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Auditor General
Victoria

Auditor-General's Report

Results of 30 June 2004 financial statement and other audits

December 2004

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VICTORIA

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Melbourne

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

The report sets out the results of financial statement audits conducted on public sector agencies with 30 June 2004 balance dates and the results of one other audit undertaken up to the date of its preparation.

Yours faithfully

JW CAMERON
Auditor-General

1 December 2004

Foreword

This report summarises the results of the financial audits undertaken by my Office, of agencies with 30 June 2004 balance dates. There are some 469 of these agencies, including all government departments, most public bodies and all local government bodies.

The report recognises the improvement that occurred in 2004 in the standard and timeliness of financial reporting. It also identifies those areas where further improvement in financial and annual reporting, and in some aspects of financial management, is needed. It further identifies a number of major challenges facing public sector agencies in the next 2 years, including the transition to new accounting standards and improved reporting of non-financial performance information by agencies.

Finally, the report comments on the results of an audit of the administration of grants by 4 state agencies and one local government council, with particular focus on grants provided to one non-government organisation (the Cambodian Association of Victoria) over the past 5 years. In this case, we identify a need for the audited agencies to strengthen their practices and we make several recommendations to assist them.

JW CAMERON
Auditor-General

1 December 2004

Contents

1. Executive summary

1.1 Introduction

This report draws together the results of our financial audits for public sector agencies with 30 June 2004 balance dates. It also presents the results of one other audit which examined issues of public interest.

The report is organised as follows:

- *Part 2 - Summary of audit results and cross-sector issues* – summarises the overall results of the 30 June 2004 audits. This includes comments on the significant factors that have affected financial reporting during the year, or are likely to affect future financial reporting
- *Parts 3 to 14 - Results of financial audits, by sector* – outlines the results of the financial audits of agencies by each major sector of government activity (and of parliament)
- *Part 15* – sets out the results of an audit of the administration of grants by 4 state agencies and one local government council, focusing on grants provided to the Cambodian Association of Victoria.

1.2 Overall results of financial audits

1.2.1 Audit opinions issued

There were 469 state and local government agencies that were required to prepare financial and other accountability statements at 30 June 2004 and submit them for audit.

At the date of preparing this report, we had issued 454 clear audit opinions and 9 qualified audit opinions on the financial statements of these agencies. We also issued 92 clear audit opinions and 2 qualified audit opinions on the performance statements of municipal councils and regional water authorities.

The major reasons for qualified audit opinions were:

- failure to consolidate organisations that were regarded as “controlled entities” in financial statements
- inappropriate accounting for certain grants, expenses, assets and liabilities in financial statements
- inability to verify the completeness of cash donations (which is common for charitable organisations)
- non-compliance with some requirements of statements of accounting concepts and applicable accounting standards

- for performance statements, failure to comply with aspects of the *Local Government Act 1989* and the non-availability of sufficient and appropriate evidence to support some performance measures.

There were fewer qualified audit opinions issued for 2003-04 financial and other accountability statements than for 2002-03 statements. This reflected concerted action by agencies to resolve a number of the issues previously identified.

Audit opinions on 6 agencies with 30 June 2004 balance dates had not been issued at the date of preparing this report, because we had not received completed financial statements or had not completed auditing the agencies.

1.2.2 Timeliness of financial and annual reporting

This year, there was some improvement in the number of agencies completing their financial and other accountability statements on time. Seventy-one per cent of state agencies met the 12-week statutory reporting requirement (66 per cent in 2003). Ninety-five per cent of local government agencies met the 3-month statutory reporting requirement for that sector (95 per cent in 2003). The improvement was particularly evident for the state's major agencies. While some sectors had high rates of compliance with the statutory reporting timeline, some did not.

Notwithstanding the improved timeliness of financial reporting by agencies, the annual reports of most government agencies were not tabled until the latest possible date allowed by legislation. As accountability to parliament is not achieved until annual reports (containing the audited statements) are tabled and made publicly available, the benefits of completing audited financial statements in much shorter time frames can be compromised when the tabling of annual reports is delayed.

Recommendations

That agencies review the outcomes of the 2003-04 reporting cycle to identify opportunities to further improve the financial statement preparation process. The outcomes of these reviews should inform agency planning for the next reporting cycle.

That the Department of Treasury and Finance more closely monitor the timeliness of tabling of agency annual reports, to ensure that the benefits of earlier financial statement completion translate to more timely accountability to parliament.

1.2.3 Quality of financial reporting

We observed improvement in the quality of financial reporting by public sector agencies. However, there was scope for further improvement, particularly in the financial statement preparation processes used by agencies. Agencies need to:

- improve their planning for year-end reporting, including setting key milestones and closely monitoring progress against them
- ensure that sufficient skilled staff are available, and quality control procedures are in place, to enable financial statements to be prepared within the 12-week deadline
- ensure that complex and contentious issues can be resolved promptly (which needs prompt consideration by management, and timely and open communications with auditors)
- assign high organisational priority to preparing their financial statements.

Recommendation

That agencies (particularly those that take longer than the average 47 days to provide complete draft financial statements for audit) review their close-off and reporting processes to ensure statements are completed and provided before that time, and that they plan and allocate sufficient resources to do so.

1.2.4 Adequacy of control environments

Our audits confirmed that agencies' systems of internal controls that affect the preparation of their financial reports were generally adequate. However, we identified various opportunities to strengthen the governance and management arrangements of some agencies, particularly in relation to:

- the management of outsourced services
- the operation of audit committees
- information technology controls
- purchasing and accounts payable processes and controls.

Recommendations

That agencies periodically review the effectiveness of strategies and processes to identify the major risks of outsourcing services, and to mitigate those risks.

That agencies adopt recognised standards in security management to design, implement and manage their information technology security.

That agencies, and their audit committees, regularly review the effectiveness of information technology security policies and practices, with reference to recognised standards and other guidance material such as our June 2004 *Good practice guide: Managing internet security*.

1.2.5 Emerging issues for 2004-05

A number of emerging issues will have major impacts on future financial reporting and accountability by public sector agencies. The main ones are:

- the transition to new Australian accounting standards (including those issued following the harmonisation with international accounting standards) for reporting periods beginning from 1 January 2005
- the expected revision of key public sector standards which deal with whole-of-government reporting, and with accounting for departments and local governments. The revised standards are expected to be influenced by the outcomes of work currently underway by the Australian Accounting Standards Board to harmonise the Government Finance Statistics (GFS)[1] and the Australian Generally Accepted Accounting Principles (GAAP) reporting frameworks
- the continuing demand from parliament and the public for improved non-financial performance information in agency annual reports.

Agencies (including central government agencies) will need to manage these impacts carefully, to maintain the high quality and timeliness of their financial and other accountability statements.

Recommendations

That agencies ensure they have the strategies and processes in place to ensure they make an efficient and effective transition to the new accounting standards.

That the Department of Treasury and Finance, in consultation with other departments, develop an implementation strategy to progressively extend the application of performance reporting requirements to all public sector agencies.

[1] GFS is the reporting framework established by the International Monetary Fund to allow economic analysis of the public sector. To date, it is mainly used by central government agencies to report at a whole-of-government or general government sector levels.

1.3 Other major findings and recommendations of financial audits, by sector

1.3.1 Parliament

Adequacy of control environment

Our September 2003 *Report of the Auditor-General on Parliament's information technology upgrade* raised major concerns about the management and oversight of the project, and the administrative structure and processes of parliament more generally.

Parliament has responded positively to addressing the matters raised in that report. Various administrative, procedural and policy changes have already been made. Broader strategic responses to the issues raised are also being developed. We will continue to monitor progress on these issues in the coming year.

1.3.2 Education and Training

Reporting and audit arrangements for government school councils

Recent legal advice received by the Department of Education and Training questioned the accountability arrangements for school councils that oversee the state's 1 632 government schools. The advice was that school councils are public statutory authorities and are subject to the same reporting and auditing requirements as all other public sector agencies.

The department and our Office are now working to establish an appropriate reporting and accountability model for school councils, and plan to apply it from 2006.

1.3.3 Human Services

Financial performance and position of public hospitals

Our previous reports have commented on the declining financial condition of Victorian public hospitals over recent years. Our audits of 2003-04 financial statements showed that public hospitals continue to face financial difficulties.

The number of hospitals showing signs of financial difficulty fell from 15 in 2002-03 to 10 in 2003-04. This was mainly due to an extra $106.7 million provided to hospitals to cover their shortfalls at 30 June 2004. However, about half (47) of Victoria's public hospitals also registered adverse results in at least 2 of our indicators of financial difficulty (37 in 2002-03).

Recommendation

As we have done in previous reports, we again recommended that the Department of Human Services, in conjunction with the Department of Treasury and Finance, reassess the current method of funding public hospitals. This reassessment should consider providing depreciation funding to hospitals to maintain their existing infrastructure.

Management of payroll service provider's operational continuity

In 2003-04, the human services sector's main provider of payroll services was under severe financial stress, risking the continued provision of payroll services to employees in the sector. After being notified by the service provider of this situation, the Department of Human Services acted promptly to ensure the continuity of the payroll service.

Although the department's response was prompt and effective, the experience illustrates the broader risk facing sector agencies (that needs to be carefully managed) that external service providers may not be able to provide contracted services, promptly and at the required standard.

1.3.4 Infrastructure

Engagement of a contractor by the Department of Infrastructure

We reviewed the engagement of a contractor by the department in 2004, under 2 separate contracts with an originally estimated total value of $894 000. Our review identified that, while departmental officers with the necessary financial delegations approved both contracts, such approvals were not formally given until after the contracts had commenced.

Recommendation

That all contract approvals (including approvals for waivers from the requirement to seek public tenders), be completed on or before the date the contract starts.

1.3.5 Innovation, Industry and Regional Development

Australian Grand Prix event costs

The annual net operating costs of staging the Formula One and Motor Cycle Grand Prix events, while increasing in the year (from $19.4 million in 2002-03 to $22.8 million in 2003-04), continue to be substantially less than the previously estimated annual economic benefit to the state from hosting these events. The economic estimates for the Formula One Grand Prix event should be updated to ensure they remain reliable.

Overseas Projects Corporation of Victoria Ltd

The Overseas Projects Corporation of Victoria Ltd has experienced considerable financial difficulty in recent years. In 2003-04, this required the state to provide the company with additional capital of $4.4 million and a $410 000 grant. In June 2004, the company concluded an asset sale agreement, covering its interest in certain major projects and partnering arrangements. The agreement also transferred the company's permanent employees to the buyer.

I intend to review the company's asset sale process, the outcome, and the process used to wind-up the company, and report to parliament on these matters in the 2005 autumn session.

1.3.6 Justice

Accountability of volunteer fire brigades

There are 1 240 voluntary fire brigades across rural Victoria. They operate under the *Country Fire Authority Act 1958* and are an integral part of the Country Fire Authority (CFA).

Brigades prepare annual financial statements that are audited by public practitioners. However, not all of these are forwarded to the CFA and the CFA does not fully consolidate them into its financial statements. This leads to uncertainty about the accountability of brigades, and decreases the quality of oversight and governance over brigade resources.

Recommendation

That the CFA include all brigade financial activities in its financial statements, and implement a comprehensive accountability and audit framework for brigades.

1.3.7 Sustainability and Environment

Continuity of agency boards

It is essential for good governance that agencies have boards in place, and that board members have an appropriate mix of experience. We identified 2 instances where these requirements were not met.

Specifically, delays in the appointment of board members led to one agency board being unable to form a quorum for part of the year. The majority of members of another board were replaced during the year, resulting in a loss of significant corporate knowledge at the board level.

Recommendations

That the Department of Sustainability and Environment, in consultation with sector agencies, regularly review the requirements for future board member appointments, to ensure it is fully informed of the timing of future requirements so that appointments can be promptly finalised.

That the Department of Sustainability and Environment avoid replacing significant numbers of board members at the same time.

Completeness and accuracy of Crown land records

For many years, we have been concerned about the inability of the Department of Sustainability and Environment to confirm the completeness and accuracy of its records of Crown land holdings managed by external agencies. Little progress was made on this matter in 2003-04.

Further, the current valuation of Crown land (as at June 1998) is out-of-date and needs to be promptly updated.

Recommendations

That the Department of Sustainability and Environment allocate the resources required to review the accuracy of Crown land records in 2004-05.

That the Department of Sustainability and Environment, together with other relevant agencies, agree on an appropriate basis for valuing Crown land and ensure that all Crown land held by the department is valued during 2004-05.

1.3.8 Treasury and Finance

Audit certification by external service providers

A number of agencies in the Treasury and Finance sector outsource a significant portion of their core business activity to external service providers. Except for the investment services of the Victorian Funds Management Corporation, we did not see any evidence that agencies obtained independent audit certification that their main service providers have adequate internal control systems for the outsourced services.

Recommendation

That sector agencies that outsource core business activities obtain regular independent audit certifications that their major service providers are financially viable, and that the providers' control procedures for safeguarding outsourced assets and services are adequate.

1.3.9 Local Government

Financial viability of councils

As a whole, the financial performance and financial position of local government councils improved compared with last year. However, some councils continue to face viability issues in the medium to longer-term.

Recommendation

That all councils:

- **develop indicators of financial viability and sustainability**
- **establish targets for these indicators as part of their strategic planning processes**
- **regularly report on and monitor actual performance against target.**

1.4 Grants to the Cambodian Association of Victoria

The Cambodian Association of Victoria Inc. (CAV) provides welfare and other services to members of the Indochinese community in Victoria. In the past 5 years, it has received grants of about $500 000 from Commonwealth, state and local government agencies.

As a result of concerns that CAV may have been ineligible for grants after being deregistered as an incorporated association in February 2003, we reviewed selected grants made to CAV by 4 state and one local government agencies. We also examined the processes used by these agencies to assess grant applications from organisations other than CAV, and the subsequent monitoring of approved grants.

We found that CAV had been paid grant funds of around $68 400 after being deregistered as an incorporated association. It had failed to fully acquit 2 of the grants we examined, which totalled $78 000. Our audit also identified various weaknesses in the 5 agencies' grant assessment processes. These reduced the ability of some of the agencies to substantiate that their grant application assessment and selection processes achieved an equitable and transparent distribution of grant funds.

Most of the agencies we examined need to improve their funding agreements, by requiring grantee organisations to tell them about any changes in the grantee's legal status or management structure that could affect their eligibility for grants or their capacity to complete a funded project. Agencies also need to review their procedures and systems to ensure they get reliable, timely and adequate evidence from grantees that their grant funds have been used for the specified purpose.

Recommendations

Several recommendations were made to one or more of the audited agencies, about the need to:

- **ensure they receive audited financial statements and confirm the currency of grant applicants' incorporation status before making any grant payments**
- **fully document the grant processing, assessment and selection process, and the basis for decisions about grants**
- **ensure sufficient and accurate details are provided to grant applicants about this process**
- **require grantees to advise the agency of any changes in their legal status or management structure that could affect their eligibility for a grant or their capacity to complete a funded project**
- **require grantees to provide audited financial reports about the expenditure of grant moneys, as part of the grant acquittance process.**

2. Summary of audit results and cross-sector issues

2.1 Introduction

This Part of the report presents a summary of the results of financial and other accountability statement audits for agencies with 30 June balance dates[1]. It also comments on emerging developments expected to impact on financial reporting and accountability in the Victorian public sector in future.

2.2 Audit conclusions

We issue audited agencies with clear audit opinions when their financial and other accountability statements are, in all material respects, presented fairly, in accordance with Australian accounting standards and other mandatory professional and legislative requirements. Qualified opinions are issued when the audited statements do not present a fair view of an agency's performance or financial position.

Figure 2A summarises the number and nature of audit opinions issued on the financial statements of state and local government agencies with 30 June 2004 balance dates.

FIGURE 2A: AUDIT OPINIONS ISSUED FOR AGENCIES WITH 30 JUNE 2004 BALANCE DATES (number)

Sector	Clear opinions issued		Qualified opinions issued		Total	
	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03
State agencies -						
Financial statements	352	340	8	12	360	352
Performance statements	15	-	-	-	15	-
Local government agencies -						
Financial statements (a)	102	100	1	1	103	101
Performance statements	77	74	2	5	79	79
Total	546	514	11	18	557	532

(a) For municipal councils and regional library corporations, joint audit opinions were issued for the respective entities' financial statements and standard statements.

Source: Victorian Auditor-General's Office.

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[1] Other accountability statements include "performance statements" prepared by local governments (municipal councils) and regional water authorities, and "standard statements" prepared by local governments and regional library corporations. Performance statements report council/authority performance against certain performance measures and targets. Standard statements summarise information about councils'/corporations' financial performance against budget estimates.

As shown in Figure 2A, this year we issued 454 clear audit opinions and 9 qualified audit opinions on the financial statements of state and local government agencies with 30 June 2004 balance dates. We also issued 92 clear audit opinions and 2 qualified audit opinions on performance statements prepared by local government agencies and regional water authorities.

The qualified audit opinions were issued for:

- failure to consolidate organisations that were regarded as “controlled entities” in financial statements
- inappropriate accounting for certain grants, expenses, assets and liabilities within financial statements
- inability to verify the completeness of cash donations (which is common for charitable organisations)
- non-compliance with certain requirements of statements of accounting concepts and applicable accounting standards
- for performance statements, failure to comply with certain requirements of the *Local Government Act 1989* and the non-availability of sufficient and appropriate evidence to support certain performance measures.

The number of qualified audit opinions reduced in 2003-04, reflecting the positive action by agencies to resolve a number of the issues identified in the previous year.

At the date of preparing this report, we had not issued audit opinions on 6 agencies with 30 June 2004 balance dates because we had not received completed financial statements or had not completed auditing the agencies.

In 2003-04, there was a small improvement in the time taken by agencies to complete their financial and other accountability statements. Seventy one per cent of state agencies met the 12-week statutory reporting target (66 per cent in 2003), while 95 per cent of local government agencies met the 3-month statutory reporting target for that sector (95 per cent in 2003). Improvement was particularly evident for the state’s major agencies. The results were, however, mixed at a sector[2] level, with some sectors continuing to have difficulty in meeting the statutory reporting target.

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[2] Each sector generally comprises a government department and all public sector agencies coming within the department’s and responsible minister/s’ portfolio responsibilities.

While more agencies have met the statutory deadlines this year, there is still scope for reporting to be more timely. Recent research shows that best practice organisations prepare their statutory financial statements within 10 to 15 days from balance day[3]. This compares with the current statutory requirement for state agencies to submit financial statements to my Office within 56 days from balance date.

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

- good planning for the financial statement preparation process
- ensuring that appropriate staff are available and adequate quality control procedures are in place to facilitate financial statement preparation within required time frames
- ensuring that contentious issues can be resolved on a timely basis, through their timely consideration by management, and timely and open communications with audit
- assigning high organisational priority to financial statement preparation and closely monitoring progress against key milestones.

While it is essential for financial and other accountability statements to be promptly prepared and audited, accountability is not achieved until agency annual reports (containing the audited statements) are tabled in parliament and made publicly available. Closer monitoring by the Department of Treasury and Finance of the timeliness of tabling of agency annual reports could help ensure that improvements in the timeliness of financial reporting result in improved accountability to parliament.

Our audits confirmed that agency systems of internal controls impacting on the preparation of their financial reports were generally adequate. However, we identified various opportunities to strengthen the governance and management arrangements at some agencies, particularly in relation to:

- the operation of audit committees
- the management of outsourced services
- information technology (IT) controls
- purchasing and accounts payable processes and controls.

A number of emerging issues will have major impacts on future financial reporting and the accountability of public sector agencies. These include:

- The transition to new Australian accounting standards, including those issued following the harmonisation with international accounting standards, for reporting periods beginning from 1 January 2005.

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[3] Australian National Audit Office 2003, *Report 23, 2002-03 Audits of the Financial Statements of Commonwealth Entities for the Period ended 30 June 2002*, Canberra.

- The expected revision of key public sector standards which deal with whole of government reporting, and accounting by departments and local governments. Integral to these changes will be the outcome of work currently underway by the Australian Accounting Standards Board to harmonise the Government Finance Statistics (GFS)[4] and the Australian Generally Accepted Accounting Principles (GAAP) reporting frameworks.
- The implementation of improved performance reporting by agencies, through the publication of audited performance statements in agency annual reports.

Agencies (including central government agencies) will need to manage these impacts carefully to maintain the high quality and timeliness of their financial and other accountability statements.

2.3 Financial statement audits

2.3.1 Reporting framework

The *Financial Management Act 1994* and the *Audit Act 1994* set out the annual reporting and audit requirements for departments and other public sector agencies. Section 45 of the Financial Management Act requires these 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 on the next sitting day after the end of the fourth month), the relevant minister must table in each House of Parliament the annual report of each agency. This report must include the audited financial statements and, for regional water authorities, the audited performance statements.

For local government entities, the annual reporting and audit requirements are set out in the *Local Government Act 1989* and the *Audit Act 1994*. In 2003-04, the Local Government Act was amended to improve financial management by, and the accountability of, local government entities. Consequently, from 2003-04, municipal councils and regional library corporations must include ‘standard statements’ in their annual reports to the minister. These statements provide summary information about financial performance and cash flows against previously approved budget estimates, and are subject to audit. In future, they will also provide summary information about the entities’ capital works and financial position against approved budget estimates. The statements are additional to the annual audited financial statements.

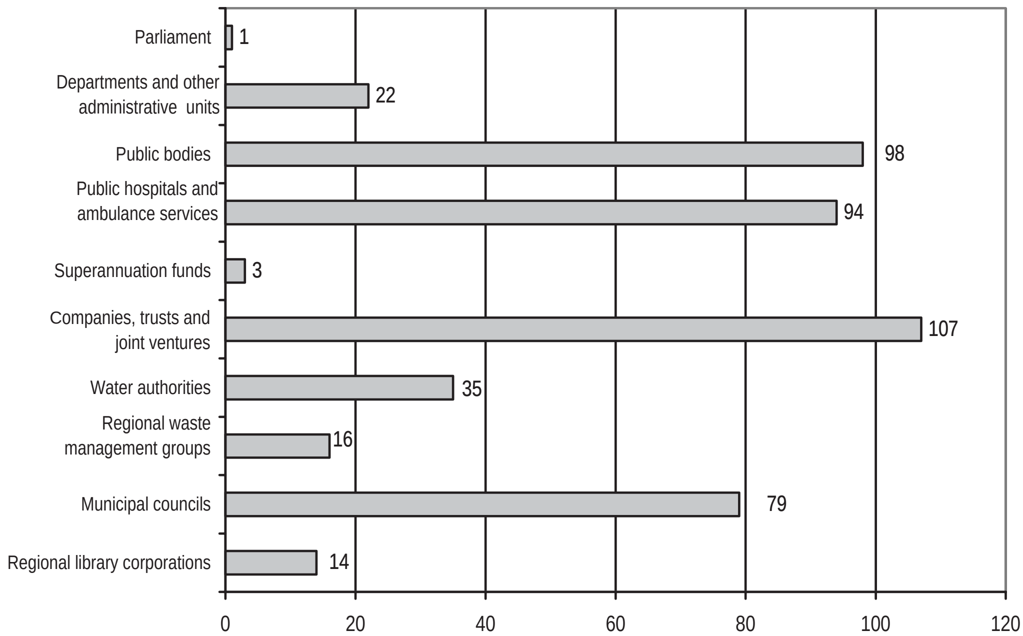
[4] GFS is the reporting framework established by the International Monetary Fund to allow economic analysis of the public sector. To date, it is mainly used by central government agencies to report at a whole-of-government or general government sector levels.

Section 126 of the Local Government Act requires each municipal council and regional library corporation to submit its annual report (including a report of operations and audited financial statements) to the Minister for Local Government within 3 months of the end of the financial year. The annual report must also include an audited performance statement and audited standard statements. Under the Audit Act, the Auditor-General must audit the financial statements and other accountability statements within 4 weeks of receiving them.

2.3.2 Which agencies were audited?

At 30 June 2004, there were 600 public sector agencies that were subject to audit by our Office. Of these, 469 had a 30 June 2004 balance date. Figure 2B shows the types and number of agencies which have a 30 June 2004 balance date.

FIGURE 2B: PUBLIC SECTOR AGENCIES WITH 30 JUNE 2004 BALANCE DATES
(number)



Source: Victorian Auditor-General's Office.

2.3.3 Audit purpose

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

Annual financial statements must be prepared in line with Australian accounting standards, with other mandatory professional reporting requirements, with the financial reporting requirements of the *Financial Management Act 1994*, and (where relevant) with the *Local Government Act 1989*.

The purpose of a financial 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.

Local government performance and standard statements must be prepared in line with the specific requirements of the *Local Government Act 1989.* The performance statements of regional water authorities must be prepared in line with the requirements of ministerial directions under the *Financial Management Act 1994.* The purpose of our audits of these statements is to express an independent audit opinion on whether the information they contain is presented fairly and in line with these legislative requirements.

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

The auditor's opinion about an agency's financial statements indicates whether they fairly present the agency's financial position at the reporting date, and its financial performance and cash flows for the period under review. In the case of performance and standard statements prepared by municipal councils and regional water authorities, the audit opinion indicates whether the information is presented fairly and in line with the relevant legislative requirements.

2.4 Major developments impacting on 2003-04 financial reporting

There were no substantial changes in accounting standards and other professional requirements that impacted on agency financial reporting for 2003-04[5]. However, there were a number of other significant developments in the year that impacted on the financial management and reporting obligations of public sector agencies, and our financial audits. These are outlined below.

Revised ministerial directions and new financial management compliance framework

In July 2003, the Minister for Finance issued a revised package of ministerial directions under the *Financial Management Act 1994*, and introduced a new financial management compliance framework.

[5] The main change of accounting standards that affected 2003-04 financial reports was Australian Accounting Standard AAASB 1047 *Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards*. This new standard required agencies to disclose within their 2003-04 financial reports how they were managing the transition to the new Australian accounting standards, due to come into operation on 1 January 2005, and to explain the main differences in accounting policies they expect as a result of adopting the new accounting standards. We make further comments about this subject later in this Part of the report.

The revised ministerial directions made many changes to the financial management obligations of public sector agencies and strengthened the financial governance and oversight requirements. All agencies subject to the *Financial Management Act 1994* were required to comply with the new ministerial directions from 1 July 2003. However, agencies that were, in good faith, complying with each direction "to the greatest extent reasonably possible" were exempt from complying fully with part 2 (Financial management governance and oversight) until 1 January 2004.

As part of these changes, all former accounting and financial reporting bulletins (AFRBs) were replaced with new financial reporting directions (FRDs)[6]. While the requirements of the new FRDs are broadly consistent with the previous AFRBs, the new FRDs have a more consistent and generally shorter form of presentation. They also more sharply focus on the principles to be followed by, and the requirements of, agencies.

The changes were accompanied by the establishment of a financial management compliance framework. This framework will give the Minister for Finance the means to monitor and review compliance by agencies with financial management legislation and regulations. The framework's new compliance requirements commenced from 1 July 2003 and apply to all agencies that form part of the economic entity of the State of Victoria. These are defined in the government's annual financial report and do not include local government, universities and denominational hospitals.

Although the above changes did not significantly affect agency financial reporting for 2003-04, they did put the spotlight on better financial and governance practices, and on the need to comply with the Financial Management Act and related directions and bulletins. This has helped improve agency financial management practices.

[6] These directions are issued under the *Financial Management Act 1994* and supplement the requirements of the Act. They prescribe mandatory elements and procedures for agencies to implement, maintain appropriate financial management practices, and to achieve a consistent standard of accountability and financial reporting across all agencies.

Shorter reporting time frames for major agencies

In order to prepare and audit the state’s whole-of-government annual financial report (AFR)[7], the Department of Treasury and Finance has for many years required major agencies[8] to complete their audited financial statements more promptly than is required by the *Financial Management Act 1994*. In past years, these agencies were required to complete and present for audit their draft financial statements within 4 weeks of 30 June. We were then required to audit those accounts within a further 4 weeks (that is, by around 28 August). This enabled the AFR to be prepared, audited and tabled in parliament by the legislated date of 27 October of each year.

For 2003-04, the Department of Treasury and Finance undertook a collaborative project with departments, major agencies and our Office to bring forward the date for tabling the AFR. It was subsequently agreed to bring forward the tabling date by 4 weeks, to the end of September 2004. To enable this to happen, the time allocated for auditing the major agencies’ draft financial statements was reduced by one week (to 3 weeks). The time allocated for preparing and auditing the AFR was also reduced by 3 weeks.

To meet these shorter time lines, agencies had to allocate staff resources to do so, and to finalise the supporting information to their financial statements earlier than in past years. Our audit teams worked closely with each major agency to help them achieve this shortened time frame. We also brought forward our transaction and systems-based interim audit work, so that it could be completed before year-end and so that post-balance date work could better focus on year-end financial balances and the verification of financial statements. Audit strategies included the identification and resolution of contentious issues as early as possible.

As commented later in this Part of the report, notwithstanding scope for further improvement by some agencies, the collective efforts of the major agencies and audit staff during the 2003-04 reporting cycle contributed to a general improvement in the timeliness of completion of audited financial statements by these agencies in the year.

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[7] The AFR provides comprehensive information about the state’s finances by consolidating the financial transactions and balances of about 320 agencies. These do not include local government agencies and universities.

[8] These agencies are known as “material entities”. They control and account for the majority of the state’s revenues, expenditures, assets and liabilities. In 2003-04, 44 agencies were designated as material entities.

Additional reporting and audit requirements

As previously noted, the *Local Government Act 1989* was amended in 2003-04 to improve financial management by, and the accountability of, local government. Under these amendments, from 2003-04, municipal councils and regional library corporations were required to prepare and include within their annual reports audited 'standard statements'.

For many years, my Office has also strongly advocated the need for public sector agencies to improve the quality of performance information they include in annual reports to parliament. Where such information is reported, audit can provide independent assurance about it, and so improve the veracity of information reported to the public.

It is pleasing to report that substantial progress was made in 2003-04 on this issue. Discussions between my Office, the Department of Sustainability and Environment and the Department of Treasury and Finance resulted in the Minister for Finance issuing Financial Reporting Direction FRD 27 *Presentation of Reporting and Performance Information* in May 2004. This direction requires the state's 15 regional water authorities, from 2003-04, to prepare and include in their annual reports audited statements of performance. These statements must include:

- the performance targets and indicators determined by the responsible portfolio minister
- the actual results achieved for the financial year against the targets and indicators
- an explanation of any significant variances between the actual results and the performance targets and indicators.

In working towards shorter financial reporting time frames, the preparation and audit of these new accountability statements represented an additional challenge for municipal councils and regional library corporations (in the case of standard statements), regional water authorities (in the case of performance statements) and the audit teams involved in these audits during 2003-04. However, it did not adversely affect the timeliness of completion of their financial statements.

2.5 Results of audits

2.5.1 Audit opinions issued

Financial statements, all agencies

As previously stated, we have responsibility for the audit of 469 agencies with 30 June 2004 balance dates. At the date of preparing this report, we had completed the audit of, and issued audit opinions on, the financial statements of 463 of these agencies. The financial statements for the remaining 6 agencies were at various stages of completion and we are working with the respective agencies to facilitate their completion as soon as possible.

Of the 463 audit opinions issued, 454 were clear and a further 9 qualified. The incidence of qualified audit opinions reduced from the 13 qualified opinions issued in the previous year. This reflects the positive effect of action taken by agencies to resolve issues resulting in previous qualifications.

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

The reasons for the issue of qualified audit opinions in 2003-04 were:

- failure to consolidate “controlled entities” in accordance with Australian Accounting Standard AAS 24 *Consolidated Financial Reports* (Mercy Public Hospitals Inc. and Queen Elizabeth Centre)
- inappropriate disclosure of grants within financial statements. These grants, which were “non-reciprocal” in nature, were not disclosed in accordance with Australian Accounting Standard AAS 15 *Revenue,* which requires that they be treated as income in the accounts of the recipient in the year of receipt (Wodonga Regional Health Service)
- inability to verify the completeness of cash donations (Royal Women’s Hospital Foundation Trust Funds)
- incorrect recognition of net assets received from a predecessor entity (Calvary Health Care Bethleham Limited)
- incorrect recognition of certain debtors (St Vincent’s Hospital (Melbourne) Limited)
- non-compliance of financial report with certain requirements of statements of accounting concepts and applicable accounting standards (Wonthaggi and District Hospital Benefit Trust Fund)
- failure to undertake condition assessment for a significant proportion of a council’s infrastructure assets (Swan Hill Rural City Council)
- incorrect recognition of an expense and an associated liability (Melbourne and Olympic Parks Trust).

In addition to the above, "emphasis of matter" comment was included in the audit reports of 4 entities (Overseas Projects Corporation of Victoria, TAC Law Pty Ltd, Special Power Payments Trust Fund and the Network Tariff Rebate Trust Fund) to draw attention to the fact that their financial statements had not been prepared on a going concern basis because the entities were expected to be wound-up in the near future.

Local government performance and standard statements

At the date of preparing this report, 77 clear audit opinions had been issued on the performance statements prepared by municipal councils, with a further 2 performance statements qualified. The reasons for the audit qualifications were:

- failure to prepare and submit to the minister a corporate plan which incorporated a business plan, performance measures and/or targets for 2003-04, as required under the *Local Government Act 1989.* Consequently, the performance targets and measures by which the council's performance could be judged were not available (Buloke Shire Council)
- the results reported for certain performance measures were not supported by sufficient or appropriate evidence (Wodonga Rural City Council).

The incidence of qualified audit opinions on council performance statements reduced when compared with the 5 qualified opinions issued in the previous year. This also reflects the positive effect of action by a number of the councils to address the issues resulting in previous qualifications. We expect the remaining issues causing qualifications to be resolved in the coming year.

In addition to the opinions issued on local government financial statements and performance statements, we issued 92 clear audit opinions on standard statements prepared by municipal councils and regional library corporations, with one further standard statement (Swan Hill Rural City Council) subject to qualification. The reason for this audit qualification was the same as that resulting in the qualification of this council's financial statements, which was explained earlier in this report.

Water authority performance statements

At the date of preparing this report, 15 audit opinions on performance statements prepared by regional water authorities had been issued, all of which were clear.

2.5.2 Timeliness of audited financial statement completion

All agencies, excluding local government

Agency financial statements must be completed within 12 weeks of the end of the financial year. Figure 2C shows how well agencies (excluding local government) with 30 June 2004 balance dates met this requirement.

FIGURE 2C: TIMELINESS OF FINANCIAL STATEMENTS COMPLETION, ALL AGENCIES (EXCLUDING LOCAL GOVERNMENT) WITH 30 JUNE BALANCE DATES

Finalisation of audited financial statements (no. of weeks after end of financial period)	2003-04		2002-03	
	Number of entities	Per cent (cumulative)	Number of entities	Per cent (cumulative)
Less than 8 weeks	34	9	26	7
8 to 10 weeks	58	25	56	23
10 to 12 weeks	168	71	152	66
12 to 14 weeks	72	91	66	85
14 to 16 weeks	13	94	22	91
More than 16 weeks (a)	20	100	30	100
Total	365	-	352	-

(a) Includes 5 entities whose financial statements had not been finalised at the date of preparation of this report.

Source: Victorian Auditor-General's Office.

Figure 2C shows that there has been a small improvement from 2002-03 (66 per cent) to 2003-04 (71 per cent) in the number of agencies meeting the 12-week reporting time frame. This improvement, in part, reflects the achievement of shorter reporting time frames by many of the state's major agencies, which account for the major part of the state's finances.

However, there remains scope for further improvement by some agencies in the timeliness of completion of audited financial statements. Audited financial statements of 6 per cent of agencies took more than 16 weeks to complete after year-end (9 per cent in 2002-03).

Figure 2D illustrates the performance of agencies within each of the major sectors of government in meeting the 12-week time frame, for the 2002-03 and 2003-04 reporting years.

FIGURE 2D: TIMELINESS OF FINANCIAL STATEMENT COMPLETION BY SECTOR (EXCLUDING LOCAL GOVERNMENT)

Sector	2003-04		2002-03	
	Number of statements finalised within 12 weeks	Per cent	Number of statements finalised within 12 weeks	Per cent
Parliament	2	100	2	100
Education and Training	3	43	3	43
Human Services (including Health)	99	79	81	72
Infrastructure	5	22	7	32
Innovation, Industry and Regional Development	7	78	3	30
Justice	28	90	20	67
Premier and Cabinet	8	73	8	73
Primary Industries	8	62	5	36
Sustainability and Development	36	50	40	56
Treasury and Finance	58	92	58	91
Victorian Communities (a)	6	67	7	88
Total	260	71	234	66

(a) Excludes local government, which are separately discussed below.

Source: Victorian Auditor-General's Office.

Figure 2D shows a mixed outcome across sectors. While there was small improvement in the timeliness of financial reporting by agencies within certain sectors (mainly the Human Services; Justice; Primary Industries; and Innovation, Industry and Regional Development sectors), the timeliness of agency reporting deteriorated in a number of other sectors (mainly in the Sustainability and Development sector). The deterioration of timeliness within the Sustainability and Development sector is in part attributed to delays by certain agencies formally signing-off their final accounts.

The timeliness of agencies within the Infrastructure sector continued to be poor, mainly due to a number of significant and contentious issues associated with public transport restructuring which required attention towards the end of the financial year.

Conclusion

A detailed analysis of the specific issues impacting on each of the sectors is provided later in this report. However, the major factors contributing to the small improvement in timeliness of financial statement completion in 2003-04 were:

- a substantially unchanged reporting framework for the year with only minor changes in accounting standards and other reporting requirements. As a result, only minor changes were required to be made by agencies to the form and content of 2003-04 financial statements compared with the previous year

- the tighter reporting timetable for major agencies and improved agency planning for the year-end reporting process. This involved:
  - the development by the Department of Treasury and Finance (in consultation with other departments and our Office), and issue to all major agencies prior to year-end, of advice on actions that agencies could take to improve their reporting practices and processes
  - agencies bringing forward work on the completion of major account balances (such as asset revaluations, calculation of employee leave provisions, actuarially determined liabilities and departmental appropriation certifications), which allowed key elements of their financial statements to be finalised much earlier than in previous years
  - agencies bringing forward the proposed dates for critical board and audit committee meetings to enable the achievement of earlier financial statement sign-offs
- the adoption by a number of the smaller agencies of the tighter reporting timetable for material agencies, which meant that their financial statements were also completed much earlier than in previous years
- earlier discussions with our staff on complex and contentious accounting issues, resulting in the more timely identification and resolution of such significant issues.

As previously noted, best practice is for agencies to prepare their statutory financial statements within 10 to 15 days of balance day. We will continue to work closely with agencies (including central agencies) to further reduce the time they take to report.

Recommendation

2.1 That agencies review the outcomes of the 2003-04 reporting cycle to identify opportunities to further improve the financial statement preparation process, with the outcomes of these reviews used to inform agency planning for the next reporting cycle.

Local government

Figure 2E shows the performance of local government in completing audited financial statements (and, where applicable, performance and standard statements), within the statutory 3-month period in 2002-03 and 2003-04.

FIGURE 2E: TIMELINESS OF COMPLETION OF AUDITED FINANCIAL STATEMENTS AND, WHERE APPLICABLE, PERFORMANCE AND STANDARD STATEMENTS WITHIN THE LOCAL GOVERNMENT SECTOR

Finalisation of audited statements (months after end of financial period)	2003-04		2002-03	
	Number of entities	Per cent (cumulative)	Number of entities	Per cent (cumulative)
Less than and up to 3 months	99	95	96	95
3 to 4 months	4	99	2	97
Over 4 months (a)	1	100	3	100
Total	104		101	-

(a) Includes one entity whose financial statements had not been finalised at the date of preparation of this report.

Source: Victorian Auditor-General's Office.

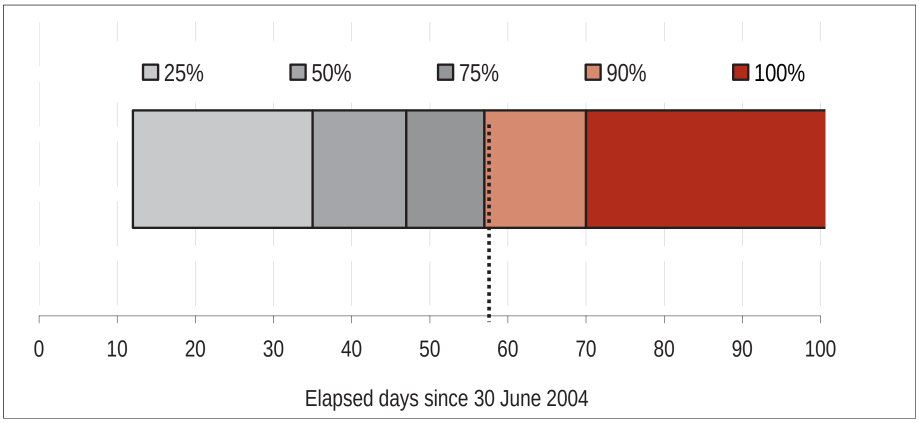
As Figure 2E shows, local government agencies maintained the timeliness of completion of their audited financial statements in 2003-04, with 95 per cent of entities completing their statements within the statutory 3-month period, compared with 95 per cent in 2002-03. This consolidates the significant improvement made by local government agencies in the previous year.

2.5.3 Quality of financial statements

The timely completion of audits is materially effected by how quickly agencies furnish draft financial statements to audit, and the completeness of those drafts.

Figure 2F 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 2F: PERIOD TAKEN TO PROVIDE DRAFT FINANCIAL STATEMENTS TO AUDIT, 2004



Note: Statutory requirement of 56 days for completion of draft financial statements by state agencies.
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 47 days for agencies with 30 June balance dates.

I noted in my report on the results of 30 June 2003 financial audits[9] that the quality of financial statements submitted for audit has continued to improve in recent years. A major reason for this improvement is that many industry sectors (such as water, hospitals and local government sectors) now use model financial reports. These model reports have helped to increase awareness among agencies of their disclosure and reporting requirements, and have made reporting within the sectors more consistent.

In 2003-04, the quality of financial statements received was again of a generally high standard. The stable reporting environment in the year (with only minor changes in accounting standards and other reporting requirements) significantly contributed to this positive outcome.

Conclusion

Model financial reports have improved agencies' awareness of disclosure and reporting requirements, and have made reporting more consistent within and across sectors. However, some agencies still need to improve their processes for preparing the financial statements.

