

VICTORIA

Auditor-General
of Victoria

REPORT ON PUBLIC SECTOR AGENCIES

Results of 30 June 2001 financial statement audits

November 2001

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AUDITOR GENERAL
VICTORIA

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President
Legislative Council
Parliament House
MELBOURNE

The Hon. A. Andrianopoulos MLA
Speaker
Legislative Assembly
Parliament House
MELBOURNE

Sir

I am pleased to forward this report to you for presentation to each House of Parliament, pursuant to section 15 of the *Audit Act* 1994.

This report sets out the results of financial statement audits conducted on public sector agencies pertaining to the financial year ending 30 June 2001, and the results of a number of special reviews undertaken up to the date of preparation of this report.

Yours faithfully

J.W. CAMERON
Auditor-General

27 November 2001

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Part 1

Executive Summary

MAJOR FINDINGS

SUMMARY OF AUDIT RESULTS

Pages 9 - 23

- While there has been a significant improvement in the timeliness of completion of audited financial statements and performance statements by local government entities, there remains scope for improvement in the timeliness of completion of audited financial statements in other portfolios.

Paras 3.1 to 3.11 and 4.1 to 4.7

- Timeliness of reporting is an essential characteristic of an effective accountability process. Accordingly, it is important that avenues are identified and pursued to improve the timeliness of the financial reporting process.

Paras 3.3 to 3.5 and Para. 3.11

- Anomalies were identified in a number of the 2000-01 annual reports published by public hospitals. The findings weaken the quality of reporting of these hospital boards to Parliament.

Paras 3.16 to 3.19

RESULTS OF SPECIAL REVIEWS

Pages 25 - 99

HIH Insurance Group collapse – Cost and impact on Victorian public sector agencies

- The aggregate financial exposures of Victorian public sector agencies arising from the HIH collapse were estimated to be around \$81.7 million.

Paras 5.7 to 5.54

- The ultimate cost of the collapse will be impacted by any future claims associated with events that are currently unknown and insured under HIH policies, and the level of any future recoveries from the HIH liquidator.

Paras 5.8 to 5.10

- Given that the recovery process will undoubtedly be lengthy and complex, a major challenge for the State and its public sector agencies will be the implementation of appropriate strategies to ensure that recoveries from the HIH liquidator are maximised and, therefore, the financial impact of the collapse relating to the public sector is minimised.

Paras 5.55 to 5.57

RESULTS OF SPECIAL REVIEWS

Pages 25 - 99

Outcome of IT audits of government departments and other agencies

- There remains scope for further improvement to various aspects of the IT environment within many of the agencies subject to audit review.

Paras 5.65 to 5.88

Financial viability of hospitals

- The overall financial condition of the public hospital sector improved in the 2000-01 financial year.
Paras 5.89 to 5.93
- Central Gippsland Health Service and Goulburn Valley Health showed signs of deterioration in their financial position since June 2000, while a further 26 hospitals (11 hospitals located in the metropolitan area and 15 located in country Victoria) had unfavourable results.
Paras 5.94 to 5.98
- During the year under review, the Government implemented a number of actions designed to improve the financial standing of public hospitals.
Para. 5.99
- The Department is currently monitoring several hospitals which are considered to be operating under some financial difficulty. While we support this action, it is important that the key issues affecting their financial performance are identified and strategies are implemented to overcome the existing problems, while maintaining quality health services.
Para. 5.102

RESULTS OF SPECIAL REVIEWS – continued**Pages 25 - 99****Housing rental arrears**

- While the amount of net rent raised has increased by 26.3 per cent over the last 5 years, the level of rental arrears has increased by 58.2 per cent to \$10.6 million as at 30 June 2001 - \$11.9 million of rental arrears were written-off as bad debts over this 5 year period.

Paras 5.103 to 5.110

- The Department of Human Services should closely monitor the level of rental arrears and bad debts written-off, and implement strategies to ensure that further increases are minimised.

*Para. 5.11***Financial viability of Tourism Victoria**

- Tourism Victoria which is responsible for developing and marketing the State as a competitive tourist destination, was facing financial difficulties as at 30 June 2001.

Paras 5.112 to 5.114

- Subsequent to year-end, additional funding has been provided to the Authority to assist in improving its financial position. It remains important for the Authority to clearly identify the key issues affecting its financial performance, implement strategies to address these issues and ensure the effectiveness of its ongoing financial planning and monitoring.

Paras 5.115 to 5.117

RESULTS OF SPECIAL REVIEWS – continued**Pages 25 - 99****City of Greater Geelong's involvement in the
Geelong Business and Trade Centre**

- Establishing the Geelong Business and Trade Centre Limited which operated from premises in Southbank, Melbourne was an initiative of the City of Greater Geelong and members of the Geelong business community. The Company was established to boost the profile and image of Geelong.

Para. 5.118

- The Company experienced capitalisation and cash flow problems from the commencement of its operations in September 1999. These problems ultimately resulted in the Company Directors appointing an Administrator on 1 May 2001 with the Company ceasing operations later that month.

Para. 5.122

- The City has borne significant costs amounting to approximately \$492 000 from the collapse of the Company with limited benefit in terms of the achievement of Council's objectives for its community.

Para. 5.124

- The absence of a sufficiently comprehensive feasibility study and an adequate business plan is considered to be one of the primary reasons for the ultimate failure of the Company.

Paras 5.132 to 5.134

- The Council's involvement with the establishment and operation of the Company clearly breached section 193 of the *Local Government Act* 1989, in that Ministerial and Treasurer's approval for Council's involvement was not obtained. The Council's failure to seek approval under section 193 for its involvement with this Company also had the effect of circumventing the accountability provisions requiring the audit of the Company by my Office.

Paras 5.137 to 5.145

- No formal mechanisms were established to enable the City's senior management and the Council to progressively monitor its ongoing involvement with the Company.

Paras 5.147 to 5.151

- Council agreed to guarantee an overdraft facility for the Company of up to \$200 000 but subsequent to the Company's collapse agreed to pay the bank between \$220 000 and \$232 500.

Paras 5.159 to 5.163

RESULTS OF SPECIAL REVIEWS – continued**Pages 25 - 99****Sale of Harding Park, Geelong**

- A State-owned property, known as Harding Park, was sold in July 1999 following a public tender process. The public tender process was managed by the Department of Treasury and Finance, with the Site sold to the highest bidder for \$1.6 million.

Paras 5.193 and 5.194

- The development company which acquired the Site from the State Government in July 1999 was closely associated with a company which was involved in negotiations with the City of Greater Geelong for much of 1998 relating to the possible acquisition and development of the Site.

Para. 5.195

- There was an absence of documentation of the reasons underpinning the actions taken by City officers in relation to the Site, and the nature and content of discussions and negotiations with the developer over an extended period. This has exposed the City and its officers to suggestions of improper conduct.

Para. 5.232

- While the marketing and tender period approved by the Department was consistent with government policy requirements, a longer period may have been warranted to ensure that all prospective bidders had sufficient time to assess the development potential of the Site.

Paras 5.247 to 5.249

- The Department did not request the nominated City officer to document advice provided to prospective tenderers and ensure that all prospective tenderers had access to the same information.

Paras. 5.252

- The City had a legitimate role in seeking to protect its interests and those of its community. However, these interests should have been pursued by seeking to have input into the tender evaluation process and criteria prior to the commencement of the process. The attempt by the City to influence the tender process after it had commenced can only be regarded as misguided and inappropriate.

Paras 5.227 to 5.230

Part 2

Summary of audit results

Parliament

SUMMARY OF AUDIT RESULTS

2.1 Parliament, as the law-making body of the State, provides the base from which the Government is formed. It comprises the Crown (represented by the Governor), the Legislative Council and the Legislative Assembly, which collectively form the legislature. The scrutiny and deliberative roles of the Parliament are complemented by a number of committees, the role of which is to inquire, investigate and report upon proposals or matters referred to them by either House or by the Governor-in-Council, or in certain circumstances, upon a self-initiated reference.

2.2 The administrative support services of the Parliament and the associated Committees are provided by 5 parliamentary departments, namely, the Legislative Council, the Legislative Assembly, Parliamentary Debates (Hansard), the Parliamentary Library and Parliamentary Services. The primary function of these departments is to service the 2 Houses and associated committees, as well as to provide administrative support for Members and electorate offices.

Finalisation of financial statements

2.3 While no reporting requirements are established in legislation in relation to the administrative operations of the Parliament, under a standing arrangement with the Presiding Officers of both Houses, my Office undertakes an annual audit of the financial statements of Parliament (which comprises the 5 parliamentary departments), which are prepared consistent with the requirements of the *Financial Management Act 1994*.

2.4 Under recent amendments to the *Constitution Act 1975*, the Victorian Auditor-General's Office now forms part of the Parliament. The financial reporting requirements of the Office are set out in section 7B of the *Audit Act 1994*, which provides that, as soon as practicable after the end of each financial year, the Auditor-General must prepare financial statements which comply with section 49 of the *Financial Management Act 1994* and provide them to the independent auditor appointed by the Parliament for auditing. The Auditor-General must then, as soon as practicable, cause an annual report which includes a report of operations and the audited financial statements, to be transmitted to each House of the Parliament.

2.5 During the 2000-2001 financial audit cycle, confirming audit opinions were issued on the financial statements prepared by the Parliament of Victoria and the Victorian Auditor-General's Office. Table 2A outlines the timing of the finalisation of the financial statements and the issue of the audit opinions.

**TABLE 2A
TIMELINESS OF FINANCIAL STATEMENT COMPLETION**

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2001 BALANCE DATES			
Parliament of Victoria	30 Aug. 2001	✓	4 Sept. 2001
Victorian Auditor-General's Office (a)	18 Oct. 2001	✓	18 Oct. 2001

(a) The Victorian Auditor-General's Office was audited by a private sector auditor. The current auditor was appointed by the Parliament on 26 September 2001, following the resignation of the previous auditor in early July 2001.

Part 3

Summary of audit results

General government

SUMMARY OF AUDIT RESULTS

3.1 At 30 June 2001, the Auditor-General, under the authority of the *Audit Act* 1994, had responsibility for the conduct of the financial statement audits of around 550 public sector agencies. Approximately 78 per cent, or 430 of these agencies have a 30 June balance date. The remaining agencies (comprising mainly educational bodies and associated companies, cemetery trusts and alpine resort management boards) have either 30 September, 31 October or 31 December balance dates. This section of the report summarises the results of audits of public sector agencies (other than those relating to Parliament and the local government sector), with 30 June 2001 balance dates, which mainly comprise:

- departments and other administrative units;
- public bodies, such as government business undertakings and public financial institutions;
- public hospitals and ambulance services;
- registration boards;
- superannuation funds;
- companies and joint ventures;
- regional waste management groups; and
- water authorities.

3.2 This Part of the report also provides an analysis of the timeliness of financial statement completion for those agencies with financial years ending 30 June 2001, and the nature of audit opinions issued.

Timeliness of financial reporting

3.3 The annual reporting and audit requirements for departments and other public sector agencies are set out in the *Financial Management Act* 1994 and the *Audit Act* 1994. Under section 45 of the Financial Management Act, each department and public body must submit its annual financial statements to the Auditor-General within 8 weeks of the end of the financial year.

3.4 The Auditor-General is then required by the *Audit Act* 1994 to complete the audit of these financial statements within 4 weeks of their receipt. Accordingly, the legislative framework requires the audited financial statements of the public sector to be completed within 12 weeks of the end of the relevant financial year.

3.5 Finally, within 4 months of the end of the financial year or the next sitting day after the end of the fourth month, the relevant Minister is required to table in each House of Parliament the annual report of each entity, including the audited financial statements.

3.6 Table 3A illustrates the overall performance of public sector agencies with 30 June 2001 balance dates in meeting the statutory requirement associated with the completion of audited financial statements.

TABLE 3A
TIMELINESS OF FINANCIAL STATEMENT COMPLETION,
ALL DEPARTMENTS AND PUBLIC SECTOR AGENCIES WITH
30 JUNE 2001 BALANCE DATES (a)

Finalisation of audited financial statements (no. of weeks after end of financial period)	Entities	
	Number	Per cent (cumulative)
Less than 8 weeks	29	9
8 to 10 weeks	46	23
10 to 12 weeks	55	40
12 to 14 weeks	90	67
14 to 16 weeks	33	77
More than 16 weeks (b)	75	100
Total	328	-

(a) Excluding Parliament and the local government sector.

(b) Includes 22 entities whose financial statements had not been finalised at the date of preparation of this report.

3.7 Table 3A demonstrates that there is scope for improvement in the timeliness of completion of audited financial statements, with 40 per cent of entities meeting the 12 week legislated completion timeframe. The audited financial statements of 77 per cent of all agencies were finalised within 16 weeks of year-end.

3.8 Table 3B illustrates the performance of public sector agencies by ministerial portfolio in meeting the 12 week legislated completion timeframe for both the 1999-2000 and 2000-2001 reporting cycles.

TABLE 3B
TIMELINESS OF FINANCIAL STATEMENT COMPLETION BY PORTFOLIO,
1999-2000 AND 2000-01

Portfolio	2000-01		1999-2000	
	Number of statements finalised within 12 weeks	Per cent	Number of statements finalised within 12 weeks	Per cent
Education, Employment and Training	1	20	1	20
Human Services	35	31	51	49
Infrastructure (a)	4	27	6	40
Justice	9	47	5	28
Natural Resources and Environment	33	42	19	24
Premier and Cabinet	5	42	4	33
State and Regional Development	6	35	6	35
Treasury and Finance	37	54	40	61
Total	130	40	132	42

(a) Excludes local government bodies which are outlined in Part 4 of this report.

3.9 The overall timeliness of completion of audited financial statements declined slightly in 2000-01, with 40 per cent of entities meeting the 12 week legislated completion timeframe compared with 42 per cent in 1999-2000. The performance of 3 portfolios in meeting the legislated timeframe (Justice, Natural Resources and Environment, and Premier and Cabinet) improved since the previous reporting cycle.

3.10 The general decline in the timeliness of completion of audited financial statements is in part attributable to the introduction of a number of new accounting standards, which became effective for financial years ending on or after 30 June 2001.

3.11 Timeliness of reporting is an essential characteristic of an effective accountability process. Accordingly, it is important that avenues are identified and pursued to improve the timeliness of the financial reporting process.

Nature of audit opinions issued

3.12 As at the date of preparation of this report, 281 clear audit opinions were issued on the financial statements of public sector agencies (excluding local government and related entities) with 30 June 2001 balance dates, with qualified audit opinions issued on 25 financial statements. Appendix A to this report provides information about the timing of the finalisation of the financial statements and the issue of the audit opinion, and nature of the audit opinions issued in respect of each agency during the audit cycle.

3.13 The major reasons for the issue of qualified audit opinions were as follows:

- A number of qualified audit opinions were issued in respect of inappropriate disclosure of grants within financial statements. These grants, which were non-reciprocal in nature, were not disclosed in accordance with Australian Accounting Standard AAS 15 – *Revenue* which requires that they be treated as income in the accounts of the recipient in the year of receipt. The majority of these qualifications were issued in respect of public hospitals (12 instances), with one agency within the Justice portfolio also subject to a qualified audit report on this issue;
- The financial statements of 4 hospitals were qualified on the grounds that they failed to consolidate foundations that were regarded as “controlled entities” in accordance with Australian Accounting Standard AAS 24 – *Consolidated Financial Reports*;
- The financial statements of 5 agencies in the Human Services portfolio were qualified on the grounds that they failed to revalue land and buildings or other significant asset classes as required by the *Financial Management Act 1994*. The financial statements of one agency in the State and Regional Development portfolio, and one agency in the Natural Resources and Environment portfolio, were also qualified on this issue; and

- The audit opinion issued on the Docklands Authority’s 2000-01 financial statements contained several audit qualifications due to the adoption of inappropriate accounting policies relating to municipal assets, public road works and Commonwealth Government grants for the Commonwealth Technology Port. In particular, the Authority wrote-off certain municipal assets which remained within their responsibility, retained part of the value of certain road assets which were not controlled by the Authority, and carried forward certain grants which were non-reciprocal in nature and should have been recognised as revenue.

3.14 Other qualified audit reports were issued due to the inappropriate recognition of debtors (2 instances in the Human Services portfolio) and the incorrect recognition of an expense and an associated liability (one instance in the State and Regional Development portfolio).

3.15 “Emphasis of matter” comments were included in the audit reports on the South Eastern Medical Complex Limited, and Casey’s Weir and Major Creek Rural Water Authority to draw attention to a significant uncertainty as to whether these entities will continue as going concerns. Comment on this issue in the respective audit reports was considered relevant for the users of the financial statements, but was not of such a nature that affected the audit opinions.

Annual reports of public hospitals

3.16 To ascertain the integrity of the public annual reporting process for public hospitals, upon completion of the 2000-01 audit cycle, my Office reviewed a selection of 30 annual reports of public hospitals, which were tabled in Parliament under the requirements of the *Financial Management Act* 1994. The aim of the review was to determine whether the published financial reports were the same as the financial reports audited by my Office.

3.17 Eight of the 30 hospital published annual reports examined contained anomalies when compared with the financial reports audited by my Office, including:

- 3 instances where the annual report did not include the audit opinion issued by my Office and, in 2 of these instances qualified audit opinions were issued; and
- 5 instances where information accompanying the financial statements varied from that included in the financial statements audited by my Office.

3.18 As part of our review, the relevant hospitals were notified of the anomalies identified in their annual reports.

3.19 **These matters are of concern. The findings weaken the quality of reporting of these hospital boards to Parliament. It is critical that the processes adopted by the sector for the preparation of annual reports ensure that reports to Parliament contain the audited financial statements and the accompanying audit opinions actually issued by my Office.**

Part 4

Summary of audit results

Local government

SUMMARY OF AUDIT RESULTS

4.1 At 30 June 2001, the Auditor-General, under the authority of the *Local Government Act* 1989 and the *Audit Act* 1994, had responsibility for the conduct of financial statement audits for the following local government agencies:

- 78 municipal councils;
- 6 associated companies; and
- 16 regional library corporations.

4.2 In addition, the Auditor-General, under the authority of the *Local Government Act* 1989, had responsibility for the conduct of the audit of the performance statements prepared by the 78 municipal councils.

4.3 This section of the report provides an analysis of the timeliness of financial statement and performance statement completion for the most recent audit round and the nature of audit opinions issued.

Timeliness of financial reporting

4.4 The annual reporting and audit requirements for entities in the local government sector are generally set out in the *Local Government Act* 1989 and the *Audit Act* 1994. Under section 126 of the *Local Government Act* 1989, each municipal council and regional library corporation must submit its annual report, including a report of operations, and audited financial statements to the Minister for Local Government within 3 months of the end of the financial year. The annual report of municipal councils is also required to include an audited performance statement. Under the *Audit Act* 1994, the Auditor-General is required to make a report on the audit of the financial statements within 4 weeks of their receipt.

4.5 Table 4A illustrates the overall timeliness of entities within the local government sector in the completion of audited financial statements and, where applicable, performance statements during the 1999-2000 and 2000-01 reporting cycles.

TABLE 4A
TIMELINESS OF AUDITED FINANCIAL STATEMENT AND, WHERE
APPLICABLE, PERFORMANCE STATEMENT COMPLETION WITHIN THE
LOCAL GOVERNMENT SECTOR, 1999-2000 AND 2000-01

Finalisation of audited statements (no. of months after end of financial period)	2000-01		1999-2000	
	Number of entities	Per cent (cumulative)	Number of entities	Per cent (cumulative)
Within 3 months	72	72	36	36
3 to 4 months	19	91	37	73
Over 4 months	(a) 9	100	27	100

(a) Includes 8 entities whose audited statements had not been finalised as at the date of preparation of this Report.

4.6 Table 4A demonstrates that there has been a significant improvement in the timeliness of completion of audited financial statements and, performance statements by local government entities. Around 72 per cent of local government entities completed their 2000-01 statements within 3 months, compared with only 36 per cent in 1999-2000.

4.7 Timeliness of reporting is an essential characteristic of an effective accountability process. Accordingly, it is important that avenues are identified and pursued to further improve the timeliness of the financial reporting process.

Nature of audit opinions issued – financial statements

4.8 At the date of preparation of this report, 84 clear audit opinions had been issued on the 2000-01 financial statements of local government entities, with qualified audit opinions issued on 8 financial statements. Appendix B to this report provides information about the timing and nature of the audit opinions issued in respect of each entity during the audit cycle. The major reasons for qualified audit opinions related to non-compliance with the requirements of Australian Accounting Standards dealing with the valuation, depreciation and reporting of non-current assets. Specific issues included:

- failure to undertake a condition assessment of non-current assets when undertaking revaluations (5 instances);
- failure to undertake asset revaluations with sufficient regularity (1 instance);
- inappropriate accounting for a change in the condition of infrastructure assets (1 instance); and
- lack of adequate documentation to support asset valuations (1 instance).

Nature of audit opinions issued – performance statements

4.9 At the date of preparation of this report, 63 clear audit opinions had been issued on the performance statements prepared by municipal councils, with 10 performance statements subject to audit qualification. The major reasons for the issue of qualified audit opinions were:

- failure to include all business plan performance measures and targets in the performance statement (6 instances);
- performance targets by which the performance of the council may be judged were not set out in the business plan (2 instances); and
- sufficient and appropriate records did not exist to support actual results included in the performance statement for certain performance measures (2 instances).

RESPONSE provided by Executive Director, Local Government Division, Department of Infrastructure

Local government are independent entities with responsibilities under the Local Government Act 1989 to submit annual reports to the Minister for Local Government in accordance with the Act.

The Department of Infrastructure will continue to assist local government entities to meet their responsibilities through enhancing their capacity and clarifying the legislative requirements. Currently, there appears to be some confusion around what should be included in the "Performance Statements". This issue is being addressed through the proposed update of the Local Government Act 1989.

Misappropriation of funds at Queen Victoria Market Pty Ltd

4.10 Subsequent to 30 June 2001, the Queen Victoria Market Pty Ltd identified a misappropriation of funds of approximately \$191 000. The matter has been the subject of an internal investigation and was subsequently referred to the Victoria Police for investigation with a view to laying charges against the person responsible. Independently, the market has commenced proceedings for recovery against an individual in the Supreme Court. That action will be heard in 2002.

Part 5

Special reviews

- HII insurance group collapse - cost and impact on Victorian public sector agencies __ 27
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HIH INSURANCE GROUP COLLAPSE – COST AND IMPACT ON VICTORIAN PUBLIC SECTOR AGENCIES

5.1 Prior to being placed into provisional liquidation on 15 March 2001, the HIH Insurance Group (HIH) – a major private sector insurance group – provided 2 broad categories of insurance to individuals and public and private sector organisations, namely:

- general insurances, such as public liability, motor vehicle, professional indemnity and directors' liability; and
- insurances regulated by certain State and Territory legislation, including workers' compensation, compulsory third party motor vehicle and builders' warranty.

5.2 HIH was placed into provisional liquidation following an internal review of its operations in early March 2001 which indicated that it faced substantial losses for the half year to 31 December 2000, and that losses from HIH's discontinued operations in the UK and USA, and other discontinued international business written from Australia, could no longer be sustained by HIH's Australian operations.

5.3 Subsequently, in August 2001 the New South Wales Supreme Court placed HIH into liquidation. A Royal Commission Inquiry has also been established by the Commonwealth Government to examine the reasons for, and circumstances surrounding, the failure of HIH prior to the appointment of the provisional liquidator. The Royal Commission findings are due to be reported by 30 June 2002.

5.4 In response to the HIH collapse, the Commonwealth Government and various State and Territory Governments have established financial assistance packages for those adversely affected by the collapse. In particular, the Commonwealth Government assistance package, which is expected to cost \$640 million, offers assistance to various categories of individuals, small businesses, not-for-profit organisations and local government bodies, except where insurance cover is governed by State or Territory regulated insurance schemes.

5.5 The assistance packages established by the various State and Territory Governments cover the various insurance schemes regulated under their legislation. The largest of these packages was introduced in New South Wales and covers compulsory third party motor vehicle and builders' warranty insurances.

5.6 Given the significant involvement of HIH in the provision of insurance services to the Victorian public sector, we conducted a review to assess the financial impact of the HIH collapse on Victorian public sector agencies.

Summary of findings

5.7 The audit review identified that the financial exposures of Victorian public sector agencies arising from the HIH collapse were in the following areas:

- State-regulated insurance schemes, mainly the builders' warranty and the workers' compensation schemes;

- insurance policies held by government departments and other public sector entities, where there were either:
 - outstanding claims or known events that may give rise to future claims; or
 - a possibility existed that future claims may emerge; and
- investments in HIH shares held by public sector agencies.

5.8 Based on the best available information, the aggregate financial exposures of Victorian public sector agencies arising from the HIH collapse were estimated by us to be around \$81.7 million as at the date of preparation of this report. However, the ultimate cost of the collapse will be impacted by any future claims associated with events that are currently unknown and insured under HIH policies, and the level of any future recoveries from the HIH liquidator. Such possible claims and recoveries have not been taken into account in determining the above estimate as they could not be reliably determined and were unlikely to be determined for some time into the future.

5.9 The aggregate financial exposures, which will be reduced by any future recoveries from the HIH liquidator, are to be financed as follows:

- **building industry** - to be funded through the payment of higher building permit levies (\$16 million);
- **employers** - to be ultimately funded through future premiums payable under the State's workers' compensation insurance scheme (\$22 million);
- **ratepayers** - to be funded through the insurance premiums payable by councils and regional water authorities, the cost of which will be on-passed to ratepayers (\$4 million); and
- **taxpayers** - to be funded from revenues raised by public sector agencies (\$40 million).

5.10 As at the date of preparation of this report, formal processes to facilitate the recovery of funds from the HIH liquidator had not been established by the Government as a "scheme of arrangement", which specifies how and to what extent HIH debts are to be settled, was not expected to be determined by the HIH liquidator for another 12 to 18 months.

5.11 Given that the recovery process will undoubtedly be lengthy and complex, a major challenge for the State and its public sector agencies will be the implementation of appropriate strategies to ensure that recoveries from the HIH liquidator are maximised and, therefore, the financial impact of the collapse relating to the public sector is minimised.

5.12 Table 5A provides an outline of the key Victorian public sector financial exposures arising from the HIH collapse, while further commentary on these exposures is provided later in this report.

