VICTORIA

Auditor General

Victoria

REPORT ON PUBLIC SECTOR AGENCIES

Results of special reviews and financial statement audits for agencies with 2003 balance dates other than 30 June

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I am pleased to forward this report to you for presentation to each House of Parliament, pursuant to section 16 of the *Audit Act 1994.*

This report sets out the results of financial statement audits conducted on public sector agencies with 2003 balance dates other than 30 June and the results of 2 special reviews undertaken up to the date of preparing this report. It also contains a section setting out the status of matters raised in 4 performance audit reports tabled in 2001-02.

Yours faithfully

JW CAMERON
Auditor-General

26 May 2004

Contents

Foreword

This report contains the results of 3 different types of audit activity by my Office.

First, it reports the results of audits of the financial statements of public sector agencies with 2003 balance dates other than 30 June. There are some 151 of these agencies - mostly universities, TAFE institutes, alpine resorts and cemeteries. The report recognises the substantial improvement during 2003 in the standard and timeliness of financial reporting, but also identifies the need for further improvement in financial reporting and selected aspects of financial management.

Second, the report comments on the results of 2 special reviews. One examining the adequacy of financial management at the Overseas Project Corporation of Victoria Ltd, the other commenting on the adequacy of the monitoring of tolling, and of the imposition of fees and charges, by the City Link operator. In both cases, there are valuable lessons to be learned and recommendations are made to strengthen practices and performance.

Finally, the report examines the progress made by agencies on significant matters raised in 4 previous performance audit reports tabled in 2001-02. These reports covered *International students in Victorian universities*, *Nurse work force planning*, *Investment attraction and facilitation in Victoria*, and the *Management of roads by local government*. The report recognises the positive action taken to address most of our previous concerns in these areas, but also identifies the need for further action on a small number of issues.

JW CAMERON
Auditor-General

26 May 2004

1. Executive summary

1.1 Introduction

This report is organised into 3 parts, following this executive summary:

- Part 2 – presents the results of financial statement audits for agencies with 2003 balance dates other than 30 June
- Part 3 – outlines the results of 2 special reviews
- Part 4 – sets out the status of action taken on 4 previous performance audits.

The conclusions and key recommendations from these audits are outlined below.

1.2 Results of financial audits

1.2.1 What were the financial audit results for agencies with 2003 balance dates other than 30 June?

We issued 123 clear audit opinions on the financial statements of public sector agencies with balance dates other than 30 June 2003. A further 8 audit opinions were qualified. A full listing of audits completed appears as Appendix A of this report.

Some of the audit qualifications have, unfortunately, been ongoing for some years now. We anticipate that a number of the issues will be resolved as a result of changes in accounting and reporting requirements to be made following the harmonisation of Australian accounting standards with international standards. These changes will be effective for financial years beginning 1 January 2005.

There was substantial improvement in the time taken by agencies to complete their audited financial statements in 2003, with 60 per cent completed within 12 weeks of year-end, compared with 34 per cent in 2002. However, there is further room for significant improvement with the audited financial statements of 15 per cent of audited agencies still not finalised 16 weeks after year-end.

Opportunities were identified for agencies to strengthen their governance and financial management arrangements, particularly in relation to:

- the effectiveness of audit committees
- risk management policies and practices
- fraud prevention and detection systems
- payroll controls and the management of employee leave balances.

A number of emerging issues will have major impacts on the future operations of audited agencies. These include:

- ensuring compliance with the new ministerial directions issued under the *Financial Management Act 1994*, designed to strengthen the financial management of agencies
- preparing for the transition to new Australian accounting standards which are to be harmonised with international accounting standards, for reporting periods beginning 1 January 2005
- for universities, managing the impact of recent Commonwealth Government funding reforms.

Recommendations

Several recommendations were made focusing on the need for audited agencies to:

- **establish strategies to improve the timeliness of financial statement preparation and completion**
- **ensure compliance with the new ministerial directions under the *Financial Management Act 1994*. In addition, while universities are not subject to that Act and the related ministerial directions, they should consider the associated requirements as better practice and adopt them**
- **develop appropriate risk management and fraud prevention policies and strategies**
- **periodically assess the performance of their internal audit functions to satisfy themselves that they remain effective**
- **closely monitor their (universities and TAFE institutes) involvement in, and exposure to, offshore entrepreneurial activities to ensure that they remain well placed to manage the risks inherent in these activities**
- **take immediate action, if they have not already done so, to prepare their organisations for the transition to adopting the requirements of the new Australian accounting standards.**

1.2.2 Financial viability of TAFE institutes

The overall operating results and working capital position of public Technical and Further Education (TAFE) providers are reasonably sound and have improved over the past 3 years. However, in 2003, 3 public TAFE providers recorded negative operating results and negative operating cash flows (excluding capital funding), and one provider (Chisholm Institute) showed negative results in 4 key indicators of financial condition.

In addition, over the last 3 years there has been a substantial worsening in the sector's net operating cash flows, excluding capital grants. If this trend continues, the sector's ability to meet future obligations on a timely basis may ultimately be affected.

Although the public TAFE providers are raising a significant amount of revenue from fee-for-service activities, these activities are only generating small profits.

It is imperative that individual TAFE providers have adequate budgeting and costing processes in place, and that the state revisits the funding models for TAFE institutes to ensure that the costs of delivery are effectively managed and adequately funded.

The Office of Training and Tertiary Education of the Department of Education and Training has established comprehensive processes to monitor the financial performance and position of individual TAFEs.

While a number of recent government initiatives should assist in increasing TAFE revenues, it is still too early to accurately assess the net impact of these initiatives on the future financial performance of TAFE institutes.

Recommendations

That the Department of Education and Training, together with the Department of Treasury and Finance, reassess the current method of funding TAFE institutes to ensure that sufficient funding is provided to TAFEs to effectively maintain their operating capacity.

That, in the light of the low average ratio of surpluses-to-revenue for fee-for-service activities, public TAFE providers undertake effective costing and pricing to ensure the financial viability of these activities.

1.2.3 Are smaller alpine resort management boards financially viable?

Six alpine resort management boards have been established in Victoria under the *Alpine Resorts (Management) Act 1997* to manage the state's alpine resorts.

As a result of limited funding sources available to 3 of the smaller boards (Lake Mountain, Mount Baw Baw and Mount Stirling) and the cessation of support payments from 1 November 2003, the ongoing viability of these entities is uncertain.

In April 2004, proposed amendments were introduced in parliament to the *Alpine Resorts (Management) Act 1997* under which the Mt Buller and Mount Stirling Alpine Resort Management Boards are to be merged in the near future.

The 2 remaining smaller boards (Lake Mountain and Mount Baw Baw), and the Department of Sustainability and Environment, are acutely aware of the financial positions of these boards and are working to improve them. The department intends to continue supporting the smaller boards until solutions are found.

1.2.4 What progress has been made to improve the reporting of performance information?

Under the *Financial Management Act 1994*, each state government agency is required to report annually on its operations. Although these reports usually contain performance information, the Act only has limited requirements about the form and content of this information.

Recent amendments to the *Audit Act 1994* enable my Office to "… audit any report of operations of an authority under section 45 of the *Financial Management Act 1994* to determine whether any performance indicators in the report of operations:

- are relevant to any stated objectives of the authority, and
- are appropriate for the assessment of the authority's actual performance, and
- fairly represent the authority's actual performance".

To encourage better reporting of performance information that can be audited by my Office, I have decided to apply this provision of the Audit Act gradually and progressively to agencies. The water sector is the first to be considered. My Office intends to work in partnership with agencies to improve the quality of performance information and the reporting of it.

I have written to the Minister for Finance to ask that a ministerial direction be issued under the *Financial Management Act 1994* to require water entities to include performance statements in their annual reports of operations. This requirement could be extended to other sectors as their performance reporting develops.

Once a direction is issued, the Department of Sustainability and Environment should reach agreement with the water entities on the performance indicators to be used. These indicators should then be required by ministerial direction to be included in the performance statements of those entities.

I intend to issue audit opinions on the 2003-04 performance statements of water authorities, subject to the ministerial directions outlined above being issued.

1.3 Special reviews

1.3.1 How adequate were the state's arrangements for monitoring tolling and the imposition of fees and charges by the City Link operator?

Was approval and monitoring of tolls adequate?

The arrangements for setting tolls for City Link usage are working effectively and the state exercises effective oversight of the operator's toll setting processes.

The state has not exercised its legislative powers to directly inspect the operator's tolling records to determine whether it is imposing the correct tolls on users. An attempt to do this in early 2000 was abandoned.

In our view, for the state's monitoring of the imposition of tolls to be effective it should incorporate infrequent but periodic inspection of the operator's tolling systems and records in addition to the current practice of actively following-up on complaints.

Recommendation

That the state arrange for periodic independent inspections of the operator's tolling records to determine whether it is imposing the correct tolls on users.

Was approval and monitoring of fees and charges adequate?

The City Link operator imposes an administration fee on customers who do not carry their e-tags or carry an e-tag that is of a different classification to their vehicle. In July 2001, the operator increased this fee from $1.10 to $2.00. It was not until January 2002, that the state was made aware that the operator had increased the administration fee.

The state held a strong view, supported by legal and financial advice, that the operator had breached the agreement (the concession deed) which regulates the imposition of tolls and other fees and overcharged the administration fee, and that it should refund the amount overcharged to users.

Ultimately, the state did not persist with, or seek to enforce its request for the operator to refund the amounts overcharged to users. Instead, it agreed on a compromise in May 2002 which achieved a reduction in the administration fee from $2.00 to $1.20, and provided free travel on City Link on the day of the 2002 Melbourne Cup and an additional 2 days after travelling on City Link in which to purchase a day pass.

The state did not determine the extent of overcharging of the administration fee from July 2001, before agreeing with the operator that customers would not be refunded overcharged fees (which were later estimated by the operator to total around $1.3 million).

The operator has provided the Minister for Transport with an undertaking that it will provide the state with 30 days notice before imposing a new fee or increasing an existing fee in the future.

Were charging issues arising from flat e-tag batteries dealt with effectively?

The City Link operator became aware of a problem with failing e-tag batteries in February 2003, due to an abnormal number of e-tags being returned by customers. The operator did not advise the state until August 2003 of this problem and did not initially convey the size and extent of the problem to the state’s representatives.

The premature failure of batteries in e-tags resulted in the following adverse outcomes for City Link customers:

- incorrect charging of “no e-tag in vehicle” administration fees to the accounts of customers who were carrying e-tags in their vehicles but the e-tags were not recognised by the tolling system due to a flat battery. During 2002-03, the operator refunded $424 000 in administration fees charged to customers who had faulty e-tags due to flat batteries

- imposition of fines for travelling on the City Link in a vehicle which was "de-registered" with the operator for tolling purposes due to the impact of incorrect charging of "no e-tag in vehicle" administration fees. There were 281 customers affected in this way. Of this number, 161 customers paid fines totalling around $24 000. These fines have subsequently been refunded by the state.

The state obtained legal advice which indicated that the charging of an administrative fee when an e- tag is carried by a customer but fails to generate an e-tag transaction is a breach of the concession deed.

The initial actions of the operator and the state since August 2003 to address problems arising from the failure of e-tag batteries were reasonable. However, the operator cannot yet ensure that no customer will be overcharged due to a flat battery or malfunctioning e-tag. The state is pursuing the resolution of this issue with the operator.

Recommendation

That the department, if unsatisfied with progress to resolve this issue, pursue the available remedies permitted by the concession deed until the operator can provide assurance that systemic incorrect charging of this fee cannot occur.

1.3.2 Was financial management adequate at the Overseas Projects Corporation of Victoria Ltd?

The Overseas Projects Corporation of Victoria Ltd was incorporated in 1985 as a state-owned company. Its mission is to export Victorian public sector and private sector skills (such as project management skills), technologies and equipment. Most of these are for projects in developing countries.

The company is in considerable financial difficulty. Without the state providing capital injections totalling $2.5 million up to June 2003 and the deferral of the repayment of its commercial bank bills, the company would have been insolvent at that time.

On the basis of the company's draft unaudited half-year financial report at 31 December 2003, the company's solvency continues to be a matter of great concern. The company determined that additional funding and/or support from the state was required to cover liabilities and its ongoing financial obligations of $5.6 million. The company subsequently secured additional funding from the state of $403 000 and a letter of comfort from the Treasurer. The state's ultimate exposure in relation to this company remains uncertain and is dependent upon the outcome of the announced sale of the company.

Our audit identified a number of irregular cash transactions totalling $17 800 between December 2000 and June 2003, representing a serious breakdown in internal controls by the company.

The board did not maintain adequate monitoring arrangements over the exercise of significant powers it had delegated to management. This inadequacy was only addressed by the reconstituted board from March 2003 in the form of more extensive management reporting to the board.

Recommendations

That the company establish formal policies for engaging and remunerating overseas agents and forming joint ventures or making similar arrangements.

That the company refer the irregular payments identified by our audit to the appropriate authorities for further investigation.

1.4 Status of recommendations made in 2001-02 performance audit reports

1.4.1 Have the recommendations made in the performance audit report *International students in Victorian universities* been adopted?

Our April 2002 performance audit on *International students in Victorian universities* assessed whether international student programs in Victorian universities had:

- impacted on access to university for Victorian students
- impacted on the academic standards of universities
- been of financial benefit to universities and the Victorian economy
- been adequately regulated and monitored.

The audit concluded that entry by overseas students did not have an influence on the ability of Victorian students to gain entry to university. Overseas student programs had been financially beneficial to universities and appropriate legislative and monitoring arrangements had been introduced to regulate the programs. However, the capacity of overseas students to succeed in their courses was affected by their English language proficiency.

We made a number of recommendations aimed at improving the English proficiency of overseas students, maintaining academic standards, and improving support for overseas students and the staff that work with them.

Our recent follow-up audit concluded that the universities have implemented, or are taking action to implement, the recommendations made in our 2002 report.

The Department of Education and Training had not yet approached the Commonwealth for it to develop good practice guidelines to support Australian universities in assessing the capacity of overseas students to succeed in their academic studies, however, the department has indicated it will do so in the near future.

1.4.2 Have the recommendations made in the performance audit report *Nurse work force planning* been adopted?

Our May 2002 performance audit on *Nurse work force planning* concluded that the state's Nurse Recruitment and Retention Strategy had resulted in an increase in the number of nurses in acute public hospitals and in hard-to-fill specialties. It did, however, question the sustainability of refresher and re-entry programs as the pool of ex-nurses diminishes.

That audit also concluded that work force planning by the Department of Human Services (DHS) and hospitals was under-developed and that there was limited communication between DHS, public hospitals, universities and the Vocational Education and Training (VET) sector on nurse work force issues.

Broadly, we recommended that:

- DHS improve the collection and analysis of work force planning data
- DHS conduct a comprehensive nurse work force study
- hospitals give a higher priority to nurse work force planning and that DHS assists hospitals in this regard
- DHS improve the monitoring and evaluation of recruitment and retention initiatives
- DHS develop a strategic policy framework, including benchmarking hospital performance in nurse recruitment and retention
- key stakeholders involved in nurse supply and demand establish co-ordination and communication arrangements.

The recent follow-up audit concluded that significant progress had been made in implementing the recommendations in our 2002 report, particularly in terms of improvements in work force data collection and the conducting of a major nurse work force study. In addition, establishing formal communication linkages between key stakeholders was an important development.

We believe, however, that further work is needed in terms of DHS:

- benchmarking hospital performance in nurse recruitment and retention
- facilitating overall improvements in hospital work force planning.

Recommendations

That DHS:

- **together with hospitals, develops benchmarks for use in nurse work force planning and management**
- **provide system-wide data to each hospital against the benchmarks**
- **continue to build on work undertaken to date by facilitating improvements in nurse work force planning by hospitals. As a first step, DHS, together with hospitals, should specify hospital responsibilities for work force planning**
- **progress the evaluation of the sustainability of the refresher and re-entry policy.**

1.4.3 Have the recommendations made in the performance audit report *Investment attraction and facilitation in Victoria* been adopted?

Our May 2002 performance audit *Investment attraction and facilitation in Victoria* concluded that neither the government nor parliament was being provided with sufficient information about the outcomes (as opposed to the claimed benefits) of investment facilitation to make an informed judgement about the effectiveness, or otherwise, of these activities.

Broadly, we recommended that:

- explicit investment criteria for assistance be made public
- the Department of Innovation, Industry and Regional Development improve contractual arrangements with recipient businesses
- the department improve its monitoring of industry assistance projects
- the department increase the transparency of reporting about industry assistance.
- local councils improve the transparency and management of industry assistance
- the department improve relationships with councils

Our recent follow-up audit concluded that the Department of Innovation, Industry and Regional Development has implemented the recommendations made in our 2002 report, except that:

- it has not disclosed the explicit criteria used to assess applications for grants under the Investment and Industry Program
- the Investment and Industry Program, and industry facilitation activities, have not been evaluated using data on outcomes. Sufficient data to do so has not yet been collected.

1.4.4 Have the recommendations made in the performance audit report *Management of roads by local government* been adopted?

Our June 2002 performance audit *Management of roads by local government* assessed whether local councils had managed their road assets so that they were useable throughout their planned life. Nine councils were audited, as were the Local Government and Regional Services Division of the Department for Victorian Communities (formerly part of the Department of Infrastructure), and the funding model of the Victoria Grants Commission.

We concluded, in the June 2002 report, that the asset management practices of Victorian councils were not best practice, and that roads were not adequately maintained. Councils were not sure of the condition of their road assets, or whether these assets would reach their expected useful life. We also indicated that the department could have provided more training and support to council staff.

Broadly, our recommendations were aimed at improving council asset management practices and enhancing public accountability for the management of roads.

Our recent follow-up audit showed that all 9 councils examined have started improving their road management practices, in line with our earlier recommendations. Although not all recommendations have been fully implemented by all councils, progress to date has been satisfactory. Legislative changes, and a major council asset management initiative, will assist councils to continue to improve their road management practices.

Local Government Victoria (formerly the Local Government and Regional Services Division) of the Department for Victorian Communities has taken action to improve the road asset management practices of councils.

All councils and the department have acted to improve councils' public accountability for road asset management.

2. Results of financial audits

2.1 What were the financial audit results for agencies with 2003 balance dates other than 30 June?

2.1.1 Audit conclusions

We issued 123 clear audit opinions on the financial statements of public sector agencies with 2003 balance dates other than 30 June. A further 8 audit opinions were qualified.

Some of the audit qualifications have, unfortunately, been ongoing for some years now. We anticipate that a number of the issues will be resolved as a result of changes in accounting and reporting requirements to be made following the harmonisation of Australian accounting standards with international standards. These changes will be effective for financial years beginning 1 January 2005.

There was substantial improvement in the time taken by agencies to complete their audited financial statements in 2003, with 60 per cent completed within 12 weeks of year-end, compared with 34 per cent in 2002. However, there is further room for significant improvement with the audited financial statements of 15 per cent of audited agencies still not finalised 16 weeks after year-end.

Improvements in the timeliness and quality of financial reporting can be made by agencies:

- ensuring that sufficient and appropriately skilled staff are available to prepare the financial statements within the required timeframes
- establishing appropriate planning and quality control procedures to ensure that draft financial statements are complete, accurate and internally consistent.

Opportunities also exist for agencies to strengthen their governance and financial management arrangements, particularly in relation to:

- the effectiveness of audit committees
- risk management policies and practices
- fraud prevention and detection systems
- payroll controls and the management of employee leave balances.

A number of emerging issues will have major impacts on the future operations of audited agencies. These include:

- ensuring compliance with the new ministerial directions under the *Financial Management Act 1994*, which have strengthened the financial management requirements for agencies

- preparing for the transition to new Australian accounting standards which are to be harmonised with international accounting standards, for reporting periods beginning 1 January 2005
- for universities, managing the impact of recent Commonwealth Government funding reforms.

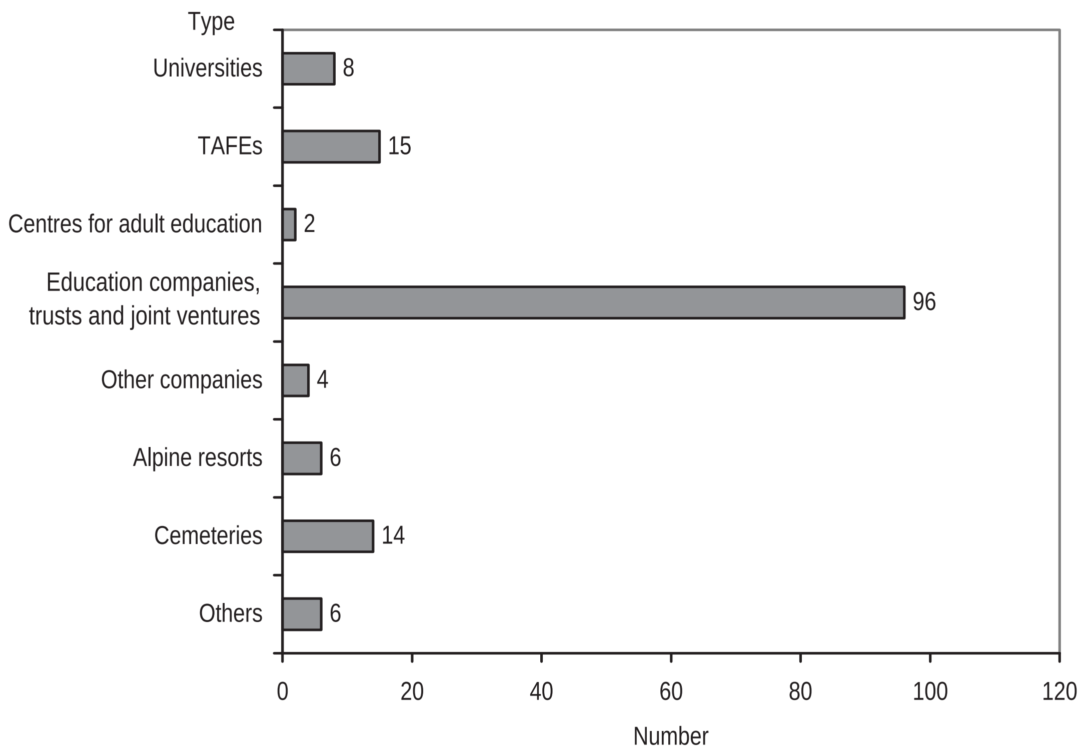
2.1.2 About financial audits

The *Audit Act 1994* authorises the Auditor-General to audit the annual financial statements of public sector entities. At 30 June 2003, there were 587 public sector agencies audited by our office, of which 151 had a balance date other than 30 June.

Which agencies were audited?

Of the 151 agencies audited during the most recent audit round, 124 (82 per cent) were in the education and training portfolio. Of these, there were 8 universities (4 of which had a TAFE component), 15 stand-alone TAFE (technical and further education) providers, 2 centres for adult education; 96 subsidiaries of universities or TAFE providers (education companies, trusts and joint ventures) and 3 other educational entities. Figure 2.1A shows the types and number of agencies with balance dates other than 30 June.

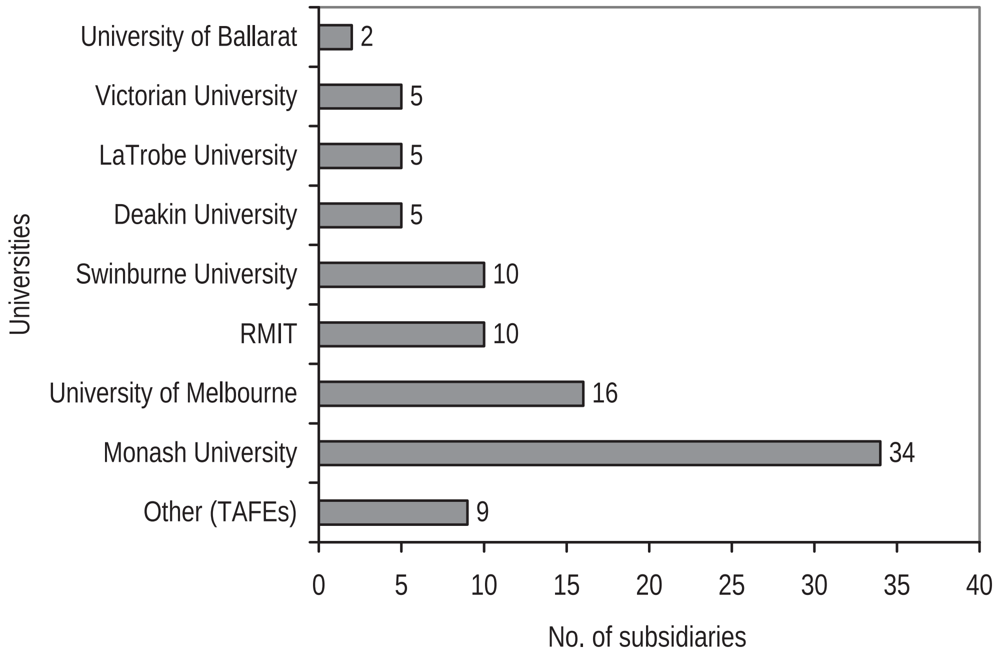
FIGURE 2.1A: TYPES AND NUMBER OF AUDITED AGENCIES WITH BALANCE DATES OTHER THAN 30 JUNE 2003



Source: Victorian Auditor-General's Office.