[9] Victorian Auditor-General's Office, *Report on Public Sector Agencies – Results of special reviews and 30 June 2003 financial statement audits*, November 2003, Government Printer, Melbourne.

Improvements can be made by agencies:

- better planning and managing the financial statement preparation process, through the greater use of specific completion milestones for key elements and stages of the process, and through the use of "hard-close" procedures
- ensuring that appropriate staff resources are available and adequate quality control procedures are in place to enable complete and accurate draft financial statements to be prepared within the required time frames
- ensuring that contentious issues can be resolved on a more timely basis, through their timely consideration by management, and timely and open communications with audit
- more closely monitoring progress against key financial statement preparation milestones and assigning high priority to achieving them.

Recommendation

2.2 That agencies, particularly those that take longer than average (47 days) to provide complete draft financial statements for audit, review their close-off and reporting processes to ensure statements are completed and provided before that time, and that they plan and allocate sufficient resources to do so.

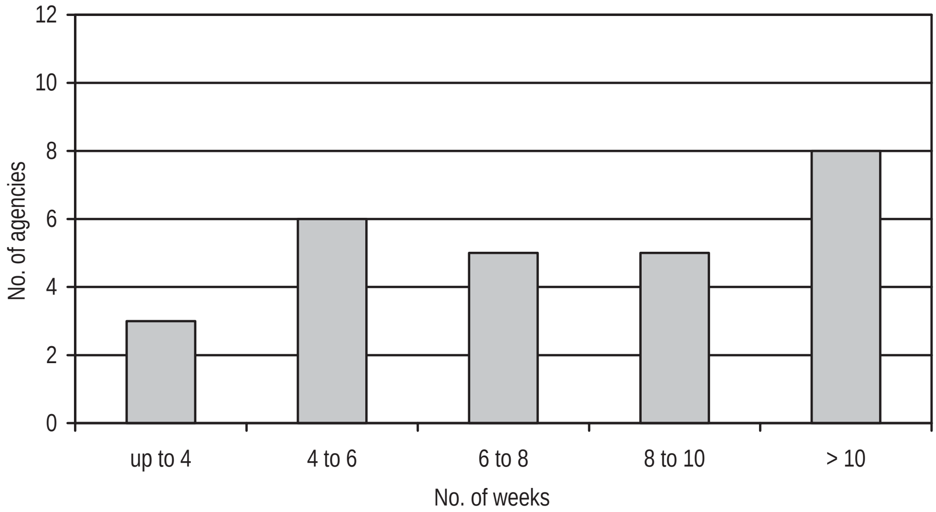
2.5.4 Timeliness of tabling of agency annual reports

While it is essential for financial and other accountability statements to be promptly prepared and audited, accountability is not achieved until an entity's annual report (which contains the audited statements) is tabled in parliament and is then publicly available.

Annual reports must be tabled within 4 months of the end of the financial year, or on the next sitting day after the end of the fourth month.

To assess the timeliness of annual reporting to parliament, we assessed the time that elapsed between the dates we issued our audit opinions on the financial and other accountability statements of major agencies (the 44 material entities) and the dates the respective agencies' annual reports were tabled in parliament. Figure 2G shows the results of this assessment.

FIGURE 2G: ELAPSED TIME BETWEEN ISSUE OF AUDIT OPINIONS AND TABLING OF ANNUAL REPORTS FOR MAJOR AGENCIES, 2003-04 *(a)*



(a) To 3 November 2004. At that date, the annual reports of 17 "material entities" had not been tabled.

Source: Victorian Auditor-General's Office.

Conclusion

The annual reports of most major agencies were not tabled until the latest possible date allowed by legislation, notwithstanding that the audited financial statements for some of these agencies had been completed for up to 11 weeks.

Variations in the time taken by agencies to complete, and ministers to table, annual reports can be partly explained by differences in the size and complexity of agencies (which impact on the time needed to finalise management analysis), and by the availability of parliamentary sitting days on which to table these reports. However, we believe that increased discipline is required to ensure that reports are tabled promptly.

The benefits of completing audited financial statements in much shorter time frames can be compromised where there are delays in the tabling of annual reports.

Recommendation

2.3 That the Department of Treasury and Finance more closely monitor the timeliness of tabling of agency annual reports, to ensure that the benefits of earlier financial statement completion translate to more timely accountability to parliament.

2.5.5 Agency control environments

While the main purpose of financial statement audits is to add credibility to those statements by providing independent assurance on their fair presentation (through the audit opinions), the audits also assess the adequacy of the governance and financial control processes of agencies.

Weaknesses in internal controls (such as controls over payroll, payments, revenue collection, and asset and liability management) and governance arrangements that are identified by an audit generally do not result in a qualified audit opinion. However, where weaknesses are observed in the course of an audit, they are brought to the attention of the agency, so it can rectify them. Many of the issues identified during audits have been (or are being) addressed by the relevant agencies, but the following issues require ongoing attention.

Effective functioning of audit committees

Audit committees help agency governing bodies (such as boards and departmental secretaries) effectively discharge their stewardship responsibilities. They oversee, and provide governing bodies with advice about, financial reporting, internal control systems, risk management and the internal and external audit functions.

The revised ministerial directions under the *Financial Management Act 1994*, which took effect from 1 July 2003, recognise the importance of effective audit committees as part of the governance arrangements established for all agencies. They do so by mandating various requirements for agencies, including:

- the need for all agencies to establish audit committees, unless exempted from the directions
- membership of committees (including the need to include sufficient independent members), and the necessary qualifications of committee members
- roles and accountabilities of audit committees
- relationship of the committees with management and auditors.

To assess whether agency audit committees were functioning effectively, as part of the 2003-04 financial audits we examined whether they:

- had appropriate membership, and the composition of committees was regularly reviewed
- operated under charters that were established, approved and regularly reviewed by their governing bodies, and that charters included clear terms of reference for the committee
- adequately oversaw internal and external financial reporting, risk management and the internal and external audit functions

- held regular and structured meetings
- reported directly to the governing body.

We found that the majority of agencies had met this criteria, or were clearly moving to address any current shortcomings. A general trend towards strengthening the audit committee arrangements was evident across the public sector in 2003-04, with efforts being made by agencies to meet their increased obligations under the revised ministerial directions.

While public sector audit committees were assessed to be in reasonable shape overall, our audits did identify a small number of instances, mainly at smaller to medium sized agencies, where[10]:

- their composition did not include sufficient independent members, and/or included management representatives (such as chief finance officers and chief executive officers) as voting members, which lessened the independence of the committees
- the role of audit committees did not include the review of the agencies' internal financial reporting practices or external annual financial reports, which are generally considered core responsibilities of these committees
- internal audit functions had not been established to assist the committee to effectively oversight agency operations
- external auditors were not invited to attend committee meetings, which reduced the effectiveness of these committees in oversighting the external audit function and facilitating effective communication between audit, the governing bodies and management
- audit committees did not meet with sufficient regularity (at least 4 times per year) to effectively discharge their responsibilities.

Conclusion

While some improvement was needed by a number of (generally smaller) agencies in the membership, roles and functions of the audit committees, most agencies were generally moving towards addressing these issues.

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[10] These observations cover agencies other than within the local government sector. A separate assessment of audit committee arrangements within local government agencies is provided later in this report.

Effective management of outsourced services

Over the past decade, outsourcing[11] has emerged as a key method used by public sector agencies to deliver services. At 30 June 2004, public sector agencies had commitments to purchase more than $13.7 billion worth of such services in future years[12].

A diverse range of services are outsourced across the public sector, including:

- health and community care
- correctional services
- statutory insurance claims management
- waste water treatment
- debt collection
- administration of payroll, accounts payable and information technology.

Although outsourcing changes how services are delivered, it does not alter an agency's responsibility (and accountability) to ensure that the outsourced services are delivered to the required standard.

While outsourcing provides agencies with opportunities to benefit from private sector expertise, it also exposes them to risks they cannot directly control. Outsourcing, therefore, requires agencies to adequately manage contracted service providers to ensure that they:

- deliver the contracted services, at the agreed quantity, quality, timeliness and cost
- have the current and future capacity and resources to meet their contractual obligations.

Our 2003-04 financial statement audits identified a number of instances where better management of significant outsourced services was needed[13]. These instances highlight the need for agencies to periodically:

- review the performance and financial standing of contractors, to ensure that contracted services are delivered and that contractors have the capacity to deliver services in future
- obtain independent assurance about the effective operation of contractor's internal control structures
- review risk assessments (and mitigation strategies) of major outsourced arrangements, to ensure that the management arrangements remain effective.

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[11] Through outsourcing arrangements, agencies contract external providers to deliver agreed agency services, to specified standards, for an agreed price.

[12] Source: *Financial Report for the State of Victoria, 2003-04,* Victorian Government Printer, Melbourne

[13] These instances are presented in later parts of this report.

Conclusion

Although the relevant agencies have addressed, or proposed to address, the concerns we identified, these instances remind us of the risks of outsourcing services, and the need to adequately manage those risks.

Recommendation

2.4 That agencies periodically review the effectiveness of strategies and processes to identify the major risks of outsourcing services, and to mitigate those risks.

Adequacy of information technology controls

Agencies place substantial reliance on computerised systems to produce information included in their financial reports. An assessment of these systems and the management of information technology (IT) within agencies is, therefore, an important part of the financial audit.

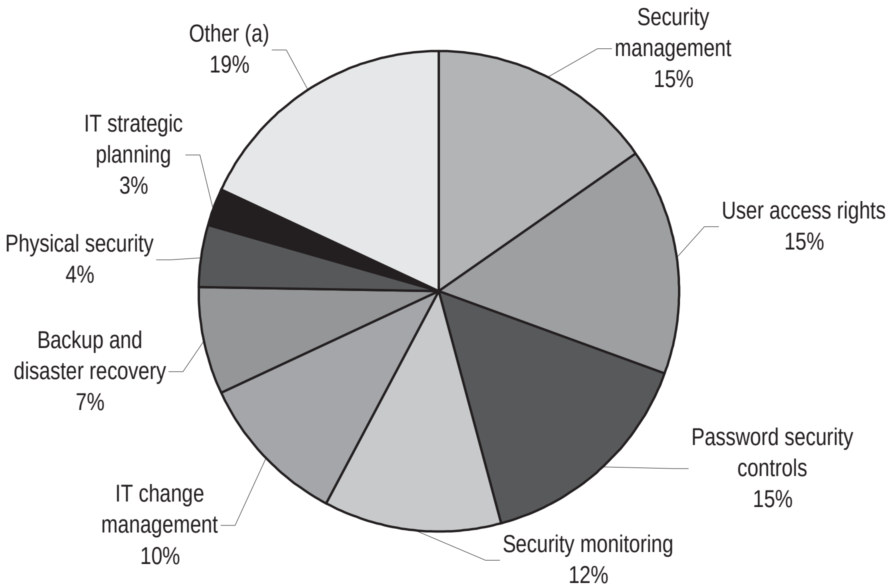
Our previous reports have commented on the outcomes of IT reviews undertaken as part of the annual financial audit process. Our November 2003 *Report on Public Sector Agencies, Results of special reviews and 30 June 2003 financial statement audits*, highlighted the need for agencies to develop and maintain policies and procedures for the management of their computer environments, and their use of IT resources. In particular, it identified that various aspects of security management, business continuity and security arrangements over specific financial systems, could be improved.

During 2003-04, we continued to conduct IT reviews across agencies. The scope of each review took into account the results of previous audits, the size of the audited agency and the risks inherent in its computer environment. Typically, the IT reviews assessed whether information technology controls implemented by the agency were appropriate and functioning as intended. The areas of control examined included:

- IT management practices, such as security, change management and organisation-wide IT governance
- the adequacy and effectiveness of operational and technical controls within computer environments that protect financial reporting information
- the planning and capability of agencies to recover from a major system interruption, IT disaster or virus outbreak.

Our reviews found that, while many of the agencies had addressed the specific weaknesses we identified in the prior year, there were areas that require further improvement. Figure 2H provides a summary of the main issues identified.

FIGURE 2H: IT ISSUES IDENTIFIED BY AUDIT, 2003-04
(PERCENTAGE OF ALL IT ISSUES IDENTIFIED)



(a) "Other" mainly consists of less significant security and change management control issues.
Source: Victorian Auditor-General's Office.

One of the more significant issues raised across the agencies examined in 2003-04 was the need for improved security management practices. We expected that agencies should have established a framework for managing IT security, which includes the regular assessment of key risks, the development of appropriate policies and procedures, implementation of control procedures and the periodic "audit" of the components of the framework. However, at these agencies, our audits typically found that:

- formal information security policies and procedures had not been established
- pre-existing policies and procedures had not been updated to reflect current risks, or had not yet been endorsed by management
- policies and procedures did not address all relevant security issues, such as incident response and security over application systems.

The impact of agencies failing to implement an appropriate framework for security management is that key security control procedures may not be adequately designed or implemented, resulting in a higher risk of error or deliberate manipulation/fraud.

Other important security-related issues identified during our audits included the need for:

- better security monitoring practices over systems, to help detect unauthorised activity
- improved password standards for key computer applications and systems

- more effective controls over the creation and removal of users to key applications and systems
- further testing, documentation and authorisation of changes to computerised systems.

We also observed a number of good practices in information security management. For example, Yarra Valley Water, a metropolitan water retailer, implemented strong security management practices during the year. It had implemented a comprehensive management framework to help it assess, monitor and continually improve security practices across the organisation. This included the development and/or enhancement of existing processes and documentation to address a range of IT governance practices such as:

- IT risk management
- information security policy development and enhancement
- personnel security
- access control
- IT systems development and maintenance
- business continuity.

Yarra Valley Water was subsequently able to achieve compliance and certification with Australian and internationally recognised standards in information security management (AS/NZ 7799.2:2003[14]). Ultimately, these initiatives should assist in ensuring that the confidentiality, integrity and availability to systems and data within this agency are maintained.

Conclusion

The majority of agencies we examined in 2003-04 had implemented minimum levels of control within their IT environments for us to place reliance on the key IT systems that produce information for the preparation of financial statements. We noted that many of the issues we identified in prior years had been addressed. However, there remains a continuing need for agencies to improve control procedures, particularly in the area of IT security.

Over the past 6 months, the Office of the Chief Information Officer[15] (OCIO) has implemented a number of positive initiatives in the area of IT security across agencies, including:

- establishing a "community of practice" for information security, to identify current issues across government and provide a forum to share ideas and good practice

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[14] Standards Australia, AS/NZS 7799.2:2003 *Information security management – Part 2: Specification for information security management systems*, 2003.

[15] The Office of the Chief Information Officer forms part of the Department of Premier and Cabinet and was established in 2003 to provide leadership in egovernment, and information, communication and technology strategy across the Victorian public sector.

- initiating a project with a major software vendor to develop best practices for server patch management in operating systems (including patches for security vulnerabilities). These practices are currently being developed and piloted with one department and are expected to become standards available across the whole of government in due course
- establishing a whole-of-government agreement with AusCERT[16] for the provision of security alert services to be available to all departments and other agencies.

These initiatives, and the future work of the OCIO, should assist in further improving security and IT management by public sector agencies over future years.

In June 2004, our office also published a good practice guide on *Managing internet security* to assist in raising agency awareness of this important issue. The guide contains a check list to help agencies and their audit committees assess how well they are placed in this area, and to establish appropriate improvement strategies.

Recommendations

2.5 That agencies adopt recognised standards in security management, such as AS/NZ 7799.2:2003, to design, implement and manage their IT security.

2.6 That agencies, and their audit committees, regularly review the effectiveness of IT security policies and practices, with reference to recognised standards and other guidance material such as our June 2004 good practice guide on *Managing internet security*.

Management of purchasing and accounts payable functions

Most public sector agencies purchase goods and services. Purchasing involves substantial financial and other risks. In 2003-04, about $12.8 billion was spent on supplies and services across government.

Our August 2004 *Report on public sector agencies* reported on the results of a cross-agency audit conducted in 2003-04 that assessed how well selected agencies managed procurements and accounts payable. It also examined the role of the Victorian Government Purchasing Board (VGPB) in establishing public sector procurement policies and requirements, and overseeing public sector procurement more generally.

[16] AusCERT is a computer emergency response organisation.

That audit concluded that the management of procurement and accounts payable activities by the audited agencies was adequate. It also identified opportunities to improve the current purchasing framework and agency practices. These included:

- broadening the coverage of VGPB policies and practices to all agencies subject to the *Financial Management Act 1994*
- clarifying public disclosure requirements for major contracts
- ensuring agencies establish appropriate expenditure delegations, and establish controls to ensure compliance with delegations
- avoiding duplicate payments to suppliers, by training staff and strengthening processes to review payments.

The report also recommended improving the efficiency of public sector purchasing, through:

- improved procedures to ensure that supplier payment terms are met
- greater use of cross-government purchasing agreements
- greater use of electronic purchasing and payment processes
- development of appropriate performance management regimes.

Conclusion

It will be important that individual agencies and the Department of Treasury and Finance, as the responsible central agency, assess the outcomes and recommendations of that audit report and develop strategies to address the major matters raised.

2.6 Emerging issues for 2004-05

2.6.1 Implementation of the new accounting standards

As explained in my previous reports to parliament[17], 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. This represents the largest change to accounting in Australia for many years.

[17] Victorian Auditor-General's Office, November 2004, *Report on the Finances of the State of Victoria* and *Reports on Public Sector Agencies* (November 2003 and May 2004), Government Printer, Melbourne.

At the date of preparing this report, the Australian Accounting Standards Board (AASB) had issued 40 new or revised accounting standards, referred to as Australian equivalents to International Financial Reporting Standards (A-IFRS), together with a document setting out the framework for the preparation and presentation of financial statements under the new standards.

The new standards introduce many changes in accounting treatments and disclosures covered by existing standards. They also address a number of issues which are not covered by the current Australian standards, such as the recognition and measurement of financial instruments and intangible assets. However, the new standards differ from the corresponding international standards for the following reasons:

- wording has been amended to accommodate the Australian legislative environment
- additional/amended requirements have been included for not-for-profit entities
- in some cases, the AASB has permitted only one of a number of options available in the corresponding international standards
- additional disclosure requirements have been included.

With the basic set of A-IFRS delivered, the AASB has now shifted its attention to developing financial reporting standards to meet the specific needs of the public sector, with a focus on reporting at a whole-of government level, and by departments and local government. A key part of this work involves the harmonisation of the Government Finance Statistics (GFS)[18] and the Australian Generally Accepted Accounting Principles (GAAP) reporting frameworks.

Impact of the new standards on financial reporting

While the impact of the new accounting standards will vary depending on individual agencies' business and scope of financial operations, the major changes for the public sector mainly relate to:

- valuation and impairment of non-current assets
- accounting for financial instruments
- valuation of outstanding superannuation and insurance liabilities
- accounting for finance leases and foreign exchange movements.

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[18] GFS is the reporting framework established by the International Monetary Fund to allow economic analysis of the public sector. To date, it is mainly used by central government agencies to report at a whole-of-government or general government sector levels.

An important aspect of the new standards is the retrospective manner in which they must be applied. Specifically, Australian Accounting Standard AASB 1 *First Time Adoption of Australian Equivalents to International Accounting Standards* requires the first financial reports to be prepared in accordance with the new standards to also include full year comparatives based on the new standards. This means that agencies must prepare 2 sets of financial statements for the balance date before the first A-IFRS compliant financial statements are published. One set is to be compliant with the current standards and published/tabled in parliament as normal. The second set is to be compliant with the new A-IFRS and not published, but used to provide the comparative data for the following year's financial statements and accompanying notes.

Figure 2I shows the timelines established for adoption of the new standards by public sector agencies.

FIGURE 2I: IMPLEMENTATION OF NEW AUSTRALIAN ACCOUNTING STANDARDS, KEY DATES AND EVENTS

Agency balance dates	Prepare opening balance sheet	Start collecting comparative data (a)	Full year comparative figures	Annual reporting period ending
31 December	31 Dec. 2003	1 Jan. 2004	31 Dec. 2004	31 Dec. 2005
30 June	30 June 2004	1 July 2004	30 June 2005	30 June 2006
30 September	30 Sept. 2004	1 Oct. 2004	30 Sept. 2005	30 Sept. 2006

(a) Also known as the transition date.

Source: Victorian Auditor-General's Office.

As shown above, agencies with 31 December balance dates (mainly education agencies such as universities and TAFE institutes) will be the first to prepare a full year financial report under the revised Australian accounting standards. 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.

As part of the transition to the new standards, agencies are required, in accordance with Australian Accounting Standard AASB 1047 *Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards,* to include certain disclosures in their financial reports for intervening reporting periods. For 30 June 2004 financial reports, agencies were required to include:

- an explanation of how the transition to A-IFRS is being managed
- a narrative explanation of the key differences in accounting policies that are expected to arise from adopting A-IFRS.

For financial reports covering periods ending 30 June 2005, agencies will be required to disclose:

- any known or reliably estimable information about the impacts on the financial report, had it been prepared using the new standards
- if the impacts are not known, or reliably estimable, a statement to that effect.

Reliable estimation is considered impracticable only when it cannot be done after making every reasonable effort to do so. Accordingly, agencies will need to ensure that their work on the information gathering and analysis necessary for the required disclosures are appropriately planned and timed.

Central agency leadership

In response to these developments, the Department of Treasury and Finance (DTF) has established a project team to coordinate the implementation of the new standards across the public sector. The team has undertaken a comprehensive analysis of the needs of public sector agencies to successfully implement the new standards, which was used to inform the development of various initiatives.

A key initiative was the utilisation of the Financial Management Knowledge Centre website <www.fmkc.dtf.vic.gov.au>[19], to disseminate information to agencies on the implementation of new accounting standards. This website provides up-to-date information on the new standards, acts as a forum for the sharing of information between agencies, and provides an issues management system along with various tools and templates for agencies' use.

DTF has also prepared summaries of the new standards that will have the most impact on Victorian public sector agencies. These summaries, which are available on the website, provide a broad overview of the differences between the existing Australian accounting standards and the new standards. DTF is also providing to agencies, in conjunction with a major accounting firm, training workshops to cover technical aspects of the new standards and provide practical assistance and tools to assist agencies in their implementation of the new standards.

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[19] The Financial Management Knowledge Centre was originally established to disseminate information across the public sector about the state's financial management compliance framework.

Response by agencies to these changes

The response of individual agencies has varied, from taking a proactive approach to identifying the implementation needs of the new standards, to waiting for a central agency response to assist a perceived lack of resources to proceed to implementation. An example of a proactive/positive approach has been the finance directors of universities, who have adopted a co-operative approach to meeting the identified challenges. In other cases, agencies have engaged private sector accounting firms to help them identify the major impacts and implications of the new standards.

Our office has supported agencies in working through and resolving any specific accounting and financial reporting issues as they are identified. However, substantial work remains for agencies to effectively position themselves for the implementation of the new standards.

What should individual agencies be doing now?

By now, agencies should have considered, and be in the process of implementing, the following steps in managing the transition to the new accounting standards:

- established a steering committee to oversee the transition and implementation process
- reviewed current accounting policies and the new standards to identify key issues and the likely impacts resulting from the adoption of the new standards
- commenced an ongoing education and training process for all stakeholders to raise awareness of the changes in reporting requirements and the processes to be undertaken within the agency for their implementation
- initiated a reconfiguration and testing of systems and processes to meet the new requirements.

Recommendation

2.7 That agencies ensure appropriate strategies and processes are in place, as suggested above, to ensure their effective transition to the new accounting standards.

2.6.2 Progress in non-financial performance reporting

As mentioned earlier in this report, the issue in May 2004 by the Minister for Finance of Financial Reporting Direction FRD 27 *Presentation of Reporting and Performance Information,* was a significant development which established a framework for the better reporting of performance information by public sector agencies subject to the *Financial Management Act 1994*. All agencies subject to this FRD are required to prepare and present in their annual reports audited statements of performance.

While the application of this FRD for 2003-04 was limited to the state's 15 regional water authorities, my expectation is that its application will be progressively extended to other agencies over future years. This will assist to improve the quality of publicly reported performance information and, therefore, the accountability of agencies to parliament and the community.

Recommendations

2.8 That the Department of Treasury and Finance, in consultation with other departments, develop an implementation strategy to progressively extend the application of FRD 27 to all public sector agencies.

2.9 That agencies, in consultation with their portfolio departments, work towards the development and publication in their annual reports of performance statements, consistent with the requirements of FRD 27.

RESPONSE provided by the Secretary, Department of Treasury and Finance

The Department of Treasury and Finance currently has no immediate plans to extend the application of FRD 27 beyond the existing 15 regional water authorities. More extensive requirements for performance reporting (output measures) are mandatory for departments. These latter departmental performance measures were first developed in 1997-98 and refined over a number of years before being introduced into the "Model Financial Report for Victorian Government Departments" in 2001.

For government agencies, including those in the health and education sector as well as public financial and other non-financial corporations, the department believes that a more productive approach is to foster the development of meaningful internal performance indicators and measures, and imbed such measures into management decision-making.

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

The Standing Directions of the Minister for Finance, issued in June 2003, includes requirement 4.4:

> *"Public sector agencies must develop appropriate financial management performance indicators and monitor performance against these to identify key statistics and trends for use in management decision-making"*

This issue should be again considered in the future.

2.6.3 Operation of the capital assets charge

The capital assets charge (CAC) is a fee levied annually by the Department of Treasury and Finance on all departments, based on the value of their non-current physical assets. It aims to achieve 2 main objectives:

- to enable departmental outputs to be full costed by attributing to them the opportunity cost of capital used in service delivery
- to provide departments with incentives to identify and dispose underutilised or surplus assets in a timely manner.

Since 1998-99, the CAC has been levied at a rate of 8 per cent of the actual written–down value of the non-current physical assets controlled by departments. Some types of assets (such as roads, national parks and cultural assets) have been exempted from the charge.

Departments are required to fund the CAC from their output appropriations. These annual appropriations provide for the charge, based on the budgeted value of departmental assets for the year. Any increase in the value of a department's assets during a year, above budget, will increase the CAC levied, without necessarily increasing the department's output appropriations (its revenues). In these cases, departments need to find savings in other costs to offset the increased CAC payable, or seek additional funding (or an exemption) from the Department of Treasury and Finance for the full application of the CAC.

Over recent years, increases in the value of non current physical assets held by departments (and related agencies) with large asset holdings, largely attributable to revaluation increments resulting from a buoyant property market, have significantly increased the CAC expense for these departments. In 2003-04, CAC charges levied on departments totalled $1 916 million (2002-03, $1 756 million).

Application of the CAC in 2003-04

Our November 2003 *Report on Public Sector Agencies, Results of special reviews and 30 June 2003 financial statement audits* made comment on an exemption granted to the Department of Education and Training for 2002-03, from the full application of the CAC policy. This practice, in our opinion, brought into question whether the intended objectives of the CAC were being achieved.

To reduce the expenditure impact of increasing (unbudgeted) CAC charges for departments with significant non-current physical asset holdings, further exemptions were issued to (and utilised by) 2 departments from the full application of the CAC policy for 2003-04. These included the Department of Education and Training, and the Department of Human Services. In these cases, the CAC was charged on the basis of budget estimates for 2003-04, rather than the actual written-down value of non-current physical assets held by the departments during the year. Figure 2J shows the CAC paid by these 2 departments in 2003-04, and the CAC which would have been paid had no exemption been granted.

FIGURE 2J: CAPITAL ASSETS CHARGE FOR DEPARTMENTS RECEIVING EXEMPTIONS, 2003-04
($MILLION)

Department	Full CAC	CAC paid	Difference
Education and Training	738.3	666.7	71.6
Human Services	395.3	372.3	23.0

Source: Victorian Auditor-General's Office.

Further to these exemptions, a number of anomalies currently exist in the way that departments administer the CAC. In certain cases, they pass-on the CAC costs (and related funding grants) to portfolio agencies, whereas in other cases they do not. The current guidelines do not prescribe any policy on the passing-on of the CAC to other agencies. This decision rests with each department.

In addition, there are inconsistencies in the types of assets that are exempt from the application of the CAC. For example, rail infrastructure is subject to the CAC, whereas roads infrastructure is exempt.

These anomalies and practices reduce the effectiveness of the CAC for cost attribution and asset management purposes.

Future of the CAC

The Department of Treasury and Finance is currently examining the ongoing operation of the CAC as part of a wider review of asset management policies within the Victorian general government sector. The department's preliminary observations are that the CAC has proved to be relatively ineffective in modifying departmental behaviour to manage asset bases more efficiently. This has been mainly due to:

- inconsistencies in the types of assets exempted from the CAC, with some departments having more operational discretion over "leviable" assets than others
- the lack of consistent interpretation, implementation and attribution of CAC policy by departments
- the negative impact of asset revaluations, whereby departments are charged on changing asset values which are not related to management effectiveness, and may or may not receive revenue supplementation, or exemptions, for such changes.

These preliminary views mirror our own observations. The department's review is due to be finalised later this year. Its outcomes will inform future government policy on asset management and the operation of the CAC across departments and other agencies within the general government sector.

3. Parliament

3.1 Overview

The Parliament of Victoria comprises the Crown (represented by the Governor) and the 2 Houses of Parliament (the Legislative Council and the Legislative Assembly), which collectively form the legislature.

Its operations are funded from appropriations provided to each of the parliamentary departments[1] which service the 2 Houses and the associated committees, and provide administrative support for members and electorate offices. The appropriation of funds to parliament also includes funding for the Victorian Auditor-General's Office, reflecting the role of the Auditor-General as an officer of parliament.

While no legislative reporting requirements are established for the administrative activities of parliament, under a standing arrangement with the presiding officers of both Houses, my Office undertakes an annual audit of the financial statements of parliament (which comprises the parliamentary departments). These financial statements are prepared consistent with the requirements of the *Financial Management Act 1994*.

The audit of the financial statements of the Victorian Auditor-General's Office is undertaken by auditors appointed by parliament on the recommendation of its Public Accounts and Estimates Committee.

3.2 Results of financial audits

Clear audit opinions were issued on the financial statements of parliament and the Victorian Auditor-General's Office for the year ended 30 June 2004. Figure 3A shows the performance of these entities in meeting the reporting timetable for 2003-04.

FIGURE 3A: TIMELINESS OF COMPLETION OF AUDITED FINANCIAL STATEMENTS

Number of weeks after end of financial year audited financial statements were finalised	2003-04		2002-03	
	Number	Per cent (cumulative)	Number	Per cent (cumulative)
Less than 8 weeks	1	50	-	-
8 to 10 weeks	-	-	2	100
10 to 12 weeks	1	100	-	100
12 to 14 weeks	-	100	-	100
Total	2	-	2	-

Source: Victorian Auditor-General's Office.

[1] The number of parliamentary departments was recently reduced from 5 to 3. The current parliamentary departments are the Legislative Council, Legislative Assembly and Parliamentary Services.

While parliament improved the timeliness of its financial reporting this year, our Office experienced some delay in finalising our financial statements. Both audited financial statements were completed within the 12-week statutory time frame.

3.3 Adequacy of control environment

In September 2003, we tabled a report on parliament's Parlynet information technology upgrade project. The report resulted from a review requested by the Speaker of the Legislative Assembly. It identified a number of major issues relating to the management and oversight of the project, and the administrative structure and processes of parliament more generally.

In the course of this year's financial audit, we reviewed the progress made in addressing the issues raised in that report. We found that, while many of the issues had been addressed, there was still progress to be made.

An Information Technology sub-committee has been formed and meets regularly to review parliament's information technology (IT) governance. This committee is reviewing all IT activities, including the implementation of our report's recommendations. A new IT strategy has also been drafted and is in the process of being finalised.

The report identified a need to improve parliament's administrative framework and processes. A new position (Secretary, Department of Parliamentary Services) has been created to help achieve this. A number of roles and responsibilities, policies, procedures and committee terms of reference have been reviewed, and changes are being made to improve the clarity of the decision-making processes. The implementation of a risk management framework has also commenced, although it is in its early stages.

While some of the issues in our Parlynet report (and in our financial audit report to management for 2003-04) have been addressed, the development of broader strategic responses to the issues was still in process. We will continue to monitor action on these issues.

In conclusion, parliament has responded positively to the findings of our 2003 Parlynet report and has implemented a number of administrative, procedural and policy changes to address the issues identified. We will continue to monitor parliament's progress in implementing further improvements, as part of the 2004-05 financial audit.

4. Education and Training

4.1 Audit conclusions

We issued clear audit opinions on the financial statements of 6 agencies with 30 June 2004 balance dates in this portfolio. The audit of one agency was incomplete at the date of preparing this report.

We also issued 16 clear audit opinions and 2 qualified audit opinions on the financial statements of sector agencies recorded as outstanding in our May 2004 *Report on Public Sector Agencies: Results of special reviews and financial statement audits for agencies with 2003 balance dates other than 30 June*[1].

The timeliness of financial reporting was similar to 2003-04, with only 3 of the 7 agencies with 30 June 2004 balance dates meeting the statutory reporting deadline. Agencies need to better plan their year-end close-off and external reporting processes so that they can meet their reporting deadline in future. The Department of Education and Training needs to revalue its assets earlier in the year and improve its quality assurance over the revaluation process.

Our audits found the control environments of sector agencies to be generally sound. However, recent legal advice received by the department questioned the accountability arrangements for the state's 1 632 school councils. It advised that school councils are public statutory authorities which are subject to the same reporting and auditing requirements as all other public sector agencies. The department and our Office are now working towards establishing an appropriate reporting and accountability model for these entities, for planned application from 2006.

4.2 Sector overview

The Education and Training sector comprises the Department of Education and Training and other agencies that provide, purchase and regulate education and training services for Victorians of all ages. These education and training services are delivered through schools, TAFE institutes, adult education institutions, adult and community education providers, other registered training organisations, and higher education institutions. The Minister for Education and Training, and the Minister for Education Services are responsible for the department. The Minister for Education and Training is responsible for the other agencies in the sector.

[1] Audit opinions on 2 agencies with 31 December 2003 balance dates remained outstanding at the date of preparing this report because we had not received completed financial statements or had not completed auditing the agencies.

The majority of sector agencies, including universities and TAFE institutes, have 31 December balance dates and are not covered in this report. The outcomes of their financial audits for the 2004 calendar year will be reported to parliament during the 2005 autumn session.

Figure 4A profiles sector agencies with 30 June 2004 balance dates.

FIGURE 4A: TYPE AND NUMBER OF AUDITED AGENCIES IN THE EDUCATION AND TRAINING SECTOR, AT 30 JUNE 2004

Reporting entity	Number
Department	1
Public bodies (a)	6
Total	7

(a) Public bodies include statutory authorities such as the Adult, Community and Further Education Board, and the Victorian Learning and Employment Skills Commission.

Source: Victorian Auditor-General's Office.

The department provides primary and secondary education in government schools, and regulates and funds non-government schools in Victoria. It plans, regulates and funds apprenticeships and traineeships, and adult and community education, to meet the skill needs of individuals and industry. It also plans, coordinates and monitors higher education in Victoria.

The other agencies within the sector with 30 June 2004 balance dates develop curriculum and assess schools across all year levels, provide post-compulsory education and training in Victoria and accreditation of training qualifications and courses, and regulate the teaching profession.

In 2003-04, the department provided $6.2 billion for education and training in Victoria. This was 20 per cent of the state government's spending. It managed 114 000 school buildings (valued at $3.9 billion) and 6 300 hectares of land (valued at $4 billion). Schools collected $349 million from fundraising activities.

4.3 Results of financial audits

4.3.1 Audit opinions issued

Clear audit opinions were issued on the financial statements of 6 agencies in the sector with 30 June 2004 balance dates[2]. The audit of one agency (Victorian Tertiary Admissions Centre) was incomplete at the date of preparing this report.

We also finalised the financial statement audits of 18 agencies listed as incomplete in our May 2004 *Report on Public Sector Agencies.* We issued clear opinions on all these financial statements, except for those of Ingenko Pty Ltd and Monash Learningfast Pty Ltd. Those agencies' financial statements were qualified because of uncertainty about whether each agency would continue as a going concern.

Audit opinions on 2 agencies with previous (31 December 2003) balance dates remained outstanding at the date of preparing this report because we had not received completed financial statements or had not completed auditing the agencies.

4.3.2 Timeliness of reporting

Figure 4B shows how well sector agencies with 30 June 2004 balance dates met the 12-week statutory reporting requirement for 2003-04.

FIGURE 4B: TIMELINESS OF COMPLETION OF AUDITED FINANCIAL STATEMENTS IN THE EDUCATION AND TRAINING SECTOR

Number of weeks after end of financial year audited financial statements were finalised	2003-04		2002-03	
	Number of entities	Per cent (cumulative)	Number of entities	Per cent (cumulative)
Less than 8 weeks	-	-	-	-
8 to 10 weeks	-	-	-	-
10 to 12 weeks	3	43	3	43
12 to 14 weeks	2	71	2	71
14 to 16 weeks	1	86	1	86
More than 16 weeks (a)	1	100	1	100
Total	7	-	7	-

(a) Includes one agency whose financial statements were not finalised at the date of preparing this report.

Source: Victorian Auditor-General's Office.

[2] Appendix A to this report contains information about the timing of the finalisation of financial report and audit opinion for each agency, and the nature of the opinion issued.

Figure 4B shows that agencies' reporting timelines were similar to the previous year, with only 3 agencies meeting the 12-weeks statutory reporting deadline. Agencies failed to meet the 12-weeks deadline because:

- in the case of the department, there was inadequate planning for the revaluation of its land and buildings[3]
- a lack of urgency by some agencies to prepare draft financial statements and resolve financial issues identified during the audit process
- in the case of one agency, its governing board did not meet to approve the financial statements until after the legislated reporting deadline had passed.

Recommendations

4.1 That the Department of Education and Training in future ensure its assets are revalued in sufficient time to ensure that the department's audited financial statements meet the statutory 12-week deadline.

4.2 That sector agencies, other than the department, ensure that they have sufficient and adequately skilled personnel to prepare annual financial reports within the time frames required by legislation.

4.3 That agency boards schedule meetings in sufficient time to enable them to sign financial statements within the 12-week statutory deadline.

RESPONSE provided by the Secretary, Department of Education and Training

The department accepts recommendation 4.1. The department has already commenced the process of preparing for the 2005 revaluations with the view to ensuring that the process is completed in sufficient time for inclusion in the annual accounts.

The department accepts recommendation 4.2. As part of its review of governance of its sector agencies, the department is reviewing the role of the department's Chief Finance and Accounting Officer (CFAO) in relation to the sector agencies. It is expected that the CFAO will have a more direct role in the finances of these agencies, and be able to co-ordinate the more timely production of agency accounts.

The department also accepts recommendation 4.3 and will bring it to the attention of the relevant statutory authorities.

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[3] There is more information about this matter later in this part of the report.

4.3.3 Quality of financial reporting

The quality of financial reporting for 2003-04 by agencies continued to improve. There were fewer errors in, and omissions from, the draft statements presented for audit. This was mainly due to better quality assurance processes for the preparation of financial statements.

Overall, the quality of financial statements presented for audit by sector agencies is now satisfactory.

4.3.4 Adequacy of control environments

All agencies are required to establish and maintain a sound control environment and an adequate system of internal controls to ensure that:

- the agency's financial records and other information completely and accurately reflect its entire activities
- its assets are safeguarded
- errors and other irregularities are prevented or detected.

Our financial audits assess agencies' governance and financial control processes.

Our financial audits confirmed that the control environments of agencies in the sector, and the internal control systems that we examined, were generally satisfactory. Our audits did not identify any major weaknesses in agencies' control environments.

4.3.5 Other issues

Reporting and audit arrangements for government school councils

There are 1 632 school councils in Victoria that oversee government schools. School councils are set up under the *Education Act 1958*. The Act requires school councils to prepare accounts on a cash basis, and have them audited by "an approved auditor", within 3 months of the end of the financial year. The Act also requires a school council to publish an annual report of its activities, and to present a statement of receipts and expenditure at a public meeting.

For some years, the Department of Education and Training contracted private sector audit providers to audit school councils. The service providers followed a standard audit program developed by the department. The program mainly intended to provide assurance about the contents of the school council cash-based accounts and the schools' internal controls, and to ensure compliance with tax obligations and departmental requirements.

The Victorian Government Solicitor recently advised the department that school councils are public statutory authorities. This means that they are subject to the accountability and auditing provisions of the *Financial Management Act 1994* and the *Audit Act 1994*. To comply with these Acts, school councils would have to:

- prepare accounts on an accrual basis, rather than a cash basis
- have their accounts audited by the Auditor-General
- present a report of operations, including the audited financial report, to parliament.

The department considers that school councils, in their own right, will not be able to meet these requirements for some considerable time. Funding to government schools is largely provided through the Department of Education and Training. The school council accounts are consolidated into the statutory accounts of the department, which are presented to parliament in line with the reporting provisions of the *Financial Management Act 1994*. The department has internally identified the need to address the reporting arrangements for government schools in relation to the *Financial Management Act 1994*.

In light of this, and given the *Education Act 1958* requirement for councils to appoint approved auditors to provide assurance on their financial affairs, I have exercised the authority available to me under section 8 of the *Audit Act 1994* and have dispensed with the audit of school councils, until a longer-term solution is developed.

My Office and the department have agreed on the following further interim arrangements until such a solution is developed:

- the school council financial statements will continue to be consolidated with those of the Department of Education and Training in accordance with section 53 of the *Financial Management Act 1994*
- private sector audit service providers will continue to audit school councils and provide independent audit reports on their statements of receipts and expenditure, in line with the requirements of the *Education Act 1958*
- the department will undertake internal audits of selected schools and focus on internal controls and resource management issues.

My Office will continue to work with the Department of Education and Training and Department of Treasury and Finance to consider options and develop a long-term solution, to be implemented in 2006.

Results of school council audits for 2003-04

As mentioned above, the department consolidates in its financial statements the financial activities of government-funded primary, secondary and special schools. In 2003-04, the department engaged audit service providers to audit the financial statements of Victoria's 1 632 school councils.

The auditors issued qualified audit opinions on the financial statements of 162 school councils. The auditors were not able to give an opinion about the completeness of cash takings at 156 schools, because of limited evidence about takings from fundraising activities. This is a common issue for organisations that conduct cash fundraising, because it is often impractical to fully control all cash collected. Other qualifications resulted from inadequate monitoring by the school council of their school's financial activities (4 instances), fraud at a school (one instance), and record keeping errors (one instance).

The department advised us that issues arising from school council audits will be followed-up by its regional directors during the coming year at meetings with school principals.

