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Auditor General

Victoria

Results of financial statement audits for agencies with other than 30 June 2005 balance dates, and other audits

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AUDITOR GENERAL
VICTORIA

The Hon. Monica Gould MP
President
Legislative Council
Parliament House
Melbourne

The Hon. Judy Maddigan MP
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.*

The Audit Act provides me with discretion to report to parliament on any audits conducted under the Act. It also requires me to report to parliament each year on the government's Annual Financial Report. Consistent with these provisions, my Office annually delivers a parliamentary program which includes reports on:

- *The finances of the State of Victoria* - generally tabled in November of each year to satisfy the above mentioned legislative requirement to report on the government's Annual Financial Report.
- *Results of financial statement and other audits* - generally tabled in November and May/June of each year to coincide with the end of the 2 major financial reporting cycles for public sector agencies. These reports present the results of our attest audits, and any other special reviews and investigations completed at the time of their publication.
- *Performance audits* - tabled throughout the year as performance audits are completed.
- *Results of special reviews and other investigations* (including omnibus and single audit "stand alone" reports) - tabled throughout the year as necessary, setting out the results of special reviews, investigations and controls/compliance reviews completed.

This report sets out the results of financial statement audits conducted on public sector agencies with other than 30 June 2005 balance dates, which were completed up to 12 May 2006. The report also presents the results of 4 recently completed investigations and special reviews.

Yours faithfully

JW CAMERON
Auditor-General

14 June 2006

Foreword

This report contains the results of 3 distinct, yet complimentary, groups of recent audit activity by my Office.

It presents the results of audits of the financial statements of public sector agencies with 2005 balance dates other than 30 June. There are some 132 of these agencies - mostly universities, technical and further education (TAFE) institutes and alpine resorts. The report highlights a deterioration in the timelines of financial reporting by these agencies, mainly caused by inadequate preparedness for the first-time implementation of Australian equivalents to International Financial Reporting standards. It also identifies the need for further improvement in selected aspects of financial management.

The report also sets out the results of 3 recently completed audit investigations. The increased incidence of external requests to my Office for the investigation of aspects of public sector administration and performance has required us to give greater attention to this part of our work over the past 2 years. This effort has translated into the conduct and reporting of a greater number of investigations of external party allegations and concerns, than has been the case in the past. The investigations published in this report examine:

- the disposal of state government vehicles at the end of their lease terms
- the control exercised over the finances of a community-based marketing panel established and funded by government
- the propriety of travel and entertainment expenditure incurred by a senior executive of a major public body.

These investigations complement the core program of "special reviews" and performance audits we deliver each year, which also examine aspects of public sector management and performance. Consequently, this report further contains the results of a recently completed special review which examined the adequacy of annual reporting of performance information by public health services.

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

14 June 2006

Contents

1. Executive summary

1.1 Introduction

This report is organised into 3 sections following this executive summary:

- the first (Part 2) presents the results of financial statement audits for agencies with other than 30 June 2005 balance dates
- the second (Parts 3 to 5) outlines the results of 3 audit investigations that examine:
  - the disposal of state government vehicles at the end of their lease terms by a contracted auctioneer
  - the management and control of Latrobe Valley Marketing Advisory Panel's finances
  - the propriety of travel and entertainment expenses incurred by a senior executive of the Transport Accident Commission
- the third (Part 6) presents the results of a special review that examines the adequacy of annual reporting of performance information by public health services.

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

1.2 Results of financial statement audits

1.2.1 Audit opinions issued

There were 132 public sector agencies with 2005 balance dates other than 30 June that were required to prepare financial statements and submit them for audit.

At the date of preparing this report, we had issued 119 clear audit opinions on the financial statements of these agencies. Of these, 2 contained "emphasis of matter" comment to draw attention to issues impacting on the financial viability of the respective agencies. Four further opinions were qualified.

Two of the qualified opinions alerted users of the financial reports to an inherent risk involved in the collection of cash donations, a risk that cannot be mitigated by further internal controls. The other 2 referred to grant income that was recognised as a liability, but which should have been recognised as income.

We had not issued audit opinions on 9 agencies with balance dates other than 30 June 2005 because we had not received completed financial statements or had not completed the audits. We are working with these agencies to finalise their financial statements.

1.2.2 Timeliness of financial reporting

In 2005, a considerably smaller percentage of agencies than in 2004 completed their audited financial statements within 12 weeks (51 per cent compared with 76 per cent in 2004). This was disappointing given the improvements in timeliness achieved in 2004, and resulted primarily from the first-time implementation of Australian equivalents to International Financial Reporting Standards (A-IFRS). Agencies (particularly universities and their subsidiaries) underestimated the amount of extra work they would need to do to comply with the revised standards.

In 2005, 18 per cent of agencies had not completed their audited statements within 16 weeks of balance date, compared with 9 per cent in 2004.

Recommendation

That universities and technical and further education (TAFE) institutes review the outcomes of the 2005 reporting cycle to identify what they can learn from the implementation of A-IFRS. Information gathered from this review should then be used to improve their resourcing and processes for preparing and completing financial statements in future years.

1.2.3 Adequacy of agencies' control environments

Overall, the control environments of universities and technical and further education (TAFE) institutes were assessed as adequate.

We placed greater audit emphasis on information technology (IT) general controls in 2005 and opportunities were again identified for agencies to strengthen their governance and financial management arrangements in this area. We considered that education and training portfolio agencies could more closely collaborate to better drive product improvements by software providers which address the security concerns that our audits identified.

We also found the management of employee leave balances continued to be an area that needs ongoing attention. Encouraging employees to regularly take their leave entitlements is a well recognised aspect of maintaining internal controls in organisations.

Recommendation

That universities and TAFE institutes regularly review:

- **access and security policies and procedures for their information technology systems to maintain the integrity of the systems and associated data, and conduct post-implementation reviews of new and upgraded systems**
- **levels of employee annual leave entitlements and encourage staff to promptly take leave owing to them.**

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

The financial performance and position of all single-sector universities and the higher education divisions of dual-sector universities was positive and had generally improved in 2005. RMIT University, which had experienced financial difficulties in previous years, reported a consolidated operating surplus of $28.7 million and a consolidated positive working capital (excess of current assets over current liabilities) position of $11.9 million.

Many university-controlled agencies achieved a profit for 2005, however, some had ongoing operating deficits and were not generating adequate returns on their investments. Monash University South Africa, in particular, continued to incur significant operating deficits. However, the trend improved in 2005 and, if this continues, losses are expected to reduce.

Recommendation

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

1.2.5 Financial standing of Victoria's TAFE institutes

In 2005, 17 of Victoria's 18 public TAFE institutes and TAFE divisions of universities reported an (adjusted) operating surplus (excluding capital grants, depreciation and amortisation). This reflected a significant improvement in the sector aggregate, from $28 million in 2004 to $57 million in 2005. All TAFE institutes and divisions had net cash inflows from operating activities (excluding capital grants) and positive working capital positions in 2005.

Considering the nature and level of current government funding (which does not provide for the full funding of asset depreciation), the overall financial performance and condition of the TAFE sector is currently reasonably sound. However, individual institutes' performance and condition need ongoing monitoring to ensure that they remain financially sound.