Figure 2.1B shows how many education companies, trusts and joint ventures were subsidiaries of universities, and of TAFEs.

FIGURE 2.1B: NUMBER OF SUBSIDIARIES OF UNIVERSITIES AND TAFES



Source: Victorian Auditor-General's Office.

In this part of the report we set out the results of our financial audits of agencies with balance dates other than 30 June 2003.

Audit purpose and methodology

An agency's management is responsible for keeping proper accounts and records, and for maintaining systems to prepare correct financial statements. They are also responsible for preventing, detecting and investigating fraud and other irregularities.

An agency's financial statements must be prepared in line with Australian accounting standards and other mandatory professional reporting requirements, and in line with the financial reporting requirements of the *Financial Management Act 1994*.

The purpose of an audit is to assess whether the information in an agency's financial statements meets these professional and legislative requirements, so as to fairly present the agency's financial performance, position and cash flows.

Financial audits are conducted in accordance with the Australian auditing standards issued by Australian accounting bodies.

Audits take a risk-based approach. That is, audits do not examine all transactions. Rather, the auditor evaluates the financial risks facing the organisation, and the organisation's systems of financial control. Using these evaluations, the auditor tests whether financial information is accurately collected, stored and reported. The audit results give users of the agency's financial statements reasonable assurance that they do not have major errors.

While audit procedures address the risk of fraud resulting in a major error in financial statements, the audit tests are not designed to detect all instances of fraud, although they may discover fraud if it is happening.

Our audit opinion indicates whether an agency's financial statements fairly present the agency's financial position at the reporting date, and its financial performance and cash flows for the period under review.

2.1.3 Did financial statements meet requirements?

The *Financial Management Act 1994* and the *Audit Act 1994* set out the annual reporting and audit requirements for public sector agencies. Section 45 of the Financial Management Act requires agencies to submit annual financial statements to the Auditor-General within 8 weeks of the end of the financial year. The Auditor-General is required to audit the financial statements within 4 weeks of receiving them.

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 agency, including the audited financial statements.

At the date of preparing this report, 123 unqualified audit opinions had been issued for the financial statements of public sector agencies with balance dates in 2003 other than 30 June.

Eight qualified audit opinions were also issued. This was one more than last year. Figure 2.1C shows the entities for which these opinions were issued, and the reasons for the qualifications.

FIGURE 2.1C: QUALIFIED AUDIT OPINIONS[1]

Entities	Reason for qualification
RMIT University RMIT Union	Inability to form an opinion on certain balances due to inadequate or inaccurate accounting records produced by the Academic Management System
Swinburne University of Technology	Non-compliance with AAS 15: *Revenue* requirement for the recognition of grant revenues
University of Ballarat	" "
University of Melbourne	" "
Victorian College of the Arts	" "
Trustees of the Fawkner Crematorium and Memorial Park	Value assigned to land is understated in the statement of financial position
Anti-Cancer Council of Victoria	Inability to assess the completeness of cash donations

Source: Victorian Auditor-General's Office.

One "emphasis of matter" comment was included in the audit report of RMIT (Malaysia) SDN BHD to draw attention to the fact that the financial report for the year ended 31 December 2003 was not prepared on a going concern basis but on a liquidation (net market value) basis, as the company was liquidated on 16 February 2004.

Appendix A to this report has information about the timing of the finalisation of financial reports and audit opinions for each agency, and the nature of audit opinions issued.

Why were qualified audit opinions issued?

RMIT University and RMIT Union

In 2001, RMIT University's Academic Management System had technical problems with its software. These problems caused errors in billing fee-paying students, duplicate transactions, unreconciled differences between the system, the general ledger and the bank account, a lack of supporting documentation for adjustments, difficulties in issuing Higher Education Contribution statements, and errors in processing and advising enrolment details.

These issues were fully reported in our February 2003 *Report on Public Sector Agencies* and were not resolved before the preparation of the 2003 financial statements. As a consequence, we could not rely on the accuracy of the accounting records produced by the system. We were, therefore, unable to obtain all information and explanations required to form an opinion about some balances in the university's and the union's financial reports.

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[1] The Docklands Authority's financial statements for the 13 month period ended 31 July 2003 were also qualified due to the authority's adoption of inappropriate accounting policies relating to municipal assets and certain road assets. In particular, the authority wrote-off certain municipal assets which remained within its responsibility and retained part of the value of certain road assets which it did not control.

Swinburne University of Technology, University of Ballarat, University of Melbourne and Victorian College of the Arts

Three universities (Swinburne University of Technology, University of Ballarat, University of Melbourne) and one associated agency (Victorian College of the Arts) did not account for Commonwealth Government general operating grants in line with Australian accounting standard AAS 15, *Revenue*, which requires that these grants be treated as income.

In 2003, RMIT changed its accounting policy for recognising grant revenues to comply with Australian accounting standard AAS 15, *Revenue*. Accordingly, the audit qualification of the previous year was removed for this agency.

Trustees of the Fawkner Crematorium and Memorial Park

The Victorian Government Policy - Revaluation of Non-Current Physical Assets - May 2002, and Australian accounting standard AASB 1041, *Revaluation of Non-Current Assets*, require land to be valued on a fair-value basis. The Fawkner Crematorium and Memorial Park Trust has not valued land on a fair value basis for the past 3 financial years. Accordingly, a qualified audit opinion was issued on this financial report.

Anti-Cancer Council of Victoria

We were unable to express an opinion about the completeness of cash donations disclosed in the financial statements of the Anti-Cancer Council of Victoria, as there was only limited evidence about cash donations. This is a common issue for charitable organisations, because it is often impractical to financially control the collection of all cash donations.

Conclusion

In light of the planned introduction of new Australian accounting standards (which will be harmonised with the international financial reporting standards) for reporting periods beginning on or after 1 January 2005, we expect that some of the current audit qualifications in future will discontinue due to proposed changes in the accounting requirements for certain transactions.

One significant change arising from the revised standards, which will particularly impact on public sector agencies, will be a change to the criteria to be used for the recognition of grants. Under the revised standards, “unrestricted and unconditional“ grants, and grants with restrictions on purpose or time of use, will be recognised as revenue on receipt. However, grants with conditions will be initially recognised as a liability. As the conditions are satisfied, the related amount of the grant will be progressively recognised as revenue.

This change could significantly impact on agency financial reports because existing accounting standards require all revenue receipts that are controlled by the receiving agencies to be immediately recognised as revenue.

Recommendation

1. **That all universities review their accounting policies for recognising grant revenues, to comply with the new Australian accounting standards when they are introduced.**

2.1.4 Were audited financial statements completed on time?

Under the *Financial Management Act 1994* and the *Audit Act 1994*, financial statements of public sector agencies must be audited within 12 weeks of the end of the financial year. Figure 2.1D shows how well entities with balance dates other than 30 June 2003 met this requirement.

FIGURE 2.1D: TIMELINESS OF COMPLETION OF AUDITED FINANCIAL STATEMENTS

Number of weeks after end of financial year audited financial statements were finalised	2002-03		2001-02	
	Number of entities	Per cent (cumulative)	Number of entities	Per cent (cumulative)
Less than 8 weeks	6	4	4	3
8 to 10 weeks	22	19	19	15
10 to 12 weeks	62	60	28	34
12 to 14 weeks	35	83	37	59
14 to 16 weeks	3	85	26	76
More than 16 weeks (a)	23	100	36	100
Total	**151**	**-**	**150**	**-**

(a) Includes 20 entities with balance dates in 2003 other than 30 June whose financial statements were not finalised at the date of preparing this report.

Figure 2.1D shows that there has been a substantial improvement in the number of entities with audited financial statements completed within 12 weeks (from 34 per cent in 2002 to 60 per cent in 2003). However, there is further room for significant improvement: audited financial statements were not finalised after 16 weeks for 15 per cent of entities in 2003, compared with 24 per cent in 2002.

Figure 2.1E shows the performance of public sector entities with 2003 reporting dates other than 30 June by ministerial portfolio in meeting the 12-week deadline, for 2002 and 2003.

FIGURE 2.1E: TIMELINESS OF COMPLETION OF AUDITED FINANCIAL STATEMENTS BY PORTFOLIO (a)

Portfolio	2003		2002	
	Number of entities	Number of statements finalised within 12 weeks	Number of entities	Number of statements finalised within 12 weeks
Education and Training	124	81	120	44
Human Services	17	5	17	4
Sustainability and Environment	6	-	6	-
Treasury and Finance	4	4	7	3
Total	**151**	**90**	**150**	**51**
Percentage		**60**		**34**

(a) Figure only includes portfolios with financial statements for periods other than 30 June.

The figure shows that the timeliness of audited financial statement completion in the Education and Training portfolio improved in 2003, with 81 entities finalising statements within 12 weeks, compared with 44 in 2002. However, none of the 6 alpine resorts' audited financial statements were completed within the 12-week timeframe, either for 2002 or 2003.

Conclusions

The main reasons why more financial statements were completed on time in 2003 were:

- contentious issues were discussed with our staff earlier, allowing more time for them to be resolved
- reporting requirements were mostly unchanged, with only minor changes to accounting standards in the year
- greater use of model accounts, which helped improve the quality of draft financial statements.

Timely reporting is an important aspect of accountability. It is considered better practice for agencies to finalise their financial statements within 10 to 15 days of their balance dates[2]. This compares with the current legislative requirement for agencies to submit financial statements to our Office within 56 days of their balance dates.

It is also better practice to close off accounts early. This saves time and resources finalising financial statements. It also helps to identify and resolve, earlier, any major contentious accounting and reporting issues.

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[2] According to recent research by the Australian National Audit Office, as cited in its Report No. 23, 2002-03 *Audits of the Financial Statements of Commonwealth Entities for the Period ended 30 June 2002.*

Agencies that were late preparing their financial reports commonly:

- had poor or no planning processes for year-end reporting
- did not allow enough time for the other activities, such as account reconciliations, needed to finalise financial statements
- allocated inadequate resources to prepare financial statements
- in the case of cemetery trusts, had delays finalising the revaluation of non-current assets
- had not arranged for directors to be available to promptly sign accounts.

Recommendation

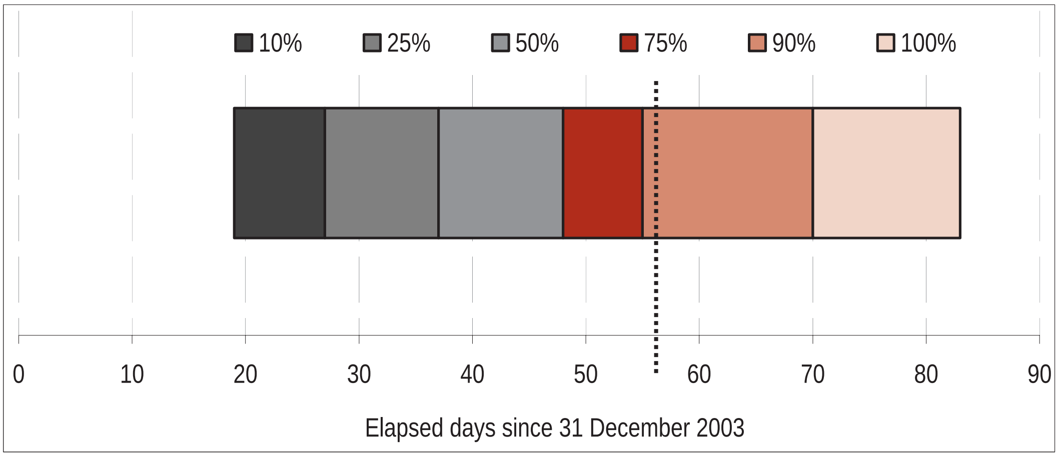
2. **That agencies improve the timeliness of financial statement completion by:**
   - **ensuring that sufficient and appropriately skilled personnel are available to prepare annual financial reports within the timeframes required by legislation**
   - **establishing firm timelines to prepare and make available to audit the reconciliations and supporting information necessary to support their financial reports**
   - **undertaking major asset revaluations earlier in the year**
   - **establishing appropriate quality assurance procedures to ensure that the draft financial statements submitted for audit are complete, error-free and internally consistent**
   - **planning ahead for audit committees and governing bodies to meet within the timelines required to review and sign-off the financial reports.**

2.1.5 Was the quality of financial statements adequate?

The starting point for an audit is receipt by our Office of complete draft financial statements from an agency. If the draft statements are not of good quality, resolving audit queries and making required audit adjustments will take longer than if the quality is good.

Figure 2.1F shows the time from the end of the financial year to when the audited agencies provided complete draft financial statements to our Office, by percentile bands.

FIGURE 2.1F: PERIOD TAKEN TO PROVIDE DRAFT FINANCIAL STATEMENTS TO AUDIT, 2003



Note: Statutory requirement of 56 days for completion of draft financial statements.
Source: Victorian Auditor-General's Office.

The average time between the end of the financial year and our Office receiving complete draft financial statements was 49 days for agencies with 31 December balance dates.

However, the quality of the financial statements received has improved in recent years and is now considered to be of a generally high standard. This has been largely due to the development and refinement of model financial reports such as those for TAFE institutes and university subsidiary companies.

Conclusion

Model financial reports have improved agencies' awareness of disclosure and reporting requirements, and have made reporting more consistent among TAFEs and universities. However, agencies still need to improve their processes for preparing financial statements.

Recommendation

3. **That agencies, particularly those that take longer than average (49 days) to provide complete draft financial statements for audit, review their close-off and reporting processes to ensure reports are provided before that time; and that they plan and allocate sufficient resources to do so.**

2.1.6 Were agencies' control environments adequate?

The assessment of agency governance and financial control processes is an important aspect of all our financial audits. Below is an outline of the major issues we identified during the most recent audit process, mainly relating to education agencies, that require attention.

Background

In early 2003, the Minister for Finance issued revised ministerial directions under the *Financial Management Act 1994* and introduced a Financial Management Compliance Framework.

The revised ministerial directions strengthened the agency requirements for financial management and governance, and required all Victorian public sector agencies subject to the *Financial Management Act 1994* to comply with the new directions as from 1 July 2003. Agencies would only be exempt from complying with certain directions until 1 January 2004 if they were "in good faith complying with each of those directions to the greatest extent reasonably possible".

The Financial Management Compliance Framework is a mechanism by which the responsible minister can monitor and review compliance with the financial management legislation and related requirements.

TAFE institutes are subject to the Financial Management Act and, therefore, the new ministerial directions and the Financial Management Compliance Framework, but universities are not, so the directions and frameworks are only guidelines for them.

Did audit committees function effectively?

We assessed whether agency audit committees were functioning effectively. We examined if they operated in line with the requirements and guidelines in the ministerial directions under the *Financial Management Act 1994*, which, among other things, provide that audit committees should:

- assess financial risks and the adequacy of the measures taken by managers to control them
- consider the integrity and quality of information provided to senior managers and the governing body about the organisation's finances and operations
- review the annual financial statements before they are presented to the governing body
- have members with a requisite level of financial literacy and industry knowledge
- oversee internal and external audits
- approve an annual internal audit plan
- ensure that action is taken on internal audit findings
- meet regularly and no less than 4 times a year
- give minutes of every meeting to the governing body
- review their own performance and report the results of that review to the governing body at least annually
- have a charter and terms of reference that are approved by the governing body, reviewed and updated at least every 3 years
- have their membership reviewed at least every 3 years.

Our financial audits for 2003 found that:

- some audit committee members did not have the necessary experience and knowledge, particularly about financial reporting
- chief executive officers and chief financial officers were voting members of some audit committees, rather than observers, which lessened the independence of these committees
- some audit committees did not meet as often as their charters required
- some audit committees were limited to considering only certain aspects of their agency's internal control structure or financial reporting.

Recommendations

4. **That all agencies subject to the *Financial Management Act 1994* comply with the requirements of the related ministerial directions.**
5. **That universities, although not subject to the Act and the related ministerial directions, consider the associated requirements as better practice and adopt them.**

Was risk management by agencies adequate?

We examined whether risk management practices at agencies were adequate. We examined if the findings of our March 2003 report titled *Managing risk across the public sector* had been acted on by agencies.

Our March 2003 report found that most public sector agencies engaged in some form of risk management. It also found that awareness by staff of risks needed to increase, and reporting procedures needed to be improved.

Our financial audits for 2003 found that although risk management practices by universities and TAFE institutes have improved in recent years, there is still a tendency toward reactive, rather than planned, approaches.

Conclusion

Many universities and TAFE institutes still need to develop risk management policies and plans. They need to ensure that risk management is better integrated into the agencies' governance and management arrangements, particularly focusing on the risks associated with not achieving organisational goals, following government policy or failing to meet stakeholder expectations.

Recommendations

6. **That all councils have risk management as a standing agenda item for each of their meetings, ensuring the consideration of major organisational risks and remedial actions to address them.**
7. **That all agencies develop appropriate risk management policies and plans, and risk registers, and that these be regularly monitored by audit and risk committees.**

Did agencies establish appropriate internal audit arrangements?

We examined whether agencies established appropriate internal audits to periodically review and provide assurance to them on the operation of their systems of financial control.

Our financial audits for 2003 found that universities and TAFE institutes had generally established satisfactory internal audit arrangements. However, some agencies did not conduct annual assessments of internal audit performance.

Recommendation

8. **That agencies periodically assess the performance of their internal audit functions to satisfy themselves that they remain effective.**

Did agencies have systems to prevent and detect fraud?

In 2003, 17 instances of alleged or established fraud at 5 TAFE institutes and 2 universities were reported to our Office. There were 3 instances of misappropriation of funds and 15 instances of equipment theft. The total value of equipment stolen was about $250 000 and a fraud at Victoria University of Technology is expected to involve more than $1 million.

We examined if agencies had established systems to prevent and detect fraud.

Our financial audits for 2003 found 5 TAFE institutes and 3 universities where:

- there was no documented fraud policy
- there was no documented process for reporting fraud
- no formal fraud risk assessments were done.

Fraud at Victoria University of Technology – a case study

In 2001, senior Victoria University staff discovered misappropriations dating back to early 1995 at the Western Melbourne Institute of TAFE and Victoria University, before and after they were amalgamated. The misappropriations appeared to be by senior and other staff involved in purchasing goods and services for the university, and were estimated to add up to millions of dollars.

A police task force investigation led to 2 former university staff being prosecuted in late 2003. One pleaded and was found guilty, while the other case continues before the court on adjournment. Two other people were also prosecuted in 2003, with guilty pleas entered in both cases. Restitution orders have been awarded against all 3 persons found guilty. Further prosecutions are expected by the university.

Since discovering the fraud, the university has strengthened its internal controls by:

- increasing its scrutiny of tendering processes and financial delegations
- replacing most paper-based payment processes with stronger electronic processes
- revising its purchasing policy and training of purchasing staff
- appointing a compliance manager to monitor financial transactions and look for weaknesses in procedures
- adopting a fraud prevention policy and whistleblower protection procedures, and commencing the development of a staff code of conduct
- adopting a risk management policy
- reviewing budget processes and the internal management reporting framework
- establishing a mid-year expenditure review committee.

The university's audit committee continues to closely monitor internal audit processes, and the university continues to work closely with Victoria Police investigations.

Recommendation

9. **That all universities and TAFE institutes review their fraud prevention and detection policies, processes and reporting systems including maintaining effective whistleblower arrangements, to minimise the risk of fraud.**

Were agencies' payroll controls adequate?

Around 70 per cent of education institutions' costs are staff costs. It is, therefore, very important to have effective controls over the payroll function.

We examined whether agencies had adequate controls over their payrolls. Our 2003 financial audits found weaknesses in:

- independent reviews of timesheets and exception reports
- payroll reconciliations
- management of leave balances.

At 31 December 2003, the total employee benefits liabilities of universities and TAFE institutes were $501 million. These mainly included outstanding annual and long service leave employee entitlements, and represented 23 per cent of the total liabilities of these organisations.

Excessive annual leave balances has been an issue for education institutions for a number of years. At the end of 2003, significant numbers of staff in 9 universities and TAFEs had more than 8 weeks accrued annual leave, i.e. in excess of 2 years leave.

In 2003, the annual leave liability of universities and TAFE institutes rose on average by 7 per cent, from $166 million to $178. 3 million. While the growth in this liability is partly due to a change in accounting standards in 2003 (under which annual leave entitlements are now valued at the estimated pay rates that will apply when leave is taken), most of it is due to staff accruing more leave than they took.

Conclusion

Excessive leave balances cost institutions more each time there is a pay rise. Also, internal control processes, productivity and occupational health and safety can be affected when staff work for extended periods without breaks.

Recommendation

10. **That universities and TAFEs more actively encourage staff to take their leave entitlements on a regular and timely basis.**

Were agencies' entrepreneurial activities well managed?

The increasing reliance by universities on non-government funding, and pressures to commercialise publicly-funded research, have resulted in increasing commercial activity by Victorian universities. The picture is the same, but to a lesser extent, in TAFE institutes.

Our examination of the management of entrepreneurial activities indicated that they are generally well managed with extensive oversight by the governing council. Business plans were prepared that documented benefits and risks of entrepreneurial activities.

Identification of risks, particularly in international markets, was evident in risk management plans of those agencies that operated offshore. Travel and expenses associated with these activities were also closely monitored.

Education institutions commonly create companies to conduct their overseas commercial activities. These companies are not always profitable, and need to be carefully managed.

International Training Australia – a case study

International Training Australia (ITA) is an Australian company wholly-owned by Victorian TAFE institutes and the Overseas Projects Corporation Victoria. ITA markets the services of all TAFE institutes overseas and manages service delivery.

ITA submitted its largest international bid in August 2002 for a public/private sector partnership project with the Ministry of Defence Joint Technical College in the Sultanate of Oman. The project was estimated to generate significant annual revenue over a long period of time. However, the bid was not successful and resulted in substantial costs being incurred by ITA in bidding, and a reduced focus on other potential opportunities.

The impact of the unsuccessful bid on the financial condition of ITA had not been established at the time of preparing this report, as its financial statements for the year ended 31 December 2003 were yet to be finalised.

The majority of TAFE institutes in their annual financial statements at 31 December 2003 had provided for a reduced value of their investment in ITA.

Monash University South Africa – a case study

The Monash University South Africa Project involved the creation of a campus at Roodepoort, 20 kilometres north-west of central Johannesburg in 2001. The South African campus is fully funded, owned and managed by Monash University.

Monash University initially provided the project with loans and equity of $16.8 million, and carried all the project risk. Since the initial injection of funds, Monash University has contributed a further $30.6 million in loans.

The original business plan estimated that the campus' operations would become profitable in 2005 and the project would break-even in 2008.

In 2001, 2002 and 2003, expenditure has been greater than income because of start-up costs, low student numbers and major marketing efforts. Figure 2.1G shows a summary of the financial results for the project from 2000 to 2003.

FIGURE 2.1G: MONASH UNIVERSITY SOUTH AFRICA FINANCIAL RESULTS ($MILLION)(a)

Year	(Operating loss)	Revenue	Expenditure	Assets	Liabilities	Equity
2003	(8.559)	4.199	12.758	2.736	26.305	(23.569)
2002	(9. 802)	1.155	10.957	2.992	18.002	(15.010)
2001	(2.710)	3.744	6.454	2.385	7.592	(5.208)
2000	(2.497)	0.005	2.502	1.039	3.536	(2.947)

(a) Does not include the financial results of Monash Southern Africa Pty Ltd which holds the land and building assets used for the South African campus.

Our June 2002 *Report on Public Sector Agencies* reported that Monash University expected operating losses to peak in 2005, at a cumulative loss of $30.4 million, and make its first operating profit 2009. Monash University expects to fund the entire loss.

Monash University has provided the company with a letter of comfort so that it can continue operating.

The accumulated operating deficit of Monash University South Africa of $23.6 million is within budget projections of accumulated losses of $26.5 million for 2003. However, as further losses are anticipated in 2004 and 2005, additional funding will be required to support the operation of the campus.

Recommendation

11. That universities and TAFEs closely monitor their involvement in, and exposure to, offshore entrepreneurial activities to ensure that they remain well placed to manage the risks inherent in these activities.

RESPONSE provided by Vice-Chancellor and President, Monash University

The report is agreed as far as it goes. It fails to reflect in the equity position shown in the financial results the existence of the property owning company Monash Southern Africa which holds assets, land and buildings, valued (December 2003) at $19.9 million (before depreciation). The land component, independently valued at $8 million, was originally purchased at $1.2 million.