Inadequacies in the department's land and buildings revaluation process

The department's assets revaluation plan provides for all its land and buildings to be revalued at some point in a 3-year cycle. The revaluation of such a large number of assets requires strong processes and controls to ensure that information required for reporting purposes is timely, accurate and complete. In 2003-04, 961 school sites were revalued.

The department was late in appointing a valuer for the 2003-04 revaluations. The department also found that the valuer could not revalue all 961 sites, and had to engage an additional valuer to complete the revaluations.

Further, the department:

- provided data to valuers that contained errors
- did not review the data returned by valuers to ensure it was accurate
- provided us with incomplete documentation supporting the revaluation.

Problems with revaluing its assets meant that the department could not meet its statutory reporting deadline. As previously commented, it is important that in future years the department better plan and manage the revaluation of its assets.

5. Human Services

5.1 Audit conclusions

This sector comprises 125 agencies that were required to prepare 30 June financial statements and submit them for audit. We issued 116 clear audit opinions and 7 qualified opinions. The financial statements of 2 agencies had not been finalised at the date of finalising this report.

The timeliness of the sector's audited financial statements was comparable with last year. Seventy-nine per cent of agencies met the statutory 12-week completion deadline, compared with 72 per cent in 2002-03.

The public hospital sector continued to face financial difficulties. At 30 June 2004, about half (47) of Victoria's public hospitals registered adverse results in at least 2 of our indicators of financial difficulty (37 in 2002-03). The number of hospitals facing financial difficulties on all 4 of our indicators reduced from 15 in 2002-03 to 10 in 2003-04. This mainly resulted from extra funding to hospitals of $106.7 million to cover their shortfalls at 30 June 2004.

The control environments of agencies were generally satisfactory.

The Department of Human Services acted quickly and efficiently to ensure uninterrupted payroll services after a major service provider faced significant financial difficulties. However, all agencies need to identify and monitor the risks of similar incidents in future.

There are new arrangements for managing medical malpractice insurance through the Public Healthcare Victorian Insurance Program. All legal and accounting requirements were satisfactorily managed.

5.2 Sector overview

The health and human services sector comprises the Department of Human Services and 124 other agencies with 30 June balance dates. These include public hospitals, ambulance services and registration boards for health professionals.

The Minister for Health, the Minister for Community Services, the Minister for Aged Care and the Minister for Housing have responsibility for the Department of Human Services, and specific responsibility for individual entities within the sector.

Figure 5A shows the agencies with a 30 June 2004 balance date.

FIGURE 5A: TYPE AND NUMBER OF AUDITED AGENCIES IN THE HUMAN SERVICES SECTOR, AT 30 JUNE 2004

Reporting entity	Number
Department of Human Services	1
Public bodies (a)	16
Public hospitals (b)	94
Companies, trusts and joint ventures	14
Total	125

(a) Public bodies include statutory authorities such as Victorian Health Promotion Foundation, the Dental Practice Board of Victoria and the Nurses Board of Victoria.

(b) On 1 July 2004, Women's and Children's Health was disaggregated into The Royal Children's Hospital and The Royal Women's Hospital.

Source: Victorian Auditor-General's Office.

The department funds and delivers public health services, public housing, accommodation and support for senior Victorians and for people with disabilities, and other community services. In 2003-04, the department:

- made new arrangements for the management of medical malpractice insurance through the Public Healthcare Victorian Insurance Program
- implemented the Victorian Public Hospitals Governance Reform Panel's recommendations
- made important changes to hospital funding arrangements, specifically for non-employee costs.

Responsibilities of other agencies in the sector include:

- public hospitals (which provide acute inpatient, non-admitted and emergency, mental health, aged care, community health and public health services to the community)
- ambulance services (which provide emergency services through the Metropolitan Ambulance Service, Rural Ambulance Victoria, and the Alexandra and District Ambulance Service)
- registration boards (which are responsible for registering a range of health professionals such as medical practitioners, nurses, optometrists, pharmacists, physiotherapists, Chinese medicine practitioners, dental practitioners, chiropractors, osteopaths and podiatrists).

5.3 Results of financial audits

5.3.1 Audit opinions issued

Clear audit opinions were issued on the financial statements of 116 agencies with 30 June 2004 balance dates. The financial statements of a further 7 agencies were subject to audit qualifications, as shown in Figure 5B. The financial statements of the remaining 2 agencies had not been finalised at the date of preparing this report.

FIGURE 5B: HUMAN SERVICES SECTOR, QUALIFIED AUDIT OPINIONS

Agency	Reason for qualification
Calvary Health Care Bethlehem Limited	Incorrect recognition of net assets received from a predecessor entity.
Mercy Public Hospital Inc.	Failure to consolidate the financial statements of the controlled entities Werribee District Hospital Charitable Foundations Nos. 1 and 2.
Royal Women's Hospital Foundation Trust Funds	Inability to verify the completeness of cash donations.
St Vincent's Hospital (Melbourne) Limited	Understatement of receivable arising from financing arrangements for the redevelopment of the hospital.
The Queen Elizabeth Centre	Failure to consolidate the financial statements of a controlled entity, the Queen Elizabeth Centre Foundation.
Wodonga Regional Health Service	Non-compliance with AAS 15: *Revenue* requirement for the recognition of grant revenues.
Wonthaggi and District Hospital Benefit Trust Fund	Non-compliance of financial report with certain requirements of statements of accounting concepts and applicable accounting standards.

Source: Victorian Auditor-General's Office.

We removed last year's qualifications for Bendigo Health Care Group (non-compliance with AASB 1041: *Revaluation of non-current assets*), Cohuna District Hospital (failure to consolidate a controlled entity) and Northeast Health Wangaratta (non-compliance with AAS 15: *Revenue*) after resolving the issues giving rise to these qualifications.

RESPONSE provided by the Secretary, Department of Human Services

The department notes the low number of audit qualifications and will seek advice from the Department of Treasury and Finance in particular on consolidation requirements of related entities.

5.3.2 Timeliness of reporting

Figure 5C shows how well agencies met the 12-week statutory reporting requirement for 2003-04.

FIGURE 5C: TIMELINESS OF COMPLETION OF AUDITED FINANCIAL STATEMENTS, HUMAN SERVICES SECTOR (a)

Number of weeks after end of financial year audited financial statements were finalised	2003-04		2002-03	
	Number of entities	Per cent (cumulative)	Number of entities	Per cent (cumulative)
Less than 8 weeks	8	6	6	5
8 to 10 weeks	16	19	5	10
10 to 12 weeks	75	79	70	72
12 to 14 weeks	19	94	22	91
14 to 16 weeks	3	97	4	95
More than 16 weeks (b)	4	100	6	100
Total	125	-	113	-

(a) Includes all audited financial statements as at 31 October 2004.

(b) Includes the financial statements of 2 agencies that had not been completed at the date of preparation of this report.

Source: Victorian Auditor-General's Office.

As Figure 5C shows, the timeliness of the completion of audited financial statements was comparable with last year. Seventy-nine per cent of entities met the statutory 12-week completion timeframe in 2003-04 (72 per cent in 2002-03).

The main reasons for the statutory deadline not being met by some agencies were:

- delays in resolving issues with the ongoing financial viability of some hospitals, particularly in relation to the issue of letters of financial support by the Department of Human Services
- inadequate planning and/or resourcing of the financial statement preparation process.

In relation to the latter item, we note that a number of rural hospitals have outsourced the preparation of their financial statements to accounting firms. This has assisted the hospitals to complete their financial statements in a more timely manner.

RESPONSE provided by the Secretary, Department of Human Services

The department is pleased with the increase in timeliness compliance to 79 per cent, which is a continuation of the previous year improvement. A key factor driving these improvements is the stability of financial reporting standards and requirements over the 2 reporting periods.

5.3.3 Quality of financial reporting

In 2003-04, the quality of financial reporting by sector agencies improved. In particular, there was increased compliance by agencies with pro-forma financial statements issued by the department for use by hospitals, ambulance services and other health agencies.

As required, agencies referred in the notes to their financial statements to the nature and extent of their preparations to implement the new international financial reporting standards, and to which of their accounting policies are likely to be affected. The main areas affected will be the valuation of assets, impairment of assets and finance leases. Each agency will be required to quantify the potential financial impact of changes in their accounting policies in their 2004-05 financial statements.

5.3.4 Financial performance and position of public hospitals

In previous reports to parliament, we have assessed the financial position of public hospitals and the measures taken by the Department of Human Services to address the financial difficulties faced by some hospitals. A similar review has been completed for 2003-04.

Figure 5D shows the financial indicators we used to assess the financial position and performance of hospitals.

FIGURE 5D: INDICATORS USED TO DETERMINE IF A PUBLIC HOSPITAL IS IN FINANCIAL DIFFICULTY

Indicator	Notes
Operating result for the year	A deficit results if revenues do not cover operating costs. Ongoing deficits may indicate under-funding or inability to contain costs.
Operating result (excluding capital grants)	Hospitals are given a grant when an asset needs to be replaced (rather than funds to match the depreciation expense). This causes fluctuations in operating results because grants rise and fall from year to year. Excluding these grants "normalises" the operating result.
Net cash flows from operating activities (excluding capital grants)	In accordance with accounting standards, capital grants are classified as operating cash inflows, whereas the resultant outflows are classified as investing activities. Excluding these grants "normalises" the net cash flows from operating activities.
Working capital position	Negative working capital may suggest that a hospital will not be able to meet its financial obligations as and when they fall due.

Source: Victorian Auditor-General's Office.

Our analysis for 2003-04 indicated that the aggregate financial standing of public hospitals had improved slightly with a reduction in the aggregate operating deficit and a surplus on net cash flows from operating activities (compared with a deficit in 2002-03). This improvement was mainly due to additional funding provided to certain public hospitals.

In relation to individual hospitals, our analysis revealed that:

- 10 hospitals showed signs of financial difficulty with unfavourable results in all 4 indicators (compared with 15 hospitals in 2002-03)
- a further 37 hospitals had unfavourable results in at least 2 of the indicators.

Aggregate financial standing of public hospitals

Figure 5E summarises the aggregate financial standing of all public hospitals at 30 June 2004, compared to a year earlier.

FIGURE 5E: AGGREGATE FINANCIAL STANDING OF ALL PUBLIC HOSPITALS, AS AT 30 JUNE

		30 June 2004	30 June 2003
Revenue	($m)	6 251	5 842
Expenditure	($m)	(6 291)	(5 963)
Operating surplus/(deficit) (a)	($m)	(40)	(121)
Operating (deficit) excluding capital income	($m)	(266)	(317)
Net cash flows from operating activities excluding capital income	($m)	155	(58)
Working capital -			
Current assets less current liabilities	($m)	(174)	(160)
Ratio	(Current assets/ current liabilities)	0.83	0.85

(a) Revenue and operating results for the year ended 30 June 2003 exclude a net gain of $34.8 million on transfer of assets from LRH Pty Ltd to Latrobe Regional Hospital, a $13.5 million forgiveness of finance lease debt from SEMCL Pty Ltd to Southern Health, and expenditure of $23.6 million at Melbourne Health arising from a decrement on the revaluation of buildings.

Source: Victorian Auditor-General's Office.

As Figure 5E shows, total public hospital revenue from government and other sources increased by $409 million (or about 7 per cent) in 2003-04. This included once-off funding of $106.7 million provided to certain hospitals at the end of the year. Despite this additional funding, the aggregate operating deficit of hospitals was reduced by only $81 million.

The net cash flow position improved at 30 June 2004 to a surplus of $155 million (deficit of $58 million at 30 June 2003). This situation was again mainly due to additional funds provided at year-end. Cash flow forecasts of hospitals for 2004-05 indicate that this favourable position may not be sustained without further additional funding.

RESPONSE provided by the Secretary, Department of Human Services

As indicated later in this report, the Department of Human Services has been consistently of the view that both capital grants and depreciation expense should be excluded from the assessment of financial viability. The department regards the Auditor-General's representation of the operating result as potentially misleading because capital allocations to hospitals can vary widely from year to year while the depreciation amount is relatively stable.

A table showing the underlying operating results, which total a $33.5 million deficit is attached.

AGGREGATE FINANCIAL STANDING OF ALL PUBLIC HOSPITALS ($M)

Year ended 30 June	VAGO 2004	DHS 2004	DHS 2003
Net operating deficit as reported in annual reports	-40.1	-40.1	-72.7
Less -			
Capital purpose income		-216	-219.7
Interest on capital fund		-2.3	-1.4
Proceed from sale of fixed assets (a)		-34.9	-53.6
Assets received and assets found		-9.9	-52.3
Add -			
Depreciation		221.7	215.1
Infrastructure maintenance grants wrongly classified		3.3	9.6
Written down value of assets sold		33.4	59.0
Building decrement/assets written off		11.3	13.5
Adjusted operating deficit		-33.5	-102.5

(a) In 2002-03, this includes Latrobe Regional Hospital's net assets received free of charge and Southern Health's forgiveness of lease liability.

Financial standing of individual public hospitals

Figure 5F shows the hospitals that we consider were operating with financial difficulties (according to the 4 indicators) at 30 June 2004.

FIGURE 5F: PUBLIC HOSPITALS OPERATING WITH FINANCIAL DIFFICULTIES AT 30 JUNE 2004 ($'000)

Hospital	Operating result – surplus/(deficit)		Operating result excluding capital grants (a)		Net cash inflows (outflows) from operating activities, excluding capital grants (b)		Positive (negative) working capital position	
	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03
Metropolitan hospitals -								
Bayside Health	(15 491)	(8 193)	(28 169)	(24 455)	(5 379)	1 453	(43 057)	(29 787)
Melbourne Health (c) (d)	(1 604)	(13 798)	(28 969)	(36 650)	(17 543)	(28 194)	(35 765)	(39 508)
Northern Health	(4 759)	5 085	(6 976)	(8 900)	(1 772)	5 141	(11 355)	(7 167)
Southern Health (c) (e)	(25 806)	(12 495)	(38 039)	(26 335)	(34 576)	(33 538)	(51 527)	(51 773)
Western Health	(13 844)	(22 990)	(19 337)	(30 847)	(10 977)	(11 241)	(33 661)	(31 226)
Regional and rural hospitals -								
Central Gippsland Health Service	(389)	(2 199)	(5 054)	(5 392)	(3 289)	(1 397)	(7 053)	(6 371)
Echuca Regional	(1 263)	(552)	(3 002)	(2 609)	(16)	901	(2 401)	(1 792)
Goulburn Valley Health	(3 541)	(4 688)	(5 095)	(5 615)	(4 059)	648	(7 499)	(6 809)
La Trobe Regional Hospital (f)	(1 649)	31 683	(2 575)	31 092	(817)	(6)	(3 715)	(5 337)
Wimmera Health Care Group	(1 362)	(1 171)	(2 442)	(1 988)	(210)	152	(2 427)	(1 887)

(a) Funding for capital purposes means grants provided to finance asset replacements. While this indicator excludes funding for capital purposes, it does include depreciation expense.

(b) Capital grants have been excluded to normalise operating cash flows.

(c) Consolidated figures for hospital and controlled entities.

(d) 2002-03 operating results exclude $23.6 million expenditure related to a decrement on the revaluation of buildings.

(e) 2002-03 operating result excludes $13.5 million forgiveness of finance lease from South Eastern Medical Centre Limited.

(f) 2002-03 operating result excludes $34.8 million net gain on transfer of assets from LRH Ltd.

Source: Audited financial statements for individual public hospitals.

Figure 5F shows that, despite significant additional government funding, 10 hospitals faced financial difficulties at 30 June 2004. This was an improvement from the 15 in this situation at 30 June 2003. Five of the 15 facing financial difficulties at 30 June 2003 continued to do so at 30 June 2004. They are Melbourne Health, Southern Health, Western Health, Central Gippsland Health Service and Latrobe Regional Health.

Figure 5G shows that a further 37 hospitals had unfavourable results for either 2 or 3 of the indicators. This was a significant increase from the 22 in this situation at 30 June 2003.

FIGURE 5G: PUBLIC HOSPITALS WITH UNFAVOURABLE RESULTS FOR EITHER 2 OR 3 OF THE INDICATORS, AT 30 JUNE 2004 ($'000)

Hospital	Operating result	Operating result prior to funding for capital purposes	Net cash inflows (outflows) from operating activities (excluding capital grants)	Positive (negative) working capital position
Metropolitan hospitals -				
Austin Health	(13 647)	(19 322)	6 350	(35 562)
Eastern Health	1 862	(14 434)	(1 119)	(46 264)
Mercy Public Hospitals Inc.	676	(8 373)	(1 772)	(1 383)
Peninsula Health Care Network	(2 4 93)	(7 789)	2 775	(7 467)
Peter MacCallum Cancer Institute	(7 828)	(11 369)	(5 510)	15 430
Royal Victorian Eye and Ear Hospital	1 229	(2 256)	2 151	(2 008)
Regional and rural hospitals -				
Alpine Health	(178)	(348)	361	329
Bairnsdale Regional Health Service	1 954	(2 515)	(1 238)	(1 295)
Ballarat Health Service	(2 619)	(9 623)	709	(7 143)
Barwon Health	2 172	(7 895)	(1 340)	586
Bass Coast Regional Health	3 754	(731)	516	(67)
Bendigo Health Care Group	(94)	(5 753)	1 223	(3 605)
Boort District Hospital	(167)	(438)	(153)	1 607
Casterton Memorial Hospital	(176)	(402)	286	(318)
Cobram District Hospital	(62)	(301)	(11)	1 421
Colac Community Health Services	(511)	(1 764)	522	(965)
Djerriwarrh Health Services	(192)	(1 041)	384	(413)
Dunmunkle Health Service	(48)	(48)	137	(261)
Heywood Rural Health	179	(107)	394	(217)
Inglewood and District Health Service	245	(101)	(52)	1 152
Kerang and District Hospital	(502)	(771)	49	821
Kilmore and District Hospital	(31)	(483)	326	429
Lorne Community Hospital	1 309	(228)	(165)	222
Mallee Track Health and Community Health Service	(258)	(447)	(85)	350
Manangatang and District Hospital	(96)	(177)	(52)	71
Mansfield District Hospital	(1 130)	(1 675)	170	(896)
McIvor Health and Community Service	(141)	(304)	(80)	1 662
North East Health Wangaratta	(2 065)	2 985	378	(6 524)
Omeo District Hospital	1 658	(34)	(31)	200
Portland District Health	(854)	(1 896)	1 252	(2 359)
Rural Northwest Health	3 672	(926)	(1 161)	1 137
South West Healthcare	(709)	(3 514)	(102)	3 386
Swan Hill District Hospital	(362)	(1 167)	970	2 847
Tallangatta Health Service	(465)	(691)	(182)	432
West Wimmera Health Service	(347)	(2 222)	693	(2 735)
Wodonga Rural Health Service	(3 682)	(3 982)	443	(6 063)
Yarrawonga District Health Service	1 162	(172)	(479)	(531)

Source: Audited financial statements for individual public hospitals.

Continued need for changes to funding arrangements

The Department of Human Services has been consistently of the view that both capital grants and depreciation expense should be excluded from assessment of financial viability. Our indicators of financial difficulty exclude capital grants but not depreciation.

In 2003-04, hospitals charged depreciation of $222 million, compared with $218 million in 2002-03. Accordingly, the department's assessment of financial viability will be more favourable, by the amount of the depreciation charged.

Although parliamentary appropriations are based on the full cost of service delivery (including depreciation), the grants made by the department to hospitals do not cover the cost of depreciation. Instead, the department provides capital grants (from output appropriations) to hospitals to finance asset renewals and replacements, as the funds are required. In 2003-04, these grants totalled $166 million, compared with depreciation of $222 million (in 2002-03, $188 million in grants compared with depreciation of $218 million).We consider that by not providing the funding equivalent of the cost of depreciation to each hospital, the service capacity of each hospital may not be maintained over the longer-term.

Recommendation

5.1 Consistent with previous reports, that the Department of Human Services, in conjunction with the Department of Treasury and Finance, reassess its current method of funding public hospitals. This reassessment should consider providing depreciation funding to hospitals to maintain their existing infrastructure.

RESPONSE provided by the Secretary, Department of Human Services

The department's budgeting for investment in fixed asset construction or purchase is governed by Budget and Financial Management Guidance (BFMG)17 "Asset Investment Budgeting" pursuant to the Financial Management Act 1994. BFMG 17 requires that "funding for each department's approved asset program will come (in order) from the following three sources":

- *financial assets representing amounts equivalent to depreciation expense (depreciation equivalents)*
- *proceeds of asset sales*
- *provision of additional capital to the department by the government in the event that the first two sources are insufficient*

In recent years, the department's investment in fixed assets has exceeded the portfolio's annual depreciation requiring all such depreciation equivalent funding to be applied to fixed asset investments in accordance with BFMG 17.

RESPONSE provided by the Secretary, Department of Human Services - continued

In a strategic sense, the application of BFMG 17 means government assesses and allocates funds equivalent to depreciation on the basis of strategic merit to reflect government policy positions for the Victorian health sector. This may result in some hospitals receiving significantly more asset investment funds than their annual depreciation equivalents, whilst others may receive less.

Nevertheless, the matter will be referred to DTF for further consideration.

Initiatives taken to improve the financial standing of hospitals

In 2003-04, following concerns by health services about the adequacy of funding, a departmental review was conducted to identify the factors that increase non-wage operating costs in Victorian public hospitals. This was done mainly to develop a methodology to monitor movements in these costs, and to derive an annual indexation figure. On the basis of the review, the department concluded that the funding it provided to hospitals did not meet their non-wage operating costs. The department used the review's detailed analysis in a submission to the government for significant extra funding to enable hospitals to meet their non-wage operating costs.

The government accepted the department's submission, and provided extra funding in the 2004-05 budget over the next 3 years in the form of:

- additional funding, for previously under-funded services, resulting from a pricing review
- a higher allowance for price increases in supplies and consumables
- an end to the requirement for productivity savings by hospitals (to be partially offset by hospitals carrying the risk of enterprise bargaining agreement outcomes that exceed government wages policy).

The government also approved $106.7 million of extra funding for particular hospitals for 2003-04. The extra funding was distributed to the hospitals on 29 June 2004. The department expected, as a consequence of this extra funding, that hospitals would break even (or generate small surpluses or deficits) by 30 June 2005.

In 2003-04, the *Health Service Act 1988* was amended as a result of recommendations by the Victorian Public Hospitals Governance Reform Panel. The revised Act provides for the preparation by hospitals of a statement of priorities. This is a high-level document which outlines performance expectations and targets for the year and summarises (and is supported by) the hospitals' significant planning, financial, performance reporting and accountability statements, as well as departmental and government documents.

Statements of priorities are prepared annually, and contain actions (with deadlines) to be met by the hospital, the Department of Human Services, and the Minister for Health. Hospitals that expect to have a significant operating deficit must include in their statement a list of activities to generate revenue and/or contain costs, to address the shortfall. These activities are part of a financial recovery plan, which is part of the statement. We understand that the metropolitan and major regional hospitals signed these statements just before this report was finalised.

From 1 July 2004, the department intends to monitor progress against the targets in the statement of priorities (and in financial recovery plans) using its newly-implemented financial reporting system that is based on a common chart of accounts for hospitals. The common chart of accounts enables a more consistent classification by hospitals of their income, expenses, assets and liabilities. It also enables better comparison between hospitals and facilitates benchmarking.

RESPONSE provided by the Secretary, Department of Human Services

The operating results as presented by the Auditor-General in figures 5F and 5G include depreciation expense. The department believes that it is better to eliminate both capital funding and depreciation expense from the operating result, so that non-capital operating revenue is matched against non-capital operating expenditure (prior to extraordinary items). The table below presents information in this format.

	Operating result prior to capital items, depreciation and extraordinary items	Operating result prior to capital items, depreciation and extraordinary items
	2003-04 ($m)	2002-03 ($m)
Metropolitan Hospitals -		
Austin Health	(1 231)	(345)
Bayside Health	(9 260)	(7 136)
Eastern Health	(3 874)	(12 764)
Melbourne Health	(8 352)	(17 055)
Mercy Public Hospitals Inc	(1 487)	(1 169)
Northern Health	(1 994)	(3 670)
Peninsula Health Care Network	1 683	(1 419)
Peter MacCallum Cancer Institute	(1 196)	(836)
Royal Victorian Eye and Ear Hospital	1 143	(2 085)
Southern Health	(18 555)	(16 781)
Western Health	(12 899)	(17 149)
Regional and Rural Hospitals -		
Alpine Health	627	(79)
Bairnsdale Regional Health Service	(791)	(1 342)
Ballarat Health Service	(2 197)	(663)
Barwon Health	(799)	(5 447)
Bass Coast Regional Health	108	(761)
Bendigo Health Care Group	(1 984)	1 537
Boort District Hospital	(200)	(28)
Central Gippsland Health Service	(1 923)	(3 065)
Cobram District Hospital	161	319
Colac Community Health Services	(55)	(713)

RESPONSE provided by the Secretary, Department of Human Services - continued

	Operating result prior to capital items, depreciation and extraordinary items 2003-04 ($m)	Operating result prior to capital items, depreciation and extraordinary items 2002-03 ($m)
Djerriwarrh Health Services	(351)	(90)
Dunmunkle Health Service	103	17
Echuca Regional	(1 542)	(857)
Goulburn Valley Health	(1 522)	(2 441)
Heywood Rural Health	85	(33)
Inglewood and District Health Service	142	(150)
Kerang and District Hospital	(234)	(33)
Kilmore and District Hospital	36	(269)
La Trobe Regional Hospital	(215)	289
Lorne Community Hospital	3	(255)
Mallee Track Health and Community Health Service	(22)	(76)
Manangatang and District Hospital	(56)	(67)
Mansfield District Hospital	(338)	(60)
McIvor Health and Community Service	(85)	462
North East Health Wangaratta	(616)	(1 953)
Omeo District Hospital	99	202
Portland District Health	(271)	(492)
Rural Northwest Health	(280)	(1 629)
South West Healthcare	113	1 446
Swan Hill District Hospital	166	175
Tallangatta Health Service	(379)	(268)
West Wimmera Health Service	(1 327)	(65)
Wimmera Health Care Group	(335)	148
Wodonga Rural Health Service	(1 627)	(1 399)
Yarrawonga District Health Service	(273)	(1 028)

5.3.5 Management of Public Healthcare Insurance Program changes

New arrangements for the management of medical indemnity insurance within the Public Healthcare Insurance Program have now been put in place. All legal and accounting requirements were managed in a satisfactory manner.

The Victorian Managed Insurance Authority (VMIA) managed the Public Healthcare Insurance Program on behalf of the Department of Human Services for claims reported covering the 1993 to 2003 period. VMIA was funded by the department to pay medical indemnity claims as settlements were agreed.

In its 2003-04 financial statements, the department recognised as liabilities:

- $119.4 million owing to VMIA for unfunded, actuarially-assessed future claims
- (following changes in accounting standards) a $164.3 million provision for future anticipated claims relating to claims yet to be reported.

The VMIA recognised a corresponding receivable from the department of $119.4 million, as well as outstanding claims liabilities of $235.5 million, actuarially assessed and on a claims-made basis.

The funding agreement between the department and VMIA ceased on 30 June 2003. The 2 parties then decided that:

- VMIA take responsibility for medical indemnity insurance from 1 July 2003, subject to guarantees that VMIA would not be liable for claims above levels expected at the time of drawing up the new arrangement
- all claims incurred before 30 June 2003 would be managed by VMIA on the department's behalf.

As a consequence, the department's financial statements now record the medical indemnity liability to 30 June 2003 as outstanding claims liabilities. At 30 June 2004, the outstanding claims liabilities was $379.1 million. Having transferred claims before 30 June 2003 to the department, VMIA now only recognises premium, claims expenses and related asset/liability from 2003-04.

The accounting treatment and reporting disclosures in the financial statements of the department and VMIA was discussed on a number of occasions at meetings between representatives of the department, VMIA, the Department of Treasury and Finance and our Office. The parties agreed on the need to establish a Claims Liability Trust Account to allow VMIA to legally draw on the necessary funds to pay pre-2003 claims on behalf of the department. This process involved the transfer of beneficial ownership of units held by VMIA in Victorian Funds Management Corporation (VFMC).

RESPONSE provided by the Secretary, Department of Human Services

As noted by audit, the program changes resulted from close cooperation between all 4 parties: Auditor-Generals, VMIA, Department of Treasury and Finance and the Department of Human Services (DHS). The department can report that the transition was effected smoothly and is successfully operating in DHS.

5.3.6 Management of payroll service provider's operational continuity

In 2003-04, the human services sector's main provider of payroll services was under severe financial stress, threatening payroll services to employees in the sector.

In response to notification of this position from the service provider, the Department of Human Services took the following action to ensure continuity of the payroll service:

- appointed finance and legal advisors to assess the service provider's situation
- managed and monitored the service provider's operations
- advanced $0.6 million to the service provider with fixed and floating charges on assets and the business, repayable by the service provider's new owner
- purchased the service provider's information technology equipment for $1.8 million, to ensure that the systems supporting the payroll service were safeguarded and properly maintained (an action that also facilitated the sale of the service provider's business)
- appointed a forensic accountant to facilitate the sale of the service provider
- facilitated the sale of the service provider's business
- agreed to extend the payroll service contract and leased the information technology equipment back to the business' new owner.

This action by the department, consistent with the provisions of the *Health Act 1958* and the *Financial Management Act 1994*, ensured continuity of payroll services to human services sector employees.

Although the department's response was prompt and effective, the experience illustrates the broader risk facing sector agencies, that external service providers may not be able to provide contracted services promptly and at the required standard.

RESPONSE provided by the Secretary, Department of Human Services

In addition to the points listed, the department has negotiated contractual agreements with the new service provider that deliver extensive accountability and audit reporting for both financial and IT operations.

5.3.7 Adequacy of public hospitals' control environments

The management of every agency is responsible for establishing and maintaining a sound control environment and an adequate system of internal controls to ensure that:

- the agency's financial records and other information completely and accurately reflect its entire activities
- its assets are safeguarded
- errors and other irregularities are prevented or detected.

Our financial audits assess agencies' governance and financial control processes.

These audits confirmed that the control environments of agencies in the sector, and the internal control systems that we examined, were generally satisfactory. The only matter of significance we identified was the need for agencies to obtain letters of comfort from the payroll service providers as to the adequacy of their general and computer application controls, and the completeness and accuracy of financial information provided to the respective agencies.

6. Infrastructure

6.1 Audit conclusions

The Infrastructure sector comprises 23 agencies that were required to prepare financial statements at 30 June 2004 and submit them for audit. Twenty-two audit opinions were issued, all of which were clear[1]. The financial statements of one sector agency (Victorian Rail Services Pty Ltd) were incomplete at the date of preparing this report.

An "emphasis of matter" comment was included in the audit reports on the Special Power Payments Trust Fund and the Network Tariff Rebate Trust Fund, to draw attention to the fact that their financial reports were not prepared on a going concern basis.

The already untimely performance of sector agencies in completing their financial statements worsened for 2003-04. Only 22 per cent of agencies met the 12-week deadline (32 per cent in 2002-03). There is clearly substantial room for improvement for agencies within this sector in complying with this requirement.

Our 2003-04 audits confirmed that agencies' control environments and their systems of internal control were generally satisfactory. However, at the date of preparing this report, the Public Transport Ticketing Body had not complied with the requirement of the *Financial Management Act 1994* to appoint a separate audit committee. The agency's board has advised us that it was working to resolve this matter.

Seven companies did not have their 2003 annual reports (including their audited financial statements) tabled in parliament until November 2004, which was up to 12 months after the legislated tabling deadline. Consequently, their accountability to parliament has been significantly diminished.

Our review of the engagement of a contractor by the department in 2004 (under 2 separate contracts with an originally estimated total value of $894 000) identified that, while departmental officers with the necessary financial delegations approved both contracts, such approvals were not formally given until after the contracts had commenced. It is important that proper process is followed in all future contractor engagements by the department.

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[1] While a qualified opinion was issued on the unaudited comparative information included in the financial statements of V/Line Passenger Pty Ltd for the year ended 31 December 2003, this qualification was removed from the company's financial statements for the 6 months ended 30 June 2004. There are further details in this chapter about the 2 sets of financial statements issued for this company in 2003-04.

6.2 Sector overview

The infrastructure sector comprises the Department of Infrastructure and 22 other agencies with 30 June 2004 balance dates, which provide transport, energy and major project (including property development) services. The department and the sector agencies support 4 ministerial portfolios: transport, major projects, information and communication technology, and energy industries.

Figure 6A profiles sector agencies with 30 June 2004 balance dates[2].

FIGURE 6A: AGENCIES IN THE INFRASTRUCTURE SECTOR WITH A 30 JUNE 2004 BALANCE DATE

Reporting entity	Number
Department	1
Public bodies	13
Companies, trusts and joint ventures	9
Total	23

Source: Victorian Auditor-General's Office.

The Department of Infrastructure, working directly in its own right, or through sector agencies and private sector providers, is responsible for Victoria's road and rail transport services and infrastructure, ports and marine facilities and services, information and communication technology policy, energy policy, large-scale development and construction projects and the security of essential infrastructure.

The new sector agencies we audited for the first time in 2003-04 were:

- Public Transport Ticketing Body, established in April 2003 to develop and improve the Victorian public transport network ticketing system
- Southern and Eastern Integrated Transport Authority, formed to manage the construction of the Mitcham-Frankston Freeway
- V/Line Passenger Corporation, established in July 2003 to oversee V/Line rail services. The corporation acquired V/Line Passenger Pty Limited in October 2003[3]
- Port of Melbourne Corporation, created in July 2003 and assumed the functions of the former Melbourne Port Corporation and some functions of the former Victorian Channels Authority

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[2] A full list of the sector agencies and the audit opinions issued is provided in Appendix A to this report.

[3] V/Line Passenger Pty Limited changed reporting dates from a calendar to a financial year-end and prepared financial statements for the calendar year ending 31 December 2003 and for the period ending 30 June 2004. Both financial statements were audited.

- Victorian Urban Development Authority (VicUrban), commenced in August 2003 and assumed the functions of the former Docklands Authority and the Urban and Regional Land Corporation from that date
- Victorian Regional Channels Authority, created in April 2004 and assumed some functions of the former Victorian Channels Authority
- Port of Hastings Corporation, created in January 2004 and assumed the functions of the former Hastings Port (Holding) Corporation.

Some of the sector's key financial statistics in 2003-04 were:

- management of property, plant and equipment assets of $23.4 billion ($21.3 billion in 2002-03)
- interest-bearing liabilities of $1 100 million ($552 million in 2002-03)
- expenditure on the provision of rail services of $973 million ($497 million in 2002-03)
- road expenditure of $735 million ($811 million in 2002-03)
- bus services expenditure of $462 million ($449 million in 2002-03).

6.3 Results of financial audits

6.3.1 Audit opinions issued

The sector comprises 23 agencies that were required to prepare financial statements at 30 June 2004 and submit them for audit. Twenty-two audit opinions were issued, all of which were clear. The financial statements of one sector agency (Victorian Rail Services Pty Ltd) were incomplete at the date of preparing this report.

While a qualified opinion was issued on the unaudited comparative information included in the financial statements of V/Line Passenger Pty Ltd for the year ended 31 December 2003, this qualification was removed from the company's financial statements for the 6 months ended 30 June 2004.

The absence of qualified opinions was a definite improvement on the 4 qualified opinions issued for 2002-03 agency financial statements. The 4 qualified opinions removed were:

- qualified opinions about unaudited comparative information in the financial statements for the period ending 30 June 2003 for 3 companies in the Rolling Stock Holdings group
- one qualified opinion about inappropriate accounting policies of the Docklands Authority, which was resolved when the Docklands Authority and the Urban Regional Land Corporation merged into the Victorian Urban Development Authority (VicUrban) during the year.

An "emphasis of matter" comment was made in the 2003-04 audit reports on the Special Power Payments Trust Fund and the Network Tariff Rebate Trust Fund, to draw attention to the fact that their financial reports were not prepared on a going concern basis. This matter was considered sufficiently important to users of each of the financial statements to emphasise in the audit opinion, but was not sufficiently important to qualify the audit opinion.

6.3.2 Timeliness of reporting

Figure 6B shows how well sector agencies met the 12-week reporting requirement for 2003-04.

FIGURE 6B: TIMELINESS OF AUDITED FINANCIAL STATEMENT COMPLETION, INFRASTRUCTURE SECTOR

Number of weeks after end of financial year audited financial statements were finalised	2003-04		2002-03	
	Number of agencies	Per cent (cumulative)	Number of agencies	Per cent (cumulative)
Less than 8 weeks	-	-	3	14
8 to 10 weeks	1	4	1	18
10 to 12 weeks	4	22	3	32
12 to 14 weeks	7	52	3	45
14 to 16 weeks	2	61	-	45
More than 16 weeks (a)	9	100	11	100
Total	23	-	21	-

(a) Includes one agency whose financial statements were not finalised at the date of preparing this report.

Source: Victorian Auditor-General's Office.

As Figure 6B shows, the already untimely performance of the sector worsened for 2003-04. Only 22 per cent of agencies met the 12-week deadline (compared with 32 per cent for 2002-03). There is clearly room for improvement in complying with this requirement.

This year, the timeline for preparing and auditing the government's 2003-04 Annual Financial Report was shorter than in previous years. Following consultation between the Department of Treasury and Finance, other departments and my Office, it was agreed that all "material entities" were to provide their final financial statements to my Office for audit by 30 July[4]. We undertook to complete the audits of these entities and issue an audit opinion on their financial statements by 20 August.

[4] The sector's "material entities" are Department of Infrastructure, Victorian Rail Track, Roads Corporation, Port of Melbourne Corporation and the Victorian Urban Development Authority.

Accordingly, we sought early resolution of several of the sector's complex accounting issues by providing a preliminary view about them (and supporting rationale) to the Department of Infrastructure and the Department of Treasury and Finance in April 2004. However, due primarily to delays in finalising the department's response to our preliminary view, and the complexity of the matters, they were not all resolved until October 2004. Consequently, the financial statements of the Department of Infrastructure, Victorian Rail Track (and its 5 subsidiary companies) and the Roads Corporation were all delayed.

The Department of Infrastructure also experienced significant delays in the preparation of complete draft financial statements, and supporting documentation, against its own timetable and the timetable prescribed by the Department of Treasury and Finance.

Further, the Port of Melbourne Corporation, the Victorian Urban Development Authority, V/Line Passenger Corporation and V/Line Passenger Pty Ltd also experienced significant delays in finalising their 2003-04 financial statements. The Port of Melbourne Corporation was also untimely in providing access to a key consultant's report during our audit, which delayed the completion of this audit.

Consequently, while all the infrastructure sector material entities finalised their financial statements earlier than last year, they were still not finalised until some one to 2 months after the 20 August target date.

Conclusion

It is a cause for concern that many sector agencies appear unable to comply with the 12-week deadline. The main reasons for being unable to do so were:

- a failure to resolve a number of significant and complex accounting issues until well after the balance date
- lengthy delays in preparing complete draft financial statements and/or supporting information.

Recommendations

6.1 That the Department of Infrastructure take the necessary steps to ensure that it, and other sector agencies, meet the requirement to finalise their financial statements within 12 weeks of 30 June 2005.

6.2 That the Department of Infrastructure and sector agencies:

- **ensure that, in future years, all known contentious accounting issues are resolved by 30 June to avoid delays in finalising their financial statements**
- **adhere to timelines to prepare key reconciliations and supporting information**

- **reinforce current quality assurance process to ensure that draft financial statements submitted for audit are complete, free of material errors and internally consistent.**

RESPONSE provided by the Secretary, Department of Infrastructure

The department agrees with the conclusions and recommendations regarding timeliness of reporting. A number of significant accounting issues were encountered during 2003-04 which impacted on timeliness and the department anticipates that there will be improvement next year. The department will take the necessary steps to reinforce with our agencies their statutory reporting requirements and timeframes for next financial year.

6.3.3 Quality of financial reporting

The overall quality of sector agencies' 2003-04 financial reports was satisfactory, although timeliness (as explained above) remains an issue.

6.3.4 Adequacy of control environments

All agencies are required to establish and maintain an adequate system of internal controls to ensure that:

- the agency's financial records and other information completely and accurately reflect its entire activities
- its assets are safeguarded
- errors and other irregularities are prevented or detected.

The assessment of agency governance and financial control processes is an important aspect of our financial audit process.

Our recent financial audit process confirmed that the overall control environments established within sector agencies, and the associated systems of internal control that we examined, were generally satisfactory.

The Public Transport Ticketing Body was created in April 2003[5] with a 2-member board. The board decided to also be the audit committee, and unsuccessfully sought an exemption in April 2004 from the Minister for Finance from the requirement of the *Financial Management Act 1994* to appoint a separate audit committee. While, at the date of preparing this report, the Public Transport Ticketing Body had not complied with the requirement of the *Financial Management Act 1994* to appoint a separate audit committee, the board has advised us that it was working to resolve this matter.

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[5] However, its first financial reporting period commenced during June 2003.

6.3.5 Other significant issues

Non-presentation of annual reports in parliament

The *Financial Management Act 1994* requires that a company that is incorporated under the Corporations Act and has all of its shares owned by or on behalf of the state must submit its annual report (including audited financial statements) to the relevant minister as soon as practicable after the end of each financial year.

The Act also requires the relevant minister to table the annual report in parliament on or before 31 October each year. If they do not receive the annual report in time to table it by 31 October, they must report this to parliament and table the report as soon as practicable after they receive it.

Figure 6C shows the companies that had not tabled their 2003 annual reports until November 2004. These reports should have been tabled up to 12 months earlier.

The reasons for the delays in tabling their reports have also not been explained to parliament. We also point out that we issued qualified audit opinions on some of the companies' financial statements, and that the rolling stock holdings group of companies had assets and liabilities totalling some $345 million at 30 June 2003.

FIGURE 6C: 2003 ANNUAL REPORTS NOT TABLED IN PARLIAMENT ON A TIMELY BASIS

Company	Parent entity	Audit opinion
Rolling Stock Holdings (Victoria) Pty Ltd	Victoria Rail Track	Unqualified
Rolling Stock (Victoria-VL) Pty Ltd	Rolling Stock Holdings (Victoria) Pty Ltd	Unqualified
Rolling Stock (VL-1) Pty Ltd (a)	Rolling Stock (Victoria-VL) Pty Ltd	Qualified
Rolling Stock (VL-2) Pty Ltd (a)	Rolling Stock (Victoria-VL) Pty Ltd	Qualified
Rolling Stock (VL-3) Pty Ltd (a)	Rolling Stock (Victoria-VL) Pty Ltd	Qualified
Victorian Rail Services Pty Ltd	Department of Infrastructure	Unqualified
V/Line Passenger Pty Ltd (b)	V/Line Passenger Corporation	Qualified

(a) The *Financial Management Act 1994* also provides that should a company have expenses and obligations of less than $5 million, then the relevant minister must notify parliament that they have received the annual report and, if requested by a member of parliament, table the report in parliament.

