May 1988	8 August 1988(a)
Latrobe Valley Water and Sewerage Board	30 June 1988	31 December, <i>Latrobe Valley Act 1958, s.53.</i>	8 September 1988	27 October 1988
Melbourne and Metropolitan Board of Works	30 June 1988	30 September. <i>Annual Reporting Act 1983, s.9.</i>	27 September 1988	30 September 1988
Melbourne and Metropolitan Board of Works Employees' Superannuation Fund(b)	30 June 1988	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension of time to 31 December 1988.	25 November 1988	14 December 1988



## Schedule B. Completed/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>
Melbourne and Metropolitan Board of Works Provident Fund	Period 1 July 1987 to 31 August 1987(c)	30 September. <i>Dandenong Valley Authority Annual Reporting Act</i> 1983, s.9.	9 August 1988	1 September 1988
Patterson River Recreational Area Committee of Management	30 June 1987	No reporting requirements. <i>Dandenong Valley Authority Act</i> 1963, s.31A provides for the audit of the accounts.	6 May 1988	8 August 1988(a)
Rural Water Commission of Victoria	30 June 1988	30 September. <i>Water Act</i> 1958, s.43F.	14 November 1988	23 November 1988 (a)
Tirhatuan Park Recreational Area Committee of Management	30 September 1987	No reporting requirements. <i>Dandenong Valley Authority Act</i> 1963, s.31A provides for the audit of the accounts.	23 June 1988	8 August 1988(a)
<b>Incomplete audits</b>				
Dandenong Valley Authority	30 September 1988	31 March. <i>Dandenong Valley Authority Act</i> 1963, s.40.	Audit currently being finalised.	
Edithvale-Seafood Wetlands Environmental Area Committee of Management	30 June 1988	No reporting requirements. <i>Dandenong Valley Authority Act</i> 1963, s.31A provides for the audit of the accounts.	Audit currently being finalised.	
Local water and sewerage authorities	Refer to further comment in paragraphs 3.22.5 of this report.			
Patterson River Recreational Area Committee of Management	30 June 1987	No reporting requirements. <i>Dandenong Valley Authority Act</i> 1963, s.31A provides for the audit of the accounts.	Audit currently being finalised.	
Tirhatuan Park Recreational Area Committee of Management	30 September 1987	No reporting requirements. <i>Dandenong Valley Authority Act</i> 1963, s.31A provides for the audit of the accounts.	Audit currently being finalised.	

(a) Qualified audit report issued.

(b) Previously Melbourne and Metropolitan Board of Works Superannuation Scheme.

(c) Assets and liabilities of the fund transferred into the Melbourne and Metropolitan Board of Works Employees' Superannuation Fund on 1 September 1987.

---

## 3.23

# PARLIAMENT

---

### KEY FINDING

- ◆ Efficiency and effectiveness review of the administration of Parliament undertaken by my Office at the request of the Presiding Offices was tabled by the Speaker in the Legislative Assembly.

*para 3.23.5*

---

**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:

- ◆ The Department of the Legislative Council which provides technical and administrative support services for the Legislative Council and its committees;
- ◆ The Department of the Legislative Assembly which provides technical and administrative support services for the Legislative Assembly and its committees;
- ◆ The Parliamentary Library which provides specialised information and research services to Members of Parliament, parliamentary committees, and their associated research and academic staff;
- ◆ 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
- ◆ 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.

### **Special audit review**

**3.23.5** The separate audit report arising from a review of the administrative efficiency and effectiveness of the departments of Parliament, conducted in 1987 at the request of the Presiding Officers, was tabled by the Speaker in the Legislative Assembly during the 1988 Spring Session.

### **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 1988, together with comparative figures for the previous year, are detailed in Table 3.23A on a parliamentary department/program basis:

**TABLE 3.23A. PARLIAMENT OF VICTORIA, PAYMENTS**  
(\$'000)

<i>Program</i>	<i>1987-88</i>	<i>1986-87</i>
<b>Legislative Council Program -</b>		
Members' salaries and expenses	2 962	2 809
Committee expenses (incl. Select Committee)	960	760
Payroll tax	236	222
Office staff salaries and expenses	631	607
	<u>4 789</u>	<u>4 398</u>
<b>Legislative Assembly Program -</b>		
Members' salaries and expenses	5 442	5 176
Committee expenses (incl. Select Committee)	714	652
Payroll tax	416	399
Parliamentary printing	2 124	2 478
Office staff salaries and expenses	1 459	1 412
	<u>10 155</u>	<u>10 117</u>
<b>Parliamentary Library Program -</b>		
Payroll tax	35	30
Salaries and payments in the nature of salary	594	533
Administrative expenses	144	134
	<u>773</u>	<u>697</u>
<b>Parliamentary Debates Program -</b>		
Payroll tax	63	60
Salaries and payments in the nature of salary	1 076	982
Administrative expenses	41	38
	<u>1 180</u>	<u>1 080</u>
<b>Parliamentary Support Services Program -</b>		
Payroll tax	335	296
Salaries and payments in the nature of salary	5 012	4 724
Administrative expenses	619	529
Refreshment rooms	606	576
Members' accommodation	76	9
Electorate offices -		
Expenses	3 984	2 974
Adaptations	194	186
Other expenses	854	823
	<u>11 680</u>	<u>10 117</u>
<b>Total payments</b>	<b>28 577</b>	<b>26 409</b>