2.1.7 What are the major emerging issues for universities and TAFE institutes?

Are agencies prepared to use the Financial Management Compliance Framework?

As explained earlier in this report, the Minister for Finance issued revised ministerial directions and introduced the Financial Management Compliance Framework in 2003. Non-compliance was acceptable in specified circumstances only until 1 January 2004. All agencies subject to the framework will be required to provide annual certifications to the minister regarding their compliance with it, effective from 2003-04.

Our 2003 financial audits found that most TAFE institutes were aware of the framework but few had done any work to assess their compliance with it, or had plans to become compliant.

While the framework is not mandatory for universities, it does provide best practice guidance. Most have taken little action to comply with it, other than attend information sessions.

Recommendation

12. **That TAFE institutes and other agencies subject to the Financial Management Compliance Framework take immediate action to assess their compliance with its requirements and establish the necessary actions to address any areas of identified non-compliance.**

Are agencies preparing for the new Australian accounting standards?

As explained earlier in this report, new Australian accounting standards are to be introduced for reporting periods beginning on or after 1 January 2005, to harmonise the Australian framework with international financial reporting standards. All reporting entities will be required to comply with the new standards, which will include new and revised requirements for financial accounting and reporting.

The Australian Accounting Standards Board is gradually updating the Australian standards to be consistent with international standards. A complete set of standards is expected to be available by the end of June 2004.

Entities with 31 December balance dates will be the first entities to prepare a full year financial report under the revised Australian accounting standards. For these entities, the period for which they will first need to account for their financial operations in line with the revised standards has already started. This is because the first financial reports to be prepared consistent with the new standards (31 December 2005) need to also include comparatives for the current financial period (ending 31 December 2004), based on the new standards.

Boards and senior managers should be already considering:

- the likely effects of the new standards on their budgeting processes, workloads, report presentation and relationships with financiers, financial advisers, IT suppliers and other parties
- gap analysis to identify information that is available now and information required under the new financial reporting standards
- where gaps are identified, changes to systems and processes to ensure the required information is collected and internal reporting is aligned with the new requirements
- a training strategy to ensure good understanding of the new requirements
- how governing bodies, audit committees and other governance committees are kept abreast of developments.

Recommendation

13. **That governing bodies and senior managers take immediate action, if they have not already done so, to prepare their organisations for the transition to adopting the requirements of the new Australian accounting standards.**

What impact will the recent Commonwealth Government funding reforms have on universities?

In 2003, the Commonwealth Government's response to a review of Australia's higher education sector was announced, as part of its 2003-04 Budget process.

Under new funding agreements, base funding for Australian universities will increase by $404 million to $2.4 billion over the next 5 years. Universities will also be allowed to increase Higher Education Contribution Scheme (HECS) fees by up to 25 per cent and raise the percentage of Australian full-fee-paying students in any undergraduate course from 25 per cent to 35 per cent.

The Commonwealth Government has also introduced new funding arrangements for regional campuses to support their provision of higher education. These campuses face higher costs as a result of their location, size and history.

The new arrangements also convert marginally-funded places to fully-funded places. These places are above the university's pre-determined profile and consequently only attract a fraction of the full funding rate from the Commonwealth. Conversion of marginally-funded places to fully-funded will mean that Victoria will lose about 4 000 marginally-funded places, and get 2 349 fully-funded places in return by 2008 (859 in 2005).

A new Higher Education Information Management System will be introduced to manage the diverse range of student programs introduced by the funding changes and to improve the statistical and financial data collection process between institutions and the Commonwealth Government. Each university will receive about $200 000 in 2004 as a contribution towards their costs of implementing the system and certain new student financing initiatives.

Conclusion

The impact of these changes will make universities reassess the courses that they offer, according to how they can be funded. This is likely to lead to greater specialisation in particular courses, especially at regional universities.

It is now up to each university to set the student fees for each course it offers, and to decide if they will increase fees above the current HECS charges. To date, the councils of 4 Victorian universities (Melbourne, Monash, Deakin and La Trobe) have approved increases to their HECS fees up to the full 25 per cent. Swinburne University of Technology has decided on a 15 per cent rise for all courses except one which will increase by 20 per cent. It is still too early to determine the overall effect the changes will have on university operations.

RESPONSE provided by Secretary, Department of Education & Training

The Department of Education and Training notes the recommendations and will ensure that they are brought to the attention of the relevant agencies.

2.2 Financial viability of TAFE institutes

2.2.1 Audit conclusions

The overall operating results and working capital position of public Technical and Further Education (TAFE) providers are reasonably sound and have improved over the past 3 years. However, 3 public TAFE providers in 2003 recorded negative operating results and negative operating cash flows (excluding capital funding), and one provider (Chisholm Institute) showed negative results in 4 key indicators of financial condition.

In addition, over the last 3 years there has been a substantial worsening in the sector's net operating cash flows, excluding capital grants. If this trend continues, the sector's ability to meet future obligations on a timely basis may ultimately be affected.

It is imperative that individual TAFE providers have adequate budgeting processes in place and that the state revisits the funding models for TAFE institutes to ensure that the costs of delivery are effectively managed and adequately funded.

The Office of Training and Tertiary Education (OTTE) of the Department of Education and Training has established comprehensive processes to monitor the financial performance and position of individual TAFEs.

While a number of recent government initiatives should assist in increasing TAFE revenues, it is still too early to accurately assess the net impact of these initiatives on the future financial performance of TAFE institutes.

2.2.2 Introduction

Our June 2001 *Report on Ministerial Portfolios* included an assessment of the financial condition of Victoria's public technical and further education (TAFE) providers. The report concluded that 4 of the providers were operating under financial difficulties, at 31 December 2000.

This audit updates that assessment by reviewing the financial condition of public TAFE providers for the year ended 31 December 2003.

At 31 December 2003, there were 19 public TAFE providers. These included 15 TAFE institutes and 4 universities with TAFE divisions, operating from a total of 127 campuses. At that date, the TAFE providers had total annual revenues and expenditures of around $1 billion, total assets of around $2 billion and total liabilities of around $190 million.

In 2003, public TAFE providers delivered 108 million student contact hours of government-funded and fee-for-service training to more than 320 000 post-secondary students, apprentices and trainees.

Public TAFE providers earn revenue from:

- state and Commonwealth government profile funding, supported by annual agreements with OTTE that set out the courses to be delivered and the rate of funding to be provided per student contact hour for each type of course
- fee-for-service payments received for the provision of commercial activities, including some activities funded from targeted Commonwealth programs and initiatives
- student fees and charges
- ancillary trading and other miscellaneous revenue.

Figure 2.2A shows the amount of recurrent revenues by revenue source. Each revenue source is also expressed as a percentage of total recurrent revenue.

FIGURE 2.2A: RECURRENT REVENUE SOURCES FOR PUBLIC TAFE PROVIDERS IN VICTORIA, 2002

Revenue source	$Million	Percentage
State government	570	49.4
Commonwealth government	215	18.6
Fee-for-service	247	21.4
Student fees and charges	50	4.3
Ancillary trading and other	73	6.3
Total	**1 155**	**100.0**

Source: Victorian Auditor-General's Office.

2.2.3 Were the financial ratios of public TAFE providers healthy?

In assessing the financial viability of public TAFE providers, we examined whether the:

- operating result from ordinary activities was positive
- operating result, prior to capital grants provided to finance new capital works and asset replacements and renewals[3], was positive

[3] The department provides funding to TAFE institutes for major new capital works and equipment acquisitions rather than for the depreciation expense in the year. Therefore, the operating result for any one institute will vary depending on whether large capital injections are provided in a particular year.

Removing capital grants funding from the operating results by individual institutes for analytical purposes helps provide a clearer comparative view of the underlying operating results achieved by individual institutes, prior to depreciation funding.

- cash flows generated from operating activities (excluding capital grants) during the year were greater than the outflows
- working capital position (current assets less current liabilities) at year-end was positive.

Figure 2.2B shows the aggregate ratios for the public TAFE sector at 31 December 2003, compared with the previous 2 years.

FIGURE 2.2B: KEY FINANCIAL RATIOS FOR THE PUBLIC TAFE SECTOR ($MILLION)

	31 December 2003	31 December 2002	31 December 2001
Operating result -			
Operating surplus/(deficit), including capital grants	60	44	29
Operating surplus/(deficit), excluding capital grants	(42)	(48)	(31)
Net cash flows from operating activities, excluding capital grants	18	24	46
Working capital -			
Current assets less current liabilities	105	95	81
Ratio	1.94	1.82	1.68

Source: Victorian Auditor-General's Office.

The figure shows that the operating result for the sector and the sector's working capital position have been positive and have improved over the past 3 years. However, when the operating result is adjusted to exclude capital grants, the sector shows an underlying negative operating result. This has been the case for a number of years.

The aggregate working capital ratio of the public TAFE sector is robust at 1:1.94, although favourably impacted by the high level of working capital held by a few of the public TAFE providers (Holmesglen, Box Hill, Gordon, Swinburne University – TAFE Division and Victoria University – TAFE Division). When calculated without these institutes, the aggregate ratio of the other providers falls to 1:1.45, which although reduced remains favourable.

Of particular concern is the substantial worsening in the sector's net cash flows from operating activities when capital grants are excluded, over the last 3 years. This trend indicates that the gap between cash inflows and cash outflows from operating activities is reducing. If the trend continues, the public TAFE sector will eventually show a negative net cash flow position, which may affect its ability to meet its future financial obligations on a timely basis.

Figure 2.2C shows the key financial ratios of each of the 19 public TAFE providers over the past 2 years. It shows that in 2003, 3 providers (Bendigo, Chisholm and the Swinburne University - TAFE Division) recorded a negative operating result and negative net operating cash flows (excluding capital funding).

FIGURE 2.2C: KEY FINANCIAL INDICATORS OF TAFE PROVIDERS ($'000)

Agency	Operating result from ordinary activities including funding for capital purposes		Operating result from ordinary activities excluding funding for capital purposes		Net cash inflows (outflows) from operating activities excluding funding for capital purposes		Positive (negative) working capital position	
	2003	2002	2003	2002	2003	2002	2003	2002
TAFE								
Bendigo Regional	-94	2 736	-1 904	-1 659	-233	824	1 868	1 354
Box Hill (consolidated)	10 061	1 730	314	-1 987	7 749	1 226	14 323	10 120
Central Gippsland	152	2 289	-2 151	-3 409	-117	-979	723	965
Chisholm	-361	6 515	-4 379	-986	-207	-1 006	-5 615	-6 050
Drivers Education Centre of Australia	584	633	-831	79	101	504	273	261
East Gippsland	3 959	1 762	-1 635	-921	271	1 019	1 195	1 082
Gordon	4 359	6 864	-799	-235	1 164	1 992	9 734	8 247
Goulburn Ovens	1 463	-335	-2 004	-2 120	830	1 459	4 101	3 273
Holmesglen (consolidated)	6 480	4 305	125	-1 971	7 381	9 925	34 586	31 222
Kangan Batman	2 287	5 639	-3 485	-2 438	1 689	2 158	1 613	387
Northern Melbourne	16 352	3 716	-5 451	-5 410	232	-633	7 198	7 002
South West	3 767	3 648	-1 417	-1 637	885	609	1 800	2 264
Sunraysia (consolidated)	3 981	1 634	-1 240	-1 132	90	489	3 296	3 117
William Angliss (consolidated)	802	1 600	-1 318	-1 462	1 383	1 670	1 814	2 226
Wodonga	1 700	718	-1 615	-2 250	792	-535	815	648
Subtotal	**55 492**	**43 454**	**-27 790**	**-27 538**	**22 010**	**18 722**	**77 724**	**66 118**
University (TAFE division only)								
RMIT University	8 306	2 494	-1 577	-7 718	-1 134	-226	5 603	6 878
Swinburne University of Technology	-2 816	-5 095	-6 037	-7 543	-6 629	1 310	10 812	10 463
University of Ballarat	542	1 912	-967	-2 239	2 489	2 586	2 655	3 777
Victoria University of Technology	-1 033	1 130	-6 043	-2 906	1 094	1 988	8 493	7 622
Subtotal	**4 999**	**441**	**-14 624**	**-20 406**	**-4 180**	**5 658**	**27 563**	**28 740**
Total	**60 491**	**43 895**	**-42 414**	**-47 944**	**17 830**	**24 380**	**105 287**	**94 858**

Source: Victorian Auditor-General's Office.

The figure also shows that one TAFE provider (Chisholm Institute) had unfavourable results for all 4 financial indicators and without financial assistance from the state would not be financially viable. This case is discussed below.

There are 2 other TAFE providers (Central Gippsland and RMIT University – TAFE Division) also showing some signs of financial difficulty, having negative operating results and operating cash flows (excluding capital funding).

Chisholm TAFE - a case study

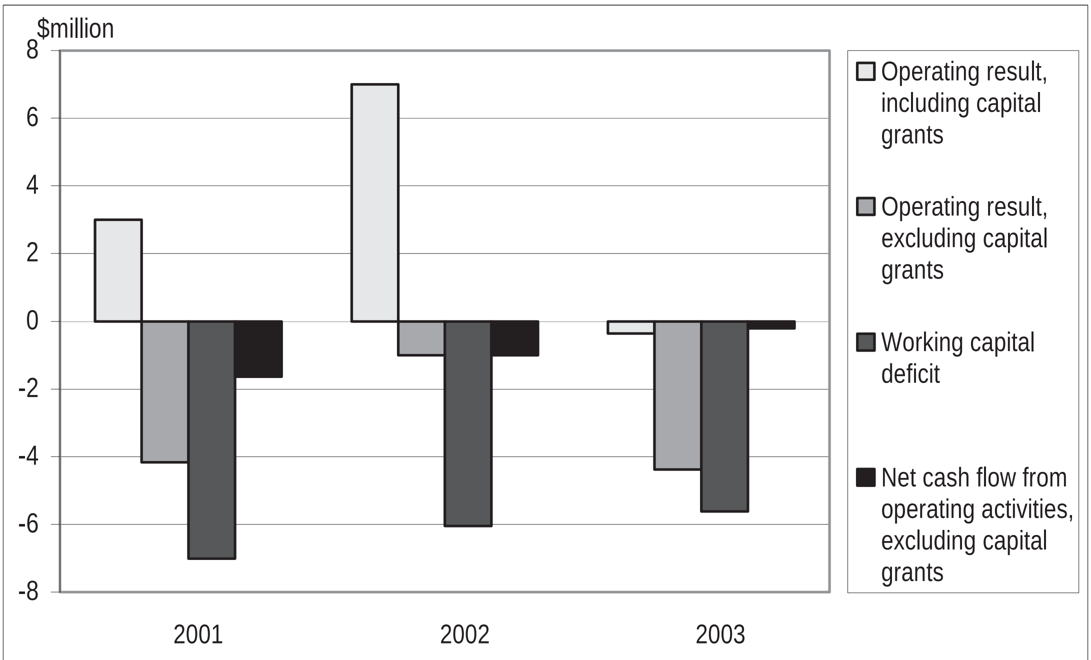
Chisholm Institute of TAFE was established from the 1998 merger of the Barton (Moorabbin), Casey (Dandenong) and Peninsula (Frankston) institutes of TAFE. At the time of its formation it was, and still continues to be, one of the largest TAFE institutes in Victoria. As we reported in June 2001, Chisholm's financial position started to deteriorate very soon after the merger.

A ministerial review in July 2001 found that Chisholm needed to cut its costs by about $7 million a year to stay viable. Since that review, the Moorabbin campus has been transferred to another institute. Chisholm's organisational structure, strategic planning, budget and financial management have also been improved.

OTTE continues to have significant concerns about Chisholm's financial performance. It has initiated a revision of the institute's 2004 financial forecasts along with a formal review of Chisholm's financial standing, for completion in mid-May 2004.

Figure 2.2D shows Chisholm's financial performance against our 4 indicators of financial condition for the last 3 years.

FIGURE 2.2D: CHISHOLM INSTITUTE OF TAFE, PERFORMANCE 2001 TO 2003



Source: Audited financial statements - Chisholm Institute 2001 to 2003.

As indicated above, all 4 key financial indicators are negative, showing that Chisholm is continuing to experience financial difficulties.

Chisholm has had major restructuring between 2001 and 2003. It has reduced the number of management levels, rationalised campuses, closed interstate and some unprofitable commercial operations, ended expensive lease arrangements and consolidated maintenance and security contracts.

It has also cut staff numbers (by 120 employees in 2002 and 2003) using voluntary departure packages (VDPs). OTTE contributed $5 million in one-off funding for VDPs. Another 51 staff are anticipated to go in 2004. The 2002 and 2003 staff cuts are expected to save $8.7 million in 2004. Total savings, including the 2004 cuts, are expected to be $10.9 million in 2005[4].

Chisholm has increased profitable fee-for-service activity and reduced its reliance on government funding. It plans to maintain enterprise income for 2004 and is budgeting for a 10 per cent increase in 2005 and 2006[5]. Chisholm's commercial activities earned it 12.3 per cent of its total revenue for 2003.

OTTE monitors Chisholm's financial reports monthly. Chisholm's executive meet with OTTE monthly to discuss financial progress and to review end-of-year projections.

OTTE provided a letter of financial support to Chisholm in 2003 so that the institute could be assured that it would continue to meet its liabilities. Chisholm anticipates that a letter of support will again be required in 2004.

Chisholm is attempting to improve its financial position while delivering quality education and training. Its plans and strategies, with OTTE's support, are progressively improving its financial position. However, it will be difficult for Chisholm to achieve full financial health in the short-term.

Conclusions

Over the medium to long-term, a positive working capital ratio, operating surplus and a net cash inflow from operating activities are generally required to maintain financial viability. While the overall financial condition of the public TAFE sector is reasonably sound, with the exception of Chisholm Institute, the underlying operating deficits of 17 public TAFE providers, of which 4 also have negative net operating cash flows (excluding capital funding), are a sign that these providers are experiencing financial difficulties. These results are not sustainable in the medium to long-term.

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[4] Chisholm Institute of TAFE: 2004 Budget Plan.

[5] ibid.

2.2.4 What factors affected public TAFE providers' financial performance?

Public TAFE providers have 2 key sources of funding. These are:

- state and Commonwealth government profile funding, based on the number of budgeted student contact hours
- fee for service revenue raised by TAFE providers through their commercial activities, including some activities funded from targeted Commonwealth programs and initiatives.

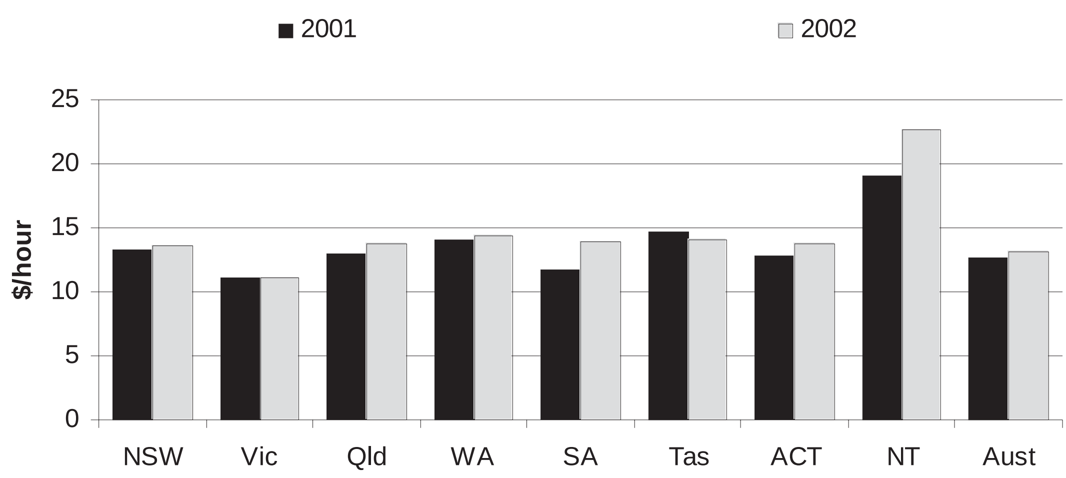
Public TAFE providers also receive separate funding from the government for capital works.

The effect of these funding sources on the recent financial performance of TAFE institutes is discussed below.

Government funding

Figure 2.2E shows that public TAFE providers receive the lowest profile funding per student contact hour of any jurisdiction in Australia. Victorian TAFEs in 2002[6] received $11.16 per student contact hour, compared with the national average of $13.13. Victoria is the only state to deliver training at an average student contact hour rate that is below the national average.

FIGURE 2.2E: GOVERNMENT REAL RECURRENT EXPENDITURE PER ADJUSTED ANNUAL CURRICULUM HOUR (2002 DOLLARS)



Source: Report on Government Services, 2004.

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[6] 2002 was the most recent year for which relevant statistics were available at the time of the audit.

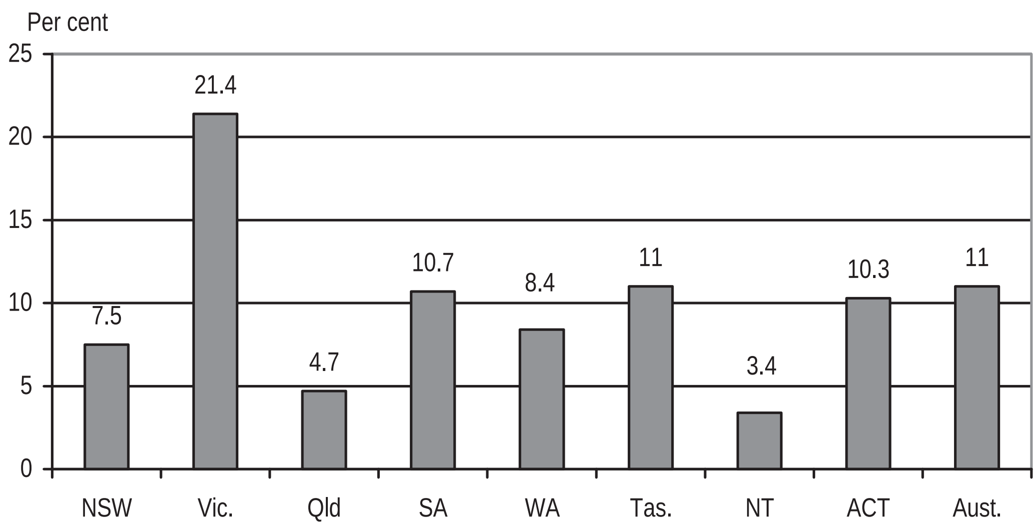
Based on the information provided by OTTE, the current student contact hour funding does not fully cover the costs of delivery, including the cost of depreciation, teaching equipment, course development, and support for early school leavers and people with disabilities.

The current funding rate for student contact hours is an average rate based on historical data and differs for each institute. Where institutes attempt to move their delivery from lower to high cost programs (such as from traineeships to higher-cost apprenticeship programs), the funding is often inadequate, as identified in our review of Chisholm Institute. OTTE is aware of certain inequities in the current funding rates and is reviewing them.

Fee-for-service revenues from commercial activities

Public TAFE providers are becoming increasingly reliant on fee for service income to supplement shortfalls in other funding. As figure 2.2F shows, in 2002 the Victorian TAFE sector had the highest level of fee-for-service revenue of all Australian jurisdictions. Notwithstanding this, OTTE negotiated increased fee-for-service targets for TAFE institutes in their 2003 performance agreements.

FIGURE 2.2F: TAFE FEE-FOR-SERVICE REVENUE AS A PERCENTAGE OF OPERATING REVENUE, 2002



Source: Report on Government Services, 2004.

Although the public TAFE providers are raising a significant amount of revenue from fee-for-service activities, figure 2.2G shows these fee-for-service activities are not generating substantial profits, which at 31 December 2002 was only about 5 per cent of revenue.

FIGURE 2.2G: ALL PUBLIC TAFE PROVIDERS' FEE-FOR-SERVICE FINANCIAL RESULTS ($MILLION)

Item	2002
Revenue	222.4
Direct costs	165.1
Overheads	46.3
Net operating surplus	**11.0**

Source: OTTE.

Public TAFE providers are funded by OTTE for the cost of enterprise bargaining agreements and other increases applicable to state-funded programs. However, providers are expected to meet the flow-on costs for staff employed in fee-for-service activity through their own budgets over the period of the agreements.

Capital funding

In addition to the above funding sources, the state also provides capital grants for the replacement and renewal of capital items, but does not directly fund the cost of depreciation. In 2003, the Victorian TAFE sector received total capital grants of $103 million (covering both additions to, and replacement of, capital items) and incurred a total depreciation expense of $66 million or approximately 7 per cent of total expenses.

While the aggregate capital funding to the sector exceeds the depreciation expense, individual institutes were not always funded for depreciation which contributed to poor operating results and, if continued, will lead to a run-down of their operating capacity.