1.2.6 Performance reporting by TAFE institutes

We have previously reported that TAFE institutes needed to improve the quality of performance information in their annual reports about their efficiency and effectiveness. The Office of Training and Tertiary Education (OTTE) supported this finding by asking TAFE institutes to report on certain performance indicators in the 2005 annual reports.

We consider that the usefulness of TAFE institute annual reports would be improved, and public accountability increased, if OTTE required institutes to report performance in line with Financial Reporting Direction 27 *Presentation of Reporting and Performance Information*[1], for 2006. We intend to audit this information, once it is reported.

1.2.7 Emerging issues for universities and TAFE institutes

A variety of emerging issues will have major impacts on the future operations of universities. They will need to manage the effects of Commonwealth Government funding changes and the abolition of compulsory student union fees, which will challenge them to increase and diversify the source of fees. They will also need to contain costs, comply with new funding arrangements and manage their ageing work forces in a competitive employment market in which academic salaries have declined relative to average weekly earnings. More broadly, universities will need to continue to develop management and governance structures to address these challenges and monitor progress.

A further major challenge, for both universities and TAFE institutes, will be to keep refining accounting processes to meet the requirements of the new Australian accounting standards which were first implemented for the reporting year ending 31 December 2005.

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

1.3 Audit investigations and special review

1.3.1 Government vehicle fleet disposals

In October 2004, during the course of a tender process to appoint motor vehicle auctioneers for the disposal of Victorian Government vehicles, allegations were made to VicFleet[2] that one of its 2 preferred tenderers, Auto Group Brooklyn Pty Ltd (which was also providing auction services to VicFleet before the tender), had breached its existing contract by buying and selling government vehicles at its own auctions. A subsequent investigation by the Department of Treasury and Finance (DTF) into these allegations led to Auto Group confirming that 141 government vehicles that it had auctioned had been re-acquired and sold by the company.

At the request of the Minister for Finance, we investigated the probity of the tender process and the appropriateness of DTF's investigation. In doing so, we also assessed how well VicFleet managed the performance of its contracted vehicle auctioneers.

We found that the tender process met expected standards of probity. However, the investigation of the allegations was not as comprehensive as we would have expected. While the initial stages of the investigation were well managed, DTF did not subsequently seek to independently verify the completeness of admissions made by Auto Group. Nor did DTF comprehensively assess the integrity of Auto Group management in relation to the inappropriate transactions.

In our opinion, any adverse findings relating to the completeness of the Auto Group disclosures, or the integrity of Auto Group management, could have impacted on the outcomes of the tender process. Therefore, it would have been preferable for DTF to directly access Auto Group records and carry out its own analysis of data.

Finally, we found that VicFleet's management of vehicle disposal arrangements from 1999 to 2005 was not fully effective. While various "contractual" mechanisms appeared to be available to VicFleet to more closely monitor provider performance, these were not utilised.

VicFleet has since taken action to improve contract management. It has developed and implemented a contract management plan, including an improved performance reporting and monitoring regime.

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[2] VicFleet is a business unit within the Department of Treasury and Finance. It has overall responsibility for managing the Victorian Government vehicle fleet, including the disposal of vehicles at the end of their lease terms - which it manages through the use of external motor vehicle auctioneers.

Recommendation

That VicFleet periodically review the operation of the revised contract management arrangements to ensure they remain effective.

1.3.2 Latrobe Valley Marketing Advisory Panel – financial management and oversight

The Latrobe Valley Marketing Advisory Panel (LVMAP) was established in 2001 by the government to develop and implement a targeted marketing campaign for the Latrobe Valley region of Victoria. The campaign was to be funded from a $1 million allocation from the then Department of State and Regional Development (now the Department of Industry, Innovation and Regional Development), with the aim of improving the economic and social environment of communities in the Latrobe Valley region. The LVMAP operated from December 2001 until March 2004 and was chaired by the then chief executive officer (CEO) of Latrobe City Council.

A final reconciliation of LVMAP expenditure by the council in May 2004 found that $1.303 million had been spent on LVMAP-related activities. This exceeded the $1 million provided by the government. A subsequent council request for additional funding was rejected by the department and the council was required to meet the additional expenditure itself. We investigated the control and management of LVMAP finances after having concerns about these matters drawn to our attention.

We concluded that a lack of clarity about who was responsible for the expenditure significantly contributed to the budget overrun. The absence of funding and related administrative agreements between the department, the council and the LVMAP, together with the absence of regular/progressive monitoring and reporting to the key parties of expenditure incurred, indicated that basic financial management principles and practices were not observed.

The failure to obtain competitive quotes for certain LVMAP-related contracted expenditures under $100 000, while not a breach of formal council policy, was also, in our view, a breach of good practice in terms of the application of value-for-money principles.

Finally, the lack of purchase orders and separate cost codes, and the approval and payment of invoices without itemisation was also, in our view, a breach of good practice. Even had the council wished to do so, these weaknesses made it impossible to track actual expenditure against available budget for each marketing tactic or activity approved by the LVMAP. It was apparent that the council and the CEO did not become aware of the full extent of expenditure on LVMAP-related activities until March 2004, after the government funding allocation had been exceeded.

There are several lessons to be learned from the LVMAP experience by the department and other grant recipients when establishing similar "auspiced grant" arrangements. These include the need to ensure clarity from the outset about the roles and responsibilities of the respective parties, and that effective financial oversight and control is exercised by grant/funding recipients, facilitated through regular reporting by the administering entity.

Recommendations

In circumstances where grants or other forms of funding are provided by a department to "administering entities" for expenditure by grant recipients (i.e. auspiced grants), that the department ensure, as part of its funding conditions, that:

- **the relevant entities establish appropriate agreements setting out their respective financial management and accountability responsibilities**
- **the administering entity reports to the grant recipient and the department with sufficient regularity to allow the effective oversight of expenditure.**

That the council instigate a follow-up review of controls over grant expenditure to ensure that the findings of our report, and a related internal audit report, have been addressed.

1.3.3 Transport Accident Commission – CEO's travel and entertainment expenditure

In response to external concerns raised with our Office about the nature and extent of travel and entertainment expenses incurred by the former chief executive officer (CEO) of the Transport Accident Commission (TAC), we examined these expenses in detail over a 5-year period to October 2005.

Our examination did not raise any significant concerns and concluded that:

- TAC's policies and procedures were adequate to maintain appropriate control over this type of expenditure
- the level of travel and entertainment expenditure incurred by the CEO over the review period was not excessive
- virtually all expenditure claims by the CEO had been appropriately approved in line with TAC's policies and were adequately supported with documentation.

While we identified a small number of minor departures from established TAC approval policies, these departures were not significant enough in either the number of occurrences or the nature of the departure to impact on the positive conclusion drawn above.

1.3.4 Performance reporting by public health services

Public sector agencies' annual reporting of performance against government and agency goals and priorities is a fundamental element of effective public accountability. With this in mind, over recent years we have rolled-out a program of audits which progressively examine the quality of performance information included in the annual reports of agencies within key sectors of government. In the current year, we examined the quality of performance information reported by 11 Victorian health services[3] and the Department of Human Services (DHS) as it relates to the delivery of health services.