TABLE 5A
ESTIMATED COSTS AND EXPOSURES OF VICTORIAN PUBLIC SECTOR AGENCIES FROM
THE HIH COLLAPSE, NOT INCLUDING FUTURE LIQUIDATOR RECOVERIES
(\$million)

<i>Exposure</i>	<i>Estimated amount</i>	
<i>State regulated insurance schemes -</i>		
<i>Builders' warranty insurance -</i>		
Government financial assistance scheme - claims and administrative costs (a) (c)	31.2	
Costs incurred by the Building Control Commission on HIH-related issues	0.4	31.6
<i>Workers' compensation insurance -</i>		
Pre-1985 workers' compensation obligations of HIH to employers (b) (c)	8.0	
Estimated recoveries, from negligent third parties insured with HIH, of compensation paid by Victorian WorkCover Authority (d)	14.0	22.0
<i>Transport accident insurance -</i>		
Estimated recoveries, from negligent third parties insured with HIH, of compensation paid by the Transport Accident Commission		0.6
<i>Estimated claims costs/exposures - regulated schemes</i>		54.2
<i>General Insurance policies - outstanding claims or known events that may give rise to claims -</i>		
Department of Natural Resources and Environment - public liability (known claims to 31 August 2001 relating to policies with HIH covering 1995 to 1997, to be funded by the Victorian Managed Insurance Authority)	8.0	
Department of Human Services and related agencies - medical negligence, general liability, professional indemnity, directors and officers liability, construction risk	5.5	
Gascor - professional indemnity relating to former Gas and Fuel Corporation consultancies	5.0	
Local government and regional water authorities - Mutual Liability Insurance Scheme, stop loss insurance (e)	4.3	
Universities	1.4	
Other agencies	1.0	
<i>Estimated costs/exposure - general insurance</i>		25.2
Investments in HIH shares held by public sector agencies		2.3
Total estimated costs/exposures		81.7

- (a) Represents the estimated cost of the scheme in present value terms (nominal value \$35.2 million). The cost is to be funded on a 50:50 basis from government revenues and an increase to the building permit levy. The cost includes administration expenses of \$3.9 million (in nominal value terms) expected to be incurred in managing the assistance package.
- (b) Represents the present value of Victorian Workcover Authority's (VWA) liabilities associated with the pre-1985 workers' compensation obligations of HIH, not including expected recoveries from the HIH liquidator. The VWA has recognised a liability of \$7.5 million in its financial statements, which is net of expected recoveries from the HIH liquidator of 10 cents in the dollar (present value of \$540 000).
- (c) The estimated exposures associated with the builders' warranty and workers' compensation schemes were actuarially determined, however, they are subject to substantial uncertainty due to limitations in the available information.
- (d) The VWA has estimated that it would have recovered up to \$14 million of compensation paid from parties insured with HIH.
- (e) Based on an actuarial assessment, the Mutual Liability Insurance Scheme whose membership includes local government and water bodies, expects to incur a shortfall in funding of \$5 million, which would have been covered under HIH insurance policies, in relation to claims made in respect of years of operation from 1993 to 1998. This shortfall will be taken into account by the scheme when determining future insurance premiums for participating bodies. The estimated portion of the shortfall attributable to Victorian public sector participants is \$4.3 million.

State-regulated insurance schemes

5.13 As previously indicated, the HIH collapse has impacted in varying degrees on the financial operations of the State's regulated insurance schemes - mainly the builders' warranty and workers' compensation schemes. The aggregate financial exposures of these schemes arising from the collapse have been estimated at \$54.2 million. Comments follow in relation to the impact on the various insurance schemes.

Builders' warranty insurance scheme

5.14 To protect homeowners against building defects and the financial failure of builders, the Victorian *Building Act* 1993 requires all building practitioners to obtain specified insurance cover for all contracts with a value exceeding \$5 000. This insurance scheme commenced operating in May 1996 and replaced the former house contracts guarantee scheme operated by Housing Guarantee Fund Limited (HGFL) – a company created in 1984 through the merger of the Housing Builders Association Limited and Master Builders Housing Fund Limited.

5.15 Under the builders' warranty insurance scheme, private sector insurers are the sole providers of builders' warranty insurance. HIH was one of 3 insurance companies that offered such insurance to builders in Victoria and is believed to have held between 15 and 20 per cent of the market. HIH also provided builders' warranty insurance in New South Wales, South Australia, Western Australia and the Australian Capital Territory.

5.16 Given the substantial consumer and business hardship that could have resulted from the HIH collapse, while not legally bound to do so, in May 2001 the Minister for Finance announced a rescue package to assist homeowners whose builders' warranty insurance cover had been adversely affected by the collapse. The package applies to works commencing before 31 May 2001, for which a building permit was issued before 30 April 2001, and is aimed at those individuals:

- who have previously made a claim against an HIH policy for a house defect which had not been repaired;
- who did not have a current claim against HIH but were entitled to lodge one if a defect became evident within the 6.5 year period allowed for claims under the insurance policy (i.e. from the time of completion of construction and first occupancy); and
- whose home construction was commenced on the basis of a building permit that was backed by an HIH insurance policy, but where work had not yet been completed.

5.17 The Department of Treasury and Finance commissioned an independent actuarial assessment to determine the likely cost to the State of assuming the compensation obligations of HIH. This was completed in May 2001.

5.18 The actuarial assessment estimated the liability for HIH builders' warranty claims in Victoria to be between \$9.2 million and \$28.8 million. The wide range in the estimate arises due to:

- The records held by HIH being incomplete and containing numerous inconsistencies and discrepancies;
- In undertaking the assessment, the ability to utilise trends in historical claims experience was limited due to the fact that builders' warranty insurance business had only been written by HIH since 1996;
- The assessment was undertaken as at 31 December 2000, and did not provide for insurance policies written after that date. The actuary indicated that the additional liability for policies written after that date could be in the order of approximately \$2 million; and
- Insurance premium information was only available on an Australia-wide basis and it was necessary to make assumptions as to the amount of HIH's builders' warranty business that related to Victoria.

5.19 After taking into account the estimated administrative expenses associated with managing builders' warranty insurance claims, but excluding potential recoveries from the liquidator, the cost of assuming the builders' warranty insurance compensation obligations of HIH was expected by the actuary to total around \$35.2 million (representing an estimated present value of \$31.2 million). However, the actuary indicated that there was substantial uncertainty in this estimate.

5.20 The Victorian Government's builders' warranty insurance rescue package was facilitated by the *House Contracts Guarantee (HIH) Act 2001*, which came into effect in June 2001. In particular, the Act:

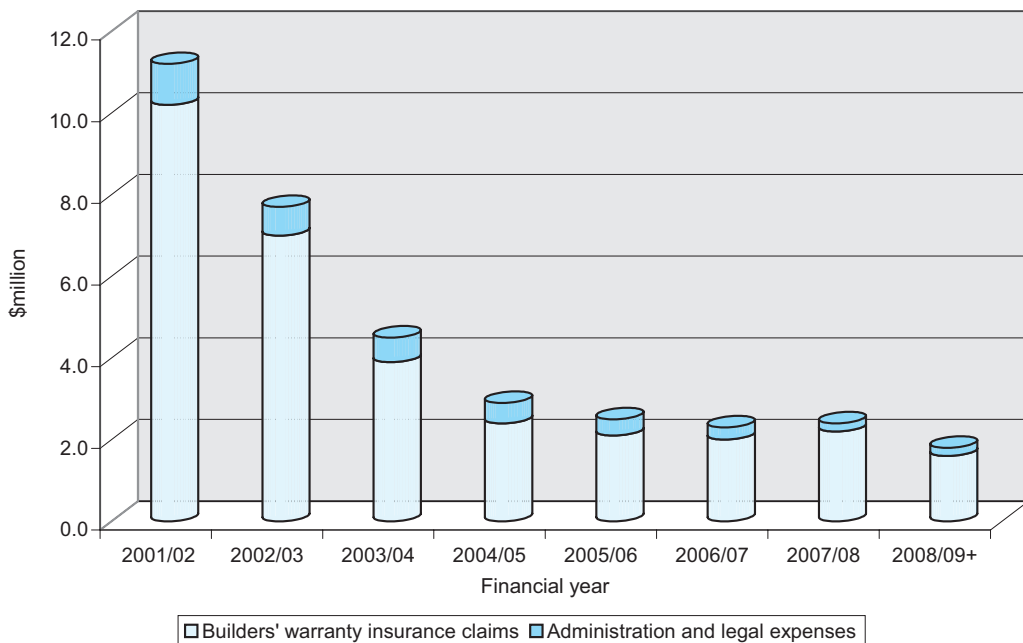
- establishes a State indemnity scheme (the Scheme) to offer home owners insurance benefits equivalent to those in the HIH builders' warranty policy;
- allows claims to be made under the Scheme, subject to the claimants assigning all rights of recovery against other parties to the State;
- provides for Housing Guarantee Fund Limited (HGFL) to manage the Scheme on the State's behalf;
- provides for an additional building permit levy of 0.032 cents per dollar of domestic building work for which a building permit levy is sought (except where the value of the building work is \$10 000 or less), to meet part of the cost of the scheme – with the State meeting the balance of the cost of the scheme from State revenues;
- establishes a separate fund – the Domestic Building (HIH) Fund (the Fund) to be administered by HGFL on the State's behalf, into which all receipts relating to the Scheme are to be placed and from which all expenses relating to the Scheme are to be paid; and

- enabled the Building Practitioners Board discretion until 30 July 2001 not to impose the mandatory suspension of builders who did not have the required builders' warranty insurance as a consequence of the HIH collapse.

5.21 The additional building permit levy, which is estimated to raise approximately \$2 million per year, will be collected by the Building Control Commission and transferred to the Fund on a monthly basis. The levy will operate from 1 July 2001 until 30 June 2010, although provision exists under the *House Contracts Guarantee (HIH) Act 2001* for it to be discontinued at an earlier time, if required.

5.22 Chart 5B below shows, for each year of the Scheme's operation, the projected cost of builders' warranty insurance claims and the estimated level of administration and legal expenses.

CHART 5B
DOMESTIC BUILDING (HIH) INDEMNITY FUND, PROJECTED COST
OF BUILDERS' WARRANTY INSURANCE CLAIMS AND ADMINISTRATION EXPENSES
 (\$million)



5.23 As at the date of finalising this review (mid-September 2001), the Scheme had received 676 claims for compensation. Of these claims, 15 were rejected and 45 had been finalised and paid, at a cost of \$1.3 million. The remainder were in various stages of consideration and finalisation.

5.24 The Scheme is to be funded on an equal basis by the State, and the building industry through the additional building permit levy. However, as the majority of claims are anticipated to occur early in the life of the Scheme, the State is to provide a much larger funding contribution during that time. The State's contribution to the Fund is to comprise \$17.6 million over the 8 year period, consisting of a payment of \$10 million in the first year of the Scheme's operation (which was provided in June 2001) and further annual payments from the Consolidated Fund as required thereafter.

5.25 Under the *House Contracts Guarantee (HIH) Act* 2001, the financial report of the Fund is to be audited annually by the Victorian Auditor-General, with HGFL required to annually report on the administration of the Scheme and the Fund in its Annual Report to Parliament. Furthermore, if the Treasurer determines at any time that there is an excess of moneys in the Fund over the amount required to meet the anticipated payments from the Fund, the Act allows the excess to be directed in whole or part to the Consolidated Fund.

5.26 **Given the substantial uncertainty associated with the estimated liabilities under the builders' warranty insurance scheme, it will be important that the exposure to the State is effectively managed.**

Impact of the collapse of HIH on the building industry

5.27 Under the *Building Act* 1993, it is illegal for building practitioners to carry out domestic building work with a value exceeding \$5 000 unless the required builders' warranty insurance is in place. The Building Practitioners Board (BPB) may suspend a builder's registration where this requirement is not satisfied.

5.28 As a result of the HIH collapse, approximately 4 000 building practitioners were left without builders' warranty insurance. While the *House Contracts Guarantee (HIH) Act* 2001 amended the *Building Act* 1993 to allow the BPB to defer the suspension of builders' registration, this provision ceased to have effect on 31 July 2001.

5.29 **As at the date of finalising this review (mid-September 2001), the BPB had suspended 1 597 builders who had not obtained replacement insurance, including builders that had left the industry or otherwise had not sought insurance for reasons other than the HIH collapse. A further 762 builders had been provided with an amnesty from suspension as they were still seeking insurance but were finding it difficult to finalise their arrangements due to insurance companies' tighter requirements for coverage. Of these builders, 666 were subsequently suspended, however had an opportunity to appeal their suspension.**

5.30 At the time the Government's rescue package was approved, the Ministers for Finance, Planning and Consumer Affairs agreed to investigate the effectiveness of the current building warranty scheme in minimising the risk to the State and possible alternatives to the current scheme. As at the date of preparation of this report, the terms of reference for this review were being finalised and a steering committee, comprising representatives from the Building Control Commission, Department of Treasury and Finance, and Consumer and Business Affairs Victoria (which forms part of the Department of Justice), had been formed to report to the Ministers by the end of May 2002.

Workers' compensation insurance scheme

5.31 Prior to September 1985, workers' compensation insurance was directly provided to Victorian employers by a number of private sector insurance companies. Since 1985, a public sector workers' compensation scheme has operated in Victoria, currently administered by the Victorian WorkCover Authority (VWA) and mainly funded from premiums paid by employers. Authorised agents are appointed by the VWA under the authority of the *Accident Compensation Act* 1985 to collect premiums, issue insurance policies, and manage claims for workers' compensation on its behalf.

5.32 HIH had acted as one of the authorised agents of the VWA up until March 2001, when it sold its workers' compensation business to another insurer, prior being placed into provisional liquidation. This change in control was approved by the VWA in late March 2001 and the new insurer assumed HIH's responsibilities as an authorised agent without any negative impact on the operations of the workers' compensation scheme.

5.33 Under the authority of the *Workers Compensation Act* 1985, the VWA is required to assume responsibility for the compensation obligations of insurers for workers' compensation insurance issued to employers, prior to the establishment of the public sector compensation scheme in 1985, where the insurers can no longer meet these obligations. As HIH was one of the insurers of Victorian employers prior to September 1985, the VWA has been required to assume responsibility for the related HIH workers' compensation obligations.

5.34 An assessment provided by VWA's actuary in August 2001 has estimated the liability for the pre-1985 workers' compensation obligations of HIH to be around \$13.6 million in nominal value terms. However, similar to the builders' warranty insurance assessment, there is substantial uncertainty regarding the reliability of this estimate due to the:

- historical experience of HIH claims not being available, which required the number and value of expected future claims included in the estimate to be based on the claims experience of another failed insurer whose compensation obligations were being met by the VWA; and
- estimate containing provision for asbestos-related claims, which have a long latency period and are subject to a high degree of uncertainty.

5.35 The VWA has recognised this liability in its financial statements for the year ended 30 June 2001 at its present (discounted) value of \$7.5 million, which includes provision for expected recoveries from the HIH liquidator of 10 cents in the dollar (\$1.36 million in nominal value terms, or \$540 000 in present value terms).

5.36 A separate fund, known as the Insurers' Guarantee Fund, is administered by the VWA to cover the Authority's compensation obligations associated with failed insurers. As at 30 June 2001, the aggregate liabilities of this fund resulting from the insolvency of 5 insurers (including HIH) were substantially unfunded and totalled \$21.1 million.

5.37 In addition to the direct assumption of the HIH workers' compensation liabilities, the VWA expects a reduction in recoveries from third parties whose negligence caused or contributed to injury. In the majority of cases, the negligent third party has public liability insurance to cover such events, with HIH believed to have had 20 to 30 per cent of this insurance business.

5.38 The allowable period for recoveries is limited to 6 years after a claim has arisen, therefore, recoveries for the period March 1995 to March 2001 (when HIH was placed in provisional liquidation) are at risk. **The VWA has estimated that, based on HIH's share of the public liability insurance business, it would have expected to recover up to \$14 million from HIH over the next 2 years for claims arising during the period up to the provisional liquidation.** The VWA has not recorded the impact of the reduction in claims recoverable in its financial statements for the year ended 30 June 2001, given limitations on the reliability of measurement.

Other regulated insurance schemes

5.39 The Transport Accident Commission (TAC), which was established under the *Transport Accident Act* 1986 to provide compulsory third party transport accident insurance to owners of registered motor vehicles in Victoria and to administer the accident compensation scheme, is entitled to recover from "at fault" or "legally liable" third parties moneys it has paid on transport accident compensation claims.

5.40 **The TAC estimates that a total of \$630 000 is outstanding in relation to public liability claims against a third party insured with HIH,** some of which may not be recoverable and will be dealt with on a claim-by-claim basis.

5.41 The TAC also currently has approximately 40 claims, which total \$226 000, related to accidents involving Victorian-registered motor vehicles in New South Wales and Queensland, where compulsory third party insurance was provided by HIH (as a licensed insurer) under State-regulated insurance schemes. However, it expects that this amount will be recovered in full from government companies set up in New South Wales and Queensland to compensate accident victims where the vehicle at fault cannot be identified or is unregistered, and which are also required to assume the insurance obligations of licensed insurers that become insolvent.

Other insurance policies with outstanding claims or known events that may give rise to claims

5.42 The Victorian Managed Insurance Authority (VMIA) was established under the *Victorian Managed Insurance Authority Act 1996* to provide central insurance coverage to government departments and other eligible budget sector government bodies. Prior to its establishment, insurance coverage was provided to these government agencies directly by private insurers, including HIH.

5.43 Non-budget sector government agencies are not required to insure through the VMIA and, as a consequence, a number of these agencies also hold insurance policies issued by HIH.

5.44 The Department of Treasury and Finance has taken a number of steps in order to identify the extent of financial exposures resulting from insurance policies issued to agencies by HIH, including facilitating surveys of:

- government business enterprises, undertaken in March 2001; and
- departments and other VMIA participating government bodies, undertaken in May 2001.

5.45 As part of our review, we also assessed the exposures of all government agencies in August 2001 (including entities within both the budget and non-budget sectors, local government and universities) to comprehensively identify the impact on the Victorian public sector of the HIH collapse.

5.46 The reviews undertaken by our Office and the Department of Treasury and Finance identified aggregate exposures of the wider public sector (including local government and universities) amounting to \$25.2 million, which included:

- *Department of Natural Resources and Environment (DNRE)*, insured against public liability claims for the period November 1995 to October 1997 – with outstanding claims having an assessed maximum value of \$7.4 million. The VMIA has agreed under established arrangements to fund all known DNRE public liability claims as at 31 August 2001 relating to the 1995 to 1997 policy years. After allowing for claim handling expenses and a prudential margin, a provision of \$8 million has been made by the VMIA for these claims in its 2000-01 financial statements;
- *Department of Human Services (DHS)* various insurance cover, including:
 - *public healthcare agencies*, insured against medical negligence for the period from 1981 to 1993, together with directors' and officers' liability, and professional indemnity insurance for the period from 1990 to 1996 – with outstanding claims of approximately \$3.1 million;

- *funded non-government organisations, such as kindergartens, neighbourhood and community houses, disability support services and youth support services, insured for general liability, professional indemnity, directors and officers liability, and medical negligence covering various timeframes during the period from 1987 to 2000 – with outstanding claims of \$492 000; and*
- *the Department generally, insured for construction risk, material damage and public liability for at least the past 5 years – with outstanding claims of approximately \$813 000.*

The above claims are being managed by the VMIA on the Department's behalf. Based on actuarial advice, an amount of \$5.5 million has been provided to meet the estimated costs, including claims handling, associated with the HIH policies;

- *Gascor Pty Ltd, professional indemnity insurance cover with HIH in relation to claims settled by Gascor, arising from the provision of consultancy services by the former Gas and Fuel Corporation of Victoria (GFCV) to the Public Utilities Board of Singapore (now PowerGas), relating to a transmission pipeline project in Singapore. Gascor's insurance claim for the settlement sum and costs has been settled with all insurers other than HIH – with Gascor's claim against HIH of \$5 million still outstanding;*
- *Monash University, insured with HIH against public liability, professional indemnity and directors' and officers' claims from 1992 up to 2000 – with 15 outstanding claims totalling \$438 000 based on current estimates. The University also estimates that its exposure to "incurred but not received" claims should not exceed \$250 000 in relation to these policies;*
- *Victoria University of Technology, public liability, professional indemnity, and motor vehicle insurance with HIH during various periods from 1994 to 2001 – with 19 outstanding claims totalling \$430 000 against these policies;*
- *RMIT University, general and products, professional indemnity and legal liability insurance with HIH until 31 December 2000 – with 8 outstanding claims of approximately \$239 000 against these policies;*
- *Victorian Arts Centre Trust, insured with HIH against public liability claims during the 1993-94 financial year – with outstanding liabilities estimated at \$600 000;*
- *Victorian Channels Authority, channel operations insurance with HIH from 1998 to 2000 – with the Victorian Channels Authority paying during the 2000-01 financial year an amount of \$175 000 in settlement of a dispute, which was payable by HIH; and*
- *Emergency Services Superannuation Board, property insurance with HIH prior to 1 July 1998 – with estimated outstanding claims of \$200 000. Action associated with these claims is due to be heard in the District Court of NSW within the next 12 months, and the Board may be required to meet the cost of settlement.*

5.47 Councils within the local government sector and regional water authorities, in Victoria and Tasmania, have significant exposures in the Mutual Liability Insurance Scheme, which provides public liability and professional indemnity insurance cover. The scheme was established in September 1993 under the authority of the *Municipal Association Act 1907*, and is operated by Civic Mutual Plus (CMP) on the sector's behalf.

5.48 CMP has advised that the scheme held "stop loss" insurance with HIH for the period 1993 to 1998, to protect against there being insufficient funds to meet the claims made in respect of that period. An estimate, provided by the scheme's actuary, indicates that the scheme is likely to incur a shortfall of \$5 million for the years of operation prior to 1998, \$4.3 million of which is attributable to Victorian public sector entities.

5.49 This shortfall is to be initially funded from the scheme's accumulated surplus and is to be taken into account when assessing future contributions from participants.

5.50 A mutual insurance scheme is also provided by the Australian and New Zealand Universities Protection and Indemnity Foundation (known as Unimutual) for universities in Australia and New Zealand, of which Latrobe University and the University of Melbourne are members. Unimutual held certain insurance policies with HIH until December 2000 and has identified an estimated exposure of approximately \$2.4 million as at 1 May 2001 in relation to the stop loss insurance cover held with HIH. However the scheme also held sufficient net assets to cover this exposure. In addition, Unimutual may be eligible, as a "small business", for financial assistance from the support package established by the Commonwealth Government in response to the HIH collapse, which may reduce the extent of this exposure. At the date of preparation of this report, Unimutual has indicated that it would not call for additional contributions from participating universities.

5.51 More broadly, all universities' exposures may also be reduced by the extent that the universities are eligible, as "charitable organizations", for financial assistance from the support package established by the Commonwealth Government in response to the HIH collapse.

Insurance policies with no known claims or events that may give rise to future claims

5.52 In addition to the known claims, potential exposures also exist where insurance coverage has been provided by HIH to public sector agencies, but there are currently no claims against the policies insurance or known events that may give rise to such future claims. These exposures fall mainly within the following types of insurance formerly provided by HIH:

- public liability;
- professional indemnity;
- medical negligence;
- directors' and officers' liability;
- water industry catastrophe;

- land development professional indemnity;
- fidelity guarantee; and
- motor vehicle.

5.53 HIH also provided catastrophe reinsurance cover to the VMIA, up until December 2000, for its industrial special risks and public liability insurance programs. While the VMIA directly insures departments and other participating bodies for the first \$50 million of claims per year under these insurance programs, a number of different private sector insurers (including HIH) provided varying levels of cover to the VMIA, from \$50 million up to \$1.2 billion for industrial special risks claims and from \$50 million up to \$700 million for public liability claims.

5.54 The VMIA has advised that it is highly unlikely that any future claims will arise against the HIH cover provided under these arrangements.

Recoveries from liquidation

5.55 A “scheme of arrangement” is to be established to facilitate the winding up of HIH, which will specify how, and to what extent, its debts are to be settled. At the time that HIH was placed into formal liquidation, the liquidator indicated that it would be:

- 12 to 18 months before a scheme of arrangement would be prepared, due to HIH’s significant offshore assets, the nature of its reinsurance arrangements, and the complexity of its inter-company relationships; and
- at least 2 years before any interim payments are made, with up to 10 years before creditors receive final payments.

5.56 The State Government has the status of an unsecured creditor of HIH and must wait for the scheme of arrangement to be finalised in order to proceed with recoveries from the company’s liquidator. As this is not expected to occur for some time, as previously stated, the Government is yet to establish any formal processes to deal with claims against the liquidator. However, the Department of Treasury and Finance has indicated that government agencies will be individually required to lodge proof of debt with the liquidator.

5.57 **As the recovery process will undoubtedly be lengthy, it is important for agencies to be disciplined in pursuing the recovery of moneys owed. Monitoring by the Department of Treasury and Finance of progress made by agencies in this regard would assist in ensuring that maximum recoveries are obtained.**

Investments in HIH held by government agencies

5.58 Our review of investments held by Victorian government entities in HIH identified one entity (the Transport Accident Commission) holding shares in HIH. The cost of acquisition of the HIH shares held as part of its investment portfolios was \$2.3 million. Given that the shares have been suspended from trading and will be delisted from the Australian Stock Exchange as a result of the liquidation of HIH, the shares effectively now have nil value.

5.59 The shares have been held by the Commission since 1998 and have been recognised at market value in its financial report. The negative impact of the share value write-down on the Commission's financial results has been recognised over a number of financial years.

NO RESPONSE was provided by Secretary, Department of Treasury and Finance to the issues raised.

OUTCOMES OF IT AUDITS AT GOVERNMENT DEPARTMENTS AND OTHER AGENCIES

5.60 Our June 2001 *Report on Ministerial Portfolios* provided comment on the outcome of a number of information technology (IT) reviews of departments and selected public sector agencies, which were undertaken as part of the financial audit process for the 1999-2000 financial year.

5.61 Similar reviews have since been undertaken as an integral component of the financial audit process of agencies with reporting dates ending on 31 December 2000, comprising mainly educational institutions, and 30 June 2001, comprising government departments and other public sector agencies.

5.62 The purpose of the IT reviews was to assess the strength of information technology controls within the computer environments in these agencies relevant to the production of financial reporting information by agencies.

5.63 During 2000-01, 29 entities were subject to IT audit review including government departments, water and sewerage authorities, local government councils, hospitals, universities and other public sector agencies. These entities subject to review included many that were reviewed during the 1999-2000 financial year but also encompassed additional agencies, particularly in the education and local government sectors.

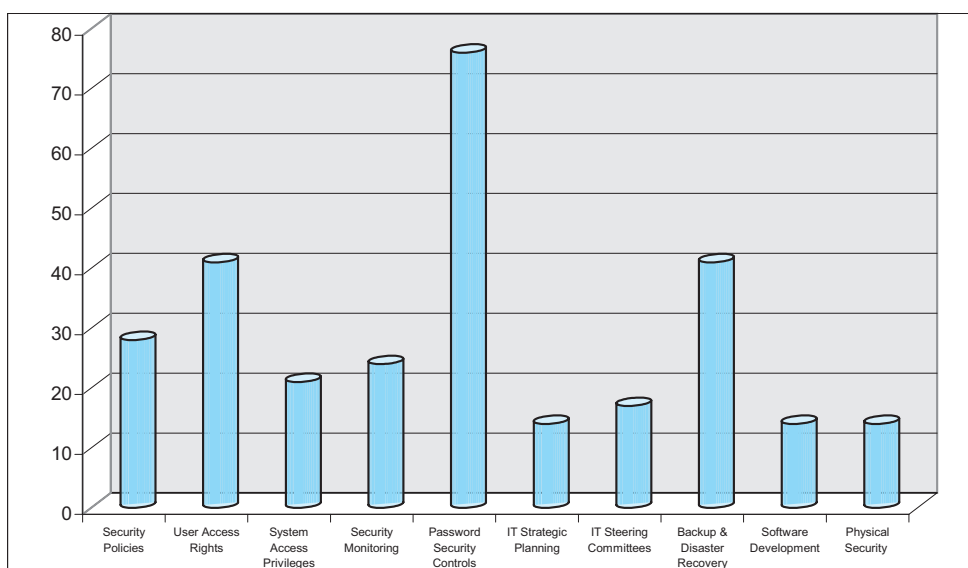
5.64 This report summarises the common issues identified during these IT reviews.

