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P O R T F O L I O S

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VICTORIA

AUDITOR-GENERAL
OF VICTORIA

**REPORT ON
MINISTERIAL PORTFOLIOS,
APRIL 1991**

Ordered by the Legislative Assembly to be printed

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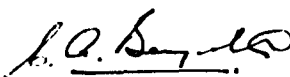
The Honourable the Speaker
Legislative Assembly
Parliament House
Melbourne, Vic. 3002

Sir

Under the authority of section 48 of the *Audit Act* 1958, I transmit a report on the audit of ministerial portfolios. The report also contains a section on the Parliament of Victoria as well as a section on matters of broad scope interest.

This report completes the cycle of my auditing activities in relation to the 1989-90 financial year, and reflects ministerial portfolios and responsibilities operative at the end of February 1991.

Yours faithfully


C.A. BARAGWANATH
Auditor-General

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FOREWORD

Since my appointment as Auditor-General in August 1988, I have been concerned about the capacity of my Office to provide an appropriate audit coverage of the affairs of government in this State. The magnitude of the mandatory financial audit workload required of my Office has seriously restricted opportunities for increasing the number of discretionary performance or value-for-money audit reviews which could be conducted.

Legislative amendments in June 1990 endorsed and widened the value-for-money process, which my Office has carried out for several years, to encompass an "effectiveness" component but, because of resource constraints, I have been able to dedicate only 4 per cent of my existing staff to work on performance audits.

The majority of the reviews included in this Report deal with questions of economy and efficiency in resource management by public sector organisations. While the findings of these reviews indicate that there is potential for significant improvement in these aspects of government service, I am concerned that the current limitations on my capacity to pursue the wider "effectiveness" aspect of performance audits will not meet the expectations of either the Parliament or the public.

For that reason I have made a detailed assessment of the workload of the Office as a first stage in determining the resources needed to undertake the extensive list of performance audit issues already identified and to

complete that task within a time-frame which is acceptable to the Parliament and to the public. This assessment, based on a cyclical coverage of all aspects of government activities within a 4 to 10 years time-frame, revealed a significant shortfall in personnel and finances.

In making representations to the Government for the necessary additional resources, I was extremely conscious of the constraints applying in the public sector at this time. Accordingly, I recommended that the resources of my Office should be supplemented progressively. But I must stress that **without those additional resources the capacity of my Office to carry out independent audit reviews of economy, efficiency and effectiveness of government operations will be extremely limited.**

The question of independence in fulfilling public audit responsibilities has also arisen in another context recently.

A report entitled *Strategic Management Review of the Parliament of Victoria*, compiled by a private consultancy firm, was tabled in Parliament last month. The report recommends various structural changes to the administrative support of Parliament. As I was not consulted in connection with the review, I consider that I must take this opportunity to draw to Parliament's attention that certain recommendations of the report, if adopted, could have a serious impact on the independence of the Auditor-General of Victoria.

The proposed organisational structure envisages the Auditor-General reporting to the Parliament through a newly created position of Director-General of Parliamentary Services, with the incumbent of this position taking a "leadership" role over the Auditor-General and his Office. I am concerned, naturally enough, that the independence of the Auditor-General could be compromised by adoption of these recommendations.

In my view, any proposal for organisational change which puts impediments in the way of an Auditor-General's investigations on behalf of the Parliament or the direct reporting relationship with the Parliament, or which has the potential to create impediments, is a threat to the fundamental concept of audit independence and is not in the interests of the public.

The need to safeguard the Auditor-General's independence in investigating and reporting on the operations of government organisations is underlined by the many resource management issues which have been reported on by successive Auditors-General.

The fact that many of these issues have been publicly identified yet have remained unresolved for several years points to a need for more strenuous follow-up and implementation of remedial action. Because of my concern to see this occur, late last year I contacted Ministers and Chief Executives to ascertain what action was in train that could be reported to Parliament.

It was very pleasing to learn of initiatives taken recently by a number of government organisations to enhance their resource and risk management practices. This process of change will be assisted by Department of the Treasury moves to focus on financial management and operational efficiency gains across the public sector, and by the greater involvement of the Economic and Budget Review Committee in examination of issues raised by audit.

It is incumbent on all those involved with public management and its attendant accountability to continue to take concerted, co-ordinated action if Victoria's communal resources are to be used in the most economical, efficient and effective manner possible.

PART 1

EXECUTIVE SUMMARY

1.1

EXECUTIVE SUMMARY

1.1.1 Key findings arising from the audit reviews are highlighted at the beginning of each individual section of this Report.

1.1.2 Major findings are summarised below.

ARTS

- ▶ Aggregate losses of \$762 000 have been incurred by the State Film Centre of Victoria Council on its theatre exhibition program over the last 3 years.

Paras 3.2.29 to 3.2.33

- ▶ One in every 7 films screened at the Council's Film Centre attracted an audience of less than 10 patrons.

Paras 3.2.34 to 3.2.40

CONSERVATION AND ENVIRONMENT

- ▶ Aggregate losses in excess of \$31 million were incurred by the Melbourne and Metropolitan Board of Works on the operation of its waste treatment plant at Tullamarine.

Paras 3.5.74 to 3.5.80

- ▶ A total of 120 houses, with an estimated market value of \$8.4 million and no longer required to be occupied by Rural Water Commission personnel, remained unsold.

Paras 3.5.163 to 3.5.166

- ▶ The financial performance of the Melbourne Sports and Entertainment Centre is deteriorating.

Paras 3.5.216 to 3.5.225

CORRECTIONS

- ▶ The Victorian Prison Industries Commission experienced difficulties in attracting prisoners to work in its industries.

Paras 3.7.37 to 3.7.49

EDUCATION AND TRAINING

- ▶ Government school system employees are almost 4 times more likely to become long-term WorkCare recipients than their non-government school system counterparts.
- ▶ State schools' funds totalling \$9.4 million are frozen in the Farrow Group.
- ▶ There is potential for the Ministry to achieve further annual cost savings for school cleaning in the order of \$18 million.

Paras 3.8.5 to 3.8.6

Paras 3.8.47 to 3.8.60

Paras 3.8.64 to 3.8.76

FINANCE

- ▶ Accumulated losses of the Government Printing and Publishing Services totalled \$7.2 million at 30 June 1990.
- ▶ The Government Employee Housing Authority acquired 460 houses in excess of its needs from an inner budget agency which benefited the cash position of the Consolidated Fund.

Paras 3.10.10 to 3.10.16

Paras 3.10.60 to 3.10.71

HEALTH

- ▶ The Health Department Victoria has been unable to disburse moneys for 10 years from the Mental Health Donations Trust Fund which has a balance of \$2 million.

Paras 3.11.1 to 3.11.4

- ▶ The lack of accountability for private practice arrangements for full-time medical practitioners has led to instances of fraud and the inability of hospitals to determine if they are receiving their full entitlements.

Paras 3.11.48 to 3.11.53

- ▶ Five nursing homes valued at \$9.5 million have remained unoccupied although construction has been completed and facilities installed for some months; in one case for almost 18 months.

Paras 3.11.111 to 3.11.117

- ▶ No assurance could be given by the Environment Protection Authority that emissions from hospital incinerators did not pose a potential hazard to the community and the environment.

Paras 3.11.146 to 3.11.149

LABOUR

- ▶ Financial viability of the WorkCare Scheme has significantly improved.

Paras 3.12.28 to 3.12.35

- ▶ The WorkCare Levy Collection Agency within the State Taxation Office had not finalised the assessment of over 8 000 WorkCare levy returns involving estimated levy outstanding from employers over the past 5 years of around \$26.6 million.

Paras 3.12.51 to 3.12.53

- ▶ Assessments of 31 200 WorkCare levy refunds of approximately \$32 million due to employers over the past 5 years had not been completed.

Paras 3.12.51 to 3.12.53

- ▶ The WorkCare Levy Collection Agency needs to re-assess the cost-effectiveness of annual outlays of \$1.8 million for the extended engagement of temporary staff.

Paras 3.12.70 to 3.12.72

MANUFACTURING AND INDUSTRY DEVELOPMENT

- ▶ The Department has not fully monitored the performance conditions associated with its \$32 million industry assistance loans portfolio.
Paras 3.13.1 to 3.13.5
- ▶ Domestic appliance retailing activities of the Gas and Fuel Corporation warrant review in the light of a \$3.2 million loss incurred during 1989-90.
Paras 3.13.22 to 3.13.44

PLANNING AND HOUSING

- ▶ The Construction Group's stand-by labour costs in 1989-90 totalled \$1 million and are expected to be \$2.6 million in 1990-91.
Paras 3.14.6 to 3.14.20
- ▶ An average of 17 per cent of the Construction Group's workforce (43 employees) were on stand-by every day during the 6 months to December 1990.
Para. 3.14.8
- ▶ Certain industry work practices significantly increased the Construction Group's direct labour costs.
Paras 3.14.28 to 3.14.29
- ▶ Serious irregularities occurred in the management of the Department's motor vehicle fleet (including maintenance of a phantom fleet of almost 200 vehicles).
Paras 3.14.30 to 3.14.37

POLICE AND EMERGENCY SERVICES

- ▶ The accelerated warrant execution project is likely to result in revenue of only \$1.6 million compared with an initial estimate of \$16.9 million.
Paras 3.15.35 to 3.15.48
- ▶ Retrospective expenditure approvals of over \$2.4 million have been sought by the Office of the Chief Commissioner of Police from the Treasurer since 30 June 1990.
Paras 3.15.52 to 3.15.56
- ▶ The Metropolitan Fire Brigades Board was not in a position to determine the overall efficiency and effectiveness of its fire fighting vehicle maintenance operation.
Paras 3.15.75 to 3.15.88

SPORT AND RECREATION

- ▶ At 30 June 1990, accumulated deficits of the National Tennis Centre Trust totalled \$26 million.
Paras 3.18.20 to 3.18.24
- ▶ Further significant cash flow difficulties have been experienced by the National Tennis Centre Trust.
Paras 3.18.25 to 3.18.27
- ▶ The Totalizator Agency Board's Tabaret project became fully operational in November 1990, 2 years behind schedule and with actual costs exceeding budget by \$19.1 million.
Paras 3.18.35 to 3.18.39

TOURISM

- ▶ The deterioration in the Alpine Resorts Commission's financial position will inhibit its ability to maintain and develop resort infrastructure.
Paras 3.19.1 to 3.19.32

TRANSPORT

- ▶ The Public Transport Corporation's recurrent budget overrun at February 1991 was \$32.3 million.
Paras 3.20.6 to 3.20.21
- ▶ Since 1988, significant major road projects have been deferred mainly because of reduced Commonwealth and State funding.
Paras 3.20.49 to 3.20.56
- ▶ There were major deficiencies in the Roads Corporation's evaluation of suppliers' proposals for the acquisition of computer equipment valued at \$19.5 million.
Paras 3.20.67 to 3.20.73
- ▶ The Transport Accident Scheme is fully-funded with further improvement expected, a position which should be taken into account when determining future transport accident charges.
Paras 3.20.79 to 3.20.86

TREASURER

- ▶ At 30 June 1990 an amount of \$220 million, on account of employer contributions, was due from the Consolidated Fund to the Emergency Services Superannuation Scheme.
Paras 3.21.16 to 3.21.20
- ▶ Borrowings by the Emergency Services Superannuation Scheme of \$220 million are considered by audit to be, in substance, borrowings of the Consolidated Fund as all debt servicing costs will be met by the Fund.
Paras 3.21.21 to 3.21.27
- ▶ The Consolidated Fund debt at 30 June 1990 to the State Superannuation Fund for unreimbursed lump sum payments was \$1.1 billion.
Paras 3.21.29 to 3.21.34
- ▶ Knowledge Victoria Limited is in voluntary liquidation with operating losses of \$1.5 million.
Paras 3.21.45 to 3.21.63

PART 2

PARLIAMENT OF VICTORIA

2.1

PARLIAMENT

KEY FINDING

- ▶ There was a further increase in Members' unpaid accounts at State Parliament Refreshment Rooms.

Paras 2.1.7 to 2.1.14

PARLIAMENT OF VICTORIA

2.1.1 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.

2.1.2 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.

2.1.3 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.

2.1.4 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.

Financial transactions

2.1.5 As there is no legislative requirement to present audited financial statements to Parliament, the payments of the Parliament of Victoria for the year ended 30 June 1990, together with comparative figures for the previous year, are detailed in Table 2.1A on a parliamentary department/program basis.

TABLE 2.1A. PARLIAMENT OF VICTORIA, PAYMENTS
(\$'000)

<i>Program</i>	<i>1989-90</i>	<i>1988-89</i>
Legislative Council Program -		
Members' salaries and expenses	3 475	3 187
Committee expenses (incl. Select Committee)	647	823
Payroll tax	270	248
Office staff salaries and expenses	668	707
	5 060	4 965
Legislative Assembly Program -		
Members' salaries and expenses	6 331	5 827
Committee expenses (incl. Select Committee)	671	617
Payroll tax	494	436
Parliamentary printing	2 061	2 293
Office staff salaries and expenses	1 643	1 574
	11 200	10 747
Parliamentary Library Program -		
Payroll tax	43	40
Salaries and payments in the nature of salary	690	661
Administrative expenses	175	151
	908	852
Parliamentary Debates Program -		
Payroll tax	70	64
Salaries and payments in the nature of salary	1 128	1 073
Administrative expenses	30	48
	1 228	1 185
Parliamentary Support Services Program -		
Payroll tax	380	346
Salaries and payments in the nature of salary	5 669	5 498
Administrative expenses	835	664
Refreshment Rooms	611	697
Members' accommodation	-	20
Electorate offices' expenses	5 810	5 553
Other	847	189
	14 152	12 967
Net Program payments	32 548	30 716
Parliamentary Contributory Superannuation Fund Contributions	3 450	
Total of all payments	35 998	30 716

State Parliament Refreshment Rooms

Audit arrangements

2.1.6 The State Parliament Refreshment Rooms are located in the precincts of Parliament House and provide dining room and bar facilities for 132 Members, staff and other patrons. The audit of the Refreshment Rooms is undertaken in accordance with a resolution of the Joint House Committee dated 2 September 1952.

Unpaid meal accounts

2.1.7 Members, both current and past, senior staff and approved patrons have the option of paying for meals and drinks in the Refreshment Rooms in cash or by utilising deferred payment facilities.

2.1.8 Under the terms of the deferred payment facilities, monthly invoices are issued and fines of 10 per cent are imposed on accounts outstanding for more than 60 days. However, during 1989-90 the policy for the imposition of fines was applied on an ad hoc basis.

2.1.9 The operating result for 1989-90 was a deficit of \$25 000 (1988-89, \$100 000 surplus). However, if subsidies from the Consolidated Fund amounting to \$788 000 (1988-89, \$867 000) relating to the cost of wages for Refreshment Room staff had not been provided, the actual deficit would have been \$813 000 for the year.

2.1.10 In January 1990, the Joint House Committee received a consultant's report on all aspects of the Refreshment Rooms' catering operations including financial management systems.

2.1.11 A Catering Sub-Committee, which was established to determine the appropriateness of the recommendations made in the consultant's report and in the previous audit report, agreed with a number of recommendations made in both reports and these were implemented. Certain other recommendations were rejected as being either inappropriate for an establishment such as the Refreshment Rooms or not cost effective given the resources constraints currently being experienced by the Refreshment Rooms.

2.1.12 Comment was made in the *Report on Ministerial Portfolios, May 1990* on the increase in unpaid accounts and the length of time that certain accounts remained unpaid. It was disturbing to note that there had been a significant increase in outstanding debtors of more than 30 days. An audit examination of the Refreshment Rooms' debtors balance disclosed that the unpaid accounts had increased by 15 per cent from \$61 400 at 30 June 1989 to \$70 800 at 30 June 1990.

2.1.13 In addition, audit noted that outstanding debtors at 31 December 1990 had increased by 23 per cent to \$158 000 (1989, \$128 000). Of this amount, \$13 100, which relates to 13 Members, had remained unpaid for periods in excess of 3 months and \$54 100 had remained unpaid for periods between one month and 3 months.

2.1.14 In the light of the above, audit has again suggested that there is an ongoing need to monitor the level of outstanding debts. In addition, in view of the deficit it may be appropriate for the pricing of meals and beverages provided by the Refreshment Rooms to be kept under review.

Response by Speaker, Chairman of the House Committee

The audit suggestion that there is an on-going need to monitor the level of outstanding debts has been addressed by the House Committee, and incorporated in a new invoicing system are included conditions of payment, i.e. customer agrees that the amounts outstanding more than 30 days after rendering of account may be deducted from salary.

Once the customer has signed and accepted the invoice, they are bound by the conditions and the Refreshment Rooms can exercise its right to recover outstanding amounts.

Also the pricing of meals and beverage provided by the Refreshment Rooms is kept under constant review in order to include increased supplier costs into the price structure, which now reflects the House Committee's objective to reduce, wherever possible, the general operating deficits.

At the time of the audit, only Members were fined 10 per cent on accounts outstanding more than 60 days. Since then this policy has been adopted for all patrons with deferred payment facilities. In the past the Finance Manager has used his discretion to waive the fine in situations where he has been advised that the Member will be absent and payment would be made on their return.

Fines are imposed on all other accounts that exceed the 60 day period.

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>Ministerial Portfolios, May 1990, pp.15</i>	<i>Unpaid accounts of the State Parliament Refreshment Room.</i>	<i>Refer further comments at paragraphs 2.1.7 to 2.1.14 of this Report.</i>

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>
Completed audits				
Parliament of Victoria	30 June 1990	No reporting requirements. Audit conducted under <i>Audit Act 1958, s.31.</i>	21 December 1990	25 January 1991
State Parliament Refreshment Rooms	30 June 1990	No reporting requirements. Audit conducted at request of Joint House Committee.	14 December 1990	25 January 1991

PART 3

AUDIT OF MINISTERIAL PORTFOLIOS

3.1

AGRICULTURE

KEY FINDING

- ▶ Controls and procedures require improvement to ensure the integrity and reliability of data generated from the Department's financial management system.

Paras 3.1.1 to 3.1.4

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

Department

Department of Agriculture

Public bodies

Daratech Pty Ltd
Egg Industry Licensing Committee
Melbourne Wholesale Fruit and Vegetable Market Trust
Murray Valley Citrus Marketing Board
Tobacco Leaf Marketing Board
Victorian Dairy Industry Authority
Victorian Dried Fruits Board
Victorian Egg Marketing Board
Western Metropolitan Market Trust

Comments on matters arising from the audit of the Department of Agriculture are discussed below.

DEPARTMENT OF AGRICULTURE

EDP review of financial management system

3.1.1 The Department's major computerised financial management and reporting system, known as FMS, is used for processing accounts payable and general ledger transactions. The FMS system is run on a minicomputer located at the Department's head office, which is linked to regional offices across the State.

3.1.2 For the financial year ended 30 June 1990, the Department's FMS system processed receipts and payments amounting to \$42.5 million and \$129 million, respectively.

3.1.3 An audit review of computer controls in the financial management system late in 1990 resulted in the following key findings:

- ▶ daily operations access controls in need of review;
- ▶ weaknesses in data communication access facilities; and
- ▶ deficiencies in emergency power supply, back-up procedures and storage.

3.1.4 **Audit recommended that the Department review controls in general computer access and data communications to minimise risks, investigate the feasibility of installing an uninterrupted power supply and implement appropriate controls to improve back-up procedures and storage.**

Management response

All controls and procedures associated with the operation of, and access to the Department's computing facilities are being kept under constant review. Areas identified by the review are being carefully considered and any opportunity for improvement will be implemented.

The cost of installing an uninterruptable power supply for the Department's present mini-computer facility and current systems is not considered justifiable because access to the existing system is not time critical. Only current transaction data is lost in the event of a power failure. The Department's mini-computers are currently protected from power surges by a power conditioner.

Losses and thefts

3.1.5 The Department has notified audit of thefts of equipment totalling approximately \$18 000 for the year ended 31 December 1990. Police investigations have been undertaken but no recoveries had been made.

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>
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— ACTION COMMENCED —

Department of Agriculture

<i>Ministerial Portfolios, May 1990, pp. 22-5</i>	Deficiencies in the management of scientific equipment.	Position progressively improving. Action taken by regional units to improve the information recorded in asset registers has had limited positive results. Further improvement is required in relation to the disposal of idle and obsolete equipment.
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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>
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Completed audits

Department of Agriculture	30 June 1990	31 October. <i>Annual Reporting Act 1983, s.8.</i>	8 October 1990	9 October 1990
Bioplantech Limited (a)	30 June 1989	No reporting requirements. Audit conducted at request of Treasurer and under Companies (Victoria) Code	19 February 1990	23 April 1990

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>
Citrus Fruit Marketing Board	31 December 1989	<i>Marketing of Primary Products Act 1958, s.12A.</i>	14 March 1990	30 March 1990
" " (b)	Period 1 Jan 1990 to 30 June 1990	" "	27 November 1990	30 November 1990
Daratech Pty Ltd	30 June 1990	No reporting requirements. Audit conducted at request of Treasurer.	24 December 1990	28 February 1991
Egg Industry Licensing Committee	30 June 1990	30 September. <i>Egg Industry Act 1983, s.52</i>	25 September 1990	26 September 1990
Melbourne Wholesale Fruit and Vegetable Market Trust	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	26 September 1990	26 September 1990
Tobacco Leaf Marketing Board	31 March 1990	30 June. <i>Annual Reporting Act 1983, s.9</i>	25 June 1990	28 June 1990
Victorian Dairy Industry Authority	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	20 September 1990	28 September 1990
Victorian Dried Fruits Board	31 December 1989	31 March. <i>Annual Reporting Act 1983 s.9</i>	20 March 1990	30 March 1990
Victorian Egg Marketing Board	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	17 August 1990	24 September 1990
Victorian Fishing Industry Council (c)	Period 1 July 1989 to 29 November 1989	30 November. <i>Victorian Fishing Industry Council Act 1979, s.16.</i>	29 November 1990	30 November 1990
Western Metropolitan Market Trust	30 September 1989	31 December. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension of time to 30 April.	30 April 1990	10 May 1990
" "	30 September 1990	31 December. <i>Annual Reporting Act 1983, s.9.</i>	21 December 1990	28 December 1990

(a) Final audit. Company ceased operations in March 1989.

(b) Final audit. Replaced by the Murray Valley Citrus Marketing Board.

(c) Final audit. Replaced by the Victorian Fishing Industry Federation which is not subject to audit by the Auditor-General.

ARTS**KEY FINDINGS**

- ▶ Film Victoria's film investment performance has deteriorated significantly.
Paras 3.2.4 to 3.2.6
- ▶ Aggregate losses of \$762 000 have been incurred by the State Film Centre of Victoria Council on its theatre exhibition program over the last 3 years.
Paras 3.2.29 to 3.2.33
- ▶ One in every 7 films screened at the Council's Film Centre attracted an average audience of less than 10 patrons.
Paras 3.2.34 to 3.2.40
- ▶ Inadequate storage facilities have contributed to the deterioration in the condition of the Council's valuable film collection.
Paras 3.2.48 to 3.2.52
- ▶ There was marked improvement in public use of the Council's film and video hire facility.
Para. 3.2.49

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

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

FILM VICTORIA

3.2.1 The functions of Film Victoria (the Corporation) under the *Film Victoria Act 1981* are:

- ▶ to encourage, promote and assist in the production, distribution, exhibition and broadcasting of films and sound recordings for the entertainment and information of the public;
- ▶ to undertake the production of films;
- ▶ to promote and participate in any arrangement or agreement for the financing of film production;
- ▶ to promote the appreciation of films and sound recordings; and
- ▶ to conduct research for the purpose of improving the quality and effectiveness of films and sound recordings.

Financial performance

3.2.2 In recent years the Corporation has incurred significant operating deficits. In its 1989-90 financial statements the Corporation reported an operating deficit of \$1.7 million. However, audit found it necessary to issue a qualified audit opinion on these financial statements as a receipt of \$2.6 million, which was applied by the Corporation for capital purposes, had been included as part of revenue for the year. Audit considered that this amount should have formed part of the Corporation's equity. **On this basis the Corporation's true deficit for 1989-90 was \$4.3 million compared with a deficit of \$2.2 million reported by the Corporation. Accumulated deficits at 30 June 1990 totalled \$16.6 million.**

3.2.3 The major factors contributing to the year's deficit were a \$1.2 million increase in the write-off of investments in feature films and television, a reduction of \$617 000 in the return generated on investments in films and an increase of \$495 000 in the Corporation's subsidy to government agencies for the production of films and videotapes.

Management response

Film Victoria believes audit is incorrect in their assumption that the receipt of \$2.6 million was applied for capital purposes. In fact, the budget was planned by the Corporation and accepted by the Minister, that moneys received from government were used for recurrent areas and returns received from film and television would be used to give assistance in film and television.

This interpretation is also consistent with a recent exposure draft on revenue and equity put out by the Australian Accounting Research Foundation for comment by the accounting profession.

Film Victoria, in accordance with policy and industry standards, has, over the years, amortised the financial assistance given to producers over a period of 3 years from date of release.

The increase of \$495 000 in expenditure on films for government agencies is offset to some extent by income received in prior years. Audit has highlighted this and recommended that we change our accounting policy to reflect the income as prepaid revenue. The Corporation has agreed to do this.

Investment in films

3.2.4 My Report on Ministerial Portfolios, May 1990, included comment on the Corporation's poor investment performance in films and stressed the importance of the Corporation achieving an adequate return on its investments to ensure its long-term financial viability.

3.2.5 The audit review found that there was a further deterioration in the Corporation's film investment performance in 1989-90. Table 3.2A discloses relevant details:

TABLE 3.2A. INVESTMENT PERFORMANCE

<i>Item</i>		<i>1988-89</i>	<i>1989-90</i>
Total investments at end of year before write-off	(\$'000)	17 146	20 360
Accumulated return received on investments	(\$'000)	7 263	8 412
Accumulated losses on investments	(\$'000)	9 883	11 948
Percentage of losses	(%)	57.6	58.7
Return on investments (profit)	(\$'000)	162	19
Rate of return on investments	(%)	0.9	0.1

3.2.6 In its response to the issues raised by audit in the May 1990 Report, the Corporation indicated that it does not measure its film investment performance in financial terms alone. It also stated that its current recovery rates for returns on investments were sufficient to show that it was in fact achieving its objectives. **However, given the quite significant deterioration in the Corporation's film investment performance in 1989-90, audit considers that without specific corrective action in this area the Corporation's long-term financial viability will be dependent upon even higher capital contributions from government.**

Management response

Film Victoria is obliged primarily to carry out its duties in relation to its legislation. It is not the function of Film Victoria to assist only in areas of guaranteed profit returns. Our functions are to assist a culturally important industry. A direct capital return of 40 per cent is acceptable if accompanied by other indirect benefits consistent with legislative requirements.

Subsidy to government agencies for production of films and videotapes

3.2.7 The Corporation produces films and videotapes for various government agencies. These agencies are required to contribute to the Corporation's production costs on a basis negotiated between the parties.

3.2.8 Table 3.2B shows the level of subsidy provided to government agencies for production of films and videotapes in the last 3 financial years.

TABLE 3.2B. SUBSIDY PROVIDED TO GOVERNMENT AGENCIES
(\$)

<i>Item</i>	<i>1987-88</i>	<i>1988-89</i>	<i>1989-90</i>
Contributions from government agencies	281 900	670 400	665 700
Production costs	597 700	514 600	1 006 600
Surplus (subsidy)	(315 800)	155 800	(340 900)

3.2.9 The Corporation advised audit that the provision of these services to government agencies is an important means of assisting the film industry as a whole.

3.2.10 In view of the substantial financial subsidy provided by the Corporation, audit considers that there would be greater scope for more efficient and effective use of resources by both the Corporation and government agencies if a "user-pay" basis for the provision of services was in place.

Management response

Section 15 of the Act, which deals with the productions for government agencies, does not state that agencies are required to contribute financially.

The table should be read in conjunction with audit's report to management which highlights that the income from government agencies should be treated as prepaid revenue, not income, in the year in which it was received. The Corporation has accepted this recommendation.

Film Victoria will review possible arrangements including user pay and select the most efficient and effective arrangement.

Grant to Australian Film Studio

3.2.11 During 1988-89 and 1989-90, the Corporation provided grant funds totalling \$200 000 to Australian Film Studio, located at Broadmeadows, to assist in the construction of the Studio's facilities to produce the television series *Mission Impossible* and to meet expenses associated with the relocation of the series.

3.2.12 A review by audit of the grant application lodged by the Studio indicated that the Corporation had formed serious doubts as to the Studio's future financial viability, given the level of construction costs necessary to accommodate production of the television series. Notwithstanding these doubts, the Corporation approved the payment of grant funds to the Studio solely on the basis of the advantages that would accrue to the local film industry from relocation of the television series to the State.

3.2.13 Only a short series of *Mission Impossible* was actually filmed at the Studio. After completion of 13 episodes, filming of the series returned to the original interstate location. Subsequently, the Studio was placed in the hands of receivers.

3.2.14 While the Corporation indicated that the relocation of the series had benefited the film industry in Victoria, the Corporation could not, during the course of the audit, provide any evidence that an analysis had been undertaken to support this contention. It is surprising to note that, after being presented with a draft of this Report, the Corporation now asserts that an analysis was done.

3.2.15 **The Corporation should ensure cost-benefit analyses are undertaken before substantial funds are provided to external parties for specific projects.**

Management response

The abovementioned series was the principal production, however, others took place. Film Victoria felt, after lengthy reviews, that the leveraging of \$16 million worth of production into this State with a grant of \$200 000 would meet the stated functions of this Corporation.

Regarding paragraph 3.2.14, there was an analysis done and the government of the original location subsequently made a grant of \$5 million to get the series back. The Corporation always requests budgets and projections before committing funds to any projects.

STATE FILM CENTRE OF VICTORIA COUNCIL

3.2.16 Under the *State Film Centre of Victoria Council Act 1983*, the principal objectives of the Council are to:

- ▶ ensure that the State Film Centre is managed and operated in an efficient and economic manner; and
- ▶ increase the appreciation of, and promote public interest in films as a medium for providing education, information, knowledge and entertainment.

3.2.17 In meeting these objectives, the Council has responsibility for the acquisition, maintenance and circulation of the State's film and video collection. It operates an education program and a full-time theatre exhibition program which includes the management of 2 theatres and a theatre hire program for government and public use. The Council regards all of its programs to be inter-related.

3.2.18 The Council manages assets to the value of \$25.5 million and employed 34 full-time staff and 13 casual employees at 30 June 1990. Its total operating costs amounted to \$1.7 million for 1989-90.

3.2.19 During the year, audit carried out a review of various activities of the Council.

Overall conclusions

3.2.20 The Council's 1986 expectations that its theatre activities at the State Film Centre would quickly be operating on a sound financial basis and result in a greater appreciation of, and public interest in, films have not been realised. Factors such as poor attendance levels and accumulated losses clearly indicate a need for decisive strategic action to determine the future viability of the State Film Centre's theatre.

3.2.21 Specific findings arising from the review were:

- ▶ in the past the Council has not been in a strong position to evaluate the overall efficiency and effectiveness of its operations;
- ▶ the Council has incurred losses totalling \$762 000 on its theatre exhibition program for the last 3 financial years;
- ▶ in 1989-90 the average audience size for each film screening was only 30;
- ▶ inadequate storage facilities have contributed to the deterioration in the condition of the Council's valuable film collection;
- ▶ there was substantial under-utilisation of the Council's Grierson Theatre; and
- ▶ scope existed for the more efficient use of resources, with potential efficiency savings amounting to around \$24 000.

Management response

The performance audit of the State Film Centre has adopted only the traditional accounting procedures in relation to straight financial audits. The Council of the State Film Centre considers this approach inappropriate for a performance audit of a cultural body.

The Council, in properly interpreting its educative and cultural brief, specifically concerns itself with creating viewing contexts for films which are largely outside the commercial sector.

The Film Centre achieves its cultural objective, over the long term, by the operation of a number of strategically inter-related programs and activities. Considered as such, the Film Centre has experienced significant growth in its total audience reach. In 1990-91 the anticipated audience of the Film Centre's programs is 1.6 million for recurrent Government allocation of \$1.36 million, plus the provision of office space and cinemas. In 1989-90 the State Film Centre's combined activities reached a total audience of 1.5 million for a recurrent allocation of \$1.47 million, plus the provision of office space and cinemas.

Over the past 4 years, the State Film Centre services to the Victoria public have substantially increased, while its Government subsidisation has fallen approximately 26 per cent in real terms.

Strategic planning and measurement of corporate performance

3.2.22 An important part of the audit review concerned the Council's strategic planning and the procedures it had established for the measurement of corporate performance.

3.2.23 In 1987-88, the Council established a corporate strategy to provide the basis for its strategic direction for the 3 year period ended 30 June 1990. While specific strategies had been developed by the Council to achieve various objectives (set under each strategic issue), audit found that key performance measures to evaluate the efficiency and effectiveness of achieving those objectives had not been formulated by the Council. In addition, the Council had not systematically reviewed and assessed its overall performance against each strategy.

3.2.24 In the absence of appropriate performance measures, the Council has not been in a strong position to evaluate the overall efficiency and effectiveness of its operations.

3.2.25 The Council is currently finalising the strategic plan for the period 1990-91 to 1992-93. Specific efficiency and effectiveness performance measures have been included in the draft plan. **Given that the first year of the planning period has almost passed, it is important that the Council finalises its strategic plan to enable the periodic monitoring of its performance to commence.**

Management response

Regarding paragraph 3.2.24, Council does have performance measures for all its activities and they are both qualitative and quantitative.

Regarding paragraph 3.2.25, the Council is monitoring against the draft plan at this time. The Council also commissioned and participated in the development of a Business Plan and Location Review in 1989 and has since considered and adopted a number of the strategies outlined including an Organisational Review which was concluded in June 1990.

Management of theatre exhibition program

3.2.26 Under its theatre exhibition program, the Council screens *non-mainstream* films to paying audiences at the State Film Centre. In 1989-90, the program raised \$208 000 or 50 per cent of the Council's self-generated revenue for the year.

3.2.27 In a May 1986 submission to the then Minister for the Arts on the theatre exhibition program, the Council indicated that the program would have the potential to achieve financial self-sufficiency within the first few months of operation and envisaged no recurrent funding commitment from the Government. The Council perceived that the program would enable it to achieve its statutory objective of increasing the appreciation of, and promoting public interest in films.

3.2.28 During the review, audit examined the extent to which the Council's expectations of its theatre exhibition program have been realised.

Financial performance of program

3.2.29 An analysis by audit of the financial performance of the program revealed that, after taking into account all relevant costs, the **Council has incurred losses amounting to \$761 900 over the past 3 financial years.** Table 3.2C shows the operating results of the program for this period:

TABLE 3.2C. OPERATING COSTS OF THEATRE EXHIBITION PROGRAM
(\$)

<i>Item</i>	<i>1987-88</i>	<i>1988-89</i>	<i>1989-90</i>	<i>Total</i>
Revenue	286 600	299 900	207 800	794 300
less: Direct costs	272 800	306 600	293 200	872 600
	13 800	(6 700)	(85 400)	(78 300)
less: Indirect costs(a)	210 300	228 500	244 800	683 600
Net loss	(196 500)	(235 200)	(330 200)	(761 900)

(a) Includes salary costs met by the Ministry for the Arts and the notional rental of the theatre.

3.2.30 In the 6 months to December 1990, even though the average attendance level has increased to 37 per screening, there has been little improvement in the program's operating results (net loss, \$156 000).

3.2.31 Although admission charges set by the Council have increased annually on average by 7 per cent, revenue raised in 1989-90 decreased substantially.

3.2.32 In its ongoing assessment of the financial performance of the program the Council considers only a portion of the costs relating to the program operation such as wages of casual employees, film hire, advertising, publicity and materials. Other related costs such as permanent staff salaries, employer portion of superannuation, notional rental of the theatre and electricity have not been taken into account. The Council advised audit that these costs are in the nature of fixed or unavoidable costs which it is not required to recover in the pursuit of its statutory objective.

3.2.33 **By not taking into account all costs associated with the theatre exhibition program, the Council is not in a position to properly assess the program's performance including justification for the continued operation of the State Film Centre's theatre.**

Management response

The theatre exhibition policy was adopted, with Ministerial approval, on the basis it would require no additional recurrent funding and it would seek to recover incremental costs from revenues raised. Accordingly if incremental costs (excluding fixed costs such as notional rent) are matched against revenues, the Exhibition Program made a loss of \$77 000 over a 4 year period 1986-87 to 1989-90.

Management is monitoring the current financial performance of the program to ensure it meets program objectives.

Factors influencing financial performance

3.2.34 A number of factors have contributed to the poor financial performance of the program. Audit considers the most significant of these factors has been the consistently poor attendance level achieved by the program.

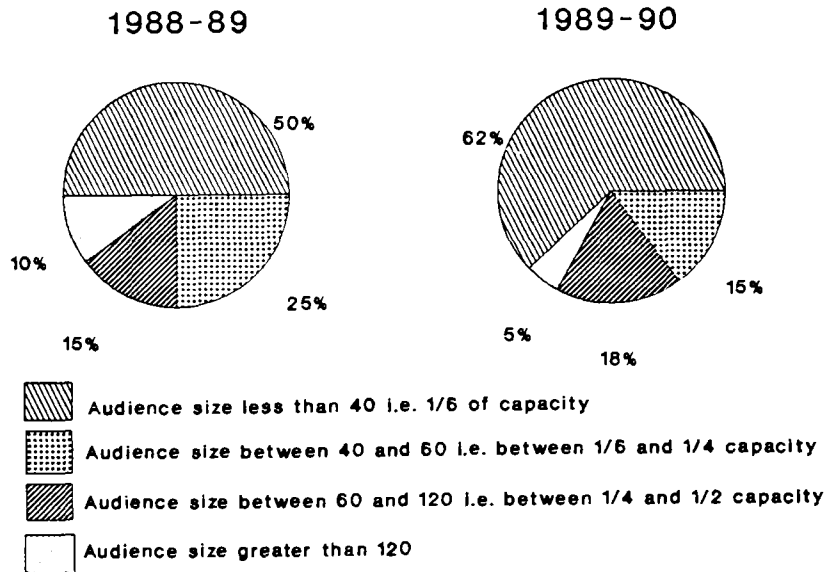
3.2.35 Table 3.2D below illustrates the declining attendances over the last 3 years which have led to a substantial increase in the level of the Government's subsidy per patron to the Council.

TABLE 3.2D. STATISTICS ON THEATRE EXHIBITION PROGRAM

Item	1987-88	1988-89	1989-90
Total attendance	52 422	51 571	32 298
Number of screenings	1 145	1 063	1 086
Average attendance per screening	46	48	30
Seating capacity occupied (%)	19	20	12
Subsidy per patron (\$)	3.75	4.56	10.22

3.2.36 The audit analysis revealed that, for the 3 years to 1989-90, the average audience size for each exhibition screening was 46, 48, and 30, respectively, compared with the 239 seating capacity of the Film Centre. In addition, Chart 3.2E illustrates the overall pattern of audience attendance over the last 2 years.

CHARTS 3.2E. AUDIENCE ATTENDANCE PATTERNS



3.2.37 Audit also found that during 1989-90, 1 in every 7 films screened at the Film Centre attracted an average audience of less than 10, or 4 per cent of the theatre's capacity. It is estimated that, based on current cost levels the Council would need to achieve an annual audience size of 82 800 or 76 patrons per screening to achieve a break-even position. Alternatively, based on average admission prices in 1989-90, admission charges would need to be raised by 157 per cent.

3.2.38 In assessing the impact of attendance levels on the theatre exhibition program's financial performance, audit examined the Council's procedures for selection of films for public screenings at the Film Centre. Audit found that the Council does not systematically examine the financial viability of selected films. The Council advised audit that this evaluation has not been performed as greater priority was given to other factors including the gaining of new audiences. However, the size of audiences attracted by the Council to date do not reflect any improvement in this area.

3.2.39 The implications of the failure of the Council to systematically evaluate the financial viability of films can be gleaned from the fact that since December 1987, 5 films which attracted an average audience of less than 10 had been screened more than 20 times with 2 of these films screened 56 and 58 times, respectively. The Council advised that other factors such as advance advertising and unavailability of other films may also necessitate the screening of unpopular films for prolonged periods.

3.2.40 Without systematic evaluation of films, the Council cannot be assured that films selected for screening will attract sufficient audience to enable it to recover all costs. The longer unpopular films are screened by the Film Centre, the greater will be the subsidy provided by Victorian taxpayers.

Management response

Regarding paragraph 3.2.37, this data is selective and misleading. Audit analysis of the Film Centre's use of the State Film Theatre and its use of "Audience Attendance Patterns" pie charts is misleading because it omits any consideration of the Education Program screenings which in 1989-90 reached an additional audience of 41 077.

Regarding paragraph 3.2.39, this is misleading because audit has failed to say that these titles were spread over a 4 year period and that they represent less than 4 per cent of the total number of first release seasons during that period and less than 1 per cent of the total film screenings during the period.

Regarding paragraph 3.2.40, detailed information on program evaluation was provided. The Exhibition policy and its relationship to the Centre's library function is important. The program is deliberately situated on "the cutting edge" where there is always a possibility of small audiences. However, films may gain excellent critical responses enhancing success in the longer-term through sales in other markets.

The Centre's role is to broaden exhibitors and the public notion of what is commercially viable and culturally significant and can cite some notable successes in this manner.

Negative location and visibility factors hinder the level of audiences.

Action taken by the Council to improve patronage

3.2.41 Action taken by the Council in response to falling attendances has included a specific public awareness and marketing campaign, negotiation of plans for relocation of the Film Centre and introduction of measures to improve the Centre's competitiveness with privately-operated theatres.

3.2.42 Early in 1988 the Council engaged a consultant to undertake a survey of public awareness of the Film Centre. The results of the survey indicated that 74 per cent of respondents were aware of the Centre, but only 14 per cent of the respondents had actually used the services of the Centre.

3.2.43 Although the results of the survey in terms of utilisation of the Film Centre were hardly encouraging, the Council, in subsequent years, has only marginally increased the level of its marketing activity. **In addition, the Council has not specifically identified the size of the market for "non-mainstream" films, which means it is not in a position to gauge the existing potential for increasing its audience capacity.**

3.2.44 For some time the Council has been concerned as to the adequacy of its premises and location. These concerns have principally focused on the low public visibility of and poor accessibility to the Film Centre as well as certain health and safety problems. Since 1985, protracted negotiations have taken place with the former Department of Property and Services (now part of the Ministry of Finance) on the relocation of the Film Centre. Audit was advised that this issue is yet to be resolved.

3.2.45 **In audit opinion, there are other important issues, such as the need for clear identification of the market for "non-mainstream" films and the adequacy of the Council's existing operations to maximise revenue and control costs, which require resolution, as distinct from the question of the Council's relocation.**

3.2.46 A recent initiative aimed at improving the Film Centre's overall competitiveness has involved the acquisition of distribution rights for particular films during the latter part of 1990. The Council anticipates that the additional costs arising from this initiative will be recovered from increased patronage at the Centre and distribution commission from the films received from other theatres.

3.2.47 **While the Council has taken some action in response to poor attendance levels and accumulated losses, there is clearly a need for more decisive strategic action to determine the future viability of the State Film Centre's theatre.**

Management response

A longer-term strategy was developed to meet the possibility of an attendance downturn through the introduction of a pilot Distribution Program. Quality titles are now being acquired for Australian distribution to fill local "market gaps" with material which has been critically acclaimed overseas. The first title "Yaaba" has successfully commenced its season.

Film and video collection

3.2.48 An important statutory function of the Council is to preserve, develop and maintain a library of documentary films and videos, a proportion of which are of historical significance. At 30 June 1990, the collection comprised some 31 500 items with a value estimated by the Council to be around \$25 million (films, \$24 million; videos, \$570 000).

3.2.49 The Council's collection of films and videos is available for loan free of charge to the public. During 1989-90, 41 800 items (films, 13 000; videos, 28 800) were borrowed and **the level of borrowings has improved markedly during the 7 months ended January 1991 (43 500).**

3.2.50 However, the audit review identified significant deficiencies in the storage of the **Council's film collection** including :

- ▶ the absence of effective temperature, humidity and dust control mechanisms; and
- ▶ an acute shortage of storage space resulting in inappropriate storage of films.

3.2.51 **The Council agreed that the above deficiencies have contributed to the deterioration in the condition of its film collection.** However, it was not able to identify the extent and costs of such deterioration. In its negotiation with the Government on its relocation, the Council has included provision for effective storage facilities for the collection. In addition, it has appointed an officer whose principal responsibility is to preserve the quality of the collection.

3.2.52 **Given the value and historical importance of the Council's film collection, the provision of adequate storage facilities should be promptly resolved.**

Management response

Council agrees with audit. Since its inception in 1983, the State Film Centre of Victoria Council has been actively developing proposals and strategies for the relocation of the State Film Centre in purpose built facilities to protect its assets, improve its services, public profile, sponsorship potential and level of patronage.

Theatre hire

3.2.53 The 2 theatres under the Council's management, the State Film Centre and the Grierson Theatre, are available for hire. Revenue received from theatre hire for 1989-90 totalled \$49 300 (\$53 500, 1988-89; \$46 200; 1987-88).

3.2.54 As the Council does not maintain statistics on theatre hiring, it was necessary for audit to compile the relevant data from the Council's source records in order to assess the level of utilisation of the 2 theatres. This audit exercise revealed that the Grierson Theatre had been hired out, on average, for only 2.5 hours per week. This limited use can be attributed to the theatre's small audience capacity, the absence of a foyer and its poor facilities.



Grierson Theatre.

3.2.55 In view of the substantial under-utilisation of the Grierson Theatre, the Council should carry out a review to identify alternative uses.

Management response

Additional or alternative use of the Grierson Cinema is restricted by structural limitations. Funds for refurbishment program were not available.

Further opportunities for efficiency savings

3.2.56 During the review, audit also looked at certain activities of the Council including:

- ▶ the Council's cash management procedures;
- ▶ the operation of a coffee shop situated in the foyer of the State Film Centre's theatre; and
- ▶ a Council initiative involving the provision of a film projector repair service.

3.2.57 The findings from this segment of the review included:

- ▶ interest income forgone as a consequence of the operation of 2 non interest-bearing bank accounts and adverse impact on the Council's return on funds from payments to film distributors;
- ▶ scope for higher revenue from coffee shop trading if all relevant costs were taken into account when setting prices; and

- ▶ the low level of activity of its projector repair service which has precluded the Council from achieving full cost recovery.

3.2.58 Savings of around \$24 000 would result from more efficient use of the Council's resources in the above areas.

Management response

Potential efficiency savings of \$24 000 is refuted as amounts included could not in fact be saved such as certain salaries, notional rent and cleaning costs and superannuation not paid by the Centre.

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>
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— MATTERS RESOLVED —

Film Victoria

<i>Ministerial Portfolios, May 1990, pp. 39-40</i>	Absence of procedures to verify the accuracy of amounts received from film producers and the dates on which productions are sold.	Copies of sales agreements and reports from film distributors now obtained.
<i>Ministerial Portfolios, May 1990, pp. 41-2</i>	Unsatisfactory financial performance of the Melbourne Film Studio.	Lease on studio expired in October 1990 and was not renewed.

— ACTION COMMENCED —

Ministry for the Arts

<i>Ministerial Portfolios, May 1990, pp. 30-1</i>	Deficiencies in the Ministry's procedures relating to the provision of grants and subsidies to public libraries and regional art galleries.	The Ministry has taken steps to improve procedures for the provision of grants and subsidies.
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Council of the Museum of Victoria

<i>Fourth Report, 1983-84, p.29</i> <i>Second Report, 1985-86, p. 65</i> <i>Ministerial Portfolios, May 1990, p. 32</i>	Slow progress has been made in compiling a centralised register of the State Collection.	Establishment of the centralised register is continuing, however, due to the nature of the Collection, it will take several years to complete.
<i>Second Report, 1985-86, p. 65</i>	Delays in finalising financial statements.	The Council has improved the timeliness of its financial reporting. However, it did not meet its legislation reporting deadline.
<i>Ministerial Portfolios, May 1989, pp. 25-7, May 1990, p. 31</i>	Inadequate storage facilities causing damage to State Collection at a rate of several million dollars annually.	Storage facilities have been incorporated in the designs for the Council's new premises at Spotswood and Southbank.

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>
— ACTION COMMENCED - continued —		
Council of Trustees of the National Gallery of Victoria		
<i>Ministerial Portfolios, May 1990, p. 33</i>	Slow progress has been made in compiling a register of all items in the State Collection.	Compilation not likely to be completed until late 1991.
<i>Ministerial Portfolios, May 1990, p. 34</i>	Inadequate procedures relating to bookshop and publication activities.	The Council is in the process of implementing revised procedures.
Council of Trustees of the National Gallery of Victoria		
<i>Ministerial Portfolios, May 1990, p. 35</i>	Excessive amounts owed to the Council for extended period.	The Council has implemented procedures aimed at the timely collection of amounts owing.
<i>Ministerial Portfolios, May 1990, p. 35</i>	Non-compliance with the Government's accounts payable policy.	Instances remain where accounts are not paid in a timely manner in accordance with the Government's accounts payable policy.
Film Victoria		
<i>Second Report, 1986-87, pp. 38-40</i> <i>Ministerial Portfolios, May 1990, p. 36</i>	Little progress has been made by the Corporation in developing performance measures.	Performance measures have been developed but its Board has not endorsed the application of these measures.
<i>Ministerial Portfolios, May 1990, p. 37</i>	Lack of independent verification of information included in film producer's reports to support applications for financial assistance.	The Corporation has introduced procedures which result in verification of only randomly selected applications.
— NO ACTION TAKEN —		
Council of the Museum of Victoria		
<i>Second Report, 1986-87, p. 36</i>	Unsatisfactory financial records.	Crown land, buildings and certain other real and personal fixed assets are still not quantified or valued by the Council. However, Crown land and buildings have been listed with Department of the Treasury for valuation by Valuer-General. Recording and reporting of other non-current assets will be undertaken upon release of Department of the Treasury guidelines.

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>
— NO ACTION TAKEN - <i>continued</i> —		
Council of the State Library of Victoria		
<i>Second Report, 1985-86, p. 66</i>	State Collection not valued.	Situation unchanged. Specialists have placed a broad estimate on the value of the State Collection. However, the Council has not obtained a reliable valuation for financial reporting purposes.
Council of Trustees of the National Gallery of Victoria		
<i>Ministerial Portfolios, May 1990, p. 33</i>	State Collection not valued.	State Collection still not valued.
Film Victoria		
<i>Ministerial Portfolios, May 1990, pp. 37-9</i>	Inadequate return on the Corporation's investment.	Situation unchanged. For further comments, refer paragraph 3.2.4 to 3.2.6 of this Report.
<i>Ministerial Portfolios, May 1990, p. 40</i>	Interest is not charged on outstanding loan balances.	The Corporation has adopted a policy in 1989-90 of not accruing interest on outstanding balances but only bringing to account interest when received.
<i>Ministerial Portfolios, May 1990, pp. 40-1</i>	Excessive write-off of non-recoverable loans.	In 1989-90 all non-performing loans were converted to grants which in substance is equivalent to write-off action.

Schedule B. Completed/incomplete audits

<i>Entity ended</i>	<i>Financial year</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits				
Ministry for the Arts	30 June 1990	31 October. <i>Annual Reporting Act 1983, s.8.</i>	26 October 1990	31 October 1990
Council of the Museum of Victoria	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	3 October 1990	9 October 1990 (a)

Schedule B. Completed/incomplete audits - continued

<i>Entity ended</i>	<i>Financial year</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits				
Council of the State Library of Victoria	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension to 31 October 1990.	22 November 1990	19 December 1990 (a)
Council of Trustees of the National Gallery of Victoria	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	29 October 1990	30 November 1990 (a)
Film Victoria	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	19 September 1990	20 November 1990 (a)
Geelong Performing Arts Centre Trust	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	26 September 1990	9 October 1990
State Film Centre of Victoria Council	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	25 September 1990	28 September 1990
Victorian Arts Centre Trust	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	26 October 1990	7 November 1990 (a)

(a) Qualified audit report issued.

ATTORNEY-GENERAL

KEY FINDING

- ▶ The question of the ownership of certain assets currently vested in the State Trust Corporation of Victoria, which has been raised in previous audit reports, has been considered by the Parliament and the Attorney-General.

Paras 3.3.1 to 3.3.6

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
Judicial Studies Board *
Law Reform Commission
Legal Aid Commission of Victoria
Legal Aid Commission Staff Superannuation Fund
Office of the Public Advocate
Patriotic Funds Council
State Trust Corporation of Victoria
Victorian Institute of Forensic Pathology

* The Act establishing the Board received Royal Assent on 20 November 1990.

The audit of the financial statements of entities within this portfolio proved satisfactory.

STATE TRUST CORPORATION OF VICTORIA

Transfer of beneficiaries' assets

3.3.1 In paragraphs 3.3.21 to 3.3.31 of my *Report on Ministerial Portfolios, May 1990* reference was made to the ownership status of assets previously held in trust for beneficiaries. For the purpose of continuity the relevant comments on this issue are reproduced below.

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

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

- a building at 168 Exhibition Street, Melbourne, occupied by the Corporation and valued at \$11.1 million in 1987 (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 *Public Trustee Act 1958* (the repealed 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.

"In the Report on Ministerial Portfolios, May 1989, audit expressed concern that the new Act, and in particular section 43, had the effect of retrospectively changing the ownership status of assets previously held in trust for beneficiaries. In response to representations made by my Office, the Corporation referred the matter to the Supreme Court of Victoria for a ruling to clarify the position.

"In a judgement delivered on 16 December 1988, Mr Justice Gray found that by virtue of the operation of section 43 of the new Act the Corporation was the legal owner of the assets vested in it including the building and the funds held in EGRA.

"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 forgone 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."

"With the passing of the new Act it is clear that the assets in question are now legally owned by the Corporation.

Consultant's review

"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, the Attorney-General appointed an independent consultant in 1989 to determine whether any injustices to beneficiaries occurred as a result of the new Act.

"The independent consultant concluded that:

- ▶ **the former Public Trustee did not hold the assets in his own right absolutely nor on trust for any person or persons but rather as "statutory owner" under the terms of the repealed Act;**
- ▶ **injustices, as referred to by Mr Justice Gray, did occur to the fund holders of the Common Fund under the repealed Act; and**
- ▶ **the new Act exacerbated the unfair elements of the repealed legislation.**

"The unfair elements of the repealed legislation were seen as:

- ▶ Ownership of the building was transferred to the State Trust Corporation under the new Act. As a consequence, fund holders were deprived of the benefits flowing from the capital appreciation of the building from the date of purchase in 1972 of \$7.7 million;
- ▶ The building was originally financed from a single common fund, which has since been divided into Common Fund No. 1 and Common Fund No. 2. While the new Act recognised that the original purchase price of the building of \$3.4 million was repayable to beneficiaries, it deemed that only beneficiaries of Common Fund No. 1 should benefit. As a consequence, beneficiaries of the original fund who are now members of Common Fund No. 2 received no benefit despite the fact that a portion of their moneys also financed the building; and
- ▶ Fund holders have incurred an additional loss of investment income since the establishment of the Corporation on 2 November 1987. On that date, the Corporation as the declared owner of the building, reverted from paying market rental to members, to paying interest on the \$3.4 million it had originally borrowed.

"Audit has calculated the income forgone by fund holders for the period 2 November 1987 to the date the loan was repaid by the Corporation to Common Fund No. 1 was \$1.5 million.

"The consultant's report which provides a number of alternatives to remedy the injustices to beneficiaries has been referred to the Attorney-General."

Subsequent developments

Report by the Economic and Budget Review Committee

3.3.2 In its November 1990 Report on matters arising from the Auditor-General's *Report on Ministerial Portfolios, May 1990* the Committee concluded, in respect of matters relating to the building at 168 Exhibition Street, Melbourne:

"The Committee finds that the beneficiaries of the State Trust Corporation were not entitled to the capital appreciation of the building at 168 Exhibition Street Melbourne, under the Public Trustee Act 1958 and hence have not been deprived of a capital gain by the introduction of the State Trust Corporation of Victoria Act 1987."

3.3.3 With regard to the transfer of assets held in the Estate Guarantee Reserve Account the Committee stated:

"The Committee notes that the transfer of the Estate Guarantee Reserve Account to the ownership of the Corporation by the 1987 Act might be regarded as unfairly depriving the beneficiaries of the security which the Estate Guarantee Reserve Account provided, but that whether this is so in the end depends on the attitude of government to the securing of beneficiaries entitlements."

Attorney-General's determination

3.3.4 My Report on Ministerial Portfolios, May 1990 quoted the Attorney-General's Department's response to my comments indicating that the matter now rests with the Attorney-General to determine the most appropriate solution to issues raised in the consultant's report.

3.3.5 On 12 September 1990, the Attorney-General advised the Treasurer as follows:

"I refer to your letter about the issues associated with the transfer of beneficiaries assets, namely the Building and the Reserves of the Corporation as summarised in the Auditor-General's Report.

"As noted in your letter, an independent consultant was appointed by the former Attorney-General to review the transfer of assets and the consultant's report identified possible ways of remedying the situation.

"I have considered the report and find that I cannot entirely agree with it; nor do I believe the situation can be rectified as the report suggests. The transfer occurred as a result of an Act of Parliament and both the Auditor-General and the independent consultant agree that the Corporation has acted in this matter in accordance with the Act. I do not at this time intend to propose any changes to the Act."

Audit comment

3.3.6 As suggested in previous Auditor-General's Reports, there is no doubt in my mind that with the passing of the *State Trust Corporation of Victoria Act 1987*, the legal ownership of the assets in question passed to the Corporation. **I still, however, have lingering reservations whether it is appropriate that the State Trust Corporation should have benefited from this change of ownership.**

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>
———— MATTERS RESOLVED ————		
Attorney-General's Department		
<i>Ministerial Portfolios, May 1990, pp. 50-1</i>	Interest forgone by retaining funds in non-interest bearing accounts.	Position now satisfactory. Bank accounts consolidated and surplus moneys invested.
Legal Aid Commission of Victoria		
<i>Ministerial Portfolios, May 1990, pp. 53-4</i>	Insufficient documentary evidence of the reasons for decisions to approve applications for legal assistance and inadequate procedures in relation to the granting of legal assistance.	The Commission has taken action to improve internal controls in order to ensure that adequate documentation exists to support decision to grant legal assistance.
State Trust Corporation of Victoria		
<i>Ministerial Portfolios, May 1989, pp. 31-3</i>	Injustice occurred due to the transfer of beneficiaries' assets to the Corporation under provisions of the <i>State Trust Corporation of Victoria Act 1987</i> .	Matter resolved. The Attorney-General does not propose any changes to the Act. Further comment is contained in paragraphs 3.3.1 to 3.3.6 of this Report.
<i>Ministerial Portfolios, May 1990, pp. 54-6</i>		
<i>Ministerial Portfolios, May 1989, p. 33</i>	Failure to bring to account accrued revenue and expenses at the date of setting up the Corporation and accrued capital commissions at 30 June 1988.	Position now satisfactory. The Corporation can now substantiate the amount of capital commission accrued. The qualification of its financial statements has been removed.
<i>Ministerial Portfolios, May 1990, pp. 56-8</i>	Concern was expressed by the Senior Master of the Supreme Court on certain aspects of the Corporation's operations affecting the administration of the estates of beneficiaries.	The Corporation's commission sharing arrangements have been discontinued and commissions received have been returned to clients. The Corporation has, from 1 January 1991, introduced a revised fee structure so as to clarify any confusion or misunderstanding, in particular, as it relates to funds transferred from the Courts.

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>
———— ACTION COMMENCED ————		
Attorney-General's Department		
<i>Second Report, 1982-83, p. 65 Third Report, 1983-84, p. 33 Second Report, 1986-87, p. 43 Ministerial Portfolios, May 1990, p. 52</i>	Pooling and investment of court funds. The Senior Master of the Supreme Court suspended from 1 June 1989 all court transfers to the State Trust Corporation for investment.	Apart from approximately \$62 000 transferred to the State Trust Corporation the position remains unchanged. For further comments refer to State Trust Corporation of Victoria in this Status Report.
<i>Third Report, 1983-84, p. 32 Second Report, 1985-86, pp. 70-1 Ministerial Portfolios, May 1990, pp. 226-7</i>	Debtors understated in Department's financial statements.	Position unchanged. The Office of Chief Commissioner of Police established a taskforce to look into the matter of reducing the amount of outstanding fines but little progress has been made. The financial statements were qualified with regard to outstanding fines held at the Information Bureau Registry of the Office of the Chief Commissioner of Police. Further comment is contained in paragraphs 3.15.35 to 3.15.51 of this Report.
<i>Ministerial Portfolios, May 1990, pp. 52-3</i>	Inability to prepare reliable financial information on a timely basis.	Considerable improvement made, however, still lack of involvement by internal audit.
State Trust Corporation of Victoria		
<i>Ministerial Portfolios, May 1989, p. 34</i>	Lack of centralised register of beneficiaries' assets.	A computerised register of beneficiaries' assets has been established. However, register has not been reconciled with manual records.

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>
—— ACTION COMMENCED - <i>continued</i> ——		
<i>Ministerial Portfolios, May 1990, pp. 58-9</i>	Many advantages would be gained by having more than one fund manager over its substantial investment portfolio.	The previous fund management contract expired on 28 February 1991. The Corporation has advised that approximately \$170 million of Common Fund investments are now managed in-house and the balance of \$120 million is under the management of the State Bank. The Corporation intends in time to manage all Common Funds in-house controlled by an Investment Committee and supported by external advisers.
<i>Ministerial Portfolios, May 1990, p.59</i>	Failure to account for profit or loss on sale of investment at the time of transaction.	Position now satisfactory. Fund manager instructed that no further transactions of this type are to be undertaken.

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>
Completed audits				
Attorney-General's Department	30 June 1990	31 October. <i>Annual Reporting Act 1983, s.8.</i>	30 October 1990	31 October 1990(a)
Office of the Director of Public Prosecutions	30 June 1990	31 October. <i>Annual Reporting Act 1983, s.8.</i>	23 October 1990	30 October 1990
Estate Agents Board	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	18 September 1990	25 September 1990
Guardianship and Administration Board	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	24 September 1990	28 September 1990
Law Reform Commission of Victoria	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	1 October 1990	1 October 1990
Legal Aid Commission of Victoria	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	13 September 1990	25 September 1990(a)
Legal Aid Commission Staff Superannuation Fund	30 June 1990	30 September. <i>Legal Aid Commission Act 1978, s.42.</i>	13 September 1990	25 September 1990
Office of the Public Advocate	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	21 September 1990	28 September 1990
Patriotic Funds Council	Period 14 November 1989 to 6 July 1990	No date specified. <i>Patriotic Funds Act 1958, s.28.</i>	(b)	(b)
State Trust Corporation of Victoria	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension of time to 31 January 1991.	13 November 1990	13 November 1990
Victorian Institute of Forensic Pathology	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	24 September 1990	28 September 1990

(a) Qualified audit report issued.

(b) Financial statements not prepared as no transaction occurred.

3.4

COMMUNITY SERVICES

KEY FINDING

- ▶ The audit of the financial statements of the Department of Community Services proved satisfactory.

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.

The audit of the financial statements of the Department of Community Services proved satisfactory.

DEPARTMENT OF COMMUNITY SERVICES

Thefts and losses

3.4.1 The Department of Community Services advised that losses of stores and equipment for the period 1 January 1990 to 31 December 1990 totalled \$17 700.

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>
— ACTION COMMENCED —		
<i>Ministerial Portfolios, May 1989, p.40</i>	Personnel practices and management procedures at training and reception centres require review with the aim of eliminating practices which contribute to higher levels of overtime and allowances.	A number of improvements have been implemented. Staffing levels are being negotiated and rostering procedures are under review.
<i>Ministerial Portfolios, May 1990, p.64</i>	Scope for improved economy and efficiency in the delivery of food services in state training centres.	A working party has been established by the Department to review catering management practices.

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>
Completed audits				
Department of Community Services	30 June 1990	31 October. <i>Annual Reporting Act 1983, s.8.</i>	16 October 1990	30 October 1990

CONSERVATION AND ENVIRONMENT

KEY FINDINGS

- ▶ The lack of an information technology strategic plan has an impact on the ability of the Environment Protection Authority to develop proactive strategies to deal with pollution or environmental degradation.
Paras 3.5.12 to 3.5.16
- ▶ The self-monitoring strategies reflect an "honour system" approach which could be subject to deception and manipulation by licensees in the timing of samples.
Paras 3.5.17 to 3.5.26
- ▶ Aggregate losses in excess of \$31 million were incurred by the Melbourne and Metropolitan Board of Works (MMBW) on the operation of its waste treatment plant at Tullamarine.
Paras 3.5.74 to 3.5.80
- ▶ The MMBW's abandonment of a proposed permanent waste treatment plant at Diggers Rest resulted in a loss of \$1.9 million
Paras 3.5.81 to 3.5.85
- ▶ Of the MMBW's 911 trade waste inspections in arrears, around 220 were assessed to be of either high or medium risk.
Paras 3.5.99 to 3.5.104
- ▶ The MMBW has instigated various strategies aimed at increasing its overall organisational efficiency.
Paras 3.5.140 to 3.5.152
- ▶ A total of 120 houses, with an estimated market value of \$8.4 million and no longer required to be occupied by Rural Water Commission personnel, remained unsold.
Paras 3.5.163 to 3.5.166
- ▶ The Department of Conservation and Environment has implemented initiatives to reduce financial viability problems of non-metropolitan water authorities.
Paras 3.5.183 to 3.5.186
- ▶ Albert Park and State Swimming Centre Committees of Management are in a poor financial position.
*Paras 3.5.210 to 3.5.215
and Paras 3.5.226 to 3.5.232*
- ▶ The financial performance of the Melbourne Sports and Entertainment Centre is deteriorating.
Paras 3.5.216 to 3.5.225

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

Department

Department of Conservation and Environment

Public bodies

Albert Park Committee of Management Incorporated
Bundoora Park Committee of Management
Healesville Sanctuary Trading Pty. Ltd.
Melbourne and Metropolitan Board of Works
Melbourne and Metropolitan Board of Works Employees' Superannuation Fund
Mount Macedon Memorial Cross Committee of Management
Non-metropolitan water authorities (171)
Olympic Park Management
Penguin Reserve Committee of Management
Port Bellarine Committee of Management
Rural Water Commission of Victoria
Shrine of Remembrance Trustees
State Swimming Centre Committee of Management
Victorian Conservation Trust
Victorian Institute of Marine Sciences
Victorian Institute of Marine Sciences Superannuation Fund
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 AND ENVIRONMENT

Environment Protection Authority

Background

3.5.1 The Environment Protection Authority (EPA) was established under the *Environment Protection Act 1970* (the Act) with the following objectives:

- ▶ to provide a means of preventing pollution and to place the State in a position of knowing what degradation of the environment is taking place;
- ▶ to provide firm controls on pollution if it should occur;
- ▶ to assume overall responsibility for environment protection in order to eliminate fragmentation and achieve comprehensive, co-ordinated action; and
- ▶ to establish policies in respect of conditions to be maintained in Victoria's environment.

3.5.2 During the year ended 30 June 1990, the EPA in carrying out its objectives expended \$15.5 million and collected \$3.8 million in revenue.

3.5.3 **The EPA exists as an organisation with the environment at the top of its agenda. Fundamentally, it is expected to be accountable as an independent environmental auditor, encouraging and keeping people honest in their relationships with the environment.**

3.5.4 An audit review was undertaken of the licensing and monitoring systems which are the principal mechanisms used by the EPA to achieve the objective of preventing pollution and knowing what degradation is taking place.

Overall conclusion

3.5.5 Overall the audit review disclosed that:

- ▶ **there is limited assurance that the information held by the EPA on industrial processes, volumes, rates and composition of discharges, emissions etc. is accurate and incorporates significant changes in industrial and other processes that have occurred since the initial granting of a licence to discharge;**
- ▶ **the self-monitoring strategy reflects an "honour system" approach which could be subject to deception and manipulation by licensees in the timing of samples;**
- ▶ **the EPA has not developed a formalised environmental risk management strategy to justify the allocation of resources towards particular individuals, firms or industries;**
- ▶ **the application of pollution offences under the Act had, on the basis of fines magnitude alone, been of limited success in deterring polluters; and**
- ▶ **although it had been in a position to do so, the EPA had not obtained details of discharges to sewers, under trade waste agreements between dischargers and sewerage authorities, and therefore was not in a position to assess the risk to the environment from industrial waste.**

Licensing system

3.5.6 The EPA controls the volume, types, constituents and effects of waste discharges and emissions by the issue of licences. The licensing system regulates what can be discharged directly to a water course, the atmosphere, land or from a sewer. Discharges have to be processed by licensees so that the outflow satisfies the EPA's licence conditions.

3.5.7 A discharger pays a fee for the granting of a licence, the rates for which are specified in the Act and in Regulations. During the year ended 30 June 1990, licence, permit and works approval fees revenue totalled \$3.2 million.

3.5.8 Only premises listed under certain schedules to the Act are required to be licensed for discharges. In 1984, the EPA adopted the practice of dispensing with licences for minor discharges by rescheduling premises so that licences are issued only to *significant waste producers*. This served to rationalise the monitoring process by concentrating on those discharges of significant size or severity of environmental contamination.

3.5.9 The licensing system thus gives permission to discharge sources of pollutants and other substances to the environment.

3.5.10 The Act makes it an offence:

- ▶ to discharge waste to the environment without a licence in circumstances where a licence is required; and
- ▶ for a licence holder to fail to comply with any condition, limitation or restriction to which the licence is subject.

3.5.11 In addition to the *licensing* offences, the Act establishes offences of pollution of water, air and land, which apply to activities including regular discharges exempted from the licensing system and accidental discharges.

Limitations of the licensing system

3.5.12 The licensing system provides the EPA with a wide range of information covering matters such as industrial processes supporting works approvals and licences, self-monitoring results, complaints histories, penalties issued histories, records of visits and reports by EPA officers and other information relating to the past experience of a particular organisation with the EPA.

3.5.13 The information is, however, maintained on individual licence files, rather than on a computerised management information system.

3.5.14 In June 1990, the EPA's Computer Support Section developed an Information Technology Strategic Plan which identified that there was:

- ▶ no effective structure for planning, developing and supporting information technology; and
- ▶ no central focus for computing or co-ordination of essential information and other data functions.

3.5.15 **The identified deficiencies impact on the ability of the EPA to develop proactive strategies to deal with pollution or environmental degradation.**

3.5.16 The Strategic Plan has been adopted and endorsed by the EPA's senior management.

Self-monitoring

3.5.17 "*Self-monitoring*" is the primary monitoring requirement included by the EPA in licence conditions.

3.5.18 Where self-monitoring practices are embodied in the licence, they require adherence to one or both of the following conditions:

- ▶ reporting at regular intervals or at least once a year the results of the testing, by an approved laboratory, of effluent or emission samples; and/or
- ▶ submission of reports when breaches of licence conditions have occurred.

3.5.19 The deficiencies in the management information systems, referred to in paragraph 3.5.14, together with the fragmentation of the filing of information relating to individual licensees, make it difficult for both the EPA and audit to obtain summary information as to the extent of compliance with self-monitoring by individual licensees, regions or industry groups and, in particular, the extent of the reporting of breaches of licensing conditions.

3.5.20 My *Report on Ministerial Portfolios, May 1990* stated that the **self-monitoring of waste discharge and stack emissions has the potential of reported results being manipulated by licence holders.**

3.5.21 Audit maintains that its reported concerns about self-monitoring remain valid. These concerns are supported by the Office of the Commissioner for the Environment which in its report on Victoria's Inland Waters stated ". . . the opportunity exists for producers to select times for sampling when they are aware that their plant is functioning optimally or to avoid sampling when inappropriate practices are being followed".

3.5.22 The EPA has indicated to audit that self-monitoring is a management tool for licensees, obliging them to put in place systems to better manage their waste generating process. The results obtained from self-monitoring can alert a licensee or the EPA to problems in a plant and enable them to be rectified. Further, it is not an enforcement tool and evidence of licence breaches is not used by the EPA for prosecution.

3.5.23 The EPA believes that such a strategy reinforces co-operation and provides encouragement for minimisation of waste generation and the prevention of pollution.

3.5.24 There is no doubt that the strategy of self-monitoring is of distinct economic advantage to the EPA as it is less resource intensive.

3.5.25 **Audit is of the opinion, however, that the EPA's emphasis on a self-monitoring strategy:**

- ▶ **provides minimal assurance that licence holders, as recognised significant dischargers and hence of significant risk to the environment, are being honest; and**
- ▶ **is of minimal effectiveness as a prompt to timely action when prevention or evidence gathering for prosecution is warranted.**

3.5.26 Audit views self-monitoring as a mechanism which together with the EPA's operating functions of review, monitoring and enforcement, support the EPA's environmental audit role. Accordingly, self-monitoring cannot be viewed in isolation from those functions and as merely supporting the promotion and encouragement of *environment-friendly* industry practices.

Management response

As in the Auditor-General's Report of May 1990, audit has failed to understand the basis of self-monitoring. Audit has sought to support its view by reference to the Commissioner for the Environment's 1988 report. Unfortunately for audit, the Commissioner has similarly failed to understand the nature and purpose of self-monitoring, relying on a simplistic perception.

The conclusions of audit are therefore not relevant.

Risk management

3.5.27 The environmental audit role requires the EPA to challenge dischargers and polluters through:

- ▶ timely response mechanisms and vigilant investigation through an obvious field presence; and
- ▶ a regular calling to question of licence conditions in the light of new knowledge and changing community expectations.

3.5.28 This challenging role is especially significant since, once a licence is issued, the conditions pertaining to that licence remain in force unless questioned by the EPA as part of its review process.

3.5.29 While not taking issue with changes to the focus or with co-operative strategies made by the EPA to deal with complex environmental concerns, audit is of the opinion that the challenging approach requires:

- ▶ co-existence with industry without compromise; and
- ▶ co-operation with industry without being subordinate to conflicting industry priorities.

3.5.30 **Audit recommends that more emphasis be directed by the EPA towards the challenging approach through the introduction of a formalised risk management framework.**

3.5.31 Such a risk management plan could provide:

- ▶ a platform for ongoing regular reassessment of risk based on the EPA's existing and developing mechanisms regarding complaints, reviews, monitoring data and changes in the sensitivity of particular discharges; and
- ▶ if incorporated into the formalised budgeting process, a clear, justifiable indication to Parliament of the extent of financial commitment required for the effective performance of its environmental audit role.

3.5.32 A formalised risk management plan building upon the information of the licensing system and the EPA officers' knowledge and experience should take into consideration:

- ▶ industries and industrial processes posing the greatest risk to the environment;
- ▶ the environmental significance of the discharge, emission etc.;
- ▶ past experience of environmental impacts;
- ▶ the *sensitivity* of the industry, process or discharge in the perception of the community or government;

- ▶ the priorities assigned by the EPA to risk areas; and
- ▶ development of an action plan for the review, investigation and monitoring of these risk areas.

Management response

Audit's recommendations on the introduction of a formalised risk management framework is a useful contributor to the matrix of factors that determine the EPA's operational priorities. The EPA has already taken steps in this direction.

Inadequate controls over discharges to sewer

3.5.33 More than 90 per cent of the industrial waste generated in Victoria is now discharged to sewer. Sewerage authorities control discharges to sewer through trade waste agreements. The EPA currently controls discharges from sewerage treatment plants through licences issued to sewerage authorities. The licences relate to the treatment technology and discharge standards for particular treatment plants.

3.5.34 Since 1984, the EPA has had power under the Act to obtain details of all trade waste agreements from both sewerage authorities and occupiers of premises discharging to sewer. However, to date it has not seen the need to obtain copies of any trade waste agreements.

3.5.35 Even if the EPA had obtained such details it can only exercise a reactive role in pollution prevention. The Act only allows it to issue an abatement notice to the occupier of the premises from which waste is discharged to sewer where the EPA is satisfied that the waste is the cause of, or a significant contributing factor to, a sewerage authority breaching its licence.

3.5.36 The following comments (with audit emphasis) made during a second reading speech to Parliament on a Bill seeking to amend the Act adequately summarise audit concerns:

"The EPA can presently act (by way of an abatement notice) against a company to discharge to sewer only after a breach of the sewerage authority's licence or a pollution incident has already occurred. The Authority has no power to act to prevent a pollution problem. This deficiency is in stark contrast to the growing international consensus that effective environmental management must focus on pollution prevention and waste minimisation.

"Trade waste agreements are commercial contracts and, although affording some ability for sewerage authorities to control discharges, have been shown in practice to be inadequate. Further, commercial relationships do not provide a good basis for law enforcement. Clearly the community expects the EPA, which is free from such vested interest, to have the power to act, if necessary, independent of other bodies, to prevent pollution and protect the environment".

3.5.37 Audit considers that:

- ▶ without the incorporation of the information on the processes and waste constituents and quantities contained in trade waste agreements; and

- ▶ without direct investigation, recording and review of premises and processes, assisted by extended abatement notice powers under the Act

the EPA is not fulfilling its protective and preventative audit role over an area of extreme risk to the environment, that of industrial waste.

Management response

The EPA would like the power to intervene in cases where discharges to sewer are likely to lead to breaches of licence conditions. However, this proposed power was rejected by Parliament in the Environment Protection (Fees and Penalties) Bill 1990.

There is a limit to the amount of information of which any organisation can effectively make use. Seeking the details of all processes giving rise to sewer discharges would result in a gross overload of the EPA's already stretched data handling systems. Where the EPA has needed to obtain such information it has done so.

Environmental audit and cost recovery

3.5.38 By inserting a condition into a licence, the EPA can require an environmental audit to be carried out by a licensee, where the EPA is satisfied that such an audit is warranted.

3.5.39 The first environmental audit was undertaken in May 1990 following allegations by an activist group, media coverage and public concern regarding potential adverse health effects associated with reported discharges of toxic compounds to the environment by a manufacturing organisation.

3.5.40 This organisation holds an air discharge licence issued by the EPA in 1975 and a trade waste agreement first issued by the Melbourne and Metropolitan Board of Works (the Board) in 1975, followed by another in 1979. This agreement expired in 1983 but was extended by letters of consent until a new agreement was issued in July 1990.

3.5.41 Since 1975, the EPA has prosecuted the organisation 4 times. The Board has never prosecuted the organisation for a breach of its agreement.

3.5.42 On 9 May 1990, the EPA issued a notice to amend the air licence held by the organisation, requiring the appointment of an environmental auditor and the preparation of an environmental audit report.

3.5.43 Audit makes the following observations:

- ▶ Both the EPA and the Board have environment protection as part of their agenda and have had a relationship with the organisation through licence and agreements respectively. However, prior to May 1990, the EPA did not have any copies of the Board's trade waste agreements with the organisation and thus had limited knowledge of the industrial processes resulting in waste being discharged to sewer.
- ▶ As commented in the environmental auditor's report, prior to May 1990, the Board permitted the organisation to discharge trade waste to the sewer with a greater concentration of waste constituents than the limits for those constituents specified by the EPA for licensed discharge to the air. This was done on the basis that the organisation " . . . was progressing towards the implementation of an effluent pretreatment system".

The Act defines an environmental audit as "a total assessment of the nature and extent of any harm or detriment caused to, or the risk of any possible harm or detriment which may be caused to, any beneficial use made of any segment of the environment by any industrial process or activity, waste, substance . . . or noise".

The information required to be obtained by the appointed environmental auditor (process description, potential for processes failures, materials manufactured etc.) should have been possessed by the EPA as part of its risk management strategy under its responsibility as overall environmental auditor. The power of the EPA under the Act to insert conditions into a licence to require an environmental audit has apparently been available to the EPA since 1973. However, the EPA has informed audit that certain court judgements during the 1970s limited this power to influencing the activities of a licensee in relation to licensed discharge points only, not to other areas or manufacturing processes.

Nevertheless, audit is of the opinion that:

- no action was taken by the EPA until 1986 to amend the legislation or to remove the limitations on its power; and
 - since 1975, there has been scope to obtain such knowledge through co-ordinated liaison with the MMBW.
- The requirement of audits to be carried out by licensees (self-auditing) will assume increasing predominance as the provisions of the Government's industrial waste minimisation policy are effected.

3.5.44 Audit is of the opinion that the limitations and weaknesses that apply to self-monitoring also apply to self-auditing.

3.5.45 As part of the accountability processes of the EPA, the risk management program recommended in paragraph 3.5.30 of this Report should be employed to determine the allocation of resources to monitor, review and investigate directly or, depending on resource constraints and priorities, to commission its own environmental auditor to undertake such duties. Such contracted auditors would not be subject to cost constraints and other limitations that could be placed by industry to limit their effectiveness and impact on their independence.

3.5.46 The EPA should be conducting audits of the industrial processes of industry either itself or by contract as a regular function under a formalised risk management strategy. The costs of such contracted audits could be funded by appropriation or by introducing mechanisms to allow cost recovery of the audit from industry as part of the user pays principle.

Management response

Audit has once more misunderstood the concept of self-auditing and confused it with statutory auditing required under the Act. Audit's comments in this regard are not relevant.

The EPA agrees that it should be conducting audits of industrial processes.

Licence fees

3.5.47 For the year ended 30 June 1990, licence, permit and works approval fees totalled \$3.2 million while costs of servicing the licensing system totalled \$10.6 million.

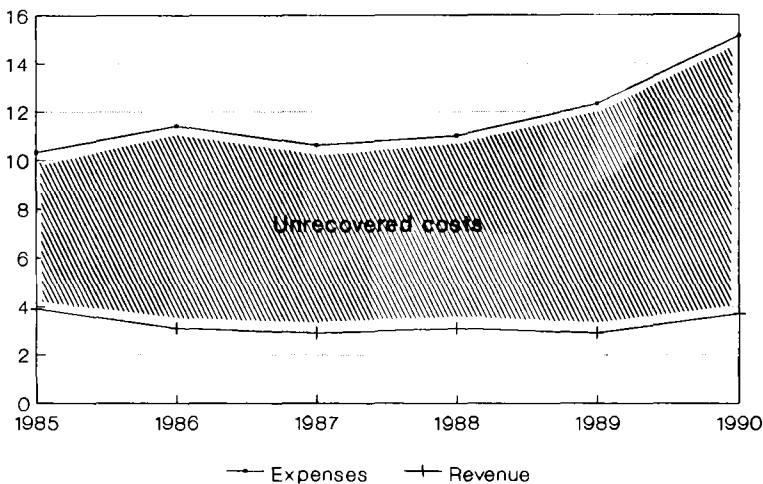
3.5.48 Recent amendments have been made to the Act in relation to licence fees. In putting forward the amendments the Minister stated that they were intended to ". . . ensure that EPA's fees are in line with its monitoring, enforcement and administration costs" and ". . . to establish (fees) at a level which covers the cost to the taxpayer of developing, monitoring and enforcing licence controls".

3.5.49 The amendments provided:

- ▶ for increases in *maximum* licence fees from \$54 375 to \$304 500;
- ▶ for *reduction* in licence fees in certain circumstances; and
- ▶ that the *total revenue* raised from licence fees shall not exceed \$5.5 million, \$7.5 million and \$8.5 million in the financial years ending 30 June 1991, 1992 and 1993, respectively.

3.5.50 An audit analysis of the fees levied and overall expenses incurred from 1985 to 1990 indicate that the cost recovery level has **decreased** from 41 per cent to 26 per cent as illustrated in Chart 3.5A.

CHART 3.5A. FINANCIAL OVERVIEW
(\$million)



3.5.51 It is estimated that if current service levels are maintained in the future and costs increase at the same rate as in 1990-91, and having regard to the revenue ceilings, the cost recovery ratios will be 47 per cent, 57 per cent and 58 per cent for the 1990-91, 1991-92 and 1992-93 years, respectively.

3.5.52 Although improvements in cost recovery from industry for servicing the licensing system are foreseeable, the above analysis shows that the conditions for full adoption of the "user pays" principle have not been created, nor are they likely to be created in the near future.

Management response

The EPA agrees that the user pays principle should be applied to all licensed dischargers.

The EPA has been moving in this direction for several years but is constrained by practicalities, technical complexities and the limits of legislation.

Penalties for polluting

3.5.53 Five factors have been identified that contribute to the effectiveness of the enforcement activities of the EPA:

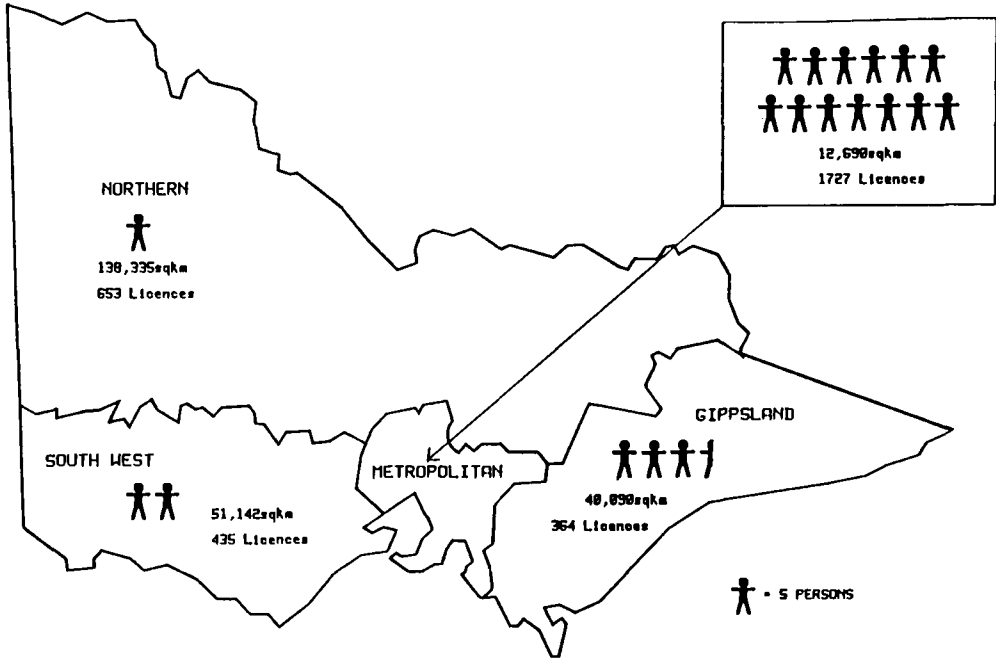
- ▶ the probability that offences under the Act will be detected;
- ▶ that prosecutions will be initiated once an offence has been detected;
- ▶ that the evidence gathered is sufficient proof to enable successful prosecution;
- ▶ the resultant fines or penalties ensure that the polluter pays principle is effectively enacted in accordance with community expectations; and
- ▶ the penalty and/or prosecution process itself ensures effective deterrence against future polluters.

3.5.54 The first 3 factors depend to a large degree on the monitoring, surveillance and investigation activities of the EPA.

3.5.55 It is difficult to link specific pollution effects with the cause, so as to establish evidence sufficient to initiate a successful prosecution. Investigation is prompted by public complaint, the results of self-monitoring as well as random spot checks of operations by the EPA. A critical factor is *timeliness of response* as undue delays could devalue the quality of evidence.

3.5.56 Chart 3.5B gives an overview of the human resources currently available to the EPA to service both metropolitan and country regions.

CHART 3.5B. OPERATIONS BRANCH, HUMAN RESOURCE ALLOCATION



3.5.57 The EPA in its corporate plan acknowledges the limitations of its human resource base. **While audit cannot quantify the degree to which the enforcement function has suffered because of those limitations, nevertheless, audit considers that they could have a negative impact, affecting the timeliness of response and the gathering of evidence.**

3.5.58 With regard to the factors relating to prosecutions, audit examination of the prosecution history records of the EPA disclosed that the average fines, and even some of the highest fines, appear to be quite minor for a company of any financial standing and represent an insignificant percentage of the pre-tax profits of a great number of the companies prosecuted. Details are set out in Table 3.5C.

TABLE 3.5C PROSECUTION HISTORY

Year	Total prosecutions No.	Fine No.	Total fines \$	Highest fine for the year \$	Average fine per year \$
1973	3	3	2 020	1 000	673
1974	30	25	6 550	1 000	262
1975	96	72	25 720	3 000	357
1976	107	70	37 975	7 500	543
1977	209	148	53 750	13 500	363
1978	123	70	18 650	3 450	266
1979	199	77	49 750	10 000	646
1980	67	53	43 300	13 500	817
1981	84	53	39 050	8 000	737
1982	79	59	32 750	7 000	555
1983	168	113	63 400	20 000	561
1984	109	31	26 750	7 500	863
1985	173	68	58 550	10 000	861
1986	177	77	130 750	32 000	1 698
1987	83	54	72 956	10 000	1 351
1988	63	47	80 400	10 000	1 711
1989	88	70	114 450	24 000	1 635
1990	74	65	72 450	14 000	1 115
Total	1 932	1 155	929 221		

3.5.59 If the cost to an organisation of changing its activities to stop pollution happening or to modify or upgrade its facilities and practices to prevent pollution occurring is greater than the penalties for continuously polluting, it has no incentive to stop.

3.5.60 Since 1983, the EPA has disclosed the names and details of prosecutions of offenders in its annual reports. The EPA is a *high profile* media identity and this fact, combined with increasing community sensitivity reflected in the media, combine to make adverse publicity a deterrent factor against polluters.



Environmental issues highlighted in the media.

3.5.61 Audit is of the view that while the EPA continues to direct efforts to use publicity to complement the penalties imposed, the effectiveness of such efforts may have been impaired by the scale of those penalties.

Management response

The EPA is limited in its effectiveness by a shortage of suitably skilled and experienced staff. This is a reflection of a general shortage of such skills in Victoria, the heavy workload pressures in EPA and the more attractive salary packages and conditions available elsewhere for similar work.

The size of fines awarded by courts in EPA prosecutions has been a matter of concern to the EPA. However, the EPA believes that court action and the attendant publicity have a significant impact on corporate attitudes.

MELBOURNE AND METROPOLITAN BOARD OF WORKS

Waste management functions of the Board

3.5.62 In 1985, the *Environment Protection (Industrial Waste) Act 1985* was passed by the Victorian Parliament to empower the Board to establish and operate facilities for the storage, treatment and disposal of industrial waste. This Act also provided for the establishment of the Waste Management Fund to record the financial transactions of the Board in connection with its administration of waste management activities.

3.5.63 The framework established by the Board for meeting its responsibilities in relation to industrial waste management comprises 2 principal elements, namely:

- ▶ a requirement for all companies and individuals involved in the discharge of trade waste into the Board's sewers to enter into a trade waste agreement with the Board; and
- ▶ the operation for a period of 3 years, until its closure in December 1990, of an industrial waste treatment plant at Tullamarine to treat and dispose of those potentially hazardous industrial wastes that could not be disposed of directly into the Board's sewers.

3.5.64 During 1990, audit carried out a review of the Board's waste management functions with particular emphasis directed to the financial results of these functions, the quality and effectiveness of monitoring procedures implemented by the Board in the administration of trade waste agreements and certain matters relating to the operation of the Tullamarine treatment plant.

Overall conclusions

3.5.65 The audit review disclosed that the Board's waste management activities have, to December 1990, incurred accumulated losses amounting to \$20.5 million. The magnitude of these losses indicates an urgent need for the establishment of a financial strategy to ensure the future viability of the Waste Management Fund.

3.5.66 The bulk of the deficit can be attributed to the construction, operation and sale of the Tullamarine treatment plant which in its 3 years of operation incurred losses of \$17.2 million. However, audit has estimated that when all costs are taken into account, the aggregate loss is \$31.6 million.

3.5.67 In the past, the Board's administration of trade waste agreements has been less than adequate. Shortcomings in the Board's procedures included:

- ▶ arrears in programmed inspections;
- ▶ an absence of review and renegotiation of agreements on a timely basis;
- ▶ low level of fees for trade waste charges; and

Overall conclusions - continued

- ▶ **over-reliance on an extensive negotiation system which, in some instances, absorbed substantial Board resources without timely resolution of disputes.**

3.5.68 In June 1990 the Board appointed an independent panel of experts to review the Board's administration of its trade waste activities. The panel reported to the Board in October 1990, and, since that date, the Board has been involved in adopting some of the panel's recommendations and assessing how to best implement the remaining recommendations.

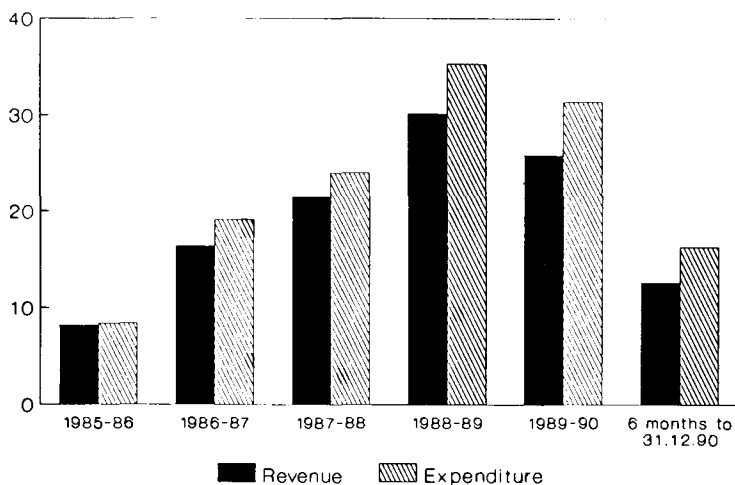
3.5.69 In addition, in March 1991, the Board announced a review of the conditions of trade waste agreements of major chemical companies and paper manufacturers.

Financial position of Waste Management Fund

3.5.70 The principal sources of the Board's revenue credited to the Waste Management Fund (WMF) are derived from trade waste charges, the operation of the Tullamarine treatment plant, until its closure in December 1990, and other income. The main categories of industrial waste management expenses incurred by the Board and paid from the WMF are contributions by the Board's trade waste functions towards the cost of using the sewerage infrastructure, depreciation and finance charges, until December 1990, on the Tullamarine treatment plant and inspectorial expenses associated with the Board's trade waste agreements.

3.5.71 The audit analysis of the financial results of the Board's industrial waste activities revealed that **waste management expenditure has exceeded related revenue in each year since 1985-86, with an accumulated loss of \$20.5 million incurred by the Board and recorded in the WMF at 31 December 1990.** Chart 3.5D highlights these annual losses.

CHART 3.5D. OPERATING LOSSES OF WMF FOR PERIOD 1985-86 TO 31 DECEMBER 1990 (\$million)



3.5.72 In addition to the accumulated loss of \$20.5 million at 31 December 1990 the Board had raised \$18.8 million by way of borrowings for waste management purposes (\$15 million from external loans and \$3.8 million advanced from internal funds).

3.5.73 Table 3.5E dissects the accumulated loss of \$20.5 million into its main components.

TABLE 3.5E. MAIN COMPONENTS OF WMF ACCUMULATED LOSS, AT 31 DECEMBER 1990 (\$million)

<i>Activity</i>	<i>Accumulated loss</i>
Operations of Tullamarine treatment plant	17.2
Loss on sale of permanent waste treatment site	1.9
Transactions relating to trade waste agreements	0.1
Other (net)	1.3
Accumulated loss to 31 December 1990	20.5

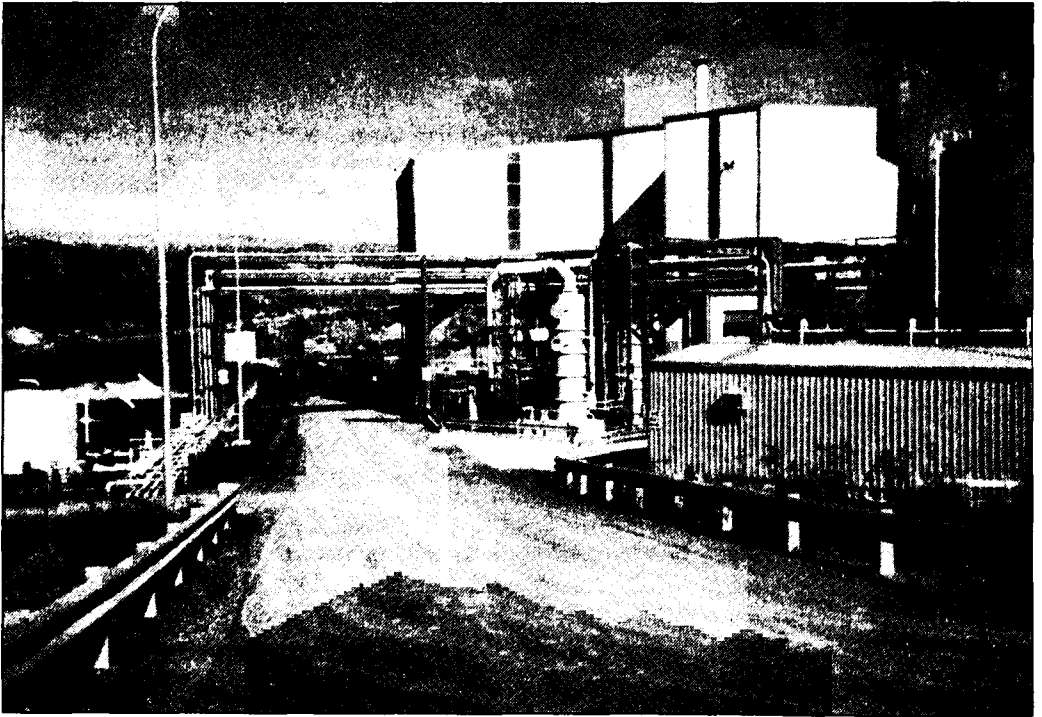
Losses arising from operation and sale of Tullamarine treatment plant

3.5.74 A State industrial waste strategy released in January 1986 required the Board to administer its waste management operations in a manner which complemented a private sector operation and to operate waste management facilities on a cost recovery basis.

3.5.75 During 1986-87 and 1987-88 the Board constructed the Tullamarine treatment plant at a cost of \$12.5 million, on land leased from the private sector, with the cost financed from private loans of \$8.5 million and a government capital contribution of \$4 million. The Tullamarine project was accorded, under EPA licence and planning permit, a limited lifespan of 3 years at the site pending an expected transfer of the plant to a permanent Board location in the State.

3.5.76 An important objective established by the Board for the Tullamarine project was that it would achieve a financial return for the Board's investment. However, due to the relatively short lifespan of the project, the Board did not consider full recovery of all costs from the plant's trading revenue to be feasible. In this regard, the Board determined to recover only costs directly attributable to the operation of the plant which meant that costs such as finance charges and depreciation, considered by audit to be clearly associated with the operation of the plant, were not taken into account in determining the level of revenue charges.

3.5.77 As indicated in Table 3.5E, losses arising from the Board's operation of the Tullamarine treatment plant totalled \$17.2 million to December 1990 or some 84 per cent of accumulated losses of the WMF to that date. In line with the Board's policy of recovering only certain costs directly related to the operation of the plant, the bulk of the accumulated loss to 31 December 1990 comprised unrecovered finance charges and depreciation of \$5.4 million and \$9.7 million, respectively.



A major segment of the Tullamarine treatment plant.

3.5.78 In August 1990 the Government announced that, following an inquiry into the private sector's liquid waste treatment industry capacity, the Tullamarine treatment plant would cease operations in December 1990. **In the absence of a better offer, the treatment business at Tullamarine was sold by the Board as a going concern to a private sector company for \$700 000 or \$1.9 million below the carrying value of the plant.** The Board was influenced in its decision to incur a net loss of \$1.9 million from the sale by the fact that the purchaser would:

- ▶ pay all costs associated with the dismantling of the plant and the restoration of the site, estimated by the Board at \$800 000; and
- ▶ retain the treatment plant capacity in Victoria thus maintaining the private sector's ability to process industrial trade waste.

3.5.79 Notwithstanding the sale of the plant, the Board will continue to incur finance charges of \$4 million up to 1992-93 and be required to repay, in that year, the private loan of \$8.5 million relating to the construction of the plant.

3.5.80 **The aggregate loss to the Board on the operation of its waste treatment plant at Tullamarine, including construction costs, loan and finance charges and loss on sale, will amount to around \$31.6 million.**

Management response

The construction of the Tullamarine treatment plant was in accordance with government policy and, from its establishment, was given an EPA licence to operate for only 3 years. This period was always too short to cover the capital costs of the plant.

The pricing policy adopted was one that ensured that direct operating costs were covered and that the contribution to the fixed costs of the plant were maximised. The prices needed also to take account of the competitive market for waste treatment.

In closing the plant, tenders were advertised widely. The sale price obtained reflects the market conditions. The purchaser will expand its plant using relocated facilities.

Abandonment of construction of permanent waste treatment facility

3.5.81 As previously indicated, a lifespan of 3 years was placed on the Board's Tullamarine treatment plant pending the construction of a permanent waste treatment facility within the State and the transfer of the treatment plant to this permanent site. Consistent with this strategy, during 1985-86 the Board commenced a major project to define the environmental and planning requirements for a permanent waste treatment facility. From 1986-87 until 1988 the Board carried out investigations into the suitability of a number of localities around Melbourne. These activities culminated in the purchase, by the Board, of a site at Diggers Rest (north-west of Melbourne) in February 1988 for the siting of the permanent treatment facility.

3.5.82 The Board anticipated that profits derived from the operation of the permanent waste treatment facility would be sufficient to cover the expected losses arising from the operation of the Tullamarine treatment plant. **The total cost to the Board associated with the investigation into, and acquisition of, the permanent waste treatment facility was in excess of \$2.2 million.** Table 3.5F shows the relevant details.

TABLE 3.5F
COSTS ASSOCIATED WITH INVESTIGATION AND PURCHASE
OF SITE FOR PERMANENT TREATMENT PLANT

<i>Activity</i>	<i>\$</i>
Purchase of site	230 000
Community liaison	973 500
Consultancy expenses	627 800
Management and administration	357 000
Publication expenses	56 500
Total costs	2 244 800

3.5.83 Only 2 months after the Board finalised acquisition of the site, the Government and the Board determined to reconsider the need for a permanent waste treatment facility within the State. This move was influenced by the following factors:

- ▶ the Government's view that its waste minimisation strategy had led to a reduction in industrial waste requiring treatment;
- ▶ an expansion of private commercial waste treatment operations; and
- ▶ widespread local community objections to the establishment of a permanent treatment facility at the site.

3.5.84 Subsequently, after government direction, a decision was taken by the Board, in April 1988, not to proceed with the establishment of the permanent treatment facility. Following this decision, the Board deemed the land to be surplus to its requirements and disposed of it by way of sale in 1989 for \$330 000. Although the Board made a gain of \$100 000 on the sale of the property, it effectively made a loss of \$1.9 million when all costs associated with the acquisition, as identified in Table 3.5F, are taken into account.

3.5.85 The timing of the abandonment of the decision to construct a permanent waste treatment plant meant that the Board:

- ▶ lost the opportunity to recover losses expected to be incurred at its Tullamarine treatment plant; and
- ▶ in the process, incurred a loss from the sale of the Diggers Rest site of \$1.9 million.

Management response

The purchase of the site at Diggers Rest was in line with government policy.