(b) The company's report for 2003, which had a year-end of 31 December 2003, had not been tabled in parliament in an equivalent period to that allowed for entities with a 30 June balance date, that is by the end of April 2004. However, it should be noted that the Act only prescribes an annual tabling obligation of 31 October each year.

The Financial Management Act requires that a minister must be declared to be the relevant minister pursuant to the Act for such companies. However, a minister was not declared for the companies in Figure 6C until October 2004.

Conclusion

The annual reporting obligations of the above companies under the *Financial Management Act 1994* have not been met and, consequently, accountability to parliament has been significantly diminished.

Engagement of contractor by the Department of Infrastructure

In August 2004, a member of parliament expressed concerns to our Office about the engagement of a person (Mr Trevor Lloyd) to provide services to the Department of Infrastructure under 2 separate contracts. We subsequently reviewed whether:

- the requirements for seeking tenders or quotations had been met
- the specification of the required services was adequate, and whether there was a real or perceived conflict of interest as a result of the appointments
- the department established that the contracted schedule of rates was reasonable.

The person was engaged under 2 contracts in 2004. The first – the Melbourne Port@L contract – is a 3-year schedule of rates contract with an estimated value of $300 000. The contractor is to be the independent chair of the Melbourne Port@L Board[6] and to provide the Department of Infrastructure with commercial advice about port, freight and related matters.

The second contract is for the provision of strategic advice on departmental executive processes. It is a one-year (approximately) schedule of rates contract with an estimated value of $594 000 (including a 20 per cent contingency for potential extension into a second year). The contractor is to provide high-level strategic advice about:

- a possible conflict of interest relating to the provision of legal services to the department
- a commercial transaction involving the Port of Melbourne
- the structure of internal departmental legal services
- departmental executive processes (including freedom of information processes, cabinet submissions, ministerial briefings, parliamentary questions briefings and other briefings)
- governance issues
- risk management and insurance.

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[6] The Melbourne Port@L board was created to steer the development of the Port of Melbourne with the adjacent Dynon Rail Precinct, so as to create an integrated freight terminal.

Requirement to seek tenders

The department's procurement policies (consistent with the Victorian Government Purchasing Board's policies) require that it call an open public tender for services contracts valued over $100 000. This requirement can be waived with the approval of the department's Accredited Purchasing Unit or, if the contract value is over $500 000, with the approval of the department's secretary. The department (also consistent with the Victorian Government Purchasing Board's policies) only considers waivers:

- if urgent matters of public health, security or safety are involved
- in situations of genuine urgency and unforeseen circumstances
- if there is only one supplier of a particular product or highly specialised skills
- if the supplier is the sole source of, or has access to, particular intellectual property
- if there is a requirement to integrate with a standard information technology environment
- for security and confidentiality reasons.

The requirement to seek tenders was waived for the Melbourne Port@L contract by the chairperson of the department's Accredited Purchasing Unit in July 2004. The reason given was that the position of chairperson of the Melbourne Port@L Board required specialised knowledge and expertise in transport logistics and a high level of governance experience. It was considered that there was a limited number of suppliers who could adequately fill this role within the time frame available, and that the person was the only known available candidate with the requisite skill. The relevant departmental financial delegate approved the contract on the same day.

We noted that the contract was approved, and the waiver provided, after the contract commencement date of 16 June 2004. However, the Minister for Transport on 9 June 2004 had approved the appointment of the contractor to the Melbourne Port@L board.

The requirement to seek tenders was also waived for the contract for strategic advice on departmental executive processes. The department's secretary formally waived the requirement in June 2004, to confirm in writing his decision taken in April 2004 to engage the individual without seeking public tenders. The waiver was issued on the basis that there was an urgent need for high-level strategic advice, that there were a limited number of suppliers who could adequately fill the role within the time frame available, and that the person was the only known available candidate with the requisite skills. The contract commenced on 27 April 2004.

Conclusion

Departmental officers with the necessary financial delegations approved both contracts, and authorised officers also waived the requirement to seek public tenders. However, approvals were not formally given until after the contracts had commenced.

Although the departmental files did include a report recommending approval of the contract and the certificate of waiver, they did not contain adequate supporting documentation substantiating the basis for the waiver. However, the department was able to provide further documentation and other written commentary on the processes followed in support of the waivers from tender. On balance, we were satisfied that there were reasonable grounds for the waivers.

Recommendations

6.3 That all contract approvals (including approvals for waivers from the requirement to seek public tenders) be completed on or before the date the contract starts.

6.4 That the Department of Infrastructure ensure that all contract files contain adequate supporting documentation substantiating the basis for waivers from the requirement to seek public tenders, and the basis on which contracts are awarded.

Specification of required services

Both contracts broadly set out the services to be provided, and also required that a work program be agreed between the parties to the contracts.

A high-level work program was developed for the strategic advice contract covering the period up to early July 2004. The contractor also acted in a vacant management position in the department for 6 weeks. The work plan for the Melbourne Port@L contract had not been finalised at the date of preparing this report as it depended on the work plan of the Melbourne Port@L board, which had not been finalised.

The department subsequently revised the estimated value of the strategic advice contract to $190 000 (from the original overall estimate of $594 000) as certain previously anticipated or potential services had not been required. The department advised us that the majority of the required work had been completed by September 2004.

The department also revised the estimated value of the Melbourne Port@L contract to $200 000 (from the original estimate of $300 000). It also advised us that the Melbourne Port@L board only started meeting in September 2004, and had met twice as at the date of preparing this report.

Members of the Melbourne Port@L board include the chief executive officers of the Port of Melbourne Corporation, VicRoads and VicTrack, and a departmental representative.

The Melbourne Port@L contract requires the contractor to be the independent chair of the Melbourne Port@L board, while also providing the department with commercial advice on port and freight and related matters. In addition, the strategic advice contract also includes providing advice to the department on a transaction involving the port of Melbourne.

The department does not believe that this situation creates an actual or a possible perception of a conflict of interest because:

- advice provided under the strategic advice contract was provided before the establishment of the Melbourne Port@L board. Any further advice on port matters under that contract is a matter of contract management
- commercial advice provided to date relates solely to a transaction involving the Port of Melbourne Corporation and not to matters under the purview of the Melbourne Port@L board
- the Minister for Transport had approved the appointment of the chairperson to the Melbourne Port@L board.

Conclusion

Both the Melbourne Port@L contract and the strategic advice contract seek advice on port and freight related matters. However, the work programs for both contracts have been significantly reduced, and while the majority of the strategic advice contract work is complete, the Melbourne Port@L contract is in its earlier stages.

A possible perception of a conflict of interest could arise in respect of the role of the independent chairperson of the Melbourne Port@L board, given that person's other contractual obligations to the department.

Schedule of rates

Both contracts specified the schedule of rates to apply for the provision of contracted services. The department's files included extracts of the 2004-05 hourly rates for several legal firms on the legal services panel. Both contracts adopted the same hourly rates, subject to a daily maximum charge, which compared favourably with the hourly rates of the other legal firms.

RESPONSE provided by the Secretary, Department of Infrastructure

The department accepts the conclusions and recommendations of the report except for the conclusion reached under "specification of required services".

The Melbourne Port@L board is a working group formed within the Department of Infrastructure to co-ordinate port related transport issues and provide advice to the Minister for Transport. The board includes representatives of the Port of Melbourne Corporation, VicRoads and VicTrack; all bodies which report to the Minister. Equally, the role of the chair is independent from the commercial stakeholders to the Port of Melbourne and adjacent areas.

Given that all of the parties to the board are government agencies and the contractor would not undertake any work contrary to the Port@L role, in the department's view there is clearly no conflict of interest and the "possible perception of a conflict of interest" reference in the report is difficult to envisage.

Notwithstanding this and to remove any doubt, through mutual agreement no further consulting work will be undertaken by the contractor under either contract other than to chair the Port@L board.

7. Innovation, Industry and Regional Development

7.1 Audit conclusions

The Innovation, Industry and Regional Development sector comprises 9 agencies that were required to prepare financial statements at 30 June 2004 and submit them for audit. Clear audit opinions were issued on the financial statements of all 9 sector agencies.

There was substantial improvement in the number of agencies completing their audited financial statements within the 12-week deadline (from 30 per cent in 2002-03 to 78 per cent in 2003-04). All financial statements were completed within 14 weeks of the year-end (compared with 6 out of 10 agencies in 2003).

The overall quality of financial reporting by sector agencies also improved in the year. This contributed to the improved timeliness of audited financial statements.

Our 2003-04 audits confirmed that agencies' control environments and their systems of internal control were generally satisfactory.

In recent years, the department has consistently not fully utilised the parliamentary appropriations available to it. In 2003-04, the department reduced the level of "underspending" against its available appropriation funding limit to $79.8 million or 18 per cent ($102.3 million, or 20 per cent in 2003). Nevertheless, the department needs to continue to closely manage its budget.

The annual net operating costs of staging the Formula One and Motor Cycle Grand Prix events, while increasing in the year, continue to be substantially less than the previously estimated annual economic benefit to the state from hosting these events. However, the economic benefit estimates for the Formula One Grand Prix event should be updated to ensure they remain reliable.

The Overseas Projects Corporation of Victoria Ltd has experienced considerable financial difficulty over recent years. In 2003-04, this required the state to provide the company with additional capital of $4.4 million and a $410 000 grant. In June 2004, the company concluded an asset sale agreement. This agreement covered the company's interest in certain major projects and partnering arrangements, and transferred the company's permanent employees to the buyer. Proceeds from the sale of major projects totalled $1.4 million. I intend to review the company's asset sale process, the outcome, and the process used to wind-up the company, and report to parliament on these matters in the 2005 autumn session.

7.2 Sector overview

The Innovation, Industry and Regional Development sector comprises the Department of Innovation, Industry and Regional Development and 8 agencies. These entities support 7 ministerial portfolios, comprising state and regional development, industrial relations, innovation, manufacturing and export, financial services industry, small business, and tourism.

Figure 7A profiles sector agencies with 30 June 2004 balance dates.

FIGURE 7A: TYPE AND NUMBER OF AGENCIES IN THE INNOVATION, INDUSTRY AND REGIONAL DEVELOPMENT SECTOR, AT 30 JUNE 2004

Reporting entity	Number
Department	1
Public bodies	5
Companies, trusts and joint ventures	3
Total	9

The department is the lead agency for economic and regional development, responsible for building an innovative state. The other sector entities operate in the tourism industry, stage the Australian grand prix events and manage Federation Square.

The department is one of the smaller departments, with annual operating expenditure of $311 million in 2003-04. In 2003-04, the sector's main financial statistics included:

- grants by the department of about $211 million ($200 million in 2002-03)
- management of assets valued at about $480 million by Federation Square Management Pty Ltd
- generation of about $56 million in ticket sales and sponsorship revenue by the Australian Grand Prix Corporation ($53 million in 2002-03).

7.3 Results of financial audits

7.3.1 Audit opinions issued

The sector comprises 9 agencies that were required to prepare financial statements at 30 June 2004 and submit them for audit. Clear audit opinions were issued on the financial statements of all 9 sector agencies[1].

[1] Appendix A to this report contains information about the timing of the finalisation of financial reports for each agency, and the nature of the opinion issued.

An "emphasis of matter" comment was included in the audit report on Overseas Projects Corporation of Victoria Ltd, to draw attention to the fact that the company's financial report was not prepared on a going concern basis, but rather on a liquidation basis. This was due to the company being prepared for voluntary liquidation in 2004-05. We considered this matter to be sufficiently relevant for the users of the financial statements to warrant emphasis in the audit opinion, but not to warrant a qualified audit opinion.

7.3.2 Timeliness of reporting

Figure 7B shows how well sector agencies met the 12-week reporting requirement for 2003-04.

FIGURE 7B: TIMELINESS OF COMPLETION OF AUDITED FINANCIAL STATEMENTS, INNOVATION, INDUSTRY AND REGIONAL DEVELOPMENT SECTOR

Number of weeks after end of financial year audited financial statements were finalised	2003-04		2002-03	
	Number of agencies	Per cent (cumulative)	Number of agencies	Per cent (cumulative)
Less than 8 weeks	1	11	-	-
8 to 10 weeks	3	44	-	-
10 to 12 weeks	3	78	3	30
12 to 14 weeks	2	100	3	60
14 to 16 weeks	-	100	1	70
More than 16 weeks	-	100	3	100
Total	9	-	10	-

Source: Victorian Auditor-General's Office.

As Figure 7B shows, there was substantial improvement in the number of agencies with audited financial statements completed within 12 weeks (from 30 per cent in 2002-03 to 78 per cent in 2003-04). The department was the first sector agency to finalise its financial statements for 2003-04, a significant achievement due to better management of its financial statement preparation process.

All agencies' financial statements were completed within 14 weeks of year-end (60 per cent in 2003).

7.3.3 Quality of financial reporting

During 2003-04, the overall quality of financial reporting by sector agencies improved. This contributed to the improved timeliness of audited financial statements.

The major contributing factors were:

- better year-end planning and agencies meeting planned timelines for the completion of account reconciliations and other supporting information
- improved quality assurance processes, which ensured that draft financial statements submitted for audit were complete, free of material errors and internally consistent.
- earlier resolution of any known contentious issues.

7.3.4 Adequacy of control environments

All agencies are required to establish and maintain a sound control environment and an adequate system of internal controls to ensure that:

- the agency's financial records and other information completely and accurately reflect its entire activities
- its assets are safeguarded
- errors and other irregularities are prevented or detected.

Our financial audits assess agencies' governance and financial control processes.

Our 2003-04 audits confirmed that agencies' overall control environments and their systems of internal control, to the extent subject to detailed audit examination, were satisfactory.

7.3.5 Other significant issues

Underspent parliamentary appropriations

In recent years, the department has consistently not fully utilised the parliamentary appropriations available to it. In the past 3 years, the value of appropriations applied by the department has, on average, been about 21 per cent below the total available parliamentary authority (24 per cent for the 3 years to 2002-03). This amounted to $101.7 million annually, on average, over the 3 years to 2003-04 (compared with $107.8 million for the 3 years to 2002-03).

In our earlier reports, we have noted that the continuing "underspending" by the department of its parliamentary appropriations raises questions about the quality of its internal budgeting and financial management processes. The department has previously advised that the carrying forward of unspent funds from year-to-year is consistent with the nature of its business which requires a high level of flexibility to meet the changing business demands and trends.

In 2003-04, the department underspent its total available parliamentary authority by $79.8 million, or 18 per cent (compared with $102.3 million or 20 per cent in 2002-03). In 2003-04, the department, therefore, reduced the level of unapplied parliamentary authority both in nominal dollar terms, and as a percentage of the total available parliamentary authority. Nevertheless, the department needs to continue to closely manage its budget.

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

The department allocates significant resources and attention to managing its annual appropriations in both its day-to-day operations and annual budget processes which involve extensive discussion with the Departments of Treasury and Finance and Premier and Cabinet.

Within the framework of seeking and receiving annual funding to promote innovation, industry and economic development in Victoria, there is recognition given to the department's need for a degree of flexibility in the application and outflow of funding over the forward estimates period. The need for flexibility is an important strategic factor in positioning the department to be a key player in the economic development environment and to respond to emerging business demands and trends.

A key feature of the department's grant operations is the care taken to ensure the effective accountability of public funds. Program expenditure in many grant programs is regulated by performance contracts that provide for the payment of funds only when performance conditions are satisfied.

The department will continue its investment in resources and tools to ensure sound cash flow management. Grant budget management will remain a priority and individual program expenditure profiles will continue to be closely monitored.

Federation Square financial standing

In our previous reports, and most recently in our November 2003 *Report on Public Sector Agencies,* we have commented on Federation Square's development and management. The November 2003 report noted that:

- Federation Square Management Pty Ltd's financial position was finely balanced and rested on a number of key assumptions over the 2003-04 financial year, which were subject to variation and were not completely within the control of the company
- a temporary chief operating officer, nominated by the Treasurer, had been appointed to review the company's financial situation.

The chief operating officer's final report was issued in June 2004. It concluded that:

- the company's current structure and operations were sustainable without further government support
- the company had prepared a commercially-based corporate plan, including a 2003-08 financial plan. Further, commercially-based financial and management reports had been prepared for the company's board and it was recommended that in future they address the issues and risks identified by the review
- the company's management structure and resources were adequate for its venue management activities, although they would need to be reassessed if the company took on any significant capital projects
- an annual capital works program and major repairs and maintenance program should be prepared on a rolling 3-year basis to address works that would need funding outside the existing financial capacity of the company.

The company reported an operating loss of $8 million for 2003-04 (compared with a surplus of $20.4 million in 2002-03), primarily due to the first year recording of $12.3 million depreciation on the square. Its working capital position at 30 June 2004 was positive: that is, the value of current assets exceeded the value of current liabilities at that date. The company's $43.7 million borrowing facility was fully drawn during 2003-04 to meet the square's outstanding financial obligations.

The company's cash flow projections indicated that it should have sufficient funds for the 2004-05 year, and sufficient funds up to 2007-08. These projections assume that:

- increased rents will enable the company to meet its increased loan repayments
- municipal rates and land taxes will not be levied on public open spaces or the car park (or, alternatively, will be refunded by the government)
- no substantial repairs, refurbishment or capital replacement will be required during the period.

A key ongoing risk for the company is the outcome of land tax assessments being undertaken by the State Revenue Office. While land tax has been reported as a contingent liability in the company's 2003-04 financial report, the value of this contingent liability is yet to be established.

Conclusion

Federation Square Management Pty Ltd is actively managing its finely balanced financial position, which rests on a number of factors which may be subject to variation and are not completely within the control of the company.

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

Federation Square Management continues to actively manage its financial position and this includes the regular review and analysis of risks to forecast future cash flows. The company's financial position is strong following finalisation and settlement during the year of the managing contractor's final claim and all related sub-contractor claims on favourable terms and within budgets. In relation to land tax, the relevant authorities have advised that the premises occupied by cultural organisations and open public space are exempt. Furthermore, the lease agreements at Federation Square provide for any land tax incurred to be recovered from tenants in the form of outgoings, thereby reducing significantly the overall risk to the company.

Australian Grand Prix event costs

The Australian Grand Prix Corporation is contracted to stage the Australian Formula One Grand Prix in Melbourne until 2010, and the Australian Motor Cycle Grand Prix at Philip Island until 2006.

Economic impact studies commissioned by the government concluded that the 2000 Formula One Grand Prix increased the Victorian gross state product by $130.7 million, and resulted in additional taxation receipts for the state of $9.8 million. The Motor Cycle Grand Prix conducted in 2003 was estimated to have contributed $50.8 million to the Victorian gross state product and $4.7 million in additional taxation receipts.

The net operating cost (after excluding government grants) of staging the Formula One and Motor Cycle Grand Prix events in 2003-04 was $22.8 million (compared with $19.4 million in 2002-03). This increased cost was mainly due to the Formula One event, for which increases in sales revenue were more than offset by increased event management, staging and engineering costs.

In 2003-04, the state also provided funding for safety initiatives and infrastructure costs totalling $2.5 million (compared with $8.5 million in 2002-03). Contributions for 2003-04 were lower than the previous year due to the 2002-03 expense of building higher debris fencing around the Formula One Grand Prix circuit to improve track safety.

Conclusion

The net operating costs of hosting these events, while increasing, are substantially less than the previously estimated annual economic benefit to the state from staging the events. However, the economic benefit estimates for the Formula One Grand Prix event should be updated to ensure they remain reliable.

Overseas Projects Corporation of Victoria Ltd

Our May 2004 *Report on Public Sector Agencies* commented on the adequacy of the financial management of Overseas Projects Corporation of Victoria Ltd. The report concluded that the company was in considerable financial difficulty. It also concluded that without the state's capital contributions of $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 was a matter of great concern and the state's ultimate exposure in relation to this company was uncertain, and depended on whether the company was sold, as had been announced. The report also concluded that the board had not adequately monitored the exercise of the significant powers it had delegated to management.

Our audit of the company for the year ended 30 June 2004 noted that the state provided a further capital contribution of $4.4 million, and a grant of $410 000, to the company in 2003-04. The company had an operating loss of $7.7 million in 2003-04 ($3.5 million in 2002-03). At 30 June 2004, the company had net assets of $1.2 million (compared with $4.6 million the year before).

In June 2004, the company concluded an asset sale agreement. This agreement covered the company's interest in certain major projects and partnering arrangements, and transferred the company's permanent employees to the buyer. Proceeds from the sale of major projects totalled $1.4 million. This compared with the revised carrying value of the major projects sold, which totalled $1.5 million at 30 June 2004, after the company had written-down the carrying value of those projects by $1.4 million during the sale period.

The company has ongoing obligations for claims that may arise and which relate to the period before the asset sale. At the time of finalising its financial report, the company considered it unlikely that any material claims would arise.

The company is finalising a number of projects and completing its legal obligations, after which it will be prepared for voluntary liquidation. The company's board was taking steps to appoint a liquidator to facilitate a members' voluntary liquidation.

Conclusion

The company has been in considerable financial difficulty and concluded an asset sale agreement during June 2004. Proceeds from the sale of major projects totalled $1.4 million. The company is no longer considered to be a going concern as it is being prepared for liquidation.

I intend to review the company's asset sale process and outcome and the process used to wind-up the company, and report to parliament on these matters in the 2005 autumn session.

8. Justice

8.1 Audit conclusions

We issued clear audit opinions on the financial statements of all 31 Justice sector agencies with 30 June 2004 balance dates.

In 2003-04, the timeliness of completion of agency audited financial statements improved substantially, with 90 per cent of statements completed within 12 weeks of the balance date (67 per cent in 2002-03). However, there is further room for improvement for the remaining 10 per cent of agencies.

The improvement in timeliness is mainly due to better planning and preparation of financial statements, and particular attention to better quality assurance. However, Victoria Police needs to improve its quality assurance processes, which led to delays in finalising the financial statements and adjustments to drafts.

There is scope to improve the effectiveness of the audit committees at the Department of Justice and Victoria Police. The Department of Justice needs to provide committee members better access to information on major issues with significant financial risk. Victoria Police needs to involve its audit committee in the review of significant financial transactions and quality assurance over the annual financial statements. Victoria Police also needs to improve the validation and recording of employee leave benefits.

Accountability over the financial activities of 1 240 voluntary fire brigades needs to improve, through more comprehensive reporting of brigade activities in the Country Fire Authority's financial statements. A recent legal opinion received by the authority on an aspect of brigade activities confirmed that the brigades form an integral part of the authority.

8.2 Sector overview

The Justice sector comprises the Department of Justice and 30 other agencies. These include 4 major agencies (Victoria Police, Metropolitan Fire and Emergency Services Board, Country Fire Authority and Victorian Commission for Gambling Regulation) and a variety of statutory agencies and offices, and judicial and quasi-judicial bodies.

The department and other agencies incur annual expenditure of $4.3 billion, and manage assets of $4.1 billion and liabilities of $2 billion.

The Attorney-General, Minister for Police and Emergency Services, Minister for Corrections, Minister for Consumer Affairs, Minister for Gaming and Minister for Racing are responsible for the department and have particular responsibility for other agencies within the sector.

Figure 8A profiles justice sector agencies with 30 June 2004 balance dates.

FIGURE 8A: TYPE AND NUMBER OF AUDITED AGENCIES WITHIN THE JUSTICE SECTOR, AT 30 JUNE 2004

Reporting entity	Number
Department and other administrative units	8
Public bodies	18
Companies, trusts and joint ventures (a)	5
Total	31

(a) Companies include Tattersalls Sweeps Pty Ltd, Tattersalls Gaming Pty Ltd, Tattersall Club Keno Pty Ltd and Footy Consortium Pty Ltd.

Source: Victorian Auditor-General's Office.

8.3 Results of financial audits

8.3.1 Audit opinions issued

Clear audit opinions were issued on the financial statements of all 31 sector agencies with 30 June 2004 balance dates[1].

8.3.2 Timeliness of reporting

Figure 8B shows how well Justice sector agencies met the 12-week statutory reporting requirement for 2003-04.

FIGURE 8B: TIMELINESS OF COMPLETION OF AUDITED FINANCIAL STATEMENTS, JUSTICE SECTOR

Number of weeks after end of financial year audited financial statements were finalised	2003-04		2002-03	
	Number of agencies	Per cent (cumulative)	Number of agencies	Per cent (cumulative)
Less than 8 weeks	6	19	3	10
8 to 10 weeks	11	55	4	23
10 to 12 weeks	11	90	13	67
12 to 14 weeks	1	94	6	87
14 to 16 weeks	1	97	4	100
More than 16 weeks	1	100	-	100
Total	31	-	30	-

Source: Victorian Auditor-General's Office.

The timeliness of agency completion of audited financial statements improved substantially for fiscal 2003-04, with 90 per cent completed within 12 weeks of the balance date (67 per cent in 2002-03).

[1] Appendix A to this report contains information about the timing of the finalisation of the financial report and audit opinion for each agency, and the nature of the opinion issued.

8.3.3 Quality of financial reporting

During 2003-04, the quality of reporting by Justice sector agencies improved, which contributed to the improved timeliness of audited financial statement completion. The greatest improvements were in planning and preparation of financial statements, assisted by:

- a higher priority given to financial statement preparation at the planning stage (including the development of clear instructions and milestones to prepare and make available the required financial information within the required time frames, good communication and prompt clearance of accounting issues with key stakeholders)
- rigorous monitoring of progress to prevent, identify and address delays
- better quality assurance processes to ensure the completeness and accuracy of financial information before it was included in the financial statements.

Despite the sector's improvement, there is scope for Victoria Police to improve in all the above areas. The lack of adequate quality assurance processes within this agency contributed to delays in the preparation of its statements and the identification by audit of a number of adjustments that were required to the draft financial statements.

Recommendation

8.1 That Victoria Police gives greater priority to the planning and preparation of its financial statements, the rigorous monitoring of progress, and to improving quality assurance over information included in its financial statements.

RESPONSE provided by Acting Chief Commissioner, Victoria Police

Recommendation agreed. Victoria Police acknowledges the findings of the Auditor-General in respect of this issue and is in the process of implementing improved practices.

8.3.4 Adequacy of control environments

All agencies are required to establish and maintain an adequate system of internal control to ensure that:

- the agency's financial records and other information completely and accurately reflect its entire activities
- its assets are safeguarded
- errors and other irregularities are prevented or detected.

An assessment of agency governance and financial control processes is an important aspect of our financial audit process. We identified the following major issues requiring attention by the respective agencies.

Effectiveness of Department of Justice and Victoria Police audit committees

Audit committees help oversee agency financial reporting, internal control systems, risk management systems, and internal and external audit functions. While we considered most audit committees of agencies to be functioning effectively, we identified a number of concerns in relation to the audit committees of the Department of Justice and Victoria Police.

In our opinion, the effectiveness of the Department of Justice's audit committee was reduced by its inability to access full information about certain major issues or projects with substantial financial risks (for example, the private prisons and mobile data network projects). At Victoria Police, the effectiveness of the audit committee was reduced as its activities did not extend to the review of certain significant financial transactions and that agency's annual financial statements before their certification by the Commissioner of Police.

Audit committees cannot be fully effective if their access to key financial and risk information is limited and where their activities do not extend to quality assurance over the annual financial statements.

Recommendations

8.2 That the Department of Justice improve the audit committee's access to information about issues and projects with significant financial risks and implications.

8.3 That the activities of the Victoria Police audit committee be extended to cover the review of all of its financial activities and annual financial statements, prior to their certification by the Commissioner of Police.

RESPONSE provided by the Secretary, Department of Justice

The audit committee is taking steps to determine the appropriate level and content of financial and project information it needs to fulfil its role in this regard and to review the relevant information on a regular basis. The audit committee's forward program also includes the identification of issues and projects with significant financial risks and implications.

RESPONSE provided by the Acting Chief Commissioner, Victoria Police

Audit comments noted and recommendation 8.3 agreed. The Victoria Police audit committee has established a sub committee to provide greater coverage of all major financial exposures within Victoria Police.

Deficiencies in Victoria Police's recording and validation of employee leave benefits

At 30 June 2004, outstanding employee leave benefits at Victoria Police totalled $288 million and accounted for 81 per cent of its total liabilities. Our financial audit for 2003-04 revealed:

- non-compliance with policies about recording and validating employee leave benefits
- limitations in the payroll and financial systems, thus reducing the accuracy and meaningfulness of reports produced by these systems
- anomalies in the recording of leave taken.

Current practices are resulting in inconsistent enforcement of policies, processes and procedures across regions, and staff can potentially be overpaid. Further, timely and accurate information about employee leave balances is not readily available to management.

Recommendations

8.4 That Victoria Police improve its payroll and financial systems (and the related payroll policies and procedures) to ensure they facilitate the correct recording and reporting of employee leave.

8.5 That Victoria Police's Corporate Payroll Unit more actively enforce and monitor compliance with all employee leave policies and procedures.

RESPONSE provided by Acting Chief Commissioner, Victoria Police

Audit comments noted and recommendations 8.4 and 8.5 agreed. The organisation is aware of the limitations and weaknesses of the HR:M systems. In the meantime, Victoria Police has made a number of funding bids for a replacement payroll system. A funding bid for the next Expenditure Review Committee round is currently being developed. Interim solutions are being reviewed whilst further development of the replacement system Business Case takes place.

Accountability of volunteer fire brigades

There are 1 240 voluntary brigades across rural Victoria that operate under the *Country Fire Authority Act 1958*. Brigades are an integral part of the Country Fire Authority (CFA). This was reinforced by recent legal advice obtained by the CFA on an aspect of brigade activities. Flowing from this legal advice, the *CFA and Brigades Donations Fund* was set up to centrally receive and distribute donations for brigades.

The financial statements of the CFA disclose information about the activities of volunteer brigades, such as the value of brigade-owned vehicles, land and buildings. However, these statements do not currently include information about community donations received by the brigades, as well as the current assets and total liabilities of brigades.

Annually, brigades compile separate financial statements that are audited by public practitioners, however, not all are forwarded to the CFA.

In our opinion, based on the abovementioned legal advice, the financial statements of all brigades should be forwarded to the CFA and consolidated into its financial statements. A failure to do so promotes uncertainty over the accountability of the brigades, and decreases the quality of oversight and governance over brigade resources.

Recommendation

8.6 That the CFA:

- **include all brigade financial activities (including brigade donations and fundraising revenue), assets and liabilities in its financial statements**
- **implement a comprehensive accountability and audit framework for brigades.**

RESPONSE provided by the Chief Executive Officer, CFA

Audit comment is agreed. However, the financial statements of CFA include the material transactions of brigades. CFA will consult with the brigades on further disclosure in CFA's financial statements. Further, CFA agrees with audit comment regarding a financial accountability and audit framework for brigades. This will be included as part of the context of including all brigade financial transactions in CFA financial statements. This will involve considerable consultation with the various stakeholders.

It should be noted that an extended timeframe of a number of years would be required to implement recommendations of this impact and significance.

Audit should note that the trust fund was set up to comply with Australian taxation legislation which required that all donations that are paid to a deductible gift recipient be paid into a gift fund on receipt. The trust fund approach for recognition of donations has been used in lieu of other options to address the unique cultural, social and volunteer environment in which CFA operates. Donation revenue will be recognized in CFA's financial statements when audit's first recommendation is implemented.

CFA review and monitoring of capital projects

Our November 2003 *Report on Public Sector Agencies* noted several deficiencies in the processes used by the CFA to monitor its capital works program. We noted some improvement in this area in 2003-04. However, our review of capital works in progress at the CFA showed that monitoring by management needed further improvement to ensure:

- capital projects are rigorously reviewed to determine their stage of completion and to facilitate their prompt transfer to non-current (fixed) assets on completion
- costs are only capitalised on projects where they contribute to future economic benefits to the CFA.

These deficiencies raise the risk of understatement of depreciation charges, as well as inappropriate capitalisation of project costs.

Recommendation

8.7 That the CFA provide clear guidance to capital project managers on:

- **the criteria to be applied for the capitalisation of project costs**
- **the processes to be used to promptly identify and transfer completed projects to non-current assets.**

RESPONSE provided by the Chief Executive Officer, CFA

Audit comment is agreed. Capital project managers have been provided with the criteria for the capitalization of project costs.

Clear guidelines have also been provided on promptly identifying and transferring completed projects to non-current assets. This will be further reinforced and monitored during 2004-05. Education sessions to this effect commenced during October 2004.

9. Premier and Cabinet

9.1 Audit conclusions

We issued clear audit opinions on the financial statements of all the 11 agencies with 30 June 2004 balance dates in this portfolio.

The timeliness of financial reporting was similar to 2002-03, with 8 agencies meeting the statutory reporting deadline. Agency governing boards need to ensure that they schedule meetings earlier to approve their financial statements in time to meet the statutory reporting requirements.

The quality of reporting by agencies within the sector was satisfactory. Our audits did not identify any major weaknesses in agency control environments.

RESPONSE provided by the Secretary, Department of Premier and Cabinet

The conclusions reached and recommendations made are acknowledged and accepted. We note with pleasure your comments that all entities for which my department is directly responsible produced quality, unqualified annual financial statements on a timely basis. The agencies which did not meet the 12-week reporting requirement are controlled by independent boards, however, the department will communicate its support of your recommendation regarding the timing of board meetings.

9.2 Sector overview

The Premier and Cabinet sector comprises the Department of Premier and Cabinet (which includes Arts Victoria, the Office of the Governor and the Office of the Chief Parliamentary Counsel), the Office of Public Employment, the Office of the Ombudsman and 8 arts agencies. The Premier and the Minister for the Arts are responsible for the department and have specific responsibility for the other agencies in the sector.

Figure 9A profiles sector agencies with 30 June 2004 balance dates.

FIGURE 9A: TYPE AND NUMBER OF AUDITED AGENCIES IN THE PREMIER AND CABINET SECTOR, AT 30 JUNE 2004

Reporting entity	Number
Department and other administrative units	3
Public bodies	8
Total	11

Source: Victorian Auditor-General's Office.

The department advises the Premier and the Cabinet about all aspects of policy. It develops whole-of-government initiatives and manages Victoria's relationships with other governments. It organises programs and hospitality to attract investment to Victoria and to enhance its reputation. It organises special projects and events, delivers government information and communications programs and services, and oversees state-owned cultural agencies through Arts Victoria.

The Victorian Ombudsman mainly investigates complaints about administrative actions taken by departments and local government officers, and the conduct of members of Victoria Police. The Office of Public Employment advises about the application of public sector employment and conduct principles. Arts Victoria and arts agencies develop and present cultural projects, programs and services to benefit the Victorian arts industry and community.

In 2003-04, the department received appropriated funding of $395 million, provided grants of $251 million for arts and cultural development, and contributed $19 million for building upgrades and redevelopment works. Arts agencies raised $36 million in public donations and gifts and managed cultural assets valued at $2.4 billion.

9.3 Results of financial audits

9.3.1 Audit opinions issued

Clear audit opinions were issued on the financial statements of all 11 agencies in the sector with 30 June 2004 balance dates[1].

9.3.2 Timeliness of reporting

Figure 9B shows how well sector agencies with 30 June balance dates met the 12-week statutory reporting requirement for 2003-04.

[1] A full list of the sector agencies and the audit opinions issued is provided in Appendix A to this report.

FIGURE 9B: TIMELINESS OF COMPLETION OF AUDITED FINANCIAL STATEMENTS IN PREMIER AND CABINET SECTOR

Number of weeks after end of financial year audited financial statements were finalised	2003-04		2002-03	
	Number of entities	Per cent (cumulative)	Number of entities	Per cent (cumulative)
Less than 8 weeks	1	9	-	-
8 to 10 weeks	-	-	-	-
10 to 12 weeks	7	73	8	73
12 to 14 weeks	3	100	2	91
14 to 16 weeks	-	100	1	100
More than 16 weeks	-	100	-	100
Total	11	-	11	-

Source: Victorian Auditor-General's Office.

Figure 9B shows that agencies' reporting timelines were similar to the previous year year, with 8 agencies meeting the 12-week statutory reporting timeline. It is pleasing to note that all agencies completed their financial statements by 30 September, a slight improvement on 2002-03.

The finalisation of 3 entities' financial statements was delayed because their governing boards did not meet to approve the financial statements until after the 12-week reporting period had passed.

Recommendation

9.1 That arts agencies ensure that their boards meet to approve financial statements early enough to meet the 12-week legislated reporting requirement.

9.3.3 Quality of financial reporting

In 2003-04, the quality of financial reporting by sector agencies continued to improve, with fewer errors and omissions identified in the draft statements presented for audit. This was mainly due to better quality assurance processes for the preparation of financial statements.

Overall, the quality of financial statements presented for audit by sector agencies is now considered satisfactory.

9.3.4 Adequacy of control environments

The management of every agency is responsible for establishing and maintaining a sound control environment and an adequate system of internal controls to ensure that:

- the agency's financial records and other information completely and accurately reflect its entire activities
- its assets are safeguarded
- errors and other irregularities are prevented or detected.

Our financial audits assess agencies' governance and financial control processes.

These audits confirmed that the control environments of agencies in the sector, and the internal control systems that we examined, were generally satisfactory. Our audits did not identify any major weaknesses in agencies' control environments.

10. Primary Industries

10.1 Audit conclusions

This sector comprises 13 agencies which are required to prepare financial statements at 30 June 2004 and submit them for audit. Twelve audit opinions were issued, all of which were clear. The audit of one sector agency was incomplete at the date of preparing this report.

While the timeliness of financial statements improved slightly, there remains scope for improvement.

The control environments of agencies were generally sound. Some small agencies found it difficult to comply with certain of the state's financial management compliance requirements, however, adequate processes were in place to compensate for the inherent difficulties faced by these agencies and plans were in place to address the issues in the coming year.

RESPONSE provided by the Secretary, Department of Primary Industries

I accept all the conclusions reached and the recommendations made.

10.2 Sector overview

The Primary Industries sector comprises the Department of Primary Industries and 12 other agencies. Figure 10A profiles these agencies.

FIGURE 10A: TYPE AND NUMBER OF AUDITED AGENCIES WITHIN THE PRIMARY INDUSTRIES SECTOR, AT 30 JUNE 2004

Reporting entity	Number
Department	1
Public bodies	10
Companies, trusts and joint ventures	2
Total	13

Source: Victorian Auditor-General's Office.

The department was established in December 2002. It is one of the smaller Victorian departments and delivers 3 outputs, at an annual cost of around $310 million, namely:

- *agriculture* - concerned with improving the profitability and market competitiveness of agricultural industries, while ensuring that such operations remain sustainable and environmentally responsible
- *fisheries* - facilitating the sustainable development of Victoria's commercial and recreational fishing industries and aquaculture, and the management of Victoria's marine and freshwater fish resources

- *minerals and petroleum* – focusing on the promotion and regulation of the exploration and development of Victoria's extractive, mineral and petroleum resources.

Six agencies in the sector focus on industry development, another 3 focus on research while a further 3 agencies provide regulation and assurance services for product and service safety[1].

The Minister for Agriculture and the Minister for Resources are responsible for the department and have specific responsibility for the other agencies in the sector.

There were 4 significant events affecting the sector during the year, or shortly after, namely:

- The operations of the Greater Victoria Wine Grape Industry Development Committee are to be wound-up on 30 September 2004. As part of this decision, the Minister for Finance agreed to extend the committee's reporting period to 30 September 2004. This was to align the financial reporting period to the date that the committee was to be wound-up.
- The Commonwealth and state governments agreed to amend the state's interest in Food Science Australia (a Commonwealth-state joint venture) as from 1 July 2004, leading to a majority interest being held by the Commonwealth. This transfer will also result in the Australian Food Science Industry Centre being wound-up. Although the state will continue to contribute to the activities of Food Science Australia, this will be done directly through the department rather than through the centre.
- During the later part of 2003-04, the department consolidated its main activities and staff from a number of Melbourne locations into new premises at 1 Spring St, Melbourne. Such a major relocation carried a risk that corporate and financial systems would not operate effectively during the relocation process, and that the department would not be able to generate quality financial information. Detailed planning was undertaken to minimise this risk and the relocation was successfully completed.
- Fresh Chain Limited was wound-up. This company was established by the Melbourne Market Authority to develop and operate an internet-based trading system for the wholesale fruit and vegetable market. As was commented in our May 2004 *Report on Public Sector Agencies, Results of special reviews*, the system was not successful. Our report noted that an agent had been appointed to sell the company. As no buyer for the company or its assets was found, the authority decided to wind-up the company.

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[1] A full list of the sector agencies and the audit opinions issued is provided in Appendix A to this report.

10.3 Results of financial audits

10.3.1 Audit opinions issued

Clear audit opinions were issued on the financial statements of 12 sector agencies with 30 June 2004 balance dates[2].

10.3.2 Timeliness of reporting

Figure 10B shows how well agencies met the 12-week statutory reporting requirement for 2003-04.

FIGURE 10B: TIMELINESS OF COMPLETION OF AUDITED FINANCIAL STATEMENTS, WITHIN THE PRIMARY INDUSTRIES SECTOR

Number of weeks after end of financial year audited financial statements were finalised	2003-04		2002-03	
	Number of entities	Per cent (cumulative)	Number of entities	Per cent (cumulative)
Less than 8 weeks	1	8	1	7
8 to 10 weeks	3	31	-	7
10 to 12 weeks	4	62	4	36
12 to 14 weeks	4	92	6	79
14 to 16 weeks	-	92	2	93
More than 16 weeks (a)	1	100	1	100
Total	13	-	14	-

(a) Includes one agency whose financial statements had not been finalised at the date of preparing this report.

Source: Victorian Auditor-General's Office.

As Figure 10B shows, there was some improvement this year in the number of agencies having audited financial statements completed within 12 weeks (from 50 per cent in 2003 to 57 per cent in 2004). However, there is significant room for further improvement across the sector in 2004-05.

10.3.3 Quality of financial reporting

The quality of financial reporting by sector agencies has continued to improve over recent years.