Overall conclusion

5.65 Overall, we found that many of the agencies reviewed in 2000-01 had taken action to address issues raised in our previous report. However, we consider that improvements could still be made to various aspects of the IT environment within many of the agencies subject to audit review. These aspects, which are summarised in Chart 5C, illustrate the need for agencies to enhance:

- security management, policies and framework;
- the strategic oversight of IT development and policy;
- password and other access controls to computerised systems and applications;
and
- procedures to assist in the recovery of critical systems in the event of a major disaster or system interruption.

CHART 5C
IT REVIEWS, SUMMARY OF ISSUES IDENTIFIED
 (percentage of agencies where issues raised)



Source: Victorian Auditor-General's Office.

5.66 Detailed comments on the above issues follow.

Information security management policy and procedures

5.67 An information technology security policy should outline and document the framework for implementing information security throughout an agency. This policy should also stress the importance of information security within agencies, describe IT security standards and compliance requirements and formally allocate responsibility for information security management. The absence of effective security policies increases the possibility of inappropriate and inadequate computer security controls.

5.68 Despite the importance of IT security, around 28 per cent of the agencies reviewed had either inadequate policies or lacked a formal information security policy.

5.69 As policies and documented procedures in information security are a critical aspect of an IT security framework, recommendations were made to those agencies whose policies were deficient to either develop formal policies or enhance existing policies.

Managing user access rights

5.70 As in previous IT reviews, we identified that procedures for the timely removal of the IT access rights of former employees required significant improvement. In 41 per cent of agencies reviewed, we identified either a lack of a formal procedures or the existence of former employees retaining access to critical systems long after cessation of their employment.

5.71 The lack of adequate procedures for removal of IT access rights increases the risk that system administrators will not delete user accounts of former employees with security access clearance to critical systems. The importance of maintaining control over this area is further increased because dormant user accounts can be used, particularly by “hackers”, as an initial entry point for gaining unauthorised access into systems.

5.72 In all cases identified in the reviews, we have recommended that procedures be instigated or improved for the removal of user accounts from application systems and operating systems as soon as staff departures occur.

System access privileges

5.73 High-level security access rights to operating systems allow users to read, modify or delete sensitive data and/or system configurations, utilise system administration tools and, in many instances, assume the identity of other users of the system. Because of the risks involved, access to these security access privileges should be heavily restricted and controlled.

5.74 Despite the importance of effective control over high-level security access, instances were found, in around 21 per cent of agencies assessed, of users with access to high-level operating system privileges or security clearances that exceeded the recommended levels necessary to perform their day-to-day tasks. This included some users being allocated “super-user” access rights on the agencies’ computer system(s).

5.75 Given the high risk associated with inappropriate access to IT operating systems, we recommended that identified agencies take urgent action to tighten the levels of security access granted to staff and place appropriate restrictions on the number of user accounts having “super user” access to computer systems.

Security monitoring

5.76 In 24 per cent of agencies reviewed, we found that logging and monitoring of security related activity required improvement. Issues raised included inadequacies in the logging and monitoring of users with high-level security access rights and deficiencies in the reporting and review of security breaches.

5.77 Failure to adequately monitor security-related activity may lead to a reduction in an agency’s ability to detect unauthorised activities within critical computer systems. We recommended to certain agencies that they establish more effective monitoring procedures in this area.

Password security controls

5.78 Password security controls are typically the primary form of restricting access to an agency’s computer systems and IT resources. In certain case, passwords are the sole control restricting access to a particular system or computer. It is, therefore, critical that agencies implement strong controls to safeguard their systems and data.

5.79 Given the importance of this key control element in an IT environment, we were concerned that password security controls and password configuration settings required improvement in most agencies subject to our review. Specific areas requiring improvement included:

- user accounts having no passwords;
- “easy to guess” passwords chosen by users;
- a lack of requirements for users to periodically change their passwords at both application system and operating system levels;
- the sharing of passwords among staff for “generic” or shared user accounts;
- inadequate limits on the number of unsuccessful log-on (access) attempts to systems;
- lack of controls to prevent users from re-using or recycling old passwords; and
- failure to implement enhanced password security features that are currently available.

5.80 We have made various recommendations to the audited agencies to strengthen the controls over password access and security.

Strategic IT planning and oversight

5.81 Around 14 per cent of agencies reviewed did not have a current IT strategic plan that linked IT development activities in the future with the overall direction and business needs of the agency. In addition, 17 per cent of agencies had not established an effective IT steering committee to oversee the activities of their IT departments or utilisation of their IT resources.

5.82 The lack of effective strategic IT planning and monitoring processes heightens the risk that IT development activities will be inconsistent with the information requirements of management for achieving agencies’ strategic objectives. Accordingly, at each agency where these issues were identified, we recommended that strategic IT plans be developed and an appropriate steering committee structure be established.

IT disaster recovery and business continuity planning

5.83 Of the 29 agencies reviewed, we found that 38 per cent needed to improve planning for business continuity or IT disaster recovery for their critical IT systems. Required improvements varied from the need to formally document procedures to be followed in the event of a disaster or major system failure, to ensuring adequate testing of contingency plans. Without effective and tested plans, an agency may experience considerable difficulties in recovering their systems and critical business operations in the event of a disaster or major system interruption.

5.84 Of the agencies reviewed, 14 per cent had not established storage facilities for back-up media containing critical data, or had deficiencies in their current arrangements for off-site storage facilities.

5.85 Specific recommendations have been made to relevant agencies for improvements to their disaster recovery and business continuity planning.

Software development and maintenance procedures

5.86 During our reviews, we identified weaknesses in procedures for the development and maintenance of business software in around 14 per cent of agencies. Weaknesses included inadequate segregation of duties and insufficient processes to test and accept system changes prior to implementation. These deficiencies increase the potential for the implementation of defective or unauthorised program changes into live business applications.

5.87 Recommendations to agencies where these issues were identified included the need for tighter restriction of access levels to software programmers and implementation of critical control processes for the development and maintenance of software where they did not previously exist.

Physical computer security controls

5.88 A lack of adequate physical security over computer facilities increases the potential for damage to computer hardware, which, in turn, may result in severe interruptions to operations and the loss of critical data. Around 14 per cent of agencies examined needed to improve controls in this area. The required improvements centred mainly on inadequacies in physical access restrictions to sensitive computing facilities. In such cases, recommendations were made to implement more effective physical computer security to reduce the risk of loss or unauthorised access to IT facilities.

***NO RESPONSE** was provided by Secretary, Department of Treasury and Finance to the issues raised.*

FINANCIAL VIABILITY OF HOSPITALS

5.89 In previous reports to Parliament I have commented on the financial position of public hospitals and outlined measures taken by the Department of Human Services to address financial difficulties faced by hospitals. Specifically, when reviewing the financial position of hospitals, the audit analyses have focused on the following 3 financial indicators:

- the working capital position at year-end;
- operating result for the year, prior to grants received for capital purposes and transactions of an extraordinary nature; and
- net cash flows generated from operating activities during the year.

5.90 My June 2001 *Report on Ministerial Portfolios* identified that, while the overall financial performance of hospitals had deteriorated in the 1999-2000 financial year compared with the previous year, there were only 3 hospitals that were considered to be operating under financial difficulty as at 30 June 2000. In response to the audit findings, the Department indicated that additional funding of \$242 million would be provided to hospitals during the 2000-01 financial year to enable hospitals to meet growth in demand for both emergency and elective services, and an additional equity injection of \$35 million to assist the liquidity position of 5 of the newly created metropolitan health services.

Review of results for 2000-01

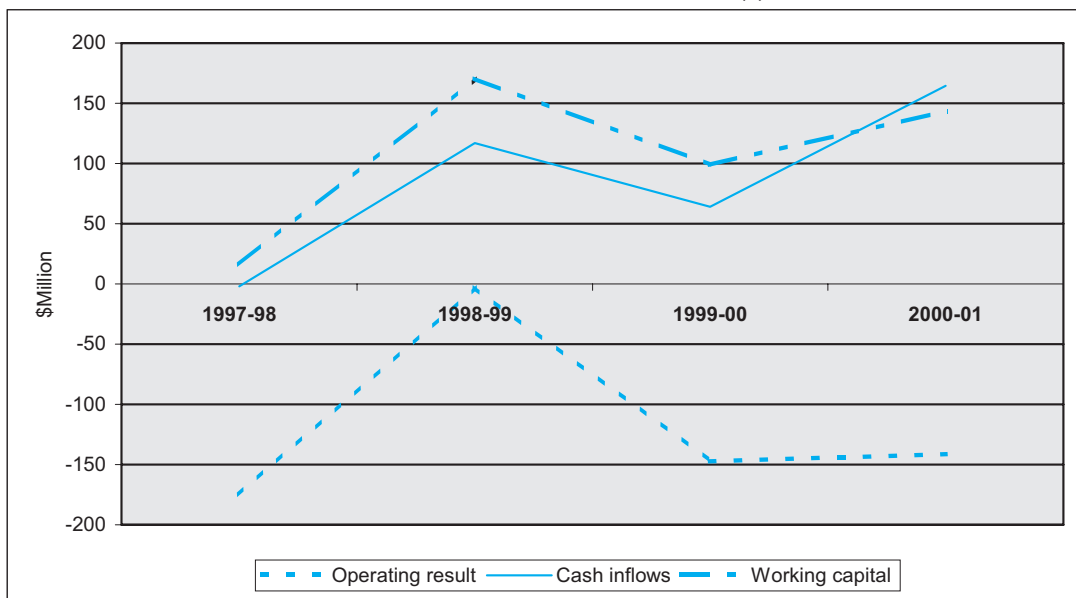
5.91 We reviewed the financial position of public hospitals for the year ended 30 June 2001, using the earlier-mentioned financial indicators. **Our examination showed that the overall financial condition of the public hospital sector had improved in the 2000-2001 financial year.** We found that the sector recorded:

- a deficit (prior to grants received for capital purposes and transactions of an extraordinary nature) of \$141.3 million for the 2000-01 financial year compared with a deficit of \$147.4 million for the 1999-2000 financial year;
- net cash inflows from operating activities of \$164.4 million for the 2000-01 financial year compared with net cash inflows of \$64 million for the 1999-2000 financial year; and
- a positive working capital position of \$143.6 million as at 30 June 2001 compared with a positive working capital position of \$98.9 million as at 30 June 2000.

5.92 The deficit (prior to grants received for capital purposes and transactions of an extraordinary nature) includes the cost of depreciation which is not funded by the Government. For the year ended 30 June 2001, the depreciation expense incurred by public hospitals amounted to \$189 million. Although the Parliamentary Appropriation arrangements which currently operate in Victoria, are based on the full cost of service delivery including accrual costs such as depreciation, the grants provided to public hospitals do not cover the cost of depreciation. This funding approach contributes to certain hospitals recording operating deficits. In lieu of providing funding equivalent to the cost of depreciation, the Department provides capital grants to hospitals where deemed appropriate to finance asset renewals.

5.93 Chart 5D indicates the trend in the above financial indicators since 1997-1998.

CHART 5D
OVERALL FINANCIAL VIABILITY OF PUBLIC HOSPITALS
FOR THE PERIOD 1997-98 TO 2000-01 (a)



(a) As outlined in the May 1999 *Report on Ministerial Portfolios* the general improvement in the 1998-99 financial year largely resulted from the negotiation of the Australian Health Care Agreement and new funding arrangements for the treatment of war veterans, resulting in Victoria receiving an additional \$134 million in health funding. The Victorian Government also provided a further \$134 million to hospitals to meet the growth in health care demand.

Public hospitals operating under financial difficulties

5.94 The 3 public hospitals identified in my June 2001 report as showing signs of financial difficulty were no longer considered to be in financial difficulty as at 30 June 2001. **However, Central Gippsland Health Service and Goulburn Valley Health are now showing signs of deterioration in their financial position since June 2000 across all 3 financial indicators.** Table 5E provides details for these public hospitals.

TABLE 5E
PUBLIC HOSPITALS DISPLAYING SIGNS OF FINANCIAL DIFFICULTY,
AS AT 30 JUNE 2001 (a)
($\$^{\prime}000$)

Hospital	Operating result prior to capital grants and extraordinary items		Net cash inflows (outflows) from operating activities		Positive (negative) working capital position	
	1999-00	2000-01	1999-00	2000-01	1999-00	2000-01
Central Gippsland Health Service	(1 652)	(2 504)	958	(159)	(3 259)	(1 998)
Goulburn Valley Health	(4 429)	(6 635)	1 805	(421)	1 374	(14)
Total	(6 081)	(9 139)	2 763	(580)	(1 885)	(2 012)

(a) Based on audited financial statements.

5.95 Central Gippsland Health Service: The Department provided a loan of \$1.3 million in May 2001 to the Health Service to improve its liquidity position and implement actions to improve its ongoing financial position. In addition, a review of the strategic service plan options, funding, service delivery efficiency and financial viability was jointly commissioned by Central Gippsland Health Service and the Department in June 2001 which recommended a number of actions aimed at achieving annual savings of up to \$2 million.

5.96 The Board of Central Gippsland Health Service and the Department are currently working through these recommendations and we were advised that actions will commence on these recommendations shortly. The Department has advised that it will continue to closely monitor Central Gippsland Health Service's financial performance and implementation of the recommended actions emanating from the review.

5.97 Goulburn Valley Health: The Department has advised that during 2000-01, the Goulburn Health Service initiated a strategic planning process to identify clinical issues and priorities. We were also advised that the Goulburn Health Service, together with the Department, are undertaking a business review of the hospital's operations and activities, to fully understand the cost drivers, revenue streams and the levels of throughput compared with funded targets. It is expected that this review will result in enhanced business plans which will improve its financial position while continuing to provide quality health services.

5.98 Our review also disclosed that 26 hospitals had unfavourable results in relation to 2 of the 3 indicators, of which 11 hospitals were located in the metropolitan area and 15 in rural Victoria. Table 5F provides details associated with these public hospitals.

TABLE 5F
PUBLIC HOSPITALS WITH UNFAVOURABLE RESULTS IN 2 OF THE 3 FINANCIAL INDICATORS,
AS AT 30 JUNE 2001

	<i>Operating deficit prior to capital grants and extraordinary items</i>	<i>Net cash outflows from operating activities</i>	<i>Negative working capital position</i>
Metropolitan health services -			
Austin and Repatriation Medical Centre	×		×
Bayside Health	×		×
Dental Health Services	×	×	
Eastern Health	×		×
Mercy Public Hospitals Incorporated	×		×
Melbourne Health	×		×
Northern Health	×		×
Southern Health	×		×
St Vincent's Hospital (Melbourne) Ltd	×	×	
Western Health	×		×
Women's and Children's Health	×	×	
Regional and rural hospitals -			
Alpine Health	×	×	
Ballarat Health Services	×		×
Heywood and District Memorial Hospital	×	×	
Kooweerup Regional Health Service	×		×
Lorne Community Hospital	×	×	
Manangatang and District Hospital	×	×	
Mildura Base Hospital (a)	×		×
Mt Alexander Hospital	×		×
Portland and District Hospital	×		×
Rochester and Elmore District Health	×	×	
Wangaratta District Base Hospital	×		×
Wimmera Health Care Group	×		×
Wodonga Regional Health Service	×		×
Wonthaggi and District Hospital	×	×	
Yarrawonga District Health	×	×	

(a) The acute health care component of Mildura Base Hospital was transferred to a private operator in September 2000. During 2000-01, Mildura Base Hospital continued to manage several aged care facilities.

Actions of the Government in relation to public hospitals

5.99 During the year under review, the Government implemented a number of actions designed to improve the financial standing of public hospitals and underpin the continuing delivery of high quality health services. These actions included:

- additional funding of \$242 million, including \$53 million for casemix-funded services, sub-acute beds and rural hospitals;
- once-off funding of \$34.6 million to address liquidity issues at 5 of the new metropolitan health services (Austin and Repatriation Medical Centre, Eastern Health, Melbourne Health, Northern Health, and Western Health);
- additional funding of \$136 million for new capital infrastructure projects for acute and sub-acute services; and
- agreement in March 2001 that the Department of Human Services would assume the liability arising from the net increase in the long service leave liability and the net increase in the annual leave liability of public hospitals amounting to \$34.7 million and \$20.8 million, respectively, for the year ended 30 June 2001.

Conclusion

5.100 During the 2000-01 financial year the overall financial viability of public hospitals has improved. However, as noted earlier in this report, the indicators for some hospitals support the need to closely monitor the financial condition of those hospitals.

5.101 We were advised that the Aged, Community and Mental Health Division of the Department is undertaking a review of the financial structure of public sector residential aged care facilities in Victoria. This review is examining the main factors impacting on financial performance of selected aged care service providers and related issues, over the 3 year period to 30 June 2000. We commend the Department for taking this initiative.

5.102 **The Department is currently monitoring several hospitals which are considered to be operating under some financial difficulty. While we support this action, it is important that the key issues affecting their financial performance are identified and strategies are implemented to overcome the existing problems, while maintaining quality health services. Hospital Boards also have a governance responsibility to ensure that adequate strategic financial planning is undertaken and that sufficiently robust business plans are put in place, and that adequate monitoring and accountability processes are followed.**

RESPONSE provided by Secretary, Department of Human Services

The Department is pleased that the report reflects the improved financial position of public hospitals with only 2 hospitals identified as being at risk at June 2001 compared with 3 at June 2000. It also contrasts with the conclusion of the June 2001 report where it was expected that 12 hospitals would be classified as being at risk at the end of the year, based on interim financial data. The improvement recorded over 2000-01 reflects the finalisation of revenue items between DHS and hospitals during the course of the year. It is, therefore, more appropriate that the report on hospital financial viability be released shortly after the completion of the audited annual financial statements from hospitals.

Discussions are continuing at officer level to ensure that the indicators used to assess the financial position of individual hospitals and the industry as a whole are suitable and relevant. In particular, the indicators need to adequately recognise that major hospital capital replacements are funded by the Government through specific grants (as is recognised in the report), and that operating arrangements in the sector need to be taken into account when determining the minimum level of liquidity required by hospitals.

HOUSING RENTAL ARREARS

5.103 The Office of Housing, within the Department of Human Services, provides needs-based housing services to the frail, elderly, and people who are homeless, disabled, or have a low income. Such services include emergency and transitional accommodation, long-term rental housing assistance, private rental assistance and home ownership assistance.

5.104 At the end of June 2001, the Office of Housing administered a portfolio of public rental and community-managed properties valued at \$7.7 billion. Public housing tenants are required by the Office of Housing to pay rental equal to the lesser of 25 per cent of their household income (known as rebated rent) or the market rent of the property.

5.105 Public housing tenants are not required to pay a security bond, but are required to meet the cost of damage caused to rental property which is assessed by the Victorian Civil and Administrative Tribunal (VCAT) to be the responsibility of the tenant. The Department includes within rental arrears outstanding rent from public and community housing tenants, and moneys recoverable from tenants as assessed by VCAT.

5.106 Comment on an unsatisfactory level of rental arrears has been included in previous reports by this Office to Parliament from 1984 to 1992. During that time, the level of rental arrears increased from \$6.4 million at 30 June 1984 to \$15.3 million at 30 June 1988, before decreasing to \$10.5 million at 30 June 1991 following a review of rental recovery procedures and practices.



Office of Housing units, Braybrook.
(Photo: courtesy of Department of Human Services.)

5.107 New procedures to improve the Office of Housing's performance in relation to the collection of rental arrears were also introduced during the 1996-97 financial year and this was successful in further reducing the level of rental in arrears to \$6.7 million.

5.108 The Office of Housing raises a general provision for doubtful debts where likelihood of recovering outstanding rental arrears is considered to be uncertain. The method for determining this provision also changed during the 1996-97 financial year, and is based on the length of time the rental arrears have been outstanding. In accordance with this method, 95 per cent of rental arrears outstanding for a period of longer than 8 weeks are included in the provision.

5.109 Table 5G below shows the movement in rental revenue and arrears over the last 5 financial years from 1996-97 to 2000-01.

TABLE 5G
RENTAL REVENUE AND ARREARS
(\$million)

	1996-97	1997-98	1998-99	1999-2000	2000-01
Rental revenue	364.0	382.7	410.9	459.7	488.2
Less rebates and subsidies	166.7	177.8	185.3	220.2	239.1
Net rent	197.3	204.9	225.6	239.5	249.1
Rental arrears	6.7	6.5	7.1	8.5	10.6
Less provision for doubtful debts	4.9	4.3	4.5	5.5	7.0
Net rental arrears receivable	1.8	2.2	2.6	3.0	3.6
Bad debts written-off during the financial year	1.8	1.9	2.1	2.9	3.2

5.110 As highlighted by the table, while the amount of net rent raised (rental revenue less subsidies) has increased by 26.3 per cent over the last 5 years, the level of rental arrears has increased by 58.2 per cent to \$10.6 million as at 30 June 2001, with \$11.9 million of rental arrears written-off as bad debts over this 5 year period.

5.111 It is recommended that the Department of Human Services closely monitor the level of rental arrears and bad debts written-off, and implement strategies to ensure that further increases are minimised.

RESPONSE provided by Secretary, Department of Human Services

The audit report's recommendations, to closely monitor the level of rental arrears and bad debts written-off, and to implement strategies to ensure that further increases are minimised, are noted and supported.

The Office of Housing (OOH) within the Department of Human Services has undertaken regular monitoring of arrears during the period in question. Rent arrears are managed by comprehensive operational and performance management systems. Performance measures such as the average number of rent-days outstanding, percentage of tenants in arrears under formal repayment agreement, and percentage of tenants paying by direct debit are reported fortnightly to housing staff.

Part of the growth in public housing arrears is a recent phenomenon, occurring during the last 9 months. This has prompted the OOH to carry out a case study analysis to better understand the underlying influences in the trend. The analysis is due for completion in March 2002.

The rental arrears cited in the report also include those arising from community-managed properties, the stock of which has increased considerably in recent years. For instance, the number of community managed properties for people who are homeless and in crisis grew by approximately 127 per cent over the period 1996-97 to 2000-01. In the last 12 months improved monitoring, reporting and compliance arrangements have been put in place in the OOH which are already resulting in a steady decline in arrears level in community managed properties.

Twenty-seven percent of the reported arrears relate to tenant responsibility maintenance (up from 19 per cent in 1996-97). The increase in tenant responsibility maintenance debt is the result of a deliberate compliance strategy to more effectively enforce recovery from tenants responsible for damaging public housing properties. The OOH has instituted a comprehensive system to substantiate legal claims through the Victorian Civil and Administrative Tribunal, thereby increasing the chances of recovering the debt owed.

Tenants' histories are recorded and outstanding charges can be effectively managed during the course of tenancies or when ex-tenants re-apply for housing assistance. Except in special needs cases, access to further housing assistance is contingent upon repayment of all outstanding debts.

The Office of Housing, together with other State Housing Authorities, has been negotiating with Centrelink to receive regular electronic income data for mutual clients, in order to systematically assess and review eligibility for housing assistance and rent charges (approximately 90 per cent of public housing clients are in receipt of some form of Centrelink income). Centrelink is about to commence systems development to facilitate this initiative and it is anticipated that the data transfer system between Centrelink and the States will be operational by mid-2002. The system will significantly reduce the application of large backdates of rent arrears, through more regular and accurate reviews of household income and rent.

The Office of Housing strongly promotes the use of direct debit forms of rental payment, including the Centrelink Rent Deduction Service. Fifty per cent of all public housing tenants now pay by direct debit methods, 41 per cent through the Rent Deduction Service. However, the Commonwealth requires that the use of this service remain voluntary, and tenants can opt to cancel this payment method at any time.

FINANCIAL VIABILITY OF TOURISM VICTORIA

5.112 Tourism Victoria is a statutory body whose objective, in partnership with the tourism industry, is to maximise employment and the long-term economic benefits of tourism to Victoria by developing and marketing the State as a competitive tourist destination. In pursuing this role, Tourism Victoria (the Authority) incurs annual expenditure of around \$40 million, the majority of which is funded by the Department of State and Regional Development.

5.113 In the course of the audit of the financial statements for the year ended 30 June 2001, it became apparent that the financial condition of the Authority had become weaker. The Authority was facing financial difficulties as evidenced by the following indicators:

- negative net cash flows from operating activities for 2000-01 of \$1.1 million (\$350 000, 1999-2000);
- a deficit from ordinary activities of \$448 000 for 2000-01 (\$1.1 million for 1999-2000);
- a negative net asset position of \$887 000 as at 30 June 2001 (\$438 000 as at 30 June 2000); and
- a negative working capital position of \$758 000 as at 30 June 2001 (\$36 000 as at 30 June 2000).

5.114 The Authority indicated, in its 2000-01 financial report, that:

- the adverse financial position is partly due to it being predominately funded to meet cash outgoings over several years;
- the Authority believes that the funding it will receive from the Department during 2001-02 will enable it to meet all budgeted expenditure during that financial year; and
- the Authority will continue to undertake a budget monitoring process to ensure a sounder financial position for future financial years.

5.115 Subsequent to 30 June 2001, the Department has decided to contribute \$1.3 million to meet the Authority's employee entitlements as they existed at 30 June 1998, the date upon which the related accrued employee entitlements were assumed by the Authority from the Department. This contribution will comprise additional funding during 2001-02 to meet the cost of payments already made by the Authority up to 18 October 2001 in respect of these pre-30 June 1998 entitlements, and additional funding in subsequent periods to meet the remaining cost of these entitlements as they fall due.

5.116 During September 2001, the Government also announced that additional funding of \$10 million, which will be provided to the Authority, for Victoria's international and domestic tourism marketing campaigns in response to the tragic events in the USA and the demise of Ansett Airlines. Subsequently, the Government also launched the Victorian Tourism Industry Council, as a new peak body for Victoria's tourism associations, which would provide the Government with information, feedback and advice on the industry.

5.117 While the additional funding will assist in improving the financial position of the Authority, it remains important for the Authority to clearly identify the key issues affecting its financial performance, implement strategies to address these issues and ensure the effectiveness of its ongoing financial planning and monitoring.

RESPONSE provided by Chief Executive, Tourism Victoria

The report has noted the weakening financial position of Tourism Victoria over the last 2 years in reference to the negative cash flows and deficit from operating activities. It should be noted that these weakening indicators cannot just focus on the 2 years in isolation, as the cause of this position has been as a result of program cash funding activities dating back to 1997-98.

The worsening negative net asset and working capital position has highlighted that Tourism Victoria has funded employee entitlements over several years and has not been reimbursed for these costs.

It is important to note that Tourism Victoria's Corporate Governance Committee will be reviewing the current procedures in regard to monitoring the financial performance of Tourism Victoria and will be making recommendations to the Board to address an improvement in the financial position.