It is agreed that the abandonment of the permanent plant proposal has limited the Board's opportunity to recover shortfalls in the treatment of special/hazardous wastes.

The Board made a gain of \$100 000 on the sale of the Diggers Rest site, i.e. no loss on sale of site. However, it is agreed the net cost of the process of abandoning the establishment of a permanent plant amounted to \$1.9 million.

Waste management expenses not recorded in Waste Management Fund

3.5.86 The audit review of the Board's waste management functions found that the Board had not allocated the following charges totalling \$4.7 million, relating to waste management activities, against the WMF:

- ▶ Interest of \$3.9 million in respect of advances provided from other statutory Funds of the Board (these funds record water rates and charges received from general ratepayers); and
- ▶ Non-charging of a 4 per cent rate of return (equivalent to \$800 000) on the Board's waste management assets at the Tullamarine treatment plant, up until the time of sale. (Board policy requires other statutory funds to earn this rate of return.)

3.5.87 In addition, a task force established by the Board in June 1988 estimated that the \$16.1 million charge to the WMF in 1987-88 for the costs of processing trade waste through the Board's sewers **was around \$4.3 million less than the actual costs. Audit has estimated that if this situation had continued up to December 1990, the aggregate understatement of expenses charged to the WMF for trade waste processing may have been as high as \$15 million.**

3.5.88 Given the above circumstances, audit considers that the accumulated deficit of \$20.5 million within the WMF at December 1990 is understated by at least \$9 million and the level of understatement could be as much as \$20 million.

3.5.89 The non-charging to the WMF of significant waste management costs effectively involves subsidisation of trade waste dischargers by the Board's general ratepayers.

Management response

The Trade Waste Pricing review task force created in June 1988, established the full costs of trade waste activity and these have since formed a basis for new trade waste charges, implemented in 1990-91. At the same time there has been appropriate recognition in the accounts of all the relevant costs from this year.

How has the Board responded to its serious financial position on waste management?

3.5.90 With the closure of its Tullamarine treatment plant, commented on in an earlier paragraph, the Board now has only one major source of revenue in the waste management area, namely, trade waste charges.

3.5.91 Given the substantial loss of \$20.5 million which has been incurred since 1985 from its waste management activities, the Board found it necessary to consider, during 1989, a range of options aimed at restoring the financial viability of this significant element of its operations. The main avenues pursued by the Board were:

- ▶ The seeking of a direct contribution by the Government to fund the accumulated deficit of the WMF;

- ▶ A request for a government contribution towards the losses arising from the operations of the Tullamarine plant. This request was based on an earlier government undertaking to meet 50 per cent of the construction cost of the plant (the actual government contribution was \$4 million or about 33 per cent of the construction cost of \$12.5 million);
- ▶ A review of trade waste charges which led to a substantial increase in the level of charges (introduced in June 1990); and
- ▶ Combining the operations of WMF within a broader-based environmental fund. The Board rejected this option on the ground that it would have resulted in a greater subsidisation of the operations of the WMF by the general ratepayers of the Board.

3.5.92 Audit has been advised that the 2 requests by the Board for government financial contributions to help restore the financial viability of the WMF continue to be the subject of ongoing discussions between the parties.

3.5.93 The Board needs to formulate a long-term strategy for the recoupment of the substantial losses which have been incurred in relation to its waste management functions.

Management response

In the absence of re-entry into the special industrial waste business it will be impossible for the Board to recoup losses other than by way of cross subsidy from other customer groups or higher trade waste charges.

Administration of trade waste agreements

3.5.94 One of the Board's corporate objectives for the control and monitoring of trade waste entering its system is to ensure that there is no detrimental effect on its sewers, the health of personnel engaged in the operation and maintenance of the system or the environment. The Board meets its responsibility in this area principally through the use of trade waste agreements.

3.5.95 All companies and individuals involved in the discharge of trade waste into the Board's sewers are required, under the Board's regulations, to enter into a trade waste agreement. These agreements impose limitations on the quantity, quality and rate of trade waste discharged into the sewer system. **At December 1990, approximately 5 800 agreements were in place.**

3.5.96 The Board's role in relation to the administration of trade waste agreements assumed particular prominence in May 1990 following allegations by an environmental group that an organisation had been discharging contaminated substances into the Board's sewers in breach of its trade waste agreement.

3.5.97 The Board responded to this development by appointing, in June 1990, an independent panel of experts to review its trade waste activities covering the areas of Board policies, practices and procedures in relation to its industrial waste and to make recommendations on steps to enhance the Board's trade waste accountability to the community. Some of the panel's recommendations, reported to the Board in October 1990, have been implemented by the Board, others are under consideration.

3.5.98 In early March 1991, at the time of finalisation of this Report, the Board announced that it was undertaking a further review to evaluate the adequacy of the existing trade waste agreements with major chemical companies and paper manufacturers as a result of past questions raised by the Board as to those companies' current effluent discharges and treatment processes.

Effectiveness of Board's trade waste monitoring procedures

3.5.99 The Board's procedures provide for the nature and frequency of inspections to be carried out on-site by the Board's trade waste inspectors. The frequency of inspections will generally be influenced by the nature of the industry and the type of effluent discharge.

3.5.100 Between 10 000 and 11 000 inspections of dischargers' premises are conducted annually. Inspections involve the examination of the apparatus and metering equipment, sewerage connections etc. and, where deemed appropriate, include the taking of effluent samples for laboratory testing by the Board.

3.5.101 The audit review of the Board's procedures governing trade waste inspections revealed that:

- ▶ At January 1991, the Board's records indicated that inspections relating to 911 trade waste agreements had fallen in arrears in excess of 6 months, with 137 outstanding for over 2 years. **Of the 911 inspections in arrears, around 220 were assessed to be of either a high or medium risk.** The Board had not formulated a program for the progressive elimination of these arrears;
- ▶ Of 10 300 inspections carried out in 1989-90, only 2 500 or 24 per cent (17 per cent, 1988-89) involved the taking of effluent samples for subsequent laboratory analysis; and
- ▶ Several companies within the medium and high risk categories had been regularly inspected for more than 4 years with no sampling of effluent discharge by the Board. Table 3.5G highlights the more pronounced cases.

TABLE 3.5G. ENTITIES INSPECTED REGULARLY WITH NO SAMPLING OF EFFLUENT DISCHARGE TAKEN

<i>High or medium risk entity</i>	<i>Number of inspections since January 1987 with no samples taken</i>
Entity -	
A	13
B	11
C	11
D	9
E	6
F	4
G	4
H	4

3.5.102 The Board advised audit that decisions on the overall timing of inspections and the inclusion of effluent sampling in the inspection programs for particular companies were based on risk judgements by the Board. In this respect, high risk industries were more likely to be inspected on a timely basis, with trade waste effluent subject to testing, because of the likelihood of a detrimental effect on the Board's sewers and the general environment.

3.5.103 While audit is in agreement with the basic principles underlying the Board's risk assessment approach, the earlier finding by audit that some 220 high or medium risk companies had not been inspected for over 6 months beyond the due date, indicates that this risk-based approach may not have been applied with optimum effectiveness. In addition, there is a need for the Board to systematically build into its inspection program minimum frequency requirements for sample testing of effluent, particularly in respect of medium and high risk companies.

3.5.104 With more timely inspections and wider use of effluent testing within its inspectorial program, the Board would have greater assurance that organisations are adhering to conditions embodied in trade waste agreements and minimising damage to the sewer system and the environment.

Management response

The audit analysis undertaken is based on nominal inspections not actual required inspections. The actual inspection period is set to account for the performance, size, type and nature of the discharge from each of the 5 800 agreements. Some 4 400 are of a minor nature with an inspection regime ranging from 26 to 104 weeks. These account for some 5 600 inspections. Such inspections have a low priority as they have a minimal impact on the environment, Occupational Health and Safety, sewer fabric or treatment processes. Accordingly, frequency of inspections are adjusted to fit with existing trade waste priorities and available resources. The additional risk assessment aspects are being incorporated into information systems. A full review of the inspection frequencies for trade waste agreements has been initiated based on risk assessment for the purpose of maximising the effectiveness of the Board's resources and delegating more responsibility to industry on a level of risk principle.

Audit does not appear to have understood the existing 3 category system used to distinguish trade waste dischargers. The 3 categories are based on the method of assessing charges and do not relate to any assessment of risk. Thus a category 3 case is not necessarily a high risk one yet the categories have been so interpreted in the audit report.

Absence of review and renegotiation of agreements

3.5.105 The Board's regulations governing trade waste agreements do not provide for the review or renegotiation of agreements at specific intervals. A selective examination of agreements by audit found that several agreements had not been reviewed for substantial periods of time. Table 3.5H provides details of **cases where trade waste agreements had not been reviewed by the Board for between 6 and 20 years.**

TABLE 3.5H. COMPANIES WHOSE TRADE WASTE AGREEMENTS HAD NOT BEEN REVIEWED ON A TIMELY BASIS

<i>Company</i>	<i>Year of last review</i>	<i>Years since last review</i>
A	(a)1970	20
B	1976	14
C	1977	13
D	1982	8
E	1982	8
F	1982	8
G	1983	7
H	1984	6
I	1984	6

(a) Company ceased to operate in August 1990.

3.5.106 The absence of timely review by the Board of trade waste agreements or renegotiation of agreements between the parties may result in:

- ▶ damage to the environment and the Board's sewers arising from changes in quantity and composition of effluent discharge;
- ▶ increased health risk to Board's operational staff;
- ▶ revenue losses to the Board through non-detection of those companies which increase their level of discharge and which would be liable to pay a higher trade waste charge; and
- ▶ failure by the Board to update its risk assessment of dischargers as a consequence of any changed circumstances.

3.5.107 In comparison with the Victorian position, trade waste agreements managed by the Board's equivalent body in New South Wales are issued for a set period of 3 years, at which time they become subject to review.

3.5.108 Audit recognises that the information generated from the Board's inspectorial program should help to identify variations in trade waste activities by dischargers. However, given the shortcomings in these procedures identified earlier, there can be no certainty that all significant changes are identified and acted upon.

3.5.109 The Board should introduce specified review or renegotiation periods for all trade waste agreements to minimise environmental damage and health risk.

Management response

Regular reviews of trade waste agreements have been undertaken, but they do not necessarily result in a renegotiation of the agreement.

Trade waste agreements are updated through:

- *changes to trade waste regulations;*
- *a structured program for particular industries; and*
- *changes in ownership, technology or a variation in trade waste discharge from an agreement holder.*

Little purpose is achieved in revising the majority of agreements on a programmed basis as the trade waste requirements are very basic, viz. schools, laundries, service stations, garages. A major review of trade waste agreements is being implemented following the recommendations of the Trade Waste Review Panel. This is, however, focused on the high risk dischargers.

Level of fees for trade waste agreements

3.5.110 Apart from certain exempt organisations such as schools and government departments, dischargers of trade waste are required, under the trade waste agreements, to pay an annual trade waste charge. Low risk organisations pay a flat fee, medium risk dischargers a fee based on volume of discharge and high risk organisations a fee based on both volume and composition of discharge.

3.5.111 Revenue raised by the Board from trade waste fees in 1989-90 totalled \$19.9 million (\$20.3 million, 1988-89).

3.5.112 In 1989 the Board undertook an internal review to determine the relationship between costs incurred in the implementation of its trade waste responsibilities and trade waste charges levied on effluent dischargers under trade waste agreements. The review found that:

- ▶ for 1987-88, trade waste charges recovered only 83 per cent of costs incurred in the maintenance of the sewerage system and monitoring of trade waste which represented a shortfall of \$4 million;
- ▶ the revenue shortfall would double by 1992-93 if trade waste charges were not increased; and
- ▶ trade waste charges imposed by other water authorities in Australia for the major manufacturing industries substantially exceeded fees levied by the Board.

3.5.113 The task force recommended substantial increases both in application fees and volume charges for trade wastes. The increases, which averaged 20 per cent, were subsequently implemented by the Board in June 1990.

3.5.114 The Board has estimated that the higher trade waste charges will enable full recovery from 1990-91 of annual costs associated with trade waste monitoring and maintenance of the sewer system.

Effectiveness of action against trade waste offenders

3.5.115 Where dischargers of trade waste are found to be contravening the conditions of trade waste agreements, the Board is empowered under its regulations to initiate certain action including:

- ▶ notification of breaches to the offender and the carrying out of more frequent inspections;
- ▶ negotiations with continuing offenders to encourage adherence to trade waste conditions; and
- ▶ where negotiations prove unsuccessful, issue of a formal *Notice of Breach* which restrains offenders from discharging effluent and terminates the trade waste agreement.

3.5.116 In addition to the above action, the Board may commence legal action in cases involving blatant and serious breaches of the terms and conditions of the trade waste agreements.

3.5.117 The Board has favoured a process of extended negotiation with parties found to contravene conditions of trade waste agreements rather than pursuing a more serious course of action. **Since 1985, the Board has terminated trade waste agreements through the issue of a Notice of Breach on only 2 occasions and legal action against wilful offenders has been taken in only 9 cases.**

3.5.118 An audit review of a selected number of trade waste agreements revealed that the emphasis placed by the Board on negotiations with offending parties involved lengthy discussions, voluminous correspondence and threat of legal action over extended periods often without timely resolution. Table 3.5i provides relevant information on some of the more pronounced cases.

TABLE 3.5i. CASES INVOLVING UNDULY LONG DISCUSSIONS AND NEGOTIATION

<i>Company</i>	<i>First found non-complying</i>	<i>Action by Board and details of negotiation</i>	<i>Current situation</i>
A	1973	Voluminous correspondence between the parties, threat of discontinuance of service and imposition of fines by the Board. Notices of non-compliance were issued by the Board in May and August 1988. The matter remained unresolved at the date of audit review (January 1991).	Notice of Breach issued 1 March 1991 but subsequently withdrawn on 8 March 1991 as the company had commenced complying with the conditions of its trade waste agreement. Negotiations are continuing to determine a strategy to ensure that the company will continue to comply with the conditions of its agreement in the future.
B	1976	Discharges caused damage to the Board's sewers in 1979 and 1984. Over 100 breaches of the trade waste agreement conditions were noted by the Board between May 1987 and December 1990. Revised trade waste agreement was entered into in July 1990, with the condition that it would be revised after 3 months.	The company is currently complying with the terms of its trade waste agreement of July 1990. Negotiations on a revised agreement are continuing.
C	1985	Protracted negotiations and voluminous correspondence failed to ensure that the company would take action to comply with the conditions of its trade waste agreement.	Issues relating to trade waste charges were not resolved until 1989. Since May 1990, the company has generally complied with its trade waste agreement.

3.5.119 Audit recognises the sensitive position of the Board in pursuing resolution of disputes and that termination of agreements can have a substantial impact on the viability of a business. However, these factors need to be considered in the context of the damage that can be caused to the Board's sewer system and the environment from illegal dischargers.

3.5.120 In recognition of the serious shortcomings in its negotiating procedures, in October 1990, the Board introduced revised procedures for negotiation with offenders, including the charging of a \$300 fee to cover the Board's costs in the negotiation process.

3.5.121 Just prior to the completion of the audit report, in March 1991, the Board announced that a further review would be undertaken into the adequacy of the agreements in place with major chemical companies and paper manufacturers.

3.5.122 More stringent measures by the Board are necessary if there is to be an effective deterrent for violations of trade waste agreements.

Management response

The Trade Waste Review Panel has handed down recommendations which are being implemented by the Board.

In addition, a complete review of the trade waste acceptance agreement system has just been completed. The Board is about to implement a commercial contracts approach. This will involve financial incentive, and much more effective compliance procedures. It will also provide for the use of commercial arbitrators where appropriate. Independent Acceptance Standards and Testing Methodology Committees will also be established.

Completion of Government debt forgiveness program

3.5.123 As explained in my recent Reports to the Parliament, a special package was agreed to between the Board and the Government during 1987-88 which included the forgiveness by the Government of \$162 million of Board debt over a 3 year period.

3.5.124 During 1989-90, forgiveness by the Government of \$51.1 million of debt concluded the State's commitment under the financial package. Table 3.5J shows details of debt forgiven over the 3 year period.

TABLE 3.5J. GOVERNMENT DEBT FORGIVEN

Year	\$m
1987-88	60.5
1988-89	50.0
1989-90	51.1
Total	161.6

3.5.125 In the expectation that the special package would lead to an improvement in the Board's financial position, the then Treasurer indicated at the commencement of the package that any interest forgone by the State would eventually be replaced by higher dividend payments from the Board to the Consolidated Fund.

3.5.126 This expectation is likely to be met in 1990-91 as the dividend payable by the Board for that year, as determined by the Treasurer is \$114.2 million (1989-90, \$92 million), an increase of 24 per cent, compared with an average increase in dividend of 12 per cent over the past 3 years.

Management response

Audit comments are noted. However, public authority dividend payments are based on a number of factors including rate of return operating results. The dividend is determined by the Treasurer of Victoria after consultation with the Minister. Any adjustment to public authority dividends payable in the future will include reference to the level of profits. The forgiveness of government debt contributes to profits and appropriately this contribution is available to provide for public authority dividend.

Early payment of dividend to Consolidated Fund

3.5.127 The *Public Authorities (Dividends) Act 1983* provides for the transfer by the Board into the Consolidated Fund each financial year of a dividend as determined by the Treasurer after consultation with the Minister. The Act also provides for the transfer of the dividend to the Consolidated Fund to be made at such times and in such manner as is agreed to by the Treasurer and the Board. Up to 1989-90, dividends were paid by the Board in equal monthly instalments.

3.5.128 Due to the cash flow problems experienced by the Consolidated Fund in 1989-90, the Board agreed to pay, in advance, in January and February 1990, dividends totalling \$43.9 million normally due in the months January to June 1990.

3.5.129 The Board calculated the cost to it, in the form of interest forgone, of the early payment of dividend to the Consolidated Fund to be approximately \$1.2 million. It approached the Treasurer, in January 1990, to obtain appropriate compensation for this cost, including approval to access offshore borrowing markets and authority to takeover the management or its share of the State's debt relating to the construction of the Melbourne underground rail loop from the Capital Works Authority.

3.5.130 The Board has advised audit that its compensation requests are still under consideration by the Treasurer.

Frequency of changes in accounting policies

3.5.131 In recent years the Board has implemented several changes in accounting policies which have had a substantial impact on the financial results reported by the Board in its annual financial statements.

3.5.132 Table 3.5K summarises details of changes in accounting policies introduced by the Board in the last 3 financial years.

TABLE 3.5K. SUMMARY OF CHANGES IN BOARD'S ACCOUNTING POLICIES
(\\$million)

<i>Policy decision</i>	<i>Impact on reported result</i>		
	<i>1987-88</i>	<i>1988-89</i>	<i>1989-90</i>
Forgiveness of government debt	60.5	50.0	51.1
Debt consolidation	-	(21.1)	(30.3)
Review of assets lives - effect on amortisation of contributions for capital works	-	-	(19.4)
Debt defeasance	2.0	0.4	12.5
Revised calculation of workers compensation accrual	-	-	(6.5)
Introduction of accrual of retirement and redundancy packages	-	-	(6.0)
Review of depreciation rates - movable plant	-	-	5.4
Change in method of accounting for excess water	12.7	-	-
Other minor changes	1.6	(2.3)	(2.1)
Additional profit reported	76.8	27.0	4.7

3.5.133 As mentioned in the *Report on Ministerial Portfolios, May 1990* the Board would not have had sufficient profits in 1987-88 and 1988-89 to fully provide for the dividend to the Consolidated Fund without forgiveness of the government debt.

3.5.134 In audit opinion, the increasing number of significant accounting policy changes introduced by the Board reduces the effectiveness of the Board's profit and loss statement as a measure of its operating performance. Furthermore, the usefulness to external parties of the Board's annual financial statements for purposes of analysis of reported results and comparison with similar organisations is substantially impaired.

3.5.135 In order to improve the usefulness of the financial information reported by the Board, it needs to take action to ensure that it achieves a greater degree of stability in the application of major accounting policies.

Management response

The Board does not fully accept audit's view of the need for a greater degree of stability in the application of accounting policies in the future.

The Board is continually reviewing its accounting activities and policies with a view to ensuring that they are appropriate for the current environment. Like any other commercial organisation, the Board is also subject to amended accounting standards and government regulations which necessarily entail that adjustments are made to the Board's reported results.

In considering any change the Board is conscious of the need to ensure the accuracy of the statements and of their usefulness to readers.

It is also noted that no issue is taken with any specific accounting policy change or other adjustment. All material adjustments quoted by audit have been specifically addressed in previous years and subject to audit.

Underpayment of fringe benefits tax

3.5.136 During the year, the Board engaged consultants to review the Board's liability for fringe benefits tax, with particular attention being focused on motor car benefits received by staff.

3.5.137 The review found that, of the Board's 750 red plated cars, fringe benefits tax had been paid on only 39 vehicles. **The consultants estimated that, since the inception in 1986 of the fringe benefits tax legislation, the Board had underpaid its tax liability by approximately \$2.3 million.**

3.5.138 The Board promptly brought the matter to the attention of the Australian Taxation Office which assessed the primary tax liability at \$2.1 million which has since been paid by the Board. An assessment for the penalty interest component has not yet been received but is estimated by the Board to be around \$300 000.

3.5.139 The Board has indicated it will review procedures during 1990-91 to ensure its ongoing liability for fringe benefits tax is determined.

Strategies taken by Board to increase its efficiency

3.5.140 In recent years the Board has become increasingly aware of the need to improve its efficiency by streamlining certain operations and providing an improved level of service to the community.

3.5.141 Major initiatives undertaken by the Board aimed at improving its efficiency have included:

- ▶ implementation of a regionalisation program;
- ▶ downsizing of its workforce;
- ▶ establishment of an information technology company;
- ▶ rationalisation of internal printing operations; and
- ▶ closure of its legal services division.

3.5.142 **It will be important for the Board to ensure adequate performance measures are in place to enable it to systematically monitor actual efficiency gains arising from the various initiatives. It would also seem logical for the Board, as part of its public accountability obligations to communicate to the Parliament, via its annual report, on its achievements in these areas.**

3.5.143 A brief summary of each of these initiatives follows:

Regionalisation program

3.5.144 The Board has undertaken a major program of regionalisation involving the relocation of staff and the devolution of functions to regional offices. The transfer of functions from its head office to the regions was completed in 1990. As a consequence, office space within the head office building has become available. The Board is currently assessing its options for the refurbishment of 11 floors of the building with the view to leasing surplus space to external parties.

3.5.145 Comments on the Board's proposed refurbishment program are contained in the *Auditor-General's Special Report No. 14* which was tabled in the Parliament in October 1990.

Downsizing of workforce

3.5.146 Because of budget and financial constraints and a resultant need to ensure optimum use of resources, the Board is progressively implementing a major strategy aimed at achieving a significant downsizing of its workforce. As part of this strategy, several redundancy and early retirement packages have been offered to employees. At March 1991, about 200 employees have accepted early retirement packages and a further 1 000 have accepted redundancy packages. The cost of these packages to the Board has been \$4 million and \$21 million, respectively.

Establishment of information technology company

3.5.147 In 1989 the Board conducted a review of its information technology services and developed a strategic plan to improve the delivery of its EDP services. A central component of this plan provided for the establishment of a separate company, which would be owned by existing information technology staff. The company commenced operations in October 1990. The implementation of this innovative approach to the use of EDP services has resulted in:

- ▶ the transfer of approximately 200 Board staff to the company;
- ▶ a formal agreement between the Board and the company to supply information technology to the Board for an initial period of 5 years; and
- ▶ the sale of certain designated assets, mainly computer equipment and goodwill to the company.

3.5.148 The Board anticipates that this new framework will result in:

- ▶ more efficient service delivery;
- ▶ initial cost savings of \$1.5 million; and
- ▶ annual cost savings as high as \$30 million achieved progressively over a 5 year period.

Rationalisation of internal printing operations

3.5.149 Following a 1988 consultancy review of its printing operations, the Board rationalised the internal printing function and reduced printing staff numbers from 18 to 6.

3.5.150 The key elements of the Board's revised approach to internal printing include the rationalisation of equipment and inventories, improved stock purchasing and control and an improvement in the utilisation of resources.

3.5.151 The Board has estimated that savings of \$500 000 a year have accrued since the rationalisation.

Closure of legal services division

3.5.152 In November 1990, the Board disbanded its legal services division which cost approximately \$730 000 to operate in 1989-90 and entered into a contract with a legal firm to provide services for an initial period of 3 years. The Board expects this strategy to lead to more efficient and effective delivery of legal services.

Management response

The initiatives referred to represent some of a number that have been undertaken or are presently in progress at the Board. These initiatives will continue with the objectives of improving efficiency and productivity as well as creating a more commercial business culture. In addition to those identified by audit, the Board is establishing business units for its core business activities and providing the unit managers with profit and loss statements and balance sheets. Transfer pricing between business units is being implemented.

The Board recognises the need for public accountability and has endeavoured to improve the quality of information included in its annual report in recent years, especially performance information. As part of its commercial operations, the initiatives taken will be kept under review and, in the normal course of events, progress regarding material items relating to performance will be reported in the Annual Report.

RURAL WATER COMMISSION OF VICTORIA

Review of employee housing

3.5.153 The Rural Water Commission of Victoria seeks to provide employee housing to enable the efficient and effective staffing of its regional centres and to place staff in the most appropriate locations. Currently, the Commission operates approximately 500 houses with an estimated market value of \$35 million.

3.5.154 In 1986, an audit review of the provision of housing to government employees was carried out within several public bodies, including the Commission. The results of the review were included in the *Auditor-General's Special Report No. 5*, which was tabled in the Parliament in December 1986. In that Report, a number of weaknesses were identified relating to the management of employee housing by the Commission.

3.5.155 Prior to the finalisation of the 1986 Special Report, the Government issued guidelines which limited the provision of employee housing to the most essential and demonstrated operational, geographic or economic needs, i.e. satisfies specific *required to occupy* criteria, with all other residences to be sold as soon as practicable. Until disposal occurred, market-based rentals were to be progressively introduced.

3.5.156 In the current review, audit sought to assess the action taken by the Commission in the management of employee housing since the 1986 audit review.

Overall conclusions

3.5.157 In audit opinion the Commission has given little regard to the Government policy on employee housing, especially the requirement that those houses not classified as "required to occupy" be sold as soon as practicable. At December 1990, 120 houses in this category, with an estimated market value of \$8.4 million, remained unsold.

3.5.158 It is also disappointing to note that the findings of this review are almost identical to those reported in the 1986 Special Report of the Auditor-General to the Parliament. Although 4 years have passed since that review, little effective action has been taken by the Commission to overcome the deficiencies.

3.5.159 Given that the Commission is currently moving to a position of self-sufficiency, it should take action to ensure that maximum efficiency is derived from the management of employee housing, an area that represents a significant facet of its operations.

Management response

Since the 1986 audit review, the Commission has reduced its housing stock by 177. Of these, 36 houses were transferred to the Mornington Peninsula and District Water Board at no cost, with the sales of the remaining 141 residences realising approximately \$6.5 million.

The Commission has had reasonable regard to government policy on employee housing given the significant number of factors and competing resources since the 1986 audit review. These factors include:

- *Continuing development of the Commission as a regionally-managed organisation rather than a centrally-controlled body. This included a reappraisal of regional staff location and consequential housing requirements;*
- *Review and re-organisation of Commission activities including development and implementation of new technology with significant consequential impact on staffing resources and employee housing requirements;*
- *Protracted unsuccessful negotiations on the possible transfer of the Commission's housing stock to the Government Employee Housing Authority;*
- *The policy which protects the rights of long-term tenants by allowing them to remain in occupancy of houses even though they do not wish to purchase them; and*
- *Title and subdivision problems which have delayed and prevented the sale of some houses.*

The preceding factors have impeded action required to overcome the deficiencies listed in the 1986 audit review. However, the Commission is acutely aware of the necessity to maximise the efficiency of the management of employee housing and have now allocated additional resources into this area. In particular, action has been implemented to correct deficiencies in the Commission's central information system.

Inadequate basis for key decision-making

3.5.160 The management of employee housing within the Commission is delegated to its 9 regional centres, with the bulk of information and records maintained outside of the Commission's head office.

3.5.161 Audit found that the Commission does not systematically consolidate information on employee housing to serve as the basis for its central overview and monitoring of management activities in this area. In fact, there was an absence of critical global data such as type and location of properties, tenant status and details of maintenance expenditure incurred, necessary for effective decision-making and to form meaningful assessments of the quality of resource management on employee housing on a Commission-wide basis. **Consequently, virtually all the information required by audit during the review had to be obtained from individual regions.**

3.5.162 The Commission should promptly reassess the extent to which it can effectively monitor and control its employee housing activities, given the absence of adequate centralised information.

Management response

Action has been implemented to correct deficiencies in the Commission's central information system.

Management by Commission of properties not required to be occupied

3.5.163 Following the issue of government guidelines on employee housing in September 1986, the Commission classified 230 of its houses in the category "*not required to occupy*" and commenced a program for the sale of the properties. **The program has proceeded rather slowly and, at December 1990, approximately 120 houses in this category, with an estimated market value of \$8.4 million, were still retained by the Commission.**

3.5.164 The failure by the Commission to dispose of these properties in a timely manner has resulted in substantial cost implications for both the Commission and the State. These implications include:

- ▶ the proceeds of the sale of the properties, \$8.4 million, have not been realised by the Commission and, as such, have not been available for transfer to the Consolidated Fund;
- ▶ the opportunity to dispose of properties in past times in a buoyant market has not been availed of by the Commission;
- ▶ the Commission has been required to pay approximately \$37 000 a year in Commonwealth fringe benefits tax relating to 49 of the retained properties; and
- ▶ continuation of the need to incur expenses such as rates and repairs and maintenance on the properties.

3.5.165 Audit considers that the disposal since 1986 of less than 50 per cent of the Commission's "*not required to occupy*" residences is not consistent with the requirements of the 1986 government guidelines to achieve disposal as soon as practicable.

3.5.166 Given the substantial cost implications which have arisen from the delays in sales, the Commission should formulate a program aimed at achieving speedy disposal of the remaining 120 houses.

Management response

A reduction in "not required to occupy" residences in the order of 50 per cent has been achieved and the total number of these houses has now been reduced to 105.

Vacant premises

3.5.167 Of the Commission's 500 residences, 42 were vacant at the time of the audit review. A disturbing feature of this position was that **9 of the houses had been vacant for more than 12 months, with one house unoccupied for approximately 5 years.** Of these vacant houses, 7 were in the classification of "not required to occupy" but remained unsold.

3.5.168 It is appreciated that a small portion of the Commission's housing stock may be vacant occasionally due to staffing transfers and resignations. However, with several houses remaining vacant for extended periods, the Commission has been exposed to:

- ▶ the forgoing of rental income, estimated by audit to be around \$175 000 a year;
- ▶ continued maintenance expenditure on the residences; and
- ▶ increased potential for vandalism.

3.5.169 Because of the previously mentioned deficiencies in the Commission's central information systems, it was not in a position to monitor the status of vacant properties or to initiate early action where houses had been vacant for excessive periods.

Management response

Audit comments are based on the assumption that all houses were vacant for a full 12 months and that each had a rental value of \$100 per house per week, which is the average value over the whole of the Commission's housing stock (approximately 480 residences).

In the preceding year the average vacancy period of the houses was 6.5 months and as most of these houses are of inferior quality and located in remote areas, based on professional valuation advice, the average rental value is \$80 per house per week. After allowing for normal vacancy periods (1 month a year) the Commission considers that a more accurate assessment of potential rental forgone is around \$70 000 a year.

Rental of properties to private tenants

3.5.170 The government guidelines for employee housing require that where private tenants occupy public sector houses, the tenancies are to be terminated as soon as possible and the residences disposed of. Until disposal can take place, market-based rental is to be charged to the tenants.

3.5.171 The audit review disclosed that:

- ▶ 74 Commission properties, with an estimated market value of \$5 million, were rented to private tenants, 33 of which had been occupied by such tenants for in excess of 12 months; and

- ▶ in a number of instances, rentals paid by the private tenants were below market rates.

3.5.172 Audit estimated that, by not applying market rentals to these properties, the Commission is forgoing approximately \$110 000 a year in rental income. The Commission advised audit that most of these houses are of inferior quality and are located in remote areas of the State and therefore have a lower market rental value than properties which are of higher standard and better located.

3.5.173 However, it had not systematically evaluated the costs and benefits of continuing to rent the residences at below market levels compared with disposal of the properties by way of sale. Furthermore, as indicated above, non-disposal of the properties is contrary to the requirements of the government guidelines on employee housing.

3.5.174 **By retaining the properties currently rented to private tenants and failing to charge market-based rentals, the Commission is effectively subsidising private tenants to the detriment of its ratepayers.**

Management response

The reason why full market rentals were not obtained on all properties was due to administrative oversight. This will be remedied as rent review dates fall due or earlier where possible.

Damage to Dartmouth power station

3.5.175 The Dartmouth Dam, situated in north-east Victoria, was constructed in the 1970s by the Murray-Darling Basin Commission. The Dam incorporates a hydro-electric power station which is owned and operated by the State Electricity Commission of Victoria (SECV).

3.5.176 The Rural Water Commission, as agent of the Murray-Darling Basin Commission, operates and maintains the Dam, including those works ancillary to the operation of the power station such as water tunnels and water access gates to the turbine.

3.5.177 In May 1990, steel beams became detached from their pedestals and plunged down a water tunnel extensively damaging the turbine of the power station. The SECV has estimated the damage to be around \$45 million.

3.5.178 In November 1990 the SECV served a writ for breach of agreement and/or negligence on the Rural Water Commission for the loss it suffered as a result of the damage. The writ claims repair costs and costs associated with the provision of power from alternative supplies as a consequence of the station's closure.

3.5.179 In its response to the writ, the Commission stated that it has denied liability in the matter.

Management response

The writ for damages was served jointly on the Commission and the Snowy Mountains Engineering Corporation Ltd (SMEC) which was the designer of the Dam. The Commission served a counter claim for damages to the high level outlet works on the State Electricity Commission and SMEC.

The Commission has operative insurance cover provided by the Victorian Government Public Liability Policy in this matter.

Damage which effected the Commission's water distribution infrastructure was repaired by October 1990, with the repair costs borne by the Murray-Darling Basin Commission.

NON-METROPOLITAN WATER AUTHORITIES

3.5.180 The oversight of the State's 171 non-metropolitan water authorities (comprising 140 water and sewerage bodies, 28 river management bodies and 3 committees of management) is the responsibility of the Department of Conservation and Environment.

3.5.181 A major government initiative in recent years has been the review of Victorian water legislation. The review culminated with the passing by the Parliament of the *Water Act 1989* which came into operation on 1 November 1990.

3.5.182 The Act consolidates some 15 separate pieces of legislation concerning water bodies into one Act and provides a simpler and more effective framework for the control of water resources in the State.

Financial viability of certain authorities

3.5.183 As part of a major review of financial management issues relating to water authorities, commented on in the Auditor-General's *Report on Ministerial Portfolios, May 1990* audit identified that a substantial number of water authorities were likely to experience short and long-term financial viability problems. The likelihood of financial difficulties was particularly evident in those authorities in receipt of revenue subsidies from the Government under a scheme due to cease in 1992-93.

3.5.184 The 1990 review drew attention to the various factors which had led to financial difficulties within individual authorities. Audit recommended that the Department encourage authorities to explore avenues available to achieve greater operational efficiencies, for example, sharing of resources and expertise between authorities and wider use of fee-for-service strategies to help minimise financial viability problems.

3.5.185 An audit review of the measures taken by the Department since May 1990 to address the financial viability issues revealed that:

- ▶ Some 40 water authorities in receipt of revenue subsidies have been required to submit information additional to their annual business plans to enable the Department to more closely identify the impact of subsidy withdrawal. Of these, 13 authorities have been advised that their revenue subsidies will be terminated unless they enter into restructuring arrangements acceptable to the Government;

- ▶ Six regional studies have been established covering 34 water authorities aimed at improving the operating efficiencies of the authorities and to explore the feasibility for some of the authorities to amalgamate with larger entities;
- ▶ The Department has facilitated the amalgamation of 3 small authorities with larger more viable entities;
- ▶ Although the Department has encouraged the adoption by authorities of a fee-for-service pricing structure, to date only one authority has completed plans for its introduction.

3.5.186 The Department is confident that the implementation of the above initiatives will lead to more efficient resource management within the water sector generally and help to avoid financial viability problems.

Management response

With the Water Act 1989 coming into operation from November 1990, approximately 20 per cent of water authorities have identified a need to review their pricing structures as part of their strategic planning; some with specified implementation target dates. The Department is continuing to facilitate amalgamation of authorities to improve viability in the industry.

Administration costs of authorities administered by or jointly run with municipalities

3.5.187 Of the State's 140 water and sewerage authorities, 78 are administered by or jointly operated with municipalities. In many of these cases, the same officers carry out the administrative function for both the municipalities and the water authorities, with the municipalities charging the authorities an annual fee for the service.

3.5.188 There were many instances in 1990 where reports issued by this Office on audits of water authorities commented that information was not available to substantiate charges levied by municipalities for administrative services performed on behalf of the water authorities. Further, in some cases, authorities had paid substantial additional contributions to municipalities for the purchase of capital assets, such as computers, without a commensurate reduction in the annual administrative charge. With the same officers performing the administration function of both entities, there had been little questioning as to the level of the administrative charge prior to payment.

3.5.189 For some time now the Department has been aware that the bulk of water authorities administered by or jointly operated with municipalities incur the highest overall operating costs. However, there was little evidence of any effective action initiated by the Department to address this issue and to establish whether ratepayers of certain water authorities are subsidising municipal operations.

3.5.190 To ensure that water authorities systematically verify that equitable charges for administrative services have been levied by municipalities, audit recommended that the approval of annual business plans of the particular authorities be deferred until the Department is fully satisfied that no subsidisation of municipal operations is occurring.

Management response

The analysis which identifies the nexus between administration costs and municipal management is already known. High administration costs often lead to restructuring of authorities and the Department facilitates this.

The Department, in examining business plans, will continue to exert maximum pressure on authorities to reduce costs.

Timeliness of financial reporting by authorities

3.5.191 Previous Reports of the Auditor-General to the Parliament have commented on the failure by several authorities to prepare and submit for audit financial statements within their statutory reporting deadlines.

3.5.192 It is pleasing to report that, mainly as a result of a decision by the Department in 1987 to impose sanctions, such as the withholding of subsidies or grants, the timeliness of financial reporting by authorities, especially over the past 2 years, has improved considerably.

3.5.193 At February 1991, 7 authorities had not submitted financial statements for periods ended 31 December 1989 or earlier compared with 33 authorities at March 1990, with the number of outstanding financial statements falling from 56 to 17. Table 3.5L provides details of the position at February 1991.

**TABLE 3.5L.
WATER AUTHORITIES WHICH HAD NOT SUBMITTED FINANCIAL STATEMENTS
FOR AUDIT FOR PERIODS ENDED 31 DECEMBER 1989 OR EARLIER**

<i>Authority</i>	<i>Periods ended</i>
Water and sewerage authorities -	
Shire of Korong (Water component)	30.9.87, 30.9.88, 30.6.89
Shire of Myrtleford (Water and sewerage components)	30.6.89
River management authorities -	
King Parrot Creek Improvement Trust(a)	4.6.85
Lough Calvert Drainage Trust	31.12.87, 31.12.88, 31.12.89
Mid-Goulburn Rivers Management Board	31.12.85, 31.12.86, 31.12.87, 31.12.88, 31.12.89
Seymour Shire Improvement Trust(a)	4.6.85
Shire of Korumburra River Improvement Trust	31.12.87, 31.12.88, 31.12.89

(a) Responsibility for preparation of accounts now rests with successor body, Mid-Goulburn Rivers Management Board.

3.5.194 Given the success achieved to date, the Department should continue with its current strategy of withholding financial assistance from authorities until outstanding financial statements have been submitted for audit.

Management response

The substantial improvement in the timely preparation of financial statements particularly by river management authorities has been noted. In 1990, 9 authorities had statements outstanding. This year, only 3 authorities (Lough Calvert Drainage Trust, Mid-Goulburn Rivers Management Board and Shire of Korumburra River Improvement Trust) are in this position. Each of these authorities has given assurances that the backlog will be removed and that its general performance will improve, as a condition of continued financial assistance from the Government.

Broadford Water Board*Abolition of Water Board*

3.5.195 For some years, audit reports issued by my Office arising from the annual audit of the Broadford Water Board's financial operations have conveyed concern to the Government and the Board as to the Board's long-term financial viability. In addition, for the past 4 years, audit has not been in a position to express an opinion on the financial statements of the Board because of material uncertainties arising from major deficiencies in accounting procedures and records relating to key areas of the Board's operations.

3.5.196 The principal factors which have given rise to audit uncertainty as to the Board's financial viability have been:

- ▶ Large cost overruns associated with the construction of a major dam project, the Sunday Creek Reservoir. **The cost of this project to the Board rose by over 200 per cent from an initial estimate of \$2.5 million in 1983 to a final cost of \$8.5 million in 1986**, requiring the Board to borrow additional funds to finalise the project and incur substantial annual interest charges; and
- ▶ A decision by the former Department of Water Resources not to pay further government subsidies to the Board because of the Board's failure to submit timely annual financial statements.

3.5.197 In the audit communication to the Board, audit has stressed the need for the Board to take appropriate action to improve operational efficiencies, prepare estimates and financial statements in a timely manner and enhance engineering controls over capital projects. Without such action, the viability of the Board as a going concern would be seriously threatened.

3.5.198 During 1990, the Department of Conservation and Environment took certain initiatives to address the financial viability of the Board. These initiatives included the feasibility of the Board entering into an acceptable restructuring arrangement and inclusion of the Board in a regional study, aimed at assessing the possibility of establishing one board to manage water resources and related services in the Mid-Goulburn area of the State.

3.5.199 However, because of the seriousness of the situation, the Department subsequently resolved to expedite resolution of the Board's problems and determined to recommend to the Minister that the Board be abolished. **In December 1990, the Minister formally abolished the Board and established a new authority known as the Mid-Goulburn Regional Water Board to take over all functions of the Broadford Water Board.**

3.5.200 The members of the new Mid-Goulburn Regional Water Board have arranged for the financial statements of the former Board to be brought up-to-date and audited so that its financial position at the time of the abolition can be accurately determined. It is understood that the Board will then decide the nature of strategies to be implemented to ensure its future financial viability and delivery of services to the Broadford community.

Wonthaggi-Inverloch Water Board

Outstanding debt to the State of \$1.3 million

3.5.201 By way of an Order-in-Council in May 1988, the Government finalised transfer of control of the Lance Creek Reservoir from the Rural Water Commission to the Wonthaggi-Inverloch Water Board, together with the associated loan liability of \$5.7 million.

3.5.202 The Board has disputed the amount of loan liability transferred, claiming that \$2.4 million should constitute a liability assumed by the State. The Board has recognised the debt of \$5.7 million in its financial statements, but has withheld a portion of principal and interest due since the transfer. The unpaid amount, at 31 December 1990, totalled \$1.3 million.

3.5.203 Although, since 1988, the former Department of Water Resources and more recently the Department of Conservation and Environment and the Board have been involved in a series of consultations and substantial discussions regarding this loan liability of the Board, the matter remains unresolved. Audit has estimated that interest of around \$128 000 has been forgone by the State as a consequence of the stance taken by the Board.

3.5.204 Given the dollar value involved and the time that has elapsed since the debt transfer, the Department should take action to achieve a speedy resolution of the issue.

Management response

A package for resolution of the dispute has been prepared by the Department and will be examined by the Wonthaggi-Inverloch Water Board in the near future.

Woodend Water Board

Latest position on bushfires damages claims

3.5.205 For the past 4 years audit has not been in a position to express an opinion on the financial statements of the Woodend Water Board because of material uncertainty as to the extent of the Board's liability for claims in respect of damages arising from the February 1983 bushfires.

3.5.206 The Board has been served with approximately 90 writs and summonses, the value of which, together with legal costs, has been estimated by the Board's solicitors in April 1989 to be up to \$15 million. To date, only 3 claims have been settled with damages and legal costs amounting to \$1.2 million.

3.5.207 In 1986 the Board received an amount of \$3 million under its public liability insurance policy which has since been held and invested by the Board's solicitors. At 30 September 1990 the solicitors held, on behalf of the Board, an amount of \$3.8 million, including accumulated interest to date less outgoings for settled claims.

3.5.208 Following an application to the Supreme Court by the remaining defendants in November 1990, the Court upheld an earlier magistrate's decision that the insurance proceeds of \$3 million received by the Board, together with the accumulated interest, should be maintained in a trust separate from other funds of the Board and used solely for the benefit of the defendants. The impact of the court decision is that the future control of the funds could rest with independent trustees.

3.5.209 The Board has been granted leave to appeal to the High Court against the Supreme Court decision. In addition, the Department has been assured by the Board that further negotiations are under way to settle this issue.

ALBERT PARK COMMITTEE OF MANAGEMENT

Continuing operating deficits

3.5.210 The Committee is responsible for managing sporting facilities on 218 hectares of Crown land at Albert Park, south-east of Melbourne, for such sports as golf, basketball, table tennis and soccer. The Committee generates the bulk of its revenue from the leasing of these facilities to sporting organisations and other tenants.

3.5.211 For some years now, there have been substantial delays by the Committee in submitting annual financial statements for audit. The most recent completed audit relates to the financial statements covering the year ended 31 December 1989.

3.5.212 Over the last 3 years, the Committee has incurred average annual deficits of \$970 000 and, at 31 December 1989, had an accumulated deficit of \$4.7 million.

3.5.213 The major reason for the continuing annual deficits is that charges levied by the Committee are insufficient to recover all operating costs.

3.5.214 The Committee has advised audit of an issue which may have substantial financial implications for it, namely that, in February 1991, some of its buildings located in Albert Park were subjected to *fire orders* issued by the City of South Melbourne and the Metropolitan Fire Brigades Board as the buildings do not meet current fire regulations standards. Unless the Committee undertakes the necessary modifications, at the expiration of 2 years from the date of the issue of the *fire orders*, the buildings may no longer be used for public purposes. The Committee considers that it is not in a financial position to undertake the necessary modifications to the buildings and may have to consider the demolition of the buildings.

3.5.215 Following concerns on the financial viability of the Committee, the Government, in November 1990, requested the Department of Sport and Recreation to examine the Committee as part of a review of certain government-owned sporting complexes.

Management response

The accumulated deficit of the Committee is principally related to the depreciation on buildings. With the exclusion of this depreciation, the cash surpluses of the Committee for the past 3 years have been \$386 000 in 1987, \$443 000 in 1988 and \$508 000 in 1989. The Committee's income is therefore adequate to meet general operating and maintenance requirements but does not provide any scope to undertake capital works of a new or replacement nature, except for the expenditure of \$800 000 to undertake certain planned works.

The potential of the Committee to generate income is restricted by government regulations last reviewed in 1961. These regulations require updating to enable greater scope for producing additional revenue.

The Committee is awaiting the outcome of the government review of the Committee's sporting assets to determine its future direction. The facilities under review currently contribute approximately 38 per cent of the Committee's revenue, and any loss of this revenue will inhibit its ability to meet current maintenance expectations.

OLYMPIC PARK MANAGEMENT

Deteriorating financial performance of the Melbourne Sports and Entertainment Centre

3.5.216 Olympic Park Management is responsible for the management of Crown land known as Olympic Park which comprises 3 major sporting facilities, namely:

- ▶ the Melbourne Sports and Entertainment Centre, a venue used for a variety of sports including basketball, and for concerts;
- ▶ an international standard athletics track and soccer ground; and
- ▶ a multi-purpose facility incorporating a greyhound racing track, a synthetic playing field for a variety of sports and an athletics track.

Current status of the Committee's financial position

3.5.217 For a number of years, the operating results of the Committee have deteriorated, with substantial deficits incurred in 1988-89 and 1989-90.

3.5.218 Table 3.5M highlights the decline in the Committee's operating performance:

TABLE 3.5M. OPERATING PERFORMANCE
('\$000)

<i>Item</i>	<i>1985-86</i>	<i>1986-87</i>	<i>1987-88</i>	<i>1988-89</i>	<i>1989-90</i>
Income	2 312	3 700	3 150	2 900	3 100
Expenditure	2 386	2 900	3 000	(a)3 500	3 350
Operating surplus (deficit)	(74)	800	150	(600)	(250)

(a) Includes an abnormal depreciation charge of \$142 000.

3.5.219 The above financial results reported by the Committee do not include interest on 2 loans totalling \$2.4 million raised in 1984 for the purpose of upgrading athletics and soccer facilities at Olympic Park. Since 1984, annual interest payments of around \$256 000 in respect of these loans have been met from the Consolidated Fund, as a government subsidy to the Committee.

3.5.220 The major reasons for the overall deterioration in operating results of the Committee since 1986-87 have been the **substantial decline in patronage and income from commercial events at the Entertainment Centre**. This decline can be principally attributed to the **loss of large commercial events to the National Tennis Centre located directly opposite the Entertainment Centre, and which commenced operations early in 1988**.

3.5.221 Table 3.5N highlights the marked decline in income and attendances for commercial events at the Entertainment Centre since 1986-87.

TABLE 3.5N. INCOME AND ATTENDANCE STATISTICS

<i>Item</i>	<i>1986-87</i>	<i>1987-88</i>	<i>1988-89</i>	<i>1989-90</i>
	<i>(\$'000)</i>	<i>(\$'000)</i>	<i>(\$'000)</i>	<i>(\$'000)</i>
Income -				
Entertainment Centre -				
Commercial events	1 764	1 272	846	494
Basketball	16	92	159	407
Non-commercial	106	124	202	334
Greyhound	101	111	112	108
Soccer	133	114	187	59
Carparking	226	365	356	443
Other (e.g. interest, rentals etc.)	1 315	1 077	1 053	1 225
Total operating income	3 661	3 155	2 915	3 070
Attendances -				
Entertainment Centre -				
Commercial events	583 916	431 514	248 665	143 886
Basketball	19 432	80 145	110 762	240 814
Greyhound	122 105	121 814	106 137	96 601
Soccer	151 298	119 520	113 692	66 200
Other	94 748	11 750	40 780	51 134
Total attendances	971 499	764 743	620 036	598 635

Strategic measures to address deteriorating financial position

3.5.222 Since 1987 the Committee has progressively initiated a number of actions aimed at alleviating its financial difficulties, including:

- ▶ widening its range of revenue sources to reduce dependence on any one activity; and
- ▶ rationalisation of its industrial relations environment by consolidating those industry awards and unions representing its employees.

3.5.223 Notwithstanding these initiatives the Committee has not been able to overcome the decline in income from commercial events at the Entertainment Centre.

3.5.224 The Government has included Olympic Park Management in a review, commenced in November 1990, by the Department of Sport and Recreation of certain government-owned sporting complexes.

3.5.225 Until effective strategic measures are in place to improve the financial performance of the Entertainment Centre, the economic justification for the Centre remains in doubt.

Management response

The Committee considers that the conclusion on our financial performance is misleading and the presentation of limited figures misrepresents the facts. To make reference to our current operating performance by comparing it with 1986-87 is quite inappropriate in that an entirely different scenario is reflected if the period from 1983-84 is disclosed. This shows a continuing and substantial performance improvement achieved in spite of the huge loss of revenue following the advent of the National Tennis Centre.

The loss of so much of the concert/entertainment revenue to the National Tennis Centre is, and will remain, irreplaceable. It is singularly inappropriate therefore to compare Olympic Park Management's (OPM's) current status with its 1986-87 position when the circumstances have changed so fundamentally. OPM is now operating on a totally different level of business expectations. The Committee informed the Government in 1985 that the advent of the National Tennis Centre would reduce the revenue of the Sports and Entertainment Centre to the detriment of Olympic Park users.

This loss was anticipated by the Committee which prepared plans, now successfully implemented, to develop alternative sources of revenue. This has included outdoor concerts, motor cycle racing, international Rugby League, functions and meetings, and the very successful promotion of basketball.

The true performance of OPM is concealed within the figures selectively shown in the audit report, by the inclusion of notional figures for depreciation of buildings which is carried out under the auditor's instructions. If the financial viability were to be considered without the requirement for notional depreciation the Committee is satisfied that, since 1983-84, OPM has:

- generated strong trading surpluses (\$7.8 million);*
- provided significant capital improvement investment (\$4.3 million);*
- contributed a high level of repairs and maintenance to its facilities (\$2.9 million);*
- provided essential subsidies to amateur sports through reduced rentals (approximately \$3.5 million);*
- maintained an enviable reputation throughout Victoria and Australia for its development of sporting and entertainment events; and*
- fulfilled all requirements of Olympic Park's original and revised charter.*

In view of the continuing evidence of viability, the Committee therefore rejects the assertions in the audit report that the "economic justification for the Centre remains in doubt".

STATE SWIMMING CENTRE COMMITTEE OF MANAGEMENT

Financial difficulties of the Committee

3.5.226 Previous Reports of the Auditor-General to the Parliament have commented upon major design and structural defects in the construction of the State Swimming Centre. Legal proceedings were commenced by the Government against the builder, in April 1987, and the consulting engineer, in August 1988, to recover costs and obtain compensation.

3.5.227 The case against the builder was settled in April 1989. The terms of the settlement required the builder to pay the Government the sum of \$48 700 and for both parties to pay their respective costs. The case against the engineer was dismissed in May 1990. However, in this latter case, an appeal against the judgement has been entered into by the Government. A date for the hearing of the appeal has not been set.

3.5.228 In 1988, a study carried out on behalf of the Committee by the former Ministry of Housing and Construction **identified the need for extensive structural repairs and maintenance totalling \$7.4 million at 1988 cost levels, to be undertaken on the Centre over the next 20 years.** These repairs incorporated the design and structural problems which were the subject of the above legal action. Of the \$7.4 million, the study classified repairs of \$1.3 million as relating to urgent works which required immediate attention if the Centre was to remain operational.

3.5.229 A review by audit of the financial position of the Committee over the past 3 years disclosed that the Committee's financial position has steadily deteriorated in that:

- ▶ **average annual deficits of \$220 000 have been incurred during the periods 1987-88 to 1989-90; and**
- ▶ **at 30 June 1990, the Committee had an accumulated deficit of \$2.3 million.**

3.5.230 This steady deterioration in financial position has arisen mainly as a consequence of the Committee's inability to raise prices of admissions and hire above those of other operators of aquatic facilities. As a result, the Committee is unable to recover all operating costs, including full recovery of depreciation on the Centre which, in 1989-90, totalled \$230 000. In such circumstances, the Committee currently has little capacity to finance the major structural works, including the urgent repairs, from its own resources.

3.5.231 The Committee has embarked upon several initiatives with the aim of overcoming its financial difficulties. These initiatives have included:

- ▶ Formation of a new management structure involving reduction in the number of members from 9 to 3;
- ▶ Appointment of a new manager for the Centre;
- ▶ The commissioning of reviews into its energy and maintenance needs. The energy review has been completed and has identified potential annual savings in excess of \$30 000 a year;
- ▶ A successful request for government funding of \$260 000 in 1990-91 to commence remedial work in areas of health and safety;

- ▶ Rationalisation of certain staffing arrangements and industrial relations matters; and
- ▶ Commencement of a review of the catering operations at the Centre.

3.5.232 It is pleasing to note that positive action has been commenced by the Committee to address its financial viability and the serious structural problems of the State Swimming Centre.

THEFTS AND LOSSES

3.5.233 During the period 1 January 1990 to 31 December 1990 numerous losses of stores, plant and equipment occurred within the various entities in the Conservation and Environment Portfolio. Details are summarised in Table 3.50.

TABLE 3.50. THEFTS AND LOSSES OF STORES, PLANT AND EQUIPMENT (\$)

<i>Entity</i>	<i>Value of losses of stores, plant and equipment</i>
Department of Conservation and Environment	40 800
Non-metropolitan water authorities	73 300
Melbourne and Metropolitan Board of Works	71 000
Albert Park Committee of Management	18 300
Rural Water Commission of Victoria	15 000
Total	218 400

3.5.234 In addition, the Department has notified audit of:

- ▶ A case of suspected theft and fraud at the Keith Turnbull Research Institute. Police investigations are currently under way; and
- ▶ Equipment to the value of approximately \$5 000 stolen from the Department's Marine Science Laboratory. A departmental officer was charged with theft, placed on a 12 months good behaviour bond and ordered to pay \$500 into the Court's poor box. The Department expects to recover the stolen items.

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>
———— MATTERS RESOLVED ————		
State Swimming Centre Committee of Management		
<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 against builder settled with builder required to pay \$48 700 to Government. Case against engineer was dismissed, however, Government has entered an appeal.
<i>Ministerial Portfolios, May 1990, pp.75-6</i>	Need to determine whether revenue arising from all activities at the Centre has been collected, and to review the adequacy of current management control procedures relating to admission revenue.	Management controls over admission revenue now considered satisfactory.

———— ACTION COMMENCED ————

Department of Conservation and Environment

<i>Third Report, 1983-84, p.22</i> <i>First Report, 1984-85, p.81</i> <i>Ministerial Portfolios, May 1989, p.46</i>	Inadequate procedures to either collect outstanding licence fees for occupied Crown land or terminate tenancies.	Implementation of Land Information Management System has enabled debtors to be more easily identified.
<i>Second Report, 1985-86, pp.90-1</i> <i>Second Report, 1986-87, pp.52-3</i> <i>Ministerial Portfolios, May 1989, pp.45-6</i> <i>Ministerial Portfolios, May 1990, pp.68-70</i>	Deficiencies in the debtors/revenue collection system. Potential interest forgone.	Level of outstanding debts remains high. However, level of aged debtors (i.e. over 6 months old) has decreased from \$3.8 million at 31 January 1990 to \$2.8 million at 31 December 1990. Interest is now being charged on outstanding accounts.
<i>Ministerial Portfolios, May 1989, pp.46-8</i>	Need to improve the accountability and monitoring of the activities of committees of management.	Action statements have been prepared for the Department's regional management to review financial accountability and land management function of targeted committees in each region. In addition, the Department is about to commence a statewide review of the Committees of Management system.

Schedule A. Status of matters raised in previous Reports - continued

Report	Subject	Status at date of preparation of this Report
<p>———— ACTION COMMENCED - continued ————</p>		
<p><i>Ministerial Portfolios, May 1990, pp.70-3</i></p>	<p>Need for the Department to:</p> <ul style="list-style-type: none"> • review the viability of its weedicide resale scheme; and • assess the adequacy of stores management procedures currently in place for weedicides. 	<p>Pricing policy has been changed from cost plus to average commercial prices less a discount of 5 per cent.</p> <p>Number of stores holding weedicides was reduced during 1990 and value of weedicides on hand was also reduced.</p> <p>In addition, regions have been encouraged to check if stocks are held by other regions before purchase.</p>
<p><i>Ministerial Portfolios, May 1990, pp.218-19</i></p>	<p>Shortcomings in revenue collection procedures in Infringement Notice System administered by the Environment Protection Authority (EPA).</p>	<p>Enhancement to the computerised system in progress. Guidelines for the issue of infringement notices have been prepared and circulated.</p>
<p><i>Ministerial Portfolios, May 1990, pp. 219-21</i></p>	<p>Over \$375 000 not collected due to the failure to monitor reports detailing EPA licence holders.</p>	<p>New in-house computerised system being implemented. Ongoing action being taken to recover unpaid licence fees.</p> <p>The EPA advised that action to date indicates a significant number of debtors are incorrect and the level of outstanding moneys is less than that estimated by audit.</p>
<p>Non-metropolitan Water Authorities</p>		
<p><i>Second Report 1985-86, p.196-7</i> <i>Second Report 1986-87, pp.161-3</i> <i>Ministerial Portfolios, May 1989, pp.282-4</i> <i>Ministerial Portfolios, May 1990, pp.349-50</i></p>	<p>Failure by authorities to provide financial statements for audit in a timely manner.</p>	<p>Substantial improvement in the timing of presentation of financial statements for audit occurred during 1990.</p> <p>For further comments, refer to paragraphs 3.5.191 to 3.5.194 of this Report.</p>

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>
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— ACTION COMMENCED - continued —

<i>Ministerial Portfolios, May 1990, pp.344-7</i>	Serious doubts exist as to the financial viability of many water authorities.	Several initiatives have been taken by the Department including: <ul style="list-style-type: none"> • amalgamation of some small authorities with larger more viable entities; • initiating regional studies for the establishment of regional water boards; and • removal of subsidies from certain authorities unless they enter into restructuring arrangements acceptable to the Government.
<i>Ministerial Portfolios, May 1990, p.350</i>	Failure by authorities to submit annual reports of their operations to the Minister.	The number of authorities which failed to submit reports of operations reduced during 1990.

Melbourne and Metropolitan Board of Works

<i>Second Report, 1986-87, pp.164-5 Ministerial Portfolios, May 1990, p.343</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.
<i>Ministerial Portfolios, May 1990, pp. 340-1</i>	Financial statements of the Board for 1988-89 were qualified due to the failure by the Board to account for debt restructuring activities in accordance with Australian Accounting Standards.	Position unchanged. Financial statements of the Board for 1989-90 were also qualified on this issue. Board will reconsider its position at the time of preparation of its 1990-91 financial statements.

Non-metropolitan Water Authorities

<i>Second Report, 1985-86, p.197 Ministerial Portfolios, May 1990, pp.348-9</i>	Inadequacies in the recording of fixed assets by water authorities.	Position substantially unchanged.
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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>
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———— **ACTION COMMENCED - *continued*** ————

<i>Ministerial Portfolios, May 1989, p.285</i>	Financial statements of Woodend Water Board for past 4 years disclaimed on the basis that material uncertainty existed as to the Board's liability for claims for damages arising from bush fires on 1 February 1983.	Material uncertainty remains as, to date, only 3 claims have been settled. For further comments, refer to paragraphs 3.5.205 to 3.5.209 of this Report.
<i>Ministerial Portfolios, May 1990, pp.347-8</i>	Due to industrial action, publicly-funded fluoridation assets to the value of \$3.3 million remain idle at certain water authorities.	Position unchanged.

———— **NO ACTION TAKEN** ————

Department of Conservation and Environment

<i>Ministerial Portfolios, May 1990, pp. 219-21</i>	Self-monitoring of waste discharge and stack emissions has the potential of being manipulated by EPA licence holders.	Position unchanged. For further comments refer paragraphs 3.5.17 to 3.5.26 of this Report.
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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>
Completed audits				
Department of Conservation and Environment	30 June 1990	31 October. <i>Annual Reporting Act 1983, s.8.</i>	18 October 1990	19 October 1990
Albert Park Committee of Management Incorporated	31 December 1989	No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.	24 October 1990	3 December 1990 (a)
Bundoora Park Committee of Management	Years 30 June 1981 to 30 June 1988	No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.	7 February 1989	11 December 1990 (a)
" "	30 June 1989	" "	1 August 1989	11 December 1990 (a)
Dandenong Valley Authority (b)(c)	30 September 1989	31 March. <i>Dandenong Valley Authority Act 1963, s.40.</i>	29 March 1990	20 April 1990
Edithvale-Seafood Wetlands Environmental Area Committee of Management (c)	30 June 1989	No reporting requirements. <i>Dandenong Valley Authority Act 1963, s.31A</i> provides for the audit of the accounts.	29 March 1990	16 May 1990
Healesville Sanctuary Trading Pty Ltd	Period 5 June 1989 to 30 June 1989	No reporting requirements. Audit conducted at request of Treasurer.	24 January 1990	25 September 1990
" "	30 June 1990	" "	24 September 1990	25 September 1990
Latrobe Valley Water and Sewerage Board (c)	30 June 1990	31 December. <i>Latrobe Valley Act 1958, s.53.</i>	22 August 1990	31 August 1990
Melbourne and Metropolitan Board of Works	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	10 September 1990	18 September 1990 (a)

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>
Completed audits				
Melbourne and Metropolitan Board of Works Employees' Superannuation Fund	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension of time to 30 November 1990.	28 November 1990	21 December 1990
Mount Macedon Memorial Cross Committee of Management	31 December 1989	No reporting requirements. Audit conducted at request of Treasurer.	13 August 1990	24 September 1990
Olympic Park Management	30 June 1989	No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.	24 May 1990	14 September 1990 (a)
Patterson River Recreational Area Management Committee (c)	30 June 1989	No reporting requirements. <i>Dandenong Valley Authority Act 1963, s.31A</i> provides for the audit of the accounts.	29 March 1990	16 May 1990 (a)
Penguin Reserve Committee of Management	30 June 1989	No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.	25 May 1990	23 July 1990 (a)
Port Bellarine Committee of Management	30 September 1989	No reporting requirements. <i>Port Bellarine Tourist Reserve Act 1981, s.21</i> provides for the audit of the accounts.	5 March 1990	25 May 1990
Rural Water Commission of Victoria	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension of time to 31 October 1990.	26 October 1990	31 October 1990 (a)
Shrine of Remembrance Trustees	30 June 1989	No reporting requirements. Audit conducted at request of Treasurer.	21 February 1991	28 February 1991

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>
Completed audits				
State Swimming Centre Committee of Management	30 June 1990	No reporting requirements. <i>Crown Land (Reserves) Act 1978</i> , s.15 provides for the audit of the accounts.	8 January 1991	23 January 1991 (a)
Tirhatuan Park Recreational Area Management Committee (c)	30 September 1989	No reporting requirements. <i>Dandenong Valley Authority Act 1963</i> , s.31A provides for the audit of the accounts.	29 March 1990	16 May 1990 (a)
Victorian Conservation Trust	30 June 1990	30 September. <i>Annual Reporting Act 1983</i> , s.9.	28 September 1990	28 September 1990
Yarra Bend Park Trust	30 June 1989	No reporting requirements. Audit conducted at request of Treasurer.	6 September 1989	9 May 1990
" "	30 June 1990	31 October. <i>Kew and Heidelberg Lands Act 1933</i> , s.15.	11 December 1990	15 January 1991 (a)
Zoological Board of Victoria	30 June 1990	30 September. <i>Annual Reporting Act 1983</i> , s.9.	24 September 1990	25 September 1990
Zoological Board of Victoria Superannuation Fund	30 June 1988 and 30 June 1989	No reporting requirements. Audit conducted at request of Treasurer.	1 June 1990	13 August 1990
" "	30 June 1990	" "	5 December 1990	20 December 1990
Incomplete audits				
Bundoora Park Committee of Management	30 June 1990	No reporting requirements. <i>Crown Land (Reserves) Act 1978</i> , s.15 provides for the audit of the accounts.	Financial statements not received from Committee.	
Dandenong Valley Authority (b)(c)	30 September 1990	31 March. <i>Dandenong Valley Authority Act 1963</i> , s.40.	Audit substantially completed.	

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>
Incomplete audits				
Edithvale-Seaford Wetlands Environmental Area Committee of Management (c)	30 June 1990	No reporting requirements. <i>Dandenong Valley Authority Act 1963, s.31A</i> provides for the audit of the accounts.	Audit substantially completed.	
Non-metropolitan water authorities	For further comments, refer to paragraphs 3.5.191 to 3.5.194 of this Report.			
Olympic Park Management	30 June 1990	No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.	Audit substantially completed.	
Patterson River Recreational Area Management Committee (c)	30 June 1990	No reporting requirements. <i>Dandenong Valley Authority Act 1963, s.31A</i> provides for the audit of the accounts.	Audit substantially completed.	
Penguin Reserve Committee of Management	30 June 1990	No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.	Audit substantially completed.	
Port Bellarine Committee of Management	30 September 1990	No reporting requirements. <i>Port Bellarine Tourist Reserve Act 1981, s.21</i> provides for the audit of the accounts.	Financial statements not received from Committee.	
Shrine of Remembrance Trustees	30 June 1990	No reporting requirements. Audit conducted at request of Treasurer.	Financial statements not received from Trustees.	
Tirhatuan Park Recreational Area Management Committee (c)	30 September 1990	No reporting requirements. <i>Dandenong Valley Authority Act 1963, s.31A</i> provides for the audit of the accounts.	Audit substantially completed.	

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>
Incomplete audits				
Victorian Institute of Marine Sciences	31 December 1989	31 March. <i>Victorian Institute of Marine Sciences Act 1974, s.26.</i>	Audit substantially completed.	
Victorian Institute of Marine Sciences Superannuation Fund	Years 1988 to 30 June 1990	No reporting requirements. Audit conducted at request of Treasurer.	Financial statements not received from trustees of Fund.	

(a) Qualified audit report issued.

(b) Name changed to Dandenong Valley and Western Port Authority on 1 November 1990.

(c) From 1 November 1990 brought under provisions of *Water Act 1989*.

3.6

CONSUMER AFFAIRS

KEY FINDING

- ▶ The audit of the financial statements of entities within the portfolio proved satisfactory.

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

Department

Ministry of Consumer Affairs

Public bodies

Liquor Licensing Commission

The audit of the financial statements within this portfolio proved satisfactory.

LIQUOR LICENSING COMMISSION

Thefts and losses

3.6.1 The Liquor Licensing Commission advised that computer equipment valued at \$14 710 was stolen during September 1990.

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>
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— MATTERS RESOLVED —

Ministry of Consumer Affairs

<i>Ministerial Portfolios, May 1990, p.83</i>	The inability of the Motor Car Traders Guarantee Fund to support the full cost of administration without substantial government subsidies.	The Ministry has advised that fees have been increased to allow the Fund to more fully meet its total cost of operation.
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— ACTION COMMENCED —

Ministry of Consumer Affairs

<i>Ministerial Portfolios, May 1989, pp. 54-6</i>	There is a need to review various aspects of operations and administration of the Residential Tenancies Fund.	The Ministry has advised that action has been taken to improve the operation and administration of the Fund.
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Schedule A. Status of matters raised in previous Reports - continued

Report	Subject	<i>Status at date of preparation of this Report</i>
— ACTION COMMENCED - continued —		
<i>Ministerial Portfolios</i> , May 1990, p. 82	There is a need to take a pro-active approach to detect unlicensed motor car traders.	In conjunction with the Victorian Automobile Chamber of Commerce, Victoria Police and Roads Corporation, the Ministry is undertaking a compliance program in respect of unlicensed motor car traders. A task force was established in January 1991 to locate and prosecute unlicensed motor car traders. In addition, a compliance program will seek to inform consumers by way of education and public warnings.
Ministry of Consumer Affairs		
<i>Ministerial Portfolios</i> , May 1990, pp. 216-18	Insufficient attention given to evaluation of business ventures proposed by, and funding provided to, various aspects of capital advanced to Aboriginal co-operatives.	The Ministry has advised that a full review is now conducted quarterly to monitor compliance with funding agreements. Capital project programs funding agreements are being reviewed, and performance indicators are soon to be finalised.

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>
Completed audits				
Ministry of Consumer Affairs	30 June 1990	31 October. <i>Annual Reporting Act 1983, s.8.</i>	22 October 1990	25 October 1990
Liquor Licensing Commission	30 June 1990	30 September <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension of time to 31 October 1990.	18 October 1990	22 October 1990

CORRECTIONS

KEY FINDINGS

- ▶ Conflicts in legislation result in the Victorian Prison Industries Commission not having ultimate control over its workforce and industry supervisors.
Paras 3.7.20 to 3.7.23
- ▶ The Commission experienced difficulties in attracting prisoners to work in its industries.
Paras 3.7.37 to 3.7.49
- ▶ The Commission's ability to make sound business decisions is restricted by an absence of standard project evaluation and costing procedures.
Paras 3.7.50 to 3.7.55
- ▶ The Commission's Marketing Division failed had only moderate impact in attracting new customers and failed to establish forward plans for all prison industries.
Paras 3.7.56 to 3.7.64
- ▶ Legislative arrangements regarding funding place limitations on the Commission's ability to operate in a commercial environment.
Paras 3.7.65 to 3.7.68

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

Department

Office of Corrections

Public bodies

Victorian Prison Industries Commission

Comments on matters of significance arising from the audit of the Victorian Prison Industries Commission are discussed below.

VICTORIAN PRISON INDUSTRIES COMMISSION

3.7.1 The Victorian Prison Industries Commission (the Commission) is responsible for the development and operation of prison industries and farms in the State's 14 prisons and the Langi Kal Kal Youth Training Centre. The areas of prison industry activity include metal fabrication, textiles, printing, woodwork, agriculture, horticulture and forestry.

3.7.2 The objectives of the Commission, as provided in the *Victorian Prison Industries Commission Act 1983*, are to:

- ▶ make prison industries and farms profitable, consistent with United Nations minimum standard rules concerning prison work;
- ▶ train prisoners to achieve work habits and skills under conditions which are as close as possible to those applying in similar industries outside prisons;
- ▶ maximise work opportunities in prison industries and farms;
- ▶ supply as much as is economically viable of the goods and services required by the Department of Community Services; and
- ▶ allow prisoners to earn money for the following purposes:
 - as a motivation to work;
 - to contribute to the maintenance of their families;
 - to contribute to the cost of their imprisonment;
 - to purchase personal items; and
 - to accumulate savings which become due on a prisoner's release.

3.7.3 In August 1990, the Commission sought Cabinet approval to reduce the emphasis on developing profitable industries and adopt as its primary objective the training and employment of prisoners. This was seen to be in keeping with the Government's policy set out in *"Building a Law Abiding Society - Together"* issued in August 1988 and which, in relation to prisoner rehabilitation, aims at developing vocational training programs and ensuring that all prisoners work.

3.7.4 Cabinet subsequently agreed that:

- ▶ the Victorian Prison Industries Commission adopt as its primary objective the employment and training of prisoners to enable them to achieve work habits and skills and maximise work opportunities; and
- ▶ government agencies provide support for the purchase of goods produced by prisoners, subject to:
 - retention of the objectives of profitability; and
 - government agencies purchasing goods produced by prisoners where they can compete on both quality and cost.

Overall conclusion

3.7.5 An audit review of the management and accountability processes adopted by the Commission highlighted a number of deficiencies in management controls and practices which, together with other outside influences, seriously inhibited the Commission's ability to meet its stated objectives.

Strategic planning

3.7.6 The Commission has developed a 3 year Strategy Plan for the period 1990-91 to 1992-93 which, in broad terms, sets out strategies to achieve particular corporate objectives.

3.7.7 The Strategy Plan, which was first proposed in late 1989, was formally adopted by the Board of the Commission in January 1991. However, implementation of the Plan is not intended to take effect before 30 April 1991.

3.7.8 It is of concern to audit that the delays in the adoption of the Strategy Plan will, for all practical purposes, result in the major portion of the first year of operation covered by the Plan passing without clear direction from the Board.

3.7.9 It was noted that the Strategy Plan does not incorporate as an objective the provision of prisoner earnings which is a stated objective of the governing legislation.

3.7.10 In audit opinion, prisoner earnings are of paramount importance in achieving the Commission's aims as the level of payments is a key incentive for attracting a workforce, thereby influencing the number of prisoners employed, their willingness to work and the resultant impact on the quality of finished products and the level of production achieved.

3.7.11 Audit concluded that the Strategy Plan should incorporate the objective of providing prisoner earnings together with associated strategies.

Management response

The inaccuracy of many of the points raised in this section seems to stem from misinterpretation of information which would have been clarified by consultation with the Chairman or other Board Members.

A large part of the Strategy Plan incorporated policy and direction already established. Formalisation of such a plan, especially for the first time, necessitates careful review and timing and is sometimes best delayed to incorporate improvements.

This Plan does, and always will, need adjustment in the light of changing circumstances, but the real issue is that management has now developed a Plan which is endorsed by the Commission and the implementation of which is being expedited.

The Commission would suggest the motivation for prisoners to work is due to a multiplicity of reasons of which prison pay is one. Many prisoners seek work to overcome the boredom of prison life and to provide meaningful activity during their out of cells hours.

The prisoner pay rates paid in Victoria are about the most generous prisoner pay arrangements in any Australian correctional system. They have been purposefully graded so as to provide incentives with Victorian Prison Industries Commission (VicPIC) industries offering the most attractive pay rates ahead of other prison work activities. The overall quantum amount that can be paid to prisoners is, however, largely determined by government as part of the budget process.

3.7.12 The Commission's management developed a draft Industry Plan related specifically to the goals to be achieved and projects to be undertaken by the various industries within each prison in 1990-91. Audit was informed by management that although this Plan had been used to govern industry activities during the year, it had not been ratified by the Board.

3.7.13 It is considered inappropriate that the Board, while adopting the broader Strategy Plan, did not appear to concern itself with the specific actions proposed to be taken to fulfil the Commission's overall objectives.

Management response

The Industry Operations Plan includes operations and marketing plans for each prison and forms part of annual budget plans which are agreed with the Board and which are constantly monitored.

3.7.14 Audit comment concerning the inability of the Commission's financial systems to provide details on the performance of individual prison industries is contained in paragraph 3.7.35.

Performance indicators

3.7.15 The Commission's Strategy Plan has key targets established in relation to the achievement of the stated objectives over the next 3 years. The performance indicators adopted are based on measuring actual results against the targets set.

3.7.16 The number of prisoners employed is the performance indicator set in place for evaluating results against the objective of maximising the number of prisoners engaged in useful work. In audit opinion this performance indicator alone does not give a true indication of achievement against the stated objective. It is possible to increase prisoner employment without having prisoners engaged in useful work.

3.7.17 Audit therefore recommends that the Commission give consideration to the adoption of more appropriate performance measures such as those related to average working hours per prisoner or production per prisoner.

3.7.18 Overall, the targets set and consequential performance indicators in place are broad and generally relate to the Commission's main objectives rather than specific strategies.

3.7.19 Audit is of the view that a comprehensive range of performance indicators should be developed and be related specifically to adopted strategies in order to better monitor and control results against objectives. Furthermore, indicators need to be established to monitor performance against goals set for individual prison industries under the Industry Plan.

Management response

While the performance indicators in the Strategy Plan may be deemed to be "too broad", the comment in this section ignores the fact that prisoner employment is now measured in terms of hours worked, as indicated in monthly Board reports from Management.

The fine tuning of the objectives and indicators will continue as management gains more experience and as appropriate systems are developed. Measurement of production performance, for instance, should result from the current project to establish a prison-based model of management.

Roles and responsibilities

Conflicts in legislation

3.7.20 The Act assigns responsibility for the management of industry sites and farms and the provision of prisoner work therein to the Commission and it is empowered to determine the nature of any business to be carried on at each site or farm. However, the Corrections Regulations 1988 (Regulations) provide for the Director-General of the Office of Corrections (OOC) to approve all work programs, as submitted by the Governors of prisons, for the employment of prisoners. Under the Regulations work programs are defined to include any programs run by the Commission.

3.7.21 Although the Act authorises the Commission to direct prisoners to work on sites or farms, the Regulations require the Governor to be responsible for directing prisoners to work in work programs.

3.7.22 In addition, the *Corrections Act 1986* states that the principal duty of the Governor of a prison is to be responsible for the management, security and good order of the prison and the safe custody and welfare of the prisoners. The Act does not assign any responsibility for the operations of prison industries to the Governor. **The Commission alone is responsible for the operations of the industries yet, for all practical purposes, does not have ultimate control over the workforce or industry supervisors.**

3.7.23 Further, legislative inconsistencies exist in relation to the payment of prisoners' wages. The Act requires the Commission to pay the OOC for prisoners working in the industries out of the Victorian Prison Industries Fund. In practice, however, all prisoners' wages are paid by the OOC from funds appropriated to it for this purpose.

Management response

The audit report refers to an apparent conflict between the Corrections Regulations empowering the Director-General of Corrections to approve work programs while the Victorian Prison Industries Commission Act empowers the Commission to determine the nature of business in prisons. There is no conflict.

The head power in the Corrections Act 1986 for the particular regulation in question relates to part 8 of the Act - Temporary Absence from Prison and Early Release. Under this part of the Act, the Director-General is required to approve programs (including work programs) for prisoners who are authorised to be absent from a prison. This is a Prisoner Management and Control related issue to ensure prisoners who are authorised to leave prisons to do work are in fact participating in bona fide work programs.

The second issue of apparent conflict relates to who can order prisoners to work - the Commission or the Governor of the Prison. It is quite apparent that the Commission cannot have and should not have direct command of prisoners. The alternatives are for the Commission to delegate to all Governors its power to direct prisoners to work or to modify the Corrections Act to unambiguously place such responsibility with the Governors. The Government has opted for the latter option and an amendment to the Corrections Act is currently before the Parliament as part of the Corrections (Prison and Prisoner Management) Bill to clearly place responsibility for work with Governors.

The final area of apparent legislative conflict relates to the payment of prisoners. While the VicPIC Act empowers the Commission to pay prisoners in VicPIC industries, in fact the OOC makes such payments.

Underlying these current arrangements is the fact that the Government allocates to the OOC, in a single budget line item, funds for all prisoner payments. While not impossible, there are considerable administrative difficulties in developing dual systems for paying prisoners who for part of a week (or a day) work in a VicPIC industry and for the remaining time receive remuneration from OOC - whether in OOC employment, in education or unemployed. The issue needs further consideration by government.

Relationship with OOC

3.7.24 It is apparent from discussions held with the Commission's management and a number of prison industry supervisors that problems exist in the level of co-operation and communication between the Commission and the OOC.

3.7.25 Concerns in this area have been formally recognised in the Commission's Strategy Plan which notes the need to enhance co-operation between the Commission, the OOC, Governors and industry supervisors.

3.7.26 The following difficulties have greatly impacted on the Commission's ability to meet its objectives:

- ▶ attracting prison industry workers when the pay rates in industries compare unfavourably with those paid for other forms of prison work which involve shorter working hours (refer paragraph 3.7.40);
- ▶ obtaining and retaining an industry workforce where the Governor assigns prisoners' work, and transfers of prisoners between prisons occur (refer paragraphs 3.7.44 and 3.7.45); and
- ▶ disruptions to prison industry production due to:
 - a lack of co-ordination between prisoners' work in the industries and other prison activities (refer paragraph 3.7.45); and
 - industry supervisors, who are ultimately responsible to the Governors, being assigned to other duties which effectively suspends production in the particular industry.

3.7.27 The nature and extent to which these problems occur varies between prisons. However, it does serve to highlight an overall lack of communication and co-operation between the Commission and the OOC and the perception that the 2 organisations have distinct and unrelated roles to play in the prison system.

3.7.28 It is pleasing to note that the Commission is examining ways to overcome the problems in this area through the appointment of a special adviser whose terms of reference include giving effect to a prison-based model of management, co-ordinated by the Commission. This model provides for Governors and staff taking direct responsibility for prisoner employment in each prison industry.

3.7.29 The success of the initiative depends on the degree of co-operation achieved between the Commission, the OOC and Governors. It is recommended that the Director-General of OOC, who is also a member of the Commission's Board, ensure Governors play an active role in the fulfilment of government policies in relation to prisoner employment and training. Further, to best effect any changes in responsibilities, consideration should be given to obtaining legislative amendments.

Management response

The audit report notes that "from discussions held with the Commission's Management and a number of Industry Supervisors" that problems existed in the level of co-operation and communication between VicPIC and OOC. One of the disappointing facets of the audit process was the lack of consultation by audit staff with Commissioners and with OOC Management and Staff. Perhaps if time had been taken in additional consultation, a different perspective may have been factored into the observations made and conclusions drawn.

VicPIC is endeavouring to encourage industry development and operation in a prison setting. The imperatives for VicPIC are to maximise prisoner employment while meeting contractual obligations, and doing so at minimum cost. The imperatives for the OOC are to ensure the good order, security and management of prisons. Accordingly, prisoners will be classified between prisons, can be separated for management reasons to different areas within a prison, can incur sanctions for management reasons, can be confined to accommodation units during a disturbance, major search etc. Therefore because of the nature of their roles, there are inherent tensions between the 2 agencies in each endeavouring to achieve their respective goals and objectives.

The audit report cites a number of problems to support the notion of conflict between OOC and VicPIC.

The Commission questions the observation that pay rates in industries compare unfavourably with OOC work. The existing pay scales were compiled with the aim of giving VicPIC industries a pay advantage. Admittedly some OOC workers are paid a day's pay for only several hours of work, but this has existed because there has been inadequate work available to all prisoners. As VicPIC employs more prisoners, this issue should cease to be a problem.

The second observation of Governors assigning prisoners to work and transferring prisoners between prisons highlights the challenge of operating industry in a prison setting. While prisoners remain in a prison it is their conduct that largely determines their availability to attend industry. In terms of transfers to other prisons, this occurs as a result of the prisoner being classified by the Classification Committee to a prison of lesser or greater security depending on the prisoner's assessed requirements.

All prisoners have a right to be classified (refer section 47(1)(1) of the Corrections Act). At times, however, the rights of prisoners to be reclassified can produce conflicts with that prisoner's contributions to a particular industry.

The final identified problem area cited relates to disruption to industry production due to the lack of co-ordination of work and other activities and Industry Supervisors being assigned other duties by the Governor. The suggestion of lack of co-ordination relates to the need for prisoners to undertake a multiplicity of functions during out of cell hours.

The logistics of achieving all these activities in a large prison are immense. While there will always be room for improvement, to purely state there is a "lack of co-ordination" does not provide an accurate picture to the reader of the audit report.

It is the recommendation of the audit team in this section "that the Director-General of OOC, who is also a member of the Commission's Board, should ensure Governors play an active role in the fulfilment of the Government's policies" etc.

The assumption that could be drawn with this recommendation is that the Director-General has not been previously active in encouraging Governors in relation to work. This is not the case. The Commission and the Director-General have worked closely in seeking to achieve the active involvement of Governors in industry. The central basis of the current review is to once again focus on the role relationships between the OOC and VicPIC.

Financial management

Annual financial results

3.7.30 An analysis of the Commission's financial performance discloses a downturn in operating results for the previous 2 years which is mainly attributable to significant increases in expenditure without proportionate rises in sales revenue.

3.7.31 Details of the operating results and financial position of the Commission since its inception are provided in Table 3.7A below.

TABLE 3.7A. FINANCIAL POSITION
(\$'000)

	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
Sales revenue	1 906	2 340	4 027	4 612	5 024	5 512
Add: Net appropriation(a)	1 419	1 906	2 122	2 222	1 655	2 371
	3 325	4 246	6 149	6 834	6 679	7 883
Less: Expenditure	3 226	3 756	5 938	6 531	(b)8 002	8 848
Operating surplus (deficit)	99	490	211	303	(1 323)	(965)
Accumulated surplus (deficit)	99	589	800	(c)1 082	(d)(242)	(1 207)

(a) Represents Government Recurrent Contribution less VicPIC payments to the Consolidated Fund.

(b) Certain non-cash expenditure items in excess of \$980 000 (\$700 000 related to prior years) were brought to account for the first time in 1988-89 which adversely impacted on the financial results for the year.

(c) Includes \$21 000 prior period adjustment.

(d) \$1 000 rounding adjustment.

3.7.32 While audit acknowledges that the prime objectives of the Commission do not relate to profitability, the trend in operating results warrants close attention. It is important to **ensure** that, in light of the stated government goal of increasing prisoner employment, **the reduced emphasis on profitability does not result in inadequate consideration being given to the overall financial position of the Commission.**

Management response

While the Commission agrees with the thrust of the comments in this section, we believe the Table indicating Operating Results and Financial Position should acknowledge changes introduced to comply with the Financial Reporting Act from 1988-89, including substantial non-cash components which do not, in the view of the Commission, reflect government funding mechanisms. Comparison with earlier years is misleading.

3.7.33 Audit acknowledges that certain non-cash items were brought to account in the Commission's operations for the first time in 1988-89. These related to the provision for annual leave, provision for long service leave for supervisors, and the charging of depreciation on all buildings and improvements for the first time. These new provisions impacted adversely on the financial results for the year by over \$980 000.

3.7.34 However, the fact remains that an operating deficit of \$965 000 was incurred in the next year of operations when no new non-cash items were introduced.

Internal reporting

3.7.35 Summary financial information is presented at the monthly Board meetings. However, details of the performance of individual prison industries are not currently available from the Commission's general ledger system. As a result, the Board and the Commission's management are not in a position to determine the financial viability of activities undertaken within each prison industry and effective decision making is therefore impaired. In addition, the Board does not review the minutes of key sub-committee meetings held by the executive and field management. This, coupled with limited performance indicators, inhibits the Board's ability to effectively monitor the Commission's operations.

3.7.36 Failure by the Board to adequately monitor the Commission's performance and detect and correct problems at an early stage may adversely impact on the achievement of corporate goals.

Management response

The level of sophistication of production, costing and marketing information needs improvement and this is being addressed via development of new financial and control systems for individual locations, as mentioned elsewhere.

The comments in this section seem to assume that the monthly Commission meeting is the only contact which the Board members have with Management. The Chairman and some Commissioners make frequent visits to the VicPIC office and make a point of pursuing such detail as necessary to guide decisions. Examination of financial information by the Commission is often far more detailed than would be usual for a Board of this kind.

Commissioners have access to Management Sub-Committee minutes and explore individual projects with management as necessary. Full reporting of all management minutes to the Board is not considered necessary, but there is room to improve the overall coverage of management issues.

Prisoner workforce

Motivation

3.7.37 Prisoners can be employed in Commission industries or in OOC positions. Those employed in Commission industries generally work 6 hours per day and are paid on a sliding scale ranging between \$4.50 and \$6.50 per day depending on the quality of the work performed as determined by industry supervisors.

3.7.38 There are 2 main categories of OOC employment. The first could be described as essential services, for example cooks, maintenance workers and laundry hands. These prisoners receive wages of either \$5 or \$6 per day depending on the task performed. The second category of OOC employment is as a billet. Prisoners employed as billets perform general duties for which they receive between \$4 and \$5 per day. Prisoners who are unemployed, due to a shortage of work or other circumstances outside their control, receive \$2.50 per day, while prisoners who refuse to work or are subject to disciplinary action receive \$1 per day.

3.7.39 A report on prisoner employment by the Assistant Director of Prisons in June 1990 made reference to an unacceptably high level of unemployment in prisons. At the time of his report statistics available for May 1990 showed that 21 per cent of prisoners were unemployed. Even more disturbing was the fact that 23 per cent of prisoners were classified as billets, who only work between one and 3 hours per day and generally were under-employed for as much as 60 per cent of the prison working day. He also found that the majority of prisoners had little motivation or incentive to change their employment status.

3.7.40 Given the comparative wages of prisoners employed in OOC positions, especially those positions requiring significantly shorter working hours, it has been difficult to attract prisoners into Commission industries. Audit discussions with industry supervisors disclosed that employment in the industries is often perceived by prisoners as a form of punishment, with good behaviour rewarded by the assignment of the more favoured billet position.

3.7.41 In the report referred to in paragraph 3.7.39 the Assistant Director stated that it was critical that incentives should apply for prisoners who do work and disincentives should be established for those who refuse work. Recommendations contained in that report included:

- ▶ basing remuneration on the work-value of the position held and establishment of performance bonuses;
- ▶ rationalisation of the number of billet positions to ensure that each reflected, as far as practicable, a full 6 hour working day; and
- ▶ prisoners who refused to work should not receive any payment and their access to private moneys should be restricted.

Management response

The Commission is unsure exactly how audit concluded that it had been difficult to attract prisoners into industries due to the comparative wages of prisoners employed in OOC positions, especially those requiring significantly shorter working hours.

Until recently with the opening of Loddon and Barwon Prisons, which we are currently addressing, the Commission has not been aware of any significant problem for VicPIC industries to be supplied with prisoner labour. It is the common view in the prison system that most prisoners want to work. While pay rates are important, the issue for most prisoners is to be gainfully employed for the period they are out of cells.

The contention by Industry Supervisors that VicPIC jobs are a form of punishment while good behaviour is rewarded by assignment to a more favoured billet position needs to be supported by facts. The highest paid workers work in VicPIC industries. There are comparatively few highly paid billet positions. The highest paid OOC workers are the head cooks in kitchens.

The Commission sees little merit in an audit report relating to the observations of one group of employees unless they can be supported by factual data. Such observations add little to the veracity of the report.

3.7.42 Table 3.7B indicates that since the issue of the report there has been no significant change in prisoner employment numbers which indicates a lack of effective action on prisoner motivation. The payments have remained the same for 3 years although the Corrections Regulations require the Director-General, in consultation with the Commission, to annually review the scale of remuneration to be paid to prison industry workers.

TABLE 3.7B. PRISONER EMPLOYMENT, 1990

Date	OOC Services				VICPIC	Education	Unemployed	Total muster			
	Billets		Other								
	No.	(%)	No.	(%)					No.	(%)	No.
31 Mar.	461	(23)	330	(17)	634	(32)	32	(1)	541	(27)	1 998
30 Jun.	519	(24)	374	(17)	676	(31)	47	(2)	566	(26)	2 182
30 Sep.	499	(24)	364	(18)	609	(30)	37	(2)	533	(26)	2 042
30 Dec.	493	(24)	378	(18)	684	(33)	53	(3)	467	(22)	2 075

Management response

The pay rates for prisoners have been reviewed annually, but because of overall budgetary constraints, there has been no capacity to increase prisoner rates.

3.7.43 Audit notes that the special adviser appointed by the Commission has been requested to review, with the OOC, payment schedules for prisoner work.

Prisoner placements in the workforce

3.7.44 As previously referred to in paragraph 3.7.21 the Corrections Regulations require Governors to direct prisoners to work in work programs. Governors, therefore, have the ultimate control over the size, composition and duration of any prison industry workforce. It was apparent from the audit review that the degree of influence that industry supervisors have over the selection of prisoners to work in their respective industries, depends on:

- ▶ their relationship with the prison Governor;
- ▶ the prisoner population and number of OOC service positions; and
- ▶ the prisoners themselves.

3.7.45 Discussions held with the Commission's management and industry supervisors highlighted a number of problems in the placement of prisoners in industries, namely:

- ▶ Placement of short-term prisoners in industries requiring training in the manufacture of a product while longer-term prisoners were assigned OOC service positions. As a result, the regular movement of short-term prisoners in and out of industries limited the ability to achieve optimum production levels where training was required;
- ▶ Removal of good workers from the industries and their placement in OOC services positions to enhance the operations of the prison;

- ▶ Assignment to the industries of prisoners who have been management problems in one way or another. Such assignments and the removal of good workers from industries enhances the perception among prisoners that industries are viewed by custodial staff as places of punishment;
- ▶ Other prison activities such as prisoner visits and sport have not always been co-ordinated with the industries' working hours, thereby causing disruptions to production;
- ▶ Instances of excess prisoners being placed in the industries when the prison population is high and the reverse situation, where prisoners in industry work are removed to OOC service positions when the population is low. Both these situations cause inefficiencies in industry production; and
- ▶ Transfer of prisoners between prisons through the operations of the Classifications Committee have also disrupted the industry operations. Instances were cited where prisoners given on the job training in a particular industry were transferred to another prison and industry totally unrelated to the training previously received. Further, prisoners involved in TAFE training courses have been transferred before completing their studies. As a result, neither the industry nor the prisoner gains any benefit from the training received.

Management response

This section again appears to lack balance as observations made relate solely to the perceptions of Industry Supervisors. It is unfortunate that the audit team did not interview OOC staff and Governors.

On reception into a prison, a Committee meets with each prisoner to determine his/her program requirements. Invariably, the Senior Industry Supervisor is represented on that Committee to evaluate work options for the prisoner. The principal employer in all prisons (except remand) is VicPIC. To continually contend that VicPIC is the last employment option for prisoners needs to be validated. In each prison there are a number of prisoners assigned to key OOC service industries, prisoners can concurrently be assigned to VicPIC industries. If there are no opportunities in either area, then prisoners will be assigned a billets job.

3.7.46 The inability to obtain a sufficiently large prisoner workforce was illustrated by the experience at the Barwon Prison Industry Complex. The newly constructed Barwon Prison, which was officially opened in January 1990, provides accommodation for some 250 prisoners.

3.7.47 The Commission established a modern industrial workshop at Barwon investing in excess of \$1 million in capital and equipment. Based on projections that the industry would be able to employ 160 prisoners, the Commission entered into contractual production arrangements with a client. However, at the date of audit only 81 prisoners were employed in the industry on a 2-shift basis. Apart from the effect of low prisoner workforce numbers on production the industry has experienced problems with short-term prisoner movements.

3.7.48 The failure to achieve projected employment numbers and, therefore, production levels can be attributed, in part, to the following factors:

- ▶ failure to attract prisoners (work incentives);
- ▶ a lower than anticipated prison muster (at 30 December 1990, 216 prisoners were housed at Barwon); and
- ▶ the number of OOC service positions (98 prisoners were employed in service positions, of whom 51 were employed as billets).

3.7.49 It is evident that the success or failure of prison industries depends largely on the level of communication, support and co-operation between the Commission, Governors and the executive management of the OOC.

Management response

The case of the Barwon Prison Industry Complex is more involved than portrayed by audit. For example, no reference is made of such issues as:

- *the downsizing of the Industry Building to achieve project budget, which resulted in the introduction of a 2 shift philosophy for VicPIC industry;*
- *the late decision to allocate a maximum number of 50 cells to accommodate female prisoners;*
- *the implication for the prison system of reducing the high prisoner turnover as observed in the first year of the Prison's operation;*
- *the validity of the statement concerning work incentives being the cause of the failure to attract prisoners; and*
- *the reasons for the lower average muster at the Prison.*

Furthermore, the speculation that Barwon has failed to meet production (implying market demand) levels and that such failure is related to the factors stated in the report is incorrect. Finally, in regard to this section, we point out that observers must recognise that the operations of VicPIC and OOC must always be governed by the need for the effective, efficient management of criminals.

Project evaluation and product costing

3.7.50 Audit noted that the Commission did not have any documented procedures detailing common factors to be taken into account in evaluating potential prison industry projects.

3.7.51 A number of common factors were, to varying degrees, taken into account by Commission officers in the evaluation of projects. **Audit considers that, to ensure consistent evaluation of projects, the Commission should establish guidelines on standard factors to be incorporated in all proposals. The proposals should be fully documented in accordance with the guidelines.**

3.7.52 The costing of products and the determination of selling prices is completed by various Commission officers. There are no documented guidelines for the type of expenses to be included in product costing nor are there set formulas for the calculation of individual costing components such as overheads. Audit found, through the inspection of costing documentation, where retained, that the costings completed by the various officers were not consistent as to the types of costs included or the method of calculation of those costs.

3.7.53 Sound business decisions on whether to produce and supply particular goods or services may not be made where consistent costing methods are not applied.

3.7.54 Audit acknowledges that full cost recovery is not a key objective of the Commission and generally cannot be achieved in securing customers. However, it is felt that full costing should be made not only for decision-making purposes but also for the Commission to be better placed in negotiating a price with customers.

3.7.55 **In audit opinion, standard costing procedures should be formulated. In addition, project authorisation, full costing records and agreed selling prices should be documented and retained for all projects.**

Management response

While the Commission does apply project criteria such as indicated in the report, not all the criteria apply consistently.

However, the value of a more formalised recording of evaluation and decision procedures is acknowledged and management will adopt this practice.

The Commission agrees with the need for full costing of products or services and standardised procedures and documentation will be developed where necessary.

Marketing

3.7.56 The functions of the Marketing Division include, among others, researching, planning, developing and promoting the expansion of markets, services and products in both the private and public sectors. The degree of success of the Marketing Division in fulfilling its functions is critical to the achievement of the Commission's principal objective of employing and training prisoners.

Sales to government agencies

3.7.57 Due to a lack of formal documentation on marketing performance, audit experienced difficulty in evaluating the level of activity and degree of success of the Marketing Division in its efforts to expand markets, services and products.

3.7.58 Based on information supplied, which audit noted had to be manually compiled, approximately 98 per cent of sales to government agencies were to 3 past purchasers of long existing products and services. It was apparent that little if any success had been achieved by the Commission in attracting customers in this area.

3.7.59 **The Commission, through its Marketing Division, needs to take a pro-active approach to determine those products required by government agencies which potentially could be supplied to them by the Commission.**

Management response

The Commission acknowledges the need to increase sales to government customers, as well as other private customers, and agrees that the thrust of the recommendation is generally sound.

Overall sales performance

3.7.60 The Marketing Division estimated that during the current financial year the Commission has gained 30 major new customers or products with nominal sales (including the value of raw materials supplied by the customer) totalling \$8.3 million. Of these new sales, only 19 with a value of \$809 000 were directly attributable to the Marketing Division.

3.7.61 The failure of the Marketing Division to stimulate substantial increases in new customers impacts on the ability of the Commission to fully utilise prisoners in prison industries.

3.7.62 It is considered important that formal reports be established as a means of evaluating the performance of the Marketing Division. These reports should be presented at the monthly Board meetings and should disclose achievements against pre-determined targets set for the Division.

Forward planning

3.7.63 The Marketing Division does not have any overall forward planning documentation covering all prison industries. Such forward planning would detail future directions intended to be taken in the short and long-term in relation to:

- ▶ expansion, reduction or cessation of existing industries;
- ▶ establishment of future industries; and
- ▶ development of new products.

3.7.64 In the past, consideration has not been given to the future requirements of individual industries if and when current projects ceased. New industries or projects have been developed on an ad hoc basis rather than in accordance with a set plan. While it is pleasing to note that the Commission has taken steps to establish forward planning documentation through the development of the 1990-91 Industry Plan, **the Plan only addresses short-term proposals for industry sites.**

Management response

Forward marketing plans are an essential element of any commercial operation and the Commission agrees generally with the thrust of these recommendations.

The 1990-91 Plan was, by design, a short-term view and will be expanded to a longer period from July 1991.

Guidelines set by the Board in July 1988 and made available during the review do not seem to have been taken into account, nor has the complexity of establishing suitable business prospects for prisoner employment been recognised.

Funding

3.7.65 Under the Act, the Commission is required to repay all moneys it receives to the Consolidated Fund. Funds appropriated to the Commission to meet day-to-day operational requirements are paid into the Victorian Prison Industries Fund and drawn-down as expenditure is incurred.

3.7.66 There are practical limitations under the current legislative arrangements on the Commission's ability to operate in a commercial environment. The Commission's management has indicated to audit that they have had to decline potential customers due to funding limitations affecting the ability of the Commission to purchase raw materials and equipment necessary to produce the required product. This has forced the Commission to look at providing sub-contract labour with customers meeting the costs of raw materials and equipment, thereby reducing the ability to attract business.

3.7.67 The Estimates Sub-Committee, in its report to Parliament in November 1990, recognised the benefits to be obtained from the Commission adopting a more entrepreneurial role. The Committee recommended that:

"... consideration be given to the Commission retaining some sales revenue without affecting the amount of its appropriation, provided targets for cost recovery or profitability (including value added to production materials) are met."

3.7.68 Audit concurs with the Estimates Sub-Committee recommendation that the Commission should be empowered to retain sales revenue which would allow them greater scope to operate effectively as a commercial enterprise. The Commission should, in keeping with the recommendation, initiate discussions with the Ministry of Finance.

Management response

We believe the rationale used in paragraph 3.7.66 of this item is wrongly based. The reason for seeking to conserve funding from government is not necessarily related to the question of the Commission retaining some sales revenue.

While the Commission sees some value in adopting the recommendations as suggested, we need to be sure that the proposed changes would be of value and would welcome comment from the audit team on the reasons which lead to their concurrence with the Estimates Sub-Committee recommendation.