[2] Appendix A to this report contains information about the timing of the finalisation of the financial report and audit opinion for each agency, and the nature of the opinion issued.

Agencies are largely meeting reporting requirements, but there is still scope to improve the quality of the financial statements submitted for audit. Some agencies (particularly smaller ones) cannot always allocate the required level of resources to preparing and reviewing statements, but can improve their performance through better preparation and review planning.

10.3.4 Adequacy of control environments

The management of every agency is responsible for establishing and maintaining a sound control environment and an adequate system of internal controls to ensure that:

- the agency's financial records and other information completely and accurately reflect its entire activities
- its assets are safeguarded
- errors and other irregularities are prevented or detected.

Our financial audits assess agencies' governance and financial control processes. This year, we again confirmed that agencies in the sector had generally maintained appropriate control environments. A number of smaller agencies experienced difficulties in meeting some of the requirements of the state's financial management compliance framework. But it was reassuring to note that these agencies had established appropriate plans and processes to overcome these issues in the coming year.

11. Sustainability and Environment

11.1 Audit conclusions

The sector comprises 72 agencies which are required to prepare financial statements at 30 June 2004 and submit them for audit. Seventy-two audit opinions were issued, all of which were clear.

We also issued, for the first time, audit opinions on the performance statements of the state's 15 regional water authorities, all of which were clear. This step in providing audit assurance on non-financial performance information is part of a program by my Office to encourage good practice reporting by public sector agencies. Regional water authorities and the Department of Sustainability and Environment are to be congratulated in taking this important step, and in achieving such an excellent outcome. It is the culmination of 3 years activity by my Office and the water industry. We encourage others to follow this good example of improved public reporting.

There was a small deterioration in the timeliness of completion of agency audited financial statements in 2003-04, mainly due to poor planning and difficulties by a number of agencies in finalising their financial statements.

Problems in the preparation of the department's financial statements also led to delays in finalising them. We further noted ongoing limitations in its Crown land records and the department is still to complete a valuation of these significant assets.

While it is essential for good governance that agencies have boards in place throughout the year, and that board members have an appropriate mix of experience, we identified 2 instances where these requirements were not met.

Water authorities continued to play a significant role in the sector and were responsible for providing $240 million in dividends to the Consolidated Fund.

RESPONSE provided by the Secretary, Department of Sustainability and Environment

I am pleased to note that 72 audit opinions were issued in respect to the 72 agencies comprising the portfolio with reporting dates of 30 June. I further note the overall small deterioration in the timeliness of completion of financial statements as well as some deterioration in the quality of draft financial statements submitted. I have requested that the Chief Financial Officer pays particular attention to the causes of this deterioration and to the implementation of appropriate and sustainable remedial action.

RESPONSE provided by the Secretary, Department of Sustainability and Environment - continued

It is also pleasing to be congratulated on achieving clear audit opinions on the performance statements of the state's 15 regional water authorities. We too will continue to encourage others to follow improved public reporting through the provision of performance statements which incorporate non-financial performance information.

With respect to your specific recommendations about continuity of agency boards; Crown land records and valuation; and water operations, the department accepts that the report on which they are based, is factually correct and fair, and that the conclusions reached and recommendations made are agreed. I will ensure that the required management attention to the issues and recommendations receives appropriate priority.

The particular attention given to water agency operations is welcome. On behalf of the government, the department and portfolio is dedicated to the delivery of the government's water action plan which outlines a comprehensive integrated approach to water management and use. The specific matter raised regarding a uniform approach to asset valuation in the water sector has and will continue to be addressed as a key challenge approached in a whole of public sector manner.

11.2 Sector overview

The Sustainability and Environment sector comprises the Department of Sustainability and Environment and 71 other agencies, 25 of which are water boards. The Minister for Environment, Minister for Water, and the Minister for Planning, are responsible for the department and have particular responsibility for the agencies within the sector.

Figure 11A profiles Sustainability and Environment sector agencies with 30 June 2004 balance dates[1].

[1] A full list of the sector agencies and the audit opinions issued is provided in Appendix A to this report.

FIGURE 11A: TYPE AND NUMBER OF AUDITED AGENCIES WITHIN THE SUSTAINABILITY AND ENVIRONMENT SECTOR, AT 30 JUNE 2004

Reporting entity	Number
Department and other administrative units	2
Other public bodies	14
Metropolitan water bodies	4
Regional water authorities	15
Rural water authorities	6
Catchment management authorities	10
Waste management groups	16
Companies, trusts and joint ventures	5
Total	72

Source: Victorian Auditor-General's Office.

The department provides leadership to the management of Victoria's natural and built environment, and has a strong focus on sustainable development. The main functions of other sector agencies are to provide water and waste water services, manage the state's catchments and waterways, regulate the water industry, and manage the infrastructure assets applied to these functions.

The sector's total expenditure was $2.7 billion in 2003-04, including $1.3 billion incurred by water-related agencies and $373 million in grants provided to other parties. Water agencies collected $2.2 billion in charges from water users. Sector agencies also managed a substantial asset portfolio, including water infrastructure assets valued at $13.2 billion and land managed by the department valued at $2.7 billion - mainly comprising Crown land, national parks and associated reserves.

In 2003-04, sector agencies also paid $240 million in dividends to the Consolidated Fund, most of which was paid by Melbourne's 3 water retailers and Melbourne Water Corporation.

11.3 Results of financial audits

11.3.1 Audit opinions issued

Clear audit opinions were issued on the financial statements of 72 sector agencies with 30 June 2004 balance dates.[2].

11.3.2 Timeliness of reporting

Figure 11B shows how well sector agencies met the 12-week statutory reporting requirement for 2003-04.

[2] Appendix A to this report has information about the timing of the finalisation of the financial report and audit opinion for each sector agency, and the nature of audit opinions issued.

FIGURE 11B: TIMELINESS OF COMPLETION OF AUDITED FINANCIAL STATEMENTS, SUSTAINABILITY AND ENVIRONMENT SECTOR

Number of weeks after end of financial year audited financial statements were finalised	2003-04		2002-03	
	Number of entities	Per cent (cumulative)	Number of entities	Per cent (cumulative)
Less than 8 weeks	11	15	7	10
8 to 10 weeks	6	24	9	23
10 to 12 weeks	19	50	24	56
12 to 14 weeks	29	90	20	85
14 to 16 weeks	3	94	9	97
More than 16 weeks	4	100	2	100
Total	72	-	71	-

Source: Victorian Auditor-General's Office.

As the figure shows, there was a small deterioration this year in the number of agencies having audited financial statements completed within 12 weeks (from 56 per cent in 2003 to 50 per cent in 2004). The audited financial statements of 6 per cent of sector agencies (3 per cent in 2003) were still not finalised after 16 weeks.

The main reasons why fewer financial statements were completed on time in 2003-04 were:

- failure by some agencies to adequately plan for the year-end process
- delays by some agencies in having their financial statements approved and signed by the responsible governance body (generally, the board).

Integral to achieving better outcomes in future is improved planning for the year-end financial reporting process. This includes identifying key milestones and deadlines for them, and allocating responsibilities to ensure they are achieved.

11.3.3 Quality of financial reporting

During 2003-04, the overall quality of reporting by sector agencies remained at a generally good standard. However, there was some deterioration in the quality of draft financial statements submitted by a number of agencies for audit.

This was particularly evident at the department, where deficiencies in the financial statement preparation process resulted in the need for significant adjustments to the draft financial statements. This deterioration was largely due to:

- failure to promptly resolve issues that had been previously identified
- limited year-end planning
- limited staff capacity at the most important times
- poor quality assurance processes.

These factors also contributed to significant delays in finalising the audit. Many of them could have been addressed with more detailed planning and a higher level of management oversight of the financial statement preparation process.

11.3.4 Adequacy of control environments

The management of every agency is responsible for establishing and maintaining a sound control environment and an adequate system of internal controls to ensure that:

- the agency's financial records and other information completely and accurately reflect its entire activities
- its assets are safeguarded
- errors and other irregularities are prevented or detected.

Our financial audits assess agency governance and financial control processes. This year, we again confirmed that agencies in the sector had generally maintained appropriate control environments. A number of the smaller agencies experienced difficulties in meeting some of the requirements of the state's financial management compliance framework. But it was reassuring to note that these agencies had generally established good plans and processes to manage any risks arising, and to overcome issues in the coming year.

Continuity of agency boards

At many sector agencies, the board sets the tone for the organisation's control environment and ensures the agency has an effective governance framework. While the responsible minister appoints board members, the department is responsible for coordinating the appointments to boards.

To most effectively establish and maintain a control environment (and ensure that management is operating in line with it), boards must be at their full strength, and have a degree of continuity.

Our audits raised a number of concerns about the operation of some boards. Because of delays in the appointment of board members, the Yarra Bend Park Trust was not able to form a quorum for part of the year and, therefore, was not able to make major business/strategic decisions during these times.

We also observed that 6 of the 8 board members of the Goulburn Murray Rural Water Authority were replaced during the year. Such a high number of replacements resulted in a loss of significant corporate knowledge at the board level. While turnover of board members is both inevitable and necessary, such major changes within a short time increases the risk that the board will not be able to adequately oversee the control environment.

It is essential for good governance that agencies have boards in place, and that board members have an appropriate mix of experience. In our opinion, these requirements were not always present in the above instances.

Recommendations

11.1 That the Department of Sustainability and Environment, in consultation with sector agencies, regularly review the requirements for future board member appointments, to ensure it is fully informed of the timing of future requirements so that appointments can be promptly finalised.

11.2 That the Department of Sustainability and Environment avoid replacing significant numbers of board members at the same time.

RESPONSE provided by Acting Chairperson, Yarra Bend Park Trust

The Yarra Bend Park Trust endorses the recommendations outlined in the report.

11.3.5 Other significant issues

Comments follow on a number of other issues of significance arising from the 2003-04 financial audit process.

Completeness of Crown land records

The department is responsible for recording the state's holdings of Crown land. It directly manages about 70 per cent of all parcels of Crown land, and records relevant details about them in its financial statements. The other 30 per cent of parcels are managed and reported by other agencies.

For many years, we have been concerned about the department's inability to confirm that its records of Crown land holdings managed by external agencies are complete and accurate. This has the potential to result in:

- double counting of land holdings, if land recognised by the department is also recognised by other agencies
- agencies not fully accounting for, or effectively managing, Crown land holdings.

Our November 2003 *Report on Public Sector Agencies* noted that the department intended to work with agencies to resolve this matter. However, little progress was made in doing so in 2003-04. Accordingly, there are continuing risks arising from possibly incomplete and inaccurate records of Crown land.

Recommendation

11.3 That the Department of Sustainability and Environment allocate the resources required to review the accuracy of Crown land records in 2004-05.

Valuation of Crown land

Our November 2003 *Report on Public Sector Agencies* identified that the department had engaged the Valuer-General to revalue all Crown land held by the department. That report noted that although the valuer had completed the valuation prior to finalisation of the department's 2002-03 financial report, the valuation was not used in the financial report because of a concern about whether use of the fair value methodology was appropriate for Crown land.

Despite agreeing to resolve this concern in 2003–04, the department has made no further progress.

The current valuation of Crown land (as at June 1998) is well out-of-date. Although it complies with current reporting requirements, the valuation is no longer accurate. The impending implementation of the new Australian accounting standards (which are harmonised with international accounting standards) reinforces the need to address this issue as soon as possible.

Recommendation

11.4 That the Department of Sustainability and Environment, together with other relevant agencies, agree on an appropriate basis for valuing Crown land and ensure that all Crown land held by the department is valued during 2004-05.

Water agency operations

Sector overview

The Sustainability and Environment sector includes 25 agencies that provide water and waste water services[3]. There are 3 sub-groups in this group:

- metropolitan agencies (Melbourne Water and the 3 metropolitan retailers)
- regional agencies (15 regional water authorities)
- rural agencies (6 rural water authorities).

[3] During the year, the operations of Casey's Weir and Major Creek Rural Water Authority were taken over by Goulburn Murray Rural Water Authority. Further, from 1 July 2004, the operations of 2 regional and 2 rural water authorities (Grampians Region Water Authority, Wimmera Mallee Rural Water Authority, Lower Murray Region Water Authority and Sunraysia Rural Water Authority) were merged into 2 new regional/rural water authorities (the Grampians Wimmera Mallee Water Authority and the Lower Murray Urban and Rural Water Authority).

These agencies are required to operate commercially and (with the exception of the rural water authorities) pay dividends to the Consolidated Fund. Dividends payable are a percentage of profits after allowing for certain non-assessable transactions. Although rural water authorities are not subject to the same dividend requirements, they are required, periodically, to make payments to the Consolidated Fund. Under national tax equivalency arrangements, agencies are taxed in the same way as private sector companies. However, the tax is paid to the Department of Treasury and Finance, not to the Australian Taxation Office.

As from 2004–05, the new *Water Industry Act 2004* will require water authorities to also make annual environmental contributions to the Consolidated Fund. In 2004–05, these contributions will total $44.6 million.

Figure 11C summarises the key financial statistics of the water agencies.

FIGURE 11C: WATER AGENCY FINANCIAL INFORMATION SUMMARY ($MILLION)

	Metropolitan		Regional		Rural		Total	
	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03	2003-04	2002-03
Financial performance -								
Total revenue	1 496	1 531	519	503	165	134	2 180	2 168
Total expenses	1 024	975	442	435	168	158	1 634	1 568
Profit/loss (pre-tax)	472	556	77	68	(3)	(24)	546	600
Dividends paid to government	240	353	-	1	-	1	240	355
Financial position -								
Cash assets	1	8	147	202	52	29	200	239
Infrastructure assets	6 008	6 060	3 885	4 710	2 644	2 469	12 537	13 239
Borrowings	2 304	2 186	577	109	15	-	2 896	2 295

Source: Victorian Auditor-General's Office.

Figure 11C shows that the water agencies' total profit before tax in 2003-04 was $546 million. This reduction of 9 per cent on the previous year was largely attributed to lower revenues from user charges and developer contributions, together with higher maintenance and operating costs. The lower user revenues and higher costs were largely as a result of ongoing dry weather conditions across the state.

The level of borrowings by water agencies increased by $601 million (in addition to the $39 million cash asset reduction). This increase was again largely to invest in capital works. However, a number of agencies borrowed to meet the cash flow consequences of their dividend payments.

Asset valuation in the water sector

Our November 2003 *Report on Public Sector Agencies* noted that the Minister for Finance had in 2002-03 extended an exemption granted in previous years to water agencies from valuing their assets on a "fair value basis". This exemption allowed water agencies to retain previous valuations. This meant that the metropolitan sector continued to record assets at cost, while the rest of the sector recorded assets at valuation. Our November 2003 report recommended that agencies establish an appropriate and consistent asset valuation basis across the water sector.

In 2003-04, the minister again extended the exemption. This continues the current inconsistency whereby metropolitan agencies record assets at cost, while the rest of the water agencies recorded their assets at valuation. This inconsistency, as before, introduces difficulties in comparing the performance of metropolitan with other agencies.

A second issue impacting on the valuation of assets is the requirement for application of a commercial recoverable amount test to all assets in sectors where the primary objective is generating profits. This requirement results from the implementation of the international financial reporting standards. If it is determined that this test applies to the water sector, then regional and rural water authorities may need to significantly write-down the value of their assets.

These matters need to be addressed by the agencies in conjunction with the Department of Treasury and Finance and the Department of Sustainability and Environment. If they are not addressed in 2004-05, agencies will face real difficulties complying with the current Australian accounting standard on asset valuation, as well as making the transition to the Australian equivalents of the International Financial Reporting Standards in the following year.

Recommendation

11.5 That the Department of Treasury and Finance, together with the Department of Sustainability and Environment, provide guidance to water agencies to adopt a uniform approach to asset valuation in line with Australian and international accounting requirements. This should be done as a matter of urgency, so that agencies can value their assets before the end of the 2004-05 financial year.

Performance statements in the water sector

In 2003-04, the Minister for Finance directed all regional water authorities to prepare performance statements. The statements would be submitted to the Auditor-General for audit, and included in the authorities' annual reports. The statements would disclose the performance targets and indicators required by the Minister for Water, the actual results achieved for the year against the targets and indicators, and an explanation of any significant variances.

Our Office supported this requirement as a positive step toward greater accountability for the authorities, and as improving information for report readers.

All 15 regional water authorities prepared statements in accordance with the requirement. We issued clear opinions on all statements.

While the preparation of these statements represented an additional challenge for regional water authorities in working towards shorter reporting time frames, their response was positive and resulted in excellent outcomes. The authorities and the Department of Sustainability and Environment are to be congratulated for responding so positively to this important initiative, which aims to improve public accountability.

12. Treasury and Finance

12.1 Audit conclusions

We issued clear audit opinions on financial statements of all 63 Treasury and Finance sector agencies.

Ninety-two per cent of agencies completed their audited financial statements within the statutory 12-week deadline (91 per cent in 2002-03).

Issues we noted in our audit of financial statements included the need for:

- the State Superannuation Fund and the Emergency Services Superannuation Scheme to address the implications for employer sponsors and defined benefit schemes of the new International Financial Reporting Standards and related Australian accounting standards
- agencies to receive independent audit certification that their main service providers have adequate internal control systems
- the Department of Treasury and Finance to provide guidelines to public sector statutory insurers about valuing their outstanding claims liabilities, capital adequacy reserves and disclosure matters.

12.2 Sector overview

The Treasury and Finance sector comprises the Department of Treasury and Finance and 62 other agencies. These provide funds management, borrowing, treasury, superannuation, insurance and regulatory services. The Treasurer of Victoria, Minister for Finance and Minister for WorkCover have responsibility for the department and specific responsibility for individual entities within the sector.

Figure 12A profiles Treasury and Finance sector agencies, all of which are required to prepare financial statements as at 30 June 2004.

FIGURE 12A: TYPE AND NUMBER OF AUDITED AGENCIES IN THE TREASURY AND FINANCE SECTOR, AT 30 JUNE 2004

Reporting entity	Number
Department and administrative unit	2
Public bodies (a)	7
Superannuation funds	3
Companies, trusts and joint ventures	51
Total	63

(a) Public bodies include statutory authorities such as Treasury Corporation of Victoria, Transport Accident Commission and the Victorian WorkCover Authority.

Source: Victorian Auditor-General's Office.

The Department of Treasury and Finance is the central agency for economic, financial and resource management across the Victorian public sector. It also provides government financial reporting and budget, liability and risk management services. The State Revenue Office (which is the major revenue collection agency for the state) and the Victorian Government Purchasing Board (which is responsible for procurement and contracting policies and guidelines) are part of the department.

Agencies in the sector include:

- Treasury Corporation of Victoria, Victorian Funds Management Corporation, Rural Finance Corporation and State Trustees Limited (which provide financial services)
- Transport Accident Commission, Victorian WorkCover Authority and Victorian Managed Insurance Authority (which manage statutory insurance schemes)
- Parliamentary Contributory Superannuation Fund, State Superannuation Fund and Emergency Services Superannuation Board (which are superannuation funds for parliamentarians and some public sector employees)
- Essential Services Commission (which regulates the electricity and gas industries)
- State Electricity Commission of Victoria (which manages residual financial and other obligations remaining from the privatisation of public sector utilities).

In 2003-04, sector agencies:

- collected about $10 billion in state taxes
- administered about $24 billion in parliamentary appropriations (that is, payments from the Consolidated Fund)
- managed about $52 billion in state liabilities (unfunded superannuation liabilities, insurance scheme outstanding claims liability and the state's debt portfolio)
- managed investments of about $25 billion
- held about $1.2 billion in trust for clients.

In 2003-04, the operating financial results and financial positions of state insurance and superannuation funds improved[1]. This was a direct consequence of stronger financial market conditions. This has resulted in:

- up to 20 per cent investment returns for insurance and superannuation agencies

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[1] Victorian WorkCover Authority, Transport Accident Commission, Victorian Managed Insurance Authority, State Superannuation Fund, Emergency Services Superannuation Scheme.

- an increase in the Victorian Managed Insurance Authority's catastrophe reserve balance
- payment by the Transport Accident Commission of dividends to the Treasurer from its 2003-04 operating profit.

Public healthcare insurance arrangements

On 1 July 2003, arrangements between the Department of Human Services and the Victorian Managed Insurance Authority (VMIA) for the authority to manage medical indemnity insurance through the Public Healthcare Insurance Program ceased. It was replaced by a new arrangement, whereby:

- VMIA is responsible for medical indemnity insurance and accepts the associated insurance risks from 1 July 2003 (subject to the government's indemnity that VMIA is not liable for claims if the cost exceeds 120 per cent of expected levels)
- all claims incurred before 1 July 2003 will continue to be managed by the VMIA on behalf of the Department of Human Service.

All legal and accounting requirements were managed satisfactorily by the Department of Treasury and Finance and VMIA.

12.3 Results of financial audits

12.3.1 Audit opinions issued

Clear audit opinions were issued on the financial statements of all 63 sector agencies with 30 June 2004 balance dates[2].

12.3.2 Timeliness of reporting

Figure 12B shows how well agencies met the 12-week statutory reporting requirement for 2003-04.

[2] Appendix A to this report contains information about the timing of the finalisation of the financial report and audit opinion for each agency, and the nature of the opinion issued.

FIGURE 12B: TIMELINESS OF COMPLETION OF AUDITED FINANCIAL STATEMENT, TREASURY AND FINANCE SECTOR (a)

Number of weeks after end of financial year audited financial statements were finalised	2003-04		2002-03	
	Number of entities	Per cent (cumulative)	Number of entities	Per cent (cumulative)
Less than 8 weeks	5	8	4	6
8 to 10 weeks	17	35	31	55
10 to 12 weeks	36	92	23	91
12 to 14 weeks	4	98	1	92
14 to 16 weeks	1	100	-	92
More than 16 weeks	-	100	5	100
Total	63	-	64	-

(a) Includes all audited financial statements as at 31 October 2004.

Source: Victorian Auditor-General's Office.

As Figure 12B shows, 92 per cent of agencies completed their audited financial statements within the statutory 12-week deadline (91 per cent in 2002-03). The delays by some agencies resulted from:

- delays finalising an indemnity arrangement between the state and the SECV which affected completion of the SECV's and Department of Treasury and Finance's financial statements
- late scheduling of the Parliamentary Contributory Superannuation Fund trustee meeting to sign financial statements.

The Department of Treasury and Finance administers a number of transactions with other departments on behalf of the state. Before its statements can be finalised, the financial statements of other departments, and the whole-of-government financial audit process, must be completed. Therefore, the timeliness of the department's reports largely depends on other agencies meeting their reporting targets.

12.3.3 Quality of financial reporting

Sector reporting in general

Agencies' 2003-04 financial reports were at the same high quality as we have previously observed.

Major superannuation, insurance and financial services agencies continued to disclose key transactions and balances, to improve readers' understanding of their financial statements and to a greater degree than required by accounting standards.

Managers of some agencies continued to use quality control check lists to certify the completeness, accuracy and validity of information used in financial statements. This greatly improved the financial reporting processes of these agencies.

Every agency in the sector was preparing to implement the International Financial Reporting Standards. As required, agencies referred in the notes to their financial statements to the nature and extent of their implementation of the standards, and the likely effect of the standards on their accounting policies. They noted that main areas that will be affected will be general insurance contracts, recognition and measurement of financial instruments, employee benefits, tax effect accounting and impairment of assets. Agencies are required to quantify the potential financial impact of changes in the accounting policies in their 2004-05 financial statements.

Aggregate financial reporting of multiple trusts and funds

In prior years, Victorian Fund Management Corporation and State Trustees Limited have prepared separate financial statements for each trust and fund they manage. In our November 2003 *Report on Public Sector Agencies* we recommended that these 2 agencies adopt the funds management industry better practice of aggregated trust financial statements. This makes it easier for the agencies to prepare financial information, and easier for readers to understand and use.

During the year, both agencies decided to aggregate their trust financial statements into 2 statements each, as from 30 June 2004. Figure 12C shows the trusts and funds included in each of the statements.

The trusts and funds are not subject to financial reporting provisions of the *Financial Management Act 1994* but to their governing trust deeds and, in the case of the State Trustees Limited premium funds, to the *Corporations Act 2001*. Therefore, in the case of these trusts and funds, there is no requirement to provide the annual financial statements to the responsible minister for tabling in parliament.

FIGURE 12C: VICTORIAN FUND MANAGEMENT CORPORATION AND STATE TRUSTEES LIMITED FINANCIAL STATEMENTS AND ENTITY COVERAGE

Financial statements for -	Entities included
Victorian Fund Management Corporation equity trusts	VFM Australian Equities Trust, VFM International Equities Trust, VFM Hedged International Equities Trust, VFM Global Small Companies Trust, VFM Emerging Markets Trust
Victorian Fund Management Corporation fixed interest trusts	VFM Short Term Money Market Trust, VFM Australian Fixed Interest Trust, VFM Indexed Bonds Trust, VFM Global Bond Trust, VFM Income Trust
State Trustees Limited premium funds	Premium Cash, Fund, Premium Fixed Interest Fund, Premium Property Fund, Premium Equity Fund, Premium Diversified Fund, Premium International Fund, Premium Cash Plus Fund
State Trustees Limited	Cash Common Fund No. 1, Cash Common Fund No. 1, Equity Common Fund, Fixed Interest Common Fund, Property Common Fund, Managed Common Fund, Charitable Common Fund

Source: Victorian Auditor-General's Office.

Recommendation

12.1 That the Department of Treasury and Finance includes all state-controlled trusts and funds under the financial reporting and accountability requirements of the *Financial Management Act 1994* to enable the responsible minister to table annual financial statements of trusts and funds.

12.3.4 Adequacy of control environments

All agencies are required to establish and maintain an adequate system of internal control to ensure that:

- their financial records and other information completely and accurately reflect their entire activities
- their assets are safeguarded
- errors and other irregularities are prevented or detected.

Our financial audits assess agencies' governance and financial control processes.

We identified the following major issue requiring attention.

Audit certification by external service providers

The 30 June 2004 annual certificates issued by the Victorian Funds Management Corporation to its investment clients included more detailed reporting about the corporation's and master custodian's governance and operating control environments. This is in line with audit guidance statements AGS 1042: *Reporting on control procedures at outsourcing entities* and AGS 1026: *Auditor reports on externally managed funds.*

A number of sector agencies outsource a significant portion of their core business activity to external service providers. Except for the investment services of the Victorian Funds Management Corporation, we have not seen evidence that agencies receive independent audit certification that their main service providers have adequate internal control systems, in line with Audit Guidance Statement AGS 1042: *Reporting on control procedures at outsourcing entities.*

Recommendation

12.2 That sector agencies that have core business activities outsourced obtain regular certifications from the independent auditors of major service providers to establish:

- **the financial viability of the service provider**
- **the adequacy of the service provider's control procedures in safeguarding the assets and services.**

12.3.5 Other significant issues

Implications of International Financial Reporting Standards

Australia is adopting International Financial Reporting Standards for reporting periods commencing on or after 1 January 2005. This has some implications for sector agencies.

Implications for employer sponsors and defined benefit schemes

As part of preparing for the International Financial Reporting Standards, the Australian Accounting Standard AASB 119: *Employee Benefits* has been revised. The revised standard requires employer sponsors of defined benefit superannuation schemes to recognise, from 1 July 2005, the scheme's net surplus or deficit in the statement of financial position, and gains and losses on assets and liabilities as revenue or expenses. Under AASB 119, a scheme's surplus or deficit is based on the "risk-free" discount rate, rather than the earnings rate of the defined benefit superannuation scheme. Australian Accounting Standard AAS 25: *Financial Reporting by Superannuation Plans* requires a scheme's surplus or deficit to be based on the earnings rate of the defined benefit superannuation scheme.

There are 3 issues for schemes in the implementation of the standards:

- Determination of an appropriate long-term risk-free discount rate for the State Superannuation Fund and Emergency Services Superannuation defined benefit schemes' net surplus or deficit calculation for employer sponsor financial reporting purposes.
- State Superannuation Fund and Emergency Services Superannuation Scheme financial statements are not currently mandated under AASB 119 or AAS25 to incorporate additional disclosures reconciling the difference in net defined benefit scheme surplus or deficit calculated under the 2 standards.

- The unfunded superannuation liability recognised by the Department of Treasury and Finance (which is the major government employer sponsor) may increase significantly[3].

Recommendation

12.3 That the Department of Treasury and Finance provide guidance to both the State Superannuation Fund and the Emergency Services Superannuation Scheme in relation to:

- **adopting an appropriate risk-free discount rate for employer sponsor net scheme deficit valuation purposes**
- **incorporating additional note disclosure reconciling the difference between the funds'AAS25 unfunded liability valuation, and that as per AASB 119 which is to be reported by the employer sponsor.**

RESPONSE provided by the Secretary, Department of Treasury and Finance

DTF accepts the recommendation. DTF has already undertaken considerable analysis of the implications of International Financial Reporting Standards and will continue its close collaboration with the Government Superannuation Office and the Emergency Services Superanuation Scheme on this issue.

Implications for state insurance entities

International Financial Reporting Standards (and taking account of recent HIH Royal Commission and Australian Prudential Regulation Authority guidelines), Australian Accounting Standard AASB 1023: *General Insurance Contracts* was recently revised. Under the revised standard:

- the outstanding claims liability must be discounted, based on a risk-free rate, and must also include a risk margin to allow for inherent uncertainty in the central estimate
- additional reporting is required about risk management policies and objectives, and the sensitivity of key outstanding claims liability assumptions.

Australian Prudential Regulation Authority (APRA) guidelines do not apply to public sector insurers. At the time of finalising this report, the Department of Treasury and Finance was to commence consultation with the Transport Accident Commission, Victorian WorkCover Authority and Victorian Managed Insurance Authority to decide to what extent the APRA guidelines should be used by public sector insurers.

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[3] Mercer Human Resource Consulting, *Strategic Management of Superannuation Liabilities*, 21 May 2004 (commissioned by Department of Treasury and Finance).

In the absence of guidelines, Victoria's 3 public sector insurers currently have different philosophies and practices for risk margins, risk-free discount rates and capital adequacy reserves. While we recognise that the operations of the 3 agencies differ, the lack of consistency means the performance of the 3 agencies cannot be compared and, some agencies, may not comply with the revised Australian Accounting Standard AASB 1023: *General Insurance Contracts*.

Recommendations

12.4 As recommended in our November 2003 *Report on Public Sector Agencies*, that the Department of Treasury and Finance provide guidelines to the public sector insurers about:

- **risk margins and risk-free rates to be adopted in valuing the outstanding claims liability**
- **capital adequacy reserves**
- **additional disclosure about claims risk management and the sensitivity of outstanding claims liability assumptions.**

12.5 That the guidelines take account of AASB 1023, the APRA guidelines and the recommendations of the HIH Royal Commission.

RESPONSE provided by the Secretary, Department of Treasury and Finance

DTF notes the recommendation that an appropriate and consistent liability valuation regime be implemented for the state's insurance bodies. In this context, DTF specifically notes that for reporting periods beginning on or after 1 January 2005, all Australian reporting entities are required to adopt the financial reporting requirements of the Australian equivalents to International Financial Reporting Standards (IFRS).

AASB 1047 'Disclosing the Impacts of Adopting AASB Equivalents to International Financial Reporting Standards' requires narrative disclosure in annual reports of how the transition process is being managed, and an explanation of key differences in accounting policies that are expected to arise from the transition to AASB equivalents of IFRS.

The key changes in accounting policies expected to have a material impact on the state's insurance bodies relate to the measurement of outstanding claims liabilities consistently with the revised Australian Accounting Standard on General Insurance Contracts. In particular, the standard requires the use of risk-free discount rates and the inclusion of a risk margin in the outstanding claims liability.

DTF has been working with each statutory insurer to ensure a common understanding is developed with respect to the requirements of the new accounting standards.

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

DTF also notes the capital adequacy and risk management components of the recommendation. Although state insurance bodies are not formally subject to APRA guidelines, DTF recognises that it may be appropriate for certain aspects of these guidelines to be adopted voluntarily by the state and its agencies. In relation to this, DTF is engaged in ongoing dialogue with each of its insurance entities regarding the desirability and practicability of applying aspects of the guidelines.

Gas entity financial reporting

On 15 September 2003, the state-owned Gascor Pty Ltd and Gas Release Co. Pty Ltd were sold to Victoria's (private sector) gas retailers. The former directors of the companies resigned on the date of sale. The companies' financial statements for 1 July to 15 September 2003 were finalised after this date, and so these directors no longer had the authority to sign them.

The current directors of Gascor Pty Ltd and Gas Release Co. Pty Ltd were appointed by the gas retailers. They will not sign the financial statements on the basis that they are not accountable for the pre-sale operations of the company.

We cannot issue an opinion on the companies' financial statements without the directors' signatures.

As well, there is currently no statutory requirement or government policy that requires entities that have been subsequently privatised to prepare and table financial statements.

Recommendation

12.6 That, for government entities being privatised, the Department of Treasury and Finance implement procedures to ensure that financial statements are prepared and signed for the full period of public sector ownership. These statements should be submitted for audit and then tabled in parliament.

13. Victorian Communities[1]

[1] This part of the report does not include the local government sector, which is included in Part 14.

13.1 Audit conclusions

This sector comprises 9 agencies which are required to prepare financial statements at 30 June 2004 and submit them for audit. We issued clear audit opinions on the financial statements of all agencies except for the Melbourne and Olympic Parks Trust, which was again qualified this year.

Apart from the issues giving rise to the qualification, the quality of the financial statements provided for audit by the sector agencies has improved. No significant accounting or control issues delayed finalisation of the financial statements for the sector.

13.2 Sector overview

The Victorian Communities sector comprises the Department for Victorian Communities and 8 smaller agencies with specific event or service delivery responsibilities.

Local government in Victoria is administered under the Local Government Act 1989 by Local Government Victoria (a division of the Department for Victorian Communities). Given the size and diversity of the department, and the size and diversity of the local government sector, we have reported the results of our financial audits of local government in Part 14.

Figure 13A shows Victorian Communities sector agencies (excluding local government) with 30 June 2004 balance dates.

FIGURE 13A: VICTORIAN COMMUNITIES' AGENCIES WITH 30 JUNE 2004 BALANCE DATES

Reporting entity	Number
Department	1
Public bodies	1
Companies, trusts and joint ventures (a)	7
Total	9

(a) Includes Melbourne 2006 Commonwealth Games Pty Ltd, which was succeeded by the Melbourne 2006 Commonwealth Games Corporation during the year.

Source: Victorian Auditor-General's Office.

There was no major change in the composition of the sector in 2003-04. The department continued to provide support for the Victorian communities, employment and youth affairs, multicultural affairs, women's affairs, Aboriginal affairs, local government, sport and recreation, and Commonwealth Games ministerial portfolios.

The department includes the Public Records Office and the registry of Births, Deaths and Marriages. It also operates 5 sport and recreation camps as well as the Community Support Fund and the Victorian Grants Commission. The department also includes the Office of Commonwealth Games Co-ordination, which is responsible for funding games operations and the construction of several infrastructure projects (including the athletes' village at Parkville).

The department's key financial responsibilities are:

- administration and operation of the Community Support Fund ($127 million in payments were made from the fund in 2003-04)
- funding of, and payments from, the Victorian Grants Commission to local government ($354 million)
- coordinating and funding of the Melbourne 2006 Commonwealth Games.

The other sector agencies are:

- Melbourne 2006 Commonwealth Games Corporation (successor to Melbourne 2006 Commonwealth Games Pty Ltd), which is responsible for scoping and planning the operational requirements (including negotiating key contracts) for the Melbourne 2006 Commonwealth Games
- Melbourne and Olympic Parks Trust and State Sports Centre Trust, which are responsible for the care, improvement, use and promotion of sports facilities (including Melbourne Park, Olympic Park, Melbourne Sports and Aquatic Centre and the State Netball and Hockey Centre)
- Victorian Institute of Sport and Victorian Institute of Sport Ltd, which give talented athletes the opportunity to achieve at the highest level
- Queen Victoria Women's Centre Trust which, as custodian of the old Queen Victoria Hospital site, managed the redevelopment of the site and resources, and informs and encourages women throughout the community
- VITS Languagelink, which provides interpreting and translating services.

13.3 Results of financial audits

13.3.1 Audit opinions issued

Clear audit opinions were issued on the financial statements of 8 sector agencies with 30 June 2004 balance dates. The audit opinion on the Melbourne and Olympic Parks Trust financial statements was qualified[2]. This is a continuing qualification arising from an ongoing disagreement with the trust about the appropriate accounting treatment of a liability.

[2] Appendix A to this report contains information about the timing of the finalisation of the financial report and audit opinion for each agency, and the nature of the opinion issued.

The Melbourne and Olympic Park Trust reported an amount of $921 019 in 2003-04 (compared with $7.011 million in 2002-03) as a current liability on the basis that it had an ongoing commitment to contribute to the building of the State Training Velodrome at Northcote.

The trust entered into a tripartite funding agreement with the government and the City of Darebin (who control the asset) in December 2001 whereby they agreed to pay the City of Darebin for works on completion. It is our view that payments by the trust are reciprocal transactions: that is, payment is only required when services have been delivered. Accordingly, the trust's treatment of the $921 019 in 2003-04 (and the $7.011 million in 2002-03) as a liability is not in accordance with the liability definition criteria contained in the Statement of Accounting Concepts SAC 4: *Definition and Recognition of the Elements of Financial Statements*.

We also qualified our opinion on the trust's 2002-03, 2001-02 and 2000-01 financial statements, for the same reason.

Conclusion

The opinion on the financial statements of the Melbourne and Olympic Parks Trust will be qualified so long as the liability continues to be material, and the trust does not record it in line with the requirements of generally accepted accounting principles. This is likely to be the case next year.

Recommendation

13.1 That the Melbourne and Olympic Park Trust reconsider its position in relation to the treatment of any remaining obligation in relation to State Training Velodrome.

RESPONSE provided by the Chief Executive Officer, Melbourne and Olympic Park Trust

As a part of the funding arrangements with the government for the construction of the Vodafone Arena, the Trust was required to make a capital contribution towards the cost of a training velodrome. Ownership of the training velodrome, which is not located on land held by the Trust, will not rest with the Trust. Because the Trust will not own the training velodrome and it was not considered prudent to include this amount as part of the capital cost of the Vodafone Arena, the amount of the required capital contribution was expensed in prior years and not capitalised. Monies subsequently expended in connection with the training velodrome have been debited against the provision raised when the costs were expensed.

RESPONSE provided by the Chief Executive Officer, Melbourne and Olympic Park Trust - continued

The Trust believes that the accounting treatment it has followed in this matter properly reflects the transaction and the obligations of the Trust and that the accounts would not give a true and fair view of its financial position at 30 June 2004 if no provision was made for this committed expenditure. The Trust understands that this disagreement arises because the Auditor-General believes that the transaction should only be brought to account in the financial year when the funds are actually expended. Accordingly, it would seem that the issue is one of timing and not substance.

RESPONSE provided by the Secretary, Department for Victorian Communities

Your comments in relation to this issue are noted. The department will raise the issue with the Trust but notes that the issue relates to the accounting treatment for a grant payable to the City of Darebin and will be resolved once the funding term is complete.

13.3.2 Timeliness of reporting

Figure 13B shows how well sector agencies met the 12-week statutory reporting requirement for 2003-04.

FIGURE 13B: TIMELINESS OF COMPLETION OF AUDITED FINANCIAL STATEMENTS, VICTORIAN COMMUNITIES SECTOR

Number of weeks after end of financial year audited financial statements were finalised	2003-04		2002-03	
	Number of entities	Per cent (cumulative)	Number of entities	Per cent (cumulative)
Less than 8 weeks	-	-	2	25
8 to 10 weeks	1	11	4	75
10 to 12 weeks	5	67	1	88
12 to 14 weeks	1	78	-	88
14 to 16 weeks	2	100	-	88
More than 16 weeks	-	100	1	100
Total	9	-	8	-

Source: Victorian Auditor-General's Office.

The department improved its timeliness from more than 16 weeks for its 2002-03 financial statements, to 10-12 weeks for its 2003-04 statements.

The financial statements of both the Melbourne 2006 Commonwealth Games Pty Ltd and the Melbourne 2006 Commonwealth Games Corporation were completed within 16 weeks. Initially, one set of financial statements covering both agencies was prepared. These statements were audited and cleared in July. Legal and technical advice was then received that separate statements were required, and the board of the company and the corporation agreed to produce separate statements for each agency. This led to the delay in finalising audit.

We were advised that the company will be deregistered in 2004-05 and only one set of 2004-05 financial statements (for the corporation) will be prepared.

13.3.3 Quality of financial reporting

Apart from the issue resulting in the qualification of the financial statements of the Melbourne and Olympic Park Trust, the quality of financial statements produced by sector agencies was satisfactory.

However, our audits identified the need for:

- further improvements in the current disclosure of grants and commitments in the notes to the department's financial statements
- the department to continue its project to update its valuation of the Public Records Office's collection
- a review of the current basis for valuing the land and buildings controlled by the Queen Victoria Women's Centre Trust, to ensure it remains the most relevant in the light of its status as a not-for-profit agency.

RESPONSE provided by the Secretary, Department for Victorian Communities

The department will endeavour to provide greater clarity of its grant payments where appropriate in future. The department will also separate its operating commitments from capital commitments in future.

The department initiated a project in March 2004 to review the methodology for valuing the Public Record Office's collection, and to update its value for the 30 June 2005 financial statements accordingly. By agreement with the Auditor-General's Office, the project has a number of milestone steps which require their endorsement before proceeding with each phase of the project.

The Trust is giving further consideration to the matter. However, the valuation is fully compliant with the accounting standard.

13.3.4 Adequacy of control environments

The management of every agency is responsible for establishing and maintaining a sound control environment and an adequate system of internal controls to ensure that:

- the agency's financial records and other information completely and accurately reflect its entire activities
- its assets are safeguarded
- errors and other irregularities are prevented or detected.

Our financial audits assess agencies' governance and financial control processes.

Our audit of the Melbourne and Olympic Parks Trust identified that it does not have an internal audit function, does not keep appropriate minutes of audit committee meetings, does not have a fraud policy and has not conducted a fraud risk assessment.

We have recommended to the Trust that it attends to these matters.

RESPONSE provided by the Chief Executive Officer, Melbourne and Olympic Park Trust

Management agrees with audit and will adopt audit recommendation for future Finance and Audit Committee meetings. However, it should be noted, from a practical point of view, all governance issues and Trust decisions are fully documented in the Trust's minutes.