In consultation with the Department of State and Regional Development and the Department of Treasury and Finance, Tourism Victoria has identified a number of key issues which have contributed to this position and has made progress in addressing the strategies to ensure that Tourism Victoria's financial position is improved.

CITY OF GREATER GEELONG'S INVOLVEMENT WITH GEELONG BUSINESS AND TRADE CENTRE

5.118 Establishing the Geelong Business and Trade Centre Limited (the Company) was an initiative of the City of Greater Geelong and members of the Geelong business community. The Company was established to boost the profile and image of Geelong through the:

- development of external awareness of Geelong;
- provision of a strong Geelong presence in external markets and with various levels of government;
- establishment of a convenient point of contact for Geelong business in Melbourne; and
- provision of a point of sale for Geelong's events, goods and services.

5.119 Two senior staff from the City's Marketing and Public Relations Unit were responsible for the development of the concept behind the establishment of the Company in early 1999. These officers administered the Company from its establishment in September 1999 until February 2000, when a manager was appointed. One of these officers became an inaugural Director of the Company and acted as Chairman of the Company until May 2000, while the other acted as Company Secretary. The City's Economic Development Manager was also appointed as a Director of the Company in January 2000, and the City's Chief Executive Officer (CEO) was appointed as a Director and acted as Chairman of the Company from July 2000.

5.120 The Company's foundation members comprised a range of organisations based in Geelong including commercial, educational and tourism entities. The Company was initially managed by a 9 member executive committee (comprising 2 representatives from the City and one from each of the other 7 foundation members).

5.121 The Company operated from premises in Southbank, Melbourne. The premises were leased by the City from September 1999 until August 2003 and sublet to the Company.

5.122 The Company experienced capitalisation and cash flow problems from the commencement of its operations in September 1999. These problems ultimately resulted in the Company Directors appointing an Administrator on 1 May 2001. The Company ceased operating on 8 May 2001. The Council established a sub-committee to deal with the Company failure and any ongoing implications for the Council in late April 2001, just prior to the appointment of the Administrator.

5.123 In June 2001, a meeting of the Company's creditors resolved to accept a deed of company arrangement as suggested by the City and the Administrator. This arrangement involved the City forgoing a claim against the Company, the majority of which related to a Company overdraft facility for which the Council was guarantor.

5.124 A breakdown in the operation of the City's governance and control framework resulted in the City participating in the formation and operation of a commercial venture in breach of the *Local Government Act 1989*, without conducting adequate cost benefit investigation, and without establishing adequate mechanisms to allow it to monitor the Company's operations. Ultimately, the City has borne significant costs amounting to approximately \$492 000 (refer to Table 5I for details of the composition of this amount) with limited benefit in terms of the achievement of Council's objectives for its community.

5.125 In July 2001, the Council requested my Office to investigate the City's involvement with the Company and report on all pertinent issues arising from this involvement. The scope of the review included:

- Council's management of its involvement in the establishment of the Company;
- Council's management of its ongoing involvement with the Company; and
- the implications and consequences for Council arising from the failure of the Company.

5.126 The timing of key events in the history of the City's involvement with the Company is shown in Table 5H.

**TABLE 5H
KEY EVENTS IN THE CITY OF GREATER GEELONG'S INVOLVEMENT IN
THE GEELONG BUSINESS AND TRADE CENTRE**

<i>Year</i>	<i>Key events</i>
March 1999	Concept for the establishment of the Company developed by the City and discussed with a number of businesses in Geelong.
May 1999	Application by the City for Commonwealth Government funding to assist with the establishment of the Company.
June 1999	Endorsement by Council for the establishment of the Company.
July and August 1999	Planning undertaken by the City for the establishment of the Company.
September 1999	Further endorsement by Council for establishment of the Company and agreement by Council to enter into a lease for premises in Southbank, Melbourne for use by the Company. Company established and registered as a public company limited by guarantee on 22 September 1999.
October 1999	Commonwealth Government funding of \$120 000 under the Rural Assistance Program secured.
November 1999	Official launch of the Company in Geelong.
January 2000	Agreement by Council to act as guarantor for the Company's bank overdraft facility for an amount up to \$200 000 on the basis that the Company was experiencing short-term cash flow problems but the long-term outlook was positive.
May 2000	City's CEO made aware of the financial difficulties of the Company.
June 2000	A review of the Company's financial position by the City's Manager Risk Assessment and Audit was commenced. The review which was completed at the end of June 2000 highlighted the precarious financial position of the Company and raised significant concerns regarding its ongoing viability.
July 2000	The City's CEO became a Director of the Company and was appointed as its Chairman.
July 2000 to April 2001	Company develops new budgets and marketing plans and seeks other sources of funding. The City is kept informed of developments.
April 2001	Directors of the Company resolve to appoint an Administrator. Council appoints a sub-committee to deal with issues arising from the failure of the Company.
May 2001	Company appoints an Administrator and the Company ceases operation.
May and June 2001	Meetings of Company creditors and the Administrator. Deed of Company Arrangement finalised.

Council's management of its involvement in the establishment of the Company

5.127 The concept for the establishment of the Company emanated from the City's Marketing and Public Relations Unit in early 1999, as part of the Unit's "Geelong Smart Move" campaign. This campaign was aimed at attracting new residents and investment to the City.

5.128 The Council was informally briefed about the proposal to create the Company at its monthly briefing sessions in the first half of 1999 and the City's CEO was periodically appraised of progress in developing the proposal between March and June 1999.

5.129 In May 1999, the City sought Commonwealth Government funding from the Regional Assistance Program to assist with the establishment of the Company. Funding of \$120 000 was eventually secured in October 1999. The City's application to the Commonwealth Department of Employment, Workplace Relations and Small Business for the funding was presented on the basis that the funding was required to assist with the establishment of a site in Melbourne promoting the interests of the Greater Geelong region. The application included a statement that the "*City of Greater Geelong providing financial guarantees*" with reference to the proposed Company. This statement was inaccurate and unauthorised by Council. The Council did not consider the provision of financial guarantees to the Company until January 2000 when it approved the provision of a guarantee over the Company's overdraft facility. The application stated that Council had approved the Company constitution when Council had not done so at that point. The application was signed by the City's Manager, Marketing and Public Relations on behalf of the City's CEO. This was contrary to his delegated authority and Council policy.

Adequacy of initial advice to Council regarding the establishment of the Company

5.130 In June 1999, a report was presented to Council seeking endorsement of the proposal to establish the Company. The recommendations included in the report were subsequently accepted by Council. The report presented to Council:

- stated that a feasibility study had been conducted and an action plan prepared to support the establishment and operation of the Company in central Melbourne;
- detailed and sought support for the objectives of the proposed Company (as outlined in paragraph 5.118 of this report);
- estimated that the cost to the City of facilitating the establishment, operation and promotion of the Company would be limited to a one-off contribution of \$60 000 in 1999-2000, plus recurrent annual membership fees of approximately \$12 000. The costs associated with the project were included in the 1999-2000 "Geelong Smart Move" campaign budget;
- stated that other costs to the City associated with its involvement in the venture through the use of City staff, special initiatives, project expenses and other costs would be charged to existing departmental budgets within the City;
- indicated that the proposal involved no policy, legal or statutory implications for Council;
- stated that the risk of the venture failing to achieve its objectives was minimal, with the project having the potential to become self-funding in a relatively short period; and
- recommended that:
 - the Company be established as an incorporated association pursuant to the *Associations Incorporation Act 1981*;
 - Council invite key local stakeholders to become Members of the Association; and

- The Company's Memorandum and Articles of Association specify that the Company's Steering Committee be initially chaired by a Councillor nominated by the City of Greater Geelong.

5.131 Our review of the report to Council has led us to believe that it did not provide a sufficient basis for informed decision-making by Council. Specifically:

- there is little evidence to support the assertion that a feasibility study had been conducted and an action plan prepared to support the establishment and operation of the Company in central Melbourne, and there was no evidence that the study and the plan were ever presented to Council;
- the report did not specifically define the relationship between the proposed objectives and activities of the Company and Council's objectives for its community;
- the additional costs to the City associated with its involvement in the venture through the use of City staff, special initiatives, project expenses and other costs were not specifically identified and quantified in the City's departmental budgets;
- the indication in the report that the proposal involved no policy, legal or statutory implications for Council was incorrect; and
- the statement that the risk of the venture failing to achieve its objectives was minimal, with the project having the potential to become self-funding in a relatively short period was based upon inadequate assessment of the feasibility of the venture, limited business planning and inadequately supported budgets for the initial year of the Company's operations.

Adequacy of the City's business planning for the Company

5.132 The City officers responsible for the development of the concept failed to develop an adequate business case to support their proposal to Council. These officers lacked business development, financial analysis and planning skills, and failed to seek assistance from, or consult with, other City staff or external specialists possessing such knowledge and expertise. The City's management oversight of the activities of its Marketing and Public Relations Unit in respect of the venture was also inadequate.

5.133 Between June 1999 and October 1999, 4 separate budgets were prepared by the City's Marketing and Public Relations Unit in relation to the Company's operations. These budgets were not supported by adequate working papers or other documentation regarding the basis for the assumptions upon which the budget was prepared. During this 4 month period, the Company's anticipated total expenses for the 2000 calendar year rose from \$508 000 to \$769 000 with commensurate, but unsubstantiated, increases in total income estimates from \$522 000 to \$769 000.

5.134 The absence of a sufficiently comprehensive feasibility study and an adequate business plan is considered to be one of the primary reasons for the ultimate failure of the Company. This inadequacy contributed to the Company's under-capitalisation and resultant cash flow problems. Moreover, it raises the serious question of why more thorough and detailed business planning was not undertaken and presented to Council and why the report to Council in June 1999 asserted that a feasibility study had been undertaken. There is no evidence that the City's CEO sought assurance about the adequacy of material about the feasibility of the venture and its underlying business plan prior to reports being presented to Council on the proposal.

5.135 In terms of the alignment between the objectives of the Company and those of Council, the Company's constitution indicates that it was established to:

- promote Geelong, including its industry and commerce;
- encourage and assist Geelong enterprises to promote themselves and their goods and services outside Geelong;
- establish premises and facilities outside Geelong for use by Geelong enterprises; and
- appoint ambassadors to Geelong to represent Geelong to the world.

5.136 These objectives are broadly consistent with Council's commitment, expressed in its Corporate Plan, to promote Geelong and support and facilitate economic development. While there is little documentary evidence to indicate that Councillors were involved in formulating the objectives of the Company, advice from the City's senior officers and the Mayor indicates that Council was kept informed of the Company's establishment at monthly meetings between Councillors and the City's senior management. On this basis, it is reasonable to accept that the objectives of the Company were accepted by Council as being consistent with Council's overall objectives.

Legal implications for Council arising from its involvement in the Company

5.137 Section 193 of the *Local Government Act* 1989 requires a council to obtain the approval of the Minister for Local Government and the Treasurer before becoming a member of a company limited by guarantee, or participating in the formation and operation of a corporation, trust, partnership or other body.

5.138 Relevant extracts from section 193 (1) to (5) of the *Local Government Act* 1989 follow:

“(1) For the purpose of performing any function or exercising any power conferred on a Council by or under this Act or any other Act a Council may--

- (a) participate in the formation and operation of a corporation, trust, partnership or other body; and*
- (b) subscribe for or otherwise acquire and dispose of shares in or debentures or other securities of, a corporation; and*
- (c) become a member of a company limited by guarantee; and*
- (d) subscribe for or otherwise acquire and dispose of units in a trust; and*
- (e) acquire and dispose of an interest in a partnership or other body; and*

- (f) *enter into partnership or into any arrangement for sharing of profits, union of interest, co-operation, joint venture, reciprocal concession or otherwise, with any person or corporation carrying on or engaged in, or about to carry on or engage in, any business or transaction capable of being conducted so as to directly or indirectly benefit the Council.*
- (2) *If by virtue of any participation, subscription or acquisition under sub-section (1), a Council has the right to appoint some person to be a director of or hold office in or under the corporation, trust, partnership or other body the Council may appoint a Councillor, member of Council staff or other person to that office.*
- (3) *For the purposes of sub-section (1)(c) or (1)(d) a Council may nominate a person to hold the shareholding or unit holding on behalf of the Council and the person nominated is to be treated as being the shareholder or unit holder of the shares or units.*
- (4) *For the purposes of sub-section (1), a Council may obtain temporary financial accommodation by way of overdraft (in addition to anything the Council may do under Part 7).*
- (5) *Before a Council does anything under sub-section (1) or (4) it must obtain the approval of the Minister and the Treasurer which may be either general or specific.”*

5.139 As indicated previously, the June 1999 report to Council dealing with the Company proposal advised Council that there were no policy, legal or statutory implications arising from the proposal. However, this advice was not correct, but came about due to an apparent lack of knowledge of the relevant provisions of the *Local Government Act 1989* by the City officers responsible for preparing and reviewing the report.

5.140 In August 1999, the City’s Marketing and Public Relations Unit sought legal advice about the implications of the *Local Government Act 1989* regarding the City’s intention to become a member of a company limited by guarantee. This advice was sought after another City officer drew attention to the relevant legislative requirements.

5.141 The legal advice outlined a number of specific actions which would be required in order for Council to be involved in the project, outside the operation of section 193 of the *Local Government Act 1989*, and without the consent of the Minister and the Treasurer. The legal advice included recommendations that:

- Council should not be a member of the Company;
- Council-appointed members of the Company should not be designated as representatives of Council or have any obligation to report to Council or have any other special rights or powers;
- Council’s relationship with the Company be formalised under 2 separate contracts; and
- the Company should become administratively independent of Council as soon as possible so that there could be no suggestion that resources or benefits were being shared on a co-operative or joint basis.

5.142 This legal advice was not acted upon, and the officers within the City's Marketing and Public Relations Unit did not inform the City's senior officers of the advice. In addition, a subsequent report to Council in September 1999 seeking endorsement for Council involvement in the Company's establishment again advised Council that there were no policy, legal or statutory implications arising from the proposal.

5.143 The Council's involvement with the establishment and operation of the Company clearly breached section 193 of the *Local Government Act 1989*, in that Ministerial and Treasurer's approval for Council's involvement was not obtained. The Council's failure to seek approval under Section 193 for its involvement with this Company also had the effect of circumventing the accountability provisions involving the audit of the Company by my Office. Certain concerns relating to the operation of the public accountability provisions of that section were outlined in my June 2001 *Report on Ministerial Portfolios*.

5.144 The fact that the statutory compliance requirements for Council were not investigated by the City's senior management until August 1999 indicates that there were deficiencies in the City's internal control framework relating to compliance with legislative requirements.

5.145 The fact that legal advice was ultimately sought and obtained but was not conveyed to the Council or the City's senior officers or acted upon, raises concerns regarding the actions of the officer or officers who were aware of this advice, but did not bring it to the attention of Council and allowed the proposal to proceed in breach of the Act.

Council's management of its ongoing involvement with the Company

Monitoring of the Company's performance and operations

5.146 In September 1999, a report was presented to Council by the City's Marketing and Public Relations Unit which recommended that Council approve the establishment of the Company as a company limited by guarantee and enter into a lease for the Company's premises at Riverside Quay, Southbank, Melbourne. Council resolved to approve these recommendations.

5.147 No formal mechanisms were established to enable the City's senior management and the Council to progressively monitor its ongoing involvement with the Company. This could have been achieved through the establishment of specific performance measures and targets in respect of the Company's operation.

5.148 Formal reporting to Council regarding the operation and performance of the Company, following its establishment, was limited to:

- a report in January 2000, recommending that Council agree to guarantee the Company's bank overdraft;

- a report from Council's Audit Advisory Committee in September 2000 dealing with a review of the Company conducted by the City's Manager of Risk Assessment and Audit; and
- a report in July 2001, dealing with the Company's failure and wind-up.

5.149 In May 2000, upon being made aware of the Company's financial difficulties, the City's CEO commissioned a review of the Company operations. This was undertaken in June 2000 by the City's Manager of Risk Assessment and Audit. The report on the results of the review highlighted the precarious viability and sustainability of the Company and was presented to a meeting of Council's Audit Advisory Committee in August 2000. A summary of the Audit Advisory Committee discussions regarding this matter was presented to a Council meeting in September 2000.

5.150 Formal mechanisms were not established to enable Council to progressively assess its continued involvement with the Company until the City's CEO assumed the Chairmanship of the Company in July 2000, and commenced regular reporting on the performance of the Company to the Council's Audit Advisory Committee.

5.151 In summary, Council did not receive adequate information relating to the Company's operations and, therefore, was not in a position to make informed judgements about the performance of the Company for much of the period of its operation until the CEO initiated regular reporting to Council on the Company's performance in June 2000.

Council's representation on the Company

5.152 The Company was registered as a public company limited by guarantee in late-September 1999. The Manager of the City's Marketing and Public Relations Unit was appointed by the Company's foundation members as a Director of the Company and assumed the Chairmanship of the Board, although he was not formally appointed as Chairman until January 2000. This officer resigned from Council's employ in February 2000 and though his involvement with the Company ceased at that time he did not formally resign from the Company until May 2000.

5.153 The City's Senior Marketing Officer, Strategic Planning was appointed Company Secretary in September 1999 and acted in that role until January 2001 when he resigned from the City and the Company.

5.154 Council's Economic Development Manager was appointed in January 2000 as a Director by the Company. On 3 July 2000, the City's CEO was appointed as a Director of the Company, and assumed the role of Chairman of the Company's Board.

5.155 While Council was aware of these appointments, they were not formally approved by a resolution of Council and, therefore, Council's expectations of these City officers were not clearly defined.

5.156 At no time during the Company's existence did a City Councillor act as a Director of the Company.

Lease by Council of Company premises

5.157 Council became the lessee of premises, intended for use by the Company, in Southbank, Melbourne in September 1999. The lease covered the period 1 September 1999 to 31 August 2003 and involved an annual cost of approximately \$84 000 which was subject to periodic indexation during the term of the lease. Although the City attempted to assign the lease to the Company it could not secure the agreement of the lessor and the assignment did not eventuate. Therefore, Council became responsible for the financial liability of any rent arrears and ongoing rent payments after the Company ceased operating in May 2001.

5.158 **The lease for the Southbank premises was executed by the Mayor and the City's CEO on behalf of Council prior to formal confirmation that the Commonwealth Government Rural Assistance Program funding had been secured for the Company. As this funding was considered critical to the establishment of the Company, the execution of the lease prior to confirmation of this funding was premature and exposed the City to significant financial risk.**

Agreement by Council to guarantee the Company's bank overdraft

5.159 In October 1999, the 2 officers from City's Marketing and Public Relations Unit who were acting as the Chairman and Company Secretary of the Company informed the Company that the Council would guarantee the Company's loans. These officers had no formal authority from Council to provide such advice to the Company at that time.

5.160 On 19 January 2000, Council agreed to guarantee an overdraft facility for the Company of up to \$200 000. The report presented by the City's CEO to Council supporting the request for Council to act as guarantor of the overdraft facility, advised that the Company was experiencing short-term cash flow difficulties but that membership and casual usage rates were positive and that the liquidity position would improve to acceptable levels by the end of the financial year. The report indicated that the Company required working capital necessary for its operations through to 2001-02. The likelihood of concerns regarding Council's continued involvement with the Company was tempered in the report by the statements that "*Based on discussions with interested parties to date, the risk of this venture failing to reach its objectives is considered to be minimal*" and that the provision of the guarantee by Council "*will enable the Centre to become self-funded by the end of October 2001*".

5.161 On 28 January 2000, in response to a request from the CEO, the City’s General Manager Corporate Services provided advice to the CEO regarding the proposed loan guarantee document before it was executed. This advice indicated that, among other things, there was no limit on the guarantee provided for in the draft loan guarantee document, despite the fact that Council had only approved a guarantee of “*up to \$200 000*”. The advice also suggested that the City should consider obtaining a back-to-back guarantee from the Company and its directors. The overdraft guarantee document subsequently signed in February 2000 by the Mayor and the CEO on behalf of Council limited Council’s potential liability to \$200 000. However, the City did not seek to obtain a back-to-back guarantee from the Company and its directors.

5.162 On 7 February 2000, the Company board, as part of the loan guarantee conditions requested by Council, resolved “*to provide a monthly report on total borrowings to Council*”. There was no evidence that the Company complied with this commitment or that the City’s senior management or Council ensured that the Company complied with the requirement. **Clearly, the provision by Council of a guarantee over the Company’s overdraft facility provided even greater incentive for the City to stringently monitor the Company’s financial performance on an ongoing basis. The fact that this did not occur for some months represented a serious breakdown in the City’s management of its relationship with the Company.**

5.163 Subsequent to the appointment of the Administrator, Council learned that the Company’s bank overdraft was approximately \$260 000. Despite the written guarantee limited to \$200 000, the bank claimed that Council was liable to guarantee the full amount of the overdraft. Council sought legal advice in relation to the bank’s claim and settled the claim by agreeing to pay the bank between \$220 000 and \$232 500. Council has paid the bank \$220 000 as at the date of preparation of this report. Any additional payment up to the limit of \$232 500 will be determined by the amounts realised through the sale of the Company’s assets.

Concerns regarding the viability of the Company

5.164 As outlined previously, the report to Council in January 2000 dealing with the loan guarantee advised of the Company’s short-term cash flow difficulties, but predicted the rectification of these difficulties by the end of the 2000 financial year.

5.165 The Company’s board did not meet between February 2000 and June 2000. In May 2000, a Council representative on the board (the City’s Economic Development Manager) expressed his concern to senior City officers, including the CEO, about the lack of Company meetings and its administrative performance.

5.166 The report on the Company’s financial position from the City’s Manager Risk Assessment and Audit, which was commissioned by the City’s CEO in May 2000 and completed in June 2000, highlighted serious concerns about the financial viability of the Company. These concerns were communicated to Council’s Audit Advisory Committee in August 2000 and Council in September 2000.

5.167 The Company's audited financial statements for the year ended 30 June 2000 were not completed until 17 May 2001. These financial statements showed a net profit of \$101 300 for that period. However, note 10 to the accounts, entitled *After Balance Date Events*, states that no matters had arisen since the end of the financial year affecting the state of affairs of the Company "... other than the circumstances outlined in point 2 of the Directors' Declaration".

5.168 Point 2 of the Directors' Declaration dated 17 May 2001 contained the following statement: "since the 30th June 2000 the directors have become aware that a major sponsor has sought to withdraw from an agreement in principle to provide ongoing major funding. At the time of signing the Director's Declaration the Geelong Business and Trade Centre has not secured any other major funding replacement which may have a detrimental effect on the ongoing viability of the Centre. Additionally, the Director's are concerned that the membership budgetary targets have not been achieved to-date".

5.169 The audit report issued by the Company's appointed auditor expressed an unqualified opinion on the financial statements but contained an "Inherent Uncertainty" paragraph, highlighting the significant uncertainty as to whether the Company would be able to continue as a going concern and whether it would realise its assets in the normal course of business and at the amounts stated in the financial report.

5.170 The accounts and audit report were signed on 17 May 2001. We note that the administrator was appointed prior to this date, on 1 May 2001. In our view, the fact that an administrator had been appointed by the Company prior to the certification of the financial statements was a matter which warranted disclosure in those financial statements as an event occurring subsequent to the reporting date.

Council's Marketing and Public Relations Unit

5.171 It is apparent that the officers within this Unit who developed the Company concept, established the Company and managed its initial operations were deficient in business planning, company administration and commercial financial management skills. The officers in the Unit failed to seek assistance from external advisors or from other Council officers who possessed this expertise. Moreover, the accountability and reporting mechanisms established for both the officers' involvement with the Company and for reporting of the Company's performance were clearly inadequate.

5.172 The City's Manager Risk Assessment and Audit conducted a purchasing and project management audit of the Marketing and Public Relations Unit during 2000. This internal audit found that some Unit staff failed to comply with many of Council's policies and procedures in relation to purchasing, project management and expenditure classification, and displayed a lack of professionalism in dealing with commercial matters which potentially exposed Council to financial loss and damage to its reputation. The report recommended that some form of disciplinary action be taken against the officer who was the initial Company Secretary for his continued non-compliance with Council policy and procedures. Action was not taken as the officer concerned resigned from the City at around the same time.

Implications of the Company failure for Council

5.173 During the second half of 2000, it became apparent to the Company's board that the Company's cash flow problems were severe. Despite concerted efforts to increase revenue through increasing membership subscriptions, seeking additional government funding and consummating an arrangement which would have generated commission revenue from a telecommunications company, by April 2001 it was apparent to the Company's board that none of these initiatives would eventuate. The City's CEO since his appointment as Company chairman in July 2000 had kept the Council informed of the Company's performance and problems through the Audit Advisory Committee. In April 2001, the Company Executive Committee determined to appoint an administrator.

5.174 In late April 2001, a sub-committee of Council consisting of 4 Councillors including the Mayor, was formed to deal with the Company failure and to liaise with the Company Administrator in terms of establishing a final Council settlement arrangement.

5.175 On 1 May 2001, Administrators were appointed to the Company. The Company's operations ceased on 8 May 2001.

5.176 The Council sub-committee obtained legal advice throughout May 2001, particularly in relation to a Deed of Company Arrangement which, in conjunction with the Administrators, it ultimately decided was the course of action in the best interests of all stakeholders. This Deed involved Council accepting its liability for outstanding rent and the overdraft guarantee, action which substantially increased the estimated creditors distribution. On 28 August 2001, Council endorsed the actions of the sub-committee in negotiating the Deed of Company Arrangement.

5.177 Council arrived at this decision on the basis of legal advice and that the Company was clearly a Council initiative and it was in the best interests of the Council from a financial perspective and the maintenance of its community and business image to take a leadership role in finalising the wind-up of the Company. This decision has involved Council assuming some financial obligations for which it may not have been liable.

5.178 On 26 June 2001, a meeting of the Company creditors resolved to accept the Deed of Company Arrangement as proposed by the Administrators and agreed to by the Council's sub-committee.

Cost to Council

5.179 The estimated total direct cost to Council of its involvement with the Company is \$492 827 which is outlined in Table 5I. Other indirect costs, mainly relating to the involvement of staff from the City's Marketing and Public Relations Unit were not costed by Council and, therefore, are not included in this amount.

TABLE 5I
ESTIMATED TOTAL COST TO COUNCIL OF INVOLVEMENT WITH THE COMPANY

<i>Nature of cost</i>	<i>Amount (\$)</i>
Establishment/promotional expenses	139 308
Company membership 1999-2000	12 000
Company membership 2000-2001	12 000
Negotiated loan guarantee settlement (a)	220 000
Rent arrears	24 512
Rent to 24 September 2001 (b)	29 300
Legal advice re: Company wind-up	25 000
Review by Auditor-General	21 000
Other Creditors (e.g. office supplies, telephone costs etc.)	9 707
Total	492 827

(a) This amount may increase to \$232 500 depending on the income generated through the sale of the Company's assets.

(b) Council as the lessee has ongoing responsibility for the duration of the Southbank premises lease which does not expire until 31 August 2003. Monthly rent was \$7 000 until 31 August 2001 when it changed to \$7 375 per month. Council secured another tenant for the premises on 24 September 2001.

