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Auditor General
Victoria

Results of financial statement audits for agencies with other than 30 June 2004 balance dates, and other audits

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AUDITOR GENERAL
VICTORIA

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President
Legislative Council
Parliament House
MELBOURNE

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Speaker
Legislative Assembly
Parliament House
MELBOURNE

Dear Presiding Officers

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.*

This report sets out the results of financial statement audits conducted on public sector agencies with other than 30 June 2004 balance dates, and the results of 4 other audits undertaken up to the date of preparing this report.

Yours faithfully

JW CAMERON
Auditor-General

25 May 2005

Foreword

This report contains the results of 2 groups of recent audit activity by my Office.

It reports the results of audits of the financial statements of public sector agencies with 2004 balance dates other than 30 June. There are some 132 of these agencies - mostly universities, TAFE institutes and alpine resorts. The report recognises the substantial improvement during 2004 in the standard and timeliness of financial reporting. It also identifies the need for further improvement in selected aspects of financial management.

The report also sets out the results of 4 special audits, examining:

- the effectiveness of the Sheriff's Office in enforcing warrants for the recovery of outstanding fines and fees
- the management of a major Justice sector "change" project, namely, the Metropolitan Mobile Radio Network project
- the administration of a grant to a community-based organisation
- the adequacy of internet security practices by local governments.

In each case, the report identifies scope for improvement and lessons to be learned by similar public sector agencies. Several recommendations are made to strengthen agency practices and performance.

JW CAMERON
Auditor-General

25 May 2005

Contents

1. Executive summary

1.1 Introduction

This report is organised into 2 sections, following this executive summary:

- The first (Part 2) presents the results of financial statement audits for agencies with other than 30 June 2004 balance dates
- The second (Parts 3 to 6) outlines the results of 4 special audits that examine:
  - the enforcement of warrants for the recovery of outstanding fines and fees, by the Sheriff's Office
  - the management of the Metropolitan Mobile Radio Network project, a major "change" project for Justice sector agencies
  - the administration of a grant to a community-based organisation
  - the internet security practices of selected local governments.

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

1.2 Results of financial statement audits

1.2.1 Audit opinions issued and timeliness of reporting

We issued 120 clear audit opinions on the financial statements of public sector agencies with balance dates other than 30 June 2004. One further audit opinion was qualified. A full listing of completed and incomplete audits appears as Appendix A of this report.

The low incidence of audit qualifications represents a significant improvement on the previous year, when 8 agencies' financial statements were qualified. The one remaining qualified audit opinion has been issued for a number of years now, and alerts users of the financial report to an inherent risk involved in the collection of cash donations, a risk that cannot be mitigated by further internal controls.

There was substantial improvement in the number of agencies completing their audited financial statements within 12 weeks (from 60 per cent in 2003 to 76 per cent in 2004). However, there remains room for further improvement in timeliness, with the audited financial statements of 9 per cent of agencies still not finalised after 16 weeks of year-end.

Recommendation

That universities and TAFE institutes review the outcomes of the 2004 reporting cycle to identify opportunities to further improve the financial statement preparation process for future years.

1.2.2 Adequacy of agencies' control environments

Overall, the control environments of universities and TAFE institutes were assessed as adequate. Additional opportunities were identified for agencies to strengthen their governance and financial management arrangements, particularly in relation to:

- internal management reporting practices
- risk management policies and practices
- management of employee leave balances.

Recommendations

That universities and TAFE institutes:

- **ensure monthly financial management reports are compiled on an accrual basis, as well as providing cash flow information, and include forecast information beyond the current financial period**
- **continue to implement their risk management frameworks and regularly report progress to their audit and risk management committees**
- **regularly review levels of employee annual leave entitlements and encourage staff to take leave owing on a timely basis.**

1.2.3 Financial standing of Victoria's universities and their controlled entities

Aside from RMIT University, the financial performance and position of single-sector universities and the higher education divisions of dual-sector universities is positive. In 2004, RMIT University reported a consolidated operating deficit from ordinary activities of $25.1 million and a consolidated negative working capital (excess of current liabilities over current assets) position of $36.8 million.

In December 2004, RMIT University announced a 3-year financial recovery plan expected to achieve a $40 million surplus for the university in 2007. The plan provided for the streamlining of complex processes in the university, and for reducing staff numbers through natural attrition.

A number of university-controlled subsidiaries have ongoing operating deficits and are not generating adequate returns on investment. Monash University South Africa, in particular, continues to incur significant operating deficits.

Recommendation

That all major high-risk ventures by universities have adequate risk management strategies and plans that seek to protect them from significant losses.

1.2.4 Financial standing of Victoria's TAFE institutes

In 2004, 17 of Victoria's 18 public TAFE institutes and TAFE divisions within universities reported an operating deficit, excluding funding provided for capital purposes. This result is similar to that reported for 2003. On a more positive note, 5 TAFE institutes and divisions that had net cash outflows from operating activities (excluding capital funding) in 2003 were positive in 2004.

Over the medium to long-term, agencies generally need a positive working capital ratio, operating surplus and net cash inflows from operating activities to be financially sustainable. Considering the nature and level of current government funding, the overall financial performance and condition of the TAFE sector is currently reasonably sound, but this may not be sustainable without changes to the current funding arrangements for TAFE institutes.

Recommendation

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

1.2.5 Performance reporting by TAFE institutes

TAFE institutes need to improve the quality of information included in their annual reports about the efficiency and effectiveness of their operations, so that members of parliament and other users of these reports can better assess their performance.

Our examination of the annual reports of 4 TAFE institutes and one dual-sector university found that none of these agencies had included performance indicators in their latest annual reports. Most included statements about the positive aspects of what they had achieved in their annual reports, but did not publish targets or compare results with them.

Recommendations

That the Office of Training and Tertiary Education, through the responsible minister, mandate the application of Financial Reporting Direction FRD 27 *Presentation of Reporting and Performance Information*[1] by Victoria's TAFE institutes for 2005.

That TAFE institutes, in consultation with the Office of Training and Tertiary Education, publish information about their performance against key performance indicators in their annual reports.

1.2.6 Emerging issues for universities and TAFE institutes

A number of emerging issues will have major impacts on the future operations of universities and TAFE institutes. These include:

- managing the effects of Commonwealth Government funding reforms and the abolition of compulsory student union fees
- implementation of the new Australian accounting standards which have been harmonised with international accounting standards, for the reporting year ending 31 December 2005.

Recommendation

That all universities and TAFE institutes complete their analyses of the financial impacts of the new accounting standards, as a matter of priority, to ensure they are well placed to meet their reporting obligations for the financial year ending 31 December 2005.

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[1] Issued by the Minister for Finance under the authority of the *Financial Management Act 1994*.

1.3 Special reviews and other investigations

1.3.1 Sheriff's Office enforcement of warrants

Our past reports to parliament have expressed concerns about a continuing increase in outstanding fines and fees, decreased collection rates, and increased bad and doubtful debts at the Enforcement Management Division (EMD) of the Department of Justice.

Based on the department's records, around 78 per cent of all fines and fees raised are cleared (by cash or non-cash means) within 112 days from the date they are raised. Warrants are generally issued after that time for the Sheriff's Office to commence action to recover the remaining outstanding amounts. This audit examined how effective the Sheriff's Office (part of the EMD) has been in enforcing these warrants.

The audit identified that, of the $694 million outstanding fines and fees at 30 June 2004, almost 80 per cent had reached the warrant stage and 63.4 per cent ($351.5 million) was considered by the department as unlikely to be collected (and was provided for in the department's financial report). While the clearance rate for outstanding fines and fees at the warrant stage has improved since 2001-02 (from 6.4 per cent in 2001-02 to 16.6 per cent in 2003-04), the rate remained low and only a very small percentage (around 3 per cent) of the amounts owing to state and non-state agencies that reached the warrant stage were actually being collected in cash.

We found that the Sheriff's Office's operating methodology for targeting and selecting warrants for actioning was not documented, was applied in an ad hoc manner and lacked a systematic approach towards innovative targeting of outstanding warrants. Further, the 2 performance measures (output targets) used by the Sheriff's Office to monitor and report on its performance, in themselves, were not adequate as internal/management indicators of its warrants management performance.

Recommendations

We made several recommendations aimed at improving the warrant enforcement outcomes of the Sheriff's Office. These included the need to:

- **develop a comprehensive operating methodology for the targeting and selection of warrants for actioning, and ensure it is applied consistently**
- **develop improved management information systems to support its operations**

- **better analyse warrant clearance rates to help develop more focused future enforcement action plans**
- **regularly analyse its ageing debtors (warrants) and use the analysis to focus on clearing warrants before they expire**
- **develop and monitor its performance against key performance indicators covering the entire warrant management process.**

We also recommended that the Department of Justice:

- **ensure appropriate enhancements are made to the Victorian Infringement Management System[2] to meet the Sheriff's Office's operational requirements, and provide adequate management reporting capabilities**
- **continue to champion the introduction to parliament of amending legislation dealing with the enforcement of fines, as planned in the Spring 2005 session, and give further consideration to extending the Sheriff's enforcement powers as part of that legislation.**

1.3.2 Management of the Metropolitan Mobile Radio Network project

The Metropolitan Mobile Radio Network (the radio network) is one of 3 major information technology projects to be delivered under the statewide integrated public safety communications strategy. Over the next 2 years, it will progressively replace the existing analogue emergency services network for greater Melbourne with a new digital network, which will be used to transmit and receive voice data.

Our examination of the project's management found that the project was well managed to date and was running on time, in accordance with the contracted timetable.

The 2002 business case for the radio network was comprehensive and users were adequately consulted during its development. Cost estimates for the radio network were also comprehensive and included an allowance for contingencies. The Bureau of Emergency Services Telecommunications within the Department of Justice will, however, need to carefully manage this allowance to ensure it remains adequate over the 7-year life of the project.

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[2] The Victorian Infringement Management System records and reports on all warrants issued, actioned and cleared, including their status.

Looking ahead, the project faces several risks which must be carefully managed by the bureau and by participating emergency services agencies. They include operational and/or cost risks arising from the coverage area of the network, the extent of data encryption and the need to gain access to sufficient radio frequencies to enable the radio network to operate as intended. The bureau and the emergency services agencies have commenced managing these risks.

Recommendation

That the Bureau of Emergency Services Telecommunications engage an internal auditor (or other similarly independent but suitably skilled expert) to review the project's management and progress, over its remaining life.

1.3.3 Community Support Fund grant to Bayside Employment Skills Training Inc.

In May 2003, Bayside Employment Skills Training Inc. (BEST) was awarded a $500 000 Community Support Fund (CSF) grant by the Department for Victorian Communities (DVC) to redevelop a property formerly used as the Oakleigh court house into an arts and cultural centre. At March 2005, $150 000 had been paid to BEST.

In mid-November 2004, following news that BEST was put into voluntary liquidation, concerns about the use of these grant funds were brought to my attention.

The government determined that the project would be funded from the CSF. This decision was publicly announced as a government pre-election commitment. The application from BEST was submitted 5 months later.

We expected that BEST's grant application would have been subject to some form of analysis of the risks associated with the government's funding commitment. However, no analysis was undertaken. DVC advised that it did not analyse whether the grant should be made because that question had already been resolved by the government when it publicly announced its commitment to the project and decided that the project would be funded from the CSF. DVC advised that it, instead, focused its attention on ensuring that terms and conditions were incorporated in the project agreement.

We found that the terms and conditions established for the project funding were not sufficiently robust to ensure that the funds allocated were applied appropriately for the approved purposes of the grant. Further, in our opinion, for funded projects such as this, an analysis designed to safeguard the state against any adverse risks that may flow from providing funding to the project should have been undertaken and documented.

Given BEST's dependency on grant funding and with grant instalments paid in advance, a major risk associated with this grant was the loss of public moneys, should BEST cease to operate.

DVC's monitoring of the grant to BEST was largely in accordance with its funding agreement. However, these procedures did not provide sufficient assurances that grant funds were used for the approved purposes, or that BEST remained financially viable. Had DVC been aware of BEST's financial position at 30 June 2003, it may not have provided further grant funds of $70 000 in May 2004.

Work on the court house redevelopment ceased at some stage during mid to late 2004. When BEST went into liquidation in November 2004, the project was about 6 months behind schedule with major works due to commence at the court house.

About 40 per cent (or $60 500) of the $150 000 funding provided by DVC to BEST to redevelop the court house, was not used for that purpose. Instead, these funds were used to support BEST's business when it started to experience financial difficulties. Discussions with the liquidator indicated that it is highly unlikely that DVC will recover these funds.

Recommendations

For any funded project, regardless of the circumstances of the funding decision, the funding agency should analyse the risks involved and implement the steps necessary to safeguard the state from any adverse consequences that may flow from providing funding to the project.

Several other recommendations were also made focusing on improving grant administration and management, including the need for DVC to:

- **establish risk management procedures for grant recipients that are framed against the assessed levels of risk**
- **improve grant funding agreements to require applicants to provide information to DVC regarding changes in their circumstances and financial position; provide sufficient evidence (commensurate with the assessed risks) to support the completion of work; and provide for the recovery of grant funds if the agreement conditions are breached**
- **improve grant monitoring processes, particularly the ongoing financial viability of grant recipients**
- **hold discussions with other government agencies with significant grant programs, with a view to establishing a statewide database containing grant information.**

1.3.4 Management of internet security by local governments

Victoria's local governments are increasingly using the internet to manage their operations and deliver services to the public. As these uses, and their extent continues to grow, so do the risks to the security of local government internet systems.

Our examination of internet security management practices across 5 local governments found that these authorities had taken positive steps to establish effective internet security. The approaches used to manage the risk of virus infection were generally sound, as were their "first-line defences", including firewalls, against internet threats. However, further improvement was required. In particular:

- information technology (IT) disaster recovery planning needed to improve
- security over internet systems could also be improved by using vendors' good practice configuration guides and improving password standards to reduce the risks of exploiting system vulnerabilities
- more attention to the monitoring of security-related activity was needed, including through the use of software that assists with this analysis
- in some cases, technical security skills were not adequate
- the risk assessment practices of some local governments were basic
- most local governments had not documented staff roles and responsibilities for IT system security
- while most local governments had some policies about internet security, they were not always complete, endorsed by management or based on recognised standards.

Recommendations

Several recommendations were made to assist local governments strengthen their internet security management practices. These included the need for them to:

- **develop comprehensive IT security policies and procedures based on recognised standards, and ensure these are periodically reviewed and updated**
- **improve risk assessments and related management practices, particularly for internet services provided by external providers**
- **ensure that contracts with external providers for the management of internet systems include requirements to maintain a minimal level of security**

- **identify any technical security skill gaps and provide staff training or engage third parties to address them**
- **ensure that security activity is logged and regularly monitored, and that software tools are used to help identify high-risk connections and threats**
- **complete, endorse, communicate and regularly test IT disaster recovery plans.**

2. Results of financial statement audits

2.1 Audit conclusions

Audit opinions issued and timeliness of reporting

We have issued 120 clear audit opinions on the financial statements of public sector agencies with 2004 balance dates other than 30 June. One further opinion was qualified.

A number of universities that had received qualified audit reports in past years, because of their accounting treatment of grant revenue, have had that issue resolved through the adoption of changed funding arrangements. The low incidence of audit qualifications represents a significant improvement on the previous year, when the financial statements of 8 agencies were qualified. The one remaining qualified audit opinion has been issued for a number of years now, and alerts users of the financial report to an inherent risk involved in the collection of cash donations, a risk that cannot be mitigated by further internal controls.

There was substantial improvement in the number of agencies completing their audited financial statements within 12 weeks (from 60 per cent in 2003 to 76 per cent in 2004). However, there remains room for further improvement in the timeliness with which audited financial statements are completed: audited statements were not finalised after 16 weeks for 9 per cent of agencies in 2004, compared with 15 per cent in 2003.

Adequacy of agencies' control environments

Overall, the control environments of universities and TAFE institutes were assessed as adequate. However, opportunities were identified for agencies to strengthen their governance and financial management arrangements, particularly in relation to:

- internal management reporting practices
- risk management policies and practices
- management of employee leave balances.

Financial standing of Victoria's universities and their controlled entities

Aside from RMIT University, the financial performance and position of single-sector universities and the higher education divisions of dual-sector universities is positive. In 2004, RMIT University reported a consolidated operating deficit from ordinary activities of $25.1 million and a consolidated negative working capital (excess of current liabilities over current assets) position of $36.8 million.

In December 2004, RMIT University announced a 3-year financial recovery plan expected to achieve a $40 million surplus for the university in 2007. The plan provided for the streamlining of complex processes in the university, and for reducing staff numbers through natural attrition.

Many university-controlled agencies have ongoing operating deficits and are not generating adequate returns on investment. Monash University South Africa, in particular, continues to incur significant operating deficits. On the basis of the financial results to date, Monash University's South Africa project will not meet either the target profitability date (2005), or the target break-even date (2008), in its original (1999) business plan. If trends to date continue, it will continue to incur losses, although the extent of such losses should reduce as a result of various actions taken by the university.

Financial standing of Victoria's TAFE institutes

In 2004, 17 of Victoria's 18 public TAFE institutes and TAFE divisions within universities reported an operating deficit (excluding funding provided for capital purposes). This result is similar to that reported for 2003. On a more positive note, the 5 TAFE institutes and divisions that had net cash outflows from operating activities (excluding capital funding) in 2003 were positive in 2004.

Over the medium to long-term, agencies generally need a positive working capital ratio, operating surplus and net cash inflows from operating activities to be financially sustainable. Considering the nature and level of current government funding, the overall financial performance and condition of the TAFE sector is currently reasonably sound, but this may not be sustainable without changes to the current government funding arrangements for TAFE institutes.

Chisholm TAFE showed signs of substantial difficulty in 2003. Its operating result and working capital position significantly improved during 2004 and it has budgeted for an operating surplus of $2.4 million for 2005.

Emerging issues for universities and TAFE institutes

A number of emerging issues will have major impacts on the future operations of universities and TAFE institutes. These include:

- managing the effects of Commonwealth Government funding reforms and the abolition of compulsory student union fees
- implementation of the new Australian accounting standards which have been harmonised with international accounting standards, for the reporting year ending 31 December 2005.

Performance reporting by TAFE institutes

TAFE institutes need to improve the quality of information included in their annual reports about the efficiency and effectiveness of their operations, so that members of parliament and other users of these reports can better assess their performance.

Our examination of the annual reports of 4 TAFE institutes and one dual-sector university found that none of these agencies had included performance indicators in their latest annual reports. Most included statements about the positive aspects of what they had achieved in their annual reports, but did not publish targets or compare results with them.

RESPONSE provided by Secretary, Department of Education and Training

In relation to the financial standing of Victoria's TAFE institutes, the department believes that the current financial position of TAFE institutes (as a whole) is sound. The Victorian Government has contributed significant additional funding to TAFE institutes since 2003 without equivalent support from the Commonwealth Government.

2.2 Introduction

The *Audit Act 1994* authorises the Auditor-General to audit the annual financial statements of public sector agencies. At 30 June 2004, there were 601 public sector agencies audited by our Office, 132 of which had a balance date other than 30 June. This part of the report outlines the results of the most recent financial audit round of agencies with balance dates other than 30 June 2004.

2.2.1 Agencies audited

Of the agencies recently audited, 90 per cent were in the Education and Training portfolio. Of these, 8 were universities (4 of which had a TAFE component), 14 stand-alone public TAFE (technical and further education) institutes, 2 centres for adult education, 92 controlled entities of universities or TAFE institutes (companies, trusts and joint ventures) and 3 other educational agencies. The remaining entities mainly include the state's alpine resort management boards and the Tricontinental Corporation group of companies.

During the year, the balance dates of 14 public cemeteries that previously had 31 December balance dates was changed to 30 June. These cemeteries will now prepare financial statements for the 18 months ended on 30 June 2005, and annual financial statements for 12 month periods ending 30 June, thereafter.

2.2.2 Audit purpose and methodology

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

Each public agency must prepare their financial statements in accordance with Australian accounting standards and other mandatory professional reporting requirements, and the financial reporting requirements of the *Financial Management Act 1994*.

For educational agencies, financial statements should also follow the guidelines in the model financial statements provided by the (Commonwealth) Department of Education, Science and Training (for universities) and by the Office of Tertiary Training and Education (for TAFE institutes).

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

All audits are conducted in accordance with the Australian auditing standards developed by the Australian Auditing and Assurance Standards Board.

2.3 Audit opinions issued

As previously stated, we have responsibility for the audit of 132 agencies with balance dates other than 30 June 2004. At the date of preparing this report, we had completed the audit of, and issued audit opinions on, the financial statements of 121 of these agencies. The financial statements for the remaining 11 agencies were at various stages of completion. We are working with the respective agencies to facilitate their completion as soon as possible.

Of the 121 audit opinions issued, 120 were clear and one qualified. The audit opinion on the financial statements of the Anti-Cancer Council of Victoria was qualified on the basis that we were unable to assess the completeness of cash donations it receives. The qualification of this agency's financial statements has been issued for a number of years now, and alerts users of the financial report to an inherent risk involved in the collection of cash donations, a risk that cannot be mitigated by further internal controls.

The low incidence of audit qualifications represents a significant improvement on last year, when the financial statements of 8 agencies were qualified. Figure 2A shows the agencies that were previously subject to audit qualification and the reasons for removing the audit qualifications in 2004. One agency subject to a qualified opinion in 2003 now has a 30 June reporting date and is not included in the figure.

FIGURE 2A: AUDIT QUALIFICATIONS REMOVED IN 2004

Agencies	Reason for previous qualifications and their removal
RMIT University and RMIT Union	Previously, we were unable to form an opinion about certain balances, due to inadequate or inaccurate accounting records produced by the Academic Management System. Over the past 18 months, RMIT University has undertaken significant work to confirm student fee revenue and related balances. As a result, we were able to complete the necessary audit work to remove the qualification.
Swinburne University of Technology The University of Melbourne University of Ballarat Victorian College of the Arts	Previously, these 4 institutes did not comply with Australian Accounting Standard AAS 15: *Revenue - requirement for the recognition of grant revenue.* Funding arrangements with the Commonwealth Government have now changed: the Commonwealth does not now provide funding in December for the following year. The qualification has been replaced by an "emphasis of matter" paragraph (not a qualification) in our audit opinions drawing readers' attention to the changed funding arrangements.

Source: Victorian Auditor-General's Office.

Appendix A to this report has information about the audit opinions issued on each agency's financial statements, and the nature of audit opinions issued.

Conclusion

The substantial improvement in financial reports, to the point where all entities (except one) with balance dates other than 30 June received clear audit opinions, in the latest round, is tremendously heartening. It also removes any uncertainty about the accuracy of financial information in the audited financial statements.

2.4 Timeliness of audited financial statement completion

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

Figure 2B shows how well agencies with balance dates other than 30 June 2004 met the 12-week reporting timeline.

FIGURE 2B: TIMELINESS OF COMPLETION OF AUDITED FINANCIAL STATEMENTS, AGENCIES WITH BALANCE DATES OTHER THAN 30 JUNE

Number of weeks after end of financial year audited financial statements were finalised	2004		2003	
	Number of agencies	Per cent (cumulative)	Number of agencies	Per cent (cumulative)
Less than 8 weeks	14	11	6	4
8 to 10 weeks	19	25	22	19
10 to 12 weeks	67	76	62	60
12 to 14 weeks	18	89	35	83
14 to 16 weeks	2	91	3	85
More than 16 weeks (a)	12	100	23	100
Total	132	-	151	-

(a) Includes 11 agencies with balance dates in 2004 other than 30 June whose financial statements were not finalised at the date of preparing this report.

Source: Victorian Auditor-General's Office.

As the figure shows, there has been substantial improvement in the number of agencies completing their audited financial statements within 12 weeks (from 60 per cent in 2003 to 76 per cent in 2004). However, there is room for further improvement in the timeliness with which audited financial statements are completed: audited statements were not finalised after 16 weeks for 9 per cent of agencies in 2004, compared with 15 per cent in 2003.