We found that external performance reporting by health services, under the current performance management and reporting framework, was progressing and that health services' performance could be clearly linked to government outcomes. That notwithstanding, there is scope to improve the reporting and auditing framework to increase the public accountability of health services.

Health services and DHS currently collect a large amount of data about the performance of health services. However, the reporting framework focuses on acute health, with substantially less focus on indicators of performance relating to other dimensions of service delivery - such as mental health, aged care services and subacute services.

Furthermore, while DHS determines indicators against which each health services report their performance, these indicators may not be included in health service annual reports and any performance information reported is not subject to audit.

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[3] "Health services" comprise public hospitals, aged and home care services, and mental health services, but not community or dental health services.

Currently reported information by health service agencies in annual reports could be improved by including:

- targets for all performance indicators
- commentary with performance information that shows trends over time and compares performance to national or international benchmarks
- efficiency performance indicators (such as average cost information)
- capability performance indicators (such as staff turnover or staff vacancy rates)
- explanations of clinical terms and concepts in language that lay people can understand.

DHS and health services have adequate management information systems and internal control procedures that should ensure that performance information is complete and accurate.

Recommendations

That DHS (in conjunction with stakeholders and through surveys of public opinion) determine which are the most important performance indicators for health services, and mandate that performance against these indicators is reported (via performance statements) in annual reports.

That DHS require health services' annual reports to report targets and national comparisons, as well as performance against indicators, and to include meaningful definitions and (where necessary) further explanations of clinical terms.

That DHS require health services to report against the full range of performance indicators in its policy and funding guidelines (including mental health and aged and home care indicators).

1.4 General

The special reviews and investigations included in this report were performed in accordance with Australian auditing standards. The total cost of those audits, including the preparation and printing of this report, was $380 000.

2. Results of financial statement audits

2.1 Audit conclusions

Audit opinions issued and timeliness of reporting

There were 132 public sector agencies with balance dates other than 30 June 2005 that were required to prepare financial statements and submit them for audit.

At the date of preparing this report, we had issued 119 clear audit opinions on the financial statements of these agencies. Of these, 2 contained "emphasis of matter" comment to draw attention to issues impacting on the financial viability of the respective agencies. Four further opinions were qualified.

Of the 4 qualified opinions, one has been issued for a number of years. It 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. Of the 3 other qualifications, one also related to risks associated with cash donations; the other 2 related to grant income that was recognised as a liability, but which should have been recognised as income.

At the date of preparing this report, we had not issued audit opinions on 9 agencies with balance dates other than 30 June 2005 because we had not received completed financial statements or had not completed the audits. We are working with these agencies to finalise their financial statements.

In 2005, a considerably smaller percentage of agencies than in 2004 completed their audited financial statements within 12 weeks (51 per cent compared with 76 per cent in 2004). This was disappointing given the improvements in timeliness achieved in 2004, and resulted primarily from the first-time implementation of Australian equivalents to International Financial Reporting Standards (A-IFRS). Agencies (and particularly universities and their subsidiaries) underestimated the amount of extra work they would need to do to comply with the revised standards.

In 2005, 18 per cent of agencies had not completed their audited statements within 16 weeks of balance date, compared with 9 per cent in 2004.

Adequacy of agencies' control environments

In all, the control environments of universities and technical and further education (TAFE) institutes were adequate. Greater audit emphasis was placed on information technology (IT) general controls in 2005 and opportunities were again identified for agencies to strengthen their governance and financial management arrangements in this area. We consider that education and training portfolio agencies could more closely collaborate to better drive product improvements by software providers which address the security concerns that our audits identified.

We also found that the management of employee leave balances continued to be an area that needs ongoing attention. Encouraging employees to regularly take their leave entitlements is a well recognised aspect of maintaining internal controls in organisations.

Financial standing of Victoria's universities and their controlled entities

The financial performance and working capital position of all single-sector universities and the higher education divisions of dual-sector universities was positive and generally had improved. In 2005, RMIT University (which had experienced financial difficulties in previous years) reported a consolidated operating surplus of $28.7 million and a consolidated positive working capital (excess of current assets over current liabilities) position of $11.9 million.

Many university-controlled agencies achieved a profit for 2005, however, some had ongoing operating deficits and were not generating adequate returns on their investments. In particular, Monash University South Africa continued to incur substantial operating deficits. Monash University's South Africa project did not meet the target profitability date (2005), and is unlikely to meet the target break-even date (2008), set in its original (1999) business plan. However, the trend has improved in 2005 and, if this continues, losses are expected to reduce.

Financial standing of Victoria's TAFE institutes

In 2005, 17 of Victoria's 18 public TAFE institutes and TAFE divisions of universities reported an (adjusted) operating surplus (excluding capital grants, depreciation and amortisation). This reflected a significant improvement in the sector aggregate, from $28 million in 2004 to $57 million in 2005. All TAFE institutes and divisions had net cash inflows from operating activities (excluding capital grants) and positive working capital positions in 2005.

Considering the nature and level of current government funding (which does not provide for the full funding of asset depreciation), the overall financial performance and condition of the TAFE sector is currently reasonably sound. However, individual institutes' performance and condition need ongoing monitoring to ensure they remain financially sound.

Chisholm TAFE showed signs of substantial difficulty in 2003. Its operating result and working capital position improved significantly in 2004 and 2005. In 2005, it achieved an (adjusted) operating surplus (excluding capital grants, depreciation and amortisation) of $5.9 million, compared with $4.1 million in 2004.

Emerging issues for universities and TAFE institutes

A variety of emerging issues will have major impacts on the future operations of universities. They will need to manage the effects of Commonwealth Government funding changes and the abolition of compulsory student union fees, which will challenge them to increase and diversify the source of fees. They will need to contain costs, comply with new funding arrangements and manage their ageing work forces in a competitive employment market in which academic salaries have declined relative to average weekly earnings. Universities will need to continue to develop management and governance structures to address these challenges and monitor progress.

A further major challenge, for both universities and TAFE institutes, will be to keep refining accounting processes to meet the requirements of the new Australian accounting standards which were first implemented for the reporting year ended 31 December 2005.

Performance reporting by TAFE institutes

Our May 2005 report, *Results of financial statement audits for agencies with other than 30 June 2004 balance dates, and other audits*, found that TAFE institutes needed to improve the quality of performance information in their annual reports about their efficiency and effectiveness. The Office of Training and Tertiary Education (OTTE) has supported that finding by asking TAFE institutes to report on certain performance indicators in the 2005 annual reports.

We consider that the usefulness of TAFE institute annual reports would be improved, and public accountability increased, if OTTE required institutes to report performance in line with Financial Reporting Direction 27 *Presentation of Reporting and Performance Information*[1], for 2006. It is our intention to audit this information, once it is reported.