The Trust has tendered for internal audit services and awarded 3-year contract commencing with this financial year, 2004-2005.

RESPONSE provided by the Secretary, Department for Victorian Communities

I note your comments and advise that the Melbourne and Olympic Parks Trust is addressing the matters raised in relation to governance and financial control processes.

14. Local government

14.1 Audit conclusions

There were 104 local government agencies required to prepare financial statements at 30 June 2004 and submit them for audit. Councils and Regional Library Corporations were also required to prepare comparative "standard" financial statements at 30 June 2004 for the first time and submit them for audit. Councils are also required to prepare non-financial performance statements that are also audited.

We issued clear audit opinions on the 79 financial and comparative standard statements of all councils, except for Swan Hill. We also issued clear audit opinions on the financial statements of all other agencies that were completed at 31 October 2004. The audit of the financial statements of the Wimmera Development Association was not completed at 31 October 2004.

The performance statements of 2 councils, Wodonga and Buloke, were qualified again this year. The performance statements of all other councils were unqualified.

The timeliness and quality of financial reporting in the local government sector was just as prompt this year, with 95 per cent of agencies having the audit of their statements finalised within the 3-month statutory deadline.

As a whole, the financial performance and financial position of the sector improved compared with last year. However, some councils continue to face viability issues in the medium to longer-term.

In preparing financial statements, valuation of assets and measurement and management of liabilities presented problems for some councils. More work is required to improve the reliability of asset valuation data.

A marked improvement in the operation of audit committees was noted. However, internal audit and controls over the security of data remain areas of weakness for a number of councils.

14.2 Sector overview

14.2.1 Introduction

Victoria's local government agencies deliver a wide range of services to local communities. They also play a major role in the provision of infrastructure, environmental management and leadership of local communities.

The state has constitutional responsibility for local governments, and provides the legal framework in which local governments operate. Local government in Victoria is administered under the *Local Government Act 1989,* which specifies the purposes, objectives, functions and powers of councils.

Local Government Victoria (a division of the Department for Victorian Communities) administers the Act. Given the size and diversity of the department, and the size and diversity of the local government sector, we have reported the results of audits of the sector in this chapter, and not as part of the chapter in which the department is reported.

Figure 14A shows the number of local government agencies with 30 June 2004 balance dates.

FIGURE 14A: TYPE AND NUMBER OF AUDITED AGENCIES WITHIN THE LOCAL GOVERNMENT SETOR, AT 30 JUNE 2004

Reporting entity	2004	2003
Municipal councils	79	79
Regional library corporations	14	14
Companies, trusts and joint ventures[(a)]	11	8
Total	104	101

(a) Three new entities, the Wimmera Development Association, GMT (Holdings) Pty Ltd and GMT Infrastructure Limited, have been added this year.

Source: Victorian Auditor-General's Office.

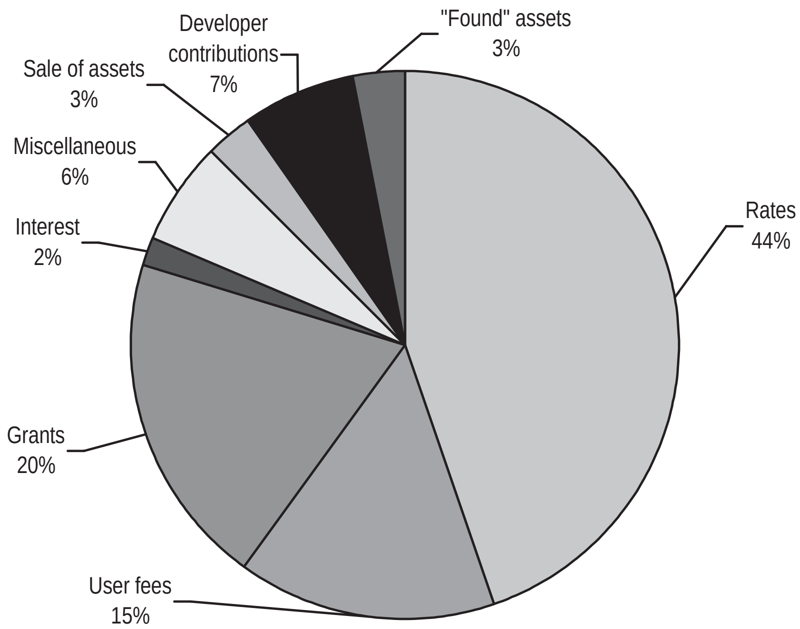
As well as auditing the financial statements of these agencies, we also audit comparative standard statements and performance statements prepared by the 79 municipal councils, and comparative standard statements prepared by the 14 regional library corporations.

14.2.2 Financial performance and position

In 2003-04, the local government sector collected $4.9 billion of revenue and spent $4.4 billion on delivering services. Total revenues grew $380 million (or 8.4 per cent) during the year, due mainly to growth in total rate revenues of $225.9 million (11.6 per cent), user fees and charges of $26.1 million (3.6 per cent) and grants of $47.6 million (5.2 per cent).

Figure 14B shows the main sources of municipal council revenues. Rates, user fees and charges and grants continue to be councils' major sources of revenue. The proportional contribution of each to total revenues was largely unchanged from 2002-03.

FIGURE 14B: SOURCES OF MUNICIPAL COUNCIL REVENUES, 2003-04



Source: Victorian Auditor-General's Office.

In 2003-04, the local government sector managed $37.8 billion of infrastructure and other non-current assets, and $1.7 billion of current assets (mainly cash).

14.2.3 Financial viability

In 2003-04, the net worth of councils and associated entities grew by $3.8 billion (11.2 per cent). The majority of this growth was due to acquisition or revaluation of non-current assets. The combined net operating result of $448.7 million also contributed to this growth.

In 2003-04, councils' collective operating revenue increases exceeded cost increases, and cash reserves grew. This would suggest that the sector performed well. However, as in previous years, the reported operating results of councils were distorted by the practice of recognising as revenue non-current assets that have either been "contributed" to the council as part of development activity, or recognised for the first time ("found" assets). The adjusted, underlying operating result for the sector was $76.2 million.

This year, we have considered the combined effect of a number of measures of performance rather than focus solely on the "bottom line" operating result. We have also considered the extent of change from the prior period, as it is better to examine trends over time, rather than focus on the results for one period alone.

Figure 14C shows the average performance of the 79 councils in 2002-03 and 2003-04 against 5 indicators of short-term viability and longer-term sustainability[1].

FIGURE 14C: EXAMPLE FINANCIAL PERFOMANCE INDICATORS

Indicator	Formula	2002-03	2003-04	Change
Underlying result	Adjusted net surplus/total underlying revenue	-1.9%	1.7%	+2.6
Liquidity	Current assets:current liabilities	2.1:1	2.2:1	+0.1
Indebtedness	Non-current liabilities/own source revenue	25.3%	23.7%	-1.6
Self-financing	Net operating cash flows/underlying revenue	19.6%	19.0%	-0.6
Investment gap	Capital spend:depreciation	1.16:1	1.17:1	+0.01

Source: Victorian Auditor-General's Office.

Underlying result

This is a measure of councils' surpluses (or deficits) as a percentage of their revenues. A negative result indicates a deficit. For surpluses, the higher the percentage, the stronger the result.

As a whole, the sector' s performance as indicated by this measure improved significantly. In 2003-04, the combined underlying result was a surplus of $76.2 million, compared with a deficit of $79.2 million in 2002-03.

Much of the turnaround can be explained by the unfunded superannuation expense of $113.7 million recorded in 2002-03 that did not recur this year. However, despite the absence of this expense, 33 councils still reported an underlying operating deficit for 2003-04. In 2003-04, the combined underlying deficits of these councils was $114.4 million this year. Fifty councils reported underlying operating deficits totalling $152.9 million for 2002-03.

Of the 33 councils with operating deficits this year, 26 also reported deficits last year. This is a concern for these councils. Operating deficits cannot be sustained in the longer-term, and deficits by their nature also shift the burden of today's costs to future ratepayers.

Liquidity

This is a measure of councils' ability to pay their existing liabilities in the next 12 months. For example, a 2:1 ratio means that councils as a whole had twice the value of current assets as current liabilities.

In 2003-04, this ratio improved from already good levels. Only 2 councils had ratios that were close to 1:1. The remaining councils had ratios generally in the range of 1.5: 1 to 2.2:1.

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[1] Councils might find these indicators useful as benchmarks against which to compare their financial performance.

Indebtedness

This is a longer-term measure that compares non-current liabilities to own-sourced revenue and complements the short-term liquidity ratio. The higher the percentage, the less councils are able to cover their non-current liabilities from the revenues they generate themselves. We use own-sourced revenue rather than total revenue because it does not include capital grants (which are generally tied to specific projects and cannot be used to retire debt).

While total indebtedness of councils increased marginally, it fell as a proportion of revenue. Accordingly, councils as a whole were in a better position than in 2003-04 to repay debt. Of course, the position of individual councils varies from the average: 10 councils had ratios for this measure above 40 per cent.

Self-financing

This is a measure of councils' ability to fund asset replacement from the cash generated by their operations. The higher the percentage, the more able they are to do so.

Although this measure remained about the same for all councils in 2003-04, 5 councils generated net operating cash flows that were less than 10 per cent of underlying revenue. Such situations, if sustained, will limit the ability of these councils to source funds for infrastructure from their own operations. This would increase their likelihood of the councils having to borrow to replace or renew assets.

Investment gap

This is a measure of whether councils are spending on infrastructure at a greater rate than the infrastructure is depreciating: ratios higher than 1:1 (for example, 2:1) indicate that they are. It is a longer-term indicator, because capital expenditure can often be deferred if there are insufficient funds available from operations and borrowing is not an option.

This ratio remained about the same in 2002-03 and 2003-04, which indicates that councils are, at least, maintaining existing investment levels.

Conclusion

As a group, the overall trend for councils shown by the above indicators is positive. However, a number of councils are not doing well on at least one, and often more, of the indicators. Figure 14D shows, as examples, indicators for 2 councils in 2003-04.

FIGURE 14D: COMPARISON OF 2 COUNCILS' FINANCIAL PERFORMANCE

Indicator	All councils result	Council A	Council B
Underlying result	1.7%	15.3%	- 20.2%
Liquidity	2.2:1	2.77:1	1.09:1
Indebtedness	23.7%	12.7%	40.4%
Self-financing	19.0%	18.2%	5.8%
Investment gap	1.17:1	3.52:1	0.83:1

Source: Victorian Auditor-General's Office.

Council B is facing both short and longer-term financial difficulties. It had an operating deficit (as it did in 2002-03), already has high debt levels and spent almost all the cash it generated on its operations, leaving little for capital investment. It will need to generate additional revenue if it is to remain viable in the longer-term, or reduce services.

Recommendation

14.1 That all councils:

- **develop indicators of financial viability and sustainability**
- **establish targets for these indicators as part of their strategic planning processes**
- **regularly report on and monitor actual performance against target.**

14.3 Results of financial audits

14.3.1 Audit opinions issued

Clear audit opinions were issued on the financial statements of all municipal councils, with the exception of Swan Hill Rural City Council, for which a qualified audit opinion was issued.

This qualification relates to the valuation of infrastructure assets. It is pleasing to note that the council made significant progress in 2003-04 to rectify the underlying cause of the qualification. In 2003-04, the qualification was about inadequate condition data on sealed and unsealed roads and drainage assets. During the year, the council obtained reliable data about the condition of its sealed roads, and we removed the qualification for these assets. We anticipate that we will be able to remove the qualification on the remaining assets in our audit of the 2004-05 financial statements.

In 2003-04, for the first time, councils were required to prepare “standard statements”, to compare actual and budget amounts. These statements are required under amendments made to the *Local Government Act 1989* during 2003-04. The amended legislation also requires our Office to express an audit opinion on these standard statements.

With the exception of Swan Hill’s, our opinions on all the standard statements for 2003-04 were unqualified. The qualification of Swan Hill’s standard statements was a consequence of the qualification of its financial statements.

Councils are also required by the Act to produce non-financial performance statements, and to have these audited. We issued qualified opinions for 5 of the 79 councils’ 2002-03 performance statements. This year, we removed the qualifications from 3 councils’ performance statements. The performance statements of Buloke Shire and Wodonga Rural City Council had continuing qualifications. Both councils have told us that they have taken action to remove the cause of the qualifications for their 2004-05 financial statements.

As in previous years, the financial statements of all of the 14 regional library corporations and 10 of the 11 other agencies in the sector that had been finalised at the time of preparing this report were all unqualified.

The audit of the Wimmera Development Association had not been completed at 31 October 2004. It is expected that the financial statements of the association will be qualified in relation to the incorrect recognition and measurement of grant revenues.

14.3.2 Timeliness of reporting

Under section 126 of the *Local Government Act 1989*, councils and regional library corporations must submit their annual reports (including audited financial and standard statements) to the relevant minister by 30 September each year. Councils must also submit their performance statements with their annual reports.

Figure 14E and 14F shows how well councils and regional library corporations met the 30 September deadline.

FIGURE 14E: TIMELINESS OF COMPLETION OF AUDITED FINANCIAL STATEMENTS, MUNICIPAL COUNCILS

Number of weeks after end of financial year audited financial statements were finalised	2003-04		2002-03	
	Number of entities	Per cent (cumulative)	Number of entities	Per cent (cumulative)
Less than 2 months	2	3	-	-
2 to 3 months (September 30 deadline)	76	99	77	97
3 to 4 months	1	100	1	99
Over 4 months	-	100	1	100
Total	79	-	79	-

Source: Victorian Auditor-General's Office.

Gannawarra Shire was granted an extension of the 30 September deadline (to 31 October 2004) by the Minister for Local Government.

FIGURE 14F: TIMELINESS OF COMPLETION OF AUDITED FINANCIAL STATEMENTS, REGIONAL LIBRARY COPRORATIONS

Number of weeks after end of financial year audited financial statements were finalised	2003-04		2002-03	
	Number of entities	Per cent (cumulative)	Number of entities	Per cent (cumulative)
Less than 2 months	1	7	1	7
2 to 3 months (September 30 deadline)	13	100	13	100
3 to 4 months	-	100	-	100
Over 4 months	-	100	-	100
Total	14	-	14	-

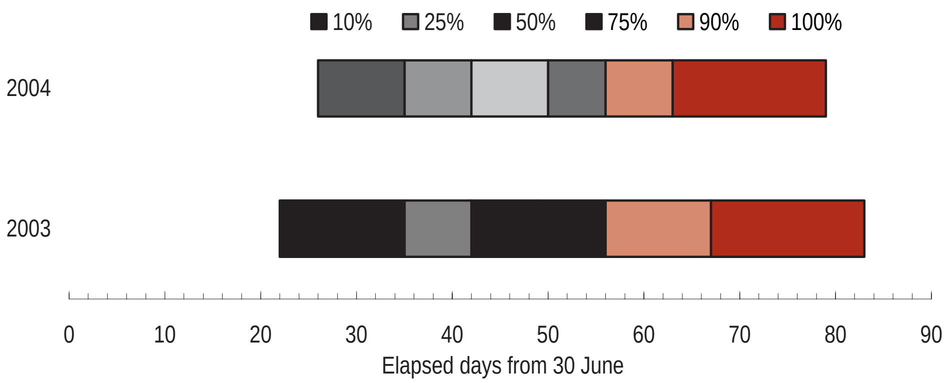
Source: Victorian Auditor-General's Office.

As well as the 79 municipal councils and 14 regional library corporations, the sector also includes 11 companies, incorporated associations, trusts and joint ventures. Audits of 10 of these agencies had been finalised at the time of preparing this report. Three were finalised in August, 4 in September and the remainder in October. The audit of the Wimmera Development Association had not been finalised at 31 October.

The timeliness of reporting for councils improved marginally this year. While this is pleasing to note, there remains scope for improvement in the timeliness of the preparation and submission of draft financial statements for audit.

Figure 14G shows, for 2002-03 and 2003-04, the time after 30 June in "percentile" bands that groups of councils provided a first acceptable draft set of financial statements to our Office. For example, 10 per cent of councils submitted their draft statements for audit within 35 days of year-end, and all councils except Gannawarra had submitted the draft statements within 79 days of year-end.

FIGURE 14G: CYCLE TIMES TO PROVIDE DRAFT STATEMENTS



Source: Victorian Auditor-General's Office.

Figure 14G shows that, for both years, 75 per cent of councils had submitted their statements about 56 days after June 30. The improvement in timeliness is entirely due to the remaining 25 per cent taking less time to submit their draft statements for 2003-04 than for 2002-03. Almost one-fifth of councils are still taking more than 60 days to produce a complete draft set of statements for audit.

The average elapsed time in 2004 was 50 days, compared with 49 days in 2003. Best practice (that is, what the quickest 10 per cent of councils are doing) is still 35 days.

Recommendation

14.2 That councils which were not able to produce their draft financial statements within 2 months of 30 June review and redesign their year-end reporting process, and:

- **plan early for the end of the year**
- **develop and have approved timetables and clear instructions for data gathering and compilation**
- **allocate specific financial and staff resources to the process**
- **assure the quality of draft statements before providing them to the auditor.**

14.3.3 Financial reporting issues

Generally, the quality of 2003-04 reporting by sector agencies improved. However, the 3 financial reporting issues below continued to present challenges for councils.

Valuation of property assets

The carrying value of non-current assets reported in councils' financial statements grew from $34.1 billion at the end of 2002-03 to $37.8 billion at 30 June 2004. Of this increase, $843.5 million resulted from asset acquisitions, $326.1 million from assets contributed by developers, and $144.5 million from the first-time recognition of non-current assets already controlled by councils. The balance of $2.4 billion was attributable to asset revaluations.

In 2003-04, most councils took advantage of the 2-year revaluation cycle for rateable properties (carried out at 1 January 2004) to revalue their council-owned and controlled land and buildings. Many also updated their infrastructure asset valuations to bring them to, or maintain them at, fair value.

We noted this year that councils took different approaches to valuing land, particularly to valuing Crown land controlled by councils and other land with significant restrictions or encumbrances.

Many council valuers valued council-owned or controlled land by applying a discount to the market value of surrounding unrestricted, residential property. In some cases, they applied a blanket discount rate to all council land. In others, discount rates were varied, based on the individual circumstances of each category of land.

In yet other cases, valuers took account of restrictions and other encumbrances on land by using a different market value as the starting point for the valuation. For example, land with public use restrictions such as parks and reserves was valued using the surrounding broadacre valuations as a starting point, or by using data from recent sales of comparable land.

In one case, the use of comparable land sales data led to a reduction in the value of open space reserves of $121 million. In another case, the reverse situation applied, and the use of discounted, unrestricted market values led to an increase of $50 million in the value of public parks.

Conclusion

Large swings in land values that did not result from changes in the real and underlying value of the land, but to changes in how it was valued, is a cause of concern. Inconsistency in approaches to land valuations between councils and, over time within one council, makes it difficult to evaluate performance and may lead to inappropriate decisions.

Recommendation

14.3 That councils work with the Department for Victorian Communities and the Valuer-General to develop an agreed methodology for the valuation of comparable land assets owned or controlled by councils.

Valuation of infrastructure assets

We also observed inconsistencies in the methodologies used to value infrastructure assets (such as roads).

Approaches to determining unit replacement costs for infrastructure assets varied. Where councils had not been utilising "greenfield"[2] cost estimates, we required some valuations to be revised. In these cases, councils had overstated the replacement cost of their infrastructure assets and had accordingly overstated their written-down or "carrying" values and depreciation expense.

Some councils had difficulty obtaining reliable and current unit cost data. This was due in part to low levels of recent expenditure to renew infrastructure assets, meaning they were relying on historic (and possibly outdated) cost data.

As well, some councils' current unit cost data did not represent the true network replacement cost, because it related to the replacement of only small segments of road and other assets.

We were also concerned about the approach taken by some councils to determining the remaining useful lives of infrastructure assets (and hence their carrying values).

Road assets are the largest component of local government infrastructure. The reported gross value of roads in 2003-04 was $17.5 billion. The carrying value was $9.2 billion, suggesting that, on average, the entire local road network is about half way through its useful life.

A number of councils have refined their condition data on roads to better estimate their total and remaining useful lives, and amended their estimates as part of the revaluation process. In almost all instances, the estimates of total life (and therefore of remaining life) increased. This had the effect of increasing the value of road assets.

Figure 14H shows the total estimated average useful lives adopted by councils for their sealed road pavements.

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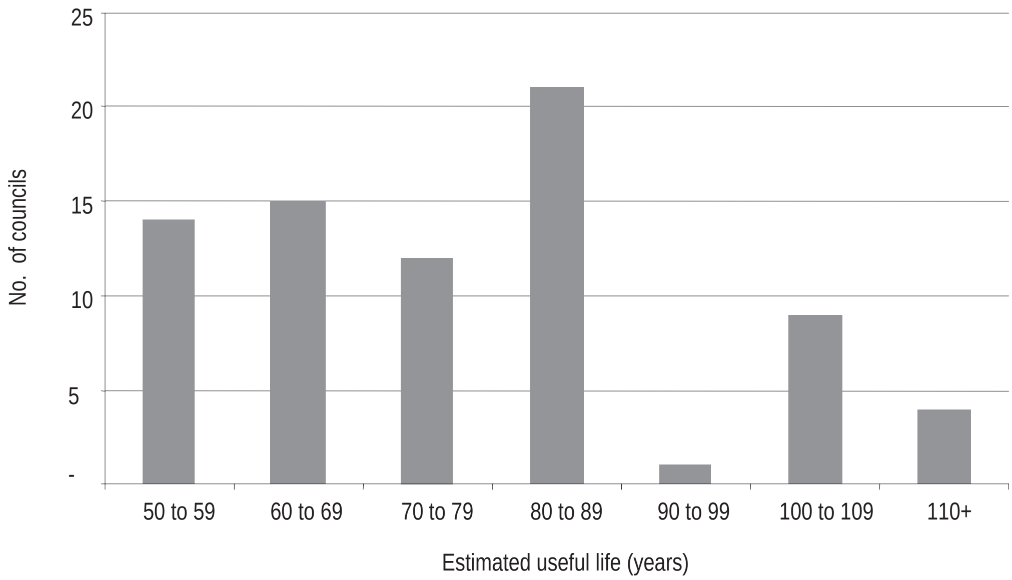
[2] "Greenfield" cost estimates exclude from replacement costs, the cost of removing existing infrastructure.

FIGURE 14H: AVERAGE USEFUL LIFE ESTIMATES FOR ROAD PAVEMENTS



Note: The average useful life of pavement for the sector was 72 years and the median was 77 years.
Source: Victorian Auditor-General's Office.

There is a wide divergence in average useful life estimates. It was noted that most metropolitan and rural city roads had estimated lives above 80 years, while rural roads had lives less than 80 years. However, some metropolitan councils had shorter useful lives for their road assets compared with their peers and some rural councils had longer useful lives compared with their peers. This may indicate that the useful lives adopted by some councils are not as accurate as they could be.

Conclusion

Councils are continuing to improve the data they use in valuing their infrastructure assets. However, challenges remain in ensuring the accuracy and reliability of cost and useful life estimates.

Recommendation

14.4 That councils externally benchmark their estimates of replacement costs and useful lives of their infrastructure assets, to further refine and improve their valuations of these assets.

Measurement of landfill remediation provisions

The 2003-04 financial statements of a number of councils included a liability in relation to their obligation to remediate, rehabilitate and provide aftercare for landfill sites for the first time. At 30 June 2004, a total of 20 councils had recognised a total of $22.3 million to provide for future remediation works on both operational and closed landfill sites. Of this total, $17.1 million was recognised as an expense in 2003-04.

It is inherently difficult for councils to reliably estimate the cost of these remediation works. It is less of an issue if the landfill is close to the end of its working life, or has been closed, but there are still difficulties in estimating site aftercare costs, because these might be incurred for up to 25 years.

To estimate their liability, some councils used formulae provided by the Environment Protection Agency. Some other councils decided that they could not reliably estimate the liability, and disclosed this in a note to their financial statements.

Accordingly, a number of councils have yet to recognise liabilities in relation to landfill sites in their financial statements.

Recommendation

14.5 That all councils review the need for landfill remediation provisions. Where councils have an obligation to remediate, that they determine a methodology to reliably estimate the cost of remediation, so the provision can be recognised as a liability.

Management of liabilities

Last year, we reported on the liabilities associated with employees' annual and long service leave entitlements.

For leave entitlements, we note councils' outstanding annual leave provisions increased by 6 per cent in 2003-04 to $122.9 million at 30 June 2004. The long service leave liability increased by 9 per cent, to $181.8 million.

Both these increases were less than the general increase in employee expenses, which grew by 10.2 per cent to $1.5 billion. This indicates that many councils have been able to manage their leave liability effectively, as they have kept the growth in their leave liabilities below the general growth in wages.

However, as was the case last year, in 2003-04 twenty-two councils had staff with annual leave balances carried forward above their allowed limit. Carrying forward annual leave entitlements beyond one year creates risks to future costs, as staff salaries are likely to be higher when they take leave than they were when they accrued the leave entitlement.

Last year we reported on the unfunded superannuation liability of $127 million related to a funding shortfall in the local authorities superannuation fund. A number of councils paid off their unfunded superannuation liability during the year, and the combined balance owing to Vision Super at 30 June 2004 by the remaining 34 councils was $50.8 million.

Some councils borrowed during the year to repay their liability to Vision Super. While this did not reduce councils' total debt, it did help reduce borrowing costs.

The outstanding superannuation debt incurs interest at the earnings rate of the fund, which in 2003-04 was about 11.8 per cent. This was significantly above the interest rate on borrowings from financial institutions. It was also well above the earning rates achieved by councils on their own cash investments.

Consequently, the councils that repaid the debt (either from their own cash reserves or through borrowings) realised significant interest savings during the year. Those councils that did not pay off their superannuation debt incurred total additional interest costs of about $2.5 million[3].

Conclusion

Recent amendments to the *Local Government Act 1989* require councils to adopt principles of sound financial management, including managing current and future liabilities. A number of councils need to pay greater attention to managing employee leave provisions and their superannuation liability.

Recommendation

14.6 That councils with excessive leave balances or an unpaid superannuation liability review their current strategies for managing the risks associated with these liabilities and, in particular, act to minimise future costs.

14.3.4 Adequacy of councils' control environments

Last year, we reported on the operation of audit committees and raised concerns about their operational effectiveness. In 2003-04, all councils were required by law to have an audit committee. By 30 June 2004, all councils, except Buloke Shire, had an audit committee.

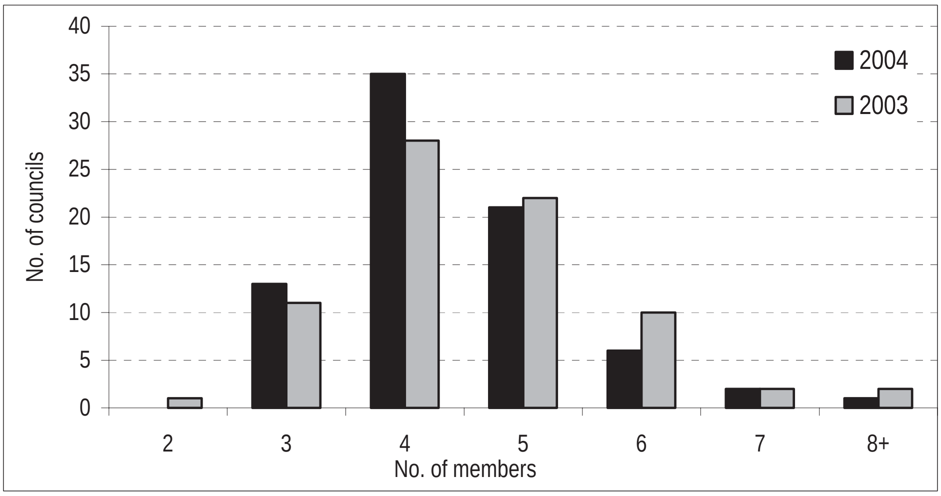
We also noted a number of significant improvements in the operation of audit committees in 2003-04.

[3] We have based this estimate on the amount of debt outstanding at 30 June 2004 and borrowing rates of around 7 per cent.

In 2003-04, there was a widespread increase in external membership of audit committees. All but one audit committee had at least one external member, and the average was 2 members. In all cases, external members were also independent of the council. In many cases, they brought to the committee accounting and financial reporting expertise.

The membership of some committees also increased, with the smallest committee now having 3 members. Figure 14I shows committee numbers in 2002-03 and 2003-04.

FIGURE 14I: COUNCIL AUDIT COMMITTEE MEMBERSHIP NUMBERS



Source: Victorian Auditor-General's Office.

In 2003-04, the average number of meetings held by audit committees increased to 4. The increased frequency of meetings facilitates more timely consideration of audit and accounting issues.

In 2003-04, an external auditor was present at about half of all audit committee meetings (compared with only a quarter in 2003-04). A number of committees also adopted the better practice of inviting the external auditor to meet privately with committee members, without council managers being present.

Conclusion

The operation of council audit committees was much improved in 2003-04. There remains further scope for a number of committees to develop a closer relationship with their external auditor.

Recommendation

14.7 That councils:

- **require their external auditor to attend all audit committee meetings**
- **require their external auditor to meet at least once each year with the audit committee, without council managers being present**
- **require their audit committee to provide written feedback to their external auditor about the external auditor's performance, and how the external auditor can improve their relationship with the committee.**

14.3.5 Adequacy of councils' information systems

Last year, we reported on weaknesses in information system security. Failure to secure the data in council financial information systems increases the risk that the data will be corrupted or destroyed, and hence not be reliable or available when required. It also increases the risk of unauthorised access, potentially leading to unauthorised disclosure.

It was, therefore, disappointing to again find that information security in a number of councils was deficient. Previous problems again identified were:

- failure to restrict the number of unsuccessful login attempts
- failure to enforce password complexity rules or changes to passwords.

As well, a number of councils:

- failed to store sensitive files on secure servers
- did not have data change controls (including not having, or not reviewing, audit logs), especially over payroll and accounts payable master file data.

Conclusion

The maintenance of effective control over the information technology systems is a challenge for many councils, particularly smaller councils with limited access to specialist information technology resources.

However, the prevalence of, and extent of reliance on, financial and operational information systems means that councils must ensure they have adequate information technology controls.

Recommendation

14.8 That all councils have processes to regularly review the effectiveness of information security controls.

14.3.6 Adequacy of councils' monitoring and review processes

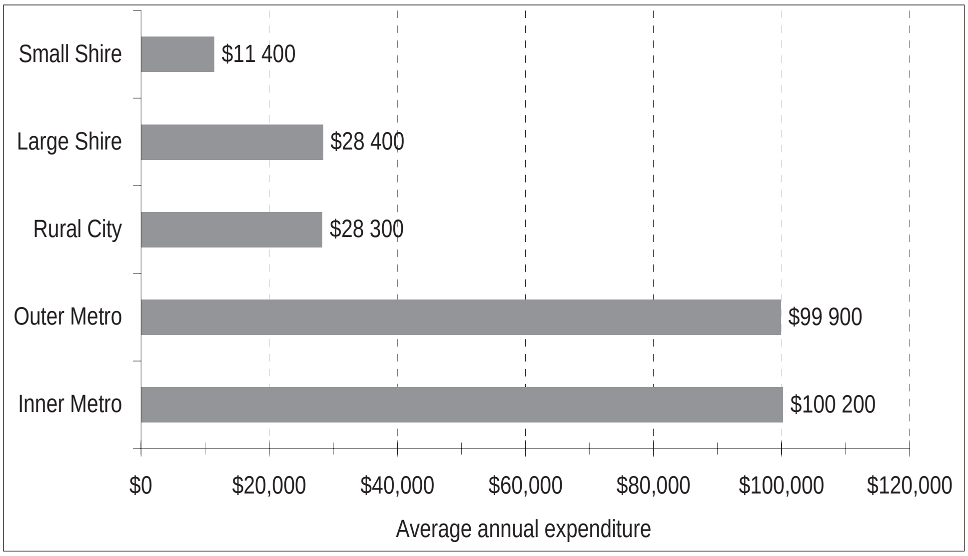
Despite our finding last year about the number of councils with no internal audit function, we again note this year that 14 councils did not have an internal audit function in 2003-04. Councils also varied widely in the amount and nature of resources they allocated for internal audits.

Ten councils resourced internal audits with their own staff, and 6 councils used both staff and external contractors. The remaining councils have fully outsourced the internal audit function.

In 2003-04, 13 councils spent more than $100 000 on internal audits, and the average expenditure was $57 000. The amount allocated to internal audits usually varied according to the size of the council.

Figure 14J shows the average expenditure on internal audits by type of council.

FIGURE 14J: AVERAGE COUNCIL INVESTMENT IN INTERNAL AUDITS



Note: Given its size and nature, Geelong City Council has been included as part of the outer metro group for this analysis. Its investment in internal audit is significantly greater than other rural cities.

Source: Victorian Auditor-General's Office.

Conclusion

A significant proportion of councils either do not have an internal audit function, or are spending small amounts on internal audits compared with similar councils.

Recommendation

14.9 That all council audit committees review their expenditure on internal audits, including by benchmarking expenditure on internal audit against similar councils.

15. Grants to the Cambodian Association of Victoria

15.1 Audit conclusion

The Cambodian Association of Victoria Inc. (CAV) provides welfare and other services to members of the Indochinese community in Victoria. It has received grant funding of around $500 000 from several Commonwealth, state and local government agencies over the past 5 years.

In February 2003, CAV was deregistered as an incorporated association because it had not provided Consumer Affairs Victoria with an annual statement and audited financial accounts for 4 years. Following concerns that CAV may have been ineligible to receive grant funding due to its deregistration as an incorporated association, we reviewed selected grants to CAV provided by the Department of Innovation, Industry and Regional Development (DIIRD) [under the Community Jobs Program which has been administered by the Department for Victorian Communities (DVC) since December 2002], Parks Victoria, Consumer Affairs Victoria, Crime Prevention Victoria and the City of Greater Dandenong Council.

We found that CAV had been paid grant funds of around $68 400 subsequent to its deregistration as an incorporated association and had failed to fully acquit 2 of the grants examined in this audit. CAV has not fully acquitted a grant of $58 500 received from the Victorian Law Enforcement Drug Fund in 2000 and a grant of $20 000 provided by the City of Greater Dandenong in 2002-03 for the salary of a youth worker.

Apart from these exceptions, CAV had provided the required project completion reports on the application and expenditure of grant funds for all grants examined and the agencies examined in the audit were satisfied that CAV had expended grant funds for the purposes provided. We concluded that for the majority of grants examined, the agencies had sufficient evidence from their monitoring activities to support this view.

While the primary focus of the audit was on grants provided to CAV, the audit also included an examination of the processes adopted by agencies in their assessment of grant applications from organisations other than CAV and subsequent monitoring of approved grants.

There were weaknesses in the 5 agencies' grant assessment processes which reduced the ability of some agencies to substantiate that their grant application assessment and selection processes achieved an equitable and transparent distribution of grant funds. The weaknesses included an inability to locate appropriate documentation supporting the assessment of applications; provision of grant funding despite applicants not meeting agencies' requirements; inconsistent treatment of applicants; and limited or no information to support some advisory committee recommendations and some Council funding decisions. We did not find all of these weaknesses in each of the 5 agencies examined.

Most agencies had comprehensive guidance for applicants about the requirements for grant applications and the criteria used to assess applications and make funding decisions. The City of Greater Dandenong Council, the former **Vic***safe* unit (within the Department of Justice) and Consumer Affairs Victoria had not documented the processes to be used by their staff and advisory committees in processing and assessing grant applications.

The funding agreements of all agencies examined, other than DVC, could be enhanced by including a provision requiring grantee organisations to advise the funding agency of changes that occur in the grantee's legal status or management structure which could impact on either their eligibility to receive grant funding or their capacity to complete the funded project. In addition, agencies should review their procedures and systems to ensure reliable, timely and adequate evidence is received from grant recipients to demonstrate that grant funds have been spent in accordance with the purpose for which they were provided.

Unless funding agencies ensure transparent and well-documented grant application assessment and decision-making processes, and adequate monitoring of compliance with accountability requirements by grant recipients, they cannot be assured that grant programs are an effective use of taxpayer funds.

RESPONSE provided by Secretary, Department for Victorian Communities

I can confirm that the report as presented is factually correct and fair. The department has introduced enhanced assessment and payments procedures which address the main findings and recommendations of the report. This is acknowledged in the report.

RESPONSE provided by Secretary, Department of Justice

The Department of Justice accepts all the conclusions and recommendations in the report.

Revised processes are now in place by Consumer Affairs Victoria for all the grants it administers and by Crime Prevention Victoria in relation to Victorian Law Enforcement Drug Fund.

RESPONSE provided by Chief Executive Officer, City of Greater Dandenong

The City of Greater Dandenong agrees with the recommendations outlined in the report. Where changes can be enacted immediately, our staff have already implemented the report's recommendations. This is reflected in the forms and process which is in place for the current Community Strengthening Grants which close on 10 November. The recommendations are also reflected in the policy which is currently being developed for adoption by council and will guide the implementation of the 2005-06 grants program.

RESPONSE provided by Chief Executive Officer, Parks Victoria

Parks Victoria accepts the material contained within the report as factually correct. Parks Victoria maintained a close relationship with the CAV throughout all grant years, which is all comprehensively documented on file. At all times, Parks Victoria was satisfied that the agreed project outcomes were being met and the objectives of the project were achieved.

15.2 Background

Over the past 5 years, grant funding of around $500 000 has been provided by several Commonwealth, state and local government agencies to CAV. CAV provides welfare services to disadvantaged members of the Indochinese community in Victoria. CAV programs assist the Indochinese community in employment, youth assistance, crime prevention, credit advice, environmental education and aged care assistance.

CAV was registered as an incorporated association in 1987. Incorporated organisations are considered by government funding agencies to be "less risky" grant recipients as they are required to establish formal management structures and comply with financial management and reporting obligations in order to retain their incorporation status[1].

[1] The *Associations Incorporations Act 1981* is administered by Consumer Affairs Victoria. The Director of Consumer Affairs, as Registrar of Incorporated Associations is responsible for maintaining an accurate and current register of incorporated associations and monitoring their compliance with the reporting requirements of the Act.

CAV was deregistered as an incorporated association in February 2003 because Consumer Affairs Victoria (a business unit within the Department of Justice) as Registrar of Incorporated Associations, formed the view that it was no longer an active organisation. At that point, CAV had not lodged an annual statement by its public officer with Consumer Affairs Victoria for 4 years. The annual statement by CAV's public officer was required to be accompanied by audited accounts. At the time of the deregistration action, the most recent annual statement and audited accounts held by Consumer Affairs Victoria on CAV activities was for the financial year ended 30 June 1998, and had been received in March 1999.

15.2.1 Purpose and scope of the audit

In late 2003, concerns were drawn to the attention of my Office that CAV may have been paid grant funds by government agencies subsequent to its deregistration as an incorporated association. This audit examines whether those concerns were warranted.

The objective of the audit was to review grants provided to CAV by a range of government agencies and the City of Greater Dandenong Council, to determine the extent of grants provided to CAV in recent years, and whether:

- CAV was eligible to receive the grants provided
- grant funds had been provided to CAV when it was de-registered as an incorporated association
- grant application assessment and monitoring procedures by agencies were adequate.

The audit involved examining grant administration procedures in the following agencies:

- Department for Victorian Communities (DVC) for a grant program which had been previously administered by the Department of Innovation, Industry and Regional Development (DIIRD) up until December 2002
- Parks Victoria
- Consumer Affairs Victoria, within the Department of Justice
- Crime Prevention Victoria, within the Department of Justice (**Vic***safe* a former business unit within the Department of Justice, was responsible for administering Victorian Law Enforcement Drug Fund (VLEDF) grants during 1999 and part of 2000[2])
- City of Greater Dandenong Council.

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[2] Transfers of functions during 2000 from **Vic***safe* and the Victorian Police Board enabled a crime prevention function to be established but formalisation of Crime Prevention Victoria as a business unit did not occur until May 2001. The Crime Prevention Victoria unit then assumed responsibility for administering the VLEDF.

The primary focus of the audit was on grants provided to CAV. The audit also included examining the processes adopted by agencies in their assessment of grant applications from organisations other than CAV and subsequent monitoring of approved grants.

Figure 15A sets out CAV grant applications in the period 2000 to 2004, reviewed by audit.

FIGURE 15A: CAV GRANTS REVIEWED BY AUDIT

Government agency from which CAV sought grant funding, grant program and year of application	Grant application amount (excl. GST) (a)($)	Grant funding approved (excl. GST) (a)($)
Parks Victoria -		
Agency Grants Program, 2002-03 -		
A grant was sought for an environmental education program	49 500	40 000
City of Greater Dandenong Council -		
Community Grants and Donations Program, 2002-03 -		
Youth worker salary	35 800	20 000
CAV - Operating costs	12 000	-
Youth Group - Operating costs	8 000	3 000
Women's Group - Donation	4 400	500
Elderly Citizens Group - Donation	4 000	500
Community Grants and Donations Program, 2003-04 -		
CAV Youth worker salary	25 000	21 200
Youth Group - Operating costs	6 000	5 000
Women's Group - Donation	1 000	500
Department of Innovation, Industry and Regional Development -		
Community Jobs Program, 2001-02 and 2002-03 -		
Funding Round 3 (2001-02) (program administered by DIIRD)	109 000	106 000
Funding Round 5 (2002-03) (program administered by DIIRD until December 2002 and by DVC from that point)	143 600	97 900
Department of Justice -		
Consumer Credit Fund - Consumer Affairs Victoria, 1999-2000	31 500	9 000
Victorian Law Enforcement Drug Fund - Vic*safe*, 2000	58 500	58 500
Total	488 300	362 100

(a) All amounts have been rounded to the nearest one hundred dollars.

Source: Information from the various agencies.

15.3 Were grant assessment and monitoring procedures comprehensive?

The provision of grant funds to non-government organisations brings with it risks because the organisations delivering the services are not directly accountable to government or taxpayers for their overall operations[3].

It is, therefore, important that agencies providing the funding have in place a sound approach to the management of grants and are open and accountable for their stewardship[4].

The accountability framework for the provision of grants to non-government organisations should be in accordance with the internal policies and procedures developed by the various government agencies. High-level guidance for state government agencies administering grant programs is provided in the Standing ministerial Directions issued by the minister for Finance under the *Financial Management Act 1994*. The Standing ministerial Directions specify matters that must be complied with by government departments and public bodies (other than local government councils) to maintain appropriate financial management practices.