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>
———— MATTERS RESOLVED ————		
Office of Corrections		
<i>Second Report, 1985-86, p. 73</i>	During 1985-86, 26 per cent of total salary costs were attributed to overtime and penalty rates.	The Office has continued to pursue strategies to improve the efficiency of operations and to reduce overtime costs.
<i>Second Report, 1985-86, p. 73</i>	Significant number of custodial service employees have been absent during the year on extended sick leave (i.e. periods beyond 3 weeks duration).	The Office has implemented a WorkCare information system and an Occupational Health, Safety and Welfare Unit having 2 permanent staff to monitor this area.
———— ACTION COMMENCED ————		
Victorian Prison Industries Commission		
<i>Second Report, 1985-86, pp. 76-82</i>	Matters of major audit significance included the mismanagement of industry operations.	The Commission has continued to take action on the issues raised by audit and recommendations are being progressively implemented by management.
<i>Ministerial Portfolios, May 1990, pp. 86-7</i>	Significant deficiencies in the financial and operational process during 1988-89.	" "
———— NO ACTION TAKEN ————		
<i>Second Report, 1986-87, p. 45</i>	Construction of Barwon Training Centre deferred on 9 September 1986. Costs incurred were \$1.2 million and Public Works Department estimated completion of project would cost a further \$11.4 million.	Project still deferred.

Schedule B. Completed/incomplete audits

<i>Entity ended</i>	<i>Financial year</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits				
Office of Corrections	30 June 1990	31 October. <i>Annual Reporting Act 1983, s.8.</i>	24 October 1990	31 October 1990
Victorian Prison Industries Commission	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	18 September 1990	28 September 1990(a)

(a) Qualified audit report issued.

EDUCATION AND TRAINING

KEY FINDINGS

- ▶ Government school system employees are almost 4 times more likely to become long-term WorkCare recipients than their non-government school system counterparts.

Paras 3.8.5 to 3.8.6
- ▶ State schools' funds totalling \$9.4 million are frozen in the Farrow Group.

Paras 3.8.47 to 3.8.60
- ▶ There is potential for the Ministry to achieve further annual cost savings for school cleaning in the order of \$18 million.

Paras 3.8.64 to 3.8.76
- ▶ The Treasurer waived the collection of salary overpayments to emergency teachers.

Paras 3.8.77 to 3.8.79
- ▶ Serious doubts exist as to the efficiency and effectiveness of the Adult Migrant Education Service in pursuing key objectives, and scope exists for cost savings or improvements in service delivery through changes in staffing practices.

Paras 3.8.80 to 3.8.142
- ▶ The Council of Adult Education's financial results for 1989-90 disclosed a further deterioration in its overall position and highlighted potential problems for its future operations.

Paras 3.8.143 to 3.8.161
- ▶ Employers failed to claim from the State Training Board WorkCare levy rebates totalling \$10.5 million for apprentices.

Paras 3.8.167 to 3.8.169
- ▶ Decisive action needs to be taken to prevent the operations of the Melbourne Theatre Company becoming increasingly dependent on the financial support of the University of Melbourne, following the accumulation of deficits in excess of \$2 million at 31 December 1990.

Paras 3.8.179 to 3.8.223

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

Department

Ministry of Education and Training

Public bodies

Colin Badger Trust

Council of Adult Education

Goulburn Valley Driver Education Complex Limited

Institute of Educational Administration

Post-secondary education institutions:

5 universities and 13 associated companies, trusts and foundations of universities;

14 colleges of advanced education;

31 colleges of technical and further education; and

3 institutes of tertiary education.

Sir John Monash Business Centre

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 AND TRAINING

Administration of the WorkCare function

3.8.1 The Ministry of Education and Training, which has a total of 46 000 effective full-time employees, is the State's largest employer, and estimated that it will pay \$40 million on WorkCare premiums to the Accident Compensation Commission (ACC) during 1990-91.

3.8.2 In 1990 audit undertook a review of certain aspects of the WorkCare function within the Ministry covering all employees. Findings arising from this review are included in the following paragraphs.

Management response

The Office of Schools Administration (OSA) considers that the audit report fails throughout to give sufficient recognition to significant improvements in service delivery and WorkCare claims management in recent years, particularly since January 1988.

Audit has treated the OSA's performance as being at approximately constant levels through the period from the inception of WorkCare in 1985 to the end of the 1989-90 financial year. For its part, the OSA has demonstrated that its performance, particularly in the WorkCare levy and claims management areas, has improved significantly since the beginning of 1988 and even more so from the beginning of the 1990 calendar year.

Audit has been made aware of the OSA's position on this matter throughout the course of the audit. Audit has also been kept fully informed of developments which the OSA is pursuing.

Total cost of workplace injuries to the Ministry

3.8.3 The Ministry does not maintain a monitoring and reporting framework to enable determination of actual costs associated with workplace injuries to its employees. **An analysis undertaken by audit calculated that in 1989-90 total Ministry WorkCare costs, including the cost of replacing a WorkCare recipient, where necessary, were \$53.1 million.**

3.8.4 Table 3.8A highlights the total Ministry WorkCare costs since the inception of the WorkCare scheme.

**TABLE 3.8A. TOTAL MINISTRY WORKCARE COSTS
BASED ON REPLACEMENT COST
(\$million)**

Costs	1985-86(a)	1986-87	1987-88	1988-89	1989-90	Total
Direct costs -						
ACC levy	12.7	16.7	23.0	27.1	38.8	118.3
Medical expenses	-	1.4	1.3	0.5	0.6	3.8
Initiatives(b)	-	0.3	2.1	4.1	4.5	11.0
Total direct costs	12.7	18.4	26.4	31.7	43.9	133.1
Replacement costs(c) -						
Teachers	4.1	16.9	22.3	24.3	24.2	91.8
Cleaners	0.5	1.9	2.6	4.0	4.0	13.0
Total replacement costs	4.6	18.8	24.9	28.3	28.2	104.8
Total costs less recoupments	5.8	11.0	15.2	18.0	19.0	69.0
Net replacement costs	(1.2)	7.8	9.7	10.3	9.2	35.8
Total all costs	11.5	26.2	36.1	42.0	53.1	168.9

(a) Ten months operations.

(b) Includes prevention and rehabilitation initiatives as well as Ministry claims management administration expenditure.

(c) Employee replacement costs as calculated by audit.

Note: Audit considers that the figures in Table 3.8A are conservative as replacement cost estimates for other employee categories, such as administrative and like staff, which make up 7 per cent of Ministry WorkCare leave, have not been included.

Management response

The OSA has been concentrating significant levels of resources since late 1990 towards developing an appropriate set of financial management reports, at least one of which concentrates on the total cost to the OSA of WorkCare. The development work has now been completed and modifications and enhancements will be made as required.

Comparison of Ministry with Victorian non-government education sector

3.8.5 As part of the current review, audit undertook a comparative analysis of WorkCare experience for employees in Victorian Government and non-government school systems over the period 1 September 1985 to 30 June 1989 based on data provided by the ACC.

3.8.6 The analysis disclosed that employees in the Victorian Government school system are, on average, approximately 3 times more likely to submit a standard WorkCare claim (i.e. a recipient on WorkCare leave for more than 5 days) than non-government school system employees. In addition, the analysis showed that government school system employees are almost 4 times more likely to become long-term WorkCare recipients (i.e. on WorkCare leave for periods in excess of 12 months) than their non-government school system counterparts. Details of the number of claims and claim rates based on number of employees are shown in Table 3.8B.

TABLE 3.8B. ACC CLAIMS EXPERIENCE FOR EMPLOYEES IN VICTORIAN SCHOOL SYSTEMS, 1 SEPTEMBER 1985 TO 30 JUNE 1989

School system	Average number of employees	Average number of standard claims		Claims rate	
		Long-term	Total	Long-term	Total
Government	46 488	279	2 530	0.60%	5.44%
Non-government	20 493	33	378	0.16%	1.85%
Ratio	-	-	-	3.75:1	2.94:1

Source:
 - "Employment estimates", National Schools Statistics Collection, Victoria 1985 to 1989, Australian Bureau of Statistics, Melbourne, 1991. (Cat. no. 4220.0)
 - "Claims data", unpublished claims statistics, Accident Compensation Commission.

Note: The data does not include special schools.
 Claims data for non-government school system post 30 June 1989 unavailable.

Management response

The Rowe Report into the OSA's (then Schools Division) WorkCare performance compared Victoria's performance with that of other education systems; notably New South Wales. Audit attempted a similar analysis. However, the evidence used by audit (which relates to the 1 September 1985 to 30 June 1989 period) does not provide an appropriate statistical basis for an assessment of the current situation.

The audit report fails to make valid comparisons. In particular, comparisons could be considered to be valid if they were made with the WorkCare (or equivalent) performance of government education sectors in, say, other Australian States. However, investigations have shown that OSA Management Information Systems are recognised as being far more sophisticated and further developed than the data bases in other States, particularly those in New South Wales and Western Australia, which are so poorly developed that such comparisons cannot be made at this stage.

The OSA acknowledges that until 1987 the non-government education sector had a significantly lower claims experience than did the government sector, however the data does not authoritatively imply a continuation of the pre-1987 trends. Since the Rowe Report was published the OSA has significantly tightened its WorkCare policies and procedures.

Further, the incidence of WorkCare claims is influenced not only by the nature of the sector activity but also the employment and organisation structures within the sector. The government education sector is organised as one large organisation. By contrast, the non-government sector comprises a series of independent schools with (until recently) low unionisation. In short, there has been no attempt to compare like with like.

Reasons for high Ministry WorkCare claims experience

3.8.7 From a review of standard WorkCare claims submitted by the Ministry between 1 September 1985 and 31 December 1990 audit noted that 74.2 per cent of the 12 945 claims related to teachers and that in excess of 21 per cent of claims related to teachers suffering from stress. Because of the relative long-term nature of the illness, teacher stress accounts for between 40 to 50 per cent of direct standard WorkCare claim costs. Audit noted that, despite a number of recent Ministry initiatives to reduce and/or prevent teacher stress factors, the proportion of stress-related standard claims made by teachers in the first half of 1990-91 remained at just over 21 per cent, i.e. 155 out of 722 standard claims accepted by the ACC.

Teacher stress

3.8.8 The report "*Teacher Stress in Victoria*" emanating from a joint study undertaken by the University of Melbourne's Department of Psychology and the Ministry in 1989, disclosed that the principal sources of teacher stress in Victoria were student misbehaviour, lack of motivation in students and an ineffective Ministry discipline policy.

3.8.9 Audit recognises that a number of recent Ministry WorkCare initiatives have been targeted toward reducing teacher stress, e.g. the commissioning of the *Teacher Stress in Victoria* study, in-service training such as the Whole School Program and the regular dissemination of literature to all teachers providing advice on issues such as stress prevention and student discipline techniques.

Management response

The report "Teacher Stress in Victoria" was in fact commissioned by the OSA and undertaken by the University of Melbourne under direction from the OSA.

The "Teacher Stress" report did not show that the principal sources of teacher stress were student behaviour, lack of student motivation and disciplinary policy. The report found that, contrary to earlier studies, teacher stress relates to issues of school and classroom management, organisational climate and the rate of change in the education sector.

Contrary to the inference in the audit report, the OSA has developed a broadly based integrated approach to stress reduction strategies across the OSA by concentrating on:

- improved leadership within both the OSA's administration and its schools;*
- improved classroom management; and*
- improved staff management.*

In addition, the OSA has developed and published an effective discipline policy.

Rehabilitation

3.8.10 Active case management of WorkCare recipients and early intervention and referral to rehabilitation to promote early return to work are central to the WorkCare scheme. A review instigated by the Ministry in 1986 noted that the Ministry was not meeting this objective and that this contributed to the rapid growth in Ministry long-term WorkCare recipients.

3.8.11 While the number of Ministry employees participating in rehabilitation programs increased from 55 in 1987-88 to 157 in 1988-89 and 171 in 1989-90, audit considers that the proportion of Ministry employees participating in the rehabilitation process compared with the number of Ministry long-term WorkCare recipients appears low and needs to be increased if the Ministry is to achieve the WorkCare rehabilitation objective.

3.8.12 The commencement of rehabilitation is dependent on early recognition of a claim and the provision of claim information to rehabilitation consultants located in regional offices on a timely basis. Audit noted that there were no consistent procedures in the Ministry's 8 regional offices for the timely provision of claim details to rehabilitation consultants. **Audit believes that delays in initiating the rehabilitation process, in some instances up to 3 years, have had a detrimental effect on the Ministry's ability to meet its early return to work objective.**

3.8.13 There is a need for the Ministry to:

- ▶ **distribute claim information received from the ACC to rehabilitation consultants on a regular basis to reduce the delays in initiating rehabilitation; and**
- ▶ **provide more resources to the rehabilitation process, including the claims management function, to enable a greater proportion of long-term WorkCare recipients to participate in rehabilitation.**

Management response

The OSA has in fact introduced an on-going procedure in 1990 whereby all long-term claimants were reviewed annually on a State-wide basis. This review included assessing the appropriateness of rehabilitation, school visits to discuss individual cases with relevant personnel and involvement of the claims agent in ensuring effective claims management.

In fact 849 OSA employees were referred to rehabilitation in the 13 month period between October 1989 and November 1990.

In July 1990, 'A Review of Claims Management Procedures and Practices' was completed by Andersen Consulting. Many of the recommendations of this report have been implemented, including the amalgamation of the rehabilitation/Claims Management function and increased staffing for the claims aspect of WorkCare.

Workplace management

3.8.14 The Ministry's current teacher complaints procedures agreement, which protects teachers indefinitely from disciplinary proceedings while on WorkCare, provides incentive for teachers threatened with such action to become and remain WorkCare recipients.

3.8.15 A review of departmental documentation indicates that there is evidence to suggest that workplace managers have used WorkCare as a means of solving problems with unsatisfactory employees, for example, accepting the validity of a WorkCare claim rather than initiating disciplinary proceedings or undertaking firmer supervision. These conditions are exacerbated by the fact that the costs of WorkCare are borne by the Ministry's central administration and there is a lack of accountability by schools for both their human resources and financial budgets.

3.8.16 This agreement needs to be reviewed with a view to implementing a more flexible complaints procedure.

Management response

In fact the OSA has obtained legal advice on this matter. That advice indicates that the OSA could not pursue the formal hearing process under Teaching Service complaints where an employee presented a medical certificate claiming he/she was unfit to participate in the proceedings. Legal opinion was that to proceed was to deny the employee "natural justice". In the face of that legal opinion audit's recommendation that the current agreement be reviewed does not represent sound advice.

Geographical factors

3.8.17 The fact that the Ministry comprises a large number of relatively small geographically dispersed workplaces makes it difficult to apply consistent and effective injury and illness prevention strategies which limits the effectiveness of Ministry initiatives to reduce WorkCare claims.

Management response

Far from being simple factors of geography, the number and size of Victoria's schools reflects the preferred organisation for the delivery of educational services across Victoria. This should not be changed solely for reasons of Victoria's WorkCare performance. As part of its strategy for reorganising schools, the OSA is moving in co-operation with school communities and employee organisations to reduce the number of schools in order to improve educational service delivery. As a by-product, this can be expected to have some impact in reducing the OSA's WorkCare costs.

Qualifications of Ministry's accounts: WorkCare debtors figure

3.8.18 The Auditor-General issued a qualified audit opinion on the Ministry's 1989-90 financial statements due to the Ministry's inability to adequately support the WorkCare debtors' figure of \$19 million.

3.8.19 The WorkCare debtors' balance, which represented amounts owed by the ACC to the Ministry for the period 1 September 1985 to 30 June 1990, was made up of amounts owed in respect of:

- ▶ teachers on WorkCare leave during proclaimed school holiday periods (\$12.7 million); and
- ▶ an estimated shortfall of 10 per cent in the amount of compensation paid for all other periods (\$6.3 million).

3.8.20 The Ministry's financial statements stated that these amounts were estimates only due to "the inability of the Ministry and the ACC to reconcile the outstanding debt".

Inability of the Ministry to determine debt

3.8.21 Each month the Ministry receives from the ACC a cheque to reimburse the Ministry for payments made to employees in receipt of WorkCare benefits. The cheque is accompanied by a computer tape containing details of individual claim payments making up the cheque total. The information on the tape is also cumulative, i.e. each monthly tape has claim details from 1 September 1985.

3.8.22 Employee WorkCare leave details are recorded on the Ministry's payroll system under various WorkCare leave codes. The system does not have the facility to determine the component of WorkCare leave that is reimbursable under the Act or to record what amount has been reimbursed by the ACC.

3.8.23 Audit considers that this is a major deficiency in the Ministry's overall WorkCare management information system. Specifically, the Ministry is unable to:

- ▶ determine the total of WorkCare weekly payments for all its employees at any point in time;
- ▶ determine the component of WorkCare leave reimbursed by the ACC for each employee and each claim; and
- ▶ match amounts reimbursed to amounts outstanding for each employee and each claim.

Management response

The OSA's payroll system does not and is not intended to record various categories of WorkCare "leave" re-imbursable under the Accident Compensation Act. The WorkCare Management Information System (WMIS) has been designed to do this instead. WMIS does in fact provide a report of moneys paid by OSA and moneys received from the Accident Compensation Commission on an individual claim basis. These reports form the basis of the reconciliation process.

Audit's quantification of outstanding debt

3.8.24 Due to the identified inadequacies in the Ministry's WorkCare management information systems and the inability of the Ministry to provide an accurate WorkCare debtors' figure, by utilising computer-assisted audit techniques audit undertook an exercise which entailed computer matching of ACC and Ministry WorkCare data for the period 1 September 1985 to 31 December 1990, with the objectives of quantifying:

- ▶ outstanding reimbursements from the ACC, for both proclaimed school holiday periods and non-school holiday periods; and
- ▶ weekly benefit payments made by the Ministry to employees recorded on the payroll system to be on WorkCare leave but which were not supported by an ACC-accepted medical certificate.

Under-recoupment from ACC and overpayment by Ministry

3.8.25 The exercise produced a report listing 4 488 Ministry claims for which WorkCare leave days as recorded on the payroll system was greater than days reimbursed by the ACC. This was after taking into consideration proclaimed school holidays for school-based staff and weekly benefit threshold limits. The result in terms of total days is shown in Table 3.8C.

TABLE 3.8C. VARIATION IN RECORDED WORKCARE LEAVE

<i>Item</i>	<i>Number of days</i>
Adjusted Ministry WorkCare leave days	617 384
ACC days reimbursed	489 059
Variance	128 325

3.8.26 Audit examination of Ministry records in relation to a sample of these claims revealed that medical certificates were maintained in only 51 per cent of instances.

3.8.27 Based on this result and converting the variance into financial terms by using the ACC average daily reimbursement rate to the Ministry (\$71.92) and average weekly WorkCare benefit payments by the Ministry (determined by audit to be \$126.44 on a daily basis), audit calculated that for the period 1 September 1985 to 31 December 1990:

- ▶ the Ministry would be owed \$4.7 million in recoupments from the ACC if the Ministry forwarded all currently held medical certificates to the ACC;
- ▶ the Ministry would be due a further \$4.5 million in recoupments from the ACC if the Ministry is able to furnish valid medical certificates to the ACC in respect to the other claims; or
- ▶ if the Ministry is unable to furnish valid medical certificates to the ACC in respect of these claims and, provided the relevant employees are not entitled to sick leave, the Ministry has made salary payments to employees of up to \$8 million for which the employees were not entitled.

Management response

Contrary to the inference in the audit report, procedures are already in place to complete the reconciliation of reimbursements since 1985 including 1990-91 and to implement this procedure on a monthly basis.

Reconciliation for the 1988-89 and 1989-90 financial years has been completed. All relevant medical certificates have been forwarded to the Accident Compensation Commission together with a request for reimbursement in excess of \$1 million. The OSA is now extending that exercise to encompass the financial years covered by WorkCare before 1988-89 and the period post-1989-90. At the conclusion of that reconciliation process the OSA will undertake the final stage of the process which involves seeking to recoup over-payments as appropriate.

Many of the recommendations of the Andersen Report (commissioned by the OSA) have been implemented and are directly related to improving its claims processing procedures. This includes closer monitoring of medical certificates and reimbursements from the Accident Compensation Commission.

Recoupments retained by the Ministry

3.8.28 Prior to 30 June 1990, the Ministry paid into Consolidated Revenue all moneys received from the ACC representing recoupment of weekly benefit payments. Following discussions between the Ministry and the Department of the Treasury, recoupments in respect of a financial year received in that financial year are, with effect from 1 July 1990, to be retained by the Ministry. The Treasury decreased the Ministry's 1990-91 salaries budget allocation by \$20 million as a result of this administrative change. The Ministry's inability to accurately determine recoupable amounts and submit claims to the ACC for reimbursement on a timely basis will, from 1990-91 onwards, adversely affect the Ministry as **recoupment shortfalls will have a direct impact on its ability to keep overall expenditure on salaries within budget. This, together with a decrease in Ministry WorkCare claims during 1990-91, will result in an anticipated recoupment shortfall for 1990-91 in excess of \$4 million.**

Management response

The OSA has been aware of the likely impacts of this decision on its budgetary outcomes from the inception of the current scheme. The OSA has raised the matter with the Department of Finance.

Causes of under-recoupment from ACC and overpayment to employees

3.8.29 Audit considers that the principal reason for such large amounts identified by audit as under-recoveries from the ACC and overpayments to employees is due to the Ministry's inability to reconcile its own WorkCare data with ACC data. However, audit has identified a number of other specific factors, including:

- ▶ Medical certificates forwarded to the ACC, being either lost in transit or misplaced by the ACC, coupled with inadequate follow-up action by the Ministry to identify instances of non-receipt of a medical certificate;
- ▶ Medical certificates not accepted by the ACC for processing or inadequate follow-up action being taken by the ACC and/or the Ministry to ensure a valid certificate is resubmitted for approval;
- ▶ Under the payroll system an employee will continue to be recorded as being in receipt of weekly WorkCare benefit payments for a period of 21 days after the expiration of the employee's latest valid medical certificate or until payment is stopped; and
- ▶ The employee forwards the initial report of absence and a copy of the medical certificate to the Ministry's Teacher Leave and Payroll Unit (TLPU) where the employee's WorkCare leave record is updated. The employee's workplace supervisor forwards the original medical certificate to the ACC. If one of these processes breaks down, a discrepancy between Ministry WorkCare leave records and ACC data will result.

3.8.30 While audit acknowledges that since December 1990 the Ministry has implemented some reconciliation processes, although currently part of this process involves laborious manual procedures, and that action to recover from the ACC amounts outstanding in respect to 1988-89 and 1989-90 claims recently commenced, audit still considers that there is an urgent need for the Ministry to:

- ▶ establish a regular reconciliation process between ACC reimbursements and Ministry WorkCare leave records and standard claim payroll costs;
- ▶ immediately initiate action to recoup from the ACC the \$4.7 million representing the estimated shortfall in the amount of compensation paid by the ACC to the Ministry between 1 September 1985 and 31 December 1990;
- ▶ improve claims processing procedures; and
- ▶ in instances where the Ministry has made WorkCare weekly compensation payments to employees where the relevant WorkCare claims are not supported by appropriate medical certificates, the Ministry should:
 - where feasible, initiate action to obtain medical certificates;
 - where medical certificates are obtained, forward a claim to the ACC for reimbursement;
 - where medical certificates are not obtained, initiate action to recover payments made to employees on the basis that the employees were not legally entitled to such payments; and
 - introduce a system of processing medical certificates that ensures WorkCare leave for periods in excess of 5 days will not be processed on the payroll system prior to a claim being submitted by the ACC.

Management response

See comments above in the preceding sections dealing with:

- *ability to determine debt;*
- *recoupment of moneys from the ACC; and*
- *retention of recoupments.*

Proclaimed school holiday periods: non-recovery from ACC

3.8.31 In accordance with an agreement between the ACC and the (then) Department of Management and Budget relating to payments under the *Workers Compensation Act* 1958, the Ministry was not reimbursed for payments to school-based staff on workers compensation leave during periods of proclaimed school holidays. **In audit opinion, such an agreement can have no validity under the Accident Compensation Act 1985 as that Act does not provide for less than full reimbursement during the period a worker is on WorkCare leave.**

Non-recovery under the Act

3.8.32 As the Ministry did not have the systems in place to reconcile reimbursements from the ACC with weekly benefits paid to employees, the Ministry was unaware until early 1989 that it was not being reimbursed by the ACC in respect of school-based employees on WorkCare leave during school holiday periods.

3.8.33 In March 1989 the Ministry lodged a claim with the ACC for all outstanding reimbursements covering school holiday periods from 1 September 1985. However, the claim did not specify an amount. The ACC did not accept the claim and advised the Ministry that it considered that school-based employees, whether injured or otherwise, are effectively on recreation leave not WorkCare leave, during school holiday periods.

3.8.34 In late 1989 the Victorian Government Solicitor advised the Ministry that he considered that the ACC was liable to reimburse the Ministry in respect of school-based staff on WorkCare leave during school holiday periods.

3.8.35 In January 1990 the (then) Acting Minister for Education wrote to the (then) Treasurer seeking his assistance to resolve the issue with a view to the Ministry being reimbursed for all outstanding reimbursements from 1 September 1985, including amounts in respect to school holiday periods, estimated by the Ministry to be in the order of \$16 million. The Ministry did not provide a break-up of this figure. Audit has been advised that, to date, no response has been received from the Treasurer.

3.8.36 In May 1990, the Ministry obtained and informed the ACC of a legal opinion from a leading QC on the matter. The QC's opinion was that the ACC was liable to reimburse the Ministry for all outstanding amounts in respect of school-based staff on WorkCare leave during proclaimed school holiday periods. The ACC did not formally respond to this advice.

Partial reimbursement by the ACC

3.8.37 On 28 February 1991 the ACC advised the Ministry of an ACC Board decision of December 1990 to reimburse the Ministry moneys owing in respect of proclaimed school holidays for the period 1 September 1985 to 5 March 1990 inclusive which were covered by valid medical certificates. A cheque for \$7.3 million was enclosed and, as the amount was in respect of claims prior to 1 July 1990, this amount was credited to Consolidated Revenue.

3.8.38 In addition, the ACC correspondence also advised the Ministry that:

- ▶ further claims submitted by the Ministry to the ACC over the period 1 September 1985 to 5 March 1990 and valued at \$4.7 million remained subject to dispute as no valid medical certificates existed on the ACC's computer system in respect of these claims; and
- ▶ the ACC was seeking a legal opinion regarding the extent of its reimbursement liability after 5 March 1990, following amendment to the Act as at that date.

3.8.39 The Ministry has advised audit that it considers that this amendment of the Act should not affect the ACC's liability to reimburse the Ministry for WorkCare claims covering periods over proclaimed school holidays and is in the process of engaging the services of a QC to provide a legal opinion in respect of the matter.

3.8.40 To ensure the matter is satisfactorily resolved, there is a need for the Ministry to undertake a reconciliation of total WorkCare claims in respect of school holiday periods to 5 March 1990 with ACC accepted claims over this period with a view to identifying non-reimbursed claims and initiate action to obtain valid medical certificates for such claims to the ACC for reimbursement.

3.8.41 If the dispute concerning the ACC's liability to reimburse the Ministry in respect of the post-5 March 1990 period remains unresolved, the Minister for Education and Training should take the matter up with the Treasurer with a view to settling the dispute before further significant legal costs are incurred by the government agencies involved in the dispute.

Management response

Subsequent to the publication of the audit report, the OSA has received a legal opinion from a Queen's Counsel whose advice is that the OSA is entitled to recoup in full all moneys for WorkCare absences during school holiday periods. OSA has shared this opinion with the Accident Compensation Commission and sought payment of moneys owed to it from the period after 5 March 1990. The OSA is awaiting a response from the Accident Compensation Commission. However, it anticipates an early resolution.

In respect of claims for the period for which the Accident Compensation Commission has no record of medical certificates being produced, both the OSA and the ACC are satisfied that it is possible to develop a scheme which will be acceptable to both the Accident Compensation Commission and audit for the discharge of that debt. That process is being worked through at present.

The problem lies not with the presence or absence of medical certificates but with the fact that the Accident Compensation Commission's data base has not recorded the production of those certificates. Again the OSA anticipates a reasonably early resolution of this matter and that any outstanding moneys from the Accident Compensation Commission will be repaid to the OSA.

WorkCare levy payments

3.8.42 Under the Act, the Ministry is liable to pay a monthly levy in to the Accident Compensation Fund to cover employee injury in the workplace. Payments made by the Ministry under the Act to 31 December 1990 totalled \$141.6 million.

3.8.43 Section 187 of the Act sets out a number of levy categories for each employer establishment. Levy rates applicable to the Ministry currently range from 0.78 per cent to 3.59 per cent of leviable remuneration depending on the designated industry.

3.8.44 In addition, the Ministry is required to certify its leviable remuneration annually and forward a return to the ACC's Levy Collection Agency (LCA).

3.8.45 A review of levy payments made by the Ministry since the inception of WorkCare revealed that:

- ▶ While the Ministry has submitted certified leviable remuneration returns for each financial year from 1985-86, the LCA has yet to provide an assessment in respect to any year. As a result, and with cognisance to the bonus and penalty payment scheme under the Act, the Ministry may be being over or under-charged in respect to the levy; and
- ▶ Based on a comparison of the Ministry's certified leviable remuneration and Ministry payroll records, audit calculated that from 1 September 1985 to 30 June 1990 the Ministry understated its leviable remuneration by approximately \$175 million with \$155.7 million relating to the 1986-87 financial year. In addition, unless the Ministry undertakes appropriate remedial action, it will continue to understate its leviable remuneration by approximately \$15 million a year.

3.8.46 The Ministry needs to develop systems which enable it to more accurately determine its certified leviable remuneration under the Act, recalculate its certified leviable remuneration for the financial years 1985-86 to 1989-90 inclusive and advise the LCA of any discrepancies with previous returns and initiate appropriate action at a senior level to ensure outstanding returns are promptly assessed by the LCA.

Management response

This is one of many matters which the OSA drew to the attention of audit. The OSA has devoted a considerable level of resourcing to enable it to accurately determine its certifiable leviable remuneration for each of the years from 1985-86 to 1989-90. This matter is being addressed promptly in co-operation with the Levy Collection Agency. Early resolution of this matter is anticipated.

Monitoring of investments by school councils

3.8.47 State schools in Victoria are managed by school councils, constituted by the Governor-in-Council which are, among other things, empowered to invest funds surplus to immediate requirements.

3.8.48 Finance guidelines issued by the Ministry set out procedures to be followed by councils when investing school funds and require that funds be placed only in those investments authorised under the *Trustee Act 1958* which included certain building societies. Pyramid and Geelong Building Societies (2 members of the Farrow Group) were authorised investments under this Act, but a third member of the Group (Countrywide Building Society) was not an authorised investment.

3.8.49 In June 1990 the Government appointed an administrator to the Farrow Group and its funds were frozen. A liquidator was subsequently appointed on 13 December 1990.

3.8.50 Following an announcement by the Government that depositors with the Group would receive, over time, the full amount of the principal component outstanding at 24 June 1990 certain arrangements were made which included:

- ▶ an initial payment to depositors equal to 25 per cent of deposits held; and

- ▶ payment of the balance, less any interest credited or paid after 30 June 1989 over a one to 5 year payout timetable.

3.8.51 The offer, which does not cover shareholders, expired on 25 April 1991 and any depositors who declined the offer will be reliant on any distributions by the liquidator for repayment of their deposits.

3.8.52 The forced closure of the Farrow Group of Building Societies in late June 1990 has adversely affected a significant number of government schools as many had substantial amounts of their operating and investment funds deposited with building societies associated with the Group, i.e. the Pyramid, Geelong and Countrywide Building Societies.

3.8.53 As a result of the closure, the Ministry's Resource Management Division undertook a review in July 1990 to determine the extent of State school deposits in the Farrow Group which revealed that a number of schools would be adversely affected. The review disclosed that:

- ▶ **207 government schools with total investments of \$16.5 million had \$9.4 million deposited with the Farrow Group of Building Societies when the societies were closed and funds were frozen (see Table 3.8D).**

TABLE 3.8D
SCHOOLS' INVESTMENT IN FARROW GROUP
(*\$million*)

<i>Region</i>	<i>Amount invested in Farrow Group</i>
Western Metropolitan	2.4
Barwon South Western	2.3
Goulburn North Eastern	1.5
Gippsland	1.2
Southern Metropolitan	0.9
Eastern Metropolitan	0.5
Central Highlands Wimmera	0.4
Loddon Campaspe Mallee	0.2
Total funds invested	9.4

- ▶ **At least 60 of these schools held 80 per cent or more of their entire investment portfolio in the Farrow Group;**
- ▶ **29 schools had amounts in excess of \$100 000 invested in the Group, with 2 schools having deposits of at least \$300 000; and**
- ▶ **Included in the \$9.4 million were instances of deposits held in non-withdrawable investing shares issued by the Pyramid Building Society and there may be instances of deposits held in the Countrywide Building Society, neither of which have ATI investment status. The Ministry has not quantified the total non-ATI investments.**

3.8.54 Following an assessment of the impact of each school's involvement in the Farrow Group the Ministry provided immediate financial assistance by way of advanced quarterly school grants to those schools with insufficient funds to operate and loans totalling \$583 000 to schools which could not meet their existing contractual obligations.

3.8.55 Prior to October 1990 school councils were required to provide the Ministry with an annual statement of receipts and expenditure together with a total amount of investments at 31 December each year. It was not until October 1990 when revised guidelines were issued, that school councils were required to present a summary of their investment position and detail all investments currently held.

3.8.56 Subsequent to the review, the Ministry issued guidelines which included the following:

"The onus is on school councils to ensure that money is adequately protected by placing it in secure investments.

"It should be noted that ATI status does not necessarily imply a government guarantee unless specifically stated".

3.8.57 In view of the significant financial impact of the investment of school funds in the collapsed Farrow Group, audit undertook a review of the investments of school councils and the Ministry's monitoring procedures. The audit review disclosed that:

- ▶ The Ministry did not undertake an analysis of the audited financial information provided by school councils, in particular, the extent of surplus cash and investments held by schools;
- ▶ The majority of the 207 affected schools believed that funds deposited in ATI status investments (including Pyramid and Geelong Building Societies), which were listed by name in the Ministry's guidelines and other official Ministry advice to schools, attracted a government guarantee; and
- ▶ A number of school councils did not have a common seal with the result that legal documents relating to the partial repayment of deposits in the Farrow Group could not be completed.

3.8.58 Action taken by the Ministry to ensure the provision of information relating to individual investments will assist in identifying any future unauthorised investments.

3.8.59 However, the above findings indicate that there is scope for improvement in the Ministry's oversight of schools' investment activities.

3.8.60 In particular, the Ministry needs to:

- ▶ **examine investment practices of school councils to ensure that investments are not unduly concentrated;**
- ▶ **ensure that each school council is advised and educated on its legal responsibilities;**
- ▶ **ascertain each school council's holdings in non-ATI investments and instruct those schools to liquidate such investments; and**

- ▶ **advise schools on their rights and obligations concerning the recovery of deposits from the Farrow Group.**

Management response

Ministry investigations into the level of investments held by schools in the Farrow Group were aimed at assessing the implications of the freeze on the ability of individual schools to meet ongoing financial commitments. It was not aimed at assessing the level of funds held in non-ATI investments.

Every school council has been provided with a School Council General Information Manual together with copies of the Education Act and Regulations, and manuals covering Finance, Personnel and Operations. All new school council members are provided with a booklet advising them of their powers and responsibilities; 15 000 of these booklets are printed annually.

The School Finance Manual requires a detailed description of investments held by schools. Regional Finance Managers will scrutinise all annual financial reports from schools and bring to notice any non-ATI investments. The School Finance Manual requires details of the investments to be listed in the school's annual financial statements.

A memorandum was sent to all Regional General Managers on 31 January 1991 relating to the Government's offer, assignment of rights, evaluation of trustees' options and a range of other advice concerning matters of interest to schools when making decisions about investments in the Farrow Group of Building Societies.

EDP review of financial management system

3.8.61 The Ministry's computerised financial management and reporting system, known as FMS, is used for processing the financial transactions (other than payroll) of the Ministry's Office of Schools Administration. The FMS system, which encompasses the general ledger, accounts payable and electronic funds transfer functions can be accessed from within the Ministry's head office and from 45 locations throughout the Ministry's 8 regional offices. Each year approximately 300 000 documents are processed on the FMS which results in payments in the order of \$1.1 billion.

3.8.62 An EDP review of controls relating to FMS was conducted in late 1990. Key findings of the review were:

- ▶ inadequate access controls;
- ▶ deficient electronic funds transfer procedures; and
- ▶ inadequate back-up and recovery procedures.

3.8.63 In view of the serious nature of the identified weaknesses, audit has made a number of recommendations to the Ministry designed to improve controls and procedures associated with the FMS system so as to both ensure the integrity and reliability of data and to minimise the Ministry's exposure to undetected error and fraud.

Management response

Where appropriate the procedural changes recommended by the review have been raised with the relevant computer/software vendors. Whilst improvement to the electronic funds transfer procedure is constrained by the limitations imposed by the proprietary nature of the software involved, improved procedures are being implemented in terms of access control and the back-up and recovery process.

School cleaning costs

3.8.64 The provision of cleaning services (salaries only) for primary and post-primary schools represents a significant cost in the education sector. Costs over the past 5 financial years are detailed in Table 3.8E.

TABLE 3.8E. CLEANING COSTS
(\$million)

Year	(a) Cost
1985-86	66.0
1986-87	70.3
1987-88	74.8
1988-89	79.3
1989-90	81.4

(a) Expressed in nominal values.

3.8.65 The Auditor-General's *Second Report for 1986-87*, commented on the provision of cleaning services across the education sector. The Report stated that following a review of **23 schools**, potential cost savings of up to \$34.6 million per year (at 1987 prices) for cleaning of primary and post-primary schools had been identified.

3.8.66 The Ministry's response included comments that the Treasurer had formally advised the Federated Miscellaneous Workers' Union (FMWU) that contract cleaning, as recommended by audit, would not be pursued, provided that other savings of a similar magnitude relating to cleaning and associated costs could be identified.

3.8.67 The Ministry subsequently undertook a review which identified areas where substantial savings could be made, including the elimination of relief cleaners previously engaged to act for cleaners absent on rostered days off and adjustments to some elements of the cleaning formula used to establish entitlements for cleaning services. On the basis of these identified savings the Ministry entered into a formal agreement with the FMWU with effect from 4 December 1989. The Ministry anticipated that annual savings of up to \$10.6 million could be achieved in 3 to 5 years. However, a reassessment 6 months after implementation of the agreement by the Ministry has reduced the savings potential from \$10.6 million to \$7.3 million.

3.8.68 The Ministry believes the initial estimate of savings will not be attainable due to a number of factors, including:

- ▶ the need to increase cleaning staff in new schools and in previously understaffed locations; and
- ▶ difficulties experienced in the redeployment of excess cleaning staff.

3.8.69 During 1989-90 school cleaning costs (salaries only) were \$81.4 million compared with a budget of \$71.9 million (a 13.2 per cent budget overrun).

3.8.70 The Ministry has discussed further efficiency requirements with the FMWU which resulted in a February 1991 agreement aimed at achieving annual savings of \$6 million when fully implemented over 3 years.

3.8.71 While audit acknowledges that the increases in cleaning costs have slowed and that during 1989-90 cost increases were less than increases in wage awards, audit still believes there is scope for further significant cost savings.

Excessive building floor measurements

3.8.72 Audit noted that potential cost savings in several expenditure areas, including school cleaning, have been identified by the Ministry through the use of its Schools Assets Management System (SAMS).

3.8.73 While SAMS was initially developed to enable the Ministry to establish an assets register to meet government asset recording and reporting requirements, additional benefits resulting from the computer preparation of school site outline and building floorplan drawings have been identified.

3.8.74 Cleaning area measurements, which are a key element of the Ministry/FMWU cleaning formula (currently one cleaner per 390.26 square metres per day) are used to establish current entitlements for cleaning services. It was noted that the measurement exceeded floor plan data recorded on SAMS by 22 to 23 per cent. This is due to:

- ▶ external building floor area measurements being used in the cleaning formula rather than usable space, i.e. internal building floor measurements (approximately 8 per cent); and
- ▶ the external building floor area measurements used in determining cleaning establishment entitlements are, on average, approximately 14 to 15 per cent greater than external building floor area as calculated from the digitised drawings prepared as part of SAMS.

3.8.75 Due to the nature of the Ministry/FMWU cleaning formula, decreases in building floor measurements translate on a proportionate basis with decreases in school cleaning cost. Audit estimates that if accurate internal floor measurements had been used in the cleaning formula **there is potential for the Ministry to achieve annual cost savings in the order of \$18 million.**

3.8.76 Audit believes that there is an urgent need for the Ministry to revise the building floor measurements used in the cleaning formula to determine the number of cleaning staff required.

Management response

Savings are being achieved in school cleaning costs. This is illustrated by a reduction in real terms of \$4.1 million or 8.5 per cent in the first 7 months of 1990-91 compared with expenditure in the corresponding period of 1989-90. This flow of savings is consistent with the time pattern of savings envisaged in the December 1989 agreement (that is, over 3 to 5 years). In addition, the February 1991 agreement with the FMWU will provide additional annual savings of approximately \$6 million when fully implemented over 3 years.

Savings from the current savings strategy will exceed the initial estimate from the savings strategy of \$10.6 million in December 1989.

Pursuant to the introduction of SAMS information has been collected on school sites and building plans. The data included in SAMS will provide the accurate measurements required for the cleaning formula. It is necessary, however, to verify the data before it can be used in an operational environment.

Based on the architectural drawings of some 100 schools a difference of approximately 8 per cent emerged between internal and external measurement of school buildings. This has the potential to produce significant savings in cleaning costs in respect of those schools which have cleaning allocations based on external measurements. However the data need greater refinement before being used as the basis for revised cleaning allocations. For instance:

- there is evidence that SAMS data on measurements based on Department of Planning and Housing drawings contain inaccuracies (e.g. with respect to building dimensions modified during construction) which is a major reason for the Ministry undertaking the verification phase referred to above;*
- some school buildings or parts thereof included in the SAMS database are not included for the purpose of calculating cleaner staffing entitlements, e.g. canteens and home economics areas;*
- areas not currently included on the SAMS database are required for the purposes of school measurements, e.g. enclosed covered ways (approximately 4 per cent of total school areas); and*
- at this stage the SAMS data does not include relocatable buildings (approximately 8 per cent of total school areas).*

Work is proceeding to resolve the above matters as quickly as possible having regard to the need to achieve cleaning cost savings as early as possible. To revise the cleaning formulae on the basis of the initial measurement however, and without the further refinement mentioned above, would result in widespread problems for the Ministry.

Status of Ministry's analysis of emergency teacher overpayments

3.8.77 The Auditor-General's *Report on Ministerial Portfolios, May 1990*, reported a number of deficiencies in the accuracy of the database relating to the emergency teacher payments which resulted in substantial overpayments in the period 1984 to 1989.

3.8.78 During 1990, the Ministry conducted a review of payments to emergency teachers covering the period from 1987 to May 1990. **The review identified that approximately \$1 million had been overpaid in this period.** The Ministry advised the Department of the Treasury of the results of its review. Subsequently, the Treasurer waived the collection of the overpayments as such overpayments resulted from deficiencies in the Ministry's emergency teacher payment claim form.

3.8.79 As a result of the Treasurer waiving the collection of the overpayments, the Ministry has decided that it will take no further action to identify, quantify and/or recover overpayments of salary made to emergency teachers prior to May 1990. To ensure that overpayments in this area do not recur, the Ministry has enhanced its payroll system and redesigned documentation relating to the employment of emergency teachers.

Management response

The Ministry recognised the need to upgrade the system used for the payment of emergency teachers with the result that in May 1990, extensive modifications were made to both the payment claim form and the administrative system involved. As a consequence of these changes, the qualification of the emergency teacher is now the primary factor in the determination of the payment rate to be applied.

As a consequence of the Treasurer waiving the collection of overpayments, the Ministry is obliged to take no further action to recover overpayments made to emergency teachers prior to May 1990.

Adult Migrant Education Services*Background*

3.8.80 Adult Migrant Education Services (AMES) operates within the Ministry as the major *English as a Second Language* delivery organisation in Victoria for the National Adult Migrant Education Program. The Program was established by the Commonwealth Government to **provide English language teaching and related services to recently arrived migrants with the aim of assisting them to function effectively in Australia and to acquire the language skills necessary to achieve their goals.**

3.8.81 Responsibility for administration of the Program has been shared between the Commonwealth and State Governments since 1951 when the first agreements between the bodies were developed. Under the terms of the most recent agreements, formalised in 1985, the Commonwealth has responsibility for planning, funding and co-ordinating the Program while the States and Territories have responsibility for detailed implementation.

3.8.82 The legislative basis for the Program is provided by the *Commonwealth Immigration (Education) Act 1971* which is administered by the Commonwealth Minister for Immigration, Local Government and Ethnic Affairs. A joint Commonwealth/States Committee is the major consultative mechanism for planning and co-ordinating the Program.

3.8.83 During 1989-90, funds received by Victoria from the Commonwealth for AMES activities amounted to \$16.6 million. In addition, program resources were provided directly by the Commonwealth through the payment of living allowances to students, the provision of accommodation for AMES activities and the funding of child care facilities within AMES centres.

3.8.84 In 1990, AMES programs were provided to over 18 000 participants at almost 200 local venues throughout Victoria, including 13 major teaching centres located within the Melbourne metropolitan area.

Overall conclusions

3.8.85 An audit review undertaken during 1990 found that AMES has made sound progress to date in targeting its resources at program participants classified by the Commonwealth as priority clients. However, in relation to the achievement of other national targets the absence of adequate measurement and monitoring of progress raises serious doubts as to the efficiency and effectiveness of AMES in pursuing key objectives of the Program.

*Overall conclusions - continued***3.8.86** The review also found that:

- ▶ scope exists for cost savings or improvements in service delivery through changes in staffing practices, including the more effective use of permanent staff;
- ▶ a large proportion of program costs were associated with activities other than classroom tuition; and
- ▶ poor control existed over certain expenditure and assets within the custody of AMES.

Measurement and monitoring of achievements

3.8.87 Since the inception of the Program, many millions of dollars have been provided to Victoria to meet the costs of program delivery. Although a number of aspects of the Program were reviewed by the Commonwealth in the late 1970s, **it was not until 1985 that a major national review (Campbell Review) was undertaken to assess the effectiveness of the Program in achieving its goals.** Subsequent to that review, a number of specific areas of the Program have been subjected to further evaluation by the Commonwealth.

National Plan

3.8.88 In response to the recommendations resulting from the Campbell Review, a 3 year *National Plan* (1990-92) was released in October 1989 by the Commonwealth Department of Immigration, Local Government and Ethnic Affairs (DILGEA). The Plan establishes program objectives and priorities which providers such as AMES in Victoria are to implement by 1992. The Plan also sets a number of targets to be achieved within the duration of the Plan as well as specific performance indicators to monitor the progress made by providers against these targets.

3.8.89 The release of the National Plan brought about several important changes in determining the priorities towards which program resources are to be directed. While the Program has traditionally provided services to newly arrived migrants, the Plan represents a further step in that direction. It sets out objectives and strategies which place emphasis on migrants in their first 5 years of settlement and particularly to those within the first 3 years.

3.8.90 The key strategies and targets of the Plan include:

- ▶ 90 per cent of resources are to be allocated to people who have been resident in Australia less than 5 years (including 80 per cent to those resident less than 3 years);
- ▶ 10 per cent of resources are to be reserved for people with more than 5 years residency;
- ▶ an opportunity is to be provided for all enrolled students to participate in learning arrangements to assist them to acquire target levels of proficiency in English;

- ▶ at least 20 per cent of teaching and client hours are to be allocated to students seeking employment or further study who require a higher level of English competence;
- ▶ educational placement and referral advice is to be provided to every new client within 1 month of receipt of application; and
- ▶ at least 80 per cent of those assigned to planned learning arrangements are to commence within 3 months of assignment.

3.8.91 The shift in emphasis was to be accompanied by strategies to further develop English language opportunities for longer-term residents through alternative State avenues including the TAFE system, labour market training programs and other higher education bodies.

3.8.92 Although the National Plan provides a sound framework to AMES for its operations, audit found that the measurement and monitoring of many targets set in the Plan had been hindered by:

- ▶ the absence of accurate and up-to-date information on program outcomes;
- ▶ lack of clear definitions for certain terminology used in the Plan; and
- ▶ deficiencies in the accountability framework between AMES, the Ministry of Education and DILGEA.

Information systems

3.8.93 In accordance with the 1985 agreements, a database was to be established for the collection and management of data necessary to provide information for the Commonwealth and States to fulfil their planning, monitoring, accountability, evaluation and management roles. Subsequently, an existing national student and learning activity record system was enhanced and modified with the aim of meeting these needs.

3.8.94 A report released by DILGEA in November 1990 highlighted a number of problems which have been associated with the implementation and use of the national database. The report indicated that the system has a number of shortcomings including data inaccuracy, lack of flexibility in reporting facilities, inability to produce reports which meet user needs, lack of facilities to exchange standard information on client referrals between various program providers and unacceptably long response times. It disclosed that the system cannot continue viably in the long-term and needs complete redevelopment. Strategies are presently being considered by DILGEA, in conjunction with providers, to overcome these problems, both in the short and longer-term.

3.8.95 The weaknesses in the national database and in financial recording systems maintained by AMES have hindered management in their evaluation and monitoring role. In addition, audit found that systems had not yet been developed within AMES to enable measurement of a number of key targets of the Plan.

Management response

It is agreed that there are deficiencies in the capacity of the national database to provide adequate management information and that further work needs to be undertaken to improve the database at both the Commonwealth and State level. In these circumstances, AMES has implemented a range of review processes which supplement routine monitoring mechanisms. The results of these reviews do not support audit's conclusion about the effectiveness of AMES.

Definitions

3.8.96 A number of indicators included in the National Plan have not been clearly defined. As inconsistencies exist between the States and Territories in measuring program outcomes such as student withdrawals from courses and the number of client and teacher hours associated with the Program, meaningful comparisons between various providers is not possible.

Management response

This is an area of ongoing and intensive joint investigation by the Commonwealth and providers through the Management Sub-Committee of the Joint Commonwealth/States Committee, the State Data Managers Sub-Committee, a standing Data Definitions Working Party, the Adult Migrant Education Program Information Management Unit and, in Victoria the State Information System Advisory Panel convened by AMES and the AMES Information Management Unit.

The Program involves 6 State and 2 Territory AMESs (some of which operate within the TAFE system and some relating to other areas of government), and a number of tertiary institutions and private providers. Consultation is therefore the key element in developing definitions that will be used by all parties and useful to all parties. This consultation is an ongoing feature of Program management.

Reporting processes

3.8.97 Each program provider is required to submit an annual funding bid to the Commonwealth together with a plan of activities for the following year. Quarterly reports of expenditure and receipts are forwarded to the Commonwealth by each provider. Copies of these reports are also provided to the Ministry and an annual report of AMES operations is forwarded to both the State and Commonwealth overseeing bodies. Audit is of the view that the present reporting processes do not provide an adequate accountability framework in that:

- ▶ regular reports of program outcomes against national targets are not provided to either the Commonwealth or the Ministry; and
- ▶ certain information provided to the Commonwealth as part of the annual funding bid is not available from the national database or AMES financial systems. Submissions therefore contain details which are based on manual calculations or past estimates. **Audit found that in many instances these details could not be adequately substantiated.**

Management response

Reporting to DILGEA and the Ministry, AMES provides Estimates of Expenditure to the Commonwealth in accordance with DILGEA requirements as detailed in the Adult Migrant Education Program Handbook.

Both the nature and format of information provided to the Commonwealth is agreed between the Commonwealth and the States. Where such information involves estimates, this is clearly understood by the Commonwealth. All information provided to the Commonwealth is the best information available to AMES and can be clearly substantiated as such.

Program delivery

3.8.98 The examination of a number of key aspects of the Program disclosed areas where improvements are needed in the efficiency and effectiveness of service delivery. Areas were also highlighted where the absence of accurate measures of program outcomes raises doubts as to achievements of AMES in implementing national objectives.

Management response

The Ministry does not support the assumption that because the routine mechanisms for monitoring a program are less than optimal, the program itself is ineffective.

The AMEP National Plan is a 3-year plan (1990-1992), which establishes targets to be achieved by the end of 1992.

The audit review of operations has judged AMES's performance in 1990 (the first year's implementation of the Plan) against targets which the Plan expects to be achieved by the end of 1992. This is clearly inappropriate.

3.8.99 Specific areas which need to be addressed are detailed in the following paragraphs.

Target groups

3.8.100 As previously indicated, a major focus of the National Plan is to provide English language opportunities to adult migrants in priority categories. In this regard, by 1992, 90 per cent of resources are to be allocated to people who have been resident in Australia less than 5 years including 80 per cent targeted to clients resident less than 3 years.

3.8.101 Information maintained by AMES indicates that between January and November 1990, around 83 per cent of students participating in AMES activities had been resident in Australia for less than 5 years with 70 per cent resident less than 3 years. Comparative data has not been recorded by AMES for all previous years, however, information included in the *AMES Annual Report* for 1986 disclosed that at that time 70 per cent of participants had been in Australia less than 5 years. Information provided to the Commonwealth also highlighted that in 1989, 60 per cent of participants had been resident less than 3 years. As indicated by these trends, **AMES has made significant progress in changing the profile of its clients in line with national objectives.**

3.8.102 While the analysis of enrolled participants on the basis of period of residence provides a broad indication of achievement, it is not an accurate reflection of the resource allocation to various target groups as:

- ▶ each student does not necessarily participate in an equal number of learning activities or hours of tuition; and

- ▶ the categorisation of participants is undertaken on the basis of enrolled students rather than on the basis of students completing learning activities. AMES has identified that around 15 per cent of enrolled students withdraw from courses.

3.8.103 A more meaningful measure of the actual allocation of resources to target groups needs to be developed by AMES to ensure that funds are targeted in line with national objectives.

Management response

Further work needs to be undertaken in co-operation with the Commonwealth in refining measures relating to service delivery to target groups.

Proficiency levels

3.8.104 The National Plan indicates that an opportunity is to be given to all enrolled students to participate in an appropriate sequence of learning arrangements to assist them to acquire target proficiency levels in each of the 4 skills of speaking, listening, reading and writing. The Plan indicates that monitoring of participation and completion rates, together with proportions of clients obtaining target proficiency levels, are to be used as a means of monitoring achievements.

3.8.105 Audit found that a major weakness in assessing the Program's effectiveness was the absence of adequate processes to measure outcomes in this area. In particular:

- ▶ overall statistics on proficiency levels achieved by students had not been obtained and analysed; and
- ▶ minimal studies or client surveys had been undertaken by AMES to assess the extent to which the Program has assisted students in meeting their goals.

3.8.106 Discussions with AMES management indicated that the present level of resourcing provided to the centres does not enable the national targets of accepting all clients into the Program within 3 months of application and of achieving target levels of proficiency for exiting students to be achieved. Consequently, **many students exit the program with proficiency levels well below the target.** This situation was particularly evident in centres located in Footscray and Springvale where the demand for courses has far exceeded available facilities. In an attempt to accept all applicants into the Program, students have been retained in these centres, on average, for only 6 months compared with certain other centres where students participate in an average of 8 learning activities over a 2-year period.

3.8.107 The limiting of activities for clients has resulted in the ineffective use of resources as AMES staff have advised that in many cases these clients have not obtained sufficient language skills prior to exiting the Program to enable them to achieve the National Plan target of obtaining employment or access to further study.

3.8.108 Substantial waiting lists at several centres have also developed in high demand areas. For example, AMES management has identified that in Term 3, 1990, 270 clients were on waiting lists for Footscray day and evening classes with a further 88 clients booked for interviews.

3.8.109 Audit has been advised that, in 1991, AMES intends adopting a strategy of retaining clients until they attain the proficiency targets set in the National Plan rather than accepting new applicants. **It is anticipated that this will result in further increases in waiting lists at some centres.**

Management response

The Ministry recognises that it is important to pay much greater attention to measuring the outcomes of educational programs than has previously been the case. This is a vexed question world-wide. Audit's lack of recognition of AMES's efforts in this area is somewhat surprising since AMES is a national leader in this difficult field.

The Ministry agrees that the resources available are not adequate to meet the targets and performance objectives set out in the National Plan. Advice from the Commonwealth Working Party on Post-Secondary ESL (1990) is that at least \$217 million dollars would be required over 5 years to enable the Program to meet the National Plan targets. Thus, either the Commonwealth needs to increase its funding or the targets in the Plan need to be modified.

Program delivery costs

3.8.110 Expenditure details provided to the Commonwealth by AMES indicate that the costs of the Program during 1990 amounted to \$16.4 million.

3.8.111 Audit analysis indicated that of these costs less than \$7 million (around 40 per cent) was related to salary costs of classroom tuition. The remainder of funds were utilised in teacher preparation and professional development activities, administrative and program support duties, student assessment and counselling and program co-ordination. While it is recognised that the success of the Program is dependent on efficient administrative and support functions, audit considers that the present ratio of the costs associated with these activities to the costs of classroom tuition is disproportionate.

3.8.112 A number of factors have contributed to the present position, in particular:

- ▶ The average tuition duties assigned to permanent teaching staff are below the maximum hours allowable under the current staffing agreement;
- ▶ Of the total 320 full-time equivalent permanent staff employed within the program, 119 (comprising 34 teaching staff and 85 public servants) are involved full-time in non-teaching duties;

- ▶ Of the 85 full-time public service staff employed within the Program, the majority are classified at base grade clerical levels. This structure does not provide cost-effective support arrangements to the various centres and results in teaching staff performing administrative duties beyond the expertise of the clerical staff. This problem has been recognised by the Ministry and a proposed restructure of administrative positions is aimed at addressing the current weakness.

3.8.113 An adjustment in the present structure is required to enable increased resources to be assigned to direct program delivery. Such a reallocation would assist in overcoming the resource difficulties presently experienced by AMES in meeting the needs of target clients.

Management response

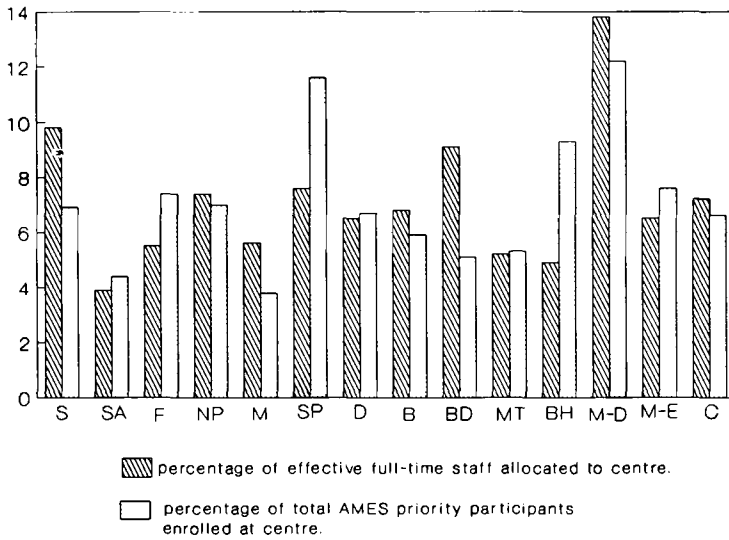
Audit's estimates are based on incorrect assumptions about the cost of face-to-face tuition and an inaccurate calculation of teaching hours delivered by AMES in 1990. Furthermore, the attempts to calculate the face-to-face class tuition costs without a concomitant attempt to cost the student assessment, counselling and support function of AMES is a misunderstanding of the dual focus of the Program and a downgrading of the Service's critical role in assisting migrants to settle in Australia.

It must be recognised that AMES management is devolved to 14 Centres and 4 discrete Program areas.

Staff allocation

3.8.114 Audit found that to some extent a mis-allocation of teaching staff in 1990 contributed to the resource problems previously highlighted at several centres. The allocation of resources for 1990 is illustrated in Chart 3.8F which sets out the percentage of AMES participants, resident less than 3 years, enrolled at major centres between January and September 1990, compared with the percentage of teaching staff allocated to the centre.

CHART 3.8F. STAFF ALLOCATION 1990
(per cent)



Key					
S	Sunshine	SP	Springvale	BH	Box Hill
SA	St Albans	D	Dandenong	M-D	Myer House (day)
F	Footscray	B	Brunswick	M-E	Myer House (evening)
NP	Noble Park	BD	Broadmeadows	C	Collingwood
M	Moorabbin	MT	Mitcham		

3.8.115 The allocation of staff to various centres in 1990 was undertaken by Regional Staffing Committees. The pool of staff allocated to each committee for distribution was calculated on the basis of a formula which took into account statistics relating to priority clients as recorded in the national database and identified in the 1986 census. **AMES has found that these statistics are not an accurate reflection of eventual settlement patterns.**

Management response

In the first year of a 3-year plan, 70 per cent of students participating in AMES courses were priority participants. The target by the end of 1992 is 80 per cent. It is the Ministry's view that this demonstrates an effective effort to allocate resources within AMES. In fact, the Ministry would contend that this view is supported by the data as presented by audit in this Report.

Teacher contact hours

3.8.116 Funding submissions presented to the Commonwealth include details of actual and projected teaching hours. For 1990, funding provided by the Commonwealth was made on the basis that AMES activities involved 250 000 teacher contact hours. After deducting 20 000 hours for replacement teachers and other contingencies, the remaining 230 000 hours were apportioned by AMES to various centres and programs on the basis that each full-time equivalent teacher would perform 20 hours teaching for 42 weeks of the year.

3.8.117 An audit analysis of returns required to be submitted by centre principals during 2 of the 4 terms for 1990, indicated that actual classroom tuition performed by AMES staff was substantially less than these allocations. Due to the requirement to complete returns during only 2 terms, AMES could not quantify the total number of hours spent each year in classroom tuition. However, audit estimates that the actual level during 1990 was around 205 000 hours.

3.8.118 Unless the proportion of funded teaching hours assigned to classroom tuition is maximised, the effectiveness of the Program in achieving its objectives is diminished and the cost of each tuition hour is increased.

Management response

Audit interprets "teaching hours" as the number of hours spent in face-to-face teaching or contact hours. However, these terms are not synonymous. There are areas of professional contact and educative interaction with students outside the classroom, such as interviewing, counselling, and language assessment. There are also organisational duties, such as involvement in curriculum development and professional development activities, which are by agreement between the teaching profession and employing authorities, included in the broader definition "teaching hours".

It is agreed that a clearer definition of terms within the Commonwealth/State Arrangement is required. The Arrangement is scheduled for re-negotiation in 1991. It will be possible in this context to ensure that the new Arrangement defines its terms more adequately.

Class sizes

3.8.119 As part of the National Plan's objective of ensuring resources are used effectively and efficiently, the Commonwealth has set a strategy of increasing the total number of hours spent in contact with clients by 10 per cent within existing resources. To assist in this aim, the National Plan has set a target of increasing class sizes by reducing course transfers and withdrawals to less than 20 per cent of total enrolments.

3.8.120 The staff agreement applicable to teaching staff within AMES specifies that centres and programs are to be organised on the basis of classes of 20 enrolled students which may be varied up to a maximum of 23. The agreement also indicates that where a class falls to 10 enrolled students, the continuing viability of the class is to be assessed.

3.8.121 Information provided to the Commonwealth relating to 1990 activities indicated that overall class sizes of AMES learning activities are around 14. A review of enrolment and attrition details maintained on the national database for a sample of centres disclosed large discrepancies in class sizes which ranged from 9 to 37. Marked differences were also disclosed between the number of students enrolled and the number of students completing courses.

3.8.122 Summary information provided to audit disclosed that between January and November 1990, almost 6 000 participants, representing around 15 per cent of total enrolments, withdrew from courses. Although details of reasons for withdrawal are maintained on the database, in almost 50 per cent of cases the reason was detailed as *unknown*.

3.8.123 Audit is of the view that greater emphasis needs to be placed on monitoring overall class sizes and on determining and evaluating the reasons for student withdrawals.

Management response

The Ministry shares audit's concerns regarding attrition, and research is being undertaken at both the State and national levels into why clients leave classes before course completion. To date, research indicates that learning English has to "compete" with other settlement priorities such as finding employment and establishing an independent residence, and that these are major factors in persons withdrawing before completion. External factors, such as the availability of work can also impact on client propensity to complete courses.

Staffing practices

3.8.124 The terms of appointment for AMES staff are based on a number of employment arrangements, namely:

- ▶ permanent teaching staff are employed in accordance with terms and conditions specified in a 1990 *Agreement Between the Ministry of Education and the Teachers' Federation of Victoria for Adult Migrant Education Services* (the Agreement);
- ▶ a number of teaching staff appointed to administrative positions are employed under the Agreement with specific reference to the Public Service Model of the *State Schools Teacher Support Agreement 1989-1991*;
- ▶ additional administrative staff are employed under the Public Service Act; and
- ▶ casual and emergency teachers are employed on an hourly basis at rates specified in the Government Teaching Services Award.

3.8.125 All permanent staff engaged in accordance with the Agreement are employed by the Ministry for fixed terms of 3 or 5 years. The Ministry is currently in the process of negotiating a revised agreement with the relevant unions.

Anomalies in Agreement

3.8.126 Specific conditions of employment for teachers and program delivery details are defined in the Agreement including times of attendance for teachers, maximum face-to-face teaching hours to be allocated to each staff member, ratio of permanent to casual staff and the periods of time when activities are to be conducted. Audit found that a number of the provisions relating to conditions of employment result in difficulties in achieving efficient program delivery. Examples include:

- ▶ Although the Agreement indicates that classes are to be conducted between 8.30 a.m. and 9.30 p.m., no teachers can be asked to perform duties after 5.30 p.m. unless they agree to do so. In practice, audit found that permanent teachers were generally unwilling to undertake duties after 5.30 p.m. Consequently, in most cases evening courses were conducted by casual staff;
- ▶ Learning activities may be conducted during Monday to Friday and on Saturday morning. However, as no permanent teacher is to take classes on more than any 5 days in a week teachers performing duties on a Saturday morning do not attend on one day during the week. Difficulties consequently arise in allocating the maximum hours teaching duties allowable under the Agreement, within these teachers' attendance times; and
- ▶ The Agreement indicates that the transfer of staffing resources between locations to meet changing client settlement patterns or demands cannot exceed 10 per cent in any one year. In cases where significant changes occur in demographic patterns, this condition of employment restricts the ability of AMES management to respond quickly to changing needs.

3.8.127 Audit concluded that, while a number of the terms and conditions of employment negotiated between the Ministry and the Teachers' Federation of Victoria for AMES permanent staff provided favourable terms of employment for teachers, they were not conducive to meeting the needs of clients.

Management response

The Ministry accepts that there are inadequacies in the AMES Agreement which it will seek to address in the context of the re-negotiated agreement.

The Ministry agrees that the staffing of evening programs with permanent teachers is an area of concern. This issue is being addressed in the current negotiations with the teachers' unions regarding a revised Agreement.

Audit concerns regarding Saturday morning classes refer only to a small percentage of AMES teachers in Myer House and the Community Program.

Significant changes in demographic patterns are gradual and can generally be accommodated within the provision for a 10 per cent adjustment. The restrictions on the transfer of staffing resources have not proved to be a problem in practice. In addition, AMES was able to re-locate an entire Centre from the Central to the Southern Region following the sale by government of the original site in 1990 without Industrial disputation.

Permanent to casual staff ratio

3.8.128 Prior to 1986, the majority of teaching and administrative staff employed within the program were engaged on a non-permanent basis. As a result of the subsequent implementation of permanency, around 320 full-time equivalent staff are now permanently employed by the Ministry within the Program.

3.8.129 The Agreement stipulates that in overall terms 65 per cent of all teaching hours funded by the Commonwealth shall be covered by permanent staff. **Audit found that although around 65 per cent of teaching positions were filled by permanent staff, a significantly lower proportion of classroom tuition duties were allocated to these teachers.** Table 3.8G sets out examples of the variances between actual permanent and casual duties performed at a number of locations reviewed.

TABLE 3.8G. PERMANENT/CASUAL TEACHING HOURS

Centre	Actual teaching hours (per week)		Permanent staff	
	Permanent	Casual	Percentage of Centre's staff allocation	Percentage of Centre's teaching hours
<i>Term 1</i>				
Box Hill	131	107	59	55
Brunswick	158	134	71	54
Community Program	377	429	53	47
Myer House (day)	275	207	67	57
Myer House (evening)	56	125	34	31
Sunshine	166	151	58	52
<i>Term 2</i>				
Box Hill	123	110	59	53
Brunswick	154	71	86	68
Myer House (day)	239	147	67	62
Myer House (evening)	56	128	34	30
Sunshine	81	84	83	50

3.8.130 This position resulted to some extent from teaching duties performed by permanent staff amounting to significantly less than the maximum allowable under their conditions of employment and from the previously highlighted anomalies in the teaching agreement which necessitated the employment of casual staff to conduct evening classes.

3.8.131 In accordance with the Agreement, all full-time teachers are to perform a maximum of 20 face-to-face teaching hours per week with up to 1.95 hours deducted for specified organisational duties. However, an analysis of submissions for the above locations indicated that **the average teaching hours performed by permanent staff ranged between 14 and 16.5 hours per week.**

3.8.132 The use of casual staff provides a certain degree of flexibility to the Program and results in a more cost-effective service delivery as salary costs are not incurred in paying the course preparation time or replacement costs for these staff. However, consideration needs to be given to increasing productivity through the more effective use of permanent resources. Improved productivity would enable additional clients to be accepted into the Program or provide scope for reducing the costs of engaging casual staff.

3.8.133 In addition to these potential cost savings and efficiency gains, program delivery may be jeopardised in the long-term through the current practice of assigning a high proportion of teaching duties to casual staff unless these staff have equal access to professional development activities and course preparation time available to permanent staff.

Management response

The balance between permanent and casual staff is an important issue which involves consideration of both cost and quality of outcome. The issue requires regular review.

Steps will be taken to improve monitoring of the actual hours worked by casual staff.

Emergency teacher costs

3.8.134 AMES employs emergency teachers as replacements for absent permanent teachers at current rates of \$68.30 per half day and \$136.00 per full day. The Agreement provides that the half day rate applies where a teacher is assigned 3 hours or less face-to-face teaching duties and the full day rate applies where these duties exceed 3 hours.

3.8.135 The following observations were made on the basis of a sample of 1990 emergency teacher payments:

- ▶ Approximately 1 600 emergency teaching hours, on average, were worked each fortnight corresponding to an annual figure of around 33 600 hours at an estimated cost of \$750 000. **This analysis indicates that over 20 per cent of the total teaching hours allocated to permanent staff are carried out by emergency teachers.** The use of emergency teachers to this extent substantially increases program costs as in many cases the permanent teacher is also paid for these hours;
- ▶ An inconsistent approach was adopted in relation to the nature of duties performed by emergency teachers. Some centres were of the view that emergency teachers performed all the duties of the teacher being replaced and were therefore required to be present for the entire half day or full day session. Others considered that replacement teachers were only required to be present for face-to-face teaching hours despite being paid at a half day or full day rate. Based on the hours of duties recorded on claims relating to emergency teachers, audit estimates that **paid hours in excess of duties performed averaged approximately 390 hours per fortnight;** and
- ▶ In some instances **payments were not adequately authorised.**

Management response

Over 19 000 of these emergency teacher hours were replacing teachers on unpaid leave. Thus, most of the cost calculated by audit is not additional cost to the Program.

Time recording

3.8.136 AMES adopts a flexible approach to class scheduling within the time frame 8.30 a.m. to 9.30 p.m. The Agreement requires teachers to be in attendance for a minimum of 7 hours each day within this time frame. In addition, teachers are required to perform scheduled duties for a further 3 hours per week.

3.8.137 Audit found, however, **inadequate accountability was provided in relation to teachers' hours of attendance and duties performed.** As teaching staff are not required to maintain records of attendance, no evidence was available to substantiate their attendance outside formal class duties.

3.8.138 Audit has been advised by Ministry staff that it is not normal practice for staff within the teaching service to maintain records of attendance.

Management response

AMES will implement measures to address this situation.

Expenditure control

3.8.139 Under the terms of the agreement between the Commonwealth and the State, AMES is required to submit an annual operational and financial plan for its activities to DILGEA. Subsequent to approval of the plan, funds are provided to the State to meet recurrent and capital costs for the agreed activities. Payments to the State, which are made monthly, are held in a trust fund administered by the Ministry. Expenditure made from this fund during the past 3 years is summarised in Table 3.8H.

TABLE 3.8H. EXPENDITURE SUMMARY
(\$million)

<i>Expenditure type</i>	<i>1988</i>	<i>1989</i>	<i>1990</i>
Teacher salaries	8.2	9.3	10.1
Program administration and support	2.1	2.2	2.2
Salary on-costs	2.7	2.7	3.1
Non-salary costs	0.8	0.9	1.0
Total	13.8	15.1	16.4

3.8.140 A review of 1990 expenditure highlighted an absence of adequate monitoring and control of payments. Weaknesses included poor budgetary processes, inadequate approval procedures, a lack of control over payroll processing and substantial delays in the payment of trade creditors.

Management response

AMES has implemented a revised chart of accounts to reflect both the accountability requirements of the funding body, i.e. DILGEA, and the organisational structure. It is anticipated that in terms of budgeting procedures and control mechanisms, AMES can make gains in efficiency from improved levels of reporting that focus more attention on local level management.

Action is in hand to strengthen the processes for approval and monitoring of payments within AMES.

The Ministry agrees that delays in the payment of trade creditors is a significant problem which must be addressed.

Asset management and control

3.8.141 The control and security of assets within AMES centres were found to be very poor. The following observations illustrate the weaknesses identified:

- ▶ Inventory records were incomplete or out of date;
- ▶ Records of asset movements were not in place. Consequently, assets were found in locations other than those noted on inventory lists or in some instances could not be located;
- ▶ Regular stocktakes had not been undertaken since 1987;
- ▶ Physical security of assets was poor at some centres with attractive items left in unlocked, unsupervised areas such as staff rooms and classrooms; and
- ▶ Audit was advised that equipment at some locations had been lost from time to time. However, no itemised details of such items were maintained and there was no indication that losses or thefts had been reported to the Treasurer and the Auditor-General as required.

3.8.142 Under present arrangements, management has no assurance that all items purchased with program funds have been used in meeting program objectives or that items lost or stolen have been promptly identified and reported.

Management response

The Ministry agrees that asset management within AMES can be improved and steps will be taken to ensure that this occurs.

COUNCIL OF ADULT EDUCATION

3.8.143 The *Report on Ministerial Portfolios, May 1990*, commented on the serious deficiencies in the financial management and accountability processes adopted by the Council of Adult Education including:

- ▶ the unfavourable liquidity position of the Council which could result in the Council being unable to meet operating expenses as they become due;
- ▶ the clear imbalance in funding of the Sir John Monash Business Centre, a joint venture between the Council and Monash University; and

- ▶ the doubtful financial viability of a number of the Council's other commercial activities such as the CAE Book and Art Supplies Shop and the CAE Tours Division, due to the lack of systems to identify and allocate all associated costs.

3.8.144 The Report noted that, unless weaknesses in the Council's financial position were addressed, adult education programs could be jeopardised and the Council may not be able to meet its current operating expenses without recourse to short-term financing.

Continuing deterioration in financial position

3.8.145 The Council's financial results for 1989-90 disclosed a further deterioration in its overall financial position and highlighted potential problems for its future operations. The downward trend in the Council's financial position is further demonstrated by a number of common measures of liquidity detailed in Table 3.8I.

TABLE 3.8I. LIQUIDITY POSITION

Item	At 30 June		
	1988	1989	1990
Excess of current liabilities over current assets	\$1 023 500	\$1 629 000	\$2 422 100
Current ratio (current assets as a proportion of current liabilities)	64.4%	47.2%	7.4%

3.8.146 Despite its liquidity problems, the Council has continued to acquire additional non-current assets which resulted in an overdrawn bank balance of \$578 400 at 30 June 1990.

3.8.147 The major portion of the non-current assets acquired by the Council during 1988-89 and 1989-90 is represented by the establishment of the Sir John Monash Business Centre. The poor operating result of the Centre has also contributed to the Council's declining liquidity during the current year.

3.8.148 In view of the continuing deterioration in the financial position, there is still an urgent need for the Council to develop sound financial strategies to address current financial problems, including the identification of possible cost savings. The practice of funding purchases of non-current assets, in particular the financing of ventures such as the Sir John Monash Business Centre, through short-term financing sources should be reassessed.

Financial viability of commercial activities

3.8.149 The Council continued the practice of not allocating all overheads such as rent and other administrative charges to its commercial activities. As a result, management is not in a position to accurately determine the viability or otherwise of each activity. This practice is of particular concern given the marginal reported results of the Tours Division and the Bookshop. In addition, Flinders Consulting which provides external consultancies on behalf of the Council reported a loss of \$199 000 for the year.

3.8.150 The Council needs to assess the effect on cash flow of its continued involvement in more commercial activities with a view to curtailing and/or scaling down the activities identified as having negative cash flow impact.

Management response

The Council of Adult Education acknowledges the deficiencies in financial management documented by audit in its 1990 Report and has taken steps during 1990 and early 1991 to address these issues. Specific measures include the preparation of a business plan to provide strategic direction for CAE resources, productivity improvements, an overhaul of systems, the streamlining of programs and the establishment of an audit committee.

As a result of these measures and Monash University's payment of their contribution to the Sir John Monash Business Centre, the Council's 1991 budget is pitched at a modest surplus after absorbing a \$375 000 reduction in government recurrent funding. Capital expenditure has been capped at \$200 000 and is funded by the cash surplus generated from recurrent operations. Interest earnings from Special funds as well as the Colin Badger Trust will build cash reserves through 1991. There is no government source of capital funds for the CAE so it is necessary for us at this stage to fund the capital expenditure budget from funds generated from recurrent operations.

The scale of operations of Flinders Consultants has been considerably reduced, and amalgamated with the Business Education Centre for the 1991 budget. The budgeted contributions from the Business Education Centre, Educational Tours and other activities are expected to improve during 1991 and will be closely monitored. If necessary, consideration will be given to scaling down these activities. It should be noted that the travel and tourism industry within Australia and overseas is currently suffering a major downturn which may affect the Tours Department in the short-term.

The shortfall in working capital arose when the Council began preparing balance sheets and bringing all assets and liabilities to account. The business plan, which is currently being implemented, is addressing the ongoing working capital deficit. Cost savings currently identified include reduction in staffing. We are also moving staff to areas of income generating activity.

The viability of each CAE activity is currently determined by analysing incremental revenues and costs, which contribute to covering overhead costs. The CAE has recently undertaken a full cost absorption study to allocate all overheads. These studies will be carried out regularly to provide details of resource allocation.

Sir John Monash Business Centre

3.8.151 The Sir John Monash Business Centre commenced operations in October 1989 as a joint venture between Monash University and the Council for the provision of business education. The management of the Centre and its financial costs were to be shared equally.

3.8.152 A business plan for the venture estimated a payback period of between 3 and 6 years, assuming certain levels of capital borrowings and prevailing interest rates.

3.8.153 In the *Report on Ministerial Portfolios, May 1990*, audit expressed a number of concerns regarding the establishment of the Centre, including:

- ▶ lack of a formal agreement or document regarding the Centre's legal status;
- ▶ formalisation as a legal entity had not been finalised;
- ▶ ministerial approval for the venture had not been obtained; and
- ▶ the financial viability of the project was questioned, noting that a pay-back period much greater than the maximum anticipated 6 years would now be expected.

3.8.154 Ministerial approval for the establishment of the Centre was obtained in June 1990 and it was incorporated in July 1990 as a company with the 2 institutions having equal shareholdings.

Impact of the Centre on the Council's financial statements

3.8.155 At 30 June 1990, total funds employed by the Sir John Monash Business Centre amounted to \$1.3 million, of which Monash University had contributed \$265 000 with the Council funding the balance, which is represented by loans to the Centre totalling \$781 000 and \$255 000 being part of the Centre's reported operating deficit of \$277 000 for the period.

3.8.156 The deficit compares unfavourably with the initial projections which had included an operating surplus result of \$62 000. The imbalance has been largely redressed with the Council recovering \$500 000 from the Centre.

3.8.157 Although it is still early in the project's life to determine its financial viability, there would need to be significant improvement in the Centre's operating result to avoid the injection of additional equity capital by both parties.

3.8.158 **The Council needs to seriously consider whether or not to continue its participation in the Sir John Monash Business Centre joint venture arrangement. If the Council decides to continue its participation, it needs to develop strategies to improve the financial performance of the Centre.**

Management response

The CAE is aware of the impact of the imbalance of funding of the Sir John Monash Business Centre and there has been a considerable improvement in this position since audit's report. At this stage the CAE believes it is appropriate to continue its participation in the Centre. Day-to-day bookings have improved, and projects undertaken by the Centre and contributions made from running programs are contributing to overall profitability. The recently concluded arrangements with a major government agency to conduct their management training will result in an improved profit outlook for 1991 and future years. A revised business plan will be presented to the next Board meeting of the Centre. This will take account of the new relationship with the government agency.

In relation to the liquidity position of the CAE the Council's position improved by \$300 000 in August 1990 when the equity contribution to the Centre was received from Monash University, and again in February 1991 when the Centre remitted a further \$200 000.

Financial accountability processes

3.8.159 In June 1989 the Council was designated under the *Annual Reporting Act 1983* and, as such, is now required each year to provide audited financial statements to the Minister no later than 3 months after the close of the financial year.

3.8.160 In the previous Report, audit commented on the delays by the Council in finalising financial statements in past years. It is pleasing to note that improvement had been made in this area with the 1987-88 and 1988-89 financial statements being finalised during 1989-90 and the 1989-90 accounts being completed within the legislative reporting deadline.

3.8.161 **The Council has demonstrated greater commitment to more timely financial statements reporting during the current year.**

STATE TRAINING BOARD

Apprenticeship assistance

3.8.162 Assistance in the form of payroll tax and WorkCare levy rebates was introduced by the Government during the 1980s for the purpose of providing incentives to employers to engage more apprentices.

Payroll Tax Rebate Scheme

3.8.163 Up to 30 June 1990, approximately \$36 million has been paid under the Payroll Tax Rebate Scheme to employers of apprentices. Of this amount, \$22 million was paid by the Board.

3.8.164 In 1989, the Board undertook an assessment of future training needs in Victoria and determined that the effect of the Scheme had marginal impact on the employment of apprentices by the private sector.

3.8.165 Following discussions with the former Department of Management and Budget, the then Minister Responsible for Post-Secondary Education presented in December 1989 a submission to the Priorities, Planning and Strategy Committee (PPSC), a sub-committee of Cabinet, proposing the Scheme be discontinued and that the funds made available be redeployed to the Board's other training schemes. The submission identified that:

- ▶ fluctuations in the employment of apprentices occurred in relation to the level of economic activity and demand for labour regardless of the Scheme;
- ▶ employers providing the majority of apprenticeship employment are those who, because of the low level of their payroll, are usually exempt from payroll tax; and
- ▶ the payroll tax rebate is assessable for taxation purposes in the hands of employers, thereby diminishing its financial benefit to such employers.

3.8.166 The then Treasurer also presented a submission to the PPSC advocating that the Scheme be discontinued. **The Government, in its 1990-1991 budget, however, provided a further \$12 million to the Scheme and this amount was subsequently appropriated by Parliament.**

Management response

The Board is of the view the Auditor-General has misunderstood that the 1989 proposal to discontinue this employment initiative was made at a time of record apprenticeship intakes.

Removal of the scheme, in the current economic environment, would run counter to Government's employment initiatives to bolster training effort during the current economic downturn.

Further audit comment

The reasons outlined by audit for discontinuation of the payroll tax rebate scheme are those contained in the submission by the then Minister responsible for Post-Secondary Education to PPSC dated December 1989.

WorkCare levy

3.8.167 The State Training Board has the responsibility for forwarding annual WorkCare levy rebate application forms to employers. The Agency is responsible for the payment of rebates on receipt of employer applications and after verification of relevant data by the State Training Board.

3.8.168 A review by audit of records relating to apprentice rebates showed that less than 50 per cent of employers eligible to claim rebates had applied for such rebates. The Commission estimates that **unclaimed rebates at 31 December 1990 totalled approximately \$10.5 million, of which \$2.4 million or 23 per cent was in respect of periods prior to 1989-90.**

3.8.169 The magnitude of unclaimed rebates may indicate that employers do not fully support the scheme.

Management response

Significant efforts are made to inform employers of apprentices of the existence of the WorkCare Rebates Scheme, as follows:

- *in July/August of each year, the Board mails rebate claim forms to all current employers of apprentices and trainees, for completion and return for processing;*
- *in all correspondence to employers, from the Board, regarding notification of employment of apprentices, a leaflet is enclosed entitled "Government Subsidies for Apprentices", which details WorkCare rebates and other benefits available; and*
- *the Board also provides, upon request from employers and apprentices, a "Handbook of Apprenticeship" which contains information relating to rebates of the WorkCare levy and payroll tax available to employer.*

Industry training arrangements

3.8.170 In July 1989 an agreement between the Commonwealth and the Victorian Governments was reached to rationalise industry training arrangements in Victoria by the establishment of Industry Training Boards (ITBs). ITBs have responsibility for improving industry skilling through mechanisms which include advising the State Training Board on industry skill requirements and developing industry training plans. The State Training Board views the establishment of the ITBs as a significant development in encouraging a higher level of industry involvement in vocational education and training.

3.8.171 Since 1989 the State Training Board has established 16 ITBs, including 3 training foundations transferred from the Department of Labour as incorporated bodies and anticipates that a further 3 ITBs will be established during 1991. The *Report on Ministerial Portfolios, May 1989* included reference to a number of shortcomings in the financial management of one of the training foundations.

Failure to comply with accountability process

3.8.172 The State Training Board provides grant funding to the ITBs in accordance with performance and funding agreements between the State Training Board and each ITB, i.e. 40 per cent of agreed funding upon signing of the agreement and the remainder by quarterly payments. The agreement is designed to ensure that the ITBs are accountable to the State Training Board and specifies that the provision of continuing funding is conditional upon the timely submission of the following information:

- ▶ quarterly progress and financial status reports; and
- ▶ annual receipts and expenditure statements and fund statements certified by an independent qualified auditor by 31 August of each year.

3.8.173 Audit identified that:

- ▶ although funding totalling \$1.8 million had been provided to the ITBs since their establishment, the majority of ITBs had not provided all quarterly progress and financial reports, and none had provided certified financial statements by 31 October 1990;
- ▶ financial status reports were not reviewed by personnel possessing financial qualifications or backgrounds; and
- ▶ the format of the financial status reports was not standardised, inhibiting the State Training Board's assessment of the each ITB's financial performance.

3.8.174 Although at the date of preparation of this Report the State Training Board has advised that all the required audited financial statements have been received, **there is a need for the Board to finalise actions being taken to monitor and assess ITB performance.**

Management response

The Board acknowledges the findings and recommendations of the audit review and advises it has identified the problem and steps are being taken to rectify it, along the lines suggested by audit.

UNIVERSITY OF MELBOURNE**Melbourne Theatre Company***Background*

3.8.175 The University of Melbourne established the Union Theatre Repertory Company in 1953 as the first fully professional repertory company in Australia. It was renamed the Melbourne Theatre Company in 1968 in recognition of the financial assistance provided to the Company at that time by the City of Melbourne. Over the years the Company has expanded to become the largest theatre company in Australia.

3.8.176 Audit was informed that discussions had taken place during the late 1970s between the University and the State Government on the possibility of the Company being set up under legislation as a separate statutory authority on a similar basis to that of the State Theatre Company of South Australia or the Royal Queensland Theatre Company. However, the legislation did not eventuate and in December 1981 the *Melbourne University Act 1958* was amended to include a provision giving the Council of the University retrospective power to establish and conduct the Company.

3.8.177 The Company is not an incorporated body but operates as a registered business, wholly owned by the University with the same legal status as any other department of the University.

3.8.178 Funding is provided for the activities of the Company from a number of public and private sources. In 1990, approximately 63 per cent of revenue was generated from the sale of subscription and general public tickets. The State Government, through the Victorian Ministry for the Arts and the Federal Government through the Australia Council together contributed a further 16 per cent, with the remaining 21 per cent generated through fundraising, touring, kiosk sales and interest earnings. Total revenue received during 1990 amounted to \$7.6 million. Operations for the latest year resulted in a deficit of \$1.3 million, including an abnormal item of \$372 000.

Overall conclusions

3.8.179 The Company has experienced a significant downturn in its financial position in recent years.

3.8.180 A decrease in government funding and increased competition for patronage as a result of the downturn in the economy have to some degree adversely affected the operations of the Company.

3.8.181 Notwithstanding these factors, a number of deficiencies in management systems and practices were disclosed during a 1990 audit review of the Company's financial management and accountability practices which have contributed to its financial downturn or have inhibited timely action being taken to reverse the deteriorating trend. Weaknesses included:

- ▶ absence of specific targets and strategies aimed at reducing the level of the accumulated deficit;
- ▶ poor financial planning and forecasting;
- ▶ need for more effective monitoring of financial performance by both the Board of the Melbourne Theatre Company (MTC Board) and the University;
- ▶ lack of flexibility in the structure of the Company to enable expenditure, particularly production costs, to be reduced in line with decreasing market demand and reduced funding; and
- ▶ absence of a formalised advertising and promotional strategy including thorough market analysis.

3.8.182 Although the MTC Board has prepared a budget for the 1991 year which indicates that a positive result will be achieved, past results and the current economic climate suggest that the substantial turnaround in the financial position necessary to achieve this result is unlikely.

3.8.183 Unless more decisive action is taken to address the present deficiencies, the Company's on-going operations will become increasingly dependent on the financial support of the University and its long-term survival is at risk.

Financial position

3.8.184 While the Company has maintained its level of revenue generation from ticket sales and other sources, its failure to contain costs in line with the reduction in government subsidies over recent years has contributed substantially to increasing operating deficits. This deterioration is highlighted by a number of key financial indicators such as the cash flow and liquidity position of the Company. The following audit analyses are based on financial information reported by the University and on unaudited results provided by the Company for the year ended 31 December 1990.

Annual operating results

3.8.185 Details of the operating results of the Company over the last 6 years are set out in Table 3.8J.

TABLE 3.8J. OPERATING RESULTS
(\$'000)

<i>Item</i>	1985	1986	1987	1988	1989	1990
Operating surplus/(deficit)(a)	(154)	70	23	(826)	(258)	(1 251)

(a) Including abnormal items.

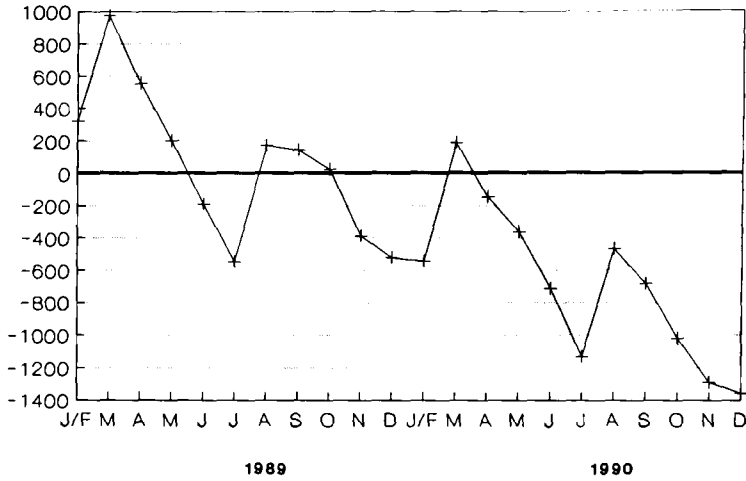
3.8.186 As a consequence of the poor financial results in recent years, an accumulated deficit in excess of \$2 million was recorded in the accounts of the Company at 31 December 1990.

Cash flow position

3.8.187 The University acts as banker for the Company and all receipts and payments are processed centrally through the University's general ledger. The Company receives or is charged interest on the balance of the ledger account which reflects its portion of the University's overall cash position.

3.8.188 Chart 3.8K illustrates the Company's increasing dependence on the overdraft facility provided by the University during 1989 and 1990 as a means of financing its day-to-day operations. The Chart highlights that at 31 December 1990 the overdraft level had increased to almost \$1.4 million.

CHART 3.8K. CASH POSITION
(\$'000)



3.8.189 The deterioration in the Company's cash flow position during 1990 has essentially been **due to a fall in box office receipts and an increase in production and marketing expenditure.**

Liquidity position

3.8.190 An organisation's short-term financial strength depends on its ability to meet debts as they fall due. Financial resources represented by current assets are commonly known as working capital and the excess of current assets over current liabilities is known as net working capital. The safety of an organisation's short-term financial position is therefore often interpreted as varying directly with the size of net working capital, or may be measured by the organisation's current ratio (current assets as a proportion of current liabilities).

3.8.191 Based on these measurements of liquidity, Table 3.8L highlights the downward trend in the financial position of the Company over recent years. The Table indicates that **liabilities falling due within the next 12 months exceed assets currently available to meet these liabilities.**

TABLE 3.8L. LIQUIDITY POSITION

Item		1987	1988	1989	1990
Excess of current liabilities over current assets (negative working capital) (\$'000)		(516)	(1 077)	(1 283)	(2 151)
Current ratio	(per cent)	47	38	30	32

3.8.192 An analysis of the financial position of the major State theatre companies in Australia identified that the current position of the Company is not generally reflected throughout the industry. Details of the net working capital and current ratios of the companies analysed, are set out in Table 3.8M. These comparisons are based on information reported by the companies for the year ended 31 December 1989, with the exception of South Australia which is based on the year ended 30 June 1990.

TABLE 3.8M. STATE THEATRE COMPANIES,
LIQUIDITY POSITION

Theatre company	Net working capital	Current ratio
	(\$'000)	(per cent)
Melbourne	(1 283)	30
Sydney	(165)	94
Queensland	408	138
South Australia	452	146
Western Australia	70	119

Management response

The timeframes selected for analysis vary. Selection of an average year, a longer timeframe and a consistent base point would certainly have led to different conclusions. The volatility in the financial performance of the Company, even when it enjoyed major subsidy and operated in an expanding economy, could be demonstrated.

The comparison with the financial performance of other theatre companies is unhelpful. Only one of the companies selected, Sydney, has a comparable distribution of sources of revenue to that of the Melbourne Theatre Company and it also is in deficit. The other 3 companies selected derive from 60 to 75 per cent of their income from government grants. The Melbourne Theatre Company would not be in deficit if that situation applied to it.

Aims and objectives

3.8.193 University legislation establishes the MTC Board and sets out broad objectives of the Company. Although these objectives have not been formally reviewed since their establishment in 1961, University management consider they are still appropriate. The University regards the Company as a semi-autonomous entity, responsible for the management of its own operations, and hence generally does not impose objectives or aims for the Company outside those stated in the legislation.

3.8.194 With respect to the role which the Company plays in aiding the University as a provider of higher education, discussions indicated that there exists an explicit directive from the University to the MTC Board that there be an educational aspect to the Company's operations. The Vice-Chancellor of the University (also Chairman of the MTC Board) has indicated that the University is not interested in supporting a commercially-oriented theatre but that the emphasis of the repertoire of the Company should be on cultural and educational productions.

3.8.195 Although specific financial objectives have not been formally set by the University for the operations of the Company, discussions with senior management of the University indicated that the current target is to develop a plan to enable the Company to break-even financially in the future.

3.8.196 With the exception of the approval of an annual budget prepared around September each year, the MTC Board does not prescribe specific financial objectives or targets for the Company on an annual or long-term basis.

3.8.197 In audit opinion the current framework for the operations of the Company is inadequate in that:

- ▶ the stated objectives of the Company are very broad and therefore open to interpretation;
- ▶ overall objectives are not supported by short or long-term specific financial and artistic aims and targets; and
- ▶ performance measures have not been established to assist in monitoring the Company's achievements.

Management response

Revision of legislation is unnecessary if, as we would prefer, the Board interprets the legislation on behalf of Council and plans accordingly.

The concept of a corporate plan is another name for the end product of the work put in hand by the Board in 1990, before the audit commenced. This work, the initial draft options which have been discussed at Board level, has not been acknowledged by audit.

Financial management

Accountability relationships

3.8.198 The University Council established an MTC Board through legislation which gives the Board the power to control the Company and take any action necessary to achieve its objectives, subject to specific direction of the University Council.

3.8.199 In June 1989, the University indicated that the responsibilities of MTC Board members were to:

- ▶ develop a long-term plan for the Company including any specific goals;
- ▶ ensure the Company has the resources of money, management, markets, people and materials to carry out those plans; and
- ▶ monitor progress and efficiency in achieving these plans so as to ensure a continuation of financial viability.

3.8.200 The University Council, in essence, expects the Company to operate without financial impact upon the University.

3.8.201 While the Company has been established as a semi-autonomous body and has been granted freedom to manage its own operations, the status of the Company remains as a department of the University and, as such, **the MTC Board is directly responsible and accountable to the University Council.**

3.8.202 In accordance with the conditions of grants received by the Company from the Australia Council and the Ministry for the Arts, certified financial statements are to be provided to these bodies for the 6 months ended 30 June and 31 December each year.

3.8.203 In addition, the Ministry for the Arts has recently nominated the provision of monthly statements of income and expenditure as a special condition of the annual operating grant. The Ministry also requested that during 1991 the Company keep the Ministry informed of developments aimed at improving the company's short and long-term viability.

Internal reporting and monitoring

3.8.204 The MTC Board meets every 2 months and part of its regular reporting includes detailed monthly financial reports. Further, the Board receives major reports in respect of mid year and year end financial results.

3.8.205 The University Finance Committee and the MTC Board approve the annual budget of the Company in November each year. In essence, this budget represents the Company's financial plan for the subsequent year.

3.8.206 Audit found that the extent and nature of information presented to the MTC Board was generally adequate for members to undertake their monitoring responsibilities. However, **it was apparent that in many cases insufficient action was taken by the Board to question or address the financial problems evident in the reports presented. Audit is of the view that the limited financial expertise available within the Board has hindered the financial monitoring process.**

3.8.207 Although the MTC Board has recently attempted to address the financial position by increasing ticket prices, undertaking a special fundraising appeal and offering voluntary redundancy to several staff members, the financial position of the Company has continued to deteriorate. **The absence of more decisive action has lessened the likelihood of the Company eliminating its accumulated deficit.**

3.8.208 It is also considered that the University Finance Committee has not questioned sufficiently the over expenditure and shortfall in revenue experienced by the Company over a number of years. As disclosed in Table 3.8N, operating results for the past 5 years have varied significantly from annual targets approved by the University.

TABLE 3.8N. FINANCIAL RESULTS/BUDGET
(\$'000)

	Budgeted result	Actual result
1986	Break-even	70
1987	Break-even	23
1988	Break-even	(826)
1989	235	(258)
1990	329	(1 251)

Management response

The MTC Board accepts the need for further action to address the problems of the accumulated deficit and the operating deficits. Action taken in 1988-89, while improving the operating position of 1989 over that of 1988 by some \$660 000, was not successful in continuing that trend in 1990 when a further major loss of patrons occurred. The decisions taken by the Board once this trend became clear in mid-1990, were of 2 kinds: short-term action to produce a reduction in infrastructure costs in 1991, and medium to long-term action to review the whole basis of the company's operations. Neither of these actions were expected to assist the position to the end of 1990, the audit review period. These facts contrast sharply with some of the conclusions which allege inactivity and lack of concern.

Considerable work has been done involving the use of the Russell Street Theatre site, either for redevelopment or as a capital contribution, to secure another theatre. Should current proposals fail to materialise, the present situation will be reviewed. However, resolution of these matters is not urgent in view of the value of the site, and the present depressed market for property in the area.

The role of the University Finance Committee is "... to advise Council on the overall organisation of the University's financial and business affairs ...". The University is more than solvent. The problem of the Melbourne Theatre Company, while of serious concern to the University, is not threatening the University's viability. To imply that it is and, accordingly, that the Finance Committee is deficient in its duty, is not valid with the book value of Melbourne Theatre Company assets at some \$9 million.

Further, under delegation, the Finance Committee is charged to "approve, on behalf of Council, the budgets and general financial matters relating to self-governing instrumentalities ...". This the Committee has done. The assertion of its lack of assiduity rests on the perspective of the timeframe involved on which we disagree fundamentally and of not being aware of the oral briefings which the Committee has had on the problems being faced.

Budgeting and forecasting

3.8.209 The budget setting and monitoring processes adopted by the Company were found to be deficient in the following areas:

- ▶ Revenue budgets, particularly box office and cash flows, were overly optimistic. This factor has contributed to the marked discrepancies between budget and actual results;

- ▶ The underlying assumption in developing the budget has been that output will be maintained at the same level without due consideration to the financial results of the previous year or anticipated demand for the Company's productions;
- ▶ The Company has adopted a form of flexible budgeting whereby each monthly performance report contains a revised forecast for the year. The effect of this practice has been to diminish the authority of the approved budget; and
- ▶ The revenue budget is usually developed and approved by the University before government grant funding has been advised.

3.8.210 Given that the annual budget represents the major form of financial planning and target setting by management, **the entire budgeting process and monitoring of performance against budget needs to be assigned a greater significance and vigilance.**

Management response

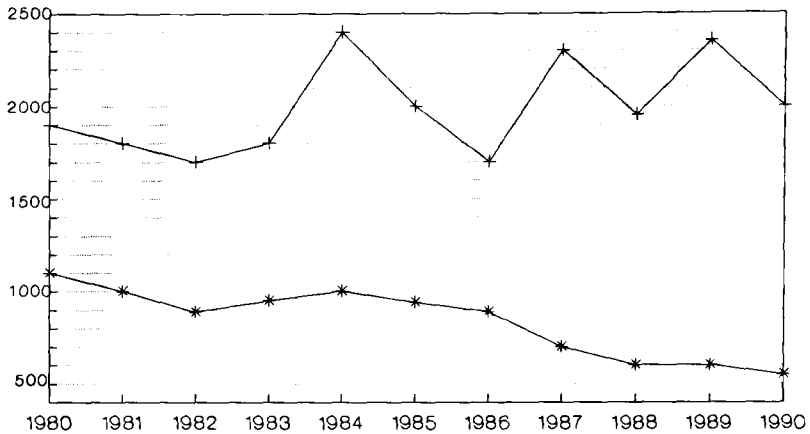
It is agreed that, if possible, the forecasting used by the Company requires improvement. It must be realistic in the light of the demonstrated underlying financial situation of the Company and the economic downturn in the State and nation.

Sources of revenue

3.8.211 Figures provided to audit by the Company show that in 1980 government grants comprised around 35 per cent of total revenue received by the MTC while in 1990 funding from this source had fallen to 16 per cent. The major decline has been from Commonwealth sources with grants from the Australia Council reducing from \$898 000 in 1984 to \$402 000 in 1989.

3.8.212 As indicated in Chart 3.80 the decline in government subsidy has forced the Company to place greater reliance on box office receipts. The Chart illustrates trends in revenue from both sources prepared on the basis of information provided by the Company.

**CHART 3.80. SOURCES OF REVENUE (CONSTANT 1980 PRICES)
(\$'000)**



+ Box office revenue
* Government grants

Source: Melbourne Theatre Company.