Figure 2C illustrates the performance of agencies with balance dates other than 30 June, for each of the major sectors of government, for 2003 and 2004.

FIGURE 2C: TIMELINESS OF COMPLETION OF AUDITED FINANCIAL STATEMENTS, BY SECTOR, FOR AGENCIES WITH BALANCE DATES OTHER THAN 30 JUNE

Sector	2004		2003	
	Number of agencies	Number of statements finalised within 12 weeks	Number of agencies	Number of statements finalised within 12 weeks
Education and Training	119	94	124	81
Human Services (a)	3	2	17	5
Sustainability and Environment	6	-	6	-
Treasury and Finance	4	4	4	4
Total	132	100	151	90
Percentage		76		60

(a) Included in the 2003 figures are 14 cemeteries which now report at 30 June rather than 31 December.
Source: Victorian Auditor-General's Office.

The figure shows that more agencies in the Education and Training sector completed their audited financial statements within 12 weeks (94 in 2004, compared with 81 in 2003) – representing a good outcome for this sector.

In the case of alpine resort committees of management, the completion of their financial statements was delayed due to a decision by some of those agencies to undertake revaluation of their major assets, to allow them to more accurately report the value of these assets.

The timely completion of our audits is materially affected by how quickly agencies furnish draft financial statements to audit, and the completeness of those drafts. For 2003 and 2004, the time between the end of the financial year and our Office receiving complete draft financial statements averaged around 7 weeks (for agencies with 31 December balance dates). That was just within the 8 weeks statutory deadline for submitting financial statements to our Office for audit.

In 2004, there were fewer reasons for agencies' financial statements to be late or of low quality:

- contentious issues were generally discussed and resolved early on in the preparation of financial statements
- reporting requirements were mostly unchanged
- universities and TAFE institutes made better use of model accounts.

As noted in our previous reports to parliament on the results of financial statement audits[1], best practice is for agencies to prepare their statutory financial statements within 10 to 15 days of balance date. We will continue to work closely with agencies to further reduce the time they take to report.

Conclusion

More agencies completed their audited financial statements within 12 weeks, amounting to 75 per cent in 2004 compared with 60 per cent in 2003. However, there is room for further improvement in the timeliness with which audited financial statements are completed.

Universities and TAFE institutes generally complied with their reporting requirements. However, certain agencies still need to improve their processes for preparing financial statements, in order to meet the statutory timeline.

Recommendation

1. **That universities and TAFE institutes review the outcomes of the 2004 reporting cycle to identify opportunities to further improve the financial statement preparation process for future years.**

RESPONSE provided by Secretary, Department of Education and Training

The department supports this recommendation.

Following the 2002-03 Auditor-General's report, the department wrote to the universities reminding them of their obligation to report in a timely manner. Compliance improved substantially in 2003-04. The department will again address the issue with all universities and TAFE institutes requesting compliance to timelines.

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[1] Victorian Auditor-General's Office, *Report on Public Sector Agencies, Results of special reviews and financial statement audits for agencies with 2003 balance dates other than 30 June*, May 2004; and *Auditor-General's Report, Results of 30 June 2004 financial statement and other audits*, December 2004.

2.5 University and TAFE institute control environments

2.5.1 Were agencies' internal controls adequate?

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

Weaknesses in internal controls which are identified through the audit process generally do not result in a qualified audit opinion, as there are often alternative control procedures or audit processes available to mitigate the risk of material error[2]. However, they are brought to the attention of the agency, so it can rectify them.

While the current round of financial audits identified and reported to agencies a number of control weaknesses (across areas such as payroll, accounts payable and general IT controls), the majority of these were assessed to be of low to medium importance, and agencies had generally responded positively to addressing them.

We found no systematic breakdowns in accounting systems. However, we were concerned about the number of weaknesses we identified in agency information technology control environments. These mainly concerned lack of discipline over rights to access computer systems, and the need for comprehensive security policies and procedures.

For several years, we have also been concerned about the build-up of "excess" annual leave entitlements (that is, leave not taken when it falls due) by employees of agencies. Our financial audits again found significant numbers of university and TAFE institute staff with more than 8 weeks accrued annual leave (that is, more than 2 years of leave entitlement).

Conclusion

Universities and TAFE institutes generally had adequate control environments, however, the information technology security policies and controls, and the build-up of "excess" employee annual leave entitlements require continuing attention.

[2] A notable exception, in the previous year, were the control weaknesses identified in RMIT University's Academic Management System, which meant we could not confirm student-related transactions and balances.

Recommendation

2. That universities and TAFE institutes regularly review:

- **access and security policies and procedures associated with their IT systems to ensure the integrity of the systems and associated data**
- **levels of employee annual leave entitlements and encourage staff to take leave owing on a timely basis.**

RESPONSE provided by Secretary, Department of Education and Training

The department supports this recommendation.

The department will address the issue with all universities and TAFE institutes requesting agencies to adopt the above recommendations.

2.5.2 Did agencies comply with the state's 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 (FMCF). The revised ministerial directions emphasise an agency's obligations to ensure that they follow sound governance and management principles.

TAFE institutes and TAFE divisions of universities are required to comply with the ministerial directions and the FMCF. While not obliged to do so, universities are also encouraged to comply with the FMCF. All agencies covered by the FMCF must provide the minister with annual certifications that they have complied with the *Financial Management Act 1994* and the associated ministerial directions. This requirement applied from the 2003-04 financial year.

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

In August and September 2004, all TAFE institutes provided the Minister for Education with certifications about the nature and extent of their compliance with the FMCF. The minister then advised the Minister for Finance that TAFE institutes had a high level of compliance with the framework, and that any partial or non-compliances would be dealt with by 30 June 2005.

The Department of Education and Training advised us that consultants have been engaged to verify compliance with the FMCF by the relevant agencies at 30 June 2005.

Conclusion

We consider that public TAFE institutes were generally complying with the state's financial management requirements, as set out in the *Financial Management Act 1994* and the associated ministerial directions.

2.5.3 Did agencies' audit and risk management committees function effectively?

It is usual practice for the governing boards of agencies to establish audit committees to help them discharge their stewardship responsibilities. These committees generally oversee, and provide the governing body with advice about financial reporting, internal control systems, and the internal and external audit functions. Increasingly, they also oversee the implementation of risk management frameworks. The directions issued by the Minister for Finance under the authority of the *Financial Management Act 1994* outline better practice for these committees.

Our recent financial audits concluded that agencies were generally complying with the ministerial directions relating to the operation of audit committees. We found that:

- the majority of agencies had audit committees, unless exempted from complying with the directions
- committee members were almost always independent, and only a few committees were not sufficiently independent of management
- committee members had the prescribed qualifications and experience to take on the required roles and responsibilities
- committees were directly accountable to governing boards under charters approved by their boards
- committees' terms of reference included oversight of internal and external financial reporting, risk management, and internal and external audit functions
- the numbers of meetings held by committees varied, but were considered adequate
- in the majority of cases, members of TAFE committees were not remunerated for their services.

Our March 2003 report *Managing risk across the public sector* found that most public sector agencies engaged in some form of risk management. At that time, we found that the general risk awareness of staff, and the quality of risk management reports to governing boards, needed to be improved.

Our recent audits found that most universities and TAFE institutes have developed, and are implementing, sound risk management policies and procedures. Management and staff have compiled risk registers, prioritised identified risks and put risk mitigation plans in place. They have provided regular reports, through audit committees, to governing boards about risk management activities and required modifications to risk management plans.

Our audits found that many agencies are continuing to integrate risk management into their governance frameworks and management review practices.

Conclusion

Generally, universities and TAFE institutes are complying with the Minister for Finance's directions (issued under the *Financial Management Act 1994)* relating to the functioning of audit and risk management committees. We had no major concerns with compliance.

Most universities and TAFE institutes are changing their cultures to accept risk management principles and practices, and integrating them into all their activities.

Recommendation

3. That universities and TAFE institutes continue the implementation of their risk management frameworks and regularly report progress to their audit and risk management committees.

RESPONSE provided by Secretary, Department of Education and Training

The department supports this recommendation.

Following the Review of University Governance (2002), universities have been requested to provide a risk management plan, and an assessment of the risks posed by controlled entities, in their annual report to parliament. The risk management plan is to also include all activities associated with core business. The minister has also established a register of persons interested in being appointed to a university council and this register is used to ensure Governor-in-Council ministerial appointments have a diverse range of skills and experience available to Councils.

2.5.4 Were agencies' internal financial management reporting practices adequate?

Similar to other public sector agencies, TAFE institutes and TAFE divisions of universities prepare internal financial management reports:

- for department heads and line managers, to help them make decisions and ensure they are achieving their goals and targets
- for governing boards and board committees, to monitor financial performance and achievement of organisational goals and targets
- for accountability to their central funding provider, and specifically to monitor achievement of goals and targets in performance and funding agreements.

Figure 2D shows the major findings of our review of internal financial management reporting practices across 4 TAFE institutes and the TAFE division of one university.

FIGURE 2D: REVIEW OF INTERNAL FINANCIAL MANAGEMENT REPORTING AT TAFE INSTITUTES

Area of review	Findings
Reporting framework	Not all agencies had a formal, documented and comprehensive framework for internal financial reporting, which outlined the scope and requirements of, and responsibilities for, reporting. Generally, there were clear links between agencies' corporate strategies and annual plans and budgets. Forecasts by agencies included in internal financial reports generally did not extend beyond the immediate reporting period.
User needs	Internal financial reports generally met the needs of councillors and senior managers. The reports were tailored to meet the specific needs of their various users. Management at all agencies reviewed, continuously improved the form and content of internal financial reports. Some agencies did not provide induction training to incoming councillors and committee members about the nature and purpose of internal financial reports. However, no councillors or committee members expressed concerns about the content of financial reports, or their ability to interpret them.
Relevance and reliability	Financial reports were generally complete and accurate. They were comprehensive, in that they provided monthly actual and budget figures, year-to-date actual and budget figures, prior year actual figures, and initial and revised annual budget figures. Reports were prepared either on a cash or accrual basis, or a combination of the two. However, management only made limited and varying use of ratios and trend data to assess the financial performance and position of their agencies.
Timeliness of reporting	Arrangements for the preparation of the internal financial reports were consistent across the agencies. Generally, the reports were produced within 5 working days of the end of the month.

Source: Victorian Auditor-General's Office.

Conclusions

The internal financial reports of the agencies we reviewed adequately met the information needs of their users. Agencies that did not report financial information on an accrual basis should do so. This would ensure that internal reports are consistent with the statutory reports, and would minimise the risk of "surprises" at year-end, accordingly.

Recommendation

4. That agencies:

- **document and formalise all aspects of their internal financial management reporting process**
- **extend their forecasting past the current financial period**
- **ensure that monthly financial reports are compiled on an accrual basis, as well as providing cash flow information.**

RESPONSE provided by Secretary, Department of Education and Training

The department supports this recommendation.

The department will forward the Auditor-General's observations to all universities and TAFE institutes and request agencies adopt the above recommendations.

2.5.5 Were agencies' systems to prevent and detect fraud adequate?

On various occasions, our past reports to parliament have raised the need for agencies to have formal fraud prevention strategies. Our reports have recommended that the risk of fraud should be an integral part of, and considered within agencies' risk management processes.

In response to our recommendations, the Office of Tertiary Training and Education (OTTE) in 2004 required TAFE institutes to comply with *Australian Standard 8001-2003: Corporate Governance - Fraud and Corruption Control*.

OTTE also required TAFE institutes to undertake internal audit checks of their fraud prevention policies and procedures. OTTE also held a fraud awareness seminar and, at the time of our audit, was reviewing TAFE performance agreements to clarify TAFE institutes' fraud control obligations.

During the course of the year, we were advised of various alleged fraudulent activities at agencies, mostly involving small sums. In many of these cases, at the time of our audit, agency and police investigations had not concluded. As part of our audits, we consider any internal control implications associated with such activities. Our next round of audits will further examine any internal weaknesses exposed by those frauds, and the adequacy of remedial management action.

Conclusion

While universities and TAFE institutes have developed and adopted fraud prevention strategies, without continual vigilance frauds will continue to occur.

Sustained leadership by senior managers is needed to maintain employee confidence in the effectiveness of fraud prevention systems.

2.6 Financial standing of Victoria's universities

2.6.1 Outline of university finances and related recent developments

There are 8 publicly-funded universities in Victoria. Four are called dual-sector institutes, because they also have TAFE divisions.

In 2004, the universities collected about $4 billion in revenues. Of this, about 85 per cent came from higher education activities and 15 per cent from TAFE activities. About 91 000 equivalent full-time students[3] were enrolled in Victorian universities, of which 70 per cent were Australian citizens and 30 per cent were overseas students.

Figure 2E illustrates the significant fall in the percentage of university revenue coming from Commonwealth Government funding, from 1996 (54 per cent) to 2003 (38 per cent)[4]. During this period, while the level of Commonwealth funding remained similar, the level of other university revenues increased significantly. Universities have raised their total fees and charges, mainly collected from increasing numbers of overseas students.

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[3] Universities calculate student numbers using the concept of "equivalent full-time student". A student doing a normal year's full-time study equals 1.0 EFTS unit. Courses taken by part-time students are fractions of one EFTS unit.

[4] Consolidated figures for 2004 (published by the Commonwealth Department of Education, Science and Technology) were not available at the time of preparing this report.

FIGURE 2E: COMPARISON OF VICTORIAN UNIVERSITY REVENUE BY SOURCE ($MILLION)

Revenue source	1996		2003	
	($m)	(%)	($m)	(%)
Commonwealth Government funding	1 127	53.78	1 210	37.76
State government funding	45	2.13	58	1.82
Higher Education Contribution Scheme	257	12.25	477	14.87
Postgraduate Education Loans Scheme and Bridging for Overseas Trained Professionals Loan Scheme	-	-	49	1.51
Fees and charges	327	15.59	837	26.11
Investment income	53	2.54	79	2.48
Consultancy and contract research	-	-	127	3.97
Other income	287	13.71	368	11.48
Total revenue from ordinary activities (excluding deferred super)	2 096	100.00	3 205	100.00

Source: Department of Education, Science and Technology, Commonwealth Government. Figures for 2004 were not available at the time of preparing this report.

Between 1996 and 2003, university expenditures increased from about $2 billion to about $3 billion. A major factor in this increase was increased staff costs. At the same time, universities' total operating surpluses increased from $109 million in 1996 to $204 million in 2003.

From the start of 2005, the Commonwealth Government allowed universities to increase their Higher Education Contribution Scheme charges by up to 25 per cent. Victoria's universities have subsequently raised their fees, to varying degrees. This will generate an estimated $38.4 million extra in 2005, rising to $93.9 million by 2008. Figure 2F breaks down this total, by university.

FIGURE 2F: ESTIMATED ADDITIONAL REVENUE TO BE GENERATED FROM INCREASES IN HIGHER EDUCATION CONTRIBUTION SCHEME FEES, 2005

Institution	Estimated students paying higher fees	Additional revenue ($m)
Deakin University	5 176	4.7
La Trobe University	5 793	6.1
Monash University	7 944	9.0
RMIT University	4 946	5.6
Swinburne University of Technology	2 025	1.5
University of Ballarat	1 265	1.1
The University of Melbourne	7 026	7.9
Victoria University of Technology	3 669	2.5
Total for Victoria	37 844	38.4

Source: Estimates provided by the Commonwealth Department of Education, Science and Training.

In March 2005, the Commonwealth Government announced legislation to abolish compulsory student union fees at universities. Student union fees are used to provide a range of counselling and welfare services, as well as sporting and cultural activities and facilities. Victorian university students will pay more than an estimated $51 million in student union fees in 2005, with fees ranging from $258 to $500, depending on the university involved.

The future impact on university finances of the new Commonwealth funding arrangements will depend on the extent to which universities can maintain services on a fee-for-service basis. The abolition of compulsory student union fees will pose a risk that universities will need to address.

2.6.2 Financial performance of higher education divisions of universities

Figure 2G shows the aggregate key financial information for Victorian universities' higher education divisions at 31 December 2004, compared with the previous 2 years.

FIGURE 2G: AGGREGATE KEY FINANCIAL INFORMATION FOR UNIVERSITIES' HIGHER EDUCATION DIVISIONS

Items		2004	2003	2002
Operating surplus	($m)	141	200	112
Net cash flows from operating activities	($m)	355	413	327
Working capital (at 31 December) -				
Current assets less current liabilities	($m)	69	33	65
Ratio		1.12	1.06	1.13

Source: Victorian Auditor-General's Office, audited financial statements of university higher education divisions.

Universities' overall reported operating surpluses (for their higher education divisions) deteriorated in 2004, having been affected by the revised timing of the payment and recognition of government grants. Up to 31 December 2004, universities received a 1/24th instalment of the following year's funding in December of the preceding year. Under the revised timing arrangements, all grants for 2005 will be paid in 2005. However, 2 universities did receive cash advances from the Commonwealth Government in December 2004 to fund their working capital requirements.

Figure 2H shows summary financial information for the 4 single-sector universities and for the higher education divisions of the 4 dual-sector universities. It shows that universities in 2003 and 2004 generally generated positive cash flows from their operating activities, and also generally continued to have favourable working capital positions.

FIGURE 2H: SUMMARY FINANCIAL INFORMATION FOR UNIVERSITIES AND DUAL-SECTOR UNIVERSITIES' HIGHER EDUCATION DIVISIONS ($'000)

Agency	Operating result from ordinary activities		Net cash inflows (outflows) from operating activities		Positive (negative) working capital position	
	2004	2003	2004	2003	2004	2003
University (stand-alone) -						
Deakin University	10 472	21 419	35 358	63 690	25 693	46 073
La Trobe University	2 356	9 667	33 351	38 628	18 864	40 427
Monash University	38 479	25 860	60 246	77 214	(76 487)	(63 500)
The University of Melbourne	76 257	62 085	161 923	120 768	71 918	(12 650)
University (higher education) -						
RMIT University	(18 614)	28 327	34 296	32 096	(51 590)	(30 696)
Swinburne University of Technology	8 887	21 411	(796)	38 646	31 292	33 563
University of Ballarat	6 363	7 261	15 175	17 154	15 118	8 242
Victoria University of Technology	17 156	23 843	30 410	42 016	35 875	30 388
Total	141 356	199 873	369 963	430 212	70 683	51 847

Source: Audited financial statements for Victoria's universities.

The figure shows that all universities and higher education divisions generated operating surpluses, except for RMIT University. It had a significant deterioration in its operating result, from a surplus of $28.3 million to a deficit of $18.6 million (higher education division only). RMIT University also reported a consolidated operating deficit from ordinary activities of $25.1 million and a consolidated negative working capital (excess of current liabilities over current assets) position of $36.8 million.

In 2004, all universities and higher education divisions, except Swinburne University[5], reported significant cash inflows from operating activities. Two universities (Monash University and RMIT University) had significant negative working capital positions.

The deterioration in Monash University's working capital position at 31 December 2004 was mainly due to the change in timing of commonwealth funding, whereby a grant instalment which was previously payable in December 2004 was paid to the university early in the new year in 2005.

While Monash University reported a negative working capital position at 31 December 2004, it also holds significant long-term investments (with a consolidated value of around $220 million) which are realisable, if required. These funds are managed so as to provide higher returns, whilst in a form that makes them available to meet working capital requirements.

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[5] The operating cash flows of Swinburne University were affected by a number of one-off factors in 2004, including the impact of changed Commonwealth Government funding arrangements.

The turnaround in RMIT University's operating result was due to a number of items, including the change in accounting treatment and timing for Commonwealth Government grants, providing for the non-recovery of student debtors considered doubtful in 2003, a surplus on the sale of a property in 2003, restructuring costs and reduced capital grants in 2004.

In December 2004, RMIT University announced a 3-year financial recovery plan expected to achieve a $40 million surplus in 2007. The plan provided for the streamlining of complex processes in the university, and for reducing staff numbers through natural attrition.

Conclusion

Aside from RMIT University, the financial performance and position of single-sector universities and the higher education divisions of dual-sector universities is positive.

2.6.3 Financial performance of university-controlled entities (including subsidiaries)

As mentioned earlier in this part of the report, 92 of the 132 agencies we audited this audit round are controlled by universities and TAFE institutes. Figure 2I lists all such entities with more than $10 million in revenues, expenses, assets or liabilities, at 31 December 2004.

FIGURE 2I: SUMMARY FINANCIAL INFORMATION FOR MAJOR UNIVERSITY-CONTROLLED ENTITIES, FOR YEAR ENDED 31 DECEMBER 2004 ($'000)

Entities	Revenue	(Expenses)	Surplus/ (deficit) (a)	Assets	(Liabilities)	Equity
Monash University -						
Monash International Pty Ltd	46 952	(41 298)	5 654	19 353	(13 121)	6 232
Monash University Foundation	17 617	(422)	17 195	127 661	(3 440)	124 221
Monash University South Africa	4 913	(17 181)	(12 268)	4 367	(40 204)	(35 837)
Monash Commercial Pty Ltd	4 467	(6 714)	(2 247)	6 688	(3 367)	3 321
Monash Southern Africa Pty Ltd	1 593	(2 052)	(459)	32 279	(18 760)	13 519
Monash IVF Pty Ltd	20 381	(16 481)	3 900	17 562	(8 125)	9 437
RMIT University -						
RMIT International Pty Ltd	17 396	(17 793)	(397)	3 542	(3 366)	176
RMIT Training Pty Ltd	15 115	(14 519)	596	11 065	(7 240)	3 825
RMIT Vietnam Holdings Pty Ltd	2 613	(3 740)	(1 127)	23 459	(5 727)	17 732
RMIT International University Vietnam	8 725	(9 599)	(874)	25 283	(16 786)	8 497
La Trobe University -						
Medical Centre Development Pty Ltd	1 522	(2 634)	(1 112)	21 931	(28 177)	(6 246)
The University of Melbourne -						
Victorian College of the Arts	26 228	(26 745)	(517)	109 021	(15 644)	93 377
Melbourne Business School Ltd	55 049	(48 818)	6 231	132 535	(5 433)	127 102
Melbourne University Private Limited	40 412	(44 213)	(3 801)	50 055	(14 606)	35 449
MU Student Union Limited	12 694	(10 355)	2 339	5 053	(2 714)	2 339
Deakin University -						
Callista Software Services Pty Ltd	11 633	(13 768)	(2 135)	3 593	(2 723)	870
Total	**287 310**	(276 332)	10 978	593 447	(189 **433**)	**404 014**

(a) Refers to the operating results after income tax.

Source: Audited 2004 financial statements for the listed entities.

The above 16 controlled entities, together, contribute about some 6 to 10 per cent of the total revenues, expenses, assets and liabilities of the universities, but collectively generate a moderate operating profit. That is, revenues of $287 million and net assets invested of $404 million resulted in a reported profit of $11 million for 2004. Further, if Monash University Foundation (a low-risk investment management vehicle) is excluded from the total, all controlled entities combined incurred an aggregate deficit of about $6.2 million in 2004.

In 2004, 10 of the 16 controlled entities included in the above figure had operating losses, with entities in the Monash University group having the largest surpluses and deficits.

Monash International Pty Ltd (which provides international recruitment services and access programs) generated a surplus of $5.7 million in 2004. Notwithstanding a "softening" of the market for international education services (as identified by universities), it generated increased fees from Monash University for services provided.

Monash University Foundation generated investment income and a surplus of $17.2 million in 2004. Its gain on the value of managed investments in 2004 was significantly higher than for 2003, reflecting better investment conditions.

Monash Commercial Pty Ltd is a holding company for the university's property management, training and professional development and services operations. It also commercialises the university's intellectual property. These activities typically have volatile results. They generate losses during the development phase, before the benefits are realised. Gains are often generated by the sale of controlled entities in which the intellectual property has been developed, rather then generating operating revenues.