5.180 Council's agreement to support the proposal to establish the Company in September 1999 was based on a total financial commitment of \$60 000, as a contribution towards the establishment and promotional expenses of the Company, plus ongoing annual membership fees of \$12 000. The extent of Council's actual financial exposure primarily relates to the loan liability and around \$80 000 in over-expenditure on establishment and promotion costs associated with the Company which was also met by Council. It is considered that had the initial feasibility and business planning been more adequately developed and had Council been appraised earlier of the Company's financial difficulties, the financial cost borne by the Council may have been avoided, or at least mitigated.

5.181 The Council's operating result for 2000-01 included \$290 000 of the above costs associated with the Company. An additional amount of approximately \$45 000, which is included in the above costs associated with the Company, will be reflected in the Council's operating result for 2001-02.

5.182 Following finalisation of the Deed of Company Arrangement for the Company the only potential future financial exposure to Council related to its position as lessee of the Southbank premises. Under the lease arrangements, the Council's exposure remained until 31 August 2003 when the lease expires. If Council had been unable to successfully let the premises for the entire period, its rent liability would have been approximately \$169 000. However, Council has secured a new tenant for the premises in late September 2001 and has received rental income since that date.

5.183 Council's contribution to fund the establishment and promotion of the Company exceeded the amount advised to Council of \$60 000 by approximately \$80,000 (133 per cent). Approval was not obtained from Council for these additional costs, and the nature and extent of these additional costs were not disclosed to Council. The additional expenditure was contained (but not separately disclosed) in the City's Marketing and Public Relations Unit budget. The additional costs related to office fit-outs, company launch and promotion costs.

Lessons learned

5.184 Examination of the Council's involvement in the establishment and operation of the Company provides a number of lessons which are discussed in the following paragraphs.

5.185 When determining whether it should become involved in future ventures with inherent commercial, legal or financial risk, Council must ensure that the City's senior management undertake adequate research, analysis and planning which addresses the following key areas:

- clear assessment of whether or not the proposed involvement is consistent with Council's objectives;
- identification of the demand for the functions to be performed by the proposed venture and other relevant market analysis;
- identification of the benefits to be generated by the proposed venture for the community and Council and a detailed assessment of the likelihood of realising these benefits;
- detailed assessment of projected financial viability of the venture, including carefully developed and substantiated budget and cash flow projections over at least 3 out years;
- identification of Council's initial financial contribution requirements, recurrent financial implications and potential exposures in respect of the establishment and ongoing operation of the venture;
- a risk assessment in respect of the venture from Council's perspective including identification of risks and how they would be managed and mitigated;
- assessment of the adequacy of the proposed management and control structure, and of the expertise of those responsible for management of the venture; and
- identification of mechanisms to be established to provide Council with the capacity to monitor the operation of the venture and protect the interests of ratepayers.

5.186 The City's senior management should ensure that Council is provided with accurate and soundly based information on legal and statutory implications in relation to proposals for involvement with external entities and ventures. In addition, training should be provided to Councillors and senior City staff regarding statutory obligations and compliance issues in the local government environment.

5.187 Serious questions arise following the failure of the Company with regard to the legal responsibilities of City officers and Councillors who accept directorships of associated incorporated entities and the appropriateness of Council placing reliance on such directors to keep it informed about the performance of the entity. These questions relate to potential conflicts of interest and directors' capacity to keep Council informed of any financial and legal consequences and risk exposures. Directors' responsibilities are to the company under Corporations Law and on this basis the City should have established other mechanisms to ensure that the Company kept Council informed of the Company's financial and operational performance.

5.188 To improve its governance controls Council should, in future, if it determines that a Councillor and/or City officer should act as its representatives on external bodies, formalise this by resolution. In considering this issue, Council should refer to the comments in the preceding paragraph indicating that the appointment of Council representatives as Directors of external entities is not a valid or effective mechanism to ensure that Council is kept informed of the entity's financial and operational performance.

5.189 As a pre-requisite for any future direct involvement by Council with external entities, adequate performance monitoring and reporting mechanisms must be established at the outset and monitored to ensure Council is provided with credible and timely information regarding the operational and financial performance of such entities.

Review of other investment and joint venture arrangements

5.190 Councils regularly enter into investment or joint venture arrangements, for a variety of reasons, with different types of entities including companies, and incorporated associations. A Council, therefore, needs to have processes in place to ensure that:

- Council's objectives are achieved;
- Legal obligations are met; and
- Proper reporting and accountability mechanisms are in place.

5.191 In view of the applicability of many of the principles raised in this audit, it is my intention to examine the quality of governance arrangements for similar ventures across local government early in the new year and prepare guidance material which might assist all Councils to avoid, or at least minimise, the likelihood of an outcome such as that illustrated here.

5.192 **The Council should finalise its review of existing arrangements with external entities and establish whether or not such involvements are in accordance with its current corporate objectives and whether adequate representation, performance monitoring, reporting and risk minimisation strategies are in place. The City's CEO and General Manager Corporate Services have advised that the review is progressing and that a comprehensive database of all Council's external relationship is being collated.**

RESPONSE provided by the General Manager – Corporate Services, City of Greater Geelong

Governance and control framework

We note your observations in respect of the breakdowns in Council's governance and control framework. In order to mitigate the risk of a failure of this nature occurring again, Council will shortly complete the review of its governance procedures and control framework and will implement remedial action necessary to enhance reporting, monitoring and control of Council's involvement with community groups and any commercial ventures.

Council acknowledges the significant cost that has been incurred in relation to this venture and is of the view that more effective market analysis and business planning may have delivered a different outcome. However, it should be acknowledged that Council was in uncharted waters and that from the outset there was an element of business risk associated with the venture.

Breach of the Local Government Act 1989 – section 193

Council acknowledges that having not acted in accordance with the legal advice sourced in relation to this matter, Council did technically breach section 193 of the Local Government Act 1989. Notwithstanding this, section 193 in its current form, is so general most Councils could experience problems in complying with its requirements. For instance, section 193 1 (f) requires the Council to obtain approval from the Minister and Treasurer to "enter into partnership or into any arrangement for sharing of profits, union of interest, co-operation, joint venture, reciprocal concession or otherwise, with any person or corporation carrying on or engaged in or about to carry on or engage in any business or transaction capable of being conducted so as to directly or indirectly benefit the Council".

Arguably the existing provisions of section 193 potentially inhibit Councils entering into arrangements for the betterment of their communities. For example, involvement or participation in the Geelong Business Network, Bellarine Multi Arts Facility, Barwon Food Services Pty Ltd etc. arguably all these organisations provide a direct or indirect benefit to Council. In essence, the Minister and Treasurer would be inundated with requests for approval. Notwithstanding this, Council proposes to review its involvement with other entities, associations, external boards and committees from a governance and risk management perspective. Apart from reviewing compliance with section 193, Council will assess any conflicts of interest and how they are best managed. Council officer participation in these types of operations has primarily been to maintain enduring and meaningful connection with the community through active representation and advocacy. Council needs to reassess this situation in light of the current requirements of section 193.

Monitoring of the Company's performance and operations

We agree with your observations in relation to the lack of formal mechanisms to enable ongoing Council monitoring of performance of the Company in achieving Council objectives.

Council is in the process of reviewing its involvement in several other entities, associations etc. with the view to assessing the appropriateness of existing arrangements. Governance procedures will be enhanced across-the-board to ensure Council can monitor, evaluate and assess the performance of operations in meeting objectives set by Council.

Lease of Southbank premises

We note your observation regarding the lease of the premises prior to "formal" confirmation of Commonwealth Rural Assistance Program funding on 29 November 1999. It should be noted that initial application for funding commenced in May 1999 and while formal advice was not received until November 1999, negotiations were well advanced prior to this. In hindsight, a memorandum of understanding would have supported the actions undertaken in advance of formalising the arrangements, but this was not sought. It should be noted that Council might still have proceeded with the lease in the absence of Commonwealth Government assistance.

RESPONSE provided by the General Manager – Corporate Services, City of Greater Geelong
- continued

Non-compliance with delegated authority and policy

Council notes your Office's observations in respect to non-compliance with Council's delegated authorities and policies. Council has already implemented changes to its purchasing procedures and systems, which mitigate the risk of some unauthorised actions occurring. Furthermore, this relatively new Council continues to develop its policies and procedures and communicate them to staff.

City officers and Councillors who accept directorships

This is a local government sector-wide issue as there would be many instances where Councils throughout Victoria would be affected by your Office's proposition.

Conclusion

The Audit Advisory Committee of Council is of the view that the report is a fair representation of the apparent governance and control framework deficiencies that have impacted on the failure of this venture.

The report also highlights to Council the importance of establishing the appropriate governance processes, which will enhance control and monitoring of Council's involvement in other community programs.

SALE OF HARDING PARK, GEELONG

5.193 A State-owned property, known as Harding Park (the Site), was sold in July 1999 following a public tender process. The Site comprises 8 237 square metres of land situated in Geelong and is bounded by Brougham, Bellarine and Corio Streets.

5.194 The public tender process was managed by the Department of Treasury and Finance, with the Site sold to the highest bidder for \$1.6 million. During 1998, the City of Greater Geelong had offered a number of proposals to the Government regarding the disposal of the site.

5.195 The development company which acquired the Site from the State Government in July 1999 was closely associated with a company which was involved in negotiations with the City for much of 1998 relating to the possible acquisition and development of the Site. The above 2 companies had a common registered office and principal place of business, and also had certain common directors and beneficial owners. On this basis we refer to the 2 companies as the “developer” throughout this report.

5.196 My Office was approached during 2000 by a number of individuals who raised a range of issues in respect of the City’s involvement with the developer who ultimately acquired the Site, the re-zoning of the Site prior to its sale and the sale process managed by the Department of Treasury and Finance. In January 2001, the Ombudsman commenced a formal investigation into a range of matters associated with the involvement of the City and the Department of Treasury and Finance with the Site. The handling of freedom of information requests was the primary focus of the Ombudsman’s investigation.

5.197 My review involved:

- examination of relevant files and documentation at the City and the Department of Treasury and Finance;
- discussions with relevant departmental and City officers; and
- review of recordings of interviews between officers of the Ombudsman’s Office and relevant current and past City officers (these individuals provided their consent for the Ombudsman to provide my Office with a copy of the recordings).

5.198 The history of the Site and key events leading up to its sale are summarised in Table 5J.

**TABLE 5J
KEY EVENTS LEADING UP TO THE SALE OF THE SITE**

Year	Key events
1885	In February 1885, the Site was permanently reserved from sale and described as a site for a public park.
1886	In June 1886, the Site was placed under the control of the City of the Town of Geelong as Committee of Management.
1939	Regulations made governing the management of Harding Park and other Crown Reserves in the City of Geelong.
1961	The City developed the land into a public car park. Use of the Site for this purpose was authorised by Regulations made in August 1961.
1988	In August 1988, the Government classified the Site as Government Land. In December 1988, the Minister for Property and Services approved "in principle" the sale of the Site to the City of Geelong at the Valuer-General's valuation.
1994	In September 1994, the Minister for Finance advised the Commissioners of the City of Greater Geelong that the Government intended to sell the Site.
1995	The Valuer-General valued the Site at \$1.2 million in February 1995 based on an alternative zoning of "Commercial Office". In June 1995, the permanent reservation over the Site was revoked by the passing of legislation by both Houses of Parliament. The purpose of revoking the reservation was to enable the sale of the Site. The appointment of the City of Greater Geelong as the Committee of Management in respect of the Site was also revoked. In July 1995, the Department of Treasury and Finance offered the Site to the City of Greater Geelong at the Valuer-General's valuation of \$1.2 million, subject to the approval of the Minister for Finance. The City indicated that it would consider the offer prior to placing the property on the open market.
1996 and 1997	The City of Greater Geelong requested additional time in which to consider its position on the Site given the impact of other developments planned for the Geelong waterfront precinct. The Department acceded to this request.
1998	The City commenced negotiations with the developer regarding the Site and in March sought legal advice about whether it was obliged under section 189 of the <i>Local Government Act 1989</i> to publicly advertise its intention to sell the Site to this company. June - the Council approves an approach to the State Government with a proposal for a tripartite agreement under which the Government would sell the Site for \$1.2 million to the developer which had been negotiating with the City. August - the State Government rejects the Council's proposed tripartite agreement proposal. September - Council approves the public calling of expressions of interest in the development of the Site and seeks to purchase the Site from the Government. This proposal did not proceed. November - the City is advised by the Department of Treasury and Finance that the Site will be sold by the Victorian Government through a public tender process.
1999	Between January and May - the Department co-ordinates preparations for the sale including obtaining valuations, undertaking an environmental assessment of the Site and arranging for it to be re-zoned. 12 May - the Minister for Planning approves re-zoning of the Site to " <i>Urban Residential 2 Zone</i> " under section 20(4) of the <i>Planning and Environment Act 1987</i> which does not require public advertisement of the Minister's intention to amend a planning scheme. Between 29 May and 7 July - tender period for the sale of the Site. 7 July - tender period ends and the Department registers 6 tenders for the Site. 27 July - the Minister for Finance approves acceptance of the highest conforming tender bid of \$1.6 million. 29 October – Settlement of the sale process effected and title to the Site was passed to the purchaser.

City of Greater Geelong's involvement with the Site

Initial negotiations with the development company and approaches to the Government

5.199 While the City has never owned the Site, in early 1998 the City commenced negotiations with the developer in respect of the possible acquisition and development of the Site. City records do not contain any direct evidence regarding which party initiated contact in respect of the Site or the nature and extent of the negotiations. It is clear that the developer was not identified through a public and transparent process.

5.200 Section 189 of the *Local Government Act* 1989 requires councils to publicly advertise their intention to sell or exchange land, except in specific circumstances outlined in the Act. The Act also provides people with the right to make a submission to council regarding the intended sale or exchange of land. The wording of section 189 of the Act follows:

- “(1) Except where section 181 or 191 applies, if a Council sells or exchanges any land it must comply with this section.*
- (2) Before selling or exchanging the land the Council must--*
- (a) ensure that public notice of intention to do so is given at least 4 weeks prior to selling or exchanging the land; and*
 - (b) obtain from a person who holds the qualifications or experience specified under section 13DA(1A) of the Valuation of Land Act 1960 a valuation of the land which is made not more than 6 months prior to the sale or exchange.*
- (3) A person has a right to make a submission under section 223 on the proposed sale or exchange.*
- (4) Sub-section (3) does not apply to the sale of land that formed part of a road that has been discontinued as the result of a Council exercising its powers under clause 3 of Schedule 10.”*

5.201 In March 1998, the City sought legal advice on its legislative obligation to give prior public notice of its intention to sell the Site to a development company. City records do not reveal the reasons why such advice was requested. However, the legal advice received stated that the City sought “... *comment on whether a procedure is available to the Council to avoid the obligation to advertise a sale of Harding Park to a developer pursuant to section 189 of the Act. The question arises because it is likely the Council would only proceed with the purchase of Harding Park from the Crown if the Council had an unconditional contract to sell the land to the developer*”.

5.202 In response to this issue, the legal advice indicated that the City had to comply with section 189 of the Act. That advice suggested an alternative approach involving a tripartite agreement between the State, the City and the developer under which the State would sell the Site direct to the developer.



Harding Park, Geelong.

5.203 Following receipt of this legal advice, the City requested in March 1998 formal discussions with the Department of Treasury and Finance regarding the Site. The request indicated that the City wished to explore avenues to minimise the cost of the land to a third party and further indicated that legal advice obtained by the City suggested that a tripartite agreement involving direct sale of the land to the developer by the Department, upon receiving appropriate commitments from the City, would be an effective way of achieving such an outcome. The City’s request acknowledged that such an arrangement might be an “*uncommon practice*”.

5.204 City records do not disclose the reasons why City officers were seeking to minimise the cost of the site to a developer who had not been identified through an open and transparent process. Nor do they disclose whether City officers informed or sought agreement from Council before approaching the Department with this request. Discussions occurred between City and departmental officers in respect of this request, however, City records do not include any record of these discussions. The Department’s records indicate that it provided verbal advice to the City on the options available for the disposal of Crown Land, namely, public sale, direct sale to Council or sale by private treaty.

5.205 It is apparent that negotiations between the City and the developer continued during April and May 1998 in respect of the Site. These negotiations are not documented in City files. In late May 1998, the developer wrote to the City signifying its willingness to enter into a tripartite agreement as per plans and conditions negotiated with a City officer and detailed in a report provided by that officer to the developer. There is no copy on City files of the report provided by that City officer to the developer.

Initial proposal to Council

5.206 In June 1998, the Council considered a confidential report on the proposed development of the Site and resolved to participate in a tripartite agreement with the State Government and the developer. The report to Council included the following information:

- City officers had been actively involved in negotiations with developers for 6 months. This activity was focused on facilitating a high quality development on the Site which incorporated a public car park;
- A preferred development option had been negotiated with the developer for the Site. The development company wished to formalise arrangements with both the Council and the State Government in order to proceed with the next stage of the development of its proposal;
- City officers had been advised by representatives of the Department of Treasury and Finance that the State Government would be prepared to consider a tripartite agreement; and
- The proposal to dispose of the Site other than through a public tender process was not unique. The report indicated that both the City officers and State Government representatives were satisfied that the proposal provided a significant net community benefit and that the developer should not have its endeavours penalised through a tendering process.

5.207 Despite the assertions in the report to Council, our review of documentation held by the City and the Department of Treasury and Finance failed to reveal any evidence of support from the Department of Treasury and Finance for the proposal to sell the Site direct to the developer under a tripartite agreement.

5.208 **In my view, such an approach to the disposal of government land was, and remains, inconsistent with accepted practice in the public sector and the Government's *Policy and Instructions on the Purchase, Compulsory Acquisition and Sale of Land*.** While the *Land Act* 1958 and government policy permit the sale of government land by private treaty rather than through a public auction or tender process, advice provided by the Department of Treasury and Finance indicates that the sale process proposed by the City did not meet the criteria necessary to justify a sale by private treaty.

5.209 Council accepted the recommendations in the report and resolved to participate in a tripartite agreement with the State Government and the developer. The terms of the proposed agreement involved:

- Sale of the Site by the Government to the developer for \$1.2 million (the Valuer-General's February 1995 valuation of the site); and
- Development on the Site of a ground level fee-paying car park of 140 spaces and approximately 60 residential apartments. The City would subsequently acquire the car park from the developer for \$430 000.

5.210 The report to Council containing these recommendations did not directly address:

- **The fact that legal advice had been sought regarding the Council's legislative obligation to advertise the sale of land to a private party;**
- **Why an open and transparent process had not been adopted to identify the "preferred" developer;**
- **The nature and extent of any due diligence review undertaken by City officers in respect of the developer's beneficial ownership, and financial and operational capacity etc. It would seem reasonable for Council to expect that the bona fides of relevant external parties had been investigated before it considered the merits of the proposal;**
- **Whether or not the attitude of the Department of Infrastructure, which is responsible for overseeing the local government sector, or the Minister for Planning and Local Government had been sought in relation to the proposal; or**
- **The currency of the Valuer-General's valuation of the Site which was the basis for the proposed purchase price. This valuation was more than 3 years old at the time of the report to Council.**

5.211 An examination of the development company's beneficial ownership and financial and operational capacity commenced after the acceptance of these recommendations by Council in June 1998. These inquiries included a visit in July 1998 by a City officer to the development company's operational base in northern New South Wales. The only documentation to emerge from this visit was a short message from the officer to his immediate manager and the City's Chief Executive Officer regarding the generally high quality of the developer's work and the positive attitude of its financier to the company and the proposed development for the Site. The information gathered on this trip was cited by the officer as the basis for his decision to discontinue any further inquiries on the developer. **This decision was taken despite the fact that lawyers acting for the City who had commenced inquiries about the Company had advised that further inquiries regarding its finances and related issues were warranted.**

Rejection of the City's initial proposal by the State Government

5.212 Following the Council meeting on 24 June 1998, the City provided the Department of Treasury and Finance with a copy of the report to Council and the recommendations adopted by Council along with a request for advice on how to proceed. In late July 1998, the Department of Treasury and Finance advised the City that it may be more appropriate for Council to purchase the Site from the Government.

5.213 The City did not heed this advice and, in August 1998, forwarded a formal proposal to the Minister for Finance seeking a commitment from Government to enter into a tripartite agreement in line with that described above. The proposal also sought support from the Minister for Finance for a request to the Minister for Planning and Local Government for a planning scheme amendment that would re-zone the Site and facilitate the proposed development of the Site. The letter to the Minister for Finance outlining the proposal included the following statements:

- *“Whilst it is acknowledged that it is uncommon (but not unique) for the Government or a Council to deal direct with a developer for a particular piece of land, on this occasion the proponent approached Council with a proposal that satisfied the key criteria considered necessary for the development of the land”*; and
- *“Council does not believe the ... developer ... should be penalised by a public tender of this land, have placed a significant amount of resources into developing their proposal with Council and the State Government. The Company is prepared to pay the Valuer-General's valuation for the property”*.

5.214 There is no direct evidence on City files to support the statement that the developer approached Council with a proposal for the Site. A person associated with the developer, who later became a director of that company has, however, stated publicly that a City officer initiated contact with the developer.

5.215 The actions of the City in respect of the Site during a large part of 1998 indicate that the desirability of adopting open and transparent processes and maximising the return to taxpayers when disposing of public assets were not afforded significant consideration. The City's apparent objective to facilitate a development on the Site which was complementary to other developments on the Geelong waterfront and incorporated a significant level of public car parking capacity could have been achieved through the adoption of an open and contestable process in respect of the sale of the Site.

5.216 In discussions between City officers and the Minister for Planning and Local Government during August 1998, the Minister indicated that he would not support the proposal for the Government to enter into a tripartite agreement with Council and the developer. It is apparent that the Minister objected to the proposed agreement on “contestability” grounds.

5.217 On 19 August 1998, the Department of Treasury and Finance informed the City that it understood from recent discussions between Council and the Minister for Planning and Local Government that the Minister "... *would not support the proposal for Government to enter into a tripartite agreement with Council and the preferred developer in order to facilitate the rezoning of the land to reflect the proposed development*". As a consequence, the Department understood that Council proposed to review its options and submit a new proposal to the Minister for Finance.

Subsequent proposals by the City

5.218 On 9 September 1998, Council considered a further confidential report on the issue and resolved to:

- Abandon its request that the State Government enter into a tripartite agreement and sell the Site direct to the preferred developer;
- Advise the Government that Council was prepared to purchase the Site conditional upon an acceptable price and rezoning of the Site to enable Council to facilitate the type of development considered appropriate for the area;
- Call for expressions of interest for the development of the Site upon confirmation from the Government of its preparedness to sell the Site to Council on the basis outlined above; and
- Establish a sub-committee of Council to evaluate the Expressions of Interest and provide Council with a recommendation. The sub-committee was to comprise the Mayor, 3 Councillors, the Chief Executive Officer, the General Manager Development and Strategy and the City officer who had managed the City's involvement with the developer regarding the Site.

5.219 The report concluded that purchase of the Site by Council and conduct of a subsequent expressions of interest process was the most transparent process for Council which minimised risk, provided Council's financial outlays were recouped, and would overcome the Government's concerns regarding the proposed tripartite agreement. The report did not include any discussion of why an open and transparent process had not been proposed at an earlier point.

5.220 The report also indicated that the developer which had been dealing with City officers was prepared to participate in an expression of interest process. The expression of interest process approved by Council allowed 2 weeks for prospective developers to consider the Site and submit a response. This was an unusually short period and clearly would have favoured the developer which had been dealing with City officers for at least 8 months. This developer would have enjoyed a significant competitive advantage over other parties in the expression of interest process given the proposed duration of the process, its prior involvement with the City regarding the development of the Site and the fact that Council had, by seeking agreement from the Government to the proposed tripartite agreement, signified its satisfaction with the developer's design concept and financial and operational capacity.

5.221 The sub-committee established by Council to evaluate any expressions of interest received included the City officer who had been involved in detailed and ongoing negotiations with the developer. It is not evident whether Council gave any consideration to excluding this officer from the evaluation process with a view to preventing any suggestions that Council was favouring a particular developer.

5.222 The sub-committee also included the Chief Executive Officer, who has since acknowledged that one of his friends was involved with the developer. We were advised by the Chief Executive Officer that he did not become aware of the involvement of his friend with the developer until June 1999.

5.223 While discussions between the relevant City officer and the developer took place between June and September 1998 there is no record on City files of those discussions.

5.224 In mid-September 1998, Council informed the Minister for Finance of its decision to abandon the request for the State Government to participate in a tripartite agreement and offered instead to purchase the Site conditionally on a number of matters being resolved, including satisfactory resolution of all procedures required of Council under the *Local Government Act* 1989 for the sale and purchase of land. The Minister for Finance did not formally respond to this offer. However, departmental representatives did meet with City officers to discuss the Council's offer.

Involvement by the City in the sale of the Site by the Department of Treasury and Finance

5.225 In November 1998, the Department of Treasury and Finance informed the City that the Department, would manage the disposal of the Site through a public tender process.

5.226 From November 1998 until July 1999, City officers co-operated with the Department as it pursued the steps associated with the disposal of the Site. The primary liaison point between the City and the Department was the same City officer who had been involved in negotiations with the developer and had prepared proposals for consideration by Council in respect of the Site. There is no documentation on City files to indicate what, if any, advice was provided by City officers to the developer during this period.

5.227 In March 1999, the City was informed at a meeting between its liaison officer and the consultant managing the disposal of the site for the Department, that the tender process would be managed by the Department and that tenders received in respect of the Site would not be assessed in terms of design.

5.228 Advertisements calling for tenders for the purchase of the Site commenced on 29 May 1999 with the tender period closing on 7 July 1999. On 1 July 1999, the City officer who had been liaising with the Department wrote to the Department's consultant indicating that:

- Council had an expectation that it would be a party to the tender evaluation and that there were a number of key issues other than price that it believed would be critical in the assessment process in order to protect the interests of the City and the Geelong community; and

- Council understood that some of the tenders would include various means of providing community benefit that would not necessarily be contained only in the lump sum price offered by the tenderer.

5.229 We have a number of concerns with the content of this letter and associated issues. Specifically:

- The City was attempting to alter the tender evaluation criteria and tender evaluation process in respect of a tender process which had commenced a month earlier. Prospective bidders for the Site who examined the tender documents issued in respect of the sale would have no doubt that price was the criteria against which bids would be assessed; and
- The attempt by the City to convince the Department to alter the tender evaluation criteria and process was at least partly based on the City's knowledge of the proposed content of some prospective tender bids (as acknowledged in the City's letter of 1 July 1999). This action by the City was inappropriate. If the Department had agreed to the City's requests, the tender process would have been rendered invalid and indefensible.

5.230 **The City had a legitimate role in seeking to protect its interests and those of its community. However, these interests should have been pursued by seeking to have input into the tender evaluation process and criteria prior to the commencement of the process. The attempt to influence the tender process after it had commenced can only be regarded as misguided and inappropriate.**

5.231 The involvement of councils with developers in respect of the development of sites in their municipalities is not unusual. The *Local Government Act* 1989, includes as one of the purposes of a council, the facilitation and encouragement of appropriate development of its municipal district in the best interests of the community. However, it is our experience and based on advice provided by the Department of Treasury and Finance that councils typically seek to identify "preferred developers" for particular sites through an open and transparent process usually involving a public call for expressions of interest.