In late 2003, at the request of the Department of Premier and Cabinet, the Department for Victorian Communities established an interdepartmental committee[5] to make recommendations to improve grants administration across government. The committee examined a sample of grants and departmental processes against the recommendations contained in my November 2000 report, *Grants to non-government organisations – Improving accountability*. The committee is preparing a draft report for the Secretary of DVC on the results of the review and potential areas of improvement in grant administration across the public sector.

15.3.1 Was CAV eligible for grant funding?

The provision by funding agencies of clear and comprehensive guidelines to assist applicants when preparing and submitting a grant application enhances the efficiency of the selection process and improves the quality of applications.

All agencies examined, except for Consumer Affairs Victoria, had “incorporation” as a clear eligibility requirement for grant applicants. Consumer Affairs Victoria advised that although this requirement was not included in its funding guidelines, organisations applying for funding were “expected” to be incorporated.

[3] Victorian Auditor-General’s Office, *Grants to non-government organisations – Improving accountability*, November 2000, page 29.

[4] ibid, page 29.

[5] The interdepartmental committee includes representatives from the following departments: Victorian Communities; Human Services; Justice; Sustainability and Environment; Treasury and Finance; and Innovation, Industry and Regional Development.

Parks Victoria, City of Greater Dandenong Council and DIIRD (and subsequently DVC) provided comprehensive guidelines to applicants seeking funding under the various grants programs examined in this audit.

The *Guidelines for the Consumer Credit Fund* issued by Consumer Affairs Victoria did not address:

- incorporation of applicant organisations
- policies and processes for dealing with the acceptance of late applications, requests for additional information and the potential for re-submission of proposals
- criteria to be used in the evaluation of applications
- the closing time for applications.

All funding agencies examined issued pro-forma application forms which encouraged applicants to submit information in a consistent format and streamlined evaluation procedures.

With the exception of its applications to the City of Greater Dandenong Council for grants from the Council's 2003-04 *Community Grants and Donations Program*, CAV was eligible to receive grant funding from the 5 agencies examined in the audit as it was an incorporated association at the time it applied for the grants examined by audit. It also met the other eligibility criteria stipulated by the agencies.

We identified the following issues on the adequacy of agencies' initial and ongoing assessment of CAV's eligibility for grant funding:

- The agencies examined did not check the currency of CAV's incorporation status when assessing grant applications or during the grant period. The incorporation certificate submitted to funding agencies by CAV as a part of its applications, was dated April 1987.
- CAV was deregistered as an incorporated association in February 2003 and was not eligible to receive grant funding from any of the 5 agencies after that date. CAV received grant payments totalling around $68 400 subsequent to its deregistration from the agencies examined by audit (around $39 100 from DVC, $24 300 from Parks Victoria and $5 000 from the City of Greater Dandenong Council). The funding agencies did not become aware of CAV's deregistration until it was reported in the media in late 2003.
- Parks Victoria's pro-forma application form and eligibility checklist used by staff in the initial assessment of grant applicants' eligibility for funding, did not require details of applicants' incorporation status.
- The City of Greater Dandenong Council accepted 2 funding applications from CAV which were submitted after the closing date for the submission of applications for funding from the Council's 2002-03 funding round. The applications were for a total of $23 000 and both applications were ultimately successful.

All 5 agencies have recently introduced a requirement for staff to check the currency of grant applicant's incorporation status prior to funding being approved and before the payment of grant instalments. However, with the exception of DVC and Crime Prevention Victoria within the Department of Justice, the agencies examined had not updated their grant application assessment procedure documents to incorporate this new practice at the time of our audit.

Conclusion

The agencies providing funding examined, except for Consumer Affairs Victoria, have incorporation as an eligibility criteria or requirement for organisations applying for grant funds. However, for the grants examined by audit, none of the agencies had confirmed the currency of CAV's incorporation status when assessing its grant applications. This weakness in grant application assessment procedures has subsequently been addressed by all agencies.

CAV received around $68 400 in grant funds from the agencies examined during this audit subsequent to its deregistration as an incorporated association in February 2003.

The funding guidelines issued by agencies, except Consumer Affairs Victoria, for applicants were generally comprehensive. Consumer Affairs Victoria's funding guidelines did not include some key information on the selection and assessment process.

Recommendations

15.1 That agencies, other than DVC and Crime Prevention Victoria within the Department of Justice which have already done so, formalise the requirement for the currency of grant applicant's incorporation status to be confirmed with Consumer Affairs Victoria as part of the application assessment process and prior to making any grant payments, by updating their grant application assessment procedure documents.

15.2 That Consumer Affairs Victoria review its Consumer Credit Grant Fund Guidelines to ensure sufficient and accurate details are provided to grant applicants on the assessment and selection process.

15.3.2 Were CAV's funding applications properly assessed?

We examined whether the agencies providing funding assessed grant applications using pre-established selection criteria in a manner which was free from bias.

The grant application assessment framework adopted by the agencies examined typically involved the following processes:

- funding applications are sought annually or bi-annually
- applications received are assessed and evaluated by agency staff and/or external parties appointed by the relevant minister or municipal council
- recommendations on which applicants should be funded and the amount of funding are made to the minister or municipal council
- the minister or municipal council makes the final funding decisions.

We expected the agencies examined would have established comprehensive guidance for staff and advisory committees or reference panels to guide the assessment process. We also expected to find evidence that such guidance had been complied with in the assessment of grant applications from CAV and other applicants.

We reviewed the assessment of CAV's grant applications by the funding agencies. We also reviewed the assessment by funding agencies of a sample of other applications for comparative purposes.

The following paragraphs outline the grant application assessment framework adopted by each of the agencies examined and any weaknesses identified in their assessment processes.

Department of Innovation, Industry and Regional Development

The Community Jobs Program was allocated $53.4 million over 3 years, in the 2000-01 state budget, to fund community organisations and government agencies to employ disadvantaged job seekers on community projects.

The grant application assessment framework adopted for the Community Jobs Program which was administered by the Employment Programs Division within DIIRD until December 2002 and then by the Employment Programs Division within DVC, included:

- funding applications being sought each year
- applications received assessed by departmental staff against documented eligibility and selection criteria with recommendations made to an advisory panel
- the advisory panel considers the funding recommendations and endorses projects for funding

- details of applications endorsed for funding by the advisory panel are provided to the relevant minister for approval
- the minister approves final funding decisions.

Our review of DIIRD's assessment of the applications for funding from CAV and other applicants under Round 5 of the Community Jobs Program in 2002 identified the following issues:

- There was significant evidence that successful applicants and some unsuccessful applicants for funding were informed by DIIRD of weaknesses or gaps in their applications identified during the assessment process and were permitted to clarify their application and/or submit missing information.
- The initial assessment of CAV's application resulted in the identification of a number of weaknesses and gaps in the application. These weaknesses and gaps were communicated to the CAV by DIIRD. CAV then submitted an unsigned "revised" funding application. This was the only case we observed where a "revised" application was submitted in this format for Round 5 funding from the Community Jobs Program.
- There was inconsistency in the extent to which applicants were informed of, and given opportunities to address, weaknesses in their applications. CAV was given the opportunity to do so, but it was not unique. Some applicants were denied this opportunity because DIIRD judged that their applications were so deficient against the assessment criteria as to not warrant the seeking of further or clarifying information. DVC has now standardised the processes and requirements on the seeking of further, or clarifying, information from applicants.
- CAV did not submit a complete funding application because it failed to provide audited financial statements for the year ended 30 June 2002. This was a common problem for applicants under Round 5 funding due to the closing date for applications being within 2 months of the end of the financial year.

Parks Victoria

Parks Victoria's Agency Grants Program is intended to provide funding for projects of strategic importance that assist in achieving the long-term improvement of, and wider multicultural involvement in, metropolitan Melbourne's network of parks, reserves and waterways.

Parks Victoria's grant application assessment framework for the program included:

- establishment of a team of assessors, including Parks Victoria staff and consultants with expertise in the various grant categories of environment, recreation, trails and multicultural
- training and briefings for grant assessors, including the provision of comprehensive guidance on the assessment process

- appraisal of applications by assessors
- moderation meetings involving all assessors to ensure consistency of approach in scoring applications
- review by an advisory council of the results of the moderation process
- recommendations by the advisory council to the relevant minister on funding allocations
- funding decisions approved by the minister.

Our review of Parks Victoria's assessment of the application for funding from CAV and other applicants in the multicultural category for the 2002-03 funding round identified the following issues:

- Parks Victoria could not locate the checklists used to document the initial assessment of CAV and other applicants' eligibility for funding.
- Parks Victoria assessed 11 applications for funding in the multicultural category (total amount requested $479 000). In only one instance was information recorded to support the ratings assigned to these applications. This was a breach of Parks Victoria's guidelines.
- The extent to which assessors conducted site visits and had discussions with applicants during the assessment phase was not documented.
- Minutes of the assessors moderation meeting did not record the reasons why the scores initially assigned by assessors to 4 applications were amended.
- There was no documentation of the reasons why the advisory council's recommendation to the minister on the level of funding to be provided to 3 applicants, differed substantially from that agreed at the moderation meeting.

***RESPONSE* provided by Chief Executive Officer, Parks Victoria**

Parks Victoria believes the second point above could be interpreted to mean that no information was recorded to support ratings assigned. The item states "In only one instance was information recorded to support the ratings assigned to these applications. This was a breach of Parks Victoria's guidelines." It does not state that scores were recorded in the required three categories and that an overall comment was recorded that addressed the three scoring categories. There was a technical breach of guidelines in that individual comments against each category were not recorded, however Parks Victoria believes the final assessment comment addressed the 3 category comments.

Consumer Affairs Victoria

The minister for Consumer Affairs makes grants from the Consumer Credit Fund upon the advice of an advisory committee. Committee members are appointed by the minister and include representatives from the finance industry, community consumer organisations, and other appropriate members. Consumer Affairs Victoria staff do not participate directly in the grant application assessment process. Their involvement is limited to the provision of administrative support to the advisory committee.

The processes involved in the assessment and approval of Consumer Credit Fund grant applications were not formally documented but included:

- individual consideration of proposals by advisory committee members
- analysis of proposals by the advisory committee
- consideration of prior grants and outcomes achieved
- further research on proposals where required
- short listing and ranking of proposals against established funding criteria
- funding recommendations provided to the relevant minister
- funding decisions by the minister
- administration of funded projects by Consumer Affairs Victoria staff.

Our review of the advisory committee's assessment of the application for funding from CAV and other applicants for the 1999-2000 Consumer Credit Fund funding round identified the following issues:

- There was no documentation of the basis for the Committee's short listing and ranking of grant proposals or of assessments by the Committee of re-submitted proposals by applicants.
- A member of the advisory committee who was also the chairperson of an organisation which had applied for grant funds, did not abstain from voting at advisory committee meetings where funding recommendations were made.
- A late application was accepted.
- Three applicants were given the opportunity to re-submit proposals up to 7 weeks after the closing date for receipt of applications. These applicants were requested to resubmit an application concentrating on specific components, which the advisory committee believed warranted support from the applications originally submitted. These applicants were also provided with an indication of the scope of the preferred project. For example, CAV was advised, "… a suitable educative program proposal could warrant an application for $10 000".
- Significant time, around 9 months, was taken to assess and approve the grant applications. The resubmission of proposals was considered to be a key factor in this extended time frame.

At the date of preparation of this report, Consumer Affairs Victoria was preparing a 5-year Strategic Plan which will change the way the advisory committee selects projects for recommendation to the relevant minister.

Former Vic*safe* Unit (within Department of Justice)

Funding is provided from the Victorian Law Enforcement Drug Fund (VLEDF) for projects that aim to reduce alcohol and drug-related crime and violence in the community.

The grant application assessment framework for the provision of funding from the VLEDF for the 2000 funding round was not formally documented, but included:

- funding submissions being called by the minister for Police and Emergency Services
- an advisory committee with members appointed by the minister providing advice and recommendations on the allocation of grants from the VLEDF
- a Sub-Committee of the advisory committee short listing applications against agreed eligibility criteria
- the advisory committee assessing applications against agreed selection criteria
- the advisory committee providing recommendations to the minister on projects to be funded.

Information provided to us in support of assessments made by the advisory committee and its Sub-Committee of grant applications from CAV and other applicants for the 2000 funding round was generally satisfactory, apart from the following matters:

- An application for a grant of $130 900 was not short listed by the Sub-Committee and was assessed by 2 members as “ineligible” and by one member as “adequate/poor” on the basis that a budget had not been provided and concerns about the broadness of the project’s scope. There was no information on file indicating that the advisory committee sought or obtained additional information to address these matters. The advisory committee ultimately recommended to the minister that this project be funded, and the minister approved the funding. The basis for the advisory committee’s recommendation to the minister that the project be funded, was not documented. This application was not submitted by CAV.
- Assessment files did not include details of discussions with applicants during the assessment process.

In August 2004, Crime Prevention Victoria developed grant assessment guidelines for staff and these have been adopted for the 2004 VLEDF funding round. The guidelines should ensure the basis for the advisory committee’s funding recommendations are adequately documented and supported.

City of Greater Dandenong Council

The City of Greater Dandenong Council's grant allocation framework included:

- Pro-forma applications and other documentation to assist applicants and ensure consistency of information provided
- an initial assessment by grants officers of all applications against the eligibility and selection criteria
- several reference panels[6] comprising councillors, community representatives and council officers assess all applications and make funding recommendations to the Council
- detailed guidance for reference panels including a history of grants made, information on scoring compliance with selection criteria, how to assess applications and disclosure of possible conflicts of interest
- face-to-face meetings with all successful applicants to:
  - advise them of the grant's conditions, Council's expectations and sign relevant acceptance documents
  - assist them develop project outcome measures, targets and a project timeline
  - ensure acquittal of previous grants
- clear policies and practices covering conflict of interest for council staff and councillors
- Council approves final funding decisions
- annual reviews by Council of its grants program.

While Council has detailed guidance for applicants and its reference groups, it has not documented for the benefit of officers involved in the processing of grant applications, the procedures to be adopted in receiving and processing grant applications. Formalising requirements would ensure staff are aware of what is required and would promote consistent application of the processes.

Our review of Council's assessment of the applications for funding from CAV and other applicants for the 2002-03 and 2003-04 funding rounds identified the following issues:

- There was limited documentation to support the initial assessment of applications against selection criteria by Council grants officers for the 2002-03 funding round, and there was no documentation of the basis for the initial assessment of applications for the 2003-04 funding round
- Council funding files did not include documentation of site visits and discussions with applicants during the assessment process
- There was limited information available to support the recommendations of reference panels to the Council on grant allocations

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[6] Reference Panels were convened to assess funding applications in the areas of Children, Youth and Family Services; Community Services and Information; Aged Services; Health and Disability Services; and Arts, Heritage and Culture.

- There was no information available to support the decisions of Council in circumstances where the Council elected to reject the funding recommendations made by grants officers and reference panels. Minutes of Council meetings do not record reasons why applications recommended by reference panels and/or Council officers were not approved for funding by Council. For example, an application by CAV for a 2002-03 grant of $12 000 was assessed as "high" in meeting the Council's assessment criteria, however, there was no documentation to support Council's decision not to approve funding for this application.
- Some applicants were funded despite not meeting Council requirements, for example:
  - Council provided CAV with further grants (2003-04, $21 250) without having received acquittance from CAV for its previous grant (2002-03, $20 000). At the date of preparation of this report, the 2002-03 grant had not been acquitted.
  - Late applications were accepted and applicants provided additional information to Council after the closing date/time.
  - There was no evidence that CAV (2002-03 and 2003-04) and another applicant (2003-04) attended the Council's compulsory information session for applicants seeking greater than $15 000 in funds.
  - CAV (2002-03 and 2003-04) and another applicant (2003-04) applied for grants over $15 000 but did not provide a business plan, project budget forecast and cash flow forecast as required by Council guidelines.
  - The CAV auspiced Youth Group's 2003-04 grant application did not provide some of the required documentation to support its application for Council funding, for example, a letter of consent from the auspicing organisation and audited financial statements. The Council approved $5 000 in grant funding to this group.
  - CAV failed to complete a number of required areas in the application form for grants in both 2002-03 and 2003-04.

Conclusion

Parks Victoria, DVC and City of Greater Dandenong Council (for its reference group only) had documented their grant assessment and selection processes. Consumer Affairs Victoria advisory committee members had not been provided with procedural guidance on grant assessment and selection processes. This was also the case for staff and advisory committee members involved in the VLEDF 2000 funding round.

There were weaknesses in the 5 agencies' grant assessment processes which reduced the ability of some agencies to substantiate that their grant application assessment and selection processes achieved an equitable and transparent distribution of grant funds. These weaknesses included an inability to locate appropriate documentation supporting the assessment of applications; provision of grant funding despite applicants not meeting agencies' requirements; inconsistent treatment of applicants; and limited or no information to support some advisory committee recommendations and some Council decisions. We did not find all of these weaknesses in each of the 5 agencies examined.

Recommendations

15.3 Consumer Affairs Victoria and City of Greater Dandenong Council should fully document the processes that staff and other parties are required to follow when processing and assessing applications for grants.

15.4 Parks Victoria, Consumer Affairs Victoria, Crime Prevention Victoria and City of Greater Dandenong Council should ensure that the actual assessment of grant applications and the basis for subsequent decisions are adequately documented.

15.5 Grant applicants should be required to provide audited financial statements to facilitate the assessment process.

RESPONSE provided by Chief Executive Officer, Parks Victoria

Recommendation 15.5 partially agreed. For organisations required to submit audited financial statements under the Associations Incorporation Act 1981, Parks Victoria agrees these statements should be provided to the Parks Victoria Grants Program to facilitate the assessment process. For organisations not required to submit an audited financial statement under the Associations Incorporation Act 1981, Parks Victoria will not require an audited financial statement at the assessment stage. Rather, the reimbursement of grant monies to such organisations will be monitored through normal Parks Victoria Grant Program procedures.

15.3.3 Were adequate funding agreements established with CAV?

An essential component of effective grant administration is an appropriate funding agreement covering the following:

- roles, expectations and obligations of each party
- purpose of the project
- duration of the agreement
- desired outputs and outcomes of the project
- means by which the effectiveness, efficiency and economy of the project will be measured, including relevant performance measures and targets

- required content of status reports, project reports, financial statements, including audit requirements
- grievance procedures.

The funding agreements entered into between all 5 agencies and CAV on the grants examined as part of this audit clearly outlined the purpose, terms, conditions and accountability requirements, and were generally comprehensive.

We identified that with the exception of DVC, the agencies examined could further enhance their funding agreements by including a provision requiring grantee organisations to advise the funding agency of changes that occur in the grantee's legal status or management structure which could impact on either the agency's eligibility to receive grant funding or their capacity to complete the funded project.

The funding agreements established by DVC, the former **Vic***safe* unit within the Department of Justice, Consumer Affairs Victoria (if the grant amount is more than $20 000) and City of Greater Dandenong Council (if the grant amount is more than $10 000) required funded organisations to submit audited financial reports as part of the grant acquittal process. Parks Victoria, which provided CAV with a grant of $40 000, did not include in its funding agreements with CAV, a requirement for audited financial reports to be provided as part of the grant acquittal process.

Conclusion

Agencies' funding agreements provided CAV with a clear understanding of the purpose, terms and conditions, and the accountability requirements of the grants.

The funding agreements of all agencies examined, other than DVC, could be enhanced by including a provision requiring grantee organisations to advise the funding agency of changes that occur in the grantee's legal status or management structure which could impact on either the agency's eligibility to receive grant funding or their capacity to complete the funded project.

The requirements for CAV to provide audited financial reports as part of the grant acquittal process varied between agencies.

Recommendations

15.6 Apart from DVC, all agencies examined need to enhance their funding agreements to require funded organisations to advise the funding agency of changes in legal status or management structure which may impact project completion or eligibility for grant funding.

15.7 Parks Victoria should require funded agencies to provide audited financial reports on the expenditure of grant moneys as part of the grant acquittance process.

RESPONSE provided by Chief Executive Officer, Parks Victoria

Parks Victoria does not agree with recommendation 15.7. Parks Victoria Agency Grants are paid on a reimbursement basis, on submission of a progress report and funding claim. This protects Parks Victoria from funding projects that aren't delivered or do not comply with agreed targets. Parks Victoria believes the requirement of quarterly audited financial statements is too onerous for small community based organisations.

15.3.4 Were grants to CAV effectively monitored by the funding agencies and did CAV comply with the conditions of funding?

Monitoring is critical to the responsible management of any grant program. Effective monitoring ensures that funding agencies have timely information on the extent to which:

- grant funds are used for the purposes approved and the desired outcomes are achieved
- acquittal procedures are complied with.

Sound monitoring practices are also important to avoid project failure and the making of grant payments when funds previously provided have not been used appropriately by the grant recipient.

Our summary of the key grant acquittance requirements imposed on CAV for each grant examined in this audit and the extent to which CAV met these requirements is outlined in Figure 15B.

Figure 15B is followed by a more detailed discussion of the effectiveness of the monitoring practices of each funding agency and the extent to which CAV met key acquittance requirements for each grant.

FIGURE 15B: EXTENT TO WHICH CAV MET KEY GRANT ACQUITTANCE REQUIREMENTS

Grants provided by	Key acquittance requirements	Extent of CAV compliance
Parks Victoria – 2002-03, $40 000	• Provide quarterly progress reports • Complete project by end of June 2003 • Maintain full records of the financial transactions relating to the grant • Submit a final project evaluation report • Provide a certification that grant funds have been used for the purposes provided which could be subject to audit on behalf of Parks Victoria.	CAV satisfied the requirements for the 2002-03 grant. Parks Victoria did not arrange a financial audit of its 2002-03 grant program to determine whether agencies maintained appropriate records of grant expenditure.
Dandenong Council - 2002-03 $24 000 and 2003-04 $26 700	• Acquit any pre-existing grant before further funding released • Complete the project within a one-year funding term • Provide a written report on the results of the funded project • Provide a financial report for grants with a value less than $10 000 and audited accounts for grants with a value greater than $10 000.	All grants satisfactorily acquitted, with the exception of a grant of $20 000 in 2002-03.
DIIRD - 2002-03, $97 900	• Provide an audited financial statement and final project report 30 days after project completion • Comply with other conditions of funding.	CAV failed to provide an audited financial statement and final project report within 30 days of project completion. These documents were subsequently provided around 4 months after the due date.

Consumer Affairs Victoria – Consumer Credit Fund - 1999-2000, $9 000	• Provide:
	  • progress and final report
	  • a copy of the materials produced
	  • a financial report detailing the expenditure of grant moneys
	  • a copy of the Annual Report for the financial years covered by the grant
	• Complete the project by the end of July 2002
	• Certify that grant funds were used for the purposes provided.
		CAV has satisfied all requirements except the provision of its 2001-02 Annual Report.

Crime Prevention Victoria – Victorian Law Enforcement Drug Fund[7] – 2000, $58 500	• Provide:
	  • quarterly progress reports
	  • an annual audited statement of income and expenditure
	  • an annual statement (unaudited) of cash receipts and payments in regard to the funded program and a balance sheet
	  • an extract from its asset register of the assets purchased with the grant
	  • a written evaluation of the project within 60 days from the date of project completion
	• Apply to the minister to retain after the completion of the project, any capital equipment purchased from the grant
	• Certify that grant funds have been used for the purposes provided.
		CAV has provided progress reports and an evaluation report. CAV has not provided the required:
		• annual audited statement of income and expenditure
		• annual statement (unaudited) of cash receipts and payments regarding the funded program and a balance sheet
		• extract from its asset register of the assets purchased with the grant.

Source: Information obtained from review of agencies' grant files.

[7] **Vic***safe* a former business unit within the Department of Justice was responsible for administering VLEDF grants during 1999 and part of 2000. During 2000, transfers of functions from **Vic***safe* and the Victorian Police Board enabled a crime prevention function to be established, but formalisation of Crime Prevention Victoria as a business unit within the Department of Justice did not occur until May 2001. The Crime Prevention Victoria Unit then assumed responsibility for administering the VLEDF.

CAV acquittance of the grant from Parks Victoria

CAV has complied with its contractual obligations and submitted timely progress and final reports to Parks Victoria as well as certifying that its 2002-03 grant funds have been expended in accordance with the purpose given. Progress and final reports submitted by CAV included translated materials and photographs of park visits by the Indochinese community.

In late 2002, CAV's management of its 2001-02 grant of $49 200 was subject to a financial audit undertaken by an external consultant appointed by Parks Victoria. The objective of the audit was to provide Parks Victoria with an assessment of the adequacy of documentation held by CAV to support claims for grant reimbursement. In accordance with its contractual obligations, CAV had previously provided Parks Victoria with a certification that the 2001-02 grant funds had been expended for the purposes provided.

In March 2003, Parks Victoria received the report on the financial audit. The audit found that CAV:

- was unable to substantiate or provide appropriate documentation for almost 80 per cent (or $39 000) of its 2001-02 grant
- had spent grant funding on assets in contravention of the grant guidelines.

The consultant identified similar issues with 5 of 15 other organisations which received agency grants from Parks Victoria for 2001-02 and which were subject to audit.

The consultant recommended that Parks Victoria:

- provide more prescriptive details to grant recipients, particularly multicultural groups, detailing items which are eligible/ineligible for grant funding
- require agencies to submit supporting documentation progressively, as a part of the reimbursement process (this was also recommended by the consultant in its previous report on Parks Victoria's 2000-01 grant program)
- continue to contact CAV (and other agencies) to obtain the required documentation.

Parks Victoria did not action the consultant's recommendations as its Agency Grants Program was to cease after the 2002-03 program. Parks Victoria have not undertaken a financial audit of the 2002-03 grant program as it did not consider there would be benefits to be achieved.

Parks Victoria made a further 3 grant payments totalling $24 000 to CAV following the receipt of the consultant's report in March 2003.

Parks Victoria advised that notwithstanding the findings of the financial audit, they were satisfied with the way CAV utilised its grants as evidenced by the materials provided by CAV throughout the funding periods.

CAV acquittance of the grants from City of Greater Dandenong

Council systematically monitors grantee acquittal of grants when an agency comes in to receive the next years' funding and by periodically reviewing grantee files.

Council guidelines clearly state that grant funds are not to be released until the funded organisation has satisfactorily acquitted its previous grant. Council provided CAV with further funding of $21 000 in February 2004 in circumstances where CAV had not acquitted its 2002-03 Youth Worker salary grant of $20 000 from the Council. Council's request to CAV in July 2003 for the acquittal of the 2002-03 grant was not responded to and was not followed-up by Council.

Other grants received by CAV from the Council had been satisfactorily acquitted over past years.

CAV acquittance of the DVC grant

DVC was effective in monitoring the grant to CAV over the course of the project. The failure of CAV to notify DVC of its deregistration in February 2003 was apparently an oversight caused by the entity not being aware of the deregistration action. DVC paid CAV $39 000 in April 2003, when CAV was an ineligible organisation. DVC took appropriate actions when it became aware of CAV's deregistration.

DVC has recently revised its grant instalment payment procedures to include a step requiring a check with Consumer Affairs Victoria on the incorporation status of organisations before each grant instalment is paid. This is in addition to the check on incorporation status now undertaken during the assessment process.

CAV did not fully comply with the conditions of funding in terms of its management of the funded project and the discharge of accountability requirements. It failed to inform DVC of its deregistration as an incorporated association in February 2003 and, following completion of the project, CAV failed to meet the deadline for submission of an audited financial statement and a final report on the project. DVC did not follow-up CAV's failure to provide an audited financial statement and a final report on the project until adverse publicity emerged in October 2003 regarding the deregistration of CAV as an incorporated association.

CAV breached its Service Agreement with DVC when it appointed a supervisor for the Community Jobs Program project before obtaining DVC's approval. It is unclear from DVC's records whether the supervisor engaged by CAV held appropriate qualifications or fully met the selection criteria at the time of her appointment.

DVC took appropriate action to investigate claims that CAV had breached Community Jobs Program guidelines and funding conditions dealing with the use of Community Jobs Program funds to pay or replace existing employees and the requirement that a funded organisation's proprietor/management committee is not to benefit financially from the funding received for the project.

The Community Jobs Program aims to have at least 60 per cent of all participants across the entire program, move into further employment or training after completing the Community Jobs Program. DVC has a report indicating that 53 per cent of the 15 participants in the funded project at CAV have found employment of some type and that 5 other participants could not be contacted.

CAV acquittance of the Consumer Credit Fund grant from Consumer Affairs Victoria

CAV has satisfied all contractual obligations with the exception of submitting its Annual Report for 2001-02.

CAV acquittance of the Victorian Law Enforcement Drug Fund grant

Crime Prevention Victoria has not monitored CAV's compliance with its accountability obligations for the grant of $58 500 from the VLEDF in 2000 in a timely manner. Apart from the provision of an evaluation report, CAV has not complied with the grant's accountability requirements and considerable information is outstanding 3 years after the completion of the project. There is no evidence Crime Prevention Victoria has systematically monitored CAV's acquittal of this grant.

There is no evidence of review by Crime Prevention Victoria of the evaluation report provided by CAV to ensure it satisfactorily addressed CAV's obligations under the funding agreement.

Conclusion

CAV's performance in complying with key grant acquittance requirements has been mixed. While it has satisfactorily met agencies' acquittance requirements for the majority of the grants examined in this audit, it has failed to fully acquit a grant of $58 500 received from the Victorian Law Enforcement Drug Fund in 2000 and a grant of $20 000 from the City of Greater Dandenong in 2002-03. In addition, an audit by a consultant on behalf of Parks Victoria, of a grant of $49 200 provided to CAV in 2001-02, found that CAV was unable to substantiate or provide appropriate documentation for almost 80 per cent of that grant.

Apart from these exceptions, the CAV had provided the required project completion reports on the application and expenditure of grant funds for all grants examined and the agencies examined in the audit were satisfied that CAV had expended grant funds for the purposes provided. We concluded that, for the majority of grants examined, the agencies had sufficient evidence from their monitoring activities to support this view.

Recommendations

15.8 Crime Prevention Victoria and the City of Greater Dandenong Council should not consider any further funding applications from CAV until it satisfactorily acquits all previously provided grants.

15.9 Agencies should review their procedures and systems to ensure reliable, timely and adequate evidence is received from grant recipients to demonstrate that grant funds have been expended in accordance with the purpose provided.

RESPONSE provided by Secretary, Department of Justice

Crime Prevention Victoria sought and received acquittance of CAV's 2000 grant on 14 October 2004.

Appendix A
Status of audits with 30 June 2004 balance dates[1]

[1] Also includes the status of audits that were incomplete at the date of preparing my May 2004 *Report on Public Sector Agencies.*

Parliament

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2004 BALANCE DATES			
Parliament of Victoria	23 Aug. 2004	✓	25 Aug. 2004
Victorian Auditor-General's Office (a)	22 Sep. 2004	✓	24 Sep. 2004

(a) The Victorian Auditor-General's Office was audited by a private sector auditor.

Education and Training

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2004 BALANCE DATES			
Department of Education and Training	23 Sep. 2004	✓	28 Sep. 2004
EDUCATION AND TRAINING			
Adult, Community and Further Education Board	18 Oct. 2004	✓	18 Oct. 2004
Victorian Curriculum and Assessment Authority	15 Sep. 2004	✓	22 Sep. 2004
Victorian Institute of Teaching	17 Sep. 2004	✓	22 Sep. 2004
Victorian Learning and Employment Skills Commission	10 Sep. 2004	✓	13 Sep. 2004
Victorian Qualifications Authority	27 Sep. 2004	✓	30 Sep. 2004
COMPLETED AUDITS – WITH OTHER BALANCE DATES (a)			
Brain Sciences Institute Trust (b) (1 Jan. 2003 to 25 Sep. 2003)	29 June 2004	✓	1 July 2004
Centre for Innovation and Enterprise Pty Ltd (c) (1 Jan. 2003 to 7 Jan. 2004)	29 June 2004	✓	30 June 2004
Ingenko Pty Ltd *Reason for qualification: Inherent uncertainty regarding continuation of the entity as a going concern.*	25 Mar. 2004	Qualified	23 July 2004
Institute for Innovation and Enterprise Ltd (b) (1 Jan. 2003 to 25 Sep. 2003)	29 June 2004	✓	1 July 2004
International Training Australia Pty Ltd	22 July 2004	✓	22 July 2004
Monash Commercial Pty Ltd	30 June 2004	✓	23 July 2004
Monash ED Pty Ltd	14 Sep. 2004	✓	21 Sep. 2004
Monash Learningfast Pty Ltd *Reason for qualification: Inherent uncertainty regarding continuation of the entity as a going concern.*	30 June 2004	Qualified	23 July 2004
Monsu Catering Trust (1 Aug. 2003 to 31 Dec. 2003)	21 April 2004	✓	14 May 2004
Monyx Education Services Pty Ltd	21 April 2004	✓	14 May 2004
Monyx Pty Ltd	21 April 2004	✓	14 May 2004
Monyx Services Food and Beverage Pty Ltd	1 April 2004	✓	7 April 2004
Monyx Services Pty Ltd	21 April 2004	✓	14 May 2004
Monyx Services Retail Pty Ltd	1 April 2004	✓	7 April 2004
National Stem Cell Ltd	24 Feb. 2004	✓	2 June 2004
Neurometric Systems Pty Ltd (c) (1 Jan. 2003 to 7 Jan. 2004)	29 June 2004	✓	30 June 2004
Peter Dibble Memorial Trust (1 Aug. 2003 to 31 Dec 2003)	21 April 2004	✓	14 May 2004
Telematics Course Development Fund	3 May 2004	✓	7 May 2004

Education and Training - *continued*

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
INCOMPLETE AUDITS – AS AT 31 OCTOBER 2004			
Victorian Tertiary Admissions Centre (1 July 2003 to 30 June 2004)	*Audited financial statements yet to be finalised.*		
Melbourne Enterprise International (Taiwan) Ltd (1 Jan. 2003 to 31 Dec. 2003)	*Audited financial statements yet to be finalised.*		
Prostate Diagnostics Pty Ltd (1 Jan. 2003 to 31 Dec. 2003)	*Audited financial statements yet to be finalised.*		

(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.

(c) Centre for Innovation and Enterprise Pty Ltd and Neurometric Systems Pty Ltd ceased operation on 7 January 2004.

Human Services

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2004 BALANCE DATES			
Department of Human Services	2 Sep. 2004	✓	8 Sep. 2004
HEALTH			
Alexandra and District Ambulance Service	22 Sep. 2004	✓	22 Sep. 2004
Ambulance Service Victoria - Metropolitan Region	6 Sep. 2004	✓	6 Sep. 2004
Chinese Medicine Registration Board of Victoria	8 Sep. 2004	✓	9 Sep. 2004
Chiropractors Registration Board of Victoria	17 Sep. 2004	✓	17 Sep. 2004
Dental Practice Board of Victoria	16 Sep. 2004	✓	20 Sep. 2004
Health Purchasing Victoria	17 Sep. 2004	✓	20 Sep. 2004
Infertility Treatment Authority	9 Aug. 2004	✓	20 Aug. 2004
Mental Health Review Board	15 Sep. 2004	✓	20 Sep. 2004
Nurses Board of Victoria	8 Sep. 2004	✓	10 Sep. 2004
Optometrists Registration Board of Victoria	9 Aug. 2004	✓	18 Aug. 2004
Osteopaths Registration Board of Victoria	21 Sep. 2004	✓	28 Sep. 2004
Pharmacy Board of Victoria	3 Sep. 2004	✓	14 Sep. 2004
Physiotherapists Registration Board of Victoria	5 Aug. 2004	✓	18 Aug. 2004
Podiatrists Registration Board of Victoria	21 Sep. 2004	✓	28 Sep. 2004
Psychosurgery Review Board	15 Sep. 2004	✓	20 Sep. 2004
Rural Ambulance Victoria	6 Sep. 2004	✓	10 Sep. 2004
Victorian Health Promotion Foundation	7 Sep. 2004	✓	14 Sep. 2004
Victorian Institute of Forensic Mental Health	26 Aug. 2004	✓	14 Sep. 2004
COMMUNITY SERVICES			
Victorian Relief Committee	29 July 2004	✓	4 Aug. 2004
PUBLIC HOSPITALS AND ASSOCIATED ENTITIES			
Alexandra District Hospital	21 Sep. 2004	✓	23 Sep. 2004
Alpine Health	22 Sep. 2004	✓	22 Sep. 2004
Austin Health	1 Sep. 2004	✓	6 Sep. 2004
Bairnsdale Regional Health Service	9 Sep. 2004	✓	17 Sep. 2004
Ballarat Health Services	9 Sep. 2004	✓	15 Sep. 2004
Barwon Health	8 Sep. 2004	✓	10 Sep. 2004
Bass Coast Regional Health	8 Sep. 2004	✓	14 Sep. 2004
Bayside Health	24 Sep. 2004	✓	29 Sep. 2004
Beaufort and Skipton Health Service	28 Sep. 2004	✓	5 Oct. 2004
Beechworth Health Service	13 Sep. 2004	✓	22 Sep. 2004
Benalla and District Memorial Hospital	14 Sep. 2004	✓	21 Sep. 2004
Bendigo Health Care Group	2 Sep. 2004	✓	10 Sep. 2004
Boort District Hospital	10 Sep. 2004	✓	13 Sep. 2004

Human Services - *continued*

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2004 BALANCE DATES			
Calvary Health Care Bethlehem Ltd ***Reason for qualification:*** *Incorrect recognition of net assets received from a predecessor entity.*	27 Sep. 2004	Qualified	29 Sep. 2004
Caritas Christi Hospice Limited	16 Sep. 2004	✓	16 Sep. 2004
Casterton Memorial Hospital	3 Sep. 2004	✓	10 Sep. 2004
Cell Therapies Pty Ltd (a)	18 Aug. 2004	✓	18 Aug. 2004
Central Gippsland Health Service	15 Sep. 2004	✓	17 Sep. 2004
Cobram District Hospital	9 Sep. 2004	✓	16 Sep. 2004
Cohuna District Hospital	19 Sep. 2004	✓	21 Sep. 2004
Colac Area Health	20 Sep. 2004	✓	22 Sep. 2004
Coleraine District Health Services	30 Aug. 2004	✓	3 Sep. 2004
Dental Health Services Victoria	25 Aug. 2004	✓	27 Aug. 2004
Djerriwarrh Health Services	16 Sep. 2004	✓	22 Sep. 2004
Dunmunkle Health Services	23 Sep. 2004	✓	30 Sep. 2004
East Grampians Health Service	30 Sep. 2004	✓	30 Sep. 2004
East Wimmera Health Service	29 Sep. 2004	✓	30 Sep. 2004
Eastern Health	30 Sep. 2004	✓	30 Sep. 2004
Echuca Regional Health	21 Sep. 2004	✓	30 Sep. 2004
Echuca Regional Health Foundation Limited (a)	21 Sep. 2004	✓	30 Sep. 2004
Edenhope and District Memorial Hospital	30 Sep. 2004	✓	5 Oct. 2004
Gippsland Southern Health Service	9 Sep. 2004	✓	14 Sep. 2004
Goulburn Valley Health	16 Sep. 2004	✓	20 Sep. 2004
Hepburn Health Service	17 Sep. 2004	✓	22 Sep. 2004
Hesse Rural Health Service	20 Sep. 2004	✓	21 Sep. 2004
Heywood Rural Health	31 Aug. 2004	✓	9 Sep. 2004
Inglewood and Districts Health Service	21 Sep. 2004	✓	22 Sep. 2004
Kerang District Hospital	9 Sep. 2004	✓	15 Sep. 2004
Kilmore and District Hospital	6 Sep. 2004	✓	17 Sep. 2004
Kitaya Holdings Pty Ltd	31 Aug. 2004	✓	2 Sep. 2004
Kooweerup Regional Health Service	25 Aug. 2004	✓	14 Sep. 2004
Kyabram and District Health Services	7 Sep. 2004	✓	15 Sep. 2004
Kyneton District Health Service	9 Sep. 2004	✓	15 Sep. 2004
Latrobe Regional Hospital	16 Sep. 2004	✓	22 Sep. 2004
Lorne Community Hospital	21 Sep. 2004	✓	21 Sep. 2004
Maldon Hospital	9 Sep. 2004	✓	9 Sep. 2004
Mallee Track Health and Community Service	23 Sep. 2004	✓	23 Sep. 2004
Manangatang and District Hospital	15 Sep. 2004	✓	16 Sep. 2004
Mansfield District Hospital	14 Sep. 2004	✓	22 Sep. 2004

Human Services - *continued*

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2004 BALANCE DATES			
Maryborough District Health Service	18 Oct. 2004	✓	18 Oct. 2004
McIvor Health and Community Services	25 Aug. 2004	✓	13 Sep. 2004
Melbourne Health	27 Sep. 2004	✓	29 Sep. 2004
Mercy Public Hospitals Inc. ***Reason for qualification:*** *Failure to consolidate a "controlled" entity.*	13 Sep. 2004	Qualified	14 Sep. 2004
Moyne Health Services	9 Sep. 2004	✓	16 Sep. 2004
Moyne Health Services Inc. (a)	9 Sep. 2004	✓	9 Sep. 2004
Mt. Alexander Hospital	9 Sep. 2004	✓	13 Sep. 2004
Nathalia District Hospital	10 Sep. 2004	✓	13 Sep. 2004
Northeast Health Wangaratta	21 Sep. 2004	✓	22 Sep. 2004
Northern Health	22 Sep. 2004	✓	22 Sep. 2004
Numurkah District Health Service	21 Sep. 2004	✓	22 Sep. 2004
O'Connell Family Centre (Grey Sisters) Inc.	14 Sep. 2004	✓	14 Sep. 2004
Omeo District Hospital	30 Sep. 2004	✓	7 Oct. 2004
Orbost Regional Health	15 Sep. 2004	✓	20 Sep. 2004
Otway Health and Community Services	20 Sep. 2004	✓	21 Sep. 2004
Peninsula Health	27 Aug. 2004	✓	3 Sep. 2004
Peter MacCallum Cancer Centre	20 Aug. 2004	✓	20 Aug. 2004
Peter MacCallum Cancer Foundation (a)	18 Aug. 2004	✓	18 Aug. 2004
Peter MacCallum Cancer Foundation Ltd (a)	18 Aug. 2004	✓	18 Aug. 2004
Portland and District Hospital	26 Aug. 2004	✓	31 Aug. 2004
Queen Elizabeth Centre ***Reason for qualification:*** *Failure to consolidate a "controlled" entity.*	21 Aug. 2004	Qualified	27 Aug. 2004
Robinvale District Health Services	22 Sep. 2004	✓	22 Sep. 2004
Rochester and Elmore District Health Service	14 Sep. 2004	✓	15 Sep. 2004
Royal Children's Hospital Foundation Limited (a)	26 Aug. 2004	✓	22 Sep. 2004
Royal Children's Hospital Foundation Trust Funds (a)	26 Aug. 2004	✓	22 Sep. 2004
Royal Women's Hospital Foundation Limited (a) ***Reason for qualification:*** *Unable to attest to the completeness of cash donations.*	20 Sep. 2004	Qualified	29 Oct. 2004
Royal Women's Hospital Foundation Trust Funds (a) ***Reason for qualification:*** *Unable to attest to the completeness of cash donations.*	20 Sep. 2004	Qualified	29 Oct. 2004
Royal Victorian Eye and Ear Hospital	6 Sep. 2004	✓	6 Sep. 2004
Rural Northwest Health	23 Sep. 2004	✓	29 Sep. 2004
Seymour District Memorial Hospital	13 Sep. 2004	✓	17 Sep. 2004
South Gippsland Hospital	26 Aug. 2004	✓	30 Aug. 2004

Human Services - *continued*

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2004 BALANCE DATES			
South West Health Care	6 Sep. 2004	✓	8 Sep. 2004
Southern Health	25 Aug. 2004	✓	2 Sep. 2004
St Georges Health Service Limited	16 Sep. 2004	✓	16 Sep. 2004
St Vincent's Hospital (Melbourne) Limited *Reason for qualification: Inappropriate recognition of certain debtors.*	16 Sep. 2004	Qualified	20 Sep. 2004
Stawell Regional Health	21 Sep. 2004	✓	22 Sep. 2004
Swan Hill District Hospital	9 Sep. 2004	✓	14 Sep. 2004
Tallangatta Health Service	16 Sep. 2004	✓	20 Sep. 2004
Terang and Mortlake Health Service	2 Sep. 2004	✓	8 Sep. 2004
Timboon and District Healthcare Service	31 Aug. 2004	✓	9 Sep. 2004
Tweddle Child and Family Health Service	2 Sep. 2004	✓	2 Sep. 2004
Upper Murray Health and Community Services	16 Sep. 2004	✓	22 Sep. 2004
West Gippsland Healthcare Group	2 Sep. 2004	✓	10 Sep. 2004
West Wimmera Health Service	6 Oct. 2004	✓	8 Oct. 2004
Western District Health Service	26 Aug. 2004	✓	30 Aug. 2004
Western Health	21 Sep. 2004	✓	21 Sep. 2004
Wimmera Base Hospital Foundation (a)	23 Sep. 2004	✓	29 Sep. 2004
Wimmera Health Care Group	23 Sep. 2004	✓	29 Sep. 2004
Wodonga Regional Health Service *Reason for qualification: Inappropriate disclosure of non-reciprocal grants.*	8 Sep. 2004	Qualified	21 Sep. 2004
Women's and Children's Health (b)	14 Sep. 2004	✓	22 Sep. 2004
Wonthaggi and District Benefit Fund Trust (a) *Reason for qualification: Non-compliance with Statements of Accounting Concepts and applicable accounting standards.*	8 Sep. 2004	Qualified	9 Sep. 2004
Yarram and District Health Service	20 Sep. 2004	✓	22 Sep. 2004
Yarrawonga District Health Service	27 Sep. 2004	✓	28 Sep. 2004
Yea and District Memorial Hospital	9 Sep. 2004	✓	13 Sep. 2004
COMPLETED AUDITS – 30 JUNE 2003 BALANCE DATE			
Rural Northwest Health	3 June 2004	✓	7 June 2004
INCOMPLETE AUDITS – AS AT 31 OCTOBER 2004			
Communities That Care Limited (a)	*Audited financial statements yet to be finalised.*		
Royal Children's Hospital Education Institute Limited (a)	*Audited financial statements yet to be finalised.*		

(a) Agencies controlled by the state or another public sector agency, which came within the Auditor-General's audit mandate in 2003-04 pursuant to recent amendments to the *Audit Act 1994*.