2.2 Introduction

The *Audit Act 1994* authorises the Auditor-General to audit the annual financial statements of public sector agencies. At 30 June 2005, there were 608 public sector agencies audited by our Office, 132 of which had a balance date other than 30 June[2]. This part of the report outlines the results of the most recent financial audit round of agencies with balance dates other than 30 June 2005.

2.2.1 Agencies audited

At the date of preparing this report, we had completed the audits of, and issued audit opinions on, the financial statements of 123 of the 132 agencies subject to our audit with 2005 balance dates other than 30 June. The financial statements of the remaining 9 agencies were at various stages of completion. We are working with these agencies to help them complete their financial statements as soon as possible.

Of the 132 agencies audited, 92 per cent (121 agencies) were in the education and training portfolio. Of these:

- 8 were universities, 4 of which had a technical and further education (TAFE) division
- 14 were stand-alone public TAFE institutes
- 2 were centres for adult education
- 94 were controlled entities of universities or TAFE institutes (such as companies, trusts and joint ventures)
- 3 were other educational agencies.

The other 11 agencies were mainly the state's alpine resort management boards and the Tricontinental Corporation group of companies (which were placed in voluntary liquidation during the year).

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

[2] Most of these agencies have balance dates of 31 December. Other balance dates are 30 September and 31 October. For full details of balance dates and the status of financial statement audits, see Appendix A of this report.

2.2.2 Education and training portfolio

University sector

Eight state universities provide higher education in Victoria: Deakin University, La Trobe University, Monash University, RMIT University, Swinburne University of Technology, University of Ballarat, University of Melbourne and Victoria University. Each university operates under its own enabling Act.

Four of these universities (RMIT, Swinburne, Ballarat and Victoria) are dual-sector universities; that is, they offer vocational education and training (VET) programs through a TAFE division. The University of Melbourne's Faculty of Land and Food Resources also delivered VET programs in agriculture and horticulture. During 2005, the university announced its intention to no longer deliver these programs and made arrangements for these programs to be delivered by other registered training organisations in 2006.

TAFE sector

In 2005, VET programs in Victoria were delivered by 14 TAFE institutes, 4 TAFE divisions of universities, about 1 191 other registered training organisations[3], and over 450 adult and community education (ACE) organisations.

Victorian TAFE institutes are independent public statutory authorities that receive most of their funds from the Department of Education and Training and deliver about 75 per cent of all publicly-funded VET programs.

The main roles of TAFE institutes are training young people to enter the labour market, maintaining and increasing the skills of existing and mature-age workers (particularly workers with low-level qualifications), and building the skills of disadvantaged people.

Challenges for the VET sector are reflected in the 2005-2008 national priorities. These include:

- improving the sector's responsiveness to rapid changes in demand for skills development and addressing skills shortages, especially in traditional trades and emerging industries
- delivering improved outcomes for employers, individuals and communities
- improving quality
- increasing participation and upskilling mature age workers

[3] A registered training organisation is a training provider registered to deliver VET programs and award nationally recognised qualifications.

- encouraging greater re-engagement in training by Australians who are not fully participating in the labour market.

Between 1997 and 2004, the Victorian Government's contribution to VET total recurrent revenues in Victoria increased from 45.4 per cent to 47.3 per cent. Over the same period, the contribution to revenues from fee-for-service activity (most of which came from private sources) increased from 17.3 per cent to 21.6 per cent, while the Commonwealth Government's contribution decreased from 24.7 per cent to 18.5 per cent.

2.2.3 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 its 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*.

The financial statements of education and training portfolio agencies should also follow the guidelines in the model financial statements provided by the (Commonwealth) Department of Education, Science and Training (for universities) and by OTTE (for TAFE institutes).

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

We conduct all audits in accordance with the Australian auditing standards developed by the Australian Auditing and Assurance Standards Board.

2.3 Audit opinions issued

Of the 123 audit opinions we issued, 119 were clear (including 2 that were modified to include "emphasis of matter" comment) and 4 were qualified.

Figure 2A shows the 4 agencies whose financial statements we qualified, and our reasons for the qualifications.

FIGURE 2A: AUDIT QUALIFICATIONS

Agencies	Reason for qualification
Anti-Cancer Council of Victoria Melbourne Business School Building Fund	Inability to assess the completeness of cash donations.
Meanjin Company Ltd The University of Melbourne	Certain grants were inappropriately recognised as liabilities rather than as income as required by AASB 1004 *Contributions*.

Source: Victorian Auditor-General's Office.

There were 2 agencies which received a qualified report for 2005 because we were unable to assess the completeness of cash donations received. In the case of the Anti-Cancer Council of Victoria, we have issued this qualification for a number of years now. It alerts users of the financial statements to an inherent risk in the collection of cash donations which cannot be mitigated by further internal controls. We also issued qualified audit reports for 2 agencies, due to the inappropriate recognition of certain grants they received.

Audit opinions with "emphasis of matter" comment were issued on the statements of the Victorian College of the Arts and Melbourne University Private (NZ) Ltd. The "emphasis of matter" for the Victorian College of the Arts drew attention to its proposed integration with The University of Melbourne and that its financial statements had been prepared on a "going concern" basis. The "emphasis of matter" for Melbourne University Private (NZ) Ltd stated that the shareholder had indicated it would not require repayment of a loan; and that the assumption that the company had the capacity to repay its debts as and when they fell due would be invalid without the continued financial support of the shareholder.

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

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 2005 met the 12-week reporting timeline.

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

Number of weeks after end of financial year audited financial statements were finalised	2004		2005	
	Number of agencies	Per cent (cumulative)	Number of agencies	Per cent (cumulative)
Less than 8 weeks	14	11	8	6
8 to 10 weeks	19	25	13	16
10 to 12 weeks	67	76	46	51
12 to 14 weeks	18	89	21	67
14 to 16 weeks	2	91	20	82
More than 16 weeks (a)	12	100	24	100
Total	132	..	132	..

(a) Includes 9 agencies with balance dates in 2005 other than 30 June whose financial statements were not finalised at the date of preparing this report.

Source: Victorian Auditor-General's Office.

A considerably smaller percentage of agencies completed their audited financial statements within 12 weeks (51 per cent in 2005, compared with 76 per cent in 2004).

The main reasons for this were the first-time implementation of Australian equivalents to International Financial Reporting Standards (A-IFRS), and resource shortages in some agencies. While agencies had trained and prepared staff for the new standards, many (primarily universities) underestimated the extra time required to tailor financial statements to suit the particular circumstances of their agency and to perform additional accounting tasks.

TAFE institutes were also delayed by the late issue of the TAFE model financial statements by the Office of Training and Tertiary Education (OTTE). We anticipate that further finetuning of the model financial statements will be required in 2006 as agencies assimilate lessons from their initial adoption of the A-IFRS requirements into their accounting processes. Accounting issues that required time and attention included determining the existence or otherwise of embedded derivatives, dealing with the valuation of and accounting for the Unisuper liability, and accounting for investments held for sale. Some agencies were also delayed by staff changes.

The delays in the preparation of financial statements resulted in numerous agencies becoming ready for audit concurrently. This caused unforseen additional demands on the resources of our Office.