3.8.213 Attendance data indicates that box office sales have varied considerably in recent years. For example, over the last 10 years attendances have fluctuated between 260 000 and 370 000. The Company has attempted to compensate for the decline in government subsidy and decreases in box office attendance by increasing average ticket prices in excess of inflation. However, the Company considers that in the current market further price increases may compound the detrimental impact on attendances resulting from the downturn in the economy.

Production levels

3.8.214 As indicated in Table 3.8P, the various State theatre companies vary in terms of the level of revenue generated and the number of productions staged per year, with the Melbourne Theatre Company presenting the highest number of productions to the largest audience.

TABLE 3.8P. STATE THEATRE COMPANIES, OUTPUT PROFILE

<i>Theatre company</i>	<i>Number of productions</i>	<i>Number of performances</i>	<i>Total paid attendance</i>	<i>Percentage of available tickets sold</i>
Melbourne	19	692	294 399	77
Sydney	10	552	183 830	80
South Australia	11	238	92 130	76
Queensland	7	216	69 460	(a)
Western Australia	9	225	38 657	(a)

(a) Not available.

3.8.215 At the commencement of the first season in 1990, the Company prepared a production budget for each of its plays to be run at the Playhouse and Russell Street Theatres. The difference between revenue and expenditure for each performance was equated to the call on government subsidy.

3.8.216 Actual production results indicated that the call on subsidy for a number of productions was greater than expected to a point where these productions recorded a loss after subsidy. Table 3.8Q, prepared by the Company for productions in early 1990, highlights the variance between actual and anticipated outcomes for a number of productions.

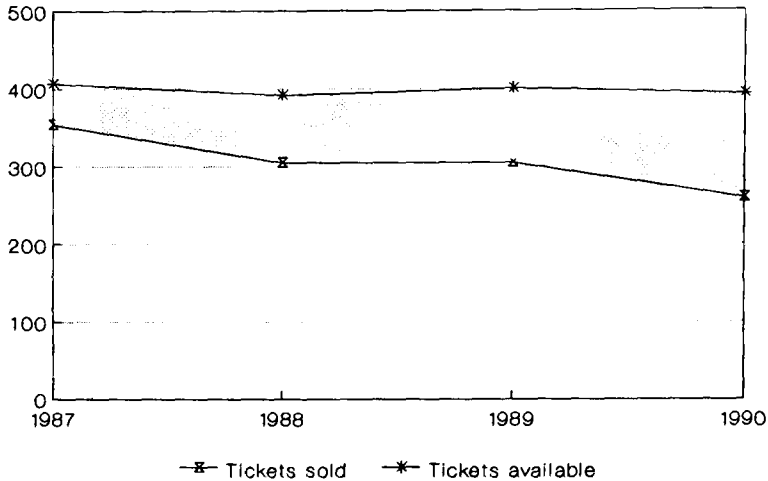
TABLE 3.8Q. ACTUAL/BUDGET SUBSIDY PER SEAT

<i>Production</i>	<i>Number of seats sold</i>	<i>Surplus (Subsidy) per seat</i>	
		<i>Actual</i>	<i>Budget</i>
		<i>(\$)</i>	<i>(\$)</i>
Playhouse Theatre -			
Play A	24 171	1.96	1.52
Play B	19 724	(8.33)	(1.98)
Russell Street Theatre -			
Play C	6 796	(7.65)	(12.05)
Play D	12 332	(8.23)	(3.44)

3.8.217 To achieve a breakeven result for the year, the subsidy from government would need to have been increased on average by an additional \$4 per ticket sold.

3.8.218 The major factor contributing to the increased call on subsidy has been a decrease in the demand for tickets while the level of output has been sustained at a relatively constant level. The resultant excess of supply over demand is highlighted in Chart 3.8R.

CHART 3.8R. EXCESS PRODUCTION 1987-1990
NO. OF TICKETS
 ('000)



3.8.219 In June 1990 the MTC Board approved a recommendation that an assessment be undertaken of restructuring options available to the Company including a reduction in output. Subsequently, a number of options were presented to the Board in August 1990 and a decision was made to undertake further investigation into a reduction in the number of productions from 18 to around 13.

3.8.220 A decision is expected to be made in April 1991 on the number of productions to be presented in the second half of the year and any further actions which may need to be taken.

3.8.221 In audit opinion the MTC Board has taken too long to question the extent to which the level of output has contributed to the Company's poor financial results in recent years. The Company's increased reliance on box office revenue and the difficulties experienced in selling greater numbers of tickets suggests that the only viable option available is to significantly reduce expenditure through decreased production.

3.8.222 Audit analysis of costs revealed that, with the exception of artists' salaries, the major portion of the Company's payroll represents permanent staff costs. This, together with the fact that productions are run back-to-back or simultaneously in 2 theatres, gives management very little flexibility to rapidly reduce output in line with demand or to extend plays which are running successfully.

Management response

Since 1980, when the reductions in government funding really commenced, the Company has concentrated its efforts on revenue raising by a range of means but principally fundraising. It has remained true to its charter in relation to the quality and dimension of its programs. The expenditure element of the budget and both the size and composition of the program will be addressed with the financial elements in a more cohesive way in the future.

Flexibility is not possible, in the short run, to change direction, cut costs, run successful plays longer, terminate unsuccessful plays, extend the season of one or more principal actors at short notice and dismiss staff at no cost. Flexibility is simply not available to an organisation now largely dependent on a revenue base derived from subscription ticket sales of forward advertised seasons, and which must comply with normal community standards of industrial practice.

It is agreed that the outcome of individual productions needs to be measured and evaluated by the Board as part of its responsibilities in monitoring performance of the Company through the present difficult period.

Marketing

3.8.223 Payments made by the Company in 1990 relating to advertising and promotion amounted to around \$1.1 million, including salary costs associated with the employment of a number of in-house marketing staff. Direct advertising and publicity is conducted through a variety of mediums including newspaper and electronic media, outdoor and indoor signage, direct mailing and promotions. Audit has a number of concerns regarding the marketing activities of the Company, namely:

- ▶ A formal strategy has not been developed for advertising and promotion activities;
- ▶ Management has not set performance indicators to assist in monitoring the effectiveness of particular marketing or promotional activities. However, an audit analysis of marketing costs per ticket sold indicated that strategies in recent years have become less effective;
- ▶ An analysis of the costs of maintaining in-house promotional staff compared with the use of external expertise has not been undertaken; and
- ▶ The Company does not have a current knowledge of the basic demographics of its audience. The most recent quantitative research conducted of audiences covers attitudes of patrons in 1985-86.

Management response

Efforts were already underway to get a better understanding of our clients at the time of the audit survey.

LOSSES, THEFTS AND OTHER IRREGULARITIES

3.8.224 Particulars of losses and thefts of equipment and funds and other irregularities, including management deficiencies which occurred in 1990 and prior years, and which were notified to my Office by entities within the Education and Training portfolio, are summarised in Table 3.8S.

TABLE 3.8S
LOSSES, THEFTS AND OTHER IRREGULARITIES
WITHIN THE EDUCATION AND TRAINING PORTFOLIO, REPORTED
JAN. 1990 TO FEB. 1991

<i>Item</i>	<i>Amount</i>
	(\$)
Ministry of Education and Training	
Losses and thefts -	
▪ Equipment	78 627
▪ Funds	17 148
Other irregularities -	
▪ Management deficiencies	366 161
Universities	
Losses and thefts -	
▪ Equipment	156 074
▪ Funds	100 914
Colleges of Advanced Education	
Losses and thefts -	
▪ Equipment	379 446
▪ Funds	20 181
Other irregularities -	
▪ Property damage	68 099
TAFE Colleges	
Losses and thefts -	
▪ Equipment	109 059
▪ Funds	287
Other irregularities -	
▪ Property damage	199 271
Total reported losses, thefts and other irregularities	1 495 267

3.8.225 Losses and thefts of funds and management deficiencies reported to the Office included:

- ▶ An internal review into the operations of the University of Melbourne's Gryphon Gallery disclosed that a former employee had committed the University to financially supporting a commercial exhibition held in the City Square in 1990, through an association with the exhibition organisers. This commitment was made without the knowledge or approval of the University.

A number of financial irregularities were disclosed by this internal review, including:

- University purchase orders had been irregularly used to obtain sales tax exemption. The University has also become liable for payment to suppliers for certain materials associated with the exhibition;

- Payments to suppliers were made through the University's accounting and banking system on behalf of the exhibition organisers. Liabilities in excess of \$100 000 (and possibly up to \$200 000) were incurred in the University's name without authority.
- Payments appear to have been made in respect of items of a personal nature.

The employee has been dismissed and legal action is being taken to recover amounts outstanding from the organisation concerned.

This matter is also under investigation by the Victoria Police Fraud Squad.

- ▶ The Ministry of Education and Training advised the Auditor-General in January 1991 of 2 major irregularities in secondary schools involving mismanagement of funds of approximately \$238 000. Both instances occurred over a number of years with one instance extending back as far as 1984. At the time the irregularities were detected the Ministry's audits of these 2 schools were substantially in arrears being respectively 2 and 5 years overdue.

As a result of the irregularities the Ministry was required to provide substantial additional funds to assist the school councils to meet their commitments. The Ministry has investigated the circumstances of each instance and has indicated that there is no evidence of fraud. However the investigations did highlight management incompetence and a failure of each Council to obtain reliable financial information and adequately oversee the financial operations of their respective Colleges.

It is of concern that when both instances become known, the Ministry's audits of these 2 schools were in arrears by 5 years and 2 years respectively.

- ▶ The Ministry also advised that arising from a dispute on the financial status of a construction project for the St Helena Secondary College during 1987-88, the Ministry instructed the College Council to retain unexpended funds totalling \$408 000 in trust until the matter was resolved.

In respect of this instance the Ministry advised my Office that:

"The Ministry's investigation -

- (a) *Established that payments had been misallocated between the two separate components (i.e. (i) warranted cost of construction, and (ii) project manager fees) of the construction contract;*
- (b) *Disclosed that Ministry officers had altered claims for payment made by College officers resulting in payments for higher than expected amounts to the College. The surplus funds were held by the College in an investment account;*
- (c) *Disclosed that four payments totalling \$171 497 had been duplicated;*

(d) Stopped a further potential duplicate payment for \$20 446 from being made.

"The Ministry review resulted in agreement between the College, the contractor and the Ministry on the reallocation of payments between the 2 components of the construction contract. The Ministry also gave approval for expenditure on the project from the trust account. The College was instructed to repay the \$119 676.41 balance of funds to the Ministry.

"On 21 June 1990 the Ministry received a refund of \$119 676.18.

"Enquiries are continuing on the actions of officers involved in altering claims for payment and whether there were any more duplicated payments."

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>
— MATTERS RESOLVED —		
Ministry of Education and Training		
<i>Ministerial Portfolios, May 1989, p.308</i> <i>Ministerial Portfolios, May 1990, pp. 140</i>	The Ministry is currently developing a disaster recovery plan for computerised payroll systems.	A disaster recovery plan has been developed, the necessary computer hardware associated with the plan has been purchased and implementation of the plan was finalised in December 1990.
State Training Board		
<i>Ministerial Portfolios, May 1989, pp.88-9</i> <i>Ministerial Portfolios, May 1990, pp.134</i>	Failure by the Board to provide on a timely basis the required audit certifications resulted in Commonwealth funds being withheld from the State. Investment interest of approximately \$2.5 million was forgone.	The Board complied with the Commonwealth government legislative reporting deadline and funding was not withheld from the State.
Post-secondary education institutions - common issues		
<i>Second Report, 1986-87, pp.69-70</i>	In the administration of the Outside Studies Program: <ul style="list-style-type: none"> • there is a need for more effective arrangements for the exchange of Program information between universities; and • full costs of the Program should be disclosed in the universities' financial statements. 	<p>Informal information exchanges occur between university academics.</p> <p>Introduction of the <i>Annual Reporting Act 1983</i>, now requires greater disclosure of the financial results and operations of bodies within the education sector.</p>
Preston College of TAFE		
<i>Second Report, 1986-87, pp.76-7</i> <i>Ministerial Portfolios, May 1990, pp.129-31</i> <i>Ministerial Portfolios, May 1990, pp.129-131</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. The audit of Preston College of TAFE's 1987 and 1988 financial statements revealed improvement in the College's financial performance.
	Excessive termination payment to former Business Manager.	The Ministry considers the payment to be within the jurisdiction of the College Council.

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>
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— MATTERS RESOLVED - *continued* —

Preston College of TAFE - *continued*

Investigation by Preston CIB of certain expenditure incurred on behalf of the College by the former Business Manager.	The Ministry has formally advised audit that the Victorian Police have reported to the Ministry that "although there appears to have been instances of mismanagement and abuse of the entertainment fund, no fraudulent activities or misappropriation have been disclosed".
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Victorian College of the Arts

<p><i>Ministerial Portfolios, May 1989, pp.78-9</i> <i>Ministerial Portfolios, May 1990, p.142</i></p>	<p>Serious financial management problems had been experienced at the College.</p>	<p>Financial result for 1989 represents a significant improvement over prior years.</p>
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— ACTION COMMENCED —

Ministry of Education and Training

<p><i>Ministerial Portfolios, May 1990, pp.100-104</i></p>	<p>Several deficiencies in the financial operations of the Victorian Schools' Nursery noted by audit including:</p> <ul style="list-style-type: none"> ▪ need to provide regular financial information based on commercial accounting principles and to clear the backlog of unaudited financial statements; ▪ the financial viability of the Landscape Division was seriously questioned; ▪ level of outstanding debtors for landscaping services excessive and adversely affecting the VSN's cash flow; and 	<p>Backlog of unaudited accounts has been cleared and some improvement in quality of financial reporting.</p> <p>Financial viability of the Landscape Division currently being reviewed by senior Ministry management.</p> <p>Landscape Division debtors at 31 December 1990 have decreased over past 12 months but are still considered excessive.</p>
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Schedule A. Status of matters raised in previous Reports - *continued*

Report	Subject	Status at date of preparation of this Report
— ACTION COMMENCED - <i>continued</i> —		
<i>Ministerial Portfolios, May 1990, pp.98-9</i>	Systems deficiencies with the emergency teacher payment function resulted in overpayment to emergency teachers between 1984 and 1989 of an estimated \$3.5 million to \$7 million remaining undetected.	Procedures employed for stock control in the Nursery Division are being reviewed.
<i>Ministerial Portfolios, May 1989, pp.75-6</i> <i>Ministerial Portfolios, May 1990, pp.106-7</i>	Budget overruns in the School Education Program due to additional teacher salary costs arising from greater than predicted enrolments, salary costs of school cleaners and emergency teachers in excess of budget and deferral in anticipated productivity gains.	Marked improvement on the previous two years, however salary costs of school cleaners and emergency teachers exceeded budget by \$9.5 million and \$3.5 million respectively. These overruns were offset by general salary savings within the program.
<i>Ministerial Portfolios, May 1989, pp.74-5</i> <i>Ministerial Portfolios, May 1990, pp.140</i>	In view of the increasing number of misappropriations from schools, the Ministry needs to give guidance to regional management, school councils and principals to assist in the development and implementation of effective management control procedures for management of resources within schools.	Despite steps taken by Ministry, audit was advised of further instances of misappropriations and irregularities. (refer to paragraphs 3.8.224 to 3.8.225 of this Report).
<i>Second Report, 1984-85, pp.53-4</i> <i>Second Report, 1985-86, p.98</i> <i>Ministerial Portfolios, May 1989, pp.93</i> <i>Ministerial Portfolios, May 1990, pp.104-5</i>	The incidence and control of salary overpayments requires attention.	Salary overpayments outstanding at 30 June 1990 totalled \$4.7 million (30 June 1989, \$4.2 million). Ministry initiatives taken in late 1990 have resulted in a decrease in salary overpayments outstanding. As at 31 December 1990 salary overpayments totalled \$3.8 million.

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>
— ACTION COMMENCED - continued —		
<p><i>Second Report, 1985-86, pp.95-6</i> <i>Second Report, 1986-87, pp.93</i> <i>Ministerial Portfolios, May 1989, pp.93</i> <i>Ministerial Portfolios, May 1990, pp.140</i></p>	<p>Action required to finalise establishment of a computer-based property information system.</p>	<p>The Ministry has finalised design work and purchased the necessary computer equipment for a new property information system. Data validation for the establishment of a database and finalisation of application systems design is being completed. The target date for completion of the project is June 1991.</p>
<p><i>Second Report, 1982-83, pp.48-9</i> <i>Third Report, 1983-84, p.25</i> <i>Second Report, 1986-87, pp.67-8</i> <i>Ministerial Portfolios, May 1989, pp.72-4</i> <i>Ministerial Portfolios, May 1990, pp.108-9</i></p>	<p>A substantial number of State primary school councils were not meeting their legislative requirements to have accounts audited.</p>	<p>There has been considerable improvement in the timing of submission of audited accounts by primary schools.</p>
<p><i>Second Report, 1982-83, pp.48-9</i> <i>Third Report, 1983-84, p.25</i> <i>Second Report, 1986-87, pp.67-8</i> <i>Ministerial Portfolios, May 1989, pp.72-4</i> <i>Ministerial Portfolios, May 1990, pp.108-9</i></p>	<p>The level of arrears of audits of post-primary schools performed by the Ministry's internal audit personnel had increased substantially.</p>	<p>The Ministry's internal corrective program of employing accounting firms to assist Ministry auditors has resulted in a decrease in the backlog of unaudited accounts.</p>
<p>Council of Adult Education</p>		
<p><i>Ministerial Portfolios, May 1990, pp.111-120</i></p>	<p>Deficiencies existed in the overall financial management at the Council.</p>	<p>The Council's financial results for 1989-90 disclosed a further deterioration in its overall financial position and highlighted potential problems for its future operations. For further comments refer to paragraphs 3.8.143 to 3.8.161 of this Report.</p>

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

Report	Subject	Status at date of preparation of this Report
— ACTION COMMENCED - <i>continued</i> —		
Education sector - common issues		
<i>Second Report</i> 1986-87, pp.69-70	Shortcomings exist in the overall management control framework for outside earnings of academic staff within the 3 universities reviewed by audit.	All universities have implemented independent control mechanisms to ensure the recording and monitoring of approvals for outside earnings by staff and provide for a limitation on the time available to undertake outside earnings. A review over the adequacy of controls will be undertaken in future audits.
Education sector - common issues		
<i>Second Report</i> , 1986-87, pp.58-66 <i>Ministerial Portfolios</i> , May 1989, pp.90-2 <i>Ministerial Portfolios</i> , May 1990, pp.110-1	Potential exists for achieving annual savings of up to \$51.5 million from adoption of contract cleaning throughout the State's education system. Certain educational bodies have concentrated on achieving greater efficiency for cleaning services within existing framework.	While the Ministry has advised that the estimated savings are unattainable, action is being taken to reduce cleaning costs. For further comments, refer to paragraphs 3.8.64 to 3.8.76 of this Report.
<i>Ministerial Portfolios</i> , May 1989, pp.88 <i>Ministerial Portfolios</i> , May 1990, pp.135	Serious deficit position were encountered in several Technical and Further Education colleges. At 31 December 1987, 20 colleges had recurrent funding deficits totalling \$10.2 million; this increased to \$10.8 million at 31 December 1988.	Due to the designation of Post-Secondary Institutions under the <i>Annual Reporting Act</i> 1983 the colleges now report on an accrual basis and not a fund basis. As a consequence audit is no longer able to comment on recurrent funding deficits, however, 20 colleges reported accumulated deficits totalling \$42 million at 31 December 1989.
<i>Second Report</i> 1985-86, p.99 <i>Ministerial Portfolio</i> , May 1990, pp.136	Designation of Institutions under the <i>Annual Reporting Act</i> 1983 for the 1989 financial year is a significant step towards improved financial accountability. However, a greater commitment is required by the Institutions to the proper planning and timely presentation of financial statements.	Presentation to Parliament of 1989 financial statements was not achieved in accordance with the legislative deadline despite an extension being granted to 31 May 1990. Reasons for delays include:

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

Report	Subject	Status at date of preparation of this Report
— ACTION COMMENCED - <i>continued</i> —		
<i>Ministerial Portfolio</i> , May 1990, pp.137	Ineffective asset management practices.	<ul style="list-style-type: none"> • lack of accounting knowledge and expertise; • poor asset recording in colleges; and • a lack of commitment and proper planning in a number of institutions. <p>The majority of Institutions elected, in accordance with the regulations under the <i>Annual Reporting Act</i> 1983, not to disclose non-current assets purchased prior to 1989 in their financial statements. Of those Institutions that elected to include non-current assets a number failed to depreciate these assets.</p> <p>Audit noted some colleges were not in a position to disclose 1989 purchases of assets due to inadequate asset recording systems.</p>
La Trobe University		
<i>Ministerial Portfolio</i> , May 1990, pp.121-6	A review undertaken during mid 1989 on certain aspects of the provision of accommodation for Health Sciences at La Trobe University found:	<ul style="list-style-type: none"> • The immediate use of Commonwealth funding totalling \$7 million was deferred due to a change in Government policy which required the University to abandon its plans for accommodating Health Sciences at Bundoora. • Contrary to section 16 of the <i>Education Act</i> 1958, University land at Abbotsford has been occupied rent free since 1979. <p>Construction of the first stage of a new complex at Bundoora Campus is due for completion in July 1991.</p> <p>Action has been taken to transfer ownership of the land at Abbotsford from the Minister for Education to the Crown to enable the land to be legally occupied at a pepper corn rental. However, compensation to the University has not occurred.</p>

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

Report	Subject	Status at date of preparation of this Report
—— ACTION COMMENCED - <i>continued</i> ——		
<i>Ministerial Portfolio</i> , May 1990, pp.127	Control weakness were noted during an audit review of the University's major EDP systems.	The University is developing strategies to resolve the control weaknesses identified.
Royal Melbourne Institute of Technology		
<i>Ministerial Portfolios</i> , May 1990, pp.131	<p>The Institute had not implemented a number of procedures which are required under the academic staff agreement. Namely:</p> <ul style="list-style-type: none"> ▪ staff assessment and professional development. ▪ identifying unsatisfactory performance; and ▪ addressing the issue of permanency of employment. 	Position not yet resolved. The Institute has taken some steps necessary to implement the academic staff agreement but further action is required.
	While agreed contact hours were achieved in total, some individual TAFE teachers had not reached the agreed level.	The Institute is continuing action to ensure all teachers achieve the required contact hours.
	Introduction of performance plans to increase the productivity of all staff was required.	Performance improvement plans have been implemented for all faculties and academic support groups.
—— NO ACTION TAKEN ——		
Ministry of Education		
<i>Second Report</i> , 1984-85, p.49	Payment of grants and allowances to schools on a monthly basis should be evaluated to ensure interest earnings of the State are maximised.	Based on the recommendation of a joint working party involving the Ministry and the Department of the Treasury, the Ministry has decided to continue the current quarterly payment arrangements.
La Trobe University		
<i>Ministerial Portfolio</i> , May 1990, pp.121-6	VPSEC is holding \$2 million in trust on behalf of the University since 1985 due to the non-development of the Abbotsford Campus.	Position unchanged. Monies are still held in trust.

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>
<p>— NO ACTION TAKEN - <i>continued</i> —</p>		
	<p>A 1989 review on aspects of the provision of accommodation for Health Sciences found that the State's interest in a Slater Street property had not been fully protected with the removal of a caveat on the property's title.</p>	<p>Action is being considered by VPSEC.</p>
<p>La Trobe University</p>		
<p><i>Ministerial Portfolio</i>, May 1990, pp.128</p>	<p>The University's procedures did not ensure all overseas travel arrangements were appropriately documented, justified and in accordance with the spirit of Government policy.</p>	<p>Position unchanged. The University has taken the view that government policy for overseas travel is inappropriate for universities.</p>
<p>Royal Melbourne Institute of Technology Limited</p>		
<p><i>Ministerial Portfolios</i>, May 1989, pp.80-6</p>	<p>Disturbing financial circumstances of 2 subsidiary companies of RMIT Limited. Both companies incurred significant operating losses and had sizeable levels of indebtedness to the Institute.</p>	<p>Citytech Pty Ltd, the Institute's subsidiary had accumulated losses of \$7.4 million at 31 December 1989 which rose to \$9.2 million at 31 December 1990. The subsidiary's indebtedness to the Institute rose from \$18.9 to \$20.4 million at 31 December 1990. The Institute is currently considering winding up the company and assuming its assets and liabilities.</p> <p>Operating profit of Technisearch Ltd, the Institute's other subsidiary, fell from \$449 500 in 1989 to \$115 000 in 1990. Indebtedness to the Institute totalled \$1.5 million at 31 December 1990.</p>

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>
Completed audits				
Ministry of Education	30 June 1990	31 October. <i>Annual Reporting Act 1983, s.8.</i>	31 October 1990	8 November 1990 (a)
Colin Badger Trust	30 June 1988	No reporting requirements. Audit conducted at request of the Treasurer.	13 September 1990	19 September 1990
Colin Badger Trust	30 June 1989	" "	14 September 1990	19 September 1990
Colin Badger Trust	30 June 1990	" "	28 September 1990	28 September 1990
Council of Adult Education	30 June 1988	30 September. <i>Council of Adult Education Act 1981, s.19.</i>	9 May 1990	11 May 1990
Council of Adult Education	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.9</i>	17 September 1990	26 September 1990
Council of Adult Education	30 June 1990	" "	28 September 1990	28 September 1990
Institute of Educational Administration	30 June 1990	" "	7 September 1990	28 September 1990
State Training Board	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.9</i>	8 November 1990	16 November 1990
State Training Board	30 June 1990	" "	12 December 1990	4 January 1991
Victorian Curriculum and Assessment Board	30 June 1990	" "	11 September 1990	28 September 1990
Victorian Post-Secondary Education Commission	30 June 1990	" "	17 October 1990	19 October 1990
Victorian Tertiary Admissions Centre	30 June 1990	No reporting requirements. Audit conducted at request of Treasurer.	19 November 1990	4 January 1991

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>
Completed audits - <i>continued</i>				
Post-secondary education institutions -				
<i>Universities and associated companies</i>				
Deakin	31 December 1989	31 May. <i>Annual Reporting Act 1983, s.9.</i>	11 May 1990	15 November 1990
Circular Force Proprietary Limited	31 December 1989	No reporting requirements. Audit conducted at request of Treasurer.	11 May 1990	15 November 1990
Deakin University Foundation Limited	31 December 1989	" "	11 May 1990	15 November 1990
Durac Limited	31 December 1989	" "	11 May 1990	15 November 1990
Milake Proprietary Limited	31 December 1989	" "	11 May 1990 1990	15 November 1990
La Trobe	31 December 1989	31 May. <i>Annual Reporting Act 1983, s.9.</i>	25 May 1990	27 June 1990
La Trobe University Housing Limited	31 December 1989	No date specified. <i>La Trobe University Act 1971, s.37.</i>	22 May 1990	27 June 1990
Melbourne	31 December 1989	31 May. <i>Annual Reporting Act 1983, s.9.</i>	30 May 1990	31 May 1990
Graduate School of Management	31 December 1989	No date specified. <i>Melbourne University Act 1958, s.41.</i>	14 February 1990	25 January 1991 (a)
Melbourne Business School Limited	31 December 1989	" "	25 January 1990	19 October 1990
Unimelb Limited	31 December 1989	" "	25 January 1990	19 October 1990
<i>Colleges of advanced education</i>				
Ballarat	31 December 1989	31 May. <i>Annual Reporting Act 1983, s.9.</i>	29 May 1990 (a)	19 October 1990
Bendigo	31 December 1989	" "	11 July 1990	25 October 1990
Gippsland	31 December 1989	" "	6 July 1990	31 October 1990

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>
Completed audits - continued				
Hawthorn	31 December 1989	" "	14 November 1990	21 November 1990
Institute of Catholic Education	31 December 1989	31 May. <i>Annual Reporting Act</i> 1983, s.9.	15 August 1990	20 September 1990
Phillip	31 December 1989	" "	29 November 1990	6 December 1990
Swinburne Ltd	31 December 1989	" "	12 November 1990	13 November 1990
Victoria	31 December 1989	" "	19 June 1990	20 September 1990
Victorian College of the Arts	31 December 1989	" "	17 August 1990	10 October 1990
Victorian College of Pharmacy Ltd	31 December 1988	No reporting requirements. Audit conducted under authority of <i>Post-Secondary Education Act</i> 1978, s.27.	1 August 1990	16 November 1990
Warrnambool	31 December 1989	31 May. <i>Annual Reporting Act</i> 1983, s.9.	4 June 1990	15 February 1990
<i>Colleges of technical and further education</i>				
Batman Automotive College	31 December 1987	No reporting requirements. Audit conducted under authority of <i>Post-Secondary Education Act</i> 1978, s.27.	27 June 1990	9 November 1990 (a)
Batman Automotive College	31 December 1988	" "	28 June 1990	10 December 1990
Batman Automotive College	31 December 1989	31 May. <i>Annual Reporting Act</i> 1983, s.9.	15 November 1990	24 December 1990
Broadmeadows	31 December 1989	" "	10 October 1990	12 October 1990

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>
Completed audits - continued				
Collingwood (b)	31 December 1987	No reporting requirements. Audit conducted under authority of <i>Post-Secondary Education Act 1978, s.27.</i>	8 June 1990	26 November 1990 (a)
Collingwood (b)	31 December 1988	No reporting requirements. Audit conducted under authority of <i>Post-Secondary Education Act 1978, s.27.</i>	8 June 1990	26 November 1990 (a)
Dandenong	31 December 1989	31 May. <i>Annual Reporting Act 1983, s.9.</i>	31 January 1991	13 February 1991
East Gippsland	31 December 1989	" "	29 August 1990	22 January 1991 (a)
Flagstaff	31 December 1989	" "	28 November 1990	10 December 1990
Frankston	31 December 1988	No reporting requirements. Audit conducted under authority of <i>Post-Secondary Education Act 1978, s.27.</i>	23 March 1990	12 April 1990
Frankston	31 December 1989	31 May. <i>Annual Reporting Act 1983, s.9.</i>	12 February 1991	8 March 1991
Gordon	31 December 1989	" "	18 October 1990	8 November 1990 (a)
Holmesglen	31 December 1989	" "	16 May 1990	10 October 1990 (a)
Loddon-Campaspe	31 December 1989	" "	21 May 1990	27 November 1990
Melbourne College of Decoration	31 December 1989	" "	21 January 1991	4 February 1991
Melbourne College of Textiles	31 December 1989	" "	17 April 1990	24 December 1990 (a)
Moorabbin	31 December 1989	" "	5 April 1990	29 October 1990

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>
Newport	31 December 1989	" "	4 September 1990	26 October 1990
Northern Metropolitan	31 December 1989	" "	20 December 1990	8 January 1991
Outer Eastern	31 December 1989	" "	1 February 1991	5 February 1991
Prahran	31 December 1989	31 May. <i>Annual Reporting Act 1983, s.9.</i>	7 September 1990	5 February 1991
Richmond	31 December 1989	" "	26 July 1990	10 October 1990
School of Mines and Industries Ballarat Ltd	31 December 1989	" "	26 April 1990	19 September 1990 (a)
South West	31 December 1989	" "	10 August 1990	10 December 1990 (a)
Sunraysia	31 December 1988	No reporting requirements. Audit conducted under authority of <i>Post-Secondary Education Act 1978, s.27.</i>	9 April 1990	30 May 1990 (a)
Swinburne Ltd	31 December 1989	31 May. <i>Annual Reporting Act 1983, s.9.</i>	12 November 1990	13 November 1990
Wangaratta	31 December 1989	" "	18 December 1990	12 February 1991
William Angliss	31 December 1989	" "	31 October 1990	9 January 1991 (a)
Wimmera Community	31 December 1989	" "	29 May 1990	22 October 1990
Wodonga	31 December 1989	" "	15 October 1990	11 December 1990
Yallourn	31 December 1988	No reporting requirements. Audit conducted under authority of <i>Post-Secondary Education Act 1978, s.27.</i>	15 March 1990	18 April 1990

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>
Yallourn	31 December 1989	31 May. <i>Annual Reporting Act</i> 1983, s.9.	7 December 1990	4 February 1991
Incomplete audits				
Post-secondary education institutions -				
<i>Universities and associated companies</i>				
Monash	31 December 1989	31 May. <i>Annual Reporting Act</i> 1983, s.9.	Field work completed by Agent. Awaiting amendments to financial statements.	
Infertility Medical Centre Pty Ltd	31 December 1989	As soon as practicable after 31 March. <i>Monash University Act</i> 1958, s.41.	Final audit review currently being undertaken.	
Monash University Foundation	31 December 1989	" "	" "	
Montech Pty Ltd	31 December 1989	" "	" "	
<i>Colleges of advanced education</i>				
Chisholm	31 December 1989	31 May. <i>Annual Reporting Act</i> 1983, s.9.	Field work completed by Agent.	
Footscray	31 December 1989	" "	Agent's field work in process of being finalised.	
RMIT Ltd	31 December 1989	" "	Field work completed by Agent. Awaiting amendments to financial statements.	
Victorian College of Pharmacy Ltd	31 December 1989	" "	Agent's field work in process of being finalised.	
<i>Colleges of technical and further education</i>				
Box Hill	31 December 1989	31 May. <i>Annual Reporting Act</i> 1983, s.9.	Field work completed by Agent. Final audit review currently being undertaken.	
Footscray	31 December 1989	" "	" "	
Goulburn Valley	31 December 1989	" "	Agent's field work in process of being finalised.	
Melbourne College of Printing and Graphic Arts	31 December 1989	31 May. <i>Annual Reporting Act</i> 1983, s.9.	Field audit work in process of being finalised.	

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>
RMIT Ltd	31 December 1989		" "	
Sunraysia	31 December 1989	" "		Field audit completed. Final review currently being undertaken.
<i>Institutes of tertiary education</i>				
Victorian College of Agriculture and Horticulture	31 December 1989	" "		Field audit completed by agent. Final audit review currently being undertaken.
Western Institute	31 December 1989	" "	" "	
Wodonga Institute	31 December 1989	" "	" "	

(a) Qualified audit report issued.

(b) Preston and Collingwood Colleges were absorbed into the Northern Metropolitan College of TAFE as from September 1988.

3.9

ETHNIC, MUNICIPAL AND COMMUNITY AFFAIRS

KEY FINDING

- ▶ The completed audits of financial statements of entities within the portfolio proved satisfactory.

The Minister for Ethnic, Municipal and Community Affairs is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Ethnic, Municipal and Community Affairs *

Public bodies

City of Melbourne Superannuation Fund
Local Authorities Superannuation Board

- * By Order-in-Council dated 18 January 1991 the Ministry of Ethnic, Municipal and Community Affairs was created by the merger of the functions of the former Ethnic Affairs Commission and the former Local Government Department, and the transfer into the new Ministry of the Offices of Older Persons Planning, Rural Affairs and Youth Affairs.

The audit of the above entities proved satisfactory.

Schedule A. Status of matters raised in previous Reports

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this Report</i>
—— ACTION COMMENCED ——		
Local Government Department		
<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 to recover the balance of \$44 680 is continuing.
<i>Second Report, 1986-87, p.112</i>	No consolidated financial reporting to Parliament of municipal councils' operations.	The Department's <i>1989-90 Annual Report</i> only provided details of performance indicators relating to each Victorian municipality. The Department advised that its <i>1990-91 Annual Report</i> will include details relating to both performance indicators and revenue and expenditure of each municipality.

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>
Completed audits				
Ethnic Affairs Commission	30 June 1990	31 October. <i>Annual Reporting Act 1983, s.8.</i>	29 October 1990	31 October 1990
Local Government Department	30 June 1990	31 October. <i>Annual Reporting Act 1983, s.8.</i>	18 October 1990	25 October 1990
Local Authorities Superannuation Board	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension of time to 30 November 1990.	29 October 1990	26 November 1990
Incomplete audits				
City of Melbourne Superannuation Fund	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension of time to 1 March 1991.	28 February 1991	Audit still in progress.

FINANCE

KEY FINDINGS

- ▶ Accumulated losses of the Government Printing and Publishing Services totalled \$7.2 million at 30 June 1990.
Paras 3.10.10 to 3.10.16
- ▶ Capital contributions from government of around \$10 million are required for vital upgrading of the Government Printing and Publishing Services' equipment and premises.
Paras 3.10.17 to 3.10.22
- ▶ A turnaround in the Government Printing and Publishing Services' performance is totally dependent upon the success of its 4 separate business units.
Paras 3.10.27 to 3.10.30
- ▶ The Government Employee Housing Authority acquired 460 houses in excess of its needs from an inner budget agency which benefited the cash position of the Consolidated Fund.
Paras 3.10.60 to 3.10.71
- ▶ The Authority's review and advisory activities on public sector-wide employee housing have been limited.
Paras 3.10.94 to 3.10.104

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

Departments

Ministry of Finance
State Electoral Office

Public bodies

Government Employee Housing Authority
Surveyors Board

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

MINISTRY OF FINANCE**Government Printing and Publishing Services**

3.10.1 The Auditor-General's Second Report for the year 1986-87, commented on a major review program undertaken by the former Department of Property and Services aimed at establishing the optimum role and direction for the Government's Printing and Publishing Services (formerly known as the Victorian Government Printing Office).

3.10.2 The Report commented that, as part of this program, a firm of management consultants had been engaged to carry out an extensive review of the Office's current position and procedures, to identify options for its future role and to develop a business plan for the approved option.

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

- ▶ significant deficiencies in pricing, costing and inventory systems; and
- ▶ inadequate use of printing equipment.

3.10.4 Following that review, the Government determined that it would continue to provide printing and publishing services to Parliament. In addition, services to other government agencies would be provided on a commercially competitive basis.

3.10.5 The impetus for this change emanated, to a large extent, from the Office's incurrence of losses on operations.

3.10.6 An integral strategy aimed at improving the Office's performance involved its restructure during the period April 1990 to February 1991 into 4 separate business units namely: the Law Printer, Corporate Image, Fast Copy and Creative Solutions. These units specialise in particular types of printing, namely, Parliamentary printing, business stationery, instant printing and commercial publishing, respectively.

3.10.7 The rationale for this restructure was that the Office should concentrate on specialised products and services to targeted markets. From October 1990, the 4 business units were given greater ability to operate independently.

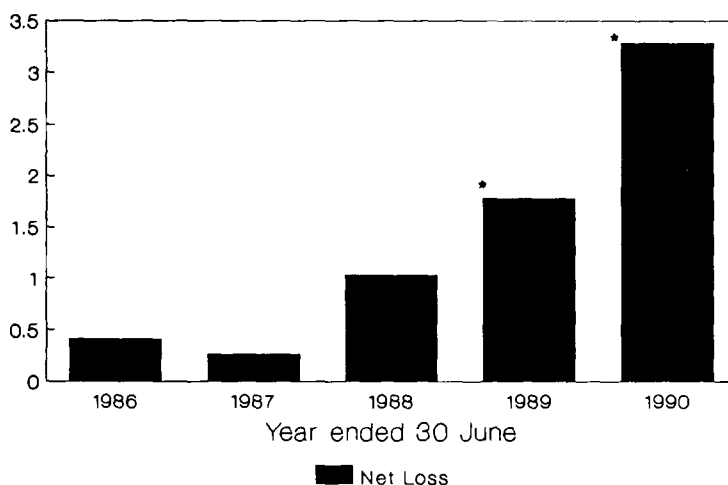
3.10.8 Since October 1990, the Office has been exposed to commercial competition as a result of an amendment to the Treasury Regulations. **The amendment allows departments to direct their printing requirements to either the Office or private industry.**

3.10.9 An audit review of the Office's operations was undertaken against the above background.

Continuing losses on operations

3.10.10 The Printing Office has operated at a loss for each of the past 5 years, with deficits increasing from \$0.4 million in 1985-86 to \$3.3 million in 1989-90. Accumulated losses of the Office at 30 June 1990 totalled \$7.2 million. Chart 3.10A illustrates the increasing operating losses of the Office over this period.

CHART 3.10A
OPERATING LOSSES OF GOVERNMENT PRINTING AND PUBLISHING SERVICES
1985-86 TO 1989-90
(\\$million)



* Includes employee entitlements previously not recognised.

3.10.11 The above losses have significantly eroded the value of capital contributions provided by the Government to the Office over the years. **At 30 June 1990, the Government had injected capital contributions of \$12.4 million into the Office.**

3.10.12 The main factors which have contributed to the Office's continuing losses have been:

- ▶ falling sales revenues;
- ▶ a substantial gap between charge rates and actual costs (1989-90 charge rates were based on 1987-88 costs);
- ▶ non-achievement of targeted production hours; and
- ▶ excessive overhead costs.

3.10.13 Although certain non-core functions (bookshop, media advertising and stationery) were divested to other areas of Government during 1988-89, the Office's selling and administration costs have increased from \$3.9 million in 1988-89 to \$5.1 million in 1989-90.

3.10.14 Not all costs associated with operating the Office are reflected in the operating results reported to date. In January 1990, the Printing Office estimated that, for 1989-90, it was subsidised by government for around \$6 million in employer superannuation contributions, interest on loan borrowings, rent and rates. These costs would normally be incurred by commercial printing organisations.

3.10.15 The Office has forecast a loss of around \$4 million for 1990-91. However, in anticipation of improved efficiency as a consequence of the various strategies in place, it expects to generate operating surpluses of over \$1 million and over \$4 million for 1991-92 and 1992-93 respectively.

3.10.16 The operating performance and overall financial position of the Office needs to be closely monitored with prompt corrective action implemented if actual performances are not in line with budget forecasts.

Management response

Chart 3.10A does not consistently measure costs and therefore incorrectly represents the year-to-year comparisons of the 4 business units which are projected to make a \$0.8 million loss in 1990-91 followed by a modest surplus in 1991-92.

The Office's \$1.2 million increase in selling and administration expenses was offset by a corresponding reduction in factory overhead.

The \$6 million hidden subsidy is no longer valid as more appropriate assumptions and cost conventions have subsequently been developed. Management's estimate based on agreed principles is \$2.3 million.

Aged condition of Office's printing assets and premises

3.10.17 At 30 June 1990, the physical assets of the Office, which included printing machinery and equipment, furniture and fittings, motor vehicles and computer equipment, purchased for \$11.2 million, were valued at \$4.5 million.

3.10.18 Audit found that the average age of printing equipment is around 10 years and that approximately 45 per cent of this equipment was purchased prior to 1980. Many of these assets have been retained well beyond their estimated economic lives. By way of example, one item of equipment, a wire stitcher, which is still in use, was purchased in January 1943.

3.10.19 Audit considers significant capital funds will need to be injected into the Office to bring printing assets into line with current technology. Further, retention of assets beyond their economic lives results in high maintenance costs and reduced operational efficiency.

3.10.20 The Office estimates that it will require at least \$2.7 million to update its printing equipment. In recognition of this funding need, the Office anticipated that funds generated from the disposal of existing equipment would be made available to meet the cost of new equipment acquisitions. However, audit found that, although there had been asset disposals by the Office and proceeds had been paid to the Consolidated Fund, equipment funds via the budget process had not been made available.

3.10.21 Funds will also be required to meet the cost of upgrading the Office's premises if it remains at its present location. The building, located in North Melbourne, was constructed in the late 1940s. **Because of the presence of asbestos, the general run-down condition of the building and the high energy costs incurred for heating and lighting, it will be necessary to either upgrade the Office at an estimated cost of \$7.2 million or relocate to alternative premises.**

3.10.22 In summary, capital contributions from the Government of around \$10 million are likely to be necessary for vital upgrading of the Office's premises and equipment.

Management response

If economically justified, the \$2.7 million for capital expenditure will be spread over 2 years and will address both the age and equipment profile issues. Based on financial analysis, the Macaulay Road site will be sold, not renovated.

Under-utilisation of printing assets

3.10.23 Management information utilised by the Office in the monitoring of operations includes periodic comparisons of budgeted production hours with actual hours of machine use.

3.10.24 A review by audit of the comparisons between actual and budgeted time during 1989-90 revealed that overall actual production hours of machines were around 30 per cent less than budgeted hours. For the Office's 2 largest items of printing machinery, 2 Web printers with an aggregate cost value of \$1.8 million, actual usage was only an average of 60 per cent of targeted production hours.



Web printer, purchased for \$1.1 million, idle in 1989-90 for 43 per cent of available time.

3.10.25 This substantial under-utilisation of printing equipment underscores a major challenge confronting the Office, namely, to increase revenue from expanded client business, gained from both the private and public sectors, so that all costs can be recovered and profits can be generated. The Office sees the establishment of its 4 business units during 1990 and early 1991 as the means of meeting this challenge.

3.10.26 An extensive rationalisation of asset holdings will be necessary if current strategies in place to improve the Office's profitability are not successful.

Management response

The 4 businesses are seeking profitable new business and an extensive rationalisation of operations and assets is already underway to replace under-utilised equipment, improve capital and labour productivity, product and equipment profile, and profitability.

Creation of the business units

3.10.27 As previously mentioned, a major Government strategy aimed at improving the performance of the Office has been the restructuring of the Office into 4 separate business units. Each of these units specialises in particular types of printing, namely, **Corporate Image (business stationery); the Law Printer (Parliamentary printing and publishing); Creative Solutions (graphic design, commercial publishing) and Fast Copy (instant printing)**. These units were launched in April 1990, June 1990, December 1990 and February 1991 respectively.

3.10.28 The Office has developed business plans including specific indicators to measure the periodic performance of each unit.

3.10.28 The Office has developed business plans including specific indicators to measure the periodic performance of each unit.

3.10.29 The initiative taken to restructure the Office into 4 business units has enormous ramifications for the Office.

3.10.30 **It is far too early to make any judgment on the prospects for success of the 4 units. What is clear, however, is that a turnaround in the Office's productivity and financial performance is totally dependent upon the success of the business units.**

Management response

The Office agrees with this statement and is following a strategy of business segmentation and downsizing to achieve commercial viability.

Delays in recovery of amounts receivable

3.10.31 Over the past 3 years, the Office has taken steps to reduce its aggregate level of debtors. At 30 June 1988, 1989 and 1990, the amount of debtors outstanding was \$7.4 million, \$6 million and \$6 million, respectively.

3.10.32 While the level of debtors has decreased from the 1988 level, there has only been a marginal improvement, in the last 2 years, in the timeliness of debt collection.

3.10.33 **A significant percentage of debtors, \$2.2 million at 31 December 1990, continues to be outstanding for over 4 months. At February 1991, \$1.3 million of the over 4 month category had been outstanding for over 12 months.**

3.10.34 Audit recognises that the majority of amounts due relate to government departments and consequently the Consolidated Fund is not disadvantaged in terms of potential loss of interest earnings. Nevertheless, the financial capacity of the Office to meet its own commitments, including the repayment of its annual recurrent allocation initially drawn from the Consolidated Fund, is seriously affected.

3.10.35 The question of long outstanding debtors of the Office has been commented upon in several reports of the Auditor-General to the Parliament. Although some improvement in recent years has been achieved by the Office, the current level of aged debtors indicates that a further assessment of current recovery strategies is warranted.

Management response

Billing times have been reduced significantly and additional resources have been allocated to debt collection.

Need for improved accountability arrangements

3.10.36 In recent years, my reports to Parliament have stressed the importance of public sector financial reporting in providing information necessary for economic decision-making and enabling management to discharge its responsibility of accountability to Parliament and the community.

3.10.37 In line with these views, audit has advised the Department of the Treasury of concerns at the absence of a statutory requirement for the Office to report annually to the Parliament on the quality of resource management and audited financial performance. Such a position is highly unsatisfactory for one of the Government's major business organisations.

3.10.38 The Department of the Treasury responded that a proposed review of the *Annual Reporting Act* and *Regulations* this financial year will seek full accrual financial statements, for commercial concerns, such as the Office, which are operated by administrative units to be included as part of the unit's annual report to Parliament.

3.10.39 **Audit considers that in order to give visibility to the significance of the Government's Printing and Publishing Services and ensure a much needed chain of accountability to the Parliament and the public, the Office and its business units should be brought under the ambit of the Annual Reporting Act.**

Management response

The Office prepares reports on an accrual basis for economic decision-making and management accountability and publishes performance and accounting data in the Department's Annual Report. The Ministry will consider publishing modified accrual information in future annual reports.

WHAT IS THE CURRENT POSITION OF THE STATE'S LANDATA PROJECT?

3.10.40 The *Report on Ministerial Portfolios, May 1990*, included the results of an audit review of the progress achieved in the development of the 6 products comprising Landata, a major computer-based land information system. The Report expressed concern at the protracted development since 1983 of Landata. Given the extensive investment of the State in the project, audit stressed the importance of the former Department of Property and Services ensuring that the latest completion dates were met and anticipated benefits fully realised.

3.10.41 The comments raised by audit on Landata's development were subsequently examined by the Parliament's Economic and Budget Review Committee. In its report, presented to Parliament in November 1990, the Committee concluded that:

- ▶ scope existed to improve the former Department's monitoring and control of the project;
- ▶ there was a need for development of both financial and non-financial performance indicators; and
- ▶ updated financial evaluations should be prepared as the product base of the project is progressively developed.

3.10.42 The major element of the former Department's response to the audit comments and the subsequent deliberations of the Economic and Budget Review Committee has been the commissioning of a consultancy review of Landata. This review, which was commenced in December 1990, is aimed at examining the overall development of Landata and identifying its future performance expectations, including costs, benefits and savings. Audit was advised that the report of the consultants to the Ministry of Finance has not yet been finalised.

3.10.43 Under the machinery of Government changes, announced in January 1991, the main responsibility for the development of the land ownership system of Landata was transferred to the Attorney-General's Department. This transfer effectively reduced the Ministry's responsibility for the project to one product, namely, the public inquiry service and a co-ordinating role only for the land ownership system.

3.10.44 During the current financial year, the Ministry has focused its attention on developing a business plan, re-establishing a new steering committee to oversee Landata's development and improving the revenue-generating capacity of the public inquiry service.

3.10.45 It is important that the various strategic actions underway for Landata are effectively co-ordinated and monitored.

GOVERNMENT EMPLOYEE HOUSING AUTHORITY

3.10.46 The Government Employee Housing Authority was established under the *Government Employee Housing Authority Act 1981* as the successor-in-law to the former Teacher Housing Authority. The Authority's functions are to:

- ▶ provide suitable houses for government employees;
- ▶ establish and maintain a register of all houses available for the accommodation of government employees;
- ▶ give advice concerning the provision of employee housing; and
- ▶ review the practices of other public bodies involved in the provision of employee housing.

3.10.47 The Act also provides for other statutory authorities and departments to transfer their housing assets to the Authority in return for which the Authority may be required to pay compensation for the assets acquired. The agencies currently participating in these arrangements are the Ministry of Education and Training, Attorney-General's Department, State Training Board, Department of Agriculture, Department of Labour and the Public Transport Corporation.

3.10.48 At 30 June 1990, the Authority controlled around 2 000 houses with a value in excess of \$90 million and representing approximately 45 per cent of all employee houses managed within the Victorian public sector. At that date, the Authority employed 30 personnel to carry out its functions.

3.10.49 In December 1986, the *Auditor-General's Special Report No.5* to the Parliament included the results of a major audit review on the provision of housing to government employees. That report highlighted deficiencies in management practices relating to employee housing adopted within a number of public sector agencies, including the Authority.

3.10.50 Recently, the Government approved a major change in the area of rental charges for employee houses. With effect from 1 July 1990, participating agencies are now required to pay the Authority market rentals for all houses allocated to their respective employees, even where a house is unoccupied.

3.10.51 During 1989-90, the Authority instigated a review of its maintenance practices, which was undertaken by the Bureau of Internal Audit, Department of the Treasury.

3.10.52 It was against the above background that audit carried out a review of various activities undertaken by the Authority.

Overall conclusions

3.10.53 The principal audit conclusion drawn from the review was that the Authority's participation in the purchase of a large number of houses from the Public Transport Corporation created significant financial implications for the Authority and was the catalyst for a substantial flow of funds to the Consolidated Fund.

3.10.54 The specific audit findings from the review were:

- ▶ it was not until February 1990, 8 years since its commencement of operations, that the Authority decided to introduce a formal strategic planning process;
- ▶ the Authority acquired 570 houses from the Public Transport Corporation in 1988-89 and 1989-90, at a cost of \$15 million of which 460 were in excess of its needs and inconsistent with its statutory powers;
- ▶ the Authority is faced with maintenance costs of at least \$1.8 million on the 110 houses acquired from the Public Transport Corporation it intends to retain, due to its failure to assess their physical condition prior to purchase;
- ▶ a part payment of \$10 million to the Public Transport Corporation in June 1989 bore little relationship to the number of houses acquired at the time but benefited the cash position of the Consolidated Fund;
- ▶ rental income in excess of \$171 000 forgone to the State because of ineffective monitoring of the occupancy of employee houses;
- ▶ delays of well over 2 years are encountered in obtaining clear title for surplus properties located on Crown land;
- ▶ the cost to the Authority in 1990-91 of recent changes in financial arrangements with the Consolidated Fund is in excess of \$2.3 million;

Overall conclusions - continued

- ▶ **due to serious deficiencies in the Authority's management procedures a recently acquired computer information system which cost \$98 000 is likely to be replaced at an estimated additional cost of \$68 000; and**
- ▶ **the Authority's review and advisory activities in respect of public sector-wide employee housing have, to date, been very limited.**

Absence of strategic planning

3.10.55 In the important area of strategic planning, the audit review identified a less than satisfactory situation in that since 1982, when the Authority commenced operations, up to late 1990, there had been no formal strategic planning.

3.10.56 Without a formal strategic plan to guide its corporate direction, the Authority has not, over the years, been in a position to systematically monitor and evaluate the overall efficiency and effectiveness of its operations.

3.10.57 It was not until February 1990 that the Authority began to develop its inaugural strategic plan. The first stage of this strategic task involved the development of a business plan for 1990-91, which was completed by the Authority in December 1990. This business plan identifies the key objectives as reducing surplus housing stock, remaining financially self-sufficient, improving the quality of housing stock, and increasing the number of participating agencies. Various performance targets and measures supporting the key objectives are documented in the plan.

3.10.58 The second and principal stage of the Authority's strategic planning process, a 3 to 5 year strategic plan, is still only at an early stage of development. The Authority expects to be able to finalise this plan by June 1991.

3.10.59 It is important that the Authority moves swiftly to finalise its strategic plan, given that the first year of the planning period has almost elapsed.

Management response

From its inception, the Authority has had financial budgeting processes in place. These budgets have been based on performance targets intended to achieve its operational objectives.

Since 1986-87, the Authority has prepared formal yearly corporate plans as part of its strategic planning processes.

The 3 to 5 years strategic plan that has been developed is the first for the Authority and will be formalised by June 1991.

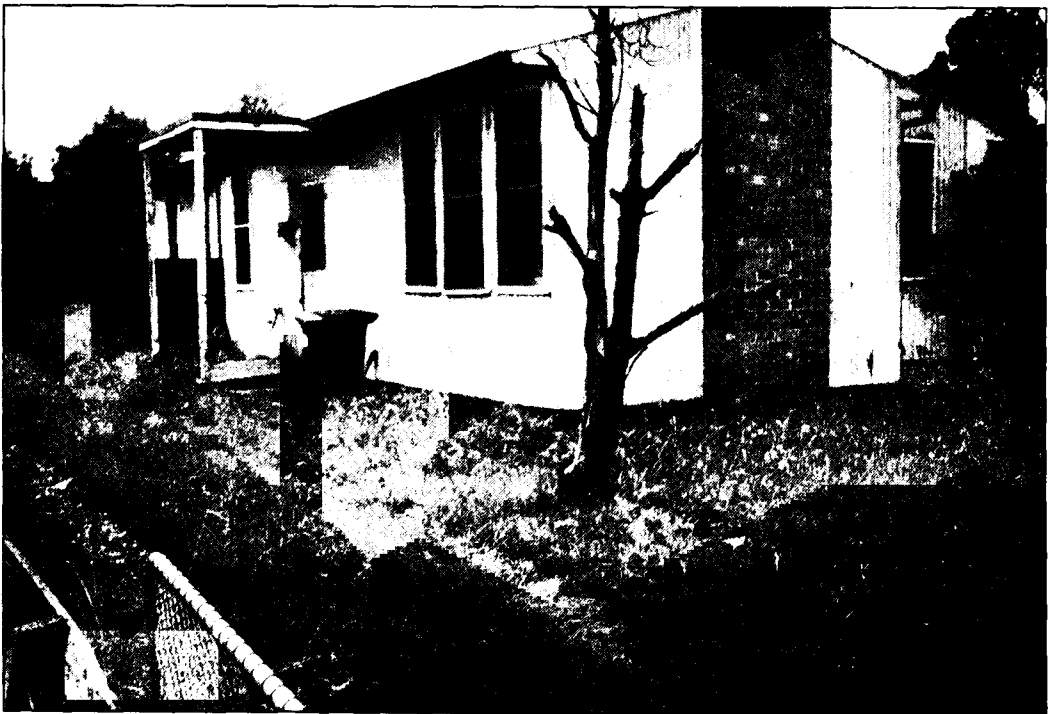
Houses recently purchased require substantial maintenance

3.10.60 In June 1989, the Authority entered into a formal agreement to acquire rental housing stock from the Public Transport Corporation. Following this agreement, a total of 570 houses, the majority of which were located on Crown land, were transferred to the Authority at an overall cost of \$15 million.

3.10.61 The transfer of houses took place over 2 financial years, namely, 120 houses in June 1989 accompanied by a payment to the Corporation of \$10 million, and the remaining 450 houses in 1989-90, with the balance of the purchase price, \$5 million, to be spread over 3 financial years to 30 June 1992. The Public Transport Corporation is required under its legislation to forward the proceeds of the transfer to the Consolidated Fund. **It can be seen that there was no relationship between the June 1989 payment and the number of houses transferred at the time.**

3.10.62 Audit found that although the Authority was aware of potential problems with the quality of the houses prior to finalising the agreement with the Corporation, it failed to properly assess their physical condition and determine the cost implications likely to arise after the purchase. As a consequence, the Authority was not in a position to negotiate with the Corporation a purchase price which took into account the physical condition of the houses.

3.10.63 The Authority is now faced with substantial costs to upgrade approximately 110 of the properties acquired from the Public Transport Corporation, which it intends to retain. Based on cost data prepared by the Authority, audit estimates that these costs will be at least \$1.8 million, with the average cost per house around \$16 500.



Example of a house acquired from the Public Transport Corporation requiring substantial maintenance.

3.10.64 The Authority's maintenance and modernisation budget for 1990-91 is \$4.5 million which means that the maintenance costs arising from the properties acquired from the Public Transport Corporation represent around 40 per cent of this budget. In order to assess the impact of allocating a sizeable component of available maintenance funds to these properties, audit prepared an aged profile of the Authority's housing stock. Table 3.10B shows the relevant details.

TABLE 3.10B. AGED PROFILE OF HOUSING STOCK

<i>Year of construction</i>	<i>Age</i>	<i>Number</i>	<i>Percentage</i>
	<i>(Years)</i>		
1870-1889	101-120	5	0.3
1890-1909	81-100	37	1.8
1910-1929	61-80	115	5.6
1930-1949	41-60	184	9.1
1950-1969	21-40	546	26.9
1970-1990	0-20	573	28.2
		(a)571	28.1
Total		2 031	100

(a) Due to the lack of historical data, audit could not determine the aged profile of these houses.

3.10.65 Table 3.10B indicates that 341 houses (17 per cent of the housing stock) are in excess of 40 years old. Also, it is highly likely that a number of houses for which historical records are not available would fall into the pre-1950 categories.

3.10.66 The Authority has advised that a large percentage of its maintenance budget for the next few years may be directed to upgrading the 110 properties acquired from the Public Transport Corporation. As a consequence, limited maintenance funds will be available for many of the Authority's remaining aged housing stock. This situation is likely to expose the Authority to higher future maintenance costs for these aged houses and to impact on their realisable value if disposal action is ultimately considered.

3.10.67 Given the substantial financial burden for property maintenance which the Authority is now required to carry, it needs to ensure that, in future, any cost implications arising from the poor condition of purchased properties are reflected in the agreed purchase price.

Management response

The first 2 paragraphs of this section accurately summarise the transactions, but the paragraphs which follow give an incorrect perspective:

- *As required by Government policy, the purchase price of \$15 million for the PTC stock was determined by the Valuer-General. The bulk purchase and the condition of the houses were factors he would have taken into account. Board members and Authority staff also inspected a sample of the houses and advised the Valuer-General of their poor condition. A commercial contract was negotiated for which the payment terms were \$10 million deposit and instalments over the next 3 years. As the book value of the PTC houses for the 1989-90 financial year was \$24 million, the Authority considers it has paid a reasonable price - particularly considering the increase in rental revenue.*
- *The Authority certainly did not intend to retain all the houses; in accordance with Government policy houses "not required to be occupied" are disposed of when the employee tenant vacates. Houses designated as "required to occupy" and which require excessive amounts to maintain, will be replaced over time. (Purchase, lease, dual occupancy or flats are being considered).*
- *The maintenance/modernisation of the Melbourne region "required to occupy" houses will be spread over a 5 year period in accordance with industrial agreements. Expenditure on these houses for 1990-91 will only represent approximately 8 per cent of GEHA's total maintenance/modernisation budget.*
- *Rental revenue derived from all PTC houses in 1989-90 was \$973 000 and will be sustained over the next 5 years. This revenue more than covers the annual budgeted maintenance/modernisation of these houses.*

In the table, the 571 houses without the historical data are PTC houses. The information was not available at transfer. GEHA is making technical assessments to update this information by June 1991.

Was the purchase of houses consistent with statutory powers?

3.10.68 It is relevant to point out that the Authority is now in the process of progressively disposing of the remaining 460 houses, the majority of which were in excess of its needs at the time of acquisition from the Public Transport Corporation. In this regard, as the majority of properties are situated on Crown land, the Authority is experiencing substantial delays in obtaining clear title to enable disposal in the open market. This latter point is examined in greater detail in a subsequent paragraph.

3.10.69 The Authority's statutory functions relate to the provision of housing for government employees, and review and monitoring tasks associated with public sector management of employee housing. Audit considers that the acquisition by the Authority of a sizeable number of houses surplus to its needs was not consistent with the Authority's legislative role.

3.10.70 While the Consolidated Fund was the ultimate beneficiary of the June 1989 transfer of \$10 million from the Authority to the Public Transport Corporation, audit questions the justification for the Authority agreeing to acquire this quantum of houses in the first instance.

3.10.71 Future acquisitions by the Authority should be limited to properties required for employee housing, in line with its prime statutory function.

Management response

GEHA has a statutory responsibility for the co-ordination of Government employee housing. Taking control of other agencies housing through purchase enables better asset management for Government.

At the time of PTC participation, GEHA had surplus funds from asset sales which it used to purchase the PTC residences. The \$10 million paid to PTC in June 1989 could more easily have been paid directly into the Consolidated Fund as GEHA at that time had outstanding Works and Services loans for the fund of about \$31 million. (This loan has since been repaid and re-financed with a commercial loan).

The Authority sought the participation of PTC and the subsequent acquisition of the PTC residences in accordance with the GEHA Act 1981, in which Section 3(2)(a) states one of the functions of the Authority to be:

"to provide suitable houses for Government employees in participating departments".

The purchase of the houses was in accordance with Section 12(2)(a)(b) which states:

"The Governor-in-Council may, by an order under sub-section (1) or by a subsequent order published in the Government Gazette transfer to the Authority any land or premises specified in the order, being land or premises that is or are:

- *vested in or held by any Minister of the Crown or any public statutory authority; and*
- *used or allocated for use as a house for Government employees in the participating department."*

All houses that were transferred were designated as employee houses by the PTC.

The "not required to occupy" houses will be sold off over time, either to tenants, in accordance with industrial agreements, or by public auction once they fall vacant. This process will take time, because some houses are on Crown Land and some require subdivision from railway land.

There are houses without title that are no longer required for employees. These houses are tenanted by sundry tenants until title is issued and the property can be sold. They are always let at full market rent. This provides the Authority with ongoing revenue and represents sound commercial practice.

The benefits of agencies participating in GEHA are not fully realised unless all houses designated as employee housing are transferred to GEHA. Unless this occurs, departments have to retain staff to administer remaining stock. Further, GEHA is more efficient at disposing of not required to occupy stock.

Inadequate monitoring of occupancy levels

3.10.72 The December 1986 Auditor-General's Special Report No. 5 commented that the Authority's procedures for monitoring tenancy details did not enable it to identify unoccupied houses or houses occupied by either ineligible employees or private tenants. The implications to the Authority of this deficiency was that it was not in a position to identify rental forgone or houses surplus to requirements which could be sold.

3.10.73 Since the 1986 Report, the Authority has introduced a new computerised property information system, however, the current audit review found that **the Authority is still not in a position to effectively monitor occupancy of houses.** The principal reasons for this situation were:

- ▶ deficiencies in the property information system in that critical data such as details of unoccupied houses, periods of vacancy and resultant rentals forgone could not be readily generated from the system; and
- ▶ participating agencies failed to provide information on tenancies in a timely manner.

3.10.74 From 1 July 1990, participating agencies are required to pay to the Authority market rentals for all houses allocated to their employees, irrespective of the occupancy status of the property. These new arrangements are designed to place greater responsibility on agencies to ensure optimum occupancy levels are maintained.

3.10.75 The audit review revealed that the expected impact of the new rental arrangements, in terms of ensuring optimum occupancy levels, may not have materialised. **In this respect, the examination of property records revealed that during the 6 month period to December 1990, a total of 105 properties had remained vacant with the value of rental forgone to the State in excess of \$171 000. In 2 cases, properties had remained vacant for over 4 and 9 years, respectively.**



House remaining vacant for 9 years.

3.10.76 The Authority needs to ensure that more effective procedures are in place for monitoring of the utilisation of employee houses by participating agencies.

Management response

The Authority is well aware of the shortcomings of the computer system, and the lack of timely information about vacancies from participating agencies and has been working to overcome these difficulties.

However, the nature of Government employee housing, as with all rental housing, is that it will fall vacant from time to time. For example with the Ministry of Education and Training (which represents 67 per cent of the total GEHA housing stock), houses frequently remain vacant in the latter part of the calendar year, pending advice for their need by teacher tenants for the beginning of the next school year.

Short-term private tenancies are arranged wherever practicable, however difficulties are frequently encountered. For example, some tenants refuse to vacate properties when requested to do so, the majority of potential tenants are seeking long-term tenancies, and residential units in specialised locations (e.g. research stations), cannot necessarily be let to non-employee tenants for security reasons.

The two examples (out of 1 993 houses) referred to as being vacant for 4 and 9 years respectively are not representative. These houses have remained vacant because they were designated as maintenance intensive and untenable at that time. These houses are on land to be sold by the Education Department and the Ministry of Finance as GEHA does not have title. When sold the Authority will receive part of the sale receipts. In the meantime, it is considered expenditure to demolish the buildings is unwarranted.

The revised rental arrangements will place greater responsibility on agencies to ensure optimum occupancy levels by enforcing the "User Pays" principle. This has already resulted in some improvement which the Authority expects to increase as the working procedures between the Authority and the participating departments are refined.

The Authority will continue to improve its procedures for monitoring the tenancy of employee houses but there will always be a small vacancy rate.

Significant delays in disposing of surplus houses

3.10.77 In line with a government directive in September 1986 to rationalise employee housing assets, the Authority has accelerated its efforts to dispose of houses no longer required for occupancy by government employees. Over the 4 year period to 30 June 1990, a total of 985 houses were disposed of by the Authority at a net profit of \$3.3 million.

3.10.78 At 30 June 1990, the Authority had identified that it held a further 895 surplus houses (including the houses purchased from the Public Transport Corporation referred to earlier) with an estimated value of \$39.7 million which required disposal action. Approximately 55 per cent of these houses are situated on Crown land.

3.10.79 The audit review found that the Authority had experienced substantial delays in finalising disposal of properties located on Crown land. These delays had resulted from the requirement to obtain a clear title for the property through the issue of a Crown Grant.

3.10.80 The issue of a Crown Grant has on average taken 12 months and, in some cases, the process was not completed for up to well over 2 years. During this time, the Authority is required to meet the cost of maintaining the properties and to find short-term tenants for houses that become vacant. In addition, the delays preclude timely disposal of properties and generation of sales revenue.

3.10.81 It is recognised that there is a need for a due process to apply to the disposal of assets of the Crown, however, processing periods of 12 months and more are considered to be excessive. **Audit is concerned that, although the question of delays in the issue of Crown Grants has been raised in 2 previous reports of the Auditor-General to the Parliament (December 1986 and November 1987), the matter has not been effectively resolved by the Department of Conservation and Environment and the former Department of Property and Services.**

Management response

The revised asset management system announced by the Government in July 1990 is designed to provide more comprehensive consultation with the community and peak organisations on land classification and management.

As part of the process of obtaining Crown Grants, the Land Classification Review Committee (LCRC) undertakes structured consultation with the local community through the Department of Conservation and Environment. This process takes, on average, 12 months. There would be definite advantages to the Authority if the process for residential land was accelerated.

While the 895 houses classified as NRTO are identified in the report as "surplus", in accordance with DMB guidelines of September 1986, these properties cannot be disposed of until they become vacant, (unless purchased by the employee tenant). Of these, GEHA does not hold clear title to 435 properties. GEHA is currently in the process of progressively seeking Crown Grants for these latter properties so they can be disposed of when they become vacant.

Adverse impact on Authority of changes in financial arrangements

3.10.82 At the time of its establishment, the Authority assumed responsibility for all assets and liabilities of the former Teacher Housing Authority. A major component of those assets comprised houses acquired from the Ministry of Education and Training. As part of the transfer of responsibility, the Authority assumed a debt of \$9 million to the Consolidated Fund which related to the original purchase of these houses.

3.10.83 Under an agreement with the Ministry, when any of these houses were identified as surplus to the Authority's requirements, they were transferred back to the Ministry with a commensurate reduction in the Authority's debt to the Consolidated Fund, equivalent to the original acquisition cost.

3.10.84 As commented upon in the *Auditor-General's Report on the Treasurer's Statement for the year ended 30 June 1990*, the Authority was required to repay in June 1990 low-interest loans to the Consolidated Fund of \$29.6 million, which included the abovementioned debt. To finance this repayment, the Authority found it necessary to borrow \$27 million from the Victorian Development Fund at interest rates ranging from 15.3 to 15.5 per cent. **The total cost to the Authority in 1990-91 arising from this debt settlement arrangement, after allowing for a principal repayment of \$7 million during the year, is estimated to be \$2.3 million.**

3.10.85 The above debt settlement arrangement had the effect of moving the Authority's debt away from the Consolidated Fund. More importantly, however, from the Authority's perspective, it no longer receives any financial consideration in the form of reduction of debt or otherwise, for surplus houses transferred back to the Ministry.

3.10.86 In September 1990, the Authority estimated that for 1990-91 it would forgo an amount of \$800 000, the original value of the houses expected to be transferred back to the Ministry for the year. **To partly offset the adverse financial impact on the Authority, the Government has agreed that the Authority can charge market rentals to participating agencies for all employee houses from 1 July 1990.**

Management response

Much of the extra cost resulting from the debt settlement arrangement will be offset by additional rental revenue. This is generated by the change to full market rent and with the rent paid to the Authority for 52 weeks of the year (approximately \$5.8 million 1989-90 to \$7.8 million 1990-91).

The Authority is now financing its operations at market interest rates rather than with highly subsidised loans from the Government. This, together with the revised rental arrangements with participating departments, is in accordance with current Government policy that the "user pays" for services provided by Government.

Surplus houses are transferred back to the Ministry of Education and Training, only in a limited number of situations. Wherever possible the Authority uses alternative strategies, e.g. obtaining Crown Grant, sale for removal or demolition to minimise any financial loss.

The initial estimate of \$800 000 as the amount forgone for 1990-91 for 113 houses, was subsequently found to be incorrect as it was based on current market levels. The amount forgone is based on the "handback" value of the houses being the 1966 valuation as agreed with Treasury when the Authority was first established. Thus, for 1990-91 the estimate adopted was \$146 000 (20 houses at an average of \$7 300).

Major deficiencies in the development of new computer system

3.10.87 In 1988, the Authority determined to replace its information software with a major software package in order to upgrade the quality and effectiveness of its financial and property management functions. A new system was progressively developed and implemented in October 1989 at a cost to the Authority of \$98 000.

3.10.88 The Authority has experienced major difficulties with its new computerised system. These difficulties have involved the incompatibility of critical operating systems which meant that the software for the system could not be effectively utilised. The problems encountered with the system have been of such magnitude that the Authority is now considering a range of options **including abandonment of the system and replacement by a complete new software package at an estimated additional cost of \$68 000.**

3.10.89 A critical shortcoming of the Authority's developmental process for the new system was that it did not ensure that progressive testing of the performance of the system took place. By omitting such a fundamental element of systems development, the Authority could not be assured that the final product would meet its information requirements.

3.10.90 Audit examination of the contractual conditions relating to the new system revealed that there was no obligation on the supplier to provide regular testing of software and a warranty period was not specified in the contract. **In addition to this limited protection available within the contractual conditions, the Authority paid the supplier an amount of \$67 000 or 61 per cent of the purchase price before commencement of any contractual obligations by the supplier. It can be seen that the contractual arrangements were highly unsatisfactory in terms of safeguarding the interests of the Authority.**

3.10.91 At the time of the system implementation, the Authority had no in-house EDP expertise. If such expertise was available to oversee the implementation process, the problems experienced may not have eventuated.

3.10.92 When the Authority became fully aware of the total ramifications of the problems, it arranged for a review of the position to be carried out by EDP personnel of the former Department of Property and Services. That review reinforced the seriousness of the position and recommended that the Authority move as soon as practicable to replace the system. As indicated, the Authority is currently considering its options.

3.10.93 **Because of the serious deficiencies in its overall management of this project, the Authority needs to ensure that substantially improved procedures are in place for any future computer developments.**

Management response

The deficiencies in the new computer system represent in part a departure by the supplier from the Authority's specifications - this may prove to be the subject of legal action.

However, the Authority acknowledges some shortcomings in the development of the system. It has reviewed the problem with previous processes and is putting in place new procedures to ensure tighter technical control in the management of future computer systems development.

Failure to update the Government Housing Accommodation Register

3.10.94 The Authority has a legislative responsibility to maintain a Government Housing Accommodation Register. The legislation requires that this Register record relevant housing particulars including age, size, construction type etc. of all employee houses managed within the Victorian public sector. The Register is designed to serve as an information source for public bodies on employee housing.

3.10.95 In 1982, a computerised register was established by the Authority as the means of discharging its legislative responsibility in this area. The audit review revealed that, over the years, this computerised register had not been progressively updated, and as such, the purposes envisaged by the legislation had not been fulfilled.

3.10.96 Currently, there are in excess of 4 300 employee houses across the Victorian public sector and the Authority regards its task of updating information for these houses as very resource intensive. This factor has influenced the priority placed by the Authority on ensuring that the register remains current.

3.10.97 The existence of a legislative requirement for maintenance of this register suggests that it was meant to fulfil an important role for employee housing within the Victorian public sector. For example, **if complete information is not available to public bodies, those bodies may seek houses from the private sector when suitable properties might well have been available within the public sector.**

3.10.98 The Authority should take steps to ensure that its legislative responsibility to maintain a Government Housing Accommodation Register is properly fulfilled.

Management response

The Government Housing Accommodation Register has been established by the Authority. Updating of the Register for non-participating departments has proved to be resource intensive from both the Authority's and non-participating Government bodies' points of view. As a result, only basic statistical data is reported annually. In hindsight, the amount of information on the Register was excessive. It is proposed to review the form of the register, reducing the information recorded to a level that can be maintained by the resources available, while ensuring the essential information, relevant to the needs of departments is retained.

Management of public sector employee housing

3.10.99 Under its legislation, the Authority has an important review and advisory role in respect of the management of employee housing across the Victorian public sector.

3.10.100 During the review, audit assessed the level of the activity undertaken by the Authority in overseeing management practices in entities other than its participating agencies.

3.10.101 Audit found that there has been limited involvement by the Authority in monitoring employee housing management procedures followed by public sector bodies and no involvement in reviewing compliance with government guidelines on employee housing.

3.10.102 Audit considers that the ambit of the Authority's involvement in overseeing the management of employee housing across the public sector envisaged by the legislation is much wider than the Authority's actions to date in this area.

3.10.103 In the absence of an active specialist function fulfilled by the Authority, there could be substantial variations in the standard of employee housing management by public bodies and opportunities for improved efficiency and effectiveness in the use of scarce resources may not be identified.

3.10.104 The Authority should explore avenues available to expand its review and advisory activities for public sector employee housing.

Management response

In recent years the limited resources of the Authority have been directed towards standardising and rationalising employee housing by acquiring additional participating departments. Consequently, less emphasis has been placed on advising departments and reviewing their practices of providing accommodation for Government employee.

The Authority considers this approach is the most practical way to use its resources to establish effective management of Government employee housing. The management of the houses owned by the Authority sets an example to other agencies, which is communicated by tenants and union representatives.

Results of client survey

3.10.105 In order to assess the extent to which the Authority has been successful in meeting its clients' needs, audit undertook a survey of its 6 participating agencies.

3.10.106 The survey inquired into such things as quality of houses available to employees, methods used for identification of surplus houses, the equity of rental charges and adequacy of arrangements relating to ongoing management of houses.

3.10.107 Although only 3 of the participating agencies responded to the audit survey, the responding agencies utilised 98 per cent of all houses controlled by the Authority.

3.10.108 The 3 agencies expressed overall satisfaction with the services provided by the Authority, however, 3 areas were identified which warranted attention by the Authority, namely:

- ▶ variations in the quality and condition of houses;
- ▶ physical condition of the houses not taken into account in determining market rental charges; and
- ▶ tenancy agreements not entered into with employees.

Management response

The Authority has not been provided with copies of the responses to the Client Survey. The comments made may well relate to only a small number of tenants and dwellings.

- *The Authority has an ongoing modernisation program to bring all rental stock up to a level commensurate with contemporary community standards. The following factors contribute to the wide variations in stock: age, location, construction material, level of maintenance provided by previous owners, and environmental factors.*
- *Market Rent is determined on the advice of the Valuer-General, who, as a professional valuer, takes into account all relevant factors, including the physical condition of the house. Tenants have the right of appeal if they consider that the market rent is too high.*
- *The Authority's policy is to have all tenants sign tenancy agreements. 70 per cent of Government employee tenants have signed tenancy agreements. Negotiations with transport unions on the form of Tenancy Agreements are nearing completion. It is anticipated all remaining tenants will have signed agreements by end of 1991.*

Schedule A. Status of matters raised in previous Reports

Report	Subject	Status at date of preparation of this Report
———— MATTERS RESOLVED ————		
Ministry of Finance (formerly Department of Property and Services)		
<i>Ministerial Portfolios, May 1990, pp. 253-4</i>	Considerable additional annual costs have been incurred because of extended delays in awarding cleaning contracts.	The proportion of expired contracts has now been progressively reduced to an acceptable level.
<i>Ministerial Portfolios, May 1990, pp. 254-5</i>	The State is currently exposed to potential insurance liability in the event of negligence by cleaning contractors.	All new cleaning contracts now include a requirement for contractors to take out appropriate insurance cover. The Ministry has also taken out a principal controlled insurance policy to ensure continuous cover.
The former Victorian Public Offices Corporation		
<i>December, 1982, p. 101</i> <i>Ministerial Portfolios, May 1989, p. 219</i> <i>Ministerial Portfolios, May 1990, p. 256</i>	While administrative action to disband the Corporation was effected on 30 June 1989, formal sanction of the Parliament to the dissolution of the Corporation is still to be obtained.	The Corporation was formally dissolved by the repeal of the <i>Victorian Public Offices Corporation Act 1974</i> on 20 November 1990.
<i>Second Report, 1986-87, pp.126-7</i>	Due to delays in completing fit-out works, a 10 storey property owned by the former Corporation had remained unoccupied since December 1986.	Funding has now been sought to enable occupancy of the remaining area of the property. In the interim the area is used for short-term accommodation needs.

———— ACTION COMMENCED ————

Ministry of Finance (formerly Department of Property and Services)		
<i>Supplementary Report, 1980-81, p. 54</i>	Sundry debtors of Victorian Government Printing Office - government departments. Instruction of Department of the Treasury concerning payment of accounts within 30 days not being complied with.	Action taken by the former Victorian Government Printing Office to reduce the overall level of sundry debtors has resulted in minimal improvement. For further comments, refer to paragraphs 3.10.31 to 3.10.35 of this Report.

Schedule A. Status of matters raised in previous Reports - continued

Report	Subject	Status at date of preparation of this Report
<hr/> ACTION COMMENCED - continued <hr/>		
<i>Ministerial Portfolios</i> , May 1990, pp. 244-52	Concern expressed at the protracted nature of development since 1983 of the Government's integrated computer-based land information system known as "Landata".	A major review of the Landata project by external consultants was commenced in December 1990. For further comments, refer to paragraphs 3.10.40 to 3.10.45 of this Report.
Ministry of Finance (formerly Department of Property and Services)		
<i>Second Report, 1982-83</i> , pp. 87-8 <i>Ministerial Portfolios</i> , May 1989, p. 213	A range of environmental control weaknesses exist at the VICOMP Centre (formerly the Government Computing Service). This Centre is located in the Treasury Reserve.	The Department has prioritised and costed all environmental risks. Funding of \$110 000 to eliminate the major risks was not approved by the Government in 1990-91.
<i>Ministerial Portfolios</i> , May 1989, pp. 204-13	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.	Funding of \$28.5 million for major maintenance items on the Treasury Reserve was not approved by the Government in 1990-91. Accordingly, a program of preventative maintenance could not be developed to address major maintenance needs. Options for the more effective utilisation of all Treasury Reserve buildings remain under consideration by Government.

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>
Completed audits				
Department of Property and Services (now part of the Ministry of Finance)	30 June 1990	31 October. <i>Annual Reporting Act 1983, s.8.</i>	29 October 1990	31 October 1990
State Electoral Office	30 June 1990	31 October, <i>Annual Reporting Act 1983, s.8.</i>	6 October 1990	25 October 1990
Financial returns - Electoral Returning Officers	n.a.	Electoral returning officers are required to submit financial returns within 6 months of an election. <i>Constitution Act Amendment Act 1958, s.161.</i>	n.a.	14 November 1990
Government Employee Housing Authority	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	29 September 1990	29 September 1990
Surveyors Board	30 June 1990	Audit conducted under the authority of the <i>Surveyors Act 1978, s.28.</i>	29 October 1990	30 October 1990

HEALTH

KEY FINDINGS

- ▶ The Health Department Victoria has been unable to disburse moneys for 10 years from the Mental Health Donations Trust Fund which has a balance of \$2 million.
Paras 3.11.1 to 3.11.4
- ▶ Serious deficiencies exist in the manner in which private practice activities by full-time medical practitioners within the public hospital system have been controlled to date.
Paras 3.11.39 to 3.11.47
- ▶ The lack of accountability for private practice arrangements has led to instances of fraud and the inability of hospitals to determine if they are receiving their full entitlements.
Paras 3.11.48 to 3.11.53
- ▶ The operation of private practice trust funds as separate legal entities gives rise to concerns as to the taxation and other obligations of hospitals and their board members.
Paras 3.11.54 to 3.11.62
- ▶ No overall planning strategies and policies have been adopted for the future direction of State-wide residential care services for the aged.
Paras 3.11.91 to 3.11.94
- ▶ Five nursing homes valued at \$9.5 million have remained unoccupied although construction has been completed and facilities installed for some months; in one case for almost 18 months.
Paras 3.11.111 to 3.11.117
- ▶ Incinerators operated by the Austin and Mont Park Hospitals do not effectively meet the Environment Protection Authority's (EPA) prescribed standards.
Paras 3.11.138 to 3.11.145
- ▶ No assurance could be given by the EPA that emissions from hospital incinerators did not pose a potential hazard to the community and the environment.
Paras 3.11.146 to 3.11.149

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)
Dietitians Board of Victoria
Mental Health Review Board
Optometrists Registration Board
Prince Henry's Institute of Medical Research
Public hospitals and nursing homes (143)
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

Mental Health Donations Trust Fund

3.11.1 The Health Department Victoria internally administers the Mental Health Donations Trust Fund which comprises donations and bequests received by the Department which are to be applied towards the relief and support of persons suffering mental disability. Certain of the moneys held can only be applied for restricted purposes in accordance with the terms of the individual bequests. **At 30 June 1990 the balance of the trust fund, including accumulated interest, was \$2 million** which is invested in the Victorian Development Fund.

3.11.2 An audit examination of the administrative arrangements for the trust fund disclosed that:

- ▶ The Department cannot disburse moneys from the trust fund as it does not have trustee status. Although the Department has, over the past 10 years, periodically sought assistance from government legal sources to resolve the issue these efforts have been unsuccessful to date; and

- ▶ Due to the legal difficulties referred to above, it has been necessary to fund payments of \$305 000 to beneficiaries over a 10 year period from the Treasurer's Advance and special grants within the Department's appropriation, pending eventual recoupment from the trust fund. The Department of the Treasury has expressed doubt as to whether the Treasurer can legally advance moneys for the benefit of beneficiaries under what is essentially a private trust arrangement. It is also of concern that the Treasurer cannot recoup any of these advances until such time as the trustee status is resolved.

3.11.3 Although funds held within the trust fund are invested, it needs to be borne in mind that these moneys are primarily intended for the benefit of persons suffering mental disabilities. **It is of serious concern that these benefits have not been available due to the inability of the Department and government legal authorities to resolve this matter over at least a 10 year period.**

3.11.4 **Audit has recommended that trustees be appointed and a suitable scheme of arrangement for the administration of the funds be developed as a matter of high priority.**

Management response

The current legal difficulties emanate from the trustee arrangements that established the individual members of the former HCV as trustees of the Fund. The resolution of these difficulties is being addressed by the Government Solicitor and requires the approval of the Supreme Court.

Benefits under the various bequests in the Trust Fund have been met by State expenditure that will be recovered from the Trust Fund when the Supreme Court has approved revised trustee arrangements.

Major deficiencies in expenditure control

3.11.5 Financial information systems utilised within the Health Department Victoria are provided as bureau services from Health Computing Services Victoria Ltd a company owned by the Department. Annual payments processed by these systems have a value in excess of \$2 billion.

3.11.6 A detailed EDP audit review of the accounts payable and general ledger systems used by the Department was undertaken during the year. The review drew attention to deficiencies in relation to various aspects of access security, masterfile maintenance, disaster recovery planning, processing controls and utilisation of edit reports. The review concluded in relation to the accounts payable function that certain **systems controls and user procedures were inadequate and there was potential for fraud.**

3.11.7 Concurrently with the EDP review audit undertook an examination of the procedures and internal controls associated with invoice processing prior to data entry. In a selected sample of invoices paid audit found that:

- ▶ Documentary evidence to support large payments to hospitals for equipment acquisitions was considered inadequate. As a minimum, supporting documentation should include a supplier's invoice as evidence of purchase. However, reimbursements by the Department to hospitals were made on the basis of quotes, purchase orders, pro-forma invoices from supplier's and hospital invoices; and
- ▶ Approximately 11 per cent of the examined payments lacked sufficient evidence to indicate that goods or services had actually been received.

3.11.8 The above deficiencies also create a risk of fraud, overpayments and duplication of payments. The computerised accounts payable system has a facility which identifies potential duplications of payments through matching of payments against a supplier invoice history. However, audit was advised that the operation of this facility is restricted by the Department in an effort to minimise computer processing costs. In such circumstances the risk of payment duplication increases.

3.11.9 In addition, an audit examination of cheques to a value of \$1.3 million cancelled during the year disclosed that a significant number of the cancellations resulted from incorrect payments and duplicate payments. Of particular concern was the fact that certain of these incorrect payments were not detected until cheques were returned at the initiative of suppliers and recipients of grants. As a result the actual level of incorrect payments that have occurred is unknown as all incorrect cheques may not have been returned by recipients.

3.11.10 The continuing incidence of problems involving the accounts payable function should also be viewed in the context of the *Report of the Auditor-General on the Treasurer's Statement, October 1990* which drew attention to duplicate payments of \$716 000 by the Department to the Metropolitan Ambulance Service in 1988-89. The deficiencies in the Department's management of substantial levels of expenditure need to be addressed urgently.

3.11.11 The coverage of the Department's financial systems undertaken by its Internal Audit Unit does not extend to an evaluation and testing of EDP functions, mainly because the Unit is not resourced with an EDP specialist capable of undertaking advanced EDP auditing techniques. Given the magnitude of annual payments processed by the Department such a function should be regarded as an essential element of the Internal Audit Unit's activities.

Management response

The EDP review undertaken by a private accounting firm on behalf of the Auditor-General mainly identified procedural as distinct from systems weaknesses and action has been taken by the Department to eliminate these deficiencies. The Accounts Payable function of the Department has undergone substantial change in the past 18 months, with many functions decentralised to operating managerial responsibility. In conjunction with this decentralisation process, the Department established an Accounts Payable policy and review unit to ensure compliance with procedures to maintain the integrity of the Accounts Payable function. Performance is continually monitored and corrective action taken where necessary.

The Department, through its user group co-ordination committee, reviews and updates its financial information requirements. Issues in relation to access, master file maintenance and disaster recovery have been raised with the Health Computing Services (HCS) and the Department is satisfied that suitable arrangements are in place to maintain the integrity of the system.

The main issue raised by the EDP review was in relation to the direct credit facility used for the payment of grants to public hospitals and other institutions, where secondary verification of grants payable was not in place. The production of a hard copy in conjunction with the disk transaction report will further minimise the risk of duplication, and steps have been taken to implement the process.

The Department, early in 1990, with assistance from the Comptroller-General's Division of the Department of the Treasury, reviewed the procedures in relation to payment from the Works and Services program. The Department has implemented the recommendation of the review for 1990-91. Grants to hospitals for equipment purchasing and works are being released in accordance with these revised procedures. The Department, through the Internal Audit Role and the Accounts Policy and Review Unit, monitors the performance of the Accounts Payable process to ensure compliance with government requirements.

The reference made to the under-utilisation of supplier invoice history matching system refers to the month of September, when only 60 days accounts payable history of transactions is automatically available, as all accounts to the end of June are archived at the end of August. The recommended practice is between 3 and 6 months. The facility, however, does exist for the Department to retrieve prior history when verification is considered necessary. In addition, Cost Centre managers have available on a monthly basis accounts payable transactions reports for verification purposes, thereby allowing the detection of overpayments or duplicate payments.

From October 1990 onwards, the history of transactions reports available is in accordance with recommended practices. To delay the archival process to the end of October would require considerable resources utilisation and with risk management practices and other control checks, e.g. sample checks of accounts by the Accounts Policy and Review Unit, the cost of maintaining the full history process for these 2 months is not warranted.

The FIMS system operates on a weekly cheque run basis. Where payments are required on an urgent basis, and the account has already been processed for computer application, it is necessary to produce off-line payments. The system generates a report to indicate that the account has been paid and that system generated cheques should be voided.

Where cheques are returned by the supplier, details are entered in the returned cheque register and the reasons for the overpayments are investigated and corrective action taken. The investigations conducted indicate that the majority of the overpayments were in respect of the cancellation of services, e.g. cancelled telephone lines, thereby requiring adjustments in respect of rentals. In other instances, cheques have been returned due to underpayments and replacement cheques issued. The incidence of duplicated payments has been minimal. Cost Centre managers, responsible for the authorisation of payments, are required to verify expenditure against detailed transaction reports and duplicate payments of a substantial nature can be avoided.

The Internal Audit Unit is continuing to provide existing Internal Audit officers with training in EDP audit techniques. Health Computing Services who provide the EDP processing facility engages systems auditors to ensure the integrity of the EDP systems in operation. In 1989 the Internal Audit Unit assisted the EDP systems auditors of Health Computing Services in the audit review of the FIMS system.

During 1990-91 Internal Audit conducted an audit of HDV operational controls associated with the input and processing of data into the general ledger system which incorporates accounts payable data and payroll details. The accounts payable system is audited centrally and at cost central level.

PUBLIC HOSPITALS

Compliance with legislative reporting requirements

3.11.12 All public hospitals within Victoria are subject to the provisions of the *Annual Reporting Act 1983* whereby they are required to present audited financial statements to Parliament by 30 September each year. During the years 1988-89 and 1989-90 this deadline was extended by the Treasurer to 31 October to enable hospitals time to adjust to the requirements of the reporting regulations and Australian Accounting Standards. Again, as in the previous year, the October reporting deadline was extended to 30 November 1990 to accommodate 74 of the 142 public hospitals that were not in a position to have their accounts certified by the Auditor-General by the due date.

3.11.13 Most hospitals throughout Victoria continue to experience considerable difficulties in preparing acceptable financial statements in a timely manner. This issue was also referred to in my *May 1990 Report on Ministerial Portfolios*, and it is disappointing to observe that substantial improvements in the standard of financial reporting have not occurred.

3.11.14 A major contributing factor to the financial reporting problems experienced by hospitals is an inherent conflict between the requirement for hospitals under Health Service Agreements to maintain accounting records on a *fund* accounting basis which is not compatible with records required to report on an entity basis in accordance with Australian Accounting Standards. Other factors contributing to this situation are seen as:

- ▶ A lack of priority assigned by certain hospitals to the preparation of financial statements, particularly in relation to the orderly planning of this function;

- ▶ Deficiencies in the financial skills of staff who are assigned the responsibility of preparing financial statements. Many hospitals still rely heavily upon auditors to provide the necessary guidance;
- ▶ Even though the Health Department Victoria provides comprehensive guidelines to complement the Annual Reporting Regulations, many hospitals view the absence of an Accounting Procedures Manual as a major impediment to timely financial reporting; and
- ▶ Inefficient and outmoded financial systems at a number of hospitals are incapable of providing detailed costing information on the various hospital functions, such as nursing home activities, for inclusion in financial statements.

3.11.15 The accountability of hospitals to Parliament and the public is largely dependent on the provision of accurate detailed financial information on a timely basis. For this process to be enhanced it is essential that the Health Department Victoria and the hospital industry allocate a high priority to revamping hospital financial information and costing systems along with a continuing program dedicated to improving the level of financial skills within hospitals.

Management response

The public hospital system generally applied a high priority to compliance with the Annual Reporting Act 1983 and Regulations. However, due to unforeseen circumstances and the need to clarify some accounting treatment issues a number of hospitals did not meet the deadlines. Many delays occurred in the provision of financial statements between the hospitals and the appointed audit agent, and between the agent and the Auditor-General's Office.

The application of the Annual Reporting Act 1983 requirements to the public hospitals necessitated a major change in the manner in which hospitals provide reports for public purposes. Due to difficulties experienced in the preparation of the 1988-89 statements, the guidelines issued by the Department to assist the hospitals and the format of the financial statements had to be extensively reviewed and approved by the Department of the Treasury. The response by the hospitals to the new guidelines and statements was extremely positive and, with a few exceptions, deadlines established were accepted. The detailed dissection of expenditure and receipts required to comply with the statements proved to be difficult to produce in many hospitals and the revision of hospital charts of accounts will be necessary.

The Department is reviewing the reporting guidelines and the accounting manual to assist hospitals to more readily comply with the reporting requirements in future years.

Need for clarification of hospital reporting entity

3.11.16 *My Report on Ministerial Portfolios, May 1990* drew attention to the problems confronting audit in determining the boundaries of hospital activities and audit responsibilities in relation to trusts, foundations, companies, hostels and private practice activities from which hospitals receive certain economic benefit. Although the Department has made an effort to address this matter the situation remains largely unresolved as evidenced by the following examples:

Royal Children's Hospital Foundation

3.11.17 As indicated in my previous Report the financial statements of the Royal Children's Hospital were qualified by audit in 1988-89 on the basis that the hospital did not treat as a subsidiary in its financial statement the Royal Children's Hospital Foundation Limited, a company limited by guarantee. The main source of income of the Foundation is the Royal Children's Hospital Good Friday Appeal, from which the hospital did not receive a distribution of proceeds in 1988-89. The Hospital strongly disagreed with the audit qualification at the time and obtained a legal opinion which stated that the Foundation could not be legally considered as a subsidiary of the hospital under the *Annual Reporting Act 1983*.

3.11.18 In September 1990 the Solicitor-General of Victoria confirmed the audit stance by providing an opinion to the effect that, as the Committee of Management of the Royal Children's Hospital was entitled to nominate a number of representatives on the Board of the Foundation, it followed that the Foundation was a subsidiary of the Hospital within the meaning of the *Annual Reporting Act 1983*. This opinion did not, however, have the effect of making the Foundation subject to the audit of the Auditor-General. **For this event to occur it would be necessary for the Treasurer to declare the Foundation as a public body within the meaning of the Annual Reporting Act 1983.** To date this has not occurred.

3.11.19 In 1989-90 the hospital received a distribution of funds of around \$10 million from the Foundation. However, despite the existence of a subsidiary relationship with the Foundation the Hospital did not include the transactions of the Foundation in its financial statements. As a consequence a qualified audit opinion was again expressed on the statements.

3.11.20 Audit reiterates its view that where public bequests or donations are provided for hospital purposes and generate benefits to public hospitals, accountability is best achieved by the reporting of such activities in financial statements forwarded to Parliament.

Alfred Group of Hospitals

3.11.21 In 1988-89 the financial statements of the Alfred Group of Hospitals were qualified due to the inability of audit to verify trust fund investments recorded in the balance sheet at \$2.6 million, but with a market value of \$8.3 million. The funds were held and managed by a trustee company. In October 1989 the hospital obtained a legal opinion which stated that the hospital:

- ▶ is not the legal owner of the funds;
- ▶ is not the beneficiary of the trusts;
- ▶ is not free to apply the funds for its own purpose;
- ▶ does not own or control any of the trusts (trustees are either a trustee company, individual members of the community or persons occupying staff positions within the hospital); and
- ▶ need only record in its financial statements trust income which was paid over to or expended by the hospital.

3.11.22 As a result of this opinion the hospital removed from its 1989-90 financial statements trust fund investments recorded as \$3.5 million, the market value of which was not available. Subsequently, a qualified audit opinion was expressed on the financial statements on the basis that as the hospital is the sole beneficiary of the income of these trust funds the investments should have been included in the balance sheet of the hospital. In addition, the hospital did not record as revenue interest totalling \$975 000 which was earned on these investments.

3.11.23 The audit stance taken in respect of the Royal Children's Hospital Foundation and the trust funds of the Alfred Group of Hospitals in the *Report on Ministerial Portfolios, May 1990* has recently been complemented by the release of a new Australian Accounting Standard on consolidated financial statements which is effective from the first accounting period on or after 30 June 1991. The Standard provides *inter alia* that where an organisation (such as a hospital) is able to enjoy substantially all, or the majority of the benefits of another entity (e.g. trusts, foundations, companies etc.) then it may be concluded that the organisation is, in essence, the controlling body. Accordingly the transactions, assets and liabilities of these separate legal entities are to be included in the consolidated financial statements of the reporting entity.

3.11.24 In view of the implications of the new Accounting Standard and in the best interests of public accountability it is important that the Health Department Victoria promptly identifies the various entities such as research institutes, foundations, trusts and companies that are established primarily for the benefit of public hospitals, for the purpose of establishing whether their financial operations should be consolidated in the financial statements of public hospitals presented to the Parliament.

- *Management response by the Department*

The definition of an accounting entity has been clarified by the recently adopted Australian Accounting Standard AAS24. The Department will review the application of this standard to the public hospital field to ensure compliance.

The Department understands that the Royal Children's Hospital now accepts that the Foundation must be included for the purposes of accounting entity reporting.

The Department also sought an opinion from the Solicitor-General Victoria regarding the Royal Children's Hospital Foundation Ltd. The opinion provided included, inter alia, the following:

"The Royal Children's Hospital is a public body within the meaning of the Act" (the Annual Reporting Act 1983). "The Royal Children's Hospital by its Committee of Management is entitled to nominate a number of representatives on the board of Directors of the company. It follows that the Company is a subsidiary of the Hospital".

The Department will therefore ensure that the consolidated financial statements are in future prepared by the Hospital and the Foundation in accordance with AAS24.

- *Management response by Royal Children's Hospital*

The Hospital stands by its substantial legal opinion from a reputable Melbourne Q.C. that the Royal Children's Hospital Foundation is not for the purposes of the Annual Reporting Act 1983 a subsidiary of the Royal Children's Hospital. Further legal advice to the Hospital indicates that it is also not possible under current legislation for the Treasurer to declare the Foundation as a public body within the meaning of the Annual Reporting Act 1983.

Nonetheless, it is acknowledged that a new Australian Accounting Standard AAS 24 will be introduced from the first accounting period after the 30 June 1991. This standard does provide a very broad definition of an entity for the purposes of consolidation and the Hospital acknowledges that this new definition will require consolidation of the Foundation's statements with those of the Hospital. The Hospital proposes to prepare its 1990-91 accounts in line with this new accounting standard despite it not being required to do so until the following financial year. It should be noted, however, that the requirement to consolidate financial statements in no way implies that the Hospital has any legal or management control over the Boards of the Research Foundation or the Royal Children's Hospital Foundation. Such a situation would seriously inhibit this Hospital and others ability to raise funds out in the market, particularly from the corporate sector.

Defalcations and losses

3.11.25 The Royal Women's Hospital has advised audit of an irregularity in relation to the Anaesthetics Private Practice arrangements. The irregularity involved an understatement of revenue of approximately \$835 000 over a period dating back to early 1985. Of this amount the hospital was entitled to approximately \$150 000 with the remainder due to the Private Practice Trust. To date an amount of \$138 000 has been recovered by the hospital. The Victoria Police Fraud Squad is proceeding with action against a former hospital medical practitioner.

3.11.26 Woorayl District Memorial Hospital at Leongatha advised audit of a suspected theft of \$19 660. Police were notified and an insurance claim has been lodged.

3.11.27 The Peter MacCallum Cancer Institute reported an irregularity in the vicinity of \$49 000 involving moneys due under a private practice arrangement. The medical practitioner involved resigned and is residing overseas. Recovery of the amount appears unlikely.

3.11.28 The Royal Victorian Eye and Ear Hospital advised of an alleged theft of moneys received in the hospital's pharmacy department during the period January 1989 to June 1990. It is anticipated an insurance claim for this theft will be settled for \$53 850.

3.11.29 Port Fairy Hospital advised of:

- ▶ An overpayment of \$22 132 to a former employee as a consequence of inaccurate data being provided as to long service leave and sick leave entitlements. The overpayment has since been recouped from the ex-employee. The Hospital Superannuation Board is continuing investigations into the superannuation entitlements of the same ex-employee.
- ▶ A former hospital executive retained possession of a hospital vehicle upon retirement. Following action by the Health Department Victoria the vehicle was subsequently reclaimed.

- ▶ The above former hospital executive was also responsible for controlling fund raising on behalf of the hospital from the local community. Due to the deficiencies in the accounting records and documentation concerning these activities an independent investigation was initiated by the Health Department Victoria.

Certain of the above matters have been brought to the attention of the police and investigations are continuing.