5.232 **In this context, the Council's actions in respect of this Site during 1998 can be seen as unusual. While there may well have been some justification for the pursuit of such an approach by the Council, one would expect that in such circumstances extra attention would be directed to the documentation of the basis for, and nature of, Council actions. In contrast to this expectation, there is in fact an absence of documentation of the reasons underpinning the actions taken by City officers and the nature and content of discussions and negotiations with the developer over an extended period. This is regrettable and has exposed the City and its officers to suggestions of improper conduct.**

5.233 One of the objectives of a council under the *Local Government Act 1989* is to facilitate accountability at all levels within the organisation by maintaining suitable information and reporting systems. The Chief Executive Officer of a council has an obligation under the *Public Records Act 1973* to cause to be made and kept full and accurate records of the business of the Council. In my view, the Council and its Chief Executive Officer have failed to fully meet these obligations as they pertain to the creation and maintenance of records in respect of Council activities in relation to this Site.

5.234 The City's Chief Executive Officer informed the Ombudsman's office that he immediately distanced himself and remained at arms-length from City dealings with the Site and the developer when he became aware that a friend of his was involved with the developer. City files in respect of the Site do not include any documentation of this decision and action or advice to relevant City officers regarding the need to exclude the Chief Executive Officer from involvement in City dealings on the issue.

5.235 Prior to his departure from the City in February 2001 the officer with primary responsibility for the City's involvement with the Site and the developer, characterised in a report to Councillors his and the City's involvement with the developer as nothing more than simply introducing the developer to the State Government, the owner of the Site. This is a significant understatement of the actual role played by the officer and the City. An examination of records held by the Department of Treasury and Finance and discussions with relevant departmental officers confirmed that there was no contact between the Department and any of the bidders for the Site prior to or during the tender process, including the developer. Contact between the Department and developer did not extend beyond formal correspondence associated with the acceptance of the tender and settlement of the sale.

Sale of the Site by the Department of Treasury and Finance

5.236 In late November 1998, the Department of Treasury and Finance advised the City that the Victorian Government Property Group (an organisational unit within the Department) would be managing the disposal of the Site through a public tender process and that rezoning of the Site would be initiated by the Department. Approval to sell the Site was formally obtained from the then acting Minister for Finance on 14 January 1999.

Use of consultants by the Department

5.237 The Department engaged external consultants to perform a range of tasks associated with the sale of the Site. These tasks included:

- co-ordination of the sale process;
- legal services;
- valuation of the Site;
- environmental and geotechnical assessment of the site; and
- marketing of the Site.

5.238 We reviewed the processes adopted by the Department to select and appoint a number of the consultants involved in the sale process. The review disclosed instances where the Department failed to:

- Comply with the government policy requiring departments to obtain 3 written quotes for consultancies costing between \$5 000 and \$50 000;
- Document verbal approval for the appointment of consultants;
- Comply with government policy requiring consultants to be engaged on the basis of a written agreement endorsed by both the departmental delegate and the consultant. While there was an exchange of letters between the Department and these consultants, the majority of the matters specified in the government policy for engaging external consultants were not covered by these letters; and
- Require consultants to provide a written declaration regarding their independence and absence of personal or pecuniary interest in the transaction.

5.239 While no adverse consequences arose from the above mentioned departures from government policies and guidelines, such requirements are established to protect the State's interests through sound risk management. The Department should take steps to ensure compliance with government policies and guidelines in the future.

Re-zoning of the Site for planning scheme purposes

5.240 When purchasing or selling land the Department is required to comply with the "Government of Victoria, Policy and Instructions for the purchase, compulsory acquisition and sale of land", as issued by the Government Land Monitor, which is part of the Department of Infrastructure. This policy document requires government agencies intending to sell land to establish the most appropriate zoning for the land before the sale to ensure that the highest possible return is achieved. The policy prohibits agencies from offering land for sale where it is reserved under a planning scheme.

5.241 In February 1999, the Department of Treasury and Finance requested the Department of Infrastructure to arrange **rezoning of the Site under section 20(4) of the Planning and Environment Act 1987 from "Public Open Space Reservation (B – Public Park)" to "Urban Residential 2 Zone"**. Section 20(4) of the Act allows the Minister for Planning to exempt himself from giving notice of a planning scheme amendment prepared by him, if the Minister considers that the giving of notice is not warranted or that the interests of Victoria or any part of Victoria make such an exemption appropriate. The request was made pursuant to a 1995 Agreement between the Minister for Finance and the Minister for Planning, the purpose of which was to enable rezoning without public notification of properties in the Government's asset sales program. **The Minister for Planning approved the planning scheme amendment on 12 May 1999.**

Environmental assessment of the Site

5.242 The Department appointed a consultant to undertake environmental and geotechnical assessments of the Site in February 1999. The consultant's soil testing at the Site revealed some contamination. Following this finding, the Department engaged an environmental auditor to assess the site and complete an environmental audit report in accordance with the *Environment Protection Act 1970*. The environmental auditor issued a Statement of Environmental Audit for the Site in April 1999. In this statement, the auditor concluded that while the site was suitable for public open space, medium and high density residential use, and commercial and industrial use, soil contamination was present at the site at concentrations in excess of those which would allow the site to be protective of a range of sensitive uses, in particular for low-density residential, pre-school centre, child care centre and primary school uses.

5.243 The Statement of Environmental Audit also included the following condition in respect of the proposed redevelopment of the Site, "*The development plan for the site should incorporate an environmental management plan that addresses the management of soil contamination identified at the site including:*

- *the protection of health of site workers;*
- *the protection of public health;*
- *the protection of surface and groundwater quality;*
- *on-site management of contaminated soil; and*
- *the management of off-site disposal of waste soil."*

5.244 We requested Council to indicate how these issues have been addressed by the City in planning permits granted to the developer which purchased the Site. The City subsequently advised that:

- *"the issue of soil contamination and the requirement for an environmental management plan were discussed by the developer and Council, but no reference was made to this in the Planning Permit;*
- *the proposed development for the Site that was the subject of the Planning Permit application (multi-storey units and public car parking) essentially covered the site with concrete. Hence the developed site was not seen to pose a hazard to occupants or the community, or impact on surface water or ground water quality;*
- *the Site contamination was not an issue raised by objectors to Council or before VCAT, and does not appear in Council's or VCAT's reports; and*
- *The protection of workers on the site during construction, and the management of contaminated soil on-site and off-site, is governed by the WorkCover Authority under the relevant Occupational Health & Safety legislation, and this applies irrespective of whether Council requires an environmental management plan."*

Valuations and marketing of the Site

5.245 In March 1999, the Department's consultant sought independent valuations of the Site from the Valuer-General and a valuer based in Geelong. This action was in accordance with the Government's "*Policy and Instructions on the Purchase, Compulsory Acquisition and Sale of Land*" which requires 2 valuations to be obtained for sites which are expected to be worth in excess of \$400 000.

5.246 The valuers engaged by the Department provided their valuation reports in April 1999 and valued the Site at \$1.19 million and \$1.25 million, respectively.

5.247 The Government's "*Policy and Instructions on the Purchase, Compulsory Acquisition and Sale of Land*" includes a requirement that approximately 6 weeks should be allowed for advertising the sale of any property. However, the policy also states that this period may be varied depending on the type of land and that the advertising campaign must be conducted in a manner that adequately exposes the land to the market. The intention of these requirements is to ensure an open and contestable sale process and to maximise the price realised through the sale of government land.

5.248 The Department approved a 5½ week marketing period for the Site. Marketing of the sale of the Site by tender commenced at the end of May 1999 with tenders closing on 7 July 1999. Sale of the Site was advertised in Geelong, Melbourne and national newspapers.

5.249 While the marketing and tender period approved by the Department was consistent with government policy requirements, the following factors may have warranted a longer period in order to maximise the return from the sale and ensure that all prospective bidders had sufficient time to assess the development potential of the Site:

- The nature and location of the Site in the waterfront precinct of Geelong;
- The size of the Site which afforded the possibility of a significant residential development; and
- Knowledge that one prospective bidder had been involved in discussions with the City for approximately 12 months regarding the Site and had clearly undertaken significant research in producing a development proposal for the site. Other prospective bidders had a considerably shorter period available to them in which to assess the commercial viability of various development options for the Site.

Conditions of tender and availability of tender documents for the Site

5.250 The conditions of tender were outlined in the tender documents and included the following requirements:

- Completion and execution of the Tender Form which required disclosure of the price offered for the Site;

- Completion and execution of the Contract of Sale for the Site, including insertion of the sale price. The Contract of Sale included a special condition requiring the successful tenderer to complete and execute an agreement with the City of Greater Geelong under section 173 of the *Planning and Environment Act 1987*. The agreement was included in the tender documents and in essence required the successful tenderer to incorporate within any development of the Site a minimum of 140 car parking spaces to be available for public use at the times defined in the agreement; and
- Provision of a bank cheque for one per cent of the tendered purchase price.

5.251 A sales brochure outlining the features and potential of the Site and tender documents were available to prospective tenderers from the Geelong office of the Department's selling agent from 29 May 1999. However, the Department advised that, in early June a minor typographical error was detected in the tender documents and they were withdrawn, corrected and reissued to the selling agent on 8 June 1999. At that point, the tender documents had been issued to 7 prospective tenderers. The Department's selling agent was directed to provide these parties with the corrected version of the tender documents.

5.252 The Department in its sales brochure for the property nominated the City officer who had been responsible for the City's previous involvement with the Site, and who had also represented the City in negotiations with the developer discussed in the earlier part of this report, as the contact point at the City for prospective tenderers who wished to discuss planning issues associated with the Site. **The Department did not request this City officer to document advice provided to prospective tenderers and ensure that all prospective tenderers had access to the same information.**

5.253 The condition of tender dealing with the requirement for the successful tenderer to enter into an agreement with the City to provide, as part of any development, a minimum of 140 car parking spaces for restricted public use had the potential to cause confusion among prospective tenderers in terms of their capacity to charge for such public parking spaces. The answer to this question would have had relevance to the assessments by prospective tenderers of the commercial viability of potential development options for the Site. The draft agreement with Council included as part of the tender documents was silent on the issue of the capacity of the successful tenderer to charge for public car parking.

5.254 **During the tender period, the Department's appointed selling agent for the Site provided a written notional valuation of the public car parking component of the Site to the developer which subsequently submitted the successful tender for the Site. The selling agent did not inform the Department or its consultant of the fact that it had provided such advice. When this fact did emerge, the Department's consultant questioned whether a conflict of interest issue existed. The matter was not the subject of further inquiry by the Department.**

Closing and assessment of tenders

5.255 At the close of the tender period on 7 July 1999, the Department registered 6 tenders for the Site. The tenders ranged from \$284 856 to \$1.6 million. The Department's consultant evaluated the tenders and provided the Department with a report and recommendation on 12 July 1999. The consultant recommended acceptance of the highest tender which was from the developer which had been involved in negotiations with the City during 1998. The City did not have any involvement in closing, registration or assessment of tenders.

5.256 This tenderer submitted a tender which complied with the conditions outlined in the tender documents and also submitted an alternative proposal in respect of the requirement to provide a minimum of 140 public car parking spaces as part of the development of the Site. This alternate proposal, which was treated as a separate and non-complying tender, involved development of a car park for 140 cars and the sale of this component of the Site to the City for \$1. This offer was not considered on the basis that such offers were not invited or envisaged in the conditions of tender.

5.257 The Department did not seek the views of the City in respect of this offer despite advice from its consultant to do so. The attitude of the Department was that the tenderer could make such an offer to the City after the conclusion of the sale process and that it was inappropriate to consider the alternative proposal for a number of other reasons including that it was outside the terms and conditions of the tender process and was conditional upon planning approval for a particular development proposal and subdivision of the Site.

5.258 The Minister approved the sale of the Site to the developer recommended by the Department's consultant for \$1.6 million on 27 July 1999. The sale price was \$500 000 above the reserve price set for the site in June 1999. Settlement was due on 27 October 1999.

5.259 Final settlement was achieved on 29 October 1999 following the issuing of a Notice of Default by the Department following the developer's failure to pay the residual sale proceeds on 27 October 1999.

Events following sale of the Site and current status of the Site

5.260 In October 1999, Council and the developer executed an agreement under section 173 of the *Planning and Environment Act* 1987. The agreement required the developer to incorporate within any development of the Site a minimum of 140 car parking spaces to be available for public use at the times defined in the agreement.

5.261 On 11 November 1999, the developer lodged an application for a planning permit in respect of its proposed development of the Site with the City. The application was for a 7 storey building incorporating 63 apartments, a café, resident car parking and a 140 space public car park.

5.262 The City received 43 objections in response to public notification of the planning permit application. After consideration of these objections and amended plans for the development submitted by the developer, Council issued a Notice of Decision to Grant a Permit on 10 May 2000, subject to a number of conditions.

5.263 In January 2000, some 4 months before Council approved the developer's planning permit application, an information and promotional document produced for the City and the Steampacket Waterfront Development Board stated that "*A \$25 million, 58 residential apartment complex will be built on the corner of Brougham and Bellerine Streets*" (the Site). The publication of this information was premature and created concern about the extent to which the City was genuinely considering objections lodged in response to the developer's planning permit application.

5.264 A number of parties made applications to the Victorian Civil and Administrative Tribunal for a review of the decision by Council to grant the planning permit to the developer. The Tribunal considered the applications and conducted review hearings during November 2000.

5.265 On 7 February 2001, the Tribunal handed down an Order disallowing the applications for review and affirming the decision of the Council to grant the planning permit to the developer.

5.266 At the date of preparation of this report, development of the Site has not commenced.

Allegations regarding the tender process for the sale of the Site

5.267 My Office was approached during 2000 by a number of individuals who made various allegations in respect of the City's involvement with the developer which ultimately acquired the Site, the re-zoning of the Site prior to its sale and the sale process managed by the Department of Treasury and Finance. The most serious allegations were that:

- tender documents could not be obtained from the Department's selling agent until mid-June 1999 leaving tenderers with little more than 2 weeks in which to investigate the development potential of the Site and put forward an informed bid;
- the City officer nominated in the tender document as the contact in respect of planning issues for the Site did not respond adequately to legitimate inquiries regarding the Site; and
- tenders for the site were not properly closed and registered, and that the winning tenderer was provided with an opportunity to submit a late bid with knowledge of what the other bids were.

5.268 I have indicated previously in this report that the Department advised that tender documents were withdrawn in early June 1999 following the detection of a minor typographical error and then reissued to the selling agent on 8 June 1999. A review of a copy of records maintained by the Department's selling agent indicates that 7 parties were provided with the tender document prior to 15 June 1999. A number of other parties who had made enquiries about the sale of the Site were not provided with tender documents until after that date. The records provided by the Department's selling agent do not specify when these parties requested copies of the tender documents. **For this reason, I cannot conclude on whether the tender documents were freely available to all interested parties for the entire tender period.**

5.269 The City's records do not contain any documentation of advice provided by the City's contact officer to prospective tenderers in respect of the Site during the tender period. The Department did not require the City to maintain records of such advice. **On this basis, I am not able to conclude on the accuracy of the allegation.**

5.270 Our examination of tender documents received by the Department indicates that the page outlining the bid price in the highest bidder's tender was not date stamped or signed by the officers who opened the tenders. The Department's tender opening procedures for the sale of the Site involved the opening of tenders received by 2 departmental officers at 2.00 p.m. on 7 July 1999. These officers were required to date stamp and sign both the front of each tender document and the "Tender Form" page within the tender document on which the tenderer entered the amount of their bid for the Site.

5.271 Our examination of tender documents received by the Department indicated that these pages were signed and date stamped in all cases except in the case of the highest bidder. The front page of that tender document was date stamped and signed but the "Tender Form" page was not date stamped or signed by the officers opening the tenders. However, the amount of this tenderer's bid was recorded on the "Registrations of Tenders Received" document prepared by departmental officers on 7 July 1999 and was consistent with the amount recorded in the bidder's tender document. The "Registrations of Tenders Received" document which details each tenderer's bid was signed by the 2 departmental officers responsible for opening the tenders and the departmental officer with overall responsibility for the tender process.

5.272 Based on the available documentation associated with the tender opening process, it would appear that the failure to date stamp and sign the winning tenderer's "Tender Form" page in the tender document was in the nature of an administrative oversight not impacting on the integrity of the tender process.

RESPONSE provided by the Chief Executive Officer, City of Greater Geelong

Initial negotiations with the development company and approaches to the government

The report indicates that Council records do not show which party initiated contact, but that the company was not identified by a public and transparent process (Para. 5.199).

It is understood that the company made contact with Council some years ago about potential developments in other parts of the city which did not proceed; the possible availability of Harding Park was then raised with the company. Many contacts arise from developers approaching Council either to pursue specific proposals or with general inquiries about opportunities because they have a wish to invest in Geelong. Few if any files will record the nature of the initial contact, but many of those contacts will not be through "public and transparent processes" such as calls for expressions of interest etc.

The report deals at length (Para. 5.200) with the requirements of section 189 of the Local Government Act requiring Councils to advertise their intention to sell land.

This legislation is well known to Council and has been observed by Council on many occasions.

In Paras 5.201, 5.202 and 5.203, the report suggests the officer dealing with the developer was considering seeking approval to sell the land without observing section 189. Legal advice was that this should not be done and suggested a tripartite arrangement. The City sought discussions with the Government to pursue the tripartite arrangement to minimise costs to the developer. There is no record as to whether officers sought approval from Council for these discussions.

It is understood that the sort of development proposed by the developer was considered to be fully sympathetic with the Waterfront Development, albeit outside the delegated planning area of the Steampacket Board, but within its identified "sphere of influence". Hence the officer was seeking to encourage and facilitate the development. Council from time-to-time sells land it owns to developers at a price below the market to encourage development; in line with this the officer sought to facilitate this development by securing an attractive price for this land from its owner. The fact that these negotiations were held without Council's formal approval is not considered exceptional – no future commitment of Council resources had been made, no decisions had been made which pre-empted the authority of Council. If all such negotiations required prior approval of Council the business of Council would be severely retarded, to an extent which, it is believed, would be unacceptable. It would be unacceptable to developers who would not tolerate such delays, to Council who would be required to approve a large number of intended actions many of which would come to nothing, and ultimately to the community as development would be driven away. This issue would apply to most local governments.

Initial proposal to Council

The report claims (in Paras 5.207 and 5.208) that there was no evidence of support within government for the use of a tripartite agreement. It also asserts that such an approach to the sale of land is inconsistent with accepted practice in the public sector.

Clearly the Council officer involved believed the proposed tripartite arrangement was supported by government officers, otherwise he would have not pursued the issue. As to whether this means of the Government disposing of its land was inconsistent with acceptable practice is a matter for the Government to address.

It is claimed in Para. 5.210 that the report to Council did not address:

- 1. That legal advice had been sought about disposing of the land bypassing the S.189 process;*
- 2. Why an open process had not been used to identify the preferred developer;*

RESPONSE provided by the Chief Executive Officer, City of Greater Geelong - continued

3. Nature of due diligence done on the developer;
4. Whether the attitude of the Department had been sought on the proposal;
5. The currency of the VG's valuation.

Comments on these issues in turn are:

1. The option to bypass S.189 had been advised against, had not been pursued, was history and, therefore, not relevant to Council's decision.
2. The developer had put to Council a proposal that was attractive to Council. It is considered inappropriate to publicise this proposal and allow others to exploit the concept. No other developer would come to Council with an idea if it were then to be put on the open market. This is totally different from the situation where Council develops the concept and then seeks proposals from developers to implement Council's idea;
3. This may be a valid criticism of Council (this is also referred to in Para. 5.211). A more complete due diligence would have been undertaken had the issue progressed. At this stage the urban design issues were predominant.
4. Council officers had been talking with senior officers of the Government about issues in those officers' domain – there was no need to seek separate advice from the Department;
5. Clearly, if negotiation with government officers had established that under the tripartite arrangement the Government would sell the land for \$1.2m, that should be the value reported. The fact that it was a 1995 valuation was noted in the report to Council. (The A-G's report subsequently notes in Para. 5.246 that valuations obtained by the Government in April 1999 were \$1.19m and \$1.25m.)

Rejection of the City's initial proposal by the State Government

The report claims (Para. 5.214) that there is no record on file that the developer approached Council, and a Director stated that a city officer initiated contact.

The matter of file records relating to the developer approaching Council is dealt with above (see the reference to Para. 5.199).

The report claims (in Para. 5.215) that the desirability of using an open process and maximising returns to the taxpayer were "not afforded significant consideration". The city's objectives to facilitate a development could have been achieved through an open sale process.

This reflects a narrow view of value to the taxpayer. Council's extensive experience with urban developments like the Waterfront and now the CAA show that the taxpayers' best interest are served by delivering highly attractive iconic developments. If it is necessary to attract the right development (as this was considered to be) by making a concession on the price of land then that is in the best interests of the taxpayers. A more practical example of this is Council's preparedness to heavily discount the price of land in the Heales Road Estate (sacrificing say \$0.5m of ratepayer funds) to secure a major industrial investment offering jobs, etc. The State Government commonly makes concessions or offers grants and benefits to developers and investors to attract investment to Victoria. The "maximising of returns to taxpayers" must be assessed in the widest context.

The issue of whether it is sensible for Council to "disclose" developers ideas by exposing them in an open tender process has been dealt with above (see reference to Para. 5.210, Item 2).

RESPONSE provided by the Chief Executive Officer, City of Greater Geelong - continued

Subsequent proposals by the City

The report notes (Paras 5.220, 5.221 and 5.222) that the developer was prepared to engage in an open tender process, but that the time allowed by Council of 2 weeks was short and favoured the “preferred” developer. (This followed Council’s decision to agree to purchase the land subject to some conditions, to call for expressions of interest in its development, and to set up a committee to evaluate any submissions.) The report notes that the evaluation committee was to include the officer who had negotiated with the developer and also the CEO, whose friend was involved in the development at some stage.

Given the Government’s withdrawal from the tripartite arrangement, there was no alternative for the prospective developers than a public process. It is presumed that, given their work to date, they decided their best option was to engage in this process, rather than withdraw. The officer who had been negotiating with the developers, as Director of City Planning and Special Projects, was the only officer suitable to evaluate the worth of submissions, given the critical emphasis on urban design character and the interaction with the Waterfront of any development on this site. Council does not have the resources to duplicate these skills.

The “friend” of the CEO joined the developer consortium some considerable time after this stage, around June 1999.

Involvement by the City in the sale of the site by the Department of Treasury and Finance

The report (in Para. 5.230) criticises Council (“misguided”, “inappropriate”) for drawing to the Government’s attention during the tender period that issues other than price needed to be considered in evaluating the tenders for the site.

Council must at every opportunity pursue the best interests of itself and its community. In this case, this involved seeking to ensure that the Government did not sell, purely on a basis of price, a site which has a significant impact on the Waterfront development and in respect of which appropriate urban design issues must be a major consideration. The issue of architectural design of the proposed development was Councils prime concern.

The report claims (in Paras 5.231 and 5.232) that Councils usually seek preferred developers by open process, usually expressions of interest. If Council takes another course, extra attention should be given to its documentation. This was not done here “and has exposed the City and its officers to suggestions of improper conduct”.

As stated earlier, it is accepted practice of this Council to use “open processes” and to call for expressions of interest when Council knows what it wants but has no offers currently before it (e.g. in seeking uses for Osborne House). When an attractive offer is before Council arising from the initiative and intellectual property of a developer it is considered inappropriate to expose that concept to others.

In this case Council has been pursuing an attractive proposal that supports the development of the Waterfront (which has been recognised universally as a success) and has pursued what is in the best interests of Council.

Officers have exercised a great deal of energy and commitment in pursuing Council goals, and to imply improper conduct is of great concern.

The report asserts (Para. 5.233) that Council and the Chief Executive have failed to fully meet their obligations to maintain and keep full and accurate records.

It is agreed that some paper records that were created were not properly maintained, as evidenced by the fact that records were found in other places. However, inferences that Council should have created many other records – file notes of telephone calls or of meetings – are out of touch with the pace and demands of Local Government today and the resource limitations within which it operates.

RESPONSE provided by the Chief Executive Officer, City of Greater Geelong - continued

More generally, however, the Council at that time lacked integrated systems and had since amalgamation in 1993 of 7 organisations into one. And as stated to the Ombudsman (same inquiry),

“When I joined the organisation in May 1998, I was appalled at the lack of systems, policy and process existing in the organisation. Many staff were still adhering to the way in which business was done in their former pre-amalgamated local government. This is now a large local government authority and complex as well, complicated by its regional status and also acting as a metropolitan and rural local government. The organisation was preoccupied with managing finances and its Compulsory Competitive Tendering (CCT) environment and that together with a fair degree of political instability meant the administrative focus had not been on systems etc. We have been methodically working through the organisation in an attempt to bring its systems and processes in line with contemporary work practices.”

In Para. 5.234, the report notes that city files do not contain a record of the Chief Executive’s decision to exclude himself from dealings with respect to this site once he became aware a friend became involved with the developer consortium.

The “friend” became involved after the key involvement of Council was concluded and the matter had passed to the Government (see earlier response to Para. 5.222).

Further, in Para. 5.235, the report notes that the officer involved characterised his involvement as “simply introducing the developer to the State Government”, but it is claimed this significantly understates the role he played.

The role of the officer was one of facilitation of a key investment proposal. This is the role played by many officers in the Development Division in different ways. Some provide linkages to utilities or educational institutes or materials suppliers or land owners. Others provide guidance and facilitation with respect to rezoning or the processing of permits. In this case the officer provided facilitation in supporting a significant development while at the same time seeking to protect the intellectual property of the developer. It would have been better had he described his role as facilitation rather than introduction.

RESPONSE provided by Deputy Secretary, Department of Treasury and Finance**Use of consultants by the Department****Paragraphs 5.237 to 5.239**

Land matters were exempt from the Victorian Government Purchasing Board supply Policies and Guidelines. The Department’s files show evidence of an adequate level of compliance with the relevant guidelines. Examples of this include:

Project management services:

A written quotation of \$8 400 was accepted by the Department (see further comments below with respect to contract, professional indemnity insurance etc.).

Selling agent:

4 written quotations were obtained.

Lowest quotation of \$15 000 accepted

Valuation services:

Valuer-General provided one valuation and a private practicing valuer from the Valuer-General’s panel of accredited valuers, recommended to and appointed by the Department’s consultant, at a written quotation of \$2 800 provided the second valuation.

Legal services:

A solicitor was appointed from the Department’s panel of approved property legal service providers to prepare tender documents and the Contract of Sale.

RESPONSE provided by Deputy Secretary, Department of Treasury and Finance - continued*Environmental assessment services:*

Two written quotations were obtained for soil investigation work. The lowest quotation of \$10 400 was accepted.

An environmental auditor was appointed from the government's register of certified auditors published by the Environment Protection Authority for a written quotation of \$7 400.