Monash University South Africa provides education services in buildings constructed by Monash Southern Africa Pty Ltd. In 2004, Monash University South Africa had a deficit of $12.3 million and Monash Southern Africa Pty Ltd had a deficit of $0.5 million. These 2 entities have incurred significant operating losses since the construction of a campus in Johannesburg in 2001.

Monash University in South Africa

The Monash University South Africa project involved the construction in 2000 and 2001 of a campus at Roodepoort, 20 kilometres north-west of central Johannesburg. The South African campus is wholly-owned and managed by Monash University. The project's original (1999) business plan estimated that the campus' operations would become profitable in 2005 and the project would break-even in 2008.

Over the past 5 years, expenditure has been greater than income because of significant start-up costs, lower than required student numbers and high operating costs. Figures 2J and 2K show the project's financial results from 2000 to 2004.

FIGURE 2J: MONASH UNIVERSITY SOUTH AFRICA, FINANCIAL RESULTS ($'000)

Year	Operating (loss)	Revenue	Expenditure	Foreign exchange gain/(loss)	Assets	Liabilities	Equity
2004	(12 268)	4 913	(13 259)	(3 922)	4 367	40 204	(35 837)
2003	(8 559)	3 167	(12 758)	1 032	2 736	26 305	(23 569)
2002	(9 802)	1 155	(8 093)	(2 864)	2 992	18 002	(15 010)
2001	(2 710)	414	(6 454)	3 330	2 385	7 592	(5 208)
2000	(2 497)	5	(2 502)	-	1 039	3 536	(2 947)
Total	(35 836)	9 653	(43 065)	(2 424)	n.a.	n.a.	n.a.

Source: Audited financial statements for Monash University South Africa (the operating agency).

FIGURE 2K: MONASH SOUTHERN AFRICA PTY LTD, FINANCIAL RESULTS ($'000)

Year	Operating profit (loss)	Revenue	Expenditure	Foreign exchange gain/(loss)	Assets	Liabilities	Equity
2004	(459)	1 593	(1 408)	(644)	32 279	18 760	13 519
2003	(74)	1 713	(2 501)	714	24 951	18 056	6 895
2002	(2 081)	661	(1 206)	(1 536)	16 785	(10 925)	5 861
2001	694	536	(1 285)	1 443	9 807	5 074	4 733
2000	(22)	36	(58)	-	6 468	6 489	(21)
Total	(1 941)	4 539	(6 457)	(23)	n.a.	n.a.	n.a.

Source: Audited financial statements for Monash Southern Africa Pty Ltd (the property holding company).

Monash University funds the project's entire loss and has issued Monash University South Africa with a letter of financial support. This ensures it continues to be considered as a going concern in financial terms: in other words, that it has the capacity to meet its debts when they fall due.

Monash University's total exposure to the project at 31 December 2004 was a net deficiency $22.3 million, being the combined equity (negative) of Monash University South Africa and Monash Southern Africa Pty Ltd. This takes into account the value of the land and buildings in South Africa, which have increased in value by more than $13.5 million since 2000. The loans (interest-free from 2004) owing by these entities to Monash University amounted to $55.6 million at 31 December 2004, up from $40.5 million at the previous year-end.

Following a review of the project's business plan in May 2004 by an independent consultant engaged by Monash University, the university decided to continue to support the South Africa campus, subject to certain performance criteria being met (relating to student numbers and financial performance). That review predicted that a further $20 million would need to be invested by the university before the campus became self sufficient.

Following the above review, Monash University has taken a number of steps in an effort to reduce costs and increase student numbers. In particular, it has:

- appointed a new Pro Vice-Chancellor for, and revised the organisational structure of, Monash University South Africa
- terminated a "cost-plus" contract for the provision of infrastructure services, which will now be internally managed
- commenced discussions with external agencies to provide loan funding to students
- commenced major marketing efforts to raise student numbers
- completed a new academic building in 2004 to provide additional teaching and academic capacity
- planned for new student accommodation to be built by a private operator.

Conclusion

Offshore campuses, research development and commercial activities by universities are inherently high-risk ventures. Some of these ventures can, and have, resulted in substantial losses. Many are not generating adequate returns on investment.

Overseas projects in particular can be exposed to a high level of risk, such as changes in foreign governments and their policies (which may not support Australian operations), and to greatly fluctuating exchange rates. Further, universities may not be able to readily divest themselves of overseas assets. Similar results could possibly be achieved with lower risk and more flexible strategies that do not require such large investments.

Monash University South Africa continues to incur significant operating deficits, partly offset by gains in property values. On the basis of the financial results to date, Monash University's South Africa project will not meet either the target profitability date, or the target break-even date, in its original (1999) business plan. If trends to date continue, it will continue to incur losses, although the extent of such losses should reduce as a result of various actions taken by the university.

Recommendation

5. That all major high-risk ventures by universities have adequate risk management strategies and plans that seek to protect them from significant losses.

RESPONSE provided by Secretary, Department of Education and Training

The department supports this recommendation.

The primary purpose of offshore delivery is to generate net revenue to support the domestic activities of Victorian universities.

RESPONSE provided by Vice Chancellor, Monash University

In Monash's view, the purpose of the campus is to enhance the international perspective and experience of its students and staff; to build enduring educational, research, trade and other forms of economic links with Africa; and to enhance the international standing and relevance of Monash. Monash also intends to engage with the government and people of Africa to ensure that it plays a small part in advancing human rights, social justice and a sustainable environment. Monash University plans to do this in a way which over time is cost neutral in net financial terms from the viewpoint of Monash University, but which will return the enormous indirect benefits envisaged above.

The reference by the Auditor-General to the 1999 business plan is irrelevant as this has been extensively revised in response to the external consultant's report in 2004.

Monash has established a steering committee for Africa and is monitoring the campus's performance carefully. Student enrolments for 2005 are well ahead of those projected in the external consultant's report (764 versus 579 on the consultant – based plan).

2.7 Financial standing of Victoria's TAFE institutes

2.7.1 Outline of TAFE finances and related recent developments

Victoria's 18 TAFE institutes are the state's major providers of vocational education and training. In 2004, these government-owned and funded institutes provided 80 per cent of the state's total training effort. Four of the 18 institutes are associated with universities. Swinburne, RMIT, Victoria and Ballarat universities are dual-sector universities with separate TAFE divisions. The University of Melbourne's Institute of Land and Food Resources also provides land and food programs through its School of Vocational Education and Training.

TAFE institutes have total annual revenues and expenditures of about $1 billion, total assets of about $2 billion and total liabilities of about $0.2 billion. The TAFE asset portfolio includes over 1 000 buildings, with an average age of 22 years.

Governments provide about 67 per cent of TAFE institutes' revenue. Of this, the Victorian Government provides about 70 per cent and the Commonwealth about 30 per cent. Annual performance and funding agreements between each institute's council and the Victorian Learning and Employment Skills Commission specify the student contact hours to be delivered by the institute, and funding to be provided per student contact hour. In 2004, TAFE institutes delivered over 89 million student contact hours of training, of which 63.4 million hours were government-funded.

Victorian TAFE institutes receive the lowest government funding per student contact hour of any jurisdiction in Australia. In 2003, Victorian TAFEs received $11.80 ($11.16 in 2002) per student contact hour, compared with the national average of $13.76 ($13.13 in 2002).

Institutes' other major source of revenue are fees for services, including some services funded by Commonwealth programs and initiatives. In 2004, fee-for-service activity accounted for 30 per cent (or 25.7 million hours) of the student contact hours delivered by TAFE institutes, and about 19 per cent of total revenue. Over one-quarter of this revenue came from full-fee-paying overseas students.

TAFE institutes also receive revenue from student fees and charges (about 5 per cent) and from ancillary trading and other miscellaneous sources (about 7 per cent).

In 2004, the Victorian Minister for Education and Training allowed TAFE institutes to increase student fees by 25 per cent, bringing the fee per student contact hour from $1.00 to $1.25. Fees will also be indexed each year. This is the first increase in student fees since 1995. Figure 2L shows TAFE student fees in 2004.

FIGURE 2L: VICTORIAN STUDENT FEES, 2004

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

Source: OTTE.

While the revised fees are similar to other states and territories, Figure 2M shows that the Victorian maximum fee is lower than for other states.

FIGURE 2M: INTERSTATE MAXIMUM FEE COMPARISONS, 2004 ($)

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

Source: OTTE.

Victoria's current student contact hour funding does not fully cover the costs of delivery, including the cost of depreciation, teaching equipment, course development and support for early school leavers and people with disabilities.

The (Victorian) Department for Education and Training does not fund depreciation, but instead makes grants for capital equipment and assets. The department makes all decisions about replacing assets. While this has some benefits, it reduces the ability of institutes to manage their assets and thus to provide services on a certain and sustainable basis.

2.7.2 How sound was the financial condition of TAFE institutes?

In our previous reports to parliament on the results of financial statement audits, we have assessed the financial condition of public sector agencies against the 4 indicators of financial performance shown in Figure 2N.

FIGURE 2N: INDICATORS OF FINANCIAL PERFORMANCE

Indicator	Notes
Operating result for year	A deficit results if revenues do not cover operating costs. Ongoing deficits may indicate underfunding or inability to contain costs.
Operating result (excluding capital grants)	TAFE institutes 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 TAFE institute will not be able to meet its financial obligations as and when they fall due.

Source: Victorian Auditor-General's Office.

Our June 2001 *Report on Ministerial Portfolios* and *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* included assessments of the financial condition of Victoria's TAFE institutes. The June 2001 report concluded that 4 of the institutes were operating under financial difficulties (that all 4 indicators were unfavourable), at 31 December 2000. As explained in our May 2004 report, this had reduced to one provider at 31 December 2003.

Figure 2O shows the aggregate key financial information for TAFE institutes at 31 December 2004, compared with the previous 2 years.

FIGURE 2O: KEY FINANCIAL RESULTS FOR TAFE INSTITUTES

		31 December 2004	31 December 2003	31 December 2002
Operating result -				
Operating surplus/(deficit), including capital grants	($m)	43	60	44
Operating surplus/(deficit), excluding capital grants	($m)	(41)	(42)	(48)
Net cash flows from operating activities, excluding capital grants	($m)	46	18	24
Working capital -				
Current assets less current liabilities	($m)	104	105	95
Ratio		1.90	1.94	1.82

Source: Summary information was drawn from audited financial statements of TAFE institutes.

The above figure shows that the operating results for TAFE institutes, as well as their cash flows and working capital, have been fairly stable over the past 3 years.

When the operating result is adjusted to exclude capital grants, the sector's operating result is negative. This has been the case for a number of years.

The working capital ratio of the TAFE sector is robust at 1.90. However, this is substantially the result of the high level of working capital held by a few TAFE institutes (Box Hill, Holmesglen, Swinburne University - TAFE division and Victoria University - TAFE division), as shown in the far right column of the figure below.

The sector's net cash flows from operating activities (excluding capital grants) has been relatively stable over the past 3 years: in other words, the gap between cash inflows and outflows from operating activities has not changed much. This gap is important, because it indicates whether or not an institute can meet its future financial obligations as and when they fall due.

Figure 2P shows key financial information for each of Victoria's 18 TAFE institutes over the past 2 years.

FIGURE 2P: KEY FINANCIAL INFORMATION FOR TAFE INSTITUTES ($'000)

Agency	Operating result from ordinary activities, including funding for capital purposes		Operating result from ordinary activities, excluding funding for capital purposes		Net cash inflows (outflows) from operating activities, excluding funding for capital purposes		Positive (negative) working capital position	
	2004	2003	2004	2003	2004	2003	2004	2003
TAFE -								
Bendigo Regional	(461)	(94)	(2 658)	(1 904)	212	(233)	1 321	1 868
Box Hill (consolidated)	5 709	10 061	(989)	314	6 149	7 749	9 175	14 323
Central Gippsland	645	152	(1 665)	(2 151)	1 341	(117)	2 076	723
Chisholm	7 326	(361)	(1 284)	(4 379)	2 151	(207)	(2 341)	(5 615)
East Gippsland	855	3 959	(1 328)	(1 635)	1 321	271	617	1 195
Gordon	12 109	4 359	(1 083)	(799)	1 262	1 164	6 055	9 734
Goulburn Ovens	1 079	1 463	(2 488)	(2 004)	1 008	830	4 173	4 101
Holmesglen (consolidated)	4 748	6 480	(102)	125	10 329	7 381	30 428	34 586
Kangan Batman	4 329	2 287	519	(3 485)	5 701	1 689	5 980	1 613
Northern Melbourne	1 987	16 352	(6 035)	(5 451)	2 918	232	6 208	7 198
South West	2 155	3 767	(1 665)	(1 417)	890	885	2 782	1 800
Sunraysia (consolidated)	2 126	3 981	(1 570)	(1 240)	431	90	1 472	3 296
William Angliss (consolidated)	527	802	(1 446)	(1 318)	2 250	1 383	1 049	1 814
Wodonga	(386)	1 700	(2 077)	(1 615)	259	792	87	815
Subtotal	42 748	54 908	(23 871)	(26 959)	36 222	21 909	69 082	77 451
University (TAFE division only) -								
RMIT University	(5 831)	8 306	(8 804)	(1 577)	453	(1 134)	1 851	6 690
Swinburne University of Technology	1 646	(2 816)	(1 182)	(6 037)	6 993	(6 629)	15 575	10 812
University of Ballarat	(1 165)	542	(2 248)	(967)	2 884	2 489	4 006	2 655
Victoria University of Technology	3 225	(1 033)	(5 135)	(6 043)	1 476	1 094	13 830	8 493
Subtotal	(2 125)	4 999	(17 369)	(14 624)	11 806	(4 180)	35 262	28 650
Total	40 623	59 907	(41 240)	(41 583)	48 028	17 729	104 344	106 101

Source: TAFE institutes' annual audited financial statements.

For 2004, 5 TAFE institutes (Bendigo, Chisholm, Wodonga, and RMIT University's and University of Ballarat's TAFE divisions) showed some signs of financial difficulty. For each of these, 2 of the key financial indicators were negative. Unlike the situation we reported in June 2001 and May 2004, no TAFE institutes had 4 unfavourable indicators for 2004.

The indicators of some institutes fluctuated widely from one year to the next. For example, the indicators for RMIT University's TAFE Division deteriorated, while those of Swinburne University's TAFE division improved.

RESPONSE provided by Secretary, Department of Education and Training

The department notes that the Institute of Land and Food Resources at the University of Melbourne is not defined as a TAFE institute under the Vocational Education and Training Act 1990 or as a formal TAFE Division under the Acts related to The University of Melbourne. However, the department and the Victorian Learning and Employment Skills Commission have consistently reported on, and provided funding to, the Institute of Land and Food Resources as a TAFE Division within The University of Melbourne (as a dual sector institute) through a defined TAFE performance agreement.

Improvement at Chisholm Institute of TAFE

Our June 2001 and May 2004 reports made specific reference to the Chisholm Institute of TAFE, the one institute with 4 unfavourable indicators between 2000 and 2004.

Figure 2Q shows Chisholm's financial performance in the last 5 years against the 4 indicators of financial condition.

FIGURE 2Q: CHISHOLM INSTITUTE OF TAFE, KEY FINANCIAL RESULTS

		2004	2003	2002	2001	2000
Operating result -						
Operating surplus/(deficit), including capital grants	($'000)	7 326	(361)	6 515	2 847	(3 069)
Operating (deficit), excluding capital grants	($'000)	(1 284)	(4 379)	(986)	(4 212)	(9 983)
Net cash flows from operating activities, excluding capital grants	($'000)	2 151	(207)	(1 006)	(1 640)	(4 051)
Working capital -						
Current assets less current liabilities	($'000)	(2 341)	(5 615)	(6 050)	(7 012)	(10 221)
Ratio		0.69	0.38	0.40	0.47	0.38

Source: Chisholm Institute of TAFE 2000 to 2004 audited financial statements.

The figure shows that Chisholm's overall financial performance and position has improved over the 5-year period. For the 4 years to 31 December 2003, Chisholm achieved unfavourable results for all 4 indicators. For 2004, Chisholm only achieved unfavourable results for 2: operating result excluding capital grants, and working capital.

The Victorian Learning and Employment Skills Commission and Chisholm have entered into an agreement (in the form of a sustainability plan) under which the government will invest up to $7 million over 2 and a half years to assist Chisholm to become financially viable by the end of 2006.

Chisholm has had major restructuring between 2001 and 2004, which has contributed to the turnaround in its financial position. It has:

- reduced the number of levels of management
- reduced staff numbers using voluntary departures packages
- rationalised campuses
- closed interstate and some unprofitable commercial operations
- consolidated maintenance and security contracts
- increased profitable fee-for-service activity.

For 2005, Chisholm has projected an operating surplus of $2.4 million (excluding capital grants) and a positive working capital position.

At the time of our audit, OTTE was monitoring Chisholm's financial reports monthly. Chisholm's executive also meets with OTTE monthly to discuss the institute's financial progress and to review its end-of-year projections compared with the agreed sustainability plan.

Conclusion

Over the medium to long-term, an agency generally needs a positive working capital ratio, operating surplus and net cash inflow from operating activities to be financially viable. Considering the nature and level of current government funding, the overall financial performance and condition of the TAFE sector is currently reasonably sound, but may not be sustainable without changes to the current government funding arrangements for TAFE institutes.

In 2004, 17 of Victoria's 18 TAFE institutes and divisions operated at a deficit, excluding funding provided for capital purposes. The aggregate operating deficit for the sector, excluding capital funding, was similar to that in 2003.

On a more positive note, the 5 TAFE institutes that had net cash outflows from operating activities (excluding capital funding) in 2003 had cash inflows in 2004.

Recommendation

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

RESPONSE provided by Secretary, Department of Education and Training

The department notes this recommendation.

The Ministerial Statement "On the Future Directions for the Victorian VET System" emphasised the need for increased investment in training in order to ensure the financial viability of TAFE institutes. The department believes that the current financial position of TAFE institutes (as a whole) is sound. The Victorian Government has contributed significant additional funding to TAFE institutes since 2003 without equivalent support from the Commonwealth Government. The Department of Education and Training, together with the Department of Treasury and Finance, is currently working on assessing funding arrangements to TAFE institutes.

2.8 Financial viability of alpine resort management boards

In 1998, 6 alpine resort management boards were established in Victoria under the *Alpine Resorts (Management) Act 1997* to manage the alpine resorts at Falls Creek, Lake Mountain, Mt Baw Baw, Mt Buller, Mt Hotham and Mt Stirling. The objectives of the boards include to:

- plan for the proper use and development of the land they manage
- develop resorts that primarily provide quality alpine recreation and tourism experiences in all seasons of the year
- conduct their business in an ecologically, economically, culturally and socially responsible manner.

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

Our May 2004 *Report on Public Sector Agencies*[6] commented on the financial viability of these alpine resorts, particularly the smaller resorts of Lake Mountain, Mt Baw Baw, and Mt Stirling. The Department of Sustainability and Environment indicated, at that time, that the government intended to amalgamate the Mt Stirling Alpine Resort Management Board with Mt Buller Alpine Resort Management Board, and would continue to support the 2 other small resorts.

[6] Victorian Auditor-General's Office, *Report on Public Sector Agencies – Results on Special reviews and financial statement audits for agencies with 2003 balance dates other than 30 June*, May 2004.

In May 2004, the *Alpine Resorts (Management) Act 1997* was amended. Consequently, from 1 November 2004, both the Mt Buller and the Mt Stirling boards ceased to exist. Under the amendments, a new board known as the Mt Buller and Mt Stirling Alpine Resort Management Board was established. The new board is responsible for the management of the Mt Buller and Mt Stirling Alpine resorts.

Other reforms rolled-out across the industry in 2004 have included the requirement of each alpine board to establish:

- a "seasonal snow-drought fund" to maintain cash flow capacity for poor snow seasons
- a "capital investment fund" to finance asset maintenance and replacement.

While 2004 was an excellent snow season, with visitor numbers well up on the prior year, not all alpine boards were able to establish a seasonal snow-drought fund and or a capital investment fund. This indicates the long-term financial viability of the smaller alpine resort boards (Lake Mountain and Mt Baw Baw) remains an issue.

The completion of alpine resort management board financial statements for the year ended 31 October 2004 has been delayed. This is due to a decision by these agencies to undertake detailed revaluations of their major assets, to allow them to more accurately report their values. At the time of preparing this report, the audited financial statements for only one management board (Lake Mountain) had been completed. The remaining boards had not yet finalised their financial statements. Accordingly, we were unable to provide, in this report, a detailed analysis of financial outcomes for 2004.

Conclusion

Given the annual operating results achieved by the alpine resort management boards is largely driven by annual snow conditions, it is important for the financial condition of these boards to be closely monitored.

The Department of Sustainability and Environment is continuing its efforts to improve the financial performance and position of the 5 alpine resort management boards. The construction of new visitor facilities and amenities during the past 12 months should assist in attracting visitors to the alpine area, not only during the snow season but all year round. This, in turn, should improve the financial viability of these resorts.

RESPONSE provided by Acting Secretary, Department of Sustainability and Environment

I accept the conclusions that it is important for the financial condition of boards to be closely monitored and that construction of new visitor facilities and amenities should assist in attracting visitors and in improving financial viability of resorts.

It should be noted that, in relation to improving the long-term viability of the smaller boards (Lake Mountain and Mt Baw Baw), the department is working closely with the boards to improve the financial and operational performance and is closely monitoring the results.

2.9 Implementation of new accounting standards by universities and TAFE institutes

On 30 June 2004, new Australian accounting standards were introduced to harmonise Australian standards with International Financial Reporting Standards (IFRS). The new Australian standards (A-IFRS) apply to reporting periods starting on or after 1 January 2005.

Agencies with 31 December balance dates will be the first agencies to prepare financial statements that comply fully with A-IFRS. The 2004 financial statements for these agencies were prepared under the then-existing Australian accounting standards. Their 2005 financial statements will be prepared under A-IFRS, and 2004 figures reported in 2005 financial statements for comparative purposes will be re-stated on an A-IFRS basis.

Our audits found that, in compliance with A-IFRS standards, most agencies with reporting dates other than June 30 undertook an analysis to determine which of the A-IFRS was likely to impact on the information reported in their financial statements, and noted in their 2004 financial statements the outcomes of their analysis. Agencies were encouraged to quantify the impact also, despite this not being a requirement. However, few agencies quantified the likely financial impacts.

The main standards that agencies noted in their financial statements as likely to have impact related to:

- the valuation and impairment of property, plant and equipment
- the recognition of defined benefit superannuation asset or liability
- accounting for income tax asset and liability
- the use of foreign currency exchange rates
- the recognition and measurement of financial instruments

- the classification of investment property
- the decision to capitalise or not capitalise borrowing costs on constructed assets.

Conclusion

The general lack of quantification by universities and TAFE institutes, in their 2004 financial statements, of the estimated financial impacts of A-IFRS suggests that they have not yet finalised their preparatory work for reporting on an A-IFRS basis in their 2005 financial statements.

Recommendation

7. That all universities and TAFE institutes complete their analyses of the financial impacts of A-IFRS, as a matter of priority, to ensure they are well placed to meet their reporting obligations for the financial year ending 31 December 2005.

RESPONSE provided by Secretary, Department of Education and Training

The department supports this recommendation.

The department will address the issue with all universities and TAFE institutes requesting compliance to timelines.

2.10 Performance reporting by TAFE institutes

As a consequence of more than a decade of reforms to the national vocational education and training system, Victoria's TAFE institutes are now much more exposed to competition than previously, and must operate in a more commercial manner. This has made the use of performance indicators in decision-making processes increasingly important.

In May 2004, the Minister for Finance issued Financial Reporting Direction (FRD) 27 *Presentation of Reporting and Performance Information*. It requires certain agencies to prepare statements of performance, and include them in their annual reports. This includes:

- performance targets and indicators determined by the responsible minister
- reporting actual results 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.