3.11.30 In addition, to the specific instances referred to, Table 3.11A sets out the following thefts and losses were also reported within the health sector in 1990:

TABLE 3.11A. THEFTS AND LOSSES IN HEALTH SECTOR

<i>Item</i>	<i>\$</i>
Hospitals -	
Losses and thefts of equipment and linen stocks	527 800
Losses and thefts of funds	79 500
Ambulance Service Victoria -	
Losses and thefts of equipment	5 500
Health-related institutions, including psychiatric hospitals	
Losses and thefts of equipment	110 300
Losses and thefts of funds	2 200
Total reported losses, thefts and misappropriations	725 300

3.11.31 The above statistics are not necessarily an accurate representation of total thefts and losses within the health sector because at date of preparation of this Report, 70 hospitals had not complied with Treasury Regulations by submitting returns (nil or otherwise) to the Auditor-General.

PRIVATE PRACTICE BY FULL-TIME MEDICAL PRACTITIONERS IN PUBLIC HOSPITALS

Background

3.11.32 Full-time medical practitioners employed by public hospitals have the ability under their conditions of service, subject to approval by hospital boards, to treat private patients within public hospitals and to bill such patients. All moneys received from the treatment of private patients are allocated between the doctor and the hospital according to an agreed percentage.

3.11.33 Private practice activities are mainly centred around radiology, pathology, anaesthetics, paediatrics and certain clinical services. These arrangements historically arose from a need to employ and retain high calibre medical staff within public hospitals and their ability to earn additional income from private practice was seen as an incentive to attract such persons, particularly in certain specialist fields. In addition, with the advent of Medibank in the early 1970s, public hospitals could no longer restrict admissions to persons qualifying under a form of means test, but were obliged to admit all persons irrespective of their income level or whether they were privately insured. The granting of private practice rights to salaried medical practitioners was seen as a mechanism by which the additional facilities required could be funded, particularly in the large teaching hospitals.

3.11.34 The granting of the right to salaried medical practitioners employed by public hospitals to earn additional income from the provision of medical services to private patients is a long standing practice in the Victorian public hospital system. **In 1989-90 private practice income of at least \$52 million was generated under these arrangements.**

3.11.35 The advantages to public hospitals and the health care system in general of permitting private practice in public hospitals are widely acknowledged. Apart from the benefits to doctors, hospitals also benefit from equipment acquisitions and research activities paid for from private practice funds and trusts. However, such activities need to be subject to certain safeguards and limitations bearing in mind that the treatment of private patients by specialist full-time medical officers can duplicate services offered by the private sector.

3.11.36 In an attempt to regularise the handling and disbursement of private practice income within hospitals in Victoria the *Dillon Committee* in 1959 recommended the retention of limited rights of private practice for certain full-time medical staff subject to certain principles (*Dillon Principles*). Health Department Victoria ratified these principles in the 1970s with some minor variations. The principles, as outlined below, form the basis of private practice arrangements in Victoria:

- ▶ Board approval is necessary before any full-time medical officer employed in a public hospital can engage in private practice;
- ▶ Each public hospital is to establish a trust fund into which private income is to be paid;
- ▶ The majority of trustees administering the trust arrangements are to be doctors;
- ▶ The first call on the income of each trust is to be the recoupment of hospital expenses, both direct and indirect, incurred as a consequence of the participating doctors engaging in private practice. This facilities charge (normally 60 per cent of gross fees received less administration costs) is intended to reimburse the hospital for the time lost by the hospital when its full-time medical officers are engaged in private practice, to recoup staffing costs and to cover overheads related to equipment usage; and
- ▶ The balance of the funds after payment of the facility charge is to be applied for the following purposes:

Benefit of medical practitioners

- A bonus of up to 25 per cent of normal salary of individual practitioners. Under certain circumstances, e.g. pathology services provided to associated hospitals of a base hospital, an additional 10 per cent of salary could be earned;
- Payment of subscriptions and dues for membership of professional organisations;
- Purchase of text books, professional journals and periodicals used in the work of participating practitioners; and
- Costs of travel for professional purposes within Australia and overseas.

Benefit of hospital

- provision of medical facilities and equipment; and
- conduct of medical research and education programs.

3.11.37 In essence, the primary purpose of hospital boards sanctioning private practice in public hospitals is to encourage the retention of full time specialist practitioners in the public health system through the provision of benefits and bonuses funded from Medicare rebates. The provision of these additional benefits also partially addresses the perceived disparities in income between salaried doctors and medical specialists from the private sector who invariably pay no facility charges for the use of public hospital facilities, as agreed to by the former Hospitals and Charities Commission in 1977.

3.11.38 Audit conducted a review of private practice arrangements in selected large hospitals, with concentration upon the adequacy of policies, procedures, controls and accountability relationships governing private practice arrangements. Particular emphasis was given to the benefits perceived to be available to hospitals from such arrangements. Although visiting medical officers also participate in private practice in public hospitals, the audit review was restricted to full-time salaried medical officers.

Overall conclusions

3.11.39 The audit review concluded that **there are serious deficiencies in the manner in which private practice activities within the public hospital system have been controlled to date and that, with certain exceptions, many hospitals have not received material benefits after recoupment of facility charges from such activities.** Although the Health Department Victoria has recently attempted to address certain of these deficiencies, many problems still remain for the hospitals involved with these activities.

3.11.40 Salaried doctors do not have an automatic right to engage in private practice, it is a privilege granted by hospital boards. In return for the granting of that privilege, hospital boards are entitled to expect that all private practice arrangements provide for proper accountability. **The review disclosed that accountability for private practice operations was seriously lacking in most hospitals due to a diversity of accounting systems and procedures, inadequate financial records, poor management controls, deficiencies in billing procedures, obscure agreements with participating medical practitioners, and hospitals not having access to records maintained by private practice trusts.** This situation has led to instances of fraud and hospitals being unable to determine whether they are receiving their full entitlements under such arrangements.

3.11.41 The operation of private practice trust funds as separate legal entities distinct from hospital influence gives rise to concerns as to the obligations of hospital board members as trustees, the taxation obligations of trustees and the status of hospitals as group employers in relation to income earned by their employees from the treatment of private patients.

3.11.42 The review also concluded that:

- ▶ **The recent development in relation to the privatisation of public facilities in public hospitals resulting in additional benefits to doctors is contrary to the intentions of the Medicare Agreement; and**
- ▶ **Facility charges recouped by hospitals from private practice earnings have not been costed or evaluated for many years, which may have resulted in the Victorian taxpayer subsidising certain private practice operations.**

Diversity of existing arrangements

3.11.43 Although policy circulars were issued to hospitals many years ago, the Health Department Victoria up until December 1990 had not been concerned with the monitoring of private practice arrangements within hospitals, preferring to leave such arrangements to the discretion of hospital boards.

3.11.44 Despite the instruction by the Health Department in 1970 to establish separate trust funds under the control of medical practitioners many hospitals, particularly in country regions, did not take this action, preferring instead to establish special purposes funds and other arrangements that were usually under the control of hospital boards.

3.11.45 The establishment of special purposes funds in preference to trusts was influenced by a legal opinion in 1973. This opinion stated in effect that as most private patients were seen to be utilising the services of a hospital rather than a specific medical practitioner it could be argued that even though an account for medical services must be rendered in the name of a practitioner under the *Health Insurance Act 1973*, the fees were properly payable to a hospital. Accordingly, a hospital board would not be acting correctly in allowing its funds to be transferred to a separate legal entity such as a trust over which it had no control.

3.11.46 The audit review disclosed that, apart from arrangements established under a trust deed, most of the hospital boards did not have formal legal agreements with doctors engaged in private practice. In other cases, verbal permission was apparently granted or documentation merely authorised individual practitioners to engage in private practice subject to broad observance of the *Dillon Principles*. Documentation was often lacking or obscure as to its intention.

3.11.47 The lack of adequate documentary evidence relating to private practice arrangements places hospital boards in a position of not being able to either enforce accountability requirements or to ensure that the interests of the hospital are protected.

Accountability for billing of private patients

3.11.48 Under the *Health Insurance Act 1973* an account for medical services provided to private patients must be rendered in the name of the doctor providing the service, otherwise a medical benefit is not payable. Moneys received are thereby regarded as gross income earned by a doctor.

3.11.49 Where trust arrangements have been established it is usual for the participating doctors to bill the patients and after deduction of administrative expenses the hospital receives a proportion of the income as a facility charge. Where arrangements other than trusts exist a variety of billing arrangements can occur including:

- ▶ The doctor bills the private patients, collects all revenue and then pays the hospital its share of the gross receipts.

- ▶ The doctors consent to a hospital acting as their agent in the billing and collection of moneys. Cash received may then be:
 - Deposited intact in a hospital bank account and a cheque drawn for the doctor's share; or
 - The hospital receipts only its share of the income and pays the balance to the doctor; or
 - All moneys received are paid into a doctor's bank account. Reliance is then placed on the doctor to deduct administrative costs and pay the hospital facility charge from the balance of funds held.

3.11.50 The variety of billing methods and accounting procedures employed exposes certain serious deficiencies as detailed hereunder:

- ▶ **The audit survey of hospitals disclosed widespread evidence that hospitals could not be certain in all instances that the provision of private patient services resulted in a billing.** While some of the hospitals had sophisticated computerised billing systems, particularly in relation to pathology, in most cases manual procedures were employed with reliance upon the individual doctors to advise the hospital as to what private patients were to be billed. There was little evidence of any attempt by hospital staff to selectively check patient records (if access was permitted) in order to verify billings. **In addition, where accounting systems were controlled solely by medical practitioners, experience has shown that systems were often inadequate, lacking in internal controls and management trails, and were not capable of providing timely financial information.** The 1989-90 financial statements of 2 major hospitals were qualified due to inadequacies in financial records and the consequent inability of the private auditors of the special purposes funds to determine what medical services were unbilled or what accounts were owing at balance date.
- ▶ **In a situation where a doctor raises accounts and directly receives all remittances, the hospital is not able to establish whether it actually receives the level of income to which it is entitled.** In addition, particularly where trusts are established, the hospital may not have legal right of access to patient records in order to determine the level of accounts raised.

For example, a major hospital did not provide access to the practitioners' accounting records. As a result, it was not possible for audit to determine whether the amount the hospital received was the full amount due under the private practice arrangements.

- ▶ Where accounting records for private practice operations are not maintained by hospitals, e.g. trusts, partnerships, companies etc. as a minimum audited financial statements should be provided to hospital boards. **Audit observed that not all private practice arrangements operating as separate entities were audited nor were financial statements normally forwarded to hospital boards** so as to establish *prima facie* evidence that the hospital is receiving its proper share of proceeds. It was also noted under the *Dillon Principles* that where trusts were formed there was a requirement that audited financial statements were to be forwarded to the Health Department Victoria. This requirement has not been adhered to, nor is the Department aware of all the trust arrangements operating within the hospital system.
- ▶ Financial statements relating to private practice trusts are commonly prepared on a cash basis only. Therefore, amounts owing under these arrangements are not disclosed as debtors in hospital financial statements.

3.11.51 The deficiencies in accounting systems, procedures and controls as referred to above create opportunities for fraud. As referred to previously in this Section of the Report, the Royal Women's Hospital and the Peter MacCallum Cancer Institute have reported irregularities in relation to private practice arrangements of approximately \$835 000 and \$49 000 respectively, as a direct result of system deficiencies.

3.11.52 Medical practitioners employed by public hospitals on a salaried basis do not have an automatic right to private practice; it is a privilege granted to them by the respective hospital boards. As such it is proper that hospital boards should be entitled to demand full accountability for the hospital's share of income earned and entitlements arising from such arrangements.

3.11.53 If proper accountability is to be achieved, hospitals need to be encouraged by the Health Department Victoria to establish procedures and systems to ensure that all medical services rendered to private patients are appropriately classified and billed in a timely manner, with gross income accounted for at a single, central receivable point with the hospital acting as an agent. Furthermore, hospitals should have the right to deduct their share of proceeds at point of receipt, with the balance being paid to participating doctors. Audited financial statements of trusts and other arrangements need to be forwarded to hospital boards as a condition of any agreement to permit private practice.

Deficiencies in trust arrangements and impact on hospitals

3.11.54 The main advantage to medical practitioners of establishing trusts, apart from taxation reasons, is that they are separate legal entities outside the control or direction of hospital boards with moneys collected and disbursed at the discretion of the trustees, the majority of which are the participating doctors.

3.11.55 Although many hospitals did not enter into trust arrangements as advocated under the *Dillon Principles*, trust arrangements are usually found among the large metropolitan hospitals where there is a high influx of privately insured patients. The establishment of trust arrangements can cause certain problems for hospitals, as detailed below.

Legal and taxation implications

3.11.56 The legal requirements and taxation implications for trustees and hospitals arising from the establishment of trusts are perplexing. The 1984 Penington Inquiry into the right of private practice in public hospitals sought advice from the Taxation Department which, although not conclusive, indicated that gross fees billed in the name of a doctor were assessable income of a doctor despite being paid into a trust. However, if the trust applied the moneys earned towards expenses which were normally of a deductible nature (i.e. payment of facility charge to hospital, administrative costs, donations towards a hospital in the form of medical equipment and research and payment of doctor subscriptions, text books, travel etc.), participating doctors were only assessable on amounts received from trusts in the form of bonuses. **Under trust law any undistributed income at the end of a financial year would be subject to tax at the highest marginal rate.**

3.11.57 While audit's access to financial information was limited, the review found that generally expenditure was in accordance with trust provisions and was of a nature that could be claimed as a tax deduction. Exceptions were:

- ▶ Accumulation of substantial funds for the purpose of funding sabbatical and other leave where extensive travel was proposed;
- ▶ Payment of expenses which could be considered of a personal nature and eligible for fringe benefits tax, e.g. parking fees, entertainment; and
- ▶ Provision of motor vehicles to participating doctors for both business-related and personal use. This aspect also has implications for fringe benefits tax, as exemptions from fringe benefits tax available to hospitals would not extend to a trust which is a separate legal entity. Other trusts have overcome this problem by registering vehicles in the name of the hospital.

3.11.58 Trusts are exempt from taxation on undistributed funds if they are primarily formed for charitable purposes and the Commissioner for Taxation has granted an exemption. Legal advice examined during the review indicated that as most private practice trust deeds provided for the disbursement of funds for the primary benefit of a charitable organisation, i.e. a hospital, they could be regarded as being in the nature of a charitable trust notwithstanding the fact that certain disbursements were for the benefit of doctors. If this advice is subsequently proven to be correct, the following implications could arise for trustees who are also hospital board members:

- ▶ Trust funds are neither the property of participating doctors nor of the hospital and the onus is on trustees to administer funds strictly in accordance with a trust deed. **The consistent payment of benefits to doctors, including trustees who are participating doctors, without adequately considering the needs of the charitable institution (hospital) could represent a misuse of position by trustees and require repayment of benefits received;**
- ▶ Trustees could be liable for prosecution under trust law if any disbursements were made other than provided for in trust deeds; and
- ▶ Trustees and relatives of trustees are normally precluded from receiving distributions from charitable trusts. As it is common for trustees to be participating doctors who receive distributions from trusts in the form of bonuses, their right to receive such benefits would need to be clarified with the Attorney-General who is responsible for all charitable trusts. The position of hospital board members who sanction such payments as trustees would also need to be clarified.

Specific problems arising from trust arrangements

3.11.59 It is strongly emphasised that the audit review was not concerned with the taxation affairs of private individuals, but was directed towards the impact of trust activities on hospitals and hospital board members who acted as trustees. The audit review of information provided in respect of existing trusts disclosed the following serious matters:

- ▶ **With a number of trusts the hospital received either no benefit or immaterial benefit in the form of the provision of equipment or research activities after benefits and bonuses to doctors were paid.** The payment of a facility charge to a hospital cannot be deemed a benefit as it is merely a recoupment of costs;
- ▶ Even where equipment purchases were made from private practice activities, such purchases generally benefited those departments where private practice activities occurred. This aspect was further emphasised in that **certain trust deeds specified that moneys could only be applied towards the purchase of equipment and provision of facilities to improve "private patient" services provided by the hospitals.**

- ▶ Interest earned on trust investments is taxable unless a trust is deemed by the Australian Taxation Office as operating for public charitable purposes. While certain trusts overcame this potential liability by donating interest earnings to hospitals, it was common for other trusts to retain interest in accumulated funds;
- ▶ Most trusts examined by audit had accumulations of undistributed funds in the form of cash, investments, or of an equivalent nature ranging in value from insignificant amounts up to the largest balance of \$1.7 million. Under taxation law, this undistributed income would be subject to tax unless it could be proven that the funds were held for charitable purposes. **The issue here was not for audit to identify potential taxation liabilities, but to draw attention to the undistributed funds that could be applied towards the benefit of hospitals in accordance with the intention of trust deeds;**
- ▶ Although uncommon, certain payments authorised by trustees did not comply with trust deed provisions, e.g. one large trust provided for an *ex gratia* bonus, based upon service, to members leaving hospital employment; and
- ▶ Audit experienced considerable difficulty in obtaining financial statements on all trust operations examined, mainly because statements had not been finalised. The availability of audited information to hospital boards and trustees on a regular basis is important for ensuring that trust deed provisions as to disbursement of funds are being complied with and hospitals are receiving benefit.

Restrictions on hospital benefits

3.11.60 Trust participants were usually radiologists and pathologists, with limited participation from other medical disciplines. This situation arises as radiology and pathology provide the most scope for private practice earnings. As a result, doctors from other disciplines, e.g. clinical services, are often not admitted as trust members due to their limited ability to generate significant trust income and as a consequence any bonus distributions would be disproportionate to their contribution to the trust. Exceptions to this situation can be found in country base hospitals whereby private practice funds can be directed towards subsidising the income of medical directors who are often hard to attract to country locations.

3.11.61 As a direct consequence of the above practice, any hospital benefits in the form of equipment or research facilities are likely to be directed by the trustees towards the areas where a high level of private practice activities occur, to the possible detriment of other hospital facilities where demand or need may be greater.

Liability of hospitals as group employers

3.11.62 Moneys earned from private practice by full-time medical officers are a direct result of their employment by a hospital board of management. It could be argued that, **notwithstanding the fact that accounts must be sent in the name of a doctor, the status of a hospital as a group employer responsible for deduction of tax from its employees' earnings remains unaltered.** This view was supported by advice from the Australian Taxation Office obtained by one of the hospitals included in the audit survey. As a consequence of the advice, this hospital pays doctor bonuses through its payroll system with tax levied accordingly. This procedure is not uniform, with most hospitals and trusts not deducting tax from bonuses, nor for that matter issuing statements of earnings or including bonuses on group certificates. Audit has no issue with the fact that declaration of earnings is a doctor's own private and confidential business. **However, the potential liability of hospitals as group employers in relation to employee earnings directed to trusts and special purpose funds should be legally established beyond doubt.**

Medicare Agreement

3.11.63 Under the Commonwealth Government's Medicare policy, universal access to public hospital in-patient and out-patient services is provided free of charge to all Australian citizens. The Agreement also ensures that privately insured patients have the same right of access to public hospitals as do public patients. The funding of public hospitals is primarily a State responsibility, with the Commonwealth Government providing supplementary funding in the form of:

- ▶ *Financial Assistance Grants*, a proportion of which is applied by States towards public hospitals; and
- ▶ *Specific Purpose Grants*, which mainly comprise Hospital Funding Grants payable under the Medicare Agreement.

3.11.64 The provision of medical services to private patients is funded predominantly from hospitals recouping facility charges from Medicare rebates received by doctors engaged in private practice activities.

3.11.65 **As a consequence of the above funding arrangements and the existing economic climate it can be advantageous for hospitals to actively encourage private practice so they can obtain benefit from the income received by practitioners from Medicare rebates. From the State's viewpoint its decreasing ability to fund facilities in public hospitals can be partially offset by the benefits to hospitals from private practice arrangements. However, it was of concern that an entrepreneurial approach had been taken by one of the hospitals in the audit survey in privatising clinical outpatient services from January 1991.**

3.11.66 The hospital advised patients and referring doctors that the public specialist out-patient services were no longer to be provided. Instead, the out-patient clinics were to be run as a private consulting service with patients being billed the Medicare rebate. While the motive of the hospital in taking this action was stated as a means of improving the quality of service, such action also boosts the benefits and bonuses available to salaried medical practitioners participating in such arrangements.

3.11.67 The above action is contrary to the spirit of the Medicare Agreement which clearly states that any eligible person who elects to be a public patient will be entitled to receive, without charge, care and treatment in a public hospital including the provision of out-patient services.

3.11.68 The actions of some Victorian public hospitals in privatising certain services, and thereby indirectly benefiting medical practitioners employed by such hospitals needs to be addressed by the Health Department Victoria in consultation with the Commonwealth Government.

Management response

The Medicare Agreement between the State and the Commonwealth ensures that hospital care and treatment in the State is available to all eligible persons. This care and treatment must include the provision of inpatient, outpatient, casualty and emergency and day patient services in metropolitan and rural areas of the State, consistent with acceptable medical and health practices in the State. The provision of public emergency care for Victorians is one of the most important objectives of Victoria's health and hospital system.

The 1990-91 health budget included provision for targeting of non-priority services including some general outpatient services to reduce duplication and overlap with non-hospital services.

The issues raised in respect of outpatient services are symptomatic of a broader problem relating to inappropriate incentives enshrined in the current division of responsibilities between the Commonwealth and States. The issue of outpatients is being reviewed by the National Health Strategy and it may also be examined by the Functional Review established as part of the Special Premiers' Conference processes.

Cost shifting between the Commonwealth and State Governments, although rational to the shifter, may not be rational in overall systems terms.

Facilities charge

3.11.69 The facilities charge is meant to represent the recoupment of costs incurred by a hospital arising from private practice activities by its medical officers.

3.11.70 The audit review disclosed that while most hospitals followed the 60/40 basis of recoupment of facility charges which arose as a result of the "Dillon Principles", various other arrangements also existed and many inconsistencies were noted. In areas of practice such as clinical services, the hospital portion ranged from zero to 100 per cent recoupment, with the most common recoupment being 20 per cent of gross fees in recognition of the lower cost of providing hospital facilities for that form of practice. In one hospital there was no facility charge imposed for certain clinical services as the hospital considered it was adequately compensated through the bed day charge. In other hospitals the recoupment was 100 per cent on the understanding that the fees would be applied towards new equipment and facilities for the specific hospital departments.

3.11.71 Where expensive medical equipment, e.g. CAT scanners and Magnetic Resonance Imagers (MRIs) are used there is a recognition that operational costs are high and the hospitals normally recoup 84 per cent of gross fees. However, again this practice is not consistent as other hospitals recoup only 60 per cent of gross fees derived from use of CAT scanners.

3.11.72 Audit observed that the adequacy of facility charges imposed have not been evaluated within the hospital industry. The 60 per cent facility charge which arose from the *Dillon Principles* has remained unchanged for over 30 years. Where other percentages have been applied under individual arrangements audit established that they were either negotiated with the medical practitioners or were based upon established rates in other hospitals rather than from a detailed costing of the facilities provided. With the introduction of high technology medical equipment the cost of providing most medical services has spiralled. As a result, it is highly probable that hospitals are not always recouping costs incurred in providing facilities for private practice which results in subsidisation of private practice activities by the Victorian taxpayer. The costs incurred by hospitals in providing facilities cannot be readily established due to inadequate costing procedures and deficient management information systems within most hospitals.

3.11.73 It is important that the levels of facility contributions be investigated and that costing guidelines on facility charges are subsequently issued by the Health Department Victoria.

Management response

Facility charges represent recoupment of cost incurred by hospitals arising from approved private practice activities by medical officers.

The 60/40 basis of recoupment is a longstanding arrangement. However, it is recognised that the current proportions of recoupment need to be reviewed. This will be done in consultation with the Victorian Hospitals' Association and the Australian Medical Association.

New arrangements

3.11.74 The Health Department Victoria and its predecessors have long been aware of the problems associated with private practice in public hospitals as enunciated in this Report. **However, there has been a general reluctance by the Department to act on problems identified or to monitor or intervene in arrangements negotiated between hospital boards and medical practitioners, primarily due to the sensitivity of the issue and the potential threat of industrial disputes with doctors employed in the public health system.** A consultative group comprising representatives of the Health Department Victoria, Victorian Hospitals Association (VHA) and the Australian Medical Association (AMA) was established in 1981-82 to provide the Department with recommendations as to the policy to be applied. **Nevertheless, 9 years elapsed before the Department, in December 1990, issued a policy directive advising hospitals on the conditions under which full-time specialist medical staff could engage in private practice.**

3.11.75 The policy directive was aimed mainly towards hospitals where new private practice arrangements were contemplated or where existing situations required amendment. The policy was not designed to alter existing arrangements established under Trust Deed or other legal agreements.

3.11.76 The new directive provided for an agency agreement with the following conditions:

- ▶ The participating doctor (or body corporate) to agree to the hospital acting as an agent in the collection and disbursement of moneys received from accounts rendered to private patients in the name of the medical practitioner;
- ▶ Fees received by the hospital to be deposited in a hospital-administered bank account entitled "*Special Purposes Fund (Medical)*";
- ▶ The Special Purposes Fund to be administered by a Special Purposes Committee comprising representatives of the Board and participating medical practitioners, with the practitioners to be in the majority.
- ▶ The Special Purposes Fund to be applied as follows:
 - In the first instance the hospital is to be reimbursed for facility charges incurred as agreed to under to guidelines issued by the Health Department Victoria (normally 60 per cent of gross fees less administration costs);
 - The Special Purposes Committee could apply all or any of the remaining funds towards bonuses to doctors (maximum 25 per cent of gross salary) subscriptions, text books and magazines, educational programs, professional development and travel within Australia or overseas for professional purposes;
 - The balance of the Fund (if any) is to be donated as a gift by the practitioner to the hospital prior to 30 June each year;

- Any *gifts* received by the hospital are to be applied by the hospital board within the context of hospital priorities towards medical research, purchase of medical facilities, equipment and the continuing education of full-time medical officers. **In administering the funds the boards are compelled to act only upon the advice of an advisory committee consisting of representatives from the board and participating practitioners.**

3.11.77 The Special Purposes Fund is to be regarded as a separate fund outside the hospital reporting entity as defined in the *Annual Reporting Act* 1983. As such, it will not be subject to audit by the Auditor-General. Copies of the audit reports are to be provided to the hospital board.

3.11.78 The Department's policy directive is a positive and much needed initiative which provides a framework for resolving certain of the deficiencies identified by audit. However, the directive also effectively perpetuates the existing trust arrangements which audit regards as unsatisfactory as outlined previously in this Report. In addition, the directive does not address the following matters of serious concern:

Accountability

3.11.79 In 1988 in response to audit requests to define the hospital reporting entity the Department advised that, with the exception of where separate legal entities existed, e.g. trusts, the Auditor-General was responsible for the audit of all special purpose funds. The Department's intention as outlined in the new policy directive is to treat these Special Purposes Funds as a separate activity distinct from hospital operations. **Audit considers this action to be a retrograde step in terms of public accountability given that:**

- ▶ Hospitals are obliged to treat private patients and notwithstanding the fact that accounts must be rendered in the name of the hospital practitioners, private practice activity is a normal part of hospital operations sanctioned by hospital boards;
- ▶ As all gross fees are paid into the Special Purposes Fund and subsequently disbursed to the hospital, the Auditor-General needs to be satisfied that the hospital is recovering its proper share of income, including accrued revenue. In view of the history of poor administration of these activities where controlled external to the hospital, it is considered that proper accountability can best be achieved by the funds being included in the scope of the hospital audit undertaken by the Auditor-General; and
- ▶ The hospital administers the Fund, has hospital board representatives on the Special Purposes Committee controlling the Fund and receives material benefits from the disbursement of the funds. It is considered that Fund activities should therefore be regarded as part of the reporting entity and included in the hospital financial statements in accordance with the new Australian Accounting Standard on consolidated financial statements, which is operative from the first accounting period after July 1991.

Management response

The Health Department Victoria circular in respect of the conditions of operation of private practice funds states that the Special Purposes Fund be audited as a separate non-hospital fund at least yearly with a copy of the report forwarded to the Board of Management of the hospital as soon as practicable.

Health Department Victoria policy is that Special Purposes Funds established under full constructed Trust Deeds, properly drawn legal Agreements and approved agency arrangements will not be included within the annual returns of hospitals and therefore will not be subject to audit by the Auditor-General.

It is essential, however, that the Special Purposes Funds be properly audited to ensure proper accountability is achieved in management of these funds. This should include certification that all moneys due to the hospital have been paid.

Taxation implications

3.11.80 The policy directive does not provide any specific advice on taxation implications other than to suggest that this responsibility rests in the hands of participating medical practitioners and their financial advisers. While it is acknowledged that the taxation affairs of individuals are their own responsibility, **the central issue is the impact of taxation law under the new arrangements upon hospitals as group employers and the hospital board members who act as trustees.**

3.11.81 Audit was advised that the Department did not seek its own advice from the Australian Taxation Office but preferred to rely on advice given to the Australian Medical Association in 1989. Taxation implications are considered by audit to be:

- ▶ If the Special Purpose Fund is regarded as part of hospital activities the hospital would most likely have a responsibility as a group employer to deduct tax from bonuses paid to its employees;
- ▶ Legal advice examined by audit suggests that although establishment of trusts is not contemplated by the Department under the new directive, at law the new Special Purposes Fund could be regarded as a *constructive trust* (i.e. an arrangement which has most of the characteristics of a trust except for a trust deed). In effect, the Special Purposes Committee performs a similar function to a trustee. **If a constructive trust is deemed to exist then trust law applies in relation to administration of the funds and the need to lodge an annual tax return;**
- ▶ The new arrangement contemplates a *gift* to the hospital of undistributed funds (if any) prior to the end of the financial year. In the absence of a gift these funds would be taxable either as part of the income of the individual doctors or as the undistributed balance of a *trust*. Queen's Counsel advice examined by audit indicated that for a gift to be allowable as a tax deduction the donation must be voluntary and an act of benevolence. In addition, the donor is not to receive any benefit, advantage or privilege other than a tax deduction as a result of the *gift*.

As the agency agreement issued in December 1990 specifically provides for the doctor to direct the hospital to withdraw the residue of the Special Purposes Fund prior to 30 June each year and to apply that amount as a *gift* to the hospital, it is considered that this is a condition of contract rather than a voluntary action. Also, as the hospital board cannot apply such funds unless acting on the advice of the Advisory Committee (which includes doctor representatives) it would be common for funds expended on professional development, medical facilities and equipment purchases to benefit the same doctors engaged in private practice who made the gift.

The taxation implications of this action could impact upon hospital board representatives who serve on advisory committees and the ability of hospitals to benefit from such funds. It could also encourage situations whereby every effort will be made by fund participants to ensure there is no residue of funds available for gifting to hospitals.

Lack of incentive to join Special Purposes Fund

3.11.82 The policy directive contemplates the establishment of a single fund unless there are compelling reasons to the contrary. **While audit generally agrees with this concept as it provides greater scope for funds to be directed towards hospital priorities rather than specific departments, industrial problems have arisen where doctors object to subsidising the bonuses of colleagues in other departments with limited scope for private practice.** As a result, certain groups of doctors are likely to remain in existing trust arrangements and to limit new admissions to trusts to doctors who can generate significant income for the trust.

Relevance of HDV guidelines

3.11.83 The policy directive provides for the facility charge payable to the hospital to be made pursuant to guidelines issued by the Health Department Victoria. **There have been no guidelines issued by the Department since 1972.** As previously referred to, audit questions the relevance of continuing to apply a 60/40 allocation devised 30 years ago as it could lead to indirect public subsidisation of the private incomes of individual doctors in many situations. In addition, the circulars issued many years ago do not reflect modern accountability requirements or the changes in hospital environments that have occurred since.

Management response

Existing private practice fund arrangements fall into a number of categories encompassing:

- *fully constructed Trust Deeds;*
- *legal Agreements properly drawn;*
- *agreed administrative protocols with or without attending documentation;*
- *individual hospital bank accounts; and*
- *loose/unstructured hospital instructions.*

Often the arrangements display various permutations of the above.

The purpose of establishing the new arrangements relating to rights of private practice is to provide hospitals and medical practitioners a precise view of the arrangements which Health Department Victoria, the Australian Medical Association (Victorian Branch) and the Victorian Hospitals' Association believe are necessary to satisfy a reasonable standard of operation.

Hospitals with arrangements which fall into one of the first 2 categories above will need to consult with participating medical practitioners to seek their advice as to whether such Trust Deed or legal Agreement arrangements comprise a reasonable standard of operation. The responsibility to ensure that such existing arrangements are of a reasonable standard ultimately lies in the hands of participating medical practitioners and their advisers.

Hospitals with arrangements which fall into one of the remaining 3 categories will need, after consultation with, and the agreement of currently participating medical practitioners, to review and amend those arrangements consistent with the standards of the rights of private practice of full-time medical specialists.

Medical practitioners pursuing a right to private practice who are currently not participating in an existing Trust Deed or legal Agreement arrangement should be advised that the hospital will offer a private practice fund arrangement.

An exception to this general principle is that there may be, from time-to-time, medical practitioners who wish to join in an existing Trust Deed or legal Agreement arrangement. In those circumstances it is the responsibility of such medical practitioners to satisfy themselves that the operation of those existing arrangements represents a reasonable standard of operation.

PUBLIC NURSING HOMES IN VICTORIA

Background

3.11.84 An important component of health services within Victoria is the provision of residential care services for aged persons through a network of both public and private nursing homes and hostels. Private nursing homes are either run by benevolent organisations or on a commercial basis. Nursing homes cater mostly for aged persons requiring extended care involving high nursing dependency but who do not warrant admission to acute care hospitals. Aged persons requiring lesser levels of care are better suited to being placed in hostels. Public nursing beds currently represent approximately 33 per cent of total nursing home beds in Victoria, a figure which is significantly higher than the national ratio of around 18 per cent.

3.11.85 In 1989-90 operating costs, including allied health services, associated with public nursing homes and hostels were approximately \$230 million which were funded in the manner shown in Table 3.11B.

TABLE 3.11B. OPERATING COSTS OF PUBLIC NURSING HOMES AND HOSTELS, 1989-90

<i>Item</i>	<i>\$million</i>
Resident fees and other revenue	41
Commonwealth Government subsidies	87
State contributions	102
Total	230

3.11.86 The Commonwealth Government provides patient subsidies to both public and private nursing homes. Private nursing homes are subsidised by the Commonwealth on the basis of what is known as Care Aggregated Module (CAM)/Standard Aggregated Module (SAM) funding arrangements. The CAM component is designed to cover the costs associated with direct patient care including salaries, wages and associated costs. The component is adjusted according to standard nursing care hours required to treat 5 levels of patient dependency, ranging from category 1 (being a patient who may need 27 hours of nursing a week) to category 5 (being a patient who only requires 9 hours per week). The SAM component (currently \$33.64 per patient per day) is aimed at covering the remaining overheads associated with operating a nursing home, including in the instance of the private sector, a profit margin.

3.11.87 Since 1985 the Commonwealth benefit for patients in public nursing homes has remained frozen, resulting in a substantial increase in State contributions. Following extensive Commonwealth/State negotiations since that date agreement was eventually reached whereby a modified CAM/SAM funding arrangement was introduced from 1 January 1991 to 295 new public nursing home beds. The extension of CAM/SAM funding to all public nursing homes is a future consideration which may largely depend upon whether the Commonwealth Government accepts overall responsibility for residential care. All States are continuing bilateral negotiations on this issue.

3.11.88 In addition to the provision of patient subsidies the Commonwealth Government also regulates the provision of residential care in each State through the following mechanisms:

- ▶ Commonwealth Government approval which is required for the opening of new nursing home and hostel beds. In this regard there is a limit imposed of 100 beds per 1 000 head of population aged over 70 years, allocated as 40 nursing home beds and 60 hostel beds. The Commonwealth Government will not fund any new beds in any region where these limits would be exceeded;
- ▶ Monitoring of overall State-wide levels of nursing home and hostel beds;
- ▶ Capital assistance from Commonwealth Government sources for new public and private nursing homes; and
- ▶ Monitoring of the performance of private nursing homes.

3.11.89 An audit review undertaken during 1989-90 encompassed an evaluation of Health Department Victoria residential care programs, strategies, nursing home building programs and funding allocations.

Overall conclusion

3.11.90 The audit review of public nursing home operations in Victoria concluded that there is a need for the Health Department Victoria to undertake a major policy review as to the future directions of residential care programs. The existing program in relation to the utilisation of public nursing homes contains many inherent deficiencies as to resource utilisation, inefficient practices and lack of management information systems from which informed decisions as to nursing home performance could be made. Addressing these issues could result in savings amounting to many millions of dollars for Victoria without impacting on standards of residential care.

Health Department Victoria policy and planning strategies

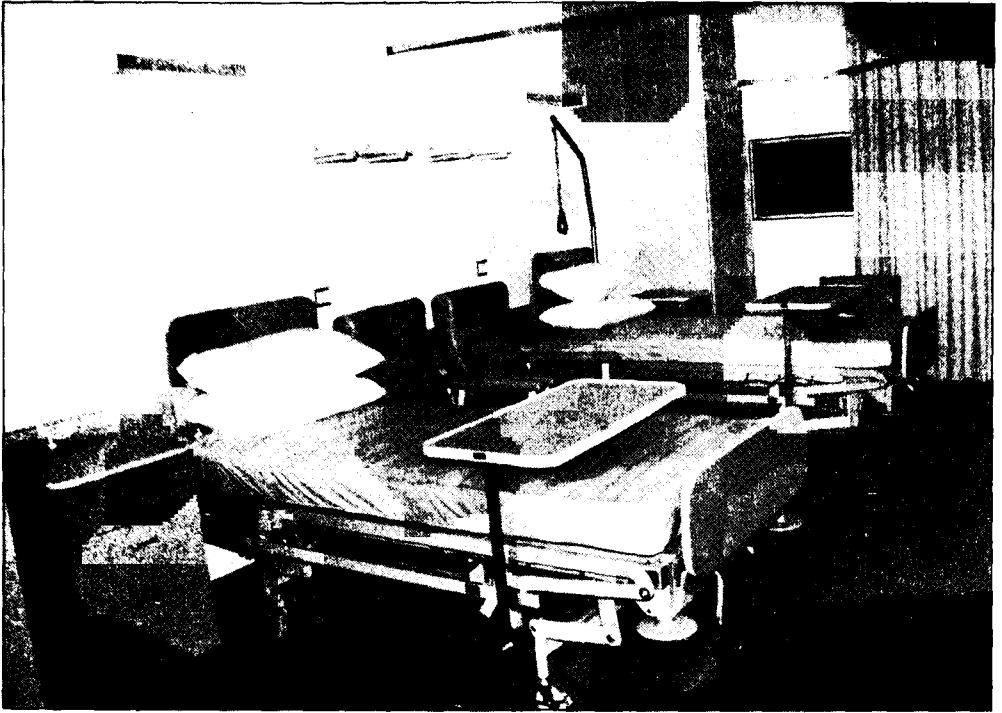
Lack of planning strategies and policies

3.11.91 Demographic data published by the Department of the Treasury indicates that the proportion of persons over the age of 65 is progressively increasing, thereby adding to increasing demands for the provision of residential care services. It is calculated that by the year 2001 nearly 10 per cent of the population will be aged 65 or older. As such the development of State-wide planning strategies on a co-ordinated basis with the Commonwealth Government is considered crucial for residential care services in the future.

3.11.92 Apart from regional plans and strategies which have generally evolved on an ad hoc basis in response to local needs, the Health Department Victoria has not developed overall planning strategies and policies for the future direction of State-wide residential care services for the aged. There has been no formal review of policies in this area of the Department's operations for at least 5 years.

3.11.93 Some of the consequences of the lack of central direction are reflected in the following:

- ▶ Certain hospitals, particularly in rural regions are classified as acute care hospitals but in actual fact contain very high levels of nursing home type patients who would be better placed in nursing homes and hostels. Operational costs of acute care hospitals are also substantially higher than nursing homes, mainly due to staffing levels;
- ▶ The construction of new nursing homes without proper regard to the recurrent funding needs of these homes. This situation has led to extended delays in the opening of these premises after construction has been completed;



Nursing care facilities at Westernport Nursing Home - which opened in October 1989 but is currently unoccupied.

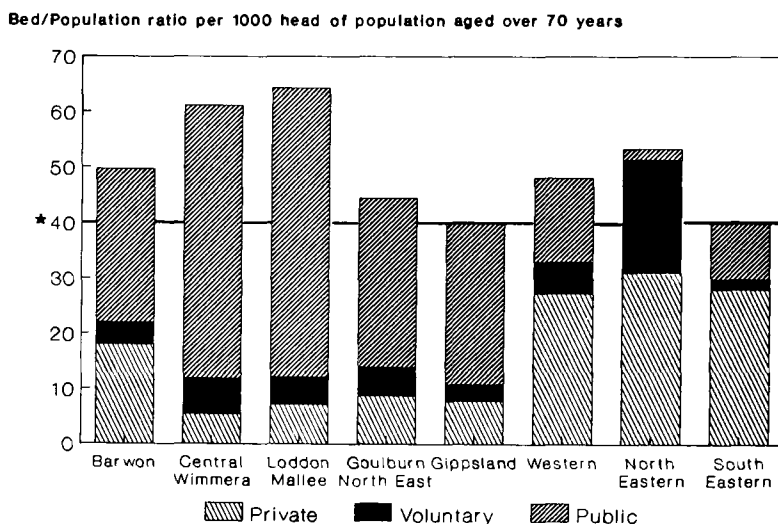
- ▶ Measurement of bed numbers against Commonwealth Government standards indicates there is a surplus of nursing home beds in certain regions as compared with a short supply of beds in other regions. (See Chart 3.11C);
- ▶ Many persons currently occupying nursing home beds have low dependency needs and would be better suited in a hostel type environment. However, Victoria has an overall shortage of hostels; and
- ▶ By comparison with private nursing homes, public nursing homes are usually more expensive to operate, mainly due to staffing levels, work practices and generally higher resource utilisation. Due mainly to poor financial information systems, this aspect is not monitored nor are performance criteria readily available.

3.11.94 It is important that the Health Department Victoria, in consultation with the Commonwealth Government, establishes policies as to the future direction of residential care programs in Victoria.

Provision of public residential care beds

3.11.95 Chart 3.11C illustrates the allocation of nursing home beds, both public and private, within each of the 8 Health Department Victoria regions. As illustrated in the chart, nursing home beds are unevenly distributed within Victoria, with 2 regions barely meeting the Commonwealth Government standard of 40 beds per 1 000 head of population aged 70 and over by comparison with other regions which appear to have surplus beds. The chart excludes statistics on nursing home type patients occupying acute care beds.

CHART 3.11C. VICTORIAN NURSING HOME BEDS



* Commonwealth Government limit of 40 nursing home beds per 1 000 head of population.

Source: Health Department Victoria - Nursing Home Industry profile

3.11.96 To an extent the disproportionate distribution of beds has evolved over a long period of time and is influenced by changing demands in a number of rural areas. It is also a reflection on the lack of co-ordinated planning in the past when the provision of nursing home beds was often influenced by local factors and bed ceiling limits did not apply.

3.11.97 While it is possible that the limit imposed of 40 nursing home beds per 1 000 head of population is not appropriate in rural areas and should be higher due to remoteness of locations and other special characteristics, the chart indicates that 2 regions appear to have excess nursing home beds. Conversely, the average number of hostel beds per 1 000 head of population in Victoria is only 45, well below the Commonwealth Government's recommended ratio of 60 beds per 1 000 population. **Considerable cost savings can be achieved from the re-direction of persons with low dependency needs to hostels which provide a more appropriate environment with a lower cost structure.**

3.11.98 Audit considers that the Department needs to promptly resolve with the Commonwealth Government an appropriate nursing home bed ratio in rural regions.

3.11.99 In conjunction with the re-negotiation of bed ratios the Department also needs to evaluate the potential for cost savings, without impacting upon the level of patient care provided in rural areas, through:

- ▶ greater use of community based home care in preference to nursing home admissions;
- ▶ determining why the length of stay of nursing home type patients in rural acute care hospitals is usually longer than in city based locations where waiting lists can apply; and
- ▶ seeking to establish new hostels or converting nursing homes to hostels to cater for residents with low dependency needs.

3.11.100 It is also apparent from Chart 3.11C that the Department will need to develop long term strategies for the continuing supply of nursing home beds in regions such as Gippsland and South Eastern Metropolitan where bed ratios are barely achieved and demand for nursing home beds is likely to increase from an ageing population.

Management response

While the Department recognises the disparity between regions in nursing home bed availability, the strategies developed over recent years to increase the overall number of beds have been aimed at:

- *rationalising bed availability across the regions;*
- *increasing the accessibility of beds available; and*
- *reallocation of resources from some under-utilised acute hospitals to replacement nursing home facilities.*

Planning for residential care services, however, occurs in concert with planning for community and home care. The introduction of the Geriatric Assessment Teams, by Victoria in the early 1980s, followed by the Commonwealth funding of a national program of GATs and the Home and Community Care Program, has allowed Victoria to re-orient aged care services. This has resulted in an improvement in performance which compares favourably with other States, according to the national standards set by the Commonwealth.

As the number and distribution of nursing homes and hostel beds are controlled by the Commonwealth, the State has participated in the Advisory Committee on Aged Care (ACAC) as a joint planning exercise with the Department of Community Services and Health (DCSH).

Since the planning of residential care cannot be treated separately from the availability of planning of community care, the State (both HDV and CSV) is involved with the Commonwealth and local governments in joint planning for the Home and Community Care (HACC) Program. Since 1990, HDV has also constituted an Aged Care Strategy Reference Group to ensure that various planning efforts are linked in a cohesive fashion. A planning paper will be released in May 1991.

A problem with Commonwealth planning ratios is the fact that they use current rather than projected populations, even though facilities take a number of years to plan and build. Furthermore, hostel and bed numbers must take into account the availability and standard of community care.

Use of acute care facilities for nursing home patients

3.11.101 Many rural acute care hospitals are characterised by small bed numbers, low occupancy rates and a high throughput of nursing home type patients. Key examples are set out in Table 3.11D.

TABLE 3.11D. RURAL ACUTE CARE HOSPITAL THROUGHPUT ANALYSIS OF ACUTE PATIENT BED DAYS AND NURSING HOME TYPE BED DAYS, 1989-90

<i>Hospital</i>	<i>Beds</i>	<i>Total bed days utilised 1989-90</i>	<i>Patient bed day allocation</i>		<i>Occupancy rates</i>		
			<i>(a)NHT</i>	<i>Acute</i>	<i>NHT</i>	<i>Acute</i>	<i>Total</i>
Beeac and District	12	4 243	91	9	88	9	97
Manangatang and District	16	5 098	80	20	70	17	87
Willaura and District	8	2 929	78	22	78	22	100
Warracknabeal and District	71	18 939	71	29	52	21	73
Eildon and District	18	2 917	70	30	31	13	44
Creswick District	36	8 977	67	33	46	22	68
Omeo District	10	2 694	64	36	47	27	74

(a) NHT Nursing home type patient.

3.11.102 The above hospitals are used for illustrative purposes only as similar situations exist with many other rural hospitals. The table illustrates that due to the high proportion of nursing home type bed days these acute care hospitals are effectively functioning as nursing homes in rural regions where, in Commonwealth Government terms, an oversupply of nursing home beds may exist already. The table also illustrates graphically that without nursing home type patients all of the above hospitals would be significantly underutilised, particularly in the instance of Beeac and District Hospital with an acute care occupancy rate of only 9 per cent. Acute care hospitals utilise higher resource levels particularly staffing levels, by comparison with nursing homes. To illustrate the substantial variation in costs Table 3.11E records the average cost per day of treating nursing home type patients in 3 acute care hospitals as compared to similar patients in nursing homes affiliated with these hospitals.

**TABLE 3.11E. HOSPITALS WITH JOINT ACUTE AND NURSING HOME FACILITIES
ANALYSIS OF ACUTE CARE PATIENT COSTS AND NURSING HOME PATIENT COSTS**

<i>Acute care hospitals</i>	<i>Average cost per patient day NHT/Acute</i>	<i>Affiliated nursing homes</i>	<i>Average cost per patient day</i>	<i>Difference per patient</i>
	(\$)		(\$)	(\$)
Ouyen and District	270	Ouyen and District	150	120
Terang and District	254	Terang	138	116
Maffra	306	Maffra and District Extended Care Association	190	116

3.11.103 Apart from the cost factors, the type of care received by nursing home type patients in acute care hospitals may not be entirely conducive to patient needs.

3.11.104 The Department is well aware of the savings that can be achieved from role conversion of certain rural hospitals and has, in fact, converted a small number of rural acute care hospitals to nursing homes, hostels and community care centres. However, the scope for further conversions is very limited, particularly as the Commonwealth nursing home bed limits currently in existence would prevent any new nursing home beds from being established in most rural regions. New strategies to achieve the savings need to be considered.

3.11.105 Given the current state of the economy and the need to implement micro-economic reform in the public sector, opportunities for substantial cost savings in the public sector must be developed. The Minister for Health has recently announced a major review of the Victorian public health system. The problem of large numbers of nursing home type patients occupying acute care beds in small rural hospitals needs to be considered as part of this review.

Management response

The cost comparison of maintaining patients in small country hospitals as compared with nursing homes, made by the Auditor-General's staff, may be invalid, as the application of acute costs across all acute days does not give recognition to the high costs associated with the early days in hospital, where extensive treatment and diagnostic/pathology tests are required. A proper apportionment of costs between the early high technology treatment days and the subsequent nursing/observation days may show that the cost of care in these days is comparable with nursing home bed day costs.

Over the past 5 years there have been substantial efforts to reduce nursing home type patients in acute hospitals. The 18 geriatric assessment teams in the State have contributed substantially to this. Furthermore many rural hospitals have experienced role conversion to nursing homes, in recognition of the fact that many of those communities required nursing homes more than acute hospitals.

Comparative efficiency of public and private nursing homes

3.11.106 The Department has undertaken a review to assess the impact of CAM/SAM funding on all public nursing homes and has come to the conclusion that its introduction would result in a revenue shortfall of up to \$93 million per annum based on current operating costs. The survey also indicated that there was a significant variation between the cost effectiveness of public nursing homes by comparison with private nursing homes, with cost structures of private nursing homes being substantially lower.

3.11.107 While it is acknowledged that a number of public nursing homes provide a range of services not available from the private sector, e.g. rehabilitation and therapy programs which are reflected in the additional costs, the main reasons for the projected shortfall for public nursing homes under CAM/SAM funding principles were:

- ▶ A staff care mix mainly in the large geriatric hospitals which is more related to acute care provision rather than nursing home activities, e.g. management activities by nurses, teaching staff and students, higher staff classifications and more ancilliary staff as compared to similar sized private nursing homes. Excess labour costs represent the most significant component of additional costs;
- ▶ The impact of restrictive work practices; and
- ▶ The inability of many public nursing homes, particularly where they are closely integrated with public hospitals, to separately identify costs associated with nursing home activities. As a result, performance data on the cost of operating many public nursing homes is not available to management in order to identify and address inefficiencies.

3.11.108 It was also noted that while financial and statistical data relating to acute care hospital activities is collated and published for State-wide use by the Department, similar details for nursing homes are not provided on a State-wide basis for the use of nursing home management.

3.11.109 Substantial evidence exists that there is considerable scope for savings and improved efficiencies within public residential care programs. A concerted effort needs to be initiated by the Department to develop information and costing systems capable of identifying the real costs of providing such programs for monitoring and performance purposes.

3.11.110 Regardless of whether the Commonwealth Government is willing in the future to extend CAM/SAM funding to other public nursing homes, the Department should consider the application of CAM/SAM funding principles to all existing public nursing homes at this stage with a view to identifying and eliminating inherent inefficiencies by comparison with private nursing homes. Such an action would not impact upon residential care standards and would lead to substantial savings for the State.

Management response

The Department has already negotiated for the provision of resources on the CAM/SAM basis for the recently completed/about to be completed 295 additional nursing home beds. Negotiations are continuing to have CAM/SAM resourcing levels applied where appropriate in other centres. However, before a general policy can be adopted, the current resource assessment project needs to be finalised. The centres are currently dissecting expenditure to properly align nursing care costs and to identify the cost of providing services not generally associated with private nursing home roles.

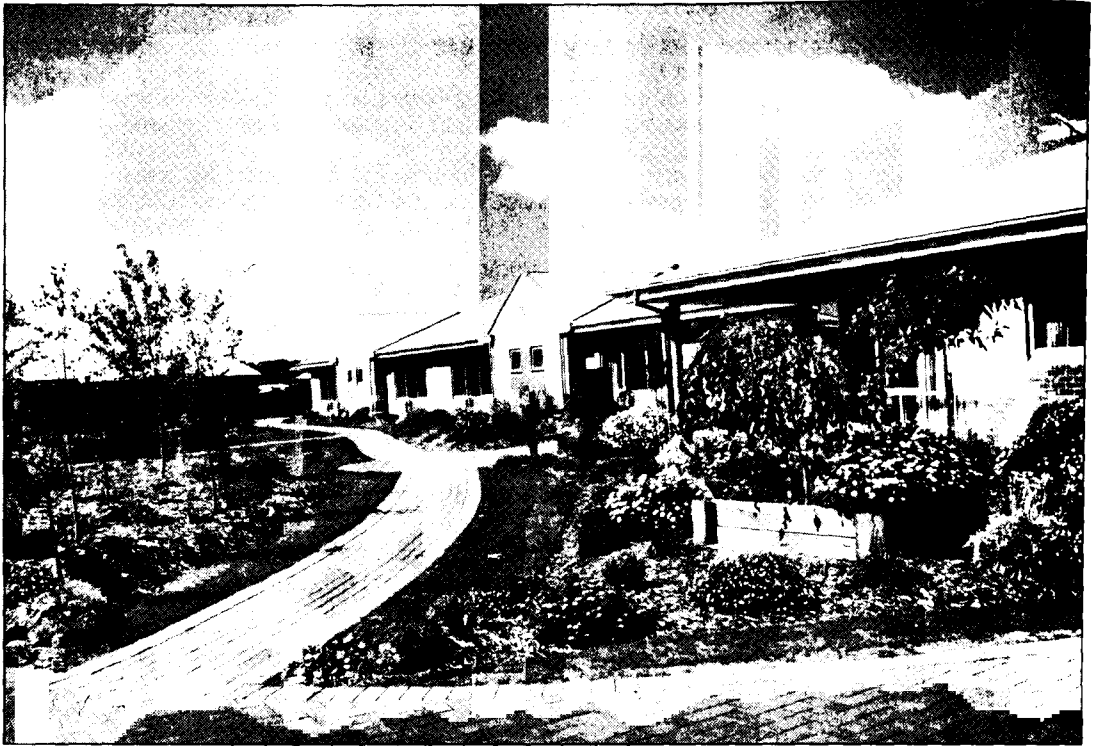
In addition to the cost structure study, the Department is establishing a Performance Indicators Working party to develop uniform measures and systems.

Public nursing home functions are complex so that the cost of performing these functions would exceed CAM/SAM arrangements and, more importantly, some functions would not be funded on the CAM/SAM basis since CAM/SAM is designed purely for nursing home care. There is no possibility for providing an accurate or valid estimate of CAM/SAM revenue without undertaking a comprehensive survey of dependency levels - and the only State-wide survey done was a sample survey in 1988. There is no evidence that cost-effectiveness is different since no definition of effectiveness has been reached. For instance, rehabilitation is provided - at a cost - in the public sector with consequent improvement in the functional status of patients but the private sector is not funded to provide this and does not achieve improvements in client's health status.

It must be noted that while HDV is committed to seeking industry standards in terms of efficiency of management, the private sector has indicated that funding levels provided by the Commonwealth, especially SAM, have caused financial problems for the industry. Similarly, nursing homes operated by benevolent institutions, while receiving full SAM funding, are reported to be operating at deficits. Furthermore, there could potentially be impact on residential care standards insofar as rehabilitative objectives might receive less emphasis.

Delays in commissioning new nursing homes

3.11.111 A major initiative of the 1988-89 Budget was to increase the number of public nursing home beds within Victoria by 550 over 4 years. The program comprised a role conversion of 220 beds from acute hospital to nursing home status, mainly in rural areas, and the construction of new nursing homes to provide an extra 350 beds at a capital cost of \$26.5 million.



Armitage House Nursing Home, Wonthaggi - completed September 1990 and currently vacant.

3.11.112 Capital funding arrangements varied with some nursing homes being funded jointly from community, State and Commonwealth contributions while others were solely funded from either State or Commonwealth contributions.

3.11.113 An audit review of commissioning activities associated with the new nursing home facilities indicated that 5 nursing homes have remained unoccupied although construction has been completed at a cost of \$9.5 million and facilities are ready for occupation. Facilities at Westernport, comprising 10 beds, have remained unoccupied since October 1989. Other facilities at Wonthaggi and Bundoora were completed in September and October 1990 and are currently vacant. Additionally, nursing homes at Eildon and Kilmore, representing 60 new beds, were completed in February 1991 but uncertainty exists as to when these facilities will be occupied.

3.11.114 Delays in the commissioning of these new nursing homes have arisen due to prolonged negotiations between the Commonwealth and State Governments over recurrent funding arrangements and the Health Department Victoria's view that the funding arrangements finally agreed to are inadequate to meet all operating costs. The recurrent funding of these new homes was not given adequate consideration prior to construction commencing.

3.11.115 Initially, the Department refused to open the new nursing homes as it considered that the nursing home benefit frozen in 1985 which was available from the Commonwealth was insufficient to meet operating costs. Eventually an agreement was reached between the States and the Commonwealth Government whereby new nursing homes were to be subsidised on the basis of modified CAM/SAM arrangements from 1 January 1991. The CAM/SAM modification involved elimination of a profit component available to private nursing homes under similar funding arrangements. In effect, the new nursing homes were to be operated on a break-even basis. Although the Victorian Government agreed to this formula, the Health Department Victoria has since deferred opening the new nursing homes as it will not accept responsibility for deficits the nursing homes may incur under the new arrangements.

3.11.116 A study undertaken by the Victorian Hospitals Association suggests that the Kilmore Nursing Home will initially incur a deficit of approximately \$150 000 in the first year of operations. Similarly, although the 10 bed Westernport Memorial Nursing Home was officially opened in October 1989, it has never been occupied due to a revenue shortfall estimated at \$30 000.

3.11.117 While recognising the considerable lead time involved in the construction of new nursing home beds, audit considers that recurrent funding arrangements should have been resolved before the works commenced. However, given the current situation, the Department and the Committees of Management of the nursing homes should, as a matter of priority, negotiate cost savings and efficiency measures in order that these public facilities can be put into operation as soon as practical.

Management response

HDV has been negotiating funding arrangements with the Commonwealth for these new homes. The funding arrangements agreed by the Commonwealth, although not ideal, are a considerable advance on the 1985 frozen Commonwealth benefit.

Boards of Management are understandably cautious about opening the facilities on the basis of these benefits. HDV is confident that all of these facilities will be commissioned in the next few months.

When the nursing home benefits were frozen in 1985, the then Commonwealth Minister indicated it would be for 2 years. No one expected that the level of Commonwealth benefit would have remained frozen for some 6 years. It is apparent that, notwithstanding a few months delay in commissioning these facilities, the homes will be available to older people at the much earlier time than would have been possible if the course proposed by audit had been followed.

MANAGEMENT AND DISPOSAL OF WASTE IN THE HEALTH SECTOR

Why was the review undertaken?

3.11.118 In view of the importance of environmental issues to the community, I considered that it would be timely to examine the management practices employed by a number of public sector agencies in implementing the Government's waste minimisation and disposal policies.

How did audit determine which public sector industry should be examined?

3.11.119 Over the past 2 decades there has been a progressive increase in the amount of waste generated by hospitals due, to a large extent, to the increased use of disposable materials (particularly plastics). As well, developments in medicine in recent times have resulted in the generation of more waste which is potentially dangerous to handlers. In this context I decided that my Office should conduct a performance audit to assess whether the Government's policy objectives in relation to the management and disposal of waste were being effectively met by the responsible central agencies and 3 hospitals within the health sector. Public sector agencies involved in the review were:

- ▶ Health Department Victoria (HDV);
- ▶ Austin Hospital;
- ▶ Preston and Northcote Community Hospital (PANCH);
- ▶ Mont Park Psychiatric Hospital; and
- ▶ Environment Protection Authority (EPA).

Overall conclusions

3.11.120 The audit review of waste management practices concluded that the incinerators operated by the Austin and Mont Park Hospitals did not effectively meet the EPA's prescribed standards. In fact, audit was advised by the EPA that no hospital-based incinerators within the State had the necessary capability and pollution control equipment.

3.11.121 The Government has recognised this situation and recommended the progressive closure of all hospital-based incinerators and the utilisation of centralised high temperature incineration facilities.

3.11.122 Notwithstanding the view expressed by the EPA that it has tested a limited number of hospital incinerators and has access to data (both local and overseas) from others, no assurance could be given by the EPA that incinerator emissions did not pose a potential health hazard to the community and the environment. As a consequence, urgent attention needs to be given to the development of centralised high temperature incinerators and the closure of hospital based incinerators including those at the Austin and Mont Park Hospitals.

3.11.123 Specific issues arising from the review are discussed in the following sections. Many of the problems disclosed from the review are likely to be present in the other health care institutions (approximately 140).

- *Management response by the HDV*

The issue of biomedical waste management is a relatively new phenomenon in the health care field and relates directly to the increase in the use of disposable products, especially plastic, in the last few decades and the incidence of disease which might be transmitted through inappropriate handling of potentially infectious waste products.

It should be noted that the current more stringent EPA technical guidelines on biomedical waste incineration were only issued in May 1990 and there is an unavoidable lead time and also substantial costs involved in achieving these standards across the health industry. The HDV and the health industry have been working closely with the EPA towards achieving the improvements that are necessary to meet these new stringent waste management and emission standards.

It must be stressed that the HDV has initiated much of the work done to date on the subject of biomedical waste disposal in this country through the Advisory Committee on Hospital Waste Disposal, and issued a comprehensive set of "Guidelines on Hospital Waste Management", which have been used as a base document, or adopted in various forms by most other States. The guidelines are presently being revised by the Advisory Committee for re-issue in the next few months and will reflect changes which comply with current thinking.

A "Bulletin on Waste Minimisation/Segregation" was issued in October 1990 and staff education programs, in the form of seminars and individual agency discussions, have been held over the past 12 months and are continuing.

A closure schedule for public hospital incinerators in Victoria is presently being prepared by the HDV in conjunction with the EPA. A major refurbishment and onsite relocation of the Fairfield Hospital incinerator and commissioning of a new privately operated machine, located at Laverton North, both due for completion in mid-year, together with the existing EPA approved facility at Dandenong, will provide an alternative to onsite hospital incinerators.

All major public hospitals have been visited by officers concerned with waste management from this Department over the past 12 months, and a new interest in the management of biomedical waste in terms of the introduction of minimisation procedures and proper segregation and recycling programs is taking place. The introduction of a changed state of awareness amongst all levels of hospital staff to the issue will continue to be encouraged throughout the public health care sector.

The promulgation of the new policy on waste minimisation through the "Victorian Government Gazette" is much more recent, only occurring in November of 1990. Many Victorian public hospitals, aware of the impending introduction of the policy, had implemented waste minimisation procedures some time before in response to advice from this Department.

The HDV is satisfied that the health industry is responding constructively and as quickly as possible to these new stringent standards being set by EPA in relation to waste minimisation and disposal.

- *Management response by the EPA*

It is not possible to give absolute assurances of zero risk for any human activity. EPA takes the view that emission limits and controls should be conservatively established to minimise the risk of any adverse impact. For this reason, the risks associated with current incinerators, while small, can be, and hence should be, reduced through improved controls and better siting. EPA is working with the HDV, hospitals and private industry to achieve such improvements within the shortest practicable timeframe.

Government policy

3.11.124 In recent years more stringent legislation has been introduced as a result of greater emphasis given by the Government to environmental issues. The policy developments in 1988 and 1990 have substantially emanated from strategies that have been in place since 1986.

3.11.125 The 1990 waste management policy provides a **comprehensive policy framework and management system for industrial wastes and focuses on waste reduction, recycling and re-use options**. The key objective of the policy is to promote the minimisation of industrial wastes in Victoria as the Government is of the view that by this means it is possible to reduce or avoid the environmental damage or potential hazards to human health which may occur from the disposal of such wastes. The Government claims that to achieve this objective it is necessary for a broad approach, encompassing financial incentives, regulatory measures and educational activities to be adopted.

3.11.126 The 1990 policy supplements legislative regulations which were amended in 1988 to include infectious substances as a prescribed waste. These amendments required infectious substances to be transported and disposed of in accordance with EPA requirements.

3.11.127 In relation to the health sector the stringent EPA emission standards meant that the numerous hospitals which incinerated infectious waste would have to either upgrade or replace their incinerators to meet the new standards. As these options are neither economic nor practical and as the government intention is to phase out environmentally unacceptable incinerators by the use of centralised incinerating facilities, a key element of the Government's strategy applicable to hospitals is for the reinforcement of proper waste management procedures to ensure minimisation.

3.11.128 The HDV, in conjunction with the EPA, has provided guidance for the management and disposal of hospital waste including biomedical waste.

Hospital initiatives

3.11.129 Positive steps taken by the hospitals reviewed to meet the Government's waste minimisation and disposal objectives are set out below:

Austin Hospital

- ▶ a working party was established to review the Hospital's existing waste disposal practices;
- ▶ waste audits were undertaken to identify the types and quantities of waste generated with a view to reducing the waste load; and
- ▶ action has commenced to educate hospital staff members as to the importance of segregating the various categories of waste.

Management response by the Austin Hospital

The Hospital has also implemented a number of strategies for the effective, efficient and safe handling, transport and disposal of waste. The Hospital has been active in reviewing its policies and practices in this area and has implemented significant operational changes.

PANCH

- ▶ a waste management working group was established to produce guidelines and recommendations for efficient and effective waste management practices associated with waste minimisation, segregation, recycling and disposal;
- ▶ various avenues were being examined for the introduction of reusable products;
- ▶ the Hospital had offered to conduct a program to educate waste handlers concerning the various components of hospital waste; and
- ▶ the Hospital had investigated the potential costs and benefits of acquiring certain items of equipment for the purpose of waste reduction.

What is hospital waste and how is it disposed of?

3.11.130 Hospital waste generally consists of items such as biomedical waste (wastes contaminated by body fluids such as blood, human tissue, infectious and/or pharmaceutical substances known as prescribed wastes), kitchen waste, paper, cardboard, glass and trade wastes (e.g. polluted rinse waters). This waste is generally disposed of by the following means:

- ▶ incineration at either a licensed off-site incinerator or individual hospital incinerators, some of which have been granted interim licences to cater for regional needs;
- ▶ appropriately licensed landfill sites; or
- ▶ through the Melbourne and Metropolitan Board of Works sewerage system.

3.11.131 With regard to the hospitals covered by the audit review, the Austin utilises an on-site incinerator to dispose of its industrial or infectious waste while other types of waste are either incinerated, sent to landfill sites or disposed of through the sewerage system. PANCH's waste is either sent to a centralised metropolitan high temperature incinerator (biomedical waste), to a landfill site (general waste) or disposed of through the sewerage system (trade wastes). Waste generated by Mont Park, which includes a relatively small volume of biomedical waste, is disposed of through its on-site incinerator while wet general waste such as food scraps is disposed of by an external contractor.

Incinerator facilities

Background

- 3.11.132** A hospital incinerator is made up of 2 chambers consisting of a :
- ▶ primary chamber where waste is initially placed and burnt; and
 - ▶ secondary chamber (afterburner) which acts as an air pollution control device in which the products of incomplete combustion in the gaseous effluent are destructively oxidised.

3.11.133 Under the correct operating conditions, incineration occurs in the primary chamber while the secondary chamber guarantees complete destruction.

3.11.134 With the increased plastics content of biomedical and hospital wastes, and the various infectious and hazardous substances that are also in the biomedical waste stream, the EPA was of the view that a better standard of incineration is required to ensure the safe and environmentally sound destruction of these materials. The EPA recognised that problems associated with incinerators are further exacerbated by overloading which has become prevalent as incinerators try to cope with increased waste demands, caused in some cases by poor waste segregation practices.

3.11.135 Standards established by the EPA in relation to the disposal of biomedical waste require that:

- ▶ the secondary chamber maintains a minimum operating temperature of 1 100°C;
- ▶ gas is maintained in the secondary chamber for a minimum of 1 second (residence time); and
- ▶ interlocks be fitted to prevent loading waste into the primary chamber in the event of the measured secondary chamber temperature falling below 1 000°C.

3.11.136 The EPA states that it is vital that the secondary chamber operates continuously at a minimum temperature of 1 100°C and that gases and particulate matter reside in the secondary chamber for a minimum of 1 second to ensure that emissions to the atmosphere are rendered safe, for example to prevent emissions of mutagenic substances, dioxins and similar toxins.

3.11.137 The EPA requires that biomedical waste incineration systems be fitted with air pollution control equipment designed and operated to ensure compliance with emission standards. The EPA recommends that a scrubbing device be used to control various acid gas emissions. In addition, a fabric type filter (baghouse) or other control devices should be used to collect particulate emission.

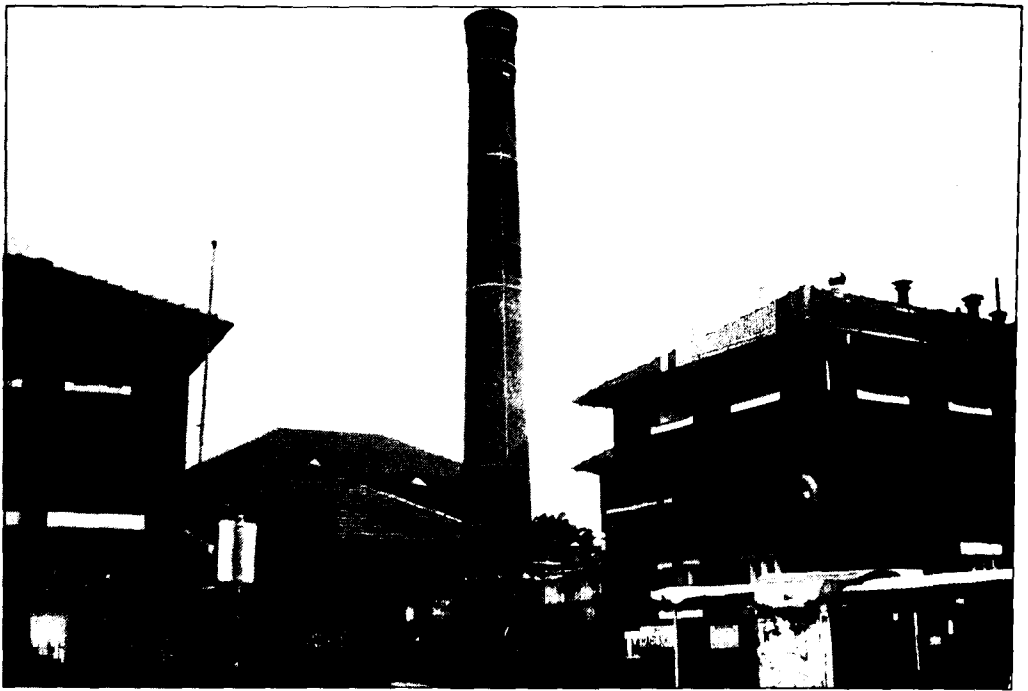
Operational aspects of hospital incinerators

3.11.138 The incinerators operated by the Austin and Mont Park Hospitals did not have the capability and were not equipped with the necessary air pollution control devices to meet the EPA's standards for incineration. In fact, audit was advised by the EPA that none of the 140 health care incinerators in the State met the EPA's full requirements for biomedical waste disposal.

3.11.139 With specific reference to the Mont Park incinerator, the following requirements of a pollution abatement notice, served on the Hospital by the EPA in July 1988, had not been addressed at the date of preparation of this Report:

- ▶ The temperature of the exhaust gases leaving the combustion chamber of the afterburner shall not be less than:
 - 1 100°C when incinerating infectious wastes, pathological wastes, *sharps* (needles, syringes and scalpels) and pharmaceuticals; and
 - 800°C when incinerating general hospital waste.
- ▶ Wastes not generated by Mont Park (except illicit drugs) shall not be incinerated in the hospital incinerator without prior permission from the EPA. A HDV report prepared in October 1990 indicated that approximately 1 000 kilograms per year of dry waste and pathological toxic waste was dumped by the HDV, Pentridge Prison, Kew Cottages, the former Ministry of Housing and Construction, Pleasant View Hospital and Turana Youth Training Centre at Mont Park to be incinerated.

The audit disclosed that Mont Park incinerated a small volume of infectious and potentially infectious waste generated from Kew Cottages and the hospital attached to Pentridge Prison without acquiring the necessary licence from the EPA to conduct this activity (this type of licence is only provided where the EPA is satisfied that the proposed activities are environmentally safe). In addition, an EPA transport certificate had not been completed by the waste generator, the transporter and the disposer in relation to the prescribed biomedical wastes transported to Mont Park for off-site disposal.



Mont Park incinerator.

3.11.140 According to the EPA, if the correct temperature and residence time are not achieved, as is the case with all incinerators operated by health care institutions, waste may not be completely incinerated, resulting in smoke, particulate emissions, odour and a variety of potentially noxious emissions that are potentially harmful to the community and the environment. If an incinerator is not fitted with the required air pollution control devices, the discharge of undesirable air pollutants to the environment may exceed acceptable levels set by the EPA.

3.11.141 Although only a relatively small volume of biomedical waste was incinerated at the Mont Park Psychiatric Hospital, **the consequence of much higher levels of biomedical waste being incinerated by public hospitals is that there is a higher risk of potentially dangerous emissions resulting from inferior incineration facilities.**

3.11.142 With regards to the incinerator operated at the Austin Hospital, the EPA has not seen a need to issue a pollution abatement notice.

Location of hospital incinerators

3.11.143 The EPA stipulates that hospital incinerators be located on a remote point of the property, as far away as possible from other buildings and adjoining properties. Since the EPA recognises that emissions from a building can disperse downwards at distances up to 5 times the building height, the EPA requires that the building housing an incinerator with a short stack (where the height of the stack is less than 2.5 times the building height) should be located at a distance of at least 5 times its height away from the nearest building or other similarly sensitive receptor. This would ensure that flue gases do not enter open windows or air-conditioning intakes for patient and staff areas of the hospital.

3.11.144 According to EPA guidelines the incinerator located at the Austin may not be situated at an acceptable distance from other hospital buildings. **Such a situation raises the possibility of stack emissions circulating around air conditioning vents or open windows of these buildings under certain atmospheric conditions which could pose health implications for the hospital.**

3.11.145 Audit recognises that in most cases hospital incinerators were constructed many years ago before the new EPA guidelines were enforced. Notwithstanding the requirements of the EPA no action has been taken to address this deficiency.

Management response by the EPA

The audit comments in relation to incinerator siting are misleading. Dispersion from stacks in the vicinity of buildings is a complex issue and is influenced by meteorology, stack heights, discharge velocity, plume buoyancy, surrounding building heights and dimensions and terrain. Hence, while some simple rules can be provided as a guide they are not intended to, nor should they, be used in a prescriptive manner. In many situations, modification of stack design or relocating of air-conditioning intakes can be used to avoid problems due to building downwash effects. Building downwash effects impair the normal function of a stack (which is to dilute emissions through dispersion) and thus lead to pockets of higher than normal pollutant concentrations.

Need for monitoring and testing by the EPA

3.11.146 Without detailed monitoring and testing by the EPA it was not possible to determine whether the emissions from the hospitals' incinerators were within the EPA's acceptable limits. As a consequence no assurance could be given by the EPA that such emissions did not pose a potential health hazard. The type and quantity of hospital waste subject to incineration would determine whether a threat existed.

3.11.147 With the various infectious and hazardous substances that are present in the biomedical waste stream, it is essential that the EPA monitor the parameters of the combustion process that produce the emissions from the incinerators. This process, together with specific testing of the emissions when incinerating hazardous substances, is necessary to ensure that health hazards to the community, as well as adverse effects to the environment, do not occur from excessive emissions of mutagenic substances, dioxins and similar toxins.

3.11.148 As an interim measure until properly upgraded and new disposal facilities are available, the EPA will license some of the better hospital incinerators to accept medical waste. While emphasising the importance of waste segregation and minimisation, a program is being developed for a gradual closure of hospital incinerators and the use of centralised incineration facilities which meet EPA standards.

Management response by the EPA

The EPA has tested a number of hospital incinerators and has access to data (both local and overseas) from others. The results cover a range of incinerators and operating conditions and are a better guide to the range of emissions to be expected than is specific testing on a specific unit. The variations in emissions from an incinerator are as much a function of the waste quantities and composition and operating conditions as the type of unit. Hence, testing can only provide a guide to the unit's probable performance.

Urgent need for incinerators to be closed

3.11.149 The incinerators at the Austin and Mont Park Hospitals are not meeting the current EPA standards in terms of temperature, residence time and pollution equipment, and there is a doubt concerning the adequacy of the location of the Austin's incinerator. As a consequence, the incineration of waste poses a potential risk to the general community, the environment and the staff and patients of the Austin. It is therefore recommended that urgent attention needs to be given to the development of centralised high temperature incinerators and the closure of these hospital based incinerators in accordance with government policy.

▪ *Management response by the Austin Hospital*

The Hospital's incinerator was constructed a number of years prior to the stringent controls subsequently developed by the EPA. The Hospital acknowledges that the incinerator does not have the more recently recommended pollution control equipment.

Based on an internal review of waste handling at the Hospital, a number of significant operational changes have been made which have resulted in the improved monitoring of the incinerator by the hygiene team and the correct mix of waste required to sustain temperatures closer to 1 100 °C.

The Hospital is currently operating its incinerator with full knowledge of the EPA and has over recent months worked in association with the EPA to ensure the incinerator is operated in the safest and most efficient manner. The Hospital previously operated its incinerator under an EPA licence. The Hospital was advised by the EPA that effective from July 1985 the Hospital no longer required a licence as the Hospital was below the threshold for the level of discharge. In December 1990 the EPA issued a licence for the discharge of waste to the atmosphere for the Heidelberg campus. This licence is in the process of amendment to include inter alia discharge from our incinerator.

In line with the Government's intention to phase out environmentally less acceptable incinerators, the Hospital will work closely with the EPA and HDV to comply with any State-wide strategy.

- **Management response by the Mont Park Hospital**

The Hospital continues to recognise the inadequacies of the present collection and disposal system from both the economic and environmental perspectives. It remains our intention to introduce an alternative system, preferably on a total external contract basis, as soon as possible. A comprehensive proposal with costs is being prepared for the HDV's Office of Psychiatric Services and it is planned to present it by the end of March 1991. Closure of the incinerator will depend on the success and speed of these negotiations.

A contract has been let for the collection and disposal of all infectious and potentially infectious waste, pathological waste, sharps and prescribed pharmaceuticals.

No off-site generated wastes are now incinerated at Mont Park.

- **Management response by the EPA**

The operating requirements and conditions developed recently for hospital incinerators provide good controls for normal operations, and safeguards for avoiding and controlling the effects of poor practices. The potential for problem emissions increases with increasing departure from operating requirements. Thus, for example, the potential for higher emissions increases with decreasing temperature. The potential can also be reduced by better attention to operating practices (controlled feeding, temperature control, mixing waste etc.) within the limitations of the equipment.

The approach taken by audit in assessing incinerators' compliance with EPA criteria on a yes/no basis does not recognise these variations and hence provides no guidance on priorities.

A program for phasing out incinerators which cannot meet new standards is currently being developed. It should be noted that at present there is only one incinerator which meets temperature and residence time requirements in the EPA's technical guidelines and is fitted with pollution control equipment. This unit is a commercial unit not a hospital facility and is running at capacity.

A large new private sector incinerator is currently nearing completion and the Fairfield Hospital incinerator is being upgraded. These will provide additional necessary capacity and, in conjunction with further attention to improved segregation and waste minimisation, should provide the flexibility necessary to implement a phase-out or upgrading of existing hospital incinerators.

The future of the Austin's incinerator will be dealt with in the general program for hospital incinerators. By way of comment on the perceived urgency, the incinerator is one of the better units, and operates at the higher end of the temperature range characteristic of existing incinerators.

Since the issue of the pollution abatement notice to Mont Park, an interim system for hospital waste disposal has been implemented. This involves an emphasis on waste minimisation and segregation, interim licensing of some better units, and accepting that existing incinerators would be kept operational until adequate high quality incineration capacity is developed. At that time, the general program for phasing out incinerators will be implemented. The future of the Mont Park incinerator will therefore be determined as part of this general program and its acknowledged inadequacies need to be viewed within the context of this program.

The operating parameters of the Mont Park incinerator are well below what is considered acceptable under the new guidelines. However, there are no plans to test this Incinerator given its age, relatively high stack and location surrounded by parkland well away from general residential areas. In addition, we have sufficient test data from other incinerators of varying quality to have a good understanding of the range of emission results likely to characterise the Mont Park incinerator.

Nevertheless, the incinerator will need to operate in a manner which optimises environmental performance within the limitations of its design parameters. This will mean that the Hospital should segregate its infectious waste for offsite disposal and operate at the appropriate temperature conditions when burning other wastes. While, in terms of waste inputs, the main determinant of emission levels is the quantity of waste not the small amount of off-site waste which have been handled, acceptance of off-site waste is not allowed.

Following an inspection, the EPA wrote to the Hospital in late January 1991 in relation to incinerator operating conditions and the acceptance of off-site waste. This matter will be further pursued to secure compliance with EPA requirements.

Volume of waste

3.11.150 An estimate of the volume of waste generated by each hospital for 1990 is listed in Table 3.11F.

TABLE 3.11F. WASTE GENERATED BY HOSPITALS, 1990

<i>Hospital</i>	<i>Kilograms per occupied bed day</i>	<i>Tonnes per year</i>
Austin	10.60	1 911
Mont Park and Plenty	6.60	965
PANCH	5.04	416

3.11.151 The volume of waste generated among hospitals is influenced by various factors. For example, the Austin, which is a major teaching hospital, would be expected to generate a relatively larger proportion of waste due to its educational and research functions. Mont Park, which specialises in psychiatric care, produces a large amount of general waste in comparison with very little infectious waste.

3.11.152 The audit found a strong awareness within the public hospitals of the need to address the issue of waste minimisation and, in this regard, public hospitals had been proactive in considering appropriate strategies. In contrast the Mont Park Psychiatric Hospital had not undertaken any measures aimed at waste minimisation.

3.11.153 Due to the absence of any current waste minimisation targets established for the hospital industry, it was not possible to determine whether there was scope for a reduction in the volume of waste generated by the 3 hospitals examined in order to meet the Government's policy objectives for waste minimisation. However, due to the wide variance in the level of waste generated by hospitals in the public sector, the establishment of targets will identify areas where waste can be reduced within the hospital sector.

3.11.154 In line with the requirements of the Government's recent Industrial Waste Management Policy (Waste Minimisation), suitable waste minimisation targets for the various categories of hospitals need to be developed at a central level, in conjunction with individual hospitals, in order to provide guidance concerning acceptable levels of hospital waste. Such targets should be embodied in hospitals' Health Service Agreements with the HDV.

3.11.155 It is also suggested that there is scope within the hospital arena for the Government to implement its waste minimisation policy by providing incentives to hospitals for the implementation of waste reduction technologies. The introduction by government of financial disincentives for the generation of excessive waste could also be explored as a measure for reducing waste.

- *Management response by the Austin Hospital*

Although the Hospital accepts the audit findings, cautionary advice is given regarding the development of waste minimisation targets and introduction of disincentives. The operation of a Research Institute, provision of services to other organisations and institutions, i.e. laboratory services, and provision of outpatient services all contribute to waste generation and will bias any analysis of waste volumes per occupied bed day.

- *Management response by the EPA*

The EPA has been working with hospitals, the HDV and other organisations in actively promoting the minimisation of all wastes. In particular, we are encouraging the minimisation of the hazardous waste component (and hence incineration loads) through appropriate segregation practices.

Recycling

3.11.156 Separation of waste materials at their source has resulted in the development of a number of resource recycling industries in Victoria which reprocess glass, aluminium cans, paper and cardboard, certain plastic products, and ferrous and non-ferrous materials.

3.11.157 The HDV guidelines provide information on the various types of waste generated in hospitals and further include specific instructions relating to the separation of each type of product capable of being recycled. Careful segregation is required at the ward or departmental level in order to avoid the risk of contamination of such products with infectious wastes.

3.11.158 No items of waste generated by Mont Park were recycled, while only some forms of waste glass from the Austin and waste paper and cardboard at PANCH were recycled. Costs involved in recycling and a lack of recycling outlets were reasons given for not recycling waste products.

3.11.159 Some departments of the Austin recycled aluminium cans for their own financial benefit while one of the auxiliaries recycled its cardboard. In addition, an unofficial segregation of items such as glass was conducted at the point of incineration by garbage collection staff at Mont Park.

3.11.160 Notwithstanding the view that recycling is not cost-effective, hospitals should reassess the economic costs of such a program against the environmental cost. Recycling of certain items such as plastics, glass and paper would significantly reduce the amount of waste currently being incinerated and thereby minimise any adverse impact in terms of pollution to the environment. Recycling is also beneficial in terms of conserving resources. Furthermore, the EPA and the HDV should arrange for facilities to be provided to enable hospitals to collectively dispose of recyclable waste.

- *Management response by the Mont Park Hospital*

The Hospital Executive has established a Waste Minimisation Committee. This Committee will, as part of its development of waste management plans, incorporate present waste recycling activities which have been carried on informally (glass and aluminium) and intermittently (paper products).

- *Management response by PANCH*

The Hospital has investigated audit's recommendation for the recycling of glass as an alternative method of glass disposal and it is acknowledged that recycling glass would be better for the environment. Accordingly, glass is now being separated into a storage bin for recycling.

- *Management response by the EPA*

In recommending that the EPA participate in the development of end-markets for recycled products, the audit report creates the impression that the EPA is not already actively involved in this area.

For many years the EPA has been active in establishing and promoting programs to achieve recycling targets. Further, the EPA has been working with industry and local government to stimulate market development for recycled products made from wastes such as newspaper, office paper, plastic and paperboard.

Segregation of waste

3.11.161 Standardised procedures have been developed by the EPA and the HDV for the effective segregation of waste in hospitals. Infectious waste contained in general waste collections would pose a risk to handlers and the environment while non-infectious items subject to incineration give rise to unnecessary emissions into the atmosphere.

3.11.162 Incidents relating to waste segregation arose in each hospital covered by the review. The 2 waste audits performed at the Austin Hospital revealed an instance of infectious items being included in a general waste bag and infectious waste bags containing items of general waste. Also on several occasions, *sharps* had been detected in general waste bags at the Austin Hospital. In February 1990 infectious waste material allegedly from PANCH was found at a landfill site. The outcome of legal proceedings which followed this incident was that PANCH pleaded guilty and was subsequently fined \$5 000. In relation to waste segregation practices employed at Mont Park, the audit revealed that the bagging of waste did not in all cases comply with the requirement of the HDV guidelines. Instances arose where potentially infectious waste had been placed in general waste bags while general waste had been placed in bags designed to contain potentially infectious waste only.

3.11.163 In order to minimise the level of waste subject to incineration and risks to the environment and the handlers of hospital waste, hospitals need to place greater emphasis on the need for staff to comply with the central directives and hospital policies concerning effective waste segregation.

- *Management response by the Austin Hospital*

All areas of the Hospital segregate waste according to the Hospital's waste segregation policies. Audit did, however, observe several instances where errors were made in this process. The Hospital acknowledges that errors can and do occur in waste segregation and continuing efforts are being made to educate staff to ensure compliance with the Hospital policies.

Audit's comments relating to the detection of sharps in general waste bags relates to a number of incidents which occurred prior to the Hospital's initiatives, including the setting up of the Waste Disposal Working Party (June 1990) and intensive staff education programs. This action by the Hospital has been effective with no further detection of sharps in general waste having occurred since June 1990.

- *Management response by the Mont Park Hospital*

More accurate segregation of waste at ward level particularly in relation to "potentially infectious" waste is being introduced in conjunction with an education program conducted by the Hospital's Infection Control Committee.

General comments made by public sector agencies covered by the audit review

- *Management comments by the Austin Hospital*

The Austin Hospital will undertake to address all of the issues raised by the Auditor-General that are within our control.

In line with the Government's environmental policies, the Hospital will continue to review and improve its waste minimisation, waste handling and waste disposal procedures. In addition, in line with the Government's intention to phase out environmentally less acceptable incinerators, the Hospital will work closely with the EPA and the HDV to comply with any State-wide strategy. While the incinerator remains in operation, the Hospital will continue to work closely with the EPA in both monitoring and controlling any emissions. Within the scope of a State-wide strategy the Hospital will examine the feasibility of alternative means of incineration of biomedical waste.

- *Management comments by PANCH*

The Hospital found the audit to be a very worthwhile exercise for this Hospital and the health industry.

- *Management comments by the EPA*

By way of general comment, the thrust of the report is consistent with the EPA's approach to the issue of hospital waste.

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>
— MATTERS RESOLVED —		
Health Department Victoria		
<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.	A system of fees for all long stay patients was introduced in September 1990. The new system is based upon the rights of the patient to determine the method of payment and to make application for remission of fees to enable their participation in rehabilitation programs.
<i>Second Report, 1983-84, p.22</i> <i>Second Report, 1984-85, p.73</i> <i>Ministerial Portfolios, May 1989, p.124</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 resolved with introduction of new fee system.
<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 resolved. Adequate details now provided.
Ambulance Service Victoria		
<i>Ministerial Portfolios, May 1989, p.126</i>	The <i>Ambulance Services Act</i> 1986 does not provide for legislative reporting deadlines and presentation of annual reports to Parliament, including audited financial statements.	Six ambulance services and the Ambulance Officers Training Centre were included on 26 June 1990, in Schedule 2 of the <i>Annual Reporting Act</i> 1983. The one remaining service is not included in the schedule but has been requested to comply with the legislative requirements.
<i>Report on the Treasurer's Statement, October 1990, p. 85</i>	Duplicate payments to Metropolitan Ambulance Service by Health Department Victoria and funding of Information System Project not approved.	Matter resolved. Relevant approvals obtained and duplicate payments adjusted against subsequent claims.

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

Report	Subject	Status at date of preparation of this report
———— ACTION COMMENCED ————		
Health Department Victoria		
<i>Second Report, 1984-85, p.72</i> <i>Ministerial Portfolios, May 1989, p.124</i>	Legislative amendments should be sought to achieve adequate and consistent requirements for financial reporting by and auditing of statutory bodies responsible to the Minister for Health.	The legislation has been passed recently in the Legislative Council with an Opposition amendment allowing various Registration Boards the option of either being audited by the Auditor-General or a registered company auditor. The legislation is expected to be enacted during the current sitting of Parliament.
<i>Ministerial Portfolios, May 1989, p.107</i>	Need for improved management practices in the development and operation of the Department's 91 community health centres.	A report by the Department's Community Health Task Force has been prepared for release as a discussion paper. The report recommends strengthening of the community health sector; co-ordination of services more responsive to consumer needs; efficient management; clearer accountability and improved planning and program support by the Department. The report has been referred to the Health System Review Committee established by the Government.
<i>Ministerial Portfolios, May 1989, p.117</i>	Lack of strategic planning for the introduction and use of information technology throughout the Department.	A strategic information systems planning (SISP) framework has been adopted and information systems plans are being progressively implemented in Departmental areas. Public Hospitals will be required to develop such plans consistent with Health Service Agreements.
<i>Ministerial Portfolios, May 1989, p.121</i>	Improved monitoring practices required in relation to grants made to non-government organisations.	The Department's Office of Psychiatric Services is working progressively towards implementing the State Government Guidelines for funding non-government organisations by the end of 1990-91. A working party has been established to determine a minimum data set that will enable effective monitoring and evaluation.

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>
———— ACTION COMMENCED - continued ————		
Health Department Victoria		
<i>Ministerial Portfolios, May 1990, p.154</i>	Substantial savings could be achieved through a revision of inefficient work practices in relation to cleaning services in psychiatric hospitals.	Staffing levels and work practices to produce more efficient use of resources are being achieved in the context of industrial agreements relating to structural efficiency.
Mental Health and Psychosurgery Review Board		
<i>Ministerial Portfolios, May 1990, p.157</i>	Since 1987-88, both the Mental Health Review Board and the Psychosurgery Review Board have not produced audited financial statements for tabling in Parliament.	The Mental Health Review Board and the Psychosurgery Review Board produced a combined financial statement for the first time in 1989-90 pursuant to section 136 of the Mental Health Act 1986. The Psychosurgery Review Board intends to produce separate financial statements in 1991-92.
Public Hospitals		
<i>Ministerial Portfolios, May 1990, p.160</i>	Action is required to reinstate denominational hospitals under the provisions of the <i>Annual Reporting Act</i> 1983.	St. Vincent's Hospital and Caritas Christi Hospice are the only denominational hospitals not incorporated. Action is proceeding for incorporation and is expected to be completed by 1 July 1991.
<i>Ministerial Portfolios, May 1990, p.163</i>	There is a need to urgently upgrade the standard of financial management and management information systems in Public Hospitals.	The Department is currently in the process of producing an Accounting Procedures Manual.
	Need for improved valuation, recording and reporting of assets by hospitals.	Some improvement in asset management in 1990. However, substantial effort is still required to satisfactorily address this matter.
<i>Report on the Treasurer's Statement, October 1990, p.95</i>	Reduction in Commonwealth funding available to public hospitals due to failure of hospitals to treat specified levels of Medicare patients.	Matter currently being addressed as part of the current review of Medicare arrangements.

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>
———— ACTION COMMENCED - continued ————		
<i>Ministerial Portfolios, May 1990, p.160</i>	Need for clarification of the reporting entity in the public hospital sector in relation to Foundations and trusts.	While the Department continues to review reporting requirements for which Boards of Management have responsibility, this matter remains substantially unresolved. Refer further comment in paragraphs 3.11.16 to 3.11.24 of this Report.

Victorian Health Promotion Foundation

<i>Ministerial Portfolios, May 1990, p.170</i>	Concern at the failure of the Victorian Health Promotion Foundation to expend all moneys in accordance with budget submissions and whether accumulation of large cash reserves is compatible with legislative objectives.	The Foundation is in the process of implementing a financial planning process to reduce cash reserves to a level of 10 per cent of the tobacco levy by 1993-94.
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———— NO ACTION TAKEN ————**Health Department Victoria**

<i>Ministerial Portfolios, May 1990, p.156</i>	Need for development of cleaning standards at a central level for Statewide application to effectively deploy resources in maintaining required levels of disinfection, sanitation and general cleanliness throughout the State's psychiatric hospitals and institutions.	Matter remains unresolved. Department believes that standards of cleaning are the prerogative of hospital management, although comparative data can be developed to enable better assessment of relative efficiency.
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Public Hospitals

<i>Ministerial Portfolios, May 1990, p.166</i>	There is a need for Health Department Victoria to review its current role in policy development, implementation, review and monitoring of performance within Public Hospitals and compliance with government policy directives.	Position unchanged. Hospitals are of the opinion that roles, functions and accountability of hospital boards of management are sufficiently detailed in legislation and health service agreements.
<i>Ministerial Portfolios, May 1990, p.169</i>	Need for the Department to specify at the time of providing ordinary grants the portion of the grant that is to be used for capital purposes.	Matter remains unresolved. Grants to hospitals are decided on the basis of approved global recurrent budgets, less approved receipts, and the disbursement of funds available is at the discretion of hospitals.

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>
Completed audits				
Health Department Victoria	30 June 1990	31 October. <i>Annual Reporting Act</i> 1983, s.8.	31 October 1990	31 October 1990
Alexandra and District Ambulance Service	30 June 1989	No reporting requirements. <i>Ambulance Services Act</i> 1986, s.38 provides for the audit of the accounts.	25 June 1990	26 July 1990 (a)
" "	30 June 1990	" "	3 September 1990	30 November 1990
Ambulance Officers' Training Centre	30 June 1990	30 September. <i>Annual Reporting Act</i> 1983, s.8.	4 October 1990	10 October 1990
Ambulance Service Victoria -				
Metropolitan Region	30 June 1989	31 October. <i>Annual Reporting Act</i> 1983, s.8.	15 June 1990	18 October 1990 (a)
North Eastern Region	30 June 1989	" "	29 November 1989	1 June 1990
" "	30 June 1990	" "	21 August 1990	31 October 1990
North Western Region	30 June 1989	" "	8 August 1989	4 July 1990 (a)
" "	30 June 1990	" "	31 August 1990	30 November 1990
South Eastern Region	30 June 1989	" "	6 September 1989	3 July 1990 (a)
" "	30 June 1990	" "	14 August 1990	30 November 1990
South Western Region	30 June 1989	" "	31 August 1989	10 September 1990 (a)
" "	30 June 1990	" "	5 September 1990	30 November 1990
Western Region	30 June 1989	" "	14 September 1989	20 July 1990 (a)
" "	30 June 1990	" "	31 August 1990	30 November 1990

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>
Completed audits - continued				
Dietitians Board of Victoria	30 June 1990	30 September. <i>Dietitians Act 1981, s.25.</i>	20 August 1990	24 August 1990
Hospitals and nursing homes	30 June 1990	31 October. <i>Annual Reporting Act 1983, s.8.</i>	For further comments, refer to paragraphs 3.11.12 to 3.11.24 of this Report.	
Optometrists Registration Board	30 June 1990	No reporting requirements. <i>Optometrists Registration Act 1958, s.22.</i>	21 September 1990	4 October 1990
Victorian Health Promotion Foundation	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.8.</i>	26 September 1990	28 September 1990
Victorian Nursing Council	30 June 1990	31 October. <i>Nurses Act 1958, s.40.</i>	8 August 1990	2 October 1990
Incomplete audits				
Ambulance Service Victoria - Metropolitan	30 June 1990	31 October. <i>Annual Reporting Act 1983, s.8.</i>	Financial statements referred to Ambulance Service for amendment.	
Hospitals and Nursing Homes -				
Coleraine and District Hospital	30 June 1990	30 November. <i>Annual Reporting Act 1983, s.8.</i>	Financial statements require further amendment by hospital.	
Goulburn Valley Base Hospital	30 June 1990	" "	Financial statements prepared were withdrawn by Hospital on 1 March 1991 pending resolution of integrity of financial records.	
Nathalia District Hospital	30 June 1990	30 November. <i>Annual Reporting Act 1983, s.8.</i>	" "	" "
Queen Elizabeth Geriatric Centre	" "	" "	Financial statements not yet finalised by hospital due to poor state of accounting records.	
Waranga Memorial Hospital	" "	" "	Financial statements prepared were withdrawn by Hospital on 1 March 1991 pending resolution of integrity of financial records.	

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>
Incomplete audits - continued				
Prince Henry's Institute of Medical Research	31 December 1990	Before the expiration of the 7th sitting day of Parliament. Prince Henry's <i>Institute of Medical Research Act 1988</i> .	Financial statements not received.	
Mental Health Review Board	30 June 1990	30 September. <i>Mental Health Act 1986</i> , s.136.	7 February 1991	Audit currently being finalised.
Psychosurgery Review Board	30 June 1990	" "	(b)	" "

(a) Qualified audit report issued.

(b) Included in Mental Health Review Board financial statements for the year ended 30 June 1990.

LABOUR

KEY FINDINGS

- ▶ The Department of Labour still needs to re-assess the adequacy of information externally reported on Youth Guarantee to enable meaningful assessments of the Guarantee's performance.
Paras 3.12.18 to 3.12.22
- ▶ Financial viability of the WorkCare scheme has significantly improved.
Paras 3.12.28 to 3.12.35
- ▶ The non-observance of legislative provisions by the WorkCare Levy Collection Agency within the State Taxation Office has resulted in revenue forgone of \$4.2 million.
Paras 3.12.47 to 3.12.50
- ▶ Over 58 000 WorkCare levy annual adjustment returns, dating as far back as WorkCare's commencement in 1985-86, had not been lodged by employers.
Paras 3.12.51 to 3.12.53
- ▶ The WorkCare Levy Collection Agency had not finalised the assessment of over 8 000 WorkCare levy returns involving estimated levy outstanding from employers over the past 5 years of around \$26.6 million.
Paras 3.12.51 to 3.12.53
- ▶ Assessments of 31 200 WorkCare levy refunds of approximately \$32 million due to employers over the past 5 years had not been completed.
Paras 3.12.51 to 3.12.53
- ▶ Due to system deficiencies, the WorkCare Levy Collection Agency deferred for 4 months the processing of refunds with individual values of less than \$1 000 but with an aggregate value of \$3.7 million.
Paras 3.12.51 to 3.12.53
- ▶ The failure by the WorkCare Levy Collection Agency to follow-up late lodgements of employer registrations is likely to lead to annual revenue forgone of around \$1.2 million.
Paras 3.12.57 to 3.12.62
- ▶ The WorkCare Levy Collection Agency needs to re-assess the cost-effectiveness of annual outlays of \$1.8 million for the extended engagement of temporary staff.
Paras 3.12.70 to 3.12.72

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

Department

Department of Labour

Public bodies

Accident Compensation Commission
Accident Compensation Tribunal
Coal Mine Workers' Pensions Tribunal
Construction Industry Long Service Leave Board
Medical Panels
Victorian Accident Rehabilitation Council
WorkCare Appeals Board

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

DEPARTMENT OF LABOUR**Update on 1988 audit review of Youth Guarantee**

3.12.1 The Youth Guarantee initiative was developed in 1985 to address a number of problems which surfaced in the early 1980s, including:

- ▶ high youth unemployment;
- ▶ poor school retention rates; and
- ▶ insufficient numbers of young people with post-secondary education.

3.12.2 The Guarantee is managed by the Department of Labour, however, the Victorian Post-Secondary Education Commission (VPSEC) is responsible for the specific component of the Guarantee which funds additional tertiary places.

3.12.3 In the Auditor-General's *Special Report No. 10* which was tabled in Parliament in November 1988, audit communicated the results of a detailed review of the implementation of the initiative.

3.12.4 The key audit observations arising from the 1988 review were:

- ▶ additional tertiary places were not targeted to disadvantaged students;
- ▶ the majority of traineeships in the public sector were awarded to ineligible applicants;
- ▶ the impact of the Employment Councillor and Placement Service was not effectively measured;
- ▶ meaningful performance indicators were not in place; and

- ▶ significant promotional expenditure was not in accordance with government directives.

3.12.5 Audit conducted a follow-up review of the Guarantee in order to inform the Parliament of key developments that have occurred since 1988, and to assess action taken by management on the issues previously raised.

Targeting of additional tertiary places

3.12.6 In 1989 and 1990 the State, through VPSEC, funded 2 000 new tertiary places. The total cost of administering all State-funded tertiary places during the 2 years was \$35.1 million. No further new places are planned to be funded beyond 1990.

3.12.7 The deficiencies previously raised by audit in the targeting of additional places have to some extent been addressed primarily through the creation of additional places in regional areas categorised specifically as disadvantaged.

3.12.8 However, audit found that VPSEC has still not clearly defined the term "disadvantaged student" and, as a consequence, each institution has continued to apply its own criteria in filling the additional places. In such circumstances, VPSEC was not in a position to assess the extent to which this initiative was effective in assisting disadvantaged students.