Individual TAFE providers have advised us that they have to supplement any shortfalls in capital funding via savings made in other areas of expenditure, placing a further burden on their cash reserves. The impact of this became evident when repairs and maintenance expenditure was also reviewed. Total repairs and maintenance expenditure across the sector for 2003 totalled $16.3 million or one per cent of total expenses on a total asset base of over $2 billion.

Conclusions

The Victorian TAFE sector's revenue base mainly consists of 70 per cent of government funding and 20 per cent raised from commercial activities in the form of fee-for-service.

TAFE institutes rely on (non-government) fee-for service revenue to stay financially viable. This revenue, however, fluctuates due to circumstances outside TAFE institutes' control, such as industry demand for training, fluctuation in full-fee paying international students, the state of the economy and the success or otherwise of winning contracts. This contributes to poor financial results and cash flows for individual institutes.

It is imperative that individual TAFE providers have adequate budgeting processes in place, and the state needs to revisit the funding models to ensure costs of delivery are effectively managed and adequately funded.

TAFEs need to reassess the appropriateness of current costing models to ensure all costs in respect of fee-for-service activities are properly costed and expenses are appropriately allocated to determine whether these activities are in fact profitable.

The department's practice of not funding depreciation, but making capital equipment and asset grants instead, reduces TAFE institutes' ability to effectively manage their day-to-day capability. Decisions about replacing assets and capital investments are made by the department. While this has some benefits, it can also reduce the ability of individual TAFEs' to provide services.

Recommendations

14. **That the Department of Education and Training, together with the Department of Treasury and Finance, reassess the current method of funding TAFE institutes to ensure that sufficient funding is provided to TAFEs to effectively maintain their operating capacity.**
15. **That, in the light of the low average ratio of surpluses to revenue for fee-for-service activities, public TAFE providers undertake effective costing and pricing to ensure the financial viability of these activities.**

2.2.5 Was monitoring of TAFE providers' financial performance adequate?

TAFE institutes are incorporated bodies under the *Vocational Education and Training Act 1991* and monitor their own financial performance. The Office of Training and Tertiary Education (OTTE) within the Department of Education and Training monitors the financial performance of, and the delivery of agreed outcomes by, all public TAFE providers.

We assessed whether monitoring by OTTE of TAFEs' financial performance was adequate. In doing so, we examined if:

- reviews of financial ratios and financial performance were regular, timely and comprehensive

- significant differences between budgeted and actual financial results were explained by senior TAFE managers to, and followed-up by, OTTE.

We identified that OTTE had implemented the recommendations in our report on the financial viability of TAFE institutes, included in our *Report by Ministerial Portfolios*. These addressed the need for institutes to improve their monitoring process and their analysis of providers' quarterly financial reports.

Quarterly financial reports on financial activity were provided by all TAFEs to OTTE, generally within 10 days of the end of each quarter. TAFEs were also required to provide OTTE with quarterly reports about fee-for-service activities, and to explain any losses on these activities. These reports were analysed by OTTE and the responsible minister was briefed quarterly about each TAFEs' financial position.

TAFEs assessed by OTTE to be in financial difficulty were required to submit monthly financial reports, within 10 days of the end of each month. These TAFE institutes were also required to have their representatives meet with OTTE's senior staff monthly to discuss progress in dealing with the difficulties and to review end-of-year projections and targets.

Each TAFE was also required to submit detailed annual budgets for OTTE consideration. All TAFE monthly and quarterly financial reports (as explained above) were compared against their budgets; variances were followed-up for explanation.

Conclusions

OTTE has implemented the recommendations of our June 2001 audit, to monitor the financial performance of all public TAFE providers regularly and promptly. The financial performance and standing of public TAFE providers with financial difficulties is now scrutinised in greater detail, and the responsible minister is briefed on a regular basis.

2.2.6 What has been done to improve the financial performance of TAFE institutes?

We assessed what had been done to improve the financial performance of TAFEs, by examining if TAFE institutes had benefited from government decisions to increase fees.

In 2004, the Minister for Education and Training allowed public TAFE providers to increase student fees by 25 per cent, bringing the fee per student contact hour from $1.00 to $1.25. Fees are also to be indexed each year. This represents the first increase in student fees since 1995.

FIGURE 2.2H: VICTORIAN STUDENT FEES, 2004

Fee	$
Student contact hour fee	1.25
Maximum chargeable fee	625
Maximum fee for students entitled to a concession fee	50
Maximum fee for apprentices/trainees	290
Maximum fee for VCE students taking a TAFE course	420

Source: OTTE.

While the revised fees are similar to other states and territories, figure 2.2I shows that the Victorian maximum fee is lower than for other states.

FIGURE 2.2I: INTERSTATE MAXIMUM FEE COMPARISONS ($)

	Vic.	NSW	SA	WA	Qld
Maximum fee per year	625	1 650	1 200	883	713

Source: OTTE.

On account of the extra fees of 25 cents per student contact hour able to be raised by TAFE institutes, OTTE in 2004 reduced the institutes' base funding by 3 cents per student contact hour. This amounts to $1 million.

A further $7.18 million was also removed from the TAFE institutes' 2004 service delivery funding (equivalent to the remaining 22 cents increase per student contact hour) and together with an additional amount of $2.98 million provided by OTTE (bringing the total to $10.16 million), has been reallocated to targeted areas in individual institutes by OTTE.

OTTE continues to fund regional and remote TAFE institutes, with an extra $0.30 per student contact hour provided in 2004, to compensate for the additional costs that arise due to their locations.

Conclusion

While recent government initiatives should assist in increasing TAFE institute revenues, it is still too early to accurately assess the net impact of the initiatives on the future financial performance of the institutes.

RESPONSE provided by Secretary, Department of Education & Training

Figure 2.2C

The department has concerns about the selection of indicators used to assess TAFE financial performance.

Figure 2.2C describes four financial indicators of TAFE providers:

1. *Operating result from ordinary activities* including *funding for capital purposes*
2. *Operating result from ordinary activities* excluding *funding for capital purposes*
3. *Net cash inflows (outflows) from operating activities excluding funding for capital purposes*
4. *Positive (negative) working capital position.*

The department is concerned about the appropriateness of indicators 2 and 3 as the measures assume that no depreciation funding is provided to TAFE institutes. In 2004, $7 million of state government maintenance funding and $17 million in state government equipment grant funding has been provided – some of this funding from depreciation.

Although not all capital funding is derived from depreciation funding, the 2 measures used indicate that no depreciation funding is provided at all.

The department would consider a better measure would be individual institutes' funded result i.e. operating results before depreciation and capital contribution.

Chisholm TAFE – A Case Study

The department has concerns about the status of Chisholm's performance, and has initiated a revision of the 2004 forecasts, along with a formal review of Chisholm's financial standing.

While work has been done to improve organisational and planning arrangements at senior levels, efforts need to continue to integrate these changes throughout the entire organisation and all levels of management.

Recommendation 14

The Department of Education & Training accepts this recommendation.

RESPONSE provided by Chief Executive officer, Central Gippsland Institute of TAFE

I would, like to inform you that the Institute Council and Executive identified these matters [negative operating results and operating cashflows, excluding capital funding] as a significant issue during 2002.

It was agreed that the Institute could not support its current staffing levels given the existing activity level and funding arrangements.

Also identified were areas of the Institute that were not viable given the high capital investment and operating costs required to support them.

Council and Executive also developed a solution involving a restructure of the Institute management; a strategy to reduce and better manage staffing levels and costs; and a process to dives high asset based non-core activities.

The full benefit of the solution was not reflected in the 2003 results as process constraints did not see the solution implementation completed until July 2003. However, the improvement over 2002 was still $1.4 million.

First quarter results for 2004 are well ahead of budget.

RESPONSE provided by Vice-Chancellor and President, Swinburne University of Technology

Swinburne specific:

- *Funding levels, affecting the operating results including capital funding (OPCF) and the operating results excluding capital funding (OPXCF): For some considerable time OTTE funding has been provided on a block basis, that is, overall funding has not been adjusted to take account of movement in load between disciplines with differing cost profiles. This baseline funding has underfunded Swinburne to the extent of at least $3 million per annum compared to the State average. Based on the latest available figures, this underfunding amounted to $3.17 million for 2002.*
  (The "Selected TAFE Institute Measures for the Victorian State Training Network 2002" show total government funding of $584 197 000 for 59 732 085 SCH, i.e. $9.78/SCH. This compared to $9.27 per SCH for Swinburne's funding for the delivery of 6 208 555 SCH.)
- *Capital funding effect on OPCF: Based on information available on the OTTE publication "2002 Selected TAFE Institute Measures for the Victorian State Training Network" (statistics of Asset Utilisation), Swinburne delivers the fourth largest number of contact hours within the Victorian TAFE system. Notwithstanding, based on Figure 2.2C of your report, it can be calculated that 13 of the 19 institutes listed received more capital funding than Swinburne in 2003 and 16 of the 19 in 2002. Had Swinburne received capital funding commensurate with its load, the 2003 OPCF deficit would not have occurred.*
- *Capitalisation threshold, affecting OPCF and OPXCF: Swinburne, consistent with other universities, only capitalises assets that cost in excess of $5 000, as compared to the $1 000 capitalisation threshold used within the TAFE sector. This has the effect of bringing forward expenditure into the operating statement. For example, in 2003, Swinburne's TAFE Division expensed approximately $1.3 million of items costing between $1 000 and $5 000. Assuming a 20 per cent depreciation rate were applicable, Swinburne's operating statement includes expenses of approximately $1 million more than a TAFE institute with similar purchases and a $1 000 capitalisation threshold.*

- *Net cash flows excluding capital funding: In 2003, Swinburne's TAFE Division accounts payable reduced by in excess of $5 million. This is principally the cause, and the extent, of the negative net cash flow excluding capital funding.*

Sectorial issues, affecting OPCF and OPXCF

- *The widespread deficits across the sector culminate from the regular funding cuts, e.g. the annual 1.5 per cent productivity dividend, which has been applied annually for some considerable time and has now reached a level (with funding being by far the lowest in Australia) that threatens the viability of the Victorian TAFE system.*
- *Whilst funds are provided for new buildings and reimbursement of long service leave entitlements upon staff leaving institutes, accounting standards require building depreciation and accrued long service leave to be recognised as expenses in the operating statements of each entity. These unfunded expenses, which are exacerbated by the effect of regular revaluations of fixed assets, contribute significantly to the operating deficits you have highlighted.*

In spite of the operational stress caused by all of the above, Swinburne's TAFE Division has managed to maintain a strong balance sheet as evidenced by its working capital ratio of 1.84 as at 31 December 2003.

2.3 Are smaller alpine resort management boards financially viable?

Six alpine resort management boards have been established in Victoria under the *Alpine Resorts (Management) Act 1997* to manage the state's alpine resorts. These are Mount Buller, Falls Creek, Mount Hotham, Lake Mountain, Mount Baw Baw and Mount Stirling. The objectives of the boards include to:

- plan for the proper use and development of the land they manage
- develop resorts that provide quality recreation, educational and sporting experiences in all 4 seasons
- conduct their business in an ecologically, economic and socially responsible manner.

The boards are required to be substantially self-sufficient. Their main revenue sources are service charges, gate fees and site rentals. As well, boards sometimes receive capital works grants from the state and Commonwealth governments.

We assessed whether the alpine resort management boards are financially viable, with reference to:

- the financial performance of the boards over recent years
- the current financial position of the boards
- likely developments in the industry.

Figure 2.3A shows summary financial information for the boards, for the 2 most recent financial years.

FIGURE 2.3A: KEY FINANCIAL INFORMATION, ALPINE RESORT MANAGEMENT BOARDS ($'000)

Board	Operating result		Net current assets		Net cash flow from operations	
	2003	2002	2003	2002	2003	2002
Mount Buller	604	(341)	1 023	5	2 341	1 126
Falls Creek	1 051	(190)	2 162	484	2 424	508
Mount Hotham	2 036	628	103	(31)	1 807	1 241
Lake Mountain	855	866	1 765	796	999	724
Mount Baw Baw	1 959	101	717	82	2 511	150
Mount Stirling	(103)	(149)	53	57	9	(68)

Source: Victorian Auditor-General's Office.

As Figure 2.3A shows, the financial performance and position of the smaller boards (Lake Mountain, Mount Baw Baw and Mount Stirling) improved in 2003. This was due mainly to support payments from the other (larger) boards and from the Department of Sustainability and Environment (DSE). These payments totalled $1.2 million in 2002-03. They are not expected to be ongoing.

The operating results of Mount Baw Baw and Lake Mountain were also influenced by the receipt of Regional Infrastructure Development Fund grants for capital works purposes. These amounts, recognised as revenue, ($1 million for Lake Mountain and $1.6 million for Mount Baw Baw) have resulted in significant increases in the operating results of these entities.

2.3.1 Conclusions

When the financial results of the 3 smaller boards are adjusted for exceptional factors (support payments received) in 2003, their underlying financial performance is seen as marginal. As a result of the limited funding sources available to the smaller boards and the cessation of support payments from 1 November 2003, the ongoing viability of these entities is uncertain.

In April 2004, proposed amendments were introduced in parliament to the *Alpine Resorts (Management) Act 1997* under which the Mt Buller and Mount Stirling Alpine Resort Management Boards are to be merged in the near future.

The 2 remaining smaller boards (Lake Mountain and Mount Baw Baw), and DSE, are acutely aware of the financial positions of these boards and are working to improve them. DSE intends to continue supporting the smaller boards until solutions are found.

RESPONSE provided by Secretary, Department of Sustainability and Environment

I accept the conclusion that the underlying financial performance of the smaller resorts is marginal. The ongoing viability of Lake Mountain and Mt Baw Baw resorts is still to be tested with new visitor facilities in place with the potential to improve the viability of both these bodies into the future.

It should be noted that the government intends to amalgamate Mt Stirling Alpine Resort Management Board with Mt Buller Alpine Resort Management Board and has recently introduced an enabling legislation, the Alpine Resorts (Management)(Amendment) Bill, into parliament.

The department will continue to work with the Boards of Lake Mountain and Mt Baw Baw to capitalise on their new visitor facilities and snow making to improve their longer term viability. The department will continue to monitor key indicators of the 2 smaller resorts' ongoing viability and support them as required.

2.4 What progress has been made to improve the reporting of performance information?

2.4.1 Recent advances in performance reporting

Under the *Local Government Act 1989*, local councils are required to include a performance statement in their annual reports. This statement includes the non-financial performance targets of the council, and their actual performance compared with these targets. Under the Act, the Auditor-General audits and issues an opinion on the performance statements.

There are no equivalent reporting and auditing requirements for state government agencies. Under the *Financial Management Act 1994*, each agency is required to report annually on its operations. Although these reports usually contain performance information, the Act only has limited requirements about the form and content of this information.

Recent amendments to the *Audit Act 1994* now enable the Auditor-General to "… audit any report of operations of an authority under section 45 of the *Financial Management Act 1994* to determine whether any performance indicators in the report of operations -

(a) are relevant to any stated objectives of the authority; and

(b) are appropriate for the assessment of the authority's actual performance; and

(c) fairly represent the authority's actual performance".

Notwithstanding my desire to apply the spirit of the legislation, I cannot audit information that is not presented in a manner that facilitates audit.

To encourage better reporting of performance information that can be audited by my Office, I have decided to apply this provision of the Audit Act gradually and progressively to agencies. My Office intends to work in partnership with agencies to improve the quality of performance information and the reporting of it.

The water sector is the first to be considered. This sector has largely homogeneous activities and long experience in reporting on a range of performance indicators.

2.4.2 What progress has been made in the water sector?

In 2002, the former Department of Natural Resources and Environment asked my Office to review the performance information of regional water authorities. In response, we examined the 2001-02 performance information for all Victorian metropolitan, regional and rural water authorities. We provided the results of our work to the water authorities and to the department. We did not publish an audit report on the matter, because the performance measures used needed to be better defined.

I have written to the Minister for Finance to ask that a ministerial direction be issued under the *Financial Management Act 1994* to require water entities to include performance statements in their annual reports of operations. This requirement could be extended to other sectors as their performance reporting develops.

Once a direction is issued, the Department of Sustainability and Environment should reach agreement with the water entities on the performance indicators to be used. These indicators should then be required by ministerial direction to be included in the performance statements of the entities.

I intend to issue audit opinions on the 2003-04 performance statements of water authorities, subject to the ministerial directions outlined above being issued.

RESPONSE provided by Secretary, Department of Sustainability and Environment

The Auditor-General's initiative to require water authorities to include performance statements in their annual reports of operations is accepted. This proposal will further strengthen governance arrangements in the water sector and improve transparency and accountability of the performance of water authorities.

I note that in implementing these arrangements, the Auditor-General's Office, this department and the Essential Services Commission (ESC) will need to work closely together to ensure that any unnecessary duplication of performance reporting and audit arrangements implemented in the future is avoided.

3. Special reviews

3.1 How adequate were the state's arrangements for monitoring tolling and the imposition of fees and charges by the City Link operator?

3.1.1 Audit conclusions

Was approval and monitoring of tolls adequate?

Responsibility for correctly setting and imposing tolls rests solely with the operator of the toll road, CityLink Melbourne Limited. This responsibility is exercised within a framework established by the *Melbourne City Link Act 1995* and the concession deed which regulate the rate at which tolls can be increased. The arrangements for setting tolls are working effectively and the state exercises effective oversight of the operator's toll-setting processes.

The state exercised its legislative powers to inspect the operator's records as they related to initial recording of customer account details before tolling commenced. However, the state has not exercised its legislative powers to directly inspect the operator's tolling records to determine whether it is imposing the correct tolls on users. An attempt to do this in early 2000 was abandoned. The state did not seek to enforce its legislative rights in this regard.

If the basis for the state's inaction in this area is a perceived lack of clarity in the legislation on what records can be subject to inspection, then consideration should be given to clarifying the legislation.

The state's failure to directly inspect the operator's tolling records to determine whether it has complied with the Act and concession deed in imposing tolls on users is balanced somewhat by the rigorous testing of the tolling system undertaken prior to commencement of tolling on the entire City Link road. This testing was undertaken by the operator and overseen by an independent reviewer.

The state in the main relies on the vigilance of City Link customers to monitor whether the operator imposes the correct tolls on users. In addition, we were advised that the state checks the accounts of staff who work for the Director, Melbourne City Link (within the Department of Infrastructure) and tolls foregone by the operator on the state's emergency services vehicles which are exempt from tolls.

In our view, for the state's monitoring of the imposition of tolls to be effective it should incorporate infrequent but periodic inspection of the operator's tolling systems and records in addition to the current practice of actively following-up on and examining the basis for complaints.

Was approval and monitoring of fees and charges adequate?

The operator imposes an administration fee on customers who do not carry their e-tags or carry an e-tag that is of a different classification to their vehicle. It was not until January 2002, that the state was made aware that the operator had increased the amount of the administration fee from $1.10 to $2.00 in July 2001. The state disputed the operator's right to increase the fee.

The state held a strong view, supported by legal and financial advice, that the operator had breached the concession deed and overcharged the administration fee, and that it should refund the amount overcharged to users. The basis for this view was the contractual requirement for the fee to be cost-based.

Ultimately, the state did not persist with, or seek to enforce (under the concession deed or through legal action), its request for the operator to refund the amounts overcharged to users. Instead, it agreed on a compromise in May 2002 which achieved a reduction in the administration fee from $2.00 to $1.20, and provided free travel on City Link on the day of the 2002 Melbourne Cup and an additional 2 days after travelling on City Link in which to purchase a day pass.

The state did not determine the extent of overcharging of the administration fee from July 2001, before agreeing with the operator that customers would not be refunded overcharged fees. We were advised that the state sought but did not obtain information from the operator which would have enabled an estimate to be made of the overcharging. The operator later indicated that the disputed fee was charged to users approximately 1.45 million times in 10 months, equating to extra payments by City Link customers of around $1.3 million.

To resolve the dispute, the state agreed that the administration fee no longer had to be cost-based and that it should be set at a level which acts as a deterrent for road users who fail to carry their e-tags.

The operator has provided the Minister with an undertaking that it will provide the state with 30 days notice before imposing a new fee or increasing an existing fee in the future.

Were charging issues arising from flat e-tag batteries dealt with effectively?

The operator became aware of a problem with failing e-tag batteries in February 2003, due to an abnormal number of e-tags being returned by customers. The cases of e-tag failures identified by customers gave the operator the opportunity to check fees charged to customers' accounts and make refunds to customers. Overcharging of fees occurred in cases where failed e-tags remained in customers' vehicles without detection by the customer or the operator. The operator informed the state on 14 August 2003 that it was developing a program to seek to identify e-tags which may have failed but remained in use. The operator did not initially convey the size and extent of the problem to the state's representatives.

The premature failure of batteries in e-tags resulted in the following adverse outcomes for City Link customers:

- incorrect charging of "no e-tag in vehicle" administration fees to the accounts of customers who were carrying e-tags in their vehicles but the e-tags were not recognised by the tolling system due to a flat battery. The extent of overcharging of the administration fee cannot be determined. However, the operator acknowledged in August 2003 that during 2002-03 it refunded $424 000 in administration fees charged to customers who had a total of 40 000 faulty e-tags due to flat batteries
- imposition of fines for travelling on City Link in a vehicle which was not registered with the operator for tolling purposes. Customers affected in this way had e-tags with flat batteries but maintained manual top-up accounts and had their vehicles "de-registered" by the operator due to the cumulative impact on their accounts of the incorrect charging of the "no e-tag in vehicle" administration fees. There were 281 customers affected in this way. Of this number, 161 customers paid fines totalling around $24 000. These fines were subsequently refunded by the state. The refund by the operator to the state of the $11.38 received by the operator for each fine paid was finalised in May 2004.

The state obtained legal advice which indicated that the charging of an administrative fee when an e-tag is carried by a customer but fails to generate an e-tag transaction is a breach of the concession deed.

The initial actions of the operator and the state since August 2003 to address problems arising from the failure of e-tag batteries were reasonable. However, the operator cannot yet ensure that no customer will be overcharged due to a flat battery or malfunctioning e-tag. The state is pursuing the resolution of this issue with the operator.

RESPONSE provided by Secretary, Department of Infrastructure

The conclusions reached and recommendations made are partially agreed. Specifically, in respect of the conclusions:

- *The report correctly records that "responsibility for setting and imposing tolls rests solely with the operator of the toll road… This responsibility is exercised within a framework established by the Act and the concession deed which regulate the rate at which tolls can be increased."*
- *The report omits to record that the state has preferred to use its contractual relationship rather than its statutory powers to determine whether the operator is imposing the correct toll on users. In the case of the dispute regarding the company's imposition of the $2 administration fee, the state and the operator were not able to agree whether the fee had been validly imposed. The parties did, however, reach an agreement in the interests of users, implemented by the Melbourne City Link Eighteenth Amending Deed, to validate a $1.20 administration fee and gain more time after travel for the purchase of a pass.*

3.1.2 Background

In 1995, as part of the *Melbourne City Link Act 1995*, a concession deed was made between the State of Victoria and Transurban City Link Limited for Transurban to design, finance, construct, maintain and operate City Link.

City Link comprises some 22 kilometres of roads, as well as tunnels and bridges. It links 3 of Melbourne's most important freeways (the Monash, West Gate and Tullamarine freeways). As part of building the link, parts of the Monash and Tullamarine freeways were upgraded and tolls imposed on them. Works were completed in December 2000.

Under the Act, the Director, Melbourne City Link (within the Department of Infrastructure) manages the state's relationship with CityLink Melbourne Limited (formerly Transurban City Link Limited, and is 100 per cent owned by Transurban).

The Office of Director, Melbourne City Link has recently been relocated to the Roads Corporation (VicRoads) premises and the Director currently reports to the Secretary of the Department of Infrastructure. Many of the former staff of the Office transferred to the Southern and Eastern Integrated Transit Authority which will oversight the contracting for, and construction of, the Mitcham-Frankston Freeway. We were advised that legislative changes are imminent which will abolish the statutory position of Director, Melbourne City Link and transfer the Director's legislative functions to VicRoads.

3.1.3 Was approval and monitoring of tolls adequate?

In assessing whether the arrangements established by the department for monitoring (and, where required, approving) the setting and imposition of tolls on users of City Link were adequate, we undertook an examination to determine if:

- the arrangements were in line with the legislation and the concession deed
- the department was able to ensure that the operator was generating revenue in line with the legislation and the deed
- the department's monitoring activities were effective and efficient.

The main source of revenue for City Link Melbourne Limited is tolls on users of City Link.

Under the Act:

- the operator can set, charge and collect tolls for the use of (or the right to use) City Link
- driving a vehicle on City Link that is not registered for tolling purposes with the operator is an offence
- users must pay the set tolls
- the operator must correctly record tolls, fees and charges that have been paid, or are due, to the operator
- the relevant minister can inspect these records.