TAFE institutes are currently required to report against numerous indicators to the Office of Training and Tertiary Education (OTTE). Some of this performance information is included in OTTE's yearly report, *Selected TAFE institute measures for the Victorian State Training Network*. However, FRD 27 does not apply to TAFE institutes, which are not required to report their performance against the targets or indicators contained in their strategic or operational plans.

We examined the performance indicators used by 4 TAFE institutes and one dual-sector university. They were the Holmesglen Institute of TAFE, Box Hill Institute of TAFE, Northern Melbourne Institute of TAFE, William Angliss Institute of TAFE and Victoria University of Technology (dual-sector). We did so to determine if the performance indicators were relevant, appropriate and fairly presented.

To be relevant, performance indicators:

- should be high-level and relate to an institute's objectives, targets or goals (which are linked to the outcomes that the government expects)
- should be publicly-available.

To be appropriate, an indicator should provide enough information to enable the reader to evaluate how well the institute has achieved its objectives, targets or goals. This information might show:

- trends in performance over time
- performance relative to the performance of similar agencies
- performance relative to benchmarks.

Indicators and performance information should be accompanied by notes to help the reader draw meaningful conclusions about the institute's performance.

To be fairly presented, performance information should:

- be capable of being measured
- represent consistently and without bias what it purports to indicate
- be accurate and auditable.

2.10.1 Were performance indicators relevant?

All the indicators against which the institutes are required to report to OTTE had a logical and consistent relationship with each institute's strategic and annual business plans.

Some institutes audited also included other performance indicators related to the objectives in their strategic plans. Where they had done so, the indicators had a logical and consistent relationship with the institutes' strategic and annual business plans.

Although institutes reported their performance against numerous indicators to OTTE, they did not report this information in their annual reports.

2.10.2 Were performance indicators appropriate?

Most of OTTE's indicators were short-term, annual indicators of service delivery. Some were indicators of an institute's long-term financial position.

The information provided against performance indicators was useful, in that all institutes investigated issues that had been identified as a result of performance information, and used the results to make decisions. This is consistent with the purpose of performance indicators: to help managers make decisions.

2.10.3 Were performance indicators fairly presented?

All the performance indicators against which institutes are required to report to OTTE were capable of being audited. Internal auditors and various government agencies assess annual reports of performance indicators, prepared by institutes, annually.

All the institutes audited maintained basic data collection systems. Most institutes collected data from their various divisions and entered it manually into spreadsheets.

All the institutes told us they had quality training systems and complied with ISO 9000 quality assurance systems to ensure that the data they collected was accurate.

The data systems at the audited institutes provided adequate information to report performance against the performance indicators.

None of the institutes audited used software to collate the data from their divisions. However, Box Hill TAFE planned to do so. It expects its software will report performance against institute-wide or business unit targets in the institute's business plan.

2.10.4 Audit conclusion

None of the institutes we audited as part of this review included performance indicators in their latest annual reports. Most included statements about the positive aspects of what they had achieved in their annual reports, but did not publish targets or compare results with them.

All the institutes audited used the indicators against which they are required to report to OTTE to manage their business.

Recommendations

8. **That the Office of Training and Tertiary Education, through the responsible minister, mandate the application of FRD 27 *Presentation of Reporting and Performance Information* by Victoria's TAFE institutes for 2005.**
9. **That TAFE institutes, in consultation with the Office of Training and Tertiary Education, publish information about their performance against key performance indicators in their annual reports.**

RESPONSE provided by Secretary, Department of Education and Training

The department supports these recommendations.

The department will liaise with all universities and TAFE institutes on developing key performance indicators, using FRD 27 as a guide, for publication.

3. Sheriff's Office enforcement of warrants

3.1 Audit conclusions

Our past reports to parliament[1] have expressed concerns about a continuing increase in outstanding fines and fees, decreased collection rates, and increased bad and doubtful debts at the Enforcement Management Division (EMD) of the Department of Justice.

Based on the department's records, around 78 per cent of all fines and fees raised are cleared (by cash or non-cash means) within 112 days from the date they are raised[2]. Warrants are generally issued after that time for the Sheriff's Office (which forms part of the EMD) to commence action to recover the remaining outstanding amounts. This audit examines how effective the Sheriff's Office has been in actioning and clearing these warrants, over the 9-year period to 30 June 2004.

The audit found that the total value of outstanding fines and fees has increased by 156 per cent over the past 9 years (from $271 million at 30 June 1995 to $694 million[3] at 30 June 2004). The cumulative level of bad debt write-offs has also increased, from $43 million in 1994-95 to $160 million in 2003-04. However, over the same period, there has been a 4-fold increase in the value of fines and fees raised.

Of the $694 million outstanding at 30 June 2004, almost 80 per cent had reached the warrant stage and 63.4 per cent ($351.5 million) was considered by the department as unlikely to be collected, and was provided for in the department's financial report. While the clearance rate for outstanding fines and fees at the warrant stage has improved since 2001-02 (from 6.4 per cent in 2001-02 to 16.6 per cent in 2003-04), the rate remains low and only a very small percentage (around 3 per cent) of the amounts owing to state and non-state agencies that have reached the warrant stage are actually being collected in cash.

To improve the clearance and revenue collection rates for outstanding fines and fees, the Sheriff's Office needs to develop and implement:

- a comprehensive operating methodology (including innovative targeting approaches) to better target and select warrants for actioning, and ensure it is consistently applied

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[1] Victorian Auditor-General's Office, *Reports on Ministerial Portfolios*, May 1996 and May 1998, and *Reports on the Finances of the State of Victoria* over the period 2001-02 to 2003-04.

[2] Based on our analysis of the Department of Justice's total clearance rates, relating to its major sources of fine and fee revenue.

[3] This consists of state ($554.3 million) and non-state ($139.7 million) outstanding fines and fees.

- key performance indicators that measure the efficiency and effectiveness of the entire warrant management process, and monitor its performance against these.

Important to maximising the outcomes from any improvement initiatives (undertaken by the Sheriff's Office, the EMD or the department more broadly) will also be to ensure that:

- necessary improvements are made to the Victorian Infringement Management System (VIMS), which records and reports on all warrants issued, actioned and cleared, including their status
- the accuracy of VicRoads' records of home addresses is improved (the department has commenced action in this regard)
- the time taken to address legislative issues affecting the Sheriff's Office's ability to effectively and efficiently perform its work, is improved.

Given the significance of the issues raised in this report, it its our intention to undertake a more comprehensive audit of the raising and collection of fines and fees at a later time.

3.2 Background

The Sheriff's Office forms part of the Enforcement Management Division (EMD) of the Department of Justice. The EMD was established in March 1994 to improve the process of managing and enforcing fines, criminal and civil court orders, and warrants issued by:

- the Penalties Enforcement by Registration of Infringement Notice (PERIN) Court (which is also a unit of the EMD)
- all other Victorian court jurisdictions and the Federal Court (known as the "open courts"[4]).

There are 3 stages to the enforcement process:

- *the infringement stage* - during which a defendant has 56 days to pay the fine stated on an infringement notice issued by a state government agency (such as the Traffic Camera Office or Victoria Police) or by other agencies (such as local governments)
- *the court order stage* - at the start of which the PERIN Court orders the defendant to pay the fine within a further 56 days
- *the warrant stage* - at the start of which the PERIN Court order (and orders of open courts) are issued as warrants.

[4] Open courts are those presided over by an appointed judge or magistrate.

At the *court order* and *warrant* stages, fees are also imposed on the defendant, to help meet enforcements costs.

The Sheriff's Office is responsible for actioning and clearing all warrants. Warrants can be cleared either by cash payment (for the value of the fine and fees) or by non-cash means (such as through a community-based order or imprisonment).

At 30 June 2004, the Sheriff's Office employed 182 officers, at an annual cost of $14.4 million (not including departmental overheads). This represented about 40 per cent of the total cost of the EMD's enforcement activities.

In 2003-04, the PERIN and open courts issued 640 453 warrants. In the same year, the Sheriff's Office actioned (but did not necessarily cleared) around 490 000 warrants.

Our audit examined how effective the Sheriff's Office was in actioning and clearing warrants. In doing so, we assessed whether:

- the clearance rates of outstanding warrants were adequate
- the Sheriff's Office took a comprehensive and targeted approach to actioning and clearing warrants
- the Sheriff's Office systems and procedures to action and clear warrants were adequate.

3.3 Were the Sheriff's Office clearance rates for outstanding warrants adequate?

Our past reports to parliament[5] have examined the level of revenues generated by the state from fines and fees, including the level of outstanding fines and fees, and found:

- a continuing increase in the level of outstanding fines, despite the implementation of productivity measures and amendments to legislation
- a decreased level of cash collections, despite the continuing increase in outstanding fines
- a continuing increase in bad and doubtful debts
- a significant portion of fees and fines payable to the state had been outstanding for more than one year.

[5] Victorian Auditor-General's Office, *Reports on Ministerial Portfolios*, May 1996 and May 1998, and *Reports on the Finances of the State of Victoria* over the period 2001-02 to 2003-04.

In assessing whether the Sheriff's Office clearance rates of outstanding warrants were adequate, we examined:

- the total value of outstanding fines and fees
- the value of warrants cleared
- performance against the government's output targets related to Sheriff's Office activities.

3.3.1 Total value of outstanding fines and fees

Figure 3A outlines the total value of outstanding fines and fees at 30 June 2004 and at 30 June 1995, some 9 years earlier. The figure shows that outstanding fines and fees increased significantly over the 9 year period, as did the total value of doubtful debts.

FIGURE 3A: OUTSTANDING FINES AND FEES ($MILLION)

Item	30 June 2004			30 June 1995
	State	Non-state (a)	Total	Total
Outstanding fines and fees	554.3	139.7	694.0	(b) 271.0
Less: provision for doubtful receivables	*(351.5)*	*(124.4)*	*(475.9)*	*(135.2)*
Estimated collectable fines and fees	202.8	15.3	218.1	135.8

(a) Non-state fines and fees include those arising from local governments and tertiary institutions.

(b) Excludes warrant execution costs which were deemed to be no longer legally collectable and were written-off at 30 June 1997.

Source: Department of Justice annual reports.

At 30 June 2004, the outstanding fines and fees payable to the state and to non-state agencies totalled $694 million. Of this amount, $554.3 million was owed to the state, 63.4 per cent (or $351.5 million) of which was considered by the department as unlikely to be collected.

Since 1994-95, the level of outstanding amounts increased by $423 million (or 156 per cent). In addition, there was an almost 3-fold increase in the cumulative level of bad debt write-off (from $43.5 million in 1994-95 to $160.2 million in 2003-04), with substantial further write-offs expected over future years by the department[6]. However, over the 9-year period, there has also been an almost 4-fold increase in annual fine and fees revenue, from $65.8 million in 1994-95 to $320.7 million in 2003-04.

[6] These write-offs have reduced the level of reported outstanding fines and fees.

Our analysis of the department's fine and fee clearance (cash and non-cash) statistics (used to determine the provision for doubtful debts) showed that, for the major sources of revenue raised (traffic camera fines and on-the-spot fines), an average of 78 per cent of the revenue is cleared (74 per cent settled by cash and 4 per cent by non-cash means) within 112 days of fines being raised. As a general rule, after a period of 112 days, fines and fees are issued as warrants and become the responsibility of the Sheriff's Office for enforcement and collection purposes.

We found that of the $694 million[7] in outstanding fines and fees, $539.5 million (or 78 per cent) was at the warrant stage. Of the total outstanding amount, $276.8 million (or 40 per cent) related to fees imposed at each stage of the enforcement process.

Figure 3B shows that, in the 3 financial years to 2003-04, the value of of new warrants issued has substantially exceeded the value of warrants cleared. The value of cleared warrants as a percentage of total outstanding warrants increased from 6.4 per cent in 2001-02 but remained low, at 16.6 per cent in 2003-04.

FIGURE 3B: VALUE OF WARRANTS CLEARED BY THE SHERIFF'S OFFICE, 2001-02 TO 2003-04 ($MILLION)

Item	2003-04			2002-03	2001-02
	State	Non-state	Total	Total	Total
Value of outstanding warrants at year-end (a)	430.9	108.6	539.5	531.7	404.7
Value of new warrants issued during year	126.9	41.2	168.1	178.6	152.8
Issued by PERIN Court	103.1	41.2	144.3	167.9	127.7
Issued by open courts	23.8	-	23.8	10.7	25.1
Value of cleared warrants	63.2	26.1	89.3	73.2	25.9
Cleared for cash	10.8	5.0	15.8	14.7	6.0
Cleared by non-cash means	52.4	21.1	73.5	58.5	19.9
Value of cleared warrants as a percentage of outstanding warrants	14.7%	24.0%	16.6%	13.8%	6.4%

(a) Changes in the value of outstanding warrants from year-to-year reflect the impact of new warrants issued and warrants cleared, together with the impact of several other adjustments which account for expired warrants, doubtful debt provisioning, etc.

Source: EMD and Department of Justice reports.

The figure shows that, of the $89.3 million of warrants cleared in 2003-04, only $15.8 million (or 17.7 per cent) were cleared for cash. The remainder were cleared by non-cash means (such as through a community-based order or imprisonment).

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[7] This includes state ($554.2 million) and non-state ($139.7 million) outstanding fines and fess.

Under the *Magistrates Court (Amendment) Act 1994*, warrants issued by the PERIN and open courts (except for Magistrate's Court warrants to seize property or arrest a person) have a 5-year lifespan. After this time, the warrant expires. At 30 June 2004, a total of $131.6 million of warrants had expired since the legislation was enacted. As a result, the Sheriff's Office will take further action to recover outstanding fines and fees on these warrants only if a new warrant is issued, which may occur if new information about a defendant becomes available to the Sheriff's Office.

Figure 3C shows that the number and value of expired warrants increased more than 3-fold between 2001-02 and 2003-04. In 2001-02, the Sheriff's Office conducted a detailed ageing analysis of all old warrants, and conducted a "blitz" on all warrants that were about to expire. Compared with 2001-02, the value of expired warrants has increased significantly: by 292 per cent in 2002-03, and by 384 per cent in 2003-04.

The Sheriff's Office does not analyse ageing warrants for the purpose of deciding which warrants to action and clear. It does, however, analyse debtor clearance rates to determine provisioning for doubtful debts and bad debts write-offs, for accounting purposes.

FIGURE 3C: NUMBER AND VALUE OF EXPIRED WARRANTS, 2001-02 TO 2003-04

Expired warrants	2001-02		2002-03		2003-04	
	Number	Value ($m)	Number	Value ($m)	Number	Value ($m)
PERIN Court warrants expired	19 751	4.6	75 575	18.7	81 568	23.0
Open courts warrants expired	436	0.3	792	0.5	1 050	0.7
Total warrants expired	20 187	4.9	76 367	19.2	82 618	23.7

Source: Sheriff's Office.

Conclusion

The total value of outstanding fines and fees, and bad debt write-offs, has continued to increase over the past 9 years. Over the same period, there has also been a 4-fold increase in annual fines and fees revenue raised, which has contributed to the unfavourable trend in outstanding amounts.

While the clearance rate for outstanding fines and fees at the warrant stage has improved since 2001-02 (from 6.4 per cent in 2001-02 to 16.6 per cent in 2003-04), only a very small percentage (around 3 per cent) of the amounts owing to state and non-state agencies that reached the warrant stage is actually being collected. More needs to be done to improve collection and clearance rates.

Since 1997-98, some $132 million in revenue has been lost to state and non-state agencies through expired warrants. The Sheriff's Office prevented some losses from expired warrants by conducting an ageing debtors analysis in 2001-02, and using it to select warrants for actioning. This should be considered as a regular practice of the Sheriff's Office.

Recommendations

1. **That the Sheriff's Office better analyse its warrant clearance rates and use the results of its analysis to develop future action plans that focus on improving these clearance rates and, ultimately, reduce the level of outstanding fines and fees.**
2. **That the Sheriff's Office regularly analyse its ageing debtors (warrants) and use the analysis to focus on clearing warrants before they expire.**

3.3.2 Performance against departmental output targets

The Sheriff's Office has 2 departmental output targets against which it is held accountable:

- total number of warrants actioned
- clearance of court orders and warrants within one year.

Figure 3D shows the Sheriff's Office's performance in achieving the departmental output targets from 2001-02 to 2003-04. It shows that, over this period, there was an increase in the target for the number of warrants actioned, and that the targets were exceeded in 2002-03 and 2003-04. However, over the 3 year period, there was a reduction in the percentage of warrants and court orders cleared within one year.

Over the 3 year period to 2003-04, there was a substantial increase in the number of warrants on which the Sheriff's Office had taken some action (not necessarily cleared by cash or non-cash means). Specifically, over the period:

- the actual number of warrants actioned increased by 295 275 (or 152 per cent)
- the target clearance rate for court orders and warrants fell by 11 percentage points
- the actual clearance rate fell 4 percentage points.

FIGURE 3D: PERFORMANCE OF SHERIFF'S OFFICE, MEASURED AGAINST DEPARTMENTAL OUTPUT TARGETS

Output target	2001-02		2002-03		2003-04	
	Target	Actual	Target	Actual	Target	Actual
Court orders and warrants enforced (a)	(b) 465 000	(c) 397 380	n.a.	n.a.	n.a.	n.a.
Total number of warrants actioned	n.a.	n.a.	405 000	408 000	452 000	490 000
Clearance of court orders and warrants within 12 months of issue of infringement, registration and lodgement	49%	41%	41%	39%	38%	37%

(a) The "court orders and warrants enforced" target changed in 2002-03 to the 2 current targets, and hence no statistics for later years are provided.

(b) The figure consists of 249 500 court orders and 215 500 warrants.

(c) The figure consists of 202 656 court orders and 194 724 warrants.

Source: Department of Justice records.

Conclusion

The Sheriff's Office's performance against the department's output targets is improving, although the clearance targets have reduced over the 3 years to 2003-04.

3.4 Did the Sheriff's Office take a comprehensive and targeted approach to actioning and clearing warrants?

In assessing whether the Sheriff's Office took a comprehensive and targeted approach to actioning and clearing outstanding warrants, we examined if it had:

- established comprehensive strategic and action plans
- a documented operating methodology for the targeting and selection of warrants to action and clear
- adequate management information systems to monitor and report on its performance, including all aspects of its operations.

3.4.1 Strategic and action plans

The strategic direction of the EMD is detailed in its rolling 3-year (2004-07) strategic plan. The plan takes into account the department's objectives and output targets. It sets out the EMD's objectives, which are to:

- deliver the agreed output targets
- be a best practice organisation
- focus on stakeholders
- realise the potential of all staff.

The EMD has identified a number of strategic directions for each objective and these are included in annual action plans for each of the next 3 financial years. A local team plan is developed for each of the activities included in the annual action plans which specify the responsible business unit (such as the Sheriff's Office) project manager/team, proposed tasks to be undertaken, interim milestones, major risks, key stakeholders, measures of success (qualitative and/or quantitative) and final deliverables.

As mentioned earlier in this part of the report, the Sheriff's Office has 2 departmental output targets for which it is held accountable and by which its operations are driven:

- total number of warrants actioned
- clearance of court orders and warrants within 12 months of issue of infringement, registration and lodgement to VIMS.

These output targets do not adequately cover all aspects of the Sheriff's Office's operations, including the efficiency and effectiveness of the warrant management process.

The Sheriff's Office is also responsible for the implementation of a number of activities within the annual action plans.

Progress against the strategic and annual action plans is regularly monitored and reported by the EMD.

At the time of our audit (February 2005), the 2004-07 strategic plan and the 2004-05 action plans were finalised, but had not been formally approved.

3.4.2 Targeting and selecting warrants for actioning

The Sheriff's Office has an operating methodology used to select and target warrants for actioning. It involves the selection of all warrants in a particular postcode, which are printed from VIMS by the Sheriff's Office's district supervisors and distributed to sheriff's officers for actioning. The Sheriff's Office also conducts ad hoc targeted operations based on:

- defendant profile (such as defendants with multiple warrants)
- joint activity with Victoria Police or other agencies
- broadcast community interaction, including police roadblocks and transit operations involving rail travellers.

The operating methodology is not documented, is applied in an ad hoc manner and lacks a systematic approach to the innovative targeting of warrants for actioning.

The Sheriff's Office has, in recent years, taken steps to improve its ability to action warrants. These include:

- establishing an Operations Response Group to increase its capacity to plan targeted operations
- participating in the Special Operations Mobile Data Office Project, with Victoria Police, to equip each region with a mobile office with remote access to relevant databases. The Sheriff's Office expects this will greatly improve its capacity to serve warrants, streamline operational processes and reduce overheads
- the "hot warrant" process, which groups outstanding warrants for the one defendant together for immediate action when new details become available.

At the time of our audit, the Sheriff's Office was also piloting an initiative to develop a spatial data mapping capability which will enable innovative targeting of debtors and enforcement activities.

3.4.3 Performance monitoring

The Sheriff's Office's monitoring and reporting arrangements broadly focus on reporting against the agreed output targets, based on the collection of operational statistics, with explanations provided for any deviations greater than 5 per cent.

In September 2004, the Sheriff's Office established an Operational Analysis Unit to (among other things) develop trend analyses to help improve the process of selecting warrants for actioning. However, at the time of our audit, these analyses had not been conducted, and there was no comprehensive analysis of statistics or their reporting. We were advised that the unit was understaffed and was focusing on specific aspects of the enforcement process, such as the analyses of instalment part-payment arrangements and defaults, and determining the best time to make contact with defendants.

The new unit also collates daily statistics about actioned warrants and prepares monthly reports for the Sheriff. EMD provides statistics in monthly and quarterly reports to its senior managers, and to the department. However, the statistics only address the 2 departmental output targets (total number of warrants actioned, and clearance of court orders and warrants within 12 months), and not broader aspects of the Office's operations and performance.

The Office's action plan contained quantitative and qualitative performance indicators for some strategic directions. The quantitative targets related specifically to the department's output targets, and did not cover other aspects of operations (such as timeliness, productivity and clearance rates).

In 2002-03, the Sheriff's Office identified the need to develop more detailed performance indicators, but had not done so at the time of this audit.

The Sheriff's Office analyses the impact of particular targeted operations (such as roadblocks and targeting defendants with multiple warrants) on the total number of warrants actioned.

3.4.4 Conclusion

The EMD's strategic plans are primarily driven by the department's output targets and do not address the efficiency and effectiveness aspects of all facets of the Sheriffs Office operations.

At the time of our audit (February 2005), the 2004-07 strategic plan and the 2004-05 action plans had been finalised but had not been formally approved.

In addition, the Sheriff's Office operating methodology for the targeting and selection of warrants was not documented, was applied in an ad hoc manner and lacked a systematic approach towards innovative targeting of warrants for actioning.

The 2 output targets for the Sheriff's Office, in themselves, are not adequate as internal/management indicators of its warrants management performance, including its management of outstanding fines and fees.

The Sheriff's Office has identified the need for performance indicators for key aspects of its operations, but these have not been developed to date. Although ad hoc analyses relating to various aspects of its performance are performed, these are not included in their strategic plan or reported to management or to the public through the department's annual report.

Recommendations

3. **That the EMD strategic plans address the efficiency and effectiveness aspects of its operations, including the management of warrants and outstanding fines and fees.**
4. **That the EMD ensure its strategic plans are formally approved prior to the commencement of the period covered by the plans.**
5. **That the Sheriff's Office develop and document a comprehensive operating methodology (including innovative targeting approaches) for the targeting and selection of warrants for actioning, and ensure it is consistently applied.**
6. **That the Sheriff's Office develop and monitor its performance against key performance indicators covering the entire warrant management process.**

3.5 Were the Sheriff's Office systems and procedures to action and clear warrants adequate?

In assessing whether the Sheriff's Office systems and procedures to manage warrants were adequate, we examined if:

- its policies, systems and procedures were comprehensive and documented
- it had a system to action and clear warrants in a timely manner
- any legislative issues affected its systems and procedures.