There is considerable room for improvement in the timeliness with which audited financial statements are completed, particularly by universities. In 2005, 18 per cent of agencies had not finalised their audited statements 16 weeks after balance date, compared with 9 per cent in 2004.

Figure 2C shows how well, by sector, agencies with balance dates other than 30 June met the 12-week reporting deadline in 2004 and 2005.

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

Sector	2004		2005	
	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	121	66
Human Services	3	2	3	1
Sustainability and Environment	6	-	5	-
Treasury and Finance	4	4	3	-
Total	132	100	132	67
Percentage	..	76	..	51

Source: Victorian Auditor-General's Office.

Figure 2C shows that fewer agencies in the education and training portfolio completed their audited financial statements in 2005 within 12 weeks (66 in 2005, compared with 94 in 2004). This was a significant deterioration in timeliness for the portfolio and, as previously mentioned, was mainly due to agencies' lack of preparedness for first-time implementation of A-IFRS.

In 2004, completion of the financial statements of alpine resort management boards was delayed because some boards decided to revalue their major assets so that they could more accurately report the value of those assets. In 2005, we were again unable to complete these audits within the 12-week time frame. This was due to several factors, including delays by agencies in completing quality draft financial statements for audit (due to staffing and systems issues), and the need to resolve a number of contentious technical issues. We note, however, that these boards were not required to implement A-IFRS this year, but will have to do so for the year ending 31 October 2006.

The promptness of audit completion depends on how quickly agencies provide draft financial statements to our Office, and the completeness of those drafts. In 2003 and 2004, the time between the end of the financial year and our Office receiving complete draft financial statements averaged about 7 weeks for agencies with 31 December balance dates. That was just within the 8-week statutory deadline for submitting financial statements to our Office for audit. In 2005, the average was just under 8 weeks, due to the reasons given earlier for the late completion of financial statements. The delay was despite a great deal of effort on the part of agencies (particularly universities) and our Office to identify, discuss and resolve contentious issues early.

As noted in our previous reports to parliament on the results of financial statement audits[4], best practice is for agencies to prepare their statutory financial statements within 10 to 15 days of the balance date. We will continue to work closely with agencies to reduce the time they take to provide us with financial statements.

Conclusion

In 2005, fewer education and training agencies than in 2004 completed their audited financial statements within 12 weeks, due primarily to A-IFRS issues. Alpine resort management boards were similarly delayed, but for different reasons.

While TAFE institutes generally complied with their reporting requirements, universities need to improve their processes and resourcing strategies for preparing financial statements in order to meet the statutory time line. Our Office has already met with OTTE and the TAFE Business Manager Group to review and improve the TAFE model financial statements, and to provide information about the results of the 2005 audits. This should improve TAFE sector readiness in 2006. We have also briefed the University Finance Manager Group about the issues it needs to address.

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

Recommendation

1. **That universities and TAFE institutes review the outcomes of the 2005 reporting cycle to identify what they can learn from the implementation of A-IFRS. Information gained from the review should then be used to improve their resourcing and processes for preparing financial statements, and ensure that they are promptly completed in future years.**

RESPONSE provided by Secretary, Department of Education and Training

The department supports this recommendation. The department recognises that the first time implementation of A-IFRS had an impact on universities and to a lesser extent on TAFE institutes in respect to timeliness in completing their audited financial statements. The department will address the issue with all universities and TAFE institutes, requesting compliance within the 12 week timeframe.

2.5 University and TAFE institute control environments

2.5.1 Adequacy of agencies' internal controls

The main purpose of financial statement audits is to add credibility to agencies' financial statements through the audit opinion, which provides independent assurance that they are fairly presented. However, audits also assess the adequacy of agencies' financial control and governance processes.

Any weaknesses in internal controls that the audit identifies will not result in a qualified audit opinion unless they give rise to significant uncertainty about the financial information being reported: there are often other control procedures or audit processes that can be used to mitigate the risk of material error. However, an audit may bring weaknesses to the attention of the agency so it can rectify them.

The current round of financial audits identified and reported to agencies a number of control weaknesses (in areas such as payroll, accounts payable, accounts receivable and general information technology controls). Most were of a procedural nature, and agencies generally responded positively to addressing them.

We found no systematic breakdowns in accounting systems. However, we were again concerned about the number of weaknesses we found in agencies' information technology control environments. These mainly concerned a lack of discipline over rights to access computer systems, and the need for improved security policies and procedures. These matters were reported in 2004 and there was an increased emphasis in the 2005 audit plans and processes on controls in this area. Consequently, a greater degree of detail was provided in our management letters to agencies. We have also pointed out the need for greater collaboration between agencies in jointly approaching software providers to make particular security changes to commonly used software.

Our planning for the 2005 audits noted that education and training sector agencies were increasing their information technology activity, and installing new and upgrading existing software and hardware. We have highlighted to university and TAFE institutes' audit committees the need for post-implementation reviews (typically performed by internal auditors) of such activity, to ensure the integrity of agency financial and other information is maintained.

For several years, we have also reported our concerns about the build-up of annual leave entitlements that agency employees have not taken when they have fallen due. Our 2005 audits continued to find that significant numbers of university and TAFE institute staff have more than 8 weeks accrued annual leave, i.e. more than 2 years of leave entitlement.

Conclusion

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

Recommendation

2. That universities and TAFE institutes regularly review:

- **access and security policies and procedures for their information technology systems to maintain the integrity of the systems and associated data, and conduct post-implementation reviews of new and upgraded systems**
- **levels of employee annual leave entitlements and encourage staff to promptly take leave owing to them.**

RESPONSE provided by Secretary, Department of Education and Training

The department supports this recommendation. The department will again address the above issues with all universities and TAFE institutes, requesting them to adopt the above recommendations.

2.5.2 Effectiveness of risk management frameworks

Several of our past reports to parliament have reported on agency risk management frameworks. These reports have recommended that agencies develop, implement and regularly review risk management strategies.

Our recent financial audits have concluded that education and training portfolio agencies had generally implemented adequate risk management frameworks. We found that:

- reporting against risk management strategies has been adequate
- risk management strategies have been adequately integrated into governance structures, primarily through audit committees
- identified risks were being managed more effectively than has been the case in the past and, where appropriate, internal audit plans were modified where ongoing monitoring of identified risks was required.

In 2005, the risk management frameworks of education and training portfolio agencies were well developed but risk management strategies were only slowly being integrated into business plans. The risk management policies of alpine resort management boards were only in draft, or in the early stages of implementation.

The implementation of risk management strategies also, in our view, increased the effectiveness of agencies' audit committees. During the year, many audit committees renamed themselves "audit and risk committees" to emphasise this broader aspect of their responsibilities.

Our past reports have raised the need for agencies to have formal fraud control strategies and to include fraud control as an integral part of risk management. In 2004 and 2005, many agencies implemented fraud control strategies, policies and procedures, and provided training to staff in fraud control. Although we cannot definitively determine whether these measures have reduced the incidence of fraud, in all cases identified agency management took appropriate action.

Conclusion

Risk management frameworks have now been widely adopted, particularly at the larger agencies. Increasingly, the audit and risk committees of agencies also actively and continuously monitor risks. The effective integration of these frameworks with business planning is a key area requiring ongoing attention.