The state approved the tolling system on 4 August 1999, after the operator established that it would operate as required by the department. The decision to approve the system was based on documentation provided by the operator about the system's capacity. The concession deed did not require the state to subject the tolling system to detailed testing. In giving approval, the state (among other things) required the operator to assure it that users would not be overcharged if e-tags were missed by the system, or failed.

Detailed performance testing of the tolling system was undertaken by the operator during the last half of 1999 and in 2000. An independent reviewer overviewed and checked the testing of the tolling system as part of the process established to govern certification of completion of City Link.

Each quarter, the operator is required to set a toll charge for each category of vehicle for each tollable section of the link road. It must also set a maximum charge for a single trip (a trip cap). It must notify the department a month in advance, put notices in the *Victorian Government Gazette* and advertise the new charge throughout Victoria.

The operator has met these conditions. On several occasions, the department has found rounding or indexing errors in toll calculations by the operator prior to their publication. On each occasion the operator has recalculated the tolls and published the correct tolls.

In October 1999, the Minister for Transport appointed an accounting firm to do a 2-stage inspection of the operator's records.

In the first stage, the firm intended to inspect a sample of tolling records dealing with the management and use of customer information to determine their accuracy. In the second stage, they intended to examine the accuracy of actual tolling transactions posted to customer accounts by reviewing the data gathered and transmitted by the roadside tolling equipment, and the accuracy of toll calculations by the tolling system.

The accounting firm's interim report in December 1999 stated that the operator had not provided all of the information requested and needed for stage 1. The firm had only examined customer account records and had not been able to inspect records of procedures and controls. This interim report also stated that no assurance was provided on the accuracy of the tolling calculations performed by the operator's tolling systems as this was to be the subject of stage 2 of the inspection.

Of the 93 customer account records examined, only 63 per cent agreed completely and accurately with the application forms submitted by customers. With the remainder, the information provided by the customer on their application form was not the same as the information on the operator's system due to exceptions primarily attributable to errors in entering the information on the system, or to changes made to customer account details in the system after the application. In these latter cases, there was no record of the source of the changes made. The firm contacted a small sample of these customers, all of whom verified that the changes made were accurate and had been requested by them.

Stage 2 of the inspection, which was intended to commence within approximately 2 weeks of the commencement of tolling, did not proceed. The primary reason for this was the operator's strong resistance to the proposed scope of the inspection process. This resistance included indicating to the state that because the operator viewed the requests for information as possibly having implications for the operation of the enforcement process, it would assess each request on a "document-by-document" basis and possibly obtain formal legal advice at every request.

The state has not subsequently taken any action to exercise and enforce its rights under the Act to inspect the operator's records to directly determine whether the operator is imposing the correct tolls on users.

The issues raised by the operator in response to the state's planned inspection of its tolling records created doubt regarding whether the scope of records subject to inspection by the state under the Act extends to the operator's tolling system.

The state in the main relies on the vigilance of City Link customers to monitor whether the operator imposes the correct tolls on users. Complaints from customers are examined for indications that the operator may not be imposing tolls and other fees and charges in accordance with the concession deed and the Act. In addition, we were advised that the state checks the accounts of staff who work for the Director, Melbourne City Link (within the Department of Infrastructure) and tolls foregone by the operator on the state's emergency services vehicles which are exempt from tolls.

In our view, for the state's monitoring of the imposition of tolls to be effective, it should incorporate infrequent but periodic inspection of the operator's tolling systems and records in addition to the current practice of actively following-up on and examining the basis for complaints.

Conclusion

The arrangements for setting tolls are working effectively and the state exercises effective oversight of the operator's toll setting processes.

The state exercised its legislative powers to inspect the operator's records as they related to initial recording of customer account details before tolling commenced. However, the state has not exercised its legislative powers to directly inspect the operator's tolling records to determine whether it is imposing the correct tolls on users. An attempt to do this in early 2000 was abandoned. The state did not seek to enforce its legislative rights in this regard.

If the basis for the state's inaction in this area is a perceived lack of clarity in the legislation on what records can be subject to inspection, then consideration should be given to clarifying the legislation.

Our review identified the need for implementation of a comprehensive risk-based approach to monitoring the imposition of tolls which should incorporate infrequent but periodic inspection of the operator's tolling systems and records.

Recommendation

16. That the state arrange for periodic independent inspections of the operator's tolling records to determine whether it is imposing the correct tolls on users.

RESPONSE provided by Secretary, Department of Infrastructure

The department accepts this recommendation.

3.1.4 Was approval and monitoring of fees and charges adequate?

In assessing whether approval and monitoring of fees and charges was adequate, we examined if the department had an effective risk-based monitoring system to oversee the operations and activities of the operator, to ensure that the operator was generating revenue in accordance with the legislation and the agreements.

While both parties intended tolls to be the operator's main source of revenue, the concession deed allows the operator to levy fees and charges on City Link users who are not account holders, or users who do not operate their accounts correctly. An important requirement of the concession deed was that accounts incurring no fees or charges be offered concurrently with any alternative products which might offer additional services with fees and charges.

The state's overriding concern when negotiating possible additional fees with the operator since the original concession deed was established, has been that the standard prepaid account, used correctly, remains free of fees and provides a satisfactory service to the majority of customers. This can only be done if the list of free services comprehensively covers the needs of most motorists, otherwise, fees may be proposed for services that were previously free, a practice known as "unbundling".

The concept of unbundling relates to circumstances where someone:

- bids for and wins a contract on the basis that their revenue under the contract will be derived from, and limited to, certain specified sources in return for specified services
- later seeks to derive additional revenue from either the originally contemplated sources or from other sources in return for the provision of services which were specifically envisaged in, or could be implied to have been envisaged in, the original bid and contract.

An example of unbundling is where a construction firm wins a tender or contract to construct a dwelling for an agreed lump sum price and then later seeks additional payments in relation to the construction of elements of the dwelling, such as the roof. The other party would have expected the roof construction to be included in the originally contracted service and price.

Apart from certain specifically identified fees and charges, the original concession deed only allowed additional fees and charges to be imposed, without approval by the state, where the fee or charge was reasonable having regard to costs incurred by the operator in providing the service for which the fee was levied. If the fee was higher than cost, the state's approval was required before the fee could be imposed.

In mid-1998, the operator sought the state's approval to charge an administration fee to cover the cost of manually processing a toll charge for a customer who drove on City Link without an e-tag. One reason why customers do this is because they choose not to obtain an e-tag for each vehicle registered for tolling purposes.

In 1999, the state allowed the operator to charge an administration fee of $1.00 to recover the costs of tolling customers who did not carry an e-tag. At that time, both parties considered $1.00 to be the best estimate of costs, given that actual costs were not known because tolling had not started (subsequently became $1.10 with the introduction of GST).

In January 2001, the operator advised the state that it intended to increase the administration fee to at least $2.00 (including GST) from 1 May 2001. In March, the state requested the operator to provide detailed information to support the proposed increase, to which the operator responded in April. In May 2001, the state advised the operator that it did not consider the information adequate to justify the increase, and that it was seeking legal advice on the issue.

On 2 July 2001, the operator increased the fee charged from $1.10 to $2.00, but did not tell the state until January 2002.

In January 2002, a customer told the responsible state agency about the increase, which was confirmed by the operator. The state expressed its extreme disappointment at the implementation of the increased fee and its view that requests for information had been consistently ignored or dealt with inadequately by the operator.

The state held a strong view, supported by legal and financial advice, that the operator had breached the concession deed and overcharged the administration fee, and that it should refund the amount overcharged to users. This view was based on the contractual requirement for the fee to be cost-based.

In February 2002, the operator provided a further cost summary and supporting documentation showing its assessment of its direct and indirect administration fee costs, which totalled more than $2.00. The state had this assessment examined by an accounting firm which concluded that a cost-based fee, as required by the concession deed, of between 28 and 93 cents could be justified, depending on accounting assumptions made.

After extensive correspondence and proposals by both parties, in May 2002 the operator provided the state with advice of its view of the basis upon which resolution of the dispute had been reached, including that:

- the administration fee would be reduced to $1.20 from 1 May 2002 (and be reviewed in April 2006)

- that customers would have 3 days from the day of travel on City Link in which to purchase a City Link day pass (2 more days than previously)
- travel on City Link on 2002 Melbourne Cup day would be free
- on an exception basis (e.g. Christmas, Easter), customers would be allowed to acquire day passes on the first business day after an extended holiday break
- the administration fee of $1.20 would be confirmed by an amendment to the concession deed effective from the introduction of the extended period to acquire day passes.

The operator was not required to refund to customers the difference between $1.10 and $2.00 for the 10 months that the higher fee was charged. The state did not determine the extent of overcharging of the administration fee from July 2001, before agreeing with the operator that customers would not be refunded overcharged fees. We were advised that the state sought but did not obtain information from the operator which would have enabled an estimate to be made of the overcharging. In January 2004, the operator subsequently indicated that the total of these differences charged was about $1.3 million.

Because the agreed fee of $1.20 was higher than costs estimated by the department's advisors, the department, to resolve the dispute, agreed that the fee would no longer need to be cost-based. Instead, it was described as a deterrent to encourage users to carry their e-tags.

In August 2002, the state approved amendments to the concession deed which specified the administration fee and the circumstances in which it could be imposed and fixed it at $1.20 until a review date in April 2006. This amendment removed the administration fee from the cost-based fee regime established by the section of the concession deed, under which it was previously imposed.

Both the operator and the Minister for Transport issued media releases encouraging Victorians to take advantage of toll-free travel on the 2002 Melbourne Cup day.

In January 2001, the operator proposed introducing new account suspension and re-registration fees. In March 2001, the department advised the operator of its major concerns with this proposal. It also took legal advice, the substance of which was that the operator did not have the right to introduce the proposed fees.

In August 2002, following months of correspondence between the parties, the operator withdrew the proposal for an $11 reregistration fee, but renewed its proposal for an $11 account suspension fee. In August 2003, the operator also withdrew its proposal for the account suspension fee.

The operator has provided the Minister with an undertaking that it will provide the state with 30 days notice before imposing a new fee or increasing an existing fee in the future.

Conclusion

It was not until January 2002, that the state was made aware that the operator had increased the amount of the administration fee from $1.10 to $2.00 in July 2001. The state disputed the operator's right to increase the fee.

The state held a strong view, supported by legal and financial advice, that the operator had breached the concession deed and overcharged the administration fee, and that it should refund the amount overcharged to users. Ultimately, the state did not persist with, or seek to enforce (under the concession deed or through legal action), its request for the operator to refund the amounts overcharged to users. Instead, it agreed on a compromise which achieved a reduction in the administration fee from $2.00 to $1.20, and provided free travel on City Link on the day of the 2002 Melbourne Cup and an additional 2 days after travelling on City Link in which to purchase a day pass.

The state did not determine the extent of overcharging of the administration fee from July 2001, before agreeing with the operator that customers would not be refunded overcharged fees.

3.1.5 Were charging issues arising from flat e-tag batteries dealt with effectively?

In assessing whether charging issues arising from flat e-tag batteries were dealt with effectively by the state and the operator, we examined if action was taken to:

- ensure issues were identified and resolved quickly
- comply with the Act and concession deed
- minimise the impact on City Link users.

The *Melbourne City Link Act 1995* requires a vehicle that uses City Link to be registered to do so. The offence under the Act is not to be registered, rather than not to have an e-tag. E-tags are an administrative tool used by the operator to assist in identifying customer vehicles and imposing tolls.

As previously noted, the operator can charge a fee of $1.20 if a nominated vehicle uses City Link without an e-tag, or uses an e-tag that is of a different classification to that of the vehicle. The state has legal advice that the fee cannot be charged if the e-tag is in the vehicle but is not working for whatever reason (including a flat battery).

Tolling system and the process by which fines and administration fees are imposed

The operator has issued around 900 000 e-tags to customers and has approximately 1.4 million vehicles registered for tolling purposes.

City Link's tolling relies on the e-tag sending information to a beacon about the type of vehicle for which the e-tag was issued, as it passes through the tolling point. Another system records the actual size of vehicle passing through the tolling point. If the 2 match, the user's account is charged. If the vehicle is not carrying an e-tag but the registration plate is matched to a CityLink pass record then no further action is taken. If there is either a mismatch between the vehicle size and the vehicle class assigned to the e-tag, or there is any other kind of exception (no pass, e-tag reported stolen, vehicle reported stolen etc.), an image of the vehicle is retained and the image is read by operator staff to identify the vehicle licence number.

Where subsequent analysis reveals that the vehicle is registered for tolling purposes with the operator, the relevant toll is charged to the customer account. If the vehicle was registered under an e-tag account but did not carry an e-tag, the operator may also charge the administration fee as a deterrent to provide an incentive for users to carry their e-tags when travelling on City Link.

If the vehicle is not registered with the operator, or a City Link pass has not been acquired (or not acquired within the required time), the operator generally provides the Victoria Police Traffic Camera Office (TCO) with a notification that a vehicle is not registered with the operator and an image of the vehicle travelling on City Link. The TCO, after corroborating the evidence and checking that the vehicle is not exempt (e.g. emergency services vehicles), then issues an infringement notice specifying the nature of the offence and fine payable ($40 fine for a first offence and a $100 fine for subsequent offences). The state pays the operator $11.38 (the average avoided toll and the audited costs of the operator's enforcement action) for each fine paid.

Although e-tag batteries have a 5-year warranty, and were designed to withstand extreme heat and cold, there were a high number of failed batteries in the summer months of 2003. Experts believe that this was due to drivers rapidly cooling very hot cars. In 2002-03, the operator changed about 40 000 e-tags with flat batteries, compared with a total of 80 000 e-tags changed in the period since the start of tolling in 2000 to September 2003.

The primary means by which a customer can identify a malfunctioning e-tag is the absence of beeps when it passes under a toll point. This mechanism is not completely reliable due to issues such as ambient noise in and around the vehicle.

The failure of e-tag batteries has resulted in incorrect charging of "no e-tag in vehicle" administration fees to customers whose e-tags were in their vehicle but the battery was flat. The extent of this incorrect charging cannot be determined. It may be still occurring if all e-tags with flat batteries have not been identified. During 2002-03, the operator refunded $424 000 in administration fees charged to customers who had a total of 40 000 faulty e-tags due to flat batteries. In 2002-03, total "no e-tag in vehicle" administration fee revenue was about $3 million.

The failure of e-tag batteries also resulted in fines for travelling on City Link in a vehicle that was not registered for tolling purposes with the operator. Affected customers were typically those with manual top-up accounts that had been deregistered by the operator because their accounts had been reduced to zero or below by the cumulative impact of the incorrect raising of administration fees. They were either not aware of their situation, or did not receive or act on letters sent by the operator.

There were 281 customers affected in this way. Of this number, 161 customers paid fines totalling around $24 000. These fines were subsequently refunded by the state.

Fines paid were subsequently refunded by the state following identification of the fact that the customers' vehicles were deregistered for tolling purposes as a consequence of the incorrect charging of the administration fees. The refund by the operator to the state of the $11.38 received by the operator for each fine paid was finalised in May 2004.

The operator was aware of an abnormal number of failing e-tag batteries in February 2003. It did not tell the state about the issue until August 2003 when it advised that it was developing a program to seek to identify e-tags which may have failed but remained in use. The operator did not initially explain the size and extent of the problem. Five days after this advice, a customer complaint to the operator was taken up by the media.

The explanation given by the operator for this failure to provide the state with early and full advice on the issue was that it "under-estimated the timing and magnitude of the media response". The degree of anticipated media coverage should not be the determinant of what information the operator chooses to share with the state on the operation of City Link, particularly when users were adversely affected.

The state requested Victoria Police to consider whether a fine should be issued against the operator for breaching those sections of the Act that require the operator to maintain complete and accurate customer account records of tolls and fees paid, or due, to the operator. Victoria Police took legal advice in response to this request and advised the state in December 2003 of its decision not to pursue a prosecution against the operator.

Legal advice obtained by the department on whether the operator was entitled to charge administration fees to customers with e-tags in their vehicles, indicated that the operator could not charge the fee in these circumstances irrespective of whether or not the e-tag batteries were faulty. The state wrote to the operator stating that the operator's action of charging the administration fee to customers who carried e-tags in their vehicles was a breach of the concession deed. The department decided to negotiate, not litigate, expecting to achieve a better outcome and to not damage its long-term relationship with the operator.

The state sought advice from the operator on how the issue of the potential for administration fees to be improperly charged to customers would be addressed in the longer-term. The state and the operator remain in dispute regarding the power the operator has to charge the fee in circumstances where the e-tag is present in the vehicle but is not detected by the tolling system for whatever reason (such as flat e-tag battery, other e-tag malfunction and e-tag not being positioned in a manner capable of detection by the tolling system). The operator has advised the state that its legal advice is contrary to the position taken by the state. At the date of preparing this report the matter remains unresolved.

The operator has, however, established a process to detect e-tags with flat batteries or with batteries likely to fail in the near future, and to alert users of these e-tags. Replacement e-tags are now distributed to these users.

The operator also stopped charging the administration fee to customers identified as potentially having e-tags with flat batteries and sought to identify any fees incorrectly charged to these customers. In addition, it changed its procedures to seek to ensure that the account suspension threshold does not include the impact of administration fees. It also reviewed the accounts for the 80 000 e-tags returned since the start of tolling and identified customers who were incorrectly fined.

The state has told the operator that it supports these interim measures to quickly contain the adverse consequences arising from flat e-tag batteries. However, it has required the operator to identify and evaluate all options to ensure that fees are not overcharged and customers are not fined as a result of a systemic error in tolling procedures. This task remains “work-in-progress” and is being actively pursued by the state and the operator.

Conclusion

The operator became aware of a problem with failing e-tag batteries in February 2003, due to an abnormal number of e-tags returned by customers. The operator informed the state on 14 August 2003 that it was developing a program to seek to identify e-tags which may have failed but remained in use. The operator did not initially convey the size and extent of the problem to the state's representatives.

The premature failure of batteries in e-tags resulted in the following adverse outcomes for City Link customers:

- incorrect charging of "no e-tag in vehicle" administration fees to the accounts of customers who were carrying e-tags in their vehicles but the e-tags were not recognised by the tolling system due to a flat battery
- imposition of fines for travelling on City Link in a vehicle which was not registered with the operator for tolling purposes. Customers affected in this way had e-tags with flat batteries but maintained manual top-up accounts and had their vehicles "deregistered" by the operator due to the cumulative impact on their accounts of the incorrect charging of the "no e-tag in vehicle" administration fees.

The state obtained legal advice which indicated that the charging of an administrative fee when an e-tag is carried by a customer but fails to generate an e-tag transaction is a breach of the concession deed.

The initial actions of the operator and the state since August 2003 to address problems arising from the failure of e-tag batteries were reasonable. However, the operator cannot yet ensure that no customer will be overcharged due to a flat battery or malfunctioning e-tag. The state is pursuing the resolution of this issue with the operator.

Recommendation

17. That the department, if unsatisfied with progress to resolve this issue, pursue the available remedies permitted by the concession deed until the operator can provide assurance that systemic incorrect charging of this fee cannot occur.

RESPONSE provided by Secretary, Department of Infrastructure

In seeking to resolve this issue with the operator, the Department has reserved its rights. The recommendation is consistent with the Department's past actions and current approach.

3.2 Was financial management adequate at the Overseas Projects Corporation of Victoria Ltd?

3.2.1 Audit conclusion

The Overseas Projects Corporation of Victoria Ltd is in considerable financial difficulty.

Without the state providing capital injections totalling $2.5 million up to June 2003 and the deferral of the repayment of its commercial bank bills, the company would have been insolvent at that time.

On the basis of the company's draft unaudited half-year financial report at 31 December 2003, the company's solvency continues to be a matter of great concern. The company determined that additional funding and/or support from the state was required to cover liabilities and its ongoing financial obligations of $5.6 million. The company subsequently secured additional funding from the state of $403 000 and a letter of comfort from the Treasurer. The state's ultimate exposure in relation to this company remains uncertain and is dependent upon the outcome of the announced sale of the company.

A number of irregular cash transactions totalling $17 800 occurred between December 2000 and June 2003, representing a serious breakdown in internal controls by the company. We recommended that the company refer the irregular cash transactions to the appropriate authorities for further investigation.

The board did not maintain adequate monitoring arrangements over the exercise of significant powers it had delegated to management. This inadequacy was only addressed by the reconstituted board from March 2003 in the form of more extensive management reporting to the board.

3.2.2 Background and audit scope

The Overseas Projects Corporation of Victoria Ltd was incorporated in 1985 as a state-owned company. Its mission is to export Victorian public sector and private sector skills (such as project management skills), technologies and equipment. Most of these are for projects in developing countries.

In recent years, the company has experienced financial difficulties leading to it and the government commissioning a number of reviews about its future direction, financial performance and related matters.

In October 2002, the Minister for State and Regional Development appointed a new chairman and three new directors to the board. The reconstituted board has placed emphasis on improving governance, management practices and financial performance of the company.

During early 2003 the company identified changing market conditions and greater competition which would impact on its operational and financial performance.

The company's managing director resigned in July 2003. The board appointed one of its members to act as managing director from July 2003. In September 2003 the chief financial officer resigned and an acting appointment was made shortly thereafter.

In early November 2003, the government announced its intention to sell the company accepting the board's advice that the company was not a core government business and that its sale would enable it to raise the capital needed to compete at a global level.

In December 2003, the Ombudsman referred to me a public interest disclosure pursuant to the *Whistleblowers Protection Act 2001*. In view of the government's decision to sell the company, and its recent financial difficulties, we undertook, under the authority of the *Audit Act 1994*, to review the company's financial position and its project-related expenditure. The company subsequently advised our office, later in December 2003, that it may have identified some unrecorded liabilities and unrecoverable amounts associated with its projects. It also indicated that it would continue its investigations and keep my office informed. Its own enquiries were not completed until March 2004.

The focus of our enquiries extended to examining the company's current financial position and transactions for selected projects. It did not evaluate the company's systems of internal control over project expenditure given its pending sale by the state.

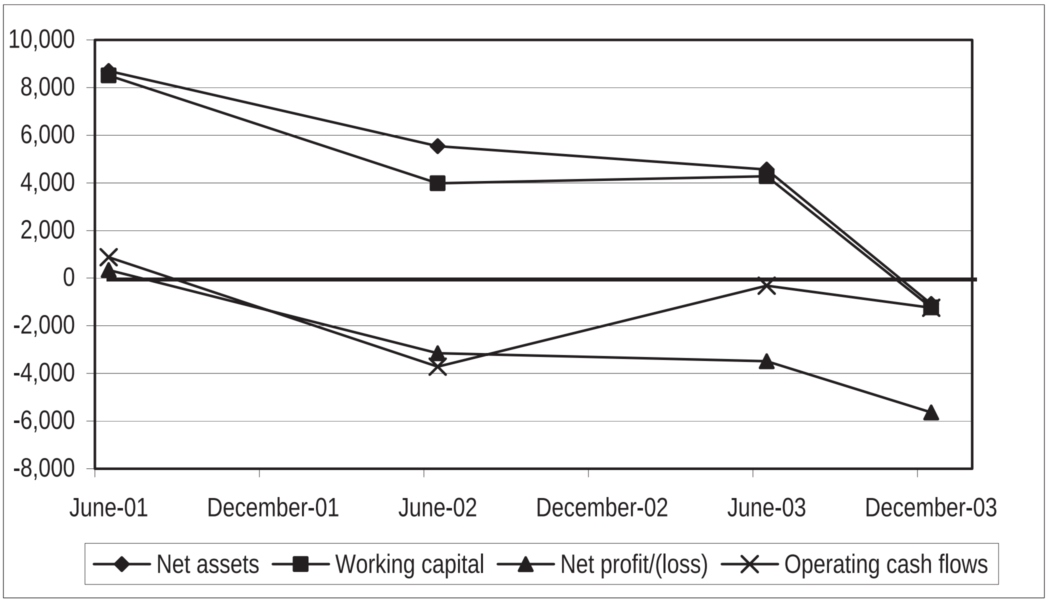
3.2.3 What is the company's current financial position, and reasons for change?

In assessing the company's current financial position up to 31 December 2003 we examined its:

- operating result
- operating cash flows
- working capital position
- net asset position
- the reasons for any significant changes in its reported position.

Figure 3.2A shows that the company has financial difficulties. It shows negative operating cash flows, a deteriorating working capital position, declining net assets and net losses. The net loss for June 2002 included recognition of a foreign exchange loss ($4.6 million). The net loss for June 2003 included an adjustment of $2.9 million arising from a reassessment of the net return to be received from its projects. The results for the half year to December 2003 included a revision of earlier estimates made as to the recoverability of amounts owing to the company and associated expenses carried forward on projects ($4.8 million).