**Schedule A. Status of matters raised in previous reports**  
There were no matters outstanding.

---

## Schedule B. Completed/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 audit</b>				
Parliament of Victoria	30 June 1988	No reporting requirements. Audit conducted under <i>Audit Act</i> 1958, s.31.	November 1988	27 January 1989
<b>Incomplete audit</b>				
State Parliament Refreshment Rooms	30 June 1988	No reporting requirements. Audit conducted at request of Parliamentary House Committee.	Audit currently being finalised.	

---

---

## **PART 4**

---

## **OTHER ISSUES**

---

---

## 4.1

# DISASTER RECOVERY PLANNING FOR COMPUTERISED SYSTEMS

---

### KEY FINDINGS

- ◆ Slow progress in implementing disaster recovery plans by agencies.  
*paras 4.1.14 - 4.1.18*
- ◆ Lack of policies and procedures relating to security of data and programs.  
*paras 4.1.12 - 4.1.13*

## WHAT IS A DISASTER RECOVERY PLAN?

**4.1.1** A *disaster recovery plan* is the term used to describe procedures to avoid or minimise the impact of a possible disaster that may interrupt the computerised systems of an organisation. Interruptions to computerised systems can result from a variety of sources including malicious acts of individuals, fire, water damage, power fluctuations and computer hardware or software failure.

## WHY IS A DISASTER RECOVERY PLAN NEEDED?

**4.1.2** Computerised systems have proliferated in the public sector and are now vital in the provision of services to the community. Table 2.2A identifies several operating systems which are considered by audit as essential to the effective functioning of the State:

TABLE 4.1A. IMPORTANT OPERATING SYSTEMS

<i>Agency</i>	<i>Functions/information provided by agencies computerised systems</i>
Government Computing Service (trading as VICOMP)	Central government computer bureau and facilities manager providing computing facilities to 30 departments and processing fortnightly salary payments for over 30 000 employees.
Metropolitan Fire Brigade Board	Monitors over 6 500 fire alarms, receives over 38 000 calls per year and dispatches staff and equipment to combat fires.
Ministry of Education	Processes fortnightly payments of salaries and wages to over 70 000 teaching and non-teaching staff.
Road Traffic Authority	Issues over 300 000 drivers' licences and 3 million motor vehicle registrations per year.
State Taxation Office	Processes over \$1 400 million of payroll and land tax revenue per year, and approximately 3 000 transactions per week in relation to property transfers.
Land Titles Office	Manages any movement in over 3 million property titles and processes over 2 500 property registrations daily.
Transport Accident Commission	Processes over 100 000 payments per year to motor accident victims.

**4.1.3** Recent well-publicised failures of major computerised systems highlight the importance of the development and implementation of practical disaster recovery plans.

**4.1.4** Within the Victorian public sector the last few years have seen the rapid introduction of computerised systems. It is projected that some \$220 million will be spent on these systems by government departments and authorities in 1988-89, and this expenditure on computerised systems is growing at an estimated 15 per cent per year.



---

**4.1.5** Given the substantial level of public funds invested in this area it is essential that proper disaster recovery plans are in place to ensure that the impact of the possible failure of computerised systems on agency operations is properly considered. Audit is aware that there is substantial cost involved in the implementation of disaster recovery plans, but good management practice would ensure that this was included as a component in the cost justification of computerised systems.

#### **HOW PREPARED ARE AGENCIES FOR DEALING WITH DISASTERS TO COMPUTERISED SYSTEMS?**

**4.1.6** The issue of planning for disaster recovery has been raised in Auditor-General's reports to Parliament in the *Second Report* for 1982-83 and the *Fourth Report* for 1984-85.

**4.1.7** The 7 agencies listed in Table 4.1A were reviewed on the basis that they operated systems which were representative of those essential to efficient State operations.