We applaud agency managements' prompt and thorough attention to fraud. To be effective, fraud control policies and procedures must be backed by organisational cultures that support the prompt and decisive investigation and resolution of alleged or actual cases of fraud. This is an ongoing management challenge in this area.

2.6 Financial standing of Victoria's universities

2.6.1 Background

Figure 2D shows that in 2005 the revenues of Victoria's 8 publicly-funded universities totalled about $4.4 billion. The majority of this revenue came from their higher education activities, with the balance generated from their TAFE activities.

FIGURE 2D: VICTORIAN UNIVERSITIES, REVENUE BY SOURCE ($MILLION)

Revenue source	2004		2005		Movement
	($m)	(%)	($m)	(%)	(%)
Commonwealth Government funding	1 293	31.5	1 439	32.7	11.3
Victorian Government funding	279	6.7	293	6.7	5
Fees and charges	1 052	25.6	1 112	25.3	5.8
Other income	1 485	36.2	1 556	35.3	4.8
Total revenue from ordinary activities	4 109	100.00	4 400	100.00	..

Source: Department of Education, and Training.

Figure 2D shows that the amount of university funding from the Commonwealth Government increased by $146 million or 11.3 per cent in 2005. During the same period, the amount of funding from the Victorian Government increased by $14 million or 5 per cent, and universities raised additional revenues from fees and charges of $60 million or 5.8 per cent.

2.6.2 Financial performance of universities' higher education divisions

Figure 2E shows the aggregate key financial information for Victorian universities' higher education divisions at 31 December 2005, compared with the previous 2 years.

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

Items		2003	2004 (a)	2005
Operating surplus	($m)	200	144	221
Net cash flows from operating activities	($m)	413	385	488
Working capital (at 31 December) -				
Current assets less current liabilities	($m)	33	105	152
Ratio		1.06	1.18	1.22

(a) Figures for 2004 are the A-IFRS adjusted comparatives as they appear in the entities' 2005 financial statements.

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

In 2003, the Commonwealth Government announced its *Our Universities: Backing Australia's Future* package, a 10-year vision and initiatives for Australian higher education. Often referred to as the "Nelson reforms", the policy changes established a partially de-regulated system of higher education intended to enable individual universities to better determine the value of their courses in the market place. The reform package included new arrangements for student financing (Student Learning Entitlements and Fee-Help), the introduction of a new information system to provide students with online information about courses and to enable universities to meet changed reporting requirements, the introduction of a new student number (Commonwealth Higher Education Support Number), together with more competitive government funding for research and other programs.

As part of these reforms, the Commonwealth Government allowed universities to increase their Higher Education Contribution Scheme charges by up to 25 per cent from the start of 2005. Victoria's universities subsequently raised their fees to varying degrees.

Universities have successfully managed the impact of this package on their finances, generating a total operating surplus in 2005 of $221 million, compared with $144 million in 2004. Overall, they have also reported improved operating cash flow and working capital positions.

Figure 2F shows summary financial results for the 4 single-sector universities and for the higher education divisions of the 4 dual-sector universities. It shows that universities and higher education divisions in 2004 and 2005 generated operating surpluses and positive cash flows from their operating activities and generally continued to have favourable working capital positions.

FIGURE 2F: SUMMARY FINANCIAL RESULTS, UNIVERSITIES' AND DUAL-SECTOR UNIVERSITIES' HIGHER EDUCATION DIVISIONS ($'000)

Agency	Operating result from continuing operations		Net cash inflows (outflows) from operating activities		Positive (negative) working capital position	
	2004 (a)	2005	2004 (a)	2005	2004 (a)	2005
University (stand-alone) -						
Deakin University	10 421	27 572	35 358	60 017	24 592	10 574
La Trobe University	2 356	21 966	32 947	35 278	32 084	57 904
Monash University	37 937	42 534	60 246	45 177	(61 743)	(60 739)
The University of Melbourne	87 693	76 095	161 923	194 585	75 043	12 691
University (higher education) -						
RMIT University	(19 684)	22 025	31 867	45 632	(60 845)	(15 096)
Swinburne University of Technology	8 682	3 965	1 776	24 489	14 805	22 876
University of Ballarat	6 363	8 744	11 810	21 235	16 003	17 877
Victoria University	14 394	9 124	26 943	28 691	43 311	59 365
Total	148 162	212 025	362 870	455 104	83 250	105 452

(a) Figures for 2004 are the A-IFRS adjusted comparatives as they appear in the 2005 financial statements.

Source: Audited financial statements for Victoria's universities.

In 2005, RMIT University higher education division's operating result from continuing operations improved greatly from a deficit of $19.7 million in 2004 to a surplus of $22 million in 2005.

RMIT University also reported a consolidated operating surplus from continuing operations of $28.7 million and a consolidated positive working capital (excess of current assets over current liabilities) position of $11.9 million. This compared with a consolidated operating deficit of $26.5 million and negative working capital position of $36.5 million in 2004.

In 2005, all universities and higher education divisions reported significant cash inflows from operating activities. Two universities (Monash University and RMIT University) had significant negative working capital positions.

Monash University's working capital position at 31 December 2005 improved over the 12 months. Although the university reported a negative working capital position at 31 December 2005, it also held significant long-term investments with a consolidated value of around $274 million. These are realisable, if required. The university manages these funds to achieve high returns but holds them in a form that makes them available to meet working capital requirements. The presentation of these long-term investments as non-current is consistent with accounting standards.

The turnaround in RMIT University's (parent entity's) operating result was influenced by a number of items, including:

- increased reported revenue of $15 million due to the change in accounting treatment and timing of Commonwealth Government grants
- increased Commonwealth funding of $16.7 million
- increase in course fees and charges of $8.7 million
- surplus on the sale of property, plant and equipment, and shares in a subsidiary, of $3.7 million – which is a $6.6 million turnaround on the $2.9 million net loss reported for this category in 2004
- operating cost savings of $6 million, offset by restructuring costs of $6 million.

In 2001, we reported problems with RMIT University's Academic Management System. The university has now resolved these problems by reducing its complexity and improving enrolment processes through their centralisation within a dedicated student centre. As a result, the audit opinions on RMIT University's accounts for the years ended 31 December 2004 and 2005 are unqualified.

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 standardisation and streamlining of complex processes across the university, and for reducing staff expenditure. RMIT's 2006 business plan projects a surplus of $38 million for 2008.

Conclusion

In 2005, the financial performance and position of single-sector universities and the higher education divisions of dual-sector universities was positive.

RESPONSE provided by acting Vice-Chancellor, RMIT University

The recovery plan prepared in 2004 identified a number of potential opportunities to improve the university's financial results and an aspirational target of $40 million profit for the university by 2007 was, at that time, considered reasonable. The 2006 business plan was better informed by the various revenue enhancement opportunities and cost reduction initiatives actually being undertaken. That same process will be applied in formulating future budgets and a fresh view of possible financial results obtained.