FIGURE 3.2A: INDICATORS OF THE COMPANY'S FINANCIAL POSITION ($'000)



	30 June 2001	30 June 2002	30 June 2003	31 December 2003
	$'000	$'000	$'000	$'000
Net assets	8 695	5 546	4 557	(1 081)
Working capital	8 507	3 982	4 278	(1 226)
Net profit/(loss)	344	(3 149)	(3 489)	(5 639)
Operating cash flows	886	(3 720)	(317)	(1 249)

Note: The company's net assets and working capital position for 30 June 2002 and 30 June 2003 were improved by the state's capital injections of $500 000 and $2 million, respectively. Subsequent to 31 December 2003, the state provided additional funding of $403 000.

Source: Values for June 2001 to June 2003 were extracted from the company's audited financial reports. December 2003 values are based on an unaudited draft half-year financial report presented to the board in late March 2004.

In 2001-02, the company incurred an operating loss of $3.1 million, largely because of a $4.6 million foreign exchange loss. This related to the company's foreign currency exposure on equipment it supplied for a large water supply project in the Philippines. The company had a contract to protect itself against adverse foreign exchange movements, until March 2002, by which time the equipment was due to be delivered. However, the project was delayed and the equipment was not supplied by that date. The foreign exchange contract subsequently expired, leaving the company exposed to adverse foreign exchange movements.

The company subsequently reviewed its foreign exchange hedging strategies and sought advice from the Department of Treasury and Finance. A draft policy on this issue was presented to the board in December 2002 recommending an overriding principle that all foreign exchange exposures be hedged. The company did not adopt the policy, and has not entered into any further foreign exchange hedging contracts. It has not lost significant amounts on foreign exchange movements since July 2002.

In 2001-02, the Department of Industry, Innovation and Regional Development engaged a consultant to, among other things, analyse and assess the company's financial position, its portfolio of projects, tender performance and bidding strategies.

The consultant found that the company:

- was short of cash and needed an extra $500 000 of capital from the state (which it received in June 2002)
- needed to be more realistic with its financial targets (for operating revenue, net assets, project income, net profit after tax and return on shareholder's funds), as it kept failing to meet them
- needed to overhaul its internal processes and structures, and methods of managing contracts (these matters were further examined as part of subsequent reviews commissioned by the company's board and/or its management)
- did not have enough information to adequately analyse its project costs (management reporting processes to the board were improved from March 2003)
- needed to improve management reporting to the board (by reporting monthly against key performance indicators based on business objectives) and needed to improve its methods of managing risks and reporting on risks. The board subsequently sought more information from management, and management reporting processes were improved from March 2003

- the then board was not closely involved in the company's operations, and recommended that it needed more members with skills and experience in finance, law and developing countries (in October 2002, the Minister for State and Regional Development appointed a new chairman and three new directors to the board)
- should employ a chief operations officer to coordinate business development projects and organisational change (the company did not proceed with this recommendation)
- as a joint venturer should only bid in its areas of strength and for higher-margin work (the company subsequently prepared memoranda of understanding with its business partners in line with this recommendation).

In 2002-03, as Figure 3.2A shows, the company continued to have financial difficulties, despite the action taken on the consultant's recommendations and the state's capital injection in June 2002.

In April 2003, the board engaged a further consultant, in consultation with the government, to review the company's financial position and some project-specific matters. The consultant observed that:

- the company needed a further cash injection to meet its $3.1 million bank financing facility
- the company would have difficulty in repaying long-term outstanding creditors amounting to $1.2 million at short notice
- the company had many longstanding foreign currency bank accounts, which were infrequently used, with balances totalling $1 million
- certain amounts owing to the company associated with its projects were not recoverable and certain expenses associated with its projects were not recorded, all of which required a $2.9 million adjustment to the company's financial reports
- there were no copies of the contracts for several projects, and several memoranda of understanding were unsigned.

Subsequently, adjustments of $2.9 million were made to the company's 2002-03 financial report and the state provided further capital of $2 million in June 2003.

Delays in completing the Philippines water supply project was a key determinant of the company's poor financial position at 30 June 2003. The company had decided to finance the equipment for this project through Australian commercial bank bills which were to be fully repaid by 30 June 2003. However, the company was unable to fully repay these bills due to delays in the project and its tight liquidity position. It twice deferred repaying the bills despite having received an extra $2 million capital from the state in June 2003. Nevertheless, a repayment of $500 000 was made in June 2003 leaving an outstanding balance of $2.6 million at the date of the preparation of this report.

In October 2003, the company's reconstituted board initiated an internal due diligence review. This review extensively analysed the company's projects and its methods of estimating project revenues and expenditures. The company also subsequently appointed an external consultant to support this process. The review was completed in March 2004 and identified further significant adjustments of $4.8 million arising from a revision of earlier estimates made as to the recoverability of amounts owing to the company and associated expenses carried forward on its long standing projects. This amount was reflected in the company's unaudited draft financial report for the 6 months ending on 31 December 2003.

When the company's board met in February 2004, it considered the draft financial report for the 6 months ending on the 31 December 2003. The board concluded and informed the government that, based on its projected financial position, that the company required additional funding and/or support from the state to cover liabilities and its ongoing financial obligations of $5.6 million to ensure its solvency.

In March 2004, the Treasurer acknowledged that the company may have difficulties paying its creditors, given its likely half-year loss for the period ending 31 December 2003. The Treasurer also acknowledged that in order for the company to be sold, it needed to stay solvent. The Treasurer indicated that the Department of Treasury and Finance and the Department of Innovation, Industry and Regional Development would continue to work with the company and ensure that it would be able to pay its debts up until 31 December 2004. Later in March 2004, the company received further funding from the state of $403 000.

Conclusion

The company's financial success is dependent upon it undertaking profitable projects in other countries (including developing countries). The company has been, and is in considerable financial difficulty.

Without the state's capital injections totalling $2.5 million up to June 2003 and the deferral of the repayment of its commercial bank bills, the company would have been insolvent at that time.

On the basis of the company's unaudited draft half-year financial report at 31 December 2003, the company's solvency continues to be a matter of great concern. The company had determined in February 2004 that additional funding and/or support from the state was required to cover liabilities and its ongoing financial obligations of $5.6 million. The company subsequently secured further funding from the state of $403 000 in March 2004 together with a letter of comfort from the Treasurer.

The state's ultimate exposure in relation to this company remains uncertain and is dependent upon the outcome of the announced sale of the company.

RESPONSE provided by the Acting Managing Director, Overseas Projects Corporation of Victoria Ltd

It is agreed that without the state's capital injections totalling $2.5 million up to June 2003 and the deferral of the repayment of its commercial bank bills, the company would have been insolvent at that time. The board was of the opinion there were reasonable grounds to believe the company would be able to pay its debts as and when they become due and payable.

It is partially agreed that the company's solvency continues to be a matter of great concern. The management and board are constantly monitoring the operational results and liquidity of the business.

The report comments on OPCV's December 2003 half-yearly result, and also presents it graphically, in Figure 3.2A.

OPCV's Board believes the report does not present an accurate and fair representation of the financial performance of its business, over the six months to 31 December 2003.

The OPCV Board wishes to clarify the actual position:

	$'000s
Operating loss for the six months	*(292)*
One-off charges associated with staff redundancies, external consultant costs, etc.	*(582)*
Previously unrecorded liabilities, over-accrued project income and write-offs associated with projects going back over several years	*(4 765)*
Net loss, including significant adjustments relating to prior periods	*(5 639)*

3.2.4 Was control over project payments adequate?

In assessing whether control over project payments was adequate, we examined the company's policies and procedures to determine if:

- project payments were appropriately approved and adequately documented
- regular and comprehensive reports were made to the company's board about project activities, and included details of project expenditure, marketing expenses and joint venture or similar arrangements
- reimbursement of employee project expenses (including travel and living expenses) were adequately controlled
- there was adequate controls over engaging and remunerating overseas agents and for forming joint ventures or making similar arrangements.

Project expenditure

The company commissioned a number of external reviews in 2003. Those reviews considered, among other things, the controls over project expenditure (including travel costs). The reviews found that expenditures were not always properly approved, some purchases were inadequately documented and some allowances paid to employees were not in line with company policies. In addition, the reviews found that tighter monitoring was needed of corporate credit card use and the company had issued cards to contractors and consultants as well as staff.

We examined project-related payments over the last 3 years from a sample of projects and joint venture or other similar associations. This included some payments to the company's overseas agents, marketing and tender preparation expenditure, and employee reimbursements. We found that the company's policies for reimbursement of employee project expenses (including travel and living expenses) were adequate, however our review also found:

- some payments to the company's agents for expenses incurred were made on the basis of an invoice from the agent that was not supported by evidence that the expenses had been incurred, or that services had been provided or activities undertaken. The company's agents, located around the world, are engaged to find business opportunities for the company in their country or region. They generally receive regular fees (either monthly or annually), have their expenses reimbursed, and are paid success fees when the company is awarded a project that they have helped secure
- the company did not have a policy about the verification and approval of corporate card expenditure until December 2003. Consequently, card charges were not independently approved after the company received the statement. The company's policies require the prior approval of travel expenses, including those which may be subsequently incurred on corporate cards
- the company had not established a formal policy for engaging and remunerating overseas agents or for forming joint ventures or making similar arrangements
- the company did not keep a consolidated delegations listing, which set out the officers authorised to approve expenditure on the company's behalf (subject to any limits set by the board). However, the company had given its bank a list of authorised cheque signatories, and had set limits to the authority of each signatory

- 7 instances between December 2000 and June 2003 where money was transferred from the company's bank account to a Melbourne travel agency in order to buy US dollars, worth in total $A17 800. The little documentation there was about these transactions indicated that the cash withdrawals were not authorised by another officer, and were not adequately supported by invoices or receipts from the nominated payee. At our request, the company asked the nominated payees to confirm that they had received the money (although for 3 payments no payee was nominated). At the time of preparing this report, only one of the 4 nominated payees had formally responded to the request for confirmation, and had denied receiving the payment.

Joint ventures and other similar associations

When the company was incorporated in March 1985, the managing director was authorised by the board to do all things necessary in relation to the company's projects, including the power to execute tenders, agreements and contracts on behalf of the company and to operate the company's bank accounts.

Accordingly, the managing director entered into joint ventures and other similar associations with a number of other parties in order to use their expertise on the company's projects, and to involve the company in their projects. To do this, it was usual to sign a memoranda of understanding that covered profit-sharing arrangements, so as to jointly tender for projects and manage successful tenders. The other parties were from Australia as well as from other countries.

Written reports to the board about joint ventures and other similar associations were often very brief and did not set out profit-sharing arrangements. The board's minutes did not record its formal ratification of these arrangements.

The company maintained a register to record details of all agreements entered into on its behalf. There were numerous occasions on which details were entered into the register with only one signatory, rather than the required 2 signatories of directors or their delegate. There was one instance of the company's seal being used on a confidentiality and cooperation agreement (with another company) that was not entered into the register until some 5 months later. Also, a related power of attorney, which the register said bore the company's seal, could not be found.

Project reporting to the board

Before March 2003, monthly reports to the board about the company's projects were mainly verbal by the (former) managing director. These reports were accompanied by a list of projects in progress, a brief comment about their status and a list of requests for overseas travel. The board was given high-level financial information about the company's overall performance and gross margins for individual projects. However, there was no reporting about profits or losses on individual projects.

Further, written reports to the board about the marketing activities of senior managers (including overseas trips to find business opportunities for the company) were generally very brief and did not detail contacts made, business opportunities explored and their outcomes, and what trips cost. Written reports to the board did not adequately detail what was spent preparing tenders (including a breakdown of spending on successful and unsuccessful tenders) or give any feedback about unsuccessful tenders.

The level of detail reported to the board, at its request, was improved from March 2003. Additional information was provided on business development strategies, and project managers and directors reported, for each project, the percentage of work completed, financial performance and major issues. Reports are also now made on the tender win rate.

Conclusion

External reviews commissioned by the company in 2003 found that expenditure approval processes were deficient and that tighter monitoring of the use of corporate cards was needed. There had, at times, been inadequate supporting documentation for purchases, as well as payment of allowances to employees not in line with the company’s policies.

A number of irregular cash transactions totalling $17 800 occurred without any independent authorisation and/or concurrence of another authorising officer and without adequate supporting documents. There was insufficient evidence available at the time of our audit to substantiate whether the transactions in question were bona fide.

The existence of such apparently irregular transactions represent a serious breakdown in internal controls by the company.

Although the board delegated significant powers to its managing director when the company was incorporated in 1985, it did not make adequate accountability arrangements to monitor the exercise of those powers. Such arrangements should have included the requirement for detailed reporting to the board about projects and other important activities and arrangements (such as joint venture arrangements).

Recommendations

18. That the company establish formal policies for engaging and remunerating overseas agents and forming joint ventures or making similar arrangements.

19. That the company refer the irregular payments identified by the audit to the appropriate authorities for further investigation.

RESPONSE provided by the Acting Managing Director, Overseas Projects Corporation of Victoria Ltd

It is agreed that tighter monitoring of use of credit cards is needed. Eligibility for corporate cards has been tightened. An internal audit review in September/October 2003 reported no major shortcomings.

It is agreed that the process for approving expenditure was deficient. Expenditure approval system was upgraded in September 2003.

It is agreed a number of irregular cash transactions totalling $17 800 occurred without any independent authorisation and/or concurrence of another authorising officer and without adequate supporting documentation. Overseas cash advance requests did not include provision for next level approval. Acting CFO now approves all requests.

It is partially agreed that the board did not make adequate accountability arrangements to monitor the exercise of powers delegated to the managing director. No records exist that detail the delegation of powers to the MD in 1985, or specific accountability arrangements. The board reinforced its requirement for full and open reporting accountability in late 2002.

It is agreed that formal policies for engaging and remunerating agents should be established. Previous practice required MD's approval.

It is agreed that formal policies for forming joint ventures should be established. Previous practice required project-by-project approval by MD.

No decision has been taken on the recommendation to refer the irregular payments to the appropriate authorities. Matter is still under discussion by the company's board.

4. Status of recommendations made in 2001-02 performance audit reports

4.1 Have the recommendations made in the performance audit report *International students in Victorian universities* been adopted?

4.1.1 Introduction

In April 2002, we tabled a performance audit report titled *International students in Victorian Universities.* The objectives of the audit were to assess whether international student programs in Victorian universities:

- impacted on access to university for Victorian students
- impacted on the academic standards of universities
- were of financial benefit to universities and the Victorian economy
- were adequately regulated and monitored.

We focused on 3 universities in Victoria with the highest numbers of overseas students – RMIT, Monash and Melbourne.

The audit concluded that entry by overseas students did not have an influence on the ability of Victorian students to gain entry to university. Overseas student programs were financially beneficial to universities and appropriate legislative and monitoring arrangements were introduced to regulate the programs. However, the capacity of overseas students to succeed in their courses was affected by their English language proficiency.

We made a number of recommendations aimed at improving the English proficiency of overseas students, maintaining academic standards, and improving support for overseas students and the staff that work with them. This report looks at the extent to which our recommendations were implemented by the 3 universities.

4.1.2 Audit conclusions

The universities have implemented, or are taking action to implement, the recommendations made in our 2002 performance audit titled *International students in Victorian universities.*

The Department of Education and Training (DE&T) has not yet approached the Commonwealth for it to develop good practice guidelines to support Australian universities in assessing the capacity of overseas students to succeed in their academic studies, however, DE&T indicated it will do so in the near future.

4.1.3 Have universities taken action to improve English language support for overseas students?

Were studies conducted on student access pathways and outcomes?

We expected the 3 universities to have analysed the relationships between how students enter university (their "pathway") and the students' educational outcome.

Overseas students' pathways into university vary with each university and can include entry through completion of the Victorian Certificate of Education, undertaking foundation studies at universities, or attendance at foundation studies courses at university colleges. Students can also gain entry through obtaining the General Certificate of Education, another equivalent secondary qualification, completing prior tertiary studies, having prior employment experience or acquiring suitable professional qualifications.

Monash and Melbourne universities undertook research to see how overseas students' entry pathways affect their academic performance. The research assists the universities to better target their English language support resources to students in need and to improve those pathways displaying a lower level of academic performance.

The University of Melbourne study was completed in February 2003 and covered the 3-year period 2000 to 2002. It compared the performance of overseas students commencing their first year in 5 foundation studies programs (Trinity Standard, Trinity Fast track, Melbourne University foundation year, other foundation studies and other overseas full-fee paying) with the performance of domestic full-fee paying students, local subsidised students and other overseas full-fee paying students. Overall, the overseas students using the university foundation studies pathways achieved lower results than the other groups of students. These results prompted the university to increase resources to its specialist English language support units. The university needs to ensure that the additional resources are targeted to students most in need and that those foundation pathways exhibiting the lower levels of academic performance are improved.

The Monash University studies have been ongoing for several years and show that overseas students in nearly every faculty and level perform as well as domestic students. The pass rate for overseas students for the 5-year period 1999 to 2003 was 86.7 per cent compared with 87.7 per cent for domestic students. There were no statistically significant differences in the performance of domestic and overseas students in the faculties of arts, education, engineering, information technology, pharmacy or science. However, despite a noticeable improvement in average marks since 2001, overseas students in business and economics received lower marks than domestic students in the 3-year period 2001 to 2003. The university determined that there were 2 reasons for this – the higher level of mathematics required for these courses and English language difficulties. At the time of our report the university was undertaking further research into these matters.

The Monash research also identified that less than 10 per cent of overseas students were admitted to Monash on the basis of an English test. The vast majority were admitted through a pathway where the course is delivered in English.

In 2004, RMIT University commenced research on how entry pathways affect the academic outcomes of Vocational Education and Training and Higher Education students.

DE&T advised that the Victorian International Education Consultative Group (VIECG), which includes Victorian university members, included research on international student pathways in discussions of a forward research agenda. Such research may include the development of a student pathways database.

Conclusion

Action was taken by Melbourne, Monash and RMIT universities to study the effect of students' entry pathways on their educational outcomes. The universities will continue to monitor these outcomes to assist them to better direct the provision of student English language supports to those students most in need.

It will be important for the universities to collaborate with the proposed work of VIECG and ensure duplication of research does not take place and that information is shared.

4.1.4 Were students provided with support to improve their English proficiency?

We expected that the 3 universities would have made progress since April 2002 in assisting overseas students to become proficient in the English language to the level required for success in their courses of study.

All 3 universities used screening and assessment tests to identify which overseas students needed English language support. Universities used the International English Language Testing System (IELTS) and the Test Of English as a Foreign Language (TOEFL) screening tests for admission into university. After entry, students are often identified as requiring English language support by individual faculties in various formal and informal ways, including:

- recognition by teaching staff
- presentations by students
- brief written essays
- compulsory meetings of individual overseas students with language support officers
- specialised faculty screening, such as the Undergraduate Medicine and Health Sciences Admission Test (UMAT), used by a number of universities throughout Australia.

To improve English language proficiency, universities offer classes, one-on-one tuition, printed materials, websites and workshops. Students can either refer themselves for this support or be recommended by a faculty. Faculties often do not follow-up their recommendations to ensure that students attend classes or use other available support services. The universities have found that students feel there is a stigma attached to attending English language classes. The universities report that this stigma and the additional cost or effort are the main reasons why students do not attend.

The universities concluded that English language support needs to be a recognised formal requirement if students are identified as having language difficulties. They are examining whether English language studies should be an elective subject as part of undergraduate courses. It is envisaged that such a strategy would reduce both the stigma and the cost of attending English language classes and provide students with credits towards the completion of their courses. Such strategies should attract a larger proportion of students in need of English language support to make use of the services offered by the universities.

In 2004, funding for English language testing and support services to students increased by approximately 15 per cent on average across the 3 universities.

Conclusion

All 3 universities are providing support services for overseas students to improve their English language proficiency.

4.1.5 Has DE&T approached the Commonwealth to develop good practice guidelines?

We expected that DE&T would have approached the Commonwealth for it to develop good practice guidelines to support Australian universities in assessing the capacity of overseas students to succeed in their academic studies.

DE&T advised us that it remains supportive of activity at the Commonwealth level to develop such good practice guidelines. DE&T also advised that it will raise this matter with the Commonwealth, through the Australian International Education Network, at the earliest opportunity.

Conclusion

DE&T has not taken any substantial action to date but will do so in the near future.

4.1.6 Have the universities taken action to improve support to academic staff?

We expected that the universities would have reviewed their provision of support services to academic staff teaching overseas students.

To help academic staff improve their teaching of overseas students, the universities offer staff lectures, workshops, website material, staff checklists and guides, and one-on-one coaching. The universities also offer staff, at reduced cost, graduate certificate and diploma courses in teaching that include modules on teaching overseas students. Some of the topics covered by the professional development activities include: lecturing to, and tutoring, overseas students; improving writing; assessment; and helping academically at-risk students. The great majority of staff at the universities rate these services as useful or very useful.

The universities, through course feedback, staff surveys and reports by individual faculties, regularly review the range of support services provided to academic staff. Resources for support services for academic staff are increasing over time.

Conclusion

All 3 universities made significant progress in increasing their support for academic staff to understand and assist overseas students.

RESPONSE provided by Secretary, Department of Education & Training

The Department of Education & Training advises that changes to the chairperson and other senior officers within the Australian International Education Network during 2003 limited opportunities for raising matters with the Commonwealth. However, the department will seek to raise the matter of the development of good practice guidelines to support Australian universities in assessing the capacity of overseas students to succeed in their academic studies with the Australian International Education Network at the earliest opportunity.

RESPONSE provided by Vice-Chancellor, Monash University

The university considered the report by the Auditor-General and concluded that it is factually correct and fair. The university agrees with the conclusions reached in the report.

RESPONSE provided by Vice-Chancellor, University of Melbourne

We are in agreement with all the conclusions of the report. As your officers have discovered, the University of Melbourne has undertaken several initiatives to strengthen language and learning support for its international students since the 2002 audit and is pleased that these efforts have been noted in the report.

RESPONSE provided by Vice-Chancellor, RMIT University

RMIT University takes seriously the responsibilities the university has to the international students who study with us. The university also takes seriously the responsibilities which RMIT staff have when working with students. I am pleased to receive your Office's affirmation that we are responding to our student and staff needs appropriately.

I accept the conclusions reached and the recommendations made in the report.

4.2 Have the recommendations made in the performance audit report *Nurse work force planning* been adopted?

4.2.1 Introduction

Nurses are crucial to providing health care within the acute public hospital system. Robust nurse work force planning arrangements are important to allow sufficient lead time to identify future imbalances between the supply and demand of nurses and to put in place appropriate strategies to address any issues identified.

In May 2002, our performance audit, *Nurse work force planning*, concluded that the Nurse Recruitment and Retention Strategy resulted in an increase in the number of nurses in acute public hospitals and in hard-to-fill specialties. We did, however, question the sustainability of refresher and re-entry programs as the pool of ex-nurses diminishes. We also concluded that work force planning by the Department of Human Services (DHS) and hospitals was under-developed and that there was limited communication between DHS, public hospitals, universities and the Vocational Education and Training (VET) sector on nurse work force issues.

Broadly, we recommended that:

- DHS improves the collection and analysis of work force planning data
- DHS conducts a comprehensive nurse work force study
- hospitals give a higher priority to nurse work force planning and that DHS assists hospitals in this regard
- DHS improves the monitoring and evaluation of recruitment and retention initiatives
- DHS develops a strategic policy framework including benchmarking hospital performance in nurse recruitment and retention
- key stakeholders involved in nurse supply and demand establish coordination and communication arrangements.

4.2.2 Audit conclusions

Significant progress has been made in implementing the recommendations in our 2002 report, particularly in terms of improvements in work force data collection and the conducting of a major nurse work force study. In addition, establishing formal communication linkages between key stakeholders was also an important development.

We believe, however, that further work is needed in terms of DHS:

- benchmarking hospital performance
- facilitating overall improvements in hospital work force planning.

4.2.3 Has DHS improved nurse work force planning and management?

In assessing the extent to which DHS improved nurse work force planning, we examined its progress since 2002 in:

- establishing a robust process to collect and analyse data from all Victorian hospitals
- forecasting the future demand for and supply of nurses.

DHS has taken 2 major steps to improve data collection for nurse work force planning. It required hospitals to provide it with monthly nurse work force data. This data covers, among other things, bed numbers, ward specialties, vacancies, staff turnover, targeted and actual hours worked and sick leave.

DHS is also developing a new work force database using hospital payroll data such as nurse classifications, commencement dates, employment status (such as full-time or part-time), payroll classifications, pay rates and awards. At the audit date, initial development of the database had been completed and was being tested in hospitals.

DHS has introduced a quality assurance process to decrease the number of errors in payroll data. The system looks for inconsistencies between payroll classifications, pay rates and awards. Some hospitals have high error rates entering data, in part because of the number of separate payroll providers as well as coding complexities.

Our 2002 report recommended that DHS benchmark the performance of hospitals in managing their nursing work force. By improving its data collection and analysis, DHS will be able to tell each hospital how it compares with similar hospitals on factors such as vacancy rates, turnover rates, the proportion of agency usage and sick leave. This will give hospitals the data they need to better manage their nurse work forces.