3.5.1 Systems and procedures

Operating Procedures Manual

The Sheriff's Office's *Operating Procedures Manual* is a comprehensive document that details the legislative and other legal requirements with which its officers must comply. The manual also details the administrative standards and time frames that officers must meet day-to-day as they go about actioning and clearing warrants. The manual was last revised in July 2003.

Victorian Infringement Management System (VIMS)

The EMD (of which the Sheriff's Office is a part) uses VIMS to manage the enforcement of infringement notices, court orders and warrants. VIMS is run and maintained by an external provider.

The current system does have certain acknowledged inadequacies. Although VIMS records information about the issuing, actioning and clearing of warrants, it does not meet all the Office's operational requirements. For example, it does not allow for 2 addresses to be recorded for a defendant. Also, its current management reporting capabilities are inadequate and requests for additional reports required by the Office take significant time to generate, and are costly. The reporting inadequacies were clearly evidenced during the course of our audit.

In May 2002, the department and the external provider jointly investigated upgrading VIMS. In March 2003, the department initiated Project NOVA, to identify and analyse the functions required by the Traffic Camera Office, the PERIN Court and the Sheriff's Office of an infringement management system. The current external provider's contract expires in late 2007, and the department intends to use the project results to inform the development of specification requirements when tenders are next called.

Use of VicRoads' and other databases

To enforce a warrant, the Sheriff's Office needs the up-to-date home address of a defendant. The Sheriff's Office uses the VicRoads database to verify defendant contact information recorded by VIMS, or to obtain more up-to-date information. However, VicRoads focuses on maintaining the quality of postal addresses, rather than home addresses (which the Sheriff's Office needs to action warrants).

At the time of the audit, the department was working with VicRoads to examine ways to improve the accuracy of the VicRoads' database.

The Sheriff's Office would also benefit by being able to access other agencies' databases (such as utilities) to verify defendants' addresses. Access to such information is currently only available to the Office at the discretion of these agencies. Accordingly, they can refuse access to the Office.

The possibility of accessing databases kept by other state jurisdictions should also be explored. This, undoubtedly, will entail discussion with the Privacy Commissioner.

Other initiatives

In 2002, the Sheriff's Office undertook several initiatives to improve its systems and procedures to action and clear warrants. These were:

- a business process mapping exercise
- an organisational self-assessment (which is now conducted annually)
- a "revitalisation strategy", to improve the Office's structure and staff competencies, to encourage integrity and to promote accountability.

The Sheriff's Office anticipates that the benefits from these activities, in terms of improved performance, will accrue over the forthcoming years. However, until such time as the fundamental issues relating to VIMS and VicRoads' records are addressed, the extent of any improvement will not be maximised.

3.5.2 System to action and clear warrants in a timely manner

The Sheriff receives weekly reports of the number of warrants actioned, and their status (such as whether the defendant had died, or was not at the address, or whether the warrant had been cleared). However, there is no process to action warrants systematically within a specified time line, and no management reporting about the timeliness of actioning of warrants.

3.5.3 Legislative issues

Our May 1998 *Report on Ministerial Portfolios* reported that the EMD recognised the need for legislative changes to address inconsistencies in legislation relating to the PERIN and open courts, and inadequacies in the Sheriff's enforcement powers. In 1998, the department indicated that it was reviewing all legislation for the enforcement of court orders and the management of fines, with a view to developing an Infringement Notices Act. The department anticipated that the review would take 12 to 18 months.

Under the current legislative arrangements, the Sheriff's Office can seize assets or suspend a defendant's driver licence until payment is made, or arrest a defendant. Other jurisdictions have more enforcement options, such as:

- suspension or non-renewal of motor vehicle registration
- non-renewal of motor vehicle licence or registration
- clamping vehicles
- charging orders on real estate, giving the Sheriff first call on relevant properties
- garnishing of the defendant's financial assets.

When executing a criminal warrant (such as a penalty enforcement warrant issued by the PERIN Court), Sheriff's Office staff have the power to break and enter to seize property or arrest a defendant. When executing a civil warrant, they have no power to enter premises forcibly. About 10 per cent of all warrants issued each year are civil warrants, and defendants often refuse entry to the Sheriff's Office staff.

In February 2004, the government endorsed a review of all legislation about the enforcement of court orders and warrants, and the management of fines. At the time of our audit, proposals for change were being considered by the government for possible legislative action in Spring 2005.

Victoria's existing warrant powers and procedures are also being considered by a separate inquiry by the Law Reform Committee of parliament. This inquiry will consider arrest warrants, warrants to seize property and search warrants, and whether the existing laws should be amended. The inquiry commenced in June 2003, and the committee is expected to report to parliament in July 2005.

3.5.4 Conclusion

The Sheriff's Office has well-documented operational systems and procedures for actioning and clearing warrants.

The Victorian Infringement Management System (VIMS) does not meet the Sheriff's Office's operational requirements, nor does it have adequate management reporting capabilities. Requests by the Sheriff's Office for additional reports to facilitate analysis and reporting on all aspects of warrant management result in significant delays and costs.

The Sheriff's Office's reliance on the VicRoads' database for the home addresses of defendants is also limited, because the accuracy of home addresses is not central to VicRoads' operations.

The benefit of initiatives and projects undertaken by the Sheriff's Office, aimed at improving its operations, including its enforcement activities, will only be maximised when issues relating to VIMS and VicRoads are addressed and rectified.

Given the department's assurances in May 1998 of legislative changes to address inconsistencies in legislation relating to the PERIN and open courts, and inadequacies in the Sheriff's enforcement powers, we are concerned at the length of time taken to prepare a proposed Bill.

The Sheriff's Office does not have adequate systems and processes to monitor the timeliness with which it actions, follows-up and clears warrants. The inability to action warrants in a timely manner, or to report to the Sheriff how long warrants have been with the Office, makes it very difficult to adequately manage outstanding warrants.

Recommendations

7. That the department:

- **ensure that appropriate enhancements are made to VIMS to meet the Sheriff's Office's operational requirements, and provide adequate management reporting capabilities**
- **continue to work with VicRoads to improve that agency's records of home addresses**
- **continue to champion the introduction to parliament of amending legislation dealing with the enforcement of fines, as planned in the Spring 2005 session, and that further consideration is given to extending the Sheriff's enforcement powers as part of that legislation.**

8. That the Sheriff's Office develop management information systems to record and report the timeliness of actioning and clearing warrants.

RESPONSE provided by Secretary, Department of Justice

The Department of Justice is committed to maintaining a fair and effective warrant enforcement system in Victoria.

The department welcomes the Auditor-General's review and accepts the intent of the report's recommendations, which offer guidance on continuing to improve and more comprehensively document the Sheriff's Office systems, procedures, strategies and performance measures.

As noted by the audit report, there has been a fourfold increase in the value of fines and fees raised over the last 10 years. The Sheriff's Office has introduced a range of initiatives to keep pace with the consequent increase in the volume of warrants. In the last 3 years alone, there has been more than a twofold increase in the productivity of the Sheriff's Office. From 2001-02 to 2003-04, the number of actioned warrants increased from 195 000 to 490 000 and there has also been an improvement in warrant clearance rates.

These significant improvements in performance are a direct result of the Sheriff's Office's commitment to continuous improvement of its performance, and a range of initiatives introduced in recent years. As noted in the Auditor-General's report, these include:

- *A recently created Enforcement Management Business Analysis Unit to better analyse, report, and make recommendations for business improvements on the basis of warrant data.*
- *A geospatial mapping project to better understand the demographic and socio-economic background of debtors to contribute to innovative targeting strategies.*
- *Initiatives to improve the accuracy of defendant address information, the primary obstacle of effective warrant enforcement, including liaison with VicRoads, establishing links to databases held by other government agencies, and cooperation with Victoria Police to utilise updated information recorded via the Mobile Data Network.*
- *Project NOVA to identify improvements required to the Victorian Infringement Management System to inform re-tendering of the system in 2007.*
- *An internal revitalisation program, including a review of the Sheriff's Office structure, reporting arrangements, career structure, support functions, and staffing numbers.*

RESPONSE provided by Secretary, Department of Justice - continued

The Sheriff's Office has also introduced Mobile Offices to provide accessible and convenient warrant payment, and increase community awareness of the Sheriff's role and activities. As part of this strategy, the Office is piloting the use of portable EFTPOS terminals to offer debtors additional payment options, and an instalment plan assistance program to enable them to pay monies owed over an agreed period.

Enforcement strategies focused on older warrants have also been successfully incorporated into strategic enforcement projects targeted on local government areas and co-operative enforcement projects with Victoria Police.

However, experience shows that currently the most effective strategy to improve warrant clearance rates is to target recent warrants, check for older warrants each time a new infringement occurs, and focus on persons with multiple warrants. This strategy recognises that fines better fulfil their primary function as a deterrent against future offending when the offence and the payment of the penalty are closely linked in time. These warrants are also more likely to have accurate defendant address information, which is vital for achieving successful results. This strategy is the Sheriff's Office's preferred approach, and it is driven by analysis of warrant data to identify the warrants to be pursued as a priority.

The department is committed to ensuring that the 2 key systems supporting the Sheriff's Office are improved at the first available opportunity. The functionality of the Victorian Infringements Management System will be further enhanced when the contract is re-tendered in 2007. The department is also participating in the whole-of-government strategy addressing issues related to the Vic Roads database.

The Sheriff's Office operates within the constraints of current legislation. The issue raised in the audit report in relation to the Sheriff's warrant enforcement powers has been under consideration by successive governments, and is currently being examined by the Victorian Law Reform Committee's Inquiry into Warrant Powers and Procedures. Further work on this issue awaits the findings of the Inquiry.

RESPONSE provided by Secretary, Department of Justice - continued

However, the department is currently addressing legislative issues associated with the broader infringements framework through the whole-of-government Infringements Framework Review, endorsed by the government in February 2004. This review includes consideration of recent research by Monash University into the attitude of the community to the infringements system and the enforcement and payment of fines. Its objective is to consider ways to achieve a fairer infringements system based on common principles for the system, protection of the rights of the disadvantaged, improved enforcement, opportunities for expansion of the system, and the development of overarching legislation.

The government has committed to improving the effectiveness and fairness of Victoria's fines collection framework in the 2005-06 budget papers. As part of this commitment, the government will implement an enhanced compliance regime that is expected to increase the payment of fines. As noted by the audit report, proposals are being prepared for government consideration and possible legislative action in Spring 2005. The department looks forward to the development of new legislation concerning the infringements system.

The department welcomes the Auditor-General's intention to return at a later stage to undertake a more comprehensive audit of raising and collection of fines and fees.

4. Management of the Metropolitan Mobile Radio Network project

4.1 Audit conclusions

The Metropolitan Mobile Radio Network (the radio network) is one of 3 major information technology projects to be delivered under the statewide integrated public safety communications strategy. It will replace the existing analogue emergency services network for greater Melbourne with a new digital network[1], which will be used to transmit and receive voice data.

We concluded that the project has been well managed to date and was running on time, in accordance with the contracted timetable.

The 2002 business case for the radio network was comprehensive. Users were adequately consulted during its development, and as the project progressed.

Cost estimates for the radio network were comprehensive and included an allowance for contingencies. The Bureau of Emergency Services Telecommunications (the Bureau) within the Department of Justice will need to carefully manage this allowance to ensure it remains adequate over the 7-year life of the project.

The project governance and management framework was adequate and appropriate. Strengths of the framework included the dedicated high-level ministerial sub-committee, the experienced and well-trained project management and negotiation teams, and a clear focus on risk management.

The procurement process was consistent with good probity practice and relevant government policy. Contractual arrangements for the radio network were also adequate and the development of the network is running on time, in accordance with the contracted timetable.

Looking ahead, the project faces several risks which must be carefully managed by the bureau and by participating emergency services agencies. They include operational and/or cost risks arising from the coverage area of the network, the extent of data encryption and the need to gain access to sufficient radio frequencies to enable the radio network to operate as intended. The bureau and the emergency services agencies have commenced managing these risks.

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[1] By late-2005 for Victoria Police and the Metropolitan Fire Brigade, and early 2007 for the Metropolitan Ambulance Service.

RESPONSE provided by Secretary, Department of Justice

The Department of Justice welcomes the Auditor-General's review and agrees with the conclusions and recommendations of the report.

The Metropolitan Mobile Radio project is one of the department's key initiatives for delivering a new statewide public safety communications system.

The findings of this independent audit confirm that the project is being carefully managed with strong governance arrangements, and that Victorians can have confidence in the project's capacity deliver its intended benefits.

The department is alert to the risks associated with the development and implementation of the new Metropolitan Mobile Radio network, and will continue to carefully manage these together with the relevant emergency service agencies.

As recommended by the report, the department will ensure that the MMR project's management and progress will be audited as part of the department's internal audit program or by a specially engaged expert.

4.2 Background

The Metropolitan Mobile Radio Network (the radio network) is one of 3 major information technology projects to be delivered under the statewide integrated public safety communications strategy. The others are the mobile data radio network and a statewide alerting system.

The radio network will replace the existing analogue emergency services network for greater Melbourne with a new digital network, to be used to transmit and receive voice data.

The Department of Justice expects that the new radio network will be more secure than the existing analogue network. It expects the radio network to provide clearer voice traffic, better coverage and reliability, and greater capacity for agencies when jointly responding to incidents to better coordinate their activities.

In March 2004, the state entered into a contract with Motorola Australia Pty Ltd (the contractor) to design, construct and operate the radio network for 7 years. Under the contract, the radio network will cost the state $187.5 million[2] in nominal terms over the 7-year contract term ($119 million in net present value terms)[3].

Victoria Police, the Metropolitan Fire and Emergency Services Board and the Metropolitan Ambulance Service will be the first state agencies to implement the radio network. In addition, Emergency Communications Victoria, which manages Victoria's emergency call taking and dispatch services, will also use the radio network. The department expects that other agencies will eventually use the network.

The radio network will be installed in 2 300 police cars, 165 fire fighting vehicles and 197 ambulances. Also, 3 300 police, 351 fire fighters (including senior staff) and 468 paramedics (including senior staff) will have portable terminals.

The department's Bureau of Emergency Services Telecommunications (the Bureau) is managing the radio network project.

Figure 4A shows the timelines of the radio network project from initial conceptual work through to the projected operational date.

FIGURE 4A: METROPOLITAN MOBILE RADIO NETWORK PROJECT TIMELINES

Milestone	Date
Business case prepared	January 2002
Funding approved	May 2002
Request for expressions of interest released	November 2002
Request for proposal issued to short-listed respondents	August 2003
Appointment of 2 preferred respondents approved by minister	January 2004
Negotiations commenced	February 2004
Contract executed with successful respondent	March 2004
Network design completed	November 2004
Network accepted	(a) April 2005
Victoria Police and Metropolitan Fire Brigade transition to new network	(a) September 2005
Metropolitan Ambulance Service transition to new network	(a) March 2007

(a) Represent planned timelines.

Source: Victorian Auditor-General's Office.

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[2] This forms part of the total approved project budget of $199 million.

[3] Our November 2004 *Report on the Finances of the State of Victoria, 2003-04*, provided an analysis of the rights and obligations of the state and Motorola, and their allocation between the parties, under the contractual arrangement. We concluded in that report that the arrangement is a finance lease for financial reporting purposes.

4.2.1 Audit objective and scope

Given the significant cost involved in establishing and operating the new radio network, we undertook an audit to assess how well the project was being managed.

At the time of the audit, the radio network design was incomplete. Therefore, the audit did not cover the implementation or operation of the radio network. We may audit these aspects of the project at a future time.

The focus of our work extended to examining the business case which proposed the establishment of the radio network, the governance and project management framework, probity of the tender and selection process, and the contractual arrangements.

While the audit assessed the adequacy of the processes used by the bureau to establish user requirements, it did not verify the user requirements for the radio network.

The audit covered the relevant activities of the bureau, Victoria Police, Metropolitan Fire Brigade and the Metropolitan Ambulance Service, in connection with the radio network project.

4.3 Was the business case sufficiently comprehensive?

In assessing if the business case for the project was sufficiently comprehensive, we examined whether:

- it included clear project objectives, a statement of project scope, estimated costs and benefits, a project timetable (including roll-out plans) and risks to be allocated to the contractor
- users were adequately consulted and their requirements were identified
- any significant changes to the project scope (after the preparation of the initial business case) were appropriately approved, and project objectives, user needs, costs, benefits and risk allocations were amended as necessary
- sound, reliable and comprehensive cost estimates were prepared (including immediate and longer-term operating and capital costs) and allowance was made to enhance or expand the radio network during the contract term.

Investigations into replacing the existing analogue radio network started about 10 years ago when Victoria Police commissioned a study of its mobile radio user requirements. Subsequently, Victoria Police and the Metropolitan Fire Brigade prepared a combined business case and submitted it for consideration to the government in mid-2001. The 2 agencies had deferred preparation of the business case so it would coincide with the finalisation of the statewide integrated public safety and communications strategy.

A new business case, which replaced the combined business case of mid-2001, was prepared in January 2002. It nominated Victoria Police, the Metropolitan Fire Brigade and the Metropolitan Ambulance Service as the initial users of a new radio network. The business case set out the project objectives, scope, estimated costs and benefits, and planned timetable. The business case was prepared by the nominated agencies, with the assistance of external advisors.

The business case anticipated that the new radio network would provide significant operational benefits, including operational flexibility, interoperability between the differing emergency services agencies, improved security and reliability, greater response times, and improved coverage and capacity.

In May 2002, the Ministerial Steering Committee for Emergency Services Telecommunications endorsed the business case, and the government committed funding to the project.

This is a *Partnerships Victoria*[4] project. As such, the bureau focused substantially on risk allocation when requesting expressions of interest and requesting proposals, and when evaluating and clarifying proposals.

The project scope has not changed significantly since the 2002 business case. However, the final agreed arrangements (as set out in the contract) did not fully address all user requirements included in the request for proposals document, relating to the coverage area of the network and the extent of data encryption (that is, the scrambling of data in such a way that a secret code is needed to unscramble it), necessary because of new digital scanners. These departures were accepted by the state and, at the time of our audit, were subject to further analysis (refer to further comment provided later in this article). They may require the approved contingencies allowance to be used to address the requirements.

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[4] *Partnerships Victoria* is the Victorian Government's framework for establishing partnerships with the private sector for the provision of public infrastructure and related ancillary services.

4.3.1 User requirements

To develop user requirements, the emergency services agencies:

- formed internal user groups that consulted with operational staff and external technical advisors, and users participated in workshops
- studied national and international radio networks
- appointed senior representatives to the project steering committee and the project management team, to ensure an ongoing focus on user needs.

Victoria Police, the Metropolitan Fire Brigade and the Metropolitan Ambulance Service formally endorsed the specified user requirements before approval of the request for expressions of interest and request for proposal documents, and the memorandum of understanding (which preceded the contract).

A sub-committee of the ministerial committee[5] (which included senior representatives of the 3 agencies) endorsed the contract for signing by the minister.

4.3.2 Cost estimates

In May 2002, the government approved funding for the project of $199 million, over 7 years. This budget allocation:

- was consistent with the cost estimates provided in the 2002 business case
- covered capital and ongoing operating expenses for the radio network for the initial contract term, and the internal costs of the emergency services agencies (and Emergency Communications Victoria) implementing the radio network
- included the costs of upgrading the Metropolitan Ambulance Service's existing radio network for the 2006 Commonwealth Games
- included a contingency of 3 per cent of the total estimated project cost[6].

The approved funding for the radio network is included in the departmental budget estimates (including forward estimates) for the relevant public sector agencies.

While the government expects that other agencies will use the radio network in future, the forward estimates do not include the cost of such increased use (until approved by government).

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[5] For more information about this sub-committee, see later in this report.

[6] For information on the key risks associated with the radio network, see later in this report.

4.3.3 Conclusion

The 2002 business case for the radio network was comprehensive. Users were adequately consulted during its development, and as the project progressed.

Cost estimates for the radio network were comprehensive, and included an allowance for contingencies. The bureau will need to carefully manage this allowance, to ensure it remains adequate over the 7-year life of the project.

4.4 Were appropriate processes followed?

4.4.1 Was the project's governance and management framework adequate?

In assessing whether the project governance and management framework was adequate, we examined if:

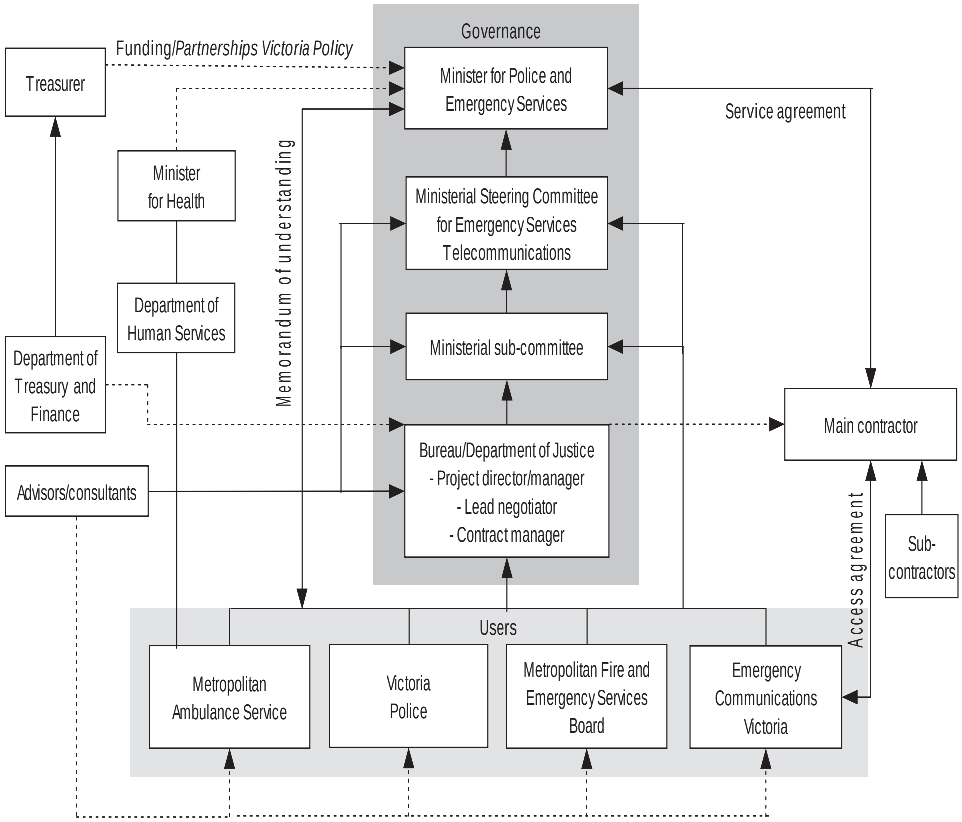
- there was high-level oversight of the project (including the operation of a steering committee with appropriate membership, drawing on specialist expertise and supported by a project director, a project management team and a negotiation team)
- project management staff had the necessary skills, resources, defined roles and responsibilities, and continuity of engagement on the project
- project plans were comprehensive and included a plan to manage risks
- the public sector comparator (which seeks to establish if the project offers value-for-money compared with a public sector model) was correctly applied
- the project was on time
- project management was regularly and independently reviewed.

High-level project oversight

The approved business case for the radio network set out the proposed governance and management arrangements for the project, including oversight by a ministerial steering committee and creation of a project steering group (with representatives of the participating agencies). The bureau was to be responsible for managing the project.

Figure 4B shows the project's governance and management framework.

FIGURE 4B: PROJECT GOVERNANCE AND MANAGEMENT FRAMEWORK



Note: The project director prepared reports to the ministerial sub-committee on behalf of a project steering group (which included representatives of the Department of Justice, the Department of Treasury and Finance, the bureau and the emergency services agencies, and independent advisers).
Source: Victorian Auditor-General's Office.

A key element of the overall governance and project management framework was the establishment of a ministerial sub-committee solely focused on the radio network. The sub-committee provided high-level direction, and monitoring of the radio network project and of contract negotiations. It comprised senior representatives of the Department of Justice, Victoria Police, the Metropolitan Fire Brigade, Metropolitan Ambulance Service, Department of Treasury and Finance and the bureau. The sub-committee met monthly and reported to the ministerial steering committee for emergency services telecommunications.