(b) At 1 July 2004, the Women's and Children's Health was separated into the Royal Children's Hospital and the Royal Women's Hospital.

Infrastructure

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2004 BALANCE DATES			
Department of Infrastructure	8 Oct. 2004	✓	8 Oct. 2004
ENERGY INDUSTRIES			
Network Tariff Rebate Trust Fund *Audit report contained an "emphasis of matter" comment: The financial report was not prepared on a going concern basis as the entity was expected to be wound-up.*	6 Oct. 2004	✓	6 Oct. 2004
Office of Chief Electrical Inspector	14 Sep. 2004	✓	16 Sep. 2004
Office of Gas Safety	31 Aug. 2004	✓	1 Sep. 2004
Special Power Payment Trust *Audit report contained an "emphasis of matter" comment: The financial report was not prepared on a going concern basis as the entity was expected to be wound-up.*	6 Oct. 2004	✓	6 Oct. 2004
Victoria Energy Networks Corporation	6 Oct. 2004	✓	6 Oct. 2004
TRANSPORT AND MAJOR PROJECTS			
Port of Hastings Corporation (a)	22 Sep. 2004	✓	22 Sep. 2004
Port of Melbourne Corporation	20 Sep. 2004	✓	24 Sep. 2004
Public Transport Ticketing Body (b)	30 Sep. 2004	✓	30 Sep. 2004
Roads Corporation	5 Oct. 2004	✓	5 Oct. 2004
Rolling Stock Holdings (Victoria) P/L	22 Oct. 2004	✓	22 Oct. 2004
Rolling Stock (Victoria – VL) P/L	22 Oct. 2004	✓	22 Oct. 2004
Rolling Stock (VL – 1) P/L	22 Oct. 2004	✓	22 Oct. 2004
Rolling Stock (VL – 2) P/L	22 Oct. 2004	✓	22 Oct. 2004
Rolling Stock (VL – 3) P/L	22 Oct. 2004	✓	22 Oct. 2004
Southern and Eastern Integrated Transport Authority	24 Sep. 2004	✓	24 Sep. 2004
Spencer Street Station Authority	17 Sep. 2004	✓	17 Sep. 2004
Victorian Rail Track	22 Oct. 2004	✓	22 Oct. 2004
Victorian Regional Channels Authority (c)	9 Sep. 2004	✓	22 Sep. 2004
Victorian Urban Development Authority (d)	7 Oct. 2004	✓	8 Oct. 2004
V/Line Passenger Corporation (e)	21 Oct. 2004	✓	22 Oct. 2004
V/Line Passenger Pty Ltd (f)	21 Oct. 2004	✓	22 Oct. 2004

Infrastructure *- continued*

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – WITH OTHER BALANCE DATES			
Hastings Port (Holding) Corporation (1 July 2003 to 1 Jan. 2004)	22 Sep. 2004	✓	22 Sep. 2004
Victorian Channels Authority (1 July 2003 to 31 March 2004)	9 Sep. 2004	✓	22 Sep. 2004
V/Line Passenger Pty Ltd (1 Jan. 2003 to 31 Dec. 2003)	23 July 2004	✓	23 July 2004
INCOMPLETE AUDITS – AS AT 31 OCTOBER 2004			
Victorian Rail Services Pty Ltd	*Audited financial statements yet to be finalised.*		

(a) Financial period 1 January 2004 to 30 June 2004.
(b) Financial period 17 June 2003 to 30 June 2004.
(c) Financial period 1 April 2004 to 30 June 2004.
(d) Financial period 1 August 2003 to 30 June 2004.
(e) Financial period 15 July 2003 to 30 June 2004.
(f) Financial period 1 January 2004 to 30 June 2004.

Innovation, Industry and Regional Development

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2004 BALANCE DATES			
Department of Innovation, Industry and Regional Development	20 Aug. 2004	✓	24 Aug. 2004
INNOVATION, STATE AND REGIONAL DEVELOPMENT			
Federation Square Management Pty Ltd	26 Aug. 2004	✓	6 Sep. 2004
Overseas Projects Corporation of Victoria Ltd *Audit report contained an "emphasis of matter" comment: The financial report was not prepared on a going concern basis, but on a liquidation basis, as the company was being prepared for voluntary liquidation.*	6 Sep. 2004	✓	14 Sep. 2004
Prince Henry's Institute of Medical Research	16 Sep. 2004	✓	22 Sep. 2004
TOURISM			
Australian Grand Prix Corporation	15 Sep. 2004	✓	20 Sep. 2004
Emerald Tourist Railway Board	20 Aug. 2004	✓	31 Aug. 2004
Melbourne Convention and Exhibition Trust	30 Aug. 2004	✓	1 Sep. 2004
Tourism Victoria	27 Sep. 2004	✓	29 Sep. 2004
Victoria Trade and Investment Office Pty Ltd	27 Sep. 2004	✓	29 Sep. 2004

Justice

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2004 BALANCE DATES			
Department of Justice	20 Aug. 2004	✓	20 Aug. 2004
ATTORNEY-GENERAL			
Equal Opportunity Commission	16 Sep. 2004	✓	20 Sep. 2004
Judicial College of Victoria (a)	26 Oct. 2004	✓	26 Oct. 2004
Legal Practice Board	19 Aug. 2004	✓	23 Aug. 2004
Legal Practitioners Liability Committee	8 Sep. 2004	✓	13 Sep. 2004
Office of Public Prosecutions	15 Sep. 2004	✓	15 Sep. 2004
Office of the Legal Ombudsman	25 Aug. 2004	✓	25 Aug. 2004
Office of the Public Advocate	16 Sep. 2004	✓	16 Sep. 2004
Office of the Victorian Privacy Commissioner	7 Sep. 2004	✓	14 Sep. 2004
Senior Master of the Supreme Court	30 Aug. 2004	✓	31 Aug. 2004
Victoria Legal Aid	13 Aug. 2004	✓	16 Aug. 2004
Victorian Electoral Commission	30 Aug. 2004	✓	30 Aug. 2004
Victorian Institute of Forensic Medicine	15 Sep. 2004	✓	16 Sep. 2004
Victorian Law Reform Commission	14 Sep. 2004	✓	14 Sep. 2004
CONSUMER AFFAIRS			
Domestic Building (HIH) Indemnity Fund	21 Sep. 2004	✓	21 Sep. 2004
Residential Tenancies Bond Authority	14 Sep. 2004	✓	14 Sep. 2004
GAMING AND RACING			
Footy Consortium Pty Ltd	26 Aug. 2004	✓	27 Aug. 2004
Gambling Research Panel	28 Sep. 2004	✓	28 Sep. 2004
Greyhound Racing Victoria	7 Sep. 2004	✓	8 Sep. 2004
Harness Racing Victoria	2 Sep. 2004	✓	10 Sep. 2004
Tattersall's Club Keno Pty Ltd	26 Aug. 2004	✓	27 Aug. 2004
Tattersall's Gaming Pty Ltd	26 Aug. 2004	✓	27 Aug. 2004
Tattersall's Sweeps Pty Ltd	26 Aug. 2004	✓	27 Aug. 2004
Victorian Casino and Gaming Authority (b)	24 Aug. 2004	✓	24 Aug. 2004
POLICE AND EMERGENCY SERVICES			
Australasian Police Multicultural Advisory Bureau	24 Aug. 2004	✓	1 Sep. 2004
Country Fire Authority	8 Sep. 2004	✓	8 Sep. 2004
Emergency Communications Victoria	23 Aug. 2004	✓	23 Aug. 2004
Metropolitan Fire and Emergency Services Board	10 Sep. 2004	✓	10 Sep. 2004
National Institute of Forensic Science	19 Aug. 2004	✓	1 Sep. 2004
Office of the Chief Commissioner of Police	2 Sep. 2004	✓	3 Sep. 2004
The Fire Services College	6 Oct. 2004	✓	8 Oct. 2004

(a) The Judicial College of Victoria was granted an exemption under section 53 (1)(b) of the *Financial Management Act 1994* from preparing financial statements for 2002-03. As the exemption was not extended to 2003-04, this agency was required to prepare financial statements for that year.

(b) The Victorian Casino and Gaming Authority changed its name on 1 July 2004 to the Victorian Commission for Gambling Regulation.

Sustainability and Environment

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2004 BALANCE DATES			
Department of Sustainability and Environment	21 Sep. 2004	✓	29 Sep. 2004
PLANNING			
Architects' Registration Board of Victoria	14 Sep. 2004	✓	20 Sep. 2004
Building Commission	3 Aug. 2004	✓	4 Aug. 2004
Heritage Council	30 Sep. 2004	✓	1 Oct. 2004
Plumbing Industry Commission	6 Sep. 2004	✓	8 Sep. 2004
Surveyors Board of Victoria	23 Aug. 2004	✓	31 Aug. 2004
ENVIRONMENT AND WATER			
Alpine Resort Co-ordinating Council	7 Oct. 2004	✓	7 Oct. 2004
Barwon Regional Waste Management Group	23 Sep. 2004	✓	24 Sep. 2004
Barwon Region Water Authority	18 Aug. 2004	✓ (a)	23 Aug. 2004
Calder Regional Waste Management Group	23 Sep. 2004	✓	23 Sep. 2004
Casey's Weir and Major Creek Rural Water Authority	16 Aug. 2004	✓	17 Aug. 2004
Central Gippsland Region Water Authority	27 Aug. 2004	✓ (a)	15 Sep. 2004
Central Highlands Region Timber Pty Ltd	28 Sep. 2004	✓	28 Sep. 2004
Central Highlands Region Water Authority	28 Sep. 2004	✓ (a)	28 Sep. 2004
Central Murray Regional Waste Management Group	10 Aug. 2004	✓	11 Aug. 2004
City West Water Ltd (b)	24 Aug. 2004	✓	24 Aug. 2004
Coliban Region Water Authority	23 Sep. 2004	✓ (a)	23 Sep. 2004
Commissioner for Environmental Sustainability (c)	27 Sep. 2004	✓	27 Sep. 2004
Corangamite Catchment Management Authority	6 Sep. 2004	✓	13 Sep. 2004
Desert Fringe Regional Waste Management Group	14 Sep. 2004	✓	22 Sep. 2004
Eastern Regional Waste Management Group	22 Sep. 2004	✓	24 Sep. 2004
East Gippsland Catchment Management Authority	31 Aug. 2004	✓	16 Sep. 2004
East Gippsland Region Water Authority	30 Aug. 2004	✓ (a)	3 Sep. 2004
Eco Recycle Victoria	15 Sep. 2004	✓	16 Sep. 2004
Environment Protection Authority	23 Sep. 2004	✓	4 Oct. 2004
First Mildura Irrigation Trust	29 Oct. 2004	✓	29 Oct. 2004
Gippsland and Southern Rural Water Authority	9 Sep. 2004	✓	20 Sep. 2004
Gippsland Regional Waste Management Group	7 Sep. 2004	✓	10 Sep. 2004
Glenelg Region Water Authority	30 Aug. 2004	✓ (a)	10 Sep. 2004
Glenelg-Hopkins Catchment Management Authority	9 Sep. 2004	✓	15 Sep. 2004
Goulburn Broken Catchment Management Authority	8 Sep. 2004	✓	28 Sep. 2004
Goulburn-Murray Rural Water Authority	18 Aug. 2004	✓	19 Aug. 2004
Goulburn Valley Region Water Authority	1 Sep. 2004	✓ (a)	3 Sep. 2004
Goulburn Valley Regional Waste Management Group	22 Sep. 2004	✓	24 Sep. 2004

Sustainability and Environment *- continued*

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2004 BALANCE DATES			
Grampians Region Water Authority (d)	20 Sep. 2004	✓ (a)	23 Sep. 2004
Grampians Regional Waste Management Group	23 Sep. 2004	✓	27 Sep. 2004
Highlands Regional Waste Management Group	23 Sep. 2004	✓	23 Sep. 2004
Lower Murray Region Water Authority (e)	20 Sep. 2004	✓ (a)	29 Sep. 2004
Mallee Catchment Management Authority	14 Sep. 2004	✓	29 Sep. 2004
Melbourne Water Corporation	20 Aug. 2004	✓	20 Aug. 2004
Mildura Regional Waste Management Group	19 Oct. 2004	✓	21 Oct. 2004
Mornington Peninsula Regional Waste Management Group	21 Sep. 2004	✓	23 Sep. 2004
North Central Catchment Management Authority	8 Oct. 2004	✓	11 Oct. 2004
North East Catchment Management Authority	28 Sep. 2004	✓	4 Oct. 2004
North East Water	1 Sep. 2004	✓ (a)	16 Sep. 2004
North East Regional Waste Management Group	21 Oct. 2004	✓	28 Oct. 2004
Northern Regional Waste Management Group	18 Oct. 2004	✓	25 Oct. 2004
Parks Victoria	20 Aug. 2004	✓	20 Aug. 2004
Phillip Island Nature Park Board of Management	24 Sep. 2004	✓	5 Oct. 2004
Portland Coast Region Water Authority	9 Sep. 2004	✓ (a)	10 Sep. 2004
Port Phillip and Westernport Catchment Management Authority	6 Sep. 2004	✓	10 Sep. 2004
Royal Botanic Gardens Board	8 Sep. 2004	✓	9 Sep. 2004
Shrine of Remembrance Trustees	1 Oct. 2004	✓	1 Oct. 2004
Smart Water Fund	19 Oct. 2004	✓	19 Oct. 2004
South East Water Limited (b)	30 Aug. 2004	✓	30 Aug. 2004
South Eastern Regional Waste Management Group	9 Sep. 2004	✓	10 Sep. 2004
South Gippsland Region Water Authority	24 Sep. 2004	✓ (a)	27 Sep. 2004
South West Water Authority	24 Aug. 2004	✓ (a)	31 Aug. 2004
South Western Regional Waste Management Group	6 Sep. 2004	✓	10 Sep. 2004
Sunraysia Rural Water Authority (e)	20 Sep. 2004	✓	30 Sep. 2004
Sustainable Energy Authority Victoria	30 Sep. 2004	✓	4 Oct. 2004
Trust for Nature (Victoria)	7 Sep. 2004	✓	9 Sep. 2004
Victorian Plantations Corporation (b)	20 Aug. 2004	✓	25 Aug. 2004
West Gippsland Catchment Management Authority	27 Sep. 2004	✓	29 Sep. 2004
Western Region Water Authority	18 Aug. 2004	✓ (a)	18 Aug. 2004
Western Regional Waste Management Group	21 Sep. 2004	✓	23 Sep. 2004
Westernport Region Water Authority	17 Sep. 2004	✓ (a)	24 Sep. 2004
Wimmera Catchment Management Authority	9 Sep. 2004	✓	20 Sep. 2004
Wimmera Mallee Rural Water Authority (d)	15 Sep. 2004	✓	23 Sep. 2004

Sustainability and Environment *- continued*

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2004 BALANCE DATES			
Yarra Bend Park Trust	29 Sep. 2004	✓	29 Sep. 2004
Yarra Valley Water Limited (b)	25 Aug. 2004	✓	25 Aug. 2004
Zoological Parks and Gardens Board	2 Sep. 2004	✓	21 Sep. 2004

(a) For regional water authorities, audit opinions were issued on the authorities' financial statements and statement of performance. For some of these authorities, the dates of the performance statements and audit opinions may differ from the financial statements dates.

(b) The Treasurer of Victoria holds the shareholdings in these companies.

(c) The Commissioner for Environmental Sustainability was established in November 2003.

(d) The Grampians Region Water Authority and the Wimmera Mallee Rural Water Authority merged on 1 July 2004 forming the Grampians Wimmera Mallee Water Authority.

(e) The Lower Murray Region Water Authority and the Sunraysia Rural Water Authority merged on 1 July 2004, forming the Lower Murray Urban and Rural Water Authority.

Primary Industries

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2004 BALANCE DATES			
Department of Primary Industries	31 Aug. 2004	✓	31 Aug. 2004
AGRICULTURE			
Agriculture Victoria Services Pty Ltd	21 Sep. 2004	✓	28 Sep. 2004
Australian Food Industry Science Centre	16 Sep. 2004	✓	29 Sep. 2004
Dairy Food Safety Victoria	25 Aug. 2004	✓	7 Sep. 2004
Food Science Australia	16 Sep. 2004	✓	29 Sep. 2004
Melbourne Market Authority	9 Sep. 2004	✓	14 Sep. 2004
Murray Valley Citrus Marketing Board	17 Sep. 2004	✓	22 Sep. 2004
Murray Valley Wine Grape Industry Development Committee	8 Sep. 2004	✓	21 Sep. 2004
Phytogene Pty Ltd	14 Sep. 2004	✓	14 Sep. 2004
PrimeSafe	13 Aug. 2004	✓	16 Aug. 2004
Veterinary Practitioners Registration Board	1 Sep. 2004	✓	1 Sep. 2004
Victorian Strawberry Industry Development Committee	29 Sep. 2004	✓	29 Sep. 2004
INCOMPLETE AUDITS – AS AT 31 OCTOBER 2004			
Northern Victorian Fresh Tomato Industry Development Committee	*Audited financial statements yet to be finalised.*		

Premier and Cabinet

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2004 BALANCE DATES			
Department of Premier and Cabinet	23 Aug. 2004	✓	24 Aug. 2004
ARTS			
Australian Centre for the Moving Image	29 Sep. 2004	✓	30 Sep. 2004
Council of Trustees of the National Gallery of Victoria	24 Sep. 2004	✓	29 Sep. 2004
Film Victoria	15 Sep. 2004	✓	17 Sep. 2004
Geelong Performing Arts Centre Trust	16 Sep. 2004	✓	20 Sep. 2004
Library Board of Victoria	1 Sep. 2004	✓	15 Sep. 2004
Museums Board of Victoria	30 Aug. 2004	✓	15 Sep. 2004
State Library of Victoria Foundation	1 Sep. 2004	✓	15 Sep. 2004
Victorian Arts Centre Trust	29 Sep. 2004	✓	30 Sep. 2004
PREMIER			
Office of the Ombudsman	17 Sep. 2004	✓	21 Sep. 2004
Office of Public Employment	16 Sep. 2004	✓	17 Sep. 2004

Treasury and Finance

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2004 BALANCE DATES			
Department of Treasury and Finance	4 Oct. 2004	✓	5 Oct. 2004
FINANCE			
Emergency Services Superannuation Scheme	16 Aug. 2004	✓	16 Aug. 2004
Government Superannuation Office	14 Sep. 2004	✓	14 Sep. 2004
Parliamentary Contributory Superannuation Fund	29 Sep. 2004	✓	29 Sep. 2004
Essential Services Commission	22 Sep. 2004	✓	22 Sep. 2004
State Superannuation Fund	14 Sep. 2004	✓	14 Sep. 2004
Vicfleet Pty Ltd	2 Aug. 2004	✓	20 Oct. 2004
Victorian Managed Insurance Authority	19 Aug. 2004	✓	24 Aug. 2004
TREASURER			
Gascor Holdings No. 1 Pty Ltd (a)	26 Aug. 2004	✓	27 Aug. 2004
Gascor Holdings No. 2 Pty Ltd (a)	26 Aug. 2004	✓	27 Aug. 2004
Gascor Holdings No. 3 Pty Ltd (a)	26 Aug. 2004	✓	27 Aug. 2004
Gascor EPL Pty Ltd (a)	26 Aug. 2004	✓	27 Aug. 2004
Gascor IEPL Pty Ltd (a)	26 Aug. 2004	✓	27 Aug. 2004
Gascor KEPL Pty Ltd (a)	26 Aug. 2004	✓	27 Aug. 2004
Gascor MAPL Pty Ltd (a)	26 Aug. 2004	✓	27 Aug. 2004
Gascor MGPL Pty Ltd (a)	26 Aug. 2004	✓	27 Aug. 2004
Gascor SAPL Pty Ltd (a)	26 Aug. 2004	✓	27 Aug. 2004
Gascor SNPL Pty Ltd (a)	26 Aug. 2004	✓	27 Aug. 2004
Gascor (T No.1) Pty Ltd (a)	26 Aug. 2004	✓	27 Aug. 2004
Gascor (TH) Pty Ltd (a)	26 Aug. 2004	✓	27 Aug. 2004
Gascor WAPL Pty Ltd (a)	26 Aug. 2004	✓	27 Aug. 2004
Gascor WPL Pty Ltd (a)	26 Aug. 2004	✓	27 Aug. 2004
Industry Supervision Fund	7 Sep. 2004	✓	14 Sep. 2004
Paragon Warehouse Trust No.1 (b)	17 Sep. 2004	✓	17 Sep. 2004
Paragon Warehouse Trust No. 2 (b)	17 Sep. 2004	✓	17 Sep. 2004
Rural Finance Corporation	12 Aug. 2004	✓	12 Aug. 2004
South Eastern Medical Complex Limited	29 Sep. 2004	✓	4 Oct. 2004
State Electricity Commission of Victoria	30 Sep. 2004	✓	30 Sep. 2004

Treasury and Finance - *continued*

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2004 BALANCE DATES			
State Trustees Limited	17 Sep. 2004	✓	17 Sep. 2004
Common Fund No. 1 (c)	17 Sep. 2004	✓	17 Sep. 2004
Common Fund No. 2 (c)	17 Sep. 2004	✓	17 Sep. 2004
Equity Common Fund (c)	17 Sep. 2004	✓	17 Sep. 2004
Fixed Interest Common Fund (c)	17 Sep. 2004	✓	17 Sep. 2004
Property Common Fund (c)	17 Sep. 2004	✓	17 Sep. 2004
Managed Common Fund (c)	17 Sep. 2004	✓	17 Sep. 2004
Charitable Common Fund (c)	17 Sep. 2004	✓	17 Sep. 2004
Premium Cash Fund (c)	17 Sep. 2004	✓	17 Sep. 2004
Premium Cash Plus Fund (c) (d)	17 Sep. 2004	✓	17 Sep. 2004
Premium Diversified Fund (c)	17 Sep. 2004	✓	17 Sep. 2004
Premium Equity Fund (c)	17 Sep. 2004	✓	17 Sep. 2004
Premium Fixed Interest Fund (c)	17 Sep. 2004	✓	17 Sep. 2004
Premium International Fund (c)	17 Sep. 2004	✓	17 Sep. 2004
Premium Property Fund (c)	17 Sep. 2004	✓	17 Sep. 2004
STL Financial Services Limited	17 Sep. 2004	✓	17 Sep. 2004
TAC Law Pty Ltd *Audit report contained an "emphasis of matter" comment: The company will cease to operate as an incorporated legal practice and will be wound-up in 2004-05.*	9 Sep. 2004	✓	13 Sep. 2004
Treasury Corporation of Victoria (e)	6 Sep. 2004	✓	6 Sep. 2004
Victoria 2003 Bushfire Recovery Fund (f)	17 Sep. 2004	✓	17 Sep. 2004
Victorian Funds Management Corporation	26 Aug. 2004	✓	10 Sep. 2004
VFM Australian Equities Trust (g)	26 Aug. 2004	✓	10 Sep. 2004
VFM Australian Fixed Interest Trust (g)	26 Aug. 2004	✓	10 Sep. 2004
VFM Emerging Markets Trust (g) (h)	26 Aug. 2004	✓	10 Sep. 2004
VFM Global Bond Trust (g)	26 Aug. 2004	✓	10 Sep. 2004
VFM Global Small Companies Trust (g)	26 Aug. 2004	✓	10 Sep. 2004
VFM Hedged International Equities Trust (g)	26 Aug. 2004	✓	10 Sep. 2004
VFM Income Trust (g) (i)	26 Aug. 2004	✓	10 Sep. 2004
VFM Indexed Bonds Trust (g)	26 Aug. 2004	✓	10 Sep. 2004
VFM International Equities Trust (g)	26 Aug. 2004	✓	10 Sep. 2004
VFM Short Term Money Market Trust (g)	26 Aug. 2004	✓	10 Sep. 2004

Treasury and Finance - *continued*

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2004 BALANCE DATES			
WORKCOVER			
Accident Compensation Conciliation Service	3 Sep. 2004	✓	3 Sep. 2004
Transport Accident Commission	27 Aug. 2004	✓	31 Aug. 2004
Victorian Trauma Foundation	19 Aug. 2004	✓	19 Aug. 2004
Victorian Trauma Foundation Pty Ltd	19 Aug. 2004	✓	19 Aug. 2004
Victorian WorkCover Authority	16 Sep. 2004	✓	16 Sep. 2004

(a) "Shell companies" of previous gas industry entities.

(b) Paragon Warehouse Trusts discontinued their mortgage operations on 29 August 2002 and have been dormant since that date.

(c) State Trustees Limited is the trustee and manager of these funds. For 2003-04, aggregate financial statements were prepared covering all these funds.

(d) On 30 September 2003, the name of the State Trustees Premium Mortgage Fund was changed to the State Trustees Premium Cash Plus Fund.

(e) On 9 August 2004, pursuant to section 44A(1) of the *Financial Management Act 1994* (FMA), the Minister for Finance directed the Treasury Corporation of Victoria to prepare, in addition to the existing reporting requirements under Part 7 of the FMA, audited Concise Financial Statements for the year ended 30 June 2004, and for each subsequent financial year until otherwise directed.

(f) Ceased operation on 30 June 2004.

(g) For 2003-04, aggregate financial statements were prepared for these trusts and funds.

(h) Commenced operation on 20 November 2003.

(i) Commenced operation on 31 July 2003.

Victorian Communities (excluding local government)

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2004 BALANCE DATES			
Department for Victorian Communities	2 Sep. 2004	✓	3 Sep. 2004
COMMONWEALTH GAMES, AND SPORT AND RECREATION			
Melbourne and Olympic Parks Trust *Reason for qualification:* *Incorrect recognition of an expense and an associated liability.*	9 Sep. 2004	Qualified	9 Sep. 2004
Melbourne 2006 Commonwealth Games Corporation (a)	29 Sep. 2004	✓	8 Oct. 2004
Melbourne 2006 Commonwealth Games Pty Ltd	8 Oct. 2004	✓	8 Oct. 2004
State Sport Centres Trust	23 Sep. 2004	✓	23 Sep. 2004
Victorian Institute of Sport Ltd	8 Sep. 2004	✓	10 Sep. 2004
Victorian Institute of Sport Trust	8 Sep. 2004	✓	10 Sep. 2004
MULTICULTURAL AFFAIRS			
VITS Languagelink	13 Sep. 2004	✓	16 Sep. 2004
WOMEN'S AFFAIRS			
Queen Victoria Women's Centre Trust	17 Sep. 2004	✓	17 Sep. 2004
COMPLETED AUDITS – WITH OTHER BALANCE DATES			
Melbourne 2002 World Masters Games Limited (1 July 2001 to 15 Nov. 2002)	15 Feb. 2004	✓	31 Mar. 2004

(a) Commenced operation on 5 November 2003.

Local government

Entity	Financial statements signed	Clear opinion issued		Auditor-General's report signed
		Financial statements (a)	Performance statement	
COMPLETED AUDITS – 30 JUNE 2004 BALANCE DATES				
MUNICIPAL COUNCILS AND ASSOCIATED COMPANIES				
Alpine Shire Council	15 Sep. 2004	✓	✓	20 Sep. 2004
Ararat Rural City Council	30 Aug. 2004	✓	✓	3 Sep. 2004
Ballarat City Council	30 Aug. 2004	✓	✓	30 Aug. 2004
Banyule City Council	6 Sep. 2004	✓	✓	9 Sep. 2004
Bass Coast Shire Council	15 Sep. 2004	✓	✓	16 Sep. 2004
Baw Baw Shire Council	14 Sep. 2004	✓	✓	14 Sep. 2004
Bayside City Council	14 Sep. 2004	✓	✓	15 Sep. 2004
Benalla Rural City Council	22 Sep. 2004	✓	✓	24 Sep. 2004
Boroondara City Council	13 Sep. 2004	✓	✓	13 Sep. 2004
Borough of Queenscliffe	6 Sep. 2004	✓	✓	10 Sep. 2004
Brimbank City Council	14 Sep. 2004	✓	✓	16 Sep. 2004
Buloke Shire Council ***Reason for qualification:*** *Corporate plan for 2003-2006, including a business plan and related performance measures and targets, not prepared and submitted to the minister.*	28 Sep. 2004	✓	Qualified	29 Sep. 2004
Campaspe Shire Council	7 Sep. 2004	✓	✓	28 Sep. 2004
Cardinia Shire Council	2 Sep. 2004	✓	✓	3 Sep. 2004
Casey City Council	16 Sep. 2004	✓	✓	16 Sep. 2004
Central Goldfields Shire Council	1 Sep. 2004	✓	✓	2 Sep. 2004
City Library Joint Venture	9 Sep. 2004	✓	n.a.	22 Sep. 2004
CityWide Service Solutions Pty Ltd	12 Aug. 2004	✓	n.a.	13 Aug. 2004
Colac-Otway Shire Council	8 Sep. 2004	✓	✓	8 Sep. 2004
Corangamite Shire Council	26 Aug. 2004	✓	✓	13 Sep. 2004
Darebin City Council	20 Sep. 2004	✓	✓	20 Sep. 2004
East Gippsland Shire Council	21 Sep. 2004	✓	✓	21 Sep. 2004
Frankston City Council	16 Sep. 2004	✓	✓	20 Sep. 2004
Gannawarra Shire Council	29 Oct. 2004	✓	✓	29 Oct. 2004
Glen Eira City Council	6 Sep. 2004	✓	✓	10 Sep. 2004
Glenelg Shire Council	24 Aug. 2004	✓	✓	27 Aug. 2004
Golden Plains Shire Council	9 Sep. 2004	✓	✓	14 Sep. 2004
Goulburn Murray Telecommunications (Holdings) Pty Ltd	28 Oct. 2004	✓	n.a.	29 Oct. 2004
Goulburn Murray Telecommunications Infrastructure Limited	28 Oct. 2004	✓	n.a.	29 Oct. 2004
Greater Bendigo City Council	21 Sep. 2004	✓	✓	21 Sep. 2004

Local government - *continued*

Entity	Financial statements signed	Clear opinion issued		Auditor-General's report signed
		Financial statements (a)	Performance statement	
COMPLETED AUDITS – 30 JUNE 2004 BALANCE DATES				
MUNICIPAL COUNCILS AND ASSOCIATED COMPANIES				
Greater Dandenong City Council	6 Sep. 2004	✓	✓	10 Sep. 2004
Greater Geelong City Council	13 Sep. 2004	✓	✓	13 Sep. 2004
Greater Shepparton City Council	7 Sep. 2004	✓	✓	8 Sep. 2004
Hepburn Shire Council	21 Sep. 2004	✓	✓	24 Sep. 2004
Hindmarsh Shire Council	10 Sep. 2004	✓	✓	15 Sep. 2004
Hobsons Bay City Council	16 Sep. 2004	✓	✓	21 Sep. 2004
Horsham Rural City Council	21 Sep. 2004	✓	✓	21 Sep. 2004
Hume City Council	13 Sep. 2004	✓	✓	13 Sep. 2004
Indigo Shire Council	14 Sep. 2004	✓	✓	20 Sep. 2004
Kingston City Council	22 Sep. 2004	✓	✓	27 Sep. 2004
Knox City Council	17 Sep. 2004	✓	✓	17 Sep. 2004
Latrobe City Council	21 Sep. 2004	✓	✓	21 Sep. 2004
Loddon Shire Council	16 Sep. 2004	✓	✓	16 Sep. 2004
Macedon Ranges Shire Council	15 Sep. 2004	✓	✓	15 Sep. 2004
Manningham City Council	21 Sep. 2004	✓	✓	27 Sep. 2004
Maribyrnong City Council	21 Sep. 2004	✓	✓	22 Sep. 2004
Maroondah City Council	17 Sep. 2004	✓	✓	17 Sep. 2004
Melbourne City Council	26 Aug. 2004	✓	✓	9 Sep. 2004
Mansfield Shire Council	26 Aug. 2004	✓	✓	2 Sep. 2004
Melbourne Wholesale Fish Market Pty Ltd	10 Aug. 2004	✓	n.a.	10 Aug. 2004
Melton Shire Council	16 Sep. 2004	✓	✓	20 Sep. 2004
Mildura Rural City Council	23 Sep. 2004	✓	✓	23 Sep. 2004
Mitchell Shire Council	15 Sep. 2004	✓	✓	15 Sep. 2004
Moira Shire Council	20 Sep. 2004	✓	✓	27 Sep. 2004
Monash City Council	14 Sep. 2004	✓	✓	14 Sep. 2004
Moonee Valley City Council	20 Sep. 2004	✓	✓	20 Sep. 2004
Moorabool Shire Council	22 Sep. 2004	✓	✓	24 Sep. 2004
Moreland City Council	22 Sep. 2004	✓	✓	27 Sep. 2004
Mornington Peninsula Shire Council	27 Sep. 2004	✓	✓	28 Sep. 2004
Mount Alexander Shire Council	20 Sep. 2004	✓	✓	20 Sep. 2004
Moyne Shire Council	3 Sep. 2004	✓	✓	8 Sep. 2004
Murrundindi Shire Council	24 Sep. 2004	✓	✓	28 Sep. 2004
Nillumbik Shire Council	16 Sep. 2004	✓	✓	16 Sep. 2004
Northern Grampians Shire Council	15 Sep. 2004	✓	✓	15 Sep. 2004

Local government - *continued*

Entity	Financial statements signed	Clear opinion issued		Auditor-General's report signed
		Financial statements (a)	Performance statement	
COMPLETED AUDITS – 30 JUNE 2004 BALANCE DATES				
MUNICIPAL COUNCILS AND ASSOCIATED COMPANIES				
Port Phillip City Council	16 Sep. 2004	✓	✓	16 Sep. 2004
Prahran Market Pty Ltd	21 Sep. 2004	✓	n.a.	24 Sep. 2004
Pyrenees Shire Council	16 Sep. 2004	✓	✓	20 Sep. 2004
Queen Victoria Market Pty Ltd	10 Aug. 2004	✓	n.a.	10 Aug. 2004
Regent Management Company Pty Ltd	24 Sep. 2004	✓	n.a.	27 Sep. 2004
South Gippsland Shire Council	14 Sep. 2004	✓	✓	14 Sep. 2004
Southern Grampians Shire Council	30 Aug. 2004	✓	✓	8 Sep. 2004
Stonnington City Council	13 Sep. 2004	✓	✓	13 Sep. 2004
Strathbogie Shire Council	21 Sep. 2004	✓	✓	21 Sep. 2004
Streetsahead Cleaning Services	17 Sep. 2004	✓	n.a.	17 Sep. 2004
Surf Coast Shire Council	21 Sep. 2004	✓	✓	28 Sep. 2004
Sustainable Melbourne Trust Fund	26 Oct. 2004	✓	n.a.	26 Oct. 2004
Swan Hill Rural City Council ***Reason for qualification:*** *Failure to undertake condition assessment for a significant proportion of council infrastructure assets.*	24 Sep. 2004	Qualified	✓	27 Sep. 2004
Towong Shire Council	6 Sep. 2004	✓	✓	6 Sep. 2004
Wangaratta Rural City Council	15 Sep. 2004	✓	✓	15 Sep. 2004
Warrnambool City Council	17 Sep. 2004	✓	✓	20 Sep. 2004
Wellington Shire Council	14 Sep. 2004	✓	✓	20 Sep. 2004
West Wimmera Shire Council	13 Sep. 2004	✓	✓	13 Sep. 2004
Whitehorse City Council	13 Sep. 2004	✓	✓	13 Sep. 2004
Whittlesea City Council	14 Sep. 2004	✓	✓	15 Sep. 2004
Wodonga Rural City Council ***Reason for qualification:*** *Results reported for certain performance measures were not supported by sufficient and appropriate evidence.*	15 Sep. 2004	✓	Qualified	15 Sep. 2004
Wyndham City Council	16 Sep. 2004	✓	✓	20 Sep. 2004
Yarra City Council	13 Sep. 2004	✓	✓	13 Sep. 2004
Yarra Ranges Shire Council	7 Sep. 2004	✓	✓	8 Sep. 2004
Yarriambiack Shire Council	7 Sep. 2004	✓	✓	7 Sep. 2004

Local government *- continued*

Entity	Financial statements signed	Clear opinion issued (a)	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2004 BALANCE DATES			
REGIONAL LIBRARY CORPORATIONS			
Casey - Cardinia Regional Library Corporation	30 Aug. 2004	✓	5 Sep. 2004
Central Highlands Regional Library Corporation	23 Aug. 2004	✓	2 Sep. 2004
Corangamite Regional Library Corporation	14 Sep. 2004	✓	20 Sep. 2004
Eastern Regional Library Corporation	14 Sep. 2004	✓	14 Sep. 2004
Geelong Regional Library Corporation	8 Sep. 2004	✓	17 Sep. 2004
Glenelg Regional Library Corporation	11 Aug. 2004	✓	20 Aug. 2004
Goulburn Valley Regional Library Corporation	20 Sep. 2004	✓	20 Sep. 2004
High Country Regional Library Corporation	2 Sep. 2004	✓	2 Sep. 2004
North Central Goldfields Regional Library Corporation	1 Sep. 2004	✓	20 Sep. 2004
West Gippsland Regional Library Corporation	31 Aug. 2004	✓	3 Sep. 2004
Whitehorse Manningham Regional Library Corporation	25 Aug. 2004	✓	3 Sep. 2004
Wimmera Regional Library Corporation	24 Sep. 2004	✓	24 Sep. 2004
Yarra Melbourne Regional Library Corporation	29 Sep. 2004	✓	29 Sep. 2004
Yarra Plenty Regional Library Corporation	16 Sep. 2004	✓	16 Sep. 2004
COMPLETED AUDITS – WITH OTHER BALANCE DATES			
New City Library Joint Venture (1 July 2002 to 30 June 2003)	26 April 2004	✓	10 May 2004
INCOMPLETE AUDITS – AS AT 31 OCTOBER 2004			
Wimmera Development Association (b)	*Audited financial statements yet to be finalised.*		

(a) In the case of municipal councils and regional library corporations, audit opinions refer to the financial and standard statements prepared by these entities.

(b) Agency controlled by Horsham Rural City Council and came within the Auditor General's audit mandate in 2003-04, pursuant to recent amendments to the *Audit Act 1994.*

n.a. Not applicable, as agencies were not required by legislation to produce a performance statement.

AUDITOR GENERAL
VICTORIA

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