The university is constantly striving to enhance its performance in all aspects of its consolidated operations. Whilst some readers may construe that the financial recovery is not as rapid as anticipated, real and positive progress has been made.

2.6.3 Financial performance of universities' controlled entities

Of the 132 agencies subject to audit during the period, 94 were entities controlled by universities and TAFE institutes. Figure 2G shows all major university subsidiaries with more than $10 million in revenues, expenses, assets or liabilities at 31 December 2005.

FIGURE 2G: SUMMARY FINANCIAL INFORMATION FOR MAJOR UNIVERSITY SUBSIDIARIES, FOR YEAR ENDED 31 DECEMBER 2005 ($'000)

Entities	Revenue	(Expenses)	Surplus/ (deficit) (a)	Assets	(Liabilities)	Equity
Deakin University -						
Callista Software Services Pty Ltd	13 807	(11 997)	1 810	4 323	(1 643)	2 680
La Trobe University -						
Medical Centre Development Pty Ltd	2 048	(3 304)	(1 256)	21 602	(29 104)	(7 502)
Monash University -						
Monash College Group Pty Ltd (formerly Monash International Pty Ltd)	45 451	(42 751)	2 700	26 132	(17 176)	8 956
Monash University Foundation Trust	14 363	(396)	13 967	138 470	(2 778)	135 692
Monyx Pty Ltd	-	-	-	16 671	(3 001)	13 670
Monyx Education Services Pty Ltd	24 853	(25 346)	(493)	11 517	(9 928)	1 589
Monyx Services Pty Ltd	15 293	(14 542)	751	26 495	(27 263)	(768)
Monash Investment Trust	353	(692)	(339)	17 899	(179)	17 720
Monash Property South Africa Pty Ltd (formerly Monash Southern Africa Pty Ltd)	1 616	(1 500)	116	32 169	(17 047)	15 122
Monash Educational Enterprises (formerly Monash University South Africa) (b)	4 279	(8 276)	(3 997)	305	(37 749)	(37 444)
Monash IVF Pty Ltd	23 320	(18 178)	5 142	17 091	(9 428)	7 663
RMIT University -						
RMIT International Pty Ltd	20 639	(20 464)	175	5 987	(5 636)	351
RMIT Training Pty Ltd	15 069	(15 352)	(283)	10 701	(7 284)	3 417
RMIT Union	11 745	(10 901)	844	17 752	(2 232)	15 520
RMIT International University Vietnam	11 243	(10 854)	389	31 067	(20 053)	11 014
RMIT Vietnam Holdings Pty Ltd	1 745	(1 711)	34	26 436	(8 671)	17 765
Swinburne University -						
Swinburne Ltd	4 843	(4 843)	-	69 209	(10 577)	58 632
The University of Melbourne -						
Victorian College of the Arts	32 929	(32 897)	32	114 807	(20 759)	94 048
Melbourne Business School Ltd	41 497	(36 651)	4 846	152 436	(14 480)	137 956
The Melbourne Business School Foundation	4 825	(335)	4 490	28 407	(9 905)	18 502
Mount Eliza Graduate School of Business and Government Ltd	12 465	(13 991)	(1 526)	15 773	(4 688)	11 085
UMEE Ltd (formerly Melbourne University Private Ltd)	19 704	(31 777)	(12 073)	35 911	(12 536)	23 375
MU Student Union Limited	13 247	(11 124)	2 123	7 035	(2 572)	4 463
Total	335 334	(317 882)	17 452	828 195	(274 689)	553 506

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

(b) Monash Educational Enterprise figures are unaudited, and have been taken from the latest available financial statements.

Source: Audited 2005 financial statements for the listed entities.

The above 23 controlled entities together contributed some 8 to 11 per cent of universities' total revenues, expenses, assets and liabilities, but only a moderate total operating profit. That is, revenues of $335 million and equity of $554 million resulted in a profit of $17 million for 2005. Also, 7 of the 23 controlled entities had operating losses in 2005 totalling $20 million.

Monash University Foundation Trust had a surplus of $14 million in 2005, compared with a $17 million surplus in 2004. The reduction in the reported surplus is due to the impact of changes in accounting treatments resulting from the implementation of A-IFRS in 2005, in particular unrealised gains on the Foundation's managed investments are no longer recorded as income.

UMEE Ltd (formerly Melbourne University Private Ltd) had a deficit of $12 million in 2005 compared with $4 million in 2004. This was mainly due to a $6.5 million increase in its provision for non-recovery of debt from subsidiaries. It increased the provision because it did not expect to recover amounts owed by 3 of its subsidiaries, given their current net liability positions. As well, it incurred $1.9 million in restructuring costs as a result of the decision to stop operating as a university in June 2005 and to restructure operations in line with the shareholders' strategic objectives.

La Trobe University's Medical Centre Developments Pty Ltd continued to generate an operating loss and negative equity, while Deakin University's Callista Software Services Pty Ltd and Monash IVF Pty Ltd improved their operating result.

Monash University in South Africa[5]

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.

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 project, subject to the project meeting certain student number and finance performance criteria. The review predicted that the university would need to invest a further $20 million before the project became self-sufficient.

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[5] The financial information used by us to report on Monash University in South Africa came from the university's consolidated financial statements, as financial statements for the individual entities had not been finalised at the time of preparing this report.

Monash University subsequently took steps to reduce costs and increase student numbers. In 2004, it completed a new academic building to provide additional teaching and academic capacity. In 2005, it appointed a pro vice-chancellor for the operating company and revised the company's organisational structure. It terminated a cost-plus contract for the provision of infrastructure services, which is now internally managed. It also commenced major marketing efforts to raise student numbers and planned for new student accommodation to be built by a private operator.

In the May 2004 review of the business plan, the forecast number of students for 2005 was 579 equivalent full-time students. Monash University advised that the actual number of students enrolled was 794 equivalent full-time students. It further advised that, at 30 April 2006, the number of equivalent full time students was 915, which also exceeded the target in the 2004 consultant's report.

During 2005, the Monash South Africa group was restructured into the following entities:

- Monash Educational Enterprises (formerly Monash University South Africa), an incorporated association in South Africa that previously owned the operating assets and liabilities. From 1 July 2005, the company manages education activities, other than higher education, such as short courses
- Monash Property South Africa Pty Ltd (formerly Monash Southern Africa Pty Ltd), an Australian-registered company that owns the land and buildings in South Africa
- Monash South Africa Ltd, an Australian company limited by guarantee trading since 1 July 2005 and which now owns the operating assets and liabilities.

Over the past 6 years, expenditure has been greater than income because of significant start-up costs, lower than required student numbers and high operating costs. Figures 2H and 2I show the project's financial results from 2000 to 2005.