Management response by VPSEC

The principal objective of the State Funded Places component of the Youth Guarantee program was to address the disadvantage of students unable to gain access to higher education by providing additional places for those students. The program has targeted priority areas relating to economic development and disadvantage.

In administering the program, VPSEC has relied on negotiated strategies within institutions rather than impose a separate definition of disadvantage. Program evaluations address the issue of disadvantage in the context of the total program.

Awarding of traineeships in the public sector

3.12.9 A specific initiative of the Guarantee was to fund traineeships which provided employment and training opportunities within the Victorian public sector. The traineeships were intended for people under 19 years of age who had been unemployed for more than 6 months and who had not completed Year 12 at school. Traineeships consisted of structured 12 month programs of course work and on-the-job training at public sector agencies. At the conclusion of the traineeship, it was anticipated that the trainee would be offered permanent employment by the agency.

3.12.10 The previous audit review revealed that a significant proportion of traineeships were awarded to ineligible applicants. In response to the audit findings the Department implemented revised procedures for the assessment of applicants for traineeships.

3.12.11 In the 1989 and 1990 calendar years, 160 public sector traineeships were commenced. The Department's revised procedures were found to be ineffective in that an estimated 21 per cent of all traineeships, costing in excess of \$420 000, were awarded to recipients who did not meet the eligibility criteria. These results were disappointing given the audit findings on the issue reported in 1988.

3.12.12 No further traineeships are to be awarded by the Department beyond 1990. All traineeships, in both the private and public sectors, are now funded by the Commonwealth under the Australian Traineeship Scheme which is administered by the State Training Board.

Management response by Department of Labour

The observation fails to acknowledge the significant improvement since 1988 in the proportion of trainees who met the Youth Guarantee eligibility criteria: declining from 76 per cent to 21 per cent "ineligibility".

Youth Guarantee eligibility criteria are in fact stricter than the Commonwealth Government's traineeship criteria where trainees can be aged 16-19 with no requirement that trainees be unemployed. Further, young people may seek assistance from Youth Guarantee when they are 18 years old, but turn 19 before they are placed in employment or training.

The 21 per cent "ineligibility" identified by the Auditor-General comprises predominantly 19 year olds or those approaching 6 months unemployment duration.

Employment Counsellor and Placement Service

3.12.13 The Employment Counsellor and Placement Service commenced in June 1987 with the primary objective of placing people in work, training or education through the provision of individual counselling. The specified target group was young people of 18 years or under, not in full-time education and who had been unemployed for more than 6 months.

3.12.14 Audit reported in 1988 that the Department was not in a position to adequately monitor the effectiveness of the Service, due to an excessive concentration on the number of placements rather than consideration of eligibility of participants, duration of placements and feedback from the targeted groups.

3.12.15 In response to the audit comments, the Department significantly improved the range of information maintained in regard to clients assisted, in order to more effectively measure the outcomes of the Service. Information now maintained includes the duration of placements, age of clients, reasons for withdrawals from Service etc.

3.12.16 During the calendar years 1989 and 1990, the Service assisted in excess of 4 660 people and successfully placed 3 734 participants in work, training or education.

3.12.17 Based on the results of an audit sample of participants placed by the Service during 1989 and 1990, it is estimated that approximately 9 per cent were outside the Service's target group. These results indicate there still remains a need for the Department's internal processes to be further strengthened to ensure that only eligible participants are assisted and available resources are effectively utilised.

Management response by Department of Labour

As indicated by audit in paragraph 3.12.9, young people may seek assistance from Youth Guarantee Employment Counsellors when they are 18 years old, but turn 19 before they are placed in employment or training. Those few identified by the Auditor-General as less than 6 months unemployed are young people at risk or otherwise disadvantaged in the labour market.

Performance indicators

3.12.18 The principal audit finding in 1988 was that the performance measures used by the Department did not enable firm conclusions to be reached on the initiative's overall effectiveness. Audit recommended that the Department design and implement specific indicators which could progressively measure the impact of the Guarantee and form the basis of periodic decision-making.

3.12.19 Since the previous audit examination, both VPSEC and the Department have re-assessed the measures used to monitor the effectiveness of the Guarantee and have generally moved away from the use of global measures such as youth unemployment and school retention rates. Specific measures have now been developed to evaluate performance in particular segments of the initiative. Relevant comments follow:

VPSEC - Additional places

3.12.20 The impact of the State's funding of tertiary education is now assessed by VPSEC through quantification of the number of additional places created together with analyses of transition rates from secondary to tertiary education and retention rates for students granted additional places. **As previously mentioned, VPSEC has still not defined the term "disadvantaged student" with the result that there remained a difficulty in assessing the effectiveness of this aspect of the Guarantee, in terms of assisting disadvantaged students, up to its termination at the end of 1990.**

Management response by VPSEC

Refer to response provided for paragraphs 3.12.6 to 3.12.8.

Department of Labour

3.12.21 While the Department has developed internal performance measures to assess and monitor the direct impact of each activity undertaken within the Guarantee and to provide an improved basis for decision-making, it has continued to utilise global measures, such as secondary school retention rates and youth unemployment rates, for external reporting purposes. As reported by audit in 1988, **while such measures provide information to the public and the Parliament on the overall levels of youth employment, training and education within the State, they do not enable meaningful assessments to be undertaken of the specific impact of the Guarantee initiative in this area.**

3.12.22 The Department still needs to re-assess the adequacy of information externally reported in terms of enabling meaningful assessments of the performance of the Guarantee.

Management response by Department of Labour

Recognition by the Auditor-General that Youth Guarantee has developed both internal performance and external performance indicators is welcomed. The Auditor-General's assertion that Youth Guarantee reports publicly on the achievement of external indicators only is not accepted. Youth Guarantee reports on the achievement of individual projects to those constituents (e.g. schools, TAFE colleges) that are relevant to the project. General reporting to the public on the program is only relevant by using global measures.

Promotional expenditure

3.12.23 It was previously reported that the Department incurred substantial expenditure in promoting the Guarantee without ensuring compliance with the regulatory processes established by the Government to monitor and evaluate such expenditure.

3.12.24 In 1989 and 1990, the Department's promotional expenditure totalled \$72 000, all of which was incurred in accordance with government guidelines.

Management response by Department of Labour

The Department is pleased to see that the Auditor-General has acknowledged the improvements in this area.

Future directions of the Guarantee

3.12.25 Since the 1988 audit review, the level of expenditure incurred in relation to the initiative has declined by 24 per cent in actual terms (33 per cent in 1990 constant dollars) from \$29.3 million in 1988 to \$22.3 million in 1990. The reasons provided by the Department and VPSEC for this fall were:

- ▶ improvements in youth employment and education levels; and
- ▶ increased Commonwealth funding of traineeships and tertiary education.

3.12.26 However, recent pressures on the level of youth unemployment have emerged as a consequence of the current economic downturn. Specifically, the number of unemployed persons in the State between 15 and 19 years of age increased from 30 500 to 51 000 for the period June to December 1990.

3.12.27 A Government Cabinet Taskforce, headed by the Minister for Labour, was established in late 1990 to examine, inter alia, future policy options for addressing youth unemployment.

Management response by Department of Labour

The Auditor-General has presented an accurate description.

ACCIDENT COMPENSATION COMMISSION

Improvements in the financial position of WorkCare

3.12.28 The Accident Compensation Commission administers the WorkCare Accident Compensation Scheme which in 1985 replaced the State's former multi-insurer workers compensation system.

3.12.29 A key financial objective of WorkCare at its inception was that sufficient levy and investment income would be generated over the first 10 years of the Scheme to cover all expenses paid over the period and the outstanding claims liability at the end of that period. However, previous Auditor-General's Reports to the Parliament have drawn attention to the fact that actual claims were substantially exceeding original WorkCare costings and existing funding arrangements were unlikely to meet projected future liabilities. The key objective to have the Scheme fully-funded by 1995 was therefore unlikely to be achieved.

3.12.30 Following continued operating losses and a deterioration of the Commission's financial position, **the Government introduced, by way of amending legislation, a package involving further major reforms to WorkCare in late 1989. These reforms were designed to ensure the financial viability of the Scheme and included:**

- ▶ an increase in the average levy rate from 2.4 per cent to 3.3 per cent;
- ▶ a reduction in some long-term benefit payments by 20 per cent; and
- ▶ significant changes in the procedures for settling claims.

3.12.31 With the introduction of the latest reform package, the Government also indicated that the financial performance of WorkCare will no longer be measured in the short to medium-term against the previous 10 year fully-funded objective. This objective was replaced by the following 3 key financial performance targets:

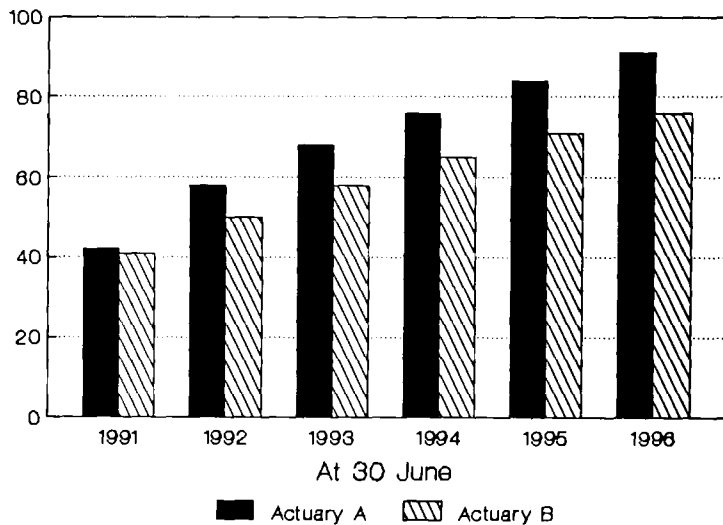
- ▶ to generate an operating surplus each year, so that the level of reserves is increased year by year;
- ▶ to hold sufficient liquid reserves at the end of each year to meet the following year's cash outgoings; and

- ▶ to ensure that unfunded claim liabilities at the end of any year are not greater than the projected revenue of the next succeeding 3 years.

3.12.32 The Commission's 2 consulting actuaries have stated in a report to the Commission that the 3 targets established in 1989 were met at 30 June 1990 and the Commission's performance should continue to improve.

3.12.33 Chart 3.12A highlights the projected funding ratios prepared by the Commission's consulting actuaries for the 6 years to 30 June 1996.

CHART 3.12A. ACTUARIAL PROJECTED FUNDING LEVELS
(per cent)



3.12.34 An analysis by audit of the Commission's financial results for 1989-90 and its financial position at 30 June 1990 indicated that the above reform package has been successful in arresting the Scheme's continuous and considerable financial losses and has resulted in a significant improvement in the Scheme's financial viability. Specifically:

- ▶ the Scheme's liability for outstanding claims decreased from \$4.9 billion at 30 June 1989 to \$3.5 billion at 30 June 1990;
- ▶ the Scheme's investments increased from \$638 million at 30 June 1989 to \$966 million at 30 June 1990;
- ▶ the ratio of the Scheme's funding level (net assets excluding outstanding claims) to outstanding claims moved from 14 per cent in 1988-89 to 29.9 per cent in 1989-90; and

- ▶ the Scheme achieved a \$1.7 billion operating surplus in 1989-90, (after taking into account a \$2 billion reduction in liabilities for outstanding claims at the start of the financial year), compared with a \$2.1 billion operating deficit in 1988-89.

3.12.35 The Commission has indicated that although the performance of WorkCare in 1989-90 exceeded expectations, the key question was whether such performance could be maintained. To this end, the Commission intends to closely monitor the Scheme's future performance.

Preparation of quarterly financial statements

3.12.36 In response to public and parliamentary concerns regarding the financial performance of WorkCare, the Accident Compensation Act was amended late in 1989 to require all WorkCare agencies to present quarterly audited financial statements to the Parliament.

3.12.37 The introduction of quarterly reporting to the Parliament has reinforced the responsibility of the Commission to ensure that early and effective action is taken to remedy the Scheme's financial problems, and has led to an improved flow of information to the Parliament. However, the legislative changes have also required additional costs in terms of Commission staff and management time, and actuarial and audit services.

3.12.38 In view of the improved performance of the Scheme in 1989-90, audit has suggested to the Commission that, provided future improvements anticipated by the Commission do materialise, it may be appropriate to reassess the frequency of financial reporting by WorkCare agencies at some future date.

Collection of WorkCare levy

3.12.39 The cost of compensation claims paid by the Commission is primarily funded from a levy payable by employers which is determined on the basis of remuneration provided to employees.

3.12.40 Since the commencement of the WorkCare Scheme, an arrangement has operated under which the Levy Collection Agency, a unit of the State Taxation Office, has acted as an agent for the Commission and has been assigned responsibility for the registration of employers and collection of the levy.

3.12.41 The WorkCare levy collected by the Agency in 1989-90 totalled \$1.2 billion (\$828 million, 1988-89). Fees paid by the Commission to the Agency for services provided in connection with levy collection totalled \$9.5 million in 1989-90 (\$8.9 million, 1988-89).

3.12.42 Audit carried out a review in 1990 of the adequacy of procedures followed by the Agency for the collection of the WorkCare levy.

Overall conclusions

3.12.43 The audit review revealed that while the Commission has had principal responsibility for the collection of the WorkCare levy since 1985, the delegation of this responsibility to its agent, the State Taxation Office, was not effectively monitored until recently. Significant deficiencies had developed in the State Taxation Office's management of levy collection, including both poor collection processes and, in cases, non-observance of legislative provisions. Furthermore, certain practices followed by the State Taxation Office favoured late paying employers at the expense of employers who paid on time.

3.12.44 The above deficiencies were similar to those highlighted in my *Report on the Treasurer's Statement for the year ended 30 June 1989* relating to State Taxation Office operations in regard to taxation revenue collections. As indicated in my *Report on the Treasurer's Statement for the year ended 30 June 1990*, limited action has since been taken by the State Taxation Office to realise potential revenue identified.

3.12.45 It was pleasing to note that, in recognition of the above problems, the Commission had over the last 18 months undertaken a number of initiatives in order to identify and rectify deficiencies existing within the Agency's collection procedures and systems and to enable effective monitoring of the levy collection function. These included:

- ▶ engagement of an accounting firm to assess the Agency's investigation and collection procedures;
- ▶ engagement of a consultant to identify improvements in EDP management information systems; and
- ▶ establishment of performance targets to provide a basis for the periodic monitoring and assessment of the Agency's procedures.

3.12.46 While the above initiatives have assisted in the improvement of levy collection, the audit review revealed that scope remained for further improvements. In particular:

- ▶ action needs to be taken to address the delays that exist in the processing of annual assessments; and
- ▶ non-observance of legislative provisions has resulted in revenue in the order of \$4.2 million not being raised from the commencement of WorkCare to the end of June 1990, and a further \$500 000 being forgone on an annual basis.

Management response

The conclusions in the report should be read in the context of the amount of levy collected over the period (i.e. \$4.7 billion). The amounts identified in the report represent 0.2 per cent of total levy collected.

In that context, the ACC believes that audit is overstating the problems. Audit has made no reference to the impact and speed of changing systems and the impact that may have had on outcomes. The Commission's agency, the State Taxation Office, also advise that they strenuously reject the auditor's statements.

The performance of the State Taxation Office while carrying out WorkCare levy collection responsibilities has been monitored by the Commission since the commencement of WorkCare. The monitoring process has been greatly intensified and formalised with the signing of an agreement in January 1991.

The January 1991 agreement is a comprehensive commercial document that will contribute greatly to further improving the level of management control and monitoring of the Agency's performance.

As can be seen in this report, the Commission has undertaken a number of initiatives over the past 18 months and will continue to introduce further improvements on the basis of cost effectiveness to the levy collection process.

Paragraph 3.12.44 specifically relates to the State Taxation Office and they have advised the Commission of the following:

"Audit has made reference to the STO having taken limited action to realise the potential revenue identified by audit in its review of STO Payroll Tax and Land Tax operations for the year ended 30 June 1989. This is true. The reasons for this limited action are as follows:

- The STO operates old and out-of-date computer systems which are about to be redeveloped at a cost in excess of \$20 million. A freeze has been imposed on the redevelopment and enhancement of the old system, as far as possible, to maximise resources available for the new system. Some of the audit recommendations require changes to the old computer programs and a high priority could not be given to all of these;*
- In the view of STO management, some of the audit recommendations which required the use of additional human resources did not have a cost-benefit justification. Accordingly, as a result of the Government's tight budgetary constraints, funding was not provided to enable the human resources to be engaged to carry out the audit recommendations. Where a cost-benefit justification has been established, funding has been provided; and*
- In some cases, the STO management disagrees with the audit recommendation."*

Delays in monthly levy payments

3.12.47 The majority of employers pay the WorkCare levy on a monthly basis, with an annual adjustment at year-end. Monthly levy collections from these employers total around \$100 million. The *Accident Compensation Act 1985* requires monthly payments within 7 days of the end of each month, unless specific exemptions are obtained. Furthermore, the legislation requires penalties to be paid by employers who do not make the monthly payment by the due date.

3.12.48 Audit examination of monthly levy collections for the period July to November 1990 revealed that approximately 30 per cent of employers did not make their monthly payments by the due date and penalties were not raised by the Agency in all cases.

3.12.49 It was specifically noted that, while legislation required the raising of penalties for all employers who did not make their payments by the due date, up to 30 June 1990 the Agency provided a *period of grace* to all employers prior to the raising of any penalties. **It was estimated by the Agency that, as a result of this practice, revenue totalling \$4.2 million had been forgone up to 30 June 1990 since the commencement of the WorkCare Scheme in 1985.**

3.12.50 From July 1990, the Agency commenced monitoring payments by major companies, which account for approximately 45 per cent of monthly collections, and the issue of penalty notices to these companies for any late payments commencing from the due date. However, **audit was informed that, due to cost-effectiveness considerations, this process was not extended to other employers although the remaining 55 per cent incurred a flat penalty after a period of grace.**

Management response

The payment of levy by employers by the due date is the major levy objective. Due to the high volumes it is not always practicable to ensure the timeliness of every employer's levy payment. The Commission and the Agency are increasing efforts to minimise late payments.

Annual Adjustment Returns

3.12.51 To enable the Agency to calculate the actual WorkCare levy payable for each year, those employers who pay the levy on a monthly basis (this category comprises approximately 100 000 employers) are required by legislation to provide to the Agency an Annual Adjustment Return within 21 days of receiving a request from the Agency to do so. This Return records information on the total number of employees and remuneration paid to such employees. The purpose of these Returns is not dissimilar to that of annual income taxation returns completed by PAYE taxpayers. Where an employer fails to furnish a Return to the Agency within the specified time, the Agency has legislative authority to prosecute the employer and seek the payment of penalties of up to \$1 000.

3.12.52 The audit review revealed the following matters of significance in this area of the Agency's operations:

- ▶ **At mid-January 1991, over 58 000 returns, dating as far back as WorkCare's commencement in 1985-86, had not been lodged by employers. These represent 12 per cent of all returns issued by the Agency since 1985;**
- ▶ **The Agency had not finalised the assessment of over 8 000 returns. Based on information provided by employers on these returns, the estimated levy outstanding by employers over the past 5 years was around \$26.6 million. Given the current processing throughputs it was estimated that this backlog represents 2.5 months of processing. Table 3.12B shows the relevant details:**

TABLE 3.12B. OUTSTANDING LEVIES

<i>Year</i>	<i>Number of Returns</i>	<i>Levy outstanding</i>
		<i>(\$m)</i>
1985-86	923	1.5
1986-87	332	0.4
1987-88	204	0.7
1988-89	916	8.0
1989-90	5 683	16.0
Total	8 058	(a)26.6

(a) This amount may be affected by inaccuracies or incompleteness in data provided by employers.

- ▶ **Based on information provided by employers, assessments of levy refunds of approximately \$32 million due to employers over the past 5 years had not been completed.** Given the current processing throughputs it is estimated that this backlog represents 5.5 months of processing. Details are shown in Table 3.12C.

TABLE 3.12C. OUTSTANDING REFUNDS

<i>Year</i>	<i>Number of Returns</i>	<i>Refund due</i>
		<i>(\$m)</i>
1985-86	1 136	2.0
1986-87	1 660	3.2
1987-88	1 781	1.6
1988-89	4 584	5.6
1989-90	22 081	19.6
Total	31 242	(a)32.0

(a) This amount may be affected by inaccuracies or incompleteness in data provided by employers.

- ▶ **Due to system deficiencies the Agency deferred, for a period of 4 months, the processing of refunds with individual values of less than \$1 000, but with an aggregate value of \$3.7 million;**
- ▶ Although the legislation provides the Agency with authority to take legal action against employers who fail to lodge Returns, the Agency does not initiate any such action. The Agency advised that the basis for this position was that the costs of litigation were greater than the penalties available under legislation and imposed by the courts; and
- ▶ The Agency had not established effective procedures to enable monitoring of delays in the processing and finalisation of individual employer returns.

3.12.53 These delays, involving substantial amounts due from or refunds payable to employers, are a matter of concern as they can have substantial financial implications to the Commission and to all WorkCare levy payers.

Management response

Audit has reported that 12 per cent of forms issued to employers have not been returned. It should be noted, that a significant number of these employers ceased trading during the period and also ceased to exist as an entity removing the ability to enforce provision of the required information.

Audit has quoted the value of outstanding levies and refunds but also notes potential inaccuracies and incompleteness in the information provided by employers. Processing since the audit has confirmed that the values quoted by audit are overstated.

Systems improvements will ensure future financial years' returns will be processed within a reduced timeframe.

Non-lodgement of annual levy accounts

3.12.54 Those employers with an annual levy payable of less than \$500 (approximately 52 000 employers are in this category) pay the WorkCare levy on an annual basis. Levy accounts are forwarded to these employers by the Agency at year-end for completion and return with payment within 15 working days. The Agency's prescribed procedures provide for the issue of a reminder notice for accounts not settled within the due period. Penalties are added to the estimated levy due from the employer if the issue of a second reminder notice becomes necessary. The second reminder notice provides employers 14 days to pay the estimated levy due plus penalties prior to further recovery action being taken by the Agency.

3.12.55 For 1989-90 levy accounts not settled within 15 working days, the Agency did not issue first reminder notices until October 1990, **over 2 months after the due dates**. In November 1990, 10 370 second reminder notices with an estimated value of \$4.1 million in levy due were issued by the Agency. However, for a further 2 500 outstanding levy accounts, second reminder notices incorporating the estimated levy due plus penalties were not issued at the date of audit review. **Due to these delays, levy amounting to \$500 000 (including penalties) had not been billed for 1989-90.**

3.12.56 In order to maximise its return from revenue collections the Agency should take immediate action to improve the timeliness of its follow-up procedures for outstanding levy accounts.

Management response

Audit have noted that the timeliness of issue of annual levy accounts can be improved. Management agrees with this conclusion and is moving towards correcting the timeframe. It should be noted that the amount quoted as not billed represents about 0.04 per cent of total annual levy income.

Late employer registrations

3.12.57 The legislation requires employers who pay any leviable remuneration to employees during a month to apply within 7 days after the close of that month for registration as an employer under WorkCare.

3.12.58 In May 1990, the Agency developed procedures aimed at manually identifying late registrations and initiating follow-up action to determine and collect outstanding levies and penalties. Based on information provided by the Agency, levy revenue from late registrations totalling \$500 000 was raised for the 4 months to August 1990, with collections from late registrations projected to be \$2 million for the whole of 1990-91.

3.12.59 The audit review found that the **procedures introduced in May 1990 for the identification and follow-up of late registrations were discontinued from August 1990**. Audit was advised that this activity had ceased due to budgetary constraints within the Agency.

3.12.60 The Agency has estimated that the failure to follow-up late lodgements of employer registrations is likely to lead to annual revenue forgone of around \$1.2 million.

3.12.61 Audit was advised that the Commission plans to implement a computerised system for the processing of late registrations. However, at the time of the audit examination, this project was at the design stage and a target completion date had not been established.

3.12.62 Given the magnitude of the revenue forgone, the Commission should promptly implement its new computerised system and reintroduce, as an interim measure, its manual procedures for monitoring of late registrations.

Management response

Management agrees with audit's conclusions. Procedures are in place to address part of the problem and a computer systems update is necessary to address the remainder in a cost-effective way. Specification of the computerised system update will be complete by the end of the year.

Failure to detect non-registered employers

3.12.63 The following procedures have been established by the Agency to detect non-registered employers:

- ▶ matching of the State Taxation Office's payroll tax and WorkCare databases;
- ▶ ongoing comparison of employee WorkCare claims with the Commission's employer registration records; and
- ▶ periodic targeting of particular industry groups and industrial regions.

3.12.64 During 1989-90 the Agency identified 491 non-registered employers as a result of the above actions.

3.12.65 In addition to these procedures, up until late 1988 the Agency compared information held on the Commission's WorkCare database with relevant data held by other government entities and employer representative bodies. As a result of this process, **1 050 unregistered employers were identified in 1987-88 which led to the collection of levy of \$3.8 million for that financial year alone, at a cost of approximately \$90 000.** The Agency advised audit that this specific review process was discontinued in late 1988 due to resource constraints.

3.12.66 Given the substantial revenue derived in the past from comparisons of information with external entities, the Agency and the Commission should promptly re-assess the viability of upgrading the current review procedures.

Management response

A number of processes operate across the Agency's operations that successfully detect non-registered employers. Management has ceased one particular process which was particularly resource intensive, however, audit has not noted that a project has begun to match against another source which will significantly enhance detection of non-registered employers and which is expected to be implemented by June in the next few months.

Delays in processing notifications of business terminations

3.12.67 The audit review revealed that there were substantial delays in the completion of processing by the Agency of employer notifications of business terminations.

3.12.68 The Agency records showed that at 30 November 1990, **32 960 notified business terminations had not been fully processed, with approximately 8 700 relating to periods prior to 1 July 1989.** This situation meant that, in effect, the Agency has not taken action on these notifications to assess and collect outstanding WorkCare levies or issue refunds.

3.12.69 Based on information provided by the Agency regarding levy raised and refunds made from notified business terminations, **it is estimated that revenue forgone and refunds not provided to employers as a consequence of these processing delays could be in the order of \$700 000 and \$600 000, respectively.**

Management response

A significant number of terminations are processed through the annual adjustment process. This has not been noted by audit. The remainder involves obtaining information from businesses that have ceased trading and for which there is no cost effective means of enforcing the business to comply.

As a result the process is very time consuming resulting in unavoidable delays. The current methods will be evaluated to identify ways to improve efficiency.

Agency staffing arrangements

3.12.70 The Agency utilises a combination of permanent and temporary staff to carry out its functions. The total cost of staff salaries in 1989-90 amounted to \$6.8 million, with **temporary staff salaries accounting for \$1.8 million or 26 per cent.**

3.12.71 A review of the Agency's staffing arrangements identified the following shortcomings in the procedures adopted for the engagement of temporary staff:

- ▶ cost-benefit analyses had not been undertaken to establish the cost efficiency of utilising temporary staff in cases where such staff were engaged for extended periods;
- ▶ **Tender Board approval was obtained to incur expenditure of up to \$200 000 for the engagement of temporary staff in 1989-90, however, actual expenditure exceeded this amount by \$1.6 million; and**
- ▶ contrary to Government guidelines on workforce mobility, public sector redeployees were not considered by the Agency for temporary employment positions.

3.12.72 Given the substantial costs associated with the extended engagement of temporary staff, the Agency needs to reassess the cost-effectiveness of its current employment strategies.

Management response

Paragraphs 3.12.70 to 3.12.72 specifically relate to the Agency and they have advised the Commission of the following:

"The audit comments assume that temporary staff and agency staff (that is, a person obtained for a specific assignment from an external employment bureau) are one and the same, which is not the case. At no time has the STO engaged agency staff in preference to permanent or temporary public servants. Agency staff have only been engaged when all attempts at permanent recruitment have failed, in the main as a consequence of lack of base level officers on VPS Merit Lists; or where permanent positions have not yet been created. Therefore, a cost-benefit analysis of agency staff was not necessary.

"Audit's statement that the STO has operated contrary to government guidelines on workforce mobility is incorrect. None of the documentation released to agencies in 1990 made reference to engagement of agency staff. Reference was made to temporary staff, but only in the context of temporary vacancies of permanent positions. Following audit's inquiries with the Workforce Management Unit, verbal advice was received in late February 1991 that where there is a need to engage agency staff for periods exceeding 3 months this resourcing need should be referred to the Unit.

"The costs associated with engaging agency staff do not exceed the cost involved with equivalent level permanent officers. The audit comment fails to consider the full cost of permanent officers, that is the 30 per cent plus that needs to be added to the base salary to account for labour on-costs. Once this is included the cost variance tends to favour the use of agency staff."

Need for formal agency agreement

3.12.73 A draft agency agreement between the Commission, the Agency and the Department of the Treasury, setting out the roles and responsibilities of the respective organisations, was drawn up at the commencement of WorkCare in 1985 and revised in 1989. However, the draft agreement was not finalised due to the Agency's reservations regarding:

- ▶ the adequacy of management information systems provided to enable it to discharge its responsibilities; and
- ▶ the appropriateness of certain proposed performance indicators formulated by the Commission against which the Agency's performance was to be assessed.

3.12.74 In the absence of a formalised agreement between the parties, a comprehensive framework had not been developed to enable the establishment by the Commission of effective management control over the levy collection activities undertaken by the Agency since 1985.

3.12.75 In January 1991 the Commission and the Agency entered into a memorandum of understanding which specifically sets out performance targets that are to be achieved by the Agency and used by the Commission to assess the Agency's performance for the remainder of 1990-91.

3.12.76 While the above arrangement now provides a basis for improved monitoring, audit is of the view that there remains a need for a formalised agency agreement to be drawn-up to set out the specific roles and responsibilities of the Agency and the Commission.

Management response

There has been a number of processes established to ensure adequate management control by the Commission over levy collection activities undertaken by the Agency.

These processes have led to the January 1991 agreement. This is a Commission initiative that provides a formal, commercial document that greatly improves the level of management control and intensifies monitoring of the agency's performance.

The Commission and the Agency are of the view that the agreement has been particularly successful and will be a sound basis for establishing future agreements.

ACCIDENT COMPENSATION TRIBUNAL

Accountability of the Office of the Complaints Investigator

3.12.77 The key function of the Office of the Complaints Investigator is to receive, assess and investigate complaints arising from the operation of the WorkCare scheme. In October 1990 a Complaints Investigator was appointed by the Governor-in-Council in accordance with the *Accident Compensation Act 1958*.

3.12.78 Under the provisions of the Act, the operating costs and expenses of the Office are funded by the Accident Compensation Tribunal. Operating costs of the Office for the period October to December 1990 totalled \$58 000.

3.12.79 Unlike other WorkCare bodies, such as the WorkCare Appeals Board and Medical Panels, there is currently no legislative requirement for the Office to provide the Parliament with a report on its operations and audited financial statements.

3.12.80 While the expenditure incurred by the Office to date has not been significant, audit has recommended that action be taken to improve the level of accountability to the Parliament.

Management response by the Department of Labour

The Complaints Investigator supplies the Minister with monthly reports, as proposed in her Forward Plan and endorsed by the Minister. It is anticipated that she will also provide an annual report which will be incorporated in the Department of Labour's annual report. The financial statements of the Office of the Complaints Investigator are part of the Accident Compensation Tribunal's financial statements. In addition, the WorkCare Appeals Board administers the funds of the Office of the Complaints Investigator and the accounts are audited through the Board's internal audit. Reports from such internal audits will be made available to the Accident Compensation Tribunal for the Auditor-General to examine.

Given the above, it is considered that no further action need be taken on this matter.

CONSTRUCTION INDUSTRY LONG SERVICE LEAVE BOARD

Level of industry contributions

3.12.81 The Construction Industry Long Service Leave Board administers the Construction Industry Long Service Leave Fund under a scheme that currently covers more than 114 000 construction industry workers. Under the scheme, workers become entitled to 13 weeks paid leave after 15 years industry service and pro-rata benefits after 10 years. The Board collected \$19 million during 1989-90 (\$22 million, 1988-89) in contributions from employers within the construction industry.

3.12.82 In the *Report on Ministerial Portfolios, May 1990*, audit commented that there was an excessive accumulation of funds by the Board principally due to high contribution rates levied on construction industry employers in prior years. **In order to reduce this accumulation of funds, the Board in December 1989 decreased the dual industry contribution rates of 2.5 per cent and 2 per cent to a uniform 1 per cent.**

3.12.83 Despite the reduction in contribution rates, which were introduced during the year, the Board's net assets increased from \$66.7 million at 30 June 1989 to \$82.2 million at 30 June 1990, an increase of some \$15.5 million. This movement was mainly brought about by an improved investment performance by the Board during 1989-90. The full impact of the reduced contribution rates will be reflected in the Board's 1990-91 financial statements.

3.12.84 Audit has been advised that the Board will continue to commission actuarial assessments every 2 years and will regularly monitor the level of industry contributions. The Board's longer-term objective is to reduce the magnitude of accumulated funds to the lowest practicable level. In December 1990 the industry contribution rate was further reduced to 0.5 per cent.

Management response

The levels of contribution rates have been responsibly set and appropriately reduced by the Board whenever prudent on the basis of expert actuarial advice.

The achievement of the surplus in the Fund is a product of not only past contribution rates, but also the historically high investment returns earned, the market value of the Fund's assets, the level of claims on the Fund and the actuarial assessment of the Fund's liability for accrued entitlements.

Over recent years, the Board has introduced annual actuarial assessments of the Fund's liability and has commissioned actuarial investigations of the Fund more frequently than required by statute.

As a result of the most recent actuarial study, the contribution rate was further reduced to 0.5 per cent from 1 December 1990. This decision was consistent with the Board's aim to ensure that the surplus in the Fund is reduced to a prudent long-term level.

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>
— MATTERS RESOLVED —		
Department of Labour		
<i>Second Report, 1986-87, p.107 Ministerial Portfolios, May 1989, p.182</i>	Failure of the Department to comply with central approval processes for certain expenditure and the engagement of consultants.	Tender Board requirements and other government directives were observed in 1989-90.
<i>Second Report, 1986-87, p.107 Ministerial Portfolios, May 1989, pp.180-1</i>	Absence of benchmarks and adequate monitoring procedures for evaluation of the effectiveness of substantial outlays by the Department on market research and advertising.	Evaluation criteria and monitoring procedures now are established prior to commencement of campaigns.
<i>Second Report, 1986-87, p.109 Ministerial Portfolios, May 1989, p.183</i>	Inadequate monitoring by the Department of activities of co-operatives which received loans under the former Co-operative Development Program.	Regular monitoring of the financial position of co-operatives now occurs.
<i>Ministerial Portfolios, May 1989, pp.171-4</i>	Deficiencies in motor fleet management, including substantial under-utilisation of vehicles.	A motor fleet management system has now been implemented to monitor the utilisation of the fleet.
<i>Ministerial Portfolios, May 1989, p.181</i>	Absence of complete and accurate records of assets.	The Department has now established adequate asset records.
<i>Ministerial Portfolios, May 1989, p.175</i>	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.	Public Service Board guidelines were observed in 1989-90.

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>
— ACTION COMMENCED —		
Department of Labour		
<i>Second Report, 1986-87, pp.108-9</i> <i>Ministerial Portfolios, May 1989, p.182</i> <i>Ministerial Portfolios, May 1990, pp. 206-7</i>	Deficiencies in overall management procedures in place for the provision of grants to organisations.	Monitoring of grants improved. However, significant number of grant recipients still had not provided sufficient information to acquit grants.
<i>Second Report, 1986-87, p.110</i> <i>First Report, 1987-88, p.36</i> <i>Ministerial Portfolios, May 1989, p.183</i>	The Department should reassess its decision to disband the Internal Review Branch.	An internal audit unit has been established and steps are being taken to improve the EDP skills of staff.
<i>Second Report, 1985-86, p.137</i> <i>Second Report, 1986-87, pp.109-10</i> <i>Ministerial Portfolios, May 1989, pp.179-80</i> <i>Ministerial Portfolios, May 1990, pp. 206-7</i>	Inadequate follow-up of unpaid registration fees.	Follow-up procedures have improved. Additional staff have been utilised to address database problems.
Accident Compensation Commission		
<i>Second Report, 1986-87, p.153</i> <i>Ministerial Portfolios, May 1990, pp. 328-9</i>	Ability of the WorkCare scheme to become fully-funded unlikely under existing funding arrangements.	Government reforms, which were introduced in late 1989, have significantly improved the scheme's viability. For further comments, refer paragraphs 3.12.28 to 3.12.35 of this Report.
Construction Industry Long Service Leave Board		
<i>Ministerial Portfolios, May 1990, pp. 208-9</i>	Past construction industry contributions in excess of requirements.	Contribution rates were reduced in December 1989 and 1990. The full impact on this reduction will be fully reflected in 1990-91. For further comments, refer paragraphs 3.12.81 to 3.12.84 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>
— NO ACTION TAKEN —		
Department of Labour		
<i>Ministerial Portfolios</i> , May 1990, p. 208	High level of loan repayment arrears relating to the New Enterprise Incentive Scheme.	Position unchanged. At 31 December 1990, 55 per cent of loans totalling \$1.2 million were considered doubtful.
Accident Compensation Commission		
<i>Ministerial Portfolios</i> , May 1990, p. 330	Inconsistency between date of quarterly financial statement presentation and preparation of actuarial report.	Position unchanged.

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>
Completed audits				
Department of Labour	30 June 1990	31 October. <i>Annual Reporting Act 1983</i> , s.8.	2 October 1990	2 November 1990
Accident Compensation Commission	30 June 1990	30 September. <i>Accident Compensation Act 1985</i> , s.38.	9 October 1990	9 October 1990
Accident Compensation Tribunal	30 June 1990	30 September. <i>Accident Compensation Act 1985</i> , s.79.	17 September 1990	28 September 1990
Coal Mine Workers' Pensions Tribunal	30 June 1990	No date specified. <i>Coal Mines Act 1958</i> , s.128.	25 October 1990	17 December 1990
Construction Industry Long Service Leave Board	30 June 1990	31 March. <i>Construction Industry Long Service Leave Act 1983</i> , s.8.	24 September 1990	23 October 1990
Medical Panels	30 June 1990	30 September. <i>Accident Compensation Act 1985</i> , s.72M.	5 September 1990	28 September 1990
Victorian Accident Rehabilitation Council	30 June 1990	30 September. <i>Accident Compensation Act 1985</i> , s.177.	28 September 1990	28 September 1990
WorkCare Appeals Board	30 June 1990	30 September. <i>Accident Compensation Act 1985</i> , s.71Q.	5 September 1990	28 September 1990

MANUFACTURING AND INDUSTRY DEVELOPMENT

KEY FINDINGS

- ▶ The Department has not fully monitored the performance conditions associated with its \$32 million industry assistance loans portfolio.
Paras 3.13.1 to 3.13.5
- ▶ Deficiencies existed in the Department's management processes relating to a \$5 million international promotion campaign.
Paras 3.13.10 to 3.13.21
- ▶ Domestic appliance retailing activities of the Gas and Fuel Corporation warrant review in the light of a \$3.2 million loss incurred during 1989-90.
Paras 3.13.22 to 3.13.44

The Minister for Manufacturing and Industry Development is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Department of Manufacturing and Industry Development *

Public bodies

Agriprojects Victoria Pty Ltd
 Albury-Wodonga (Victoria) Corporation
 Coal Corporation of Victoria
 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
 Port of Geelong Authority
 Port of Geelong Authority Superannuation Fund
 Port of Melbourne Authority
 Port of Portland Authority
 SEC Superannuation Fund
 State Electricity Commission of Victoria
 Victorian Solar Energy Council

* Change in departmental name on 18 December 1990. Previously known as Department of Industry and Office of Economic Planning.

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

DEPARTMENT OF MANUFACTURING AND INDUSTRY DEVELOPMENT

Failure to monitor industry assistance loans

3.13.1 In *Special Report No. 11, Financial Assistance to Industry*, audit identified certain shortcomings in the Department's provision of assistance to industry, including the need to establish monitoring procedures to ensure firms meet the terms and conditions applying to loans.

3.13.2 Although financial assistance by way of loans has been discontinued, the Department has responsibility for the existing loans portfolio which, at 30 June 1990, totalled \$32 million.

3.13.3 The on-going terms and conditions applying to many of these loans include the following:

- ▶ Evidence is to be provided by the firm of progress in meeting agreed goals; and
- ▶ Firms are required to maintain specified employment levels during the term of the loan. Penalty interest on loans is to be paid if agreed employment levels are not met.

3.13.4 Audit examination of loan files disclosed that the Department had failed to fully monitor the loans portfolio and was unable to determine whether all firms had met applicable loan conditions.

3.13.5 **Audit is concerned at the failure to monitor loans and, where appropriate, recall loans or invoke penalty interest clauses for breach of loan conditions. There is an urgent need for the Department to implement a process to monitor the performance conditions associated with all loans.**

Management response

In response to the recommendations in "Special Report No. 11, Financial Assistance to Industry", the Department developed and implemented new systems and procedures in relation to grants under its industry assistance programs. The auditor commented favourably on these developments in the previous Report (May 1990).

During 1989-90 the Department allocated considerable resources towards the management of the loans portfolio. A comprehensive internal review of all loans was undertaken to evaluate the status of loans within the portfolio and to assess the provision for doubtful debts. An external consultant was engaged to recommend a loan review methodology and undertake a quality assurance review of assessments conducted by the Department. In addition, work was initiated on the monitoring of performance conditions of the loan portfolio. A number of large loans were monitored and action taken where appropriate.

During 1990-91 the priority is to complete the work on monitoring of loan conditions, in conjunction with the annual financial assessment of the loans portfolio. Work on this joint exercise has commenced with a view to completing the program prior to the preparation of the 1990-91 Annual Report.

Loss on sale of loan

3.13.6 In July 1986 a loan of \$350 000 was provided to a manufacturing company under the Department's Industry Assistance Scheme. The 25 year loan was interest-free, provided the company met specified employment targets.

3.13.7 The company advised the Department in February 1990 that, due to poor trading performance, employment targets under the loan conditions would not be met and offered to repay the loan on the basis of its present value.

3.13.8 The Department obtained the approval of the Treasurer to accept the offer and received \$18 333 from a related company in full settlement of the \$350 000 loan. The present value of the loan was calculated on the basis of an 11.5 per cent zero risk bond rate matched to the period of the loan.

3.13.9 The Department's 1989-90 financial statements disclosed a **loss to the Consolidated Fund of \$331 667** resulting from the loan repayment.

Management response

The particular loan was made interest free for 25 years in consideration for the buy-out of existing decentralisation entitlements. The amount repaid was calculated as the net present value of the loan. This arrangement had commercial merit for the Government, given that the amount repaid could be invested to earn a similar amount of interest for the Government over the relevant period.

The transaction is considered to be legitimate and appropriate and was based on legal and accounting advice. The discount interest rate applied was based on reliable banking advice. The Office of the Auditor-General was consulted on the matter prior to the transaction being completed.

Investment recruitment and business migration marketing campaign

3.13.10 In April 1987 the Government released its economic strategy "*Victoria - The Next Decade*" which was aimed at generating internationally competitive growth. As part of this strategy, an international marketing campaign was planned to improve the general awareness of Victoria and Melbourne and to raise the image of Victoria as a desirable location for investment.

3.13.11 In March 1989, an international firm of consultants was contracted to develop and implement the marketing campaign. With an overall target of attracting \$500 million of investment to Victoria the campaign was to run for 2 years at a cost not exceeding \$8.9 million and was to be subjected to 6 monthly reviews.

3.13.12 The campaign was first reviewed in March 1990 at which stage \$4.4 million had been expended. Following the review, the consultant's contract was renegotiated back to \$5 million with a termination date of October 1990. The consultant's activities were redirected to assist in the follow-up of inquiries received to date, to assist in the Melbourne Olympic bid and to undertake a marketing campaign in Hong Kong to increase business migration to Victoria. The investment target was reduced to \$50 million of new investment and at least \$50 million to \$100 million of business migration investment by the end of 1991.

Performance evaluation

3.13.13 Other than the overall target of \$500 million, the Department did not establish specific targets at the beginning of the campaign by which to measure the performance of the campaign.

3.13.14 In response to audit inquiries as to the process by which the Department was, or is, measuring the success or otherwise of the campaign, the Department advised that while it has data relating to the actual number of investor inquiries and media inquiries, it is not possible to determine a direct causal link between this data and the campaign.

3.13.15 Audit notes, however, that the *1989-90 Annual Report* of the Department referred to the receipt of over 1 000 investor inquiries as a result of the campaign, and periodic reports on the campaign's progress make reference to a link with \$54 million of investment.

3.13.16 Without an attempt to determine a causal link, audit cannot see how the Department can ascertain the strengths and weaknesses of the campaign. Such information would provide a sound base on which to develop any future campaigns of a similar nature.

Management response

The Department devotes considerable resources to the development of the performance evaluation mechanisms for its programs. This particular marketing campaign was part of an on-going program to promote Victoria internationally and was aimed at attracting increased investment to Victoria over the longer-term. The original target of \$500 million was indicative of the level of new investment that could be expected over the longer-term if the campaign was successful. The target was reduced to reflect a scaling-down of the campaign's scope in March 1990. The success of the campaign against the revised target set for December 1991 will not be known until next year.

Other performance measures were put in place to assess the campaign's success. These include the establishment of a benchmark level for Victoria's profile in key overseas markets. A follow-up survey will be conducted in early 1992 to establish any changes in the profile.

Another measure established was the number of media articles generated in the overseas media by the campaign. These articles reached an estimated 115 million readers.

Inadequate review of expenditure claims

3.13.17 An examination by the Department's internal audit of contract administration procedures revealed that the Department had failed to adequately review invoices submitted by the consultant.

3.13.18 Specific deficiencies included:

- ▶ failure to verify that invoiced charges were in accordance with contract conditions;
- ▶ inadequate checking to ensure that all claims submitted by the consultant were substantiated prior to payment; and
- ▶ inadequate monitoring of expenditure claims to prevent duplicate payment of accounts.

3.13.19 In audit opinion **the Department's failure to adequately review expenditure claims resulted in a lack of assurance that all expenditure incurred was justified and related to campaign activities.**

Management response

Following an Internal Audit Report, all expenditure claims relating to the contract were subjected to a detailed review. As a result, the Department is confident that all expenditure incurred was justified and related to campaign activities.

Inability to monitor expenditure progressively

3.13.20 Under the terms of the contract the consultant was required to prepare a quarterly budget report that reconciled expenditure for each geographic location to the expenditure schedule contained in the contract.

3.13.21 The Department was unable to provide audit with evidence that the required budget reports had been supplied. Without this information the Department would have been unable to determine whether campaign funds had been expended in accordance with the terms of the contract.

Management response

In view of the levels of expenditure involved, it was decided to replace the quarterly budget reports with monthly expenditure summaries. These summaries enabled the Department to quickly determine the level of expenditure and to ascertain that funds had been expended in accordance with the terms of the contract. Budgetary variances were addressed as they occurred and the overall contract was completed on budget.

GAS AND FUEL CORPORATION OF VICTORIA**Appliance merchandising**

3.13.22 A major objective of the Corporation is to stimulate and meet the growth in the market for gas. A Corporation strategy to achieve this objective is to maintain and expand the utilisation of gas by the sale of gas appliances through the Corporation's marketing group.

3.13.23 The Corporation currently sells appliances direct to builders of new homes, to domestic consumers through its own retail outlets and under agency agreements with small private retailers.

3.13.24 For the year ended 30 June 1990, the Corporation sold over 57 000 domestic appliances in the metropolitan area with a retail value of \$38 million. Additional revenue of \$11 million was earned from the installation of these appliances.

3.13.25 The Corporation incurred a loss in excess of \$3.2 million on appliance retailing to domestic consumers. This loss would have been considerably higher had central administration and other overheads been included.

Management response

The total cost of the Corporation's domestic appliance retailing operation for the year ended June 1990 in the metropolitan area was \$3.2 million. This marketing cost relates to the sale of gas in the domestic sector, which amounted to \$461.9 million for the same period and represents less than 1 per cent of this figure.

3.13.26 During 1990 audit undertook a review of the Corporation's domestic appliance merchandising activities. Findings arising from this review are included in the following paragraphs.

Deficiencies in monitoring and information systems

3.13.27 Although the Corporation's information systems provide details of operating results at a metropolitan regional level, they do not provide operating results of individual sale outlets within these regions.

3.13.28 Audit analysis of financial information relating to sales of domestic appliances in metropolitan regions identified losses incurred at each region. The analysis also identified wide variances in the ratio of operating results to sales revenue.

3.13.29 Table 3.13A details financial information relating to appliance merchandising in metropolitan regions.

**TABLE 3.13A. OPERATING RESULTS
WITHIN METROPOLITAN REGIONS**

<i>Metropolitan region</i>	<i>Revenue</i>	<i>Loss</i>	<i>Loss as a percentage of revenue</i>
	<i>(\$'000)</i>	<i>(\$'000)</i>	<i>(%)</i>
Eastern region	10 960	1 076	9.8
Western region	5 565	422	7.6
Southern region	9 471	410	4.3
Northern region	9 547	326	3.4
Total	35 543	2 234	6.2

3.13.30 Due to deficiencies in its information systems, the Corporation is unable to effectively monitor the performance of individual outlets and investigate the reasons for variances in operating results.

3.13.31 In view of the losses incurred from appliance retailing activities, audit recommended that the Corporation establish appropriate information systems to facilitate analysis of results at an outlet, region and Corporation level so that opportunities for improved economy and efficiency can be identified.

Management response

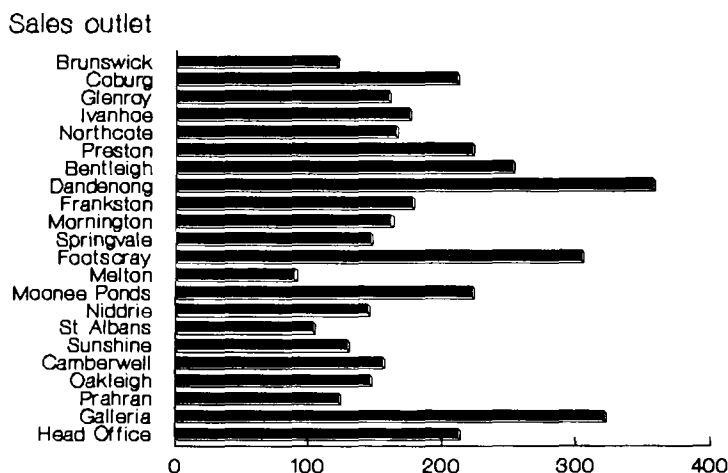
The gap in information systems is currently being filled by the new MARC (margin and revenue cost) system which applies to all direct and indirect costs and provides individual showroom definition.

Staff numbers in retail outlets

3.13.32 Corporation retail outlets mainly sell appliances to domestic consumers. To conduct these retail activities, the Corporation currently employs the equivalent of 85 full-time sales staff comprising 80 full-time employees and 11 permanent part-time staff employed daily, usually for a 4 hour period.

3.13.33 A comparison of the staff numbers and sales revenue of individual retail outlets highlighted significant variances, as detailed in Chart 3.13B.

CHART 3.13B. AVERAGE SALES PER EMPLOYEE, 1989-90
(\$'000)



3.13.34 Audit also found that:

- ▶ although the level of monthly sales varied greatly throughout the year, staff levels remained constant; and
- ▶ there is no information available regarding daily sales activity to justify the employment of part-time staff.

3.13.35 Given the variations in sales per employee between retail outlets and the variations in monthly sales volumes, in audit opinion scope exists for rationalisation of staffing levels. The employment of temporary staff to meet periods of peak sales rather than employment of full-time staff may provide opportunities for cost savings. The Corporation should review the need to maintain the existing level and mix of full-time and part-time staff at retail outlets.

Management response

Staff within the metropolitan retail network carry out a broad range of duties associated with servicing our customer's needs. Only 20 per cent of their available time is required for the sale of appliances.

The Gas Galleria

3.13.36 The Nunawading Gas Galleria commenced operation in July 1989 following completion of a feasibility study recommending consolidation of existing retail activities into larger outlets. This consolidation was aimed at providing a more comprehensive range of goods and customer services and increasing the volume of sales in the Eastern region. Opening of the Galleria resulted in the closure of 4 smaller retail branches. The Corporation plans to establish similar large-scale outlets in other regions in the near future.

3.13.37 An audit review of sales trends indicated that, in the initial months of operation, the Galleria showed significantly improved sales results compared with those of the branches prior to consolidation. By December 1989 the Galleria contributed 11.3 per cent of total sales made by the Corporation and its agents of appliances for use in existing homes. However, the proportion of total Corporation sales made by the Galleria had declined to 8.3 per cent by June 1990 and to only 6 per cent by December 1990.

3.13.38 Agencies have increased their share of total domestic sales in the Eastern region from 32 per cent in 1989-90 to 36.3 per cent in the 6 months to 31 December 1990. In audit opinion, this was a factor contributing to the reduction in the Galleria's sales performance.

3.13.39 Given the Corporation's proposals to establish further large-scale retail outlets in other regions, a detailed evaluation should be undertaken to determine the reasons for the decline in sales by the Galleria and the apparent consumer preference for purchasing appliances from agencies.

Management response

The Nunawading Gas Galleria is the trial and evaluation "model" for a new consolidated retailing network. It is both the Corporation's and expert outside opinion that fine tuning of the galleria concept will take up to 2 years to complete. The fact remains, however, that the Nunawading Galleria continues to out-perform the showrooms it replaced with regard to sales, staffing and the range of appliances able to be displayed. Loss of market share is directly attributable to the recession occurring within the accepted 2 year establishment period for a major sales outlet sited on a major arterial road.

Effectiveness in achieving marketing objectives

3.13.40 Appliance retailing by the Corporation is aimed at maintaining and stimulating the demand for gas.

3.13.41 Performance targets established by the Corporation project:

- ▶ an on-going increase in the total consumers connected to the gas distribution system to 1.22 million in 1990-91, compared with 1.15 million 1988-89 and 1.19 million in 1989-90; and
- ▶ the penetration of gas appliances into new homes as detailed in Table 3.13C.

TABLE 3.13C. GAS APPLIANCES IN NEW HOMES
(per cent)

<i>Appliance</i>	<i>Actual 1988-89</i>	<i>Actual 1989-90</i>	<i>Target 1990-91</i>
Cooking	84	87	86
Heating	89	92	92
Water heating	90	90	90

3.13.42 While the above performance targets indicate how gas appliance retail activities from all sources have contributed to the stimulation and maintenance of gas usage they do not identify the extent to which the Corporation's retail activities have contributed to the achievement of its marketing objectives.

3.13.43 For example, the achievement of the targets set by the Corporation for penetration of gas appliances into new homes in 1989-90 would be viewed as adequate justification by the Corporation to continue its retail activities. However, of the 57 000 appliances sold by the Corporation, only 24 000 or 42 per cent related to new homes. In addition, there were 30 000 domestic gas connections during the year creating a potential market of 90 000 appliances (one cooking, one heating, one water heating), but only 26 per cent was supplied by the Corporation.

3.13.44 Given the continuing losses of the Corporation's retailing activities and the lack of performance measures to assess the impact of those activities on its overall gas marketing objectives, there is a need for the Corporation to review the extent of its involvement in appliance retailing.

Management response

The effectiveness of the Corporation's domestic marketing strategy is indicated by the following figures. Most connections of gas to existing homes start with the sale of one appliance only. Our marketing, and more specifically retailing activities, are aimed at additional sales. Our success is indicated by a current average of 2.4 appliances per home for domestic consumers in Victoria. In addition, market research shows that the Corporation sells up to 36 per cent of all gas appliances sold in Victoria.

STATE ELECTRICITY COMMISSION OF VICTORIA

Arrangements for the supply of electricity

Background

3.13.45 The Commission currently supplies electricity to 11 metropolitan Municipal Electricity Undertakings (MEUs) for resale to their local customers. The price of the electricity supplied by the Commission is calculated under the terms of financial arrangements with MEUs.

3.13.46 In the *Report on Ministerial Portfolios, May 1989*, audit commented on inadequacies in the existing financial arrangements which effectively required the Commission to fully reimburse the MEUs' operating costs and thus provided little incentive for individual MEUs to improve operating efficiency.

3.13.47 Subsequent to this Report, and following the completion of a review by the Victoria Grants Commission, new financial arrangements were implemented with effect from 1 July 1989. These arrangements, as negotiated by the Department of Manufacturing and Industry Development, are aimed at improving the efficiency of MEUs by using a retail margins approach based on average operating costs rather than full reimbursement of costs. Audit reviewed these new arrangements during 1989-90.

Overall conclusion

3.13.48 Audit found that despite certain improvements, these new arrangements do not maximise returns to the Commission and result in inequities to electricity consumers. In addition, deficiencies were noted in the processes to implement the new arrangements.

Management response

State Electricity Commission of Victoria

The Commission wished to make no particular comment but referred to its 1989-90 Annual Report which included the following comments:

In 1988, the 1976-83 Financial Agreement between the SEC and MEUs for the supply of electricity to 15 per cent of Victoria's electricity customers was terminated, and in interim agreement introduced on 1 July 1988 (1 October for Melbourne City Council) for one year. During this time, the Victoria Grants Commission carried out an inquiry to determine the basis for future agreements. As a result of the inquiry, new arrangements were set in place by an Order-in-Council and Ministerial directive on 6 September 1989 and applied from 1 July 1989. The new arrangements cover general financial and administrative matters including payment procedures, reporting and consultation between the Minister, municipal authorities and SEC. Payments to MEUs are based on a set of retail margins in respect of each customer supplied with electricity.

The SEC considered that the new arrangements, which involve an average additional cost on the Victoria Grants Commission recommendation of \$13 million to \$15 million per annum, are not equitable. Electricity customers in Council areas will receive benefits, either as customers or ratepayers, at the expense of other electricity customers. In all probability, the amount is likely to become significant enough in the future to have a noticeable effect on electricity prices.

3.13.49 Findings arising from the audit review are provided in the following paragraphs.

Calculation of the return to the Commission

3.13.50 Under the new arrangements, the amount payable to the Commission for electricity supplies equates to the difference between the revenue earned by the MEU for the supply of electricity to its customers less a retail margin. These retail margins, which are aimed at covering the operating costs and providing a profit incentive to MEUs, have been calculated by using an average of the 1987-88 operating costs of both the MEUs and the Commission's metropolitan region weighted by the consumer mix of each MEU. In essence, the more successful the MEU is in containing or reducing operating costs, the greater its profit will be.

3.13.51 An audit review of the calculation of the retail margins revealed that the average 1987-88 operating costs of MEUs used for determining weighted average costs was \$9 734 per gigawatt hour compared with \$6 860 per gigawatt hour for the Commission's metropolitan region.

3.13.52 In audit opinion, the higher level of MEU costs is indicative of inefficiencies or unnecessary levels of service in MEUs in comparison with the Commission's operations. By using these costs in calculations under the agreements, margins retained by MEUs incorporate an allowance for these inefficiencies.

Indexing of retail margins

3.13.53 The new arrangements provide for increases in retail margins to reflect changes in costs as measured by a number of indices such as the consumer price index, average weekly earnings, and the costs of electrical and other building materials. Provision was also made to take account of productivity improvements by adjusting these indices in future years.

3.13.54 Despite the allowance for improvements in productivity, the application of these indices in 1989-90 resulted in retail margins increasing at a higher rate than electricity tariffs, thereby reducing the revenue payable to the Commission.

Additional assistance

3.13.55 Due to the Government's concerns over the ongoing viability of the Brunswick, Northcote, Port Melbourne and Williamstown MEUs, the Department of Manufacturing and Industry Development agreed to provide to those municipalities additional financial assistance over a period of at least 6 years. The additional assistance is deducted from amounts payable to the Commission for electricity supplies and **will exceed \$11 million.**

Have other means of improving the efficiency of MEUs been implemented?

3.13.56 Under the financial arrangements, an Implementation and Review Group was created to identify ways of improving the efficiency of MEUs and to investigate circumstances where MEU viability may be threatened. Since inception in July 1989 only one review has been undertaken.

3.13.57 Although the MEUs were represented on the review group, no provision was made for representation by the Commission even though decisions of the review group could impact upon the Commission's revenue.

Failure to provide timely financial information

3.13.58 The Commission receives monthly payments from MEUs for estimated electricity usage. Determination by the Commission of the actual payments due from the MEUs for electricity usage is subsequently made upon receipt from the MEUs of audited financial statements.

3.13.59 Finalisation of these payments has been delayed due to the failure of many MEUs to submit audited financial statements to the Commission on a timely basis. Only 5 of the MEUs provided audited statements by the 3 month deadline required by the reporting regulations. The Brunswick MEU has so far failed to submit audited financial statements for either 1989 or 1990. As a result of these delays the Commission is unable to ensure that it has received the correct amount for bulk electricity supplied.

3.13.60 While the financial arrangements provide for the Commission to appoint agents to review the financial records of MEUs, it has not made use of this provision to date.

3.13.61 Given the importance of accurate information for the calculation of the Commission's return under supply arrangements, it is considered essential that the Commission undertake reviews to ensure the accuracy and consistency of MEU financial records and to allow timely adjustments to revenue received.

Early payment of dividend to the Consolidated Fund

3.13.62 The *Public Authorities Dividends Act* 1983 provides for the transfer by the Commission into the Consolidated Fund each financial year of a dividend as determined by the Treasurer after consultation with the Minister. The Act also provides for the transfer of the dividend to the Consolidated Fund to be made at such times and in such manner as is agreed to by the Treasurer and the Commission. Up to 1989-90, dividends were paid by the Commission in equal monthly instalments.

3.13.63 Due to the cash flow problems experienced by the Consolidated Fund in 1989-90, the Commission agreed to pay in advance, in January and February 1990, dividends totalling \$53.8 million normally due in the months January to June 1990.

3.13.64 The Commission calculated that the cost to it, in the form of interest forgone, of the early payment of dividend to the Consolidated Fund would be approximately \$1.5 million. It approached the Treasurer in January 1990 to obtain appropriate compensation for this cost, including approval for deferral of dividend payments in 1990-91 and an increase of \$20 million in its global borrowing authority for 1990-91.

3.13.65 The Treasurer has not acceded to the Commission's request. The Commission has adopted a "no new debt" policy requiring no global authority for 1990-91.

Stock losses

3.13.66 Losses of cash, stores, and plant and equipment for the period 1 January 1990 to 31 December 1990 reported to my Office by entities within the Manufacturing and Industry Development Portfolio were as follows:

- | | |
|--|-----------|
| ▶ Gas and Fuel Corporation of Victoria | \$133 614 |
| ▶ State Electricity Commission of Victoria | \$520 359 |

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>
———— MATTERS RESOLVED ————		
Exhibition Trustees		
<i>Ministerial Portfolios</i> , May 1989, p.151	Inadequate controls over collection of car parking revenue.	Improved procedures implemented with automated parking control system.
Gas and Fuel Corporation of Victoria		
<i>Ministerial Portfolios</i> , May 1989, p.154	Failure to bring to account revenue from unbilled gas consumption.	Change in Corporation's policy with revenue now brought to account.
<i>Ministerial Portfolios</i> , May 1989, p.157	Assets that form an integral part of gas distribution network written off in year of acquisition.	Change in Corporation's policy with applicable assets now brought to account.
Gas and Fuel Corporation Superannuation Fund		
<i>Ministerial Portfolios</i> , May 1989, p.159	Concern expressed at the relatively high level of the fund invested in real estate following the purchase of central district property for proposed joint development.	Consultants engaged to review investment policies. While investment is above the recommended exposure level no further investment will be made.
<i>Ministerial Portfolios</i> , May 1989, p.160	Lack of formal investment policies and failure to maintain proper procedures.	Investment policies as recommended by consultants have been adopted.
Port of Geelong Authority		
<i>Second Report</i> 1986-87, p.141	Bay City Marina Geelong Pty Ltd should be subject to audit.	PGA sold its share of the company on 28 September 1990.
Port of Melbourne Authority		
<i>Second Report</i> 1986-87, p.142	Finance charges associated with offshore loans used to construct the World Trade Centre have made the Centre an unprofitable venture.	All offshore loans were repaid in 1988-89 using short-term domestic funds pending sale of the Centre.
<i>Ministerial Portfolios</i> , May 1989, p. 295	Failure to sell the World Trade Centre resulted in extended financing costs for the PMA.	PMA is actively managing its borrowings to minimise interest costs. The WTC is still for sale.
	Action should be taken to recoup any losses incurred by the Authority as a consequence of the cancellation of sale of the Centre.	The defaulting purchaser has been placed in liquidation therefore the scope to recoup any losses is reduced.

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>
— ACTION COMMENCED —		
Department of Industry and Office of Economic Planning		
<i>Ministerial Portfolios, May 1989, p.147</i> <i>Ministerial Portfolios, May 1990, p.194</i>	Need for improved procedures over the provision of assistance to industry.	New arrangements implemented for providing assistance to industry. However, monitoring of the existing loan portfolio is unsatisfactory. For further comments, refer to Section 3.13.1 to 3.13.12 of this Report.
Gas and Fuel Corporation of Victoria		
<i>Ministerial Portfolios, May 1990, pp.195-99</i>	Deficiencies in the Corporation's management procedures and control systems relating to mobile plant and equipment, including: <ul style="list-style-type: none"> ▪ doubts as to accuracy and completeness of information held on the computerised fleet management system; ▪ routine replacement of plant and equipment without adequate assessment as to continuing need for the items; ▪ failure to monitor plant and equipment usage and investigate opportunities to share items between centres; and ▪ need for Corporation to review cost effectiveness of arrangements regarding hiring of contractors on a long-term and full-time basis. 	<p>Corporation has advised that stocktakes have been undertaken to establish integrity of data.</p> <p>The Corporation is reviewing its equipment acquisition procedures.</p> <p>A team has been established to review utilisation levels of plant and equipment and pooling arrangements.</p> <p>No review undertaken during 1989-90.</p>
<i>Ministerial Portfolios, May 1990, p.199</i>	Due to excessive delay in implementing the Financial Management system, doubt exists as to whether system will meet the Corporation's future needs.	Consultants engaged to review the computer application. The Corporation has adopted the recommendations of the consultants which include conducting a detailed requirements study and software evaluation.

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>
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———— ACTION COMMENCED - continued ————

State Electricity Commission of Victoria

<i>Ministerial Portfolios, May 1989, p. 162</i>	Need for changes to bulk supply arrangements with Municipal Electricity Undertakings to improve efficiency and reduce costs.	New arrangements introduced. However, doubt exists as to whether changes will achieve desired efficiency gains and costs reduction. For further comment, refer to Section 3.13.45 to 3.13.61 of this Report.
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———— NO ACTION TAKEN ————

Port of Melbourne Authority

<i>Ministerial Portfolios, May 1989, p. 249</i>	Financial arrangements and organisational responsibilities for rail sidings on PMA land not resolved with PTC. Projected benefits of Webb Dock rail link not yet achieved.	Position unchanged. Design work has commenced on implementing a standard gauge line to Webb Dock as part of the Commonwealth's national freight initiative.
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State Electricity Commission of Victoria

<i>Ministerial Portfolios, May 1990, p. 200</i>	Financial statements of the Commission were qualified due to the failure of the Commission to account for debt restructuring in accordance with Australian Accounting Standards.	No change in Commission policy. The Commission's 1990 financial statements were qualified on this issue.
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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>
Completed audits				
Department of Industry and Office of Economic Planning	30 June 1990	31 October. <i>Annual Reporting Act 1983, s.8.</i>	24 October 1990	30 October 1990
Agriprojects Victoria Pty Ltd	30 June 1990	Companies (Victoria) Code.	14 August 1990	4 September 1990
Albury/Wodonga (Victoria) Corporation	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension of time to 31 October.	9 October 1990	30 October 1990
Coal Corporation of Victoria	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	10 August 1990	4 September 1990
Exhibition Trustees	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	25 September 1990	3 October 1990 (a)
Gas and Fuel Corporation of Victoria	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	14 September 1990	28 September 1990
Gas and Fuel Corporation Superannuation Fund	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	27 November 1990	21 December 1990
Geelong Regional Commission	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	20 September 1990	28 September 1990
Latrobe Regional Commission	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	4 September 1990	25 September 1990
Overseas Projects Corporation of Victoria Ltd	30 June 1990	Companies (Victoria) Code.	14 August 1990	4 September 1990
Port of Geelong Authority	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	18 September 1990	12 October 1990 (a)
Port of Geelong Authority Superannuation Fund	30 June 1990	No reporting requirements. Section 4 of Port of Geelong Authority (Superannuation) Regulations 1972 requires the Superannuation Fund to be audited by the Auditor-General.	18 September 1990	12 October 1990

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>
Completed audits - continued				
Port of Melbourne Authority	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	26 September 1990	28 September 1990 (a)
Port of Portland Authority	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	12 September 1990	28 September 1990 (a)
SEC Superannuation Fund	30 June 1990	30 November. <i>Annual Reporting Act 1983, s.9.</i>	21 November 1990	21 December 1990 (a)
State Electricity Commission of Victoria	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	23 August 1990	14 September 1990 (a)
Victorian Solar Energy Council	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	20 September 1990	24 September 1990

(a) Qualified audit report issued.

PLANNING AND HOUSING

KEY FINDINGS

- ▶ The Construction Group's stand-by labour costs in 1989-90 totalled \$1 million and are expected to be \$2.6 million in 1990-91.
Paras 3.14.6 to 3.14.20
- ▶ An average of 17 per cent of the Construction Group's workforce (43 employees) were on stand-by every day during the 6 months to December 1990.
Para. 3.14.8
- ▶ Projects completed by the Construction Group incurred substantial time and cost overruns and compared poorly with private sector contractors.
Paras 3.14.21 to 3.14.27
- ▶ Certain industry work practices significantly increased the Construction Group's direct labour costs.
Paras 3.14.28 to 3.14.29
- ▶ Serious irregularities occurred in the management of the Department's motor vehicle fleet (including maintenance of a phantom fleet of almost 200 vehicles).
Paras 3.14.30 to 3.14.37
- ▶ There was slight improvement only in the level of rental arrears.
Paras 3.14.45 to 3.14.51

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

Department

Department of Planning and Housing*

Public bodies

Historic Buildings Council
Loddon-Campaspe Regional Planning Authority
Plumbers, Gasfitters and Drainers Registration Board
Upper Yarra Valley and Dandenong Ranges Authority
Urban Land Authority#

* By Order-in-Council dated 17 January 1991 the Department of Planning and Housing was created by the merger of the functions of the former Ministry of Housing and Construction and the Department of Planning and Urban Growth.

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 the Arts) and is included in this section of the Report.

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

DEPARTMENT OF PLANNING AND HOUSING

3.14.1 All the matters raised in this section of the Report relate to the former Ministry of Housing and Construction, which was absorbed into the Department of Planning and Housing under the January 1991 machinery of government changes.

3.14.2 The former Ministry was the State's central design and construction authority and was also responsible for the development and implementation of the government public housing policy.

Operations of the Construction Group

3.14.3 The Construction Group within the Department provides a full range of building and construction services relating to public buildings such as new construction, restoration of historic buildings and cyclic maintenance.

3.14.4 During 1989-90, the Group completed work to the value of \$16 million. At 30 June 1990, it employed 252 tradespeople, as shown in Table 3.14A.

TABLE 3.14A
CONSTRUCTION GROUP PERSONNEL, AT JUNE 1990

<i>Classification</i>	<i>Number</i>
Painters	55
Carpenters	46
Apprentices	32
Labourers	31
Supervisors	23
Plumbers	16
Electricians	15
Fibrous and solid plasterers	12
Stonemasons	8
Scaffolders	7
French polishers	4
Bricklayers	3
Total tradespeople	252

3.14.5 During the year, audit carried out a review of a number of facets of the Group's operations.

Excessive stand-by labour costs

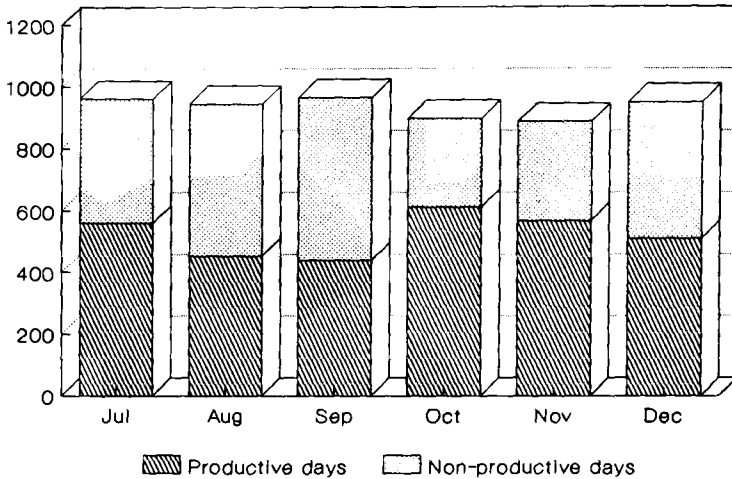
3.14.6 Under the Group's procedures, tradespeople are placed on stand-by whenever they cannot be productively utilised on projects. During stand-by periods, tradespeople are required to remain on duty at the Department's premises in Fitzroy.

3.14.7 In 1989-90, costs associated with stand-by labour amounted to \$1 million (1988-89, \$290 000). The position has further deteriorated during 1990-91 with the Group's stand-by labour costs already at \$923 000 for the 6 months to 31 December 1990. The Department initially estimated that stand-by costs will be approximately \$2.6 million for the full 1990-91 financial year.

3.14.8 Audit examination of stand-by labour days revealed that, on average, 43 employees (17 per cent of the workforce) were on stand-by every day during the 6 months period to 31 December 1990.

3.14.9 An analysis of stand-by days by trade indicated that while painters made up 22 per cent of the workforce, they accounted for 52 per cent of total stand-by labour days. Chart 3.14B illustrates the productive and unproductive labour time for painters for the period July to December 1990.

CHART 3.14B. PRODUCTIVE AND UNPRODUCTIVE LABOUR TIME FOR PAINTERS, JULY - DECEMBER 1990 (days)



3.14.10 It was disturbing to note that, notwithstanding the substantial level of stand-by time, painters were required to work overtime for 10 out of the 14 weekends during 3 months randomly selected by audit for detailed review.

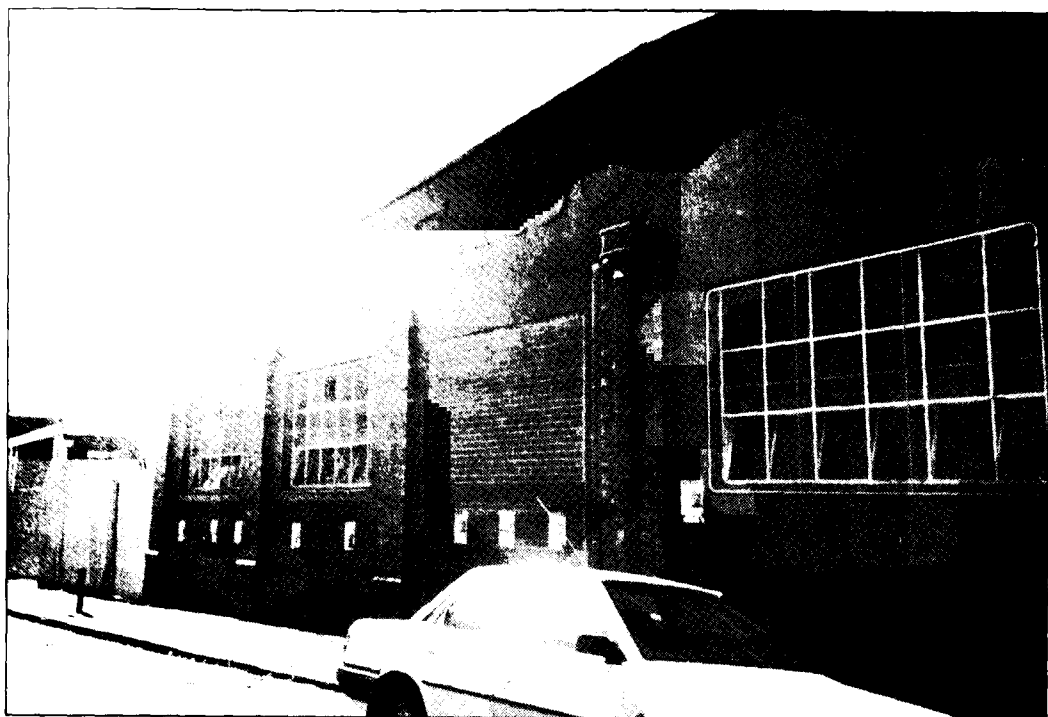
3.14.11 During these weekends, overtime involving 84 man-days were worked while there were, on average, 20 painters on stand-by on the preceding Friday and following Monday. Audit considers that the use of overtime in such circumstances demonstrates inadequate planning and inefficient use of resources.

3.14.12 Audit, however, acknowledges that a certain amount of overtime can be unavoidable for painters on some locations due to factors such as limited working surfaces and the need to complete projects in a timely manner,

3.14.13 Following an internal review by the Department in December 1989 of the Group's operations, which drew attention to over-manning and poor productivity levels, the Department and building unions agreed to maintain the field workforce at existing levels.

3.14.14 In accordance with this agreement, the Department employed 3 carpenters between June and September 1990 to fill 3 vacancies following staff terminations. Audit found that, during this 4 months period, 482 carpenter man-days on stand-by were recorded.

3.14.15 Currently the workers on stand-by occupy the Group's large unutilised factory located in Fitzroy and valued at around \$1.6 million.



Premises occupied by the Construction Group's workers on stand-by.

3.14.16 It is highly questionable whether the Department is maximising its returns from this asset.

3.14.17 The Department has undertaken a number of reviews of the operations of the Group in recent years. The major findings of the latest review, completed in December 1989 included:

- ▶ the Group was 28 per cent cost-ineffective compared with private contractors; and
- ▶ the Group needs to change its operational structure to enable it to effectively compete for work with private contractors.

3.14.18 In addition, the Department advised that it had been seeking to downsize the Group by 95 employees through voluntary redundancy.

3.14.19 While it is recognised that the Department is conscious of the need to minimise its stand-by labour costs, there is little evidence of any real achievement to date.

3.14.20 Concern is expressed as to the magnitude of stand-by labour costs currently incurred by the Department and the consequential adverse impact on the Group's productivity.

Management response

The Department has initiated a number of actions to address increasing stand-by costs including:

- actively seeking additional work for the Group with all key clients. Some work has been obtained and stand-by estimates have been reduced to \$2 million;
- allocating work from the Department's housing programs where practical;
- negotiating a voluntary resignation package (issued April 1991) to downsize the Group, especially those trades where there is clearly insufficient work in the short to medium-term; and
- strengthening management of the Group to permit better forward planning.

Action has been taken to provide those on stand-by with effective work wherever practical, particularly in regard to painting trades.

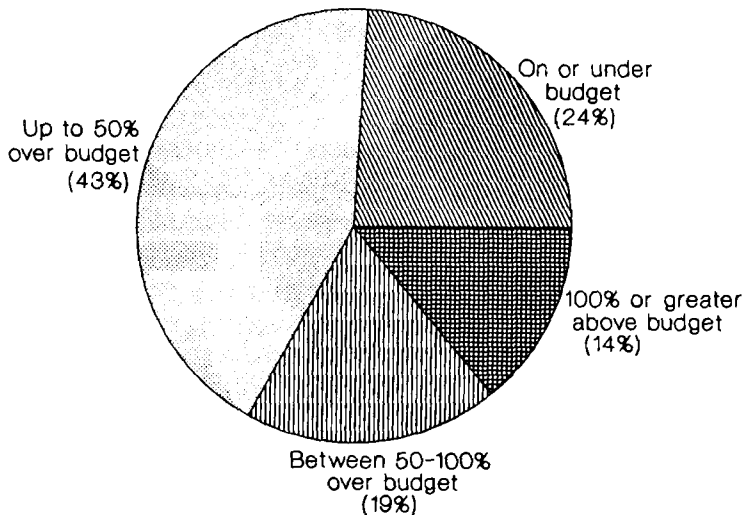
The need to work overtime on weekends is frequently necessary due to lack of access during the week.

Analysis of Group's performance

3.14.21 An audit review of major projects completed by the Group in the 18 months period to December 1990 revealed that the majority of the projects incurred substantial cost and time overruns. These overruns reflect poorly on the productivity of the Group.

3.14.22 Chart 3.14C shows the performance of the Group against cost budgets for the period.

CHART 3.14C. PERFORMANCE AGAINST COST BUDGETS, JULY 1989 TO DECEMBER 1990



3.14.23 Two projects which incurred cost and time overruns identified by audit are presented below:

▶ Rooming house at Elwood

The Group was responsible for upgrading and renovating a departmental rooming house at Elwood. The total budgeted cost including variations was \$744 000 with an expected completion date of March 1990.

The project was completed in November 1990 (8 months behind schedule) with a final estimated cost of \$1.6 million. The cost overrun on the project amounted to \$856 000 or 115 per cent of the budget. Direct labour costs including over 70 man days due to "inclement weather" were cited as the main reason for the cost overrun.

▶ Camberwell High School

The Group was contracted to upgrade the staff and administration offices at the Camberwell High School at a cost of \$561 000 with an expected completion date of November 1989. Contract variations increased the budgeted figure by \$127 000 to \$688 000.

The project was finished in December 1990 (13 months behind schedule) with a total final cost of \$975,000 which was \$287 000 or 42 per cent above budget.

3.14.24 As previously mentioned, the Department's December 1989 internal review highlighted the Group's poor cost-effectiveness compared with the private sector. The audit review disclosed the following instances which illustrate the Group's poor cost performance on projects:

- ▶ The Department initiated a pilot project for external painting of 23 properties. The Group submitted a quote for \$38 200 compared with \$55 000 quoted by a private painting contractor. The Group completed the project for a total cost of \$98 000, some 157 per cent above its quoted price and 78 per cent above that of the private contractor;
- ▶ The Ministry of Education and Training which is the Group's largest client, has built a number of new schools over the years using either the Group or private contractors. The Ministry advised audit that the Group's costs are over 16 per cent higher than those of private contractors. Because of this significant cost difference, the Ministry has substantially reduced the value of works assigned to the Group; and
- ▶ The Department recently utilised the Group for 4 housing renovation projects valued at \$3.1 million and the private sector for 16 projects with a value of \$5.6 million. Cost overruns on the projects undertaken by the Group averaged 42 per cent compared with an average cost overrun of 9 per cent for projects completed by private contractors.

3.14.25 The above project costs of the Group do not take into account a proportion of the Group's annual administration expenses (salaries, office expenses and vehicle costs) estimated to be around \$1.5 million.

3.14.26 Audit considers that these costs should be allocated to projects to correctly reflect the total cost of individual projects undertaken by the Group.

3.14.27 Unless urgent action is taken to reverse the Group's poor cost performance, the economic justification for its continuing existence would appear doubtful.

Management response

In order to reverse the poor cost performance, a number of initiatives are being undertaken, including implementing a new management structure, the upgrading of costing and project management systems, and a review of work practices. A joint Department/Victorian Trades Hall Council Working Party has recently reported to the Minister on improvement of performance, and a number of recommendations are to be implemented immediately.

The projects quoted should not be considered as indicative of the average performance of the Group.

When the approved variations for the Elwood rooming house project are considered the overrun is much less significant.

The Camberwell High School project was severely constrained by site access limitations that were not fully highlighted at estimation stage. This affected both the final cost and construction time.

Work practices

3.14.28 There are number of work practices in the industry which have contributed to the increased costs to the Group. The Department has assessed the additional direct labour costs to be approximately 35 per cent. Examples of these practices are:

- ▶ irrespective of existing amenities, full separate amenities are to be provided to workers irrespective of the size of projects;
- ▶ during inclement weather, tradespeople will not leave amenities quarters to return to indoor working sites; and
- ▶ when overtime is not paid to workers within the normal payment cycle, the workers become entitled to double time for time worked from the due date of payment to the time of actual receipt of overtime pay.

3.14.29 The Group should address such work practices and resultant inefficiencies if it is to remain viable and competitive in the industry.

Management response

Discussions have occurred with unions on the issue of work practices. Significant progress has been made on all of the work practice issues cited; some have already been discontinued.

Irregularities in government motor vehicle fleet operations

3.14.30 At 30 June 1990, the Department's motor vehicle fleet comprised over 770 vehicles with the fleet operating costs in 1989-90 totalling \$4.1 million.

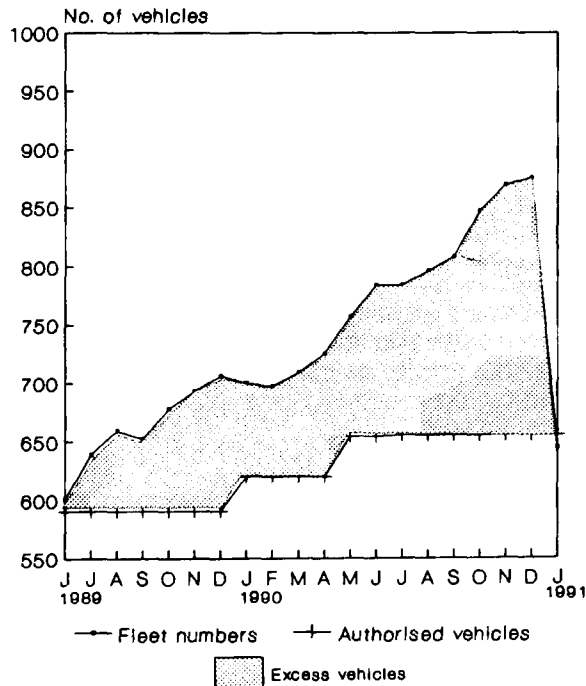
3.14.31 The Victorian Government Motor Vehicle Fleet Directorate, established in 1984, is responsible for development of policies and procedures to ensure the efficient and economical operation of motor vehicle fleets within public sector agencies. The Directorate has issued a standard policies and procedures manual covering major areas of fleet management, including acquisitions, service and maintenance, disposal and fuel supplies.

3.14.32 During the year, audit carried out a review of the operations of the Department's motor vehicle fleet.

3.14.33 In recent years, the annual maximum number of vehicles, approved by the Directorate, for the Department's fleet has been between 590 and 660 vehicles. The approval number for 1990-91 was 655 vehicles.

3.14.34 The audit review found that at November 1990 the fleet had increased to over 850 vehicles, 195 vehicles more than the approved limit. These vehicles had been accumulated over a number of years by the Department through the unauthorised retention of the vehicles which had been approved by the Directorate to be replaced. Chart 3.14D shows the Department's actual number of vehicles compared to the approved limit for the period July 1989 to January 1991.

**CHART 3.14D
UNAUTHORISED RETENTION OF MOTOR VEHICLES**



3.14.35 Specific matters arising from the unauthorised retention of vehicles included:

- ▶ The excess vehicles were specifically described as "phantoms" in the Department's computerised fleet management system;
- ▶ Running costs incurred by the Department on these unauthorised vehicles were \$787 000 for 1989-90 and \$979 000 for the 7 months to 31 January 1991;
- ▶ Although the Directorate's policy on vehicle retention stipulates that vehicles should be replaced every 2 years or 56 000 kilometres, audit found that 53 per cent of the Department's vehicle fleet has exceeded this policy. Further, the fleet was on average, 4.5 years old and had travelled more than 90 000 kilometres. Several vehicles were over 10 years old with one vehicle having travelled more than 130 000 kilometres. In addition, about 50 per cent of the vehicles for which replacement vehicles had been obtained in May 1990 were still in service in January 1991;
- ▶ Vehicles were required to be driven from country locations including Swan Hill, Mildura and Wodonga to the Department's transport branch in Melbourne for basic servicing;
- ▶ Numerous instances were identified where, contrary to the government guidelines, vehicles were used by officers of the Department for commuting between home and work. In addition, an officer who was not entitled to private use of a government vehicle, had utilised a green plate vehicle for personal travelling;
- ▶ The Directorate's guidelines required purchases of vehicles to cover the full colour range, however, the Department's vehicles were predominantly yellow in colour. Vehicles of this colour are likely to have the lowest resale values; and
- ▶ A green plate vehicle was issued to an official of another department for a period of 5 weeks without approval.

3.14.36 The Department is in the process of disposing of all unauthorised vehicles and replacing vehicles which have been retained beyond the Directorate's guidelines.

3.14.37 It was of serious concern to audit that senior management of the Department did not become aware of the irregularities until early 1990. In addition, the Department failed to initiate urgent remedial action on the matter.

Management response

During 1990 and early 1991 the Department progressively moved to regularise its vehicle operations.

The vehicle fleet has been reduced to approved levels. Local servicing of vehicles has been implemented and vehicles are now purchased in a full range of appropriate colours.

The Vehicle Policy Manual has been updated and re-issued to all relevant Department staff and management controls have been implemented to ensure compliance.

Irregularities in maintenance programs

3.14.38 In the *Report on Ministerial Portfolios, May 1990* audit commented on the Department's investigations into alleged overcharging and overservicing by private contractors employed to perform maintenance works on its properties. The Report also referred to the various actions taken by the Department to address these matters.

3.14.39 The Department has since advised audit that in relation to the above investigation:

- ▶ Claims lodged by a plumbing contractor totalling \$130 000 had been withheld by the Department following identification of instances of overcharging and overservicing. The contractor was subsequently ordered to repay \$312 000 plus legal costs to the Department. However, efforts to recover these moneys have been unsuccessful to date; and
- ▶ Moneys totalling \$75 000 owing to an electrical contractor had been withheld by the Department due to overservicing by the contractor which was estimated at \$97 000. After protracted negotiations, the Department accepted a settlement offer in which the contractor agreed to forfeit the moneys withheld by the Department.

3.14.40 During 1990, the Department advised audit of 2 further irregularities in its maintenance program, namely:

- ▶ A review of work claimed by a painting contractor disclosed that the contractor had overclaimed approximately \$85 000 on a number of invoices submitted for payment. However, the extent of overclaiming was considered by the Department to be substantially higher than this amount as the review covered only a small proportion of the total work claimed by the contractor. Discussions between the 2 parties resulted in a settlement offer from the contractor of \$100 000 which was rejected by the Department. The matter is likely to be referred to an arbitrator for resolution; and
- ▶ Investigations of work undertaken by 2 contractors revealed irregularities in relation to the quality of work, claims made for work not performed, allocation of work and manipulation of the quotation process. Initial action by the Department was commenced against 2 departmental inspectors in relation to the allocation of work to the contractors and the certification of their claims. Both officers chose to resign before any formal charges were issued. The Department has referred the matters to Victorian Police for investigation.

Management response

The Department is continuing to give a very high priority to the prevention of overcharging/overservicing by maintenance contractors through improved systems and procedures and an active internal audit function.

Day labour stand-by costs

3.14.41 A day labour group within the Department's Civil Engineering Branch comprises 21 tradespeople who undertake a range of engineering services on behalf of the Department's clients.

3.14.42 Due to reduced client funding on civil maintenance works, the day labour group is in a position of having insufficient work to fully utilise its workforce. On average, 9 employees were on stand-by every day during the 6 months period ended 31 December 1990. Wages amounting to \$184 000 were paid to the workers during this period.

3.14.43 The Department has estimated that, based on the current trend, the total 1990-91 stand-by labour costs for its civil day labour group will be around \$500 000.

3.14.44 In the circumstances, the Department needs to identify avenues available to minimise stand-by labour costs in this area.

Management response

The Department has obtained additional work for the group which will result in a major reduction in stand-by costs now estimated to be less than \$300 000 for 1990-91. The Department is also negotiating voluntary resignation packages.

Rental arrears

3.14.45 Detailed comments on the Department's unsatisfactory level of rental arrears have been included in Auditor-General's Reports to the Parliament since 1984-85. Recognising the adverse impact of the high level of rental arrears on its cash flows the Department has progressively implemented a number of actions aimed at reducing the level of arrears. These actions include:

- ▶ implementation of recommendations of its Rental Arrears Review Panel including increased staff training and concentration of early prevention of substantial arrears;
- ▶ introduction of a new computer-based housing and tenant management information system;
- ▶ establishment of new cash collection procedures; and
- ▶ enhancement of its rental arrears monitoring process.

3.14.46 However, the audit review found that the above actions have not been effective in substantially reducing the level of rental arrears. Table 3.14E shows the rental arrears position for the past 2 financial years.

TABLE 3.14E. RENTAL REVENUE AND ARREARS

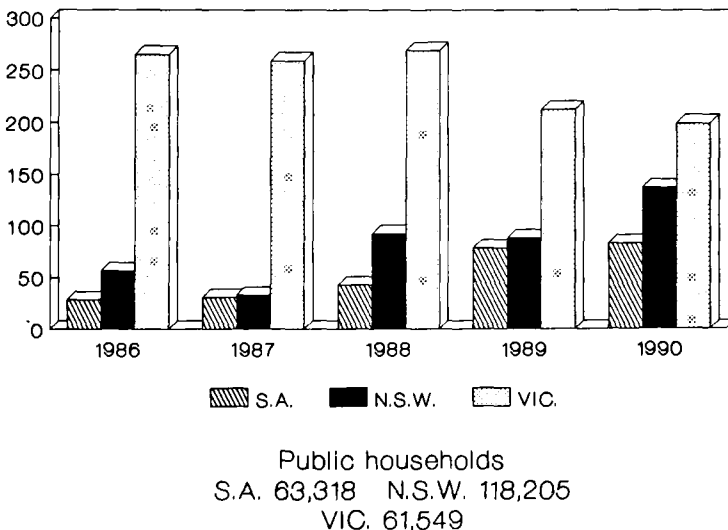
Item	1988-89	1989-90	Net change
	(\$m)	(\$m)	(%)
Rental revenue	231.6	252.5	
Less rebates	91.6	98.5	
Net rent	140.0	154.0	10.0
Rental arrears	12.6	12.3	(2.4)
Bad debts	3.7	3.7	(5.4)

3.14.47 In the first 8 months of 1990-91, rental arrears have increased from \$12.3 million to \$12.4 million.

3.14.48 Despite the slight improvement in rental arrears position as at 30 June (a reduction of 2.4 per cent), audit considers that the Department's rental arrears remain unacceptably high when compared with the situation in other States. Victoria's average arrears per public household are 140 per cent and 44 per cent higher than South Australia and New South Wales, respectively, even though Victoria's net rent per household is 6 per cent and 21 per cent lower than South Australia and New South Wales, respectively.

3.14.49 Chart 3.14F shows a comparison of rental arrears per public household in each of the 3 States.

CHART 3.14F
AVERAGE RENTAL ARREARS PER PUBLIC HOUSEHOLD, AT 30 JUNE
(\$)



3.14.50 Notwithstanding the slight improvement in June 1990 arrears position, the Department needs to identify more effective rent collection strategies.

3.14.51 The Economic and Budget Review Committee, in its November 1990 report on its inquiry into the Department's rental arrears, indicated that although the Department's policies and strategies appeared to be reducing the overall level of arrears, the major contributing factor to the reduction had been the level of write-off of bad debts. The Committee recommended that the Department actively pursue its various strategies in order to reduce the level of rental arrears.

Management response

The Department continued to reduce rental arrears during 1989-90 financial year in an environment where net rent receivable increased by 10 per cent and where other States experienced increases in rental arrears.

While for a number of reasons interstate figures are not directly comparable it can be clearly seen from the graph that Victoria has made significant progress in arrears management.

Management believe that action taken to address the arrears problem has been effective and this is supported by the reduction in rental arrears from \$17.1 million at 30 June 1986 to \$12.3 million at 30 June 1990, and the very good progress that is continuing to be made in the 1990-91 financial year.

Borrowings by sale of mortgages

3.14.52 The Department's operations are funded from the Consolidated Fund and from certain internal sources including rents, home loan repayments and other miscellaneous receipts.

3.14.53 In the 1989-90 Budget papers, it was announced that the Government proposed to construct and acquire 15 000 public housing dwellings over the next 4 years. This program was to be implemented by the Department, which was required to raise \$50 million in 1989-90 to fund the program.

3.14.54 To finance the program, the Department sold existing mortgages with a book value of \$42.6 million to a financial institution for \$38.8 million during 1989-90. To compensate the purchaser for low interest returns that were to be received on the mortgages, the Department agreed to compensate the purchaser for any shortfall between the actual cash flows to be received from the mortgages and those based on predetermined ceiling rates of either 12.5 per cent or 13.5 per cent.

3.14.55 A review of these arrangements by audit revealed that the amount paid for the mortgages by the purchaser, based on the predetermined ceiling rates, was \$1.6 million greater than their present value. Under the arrangements the amount of \$1.6 million forms part of the compensation that will be paid to the purchaser over the life of the mortgages.

3.14.56 Given that the Department is required to repay the additional sum of \$1.6 million, audit considers that the amount, in substance, represents borrowings by the Department.

3.14.57 It could be argued that the main reason for the sale of these mortgages was to enable the Department to fund this important program without resorting to conventional borrowings.

Management response

The Department strongly disagrees with the Auditor-General's view that the \$1.6 million subsidy is a borrowing.

The sale of mortgages subsidy arises as an incidental by-product of selling mortgages with diverse interest rates. The resultant subsidy was a packaging cost to enable the sale and was fully compensated in the sale price.

The Department did not consider the sale of mortgages to be an alternative to conventional borrowings. The motivation behind the sale of mortgages was to maximise housing assistance by converting a set of mortgage assets into cash which was invested in various forms of additional housing for low and middle income Victorians.

Tenant allocations

3.14.58 An important element of the Department's activities is the provision of public rental housing. At 30 June 1990, there were 38 000 applicants on the Department's public rental housing waiting list. During 1989-90, the Department allocated dwellings to 10 220 tenants of whom 1 250 (12 per cent) were given priority allocations. To ensure the propriety of all allocations, the Department has developed guidelines to assist staff in decision on allocations.

3.14.59 An audit review of allocations to dwellings in selected urban regions of the Department indicated that tenants were allocated dwellings in accordance with the Department's allocation guidelines.

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>
———— MATTERS RESOLVED ————		
Ministry of Housing and Construction		
<i>Second Report, 1986-87, p. 91</i>	Information produced regarding vacant properties was inaccurate as the central database was not updated in a timely manner.	Matter resolved with the introduction of a new computerised management system.
<i>Second Report, 1986-87, pp. 92-3</i>	Apparent irregularities relating to an electrical maintenance contractor were reported to the Police for investigation. The matter involved over-servicing of at least \$108 000.	Investigation finalised. Refer further comment in paragraph 3.14.39 of this Report.
<i>Ministerial Portfolios, May 1989, p.138</i>	Spot purchase properties were not tenanted until, on average, 14 weeks after settlement. The loss in rental income was approximately \$385 000.	The Ministry has continued to reduce the time delays in occupancy to a level which is considered to be satisfactory.
<i>Ministerial Portfolios, May 1989, pp.138-40</i>	Income levels for CAPIL loan recipients were not being reviewed periodically. Audit found 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.	During 1990, an income review of all CAPIL loan recipients was conducted and where appropriate, instalment payments were adjusted.
<i>Ministerial Portfolios, May 1990, p.184</i>	Under new Commonwealth/State Housing agreement the Ministry has potential to increase rental income for tenants not receiving rebates.	The Ministry increased rentals by 10 per cent in August 1990 with a further 10 per cent rise in April 1991.
<i>Ministerial Portfolios, May 1990, p.185</i>	Premature issue of certificate of practical completion in respect of incomplete units may result in the Ministry being responsible for maintenance work which would otherwise be the responsibility of the builders.	Position is considered to be satisfactory in that certificates of completion were only being issued for finalised dwellings.

———— ACTION COMMENCED ————

Ministry of Housing and Construction

<i>Second Report, 1984-85, pp. 76-7 and subsequent reports</i>	Level of rental arrears has substantially increased over the previous years.	Slight improvement only in the level of rental arrears. For further comments, refer to paragraphs 3.14.45 to 3.14.51 of this Report.
<i>Second Report, 1985-86, p.122</i>	Absence of strategy to assess the viability of retention of commercial properties.	21 properties were sold in 1989-90. The value of the remaining 87 properties was \$37 million.

Schedule A. Status of matters raised in previous Reports - continued

Report	Subject	Status at date of preparation of this Report
— ACTION COMMENCED - continued —		
<i>Second Report, 1986-87, p. 91</i>	The integrity of the rental database was questioned due to the magnitude of credit balances of current and former public tenants.	Measures have been introduced to address the matters raised. However, some errors still remain in the rental database.
<i>Ministerial Portfolios, May 1989, pp. 136-7</i>	There are no on-going reviews of dwelling eligibility or dwelling suitability in terms of current needs, at the same time the waiting list of tenants was 34 000.	While the waiting list at 30 June 1990 has increased to 38 000, a significant number of tenants who receive rebates and pay the lowest rental possible, occupy accommodation surplus to their needs. Where possible, the Ministry is offering to relocate single tenants living in multi-bedroom units into new smaller units in same area.
<i>Ministerial Portfolios, May 1990, p.186</i>	A number of contractors employed by Ministry were avoiding to pay legal obligations, e.g. payroll and income tax.	Site inspections and monitoring by the Ministry initially disclosed a large number of instances where government charges were avoided by contractors. As a result of the Ministry follow-up action, there has been a substantial reduction in such instances.
<i>Ministerial Portfolios, May 1990, pp. 186-7</i>	Irregularities in maintenance programs.	For further comments, refer paragraphs 3.14.38 to 3.14.40 of this Report.
— NO ACTION TAKEN —		
Ministry of Housing and Construction		
<i>May 1983, p. 22 Ministerial Portfolios, May 1989, p.140</i>	Inadequate controls exist over custody of documents held as loan advances.	Position remains unsatisfactory due to the lack of fire proofing facilities.
<i>Ministerial Portfolios, May 1989, pp.140-1</i>	Need for separate financial statements to disclose public account transactions.	Matter remains unresolved. Separate financial statements not prepared to disclose Public Account transactions.

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>
Completed audits				
Ministry of Housing and Construction	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension to 14 October 1990.	10 October 1990	12 October 1990(a)
Department for Planning and Urban Growth	30 June 1990	31 October. <i>Annual Reporting Act 1983, s.8.</i>	25 October 1990	30 October 1990
Historic Buildings Council	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	28 September 1990	28 September 1990
Loddon-Campaspe Regional Planning Authority	30 September 1990	31 December. <i>Loddon-Campaspe Regional Planning Authority Act 1987, s.30.</i>	27 December 1990	26 February 1991
Plumbers, Gasfitters and Drainers Registration Board	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	20 September 1990	24 September 1990
Upper Yarra Valley and Dandenong Ranges Authority	30 September 1990	31 December. <i>Annual Reporting Act 1983, s.9.</i>	27 December 1990	22 January 1991(a)
Urban Land Authority	30 June 1990	30 November. <i>Urban Land Authority Act 1979, s.13.</i>	19 September 1990	12 November 1990
Victorian Government Major Projects Unit	30 June 1990	30 November. <i>Urban Land Authority Act 1979, s.13.</i>	20 November 1990	28 November 1990

(a) Qualified audit report issued.