Planning services:

Managed by the Department of Infrastructure.

Contracts:

Letters of offer and acceptance formed the basis of contracts between the parties.

A submission was obtained from the consultant to manage the process of preparing the land for sale. The consultant submitted a written quotation in a letter dated 23 December 1998 to undertake the project management for \$8 400 which was formally accepted by the Department in writing on 6 January 1999. The letters of offer and acceptance constituted the contract between the Department and the consultant. At the time of acceptance of the offer the consultant carried professional indemnity insurance of \$1 000 000. All relevant documents are held on the Department's files.

Valuations and Marketing of the Site**Para. 5.249**

The marketing period accorded with industry normal practice. The property was appropriately zoned which in conjunction with the Council's guidelines for development in the waterfront precinct did not warrant a longer period.

In addition a full due diligence package was available to prospective bidders at the commencement of the marketing period to assist in their deliberations.

Conditions of tender and availability of tender documents for the Site**Para. 5.251**

The instruction to the selling agent was to provide progress reports weekly and at other times as requested. The Department's consultant has advised that the selling agent briefed him on a weekly basis and kept records of interested parties and actions taken in respect of these enquiries. The Department's consultant has confirmed that these records are available from the selling agent.

Para. 5.252

The sales brochure was prepared by the selling agent.

The Council nominated its Director, Waterfront Geelong and City Planning, as the contact officer for advice on planning issues. The selling agent provided this information in the property information literature provided to prospective purchasers.

RESPONSE provided by Deputy Secretary, Department of Treasury and Finance - continued

Para. 5.253

The car parking requirements were clearly set out in the tender documents. There was no apparent uncertainty. If car parking was to be provided at no charge or even at a concessional rate to the public, it would have been specified in the tender documents. In effect, it was clearly a matter for market forces to determine. The issue was not raised with the Department or its consultant during or at any time after the tender period.

Para. 5.254

The selling agent's written advice formed part of the tender documents lodged by the successful tenderer as evidence of value of the car park component of a potential development. It was not part of the formal conforming tender but accompanied an alternative proposal. No conflict of interest was detected by the Department nor was it highlighted by the consultant. As discussed later in the "Department's Comments" under 5.257, the alternative proposal was not considered.

Closing and assessment of tenders

Para. 5.257

The consultant advised the Department that it had the option of accepting a non-conforming tender but that such a decision should be taken under advice from Council who ultimately would be responsible for the operation and maintenance of the car park. Because the alternate proposal was highly conditional on matters outside the authority of the Department, and represented a huge shift from the advertised conditions of tender without offering any advantage to the Government, it was not considered and consequently there was no reason to discuss the matter with the Council.

Allegations regarding the tender process for the sale of the Site

Para. 5.268

The instruction to the selling agent was to provide progress reports weekly and at other times as requested. The Department's consultant has advised that the selling agent briefed him on a weekly basis and kept records of interested parties and actions taken in respect of these inquiries. The Department's consultant has confirmed that these records are available from the selling agent.

On the basis of advice from the Department's consultant it is apparent that the property information package was available for the full marketing period. The tender document, which contained the Contract of Sale, was also available over the marketing period except for a short period in the first week of June when the documents were withdrawn to correct a minor typographical error in the Contract of Sale component of the documents.

Para. 5.269

The objective of nominating a central point of contact at Council was to ensure that prospective bidders received consistent advice on development options for the property. What records were kept in this respect was a matter for the Council to determine given its role as the responsible planning authority for the future development of the site.

Further audit comment

The Department's response to the section of the report dealing with its use of consultants states that land matters were exempt from the Victorian Government Purchasing Board Supply Policies and Guidelines. However, the "Government of Victoria, Policy and Instructions on the purchase, compulsory acquisition and sale of land" states that "Consultants engaged in connection with the purchase, compulsory acquisition or sale of land are to be engaged in accordance with the Victorian Government Purchasing Board Supply Policies and Guidelines issued under the Financial Management Act 1994 or relevant purchasing policies applicable to each agency". In the absence of evidence of any other purchasing policies applicable to the Department, we have assessed its compliance against the Victorian Government Purchasing Board Supply Policies and Guidelines when engaging consultants. A number of departures from these policies and guidelines are outlined in the body of the report.

The Department's response includes a number of examples that do demonstrate compliance with relevant guidelines. These examples do not, however, address the specific instances of non-compliance observed by us as part of this audit.

Appendix A

Status of audits with 30 June 2001 balance dates

General government

EDUCATION, EMPLOYMENT AND TRAINING

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2001 BALANCE DATES			
Department of Education, Employment and Training	21 Sept. 2001	✓	24 Sept. 2001

EDUCATION

Adult, Community and Further Education Board	12 Oct. 2001	✓	15 Oct. 2001
Victorian Curriculum and Assessment Authority (a)	7 Sept. 2001	✓	17 Sept. 2001
Victorian Learning and Employment Skills Commission (b)	12 Oct. 2001	✓	15 Oct. 2001

COMPLETED AUDITS – WITH OTHER BALANCE DATES

EDUCATION

Telematics Course Development Fund Trust (financial year ended 31 Dec. 2000)	31 May 2001	✓	8 June 2001
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POST COMPULSORY EDUCATION INSTITUTIONS

AMPASC Pty Ltd (financial year ended 31 Dec. 2000)	20 Feb. 2001	✓	23 May 2001
Deakin Software Services Pty Ltd (financial year ended 31 Dec. 2000)	31 May 2001	✓	7 June 2001
Monash Mt Eliza Graduate School of Business (financial year ended 31 Dec. 2000)	2 Mar. 2001	✓	23 July 2001
Unilink Ltd (financial year ended 31 Dec. 2000)	31 May 2001	✓	7 June 2001

INCOMPLETE AUDITS – AS AT 22 NOVEMBER 2001

Victorian Tertiary Admission Centre (financial year ended 30 June 2001)	<i>Audited financial statements yet to be finalised.</i>		
Monash University South Africa (financial year ended 31 Dec. 2000)	“	“	“

(a) Formerly known as the Board of Studies.

(b) Formerly known as the State Training Board.

HUMAN SERVICES

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2001 BALANCE DATES			
Department of Human Services	28 Sept. 2001	✓	10 Oct. 2001
HEALTH			
Alexandra and District Ambulance Service	10 Oct. 2001	✓	17 Oct. 2001
Ambulance Service Victoria - Metropolitan Region	27 Aug. 2001	✓	17 Sept. 2001
Chiropractors Registration Board of Victoria	24 Sept. 2001	✓	26 Sept. 2001
Infertility Treatment Authority	26 Sept. 2001	✓	26 Sept. 2001
Mental Health Review Board	5 Oct. 2001	✓	5 Oct. 2001
Nurses Board of Victoria	21 Sept. 2001	✓	24 Sept. 2001
Optometrists Registration Board of Victoria	20 Nov. 2001	✓	21 Nov. 2001
Osteopaths Registration Board of Victoria	17 Sept. 2001	✓	20 Sept. 2001
Pharmacy Board of Victoria	15 Aug. 2001	✓	29 Aug. 2001
Physiotherapists Registration Board of Victoria	25 Sept. 2001	✓	28 Sept. 2001
Podiatrists Registration Board of Victoria	11 Sept. 2001	✓	11 Sept. 2001
Psychosurgery Review Board	26 Sept. 2001	✓	27 Sept. 2001
Rural Ambulance Victoria	27 Sept. 2001	✓	27 Sept. 2001
Victorian Health Promotion Foundation	28 Sept. 2001	✓	8 Oct. 2001
Victorian Institute of Forensic Mental Health	21 Sept. 2001	✓	25 Sept. 2001
PUBLIC HOSPITALS AND ASSOCIATED ENTITIES			
Alexandra District Hospital	30 Aug. 2001	✓	18 Sept. 2001
Alpine Health	23 Aug. 2001	✓	25 Sept. 2001
Bairnsdale Regional Health Service	18 Sept. 2001	✓	26 Sept. 2001
Ballarat Health Services	21 Aug. 2001	Qualified	19 Sept. 2001
<i>Reason for Qualification: Inappropriate disclosure of non-reciprocal grants.</i>			
Barwon Health	31 Aug. 2001	Qualified	26 Sept. 2001
<i>Reason for Qualification: Inappropriate disclosure of non-reciprocal grants.</i>			
Bayside Health (a)	10 Sept. 2001	Qualified	21 Sept. 2001
<i>Reason for Qualification: Inappropriate disclosure of non-reciprocal grants.</i>			
Beaufort and Sipton Health Service	10 Sept. 2001	✓	9 Oct. 2001
Beechworth Hospital	30 Aug. 2001	✓	18 Sept. 2001
Benalla and District Memorial Hospital	28 Aug. 2001	Qualified	2 Oct. 2001
<i>Reason for Qualification: Failure to consolidate a "controlled" entity in a prior period for comparative purposes.</i>			

HUMAN SERVICES - continued

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2001 BALANCE DATES			
Bendigo Health Care Group	21 Aug. 2001	Qualified	27 Sept. 2001
<i>Reason for Qualification: Inappropriate disclosure of non-reciprocal grants.</i>			
Bethlehem Hospital Incorporated	2 Oct. 2001	✓	4 Oct. 2001
Boort District Hospital	14 Sept. 2001	✓	26 Sept. 2001
Caritas Christi Hospice Limited	31 Aug. 2001	✓	19 Sept. 2001
Casterton Memorial Hospital	31 Aug. 2001	✓	20 Sept. 2001
Central Gippsland Health Service	26 Oct. 2001	✓	29 Oct. 2001
Cobram District Hospital	28 Aug. 2001	✓	20 Sept. 2001
Cohuna District Hospital	25 Sept. 2001	Qualified	10 Oct. 2001
<i>Reason for Qualification: Failure to consolidate a "controlled" entity.</i>			
Colac Community Health Services	11 Oct. 2001	✓	11 Oct. 2001
Coleraine and District Hospital	31 Aug. 2001	✓	28 Sept. 2001
Dental Health Services Victoria (a)	10 Sept. 2001	✓	10 Sept. 2001
Djerriwarrh Health Services	21 Sept. 2001	✓	3 Oct. 2001
Dunmunkle Health Services	20 Sept. 2001	✓	26 Oct. 2001
East Grampians Health Service	16 Oct. 2001	Qualified	29 Oct. 2001
<i>Reason for Qualification: Failure to revalue a significant portion of assets.</i>			
East Wimmera Health Service	18 Oct. 2001	✓	24 Oct. 2001
Eastern Health (a)	25 Sept. 2001	Qualified	27 Sept. 2001
<i>Reason for Qualification: Inappropriate disclosure of non-reciprocal grants.</i>			
Echuca Regional Health	3 Sept. 2001	✓	27 Sept. 2001
Edenhope and District Memorial Hospital	11 Oct. 2001	✓	19 Oct. 2001
Far East Gippsland Health and Support Service	28 Oct. 2001	✓	31 Oct. 2001
Gippsland Southern Health Service	10 Sept. 2001	✓	17 Sept. 2001
Goulburn Valley Health	31 Aug. 2001	✓	17 Sept. 2001
Hepburn Health Service	28 Aug. 2001	✓	5 Oct. 2001
Hesse Rural Health Service	23 Oct. 2001	✓	14 Nov. 2001
Heywood and District Memorial Hospital	14 Sept. 2001	✓	2 Oct. 2001
Inglewood and Districts Health Service	3 Oct. 2001	✓	8 Oct. 2001
Inner and Eastern Health Care Network (b)	28 Sept. 2001	✓	17 Oct. 2001
Kerang and District Hospital	10 Sept. 2001	✓	20 Sept. 2001
Kilmore and District Hospital	10 Aug. 2001	✓	28 Sept. 2001
Kitaya Holdings Pty Ltd	20 Sept. 2001	✓	28 Sept. 2001

HUMAN SERVICES - continued

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2001 BALANCE DATES			
Kooweerup Regional Health Service	10 Sept. 2001	✓	24 Sept. 2001
Kyabram and District Memorial Community Hospital	28 Aug. 2001	✓	30 Aug. 2001
Kyneton District Health Service	24 Sept. 2001	✓	27 Sept. 2001
Latrobe Regional Hospital	24 Oct. 2001	✓	25 Oct. 2001
Lorne Community Hospital	31 Aug. 2001	Qualified	22 Nov. 2001
<i>Reason for Qualification: Failure to revalue a significant portion of assets.</i>			
Maldon Hospital	19 Sept. 2001	✓	9 Oct. 2001
Mallee Track Health and Community Service	11 Sept. 2001	✓	20 Sept. 2001
Maryborough District Health Service	12 Sept. 2001	✓	20 Sept. 2001
Mclvor Health and Community Services	12 Sept. 2001	✓	26 Sept. 2001
Melbourne Health (a)	22 Oct. 2001	✓	7 Nov. 2001
Mercy Public Hospitals Inc.	23 Oct. 2001	Qualified	30 Oct. 2001
<i>Reason for Qualification: Failure to consolidate a "controlled" entity and inappropriate disclosure of non-reciprocal grants.</i>			
Moyne Health Services	29 Aug. 2001	✓	18 Sept. 2001
Mt Alexander Hospital	18 Sept. 2001	Qualified	27 Sept. 2001
<i>Reason for Qualification: Inappropriate disclosure of non-reciprocal grants.</i>			
Nathalia District Hospital	31 Aug. 2001	✓	21 Sept. 2001
Northern Health (a)	24 Sept. 2001	✓	26 Sept. 2001
Numurkah District Health Service	22 Aug. 2001	✓	26 Sept. 2001
O'Connell Family Centre (Grey Sisters) Inc.	23 Oct. 2001	✓	23 Oct. 2001
Omeo District Hospital	2 Nov. 2001	✓	9 Nov. 2001
Otway Health and Community Services	5 Oct. 2001	Qualified	12 Oct. 2001
<i>Reason for Qualification: Inappropriate disclosure of non-reciprocal grants.</i>			
Peninsula Health (a)	20 Aug. 2001	Qualified	6 Sept. 2001
<i>Reason for Qualification: Inappropriate disclosure of non-reciprocal grants.</i>			
Peter MacCallum Cancer Institute (a)	20 Aug. 2001	✓	7 Sept. 2001
Portland and District Hospital	30 Aug. 2001	✓	12 Sept. 2001
Queen Elizabeth Centre	12 Sept. 2001	Qualified	27 Sept. 2001
<i>Reason for Qualification: Failure to consolidate a "controlled" entity.</i>			
Robinvale District Health Services	25 Oct. 2001	✓	26 Oct. 2001
Rochester and Elmore District Health Service	10 Oct. 2001	✓	22 Nov. 2001
Royal Victorian Eye and Ear Hospital (a)	23 Aug. 2001	✓	7 Sept. 2001

HUMAN SERVICES - continued

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2001 BALANCE DATES			
Seymour District Memorial Hospital	19 Sept. 2001	✓	4 Oct. 2001
South Gippsland Hospital	26 Sept. 2001	✓	2 Oct. 2001
South West Health Care	10 Sept. 2001	✓	12 Sept. 2001
Southern Health (a)	19 Sept. 2001	Qualified	28 Sept. 2001
<i>Reason for Qualification: Inappropriate disclosure of non-reciprocal grants.</i>			
St Vincent's Hospital (Melbourne) Limited	31 Aug. 2001	Qualified	11 Sept. 2001
<i>Reason for Qualification: Inappropriate recognition of certain debtors.</i>			
Stawell Regional Health (c)	21 Sept. 2001	Qualified	24 Oct. 2001
<i>Reason for Qualification: Failure to revalue a significant portion of assets.</i>			
Swan Hill District Hospital	7 Sept. 2001	✓	20 Sept. 2001
Tallangatta Health Service	21 Aug. 2001	✓	13 Sept. 2001
Terang and Mortlake Health Service	5 Sept. 2001	✓	18 Sept. 2001
Timboon and District Healthcare Service	26 Aug. 2001	✓	12 Sept. 2001
Tweddle Child and Family Health Service	20 Sept. 2001	✓	26 Sept. 2001
Upper Murray Health and Community Services	24 Aug. 2001	✓	19 Sept. 2001
Wangaratta District Base Hospital	30 Aug. 2001	Qualified	3 Oct. 2001
<i>Reason for Qualification: Inappropriate disclosure of non-reciprocal grants, inappropriate recognition of certain receivables and failure to revalue a significant portion of assets.</i>			
Western District Health Service	31 Aug. 2001	✓	13 Sept. 2001
West Gippsland Healthcare Group	24 Sept. 2001	Qualified	26 Sept. 2001
<i>Reason for Qualification: Failure to revalue a significant portion of assets.</i>			
West Wimmera Health Service	17 Oct. 2001	✓	31 Oct. 2001
Western Health (a)	24 Sept. 2001	✓	27 Sept. 2001
Wimmera Health Care Group	18 Oct. 2001	✓	29 Oct. 2001
Wodonga Regional Health Service	15 Aug. 2001	Qualified	21 Sept. 2001
<i>Reason for Qualification: Inappropriate disclosure of non-reciprocal grants.</i>			
Women's and Children's Health (a)	3 Sept. 2001	✓	3 Sept. 2001
Wonthaggi and District Hospital	27 Sept. 2001	✓	28 Sept. 2001
Yarram and District Health Service	12 Sept. 2001	✓	12 Sept. 2001
Yarrawonga District Hospital	28 Aug. 2001	✓	27 Sept. 2001
Yea and District Memorial Hospital	25 Sept. 2001	✓	27 Sept. 2001

HUMAN SERVICES - continued

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – WITH OTHER BALANCE DATES			
Mildura Cemetery Trust (financial year ended 31 Dec. 2000)	15 Jun. 2001	✓	3 Oct. 2001
Templestowe Cemetery Trust (financial year ended 31 Dec. 2000)	13 Jun. 2001	✓	29 Jun. 2001
Trustees of the Lilydale Memorial Park and Cemetery (financial year ended 31 Dec. 2000)	21 Jun. 2001	✓	29 Jun. 2001

INCOMPLETE AUDITS – AS AT 22 NOVEMBER 2001 (d)			
Chinese Medicine Registration Board of Victoria	<i>Audited financial statements yet to be finalised.</i>		
Dental Practice Board of Victoria	“	“	“
Austin and Repatriation Medical Centre (a)	“	“	“
Manangatang and District Hospital	“	“	“
Mansfield District Hospital	“	“	“
Mildura Base Hospital	“	“	“
North Western Health Care Network (b)	“	“	“
Rural North West Health	“	“	“

- (a) New registered agencies commencing 1 July 2000.
 (b) “Shell entities” of previous Health Care Networks.
 (c) Formerly known as Stawell District Hospital.
 (d) Financial statements with 30 June 2001 balance dates.

INFRASTRUCTURE

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2001 BALANCE DATES			
Department of Infrastructure	21 Sept. 2001	✓	26 Sept. 2000
TRANSPORT			
Melbourne City Link Authority	4 Oct. 2001	✓	4 Oct. 2001
Roads Corporation	26 Sept. 2001	✓	26 Sept. 2001
Public Transport Corporation	12 Sept. 2001	✓	12 Sept. 2001
Victorian Rail Track	11 Oct. 2001	✓	15 Oct. 2001
PORTS			
Marine Board of Victoria	28 Sept. 2001	✓	3 Oct. 2001
Hastings Port (Holding) Corporation	1 Oct. 2001	✓	2 Oct. 2001
Melbourne Port Corporation	5 Sept. 2001	✓	7 Sept. 2001
Victorian Channels Authority	27 Sept. 2001	✓	27 Sept. 2001
PLANNING			
Architects Registration Board of Victoria	9 Oct. 2001	✓	10 Oct 2001
Building Control Commission	25 Sept. 2001	✓	26 Sept. 2001
Heritage Council	28 Sept. 2001	✓	3 Oct. 2001
Plumbing Industry Commission	27 Sept. 2001	✓	28 Sept. 2001
Urban and Regional Land Corporation	31 Aug. 2001	✓	6 Sept. 2001
ULC Real Estate Services Pty Ltd	31 Aug. 2001	✓	6 Sept. 2001

JUSTICE

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2001 BALANCE DATES			
Department of Justice	12 Sept. 2001	✓	12 Sept. 2001
ATTORNEY-GENERAL			
Equal Opportunity Commission	24 Aug. 2001	✓	10 Sept. 2001
Legal Practice Board	29 Aug. 2001	✓	31 Aug. 2001
Office of Public Prosecutions	20 Sept. 2001	✓	21 Sept. 2001
Office of the Legal Ombudsman	27 Aug. 2001	✓	31 Aug. 2001
Office of the Public Advocate	11 Sept. 2001	✓	13 Sept. 2001
Queen Victoria Women's Centre Trust	28 Sept. 2001	✓	28 Sept. 2001
Victoria Legal Aid	15 Aug. 2001	✓	16 Aug. 2001
Victorian Electoral Commission	5 Sept. 2001	✓	5 Sept. 2001
Victorian Institute of Forensic Medicine	22 Oct. 2001	✓	25 Oct. 2001
Victorian Law Reform Commission	21 Sept. 2001	✓	21 Sept. 2001
POLICE AND EMERGENCY SERVICES			
Country Fire Authority	11 Oct. 2001	✓	11 Oct. 2001
Metropolitan Fire and Emergency Services Board	28 Sept. 2001	Qualified	28 Sept. 2001
<i>Reason for Qualification: Inappropriate disclosure of non-reciprocal grants.</i>			
National Institute of Forensic Science (a)	28 Sept. 2001	✓	25 Oct. 2001
National Police Ethnic Advisory Bureau	9 Oct. 2001	✓	18 Oct. 2001
Office of the Chief Commissioner of Police	29 Aug. 2001	✓	28 Sept. 2001
CONSUMER AFFAIRS			
Residential Tenancies Bond Authority	10 Oct. 2001	✓	11 Oct. 2001

COMPLETED AUDITS – WITH OTHER BALANCE DATES

Senior Master of the Supreme Court (financial year ended 30 June 2000) (a)	20 Feb. 2001	✓	23 Feb. 2001
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INCOMPLETE AUDITS – AS AT 22 NOVEMBER 2001 (b)

Legal Practitioners Liability Committee	<i>Audited financial statements yet to be finalised.</i>		
Senior Master of the Supreme Court (a)	"	"	"

(a) In the absence of a statutory requirement for the audit of these financial statements they are audited by arrangement.

(b) Financial statements with 30 June 2001 balance dates.

NATURAL RESOURCES AND ENVIRONMENT

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2001 BALANCE DATES			
Department of Natural Resources and Environment	29 Aug. 2001	✓	29 Aug. 2001
AGRICULTURE			
Agriculture Victoria Services Pty Ltd	10 Sept. 2001	✓	18 Sept. 2001
Australian Food Industry Science Centre	14 Sept. 2001	✓	29 Sept. 2001
Dairy Food Safety Victoria	10 Sept. 2001	✓	25 Sept. 2001
Food Science Australia	14 Sept. 2001	✓	26 Sept. 2001
Melbourne Market Authority	19 Sept. 2001	✓	20 Sept. 2001
Victorian Meat Authority	17 Aug. 2001	✓	20 Aug. 2001
ENERGY AND RESOURCES			
Office of Gas Safety	6 Aug. 2001	✓	6 Aug. 2001
Office of Chief Electrical Inspector	27 July 2001	✓	27 July 2001
Sustainable Energy Authority Victoria	24 Sept. 2001	✓	27 Sept. 2001
ENVIRONMENT AND CONSERVATION			
Alpine Resorts Co-ordinating Council	25 Sept. 2001	✓	25 Sept. 2001
Barwon Regional Waste Management Group	26 Sept. 2001	✓	26 Sept. 2001
Barwon Regional Water Authority	27 Aug. 2001	✓	7 Sept. 2001
Calder Regional Waste Management Group	18 Oct. 2001	✓	19 Oct. 2001
Casey's Weir and Major Creek Rural Water Authority	30 Aug. 2001	Qualified	25 Oct. 2001
<p>Reason for Qualification: Failure to revalue a significant portion of assets. Audit report also contained an emphasis of matter comment: There was an inherent uncertainty as to whether the authority will continue as a going concern.</p>			
Central Gippsland Region Water Authority	27 Aug. 2001	✓	29 Aug. 2001
Central Highlands Region Timber Pty Ltd	28 Aug. 2001	✓	4 Sept. 2001
Central Highlands Region Water Authority	28 Aug. 2001	✓	4 Sept. 2001
Central Murray Regional Waste Management Group	20 Aug. 2001	✓	28 Aug. 2001
City West Water Ltd	22 Aug. 2001	✓	22 Aug. 2001
Coliban Region Water Authority	11 Oct. 2001	✓	12 Oct. 2001
Corangamite Catchment Management Authority	4 Sept. 2001	✓	7 Sept. 2001
Eastern Regional Waste Management Group	30 Aug. 2001	✓	1 Oct. 2001
East Gippsland Catchment Management Authority	8 Oct. 2001	✓	9 Oct. 2001
East Gippsland Region Water Authority	25 Oct. 2001	✓	31 Oct. 2001

NATURAL RESOURCES AND ENVIRONMENT -*continued*

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2001 BALANCE DATES			
Eco Recycle Victoria	26 Sept. 2001	✓	26 Sept. 2001
Environment Protection Authority	17 Sept. 2001	✓	25 Sept. 2001
First Mildura Irrigation Trust	17 Sept. 2001	✓	3 Oct. 2001
Gippsland and Southern Rural Water Authority	14 Aug. 2001	✓	5 Sept. 2001
Gippsland Regional Waste Management Group	28 Sept. 2001	✓	1 Oct. 2001
Glenelg Region Water Authority	5 Sept. 2001	✓	10 Sept. 2001
Glenelg-Hopkins Catchment Management Authority	7 Sept. 2001	✓	10 Sept. 2001
Goulburn Broken Catchment Management Authority	26 Sept. 2001	✓	28 Sept. 2001
Goulburn-Murray Rural Water Authority	16 Aug. 2001	✓	14 Sept. 2001
Goulburn Valley Region Water Authority	5 Sept. 2001	✓	21 Sept. 2001
Goulburn Valley Regional Waste Management Group	28 Sept. 2001	✓	1 Oct. 2001
Grampians Region Water Authority	28 Aug. 2001	✓	16 Oct. 2001
Grampians Regional Waste Management Group	26 Aug. 2001	✓	27 Sept. 2001
Highland Regional Waste Management Group	13 Aug. 2001	✓	26 Sept. 2001
Lower Murray Region Water Authority	31 Aug. 2001	✓	25 Sept. 2001
Mallee Catchment Management Authority	10 Sept. 2001	✓	2 Oct. 2001
Melbourne Parks and Waterways	16 Nov. 2001	✓	20 Nov. 2001
Melbourne Water Corporation	24 Aug. 2001	✓	24 Aug. 2001
Mornington Peninsula Regional Waste Management Group	9 Oct. 2001	✓	12 Oct. 2001
North Central Catchment Management Authority	13 Sept. 2001	✓	28 Sept. 2001
North East Catchment Management Authority	28 Sept. 2001	✓	5 Oct. 2001
North East Region Water Authority	31 Aug. 2001	✓	4 Sept. 2001
North East Victorian Regional Waste Management Group	22 Aug. 2001	✓	31 Aug. 2001
Northern Regional Waste Management Group	29 Aug. 2001	✓	30 Aug. 2001
Parks Victoria	24 Aug. 2001	✓	24 Aug. 2001
Phillip Island Nature Park Board of Management	12 Nov. 2001	✓	22 Nov. 2001
Portland Coast Region Water Authority	22 Aug. 2001	✓	10 Sept. 2001
Royal Botanic Gardens Board	29 Aug. 2001	✓	13 Sept. 2001

NATURAL RESOURCES AND ENVIRONMENT - *continued*

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2001 BALANCE DATES			
Shrine of Remembrance Trustees	22 Nov. 2001	✓	22 Nov. 2001
South East Water Limited	27 Aug. 2001	✓	27 Aug. 2001
South Eastern Regional Waste Management Group	20 Sept. 2001	✓	24 Sept. 2001
South Gippsland Region Water Authority	28 Aug. 2001	✓	5 Sept. 2001
South West Water Authority	25 Sept. 2001	✓	2 Oct. 2001
South Western Regional Waste Management Group	21 Sept. 2001	✓	16 Sept. 2001
Sunraysia Rural Water Authority	2 Oct. 2001	✓	9 Oct. 2001
Trust for Nature (Victoria)	13 Sept. 2001	✓	25 Sept. 2001
West Gippsland Catchment Management Authority	17 Sept. 2001	✓	20 Sept. 2001
Western Region Water Authority	22 Aug. 2001	✓	20 Sept. 2001
Western Regional Waste Management Group	28 Sept. 2001	✓	28 Sept. 2001
Westernport Region Water Authority	16 Aug. 2001	✓	2 Oct. 2001
Wimmera Catchment Management Authority	26 Sept. 2001	✓	8 Oct. 2001
Wimmera Mallee Rural Water Authority	6 Sept. 2001	✓	6 Sept. 2001
Yarra Bend Park Trust	25 Oct. 2001	✓	26 Oct. 2001
Yarra Valley Water Limited	22 Aug. 2001	✓	22 Aug. 2001
Zoological Parks and Gardens Board	28 Aug. 2001	✓	29 Aug. 2001
COMPLETED AUDITS – WITH OTHER BALANCE DATES			
Shrine of Remembrance Corporation (financial year ended 30 June 2000)	25 June 2001	✓	2 July 2001
Victorian Plantations Corporation (financial year ended 30 June 1999)	10 Aug. 2000	✓	11 Aug. 2000
INCOMPLETE AUDITS – AS AT 22 NOVEMBER 2001 (a)			
Desert Fringe Regional Waste Management Group	<i>Audited financial statements yet to be finalised.</i>		
Mildura Regional Waste Management Group	“	“	“
Murray Valley Citrus Marketing Board	“	“	“
Murray Valley Wine Grape Industry Development Committee	“	“	“

NATURAL RESOURCES AND ENVIRONMENT -*continued*

INCOMPLETE AUDITS – AS AT 22 NOVEMBER 2001 (a)			
Northern Victorian Fresh Tomato Industry Development Committee (financial year ended 30 June 2000 and 2001)	“	“	“
Surveyors Board of Victoria	“	“	“
Victorian Plantations Corporation (financial year ended 30 June 2000 and 2001)	“	“	“
Victorian Strawberry Industry Development Committee	“	“	“
Water Training Centre	“	“	“

(a) Financial statements with 30 June 2001 balance dates, unless otherwise indicated.