Project management staff

The bureau established a project management team within its organisation, headed by a project director with extensive experience in telecommunication projects. The team's membership has been stable over the life of the project. All team members have been trained in the *PRINCE2* project management methodology[7]. The team is supported by technical, commercial and legal advisers, and reports directly to the ministerial sub-committee.

The project management team used a project risk register, and reported regularly to the sub-committee about risks and mitigation actions taken. The team also used a formal "lessons learnt" process, which led to the establishment of a program office within the bureau, the appointment of a lead negotiator during the tender evaluation stage, and a better understanding of the public sector comparator.

The bureau established a contract negotiation team, comprising the lead negotiator, the project director and the contract director. A reference group (comprising representatives of the emergency services agencies) supported the team on technical and commercial matters.

Project plans

At the outset, a formal project implementation plan was prepared. It clearly allocated roles and responsibilities, established the timetable and milestones, and was supported by the emergency services agencies' and the contract's implementation plans.

Public sector comparator

The project management team appropriately used the public sector comparator to assess whether or not proposals by respondents offered value-for-money. Its analysis showed that Motorola's proposal offered the best value-for-money.

Timeliness

At the time of our audit, the project was running in line with the timetable in the contract, but network acceptance is now scheduled to be some 8 months behind the timetable in the 2002 business case (initially planned for August 2004). This was mainly due to some initial delays in meeting all the necessary requirements for funding approval, and finalising the request for expressions of interest and request for proposal documents (including finalising users' requirements).

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[7] *PRINCE2* is a recognised better practice method for effective project management, and is used in both the private and public sectors.

Project management quality assurance

Our May 2004 *Report on Public Sector Agencies, Results of special reviews*, commented on the management of the Mobile Data Network Project (another major emergency services telecommunications project managed by the bureau). In that report, we recommended that an internal auditor (or other similarly independent but suitably skilled expert) be engaged to regularly review, and provide independent assurance about, the management of that project. The bureau responded to our recommendation by indicating that it would continue to use a wide range of independent expertise, and continue with its quality initiatives, to provide the appropriate checks and balances.

We noted during this audit that the internal auditors of one participating agency had audited their agency's management of the radio network project, and had identified some areas for improvement.

The bureau's internal auditor (or another similarly independent but suitably skilled expert) had not reviewed the bureau's management of the project. We acknowledge, however, that the contract for the radio network had been already been let when we made our 2004 recommendation.

Conclusions

The project governance and management framework was adequate and appropriate. Strengths of the framework included the operation of a dedicated, high-level ministerial sub-committee, the experienced and well-trained project management and negotiation teams, and the focus on risk management.

The project has been undertaken in accordance with the government's *Partnerships Victoria* policy.

The project is running on time, once some initial delays were resolved.

Recommendation

1. **That the Bureau of Emergency Services Telecommunications engage an internal auditor (or other similarly independent but suitably skilled expert) to review the project's management and progress, over its remaining life.**

4.4.2 Were probity arrangements adequate?

In assessing whether the probity arrangements were adequate, we examined if:

- a comprehensive probity/tendering plan was prepared and approved before the release of the request for expressions of interest document, which provided for a fair tendering process (by detailing tender evaluation criteria, policy on handling conflicts of interest, confidentiality and security requirements, arrangements for handling non-conforming tenders and tender questions, a negotiation regime and communication protocols)
- the probity/tendering plan was consistent with government policy (including *Partnerships Victoria* policy) and good practice
- the requests for expressions of interest and proposals documents were comprehensive and were approved at an appropriate level before being issued
- the technical and commercial aspects of proposals were evaluated against the stated criteria by separate committees working independently (under the direction of a steering committee), and whose members were appropriately qualified
- the probity auditor issued unqualified reports on the tendering process.

In October 2002, independent probity advisers developed a comprehensive probity plan for the project, which was consistent with relevant government policies.

The bureau sought expressions of interest for the design, construction, finance, maintenance and operation of a new digital metropolitan mobile radio network in November 2002. The request for expressions of interest document was comprehensive and appropriately approved by the ministerial sub-committee before being issued, as was the subsequent request for proposals document.

The bureau received 7 responses to its request for expressions of interest. These were assessed by commercial and technical evaluation panels acting in accordance with a formal evaluation plan (which had been prepared in conjunction with the expression of interest document).

Both panels comprised of appropriately qualified representatives from the emergency services agencies, the bureau, the Victorian Government Solicitor's Office and of the Department of Treasury and Finance, and the bureau's technical, legal and commercial advisers.

All proposals were assessed against evaluation criteria set out in the approved request for expressions of interest document, or request for proposals document, as appropriate. Comprehensive evaluation reports were prepared at the request for expression of interest, request for proposals and contract negotiation phases. All evaluation reports were supported by favorable reports by the probity auditor and the probity adviser.

Three of the 7 respondents to the request for expressions of interest were short-listed and asked to submit proposals. One respondent that was not short-listed was deemed to only partially comply with the mandatory criteria, with that decision being taken after technical, legal and probity advice was considered. The other unsuccessful respondents were assessed as not meeting the mandatory criteria.

After all submitted proposals were evaluated, 2 respondents were assessed as being the most compliant and proceeded to the negotiation phase. The aim of negotiations was to resolve the remaining commercial and technical departures from the mandatory criteria set out in the request for proposals document.

Ultimately, one proposal was selected, having been assessed as:

- offering the best value-for-money, in terms of meeting technical and commercial requirements, and affordability when compared with the public sector comparator
- substantially complying with the request for proposal requirements, but still containing some departures from those requirements.

The first major departure from the request for proposal requirements related to the area to be covered by the network. Although the proposal was that the network would exceed the required coverage in many geographical areas, it identified that it would not provide the required coverage in some other areas. The bureau received technical advice that the operational impacts of these differences would only be known after the network was tested. The ministerial sub-committee assessed the proposed coverage area as operationally acceptable.

A second major departure concerned the security of the radio network. The request for proposals required all the network's communication paths to be encrypted[8]. The selected proposal did not propose to encrypt all communication paths. The bureau's technical advisors concluded that the risks to the state of the unencrypted communication paths needed to be assessed. At the time of the audit, the bureau was investigating possible technical solutions to the matter.

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[8] Encryption is the scrambling of data in such a way that a secret code is needed to unscramble it.

One or both of these departures may require expenditure from the contingency funding allowance.

Conclusion

The procurement process was consistent with good probity practice and government policy.

4.5 Are the contractual arrangements appropriate?

In assessing whether the contractual arrangements for the project were adequate, we examined if the contract:

- adequately specified the project objectives, user requirements, key milestones and targets
- allocated responsibility for key risks to the respective parties, in line with the *Partnerships Victoria* policy
- offered technology that appeared to address the key user requirements on a value-for-money basis
- included an adequate performance measurement and management regime, incorporating incentives and sanctions linked to performance
- allowed for changes in user requirements and for updating technology
- set-out an agreed contract price that was in line with the approved budget
- facilitated development of a training/change management plan to achieve transition from present operations to using the new radio network.

The radio network contract entered into in March 2004 specifies:

- the approved project objectives and milestones, risks and to whom they are allocated, each party's rights and obligations, and users' requirements
- pricing methods to be used in the event that the state decides to expand or modify the network
- performance measures for service availability, equipment responsiveness, service restoration and service reliability. It also provides for payments to be changed if performance does not meet requirements
- the state's security, back-up and disaster recovery requirements
- the contractor's obligation to develop and provide the emergency services agencies with computer-based "train the trainer" training programs.

As explained earlier in this part of the report, the contract does not require the contractor to satisfy all the user requirements in the request for proposal document. Nevertheless, the bureau concluded that the contracted radio network offered the best value-for-money and substantially complied with the requirements set out in the request for proposals document.

The estimated contract payments are within the approved budget of the project.

The government's *Partnerships Victoria* policy generally requires risks to be allocated to the party best able to manage them at the least cost. The contract allocates financing, design, development and service delivery risks to the contractor.

The key risks remaining with the state (either allocated by the contract or arising from the project generally) are that:

- access to sufficient radio frequencies (that is core and non-core spectrum) may not be able to be gained by the state to enable the radio network to operate as intended (the bureau is working with the Australian Communications Authority and existing users to secure access to the required radio frequencies. The Australian Communications Authority has already embargoed some of the required radio frequencies for the radio network)
- the area to be covered by the radio network may not fully meet operational requirements and/or it may not be economically or technically viable to extend the coverage area as required
- network security may be less than envisaged if it is not economically or technically viable to ensure data encryption on all communication paths (although the contracted level of data encryption provides significantly better security than is available on the existing analogue network
- the costs to agencies of implementing the network (including Emergency Communications Victoria's works) may be more than budgeted
- the cost of modifying the radio network to take up any technological advances which occur before 2012 may exceed budget funding
- there may be delays in transitioning operational staff to the new radio network (although the bureau is currently developing a coordinated state implementation planning framework, and emergency services agencies have taken steps to make users aware of, and help accept, the proposed radio network)
- service demand may exceed the specified level and the network's capacity may not be sufficient to meet the higher needs, resulting in contract costs exceeding budget

- additional costs may arise when the contract expires which will need to be met by the state (while the state can acquire the radio network for an agreed written-down value when the contract expires, it would have to lease the communications towers on commercial terms and negotiate a software licence fee). Alternatively, the network may be economically or technically unviable when the contract expires, and needs to be replaced
- the contingency allowance in the budget may not be adequate to provide for all eventualities (as well as those already referred to in this part of the report).

The project management team maintains a risk register for the project, which includes the above risks. The ministerial sub-committee also monitors project team actions to mitigate risks.

Conclusion

Contractual arrangements for the radio network were adequate. Development of the network is running on time with the timetable in the contract.

The contracted radio network substantially meets the user requirements documented in the request for proposals document, but departs in 2 major areas. These departures relate to the area covered by the network and the extent of data encryption. There are risks that these departures will increase costs and/or reduce the operational usefulness of the network. Another key risk to the state is that it will not gain access to sufficient radio band frequencies to enable the radio network to operate as intended.

We cannot predict the likely significance or impact of the above risks. The bureau and participating agencies will need to. To this effect, a risk management regime has been established to manage the state's risks arising from the radio network, which need to be carefully managed by the bureau and the emergency services agencies.

Training and change management activities of the emergency services agencies are progressing appropriately.

5. Community Support Fund grant to Bayside Employment Skills Training Inc.

5.1 Audit conclusions

In May 2003, Bayside Employment Skills Training Inc. (BEST) was awarded a $500 000 Community Support Fund (CSF) grant by the Department for Victorian Communities (DVC) to redevelop a property formerly used as the Oakleigh court house into an arts and cultural centre. At March 2005, $150 000 had been paid to BEST.

In mid-November 2004, following news that BEST was put into voluntary liquidation, concerns about the use of these grant funds were brought to my attention.

This audit evaluated DVC's assessment, monitoring and management of the courthouse redevelopment grant. Our findings should not be interpreted as reflecting the standard of management generally applied to the large number of grants made by DVC.

The government determined that the project would be funded from the CSF. This decision was publicly announced as a government pre-election commitment. The application from BEST was submitted 5 months later.

We expected that BEST's grant application would have been subject to some form of analysis of the risks associated with the government's funding commitment. However, no analysis was undertaken. DVC advised that it did not analyse whether the grant should be made because that question had already been resolved by the government when it publicly announced its commitment to the project and decided that the project would be funded from the CSF. DVC advised that it, instead, focused its attention on ensuring that terms and conditions were incorporated in the project agreement.

Our audit found that the terms and conditions established for the project funding were not sufficiently robust to ensure that the funds allocated were applied appropriately for the approved purposes of the grant. Further, in our opinion, for funded projects such as this, an analysis designed to safeguard the state against any adverse risks that may flow from providing funding to the project should have been undertaken and documented.

Given BEST's dependency on grant funding and with grant instalments paid in advance, a major risk associated with this grant was the loss of public moneys, should BEST cease to operate.

DVC's monitoring of the grant to BEST was largely in accordance with its funding agreement. However, these procedures did not provide sufficient assurances that grant funds were used for the approved purposes, or that BEST remained financially viable. Had DVC been aware of BEST's financial position at 30 June 2003, it may not have provided further grant funds of $70 000 in May 2004.

Work on the court house redevelopment ceased at some stage during mid to late 2004. When BEST went into liquidation in November 2004, the project was about 6 months behind schedule with major works due to commence at the court house.

About 40 per cent (or $60 500) of the $150 000 funding provided by DVC to BEST to redevelop the court house, was not used for that purpose. Instead, these funds were used to support BEST's business when it started to experience financial difficulties. Discussions with the liquidator indicated that it is highly unlikely that DVC will recover these funds.

This report makes several recommendations to improve grant administration and management. It is pleasing that since the date of the BEST grant, DVC has made improvements to its grant assessment, monitoring and acquittal procedures and is currently developing a new grant information system.

5.2 Background

The Community Support Fund (CSF) was established under the *Gaming Machine Control Act 1991* to return a proportion of the profits from gaming revenue to community projects. Funding is provided for problem gambling research; education, treatment or rehabilitation relating to drug abuse; financial counselling services; support and assistance for families in crisis; youth; sport and recreation; community advancement; and arts and tourism.

DVC administers the Fund which makes grants of up to $1 million to community and local government organisations.

Other state government departments, including DVC, are also allocated CSF funds (which can be in excess of $1 million) to deliver activities within the government's community strengthening framework. Funds allocated to these departments are approved by either the government's CSF Committee or through the Expenditure Review Committee[1].

[1] The CSF Committee and Expenditure Review Committee are both committees of Cabinet.

During 2003-04, the government approved 72 CSF grants to community and government organisations, totalling over $74 million. At February 2005, the department was administering 266 grants valued at more than $472 million.

In October 2002, the then Department of Natural Resources and Environment (owner of the property) provided Bayside Employment Skills Training Inc. (BEST) with a 3 year licence to occupy the former Oakleigh court house, undertake preliminary repair works and deliver a range of community art and culture activities[2]. The repair works started almost immediately following the issue of the licence.

The following month, the government made a pre-election commitment to redevelop the court house and provide BEST with a $500 000 CSF grant to manage the project.

In May 2003, a CSF grant of $500 000 was awarded to BEST, a community-based, not-for-profit association that provided adult education, training, work experience, job placement, traineeships and apprenticeships and social and welfare support to young people. BEST was to contribute $20 000 to the project.

The grant was for BEST to redevelop the former Oakleigh court house (which was vacated in 1994) into an arts and community cultural centre. BEST was to manage the $520 000 redevelopment.

BEST operated for about 25 years. With over 90 per cent of its revenue derived from commonwealth, state and local government grants, BEST relied heavily on grant funding for its survival.

BEST has been provided with 2 other CSF grants, one for $106 000 in November 2000 and another for $108 750 in August 2002[3]. The purpose of these grants was to develop and coordinate a youth services training program.

In mid-November 2004, BEST was placed into voluntary liquidation as it had insufficient funds to continue operating. At that date, DVC had provided BEST with 2 grant instalments totalling $150 000 ($80 000 in October 2003 and $70 000 in May 2004). Redevelopment works on the court house have ceased.

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[2] Department of Natural Resources and Environment memorandum, 22 August 2002.

[3] These grants were made by the Department of Premier and Cabinet who administered the CSF prior to DVC.

Former Oakleigh court house to be redeveloped by BEST.

5.3 Purpose and scope of the audit

In December 2004, a concern that grant funds provided to BEST may not have been used for the purposes approved, was brought to the attention of my Office.

In addition to examining this concern, we also assessed whether DVC had an appropriate framework to manage the grant, including adequate assessment, acquittal, project monitoring and evaluation processes.

5.4 Grant management framework

The CSF grants program should be managed within an appropriate framework for the effective administration of grants. This framework should include:

- documented program guidelines
- guidance to potential applicants
- established selection criteria
- a formalised selection process
- grant monitoring and acquittal procedures
- project evaluation processes.

DVC is a significant manager of a range of grant programs, yet because it was a relatively new department (established in December 2002) at the time the grant to BEST was publicly announced, it had not yet completed documenting its CSF grant management procedures. Procedures in place at this time included:

- provision of a comprehensive information package for grant applicants, including guidelines about who will (and will not) be funded, eligibility criteria, funding conditions, further contact details, frequently asked questions, detailed grants criteria and an application form[4]
- seeking of applications on an ongoing basis
- assessment and evaluation of applications by DVC staff using a standard appraisal form against established selection criteria
- informal exchange of information with other funding agencies about an applicant's capabilities and performance
- a review of all DVC CSF grant application assessments and associated recommendations, by its Community Advisory Panel[5], which also provides independent advice to DVC and the Minister for Victorian Communities on funding priorities
- endorsement of CSF grant applications by the CSF Committee of Cabinet
- approval of applications for funding by the minister
- grant acquittal processes and project monitoring procedures.

Since the grant to BEST, DVC has taken action / been involved in several initiatives to improve its management and administration of grants. This included:

- developing a Grant Assessment and Accountability Framework in December 2003, which outlines the key tasks associated with DVC's management and administration of all grants. A procedural manual to support this framework is currently being developed

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[4] Revised CSF grant guidelines were issued in March 2004.

[5] Members of the panel have expertise in areas of community advancement, community strengthening, volunteering, philanthropy, public policy and community enterprise development. The Community Advisory Panel is now known as the Community Advisory Council.

- establishing an interdepartmental committee[6] at the request of the Department of Premier and Cabinet, to make recommendations to improve grants administration across government. The committee's report is currently under consideration by the State Co-ordination and Management Council[7]
- commencing development of a whole-of-department electronic grants management system, which holds information on both grant applicants and grant recipients. An interim system was in use in July 2004, and the new system is expected to be operating in about 12 to 18 months. The new system will be accessible to all public sector agencies
- developing standard contracts for grants
- participation in the Co-ordinating Community Infrastructure working group to better co-ordinate government investment in infrastructure projects.

5.5 Assessment process

The legislation[8] provided for payments to be made from the Community Support Fund for a range of purposes described in the Act.

DVC has responsibility for administering applications and payments for projects. Its normal practice is to undertake an assessment of each application for funding to ensure that:

- only eligible organisations (community organisations, local government and philanthropic bodies) which meet prescribed requirements receive funding
- projects funded are those specified for funding in the program guidelines
- project proposals represent value for money
- the risk, that the grant recipient will not complete the project or grant funds are lost, is minimised.

[6] The interdepartmental committee comprises representatives from the following departments: Victorian Communities; Human Services; Justice; Sustainability and Environment; Treasury and Finance; and Innovation, Industry and Regional Development.

[7] The report includes recommendations to improve grant funding agreements; monitor an organisation's compliance with statutory obligations; establish risk assessment and management procedures and formal evaluation processes; and to consider linkages with commonwealth departments' grant registers.

[8] The *Gaming Machine Control Act 1991* was the legislation in place at the time the grant was made to BEST Inc. This Act was repealed from 1 July 2004.

As previously noted, the decision to fund the court house redevelopment project was announced on 26 November 2002 as a pre election commitment. BEST's grant application was received by DVC in March 2003 and subsequently approved by the Minister in May 2003.

We expected that BEST's grant application would have been subject to some form of analysis of the risks associated with the government's funding commitment. However, no analysis was undertaken. DVC advised that it did not analyse whether the grant should be made because that question had already been resolved by the government when it publicly announced its commitment to the project and decided that the project would be funded from the CSF. DVC advised that it instead focused its attention on ensuring that terms and conditions were incorporated in the project agreement.

BEST occupied and commenced repair works to the court house from October 2002.

Conclusion

We determined that the terms and conditions for the project funding were not sufficiently robust to ensure that the funds allocated were applied appropriately for the approved purposes of the grant. In our opinion, for funded projects such as this, an analysis designed to safeguard the state against any adverse risks that may flow from providing funding to the project should have been undertaken and documented.

Recommendation

1. **That, for any funded project, regardless of the circumstances of the funding decision, the funding agency should analyse the risks involved and implement the steps necessary to safeguard the state from any adverse consequences that may flow from providing funding to the project.**

RESPONSE provided by the Secretary, Department for Victorian Communities

The government determined that this project would be funded from the Community Support Fund as it was entitled to do under the CSF legislation. The department's responsibility was to ensure that the necessary formal approvals were obtained and that robust terms and conditions were put in place for delivery of the project.

RESPONSE provided by the Secretary, Department for Victorian Communities - continued

DVC has put in place a risk management framework for the grants that it administers to ensure that any risks are appropriately addressed both in the terms and conditions of project agreements and in subsequent monitoring and reporting procedures. Any steps taken to safeguard the state from any adverse consequences flowing from the provision of funding to a project must, of course, be consistent with ministerial approval.

5.6 Grant management and acquittal processes

Grant management and acquittal processes are designed to ensure grants are used for the purposes intended and grant objectives and expected outcomes are achieved. In assessing DVC's management of the grant, we reviewed the department's funding agreement, grant monitoring and acquittal processes.

5.6.1 Funding agreement with BEST

Funding agreements, clearly outlining the work to be undertaken, enable the progress of funded projects to be effectively monitored and provide funding agencies with a mechanism to determine whether work funded has been undertaken. DVC's funding agreement with BEST included:

- the grant's terms and conditions
- guidelines for publicly acknowledging the grant
- a project description and budget
- project timelines, milestones, monitoring, evaluation and payments framework.

Figure 5A below shows the project milestones and deliverables, and the funds to be made available at each milestone.

A review of BEST's funding agreement disclosed that the agreement:

- provided for DVC to make upfront payments to BEST, in advance of works being done, because BEST did not have the necessary funds. This was a departure from the grant procedure of reimbursing grantee's expenses, after they have been incurred[9]. To mitigate the risks associated with advance payments, DVC required BEST to achieve milestones, outlined in the agreement, before it would make payments.

[9] CSF grant guidelines, 2002, Frequently asked questions, p. 4.

- did not require BEST to advise DVC of changes in its legal status, management structure or other circumstances that could impact on either its eligibility to receive grants or its capacity to complete the funded project.

FIGURE 5A: PROJECT MILESTONES ESTABLISHED FOR BEST INC.

Milestone and date	Deliverable by BEST Inc.	Grant funds ($)
1. Agreement signed (September 2003)	• signed agreement • written confirmation that BEST will be required to raise any additional funds to complete the project.	80 000
2. Council planning permit approved, preparatory works commenced (October 2003 - February 2004)	• approved council planning permit.	—
3. Satisfactory completion of Stage 1 (February 2004)	• stage 1 evaluation report • tax invoice evidencing expenditure of at least 80 per cent of prior grant funds ($80 000).	70 000
4. Commence major works (February - June 2004)	—	—
5. Works in progress (July 2004)	• 6-monthly progress report • tax invoice evidencing expenditure of at least 80 per cent of prior grant funds ($70 000).	150 000
6. Continue major works (July - September 2004)	• progress report • tax invoice evidencing expenditure of at least 80 per cent of prior grant funds ($150 000).	150 000
7. Complete major works (October -December 2004)	—	—
8. Satisfactory completion of Stage 2 (December 2004)	• stage 2 evaluation report • tax invoice evidencing expenditure of at least 80 per cent of prior grant funds ($150 000).	25 000
9. Complete minor works / landscaping (January - February 2005)	• occupancy certificate granted by council.	—
10. Arts centre opened (February 2005)	—	—
11. Satisfactory completion Stage 3 (March 2005)	• stage 3 financial and evaluation reports • tax invoice evidencing expenditure of all grant funds.	25 000
Total		$500 000

Source: Schedule 3, Community Support Fund Terms and Conditions of Grant, 29 September 2003.

Despite making payments in advance of works, DVC did not require BEST's project reporting to be rigorous and did not closely monitor the project. DVC's accountability requirements (which were the triggers for grant instalments to be paid) were based solely on BEST's project progress reports, without independent verification[10] or certification by architects and/or external contractors that works were completed, or expenditure incurred.