**4.1.8** A review was conducted by audit of disaster recovery planning practices at these agencies in the period December 1987 to February 1988 and the findings were reported to agency management in March 1988. The corrective measures taken by the agencies in response to the matters raised in the March 1988 report to management were further reviewed by audit in February 1989 and the findings are set out below.

#### **Securing computer installations from possible disaster**

**4.1.9** In general, management at the reviewed agencies had taken some precautions and tried to minimise the exposure to physical threats such as acts of terrorism, fire, water and power fluctuation to their computer installations.

**4.1.10** Nevertheless, some 12 months after the problem was identified, it was found that one installation was still exposed to unauthorised access. In another agency the computer was located on top of a paper storage room.

**4.1.11** In the event of a major disaster to the installation in which computerised systems operate, only one agency had organised access to backup equipment. It was noted, however, that it was common for computing equipment suppliers to give priority in the replacement of equipment to customers who had suffered a disaster. Unfortunately, this arrangement is informal and dependent on the capacity and goodwill of the computer supplier, a situation not conducive to effective long-term planning to minimise risk.

#### **Securing data and computer programs**

**4.1.12** With the exception of one agency, audit found that there was a general lack of management policy and procedures relating to the security of data and programs. A majority of the agencies reviewed lack satisfactory safeguards to prevent unauthorised access to their data files and computer programs, making them susceptible to data corruption and fraud.

**4.1.13** In the event of a disaster, reconstruction of a computerised system is dependent on agencies having backup copies of appropriate data files and computer programs. In this regard all agencies were found to take backup copies, but a number did not store the latest versions in off-site locations. Furthermore, none of the agencies had action plans in place to regularly test the effectiveness of the backup procedures in actually reconstructing the operating system.

**Current status of disaster recovery planning**

**4.1.14** Budget sector agencies are required to adhere to an *Information Technology* policy document issued by the Department of Management and Budget which, among other things, provides specific guidance regarding disaster recovery planning.

**4.1.15** It was disappointing to note that in regard to the published policy on disaster recovery planning, and although the agencies reviewed were aware of the need to prepare for possible failures to their computerised systems, only one agency had actually developed any disaster recovery proposals and this was in 1986. At this agency, options were submitted to management, but audit was advised that due to a lack of funding no further progress was made.

**4.1.16** The current status of disaster recovery plans in the agencies reviewed is set out in Table 4.1B:

**TABLE 4.1B. STATUS OF DISASTER RECOVERY PLANS**

<i>Agency</i>	<i>Current status of disaster recovery plan</i>
Government Computing Service (trading as VICOMP)	Disaster recovery plan not in place for its computer bureau services. However, VICOMP has purchased a methodology for developing its disaster recovery plans and has publicised its availability to assist agencies in this regard. This assistance is currently provided to 4 agencies.
Metropolitan Fire Brigade Board	Disaster recovery plan for computerised systems has not been prepared but tested manual procedures are in place to manage emergencies.
Ministry of Education	The Ministry is currently developing a disaster recovery plan for computerised systems governing the payment of salaries and wages.
Road Traffic Authority	No disaster recovery plan but a recommendation to engage a consultant to assist the Authority in undertaking a risk analysis exercise which is the first stage of disaster recovery planning, is currently being considered.

**TABLE 4.1B. STATUS OF DISASTER RECOVERY PLANS - *continued***

<i>Agency</i>	<i>Current status of disaster recovery plan</i>
State Taxation Office	No disaster recovery plan but VICOMP may be able to provide alternative processing facilities.
Land Titles Office	Disaster recovery options were submitted to management in 1986, but due to a lack of funding no further progress has been made.
Transport Accident Commission	No disaster recovery plan has been approved by management, however a disaster recovery strategy has been identified and a cost benefit analysis is currently being prepared for management.

**4.1.17** Based on the findings at the agencies reviewed audit believes that State administration that is reliant on computerised systems is inadequately prepared to provide continuity of service in the event of a serious disruption to the system.

**4.1.18** The absence of proper disaster recovery procedures leaves the public sector vulnerable to serious disruptions in services that could have substantial cost implications for the public purse.