POLICE AND EMERGENCY SERVICES

KEY FINDINGS

- ▶ The operation of speed cameras has contributed to a marked reduction in the percentage of vehicles detected speeding.
Paras 3.15.1 to 3.15.8
- ▶ Inadequate policies and procedures reduced the efficiency and effectiveness of the operations of the computerised financial management information and payroll systems.
Paras 3.15.9 to 3.15.34
- ▶ The accelerated warrant execution project is likely to result in revenue of only \$1.6 million compared with an initial estimate of \$16.9 million.
Paras 3.15.35 to 3.15.48
- ▶ Retrospective expenditure approvals of over \$2.4 million have been sought by the Office of the Chief Commissioner of Police from the Treasurer since 30 June 1990.
Paras 3.15.52 to 3.15.56
- ▶ A number of practices adopted by the Country Fire Authority regarding residences occupied by Authority employees are in conflict with government guidelines.
Paras 3.15.62 to 3.15.71
- ▶ The Metropolitan Fire Brigades Board was not in a position to determine the overall efficiency and effectiveness of its fire fighting vehicle maintenance operation.
Paras 3.15.75 to 3.15.88
- ▶ Billings by the Metropolitan Fire Brigades Board for attendances at false alarms in 1989-90 totalled \$2.6 million which included uncollected amounts of \$1.8 million subject to appeals to the Administrative Appeals Tribunal.
Paras 3.15.89 to 3.15.93

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

Departments

Ministry for Police and Emergency Services
Office of the Chief Commissioner of Police

Public bodies

Country Fire Authority
Metropolitan Fire Brigades Board

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

MINISTRY FOR POLICE AND EMERGENCY SERVICES

Operation of speed cameras

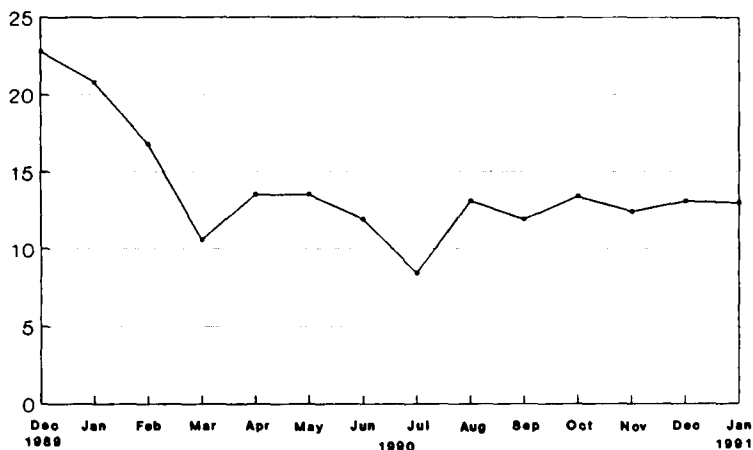
3.15.1 In September 1989 the Ministers for Transport, and Police and Emergency Services announced the **Road Safety Initiative encompassing 7 initiatives aimed at changing driver attitudes and reducing the road toll**. One of the initiatives included the introduction of 60 automatic speed cameras along major Victorian roads and highways. The operation and administration of the infringements detected by speed cameras would be handled by the Traffic Camera Office (the Office) established under the Ministry for Police and Emergency Services. The Office commenced operations in June 1990, taking over the speed camera program which had been under the control of the Office of the Chief Commissioner of Police since December 1989.

3.15.2 During the year, audit undertook a review of the operation of speed cameras. The major findings of the review were:

- ▶ **since December 1989, speed cameras have detected a lower percentage of vehicles travelling in excess of speed limits; and**
- ▶ **despite the high initial capital costs required to set up the operation audit estimates that all costs (capital and operating) incurred will be recouped by the end of the 1990-91 financial year.**

3.15.3 Audit examination revealed that in the 14 months from December 1989 to January 1991, 4.3 million vehicles had passed through speed camera detection zones resulting in 550 000 photographs of vehicles exceeding the speed threshold. The rate of detection of speeding vehicles dropped significantly soon after the introduction of speed cameras in December 1989 as illustrated in Chart 3.15A.

CHART 3.15A. SPEEDING VEHICLES AS A PERCENTAGE OF TOTAL VEHICLES PASSED THROUGH CAMERA DETECTION ZONES
(per cent)



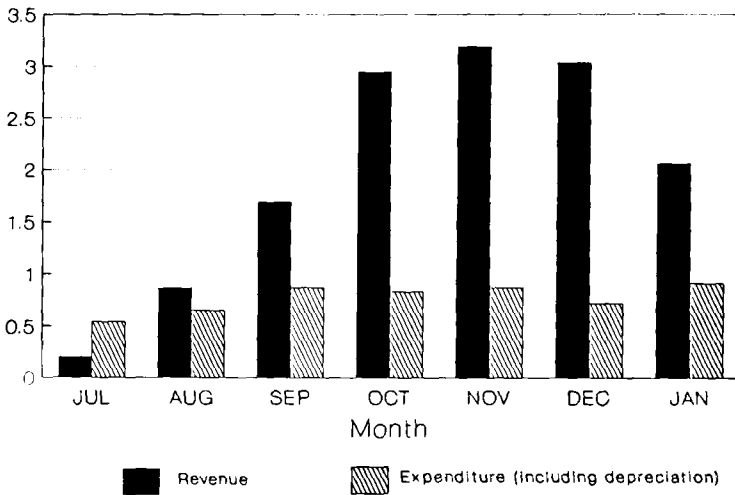
3.15.4 It can be seen that the detection rate of speeding motorists fell from 22.8 per cent in December 1989 to 13 per cent in January 1991. However, as indicated above, the introduction of speed cameras is only one of 7 initiatives introduced by the Ministry to change driver attitudes and therefore it is not possible to attribute this result fully to the operation of the speed cameras.

3.15.5 During the 14 month period around 261 000 infringement notices (47 per cent of vehicles exceeding the speed threshold) were issued including over 2 100 cases requiring suspension of licences for excessive speed. Audit found that the remaining 53 per cent were rejected due to various technical and legal difficulties associated with setting up of the cameras, reading of photographs and interfacing with the motor vehicle registration database.

3.15.6 Under the provisions of the *Transport Accident Act 1986* one-third of the revenue received by the Office from traffic infringements is apportioned to the Transport Accident Commission and two-thirds to the Consolidated Fund. A review of revenue generated from the commencement of operations of the Office (July 1990) to the end of January 1991 indicated that **\$14 million in revenue had been collected, \$4.6 million for TAC and \$9.4 million to the Consolidated Fund.**

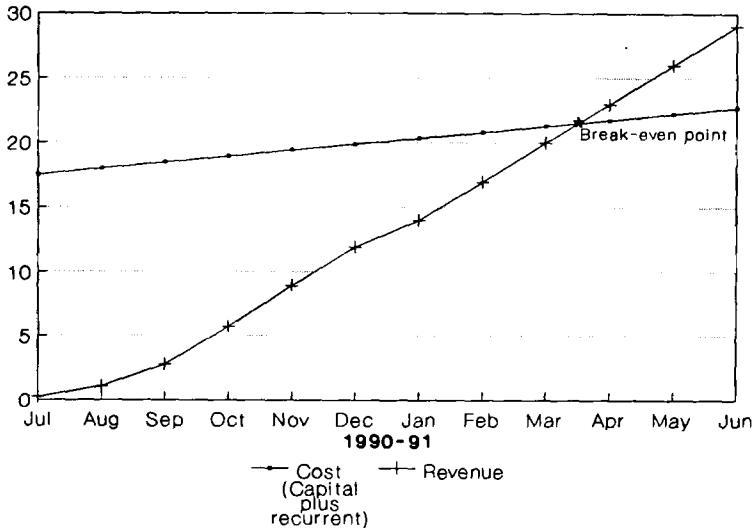
3.15.7 Further, a comparison by audit of revenue to expenses (excluding those incurred by the TAC and Roads Corporation) demonstrates that the Office generates revenue well in excess of its monthly operational costs. Chart 3.15B provides the relevant details.

CHART 3.15B
REVENUE AND EXPENDITURE, JULY 1990 - JANUARY 1991
 (\$million)



3.15.8 The substantial revenue generated by the Office will enable it to quickly recoup not only its operating costs but also the capital costs of around \$15.4 million incurred by the Ministry, TAC and Roads Corporation in the establishment of the Office. As indicated in Chart 3.15C a break-even position in terms of recovery and operating costs will occur during the current financial year.

CHART 3.15C. REVENUE COMPARED WITH TOTAL COSTS
(\\$million)



Management response

The Ministry concurs with the audit findings noting that the objective of the Traffic Camera Program is to reduce overall travel speeds on Victorian roads to establish the base for a long change in driver behaviour regarding speeding.

Through a reduction in travel speeds the number and severity of traffic collisions is reduced and thus the death and injury resulting from these collisions will be lessened.

While the level of rejected photographs is high, the Traffic Camera Office has vigorous quality control routines in place to ensure that the cameras have been properly set up and operated on the day and that the correct details appear on infringement notices issued. Film about which there can be any doubts will be rejected as a whole, and each individual frame is assessed to ensure that all prosecutions are fully enforceable.

The audit report notes the expected recoup of all capital and recurrent costs. It should also be noted that the continued success in reducing the level of speeding on Victorian roads will mean that fewer speeding offences will be occurring and therefore fewer will be detected.

OFFICE OF THE CHIEF COMMISSIONER OF POLICE

Information technology

3.15.9 The Office of the Chief Commissioner of Police (the Office) is in the process of developing and implementing a number of computerised operational systems and upgrading computerised administrative systems as part of its overall information technology strategy plan. The key elements of the plan, as approved by the Minister for Police and Emergency Services, were designed to:

- ▶ develop and implement a financial management system;
- ▶ develop and implement a new payroll system;
- ▶ computerise local systems in police stations and district offices using personal computers; and
- ▶ enhance the Fixed Penalty Payments System, a system set up to process infringement notices issued by the Office.

3.15.10 The capital costs of these projects have been estimated at \$11 million, with total costs estimated at \$25 million for the first 5 years of operation.

3.15.11 During 1989-90, the Office acquired a new financial management information system (FMIS) and a new payroll system. FMIS is an on-line real time system, comprising a vendor software package operated on the facilities of an external computer bureau. The payroll system which is also operated at an external bureau uses a modified software package.

3.15.12 FMIS was acquired on the basis that it would provide comprehensive operational and financial information to enable the Office to more effectively achieve its corporate goals and objectives. The new payroll system was acquired due to the inability of the existing system to meet the payroll requirements of the Office.

3.15.13 The audit review concentrated on the acquisition, development and implementation of FMIS and the payroll system. The review did not cover either the computerised systems in local police stations or enhancements to the Fixed Penalty Payments System.

Overall conclusion

3.15.14 The implementation of the new computerised systems has contributed to improvements in financial management and the timeliness and accuracy of the payroll. However, due to the lack of policies and procedures, inadequate economic evaluations and project management and deficiencies in systems performance many of the benefits available from the implementation of these systems have in some instances, been diminished.

Management response

The Office of the Chief Commission considers that by properly analysing requirements and conducting extensive evaluation they have selected software suited to financial management over the next decade as it provides, among other features, for accrual accounting, asset management and depreciation.

The overall conclusion is misleading because both the payroll and financial systems have led to substantial gains in financial and payroll efficiencies within the first year of operation. The related issues raised have not in any way diminished the substantial gains made or effected the obvious potential of the system.

3.15.15 Detailed findings are set out in the paragraphs below.

Policies, standards and procedures

3.15.16 An organisation's information systems policies, standards and procedures provide the overall framework for the planning, development and overall management of projects. Effective control over the system's acquisition, development and maintenance procedures assists in ensuring that:

- ▶ the system provides for the organisation's information needs;
- ▶ the system development, including software package acquisitions, will be completed within the prescribed timeframe and budget; and
- ▶ users can rely on the effective operation of the system.

3.15.17 Audit found that the Office did not have adequate policies, standards and procedures, governing the acquisition, development and implementation of projects by user management in relation to:

- ▶ determination of information needs;
- ▶ economic evaluation of systems; and
- ▶ project management.

3.15.18 The failure to implement adequate policies and procedures impacts upon the effectiveness of the systems and their contributions to the operations of the Office.

Management response

Development of policies, standards and procedures need to be cost-effective and in this context were established to achieve implementation in very tight deadlines; which were met.

Economic evaluation of projects

3.15.19 An economic evaluation is necessary to ensure that an investment proposal, including the acquisition of new technology, provides additional benefits or reductions in costs. The evaluation should assess the cost options and profitability of a project, in the context of its contribution to an organisation's objectives.

3.15.20 An audit review of the economic evaluation processes adopted by the Office found:

- ▶ **the decision to acquire software packages and use external computer bureau services as opposed to using in-house resources had not been cost-justified; and**
- ▶ **the projected costs of the new systems were, in audit's view, understated by at least \$3.7 million.**

Management response

An appropriate economic evaluation of the project was conducted by the central agency information technology management division. A substantive portion of the \$3.7 million referred to relates to sunk costs; not directly related to the project acceptance decision. The balance related to existing recurrent costs which were identified.

Project management and control

3.15.21 Project management, incorporating efficient planning and monitoring processes, is necessary to ensure computer systems are effectively implemented within the required timeframe and cost budgets.

3.15.22 The following deficiencies in project management were identified by audit:

- ▶ targets and deadlines were continually revised without formal justification;
- ▶ management accountability processes were not clearly defined; and
- ▶ reporting mechanisms were not established for monitoring costs and progress in relation to planned tasks and completion schedules.

3.15.23 These deficiencies, details of which are summarised below, led to lengthy delays in the implementation of the systems:

- ▶ During 1985, the Office indicated that the implementation of a financial management information system was a high priority and would be installed by July 1986. The system was eventually acquired in February 1990 and implemented in July 1990. Additional costs associated with the delayed implementation of FMIS were not available; and
- ▶ The original estimate for the implementation of the payroll system was January 1989. Phased implementation did not commence until January 1990 with full implementation achieved by July 1990. Additional costs associated with the development and implementation of the payroll system were not available.

3.15.24 To maximise the effectiveness and efficiency of implementing new computer systems the Office should develop and utilise sound project management practices.

Management response

Sound management practices were used to control the projects. The major delay referred to funding priorities which were not management control issues.

System performance

3.15.25 System performance, i.e. response times and system availability, is a critical factor for the effective and efficient performance of any on-line system.

3.15.26 Review of the performance of the FMIS system revealed the following unsatisfactory features:

- ▶ performance parameters for FMIS had not been determined;
- ▶ procedures for the recording and on-going monitoring of system performance had not been established; and
- ▶ response times of FMIS exceeded 30 seconds in peak periods compared with the expected response time for this type of application of less than 10 seconds.

3.15.27 The Office needs to take action to address the above deficiencies, in particular, time wasted through slow system response time, in order to maximise both system utilisation and productivity gains.

Management response

Improving system performance of the installed software is a primary objective and a range of mechanisms are being worked through to achieve performance standards developed for the systems.

Post-implementation reviews

3.15.28 A post-implementation review of a computer system provides assurance that the system meets all user needs and stated objectives, is realising anticipated benefits and that the costs of operating the system have remained within expected levels. Such reviews highlight both the good practices on which a project was built and those which should be avoided.

3.15.29 Audit found that there were no plans in place to measure the on-going effectiveness and efficiency of these systems through regular post-implementation reviews or to compile any information on relevant costs and benefits achieved.

Management response

The Office agrees with the audit comments on the benefits of post-implementation reviews and is conducting reviews to determine efficiency and effectiveness. A formal post-implementation review will be completed after the annual financial cycle.

Disaster recovery planning

3.15.30 A disaster recovery plan is an essential element of the management of computer systems and describes procedures to avoid or minimise the impact of a disaster that may interrupt or destroy the computer systems of an organisation. Damage to computerised systems can result from a variety of sources including malicious acts of individuals, fire, water damage, power fluctuations, and computer hardware and software failure.

3.15.31 In the past, audit has drawn the attention of the Office to the need for a disaster recovery plan so that in the event of a disaster critical functions can be restored within a reasonable period of time. Audit noted that such a plan has still not been developed for the Office's computer systems.

Management response

Comprehensive data security and back-up arrangements are in place. A formal disaster plan will form part of the post-implementation review.

Contractual arrangements

3.15.32 A formal contract for the provision of systems and services is necessary to guarantee the performance of vendors and to protect the interests of the Office.

3.15.33 To date, the Office has failed to enter into formal contractual agreements with the system vendors for the payroll system and the respective bureaus for the FMIS and payroll system.

3.15.34 There is an urgent need for the Office to enter into formal agreements with vendors to minimise the risk of loss of data, provision of deficient processing services and to avoid substantial additional costs.

Management response

The Office is continuing negotiation on contractual agreements to ensure that the most equitable arrangements are made for current and future usage requirements of Victoria Police.

Outstanding warrants

3.15.35 Comments have been raised in Auditor-General's Reports to the Parliament since 1985-86 concerning the failure of the Office of the Chief Commissioner of Police to actively follow up outstanding fines.

3.15.36 Following the proclamation of the *Magistrates (Summary Proceedings) (Sheriff) Act 1989*, warrants of commitment for parking and traffic fines issued after April 1989 became the responsibility of the Sheriff's Office with the Office of the Chief Commissioner of Police retaining responsibility for warrants issued as at that date.

3.15.37 At 30 June 1990 the Office advised that the value of outstanding pre-April 1989 warrants held by its Information Bureau was \$47.3 million.

3.15.38 A significant legislative change which has occurred since the *Report on Ministerial Portfolios, May 1990* was the enactment of amendments to the *Magistrates' Court Act 1989* in September 1990 under which warrants become null and void if outstanding for more than 5 years.

3.15.39 In March 1990, the Office established an accelerated warrant execution project as a special initiative designed to provide intensive follow-up action for unexecuted warrants. Under the project, licensed private sector inquiry agents are engaged by the Office, on a commission basis, to undertake the task of locating current addresses of offenders to facilitate police execution of warrants. The effectiveness of this project is discussed in the following paragraphs.

3.15.40 In July 1989, the Ministry for Police and Emergency Services (which has budgetary responsibility on police matters) estimated that the accelerated warrant execution project would lead to a warrant execution rate, i.e. locating the offenders, of at least 50 per cent. The Ministry also estimated that, based on warrants executed under routine enforcement procedures, 95 per cent of warrants executed under the project would result in the payment of a fine rather than imprisonment of offenders. **This projection translates into an expected monetary collection rate of 47.5 per cent on all outstanding warrants.**

3.15.41 Following the September 1990 legislative amendments, approximately 150 000 outstanding warrants which were less than 5 years old could be acted upon by the Office. Based on the Ministry's projections, revenue from fines of at least \$13.3 million and \$3.6 million was expected to be generated from these warrants for the Government and municipal councils, respectively.

3.15.42 The audit review of the operations of the accelerated warrant execution project up to December 1990 indicated that the above revenue projections are unlikely to be achieved.

3.15.43 Table 3.15D provides details on the results of the project from the date of its commencement, 22 March 1990 to 31 December 1990:

TABLE 3.15D. ACCELERATED WARRANT EXECUTION PROJECT

<i>Item</i>	<i>No.</i>	<i>%</i>	<i>\$</i>
Execution via arrest	2 620	4.2	415 641
Execution via payment	4 610	7.1	680 479
Execution - other	53	-	16 794
Total warrants executed	7 283	11.3	1 112 914
Warrants returned unexecuted (a)	57 383	88.7	
Total forwarded to agents	64 666	100.0	

(a) Warrants which remain unexecuted are returned to the Information Bureau.

3.15.44 As indicated in Table 3.15D the actual successful warrant execution rate for this period was only 11.3 per cent compared with the original estimate of 50 per cent. Furthermore, only 7.1 per cent of executed warrants led to a monetary payment, which is significantly below the expected rate of 47.5 per cent.

3.15.45 The Office advised audit that the high level of unexecuted warrants (88.7 per cent) was due mainly to inadequate information relating to offenders recorded on warrants.

3.15.46 Based on the results of the project to December 1990 (processing of around 65 000 warrants out of the total of 150 000), audit estimates that only \$1.6 million is likely to be collected, compared with the initial estimate of \$16.9 million.

3.15.47 In addition, when taking into account the costs associated with the project such as direct labour and salary on-costs, the project's net return to December 1990 was approximately \$220 000 which is equivalent to only 20 cents for every dollar collected.

3.15.48 In October 1990 the Office evaluated the results of the project and significantly reduced its revenue projections. The Office has since advised audit that the Minister for Police and Emergency Services and Attorney-General had approved the transfer of the project to the Sheriff's Office within the Attorney-General's Department. The transfer is expected to be completed by June 1991.

Management response

Early estimates of revenue and costs based on advice from external agencies proved optimistic and have not been achievable. Other factors, including the concurrency provisions, have also impacted on revenue collection.

Impact of concurrency provisions

3.15.49 A factor which has adversely impacted upon the level of return achieved by the Office of the Chief Commissioner of Police under its accelerated warrant execution project is the operation of the *Penalties and Sentences Act 1985*. Section 15 of that Act came into operation on 1 June 1986 and provides for any custodial sentences imposed in default of payment of fines to be served concurrently with all other uncompleted sentences. Consequently, there is no incentive for multiple fine defaulters to pay monetary penalty upon execution of a warrant.

3.15.50 This situation was clearly illustrated in a recent case whereby an offender with over 200 parking warrants with a total value of \$24 000 served only 3 days imprisonment.

3.15.51 It is understood that the Minister for Police and Emergency Services is seeking retrospective amendments to the Act to ensure that concurrency provisions are not granted automatically. Under the proposed amendments, future fines will not be waived by the offender serving a short period of imprisonment.

Retrospective expenditure approvals

3.15.52 The *Report on Ministerial Portfolios, May 1990* commented on the continuing failure of departments to adhere to the requirements of the *Treasury Regulations 1981* in relation to obtaining approval from the State Tender Board prior to incurring expenditure on items not covered under contract. Failure to obtain Tender Board approval necessitates applications to the Treasurer for retrospective expenditure approvals.

3.15.53 During 1989-90, audit found that while there was a reduction in the number of retrospective expenditure approvals sought by the Office of the Chief Commissioner of Police the value of such approvals rose considerably. Table 3.15E provides details of retrospective expenditure approvals sought by the Office for the past 3 years.

TABLE 3.15E. RETROSPECTIVE EXPENDITURE APPROVALS

<i>Item</i>	<i>1987-88</i>	<i>1988-89</i>	<i>1989-90</i>
Number of applications	3	14	7
Total value (\$)	66 731	579 531	882 753

3.15.54 At the date of preparation of this Report the value of 6 further approvals given since 30 June 1990 was over \$2.4 million.

3.15.55 Audit examination revealed that, as with prior years, a number of retrospective approvals sought related to extensions of service agreements which were automatically renewed prior to the seeking of Tender Board approval. Other approvals were for the provision of ongoing support services for computer systems where the need to incur expenditures should have been identified during the planning stage. Reasons provided by the Office to the Tender Board for the failure to obtain approvals did not adequately explain why prior approvals were not sought.

3.15.56 The continued failure of the Office to comply with the Treasury Regulations has resulted in the Treasurer writing to the Minister for Police and Emergency Services, in December 1990, to express his concern that he had again been placed in a situation of having to consider the authorisation of payment of an account after the event. The Treasurer further requested the Minister to review all existing financial delegations in this area that, in the Treasurer's opinion, seem unable to meet basic regulatory requirements.

Management response

The Office has been determined to comply with the Treasury Regulations, particularly in relation to ongoing contracts. However, due to the nature of policing, it is still expected that on some occasions requests for retrospective expenditure approval will be necessary. The review of existing financial delegations has been completed.

Salary overpayments

3.15.57 During the year, audit undertook a review of the Office's salary system. The review identified a number of internal control weaknesses, the most significant of which related to a high error rate in the calculation of termination payments.

3.15.58 Due to the large number of payments made during the year, it was not practical for audit to quantify the extent of all overpayments or underpayments. Following audit request, the Office advised that it had developed software to interrogate its payroll databases and at the date of preparation of this Report, identified overpayments of salary to the value of \$341 000, of which only \$57 000 had been recovered to date.

3.15.59 While it is recognised that the Office has recently introduced a new computerised payroll processing system aimed at improving the accuracy of its payroll payments, audit recommends that the Office pursue recovery of the balance of the overpayments.

Management response

The Office has continually pursued recovery of overpayments.

Losses and thefts

3.15.60 My Office has been notified that losses and thefts of uniforms, equipment and cash with a total value of \$73 000 occurred during the period January 1990 to December 1990. However, the Chief Commissioner of Police indicated that he was not totally satisfied as to the completeness of the information included in the advice provided by his Office.

3.15.61 Further, although formal advice has not been received from the Office, audit found that, in May 1990, a police officer was suspended with pay after being charged with theft of \$130 relating to falsifying prisoners' meals accounts and attempted theft of a further \$740. The officer was found guilty in February 1991 and placed on a 3 year good behaviour bond. It is of concern that this matter was not reported to my Office.

Management response

The procedures for reporting losses and thefts is being re-examined to ensure all required matters are reported.

COUNTRY FIRE AUTHORITY

Residences

3.15.62 The Country Fire Authority owns 65 residences which are, with one exception, occupied by Authority employees. Of these residences 54 are located in country areas of Victoria with the remaining 11 in suburban areas. In many cases the residences are attached to, or in proximity to, fire stations.

3.15.63 Government guidelines, issued in September 1986, in relation to employee housing define certain houses as *required to occupy* residences. These houses must meet the following criteria:

- ▶ housing is intrinsic to the operations or security of the government facility;
- ▶ geographical remoteness results in the virtual absence of a private housing market or in extreme hardship if an officer is required to provide his/her own housing; and
- ▶ high local market rents have resulted from short-term supply/demand imbalances.

3.15.64 Tenants occupying these residences are to be charged rentals based on a formula applicable to the type of employee. Other residences occupied by employees are to be charged full market rental, reviewed annually.

3.15.65 The Guidelines also indicated that all houses which could be disposed of, other than those in the *required to occupy* category, were to be identified and sold.

3.15.66 Audit found that a number of practices adopted by the Authority were in conflict with these guidelines. Specific details follow.

3.15.67 The Authority has adopted an internal policy which states that residences occupied on a *required to occupy* basis, as defined by the Authority, are to be provided rent-free to the officers involved. Table 3.15F sets out the number and valuation of rent-free premises recorded in the Authority's property register at 30 June 1990.

TABLE 3.15F. RENT-FREE RESIDENCES

Occupied by -	Number of residences	Construction/ acquisition value	Estimated(a) current market value
		(\$'000)	(\$'000)
Regional officers	21	773	2 289
Assistant chief officers	6	391	666
Volunteer officers	19	267	1 306
Station officers	8	449	1 125
Staff quarters	5	51	424
Total	59	1 931	5 810

(a) Audit estimate.

3.15.68 Audit was advised that the provision of rent-free accommodation has evolved through precedent and is not stated as a condition of employment or as part of relevant industrial awards. Audit has a number of concerns regarding this arrangement, namely:

- ▶ the provision of the residences on a rent-free basis is contrary to government policy; and
- ▶ although the residences have been defined by the Authority as *required to occupy*, in a number of cases the properties do not meet the criteria set by the Government for the classification.

3.15.69 The Authority receives income on an additional 6 residences, the majority of which are rented to Authority employees. The rental income on these properties totalled approximately \$25 000 during 1989-90.

3.15.70 Audit found that the current rentals being charged on the properties were below market rates. In addition, the rationale for retaining the properties had not been clearly established by the Authority.

3.15.71 The provision of housing to employees on a rent-free basis or at a subsidised rental represents a significant cost to the Authority. **Audit estimates that the opportunity cost of capital tied up in the properties, in addition to outgoings associated with the residences, would amount to approximately \$1 million per year.**

Management response

The Authority has commenced a review of its policy relating to accommodation for its officers. The Authority has a formal accommodation policy to which all residences currently comply. In the past the Authority has significantly benefited through the provision of free accommodation allowing officers to be immediately available to respond to incidents.

With respect to career officers the Authority's review will take into consideration the new employment conditions which will emanate from major changes to their Award currently being argued before the Industrial Relations Commission.

The Authority disputes the conclusions concerning volunteer officers on 3 grounds:

- *The Authority does not believe that the volunteer officers' residences would attract anywhere near audit's estimate of current market value as these residences are attached to local fire stations and form part of the fire brigade complex;*
- *The Country Fire Authority, brigades and the community receive a great benefit from the volunteer, or "Resident Officer" as he is known in the service, towards the efficient operations of the brigade. This value would far exceed any nominal rental placed on the residences; and*
- *The Authority is also mindful of the fact that many of these residences were financed and, in many cases, erected by volunteer fire brigades.*

Similar comments would apply to station officers and staff quarters where, again:

- *the Authority disputes audit's estimated value as the majority of these buildings are attached or integrated into large fire station complexes; and*
- *no recognition is given as to the value of having these officers immediately available.*

As part of its property review the Authority will recognise in its Annual Report its liability to brigades who have made significant financial contributions to facilities such as residences for their volunteers.

Losses and thefts

3.15.72 The Authority has advised audit of losses and thefts of equipment and stores valued at approximately \$25 000 for the period January 1990 to December 1990.

METROPOLITAN FIRE BRIGADES BOARD

3.15.73 The Metropolitan Fire Brigades Board is responsible for the prevention and suppression of fires in the metropolitan fire district, supervision and control of metropolitan fire brigades, and training and promotion of fire brigade officers.

3.15.74 During the year, audit carried out a review of 2 facets of the Board's operations, namely, mechanical maintenance of fire fighting vehicles and recovery of costs arising from false alarms.

Mechanical maintenance

3.15.75 The Board maintains a major central workshop at Thornbury employing 66 staff and 2 smaller regional workshops at Notting Hill and Sunshine each employing 8 staff. These workshops perform maintenance on the Board's fleet of 128 vehicles. The Board engages external contractors to undertake maintenance of its remaining 202 vehicles which are used mainly for non-fire fighting purposes.

3.15.76 The Board's internal maintenance costs for 1989-90 amounted to approximately \$3 million while the written-down value of its fire fighting fleet and workshop facility at 30 June 1990 were \$7.5 million and \$1.7 million, respectively.

3.15.77 Commencing in 1990-91, the Board has introduced a preventative maintenance program under which vehicles are serviced at predetermined intervals.

3.15.78 The key audit finding arising from the review was that the Board was not in a position to determine the overall efficiency and effectiveness of its fire fighting vehicle maintenance operation.

Management response

The comments by audit are relevant up to 30 June 1990. The preventative maintenance program was introduced to ensure that operational appliances are maintained effectively and at acceptable cost. Existing information systems now capture significant mechanical maintenance data and a new mechanical maintenance information system is being obtained to assist in performance monitoring. The Board is currently introducing change in the mechanical maintenance workforce with implementation of the structural efficiency process with a review of manning levels to flow from this initiative.

Deficiencies in maintenance operation

3.15.79 The major deficiencies in the maintenance operation identified by audit were:

Inadequate basis for key management decision-making

3.15.80 The Board's current information system does not provide sufficient information to enable the determination of total maintenance costs over the life of each vehicle. Consequently, the Board is not in a position to make informed decisions on the maintenance and retention of its fire fighting vehicle fleet.

3.15.81 The average cost of maintaining each fire fighting vehicle in 1989-90 was \$23 400. It was not possible to determine whether the Board's maintenance costs had increased over time as comparative data was not available. In addition, the Board does not evaluate its maintenance costs against industry standards in the private sector. While it is acknowledged that private industry standards may not be wholly applicable to the Board's operating environment, audit is of the view that, provided appropriate allowance is made for differences in the nature and usage of vehicles, such evaluation would assist the Board in periodically assessing the efficiency of its maintenance operation.

3.15.82 Vehicle replacement costs account for a major proportion of the Board's capital expenditure (**\$1 million, 1989-90; \$5 million budgeted for 1990-91**). The Board advised audit that it had determined retention periods for particular categories of vehicles to guide replacement decisions. However, during the period of the review, audit found vehicle replacements were made solely on the basis of mechanical soundness and funding availability.

3.15.83 This approach means that the Board is likely to retain fire fighting vehicles beyond their economic useful lives with resultant cost implications such as lower disposal values, high repair and maintenance costs, and excessive investment in spare parts. On this latter issue the Board holds substantial levels of spare parts (**\$922 000, 30 June 1990 or 12 per cent of the value of the fleet**). In this regard, audit has advised the Board that there is an increasing trend in the private sector to minimise stock holdings in order to utilise scarce resources in a more cost-effective manner.

Lack of performance monitoring

3.15.84 A number of performance indicators were developed by the Board to monitor its mechanical maintenance operation in 1989-90. These indicators included:

- ▶ 99 per cent of tankers (excluding back-up) to be available for operations each day;
- ▶ turnaround time on repairs not to exceed 2 days on 80 per cent of occasions; and
- ▶ 95 per cent of the preventative maintenance schedule to be completed each year.

3.15.85 Due to the absence of adequate recording and reporting systems, the Board has been unable to monitor actual performance against its established benchmarks. In addition, audit found that, for the majority of maintenance tasks, specific performance controls had not been formulated and, as a consequence, employees had unlimited flexibility in determining the amount of time to be allocated to individual tasks.

3.15.86 **In the absence of controls and effective monitoring by the Board, any inefficiencies in maintenance operations will remain undetected.**

Management response

Before the audit review, the Board had already started to change the information system. A comprehensive Information Systems Strategic Plan incorporating a mechanical maintenance system was formulated by external consultants in August 1989. Tenders for the information system are being evaluated.

There is no appropriate Australian standard by which to evaluate maintenance costs. The internationally-used Vehicle Maintenance Repair Standards (VRMS), which is the only known standard containing provision for fire appliances, has been specified in the MIS tender specifications. Audit's estimated annual average maintenance cost per appliance does not fully appreciate the complexity and total operating systems employed in a firefighting appliance. Multi-staged water pumps, drive systems, specialised individual equipment and motorised tools are all maintained as part of the appliance's operating system. Presently, half of the Board's vehicle fleet is maintained by the private sector in accordance with general industry standards.

The Board's vehicle replacement process is not limited in scope as asserted by audit. A replacement policy exists for all types of vehicles. In the case of major appliances the decision to replace is based upon an analysis of replacement cost, condition of vehicle, relevant technology, spares availability, and recent maintenance history. The Board believes that the size and composition of its appliance fleet is appropriately defined after proper consideration by senior management of all the relevant factors.

Based on manufacturers' advice on unique fire fighting equipment, the Board purchases recommended security spares with the initial procurement of major equipment. Such spares may be stocked for up to 20 years, even though some items may have infrequent use during the life of the vehicle/equipment nonetheless, security spares are reviewed yearly and subject to depreciation. Stock reviews are conducted regularly and, from 1987, these reviews have achieved a reduction by 33 per cent in stock value, however, stock levels are determined on increasing suppliers lead time.

Since 1 July 1990 the Board has been collecting data against performance indicators and monitoring performance against target objectives. The 1990-91 performance will be included in the Board's Annual Report. The flexibility of employees on the job is constrained by firm shop floor supervision. All hours are correctly assigned to the correct job code and monitored against direct labour and overhead performance.

Need for overall reassessment of maintenance strategies

3.15.87 The Board's dual strategies of using internal resources to maintain firefighting vehicles and external resources for the remaining vehicles have not been reviewed for many years.

3.15.88 Given the above deficiencies in the Board's internal maintenance operation, it would seem highly desirable for the Board to undertake a detailed strategic review of existing maintenance arrangements, including the feasibility of extending the use of contractors to the maintenance of its fire fighting vehicle fleet.

Management response

Presently, over half of the Board's vehicle fleet is serviced by private industry and major fire appliance maintenance is carried out in-house as this has been assessed over time as the most efficient and effective method of maintaining the fleet and ensuring vehicle availability with minimum downtime. A review of the vehicle maintenance operation has been underway for some time under the auspices of the Structural Efficiency Award Restructuring programme. This initiative must be put in place and assessed over a period of time. The Board considers that any suggestion of a review would be counter-productive until the new system can be evaluated.

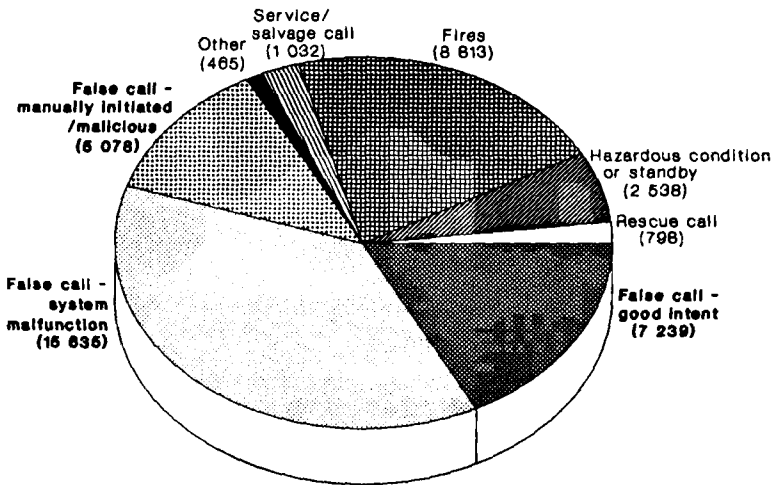
At present the Board and the Country Fire Authority are meeting to discuss the feasibility of the joint sharing of corporate services; discussions will include the mechanical maintenance functions of both organisations.

Cost recoveries from false alarm calls

3.15.89 A fundamental element of the Board's activities involves the timely response to fire alarm calls. In 1989-90, the Board responded to approximately 41 600 calls, of which 28 000 or 67 per cent were subsequently classified by the Board as *false alarms*.

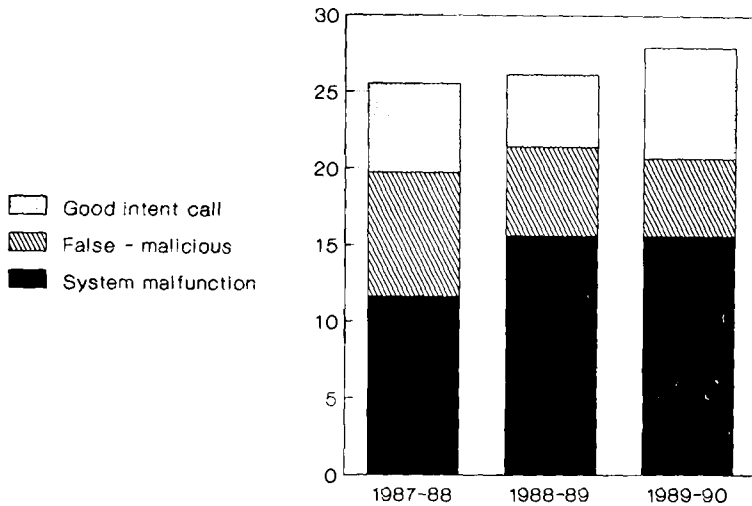
3.15.90 Chart 3.15G illustrates the various categories of alarm calls received by the Board in 1989-90.

CHART 3.15G. NUMBER AND TYPES OF ALARM CALLS, 1989-90



3.15.91 Chart 3.15H presents details of the increasing trend in false alarms over the past 3 financial years.

CHART 3.15H. FALSE ALARM CALLS
('000)



3.15.92 The Board has been concerned at the increasing trend in false alarms which, as illustrated above, predominate its emergency responses provided to the community. Recognising that attendance at false alarm calls commits substantial resources of its fire brigades and reduces its capacity to respond to real emergencies, the Board initiated amending legislation aimed at reducing the incidence of false alarms. This action culminated in the passing by Parliament in June 1989 of the *Fire Authority Act 1989* which empowers the Board to charge owners or occupiers of buildings for the attendance of brigades in response to false alarms caused by automatic fire alarm systems.

3.15.93 Invoices for attendance at false alarms totalling \$2.6 million were raised in 1989-90 of which only \$800 000 had been collected at 30 June 1990. Collection of a substantial proportion of the balance of \$1.8 million remains outstanding pending resolution of a large number of appeals by building owners or occupiers to the Administrative Appeals Tribunal.

Cost recovery methodology

3.15.94 To arrive at a cost recovery rate which could be used when the amending legislation on false alarms was enacted, the Board in 1989, submitted to the Minister for Police and Emergency Services its estimate of the costs associated with false alarms. This cost estimate, which is the basis used to measure the costs of the Board's resources tied up in attending false alarms, amounted to \$3 130 per vehicle response hour (VRH) for 1989-90.

3.15.95 Audit examination revealed the Board's estimated VRH rate was based only on costs expected to be incurred by the Board on chargeable emergency responses (i.e. false alarm calls arising from system malfunctions) within visited premises rather than on all emergency responses whether chargeable or non-chargeable. In other words, the proposed cost recovery methodology used by the Board incorrectly assumed no costs are incurred by the Board in attending non-chargeable emergency calls.

3.15.96 Audit concluded that the cost recovery rate determined by the Board did not accurately reflect all costs associated with attendance at emergency alarm calls.

3.15.97 Although, as indicated above, the VRH rate of \$3 130 does not represent all costs associated with alarm calls, a substantially lower charge-out rate of \$1 040 per VRH has been used as a basis for cost recovery for false alarms since the enactment of the relevant legislation. Audit was advised that this lower rate, which had been approved by the Premier and the Treasurer, reflected the basis on which the Board is funded.

3.15.98 It can be seen that charges levied on building owners or occupiers by the Board to date for false alarms bear no relationship to the cost of Board's resources tied up in attending such alarms. In effect, the charges levied to date could be described as more in the nature of imposition of a fine rather than implementation of a cost recovery strategy.

Management response

The Board notes audit's views on this subject, however, it should be recognised that there are several alternative approaches to identifying and quantifying costs.

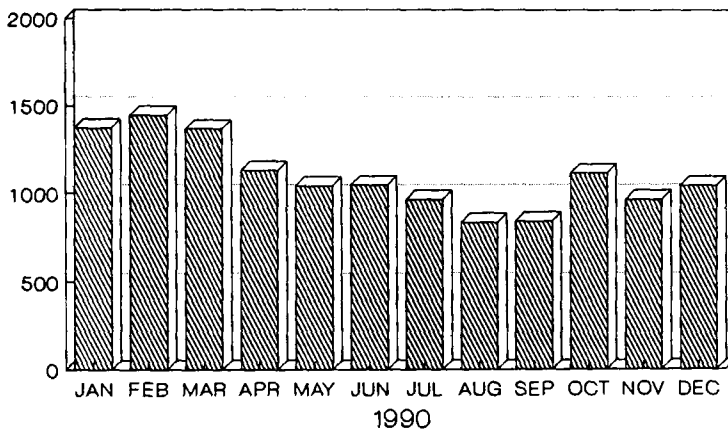
If audit's view that a rate calculated on the basis of attendance at all emergency calls were adopted the rate applicable on the basis of the 1989-90 budget would have been \$670 per quarter hour per vehicle which is over 85 per cent of the figure originally calculated of \$782 per quarter hour.

Impact on incidence of false alarms

3.15.99 Prior to the introduction of charges for attendance at false alarm calls, there was no pressure on building owners or occupiers to minimise the incidence of false alarms.

3.15.100 It is encouraging to note that since the introduction of charges in December 1989, the number of chargeable false alarm calls to the Board has fallen significantly. Chart 3.15I provides the relevant details.

**CHART 3.15I
NUMBER OF FALSE ALARMS SUBJECT TO A CHARGE**



3.15.101 Over the 6 month period July to December 1990, the number of chargeable false alarms fell by an average of 27 per cent compared with the corresponding period in 1989.

Management response

The Board shares audit's satisfaction with the significant drop in false alarms since the introduction of charging and will continue its efforts to achieve even greater reductions.

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>
———— MATTERS RESOLVED ————		
Office of the Chief Commissioner of Police		
<i>First Report, 1980-81, p.172</i> <i>First Report, 1987-88, p.197</i> <i>Ministerial Portfolios, May 1989, p.197</i>	Internal audit arrangements not implemented in accordance with government policy.	An adequate internal audit section has now been established with a complement of 3 staff.
———— ACTION COMMENCED ————		
Ministry for Police and Emergency Services		
<i>First Report, 1980-81, p.172</i> <i>First Report, 1987-88, p.197</i> <i>Ministerial Portfolios, May 1989, p.197</i>	Internal audit arrangements not implemented in accordance with government policy.	The Ministry still does not have its own internal audit section due to the size of the organisation. However, audit has been advised that the Bureau of Internal Audit is to provide consultancy services to the Ministry.
Office of the Chief Commissioner of Police		
<i>Second Report, 1986-87, p.120</i>	Under-utilisation of the Police Hospital and substantial losses incurred in its operation should be addressed by management.	A relocation plan combined with an internal marketing strategy is being developed. Further, improvements in utilisation are envisaged with the planned introduction of additional services. The future location of the Police Hospital is yet to be resolved.
<i>Second Report, 1986-87, p.121</i>	Leasing of Police premises not undertaken in an economic, efficient and effective manner resulting in additional costs being incurred.	The Office has established a leasing section to ensure that buildings are suitable and cost-effective.
<i>Ministerial Portfolios, May 1989, pp.193-5</i>	Inefficient and ineffective management of the Police motor vehicle fleet. Non-compliance with government policy.	Tenders for a computerised fleet management system are currently being reviewed. A phased implementation of the system will take place during 1991.
<i>Ministerial Portfolios, May 1989, p.195</i> <i>Ministerial Portfolios, May 1990, p.226</i>	Outstanding warrants at IBR estimated at \$42.2 million at June 1989 not being controlled effectively due to limitation of the recording system and lack of follow-up.	Refer to paragraphs 3.15.35 to 3.15.48 of this Report for further comments on this issue.

Schedule A. Status of matters raised in previous Reports - continued

Report	Subject	Status at date of preparation of this Report
———— ACTION COMMENCED - continued ————		
<i>Ministerial Portfolios, May 1989, p.196</i>	The Consolidated Fund was owed \$9.9 million due to significant deficiencies in the management, recording and follow-up of outstanding debts.	A computer system was introduced to allow improved recording and reporting of outstanding debts. However, the value of outstanding debts was \$7.7 million at 30 June 1990.
<i>Ministerial Portfolios, May 1989, p.197</i>	Inadequate recording and stocktaking procedures at the Uniform Store.	An inventory package is presently being implemented as part of the new financial management information system. The Office envisages the system will remedy most of the matters raised.
<i>Ministerial Portfolios, May 1990, pp. 227-31</i>	Deficiencies in tendering procedures in relation to the provision of prisoners' meals, cleaning of Police vehicles and cleaning of prisoners' laundry.	A review of the tendering procedures has been undertaken by the Office. Recommendations by the Ministry in this area have been endorsed by the Office and implementation has commenced.
<i>Ministerial Portfolios, May 1990, pp. 232-4</i>	Poor cash management practices.	A new financial management system introduced on 1 July 1990 will assist in improved cash management practices.
<i>Ministerial Portfolios, May 1990, p. 235</i>	Inadequate action taken to address weaknesses in the Office's stores management practices.	Action taken by the Office to identify surplus and obsolete stock and introduce forward contracts. Improvements are anticipated with the introduction of a new inventory package.
<i>Ministerial Portfolios, May 1990, p. 236</i>	Deficiencies in control over and management of the Office's assets.	The Office has recently purchased an asset management system which will be phased in over the next three years.
Metropolitan Fire Brigades Board		
<i>Ministerial Portfolios, May 1989, pp. 306-9</i>	Lack of an adequate disaster recovery plan covering the Board's EDP operations.	The Board is in the process of compiling a disaster recovery plan.

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>
— NO ACTION TAKEN —		
Office of the Chief Commissioner of Police		
<i>Ministerial Portfolios</i> , May 1990, p. 231	Significant increases in the number and value of retrospective expenditure approvals.	Instances of retrospective expenditure approvals were again noted in 1989-90. For further comments, refer to paragraphs 3.15.52 to 3.15.56 of this Report.

Schedule B. Completed/incomplete audits

<i>Entity ended</i>	<i>Financial year</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits				
Ministry for Police and Emergency Services	30 June 1990	31 October. <i>Annual Reporting Act</i> 1983, s.8.	15 August 1990	30 October 1990
Office of the Chief Commissioner of Police	30 June 1990	31 October. <i>Annual Reporting Act</i> 1983, s.8.	31 October 1990	31 October 1990 (a)
Country Fire Authority	30 June 1990	30 September. <i>Annual Reporting Act</i> 1983, s.9. Treasurer granted extension to 22 October 1990.	28 September 1990	5 October 1990 (a)
Metropolitan Fire Brigades Board	30 June 1990	30 September. <i>Annual Reporting Act</i> 1983 s.9.	26 September 1990	28 September 1990 (a)

(a) Qualified audit report issued.

3.16

PREMIER

KEY FINDING

- ▶ A panel of consultants, which reviewed the functions of the Public Service Board, recommended the abolition of the Board.

Paras 3.16.5 to 3.16.7

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

Departments

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

Public bodies

Victorian Relief Committee

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

OFFICE OF THE PUBLIC SERVICE BOARD

3.16.1 The Public Service Board's function is essentially to provide independent advice to government on matters of organisation, management, staffing and, within agencies, to develop and introduce improved management and staff practices that will enable effective, efficient and economic operations.

3.16.2 In May 1988, the Estimates Committee, a sub-committee of the Parliamentary Economic and Budget Review Committee, reported on its examination of the personnel management and management improvement functions of the Board.

3.16.3 The Committee noted the abolition of, or substantial structural changes in Public Service Boards in other States and recommended a review of the Board's powers, functions and operations be undertaken.

3.16.4 **It had been my intention to undertake a detailed review of the efficiency and effectiveness of certain functions of the Board. The proposed review was deferred pending action by the Government on the recommendations of the Committee.**

Review of Board

3.16.5 In 1990 the Government established a panel of consultants to review the Board's functions. The remuneration of the consultants is budgeted to be \$200 000. To date, \$160 000 has been paid. The panel reported to the Premier in December 1990 and recommended the abolition of the Board and the:

- ▶ devolution of personnel management powers which are presently delegated to Chief Administrators under the *Public Service Act 1974*;
- ▶ reallocation of a number of the Board's functions to the Departments of the Treasury, Premier and Cabinet, and Labour;

- ▶ establishment within the Premier and Cabinet portfolio of an administrative unit to cover public sector development;
- ▶ creation of a Commission for Merit and Equity which would incorporate a Grievances Board and a Selection Review Board; and
- ▶ establishment of a Public Sector Consultative Council.

3.16.6 Before considering the recommendations contained in the report, the Government is to consult with unions and other interested parties.

3.16.7 Audit will monitor the efficiency of the implementation of the Panel's recommendations should they be adopted by the Government.

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>
Completed audits				
Department of the Premier and Cabinet	30 June 1990	31 October. <i>Annual Reporting Act 1983, s.8.</i>	15 October 1990	31 October 1990
Office of the Auditor-General	30 June 1990	31 October. <i>Annual Reporting Act 1983, s.8.</i>	19 September 1990	21 September 1990 (a)
Office of the Public Service Board	30 June 1990	31 October. <i>Annual Reporting Act 1983, s.8.</i>	10 October 1990	25 October 1990
Victorian Relief Committee	30 June 1990	30 September. <i>Victorian Relief Committee Act 1958, s.7A.</i>	8 August 1990	28 September 1990

(a) The Office of the Auditor-General was audited by a firm of private auditors.

3.17

SMALL BUSINESS

KEY FINDING

- ▶ The audit of the Small Business Development Corporation's financial statements proved satisfactory.

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

Department

Department of Small Business *

Public body

Small Business Development Corporation

* Created by Order-in-Council on 17 January 1991.

The audit of the Small Business Development Corporation's financial statements proved satisfactory.

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>
Completed audit				
Small Business Development Corporation	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	25 September 1990	26 September 1990

SPORT AND RECREATION

KEY FINDINGS

- ▶ In audit opinion, the Government's total financial contribution to the 1996 Olympic Games bid was \$17.7 million.
Paras 3.18.5 to 3.18.10
- ▶ Audited information on final costs of the bid, from the company responsible for its management, are still not available to the Department.
Paras 3.18.11 to 3.18.15
- ▶ At 30 June 1990, accumulated deficits of the National Tennis Centre Trust totalled \$26 million.
Paras 3.18.20 to 3.18.24
- ▶ Further significant cash flow difficulties have been experienced by the National Tennis Centre Trust.
Paras 3.18.25 to 3.18.27
- ▶ There remains an urgent need for resolution of the long-term financial viability of the National Tennis Centre.
Paras 3.18.28 to 3.18.34
- ▶ The Totalizator Agency Board's Tabaret project became fully operational in November 1990, 2 years behind schedule and with actual costs exceeding budget by \$19.1 million.
Paras 3.18.35 to 3.18.39

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
Victorian Institute of Sport Ltd
Victorian Institute of Sport Trust

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

DEPARTMENT OF SPORT AND RECREATION

Olympic Games bid expenditure

3.18.1 The Auditor-General's *Report on Ministerial Portfolios, May 1990* outlined the corporate structure established for Melbourne's 1996 Olympic Games bid and presented details of the financial assistance provided by the State Government towards the bid.

3.18.2 As indicated in the Report, the company responsible for the management and co-ordination of the bid, Melbourne Olympic Candidature 1996 Ltd (previously named Melbourne Olympic Committee Ltd), is not subject to audit by the Auditor-General.

3.18.3 In September 1990, the International Olympic Committee selected Atlanta as the venue for the 1996 Olympic Games.

3.18.4 This section of the Report provides information on the aggregate level of government expenditure incurred in relation to Melbourne's bid and on procedures in place for the winding down of the bid's financial activities.

Aggregate government contribution to Melbourne's bid

3.18.5 The May 1990 Report suggested that, from a public accountability viewpoint, the Department of Sport and Recreation present to the Parliament details of the aggregate level of assistance provided by the Government to the Olympic Games bid.

3.18.6 In March 1991, the Minister presented a report to Parliament on the Government's contribution to the bid. In that report, the Minister indicated that the total contributions by the Government to the bid was \$12.1 million. Table 3.18A shows the relevant details.

TABLE 3.18A. MINISTERIAL STATEMENT ON GOVERNMENT CONTRIBUTIONS TO MELBOURNE'S BID
(\$'000)

<i>Item</i>	<i>1988-89</i>	<i>1989-90</i>	<i>1990-91</i>	<i>Total</i>
Direct government contributions	1 750	5 000	2 500	9 250
Indirect assistance provided by various government agencies	566	1 921	410	2 897
Total	2 316	6 921	2 910	12 147

3.18.7 The ministerial report, which was not subject to audit, referred to certain expenditures amounting to \$5.2 million incurred by government agencies which were excluded from the total government contributions on the ground that they were not directly attributable to the bid. The major portion of the excluded amounts related to:

- ▶ expenditure of \$1.5 million by the Roads Corporation (Vic Roads) for maintenance and safety work undertaken by the Melbourne City Council relating to asphalt treatment and bridge painting prior to the arrival of overseas dignitaries from the International Olympic Committee; and
- ▶ capital expenditure of \$3 million brought forward from future programs by the Port of Melbourne Authority on the planning, design and management for the relocation of port facilities as part of the proposed Docklands project.

3.18.8 In both instances, the timing of the expenditure was accelerated due to the Olympic bid. While the capital improvements will continue to provide future benefits, in audit opinion, the expenditure of \$4.5 million would not have been brought forward but for the bid. To this extent, it could be argued that the expenditure concerned was linked to the bid and should have been included as part of the Government's total contribution to the bid.

Management response

In relation to the expenditure of \$1.5 million by the Roads Corporation, the Ministry of Transport has provided the Department with a copy of a letter which they had addressed to the Hon. Mr P Gude MP. In this letter, it is clearly stated that the asphalt treatment and bridge painting represented normal maintenance and safety work which would have been carried out in future years regardless of the Olympic Bid. This work had merely been advanced because of the impending visit of International Olympic Committee dignitaries to Melbourne.

Indeed, in the strictest terms of economic analysis, there is an argument for imputing a time interest cost to the value of works brought forward. However, audit has not argued for that and audit's view that the full cost of such an item should be wholly apportioned to the Bid is rejected as incorrect as, clearly, there is a continuing residual value of the works to present and future users of the facilities.

Docklands project, \$3 million.

As audit is aware, this is a continuing project which it was always proposed should proceed notwithstanding the outcome of Melbourne's bid for the Olympics.

Some elements of the Docklands planning costs did relate specifically to the Olympic bid, i.e. planning for the proposed Athletes' Village and Media Centre which would have been needed for the Games. These costs totalling \$435 000 have been included as Bid costs in the ministerial statement.

The remaining work will have been incurred regardless of the Bid and it was only advanced in order that Melbourne might have been in a position to move more swiftly with the project in the event that the City was successful with its bid. In this case also, it did not seem either correct or appropriate to include any of this cost as part of the total cost of mounting the Olympic Bid. The Department is still of the view that it was appropriate to fully disclose it, but it is correctly shown as expenditure not directly attributable to the bid.

The Docklands project is considered by the Government to have future benefits which will be available to Victorians for many years beyond 1996 and, as such, it would be incorrect to attribute the total of this expenditure as part of the cost of making Melbourne's Olympic Bid.

3.18.9 In addition, the ministerial report to the Parliament did not include the following items totalling \$1.1 million which, in audit opinion, were also directly related to the bid:

- ▶ costs of \$800 000 relating to the extensive refurbishment of the Old Treasury Building for use by the company responsible for management of the bid; and
- ▶ sponsorship assistance of \$300 000 for sporting events and a school project of an Olympic theme by the Victorian Health Promotion Foundation.

3.18.10 In summary, audit considers that the Government's total financial contribution to the 1996 Olympic Games bid was \$17.7 million.

Management response

Accommodation refurbishment costs, \$800 000.

As mentioned in the ministerial statement, an imputed rent of \$595 000 to the Melbourne Olympic Committee has been included on the basis of the Valuer-General's assessment of accommodation provided in the Old Treasury Building as a measure of the Government's assistance in kind to the Committee. It is normal valuation practice that such rental assessments take into account the quality of refurbished accommodation and thus provide for some recovery of the cost of refurbishment over its effective life. The Department considers therefore, that it would be double counting to include both the capital cost value of the refurbishment as a cost to Government of the Olympic Bid, together with the notional rental allocated to the Bid as an estimate of Government's contribution.

Furthermore, the refurbished accommodation still has an enhanced value from which the Government will continue to obtain benefit for years to come. It would therefore be quite incorrect to count the entire cost of refurbishment as part of the Government's contribution to the Olympic Bid even if a rental value had not been imputed.

The Department is also advised that the condition of the building was such that refurbishment would have been necessary in any event before it could have been occupied by any new tenant. Hence, for all these reasons it would have been quite incorrect to assign the refurbishment cost of the Treasury Building in assessing Government's contribution to the bid as audit proposes.

Victorian Health Promotion Foundation, \$300 000.

The Victorian Health Promotion Foundation falls within the portfolio of the Minister for Health and the Department had been advised that there was no Olympic Bid related expenditure for this portfolio.

In any event, management's understanding is that the Foundation chose to use the theme of the Olympics as an appropriate vehicle for delivery of its health promotion messages at that time. In the absence of the Olympic Bid, and given the on-going charter for health promotion of the Foundation, it could be reasonably assumed that the Foundation would have used alternate themes for the delivery of its same health promotion messages.

Accountability gap over government contributions

3.18.11 The Auditor-General's Report on Ministerial Portfolios, May 1990 described the significant role played by the Department of Sport and Recreation in the overseeing of the 1996 Olympic Games bid. The May 1990 Report indicated that the Minister had sought clarification from the Treasurer on the Department's authority to monitor the income and expenditure transactions of the Melbourne Olympic Candidature 1996 Ltd.

3.18.12 Clarification from the Treasurer on this issue never eventuated. As a consequence, the extent of the Department's overview of the company was limited.

3.18.13 It was of concern to audit that, despite several attempts by the Department to obtain the company's 1989-90 financial statements, which are audited by a private firm of accountants, these financial statements had not been made available to the Department.

Management response

Company accounts.

On 1 February 1991, the Department requested an officer of the company to provide a copy of the accounts to the Department. This was agreed to, but the accounts are yet to be received. However, it is highly questionable whether the Department has the authority to insist on the provision of these accounts from a company.

3.18.14 In addition, although it was announced in September 1990 that Melbourne's bid for the 1996 Olympic Games was unsuccessful, the Melbourne Olympic Candidature 1996 Ltd has not yet been wound up. As a result, the Department does not have audited information on the total cost of the Olympic Games bid and on the application of the Government contribution. Presumably, in view of the significant Government contribution, Parliament will eventually be provided with audited accounts outlining the affairs of the company.

3.18.15 The Department needs to ensure that, during the company's winding up process, including the realisation of assets, the Government's equity is adequately protected.

Management response

Government equity in realisation of assets.

On 8 February 1991, the Department was advised by a company officer that the assets had not yet been sold and that another government department was negotiating to purchase them. Audit was aware of this.

It should be stressed that the Melbourne Olympic Candidature 1996 Ltd is a separate company and it is questionable whether the Department has any authority to require production of accounts etc. Nevertheless, the Department will seek the co-operation of the company to monitor realisation of its assets, although the primary responsibility for that function rests with the Directors of the company.

NATIONAL TENNIS CENTRE TRUST

3.18.16 The National Tennis Centre, an international standard venue, is used for staging the Australian Open Tennis Championship and a variety of concerts and spectacular performances. The Centre caters for large capacity audiences and plays an important role in promoting Australian tennis worldwide.

3.18.17 Previous Reports of the Auditor-General to the Parliament have commented on the high level of borrowing by the Trust and the substantial impact of finance charges on the financial viability of the National Tennis Centre.

3.18.18 The *Report on Ministerial Portfolios, May 1990* included a review of the Trust's operating results in 1988-89, its first full year of operations, and referred to cash flow difficulties experienced by the Trust. The Report also included a summation of the Trust's quite complex financing arrangements which, in substance, involve a loan of \$110 million and the likely payment of interest of \$104.5 million in 9 years.

3.18.19 The key conclusion in the *May 1990 Report* was that the Trust's capacity to meet substantial debt obligations in the future involved important strategic issues which needed to be promptly resolved by both the Trust and the Government.

Continuing operating deficits

3.18.20 In 1989-90, the Trust incurred an operating deficit of \$10.2 million compared with a deficit of \$11.4 million in the previous year. The slight improvement in the operating result was principally due to the receipt of a special government grant of \$2 million in January 1990 to assist the Trust in overcoming its immediate liquidity problems. **At 30 June 1990, the accumulated operating deficits of the Trust totalled \$26 million.**

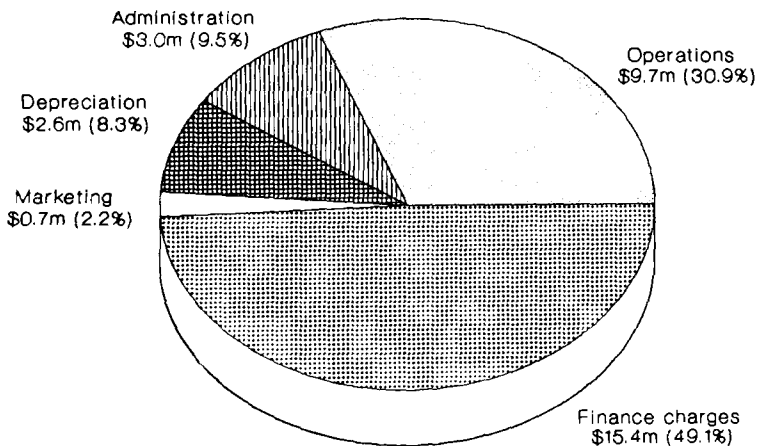
3.18.21 Table 3.18B summarises the Trust's operations for the last 2 financial years.

TABLE 3.18B. SUMMARY OF OPERATIONS
(\$'000)

<i>Item</i>	1989-90	1988-89
Revenue -		
Australian Open	13 291	10 638
Concert hire	4 697	3 600
Other	1 280	1 497
	<hr/>	<hr/>
Less - Operating expenses	19 268	15 735
	13 446	10 393
	<hr/>	<hr/>
Operating surplus before depreciation, finance charges and government grant	5 822	5 342
Less - Depreciation	2 614	2 410
Finance charges	15 368	14 317
	<hr/>	<hr/>
Add - Government grant	(12 160)	(11 385)
	2 000	-
	<hr/>	<hr/>
Operating deficit for year	(10 160)	(11 385)

3.18.22 The significant impact of finance charges on the Trust's operating performance in 1989-90 is further highlighted in Chart 3.18C.

CHART 3.18C. DISSECTION OF TOTAL OPERATING COSTS



3.18.23 The major portion of the 1989-90 finance charges was an amount of \$11.6 million (\$8.7 million, 1988-89) accrued in the Trust's accounts as the year's share of the total deferred interest likely to be payable at the end of the 9 year lease period. Similar charges will arise in the remaining 7 years, with a commensurate build-up of liability to \$104.5 million.

3.18.24 Without substantial contributions from the Government, the Trust will continue to incur operating deficits of the above magnitude, and its capacity to meet substantial future debt obligations remains in doubt.

Ongoing cash flow difficulties

3.18.25 Although the Trust received a government grant of \$2 million in January 1990, it has continued to experience serious cash flow difficulties. The principal reasons for these difficulties were insufficiency of cash derived from operating activities to meet the Trust's loan obligations and the need to fund structural modifications to the Centre at a cost of \$2.4 million.

3.18.26 As a consequence, the Trust found it necessary to borrow in March 1990 an amount of \$4 million from the Victorian Development Fund and, in the latter part of 1990, utilise a significant proportion of funds received from advance bookings for the 1991 Australian Open.

3.18.27 Because of ongoing liquidity problems, the Trust needed to borrow a further \$2 million from the Victorian Development Fund in February 1991 and predicts that a further amount of \$2 million will be required to meet its debt obligations due at the end of March 1991.

What action has been taken to resolve the Centre's long-term financial viability?

3.18.28 Since the *Report on Ministerial Portfolios, May 1990* the Trust has been engaged in ongoing discussions with the Department of the Treasury on alternative funding options for the Centre.

3.18.29 In September 1990, the Treasurer wrote to the Trust advising that the Government was prepared to make an equity contribution of up to \$40 million which was conditional upon:

- ▶ reaching of agreement with the Centre's manager, Tennis Australia, that the Australian Open will be held at the Centre for the next 25 years, and mutually agreed revenue-sharing arrangements are established; and
- ▶ suitable arrangements are in place for the payment of a dividend by the Trust to the Government.

3.18.30 Audit was advised by the Trust that the matter of government equity funding is yet to be finalised.

3.18.31 In addition to the above developments, the Parliament's Economic and Budget Review Committee has examined the financial viability of the Centre. In November 1990, the Committee reported its findings to the Parliament in which it concluded that it was not convinced that the revenue generating capacity of the Centre would be sufficient to produce the cash flow required for the repayment of loan commitments.

3.18.32 The major recommendations submitted by the Committee were:

- ▶ the Trust critically reassess its marketing function with the aim of ensuring greater usage of the Centre;
- ▶ the Trust develop strategies to contain costs in order to reduce its level of borrowings or requirement for additional financial assistance from the State to meet cash flow shortfalls; and
- ▶ in the absence of a capital injection, the Government investigate the provision of a guaranteed annual payment to the Trust in order to assist it to meet its current and future obligations.

3.18.33 The Trust is currently examining the Committee's findings and recommendations.

3.18.34 There remains an urgent need for the prompt resolution of the long-term financial viability of the Tennis Centre and its capacity to meet ongoing commitments.

Management response

The current obligation of the Trust to finance 100 per cent of construction costs is unique for sporting and entertainment venues around Australia. To judge the viability and performance of the Centre against its full construction cost is unfair.

This audit report presents an inaccurate assessment of the long-term viability of the National Tennis Centre. The Centre is an extremely viable asset of the Government, returning \$30 - \$50 million each year to the local economy.

The cash return to the Government does fall short of obligations under the current lease-based financial package, the shortfall being met by additional borrowings. The overall financing of the Centre is subject to ongoing discussions with Treasury which, when resolved, should allow the Trust to be self-reliant on cash needs.

The description of the current finance package in this report is inaccurate and presents a gross misrepresentation of the lease-based arrangement.

TOTALIZATOR AGENCY BOARD

Progress on Tabaret project

3.18.35 The Auditor-General's *Report on Ministerial Portfolios, May 1990* commented upon the substantial delay in the commissioning of the Tabaret project located at the Menzies-at-Rialto and the major cost implications to the Board of this delay.

3.18.36 Tabaret became fully operational at the Menzies-at-Rialto in November 1990 with the introduction of its third and final facility namely electronic gaming machines, **which was more than 2 years after the project's initial targeted opening date.**

Final costs of Tabaret

3.18.37 The total cost of the development of the Tabaret project as determined by audit at November 1990 was \$33.1 million, compared with the original estimate of \$14 million announced by the Government in June 1987. Table 3.18D provides relevant details.

TABLE 3.18D. TABARET PROJECT COSTS
(\$million)

<i>Item</i>	<i>Initial projected capital outlay (June 1987)</i>	<i>Final cost (Nov 1990)</i>
Plastic card wagering system		7.1
Design, manufacture and supply of player activated terminals		3.6
Games software		3.1
Mainframe computer		2.6
Development costs		7.6
Furniture and equipment		0.4
	(a) 11.2	24.4
Refurbishment of Menzies-at-Rialto	2.8	8.7
Total	14.0	33.1

(a) Dissection not available.

3.18.38 The main contributing factors to the substantial increase in project cost were:

- ▶ underestimation of refurbishment works at the Menzies-at-Rialto (\$5.9 million);
- ▶ rental of premises for project not included in estimate (\$2.8 million, including *dead rent* of \$1.2 million);
- ▶ additional computer software costs in excess of the estimate (\$5.4 million) of which in excess of \$3 million was mainly due to the failure of major contractors to fulfil key contractual obligations; and
- ▶ project development costs (e.g. wages and salaries, advertising, computer maintenance etc.) not part of original estimate (\$4.8 million).

3.18.39 In summary, the Tabaret project became fully operational 2 years behind schedule with actual costs being \$19.1 million in excess of budget.

Management response

The Board rejects the proposition that the Tabaret project is properly characterised as "... 2 years behind schedule". While delivery of projects according to the Board's critical path schedule is a management imperative, the overriding imperative in developing gambling systems is to ensure they achieve the highest standards of systems engineering. That imperative is the source of the delays that did occur including the difficulty of securing major contractor compliance with those standards.

The report is correct in the cost elements it identifies but is incorrect in its assessment of costs against budget in the following areas:

- the report itself notes that major cost items included in the figure of \$33.1 million were not relevant to or included in the estimate of \$14 million (which in turn was not the approved project budget);
- \$11.5 million of costs are assignable to second and subsequent sites not to Menzies-at-Rialto;
- \$2.5 million of costs were written-off against past year's operation and it is an accounting and economic non-sequitur to count those costs in the project cost for comparison with an initial capital estimate; and
- no account is taken of the time value of money impact on the comparison between the base estimate and the actual cost.

The final cost of the Menzies-at-Rialto Tabaret is \$19.1 million which is in line with ministerially approved cost estimates.

Tabaret's revenue performance

3.18.40 In its initial financial projections prepared in 1987, the Board estimated that Tabaret would generate \$60 million annually increasing to \$88 million within 5 years. During 1988-89, the Board increased its estimate of the initial annual turnover to \$100 million which equates to a monthly average of \$8.3 million. The approximate intended allocation of the turnover was to be:

- ▶ minimum of 80 per cent returned to players;
- ▶ 12 per cent to the Government in the form of commission; and
- ▶ up to 8 per cent to be retained by the Board to cover its operating costs and provide a return to the Board.

3.18.41 Table 3.18E provides details of revenue generated by Tabaret at Menzies-at-Rialto from 27 November 1990 to 28 February 1991:

TABLE 3.18E. COMPARISON OF ACTUAL AND BUDGETED REVENUE

Month	Average monthly revenue budget based on expected annual turnover of \$100 million	Actual revenue	Actual to budget
	(\$m)	(\$m)	(%)
November 1990 (3 days)	-	1.1	
December 1990	8.3	8.8	106.0
January 1991	8.3	4.9	59.0
February 1991	8.3	3.6	43.3
	24.9	18.4	

3.18.42 Of the total turnover of \$18.4 million received to February 1991, \$15.8 million has been returned to players, \$2.2 million paid as commission to the Government and \$400 000 retained as a return to the Board.

3.18.43 Table 3.18E shows that although Tabaret has been in operation for only just over 3 months, there is a significant downward trend in actual monthly revenues compared with budget.

3.18.44 In response to the lower than projected revenue turnover, the Board applied for and has recently received approval from the Government to introduce several new games and to vary the level of minimum and maximum bets.

3.18.45 These measures were additional to the Board's strategy of initially including all of its return in the payout to patrons as a technique to attract business. It has since increased its return to 4 per cent of turnover or half of the maximum percentage it can retain.

Management response

It is not clear what purpose this analysis serves since no conclusion is drawn. The Board remains confident that despite the difficult economic times it has measures in place that will result in the attainment of revenue projections for Tabaret. Certainly it is too early to draw conclusions from the data cited in the report. More importantly, higher rates of return to players and lower taxation rates as recently announced in the Government's electronic gaming policy offer the promise of financial performance to required rates of return on capital invested.

Emerging developments in the gaming industry

3.18.46 The Government has recently announced major developments in the gaming industry including the introduction of legislation to allow the Board to install up to 5 000 gaming machines in hotels and licensed clubs.

3.18.47 With these developments, the Board has deferred its earlier plan to expand the Tabaret concept to 4 regional centres within the State for which it had previously invited expressions of interest.

3.18.48 Given that the Board is a public body which reports annually to the Parliament and its financial operations are subject to audit by the Auditor-General, the Board's involvement in the development and control of gaming machines will be subject to periodic scrutiny of the Parliament.

Management response

The Board has welcomed the role assigned to it in the Government's recently announced electronic gaming machine policy. The Board is of the view that it has 2 pre-eminent claims to the new role. These are:

- *the Tabaret systems base which meets the on-line real time requirements recommended in the Arthur Andersen report and adopted by the Government; and*
- *the level of disclosure and accountability to Parliament and the people of Victoria arising out of its status as a statutory authority subject to the Annual Reporting Act and the on-going audit of the Auditor-General.*

The Board views both these elements as crucial for accountability in a wider electronic gaming market and in that spirit welcomes the report of the Auditor-General and the opportunity to respond.

Racing Industry Centre

3.18.49 The Board currently occupies about 75 per cent of its head office complex known as the Racing Industry Centre in Queens Road, Melbourne. This property which was valued at \$24 million at 30 June 1990, comprises 8 floors and 6 car parking levels.

3.18.50 Approximately 890 square metres of the Centre, previously used for telephone betting, has remained vacant since 1989, following the opening of the Board's telephone betting centre in Box Hill.

3.18.51 The Board has determined that conversion of this area for use as office accommodation would cost around \$2 million. However, it has not evaluated whether the letting of the area would be economically feasible. **Audit has estimated that there is an annual revenue potential to the Board of around \$210 000 if the area can be fully allocated to tenants following conversion.**

3.18.52 About 25 per cent of the Centre has been leased for some years to the racing industry at rentals lower than market rates. The major industry tenants are the Victoria Racing Club and the Greyhound Racing Control Board which are charged \$78 per square metre less than the market rates for the local area as assessed by the Board in August 1990.

3.18.53 In effect, this arrangement represents a subsidy of \$218 000 to the tenants which is not disclosed in the Board's annual distribution. In audit opinion, it would be more appropriate for the Board to disclose the subsidy through the charging of market rentals with, where appropriate, a commensurate increase in the annual distribution to the 2 industry tenants.

Losses, thefts and irregularities

Unauthorised credit betting by agents

3.18.54 During 1990, a further 2 instances of unauthorised credit betting by agents were reported to audit by the Board. The net loss to the Board totalled \$20 100 of which \$11 500 had been recovered at 31 January 1991.

3.18.55 An amount of \$110 900 has not been recovered in respect of all reported cases of unauthorised credit betting by agents from 1986 to date.

Theft and losses of funds

3.18.56 A number of hold-ups and burglaries occurred at the Board's retail sales outlets during the year ended 31 December 1990. An amount of \$17 600 was taken, none of which has been 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>
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— MATTERS RESOLVED —

Department of Sport and Recreation

<i>Ministerial Portfolios, May 1990, p. 260</i>	Need for the Department to disclose to the Parliament the aggregate level of assistance provided by the State Government for the 1996 Olympic Games.	A Ministerial Statement on the assistance provided by government agencies to the Games bid was presented in March 1991. For further comments, refer to paragraphs 3.18.1 to 3.18.15 of this Report.
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<i>Ministerial Portfolios, May 1989, p. 223</i>	No provision made for the possible non-recovery of a loan made to the Ballarat YMCA.	The loan of \$100 000 was converted to a grant.
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National Tennis Centre Trust

<i>Ministerial Portfolios, May 1989, p. 225</i>	The Trust exposed itself to a sales tax liability by entering into an arrangement to purchase assets free of sales tax on behalf of a private caterer.	Legal advice obtained by the Trust is to the effect that there is no liability for sales tax. The Australian Taxation Office has not taken action since discussions and confirmation of the legal position.
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Totalizator Agency Board

<i>Ministerial Portfolios, May 1990, p. 267</i>	Significant problems encountered with the development of Tabaret with substantial revenue and cost implications.	The Menzies-at-Rialto Tabaret became fully operational in November 1990, a period of 2 years after the initial intended opening date. For further comments, refer to paragraphs 3.18.37 to 3.18.39 of this Report.
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— ACTION COMMENCED —

Department of Sport and Recreation

<i>Ministerial Portfolios, May 1989, p. 223</i>	No provision made for the possible non-recovery of a loan made to the Australia Games Foundation.	The loan of \$262 500 to the Foundation is payable by 31 December 1991. The question of an appropriate provision will be addressed when the accounts of the Department are prepared for the year ended 30 June 1991.
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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>
— ACTION COMMENCED - continued —		
National Tennis Centre Trust		
<i>Ministerial Portfolios, May 1989, pp. 226-7</i> <i>Ministerial Portfolios, May 1990, pp. 263</i>	The Tennis Centre Trust's capacity to meet substantial future debt obligations needs to be promptly addressed by both the Trust and the Government.	Negotiations are continuing with the Government on a suitable package of financial assistance to the Centre. For further comments, refer to paragraphs 3.18.16 to 3.18.34 of this Report.
Totalizator Agency Board		
<i>Second Report, 1984-85, p.109</i> <i>Ministerial Portfolios, May 1990, p. 272</i>	Need for a major disaster recovery plan for the Board's computer operations.	A disaster recovery needs study was completed by the Board during the year, the recommendations from which will provide the basis for the development of a disaster recovery plan.
<i>Ministerial Portfolios, May 1989, p. 227</i> <i>Ministerial Portfolios, May 1990, p. 272</i>	The services of a number of agents were terminated as a result of their involvement in unauthorised credit betting.	Further instances of credit betting were detected by the Board in 1990. For further comments, refer to paragraphs 3.18.54 to 3.18.55 of this Report.
<i>Ministerial Portfolios, May 1989, p. 228</i>	Large unauthorised bets made against selected clients' telephone betting accounts resulted in a loss to the Board of \$101 000.	Court proceedings resulted in an order for restitution of \$57 400. At the date of preparation of this report, an amount of \$15 500 has been paid in accordance with the order.

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>
Completed audits				
Department of Sport and Recreation	30 June 1990	31 October. <i>Annual Reporting Act 1983, s.8.</i>	9 October 1990	15 October 1990
Greyhound Racing Control Board	31 July 1990	31 October. <i>Annual Reporting Act 1983, s.9.</i>	24 October 1990	30 October 1990
Harness Racing Board	31 July 1990	31 October <i>Annual Reporting Act 1983, s.9.</i>	4 October 1990	30 October 1990

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>
Completed audits - <i>continued</i>				
National Tennis Centre	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	26 September 1990	26 September 1990
Totalizator Agency Board	31 July 1990	31 October <i>Annual Reporting Act 1983, s.9.</i>	25 September 1990	11 October 1990
Victorian Institute of Sport Ltd	30 June 1990	No reporting requirements. Audit conducted at request of Treasurer.	4 February 1991	15 February 1991
Victorian Institute of Sport Trust	30 June 1990	No reporting requirements. Audit conducted at request of Treasurer.	4 February 1991	15 February 1991

3.19

TOURISM

KEY FINDING

- ▶ The deterioration in the Alpine Resorts Commission's financial position will inhibit its ability to maintain and develop resort infrastructure.

Paras 3.19.1 to 3.19.32

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

Public bodies

Alpine Resorts Commission
 Emerald Tourist Railway Board
 Swan Hill Pioneer Settlement Authority
 Victorian Tourism Commission

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

ALPINE RESORTS COMMISSION

3.19.1 The Alpine Resorts Commission (ARC) was established under the *Alpine Resorts Act 1983* to bring together a number of existing resorts previously established under separate legislation. The ARC is responsible for resorts at Mt Buller, Mt Hotham, Falls Creek, Mt Baw Baw, Lake Mountain, Mt Stirling, and Mt Donna Buang.

Overall conclusion

3.19.2 An audit review of the ARC's financial management and accountability processes was undertaken during 1990. The review disclosed that the ARC does not have in place processes to provide assurance that it is meeting its objectives. The review also highlighted a deterioration in the overall financial position of the ARC which, unless addressed, will inhibit its ability to maintain and develop the resort infrastructure necessary to attract private sector tourism development.

Management response

This conclusion ignores this year's budget cuts (which after 4½ months are ahead of target), the increase in revenue occurring this year and the further cuts in expenditure scheduled for next year.

3.19.3 Specific details of audit concern follow.

Objectives and performance measurement

3.19.4 In October 1989 the Commission issued a corporate plan which outlined the following corporate objectives:

- ▶ efficiently meet user demands for public services;
- ▶ facilitate private sector responsiveness to user demands for recreational services and accommodation;
- ▶ conserve and enhance the resort environment and ecology; and
- ▶ promote increased visitation to resorts by all user groups.

3.19.5 These corporate objectives are consistent with the Commission's role established under the *Alpine Resorts Act 1983*, to manage, develop and promote Victoria's alpine resorts. The objectives also accord with the Government's Tourism Strategy of providing the necessary infrastructure in order to encourage private sector tourism development of alpine resorts.

3.19.6 To enable the Commission to assess its efficiency and effectiveness in achieving these objectives, it is essential that relevant quantitative and qualitative performance indicators be established and regularly monitored. However, audit found that while the ARC had established a process for measuring and analysing tourism numbers for use in pricing and marketing decisions, no specific performance indicators had been developed.

3.19.7 In audit opinion, given the absence of appropriate performance measures, the Commission is unable to provide assurance to the Government that the ARC is meeting the aims of the Tourism Strategy and fulfilling the role and objectives prescribed under the Act.

Management response

The major plank of the Tourism Strategy is to increase tourists to Victoria and discourage Victorians going elsewhere. The simple fact is that last year 5 of the 6 resorts had record high attendances.

Operating results

3.19.8 For several years the Government has set 1992 as the target for the ARC to attain self-sufficiency. It is the Government's stated intention not to provide financial assistance to the ARC after that date.

3.19.9 The ARC has recorded substantial operating losses in recent years. The adverse operating results are compounded when the amount of government assistance provided to the ARC is taken into account. Details of the ARC's operating performance over the last 5 years are shown in Table 3.19A.

TABLE 3.19A. OPERATING RESULTS
(\$'000)

	1985-86	1986-87	1987-88	1988-89	1989-90(a)
Operating revenue	8 485	11 179	11 699	13 926	13 159
Less government assistance	2 381	2 980	3 346	3 197	1 518
Operating revenue without government assistance	6 104	8 199	8 353	10 729	11 641
Less Operating expenses (including abnormal items)	9 597	10 262	11 541	14 161	17 468
Operating result without Government assistance	(3 493)	(2 063)	(3 188)	(3 432)	(5 827)

(a) Unaudited.

3.19.10 The ARC has taken certain initiatives with the aim of alleviating its financial difficulties. These have included increasing fees and charges, improved debt recovery procedures and the restructuring of administrative functions aimed at reducing staff numbers.

3.19.11 Notwithstanding the abovementioned initiatives taken by the ARC, doubt still exists as to the financial viability of the ARC, especially in view of the fact that at 31 October 1990 it had loan and accrued interest liability to the Treasurer of Victoria of \$13.2 million, of which \$5.4 million was in arrears.

Management response

Management is confident that by the end of 1992 the ARC can become financially viable overall. However, it will not be possible to make Mt Hotham, Mt Baw Baw and Mt Stirling viable within that period. In the 1991 budget full provision is made for the payment of interest and redemption of principal.

Problems with debt management

Debts written off

3.19.12 In the *Report on Ministerial Portfolios, May 1989* audit referred to the significant rise in the amounts owed to the ARC and expressed concern at the ARC's failure to establish appropriate debt management procedures.

3.19.13 Table 3.19B sets out total debtors for the 5 years ended 31 October 1990.

TABLE 3.19B. DEBTORS AT 31 OCTOBER
(\$'000)

	1985-86	1986-87	1987-88	1988-89	1989-90(a)
Debtors	944	2 000	3 252	6 518	3 416

(a) Unaudited.

3.19.14 During 1989-90, the ARC implemented improved debt recovery procedures which have contributed to the fall in debtors at 31 October 1990. However, **audit noted that debts totalling \$1.1 million had been written off during the year.** Audit comments on certain write-offs follow.

Site rentals

3.19.15 Various organisations own resort accommodation built on sites leased from the ARC. Siteholders are required to pay an annual site rental which is usually based on a fixed percentage of the site valuation.

3.19.16 Following reviews of site valuations by the Valuer-General in 1986 and 1989, a large number of siteholders withheld payments due to a dispute over the level of rental increases.

3.19.17 The dispute was finally resolved in July 1990 when the ARC negotiated an agreement whereby site rentals for the past 3 years were amended and provision was made for future annual adjustment to site rentals based on CPI rises. As a result of the negotiations, site rental charges totalling \$450 000 were written off.

3.19.18 There is a need for the ARC to put in place a dispute settling process so that, should a dispute occur in future, the ARC will not be deprived of revenue through lengthy delays in reaching settlement.

Management response

A dispute settling procedure is in place. Any siteholder who does not abide by the agreement or honour their lease obligations will be taken to court and/or have their lease or occupancy voided.

Tender bid premium

3.19.19 In 1988 the ARC sought proposals for the redevelopment of a site at Mt Buller. The successful tenderer, a major property development company, included a proposal to pay \$350 000 to the ARC for the right to develop the site. This tender bid premium was to be paid in 2 instalments with the first amount payable upon approval and the balance on completion of the redevelopment.

3.19.20 The company did not pay the first amount due. The ARC was subsequently advised that the company did not wish to proceed with the redevelopment.

3.19.21 The \$350 000 was written off by the ARC on 18 October 1990. However, audit was advised by the ARC's Chief Executive Officer that he had arranged with the company to proceed with the development on the basis that the tender bid premium be altered to either \$150 000 cash or that earthworks to the value of \$200 000 be completed for the ARC. This arrangement was neither authorised by Board minute nor formalised by written agreement.

3.19.22 Audit was concerned at the failure of the ARC to document the reasons for the decision to waive the original tender bid premium and the acceptance of altered arrangements without further public tendering.

Management response

This matter was discussed at the Mt Buller Management Committee and endorsed by the Board. The audit has shown our documentation was not adequate and this will be rectified.

Failure to invoice accounts on a timely basis

3.19.23 The audit review found that the ARC's deteriorating financial operating results were exacerbated by the failure to raise invoices on a timely basis. In this regard audit noted the following:

- ▶ In 1987 the ARC entered into an arrangement with a ski lift company to share the costs of a loan taken out by the ARC to finance slope development works at Mt Hotham. However, while the ARC progressively paid interest 6 monthly from July 1987, the company was not invoiced for its share until August 1990 by which date the interest paid by the ARC on behalf of the ski lift company totalled \$80 000; and
- ▶ Site rentals, service and utility charges were invoiced up to 6 months late.

Management response

This issue has been addressed.

Financial accountability processes

External reporting

3.19.24 Until 1988-89 the ARC was required to submit a report of operations, including audited financial statements, for the year ended 31 October to the Minister by 31 December in each year in accordance with the *Alpine Resorts Act 1983*.

3.19.25 In June 1989 the ARC was proclaimed under the *Annual Reporting Act 1983* and as such is required to provide an annual report including audited financial statements to the Minister by 31 January each year for tabling in the Parliament.

3.19.26 Since its inception, the ARC has experienced severe difficulty in preparing its financial statements and has been unable to meet its statutory reporting obligations.

3.19.27 The *1988-89 Annual Report* was tabled in Parliament on 12 March 1991. Draft 1989-90 financial statements were presented for audit on 15 February 1991.

3.19.28 To ensure that the usefulness of the ARC's external reporting to interested parties is not substantially diminished there is an urgent need for the ARC to take the necessary steps to comply with prescribed reporting requirements.

Management response

This has already been done.

Internal reporting

3.19.29 Over a number of years the ARC has experienced severe problems with its management information systems. Deficiencies in the systems have resulted in data integrity problems and duplication of record keeping. As a result, internal financial reports presented to the Board were often untimely and inaccurate.

3.19.30 At its March 1989 meeting, the Board expressed concern at the situation and directed that the standard of financial reporting be improved.

3.19.31 A computerised financial information system was installed by the ARC in January 1990. However, throughout 1990 the ARC experienced problems in resolving software faults and producing management reports.

3.19.32 It is essential that the computerised information systems be strengthened to provide timely and accurate information to enable the ARC to adequately monitor its financial performance.

Management response

This has already been done.

VICTORIAN TOURISM COMMISSION

New Zealand office expenditure

3.19.33 The *Report on Ministerial Portfolios, May 1989* included comment on serious deficiencies in control over expenditure incurred by the Commission's international offices. As certain expenditure by these offices was considered by audit to be excessive or outside the roles and functions of the Commission, audit recommended that the Commission undertake a detailed review to ensure the validity of all expenditure by international offices.

3.19.34 In particular, audit expressed concern at a number of items of expenditure incurred during 1988-89 by the New Zealand office which had not been authorised, and referred them to the Commission for investigation to ascertain whether any irregularities had occurred. These items included:

- ▶ claims totalling in excess of \$12 000 for international and long distance domestic telephone charges that could not be identified as relating to Commission purposes;
- ▶ accommodation claims totalling \$7 600 which had inadequate supporting documentation; and
- ▶ other claims relating to rental assistance and reimbursement of gardening costs associated with the Auckland residence occupied by the New Zealand manager, the use of a Commission vehicle and payments to various consultants.

3.19.35 Following a review of these specific items, the Commission recovered approximately \$4 300 from the manager of the New Zealand office as recompense for invalid accommodation, telephone and gardening expense claims. The Commission took no further action against the manager who has since resigned.

3.19.36 The New Zealand office has since been closed and the Commission has taken action to improve controls over expenditure approvals and accountability of the international offices.

3.19.37 While acknowledging the action taken by the Commission, audit is surprised that the Commission's internal review concentrated only on those items of expenditure identified by audit rather than a detailed review to confirm the propriety of all claims made by the New Zealand and other international offices as had been recommended by audit.

Management response

The Commission examined the items of expenditure identified by audit and recovered amounts for invalid accommodation, telephone and gardening expenses. The internal review also included an overall review of New Zealand office expenditure and no other anomalies were found. The Commission also performed an internal review of its Singapore operation's expenditure and this was found to be in order.

The Commission has introduced many procedural changes at international offices to improve accountability and control over expenditure. The Commission is continuing to monitor, review and control its international office expenditures.

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>
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— MATTERS RESOLVED —

Swan Hill Pioneer Settlement Authority

<i>Ministerial Portfolios, May 1989, p.165</i>	Action required to recover costs associated with unsuccessful fund raising program.	The Authority has accepted \$12 500 in full settlement of its claim for costs.
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— ACTION COMMENCED —

Alpine Resorts Commission

<i>Ministerial Portfolios, May 1989, p.148</i>	Failure to repay loans.	Loans totalling \$1.1 million repaid during 1990. However, the repayment of loans totalling \$2 million remains overdue. For further comments, refer to paragraphs 3.19.1 to 3.19.32 of this Report.
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<i>Ministerial Portfolios, May 1989, p.149</i>	Significant rise in amounts owed to the Commission primarily due to delay in raising invoices and withholding of payments by site holders.	Action taken to collect amounts owed. Refer to additional comments in paragraphs 3.19.12 to 3.19.23 of this Report.
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<i>Ministerial Portfolios, May 1990, p. 276</i>	Delays in finalising financial statements.	Financial statements for 1988-89 finalised on 20 November 1990. The Commission's 1989-90 draft financial statements were received on 15 February 1991. The audit has not been finalised.
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Victorian Tourism Commission

<i>Ministerial Portfolios, May 1990, pp. 277-89</i>	Major concerns in respect of management practices, procedures and controls over the Commission's activities including:	
	<ul style="list-style-type: none"> • Absence of performance targets for the measurement and monitoring of achievements; 	A corporate plan has been developed incorporating goals, strategies and performance measures.
	<ul style="list-style-type: none"> • Inadequacies in the management of international office operations including absence of performance measures and lack of accountability and monitoring of expenditure; 	Reorganisation of international office operations together with introduction of improved planning and monitoring procedures. Refer additional comments on New Zealand office in paragraphs 3.19.33 to 3.19.37 of this Report.
	<ul style="list-style-type: none"> • Need to strengthen procedures relating to the procurement of goods and services; and 	Internal guidelines implemented to provide for improved tendering, contracting and approval processes over expenditure.

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>
— ACTION COMMENCED - <i>continued</i> —		
Victorian Tourism Commission - <i>continued</i>		
	▪ Deficiencies in cash management practices.	Surplus funds now invested in a cash management account and closer monitoring of the timing of payments to maximise interest returns.
— NO ACTION TAKEN —		
Swan Hill Pioneer Settlement Authority		
<i>Ministerial Portfolios, May 1989, p.166</i>	Falling attendances cause deterioration in operating results.	Financial position has deteriorated. Further fall in attendances and adverse operating results in 1989-90.

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>
Completed audits				
Alpine Resorts Commission	31 October 1989	31 January. <i>Annual Reporting Act 1983, s.9.</i>	12 November 1990	20 November 1990 (a)
Emerald Tourist Railway Board	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	15 August 1990	28 September 1990 (a)
Swan Hill Pioneer Settlement Authority	30 June 1990	31 October. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension of time to 31 October 1990.	4 December 1990	12 December 1990
Victorian Tourism Commission	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	18 September 1990	2 October 1990
Incomplete audit				
Alpine Resorts Commission	31 October 1990	31 January. <i>Annual Reporting Act 1983, s.9.</i>	Draft financial statements received on 15 February. Audit not yet finalised.	

(a) Qualified audit report issued.

TRANSPORT

KEY FINDINGS

- ▶ A significant portion of the Public Transport Corporation's 1989-90 recurrent budget overrun of \$86.9 million could have been avoided with more effective management.
Paras 3.20.1 to 3.20.5
- ▶ The Public Transport Corporation's recurrent budget overrun at February 1991 was \$32.3 million.
Paras 3.20.6 to 3.20.21
- ▶ Under the new private bus arrangements, agreed to by the Government, any existing inefficiencies of operators will be carried by taxpayers.
Paras 3.20.33 to 3.20.38
- ▶ Financing arrangements supporting private bus operators are, in substance, borrowings of the State as the Consolidated Fund will meet all debt servicing costs.
Paras 3.20.39 to 3.20.41
- ▶ Since 1988, significant major road projects have been deferred mainly because of reduced Commonwealth and State funding.
Paras 3.20.49 to 3.20.56
- ▶ There were major deficiencies in the Roads Corporation's evaluation of suppliers' proposals for the acquisition of computer equipment valued at \$19.5 million.
Paras 3.20.67 to 3.20.73
- ▶ Borrowings of \$8.3 million by the Roads Corporation were undertaken without legislative authority.
Paras 3.20.74 to 3.20.78
- ▶ The Transport Accident Scheme is fully-funded with further improvement expected, a position which should be taken into account when determining future transport accident charges.
Paras 3.20.79 to 3.20.86

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
MTA Investments Pty Ltd
MTA Superannuation Fund
Public Transport Corporation (PTC)
Roads Corporation (RC)
Transport Accident Commission

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

PUBLIC TRANSPORT CORPORATION

Substantial 1989-90 recurrent budget overrun

3.20.1 In 1989-90 the Government initially allocated \$718.4 million of taxpayers' funds to the Corporation (\$498.2 million for recurrent purposes, i.e. for everyday operating expenses, and \$220.2 million for works and services purposes, i.e. for asset acquisition and maintenance projects) to assist it to achieve its charter of providing efficient public transport services.

3.20.2 By June 1990, the Corporation required an additional \$86.9 million in excess of its recurrent budget allocation from the Consolidated Fund. The additional allocation was required because of a revenue shortfall of \$36.5 million and an expenditure overrun of \$50.4 million. The expenditure overrun included an amount of \$21.3 million relating to wage rate increases and provision of school bus services (transferred from the Ministry of Education and Training) which was not included in the Corporation's 1989-90 recurrent budget allocation.

3.20.3 The Government reacted to the Corporation's recurrent budget shortfall by the provision of an additional budget allocation of \$86.9 million to the Corporation comprising:

- ▶ \$30 million transferred from other transport programs, including \$27 million from the Roads Corporation; and
- ▶ a further budget allocation of \$56.9 million from the Consolidated Fund.

3.20.4 The major factors contributing to the Corporation's recurrent budget overrun in 1989-90 are shown in Table 3.20A.

TABLE 3.20A
MAJOR CAUSES OF RECURRENT BUDGET OVERRUN, 1989-90

<i>Item</i>	<i>Amount</i>	<i>Causes</i>
Revenue shortfalls		
Passenger fares	\$24.5 million	<ul style="list-style-type: none"> - Lower than expected patronage, increased fare evasion and associated industrial disputes arising from MET Ticket. - Lack of public confidence in the metropolitan rail system due to poor service reliability. - Simplified fare structure introduced in August 1989 resulting in lower revenues. - Higher use of concessional fares, e.g. pensioners and students, without a consequential increase in government subsidies.
Freight	\$11.8 million	<ul style="list-style-type: none"> - Post-budget reduction in grain freight rates. - Impact of economic downturn. - Industrial disputes.
Expenditure overruns		
Direct labour costs	\$22.2 million	<ul style="list-style-type: none"> - Non-achievement of targeted staff reductions (budgeted reduction 2 068, actual 799). - Wage increases of \$15 million under structural efficiency principles. - Payment of accrued leave entitlements in excess of budget, \$1.8 million.
Indirect labour costs	\$10.6 million	<ul style="list-style-type: none"> - Substantial increase in WorkCare levy from October 1989.
Private bus services	\$9.3 million	<ul style="list-style-type: none"> - Non-realisation of expected savings from rationalisation of bus services.
School bus services	\$6.3 million	<ul style="list-style-type: none"> - Services transferred from Ministry of Education and Training without increase in the Corporation's budget.

3.20.5 While part of the 1989-90 recurrent budget overrun could be attributed to factors external to the Corporation, a significant portion of the overrun could have been avoided if more effective management practices had been followed within the Corporation. If management cannot reverse the decline in suburban patronage and reduce its substantial labour costs, it is likely that general taxpayers will be continually required to contribute additional funds to the Corporation.

Management response

After allowing for the 2 items not included in the 1989-90 budget allocation, the real overspend was \$65.6 million. Almost half (\$30.6 million) of this overspend was accommodated with the Transport Portfolio without any supplementation from the State Budget. The remainder (\$35.6 million) was essentially due to revenue shortfalls largely beyond the PTC's control and was funded by supplementary appropriations from the State Budget.

Given the circumstances in 1989-90, e.g. industrial disputes, economic downturn etc., there were no substantial opportunities for management to produce a different result from what was achieved. The Auditor-General does not indicate how or in which activities more effective management practices could have reduced the overrun.

A number of the factors which caused the overrun were outside of the PTC's direct control, e.g. patronage is affected by the economic climate, the level of jobs available, etc. During the Christmas period, retailers in the Melbourne Central Business District experienced a significant loss of custom compared with previous years. This had a direct impact in Met patronage in the CBD. It is against this background that the PTC is developing strategies to maximise patronage on the system.

Notwithstanding the various patronage issues and cost pressures facing the PTC, the PTC's share of State Government appropriations (recurrent and Works & Services) has been reducing since 1983-84 reflecting measures that have been taken to reduce the impact of PTC operations on the State Budget.

Table A - Public Transport Share of State Appropriations

1983-84	9.8%
1984-85	8.9%
1985-86	8.9%
1986-87	8.3%
1987-88	7.2%
1988-89	7.3%
1989-90	7.3%
1990-91 (Budget)	6.2%

Analysis of 1990-91 recurrent budget position

3.20.6 The Corporation's 1990-91 recurrent budget allocation was \$549.8 million, an increase of \$51.6 million or 10 per cent above the 1989-90 allocation.

3.20.7 In view of the substantial recurrent budget difficulties experienced by the Corporation in 1989-90, audit has examined the factors underlying the 1990-91 recurrent budget and assessed the Corporation's actual financial performance to 9 February 1991 against relevant budget forecasts.

3.20.8 At 9 February 1991, the Corporation had a recurrent overrun of \$32.3 million when compared with the budgeted position at that date.

3.20.9 Significant components of the 1990-91 budget are presented in subsequent paragraphs together with relevant year-to-date results.

Passenger revenue

3.20.10 Passenger revenue for 1990-91 is expected to be \$302 million based on an increase in revenue for the year of \$36 million (13.5 per cent). At 9 February 1991, passenger revenue was **\$10.1 million below the year-to-date budget forecast.**

Freight revenue

3.20.11 In 1990-91 freight revenue is budgeted to increase by \$7.1 million to \$180 million. However, because of a poor grain crop and the general economic downturn, this position may not be achieved. At February 1991 the Corporation's freight revenue was **\$4.1 million below the year-to-date budget.**

Labour expenditure

3.20.12 Labour-related expenditure for the whole of 1990-91 was initially expected to be \$651 million, an increase from 1989-90 of only \$3.9 million (0.6 per cent), based on an anticipated labour force reduction of 1 500 to be achieved through natural attrition and redeployment. However, there was no specific funding provision within the Corporation's appropriation for a redundancy or redeployment program.

3.20.13 The Corporation received an additional post-budget allocation of \$31.8 million from the following sources:

- ▶ \$20 million, under the Ministry of Transport's transfer, redeployment and redundancy (TRR) program; and
- ▶ \$11.8 million under the Treasurer's micro-economic reform package for enhanced resignation benefits to assist and encourage voluntary resignations.

3.20.14 These additional funds of almost \$32 million were made available to assist the Corporation to achieve its labour reduction targets.

3.20.15 It should be recognised that where a redundancy package includes the preservation of superannuation benefits the full impact of the labour reduction is not achieved as the State maintains a future commitment to meet the costs associated with superannuation.

3.20.16 At 9 February 1991 the Corporation had reduced its labour force by 447 (206 through natural attrition and 241 through resignation packages) compared with the annual target of 1 500. At that date the Corporation had **exceeded its year-to-date budgeted labour expenditure by \$14 million.**

3.20.17 To enable the Corporation's staff reduction target of 1 500 to be achieved, more than 1 000 staff will need to terminate their employment with the Corporation within the 5 month period to 30 June 1991. The Ministry has recently advised that, since the audit review, the Corporation has reduced its workforce by a further 441, bringing the total reduction to 888 as at 23 March 1991. The Ministry believes that the Corporation's labour reduction target for 1990-91 will be substantially achieved.