The redevelopment of the court house was expected to take 18 months. There was no requirement for BEST, during this period, to provide financial reports on its operations or on the funded project (such as project expenditure and budget comparisons), other than project reports supporting grant instalment payments.

The funding agreement required BEST to provide a financial and an evaluation report on the completion of the project, but the form and contents of these reports were not specified.

In the event that funds are not used for the purposes for which they were intended or the project was completed for less than the granted amount, DVC may have a legal right to recover these funds. However, the funding agreement does not specifically state this.

Conclusion

The requirement on BEST to achieve milestones before grant instalments were paid gave DVC an element of control over BEST's use of the grant. It also minimised the loss to the state in the event of BEST not meeting its obligations. However, the requirements of DVC's funding agreement with BEST were not sufficiently rigorous to enable the department to ensure works were adequately completed before further funding was provided.

Recommendations

2. **That DVC establish risk management procedures for grant recipients that are framed against the assessed level of risk. More rigorous financial and project reporting arrangements should be incorporated into grant agreements commensurate with the assessed risks, to ensure the grant funds are applied for the approved purposes and to minimise any potential for loss of public funds.**

[10] Such as invoices evidencing the purchase of goods and services.

3. That future funding agreements:

- **require sufficient evidence, such as independent confirmations, copies of invoices, photos or videos to support the completion of work**
- **for larger and riskier projects, require grant recipients to provide information on their financial position for each quarter**
- **require grant applicants to provide information regarding changes in their circumstances to DVC**
- **provide for the recovery of grant funds if the agreement's conditions are breached.**

Standard funding contracts for all grants administered by DVC were recently developed and will be introduced in future funding rounds. The contracts include information suggested in the last recommendation above.

RESPONSE provided by the Secretary, Department for Victorian Communities

DVC agrees with recommendation 2 and is implementing it.

DVC is introducing standard agreements to be used across DVC to support a consistent framework for grant making across the department as well as provide a good balance (based on risk management principles) between the need to ensure all agreements are legally robust and avoid processes that are too onerous.

It is not unusual for the department to make an up front payment to a community organisation to enable it to get works or other activities underway. Many community organisations do not have the resources to fund initial works and then invoice back to government. Risks are managed, in the first instance, by risk assessment processes and then by clear milestones for payment. DVC's recently introduced standard agreements have provisions for the recovery of funds.

5.6.2 Grant monitoring

Monitoring is an important part of responsible management of any grant process. However, in determining reporting requirements and processes, there is a balance between the need to protect public funds (through agencies managing the grant) and the effort and resources required by non-government organisations to comply with requirements.

Maintenance of sound monitoring practices is important to avoid:

- project failure
- making payments when previous amounts provided have not been used appropriately.

In mid-November 2004 (when BEST went into voluntary liquidation), the redevelopment of the court house was about 6 months behind schedule. At this date, DVC had provided BEST with 2 grant instalments totalling $150 000. The first grant instalment of $80 000 was made in October 2003. A further $70 000 was paid in May 2004.

BEST provided DVC with the Stage 1 evaluation report in April 2004. That report said that preparatory works, largely restricted to securing the site against further deterioration, had begun. Figure 5B shows project progress and costs incurred at April 2004.

FIGURE 5B: REDEVELOPMENT OF COURT HOUSE – PROJECT PROGRESS AND COSTS, APRIL 2004

Progress	Costs incurred ($)
Key achievements:	
• public launch of project, 12 November 2003	2 500
• steering committee established	-
• feasibility study conducted	5 000
• architect engaged, plans and planning application submitted to council	14 175
• traffic engineer engaged	13 175
• preparatory work carried out on site to reduce further damage to premises.	24 000
Other:	
• BEST Inc. project management	20 000
• administration costs.	2 889
Total	81 739

Source: BEST Inc. Stage 1 evaluation report, 15 April 2004.

At the date of our audit, no information had been provided to DVC on the reasons for the project delays or how the second grant instalment of $70 000 was applied. DVC has requested information on BEST's use of the $70 000 grant instalment from the liquidator.

In the main, DVC monitored BEST and provided grant instalments in accordance with the funding agreement. However, the second grant instalment of $70 000 was provided by DVC to BEST in May 2004 without the council planning permit being obtained, as required by the funding agreement.

The council permit was provided to BEST 3 months later, in August 2004. We found no evidence that DVC considered the implications of this non-compliance before making the second grant payment to BEST.

DVC did not visit the court house when considering the grant application or attend BEST project meetings (as an observer) to keep informed about project progress. Further, while DVC staff indicated that they attended the launch of the project, we found no evidence that they visited the court house to inspect the work undertaken. The funding agreement provided for DVC to do both these things.

DVC did not request any other physical evidence of project progress (such as photos or videos of completed works).

As indicated previously there was no requirement for BEST to provide financial reports on its operations. This is despite the risk of a grant recipient ceasing to operate (and therefore not completing a funded project, or misusing grant funds) being a key risk facing community groups, and a risk that funding agencies must closely monitor.

BEST's financial position started to deteriorate in 2002-03 after it failed to obtain continued commonwealth and state funding for employment training programs provided by it[11]. Its half yearly financial statements to 31 December 2002, 3rd quarter accounts to 30 March 2003 and cash flow statements provided the first indication of its worsening financial position.

While these statements were available, they were not required by the funding agreement. DVC told us that it was not usual practice to request quarterly financial reports from grant recipients due to the additional burden this would place on community organisations.

DVC did not become aware of BEST's financial difficulties until one month before it went into liquidation in November 2004.

DVC provided BEST with $150 000 in 2 instalments, despite BEST not acquitting a previous grant of $106 000. Acquittance of the previous grant was due on 30 October 2002. DVC sought the acquittance from BEST 2 years later, in September 2004.

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[11] Direct commonwealth funding of BEST as a Community Work Co-ordinator ceased from 30 June 2002 (2001-02 funding was about $3.2 million). State government funding of BEST for the community business employment program ceased in August 2003 (2002-03 funding was about $413 000).

Conclusion

DVC generally monitored the grant to BEST in accordance with the conditions of its funding agreement. However, given the deficiencies in the agreement (reported previously), it was not able to ascertain whether or not the grant funds advanced to date were used for the purposes provided.

Had DVC had details of BEST's financial position at 30 June 2003, it may not have advanced the second grant instalment of $70 000 in May 2004. This would have minimised potential losses to the state.

Recommendations

4. **That in monitoring CSF grants, DVC ensure grant instalment payments are not made until previous grants are appropriately acquitted.**
5. **That DVC monitors the ongoing financial viability of grant recipients.**

We understand that the State Co-ordination and Management Council are currently considering a recommendation that grant agencies develop procedures for identifying, evaluating and managing risk associated with the financial viability of grant recipients.

RESPONSE provided by the Secretary, Department for Victorian Communities

DVC has already acted on these recommendations.

The report states that the development of the court house was about 6 months behind schedule. When such delays occur, they are managed by agreed variations to the terms and conditions.

The previous grant to BEST of $106 000 was acquitted in December 2004.

DVC accepts that closer monitoring should have occurred before payment of the second grant.

5.6.3 Use of grant funds by BEST

In December 2004 concern was raised with my Office that grant funds provided to BEST may not have been used for the purposes provided.

In October 2004, DVC raised concerns about BEST's financial viability when it received a further application for a $750 000 grant from BEST to establish a multi-purpose youth centre (one month before BEST went into voluntary liquidation).

BEST's 2002-03 and 2003-04 financial statements, submitted with the application, showed a trend of poor financial results. Up until this time, DVC had only received BEST's 2001-02 financial statements (which were submitted with its March 2003 application for the court house redevelopment).

Figure 5C shows BEST's key financial information over a 4-year period to 2004.

FIGURE 5C: BEST - KEY FINANCIAL INFORMATION 2001 TO 2004

Key items	2000-01	2001-02		2002-03		2003-04	
	($'000)	($'000)	% change	($'000)	% change	($'000)	% change
Equity (at 30 June)	658	702	6.7	474	(32.5)	50	(89.4)
Revenue	3 772	5 512	46.1	3 033	(44.9)	1 403	(53.7)
Expenses	3 838	5 467	42.4	3 262	(40.3)	1 827	(44.0)
Surplus/(Deficit)	(66)	45	168.1	(229)	(608.9)	(424)	(85.1)
Net cash provided by operating activities, surplus/(deficit) (a)	645	(162)	(125.1)	(419)	(158.6)	(180)	57.0

(a) Cashflow associated with core business operations.

Source: BEST Inc. financial statements.

In March 2003, a special meeting of BEST directors was held to discuss its financial situation. Concerns over the liquidity and viability of BEST were raised and 8 measures were proposed to address the concerns. These included staff reductions; savings on rented properties; strategies to increase revenue; and a reduction in the chief executive officer's salary package[12]. BEST also had discussions with local community members regarding assistance measures and the potential to merge with other community groups.

In September 2004, BEST asked a state government education agency, that had funded it in the past, for financial assistance. The agency engaged a consultant to review BEST's financial situation and to make recommendations about their continued operation. Figure 5D shows the consultant's key findings.

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[12] BEST Inc., 2003, *Analysis of Financial Situation of BEST Inc. for the special meeting of the Board of Directors to be held 12 March 2003,* Chief Executive Officer, Melbourne.

FIGURE 5D: CONSULTANT'S FINDINGS ON BEST INC.

Key findings

• BEST's financial performance and viability have deteriorated over the past 2 years (2003 and 2004) to the point where its ability to remain solvent must be questioned.
• The reasons for the deterioration in BEST's financial viability were:
  • a substantial drop in grant income, from \$5.3 million in 2002 to \$1.1 million in 2004
  • the time taken to address the changed circumstances and to reduce costs to reflect the lower income.
• BEST has remained solvent by using some of its specific-purpose grants funding. At 30 June 2004, grants used for operational purposes amounted to \$132 000. BEST's manager advised that at 30 September 2004, grants used for operational purposes totalled \$188 000.
• There is a shortfall of funds available to meet staff liabilities. At 30 September 2004, staff entitlements amounted to around \$210 000 (a). BEST has a term deposit of only \$90 684 to cover these entitlements.

(a) Includes statutory entitlements such as annual leave and long service leave (total \$109 000) and other staff costs such as redundancy payments of \$101 000, should BEST Inc. cease trading.

Source: Report on Planning and Organisational Assessment of Bayside Employment Skills Training Inc., 7 October 2004, N. Maher, Melbourne.

The consultant's findings and details of BEST's financial situation were not provided to the other government agencies that funded BEST.

Our review of BEST's expenditure records for the court house redevelopment project and discussions with the liquidator's staff and former BEST staff, confirmed the consultant's findings. At the date of the audit:

- expenditure of \$89 500 was incurred on the redevelopment project (from 2 DVC grant instalments totalling \$150 000)
- amounts paid to BEST for services provided (project management, preliminary works on the site and community consultation) totalled \$61 500 or 69 per cent of the total expenditure to date.

On the basis of the information available at the date of our review, it is likely that DVC funds of \$60 500 provided to BEST were not used for the purpose provided.

Conclusion

Our examination of BEST records[13] disclosed that about 40 per cent (or \$60 500) of the \$150 000 funding provided by DVC to BEST to redevelop the court house, was not used for approved purposes. This examination also led us to conclude that, in all likelihood, BEST used these funds to support its business when it started to experience financial difficulties. Based on our discussions with staff of the liquidator and former BEST staff, we consider the likelihood of DVC recovering any of the funds is remote.

[13] BEST financial records held by the liquidator were examined in March 2005.

RESPONSE provided by the Secretary, Department for Victorian Communities

DVC relied upon the audited financial statements of BEST for the 2001-02 financial year in recommending grant approval for the project. DVC did not have access to the minutes of the BEST Board meeting nor to the findings of the consultant's report prepared some 18 months later in October 2004.

DVC has upgraded its grants system and is introducing standard contracts which require the department to be advised of any change in the financial or other circumstances of a recipient organisation which could affect compliance with a grant agreement.

5.7 Grant information

There are a considerable number of organisations which receive grants from different government agencies. In managing these grants, each agency has gathered information on the status and performance of these organisations and undertaken some form of financial assessment of them. Currently, this information is shared within and between agencies in an informal and adhoc fashion.

There is no mechanism by which grant information held by government agencies can be readily accessed and used by other agencies, including Commonwealth agencies, in the management of their grants. This situation results in duplication of effort and can result in agencies not receiving information regarding the changed circumstances of grant applicants and recipients, on a timely basis.

DVC's development of a whole-of-department electronic grants management system, which commenced in 2003 is intended to improve the administration, assessment and monitoring of grants, streamline business processes and improve the reporting and analysis of all grant programs.

In 2004, DVC received funding approval for its new grant system and is currently involved in a tender process to select an appropriate supplier. The system is expected to have the capacity to be extended to other state government departments.

Recommendation

6. That DVC hold discussion with other government agencies with significant grant programs with a view to establishing a statewide database containing grant information, which can be accessed by these agencies and links to the Commonwealth Government's central grants register. The system should enable agencies to have input and access information on organisations that have received state government grants.

RESPONSE provided by the Secretary, Department for Victorian Communities

DVC has started to implement this recommendation through its electronic grant management system and will continue to lead future development in this area across state government.

6. Management of internet security by local governments

6.1 Audit conclusions

New security threats are regular occurrences for the managers and users of internet systems, and managing these threats is a concern for all users. Effective internet security needs planning, expertise, continuous attention and a long-term commitment.

Victoria's local governments are increasingly using the internet to manage their operations and deliver services to the public. As these uses, and their extent continues to grow, so do the risks to the security of local government internet systems.

The local governments reviewed have taken positive steps to establish effective internet security. The approaches used to manage the risk of virus infection were generally sound, as were their "first-line defences", including firewalls, against internet threats. However, our review of the adequacy of internet security management practices concluded that, overall, further improvement was required. In particular:

- information technology (IT) disaster recovery planning needed to improve
- security over internet systems could also be improved by using vendors' good practice configuration guides and improving password standards to reduce the risks of exploiting system vulnerabilities
- more attention to the monitoring of security-related activity was needed, including through the use of software that assists with this analysis
- in some cases, technical security skills were not adequate
- the risk assessment practices of some local governments were basic
- most local governments had not documented staff roles and responsibilities for IT system security
- while most local governments had some policies about internet security, they were not always complete, endorsed by management or based on recognised standards
- most internet systems were not independently audited.

Our recommendations are made to assist local governments strengthen their internet security management practices, particularly in light of the continuing move to provide an expanded range of services via the internet. While our review was limited to 5 local governments, our recommendations are likely to also have relevance to other local governments.

RESPONSES provided by Chief Executive Officers of the audited local governments

The local governments involved in the audit agreed with the report conclusions and recommendations.

6.2 Background

Local governments increasingly rely on IT systems, including internet systems[1], to manage their operations and to deliver services to their communities.

While the internet delivers benefits for local governments, it also exposes them to a variety of risks (such as access to, or use of, systems and data by unauthorised users, or attacks from malicious software [commonly known as viruses[2]]).

Failure to manage these risks can result in the disclosure or alteration of confidential data, financial loss and breach of privacy requirements. A local government's reputation could also suffer if the public lost confidence in its internet systems. Internet security concerns must therefore be adequately managed.

6.2.1 Audit objectives and scope

We assessed the adequacy of internet security management practices across 5 local governments. In doing so, we examined whether these:

- adequately assessed security risks to their internet systems
- developed and maintained adequate IT security policies and procedures
- implemented adequate controls to manage internet security risks
- adequately logged, monitored and audited internet security.

Our June 2004 good practice guide on *Managing internet security*[3] outlined some of the main issues that should be considered when managing and assessing the security of internet systems. This guide was provided to all Victorian government agencies in 2004, and we used it to assess the internet security practices of the 5 local governments selected for this review.

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[1] Internet systems include all systems accessible from the internet (such as websites).

[2] Viruses are applications that are designed to do something unexpected or undesirable to the information systems and data. They are often spread from computer to computer, without the user's knowledge or permission.

[3] Victorian Auditor-General's Office 2004, *Managing internet security – Good practice guide*. Available at http://www.audit.vic.gov.au/rpub_best_practice.html

The characteristics of the local governments selected were that:

- all had websites and provided their staff with email facilities and internet access
- their websites were generally informational only. Where the public could pay for services over the internet, this facility was generally provided by a third party (major payment provider such as Australia Post) through their own website (while these services are outsourced it does not diminish local governments' responsibility for the accuracy of the information)
- all provided staff with limited access to internal systems from the internet
- most intended within the next 12 months to expand the range of services offered on the internet, or were in the process of doing so
- some had outsourced aspects of the management of their internet systems, such as website hosting and firewall management
- their IT departments were generally small, with staff numbers ranging from 5 to 10.

As this report outlines internet security weaknesses, we have not named the local governments reviewed. This is consistent with our previous reporting practices.

6.3 Did local governments adequately assess security risks to their internet systems?

Our good practice guide suggested that agencies should formally assess the risks to their internet systems. This includes assessing for possible loss or damage to systems, identifying threats to systems and determining the likelihood of the threats being realised. Mitigation plans should be developed on the basis of the assessments, to ensure threats do not eventuate.

We found that 3 of the 5 local governments examined had conducted risk assessments of their internet systems, but the quality of these assessments was variable. For example, one local government had not assessed all IT risks (including the risk of unauthorised access to systems or data) or adequately documented mitigation strategies. One of the local governments reviewed had also not documented the risks to the internet services that had been outsourced.

Our good practice guide also suggested that roles and responsibilities for internet system security should be clearly defined, documented, approved and communicated. We found that most of the local governments reviewed (4 out of the 5 examined) had not documented staff roles and responsibilities for IT system security.

We also expected that staff should have IT security skills commensurate to the level of complexity of, and risk to, their internet system. While we found that IT administrative skills at all local governments reviewed were adequate, in some cases technical security skills were not.

Conclusion

Overall, we concluded that the local governments reviewed needed to improve their IT risk management assessments. The risk assessment practices of some were basic. Also, accountability for IT security within agencies was not adequately defined and documented, and there were some technical security skill gaps.

Recommendation

1. **That local governments:**
   - **improve their risk management assessments, particularly for internet services provided by external providers**
   - **clearly define and document IT security roles and responsibilities**
   - **identify any technical security skill gaps and provide staff training or engage third parties to address them.**

6.4 Did local governments develop and maintain adequate IT security policies and procedures?

IT security policies and procedures provide guidance about the implementation and maintenance of security in a controlled and structured manner.

In assessing whether local governments selected for audit had developed and maintained adequate IT security policies and procedures, we examined:

- if they had policies and procedures
- whether outsourced arrangements made adequate provision for security.

All the local governments reviewed had IT security policies. However, the quality of these policies varied, and the policies of 3 out of the 5 councils required significant improvement. In particular, these policies had either not been endorsed by management, or were not comprehensive, or were not based on Australian standards[4].

All the local governments reviewed had privacy policies for handling customer information, and had included a statement about privacy on their website. However, none of those reviewed had adequately documented procedures to be used in the event of a security incident (such as the detection of unauthorised access to the internet system).

All the local governments reviewed had developed policies about internet and email usage, although in 2 cases these were not endorsed by management. Of the 5 local governments, 4 had antivirus policies.

Two out of 5 local governments reviewed had outsourced the management of some aspects of their internet systems or key security devices (such as a firewall[5]). However, the contractual arrangements for these outsourcings did not include requirements to maintain a minimum level of security. One local government had conducted independent security reviews of the outsourced system.

Conclusion

All of the local governments reviewed had some policies and guidelines for IT security. However, lack of endorsement and incompleteness of policies limited the ability of some local governments to effectively manage their IT security.

We are concerned that current contracts with third parties for the management of internet systems do not require the security of those systems to be maintained.

Recommendations

2. **That local governments develop IT security policies and procedures based on recognised standards, and that they ensure that their policies and procedures cover how to handle security incidents.**

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[4] The main Australian standard for internet security is AS/NZS ISO/IEC 17799:2001 Information technology - Code of practice for information security management.

[5] A firewall is a combination of hardware and software that protects an internet system by forming a ‘fortress’ between the internet, the internal network and the internet system.

3. **That IT security policies be endorsed by management and communicated to relevant staff to assist in their effective implementation.**
4. **That contracts with third parties for the management of internet systems should include requirements to maintain a minimal level of security.**

6.5 Did local governments implement adequate controls to manage internet security risks?

In assessing whether local governments implemented adequate controls to manage internet security risks, we examined if they had:

- properly-configured firewalls, supported by sound policies and procedures (known as ‘perimeter defence’)
- established sufficient backup and recovery arrangements
- adequately ‘security hardened’ their internet systems
- taken appropriate measures to protect their system from viruses
- communicated securely using encryption and authentication processes.

6.5.1 Perimeter defence

Our good practice guide suggested the use of a firewall, located at the perimeter of an agency’s network, to secure its internet system from attacks from the internet. All of the local governments we reviewed had a firewall in place.

To operate effectively, a firewall must be securely configured. We expected to find that local governments had configured their firewalls correctly and:

- located all their internet systems on a separate network (normally known as a demilitarised zone [DMZ][6])
- developed firewall policies and procedures that specified allowable communications to and from the internet and DMZ. These could include procedures for changing firewall rules, upgrading firewall software and monitoring firewall logs
- periodically reviewed their firewall rules[7] to ensure they remained secure

[6] A demilitarised zone is a link between the internet system and the firewall that allows external users from the internet to interact with the agency’s internet system.

[7] Firewall rules define the communications that can pass through the firewall.

- regularly reviewed firewall logs (including the record of communications accepted or rejected by the firewall) for security violations and incidents.

We found that 4 out of 5 local governments had adequately placed key elements of their internet systems (such as websites) on a DMZ. However, improvements were needed to some networks, including one local government that had not implemented a DMZ.

Only 2 of the 5 local governments had firewall policies and procedures, and 2 had reviewed their firewall rules. Generally, the firewall configurations (including rules) at the local governments reviewed were secure against risks.

Three out of the 5 local governments monitored firewall security activity on an ad-hoc basis, or when a problem occurred. They did not use software tools for their monitoring (for example, to identify high-risk connections). One local government did not log firewall security activity, so was not in a position to monitor it. One local government regularly monitored firewall security.

One local government had protected its internet system with 2 separate firewalls (including an application-based firewall[8]) that were interconnected. This security configuration further reduced the risk of unauthorised intrusions.

Conclusion

Firewalls are protecting internet systems from many security threats. However, local governments need to ensure that key elements of their internet systems are correctly placed on the DMZ. In addition, they need to regularly monitor firewall activity so that they can promptly identify high-risk threats, and take appropriate action.

We are concerned that firewall policies and procedures are not always developed, to ensure the configuration of these devices remains secure.

Recommendations

5. **That all local governments develop policies and procedures for managing perimeter security devices such as firewalls.**
6. **That key elements of their internet systems are correctly placed in the DMZ.**

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[8] Application-based firewalls allow or block internet traffic based on how applications communicate, which enables them to detect many more threats as opposed to a traditional firewall.

7. **That firewall rules be periodically reviewed to ensure that policies and procedures are complied with.**
8. **That security activity on perimeter security devices be logged and regularly monitored; and that software tools be used to help identify high-risk connections and threats.**

6.5.2 Backup and recovery

It is essential that internet systems are regularly backed-up[9] as part of a comprehensive IT disaster recovery plan. Such a plan should detail the steps to take in the event of a disaster and to recover the internet system. The extent of the plan will depend on the amount of time that the agency allows for the full recovery of critical aspects of the system.

Four of the 5 local governments reviewed had adequate back-up processes for their internet systems. These included arrangements for back-up media to be stored at an off-site location, in case their central computing facilities were damaged. However, at one of the local governments reviewed, the backup of a key component of the internet system was not taking place.