DHS conducted a major study into the supply of, and demand for, nurses. At the time of this audit, the study was not finished. The study covers the public and private sectors and particular health fields (such as acute, aged and community care). It will provide information about the divisional status of nurses. The study is using data from 1995-96 to 2002-03 and will include projections to 2011-12.

The study is a major improvement on DHS studies in 1993 and 1999. These earlier studies (as our 2002 report indicated) did not distinguish between Division 1 and 2 nurses, and between particular health fields. As a consequence, these studies were of limited value.

Conclusion

As a result of their major study, and improved data collection, DHS better understands the nature and extent of current and future nurse supply and demand. It now has hard data on which to make planning and policy decisions. Challenges remain in:

- using data better through benchmarking hospital performance in areas such as staff retention
- improving the quality of hospital data submitted to DHS.

Given the volume and complexity of data collected from multiple sources, DHS has a major challenge to ensure this data is accurate and reliable. However, initial steps have been taken to improve the accuracy of data.

Recommendations

20. That DHS, together with hospitals, develops benchmarks for use in nurse work force planning and management.

21. That DHS provide system-wide data to each hospital against the benchmarks.

4.2.4 Have hospitals improved nurse work force planning?

In assessing the extent to which hospitals have improved nurse work force planning, we examined hospitals' progress since 2002 in developing sound work force plans.

In our 2002 review, we found that:

- few hospitals had separate nurse work force plans
- only one hospital out of the 17 audited could forecast its work force requirements beyond the next year
- most hospitals did not have reliable data to forecast work force requirements.

Some hospitals (such as the Royal Melbourne Hospital) considerably improved their nurse work force planning since 2002. Improvements appear to have occurred largely when hospital management focused on work force planning and were able (and resourced) to recruit skilled staff with relevant experience. Small rural hospitals may be less able to recruit such staff.

Since the last audit, work has progressed within DHS (e.g. the Nurse Supply and Demand Study) which will assist hospitals to more effectively plan for their work force requirements. There needs to be, however, a statewide approach to improve nurse work force planning by hospitals in order to better equip them to provide for a sustainable nursing work force. In conjunction with this, the role of universities and the VET sector in providing supply data is also important.

DHS' Departmental Plan 2003-04 states that a nurse and education work force strategy will be developed. DHS has done considerable work (e.g. the establishment of the Nurse Education and Work force Advisory Council, referred to later in this section of the report) which will underpin the development of a nurse education and work force policy in 2004.

Conclusion

A statewide approach is required to improve nurse work force planning by hospitals. As each hospital is governed separately by its own board (or health network board), DHS should coordinate the development of this approach.

In this regard, DHS should make hospitals' responsibilities for their work force planning more explicit. DHS should also work with universities and the VET sector to ensure more timely and comprehensive data, to give a clearer picture of the supply of Division 1 and Division 2 nurses. To encourage a long-term focus, it may be useful for hospitals to prepare 3-year work force plans signed-off by hospital boards. This would be particularly important for large hospitals, given the size and complexity of their nursing work forces.

Recommendation

22. **That DHS continues to build on work undertaken to date by facilitating improvements in nurse work force planning by hospitals. As a first step, DHS, together with hospitals, should specify hospital responsibilities for work force planning.**

4.2.5 Were DHS initiatives to recruit nurses successful?

In assessing whether DHS initiatives to recruit nurses were successful, we examined whether additional nurses were recruited in areas of need since 2002.

Refresher and re-entry programs and postgraduate scholarships were initially funded in 2000-01.

Data about work destination and specialty within which graduates of these courses are working is not complete. Several hospitals provided information to DHS which suggests that both hospitals and nurses are complying with requirements that nurses be offered appropriate work following successful course completion. With nearly 2 300 nurses having completed refresher and re-entry courses, these programs do appear to have made a significant contribution to boosting the nurse work force. The number of nurses in public hospitals increased by over 4 000 between 2000 and 2003 (measured on an equivalent full-time basis, as at 30 June).

Our 2002 audit warned that there was a dramatic decline in the pool of qualified nurses not working as nurses (from which enrolees in refresher and re-entry programs are drawn), and that this could limit the future effectiveness of these programs. However, information about the pool of nurses who are no longer registered but might potentially return to nursing proved difficult to obtain. It is not possible to determine the exact impact that the declining pool of nurses had on these programs as:

- the number of places in 2002-03 and 2003-04 was capped at 250[1]
- there is no data on the level of unmet demand for these programs however, some of the funded courses were completely subscribed halfway through the financial year, suggesting there is still sufficient current unmet demand for these courses.

To practise, nurses must be registered with the Nurses Board of Victoria. Between 2000 and 2003, the average age of the increase in the number of nurses on the register was 54.8 years. Refresher and re-entry programs would have contributed to boosting this average age.

In July 2001, DHS offered 158 postgraduate scholarships, to increase the number of nurses doing postgraduate courses in specialties such as emergency, mental health, critical care and midwifery, which were the areas of greatest need. Since then, more than 500 additional scholarships were offered. From 2003, successful applicants were required to work in their specialty area in a Victorian public hospital for 12 months after finishing the course. At the audit date, DHS was collecting evidence that these nurses were in fact employed by the Victorian public health system.

[1] Note: While places for re-entry and refresher programs in 2003-04 were fully subscribed, the running of a specialist refresher program in 2002-03 was not as successful as anticipated. This contributed to the failure to meet target of 250 places.

Conclusion

DHS recruitment and training initiatives have boosted the number of nurses in a relatively short time. The number of nurses returning each year to nursing is likely to mean that refresher and re-entry programs can be sustained for the immediate future, although they should be evaluated in the context of ongoing, longer-term policy development. Given the relatively high average age of recently registered nurses, these programs are likely to be effective in the short-term, but less so long-term.

The Postgraduate Scholarships Program will contribute to reducing nurse shortages in particular specialties, so long as it continues to focus on areas of greatest need and steps are taken to ensure graduates work in the public health system. The program may also help the system retain nurses, as trained nurses seek to use their training to continue working in their specialist field.

Recommendation

23. **That DHS progress the evaluation of the sustainability of the refresher and re-entry policy.**

4.2.6 Did DHS have formal arrangements with stakeholders for nurse work force planning?

We examined if DHS had formal arrangements with key stakeholders for nurse work force planning.

DHS has established the Nurse Education and Work force Advisory Council (NEWAC). NEWAC's membership is:

- deans of nursing from Victorian universities
- Chief Executive Officer of the Nurses Board of Victoria
- Chair, Monitoring Delivery Committee Victoria University (representative VET sector – registered training organisations)
- directors of nursing drawn from various health sectors
- private sector acute health director of nursing and a representative of a private provider of residential aged care services. (Note: The original performance audit recommended the engagement of the private sector in nurse work force planning)
- Director of Nurse Policy Branch, DHS (Chair).

NEWAC's terms of reference are to increase collaboration and communication between stakeholders, help provide a skilled nurse work force and respond to major national and state initiatives. NEWAC first met in late January 2004. Future meetings will be every second month.

NEWAC provides a forum for key stakeholders to discuss nurse work force planning issues and to take action to address concerns. NEWAC also provides a base from which to consult a wider range of stakeholders about nurse education and work force issues. Interest in nursing as a career remains high, as evidenced by the large number of applications for university and VET nursing courses. However, the DHS study predicts that medium-term demand for Division 1 nurses will exceed supply. This is a concern for Victoria, as well as for other states and territories.

The Commonwealth Government's *Our Universities: Backing Australia's Future* initiative provided an additional 210 nursing places in 2003 increasing to 574 by 2007 at regional campuses. Victoria's share of these places is 35 (17 per cent) and 97 (17 per cent) respectively. In 2005, the initiative will provide an additional 9 100 student places Australia-wide in all faculties, of which Victoria will receive 859 places (9 per cent). This increases to 24 883 by 2008 of which Victoria's share of the places will be 2 349 (9 per cent). Universities can decide which disciplines are allocated these places, and nursing schools must compete with other professions. The proportion of places to be allocated to nursing is yet to be determined.

NEWAC provides a forum to discuss with stakeholders important issues such as the provision of nursing places. DHS' improved nurse work force planning capacity will provide data to inform these discussions.

Conclusion

NEWAC has increased the ability of stakeholders to engage with each other and consult on significant nurse work force issues. It will also allow all parties to have better input into Victoria's position on important national issues. The challenge for DHS is to ensure that all stakeholders own the results of this engagement and consultation.

RESPONSE provided by the Secretary, Department of Human Services

The DHS accepts all the recommendations of this report and is either working already to implement them or will do so during the course of 2004 following the completion of a major study of nursing supply and demand.

Decisions on the defined data items to be collected and benchmarked will be made in the context of national data requirements and in consultation with service providers to ensure data is valuable and addresses workforce issues across a range of occupational categories.

4.3 Have the recommendations made in the performance audit report *Investment attraction and facilitation in Victoria* been adopted?

4.3.1 Introduction

Like other governments around the world, the Victorian Government offers direct financial assistance and investment facilitation services (such as site location and planning advice) to attract investment from overseas or interstate, and to encourage new investment by businesses already operating in Victoria. Some local councils offer similar investment attraction services.

In May 2002, our performance audit report titled *Investment attraction and facilitation in Victoria*, concluded that neither the government nor parliament was being provided with sufficient information about the outcomes (as opposed to the claimed benefits) of investment facilitation to make an informed judgement about the effectiveness, or otherwise, of these activities.

Broadly, we recommended that:

- explicit investment criteria for assistance be made public
- the Department of Innovation, Industry and Regional Development (DIIRD) improves its contractual arrangements with recipient businesses
- DIIRD improves its monitoring of industry assistance projects
- DIIRD increases the transparency of reporting about industry assistance.
- local councils improve the transparency and management of industry assistance
- DIIRD improves relationships with councils

4.3.2 Audit conclusions

DIIRD implemented the recommendations made in our May 2002 report, except that:

- it has not disclosed the explicit criteria used to assess applications for grants under the Investment and Industry Program
- the Investment and Industry Program, and industry facilitation activities, were not evaluated using data on outcomes. Sufficient data to do so was not yet collected.

4.3.3 Have explicit assistance criteria been made public?

We examined DIIRD's progress since 2002 in developing and publishing explicit criteria for investment attraction and facilitation.

The eligibility criteria for assistance, and how applications were assessed, are set out in Cabinet guidelines. To apply for assistance on behalf of a business, departmental officers complete a detailed proforma based on these guidelines.

However, there has been no change; guidelines are not spelt out in departmental publications, and are not publicly available.

Conclusion

There is still no public disclosure of explicit criteria for the selection of projects for investment attraction services in Victoria.

4.3.4 Has the department improved contractual arrangements?

In assessing the extent to which DIIRD improved contractual arrangements with businesses receiving financial assistance, we examined its progress since 2002 in:

- assessing whether businesses report accurately, and on time, their progress towards reaching investment and employment milestones
- requiring businesses to notify DIIRD before making changes that affect the legal relationships, rights or obligations of the contracting parties
- developing guidelines for recovering or forgoing penalty interest
- establishing a register of interests for non-executive staff members of the business groups that manage investment assistance.

Contracts between the government and a business that is given financial incentives specify the investment and employment milestones that the business must meet before payments will be made.

Independent audits continue to be done (and certificates issued) to verify that the required milestones are reached. The standard contract was changed to require businesses to retain, for 7 years after each audit opinion, the working papers that support the audit opinion. DIIRD introduced monthly reports that show whether grant recipients submitted returns or not.

The standard contract was changed to require businesses to advise DIIRD of any restructuring that may affect their ability to carry out their contractual obligations.

Penalty interest guidelines were added to DIIRD's *Financial Assistance Investment Attraction Manual*. The manual is available to departmental managers who manage investment attraction grants.

Departmental officers involved in attracting and facilitating investment now complete an annual conflict of interest declaration.

Conclusion

DIIRD implemented the recommendations of our 2002 performance audit about improving contractual arrangements and addressing potential conflicts of interest.

4.3.5 Has the department improved monitoring of industry assistance?

We examined DIIRD's progress since 2002 in establishing a system to monitor the effectiveness of industry assistance, and in:

- measuring the actual amount of employment and new investment by assisted companies
- using data collected to evaluate and improve the Investment and Industry Program, and industry facilitation activities.

DIIRD now has a system to record the number of new jobs, new investment and new export income that results by the time an assistance contract expires. This information is made public in DIIRD's annual report.

In its 2002-03 annual report, DIIRD reported: "For the 16 facilitated and attracted projects in 2002-03, which became fully operational, and for which data is available, investment reached 100 per cent of projected levels, employment 96 per cent and exports 90 per cent". It should be noted that data was only for completed projects.

Conclusion

DIIRD established a system to monitor the effectiveness of the Investment and Industry Program. It now needs to use information from this system to evaluate the program, and industry facilitation activities.

4.3.6 Has the department increased the transparency of reporting about industry assistance?

In assessing the extent to which DIIRD increased the transparency of reporting about industry assistance, we examined its progress since 2002 in disclosing, in its annual report, the outcomes and milestones required in contracts, and actual performance against them, by industry sector.

DIIRD's annual reports now include the total amount of investment and the number of new jobs to be generated under assistance contracts.

The 2002-03 annual report stated: "During the year, the Government entered into new investment incentive contracts totalling $86 million. The key sectors that this funding relates to are Information and Communication Technologies (ICT) ($41.8 million) and Automotive ($31.7 million). These contracts are expected to result in $1 billion in capital investment and the creation of 4 600 full time direct jobs".

DIIRD now also collects and publishes information about achievements against contract requirements, and about payments. Its 2002-03 annual report said: "Under these new contracts 17 companies received payments during the year. These companies met all their contractually agreed conditions for payment. The companies achieved 146 per cent of capital investment and 136 per cent of job creation targets associated with the grant instalments".

Conclusion

DIIRD implemented the recommendations of our 2002 performance audit about increasing the transparency of reporting about industry assistance.

4.3.7 Have local councils improved the transparency and management of industry assistance?

At the time of the 2002 audit, local councils did not undertake extensive investment attraction and facilitation activities. Of the $24 million of investment assistance to industry by local councils from 1995 to 2001, $21 million was from 6 councils. These were Melton Shire Council ($7.5 million), Latrobe Shire Council ($4.6 million), City of Melbourne ($2.7 million), Wellington Shire Council ($2.8 million), Colac Otway Shire Council ($2.3 million) and Kingston City Council ($1 million).

In assessing whether local councils improved the transparency and management of industry assistance, we examined these 6 councils' progress since 2002 in:

- identifying the expected benefits to council and the community from proposed industry assistance
- monitoring whether the expected benefits were being delivered by businesses receiving assistance
- identifying risks to the council, and how councils managed and minimised risks.

Kingston City Council's strategic development policy allows for rebates or concessions, or rescheduling of council works and services, to assist development. Any rebates or concessions granted require the approval of council at a formal council meeting. The policy was reviewed following our 2002 review. Since 2002, the council has not entered into new assistance agreements.

The City of Melbourne provides around $1.5 million a year in industry assistance through its Business Development Fund. Grants from the fund continue to be reported in the council's annual report, which is publicly available. The branch that administers the fund also has a risk management plan.

Since 2002, Latrobe Shire Council provided $200 000 to attract and facilitate investment under its economic development assistance policy. Formal council approval is required for all grants. Risk assessments are conducted, based on the intended level of the grant. Economic development activity and expenditure are reported in annual reports, on the council's website and in newspaper features.

Wellington Council supports industries to set up or expand in the municipality through its industry incentive policy. The policy, assistance criteria and types of incentives available are on the council's website. The council makes all decisions about incentives. Since 2002, the council paid about $4 000 in grants to business, principally for provision of infrastructure. It committed another $40 000 to a business that was expanding and investing in a council-owned property.

Since our 2002 performance audit, Melton Shire Council no longer provides incentives. However, some pre-existing agreements are still in place. Council requires businesses to submit reports on an annual basis regarding achievement of targets in agreements. Council also receives quarterly reports about these agreements, and business compliance with them from the branch which administers them.

Colac-Otway Shire Council's investment attraction is limited to facilitating financial assistance by DIIRD to businesses, and providing infrastructure (such as road access) to new projects. It continues to give rate relief (depending on job targets being met) to a local export meat processing facility (CRF Colac Otway Pty Ltd). This assistance is reported in the annual report and press releases.

Conclusion

Councils do not have extensive investment attraction and facilitation activities. Where councils do facilitate investment, their activities were adequately publicised. Councils improved their risk management practices.

4.3.8 Has the department improved relationships with councils?

In assessing whether DIIRD improved its relationships with local councils, we examined whether it provided briefings to local councils on strategic directions in economic development.

DIIRD has regular meetings with the economic development manager of each council. A regular seminar, which includes information on investment attraction, is also held every 6 months with all councils attending.

In June 2003, DIIRD conducted 3 briefings for metropolitan councils. The briefings covered how DIIRD attracts and facilitates investment. The briefings aimed to create closer working relationships with metropolitan councils as they went about attracting investment.

Regional Development Victoria[2] works closely with councils and government departments in rural and regional Victoria on economic development, investment and other issues. It:

- established the Regional Development Advisory Committee, which advises about rural and regional economic and community issues, and promotes regions as good places to live, work and invest
- funded a training program for 20 councillors. The program increases councillors' understanding of how to advocate economic development, and their skill to do so.

Conclusion

DIIRD's program of local council briefings provided the opportunity for metropolitan councils to better understand government priorities and strategies for investment attraction and facilitation. More still needs to be done to formalise the relationship between DIIRD and these councils, in particular communication about strategic directions.

We expect that Regional Development Victoria will foster stronger relationships and better cooperation between rural and regional councils.

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[2] Regional Development Victoria is a statutory body which began operation in March 2003. Its main purpose is to facilitate economic, infrastructure and community development in regional Victoria.

RESPONSE provided by Secretary, Department of Innovation, Industry and Regional Development

I welcome the report's conclusions that the department has successfully implemented audit recommendations in regard to contractual arrangements, monitoring of assistance and transparency of reporting.

The Department has chosen not to disclose its explicit criteria regarding the consideration of potential investment projects. As with the disclosure of grant values, the release of this information would raise expectations and encourage rent seeking behaviour among potential investors and companies already doing business in Victoria. The publishing of specific assistance criteria could also result in companies believing that government assistance is 'as of right' which would result in increased cost to the Government's investment and industry program. The department is, however, aiming to develop broad criteria relating to the assessment of prospective investment projects that could be released publicly, without introducing the concerns outlined above.

The department intends to use the outcome data that it is collecting to evaluate program effectiveness. While data are currently collected, using the current sample would result in skewed results leading to inaccurate assumptions being made about the effectiveness of the program in different areas. The data are, however, being incorporated into internal reports. Over time these data will be used more widely for program evaluation.

The audit report has documented the additional action that the department and Regional Development Victoria (RDV) have taken to improve relationships with councils. However, I acknowledge that the department and RDV should continue to explore avenues to further strengthen and formalise these relationships.

RESPONSE provided by Chief Executive Officer, City of Kingston

I agree with the conclusions reached as they relate to the City of Kingston.

Kingston is not in a position to comment on the conclusions reached relating to the Department of Innovation, Industry and Regional Development or to other Council's practices.

RESPONSE provided by Chief Executive Officer, Shire of Melton

Council agrees with the conclusions reached and the recommendations made within the report.

4.4 Have the recommendations made in the performance audit report *Management of roads by local government* been adopted?

4.4.1 Introduction

The *Management of roads by local government* Report was tabled in parliament in June 2002. We assessed whether councils had managed their road assets so that they were useable throughout their planned life. Nine councils, namely, Ballarat, Benalla (formerly Delatite[3]), Darebin, Hume, Monash, Northern Grampians, Towong, Wellington and Whittlesea were audited, as were the Local Government and Regional Services Division of the Department for Victorian Communities (formerly part of the Department of Infrastructure) and the funding model of the Victoria Grants Commission.

We concluded, in our June 2002 report, that the asset management practices of Victorian councils were not best practice, and that roads were not adequately maintained. Councils were not sure of the condition of their road assets, or whether these assets would reach their expected useful life. We also indicated that the department could provide more training and support to council staff.

Broadly, our recommendations were aimed at improving council asset management practices and enhancing public accountability for the management of roads.

4.4.2 Audit conclusions

All 9 councils examined have started improving their road management practices, in line with our June 2002 report's recommendations. Although not all recommendations were fully implemented by all councils, progress to date is satisfactory. Legislative changes, and a major council asset management initiative, will assist councils to continue to improve their road management practices.

Local Government Victoria (formerly the Local Government and Regional Services Division) of the Department for Victorian Communities took action to improve the road asset management practices of councils.

All councils and the department acted to improve councils' public accountability for road asset management.

[3] In October 2002, the Delatite Shire Council was de-amalgamated to form Benalla Rural City and Mansfield Shire Councils. Benalla Rural City has taken over the legal entity of the former Delatite Shire Council.

4.4.3 Was action taken to improve roads management?

In assessing whether action was taken to improve councils' management of roads (recommendations paras 3.36 and 3.71 of our 2002 report), we examined councils' progress since 2002 in:

- developing asset management plans, policies and processes that are better practice
- linking asset management plans to corporate and business plans and budgets
- reassessing their funding models
- regularly determining the condition of their road assets.

In assessing the extent to which the department contributed to improving councils' road asset management practices (recommendation para 3.52 of our 2002 report), we examined the department's progress in:

- completing initiatives to help councils
- consulting with a broad range of councils about the support they required from the department.

Councils

The Step Asset Management Improvement Program was launched by the Municipal Association of Victoria in 2002. It provides councils with council-wide best practice policies and processes to improve how assets are managed. All 9 councils are involved in the program. Under the program, councils must establish a road asset management plan by January 2005. This plan is to be prepared in accordance with the *International Infrastructure Management Manual*[4], which reflects better practice.

Under the Road Management Bill, councils will be required to develop road management plans with policies, priorities and resources for road maintenance. It is intended that the Bill will be law by 1 July 2004. Most of the councils are in the process of developing asset management policies, processes and practices.

Amendments in 2003 to the *Local Government Act 1989* required councils to use standard formats for their strategic resource plans, budgets and annual reports. This is intended to improve financial planning and reporting by councils. The amendments also required councils to link budgets to strategic resource plans, and to incorporate targets and performance measures and indicators in both documents.

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[4] The *International Infrastructure Management Manual* was prepared for the Institute of Public Works Engineering Australia and the National Asset Management Steering Group of New Zealand. It was developed with public and private sector input from Australia and New Zealand to promote best management practices for all infrastructure assets regardless of ownership (public/private sector) and country location.

All 9 councils started linking their road asset plans, corporate plans and budgets. Councils are also required to report against targets, measures and strategic indicators in their annual reports. This requirement is expected to help councils with their financial planning.

Under the Step Asset Management Improvement Program, councils must define future funding requirements, particularly for annual maintenance and capital works. The program requires that the condition of assets is regularly inspected, and that depreciation rates and maintenance programs are regularly reviewed.

Although only 2 councils (Darebin and Hume) reassessed their funding models, other councils planned to do so when their asset management plans are completed.

Department for Victorian Communities

Since June 2002, the department assisted councils to improve their asset management practices by:

- developing and circulating the Sustaining Local Assets – Local Government Asset Management Policy Statement, December 2003 guidelines
- workshopping and publishing *Accounting for Infrastructure Assets – a guide 2003*. This document provides details of currently accepted approaches and methodologies to encourage sharing of views and consensus in accounting for infrastructure assets
- conducting asset management forums in June and September 2003 where councils could outline the assistance they needed to improve their asset management, including identifying the asset management skills and training required by council staff and working with the peak bodies to initiate action to address these needs
- providing councils with the aggregate results from the Community Satisfaction Survey (coordinated annually by the department), to enable councils to monitor and benchmark with comparable councils. Three of the community satisfaction measures are included in the 11 Victorian Local Government Indicators (VLGIs)
- working with peak local government bodies to identify initiatives to assist councils with their asset management. This work includes defining how best to meet the needs of local councils on issues such as determining road condition relative to useful life.

Conclusion

All 9 councils started improving their road management practices, in line with the preceding criteria. Although all the recommendations of our 2002 performance audit were not fully implemented, progress to date is satisfactory. Amendments to the *Local Government Act 1989*, the proposed asset management requirements in the Road Management Bill, and the participation of councils in the Municipal Association of Victoria's Step Asset Management Improvement Program, establish a robust framework to improve road management practices.

Since our 2002 audit, the department has taken action to improve the road asset management practices of councils.

4.4.4 Was action taken to improve councils' public accountability?

In assessing whether action was taken to improve councils' public accountability for road asset management, we examined if councils included additional performance information in their corporate and business plans, and performance statements that indicated whether roads were managed efficiently and effectively (recommendation para. 4.27 of our 2002 report).