*Management response*

*Responses received from agency management regarding this review generally concurred with its findings regarding the preparedness of their disaster recovery plans.*

*Two agencies indicated that the matter would be addressed in conjunction with the upgrading of their computer equipment and applications that was soon to take place. Other agencies were initiating a variety of studies into the format and scope of disaster recovery procedures and in some cases individual elements of disaster recovery, such as power supply or the continued operation of a particularly sensitive application, had been addressed. However, there was acknowledgment that complete, tested, and documented disaster recovery plans covering all aspects of an agency's computing applications were lacking.*

*Exceptions to the above were the State Taxation Office and the Traffic Accident Commission. The State Taxation Office acknowledged that they did not have a formal disaster recovery plan in place, but were satisfied that their Office was "adequately prepared for any contingency in the event of a major systems failure or disaster". The Traffic Accident Commission indicated that they had now "developed a plan for continued operation in the event of a disaster through the implementation of a manual processing procedure".*

---

## 4.2

# QUALIFIED AUDIT OPINIONS ON FINANCIAL STATEMENTS

---

KEY FINDING
<ul style="list-style-type: none"><li>◆ Need for more positive action by both management and controlling agencies in respect of qualified audit opinions. <i>paras 4.2.6 - 4.2.15</i></li></ul>

---

## **WHAT IS THE SIGNIFICANCE OF A QUALIFIED AUDIT OPINION?**

**4.2.1** The issue of a qualified audit opinion on an entity's financial statement indicates that there is significant audit reservation as to the accuracy, completeness or manner of presentation of the financial information contained in the statements. Readers of the qualified statements need to take into account audit's reservation in assessing the validity of information provided when making decisions based on that information.

**4.2.2** Of the 46 organisations subject to qualified audit opinions during the period under review, more than one-third were also qualified during the previous period. This trend indicates that an unacceptably high proportion of auditees are unable, or unwilling, to resolve the serious reservations about their accounts raised by audit and evidences, in some cases, a superficial or dismissive approach to audit comments.

**4.2.3** The consequences of management failing to respond in a timely manner to audit representations and qualifications have been amply illustrated recently by a number of widely reported cases, in both the private and public sector. These have involved significant losses being incurred by organisations which have either failed to take appropriate action in respect of audit representations or have remained unaware of audit qualification of their accounts.

## **WHAT NEEDS TO BE DONE?**

**4.2.4** To ensure matters raised by audit are given due consideration, audit comments including qualified audit opinions need to be reviewed by management of the organisation concerned and the Department of Management and Budget (DMB).

**4.2.5** The role of management and that of DMB, as the Government's central agency responsible for co-ordinating the financial resource management of the State, are discussed below.

### **By agency management**

**4.2.6** Management needs to ensure that the financial statements are accurate, complete and presented fairly in all respects and to have in place appropriate mechanisms to deal with qualified audit opinions and other audit comments in a timely manner.

**4.2.7** One of the primary mechanisms for ensuring comments made by audit (both external and internal) are given prompt attention by management is the existence of an audit committee which reports directly to the governing body of an organisation.

**4.2.8** In his ministerial statement on the *Report of Inquiry: Victorian Economic Development Corporation* in December 1988, the Treasurer committed the Government to further action to ensure that all major statutory authorities and government-controlled companies establish audit committees.

---

**4.2.9** All large organisations in the public sector should take account of the Treasurer's statement and have appropriately constituted audit committees. I look forward to keeping Parliament informed of progress in this respect in future reports.

**By the Department of Management and Budget**

**4.2.10** In November 1988 I wrote to the Director-General of DMB expressing my concern at the number of times I had been obliged to qualify the financial statements of various public bodies. I brought to his attention a number of issues which had given rise to past qualifications and a number of emerging issues which were likely to impact upon future audit opinions.

**4.2.11** I expressed the view that, with the co-operation of DMB, many of these issues could be resolved in a timely manner and sought the Director-General's response on the matter.

**4.2.12** In response, the Director-General indicated that action has been taken to ensure immediate resolution of some of the issues identified. For example, the liability for members' benefits of public sector superannuation schemes which is not currently reported in the financial statements, is to be disclosed by all superannuation schemes with effect from 1988-89.

**4.2.13** The Director-General also noted that some of the issues such as asset recording and reporting involve major reforms and are currently subject to continuing research and consultation.

**4.2.14** The other issues will require further consultation between audit, management and DMB prior to a satisfactory resolution being achieved. One such issue is the failure of the Department of Water Resources to disclose all the public account transactions falling within the responsibility of its Minister. For further comment refer paragraphs 3.22.1 and 3.22.2 of this report.

**4.2.15** In relation to consolidating financial information, the Director-General indicated that the use of the cash basis of accounting by government departments precluded any consolidation of their financial statements with other entities which use the commercial basis of accounting.

**QUALIFIED OPINIONS ISSUED**

**4.2.16** Generally the qualified opinions related to situations where there was either:

- ♦ disagreement with the application of certain accounting policies used in the preparation of financial statements; or
- ♦ significant uncertainty as to the completeness and accuracy of information contained in the financial statements.

4.2.17 Chart 4.2A shows qualifications by issue over the past 2 years:

CHART 4.2A. QUALIFICATION OF FINANCIAL STATEMENTS BY ISSUE