Local governments' practices with regard to disaster recovery planning were mixed. Of the 5 local governments reviewed:

- 3 had not conducted a formal business impact analysis[10] of their internet system (and more broadly of their IT system) to determine their required recovery timeframes
- 3 had developed draft IT disaster recovery plans, but these had not been endorsed by management. Also, 2 of these did not address all recovery scenarios or reflect their current IT system
- most agencies (4 out of 5) had not formally tested their plans (one was conducting testing at the time of the review).

Conclusion

The local governments reviewed had taken some steps to allow for their internet systems to be recovered. However, in most cases (3 out of 5), management had not formally defined the required recovery times for all corporate systems (including internet systems); and most of the IT disaster recovery plans had not been formalised and tested.

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[9] 'Backed-up' means making a copy of data, systems settings and software so that they are not lost if the originals become unusable.

[10] Business impact analysis defines the maximum acceptable outage time for internet systems.

Recommendation

9. That local governments:

- **assess the impact of failures of their IT systems and specify required recovery timeframes for all corporate systems (including internet systems)**
- **complete, endorse and communicate their IT disaster recovery plan**
- **ensure that backups are occurring over all key IT systems and that appropriate archival strategies are implemented**
- **periodically test and update their IT disaster recovery plans to ensure they can actually restore systems within required timeframes.**

6.5.3 Security hardening

'Security hardening' is the configuring of an internet system so that intruders cannot take advantage of vulnerabilities in some services that internet systems provide. Security hardening involves:

- ensuring that security alerts[11] are received and acted on
- removing or disabling any unnecessary or unrequired software
- configuring system passwords so that they are complex and are periodically changed
- following vendor-specific good practice security configuration guides
- scanning for vulnerabilities, to find flaws and misconfigurations in systems and software.

Our review found that:

- although vendor-specific good practice security configuration guides were not used by all the local governments reviewed, most (3 out of 5) had done some security hardening
- two of the 5 local governments reviewed did not receive regular alerts about security vulnerabilities, and some systems were not adequately patched
- some systems needed to have the management of passwords improved
- four of the 5 local governments reviewed conducted a limited form of vulnerability scanning, and 2 had engaged third party specialists to scan for vulnerabilities.

[11] Security alerts can include information about system vulnerabilities such as bugs in software or hardware, the ways that attackers are exploiting these vulnerabilities, and ways to fix the vulnerabilities (patches).

While we identified ways that internet systems could be better secured at each local government reviewed, we were pleased to note that most (4 out of 5) either planned, or had implemented, upgrades to more secure versions of their internet system software.

Recommendation

10. That local governments:

- **receive and promptly act on security alerts**
- **manage passwords for internet systems securely and in accordance with good practice**
- **apply vendor-specific good practice security configuration guides for their internet system**
- **conduct regular vulnerability scanning for security weaknesses or flaws**
- **continue to obtain and implement newer versions of internet system software that are more secure.**

6.5.4 Protection against viruses

Viruses pose a significant threat and have the potential to cause widespread damage to information systems and data. To mitigate this threat, local governments need to develop antivirus policies and procedures, install antivirus software on all servers and desktop computers and ensure that antivirus software is frequently and automatically updated so that it can detect the latest viruses.

Because emails are the most common way of delivering viruses, it is also essential that all sent and received emails are scanned.

All the local governments reviewed used antivirus software. However, our review of a sample of servers at 2 local governments identified some servers that did not have antivirus software installed. Antivirus software on some other servers was misconfigured (for example, in one case, the antivirus software did not automatically update).

All of the local governments reviewed scanned emails to block viruses and unauthorised types of files. These measures included techniques to reduce spam[12].

[12] Spam is unsolicited bulk commercial email.

Two of the local governments reviewed had also installed multiple brands of antivirus software (for example, one product scanned email attachments and another product was installed on servers and desktop computers). This approach provides added protection in the event of one product failing to detect and prevent a specific virus from spreading, and therefore provides greater security.

Overall, we found that all the local governments used adequate techniques to limit viruses infecting their internet systems and data.

Recommendation

11. That local governments:

- **correctly install, configure and activate antivirus software on their internet system**
- **consider the use of multiple brands of antivirus software to minimise the risk of failure to detect viruses.**

6.5.5 Encryption and authentication

An internet system that stores or transacts confidential data should authenticate[13] users before granting them access to that data. As well, all confidential data transferred between users and an internet system should be encrypted[14]. This is to prevent unauthorised access to the system or its data.

The extent of confidential customer information being exchanged via the internet by the local governments reviewed was low. Where financial transactions could be made over the internet (such as payment of rates), they were generally processed by a third party. However, some confidential internal information was transferred on the internet (such as passwords providing staff with access to systems).

All the local governments reviewed encrypted data transferred between users and their internet system. We found some weaknesses in user authentication procedures at 2 local governments.

Overall, most local governments reviewed (4 out of 5) had adequate encryption and authentication procedures, commensurate to the risks facing their internet systems.

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[13] Authentication can include the use and verification of a password or digital signature.

[14] Encryption is the scrambling of data in such a way that a secret code is needed to unscramble it.

A number of the local governments reviewed had plans to expand the range of services offered on the internet within the next 12 months. These plans involve more complex transaction processing and transfer of confidential data. In these cases, the current encryption and authentication methods may need to be improved.

Wireless networks

Wireless networks allow users to connect to a network through a wireless (radio) connection. Wireless networks can present a substantial security risk as intruders may not need to physically connect to an organisation's computer network to gain access to internal systems or data.

While the detailed examination of wireless networks was not part of this review, we did note security weaknesses in the configuration of the wireless networks in 2 of the local governments examined.

Recommendation

12. That local governments:

- **conduct security assessments of all new internet systems that process customer transactions and/or require the transfer of confidential information, to ensure authentication and encryption techniques are adequate**
- **conduct a full security assessment of wireless infrastructure before implementation.**

6.6 Were local governments adequately logging and monitoring security activity, and auditing security processes?

Our good practice guide suggests that agencies should continuously log and regularly monitor system and security-related activity on their internet systems. It also recommended the use of independent 'audit' processes to ensure that internet security policies and activities comply with good practice, and are adhered to.

We found that there was no consistency among the local governments reviewed with internet system logging practices. Some systems did not keep logs at all. Four of the 5 local governments did not regularly monitor security-related activity, and none used automated software tools for monitoring. This meant that local governments might not promptly detect unauthorised internet activity, and that their incident responses might not prevent damage to their IT systems.

We also found that most (3 of 5) of the local governments reviewed had not conducted independent reviews of their internet security. The 2 agencies that had conducted reviews had also undertaken a security assessment of their internet systems within the last 18 months. We assessed one of these as having the best technical security controls of the local governments we reviewed.

Finally, we noted that one of the local governments reviewed had used our good practice guide as a benchmark for their internet system security. The results of their efforts were being monitored by their management and audit committee, and helped improve their security practices.

Recommendation

13. That local governments:

- **establish comprehensive logging on their internet systems**
- **regularly monitor their internet systems to identify high-risk security events, and that they use software to help with monitoring**
- **conduct independent security reviews of their internet system, at a frequency commensurate to the risks faced by their system.**

Appendix A.
Status of financial statement audits

Education and Training

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 31 DECEMBER 2004 BALANCE DATES			
POST-COMPULSORY EDUCATION INSTITUTES			
Universities and associated companies			
Australasian Human Resources Institute Pty Ltd	28 Feb. 2005	✓	8 March 2005
Australian Alpine Institute Pty Ltd	18 March 2005	✓	22 March 2005
Australian International Health Institute (The University of Melbourne) Ltd	16 Feb. 2005	✓	23 Feb. 2005
Australian Music Examination Board (Vic) Ltd	9 Feb. 2005	✓	18 Feb. 2005
Australian National Academy of Music Ltd	11 April 2005	✓	26 April 2005
Br (Vic) Pty Ltd	17 March 2005	✓	24 March 2005
Callista Software Services Pty Ltd	28 Feb. 2005	✓	8 March 2005
Deakin Networks Pty Ltd	28 Feb. 2005	✓	7 March 2005
Deakin Prime USA	23 Feb. 2005	✓	7 March 2005
Deakin University	22 March 2005	✓	22 March 2005
Hawthorn English Language Centres (Canada) Ltd	19 Jan. 2005	✓	22 Feb. 2005
Hawthorn Edinburgh Limited	1 Feb. 2005	✓	23 Feb. 2005
Inquirion Pty Ltd	22 March 2005	✓	24 March 2005
Inskill Ltd	18 March 2005	✓	22 March 2005
La Trobe International Pty Ltd	22 March 2005	✓	22 March 2005
La Trobe Marketing Pty Ltd	21 March 2005	✓	22 March 2005
La Trobe University *Audit report contained an "emphasis of matter" comment: Attention drawn to the impact of changes to Commonwealth funding arrangements.*	18 March 2005	✓	31 March 2005
La Trobe University Housing Ltd	18 March 2005	✓	22 March 2005
La Trobe University Union	22 March 2005	✓	29 March 2005
La Trobe Winter Sports and Tourism Education Pty Ltd	31 March 2005	✓	31 March 2005
Land and Food Services Ltd *Audit report contained an "emphasis of matter" comment: The financial report was not prepared on a going concern basis but on a liquidation (net market value) basis because the company was liquidated on 14 May 2004.*	21 March 2005	✓	21 March 2005
Meanjin Company Ltd	11 Feb. 2005	✓	14 Feb. 2005
Medical Centre Development Pty Ltd	21 March 2005	✓	24 March 2005
Melbourne Business School Ltd	23 Feb. 2005	✓	11 March 2005
Melbourne Enterprise International Ltd	17 Feb. 2005	✓	24 Feb. 2005
Melbourne Information Management Pty Ltd	3 Feb. 2005	✓	14 Feb. 2005

Education and Training - *continued*

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 31 DECEMBER 2004 BALANCE DATES			
POST-COMPULSORY EDUCATION INSTITUTES			
Universities and associated companies			
Melbourne University Private (NZ) Ltd *Audit report contained an "emphasis of matter" comment: The financial report has been prepared on a going concern basis, but the going concern assumption may need to be re-examined if the shareholder does not continue to provide financial support.*	14 Feb. 2005	✓	8 March 2005
Melbourne University Private Ltd	23 Feb. 2005	✓	24 Feb. 2005
Melbourne University Publishing Ltd	18 Feb. 2005	✓	11 March 2005
Melbourne Ventures Pty Ltd	22 Feb. 2005	✓	23 Feb. 2005
Meltech Services Ltd	17 March 2005	✓	24 March 2005
Monash Commercial Pty Ltd	24 March 2005	✓	24 March 2005
Monash Digital Media Pty Ltd	24 March 2005	✓	24 March 2005
Monash ED Pty Ltd	31 March 2005	✓	31 March 2005
Monash International Pty Ltd	28 Feb. 2005	✓	21 March 2005
Monash Investment Holdings Pty Ltd	24 March 2005	✓	24 March 2005
Monash Investment Trust	24 March 2005	✓	29 March 2005
Monash IT Pty Ltd	24 March 2005	✓	24 March 2005
Monash IVF Pty Ltd	24 March 2005	✓	24 March 2005
Monash Property Management Pty Ltd	24 March 2005	✓	24 March 2005
Monash Reproductive Health Enterprises Pty Ltd	24 March 2005	✓	24 March 2005
Monash Reproductive Pathology and Genetics Pty Ltd	24 March 2005	✓	24 March 2005
Monash Southern Africa Pty Ltd	10 March 2005	✓	23 March 2005
Monash Ultrasound Pty Ltd	24 March 2005	✓	24 March 2005
Monash University	10 March 2005	✓	24 March 2005
Monash University Foundation Pty Ltd	10 March 2005	✓	10 March 2005
Monash University Foundation	10 March 2005	✓	23 March 2005
Monash University South Africa	10 March 2005	✓	23 March 2005
Monsu Catering Trust	30 March 2005	✓	30 March 2005
Montech Pty Ltd	24 March 2005	✓	24 March 2005
Monyx Education Services Pty Ltd	30 March 2005	✓	30 March 2005
Monyx Pty Ltd	30 March 2005	✓	30 March 2005
Monyx Services Food and Beverage Pty Ltd	30 March 2005	✓	30 March 2005
Monyx Services Pty Ltd	30 March 2005	✓	30 March 2005
Monyx Services Retail Pty Ltd	24 March 2005	✓	30 March 2005
MU Student Union Limited	28 Feb. 2005	✓	11 March 2005
MUP Services Pty Ltd	3 Feb. 2005	✓	16 Feb. 2005
National Institute of Circus Arts Ltd	17 March 2005	✓	24 March 2005

Education and Training - *continued*

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 31 DECEMBER 2004 BALANCE DATES			
POST-COMPULSORY EDUCATION INSTITUTES			
Universities and associated companies			
Peter Dibble Memorial Trust	24 March 2005	✓	24 March 2005
RMIT Foundation	23 March 2005	✓	23 March 2005
RMIT Innovation Ltd	31 March 2005	✓	31 March 2005
RMIT International Pty Ltd	23 Feb. 2005	✓	25 Feb. 2005
RMIT International University Vietnam	24 March 2005	✓	31 March 2005
RMIT Training Pty Ltd	16 March 2005	✓	21 March 2005
RMIT Union	16 March 2005	✓	21 March 2005
RMIT University	23 March 2005	✓	31 March 2005
RMIT Vietnam Holdings Pty Ltd	24 March 2005	✓	31 March 2005
School of Forestry Creswick Ltd *Audit report contained an "emphasis of matter" comment: The financial report was not prepared on a going concern basis but on a liquidation (net market value) basis because the company was liquidated on 19 October 2004.*	17 March 2005	✓	21 March 2005
School of Mines and Industries Ballarat Ltd	18 March 2005	✓	21 March 2005
Spatial Vision Innovations Pty Ltd	18 Feb. 2005	✓	24 Feb. 2005
Swinburne Graduate School of Integrative Medicine Pty Ltd	17 March 2005	✓	24 March 2005
Swinburne Intellectual Property Trust	17 March 2005	✓	24 March 2005
Swinburne Ltd	17 March 2005	✓	24 March 2005
Swinburne University of Technology *Audit report contained an "emphasis of matter" comment: Attention drawn to the impact of changes to Commonwealth funding arrangements.*	24 March 2005	✓	24 March 2005
Swinburne Ventures Ltd	17 March 2005	✓	24 March 2005
The University of Melbourne *Audit report contained an "emphasis of matter" comment: Attention drawn to the impact of changes to Commonwealth funding arrangements.*	12 April 2005	✓	13 April 2005
Unilink Ltd	23 Feb. 2005	✓	8 March 2005
University of Ballarat *Audit report contained an "emphasis of matter" comment: Attention drawn to the impact of changes to Commonwealth funding arrangements.*	23 March 2005	✓	24 March 2005
Victoria University Enterprises Pty Ltd	23 Feb. 2005	✓	17 March 2005
Victoria University International Pty Ltd	23 Feb. 2005	✓	17 March 2005
Victoria University of Technology	17 March 2005	✓	17 March 2005
Victoria University of Technology (Singapore) Pty Ltd	11 March 2005	✓	17 March 2005
Victoria University of Technology Foundation Ltd	16 March 2005	✓	16 March 2005

Education and Training - *continued*

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 31 DECEMBER 2004 BALANCE DATES			
POST-COMPULSORY EDUCATION INSTITUTES			
Universities and associated companies			
Victoria University of Technology Foundation Trust	17 March 2005	✓	17 March 2005
Victorian College of the Arts *Audit report contained an "emphasis of matter" comment: Attention drawn to the impact of changes to Commonwealth funding arrangements.*	21 March 2005	✓	24 March 2005
INSTITUTES OF TECHNICAL AND FURTHER EDUCATION AND ASSOCIATED COMPANIES AND PROVIDERS OF ADULT EDUCATION			
Adult Multicultural Education Services	15 March 2005	✓	18 March 2005
Angliss Consulting Pty Ltd	1 March 2005	✓	3 March 2005
Angliss Multimedia Pty Ltd	22 Feb. 2005	✓	3 March 2005
Angliss Solutions Pty Ltd	22 Feb. 2005	✓	2 March 2005
Bendigo Regional Institute of TAFE	10 March 2005	✓	11 March 2005
Box Hill Institute of TAFE	17 Feb. 2005	✓	17 Feb. 2005
Box Hill Enterprises Ltd	17 Feb. 2005	✓	17 Feb. 2005
Central Gippsland Institute of TAFE	9 March 2005	✓	18 March 2005
Centre for Adult Education	24 March 2005	✓	31 March 2005
Chisholm Institute of TAFE	10 March 2005	✓	11 March 2005
Driver Education Centre of Australia Ltd	28 Feb. 2005	✓	11 March 2005
East Gippsland Institute of TAFE	25 Feb. 2005	✓	4 March 2005
Gordon Foundation Ltd	9 March 2005	✓	17 March 2005
Gordon Institute of TAFE	18 March 2005	✓	21 March 2005
GOTEC Limited	9 March 2005	✓	17 March 2005
Goulburn Ovens Institute of TAFE	9 March 2005	✓	11 March 2005
Holmesglen Institute of TAFE	8 March 2005	✓	9 March 2005
Holmesglen International Training Services Pty Ltd	8 March 2005	✓	11 March 2005
International Fibre Centre Ltd	18 Feb. 2005	✓	2 March 2005
John Batman Training and Consulting Pty Ltd	23 Feb. 2005	✓	28 Feb. 2005
Kangan Batman Institute of TAFE	23 Feb. 2005	✓	28 Feb. 2005
Moortec Limited	9 March 2005	✓	9 March 2005
Northern Melbourne Institute of TAFE	14 Feb. 2005	✓	17 Feb. 2005
South West Institute of TAFE	29 March 2005	✓	29 March 2005
Sunraysia Institute of TAFE	9 March 2005	✓	11 March 2005
Transport Education and Training Ltd	28 Feb. 2005	✓	11 March 2005
William Angliss Institute of TAFE	1 March 2005	✓	3 March 2005
Wodonga Institute of TAFE	9 March 2005	✓	11 March 2005

Education and Training - *continued*

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – WITH OTHER BALANCE DATES			
POST-COMPULSORY EDUCATION INSTITUTES			
La Trobe Winter Sports and Tourism Education Pty Ltd (1 Jan. 2003 to 31 Dec. 2003)	31 March 2005	✓	31 March 2005
Monash Unicomm Pty Ltd (a) (1 Jan. 2004 to 20 March 2004)	20 Jan. 2005	✓	20 Jan. 2005
Prostate Diagnostics Pty Ltd (1 Jan. 2003 to 31 Oct. 2003)	1 Dec. 2004	✓	21 Dec. 2004
Sir John Monash Business Centre Pty Ltd (b) (1 Jan. 2004 to 23 May 2004)	20 Jan. 2005	✓	20 Jan. 2005
INSTITUTES OF TECHNICAL AND FURTHER EDUCATION AND ASSOCIATED COMPANIES AND PROVIDERS OF ADULT EDUCATION			
DECA Training Ltd (c) (1 Jan. 2004 to 10 Nov. 2004)	12 Nov. 2004	✓	11 March 2005
NMIT International Ltd (1 July 2003 to 30 June 2004)	25 Oct. 2004	✓	10 Nov. 2004
Shepparton Investments Pty Ltd (c) (1 Jan. 2004 to 10 Nov. 2004)	12 Nov. 2004	✓	11 March 2005
EDUCATION			
Victorian Tertiary Admissions Centre (1 July 2003 to 30 June 2004)	15 Nov. 2005	✓	29 Nov. 2005
INCOMPLETE AUDITS – AS AT 30 APRIL 2005 (d)			
POST-COMPULSORY EDUCATION INSTITUTES			
Learningfast Inc.	*Audited financial statements yet to be finalised*		
Melbourne Enterprises International (Taiwan) Ltd (1 Jan. 2003 to 31 Dec. 2003)	"	"	"
Monash International SRL (24 Sep. 2003 to 31 Dec. 2004) (e)	"	"	"
Monash Learningfast Pty Ltd	"	"	"
RMIT (Malaysia) SDN BHD	"	"	"
EDUCATION			
International Training Australia Ltd	"	"	"
Telematics Course Development Fund	"	"	"

(a) Monash Unicomm Pty Ltd ceased operation on 20 March 2004.

(b) Sir John Monash Business Centre ceased operation on 23 May 2004.

(c) DECA Training Ltd and Shepparton Investments Pty Ltd ceased operation on 10 November 2004.

(d) Financial statements with 31 December 2004 balance dates, unless otherwise indicated.

(e) Monash International SRL commenced operations on 24 September 2003.

Human Services

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 SPETEMBER 2004 BALANCE DATES			
HEALTH			
Medical Practitioners Board of Victoria	2 Dec. 2004	✓	6 Dec. 2004
COMPLETED AUDITS – 31 DECEMBER 2004 BALANCE DATES			
HEALTH			
Anti-Cancer Council of Victoria *Reason for qualification: Unable to attest to the completeness of cash donations.*	4 April 2005	Qualified	6 April 2005
Psychologists Registration Board of Victoria	21 March 2005	✓	22 March 2005
INCOMPLETE AUDITS – AS AT 30 APRIL 2005			
Communities That Care Limited (1 July 2003 to 30 June 2004)	*Audited financial statements yet to be finalised.*		
Royal Children's Hospital Education Institute Limited (1 July 2003 to 30 June 2004)	"	"	"

Infrastructure

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
INCOMPLETE AUDITS – AS AT 30 APRIL 2005			
TRANSPORT			
Victorian Rail Services Pty Ltd (1 July 2003 to 30 June 2004)	*Audited financial statements yet to be finalised.*		

Primary Industries

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
INCOMPLETE AUDITS – AS AT 30 APRIL 2005			
AGRICULTURE			
Greater Victoria Wine Grape Industry Development Committee (a) (1 July 2004 to 30 Sep. 2004)	*Audited financial statements yet to be finalised.*		
Northern Victorian Fresh Tomato Industry Development Committee (1 July 2003 to 30 June 2004)	"	"	"

(a) Greater Victoria Wine Grape Industry Development Committee ceased operation on 30 September 2004.

Sustainability and Environment

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 31 OCTOBER 2004 BALANCE DATES			
ENVIRONMENT			
Lake Mountain Alpine Resort Management Board	20 Jan. 2005	✓	14 Feb. 2005
INCOMPLETE AUDITS – AS AT 30 APRIL 2005			
Falls Creek Alpine Resort Management Board	*Audited financial statements yet to be finalised.*		
Mount Baw Baw Alpine Resort Management Board	"	"	"
Mount Buller Alpine Resort Management Board	"	"	"
Mount Hotham Alpine Resort Management Board	"	"	"
Mount Stirling Alpine Resort Management Board	"	"	"

Treasury and Finance

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 31 DECEMBER 2004 BALANCE DATES			
TREASURER			
Securities Finance Corporation Ltd	23 March 2005	✓	23 March 2005
Tricontinental Corporation Ltd	23 March 2005	✓	23 March 2005
Tricontinental Holdings Ltd	23 March 2005	✓	23 March 2005
Twin Waters Resort Pty Limited	23 March 2005	✓	23 March 2005

Local Government

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 JUNE 2004 BALANCE DATE			
MUNICIPAL COUNCILS AND ASSOCIATED ENTITIES			
Wimmera Development Association *Reason for qualification: Inappropriate disclosure of non-reciprocal grants.*	27 Oct. 2004	Qualified	3 Nov. 2004

Auditor-General's Reports

2004-05

Report title	Date issued
Results of special reviews and other studies	August 2004
Measuring the success of the Our Forests, Our Future policy	October 2004
Report of the Auditor-General on the Finances of the State of Victoria, 2003-04	November 2004
Results of 30 June 2004 financial statement and other audits	December 2004
Meeting our future Victorian Public Service workforce needs	December 2004
Managing school attendance	December 2004
Regulating operational rail safety (2005:1)	February 2005
Managing patient safety in public hospitals (2005:2)	March 2005
Management of occupational health and safety in local government (2005:3)	April 2005
Results of special reviews and other investigations (2005:4)	May 2005

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