We also examined if the department contributed to improving councils' public accountability for road asset management (recommendation para 4.38 of our 2002 report), by:

- establishing a quality assurance process for performance information compiled by councils for the VLGIs
- reconsidering their decision not to incorporate council targets for each VLGI, for comparison against actual results
- ensuring that its service provision indicators were reviewed by June 2002
- utilising council performance information to identify training or guidance needed by council staff.

Councils

The Step Asset Management Improvement Program requires councils' asset management plans to contain key performance indicators for infrastructure, to measure activity against corporate plan objectives.

Only 2 councils (Hume and Towong) included additional performance information in their corporate and business plans, and had performance statements that indicated whether roads were managed efficiently and effectively. The other councils are developing additional performance information, as part of the step program and are to be completed by June 2005.

Department for Victorian Communities

Since June 2002, the department:

- issued guidelines to assist councils to ensure the quality of the performance information (VLGIs) they compile is reliable
- used the VLGIs to identify councils that appear to be most at risk and worked with staff of these councils to identify and address problem areas (such as a need for training or guidance)
- amended the *Local Government Act 1989* via the *Local Government (Democratic Reform) Act 2003*. The Act now requires councils to include performance targets and measures in their budgets in relation to key strategic activities
- reviewed its service provision indicators.

The department has initiated the Asset Management Performance Measure Project. This project developed a tool which councils can use to collect and report data, which they can then use to measure their performance managing infrastructure assets, including roads. The department expects that councils will collect data annually commencing in 2003-04, after the tool, which is being tested using 2002-03 data, is fully developed.

Conclusion

Since our 2002 performance audit, all 9 councils and the department acted to improve councils' public accountability for road asset management.

RESPONSE provided by Secretary, Department for Victorian Communities

The collaborative efforts of the Department of Victorian Communities and the local government peak bodies have resulted in real improvements in councils' asset management performance.

RESPONSE provided by Interim Chief Executive Officer, City of Ballarat

This report is a fair indication of where the City of Ballarat is situated with our asset management planning. The participation in the Step Asset Management Improvement Program, and the development of a road management plan in response to the Road Management Bill, are the major drivers behind our improvements. At present, staffing levels have restricted the speed of our progress, however we are making some good ground.

We agree with the concluding statements (paragraphs 4.4.3 and 4.4.4.) regarding the improvements made by the City of Ballarat in our efforts to improve road asset management practices.

RESPONSE provided by Chief Executive Officer, Benalla Rural City

Benalla Rural City agrees with the conclusions in the report that council has acted to improve the area of road asset management in its operations.

RESPONSE provided by Chief Executive Officer, City of Darebin

It is pleasing to see the audit recognising the substantial work councils have undertaken in improving on their asset management practices for roads and that the progress to date is satisfactory. I believe the report projects a reasonable assessment of the status of management of roads in regards to Darebin. It is expected that in the coming 6 months, the management of the road assets in the municipality, will be enhanced substantially with the development of a Road Management Plan for Darebin.

The conclusions reached in the follow up review of the performance audit appear accurate in their findings. It should be noted that Darebin City Council has been pro-active towards the improvement of the management of the road network for quite some time. This is evidenced by the implementation of a sophisticated Pavement Management System in 1996 and the periodic road data condition capture. This condition information has now been reviewed 3 times since 1996. Our strategy is to up-date the data every 3-4 years. Furthermore, Council has implemented a Capital Works Program that assesses and evaluates all projects having regard to the principles of a "triple-bottom-line" model.

Darebin City Council is participating and is well advanced in the Municipal Association of Victoria 'Step-Program'. An Asset Management Policy has been prepared and formally adopted by council. The Asset Management Strategy has been completed in draft form and is currently being finalised with the view to having it presented to council in July 2004. A Road Asset Management Plan in compliance with the Road Management Bill and the International Infrastructure Management Manual is also well advanced and is anticipated to be approved and implemented by January 2005.

It should also be noted that council provide over 110 different services to the community and, as such, the competing demand for funds requires that all projects included in the Capital Works Program are prioritised on providing a balanced and suitable program. Furthermore, council maintains more community assets than most councils – our asset depreciation charge as a proportion of total rate revenue is amongst the State's highest.

A point should be made of the changing higher expectations of the community, during a period where funding from all sources has been decreasing. The new Victoria Grants Commission funding distribution model has resulted in a considerable reduction in funding to Darebin City Council. A 'catch-up' to the rate-capping introduced by the former state government and the insufficient funds for road works received from the federal government in comparison to the petrol tax received has had a compounding affect on reducing the funds available for capital projects.

I expect that the expansion for the requirement of Asset Management Plans for other assets like drains, buildings, and parks will place further pressure on councils to deliver the extensive range of services at an affordable and acceptable standard to the community. This will create a further challenge to all council's at a future stage to achieve a sustainable outcome.

RESPONSE provided by Chief Executive Officer, Hume City Council

Hume City Council is generally happy with the findings of the report.

RESPONSE provided by Chief Executive Officer, Northern Grampians Shire Council

Northern Grampians Shire is generally satisfied with the findings of the audit report, and will continue to strive for further improvements in all areas of asset management.

The conclusions and recommendations of the report are accepted, and any future initiatives to provide assistance and support to local government will be welcomed.

May I also use this opportunity to again emphasise that through this process of asset management, it is obvious that rural councils generally are facing a tremendous challenge in funding future asset renewals and replacements. It is clear that new initiatives need to be provided to maintain the entire range of assets owned by council, so that these can be sustained for future generations.

RESPONSE provided by Chief Executive Officer, Wellington Shire Council

Wellington Shire Council, in line with the other councils represented, is continuing to pursue best practice in asset management. Notwithstanding all the issues surrounding resourcing and timing, we find that your report presents its findings in a factual and fair manner.

We accept the report as presented and support the conclusions reached.

RESPONSE provided by Chief Executive Officer, City of Whittlesea

The report correctly advises that significant progress in road asset management at the City of Whittlesea has been made. Preparation of council's road management plan is well advanced and the opportunity has been taken to review and improve every aspect of management, including budget linkages. The draft plan will be publicly exhibited in mid-2004.

The report's conclusion (paragraph 4.4.3) that a start on improving road management practices has been made is confirmed. This has involved asset data collection and analysis as well as working towards producing council's road management plan, modelled on the requirements of the Road Management Act and the provisions of the Step Asset Management Improvement Program through the Municipal Association of Victoria, in which council has actively participated.

The conclusion (paragraph 4.4.4) that key performance indicators will be included in road asset management plans, is also confirmed as these will be included in both council's road management plan and community plan. As both documents are to be exhibited on an annual basis, public accountability in the managing of roads assets will be improved.

Appendix A.

Status of financial statement audits

Education and Training

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 31 DECEMBER 2003 BALANCE DATES			
POST-COMPULSORY EDUCATION INSTITUTES			
Universities and associated companies			
Australasian Human Resources Institute Pty Ltd	17 March 2004	✔	23 March 2004
Australian Alpine Institute Pty Ltd	16 March 2004	✔	17 March 2004
Australian International Health Institute (The University of Melbourne) Ltd	25 Feb. 2004	✔	3 March 2004
Australian Music Examination Board (Vic.) Ltd	10 Feb. 2004	✔	25 Feb. 2004
Australian National Academy of Music Ltd	4 March 2004	✔	12 March 2004
Br (Vic) Pty Ltd	26 Feb. 2004	✔	31 March 2004
Callista Software Services Pty Ltd	17 March 2004	✔	23 March 2004
Deakin Networks Pty Ltd	17 March 2004	✔	25 March 2004
Deakin Prime USA	17 March 2004	✔	23 March 2004
Deakin University	18 March 2004	✔	23 March 2004
GOTEC Limited	5 March 2004	✔	12 March 2004
Hawthorn English Language Centres (Canada) Ltd	21 Jan. 2004	✔	25 Feb. 2004
Hawthorn Edinburgh Limited	6 Feb. 2004	✔	25 Feb. 2004
Inquirion Pty Ltd	3 March 2004	✔	4 March 2004
Inskill Ltd	24 March 2004	✔	24 March 2004
La Trobe International Pty Ltd	16 March 2004	✔	17 March 2004
La Trobe Marketing Pty Ltd	16 March 2004	✔	17 March 2004
La Trobe University	24 March 2004	✔	24 March 2004
La Trobe University Housing Ltd	15 March 2004	✔	17 March 2004
Land and Food Services Ltd	25 Feb. 2004	✔	26 Feb. 2004
Meanjin Company Ltd	26 Feb. 2004	✔	26 Feb. 2004
Medical Centre Development Pty Ltd	24 March 2004	✔	24 March 2004
Melbourne Enterprises International Ltd	26 Feb. 2004	✔	26 Feb. 2004
Melbourne Information Management Pty Ltd	6 Feb. 2004	✔	25 Feb. 2004
Melbourne University Private (NZ) Ltd	19 Feb. 2004	✔	25 Feb. 2004
Melbourne University Private Ltd	26 Feb. 2004	✔	3 March 2004
Melbourne University Publishing Ltd	2 March 2004	✔	5 March 2004

Education and Training - *continued*

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 31 DECEMBER 2003 BALANCE DATES			
POST-COMPULSORY EDUCATION INSTITUTES			
Universities and associated companies			
Meltech Services Ltd	27 Feb. 2004	✔	31 March 2004
Monash Digital Media Pty Ltd	10 March 2004	✔	24 March 2004
Monash International Pty Ltd	5 Feb. 2004	✔	17 March 2004
Monash Investment Holdings Pty Ltd	25 March 2004	✔	25 March 2004
Monash Investment Trust	25 March 2004	✔	25 March 2004
Monash IT Pty Ltd	24 Feb. 2004	✔	18 March 2004
Monash IVF Pathology Services Trust	15 March 2004	✔	23 March 2004
Monash IVF Pty Ltd	15 March 2004	✔	15 March 2004
Monash Property Management Pty Ltd	5 March 2004	✔	24 March 2004
Monash Reproductive Health Enterprises Pty Ltd	15 March 2004	✔	23 March 2004
Monash Reproductive Pathology and Genetics Pty Ltd	15 March 2004	✔	23 March 2004
Monash Southern Africa Pty Ltd	27 Feb. 2004	✔	17 March 2004
Monash Ultrasound Pty Ltd	15 March 2004	✔	23 March 2004
Monash Ultrasound Trust	15 March 2004	✔	23 March 2004
Monash Unicomm Pty Ltd	27 Feb. 2004	✔	30 March 2004
Monash University	12 March 2004	✔	23 March 2004
Monash University Foundation Pty Ltd	10 Feb. 2004	✔	23 March 2004
Monash University Foundation Trust	10 Feb. 2004	✔	24 March 2004
Monash University South Africa	27 Feb. 2004	✔	31 March 2004
Montech Pty Ltd	30 March 2004	✔	30 March 2004
Montech Medical Developments Pty Ltd	22 March 2004	✔	22 March 2004
Moortec Limited	12 March 2004	✔	12 March 2004
MUP Services Pty Ltd	3 Feb. 2004	✔	25 Feb. 2004
National Institute of Circus Arts Ltd	11 March 2004	✔	2 April 2004
RMIT Foundation	2 March 2004	✔	4 March 2004
RMIT Innovation Ltd	3 March 2004	✔	4 March 2004
RMIT International Pty Ltd	5 March 2004	✔	31 March 2004
RMIT International University Vietnam	29 March 2004	✔	31 March 2004
RMIT (Malaysia) SDN BHD	24 March 2004	✔	14 April 2004

Audit report contained an "emphasis of matter": *The financial report was not prepared on a going concern basis but on a liquidation (net market value) basis as the company was liquidated on 16 February 2004.*

Education and Training - *continued*

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 31 DECEMBER 2003 BALANCE DATES			
POST-COMPULSORY EDUCATION INSTITUTES			
Universities and associated companies			
RMIT Training Pty Ltd	26 March 2004	✔	31 March 2004
RMIT Union	29 March 2004	Qualified	31 March 2004
Reason for qualification of financial statements: *Inability to obtain all the information and explanations required to form an opinion on certain balances.*			
RMIT University	29 March 2004	Qualified	31 March 2004
Reason for qualification of financial statements: *Inability to obtain all the information and explanations required to form an opinion on certain balances.*			
RMIT Vietnam Holdings Pty Ltd	29 March 2004	✔	31 March 2004
School of Forestry Creswick Ltd	9 March 2004	✔	13 March 2004
School of Mines and Industries Ballarat Ltd	24 March 2004	✔	24 March 2004
Sir John Monash Business Centre Pty Ltd	29 Jan. 2004	✔	23 March 2004
Spatial Vision Innovations Pty Ltd	27 Feb. 2004	✔	27 Feb. 2004
Swinburne Graduate School of Integrative Medicine Pty Ltd	17 March 2004	✔	31 March 2004
Swinburne Intellectual Property Trust	28 Jan. 2004	✔	31 March 2004
Swinburne Ltd	10 March 2004	✔	2 April 2004
Swinburne University of Technology	30 March 2004	Qualified	1 April 2004
Reason for qualification of financial statements: *Inappropriate disclosure of non-reciprocal grants.*			
Swinburne Ventures Ltd	28 Jan. 2004	✔	31 March 2004
The University of Melbourne	25 March 2004	Qualified	25 March 2004
Reason for qualification of financial statements: *Inappropriate disclosure of non-reciprocal grants.*			
Unilink Ltd	17 March 2004	✔	23 March 2004
University of Ballarat	24 March 2004	Qualified	24 March 2004
Reason for qualification of financial statements: *Inappropriate disclosure of non-reciprocal grants.*			
Victoria University Enterprises Pty Ltd	17 Feb. 2004	✔	12 March 2004
Victoria University International Pty Ltd	9 Feb. 2004	✔	5 March 2004
Victoria University of Technology	20 March 2004	✔	20 March 2004
Victoria University of Technology (Singapore) Pty Ltd	20 Jan. 2004	✔	20 March 2004
Victoria University of Technology Foundation Ltd	3 Feb. 2004	✔	27 Feb. 2004
Victoria University of Technology Foundation Trust	3 Feb. 2004	✔	26 Feb. 2004
Victorian College of the Arts	11 March 2004	Qualified	17 March 2004
Reason for qualification of financial statements: *Inappropriate disclosure of non-reciprocal grants.*			

Education and Training - *continued*

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 31 DECEMBER 2003 BALANCE DATES			
INSTITUTES OF TECHNICAL AND FURTHER EDUCATION AND ASSOCIATED COMPANIES AND PROVIDERS OF ADULT EDUCATION			
Adult Multicultural Education Services	24 Feb. 2004	✔	4 March 2004
Angliss Consulting Pty Ltd	23 Feb. 2004	✔	27 Feb. 2004
Angliss Multimedia Pty Ltd	23 Feb. 2004	✔	27 Feb. 2004
Angliss Solutions Pty Ltd	23 Feb. 2004	✔	27 Feb. 2004
Bendigo Regional Institute of TAFE	23 March 2004	✔	23 March 2004
Box Hill Institute of TAFE	18 March 2004	✔	19 March 2004
Box Hill Enterprises Ltd	18 March 2004	✔	19 March 2004
Central Gippsland Institute of TAFE	3 March 2004	✔	5 March 2004
Chisholm Institute of TAFE	12 March 2004	✔	12 March 2004
Centre for Adult Education	24 April 2004	✔	24 April 2004
Driver Education Centre of Australia Ltd	4 March 2004	✔	24 March 2004
East Gippsland Institute of TAFE	16 March 2004	✔	16 March 2004
Gordon Foundation Ltd	5 March 2004	✔	12 March 2004
Gordon Institute of TAFE	11 March 2004	✔	12 March 2004
Goulburn Ovens Institute of TAFE	15 March 2004	✔	17 March 2004
Holmesglen Institute of TAFE	1 March 2004	✔	3 March 2004
Holmesglen International Training Services Pty Ltd	27 Feb. 2004	✔	3 March 2004
International Fibre Centre Ltd	10 March 2004	✔	16 March 2004
John Batman Training and Consulting Pty Ltd	15 March 2004	✔	17 March 2004
Kangan Batman Institute of TAFE	15 March 2004	✔	16 March 2004
Northern Melbourne Institute of TAFE	23 March 2004	✔	24 March 2004
South West Institute of TAFE	17 March 2004	✔	17 March 2004
Sunraysia Institute of TAFE	16 March 2004	✔	19 March 2004
William Angliss Institute of TAFE	23 Feb. 2004	✔	27 Feb. 2004
Wodonga Institute of TAFE	15 March 2004	✔	19 March 2004
COMPLETED AUDITS – 30 JUNE 2003 BALANCE DATE			
EDUCATION			
Victorian Tertiary Admissions Centre	26 Nov. 2003	✔	10 Dec. 2003

Education and Training – *continued*

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
INCOMPLETE AUDITS – AS AT 30 APRIL 2004 (a)			
EDUCATION			
Telematics Course Development Fund	*Audited financial statements yet to be finalised*		
POST-COMPULSORY EDUCATION INSTITUTES			
Universities and associated companies			
Brain Sciences Institute Trust (b) (1 Jan. 2003 to 25 Sept. 2003)	"	"	"
Centre for Innovation and Enterprise Pty Ltd	"	"	"
Ingenko Pty Ltd	"	"	"
Institute for Innovation and Enterprise Ltd (b) (1 Jan. 2003 to 25 Sept. 2003)	"	"	"
International Training Australia Pty Ltd	"	"	"
Melbourne Enterprises International (Taiwan) Ltd	"	"	"
Monash Commercial Pty Ltd	"	"	"
Monash ED Pty Ltd	"	"	"
Monash Learningfast Pty Ltd	"	"	"
Monsu Catering Trust	"	"	"
Monyx Education Services Pty Ltd	"	"	"
Monyx Pty Ltd	"	"	"
Monyx Services Food Beverage Pty Ltd	"	"	"
Monyx Services Pty Ltd	"	"	"
Monyx Services Retail Pty Ltd	"	"	"
National Stem Cell Ltd	"	"	"
Neurometric Systems Pty Ltd	"	"	"
Peter Dibble Memorial Trust	"	"	"
Prostate Diagnostics Pty Ltd	"	"	"

(a) Financial statements with 31 December 2003 balance dates, unless otherwise indicated.

(b) Brain Sciences Institute Trust and Institute for Innovation and Enterprise Ltd ceased operation on 25 September 2003.

Human Services

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 SEPTEMBER 2003 BALANCE DATES			
HEALTH			
Medical Practitioners Board of Victoria	18 Dec. 2003	✔	18 Dec. 2003
COMPLETED AUDITS – 31 DECEMBER 2003 BALANCE DATES			
HEALTH			
Anti-Cancer Council of Victoria	1 April 2004	Qualified	6 April 2004
Reason for qualification of financial statements: *Unable to attest to the completeness of cash donations.*			
Psychologists Registration Board of Victoria	10 March 2004	✔	12 March 2004
Public cemeteries -			
Anderson's Creek Cemetery Trust	1 April 2004	✔	1 April 2004
Ballarat General Cemeteries Trust	26 March 2004	✔	26 March 2004
Bendigo Cemeteries Trust	15 March 2004	✔	25 March 2004
Cheltenham and Regional Cemeteries Trust	31 March 2004	✔	5 April 2004
Geelong Cemeteries Trust	23 March 2004	✔	26 March 2004
Keilor Cemetery Trust	26 March 2004	✔	29 March 2004
Mildura Cemetery Trust	30 March 2004	✔	31 March 2004
Preston Cemetery Trust	10 March 2004	✔	10 March 2004
Templestowe Cemetery Trust	6 April 2004	✔	7 April 2004
Trustees of the Fawkner Crematorium and Memorial Park	1 April 2004	Qualified	5 April 2004
Reason for qualification of financial statements: *Value of land was understated.*			
Trustees of the Lilydale Memorial Park and Cemetery	8 April 2004	✔	9 April 2004
Trustees of the Altona Memorial Park	25 Feb. 2004	✔	24 March 2004
Trustees of the Necropolis Springvale	19 March 2004	✔	24 March 2004
Wyndham Cemeteries Trust	30 March 2004	✔	31 March 2004
COMPLETED AUDITS – 30 JUNE 2003 BALANCE DATE			
Alexandra and District Ambulance Service	7 Nov. 2003	✔	12 Nov. 2003
INCOMPLETE AUDITS – AS AT 30 APRIL 2004			
Rural Northwest Health (a)	*Audited financial statements yet to be finalised.*		

(a) Financial statements with 30 June 2003 balance date.

Infrastructure

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – WITH OTHER BALANCE DATES			
MAJOR PROJECTS			
Docklands Authority (a)	20 Nov. 2003	Qualified	1 Dec. 2003
Reason for qualification of financial statements: *Adoption of inappropriate accounting policies related to municipal assets and certain road assets.*			
PLANNING			
Urban and Regional Land Corporation (a)	20 Nov. 2003	✔	24 Nov. 2003
TRANSPORT			
Victorian Rail Services Pty Ltd (b)	1 Dec. 2003	✔	8 Dec. 2003
INCOMPLETE AUDITS – AS AT 30 APRIL 2004			
Public Transport Ticketing Body (c)	*Financial reporting period extended*		

(a) Pursuant to determinations issued by the Minister for Finance under the provisions of the *Financial Management Act 1994*, the final financial year for the Docklands Authority and the Urban and Regional Land Corporation was a 13-month period ending 31 July 2003. These entities ceased to operate on that date and their responsibilities have been assigned to the newly created Victorian Urban Development Authority.

(b) Financial statements with 30 June 2003 balance date.

(c) The entity has received approval for its first reporting period to cover the 13 months to June 2004.

Innovation, Industry and Regional Development

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2003 BALANCE DATE			
TOURISM			
Victoria Trade and Investment Office Pty Ltd	19 Nov. 2003	✔	26 Nov. 2003

Primary Industries

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2003 BALANCE DATE			
AGRICULTURE			
Northern Victorian Fresh Tomato Industry Development Committee	30 Jan. 2004	✔	9 Feb. 2004

Sustainability and Environment

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 31 OCTOBER 2003 BALANCE DATES			
ENVIRONMENT			
Falls Creek Alpine Resort Management Board	22 March 2004	✔	25 March 2004
Lake Mountain Alpine Resort Management Board	14 Jan. 2004	✔	28 Jan. 2004
Mount Baw Baw Alpine Resort Management Board	3 Feb. 2004	✔	9 March 2004
Mount Buller Alpine Resort Management Board	23 Jan. 2004	✔	28 Jan. 2004
Mount Hotham Alpine Resort Management Board	10 Jan. 2004	✔	27 Jan. 2004
Mount Stirling Alpine Resort Management Board	2 Feb. 2004	✔	24 Feb. 2004
COMPLETED AUDITS – 30 JUNE 2003 BALANCE DATE			
Smart Water Fund	7 Nov. 2003	✔	11 Nov. 2003
First Mildura Irrigation Trust	30 March 2004	✔	20 April 2004

Treasury and Finance

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 31 DECEMBER 2003 BALANCE DATES			
TREASURER			
Securities Finance Corporation Ltd	24 March 2004	✔	24 March 2004
Tricontinental Corporation Ltd	24 March 2004	✔	24 March 2004
Tricontinental Holdings Ltd	24 March 2004	✔	24 March 2004
Twin Waters Resort Pty Limited	24 March 2004	✔	24 March 2004
INCOMPLETE AUDITS – AS AT 30 APRIL 2004			
Gascor Pty Ltd (a) (period 1 July 2003 to 15 Sept. 2003)	*Audited financial statements yet to be finalised.*		
Gas Release Co. Pty Ltd (a) (period 1 July 2003 to 15 Sept. 2003)	" " " "		

(a) Gascor Pty Ltd and Gas Release Co. Pty Ltd were privatised on 15 September 2003.

Victorian Communities

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
INCOMPLETE AUDITS – AS AT 30 APRIL 2004			
Melbourne 2002 World Masters Games Limited (period 1 July 2001 to 30 November 2002)	*Audited financial statements yet to be finalised.*		

Local Government

Entity	Financial statements signed	Clear opinion issued		Auditor-General's report signed
		Financial statements	Performance statement	
COMPLETED AUDITS – 30 JUNE 2003 BALANCE DATE				
MUNICIPAL COUNCILS AND ASSOCIATED ENTITIES				
Buloke Shire Council	30 Oct. 2003	✔	Qualified	5 Nov. 2003
Reason for qualification*: Corporate Plan for 2002-05, including a business plan and related performance measures and targets, not prepared and submitted to the minister.*				
Sustainable Melbourne Fund (period 1 July 2001 to 30 June 2002)	27 April 2004	✔	n.a.	28 April 2004
Sustainable Melbourne Fund (period 1 July 2002 to 30 June 2003)	27 April 2004	✔	n.a.	28 April 2004
INCOMPLETE AUDITS – AS AT 30 APRIL 2004				
New City Library Joint Venture (period 1 July 2002 to 30 June 2003)	*Audited financial statements yet to be finalised*			

AUDITOR GENERAL
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