PREMIER AND CABINET

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2001 BALANCE DATES			
Department of Premier and Cabinet	19 Sept. 2001	✓	20 Sept. 2001
ARTS			
Cinemia Corporation	12 Oct. 2001	✓	16 Oct. 2001
Council of Trustees of the National Gallery of Victoria	31 Oct. 2001	✓	31 Oct. 2001
Geelong Performing Arts Centre Trust	11 Oct. 2001	✓	19 Oct. 2001
Library Board of Victoria	12 Sept. 2001	✓	17 Sept. 2001
Museums Board of Victoria	27 Aug. 2001	✓	29 Aug. 2001
State Library of Victoria Foundation	12 Sept. 2001	✓	18 Sept. 2001
Victorian Arts Centre Trust	1 Nov. 2001	✓	1 Nov. 2001
MULTICULTURAL AFFAIRS			
Victorian Interpreting and Translating Service	10 Oct. 2001	✓	10 Oct. 2001
PREMIER			
Office of the Ombudsman	6 Sept. 2001	✓	11 Oct. 2001
Office of Public Employment	6 Sept. 2001	✓	18 Sept. 2001
Victorian Relief Committee	3 Oct. 2001	✓	3 Oct. 2001

STATE AND REGIONAL DEVELOPMENT

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2001 BALANCE DATES			
Department of State and Regional Development	27 Sept. 2001	✓	27 Sept. 2001
MAJOR PROJECTS AND TOURISM			
Australian Grand Prix Corporation	31 Aug. 2001	✓	31 Aug. 2001
Docklands Authority	25 Oct. 2001	Qualified	26 Oct. 2001
<i>Reason for Qualification: Refer to Part 3 of this report.</i>			
Emerald Tourist Railway Board	22 Aug. 2001	Qualified	26 Sept. 2001
<i>Reason for Qualification: Failure to revalue a significant portion of assets.</i>			
Federation Square Management Pty Ltd	11 Sept. 2001	✓	26 Sept. 2001
Melbourne Convention and Exhibition Trust	31 Aug. 2001	✓	1 Oct. 2001
Tourism Victoria	9 Oct. 2001	✓	22 Oct. 2001
RACING			
Greyhound Racing Control Board	26 Sept. 2001	✓	26 Sept. 2001
Harness Racing Board	10 Sept. 2001	✓	11 Sept. 2001
SPORT AND RECREATION			
Melbourne and Olympic Parks Trust	4 Oct. 2001	Qualified	5 Oct. 2001
<i>Reason for Qualification: Incorrect recognition of an expense and an associated liability.</i>			
State Sport Centres Trust (a)	28 Sept. 2001	✓	28 Sept. 2001
Melbourne 2002 World Masters Games Limited	21 Sept. 2001	✓	24 Sept. 2001
Melbourne 2006 Commonwealth Games Pty Ltd	28 Aug. 2001	✓	7 Sept. 2001
Victorian Institute of Sport Ltd	15 Aug. 2001	✓	31 Aug. 2001
Victorian Institute of Sport Trust	15 Aug. 2001	✓	31 Aug. 2001
STATE AND REGIONAL DEVELOPMENT			
Overseas Projects Corporation of Victoria Ltd	16 Oct. 2001	✓	17 Oct. 2001
Victorian Medical Consortium Pty Ltd	6 Sept. 2001	✓	12 Sept. 2001

(a) Formerly known as the Melbourne Sports and Aquatic Centre Trust.

TREASURY AND FINANCE

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2001 BALANCE DATES			
Department of Treasury and Finance	9 Oct. 2001	✓	12 Oct. 2001
FINANCE			
Emergency Services Superannuation Scheme	31 Aug. 2001	✓	31 Aug. 2001
Government Superannuation Office	26 Sept. 2001	✓	26 Sept. 2001
Parliamentary Contributory Superannuation Fund	9 Oct. 2001	✓	9 Oct. 2001
Regulator-General, Office of the	20 Sept. 2001	✓	28 Sept. 2001
State Superannuation Fund	26 Sept. 2001	✓	26 Sept. 2001
Victorian Managed Insurance Authority	28 Aug. 2001	✓	7 Sept. 2001
GAMING			
Footy Consortium Pty Ltd	29 Oct. 2001	✓	30 Oct. 2001
Gambling Research Panel	5 Oct. 2001	✓	10 Oct. 2001
Tattersall's Club Keno Pty Ltd	25 Oct. 2001	✓	30 Oct. 2001
Tattersall's Gaming Pty Ltd	25 Oct. 2001	✓	30 Oct. 2001
Tattersall's Sweeps Pty Ltd	25 Oct. 2001	✓	30 Oct. 2001
Victorian Casino and Gaming Authority	28 Aug. 2001	✓	31 Aug. 2001
TREASURER			
Gas Release Co. Pty Ltd	29 Aug. 2001	✓	4 Sept. 2001
Gas Transmission Corporation	7 Aug. 2001	✓	8 Aug. 2001
Gascor Holdings No. 1 Pty Ltd (a)	7 Aug. 2001	✓	8 Aug. 2001
Gascor Holdings No. 2 Pty Ltd (a)	7 Aug. 2001	✓	8 Aug. 2001
Gascor Holdings No. 3 Pty Ltd (a)	7 Aug. 2001	✓	8 Aug. 2001
Gascor EPL Pty Ltd (a)	7 Aug. 2001	✓	8 Aug. 2001
Gascor IEPL Pty Ltd (a)	7 Aug. 2001	✓	8 Aug. 2001
Gascor KEPL Pty Ltd (a)	7 Aug. 2001	✓	8 Aug. 2001
Gascor MAPL Pty Ltd (a)	7 Aug. 2001	✓	8 Aug. 2001
Gascor MGPL Pty Ltd (a)	7 Aug. 2001	✓	8 Aug. 2001
Gascor Pty Ltd	29 Aug. 2001	✓	5 Sept. 2001
Gascor SAPL Pty Ltd (a)	7 Aug. 2001	✓	8 Aug. 2001
Gascor SNPL Pty Ltd (a)	7 Aug. 2001	✓	8 Aug. 2001
Gascor (T No.1) Pty Ltd (a)	7 Aug. 2001	✓	8 Aug. 2001

TREASURY AND FINANCE - *continued*

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2001 BALANCE DATES			
TREASURER			
Gascor (TH) Pty Ltd (a)	7 Aug. 2001	✓	8 Aug. 2001
Gascor WAPL Pty Ltd (a)	7 Aug. 2001	✓	8 Aug. 2001
Gascor WPL Pty Ltd (a)	7 Aug. 2001	✓	8 Aug. 2001
Industry Supervision Fund	28 Sept. 2001	✓	1 Oct. 2001
Land Aggregation Program Trust Fund	1 Aug. 2001	✓	1 Aug. 2001
Paragon Warehouse Trust No.1	23 Oct. 2001	✓	23 Oct. 2001
Paragon Warehouse Trust No. 2	23 Oct. 2001	✓	23 Oct. 2001
Rural Finance Corporation	1 Aug. 2001	✓	1 Aug. 2001
South Eastern Medical Complex Limited	22 Oct. 2001	✓	22 Oct. 2001
<i>Audit Report contained an emphasis of matter comment: There was an inherent uncertainty as to whether the company will continue as a going concern.</i>			
State Electricity Commission of Victoria	28 Sept. 2001	✓	8 Oct. 2001
State Trustees Limited	23 Oct. 2001	✓	23 Oct. 2001
State Trustees Common Fund No. 1	23 Oct. 2001	✓	23 Oct. 2001
State Trustees Common Fund No. 2	23 Oct. 2001	✓	23 Oct. 2001
State Trustees Common Fund No. 3	23 Oct. 2001	✓	23 Oct. 2001
State Trustees Common Fund No. 4	23 Oct. 2001	✓	23 Oct. 2001
State Trustees Common Fund No. 5	23 Oct. 2001	✓	23 Oct. 2001
State Trustees Common Fund No. 6	23 Oct. 2001	✓	23 Oct. 2001
State Trustees Common Fund No. 10	23 Oct. 2001	✓	23 Oct. 2001
State Trustees Premium Cash Fund	23 Oct. 2001	✓	23 Oct. 2001
State Trustees Premium Equity Fund	23 Oct. 2001	✓	23 Oct. 2001
State Trustees Premium Fixed Interest Fund	23 Oct. 2001	✓	23 Oct. 2001
State Trustees Premium Managed Fund	23 Oct. 2001	✓	23 Oct. 2001
State Trustees Premium Property Fund	23 Oct. 2001	✓	23 Oct. 2001
STL Financial Services Limited	23 Oct. 2001	✓	23 Oct. 2001
Treasury Corporation of Victoria	18 Sept. 2001	✓	18 Sept. 2001
Vicfleet Pty Ltd	13 Sept. 2001	✓	28 Sept. 2001
Victorian Energy Networks Corporation	6 Sept. 2001	✓	13 Sept. 2001
Victorian Funds Management Corporation	30 Aug. 2001	✓	30 Aug. 2001
VFM Australian Equities Trust	30 Aug. 2001	✓	30 Aug. 2001
VFM Australian Fixed Interest Trust	30 Aug. 2001	✓	30 Aug. 2001
VFM Indexed Bonds Trust	30 Aug. 2001	✓	30 Aug. 2001
VFM International Equities Trust	30 Aug. 2001	✓	30 Aug. 2001

TREASURY AND FINANCE - continued

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2001 BALANCE DATES			
TREASURER			
VFM Short Term Money Market Trust	30 Aug. 2001	✓	30 Aug. 2001
WORKCOVER			
Opalwood Pty Ltd	22 Aug. 2001	✓	23 Aug. 2001
Southgate Trust	22 Aug. 2001	✓	23 Aug. 2001
TAC Law Pty Ltd	9 Aug. 2001	✓	23 Aug. 2001
Transport Accident Commission	23 Aug. 2001	✓	23 Aug. 2001
Victorian Trauma Foundation	23 Aug. 2001	✓	27 Aug. 2001
Victorian Trauma Foundation Pty Ltd	23 Aug. 2001	✓	27 Aug. 2001
Victorian WorkCover Authority	31 Aug. 2001	✓	31 Aug. 2001

COMPLETED AUDITS – WITH OTHER BALANCE DATES			
Roslin Pty Ltd (financial year ended 30 June 2000)	21 Feb. 2001	✓	20 June 2001
South Eastern Medical Centre Complex Limited (financial year ended 30 June 2000)	21 Feb. 2001	✓	20 June 2001
V/Line Passenger Corporation (period 1 Jul. 2000 to 31 December 2000) (b)	22 Aug. 2001	✓	22 Aug. 2001

INCOMPLETE AUDITS – AS AT 22 NOVEMBER 2001 (c)			
Arada Trust	<i>Audited financial statements yet to be finalised.</i>		
Roslin Pty Ltd	“	“	“

- (a) “Shell companies” of previous gas industry entities.
 (b) Final audit.
 (c) Financial statements with 30 June 2001 balance dates.

Appendix B

Status of audits with 30 June 2001 balance dates

Local government

LOCAL GOVERNMENT

Entity	Financial statements signed	Clear opinion issued		Auditor-General's report signed
		Financial Statements	Performance Statement	
COMPLETED AUDITS – 30 JUNE 2001 BALANCE DATES				
LOCAL GOVERNMENT – MUNICIPAL COUNCILS AND ASSOCIATED COMPANIES				
Alpine Shire Council	3 Oct. 2001	✓	✓	10 Oct. 2001
Ararat Rural City Council	18 Sept. 2001	✓	✓	25 Sept. 2001
Ballarat City Council	18 Sept. 2001	✓	Qualified	28 Sept. 2001
<i>Reason for Qualification of Performance Statement: Sufficient and appropriate records did not exist to support actual results included in the performance statement for certain performance measures.</i>				
Banyule City Council	25 Sept. 2001	✓	✓	26 Sept. 2001
Bass Coast Shire Council	14 Sept. 2001	✓	✓	21 Sept. 2001
Baw Baw Shire Council	20 Sept. 2001	✓	✓	26 Sept. 2001
Bayside City Council	25 Sept. 2001	✓	✓	26 Sept. 2001
Boroondara City Council	26 Sept. 2001	✓	✓	26 Sept. 2001
Borough of Queenscliffe	18 Sept. 2001	✓	✓	21 Sept. 2001
Brimbank City Council	26 Sept. 2001	✓	✓	28 Sept. 2001
Campaspe Shire Council	24 Sept. 2001	✓	✓	27 Sept. 2001
Cardinia Shire Council	15 Oct. 2001	✓	✓	19 Oct. 2001
Casey City Council	18 Sept. 2001	✓	✓	25 Sept. 2001
Central Goldfields Shire Council	10 Sept. 2001	✓	✓	11 Sept. 2001
CityWide Service Solutions Pty Ltd	1 Oct. 2001	✓	(na)	1 Oct. 2001
Colac-Otway Shire Council	13 Sept. 2001	✓	✓	26 Sept. 2001
Corangamite Shire Council	12 Sept. 2001	✓	✓	25 Sept. 2001
Darebin City Council	24 Sept. 2001	Qualified	✓	28 Sept. 2001
<i>Reason for Qualification of Financial Statements: Failure to undertake a condition assessment when revaluing certain non-current assets.</i>				
Delatite Shire Council	16 Oct. 2001	✓	✓	17 Oct. 2001
East Gippsland Shire Council	10 Sept. 2001	✓	✓	20 Sept. 2001
Frankston City Council	11 Sept. 2001	✓	✓	20 Sept. 2001
Glen Eira City Council	24 Sept. 2001	✓	✓	26 Sept. 2001
Glenelg Shire Council	14 Sept. 2001	✓	✓	18 Sept. 2001
Golden Plains Shire Council	13 Sept. 2001	Qualified	✓	25 Sept. 2001
<i>Reason for Qualification of Financial Statements: Inappropriately accounted for a change in the condition of infrastructure assets when undertaking revaluations.</i>				

LOCAL GOVERNMENT - continued

Entity	Financial statements signed	Clear opinion issued		Auditor-General's report signed
		Financial Statements	Performance Statement	
COMPLETED AUDITS – 30 JUNE 2001 BALANCE DATES				
LOCAL GOVERNMENT – MUNICIPAL COUNCILS				
Greater Bendigo City Council	24 Sept. 2001	✓	✓	27 Sept. 2001
Greater Geelong City Council	18 Sept. 2001	✓	✓	28 Sept. 2001
Greater Shepparton City Council	17 Sept. 2001	✓	✓	25 Sept. 2001
Hepburn Shire Council	18 Sept. 2001	✓	✓	26 Sept. 2001
Hobsons Bay City Council	25 Sept. 2001	✓	✓	27 Sept. 2001
Hume City Council	18 Sept. 2001	✓	✓	25 Sept. 2001
Indigo Shire Council	11 Oct. 2001	Qualified	Qualified	23 Oct. 2001
<p>Reason for Qualification of Financial Statements: Failure to undertake asset revaluations with sufficient regularity.</p> <p>Reason for Qualification of Performance Statement: Statement did not include a substantial proportion of the performance measures and targets set-out in the Council's Business Plan.</p>				
Kingston City Council	20 Sept. 2001	✓	✓	28 Sept. 2001
Knox City Council	12 Sept. 2001	✓	✓	19 Sept. 2001
La Trobe Shire Council	25 Oct. 2001	✓	Qualified	29 Oct. 2001
<p>Reason for Qualification of Performance Statement: Statement did not include a substantial proportion of the performance measures and targets set-out in the Council's Business Plan.</p>				
Loddon Shire Council	10 Oct. 2001	✓	✓	12 Oct. 2001
Macedon Ranges Shire Council	26 Sept. 2001	✓	✓	3 Oct. 2001
Manningham City Council	25 Sept. 2001	✓	✓	27 Sept. 2001
Maribyrnong City Council	17 Sept. 2001	✓	✓	19 Sept. 2001
Maroondah City Council	5 Sept. 2001	✓	✓	6 Sept. 2001
Melbourne City Council	13 Sept. 2001	✓	✓	24 Sept. 2001
Melbourne Wholesale Fish Market Pty Ltd	20 Sept. 2001	✓	(na)	2 Oct. 2001
Melton Shire Council	17 Sept. 2001	✓	✓	25 Sept. 2001
Mildura Rural City Council	22 Oct. 2001	✓	✓	31 Oct. 2001
Mitchell Shire Council	20 Sept. 2001	✓	✓	21 Sept. 2001
Moira Shire Council	25 Oct. 2001	✓	✓	29 Oct. 2001
Monash City Council	25 Sept. 2001	✓	✓	28 Sept. 2001
Moonee Valley City Council	21 Sept. 2001	✓	✓	25 Sept. 2001
Moorabool Shire Council	18 Sept. 2001	✓	✓	25 Sept. 2001

LOCAL GOVERNMENT - continued

Entity	Financial statements signed	Clear opinion issued		Auditor-General's report signed
		Financial Statements	Performance Statement	
COMPLETED AUDITS – 30 JUNE 2001 BALANCE DATES				
LOCAL GOVERNMENT – MUNICIPAL COUNCILS				
Moreland City Council	26 Sept. 2001	✓	✓	26 Sept. 2001
Mornington Peninsula Shire Council	7 Nov. 2001	Qualified	✓	9 Nov. 2001
<i>Reason for Qualification of Financial Statements: Failure to undertake a condition assessment of certain non-current assets and failure to assess the remaining useful life of buildings and other land improvement assets.</i>				
Mount Alexander Shire Council	1 Oct. 2001	✓	✓	3 Oct. 2001
Moyné Shire Council	19 Sept. 2001	✓	Qualified	24 Sept. 2001
<i>Reason for Qualification of Performance Statement: Business Plan did not set-out the performance targets by which Council's performance may be judged.</i>				
Murrumbidgee Shire Council	25 Sept. 2001	✓	✓	27 Sept. 2001
Nillumbik Shire Council	19 Sept. 2001	✓	✓	21 Sept. 2001
Northern Grampians Shire Council	18 Oct. 2001	✓	✓	30 Oct. 2001
Port Phillip City Council	25 Sept. 2001	✓	✓	25 Sept. 2001
Prahran Market Pty Ltd	24 Sept. 2001	✓	(na)	28 Sept. 2001
Pyrenees Shire Council	3 Oct. 2001	✓	✓	8 Oct. 2001
Queen Victoria Market Pty Ltd	20 Sept. 2001	✓	(na)	28 Sept. 2001
South Gippsland Shire Council	14 Sept. 2001	✓	✓	18 Sept. 2001
Southern Grampians Shire Council	18 Sept. 2001	✓	✓	25 Sept. 2001
Stonnington City Council	24 Sept. 2001	✓	✓	26 Sept. 2001
Strathbogie Shire Council	25 Sept. 2001	✓	✓	26 Sept. 2001
Streetsahead Cleaning Services	24 Sept. 2001	✓	(na)	25 Sept. 2001
Surf Coast Shire Council	9 Oct. 2001	✓	Qualified	11 Oct. 2001
<i>Reason for Qualification of Performance Statement: Failure to report actual performance against community satisfaction performance measures and targets set out in the Council's Business Plan.</i>				
Swan Hill Rural City Council	5 Oct. 2001	Qualified	Qualified	19 Oct. 2001
<i>Reason for Qualification of Financial Statements: Failure to undertake a condition assessment when revaluing certain non-current assets.</i>				
<i>Reason for Qualification of Performance Statement: Council's Business Plan did not include performance targets.</i>				

LOCAL GOVERNMENT - continued

Entity	Financial statements signed	Clear opinion issued		Auditor-General's report signed
		Financial Statement	Performance Statement	
COMPLETED AUDITS – 30 JUNE 2001 BALANCE DATES				
LOCAL GOVERNMENT – MUNICIPAL COUNCILS				
Towong Shire Council	18 Sept. 2001	Qualified	Qualified	31 Oct. 2001
<p>Reason for Qualification of Financial Statements: Failure to undertake a condition assessment when revaluing certain non-current assets.</p> <p>Reason for Qualification of Performance Statement: Statement did not include the performance measures and targets set-out in the Council's Business Plan.</p>				
Wangaratta Rural City Council	14 Sept. 2001	✓	✓	26 Sept. 2001
Warrnambool City Council	21 Sept. 2001	✓	✓	27 Sept. 2001
Wellington Shire Council	17 Sept. 2001	✓	✓	21 Sept. 2001
West Wimmera Shire Council	6 Sept. 2001	✓	Qualified	26 Sept. 2001
<p>Reason for Qualification of Performance Statement: Statement did not include a substantial portion of the performance measures and targets set-out in Council's Business Plan.</p>				
Whitehorse City Council	14 Sept. 2001	✓	✓	19 Sept. 2001
Whittlesea City Council	27 Sept. 2001	✓	✓	27 Sept. 2001
Wodonga Rural City Council	22 Oct. 2001	Qualified	Qualified	30 Oct. 2001
<p>Reason for Qualification of Financial Statements: Failure to undertake a condition assessment when revaluing certain non-current assets.</p> <p>Reason for Qualification of Performance Statement: The results reported in respect of certain performance measures were not supported by sufficient and appropriate records.</p>				
Wyndham City Council	14 Sept. 2001	✓	✓	28 Sept. 2001
Yarra City Council	18 Sept. 2001	✓	✓	28 Sept. 2001
Yarra Ranges Shire Council	25 Sept. 2001	✓	✓	27 Sept. 2001
Yarriambiack Shire Council	10 Sept. 2001	✓	Qualified	17 Sept. 2001
<p>Reason for Qualification of Performance Statement: Statement did not include a substantial proportion of the performance measures and targets set-out in Council's Business Plan.</p>				

LOCAL GOVERNMENT – continued

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2001 BALANCE DATE			
LOCAL GOVERNMENT – REGIONAL LIBRARY CORPORATIONS			
Casey - Cardinia Regional Library Corporation	4 Sept. 2001	✓	6 Sept. 2001
Central Highlands Regional Library Corporation	20 Sept. 2001	✓	24 Sept. 2001
Corangamite Regional Library Corporation	13 Sept. 2001	✓	19 Sept. 2001
Eastern Regional Library Corporation	5 Sept. 2001	✓	11 Sept. 2001
Geelong Regional Library Corporation	21 Sept. 2001	✓	25 Sept. 2001
Glenelg Regional Library Corporation	20 Sept. 2001	✓	28 Sept. 2001
Goulburn Valley Regional Library Corporation	20 Sept. 2001	✓	25 Sept. 2001
High Country Regional Library Corporation	14 Sept. 2001	✓	25 Sept. 2001
Hume-Moonee Valley Regional Library Corporation	26 Sept. 2001	✓	26 Sept. 2001
North Central Goldfields Regional Library Corporation	28 Sept. 2001	✓	12 Oct. 2001
West Gippsland Regional Library Corporation	14 Sept. 2001	✓	24 Sept. 2001
Whitehorse Manningham Regional Library Corporation	28 Sept. 2001	Qualified	28 Sept. 2001
<i>Reason for Qualification: Lack of adequate documentation to support the valuation of certain assets.</i>			
Yarra Melbourne Regional Library Corporation	12 Sept. 2001	✓	18 Sept. 2001
Yarra Plenty Regional Library Corporation	17 Sept. 2001	✓	19 Sept. 2001

INCOMPLETE AUDITS – AS AT 22 NOVEMBER 2001 (a)			
Buloke Shire Council	<i>Audited financial statements yet to be finalised.</i>		
Gannawarra Shire Council	“	“	“
Greater Dandenong City Council	“	“	“
Hindmarsh Shire Council	“	“	“
Horsham Rural City Council	“	“	“
Regent Management Company Pty Ltd	“	“	“
Swan Hill Regional Library Corporation	“	“	“
Wimmera Regional Library Corporation	“	“	“

- (na) Not applicable as agencies were not required by legislation to produce a performance statement.
 (a) Financial statements with 30 June 2001 balance dates.



AUDITOR GENERAL VICTORIA

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