Non-labour expenditure

3.20.18 Non-labour expenditure is projected to be \$452 million which includes an increase of \$15.4 million. However, at 9 February 1991 expenditure was **\$4.7 million in excess of the year-to-date target.**

Management actions

3.20.19 In response to its serious recurrent budget position the Corporation established a high level management working party to identify avenues available to achieve its 1990-91 budget targets.

3.20.20 The Corporation was not prepared to advise audit of the specific nature of initiatives it had embarked upon to achieve its 1990-91 budget targets.

3.20.21 The Corporation will need to swiftly improve its revenue performance and monitor its labour cost levels in order to achieve the 1990-91 budget targets for public transport.

Management response

The audit report refers to a number of revenue shortfalls and expenditure overruns as at February 1991 totalling some \$32.3 million. However, the Ministry and PTC had taken steps prior to February to ensure that apart from minimal supplementation from the State Budget for costs outside of the PTC's control (e.g. additional PAYE tax instalment due to changes by the Commonwealth Tax Office in PAYE payment arrangements) no further supplementation from the Consolidated Fund will be required by the PTC by year end. Since the time of the audit, the PTC has reduced its workforce by a further 441, bringing the total net reduction to 888 at 23/3/91.

The post-budget allocation of \$20 million under the TRR program and \$11.8 million under the Treasurer's micro-economic reform package have assisted the PTC in achieving its manpower reductions and therefore its overall end of year budget result. When the PTC's budget was set at the start of the year, it was in the knowledge that achievement of the 1 500 staff reductions would require some form of redundancy payout arrangement and that the Government would give consideration to a post-budget appropriation of funds for this purpose. The 888 reductions to date have been achieved by a combination of: non-replacement of attrition, redundancy payouts and external redeployment. The year end target reduction of 1 500 remains a key objective of the PTC.

Further measures which are assisting the outcome described above include:

- achievement of private bus subsidy savings already agreed with operators;*
- significant savings in materials and contractor costs; and*
- improvement in metropolitan passenger revenue compared to the position at February through initiatives such as sale of daily tickets on vehicles, the "Service Now" Customer Awareness Program and an ongoing program of ticket checking blitzes.*

Achievement of PTC end of year budget targets is an ongoing matter with the Government and it is inappropriate to advise audit of all of the specific initiatives at this time. Apart from the minimal supplementation referred to earlier, the PTC budget will be met without further supplementation from the State Budget.

Sale and lease-back arrangements

3.20.22 During 1989-90 the Public Transport Corporation, on behalf of the Government, entered into 4 sale and lease-back arrangements (i.e. arrangements under which an organisation sells its assets to another party and continues to use those assets by leasing them from the purchaser). The arrangements involved the sale of 50 trains, 50 light rail vehicles (LRVs), 60 buses and 58 locomotives over a 2 year period for \$447.8 million (drawdowns of funds occurred in December 1989 - \$53.1 million; April 1990 - \$33.4 million; June 1990 - \$260.7 million; July 1990 - \$100.6 million).

3.20.23 The above arrangements were financed by:

- ▶ foreign-owned banks, \$244 million (54 per cent); and
- ▶ State-owned banks, \$204 million (46 per cent).

3.20.24 Table 3.20B shows the percentage of the Corporation's operational fleet which was subject to sale and lease-back arrangements up to 31 July 1990.

**TABLE 3.20B. OPERATIONAL FLEET
SUBJECT TO SALE AND LEASE-BACK
UP TO 31 JULY 1990**

<i>Vehicle type</i>	<i>Total percentage of fleet subject to sale and lease-back</i>	<i>Total value of fleet subject to sale and lease-back</i>
	(%)	(\$m)
Suburban trains	84	395.7
▪ buses	56	15.1
▪ trams	32	61.6
▪ LRVs	100	82.2
Locomotives	20	137.6
Freight wagons	22	45.6
Country rail carriages	12	26.0
Total		763.8

3.20.25 The Corporation, at the direction of the Department of the Treasury, classified the sale and lease-back arrangements entered into during 1989-90 as operating leases.

3.20.26 The classification of a sale and lease-back arrangement as either an operating or finance lease has important implications for the Corporation.

3.20.27 With an operating lease, the Corporation is simply required to disclose the sale of its assets and report, in supplementary notes, future lease commitments.

3.20.28 In contrast, if the arrangements are classified as finance leases, the Corporation is deemed to have borrowed funds to enable continued use of the assets and, as such, both assets and liabilities must be disclosed in the Corporation's balance sheet. Borrowings by the Corporation under a finance lease need to be included in the State's global borrowing allocation.

3.20.29 In my Report on the 1989-90 *Treasurer's Statement*, presented to the Parliament in October 1990, I expressed the view that the 1989-90 lease arrangements, in substance, have not substantially transferred the risks and benefits incidental to ownership of the assets to an external party but have committed the State to future financial obligations. Having regard to the economic substance of the arrangements, the leases were considered to be another form of borrowing which should have been taken into account for Loan Council purposes and reported as borrowings in the *Treasurer's Statement*.

3.20.30 The principal reasons underlying the audit view that the arrangements represented finance leases were:

- ▶ The leases were effectively non-cancellable as the State would be liable for prohibitive payments on cancellation which reinforced the likelihood that the leases would run their full terms;
- ▶ The leased assets would likely remain with the Corporation for all of their estimated useful service lives, as:
 - non-retention of the assets would adversely impact the provision of transport services by the Corporation;
 - there are no ready markets within Australia for certain specialised transport vehicles, which meant that the legal owner was likely to exercise options, embodied in the formal arrangements, to sell the equipment to the Corporation; and
 - all legal owners were financiers not in the normal business of owning transport rolling stock.
- ▶ The Corporation will bear substantially all the risks associated with ownership (such as operating, maintenance and financing costs) and is liable for the residual value of the assets.

3.20.31 In summary, the sale and lease-back arrangements are effectively borrowings of the State.

Management response

The Corporation complied with government policy. The Department of the Treasury facilitated the arrangements for sale and lease-back as operating leases and obtained independent accounting and legal advice to support the accounting treatment adopted by the Corporation. The issue has been answered by the Treasurer in responding to the 'Auditor-General's Review of the Treasurer's Statement for the year ended 30 June 1990'.

Provision of metropolitan route bus services

3.20.32 In 1989-90, private operators provided bus services on 244 metropolitan routes under contracts with the Corporation. The total cost of metropolitan services provided by the private operators was \$105 million in 1989-90.

Private Bus Industry Agreement

3.20.33 Since 1986 the Corporation has attempted to introduce a number of initiatives aimed at improving the service delivery and cost-effectiveness of private bus operations. These initiatives have included competitive tendering for selected bus services and the rationalisation of bus routes.

3.20.34 The need for change in existing arrangements for private bus services and bus routes was reinforced by the results of an audit review contained in the *Report on Ministerial Portfolios, May 1990* which indicated that duplicated bus services and bus routes in need of rationalisation were provided at an annual cost to taxpayers of around \$1.9 million.

3.20.35 Prior to 1990 the Corporation had been unable to reach agreement with private bus operators on the implementation of changes to existing procedures.

3.20.36 During 1990 the Government entered into direct negotiations with the Bus Proprietors Association (representing the private bus operators) in an attempt to resolve areas of disagreement between the bus operators and the Corporation. In November 1990 these negotiations culminated in the parties entering into a major agreement known as the "Private Bus Industry Agreement". The key components of this Agreement are:

- ▶ the operators and the Corporation will enter into standard 7 year contracts within 8 weeks of the date of the Agreement;
- ▶ from 1991-92 the Corporation will alter the timing of payments to operators from monthly payments in advance to quarterly payments in arrears;
- ▶ the Corporation will meet any financing costs associated with additional debt raised by operators as a consequence of the change to the timing of payments;
- ▶ the Corporation has assumed the right to vary the level of services provided or to implement or delete bus routes as required;
- ▶ compensation will be provided to operators where changes, other than for under-utilised services, are made;
- ▶ cost savings of \$11 million relating to service changes are to be identified and introduced no later than 1 July 1991 and, if achieved, new services valued at \$3 million would be introduced;
- ▶ further cost savings equivalent to \$3 million in a full year are to be achieved in 1990-91; and
- ▶ a minimum of 65 buses will be replaced each year over the period of the new standard contracts.

3.20.37 As part of the Agreement, the Corporation and the Bus Proprietors Association have formed a joint working party to monitor the achievement of savings and efficiencies identified within the Agreement.

3.20.38 Several of the key components of the Agreement are designed to improve the efficiency of private bus services. **However, a feature of the standard 7 year contract is that the periodic payments to operators are based on actual operating costs incurred under the pre-existing arrangements and as such no penalty accrues to less efficient operators. In other words, under the arrangements agreed to by the Government, any existing inefficiencies of operators will be carried by taxpayers.**

Management response

The audit report acknowledges that under the new "Private Bus Industry Agreement" cost savings of \$11 million are to be introduced no later than 1 July 1991. This is a tangible move towards eliminating many of the inefficiencies of the previous arrangements. Operators will only be paid at contract rates, not actual costs thereby providing an incentive for operators to keep their costs under control. Less efficient operators will run the risk of having their service levels reduced by the PTC if they are unable to meet contracted cost levels. A major incentive to operators will be the prospect of new services being introduced if the cost savings of \$11 million are achieved. The Ministry therefore does not agree with the audit view that existing inefficiencies will continue to be carried by taxpayers.

Impact of changes to timing of payments to bus operators

3.20.39 As mentioned above, the 1990 Agreement with the private bus operators provides for important changes in the timing of payments to operators. Whereas payments were previously made periodically in advance to cover a 4 week period, under the Agreement the last advance payment was made on 4 April 1991, with the 2 subsequent payments for 1990-91 (May and June) delayed until July 1991. Future payments will be made quarterly in arrears from 1991-92 with the first payment due in September 1991.

3.20.40 The rescheduling of payments has the following consequences:

- ▶ a more equitable basis for payments is in place as remuneration is provided for services rendered rather than in advance of services;
- ▶ payments for services provided in 1990-91 amounting to \$19 million will not be met from the Consolidated Fund until the next financial year;
- ▶ the Corporation, in the name of the individual private bus operators, is in process of arranging for financing to be provided by a major bank to enable operators to borrow funds on an on-going basis to support bus operations until each quarterly payment in arrears is received from the Corporation; and
- ▶ the cost of servicing borrowings will be met by the Consolidated Fund at an estimated annual cost of \$3 million. (This cost will be partially offset by the enhanced cash management position of the State.)

3.20.41 Given that all debt servicing costs of private bus operators, relating to their contracts with the Corporation, will be met from the Consolidated Fund, audit considers that these finance arrangements are, in substance, borrowings of the Consolidated Fund.

Management response

The statement by audit that the changed payment arrangements are "in substance, borrowings of the Consolidated Fund" is incorrect. The revised arrangements (effective from the 1991-92 financial year) are an improvement from the less than satisfactory position of having taxpayers' funds paid out a month in advance of services being delivered to one of a standard commercial payments arrangement whereby services are provided before payment is made within mutually acceptable commercial terms of credit. This places these operators on the same trading terms as suppliers of other goods/services to the PTC and whose internal financing arrangements are not regarded as government borrowings.

While the new payment terms will result in additional interest costs to operators, the Auditor-General's estimate of the additional costs flowing to the Consolidated Fund (\$3 million per year) does not take into account the offsetting gains achieved by not having to fund advance payments. The Consolidated Fund will now have an opportunity to earn interest on funds that were previously paid in advance to operators, and this has been overlooked by the Auditor-General.

Vandalism and graffiti

3.20.42 The *Report on Ministerial Portfolios, May 1990* included an extensive review of the impact of vandalism and graffiti on the provision of Melbourne's train services. In addition to commenting on the substantial financial cost of graffiti removal and repairing vandalised assets, the review drew attention to a range of initiatives introduced by the Corporation during 1989-90 which were designed to detect and prevent incidences of vandalism and graffiti.

3.20.43 The review also stressed the importance of the Corporation introducing suitable monitoring and reporting processes for vandalism and graffiti to enable it to assess the adequacy or otherwise of its initiatives.

3.20.44 During the year, a further audit review was undertaken of the implementation of the Corporation's anti-vandalism and graffiti initiatives.

3.20.45 The audit review indicated that during 1989-90 the Corporation expended \$7.4 million on the removal of graffiti and repairs to vandalised assets and an additional \$5.6 million on preventative measures. The preventative measures included the:

- ▶ installation of security fencing and lighting;
- ▶ establishment of closed circuit television surveillance; and
- ▶ modification of suburban trains to accommodate roving guards.

3.20.46 Audit recognises that a variety of initiatives have been pursued to control vandalism and graffiti. However, despite the substantial level of expenditure incurred by the Corporation, in responding to the problems the Corporation had still not developed effective management information systems for the monitoring and control of vandalism and graffiti. Specifically:

- ▶ during 1990 the Corporation did not document vital information as to the location, nature and frequency of vandalism and graffiti offences; and

- ▶ many of the initiatives were regarded by the Corporation as pilot projects, however, there was no indication that the results of the projects had been progressively reviewed by management prior to their wider implementation.

3.20.47 Some signs of much needed positive action occurred in December 1990 when the Corporation appointed a co-ordinator to compile information on the incidences of vandalism and graffiti. Also, various reports on the condition of trains in stabling yards and stations are under development and several new approaches to resolving the problem have been developed.

3.20.48 The Corporation needs to adopt a more systematic approach to the prevention and detection of vandalism and graffiti.

Management response

Action taken to date by Transport has effectively reduced the incidents of graffiti and vandalism on the metropolitan rail system, e.g. there has been an 80 per cent reduction since October 1990 in the number of trains cancelled because of vandalism and graffiti. Breakage of windows has been reduced by more than 50 per cent. Trains are now cleaned of graffiti on average once every 3 days compared with an average 12 months ago of every 5 days.

The Corporation has recognised the need to introduce management information systems for the control of vandalism and graffiti and has implemented systems since October 1990 to identify incidents of graffiti and vandalism and to monitor the effectiveness of preventative and remedial measures taken. These systems are also being used to determine future strategies to further reduce graffiti and vandalism. Community awareness and involvement programs have had a high degree of success in combating graffiti/vandalism and are being monitored regularly.

ROADS CORPORATION

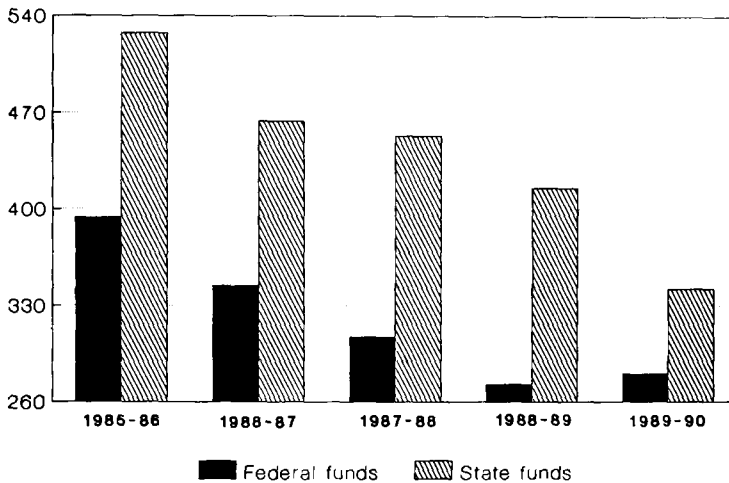
Reduction in the level of direct funding for roads

3.20.49 The principal function of the Roads Corporation is to manage the road network and its use as an integral part of the State's overall transport system, using funds mainly provided by the Commonwealth and State Governments.

3.20.50 In 1989-90, the Corporation received \$622.8 million (88 per cent) of its total funding from appropriations, comprising \$280.4 million from the Commonwealth and \$342.4 million from the State. In addition, a portion of the balance of the Corporation's funding, that is its general revenues, is available for road projects.

3.20.51 Chart 3.20C analyses the funds provided by the Commonwealth and State (in 1989-90 constant dollar terms) over the last 5 years.

**CHART 3.20C. COMPOSITION OF GOVERNMENT APPROPRIATIONS
BETWEEN 1985-86 AND 1989-90**
(in 1989-90 constant dollar terms)
(\$million)



3.20.52 Chart 3.20C indicates that there has been a sizeable reduction in the level of both Commonwealth and State funds allocated to the Corporation since 1985-86, with the most significant reduction relating to the level of State funding.

3.20.53 The Corporation has responded to these funding reductions by:

- ▶ prioritising road construction and maintenance projects;
- ▶ reviewing operational procedures; and
- ▶ reducing the Corporation's workforce (staff numbers have fallen from 6 700 in 1985-86 to 5 600 in 1989-90).

3.20.54 Since 1988 significant major road projects have been deferred by the Corporation. Table 3.20D provides examples of road projects which have been deferred.

**TABLE 3.20D
DEFERRAL OF MAJOR ROAD PROJECTS**

<i>Road project</i>	<i>Original estimated cost</i>	<i>Original completion date</i>	<i>Revised completion date</i>
	<i>(\$m)</i>		
Mornington Peninsula Freeway (Mooroduc Road to Mt Martha)	27.3	Not available	1992-93
Boronia Road (Canterbury Road to Dandenong Creek)	3.1	1988-89	1993-94
Keilor to Laverton Road (Gladstone Street to Western Highway)	3.6	1989-90	1992-93

3.20.55 The Corporation contends that many projects have not progressed as originally intended because of factors such as changing priorities, technical difficulties and weather conditions rather than funding constraints.

3.20.56 In audit opinion, there remains a high probability that many of the deferred projects would have been completed if the real level of direct funding for roads from the Commonwealth and the State had been maintained.

Management response

The Audit Office has understated the value of the State's funding effort by omitting from its figures the General Fund revenues of the Corporation. These revenues (some \$70 million in 1989-90) augment State appropriations and consistent with program budgeting principles should be included in the resources made available to fund Corporation programs.

When these revenues are taken into account the State has maintained its effort over the 5 years at some 60 per cent of total Corporation expenditure.

Even though on the amended figures, both State and Federal funding has been declining in real terms, this should not in itself be seen as a restriction on the Corporation to undertake new works. The Auditor-General's report recognises that within the reduced level of State funds for example, the Corporation is taking steps to "do more with less" by:

- actively reducing overhead expenditures to free up funds for road programs; and*
- continuing to merge the former RCA and former RTA work units to achieve savings from rationalising common functions thereby further freeing up funds for road programs.*

The Auditor-General's view that the projects listed in Table 3.20D were deferred due to funding shortages is simplistic. In reality they did not proceed because priorities were reassessed with an emphasis away from new major constructions to more safety directed projects. There has also been a shift towards concentrating resources in a smaller number of projects with the aim of completing projects more quickly to allow the benefits from individual works to flow on to road users in an earlier timeframe.

With respect to the Mornington Peninsula Freeway, the Moorooduc/Mt Martha section has been deferred due to changes in priorities.

Impact of budget transfers

3.20.57 A net transfer of \$15 million was made from the Corporation's 1989-90 budget to the PTC to help overcome the PTC's budget overrun. This net transfer represented the difference between a transfer of \$27 million from the Corporation's 1989-90 recurrent appropriation and \$12 million from the PTC's capital appropriation to the Corporation.

3.20.58 As a direct consequence of the budget transfer the Corporation was unable to pay all of its contractors and suppliers. Outstanding accounts payable at 30 June 1990 increased by 32 per cent to \$97.2 million compared with \$73.8 million at 30 June 1989. In addition, accounts valued at \$14.5 million were not paid for periods in excess of 2 months from the date of receipt of the invoices.

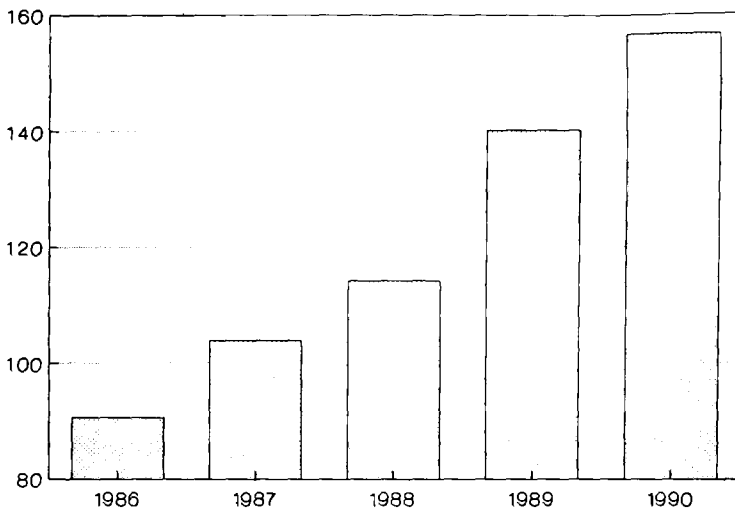
3.20.59 Another government strategy arising from the PTC's ongoing financial difficulties was the transfer to the Corporation of responsibility, without commensurate funding, for certain functions previously undertaken by the PTC. Table 3.20E shows the relevant details.

TABLE 3.20E. FUNCTIONS TRANSFERRED TO THE CORPORATION

Year	Function	Expenditure	Additional funding provided by government
		(\$m)	
1989-90	Maintenance of railway level crossings and railway carparks	(Actual) 5.8	Nil
1990-91	Management of roads over railway bridges	(Est.) 1.8	Nil

3.20.60 The aggregate adverse impact on the Corporation in 1989-90 of recent government measures designed to assist the PTC was therefore \$21 million. The overall significance of this impact is reinforced by the fact that the level of the Corporation's short-term liabilities at the end of the last 5 financial years (to be met from the following year's appropriation) has increased substantially. Chart 3.20F highlights this growth in short-term liabilities.

CHART 3.20F
INCREASE IN SHORT-TERM LIABILITIES
 (\$million)



3.20.61 A consequence of the growth in short-term liabilities was that, in 1990-91, \$156.7 million (24 per cent) of that year's parliamentary appropriation had been effectively committed before the commencement of the year.

3.20.62 The response of the Corporation to the continually increasing levels of short-term liabilities has been limited to strategies designed to defer payments to contractors and suppliers which do not attract a penalty for late settlement.

3.20.63 The Corporation's flexibility to respond to changing priorities in the short-term is significantly reduced when a substantial percentage of each year's appropriation is committed prior to the start of the financial year.

Management response

The decision to transfer certain activities, e.g. (railway level crossing protections, car park/modal interchanges and road over rail bridge) from PTC to Roads was made at the time of setting the 1989-90 budget in July/August of 1989 and the transfer of road over rail bridges was done at the time of setting the 1990-91 budget. These were not measures to relieve a financial burden at the PTC, but rather to place responsibilities where they belong.

The transferred works all relate to road safety and road management (e.g. pedestrian facilities at level crossings, installation of flashing lights, road surface rehabilitation, linemarking, bridge rehabilitation etc.). These works have a stronger focus on protecting road rather than rail users and are more analogous with Road Corporation objectives and should be reflected in that Corporation's programs.

Appropriations are made to the Minister in a program format and not to specific authorities. The Minister is responsible for managing the overall portfolio budget within the resources available. Decisions to transfer funding between programs are matters of policy reflecting government priorities at the time.

The post-budget decision to transfer \$15 million from the Roads Corporation to the PTC was made in the best interests of achieving overall Transport priorities and is a matter entirely within the Government's discretion.

Audit attributes the increase in creditors and accounts payable entirely to the transfer of funds to PTC. It fails to give recognition to the RC for introducing and refining its accrual accounting procedures over the last 5 years which now more precisely identify accruals compared with 5 years ago. In addition, there has been a conscious change in the mix of business towards commercial contracts for works previously performed by internal labour.

Therefore, there would have been an increase in creditors and accruals for the 2 reasons outlined above even if there had been no transfer of the \$15 million to the PTC.

In relation to the audit comment about increased levels of unpaid creditors accounts at the close of the 1989-90 financial year, the increase was a temporary end of year situation which was quickly resolved in the early part of the new financial year. Apart from that, the Corporation's performance in paying creditors accounts throughout the year was good.

In relation to Chart 3.20F detailing the increase in short-term liabilities, a comparison of liabilities from the balance sheet reveals an increase well below those detailed by audit after allowing for inflation.

Acquisition of computer equipment

3.20.64 The Roads Corporation operates large computing facilities to service several major systems including licensed drivers (2.7 million registered drivers), vehicle registrations (3.2 million registered vehicles), accident statistics, engineering and design, and accounting and finance.

3.20.65 At the time of the July 1989 amalgamation of the former Road Construction Authority and the former Road Traffic Authority, the Corporation had 3 mainframe computers, obtained under various leasing arrangements. At 31 December 1989, the estimated written-down value of these computers was \$6.7 million.

3.20.66 During 1989-90 the Corporation undertook an evaluation of its current and projected demands for computing services and resolved to rationalise and replace existing computer hardware at an estimated total cost, including the refinancing of the existing leases, of \$26 million. Replacement equipment was subsequently delivered in March 1990.

Major deficiencies in the evaluation of suppliers' proposals

3.20.67 During 1989 the Corporation sought expressions of interest from 3 major computer suppliers for the replacement of existing computer equipment and the refinancing of existing leases. After a detailed assessment of the proposals against established criteria, **the Corporation entered into an agreement to lease computer hardware at a cost of \$19.5 million.**

3.20.68 There was no evidence to indicate that the Corporation evaluated the costs and benefits of its decision to lease computer equipment against other options, such as:

- ▶ upgrading or replacing its existing computer equipment under current financing arrangements; or
- ▶ purchasing new equipment.

3.20.69 The audit review of the Corporation's evaluation of the proposals received from the 3 major computer suppliers revealed that:

- ▶ **Prices quoted by prospective suppliers were not considered on a uniform basis** in that the successful supplier quoted an estimated price for future equipment, not yet released on to the market, which assumed a 15 per cent price reduction while the other suppliers quoted on the basis of existing equipment and prices. If this latter criterion had been used as the basis of selection, the successful supplier's proposal would have become the dearest option;
- ▶ **The successful supplier proposed second-hand equipment near the end of its technological life** which would be upgraded to state-of-the-art technology during the life of the lease whereas other suppliers offered equipment which was technologically advanced and would also be upgraded at a future date; and
- ▶ **There were substantial differences in the value placed by the Corporation on benefits to be provided by the prospective suppliers at no cost.** The value assigned to the benefits submitted by the successful supplier was ten fold higher (\$3.8 million) than the benefits offered by the other 2 suppliers. No reasons were documented to support this substantial difference.

3.20.70 Furthermore, a review of the contract revealed that the estimated price for future equipment not yet released on to the market, which formed a significant part of the successful proposal, did not form part of the contract. **This critical exclusion meant that there was no contractual obligation on the supplier to provide this equipment at the stated prices.**

3.20.71 The Corporation was able to negotiate for the second-hand mainframe to be substituted with a new mainframe at no additional cost to the Corporation. This new mainframe was delivered to the Corporation 2 days prior to the contract being signed.

3.20.72 The Corporation has achieved its objectives of rationalising its computer facilities and increasing its hardware capacity using an arrangement which ensures maximum flexibility to the Corporation.

3.20.73 However, the processes which led to the Corporation's decision to lease computer equipment at a cost of \$19.5 million are questioned because of its failure to:

- ▶ **fully analyse alternate asset acquisition strategies;**
- ▶ **consider supplier proposals on a consistent basis; and**
- ▶ **ensure that all elements of the successful proposal formed part of the final contract.**

*Management response**Obsolete technology*

Audit's view that the successful supplier (IBM) offered equipment that was near the end of its technological life is incorrect. The equipment was of the same technological standard offered by the unsuccessful suppliers. It had the advantage, however, that because IBM is the world leader in mainframe technology, it can be upgraded within the lease period earlier than would be possible with the other suppliers. The Corporation was always aware that it would be necessary to upgrade any new equipment at some stage during the lease period given the rapidly changing state of the mainframe market.

With the IBM lease, the Corporation has the advantage of being able to have the latest technology as soon as it becomes available whereas the unsuccessful suppliers would be slower to respond as the technology is basically IBM driven. This was a major factor in the selection of IBM as the supplier.

Pricing

There is a long established industry trend of 15 per cent annual reduction in computing power prices. Knowing that during the lifetime of the lease, the equipment would be replaced by newer equipment, the Corporation has priced that newer equipment at the reduced prices expected to be ruling at the time of acquisition, taking into account the 15 per cent annual reduction in future prices. In these circumstances, it would have been unrealistic to price that new equipment at today's prices. Of the interested suppliers, IBM was the only one to recognise such price reductions in its offer.

Cost/benefit analysis

As pointed out by audit, a major difference between the IBM proposal and proposals of the other suppliers was the valuation of the direct benefits/back-up support offered by the suppliers (e.g. provision of consultants' time, disaster back-up etc.). The IBM benefits/support were assessed to be worth more than those offered by the unsuccessful suppliers and consistent with normal cost/benefit methodology should be taken into account in evaluating the project itself as well as in the selection of suppliers.

While the cost/benefit analysis for this project was not drawn together in a formal document, there are sufficient working papers available at the Corporation to indicate that the project is justified and that the selection of IBM as the supplier is soundly based.

Contractual guarantee on prices

While the contract with IBM does not guarantee the lower prices offered for future technology upgrades, the Corporation has the option to go elsewhere for the new equipment in the event that IBM does not pass on those lower prices at the time the technology becomes available.

It is not possible to guarantee a price for a future technology, but a reputable supplier such as IBM could reasonably be expected to honour its offer of lower prices when the technology is eventually released. If not, the Corporation has the option of going to an alternative supplier.

Financing the termination of existing leases

3.20.74 The agreement entered into by the Corporation for the replacement of its computer equipment also provided for financing of the termination of existing leasing arrangements. Under the agreement, the successful supplier advanced \$8.3 million to fund the termination of existing leases and the Corporation is required to repay this amount, together with interest of \$2.1 million, over 4 years.

3.20.75 Table 3.20G shows the net cost to the Corporation of terminating the existing leases after taking into account the proceeds received from sale of the replaced equipment.

**TABLE 3.20G
COST OF TERMINATING COMPUTER LEASES**

<i>Item</i>	<i>\$million</i>
Financing of lease termination	8.3
Finance charges	2.1
	10.4
<i>Less</i>	
Proceeds from sale of replaced equipment	1.9
Net cost	8.5

3.20.76 Under the Transport Act 1983, the Corporation is not empowered to raise loans. The lease financing arrangement entered into by the Corporation clearly constitutes a loan of \$8.3 million and was therefore an action outside the Corporation's legislative authority.

3.20.77 In addition, the Transport Act 1983 requires the Corporation to pay the proceeds from asset sales to the State, except where such proceeds are to be used for operating or trading purposes. The proceeds of \$1.9 million from the sale of the replaced computer equipment were applied by the Corporation to the reduction of its liability under the agreement.

3.20.78 In audit opinion, the Corporation's use of the sale proceeds falls outside its trading or operating activities and as such the proceeds should have been paid to the State. In effect, the Corporation has circumvented the framework established by the Parliament for the control and scrutiny of its asset sales.

Management response

Audit's opinion that the funding by IBM of the lease liability outstanding under the previous finance lease constitutes a loan is incorrect. In paying out the old lease, IBM structured the lease agreement for the new equipment to include the amount it paid out in terminating the old lease. There is no separate loan documentation for the payout of the former lease to support audit's view that this constitutes a borrowing. The lease arrangement is a total package provided by IBM for the provision of the new equipment.

The value of the old equipment sold to the successful supplier effectively represented a "trade-in" against the new proposal. As such no cash was received for the actual proceeds from the sale of the computer. Therefore, no funds could be paid into the Consolidated Fund. This is the same practice as the purchase of cars involving "trade-ins" occurring in the public sector.

TRANSPORT ACCIDENT COMMISSION

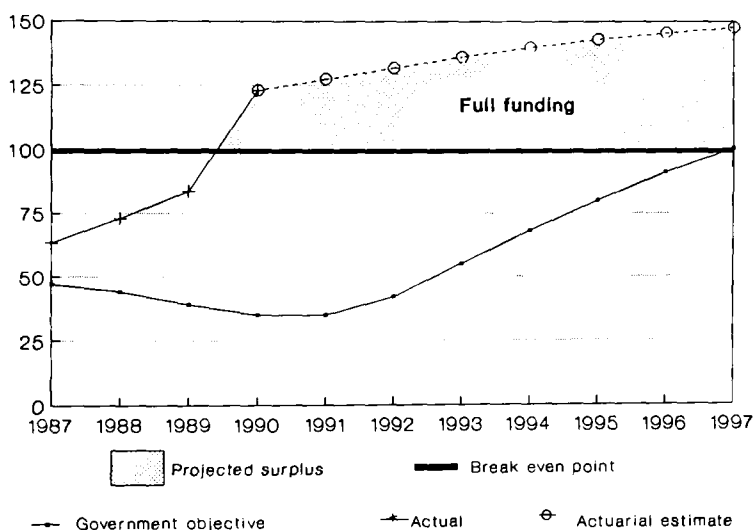
Funding of the Transport Accident Scheme

3.20.79 The Transport Accident Commission commenced operations on 1 January 1987 with the responsibility of managing the Transport Accident Scheme as effectively, efficiently and economically as possible.

3.20.80 In a major statement on the Scheme issued in 1986, the Government indicated that transport accident charges would be set at a level which would enable the Scheme to be fully-funded by 1997, i.e. it would have sufficient funds to fully cover all outstanding liabilities at the end of 10 years. Over the years, the Commission has monitored the overall funding position of the Scheme by determining the ratio of the Scheme's total assets to its outstanding claims liabilities.

3.20.81 Chart 3.20H shows the progressive movements in the Scheme's funding position, as reported by the Commission, up to June 1990 and compares the latest actuarial projection of future funding positions to 1997 with the initial government projection.

CHART 3.20H. TAC REPORTED FUNDING POSITION
(per cent)



3.20.82 Chart 3.20H illustrates that the Scheme became fully-funded during 1989-90, some 7 years ahead of the Government's target. It also shows that, based on the latest actuarial estimate, the Scheme will be 147 per cent funded by 1997, which in monetary terms would represent a surplus of \$1.9 billion (the actuarial estimate assumes annual increases in charges in line with inflation from 1991-92 onwards).

3.20.83 The principal reasons cited by the Commission for the early achievement of the Scheme's fully-funded status are:

- ▶ strong investment performance;
- ▶ active claims management;
- ▶ accident prevention strategies; and
- ▶ the resolution of pre-Scheme claims inherited from the State Insurance Office at a lower cost than initially envisaged.

3.20.84 As indicated earlier the Commission measures the funding position of the Scheme, for the purposes of reporting to Parliament, using the ratio of the Scheme's total assets to its outstanding claims liabilities. Other liabilities such as creditors, unearned premiums and employee leave entitlements which have a significant dollar value (aggregate value at 30 June 1990, \$334 million) are not taken into account.

3.20.85 The inclusion of all liabilities of the Commission in this calculation would more accurately reflect the overall funding position of the Scheme.

3.20.86 The earlier than expected achievement of the fully-funded position of the Scheme and the actuarial projection for further substantial improvements in future years are significant factors which should be taken into account when determining the level of future transport accident charges.

Management response

As noted and recommended by the Auditor-General, the Transport Accident Commission is already using the solvency standards recommended for general insurers by the Insurance & Superannuation Commission for its internal reporting and in the setting of premiums for motorists.

Audit states that the Commission does not take into account all liabilities in measuring the funding position of the scheme. In its 1989-90 Annual Report, the Commission did include all liabilities in its financial reporting measures, and both charts and commentary in the Report focused on the surplus of total assets over total liabilities of \$130 million at 30 June 1990.

Projections used by audit on the future surplus of the Scheme assume premium increases in line with inflation and no significant additional costs or benefit changes. Experience to date indicates that these assumptions will not eventuate. Since inception, premiums have been held well below inflation (\$62 saving to motorists since June 1987) and, at the same time, several costs including public hospital fees have far exceeded original scheme estimates.

Schedule A. Status of matters raised in previous Reports

<i>Report</i>	<i>Subject</i>	<i>Status as at date of preparation of this Report</i>
———— MATTERS RESOLVED ————		
Public Transport Corporation		
<i>Former Metropolitan Transit Authority</i>		
<i>Ministerial Portfolios, May 1989, p. 241</i>	Poor management practices led to delays in lease finalisation and rental collections associated with Banana Alley vaults.	A new head lease was negotiated in June 1990. Legal action has been taken to recover outstanding rentals.
<i>Ministerial Portfolios, May 1989, p. 246</i>	Inaccuracies in tenancy recording system.	Tenancy documentation validations completed by December 1990.
<i>Former State Transport Authority</i>		
<i>Second Report, 1986-87, p.146</i> <i>Ministerial Portfolios, May 1989, p. 255</i>	Transfer, Redeployment and Redundancy (TRR) appropriation not expended on TRR activities.	The Corporation no longer receives specific appropriation for TRR.
Roads Corporation		
<i>Former Road Traffic Authority</i>		
<i>Ministerial Portfolios, May 1989, p. 253</i>	Vehicles registered for combined private and business purposes could benefit from the abolition of private only (PA) registration renewal fees.	The Corporation has taken action to review the vehicle database to ensure only vehicles used for private purposes are registered as PA. Additional revenue expected to be \$3.2 million.
<i>Ministerial Portfolios, May 1989, p. 254</i>	Fitout costs associated with cancelled sub-lease at 222 Exhibition Street, Melbourne, may not be recovered from new tenant.	Costs transferred to the Ministry of Finance.
Transport Accident Commission		
<i>Ministerial Portfolios, May 1989, p. 260</i>	Potential for dead rent associated with Commission's previous accommodation.	Lease expired in June 1990.

Schedule A. Status of matters raised in previous Reports - continued

<i>Report</i>	<i>Subject</i>	<i>Status as at date of preparation of this Report</i>
———— ACTION COMMENCED ————		
Public Transport Corporation		
<i>Ministerial Portfolios, May 1990, pp. 297-300</i>	The Corporation should introduce systems to monitor the adequacy of its vandalism and graffiti initiatives.	Some improvement, however, the Corporation still needs to adopt a more systematic approach to prevention and detection of vandalism and graffiti. For further comments, refer to paragraphs 3.20.42 to 3.20.48 of this Report.
<i>Ministerial Portfolios, May 1990, p. 300</i>	The Corporation did not have suitable systems in place to: <ul style="list-style-type: none"> ▪ determine, analyse and report the total cost of MET bus services; ▪ adequately evaluate the cost-effectiveness of all options relating to the mix of services between MET and private operators; and ▪ analyse cost variances between individual operators to identify potential cost savings. 	Individual components of MET costs are now being analysed.
<i>Ministerial Portfolios, May 1990, pp. 302-3</i>	Duplicated services and routes of private bus operations require rationalisation.	Studies are underway to identify potential rationalisation of services. Rationalisation will be assisted by November 1990 Private Bus Industry Agreement. For further comment, refer to paragraphs 3.20.32 to 3.20.41 of this Report.
Former Metropolitan Transit Authority		
<i>Ministerial Portfolios, May 1989, p. 245</i>	Need to establish a property register which reflects current holdings and valuations.	Property register still under development.
Roads Corporation		
<i>Ministerial Portfolios, May 1990, pp. 309-10</i>	The declared road network is rated as being in poor condition. Standards need to be developed to assess adequacy of road surface condition.	Minor improvement in condition of declared road network. Standards still need to be developed.
Former Road Construction Authority		
<i>Ministerial Portfolios, May 1989, p. 251</i>	Declared roads should be valued and recorded as an asset of the Authority.	Significant work undertaken towards valuing the road network.

Schedule A. Status of matters raised in previous Reports - continued

<i>Report</i>	<i>Subject</i>	<i>Status as at date of preparation of this Report</i>
— ACTION COMMENCED - continued —		
Transport Accident Commission		
<i>Ministerial Portfolios, May 1989, p. 258</i>	System of raising the transport accident charge is subject to abuse.	Position improved. Likely exposure now \$400 000.
— NO ACTION TAKEN —		
Transport portfolio		
<i>Ministerial Portfolios, May 1989, p. 236</i>	The adequacy and quality of disclosure within the financial reports of the transport authorities is inadequate because financing costs related to centralised debt are not included.	Position unchanged. Finance costs are disclosed in Treasurer's Program 726.
<i>Ministerial Portfolios, May 1989, p. 238</i>	Internal management reporting and oversight by central agencies of inner budget agencies (PTC, Roads Corporation) are based on cash data whereas year-end external reporting is based on accrual accounting principles.	Position unchanged. Monitoring of cash appropriated by the budget process is still regarded as an essential aspect of internal management control over funds available to inner budget agencies and is treated separately to accrual accounting procedures.
<i>Ministerial Portfolios, May 1990, p. 294</i>	The annual financial statements of the transport authorities do not adequately disclose the costs and revenues of major areas of service delivery or segments of business activity.	Position unchanged.
<i>Ministerial Portfolios, May 1990, p. 295</i>	Meaningful assessments of the total transport portfolio is hampered by the lack of consolidated financial information.	Position unchanged. However, full consolidation of the portfolio budget appropriation and revenue impacts is included in the annual report of the Ministry of Transport.
Public Transport Corporation		
<i>Ministerial Portfolios, May 1990, p. 305</i>	The Corporation's internal audit function should be strengthened by the provision of additional resources.	Position unchanged.
<i>Former Metropolitan Transit Authority</i>		
<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.

Schedule A. Status of matters raised in previous Reports - continued

<i>Report</i>	<i>Subject</i>	<i>Status as at date of preparation of this Report</i>
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— NO ACTION TAKEN - continued —

Public Transport Corporation*Former State Transport Authority*

<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.	Position unchanged.
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<i>Second Report, 1985-86, p.178</i> <i>Ministerial Portfolios, May 1989, p. 256</i> <i>Ministerial Portfolios, May 1990, p. 304</i>	Excessive accumulation of employee leave credits.	Position unchanged.
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Roads Corporation

<i>Ministerial Portfolios, May 1990, pp. 306-8</i>	The Roads Corporation needs to examine whether retention of properties acquired for road development (valued at \$766 million) for substantial periods represents optimal resource development.	Position unchanged.
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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>
Completed audits				
Ministry of Transport	30 June 1990	31 October. <i>Annual Reporting Act 1983, s.8.</i>	24 October 1990	2 November 1990 (a)
Grain Elevators Board	30 Sept. 1990	31 December. <i>Annual Reporting Act 1983, s.9.</i>	19 December 1990	28 December 1990
Marine Board of Victoria	30 June 1990	30 September. <i>Marine Act 1988, s.80.</i> Minister for Transport granted extension of time to 31 October 1990.	5 October 1990	31 October 1990
MTA Investments Pty Ltd	30 June 1990	No reporting requirements. Audit conducted at request of Treasurer and under Companies (Victoria) Code.	26 November 1990	30 November 1990
MTA Superannuation Fund	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i>	26 November 1990	30 November 1990
Public Transport Corporation	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension of time to 15 October 1990.	12 October 1990	23 October 1990 (a)
Roads Corporation	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension of time to 15 October 1990.	11 October 1990	18 October 1990 (a)
Transport Accident Commission	30 June 1990	30 September. <i>Transport Accident Act 1986, s.31.</i>	25 September 1990	28 September 1990

(a) Qualified audit report issued.

TREASURER

KEY FINDINGS

- ▶ There is a need for more frequent reporting to the Parliament of the transactions and financial position of the Consolidated Fund.
Paras 3.21.7 to 3.21.10
- ▶ The overall deficit of the Consolidated Fund, which was funded from borrowings, for the 7 months to 31 January 1991 was \$1.4 billion.
Paras 3.21.11 to 3.21.14
- ▶ At 30 June 1990 an amount of \$220 million, on account of employer contributions, was due from the Consolidated Fund to the Emergency Services Superannuation Scheme.
Paras 3.21.16 to 3.21.20
- ▶ Borrowings by the Emergency Services Superannuation Scheme of \$220 million are considered by audit to be, in substance, borrowings of the Consolidated Fund as all debt servicing costs will be met by the Fund.
Paras 3.21.21 to 3.21.27
- ▶ The Consolidated Fund debt at 30 June 1990 to the State Superannuation Fund for unreimbursed lump sum payments was \$1.1 billion.
Paras 3.21.29 to 3.21.34
- ▶ Knowledge Victoria Limited is in voluntary liquidation with operating losses of \$1.5 million.
Paras 3.21.45 to 3.21.63

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

Department

Department of the Treasury

Public bodies

Capital Works Authority
Debt Retirement Authority (established in December 1990)
Emergency Services Superannuation Board
Hospitals Superannuation Board
Knowledge Victoria Ltd (now known as Beave Pty Ltd)
Metropolitan Fire Brigades Superannuation Board
Parliamentary Contributory Superannuation Fund
Rural Finance Corporation
SIO Services Pty Ltd
SIO Superannuation Pty Ltd
State Employees Retirement Benefits Board
State Insurance Office
State Superannuation Board administering:

- Holmesglen Constructions Superannuation Plan
- Pensions Supplementation Fund
- State Superannuation Fund

Tattersall Sweep Consultation
Telematics Course Development Fund Trust
Transport Superannuation Board
Victorian Building Societies Council
Victorian Development Fund
Victorian Economic Development Corporation
Victorian Public Authorities Finance Agency

Comments on matters of significance arising from the audit of certain of the above entities are discussed below. Further comment on public sector superannuation funds is also contained in Section 4.1 of this Report.

DEPARTMENT OF THE TREASURY**Reporting of Consolidated Fund transactions**

3.21.1 A significant aspect of the Department of the Treasury's responsibilities is the preparation of the Treasurer's Statement. This Statement, which is prepared under the provisions of the *Audit Act 1958*, discloses the financial transactions of the Consolidated Fund and the Trust Fund for each year, together with supplementary information relating to certain assets and liabilities of the State's budget sector at 30 June. The Statement, together with the *Auditor-General's Report on the Treasurer's Statement*, is tabled annually in the Parliament during the Spring Session.

3.21.2 In my *Report on the Treasurer's Statement for the year ended 30 June 1990*, which was tabled in the Parliament in October 1990, a number of significant matters were raised regarding the financial transactions and results of the Consolidated Fund for that year and the State budget sector's financial position at year-end.

3.21.3 One of the matters included in the Report related to an amount of \$35 million, regarded by audit as borrowings, which was used to meet interest payments and was netted-off within the Consolidated Fund against such payments. The Report drew attention to the serious implications of this practice in that expenditure on finance charges was incurred without parliamentary authority and interest payments and borrowings of the Consolidated Fund were understated.

3.21.4 In October 1990, in response to audit concerns, the Governor-in-Council, on the Treasurer's recommendation, referred these issues to the Parliament's Economic and Budget Review Committee (EBRC) for review. The terms of reference provided to the EBRC were to inquire into and report on issues and implications, including any changes considered necessary to legislation.

3.21.5 The EBRC held public hearings in December 1990 and February 1991 at which representatives from my Office and the Department of the Treasury submitted evidence. At these hearings, Department of the Treasury officials confirmed that the netting-off of the \$35 million was inappropriate and referred to a legal opinion, obtained by the Department prior to the finalisation of my Report, which supported this view.

3.21.6 In March 1991, the Committee's report was tabled in the Parliament. In its report the Committee confirmed the audit views on the matter.

Management response

A legal opinion obtained by the Department of Treasury has confirmed that the netting off of \$35 million was inappropriate.

Need for more frequent reporting to the Parliament

3.21.7 While the Treasurer's Statement enables the Parliament to be informed annually of the financial transactions and position of the Consolidated Fund, there is currently no legislative requirement for the reporting of Consolidated Fund transactions to the Parliament during the course of the year.

3.21.8 The Department of the Treasury produces a monthly statement of Consolidated Fund transactions known as the "*Niemeyer Statement*", which provides:

- ▶ a summary of revenue collected and expenditure incurred by the Consolidated Fund;
- ▶ brief explanatory comments on the Consolidated Fund result to date; and
- ▶ a statement of Public Account cash and investment balances held at the end of the month.

3.21.9 However, this Statement is not tabled in the Parliament and there are often significant delays in its finalisation. For example, the Statements for the months of November and December 1990 were not released by the Department of the Treasury until the issue of the January 1991 Statement on 21 February 1991.

3.21.10 In line with the increasing focus in the private sector on the need for more regular reporting to shareholders, e.g. half-yearly, I consider it is also desirable that the Parliament be progressively informed, on a formal basis, of the financial transactions and position of the Consolidated Fund. Such action is particularly important given comments by the Treasurer in recent "Niemeyer Statements" that Consolidated Fund revenue will continue to be affected by adverse economic conditions during the remainder of this year.

Management response

Parliamentarians are currently informed through the public issue of monthly Niemeyer Statements. Issuing arrangements for these statements will be reviewed to consider circulation arrangements and to improve the responsiveness of reporting.

Position of the Consolidated Fund at 31 January 1991

3.21.11 The *Public Account Act 1958* defines the scope of the Consolidated Fund. The Act requires that payments made from the Fund cannot exceed the amounts credited to it in the year. This, however, does not preclude the Government running a deficit in any particular year as borrowings can be used to ensure sufficient moneys are standing to the credit of the Fund.

3.21.12 At the date of preparation of this Report, the most recent *Niemeyer Statement* issued by the Department of the Treasury related to January 1991. **Based on information provided on this Statement, audit has determined that at 31 January 1991 the Consolidated Fund had an overall deficit of \$1.4 billion which was funded from borrowings, including transport sale and lease-back transactions. Some elements of these borrowings represented temporary funding.**

3.21.13 Table 3.21A shows the position of the Consolidated Fund at 31 January 1991, as determined by audit, after eliminating borrowings and State Bank sale transactions.

TABLE 3.21A. CONSOLIDATED FUND POSITION AT 31 JANUARY
(\$million)

<i>Item</i>	<i>Actual at 31 January</i>	
	1990	1991(a)
Recurrent -		
Receipts	6 036	6 250
Payments	6 446	7 068
Recurrent (deficit) (b)	(410)	(818)
Works and services -		
Receipts	379	466
Payments	1 078	1 084
Works and services (deficit)	(699)	(618)
Consolidated Fund (deficit) funded from borrowings	(1 109)	(c) (1 436)

- (a) Receipts and payments both exclude \$2 017 million relating to State Bank sale transactions.
 (b) In determining the recurrent deficit for each period cash balances from prior years have been excluded.
 (c) Proceeds from sale and lease-back arrangements and other borrowings have been excluded from Consolidated Fund receipts when determining the above deficit.

3.21.14 Audit has not been able, at this stage, to obtain access to information on anticipated cash flows up to January 1991. Therefore it was not possible to undertake a comprehensive analysis of the Consolidated Fund result for that period.

Management response

This issue is currently the subject of discussion with audit and is expected to be resolved shortly.

The position of the Consolidated Fund and Consolidated Fund balances are the subject of regular public reporting arrangements. In respect of the Table presented by the Auditor-General, Treasury disagrees with the classification of \$100 million of sale and lease back of transport equipment under operating lease arrangements as borrowings.

State Taxation Office

3.21.15 In paragraphs 3.12.39 to 3.12.76 of this Report reference is made to deficiencies in the State Taxation Office's management of WorkCare levy collections, including both poor collection processes and, in cases, non-observance of legislative provisions which stemmed from poor monitoring by the Accident Compensation Commission.

Management response by the Commissioner of Taxation

The State Taxation Office has encountered problems in terms of budget and human resource constraints, risk management constraints, and lack of computer systems functionality over a number of years. In the light of these problems the audit reference to deficiencies in management is unwarranted and inaccurate, as is the reference to poor monitoring by the ACC. At all times the STO has been aware of the problem areas, has drawn them to the attention of the Commission and has continued to operate effectively notwithstanding the ongoing nature of those problems. The conclusions in paragraphs 3.12.39 to 3.12.76 of the audit report have to be read in the context of the amount of levy collected over the period (i.e. \$4.7 billion). The amount identified in the report as having not been collected represents 0.2 per cent of total levy collected.

EMERGENCY SERVICES SUPERANNUATION BOARD

3.21.16 The Emergency Services Superannuation Board administers the Emergency Services Superannuation Scheme which covers approximately 14 000 employees of the Police Force, Ambulance Services, Metropolitan Fire Brigades Board, Country Fire Authority and the Department of Conservation and Environment. The Scheme was established in 1987 as part of a government move towards industry-based superannuation schemes. The Scheme generated income of \$202 million during 1989-90 and held net assets, exclusive of its unfunded liability, of \$266 million at 30 June 1990. The unfunded liability of the Scheme in respect of members' benefits at 30 June 1990 totalled \$657 million.

Consolidated Fund debt to the Scheme

3.21.17 The Ambulance Services, Metropolitan Fire Brigades Board and Country Fire Authority pay their employer share of superannuation contributions to the Board on either a weekly or a fortnightly basis. However, the Consolidated Fund does not make periodic contributions to the Board as the employer of members of the Police Force and Department of Conservation and Environment.

3.21.18 An arrangement between the Department of the Treasury and the Board, which was entered into at the commencement of the Scheme, provided that, in lieu of periodic employer contributions, the Consolidated Fund would progressively reimburse the Scheme an amount equal to 75 per cent of total benefits paid to such members up to 30 June 1989, 95 per cent of benefits for the period 1 July 1989 to 30 June 1990, and 90 per cent of benefits paid thereafter.

3.21.19 The Scheme has not been fully reimbursed from the Consolidated Fund under the above arrangement. At 30 June 1990 an amount of \$220 million (1988-89, \$155 million) was due from the Consolidated Fund to the Scheme.

3.21.20 Following Board concerns regarding the magnitude of the Consolidated Fund debt to the Scheme, and discussions between the Government and the Board, the then Treasurer, in November 1989, agreed to a financial plan designed to achieve the objective of extinguishing the debt by the year 2000. The plan, which commenced in 1989-90, involves progressive supplementary contributions from the Consolidated Fund over the next 9 years.

Borrowings to fund Consolidated Fund debt

3.21.21 The Auditor-General's *Second Report for the year 1986-87* commented on the need for the Board to borrow \$46 million in 1986-87 to meet an initial funding shortfall. That shortfall had arisen due to delays experienced in the transfer of funds from previous schemes and the Consolidated Fund, and a significant level of benefit payments to members in the first 6 months of operation.

3.21.22 Since its initial borrowings in 1986-87 the Board has experienced increasing funding difficulties **principally due to the continuing failure of the Consolidated Fund to meet its obligations**. As a result of this position the Board's borrowings had increased to \$120 million at June 1988.

3.21.23 Between July 1988 and June 1990 the Board's liquidity position significantly improved due to the consistent inflow of funds. However, in August 1990 the Board determined to increase borrowings by a further \$100 million, for the specific purpose of matching the level of Consolidated Fund debt to the Scheme at 30 June 1990 with Board borrowings.

3.21.24 As previously indicated, the financial plan agreed to by the then Treasurer in November 1989 provides for the Consolidated Fund to meet interest costs and extinguish these borrowings by the year 2000.

3.21.25 While it would have been anticipated that the Consolidated Fund would itself borrow to meet its obligations, in this case the Board has borrowed to cover the Consolidated Fund debt. Given that all debt servicing costs will be met from the Consolidated Fund, audit considers that these borrowings are, in substance, borrowings of the Consolidated Fund.

Taxation implications

3.21.26 From 1 July 1990 public sector superannuation schemes became subject to regulations prescribed by the Insurance Superannuation Commission. These regulations provide that if schemes undertake new borrowings beyond 1 July 1990, other than for temporary purposes, the schemes shall be subject to higher rates of taxation.

3.21.27 Unless a special exemption is obtained by the Scheme, in accordance with the regulations, the borrowings of \$100 million raised subsequent to 1 July 1990 will expose the Scheme to a higher rate of taxation.

Management response

While the Board accepts the thrust of audit's comments in paragraphs 3.21.16 to 3.21.25, the Board's primary concern has been to ensure that the repayment of the debt meets the terms required under the Occupational Superannuation Standards Regulations 1987. Borrowings made by ESSS before 30 June 1990 are clearly exempt and under Regulation 16(2) if they are extinguished as planned by 30 June 2000. This will ensure the maintenance of a concessional tax rate on the Fund's tax status. The agreement between the Board and the then Treasurer contains the necessary guarantee from him and we expect that this guarantee will be honoured by his successors, in accordance with Section 16 of the Emergency Services Superannuation Act 1986.

STATE SUPERANNUATION BOARD

3.21.28 The State Superannuation Board is responsible for the administration of several superannuation schemes, namely the State Superannuation Fund, Pensions Supplementation Fund, Parliamentary Contributory Superannuation Fund, Holmesglen Constructions Superannuation Plan and the Coal Mine Workers' Pensions Tribunal.

Consolidated Fund debt to State Superannuation Fund

3.21.29 At 30 June 1990 the State Superannuation Fund's net assets, exclusive of its unfunded liability, totalled \$2.3 billion and its unfunded liability due from the Consolidated Fund for superannuation benefits amounted to \$13.9 billion.

3.21.30 Where members of the Superannuation Fund are paid benefits in the form of pensions, the Consolidated Fund reimburses the Fund when the pensions are paid. However, where members of the Superannuation Fund's Revised Scheme partly convert their benefit entitlements to a lump sum, as provided for in the existing legislation, the Superannuation Fund is required to initially finance the lump sum payments but, under established government practice, is reimbursed from the Consolidated Fund on the basis that no conversion took place. Put simply, **the Consolidated Fund defers its obligation to finance lump sum payments to future periods.**

3.21.31 **The Consolidated Fund debt to the Superannuation Fund for lump sum payments at 30 June 1990 totalled \$1.1 billion or 45 per cent of the net assets of the Superannuation Fund.**

3.21.32 Given the magnitude of this element of the Consolidated Fund's debt to the State Superannuation Fund, **the Board in August 1990 requested the Treasurer to review the Government's method of funding lump sum payments made to members of the Superannuation Fund's Revised Scheme.** The Board further decided to inform the Treasurer that it intended to limit the level of this component of the Consolidated Fund's debt to a maximum of 50 per cent of its net assets. The Board, however, had not yet resolved what measures are available to restrict any growth in the level of this debt.

3.21.33 At the date of preparation of this Report, the Treasurer had not formally responded to the Board's request.

3.21.34 **In the absence of any change in the Government's current funding arrangements, the established practice of successive governments of substantially deferring Consolidated Fund financial obligations to future periods, in the long-term, may result in the deterioration of the State Superannuation Fund's liquidity position. In addition, the Board's capacity to maximise its return on members' funds will continue to be inhibited.**

Management response

The \$13.9 billion referred to is the actuarially calculated present value of future payments which will be made to the Fund. It is not a current debt due to the Fund.

The State Superannuation Fund is currently highly liquid and all of its obligations will be met as and when they fall due. The spreading of the Consolidated Fund obligation to pay a lump sum does not, in the long-term, necessarily result in a deterioration of the Fund's liquidity position. This is because the funding of the Government's share of benefits is amended at least every 3 years, based on an actuarial assessment of the Fund. The regular receipt of actuarially calculated payments from the Consolidated Fund is integrated into the State Superannuation Fund's overall liquidity management.

Furthermore, the current arrangements provide the Fund with a 6 per cent real rate of return which is not usually available for secure investments. Such a return on investments improves rather than inhibits the Board's capacity to maximise its return on members' funds. Payment of the lump sum option ultimately results in a lesser total outlay for the Fund than payment of an indexed pension.

The Board's decision of August 1990 to limit the growth of this asset flowed from a belief that such an asset (attractive though it is in investment terms) had grown to too large a percentage of the Fund.

The financing of employer share of benefits to members has always been a policy matter for the Government of the day.

Parliamentary Contributory Superannuation Fund

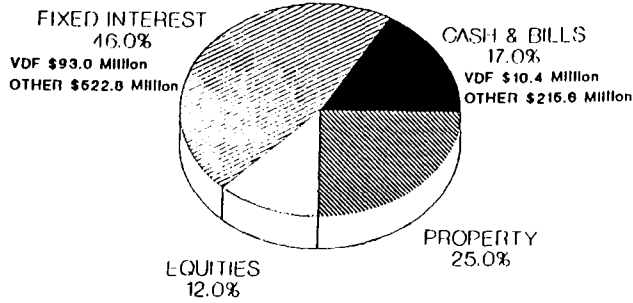
3.21.35 At 30 June 1990 the Parliamentary Contributory Superannuation Fund held net assets, exclusive of its unfunded liability, of \$54.5 million and its unfunded liability due from the Consolidated Fund for superannuation benefits amounted to \$9 million.

3.21.36 The Fund's net assets included investments totalling \$52.8 million of which \$47.1 million (89 per cent) was held with the Victorian Development Fund.

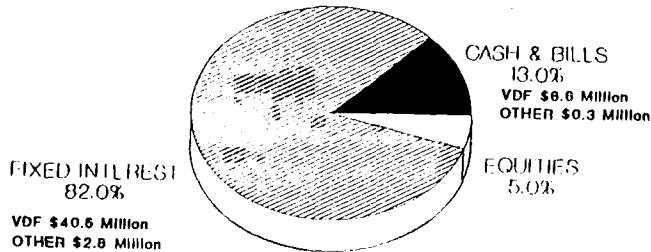
3.21.37 While the Board had developed a strategy for the spreading of the State Superannuation Fund investment portfolio across specific investment categories, it had not recommended to the Trustees of the Parliamentary Contributory Superannuation Fund that an equivalent strategy be followed for the Fund's investments.

3.21.38 Chart 3.21B contrasts the investment mix of the 2 Funds at June 1990.

**CHART 3.21B. INVESTMENT MIX
STATE SUPERANNUATION
FUND**



**PARLIAMENTARY CONTRIBUTORY
SUPERANNUATION FUND**



3.21.39 Although the Parliamentary Contributory Superannuation Fund achieved a return of approximately 15 per cent on its investments in 1989-90, which compares favourably with returns achieved by other public sector superannuation funds, past experience has shown that, in the longer-term, optimum returns are generally attained through the diversification of investment holdings. Accordingly, consideration should be given to spreading investments to ensure optimum diversification is achieved.

Management response

Under the controlling legislation, the Trustees of the Parliamentary Contributory Superannuation Fund, not the State Superannuation Board, are responsible for determining the investment strategy and allocation of investments in the Fund.

Historically, the Fund has been invested primarily in Victorian Government or semi-government securities. In recent times, the Trustees have diversified holdings by allocating funds for investment in equities.

The audit recommendations on further diversification of investments will be advised to the Trustees.

KNOWLEDGE VICTORIA LIMITED

Background

3.21.40 In 1987 the Government established a company, Knowledge Victoria Limited (KVL), with the objective of furthering the Government's economic and social justice strategies through the development of a telematics educational service industry within Victoria. Telematics is a generic term for all electronically-based communications systems such as radio, video, facsimile and computers.

3.21.41 At the same time the Government established, with a deposit of \$3 million, the Telematics Course Development Fund Trust (the Trust), a public charitable trust to provide funding to the distance learning industry based on recommendations to be provided by KVL, acting as secretariat under the terms of the Trust Deed.

3.21.42 The Government intended that KVL would be self-funding within 3 years and achieve the Government's objective by:

- ▶ improving both the workforce skills of Victorians and access to continuing education and training for those geographically and socially disadvantaged;
- ▶ establishing course development business syndicates and maintaining a publicly accessible database of Victoria's knowledge resources; and
- ▶ providing management and advisory services to the Trustees of the Trust.

3.21.43 The development of an export industry in distance learning by KVL was expected to generate annual income for Victoria of around \$11 million within 5 years. Over a 3 year period, funding of \$1.6 million was provided by the Government to KVL initially by way of repayable loans.

3.21.44 The shareholders of KVL were the then Treasurer, Ministers for Industry and Technology, and Education and the Chief Administrators of the then Department of Management and Budget (DMB) and the Ministry of Education.

Financial performance of KVL

3.21.45 Although the Government intended that KVL be self-funding within 3 years, KVL generated operating deficits totalling \$1.5 million by August 1990. Table 3.21C shows KVL's financial results.

TABLE 3.21C. FINANCIAL RESULTS
(\$'000)

Year	1987	1988	1989	(a) 29 August 1990	Total
Revenue -					
Management fees from the Trust	-	104	129	40	273
Consulting	-	39	75	52	166
Bank interest	-	30	29	5	64
Other	39	57	81	102	279
Total revenue	39	230	314	199	782
Total expenditure	435	634	797	425	2 291
Operating surplus/(deficit)	(396)	(404)	(483)	(226)	(1 509)
Forgiveness of loan	-	-	1 600	-	1 600
Acc. surplus/(deficit)	(396)	(800)	317	91	91

(a) Unaudited.

Management response by the Department of the Treasury

When the \$1.6 million is taken into account and treated as a grant, the accumulated surplus of \$91 000 is supported by a revenue stream which has a rate of increase greater than that of the expenditure stream and can be projected out to be in surplus within a few years.

3.21.46 Table 3.21C also demonstrates KVL's financial reliance upon management fees from the Trust for carrying out the Trust's administrative function. Over the life of KVL, revenue from this source amounted to 35 per cent of the total revenue earned.

Government's action regarding KVL's financial performance

3.21.47 By August 1990 KVL had generated operating deficits totalling \$1.5 million.

3.21.48 In view of the financial performance of KVL, the Directors and Treasury officers canvassed several options aimed at relieving the Government from any further financial burden. One of the options considered was the sale of KVL.

3.21.49 In the interests of making KVL attractive to a potential purchaser the Government forgave payment of loans totalling \$1.6 million which were converted to non-repayable grants in December 1989. As a result, of this action, KVL was able to report that it had a net asset position of \$300 000.

3.21.50 In previous correspondence between audit, the then Treasurer, the then Minister of Education and the Board of KVL, concern was expressed by audit at the operating and accumulated deficits and KVL's ability to pay its debts.

Management response by the Department of the Treasury

The company did not become self-financing. After consideration of future prospects action was put in place which led to its voluntary liquidation.

While in the mid-1980s management investment companies (MICs) with around \$5 million funds under management were regarded as viable, in the late 1980s it became clear that such arrangements represented minimum capitalisation. Hence, Telematics Trust with a \$3 million foundation in 1986 is not atypical. It is, however, one of the few funds which have been able to operate and not only maintain but increase its corpus.

Audit findings

3.21.51 In view of the concerns expressed in previous audit correspondence a review of the operations of KVL was incorporated with the audit of KVL's financial statements for the year ended 31 December 1989. Findings are detailed below:

- ▶ In August 1990 the Board of KVL received an offer from a private company for the purchase of KVL's assets. On 29 August 1990, after receiving advice from the Department of the Treasury, the Chairman of KVL's Board signed an agreement with the company documenting the intention and basis for negotiations to execute a legal contract for the sale of KVL's assets;
- ▶ KVL failed to achieve the Government's objectives to further the Government's economic and social justice strategies through the development of an export industry in distance learning;
- ▶ The Government initially exercised control through nominated representatives on the Board which consisted of 6 members. However, when a number of these representatives resigned they were not in all instances immediately replaced and by 31 December 1989 the Board of KVL comprised of only 3 members, none of whom represented the Government. However, in August 1990 a Government representative replaced the Chief Executive Officer on the Board;
- ▶ Upon KVL's establishment, integrated office technology and information systems were purchased at a cost of approximately \$400 000, however due to the lack of achievement of objectives the systems were under-utilised;
- ▶ Expenditure on overseas travel (\$36 000), food and beverages (\$18 000) and business entertainment (\$16 000) was incurred during the period 1987 to 1989 with little evidence of benefits being derived;
- ▶ Fringe benefits tax was not paid on the value of the benefits to KVL staff from regularly participating in business entertainment and consumption of food and beverages;
- ▶ In June 1988 despite the lack of achievements by KVL, additional premises were leased for a 5 year period. After 18 months of operating in 2 premises all staff were relocated into the original premises. This resulted in dead rent during 1990 amounting to \$34 000 and at the date of this Report the premises remain vacant;

- ▶ An arrangement was entered into for the payment of an employee's salary to be paid to a subsidiary of the company in which the employee has a significant interest. Under this arrangement there was no deduction of PAYE tax; and
- ▶ An overseas secondment was arranged to **temporarily** replace the Chief Executive Officer's administrative assistant for a 3 month period which resulted in additional expenditure amounting to \$3 900.

3.21.52 These findings are illustrative of the fact that:

- ▶ The pre-requisites as identified by the committee established by the Government on the development of a telematic industry were not adequately addressed and as a result the likelihood of KVL's success was doubtful;
- ▶ KVL attempted to achieve from its inception so many of the broadly defined government objectives that the initiative was not successfully implemented;
- ▶ The Department of the Treasury (DOT) advised audit that responsibility for the development and implementation of appropriate strategies to achieve the Government's objectives rested with the Board of KVL, however, the Board advised audit that KVL looked towards DOT for direction;
- ▶ The KVL Board of Directors were unsuccessful in analysing and taking the steps needed to achieve financial self-sufficiency. Information presented to the Board failed to focus on key performance indicators including cost centres or project outcomes;
- ▶ As evidenced by KVL's accumulated deficit, the Board failed to tailor its expenditure to available income. This was reinforced by a Director's suggestion in the third year of operations that revenue and expenditure budgets be looked at together as a business and that the business not be looked at as an expenditure organisation and that expenditure needed to be tailored to available income; and
- ▶ Funds were expended prematurely by KVL on overseas travel, additional accommodation and acquisition of computer systems without having regard to the fact that KVL did not have a saleable product and was unable to derive immediate benefits.

Management response by the Department of the Treasury

Options for KVL

During late 1989 considerable effort by KVL's principals and others was invested in seeking an appropriate determination of the initiative with preservation of achievements, systems, people and networks as far as possible to the benefit of the State of Victoria. A variety of arrangements with government departments and other governmental agencies were proposed and investigated by company principals and others. Finally, after other bids had failed, transfer of beneficial ownership of KVL from the Crown to an approved tertiary education institution was investigated between November 1989 and January 1990, inclusive. Arrangements were secured for a Victorian university to take up beneficial ownership from 28 February 1990.

Unfortunately, by mid-1990 it was evident that this proposal would not proceed and liquidation was subsequently agreed. During this period, January 1990 to July 1990, while there were no public servants on the Board there were substantial consultation and monitoring by officers of DOT. In addition, the Government's interests were protected by the safeguards incorporated in the Companies Code.

Offer to purchase assets

This offer was considered the best available at the time, however, it has not yet been finalised.

Development of telematics industry

Evidence exists to demonstrate that, contrary to the conclusions of audit, well over \$11 million per annum in educational export has been achieved by Victoria. A significant portion of this figure is attributable to telematics. Clearly not all of this is directly due to KVL but most certainly the presence and advice of KVL has contributed.

Computer system

While it is true that full utilisation was not realised - it was originally envisaged that the system would have to exist as is without substantial upgrades for 3-5 years. The system purchased as a package upfront attracted a substantial discount, which enabled KVL to acquire the necessary technology to fulfil the projected utilisation.

The information system architecture was based upon an independent consultant's report at the time of KVL formation (November 1986 - January 1987).

Overseas travel

The European connections were not only seen as appropriate in themselves but also provided valuable leads and contacts into Asia/Pacific, particularly as Europeans were often Australia's competitors in Asia/Pacific and KVL was particularly successful in forging a joint venture philosophy with European agencies. All overseas missions were subject to Board approval in accordance with formal policies and procedures. All overseas missions were carefully and closely monitored financially. All travel was at economy level. Considerable and recognised intangible benefits were also gained as a result of these overseas missions. The overseas missions were relevant to, and necessary for, the fulfilment of the KVL brief. All overseas travel in the period 1987-1989 was recognised as bona fide export market development grants expenditure by the Federal Government.

Fringe benefits tax

Advice given to KVL at the time indicated that no liability existed.

Consultancy

The change in payment reflected the commercial contractual arrangement after the initial one year fixed term employment ceased.

Temporary staff placement

The assistant was seconded from the Open Learning Agency (OLA) in Vancouver and the cost was commensurate with that paid to the incumbent. KVL derived significant benefit from the experience of the secondee and procedures and practices of the OLA. KVL consolidated and extended its network in Vancouver and through the OLA network elsewhere in the world. No training of the secondee was required in order to take up the work.

Board management

As a corporate vehicle of State Economic Strategy, KVL, its Board and Principals looked to the Government to determine the strategic future and to set the overall agenda. The Board of KVL carried statutory responsibility for the management and operation of the company.

Company memorandum

Companies are established with wide powers in order to ensure that all possible future activities can be legally carried out. There is nothing to suggest that the then Treasurer believed that the company would carry out all of those 23 objectives in the early years of activity.

Disposal of KVL assets

3.21.53 As a result of KVL's existing financial position, and the failure to obtain further government funding, KVL, in September 1989, examined options for its future operations. A number of arrangements had been considered and although a suitable option was received, delays by government in approving the arrangement resulted in the offer lapsing. On 20 August 1990, 11 months later, KVL's Chief Executive Officer tabled, on behalf of a company in which he had a declared interest, an offer to the Board of KVL. This offer was immediately accepted subject to government approval.

3.21.54 Determination of the sale price would result in the company acquiring all KVL's assets including the integrated office technology and information systems purchased at a cost of over \$400 000, reference material, working files, name and logo, trade debts (with a value of \$13 500), stationery and miscellaneous items **in return for the company satisfying certain liabilities totalling \$82 000.** The agreement also provided for the company to perform all current management service agreements and for the company to sub-lease the premises from the then Department of Property and Services.

3.21.55 KVL subsequently received government approval and formally accepted the offer on 29 August 1990. In accepting the offer, KVL was cognisant of advice provided by a firm of accountants and an asset valuation provided by a firm of valuers. The valuers advised that as a going concern the value of the assets would be \$247 000 and at net realisation the value would be \$46 000. Included in the assets was computer equipment valued at \$196 000 (going concern) and \$26 000 (net realisation).

3.21.56 Audit noted that:

- ▶ the advice provided by the firm of accountants was based on financial information and accounting records provided by the Chief Executive Officer; and
- ▶ the asset valuation was undertaken by a general valuer rather than a expert in the computer broking field and was based on a walk-through estimate only.

3.21.57 In arriving at the consideration of \$82 000 the value of certain assets and liabilities were not included. These were income from the existing management service agreements which at the date of this Report totalled approximately \$25 000, ownership of KVL's name and logo, software, reference material originally purchased by KVL at a minimum cost of \$3 000, working files and a large quantity of stationery.

3.21.58 The Chief Executive Officer possesses an intimate knowledge of KVL's operations and has established overseas contacts in the knowledge industry, has applied for and been granted the right to use the name Knowledge Victoria, and has the use of KVL's assets including the computer systems, premises and KVL's working files. Therefore, it could be taken that for all intents and purposes the Chief Executive Officer, through the Company in which he has a significant interest, would be continuing the operations then being undertaken by KVL. In view of the loss of \$1.6 million of taxpayers' funds, audit is concerned that the assets of KVL were not disposed of by KVL on a going concern valuation.

3.21.59 To date, the Government has paid approximately \$34 000 for termination payment for KVL staff, rental on KVL premises and legal services.

3.21.60 A legal agreement for the sale has not been entered into but the company is enjoying all the benefits of the use of KVL's assets. At this stage I am unaware of a number of aspects of KVL's operations including:

- ▶ revenue derived from the use of KVL's assets; and
- ▶ current existence and whereabouts of KVL's assets.

Management response by the Department of the Treasury

The proposed purchase was made in the clear and open context of no other viable or available option other than auction realisation of assets. The offer included realisation of assets greater than that advised by the general valuers. The management buy out offer was tabled and accepted, however, consummation of the arrangement had not been achieved by 20 February 1991.

The audit report fails to acknowledge the fact that 2 of the Directors of KVL have a close knowledge of the activities of the company and therefore also were in a reasonable position to assess the value of assets involved. Their actions are in accordance with the advice from an independent reputable consultant.

It should also be noted that arrangements for safeguarding and the utilisation of KVL's assets are under the control of the liquidator, who has statutory responsibility to act in the best interests of the shareholders.

Telematics Course Development Fund Trust

3.21.61 Since its establishment the Trust has made funds available to 7 organisations totalling \$350 000. Two of the organisations used the funds totalling \$18 000 to engage KVL as consultants. In addition, the Trust made payments totalling \$273 000 to KVL for services provided under the management service agreement.

3.21.62 Subsequent to the shareholders of KVL agreeing to voluntary liquidation the Trust Deed was amended with the approval of the Treasurer to provide for any corporation or individual selected at the absolute discretion of the Trustees to act as secretariat of the Trust. Under these arrangements the provision of advice has effectively been transferred from a company owned and controlled by the Government to a company over which the Government has no control.

- *Management response by the Department of the Treasury*

The amendment to the Deed of Trust was essential to allow the Trust to operate given the proposed liquidation of Knowledge Victoria Limited. The Deed was amended to provide for the Trust to appoint a secretariat from time-to-time as required. At 30 December 1990, the financial position of the Trust was \$3.8 million in accumulated funds of which \$3.7 million were current assets.

- *Management response by the Trust*

The secretariat fee paid to Knowledge Victoria has been predetermined by government before the appointment of the Trustees.

Audit does not understand the full extent of the time devoted by the secretariat to the encouragement and consideration of applications. In a number of cases their plans did not lead to formal applications even though many hours had been spent on them.

The secretariat had to devote many hours to those investments which the Trust had made, particularly the Video Book of Surgery. The Chief Executive Officer represented the Trustees as a director of the Company and this involved many hours, if not hundreds of hours of work. The Trustees' Minutes of 4 May 1988 indicate that the Board of Knowledge Victoria had expressed concern that the fee being paid might well be inadequate in light of the amount of work being undertaken.

For 1989 the Trustees renegotiated the fee to be paid and based it on the extent of the funds which are being administered.

Subsequently, the Trustees determined to return to a fixed fee but in light of the reduced activities required to be undertaken by the secretariat, the payment was fixed at a lower figure.

Overall conclusion

3.21.63 In audit opinion, KVL is an example of the problems which can arise when substantial funds are provided by government to pursue extremely broad objectives without clearly defined outputs or outcomes. The absence of proper controls and monitoring of KVL's operations including a written agreement or performance targets led to the demise of the company within a period of only 3 years.

- *Management response by the Department of the Treasury*

Recent practice adopted by government in funding agreements is to be more specific in terms of the expected outputs and outcomes from resources provided to government companies.

While there was not a formal agreement, there was an arrangement entered into and involvement of senior public servants in terms of membership of the 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>
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———— MATTERS RESOLVED ————

Department of the Treasury

<i>Ministerial Portfolios, May 1990, pp. 326-7</i>	Audit access was denied to Stamp Duties Office and State Taxation Office records.	Matter now resolved through legislative change.
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<i>Second Report, 1986-87, p.156</i>	Total government liability for superannuation benefits should be disclosed in the accounts of the Treasurer.	Position satisfactory. The government liability has been disclosed in the 1989-90 Treasurer's Statement.
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Emergency Services Superannuation Board

<i>Second Report, 1986-87, p.154</i>	Agreement with State Superannuation Board for transfer of members' funds not finalised.	Agreement has been substantially reached on the amount payable by the State Superannuation Board.
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———— ACTION COMMENCED ————

Department of the Treasury

<i>Third Report, 1983-84, pp.38-9</i> <i>Second Report, 1985-86, p.192</i>	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.	Position improved. The Treasurer has agreed to certain legislative amendments, however, the legislation is yet to be considered by the Parliament. There is a continuing lack of monitoring to ensure legislative compliance.
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———— NO ACTION TAKEN ————

Department of the Treasury

<i>Second Report, 1987-88, p. 305</i>	The State Taxation Office did not have a formal disaster recovery plan for its computer operations.	A disaster recovery plan has not yet been established.
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<i>Ministerial Portfolios, May 1990, pp. 327-8</i>	Some entities were maintaining dual insurance cover.	In some instances dual insurance cover still maintained.
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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>
Completed audits				
Department of the Treasury	30 June 1990	31 October. <i>Annual Reporting Act 1983, s.8.</i>	2 November 1990	2 November 1990 (a)
Capital Works Authority	30 June 1990	31 October. <i>Annual Reporting Act 1983, s.8.</i> Treasurer granted an extension of time to 30 November 1990.	20 November 1990	28 November 1990 (a)
Emergency Services Superannuation Board	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.8.</i> Treasurer granted an extension of time to 28 May 1990.	29 December 1989	2 May 1990 (a)
" "	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.8.</i>	17 October 1990	30 November 1990
Holmesglen Constructions Superannuation Plan	30 June 1989	No reporting requirements. Audit conducted at request of Treasurer.	30 March 1990	3 April 1990
" "	30 June 1990	" "	21 January 1991	28 February 1991
Hospitals Superannuation Board	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.8.</i> Treasurer granted an extension of time to 26 April 1990.	23 March 1990	30 March 1990
" "	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.8.</i>	15 November 1990	22 November 1990
Knowledge Victoria Ltd	31 December 1988	No reporting requirement. Audit conducted at request of the Treasurer.	30 May 1989	29 May 1990
Metropolitan Fire Brigades Superannuation Board	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.8.</i> Treasurer granted an extension of time to 28 May 1990.	29 December 1989	2 May 1990
" "	30 June 1990	30 September. <i>Annual Reporting Act 1983, s.8.</i>	17 October 1990	26 November 1990

Schedule B. Completed/incomplete audits - continued

Entity	Financial year ended	Reporting to Parliament	Financial statements signed by entity	Auditor-General's report signed
Parliamentary Contributory Superannuation Fund	30 June 1989	30 September. <i>Annual Reporting Act</i> 1983, s.8. Treasurer granted an extension of time to 31 December 1990.	18 June 1990	3 July 1990
" "	30 June 1990	30 September. <i>Annual Reporting Act</i> 1983, s.8. Treasurer granted an extension of time to 21 January 1991.	21 January 1991	21 January 1991
Pensions Supplementation Fund	30 June 1989	No reporting requirement. Audit conducted at request of Treasurer.	31 January 1990	4 May 1990
Rural Finance Corporation	30 June 1990	30 September. <i>Rural Finance Act</i> 1988, s.28.	6 September 1990	7 September 1990
SIO Services Pty Ltd	30 June 1990	No reporting requirements. Audit conducted at request of Treasurer and under Companies (Victoria) Code.	17 September 1990	5 October 1990
SIO Superannuation Pty Ltd	30 June 1990	" "	17 September 1990	5 October 1990
State Employees Retirement Benefits Board	30 June 1990	30 September. <i>Annual Reporting Act</i> 1983, s.8. Treasurer granted extension of time to 21 January 1991.	27 December 1990	28 December 1990
State Insurance Office	30 June 1990	30 September. <i>State Insurance Office Act</i> 1984, s.24.	17 September 1990	5 October 1990 (a)
State Superannuation Fund	30 June 1990	30 September. <i>Annual Reporting Act</i> 1983, s.8. Treasurer granted extension of time to 21 January 1991.	24 December 1990	21 January 1991
Transport Superannuation Board	30 June 1990	31 October. <i>Annual Reporting Act</i> 1983. Treasurer granted extension of time to 21 January 1991.	27 December 1990	28 December 1990

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 1990	30 September. <i>Building Societies Act 1986, s.24.</i>	31 October 1990	23 November 1990
Victorian Development Fund	30 June 1990	30 September. <i>Public Account Act 1958, s.7G.</i>	28 November 1990	30 November 1990
Victorian Economic Development Corporation	30 June 1990	31 December. <i>Victorian Economic Development Act 1981, s.43.</i>	7 September 1990	7 September 1990
Victorian Public Authorities Finance Agency	30 June 1990	30 September. <i>Victorian Public Authorities Finance Authorities Act 1984, s.14.</i>	31 August 1990	14 September 1990
Incomplete audits				
Knowledge Victoria Ltd	31 December 1989	No reporting requirements. Audit conducted at request of Treasurer.	Field audit work completed. Final review currently being undertaken.	
Pensions Supplementation Fund	30 June 1990	No reporting requirements. Audit conducted at request of Treasurer.	Finalisation of audit pending the receipt of actuarial information.	
Tattersall Sweep Consultation	30 June 1990	No reporting requirements. <i>Tattersall Consultations Act 1958, s.8A.</i>	Audit is nearing completion.	
Telematics Course Development Fund Trust	31 December 1989	No reporting requirements. Audit conducted at request of Treasurer.	Field audit work completed. Final review currently being undertaken.	

(a) Qualified audit opinions provided.

PART 4

BROAD SCOPE ISSUES

4.1

**PUBLIC SECTOR
SUPERANNUATION SCHEMES****BACKGROUND**

4.1.1 There are currently 14 major superannuation schemes operating in Victoria providing lump sum, pensions and disability payments to employees of State Government departments and public bodies. Benefits paid to members by the schemes for the year ended 30 June 1990 totalled \$1.7 billion.

4.1.2 In September 1984, the Economic and Budget Review Committee reported to the Parliament on the results of its inquiry into public sector superannuation schemes. The report contained a range of recommendations aimed at rationalising the number of schemes and improving their management and accountability.

4.1.3 This Section includes comments on some significant matters relating to public sector superannuation schemes.

UNFUNDED SUPERANNUATION LIABILITIES

4.1.4 At 30 June 1990 the liabilities of public sector superannuation schemes totalled \$21.2 billion. Only 3 of the superannuation schemes were fully-funded at that date, namely the Gas and Fuel Superannuation Fund, the MTA Superannuation Fund and the State Casual Employees Superannuation Fund. **The unfunded portion of the liabilities, that is, the level of employer contributions not yet paid to the schemes in respect of services rendered by members up to 30 June 1990, stood at \$16.4 billion.**

4.1.5 Table 4.1A provides details of the superannuation liabilities and the unfunded component of each scheme.

**TABLE 4.1A. SUPERANNUATION LIABILITIES,
30 JUNE 1990**

<i>Superannuation scheme</i>	<i>Total superannuation liabilities</i>	<i>Unfunded liabilities</i>	<i>Percentage of unfunded to total liabilities</i>
	<i>(\$m)</i>	<i>(\$m)</i>	<i>(%)</i>
City of Melbourne Superannuation Fund	68	28	41.0
Emergency Services Superannuation Scheme	923	657	71.2
Gas and Fuel Superannuation Fund	249	Nil	
Hospitals Superannuation Fund	755	407	53.9
Local Authorities Superannuation Board	1 258	425	33.8
Melbourne and Metropolitan Board of Works Superannuation Fund	342	50	14.6
Metropolitan Fire Brigades Superannuation Fund	113	85	75.2
MTA Superannuation Fund	21	Nil	
Parliamentary Contributory Superannuation Fund	64	9	14.1
SEC Superannuation Fund	1 563	219	14.0
State Casual Employees Superannuation Fund	16	Nil	
State Employees Retirement Benefits Fund	388	336	86.6
State Superannuation Fund	15 197	13 918	91.6
Transport Superannuation Fund	284	231	81.3
Total	21 241	16 365	77.0

4.1.6 For 2 of the above superannuation schemes, the Emergency Services Superannuation Scheme and the State Superannuation Fund, part of the unfunded liabilities can be attributed to specific financial arrangements entered into between the Government and the superannuation schemes. Detailed comment on these arrangements is provided in Section 3.21 of this Report.

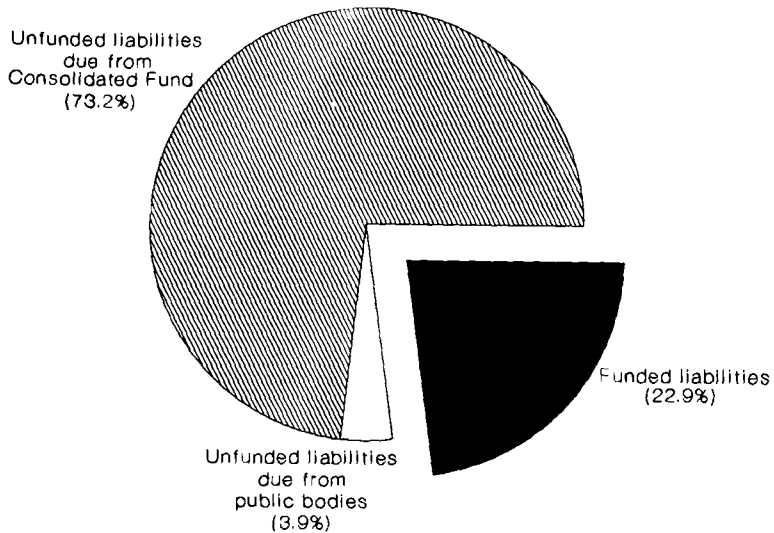
Management response by the Ministry of Finance

The unfunded liability referred to is not a current debt due to the Funds. This \$16.3 billion is an actuarial estimate of the present value of future benefits payable by the Funds.

There is no arrangement between the Government and the State Superannuation Board. The unfunded liability arises from the provisions of the State Superannuation Act 1988.

4.1.7 The major portion of the unfunded liabilities will require contributions from the Consolidated Fund. Chart 4.1B highlights the unfunded liabilities relating to the Consolidated Fund and public bodies.

**CHART 4.1B. DISSECTION OF UNFUNDED LIABILITIES
AT 30 JUNE 1990**



4.1.8 It should be recognised that, in respect of these unfunded liabilities, services have been rendered by employees and the benefit of these services has been received by employer agencies. This position is contrary to the "inter-generational equity" concept which suggests that superannuation liabilities should be recognised and funded by employer agencies at the time when services are provided by employees. The extent of the above unfunded superannuation liabilities indicates that future taxpayers will be required to pay for superannuation benefits arising from past services.

Management response by the Ministry of Finance

The present method of funding superannuation has been followed since 1966 and any change must involve additional outlays by the Consolidated Fund, which can only be considered in the context of the State Budget.

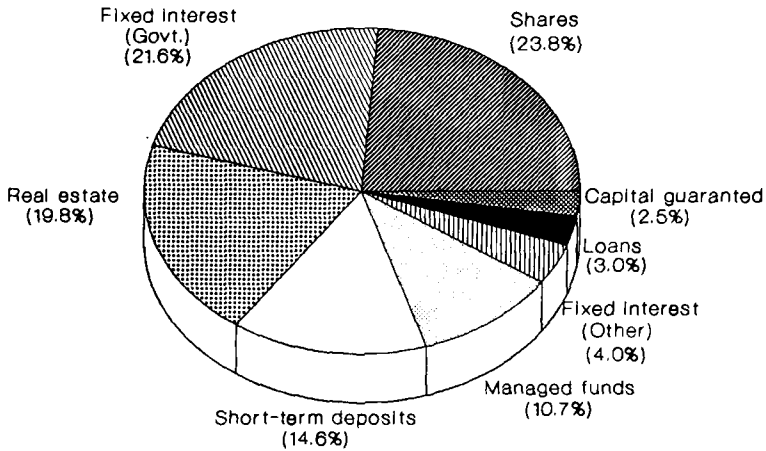
INVESTMENT MIX AND PERFORMANCE OF SUPERANNUATION SCHEMES

4.1.9 Investments by the major public sector superannuation schemes at 30 June 1990 amounted to \$5.2 billion.

4.1.10 The fundamental investment objective of superannuation schemes should be to achieve the highest expected yield compatible with an acceptable degree of risk in both current and projected economic conditions. Generally, the investment portfolios need to be structured in line with the risk profile of the superannuation scheme as reflected through expected maturity dates of liabilities to members.

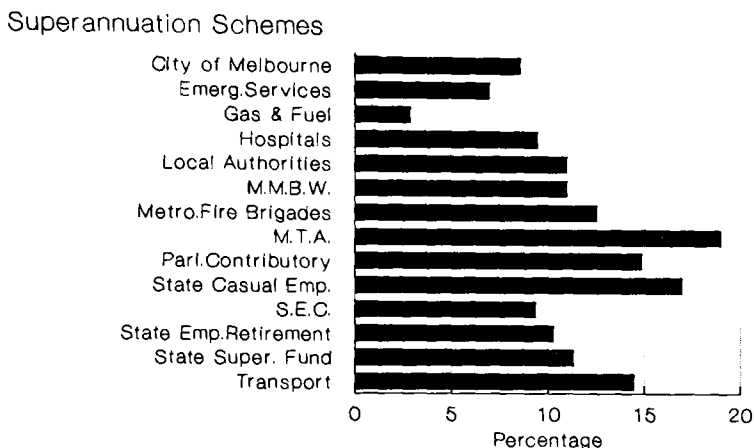
4.1.11 The types of investments currently held by superannuation schemes include property, shares, fixed interest securities and short-term deposits. Chart 4.1C shows the investment mix of public sector superannuation schemes at 30 June 1990.

**CHART 4.1C. SUPERANNUATION SCHEMES INVESTMENT MIX,
30 JUNE 1990**



4.1.12 Investment performance may be measured by the average rate of return on investments. Chart 4.1D illustrates the average rate of return on investments achieved in 1989-90 by each of the public sector superannuation schemes.

**CHART 4.1D. AVERAGE RETURN ON INVESTMENTS,
1989-90**



4.1.13 As indicated, the rate of return on investments for the schemes ranged from around 3 to 19 per cent. The overall average return for the period was 11.5 per cent. For several schemes, favourable returns were achieved from fixed interest investments and short-term deposits because of the relatively high interest rates which prevailed during 1989-90.

4.1.14 In 2 cases, namely the Gas and Fuel Superannuation Fund and the Emergency Services Superannuation Scheme, the average return was below the Consumer Price Index inflation rate of 7.9 per cent for the year (as reported by the Australian Bureau of Statistics). Such a differential represents an erosion in the value of the investment portfolio in real terms.

4.1.15 Both of these schemes have a high proportion of investments in real estate and equities relative to other schemes. Although market conditions which prevailed during 1989-90 were not conducive to high returns on such investment categories, investment returns in these areas have proven to be reliable in the long-term.

OCCUPATIONAL SUPERANNUATION STANDARDS (OSS) REGULATIONS

4.1.16 From 1 July 1990 all public sector superannuation schemes were required to comply with the *Occupational Superannuation Standards Act 1987* and the *Occupational Superannuation Standards Regulations* enforced by the Insurance and Superannuation Commissioner. Schemes that do not comply with the regulations may be classified as "non-complying" and taxed at the highest rate whereas complying schemes are taxed at the concessional rate of 15 per cent on their taxable income.

4.1.17 The regulations require schemes to comply with a range of conditions including the need for incorporating actuarial and audit reports within financial reports to members.

4.1.18 Most superannuation schemes have engaged consultants to assist them in complying with these regulations.

TAXATION OF SUPERANNUATION SCHEMES

4.1.19 Prior to 30 June 1988, the income of both private and public sector superannuation schemes was exempt from income tax under the terms of the *Income Tax Assessment Act 1936*.

4.1.20 Legislative amendments effective from 1 July 1988 provided that superannuation schemes would be liable for income tax. A concessional rate of tax of 15 per cent is applicable to the net investment income of complying superannuation schemes, employer contributions and to all realised capital gains on or after that date.

4.1.21 For the year ended 30 June 1990, the total tax liability of public sector superannuation schemes was \$12 million.

TIMELINESS OF REPORTING BY SUPERANNUATION SCHEMES

4.1.22 The major public sector superannuation schemes are designated bodies under the *Annual Reporting Act* and, accordingly, are required to comply with the financial reporting regulations under that Act.

4.1.23 Table 4.1E shows the dates on which the 1989-90 financial statements of superannuation schemes were signed by the schemes and the dates of the audit opinions expressed by the Auditor-General on the financial statements.

TABLE 4.1E. TIMELINESS OF FINANCIAL REPORTING, 1989-90

<i>Superannuation scheme</i>	<i>Financial statements signed by scheme</i>	<i>Audit report signed</i>
City of Melbourne Superannuation Fund	28.02.91	(a)
Emergency Services Superannuation Scheme	17.10.90	30.11.90
Gas and Fuel Superannuation Fund	27.11.90	21.12.90
Hospitals Superannuation Fund	15.11.90	22.11.90
Local Authorities Superannuation Board	29.10.90	26.11.90
Melbourne & Metropolitan Board of Works Superannuation Fund	28.11.90	21.12.90
Metropolitan Fire Brigades Superannuation Fund	17.10.90	26.11.90
MTA Superannuation Fund	26.11.90	30.11.90
Parliamentary Contributory Superannuation Fund	21.01.91	21.1.91
State Casual Employees Superannuation Fund	26.11.90	30.11.90
SEC Superannuation Fund	21.11.90	21.12.90
State Employees Retirement Benefits Fund	27.12.90	28.12.90
State Superannuation Fund	24.12.90	21.1.91
Transport Superannuation Fund	27.12.90	28.12.90

(a) Audit not completed.

4.1.24 Concern is expressed at the extensive delay between the end of the financial year and the finalisation of the audited financial statements.

4.1.25 Audit has been recently advised of a positive initiative taken by a working party, comprising representatives of the major public sector superannuation schemes, which aims to establish a program for more timely completion of financial statements in 1991.

QUALIFIED AUDIT OPINIONS, 1989-90

ROLE OF EXTERNAL AUDIT IN THE FINANCIAL REPORTING PROCESS

4.2.1 The *Report on Ministerial Portfolios, May 1990* described the role of external audit in the financial reporting process as one of adding credibility to financial statements, through the expression of an audit opinion, in order to provide accurate and reliable information to users.

4.2.2 External audit functions performed by the Auditor-General in the public sector are designed to assist the Parliament in its overview of the financial activities of public bodies and in assessing how well organisations have met their responsibilities for accurate and reliable reporting of financial affairs.

4.2.3 An unqualified or clear audit opinion expressed on financial statements is a message to users that reliance may be placed on the reported information.

4.2.4 In reaching an opinion on financial information, the Auditor-General uses 2 yardsticks, namely:

- ▶ fair presentation in accordance with the requirements of Australian Accounting Standards issued by the accounting profession; and
- ▶ compliance with financial regulations prescribed by legislation, such as the *Annual Reporting Act* in Victoria.

DEVELOPMENTS OVER THE YEAR

4.2.5 For some years now a section of the Auditor-General's Report has been devoted to examining the high incidence of qualified audit opinions. In the *Report on Ministerial Portfolios, May 1990* the view was expressed that there was scope for the Department of the Treasury to play an important role in encouraging management to avoid audit qualifications. **In view of the fact that the financial statements of 217 public bodies were qualified in 1989-90 (220, 1988-89), audit considers that there is scope for the Department to assume a greater role in assisting management to eliminate the causes of audit qualifications.**

Management response by the Department of the Treasury

The Department of the Treasury (DOT) and the Ministry of Finance (MOF) both support the view that it would be desirable to see the number of audit qualifications reduced and are seeking to do so by playing a more proactive consultative role with agencies. Concurrent monitoring of qualifications is also conducted in order to eliminate existing issues which have given rise to qualifications.

4.2.6 A summation of the more significant issues which led to the qualifications is provided in the following paragraphs.

Financing transactions

4.2.7 In recent years, the nature and extent of complex financing arrangements in Victoria has increased. Audit found it necessary to issue qualified audit opinions in cases where these arrangements had, in my opinion, been reported in accordance with their strict legal form rather than the substance of the financial transactions.

4.2.8 Audit recognises that it is management's prerogative to determine how it proposes to manage financial costs and raise funds for the carrying out of operational activities. However, notwithstanding their complexity, the financing arrangements should be reported in terms of their financial reality and in accordance with Australian Accounting Standards.

Management response by the Department of the Treasury

In accounting for complex "financing transactions" the issue of "substance over form" is considered by DOT.

In these cases, DOT seeks to obtain appropriate accounting and legal opinions. However, in some cases because of the complex nature of the transactions it is possible that legal and accounting opinions outlining appropriate treatment in accordance with the Australian Accounting Standards may differ. DOT follows the advice received on accounting for individual transaction with the express purpose of meeting the Australian Accounting Standards.

Non-consolidation

4.2.9 The non-consolidation of the financial statements of trusts and companies with those of public bodies which benefit from the activities of such entities gave rise to audit concern, particularly in the health sector. The 1989-90 financial statements of 4 entities within the health sector were qualified by audit because of non-consolidation of *subsidiary* entities.

4.2.10 Audit considers that the key criterion relevant when determining if an entity should be consolidated within a public body's financial statements is the extent of control and influence exerted by the reporting body over the affairs of the entity. If a public body controls and is benefiting from the activities of *subsidiary* entities, the public body has, from an in-substance viewpoint, an equitable interest in the entity. In such circumstances, consolidated financial statements should be prepared.

4.2.11 The audit approach on this matter has been, vindicated by the recently issued Australian Accounting Standard on consolidated financial statements and recent events in the corporate sector.

Management response by the Department of the Treasury

DOT supports the view that controlled bodies should be consolidated by controlling bodies, however, in practice the determination of control is not always simple.

In portfolios with a range of diverse bodies, consolidation would be overly simplistic and does not always increase the usefulness of accounting information.

Asset reporting and valuation

4.2.12 Major issues which once again attracted audit attention in 1989-90 were:

- ▶ the decision by many organisations to continue to inadequately value and disclose vested assets in their financial statements; and
- ▶ incomplete asset records to substantiate the value of assets disclosed in financial statements and associated depreciation charges.

4.2.13 The financial statements of 193 entities were issued with qualified audit opinions for matters relating to inadequate asset reporting and valuation-

Management response by the Department of the Treasury

The project for reporting and valuation of assets was initiated by DOT some 3 years ago. During that period DOT has systematically approached this issue with the result that many bodies now have or will soon be finalising the establishment of comprehensive asset registers. In addition, Accounting Policy Statement Number 4 on Asset Recording and Reporting which is due for release shortly will further enhance reporting.

The valuation of public sector properties used for non-commercial purposes is not always clear cut and is currently being addressed. Similarly, the issue of when a government agency should disclose as an asset, properties which it is utilising but over which it has no legal title is not always clear and will be the subject of further consideration.

Debt restructuring

4.2.14 In June 1990, an accounting guidance release on Debt Restructuring was issued by the Australian Accounting Research Foundation. The release requires that any gains or losses on extinguishment of debt be recognised in the profit and loss statement and not deferred in the balance sheet.

4.2.15 Notwithstanding the issue of the guidance release, 2 major public bodies continued to defer gains from debt restructuring rather than include the gains as part of the periodic operating result.

Conclusion

4.2.16 The review of matters which have given rise to the issue of qualified audit opinions during 1989-90 has again highlighted that management in many instances has not ensured that financial statements have been adequately presented in accordance with Australian Accounting Standards and relevant financial reporting legislation. Accordingly, there is still a need for action by the Department of the Treasury to rectify the continuing high incidence of audit qualifications, particularly in respect of asset valuations.

Management response by the Department of the Treasury

The Annual Reporting Act 1983 and Regulations require all departments to present audited financial statements and statements of operations so as to provide useful information to Parliament on performance and accountability. The same Act also requires public bodies to report in accordance with Australian Accounting Standards in so far as they are applicable. DOT and the Ministry of Finance (MOF) monitor the performance of agencies in complying with these standards and are currently consulting with the management of public bodies with a view to improving overall performance in recognition and responding to issues of concern.

DOT and MOF also seek to improve channels of communication with audit to permit the audit process to play a more constructive role in government, particularly, in regard to performance audits, where the focus shifts from a narrow financial perspective of financial performance to issues of economy, efficiency and effectiveness. To this end, DOT and MOF are currently undertaking discussions at senior officer level with the Auditor-General on this matter.