FIGURE 2H: MONASH EDUCATIONAL ENTERPRISES (FORMERLY MONASH UNIVERSITY SOUTH AFRICA) AND MONASH SOUTH AFRICA LTD, SUMMARY FINANCIAL INFORMATION ($'000) (a)

Year	Operating (loss)	Revenue	Expenditure	Assets	Liabilities	Equity
2000 (b)	(2 497)	5	(2 502)	1 039	3 536	(2 497)
2001 (b)	(2 710)	3 744	(6 454)	2 385	7 592	(5 207)
2002 (b)	(9 802)	1 155	(10 957)	2 992	18 002	(15 010)
2003 (b)	(8 559)	4 199	(12 758)	2 736	26 305	(23 569)
2004 (c)	(8 338)	4 913	(13 251)	4 672	40 320	(35 648)
2005 (d)	(7 610)	7 555	(15 165)	4 043	45 101	(41 058)
Total	(39 516)	21 571	61 087	..	..	..

(a) The financial results and balances of Monash Educational Enterprises and Monash South Africa Ltd have been combined to show the consolidated results of both the old and new entities over the time series.

(b) Foreign exchange gains and losses have been included in either revenue or expenditure for 2000 to 2003, consistent with their accounting treatment in these years. For 2004 and 2005, the results the foreign exchange gains/(losses) were taken to a reserve in accordance with A-IFRS.

(c) The 2004 figures are the A-IFRS adjusted comparatives, as they appear in the 2005 financial statements.

(d) The 2004 and 2005 figures have been taken from the 2005 unaudited financial statements.

Source: Audited financial statements for Monash Educational Enterprises (or the prior operating entity).

FIGURE 2I: MONASH PROPERTY SOUTH AFRICA PTY LTD (FORMERLY MONASH SOUTHERN AFRICA PTY LTD) SUMMARY FINANCIAL RESULTS ($'000)

Year	Operating profit (loss)	Revenue	Expenditure	Assets	Liabilities	Equity
2000 (a)	(22)	36	(58)	6 468	6 489	(21)
2001 (a)	694	1 979	(1 285)	9 807	5 074	4 733
2002 (a)	(2 081)	661	(2 742)	16 785	10 925	5 861
2003 (a)	(74)	2 427	(2 501)	24 951	18 056	6 895
2004 (b)	(324)	1 209	(1 533)	32 279	18 868	13 411
2005	116	1 616	(1 500)	32 169	17 047	15 122
Total	(1 691)	7 928	9 619	..	..	..

(a) Foreign exchange gains and losses have been included in either revenue or expenditure for 2000 to 2003, consistent with their accounting treatment in these years. For 2004 and 2005, the foreign exchange gains/(losses) were taken to a reserve in accordance with A-IFRS.

(b) The 2004 figures are the A-IFRS adjusted comparatives as they appear in the 2005 financial statements.

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

Monash University has funded the project's entire loss and has issued Monash University South Africa with a letter of financial support. This assures relevant parties that the group has the capacity to meet its debts when they fall due.

Monash University's total exposure to the project at 31 December 2005 was a net deficiency of $25.9 million, being the combined (negative) equity of Monash Educational Enterprises, Monash Property South Africa Pty Ltd and Monash South Africa Ltd. This takes into account the value of the land and buildings in South Africa, which have increased in value by approximately $14.3 million since 2000. The loans (interest-free from 2004) owing by these entities to Monash University totalled $59.1 million at 31 December 2005, up from $55.6 million at the previous year-end.

Conclusion

Offshore campuses, research development and commercial activities are inherently high-risk ventures for universities. Some ventures in these areas can, and have, resulted in substantial losses. Overseas projects in particular are exposed to a high level of risk such as changes in foreign governments and their policies (which may not support Australian operations) and fluctuating exchange rates. Further, universities may not be able to readily divest themselves of overseas assets. It may well be possible for universities to meet the objectives of such projects with strategies that do not require such large investments (such as partnering with other institutions).

However, the university-controlled entities in Figure 2G generated much improved profits, but these were moderate in relation to the funds invested.

The Monash University South Africa project continues to incur significant operating deficits which have been partly offset by increased property values. It did not meet the target profitability date (2005) and is unlikely to meet the target break even date in its original (1999) business plan. If trends to date continue, it will continue to incur losses in the near future, although the extent of such losses are expected to reduce as a result of various actions taken by the university.

In response to our 2004 report to parliament on this project[6], the secretary to the Department of Education and Training advised that, in the department's view, the primary purpose of offshore delivery was to generate net revenue to support the domestic activities of Victorian universities. This is not occurring in respect of Monash University South Africa. Accordingly, in our opinion, Monash University should review its options to ensure its offshore interests do, in fact, generate long-term net revenues to the university.

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[6] Victorian Auditor-General's Office, 2005, *Results of financial statement audits for agencies with other than 30 June 2004 balance dates, and other audits*, Victorian Government Printer, Melbourne.

Recommendation

3. **That, as previously recommended, all major high-risk ventures by universities should have adequate risk management strategies and plans to protect them from significant losses.**

RESPONSE provided by Secretary, Department of Education and Training

The department supports this recommendation. Universities are required to provide in their annual report to parliament a statement outlining the council's risk management strategy. This is expected to indicate the university's overall risk management strategy in relation to commercial ventures with significant capital investment, turnover; or which have no limited liability.

RESPONSE provided by Vice Chancellor, Monash University

In Monash's opinion, remarks in the conclusion of this report that "the primary purpose of offshore delivery was to generate net revenue to support the domestic activities of Victorian universities" represent a narrow view of the international activities of universities. The international perspective and related benefits continue to be ignored in the reports to parliament.

As enunciated in 'Monash Directions 2025', Monash aspires to be an internationally focused university, pursuing excellence in research and teaching. Accordingly, our international reputation and relevance are of paramount importance. The university's international standing has a direct impact on our ability to attract international students in a highly competitive market with highly leveraged economic benefits. Overseas campuses are an important component that give a real international engagement and perspective that partnerships and twinning arrangements never can. An international presence also provides opportunities for research collaborations and global student experiences; these are being increasingly embedded in our core curricula.

Monash's presence in South Africa, as with any campus start-up, is a long-term investment. The financial performance of the operations continues to be closely monitored by the university's council.

RESPONSE provided by Vice Chancellor, Monash University - continued

As highlighted in the response to the previous report to parliament, reference by the Auditor-General to the 1999 business plan is not relevant as this was extensively revised in response to the external consultant's report in 2004. Student enrolments for 2005 and 2006 are well ahead of those projected in the external consultant's report (2005: 794 equivalent full time students versus 579 on the consultant-based plan, 2006 first semester intake: 915 versus 793 for the full year in the consultant's plan).

We have also instituted risk management strategies and plans to protect the university from significant losses. We therefore stand by the vital role of the South Africa campus as a core element of the university.

2.6.4 Impact of the 2003 *Our Universities: Backing Australia's Future* package

In 2003, the Commonwealth Government announced its *Our Universities: Backing Australia's Future* package, a 10-year vision and initiatives for Australian higher education. University governing bodies face many challenges as a result of the initiatives, namely to:

- develop and manage strategies to diversify and expand their revenue bases and to contain expenditure within revenues
- manage the financial and quality risks arising from the expansion and diversification of revenue sources
- comply with changes to government funding arrangements in 2005 that saw higher education providers funded for places under the Commonwealth Grant Scheme, based on 10 broad discipline clusters and 2 national priority areas
- manage their increasing reliance on income from overseas students educated at Australian universities, and managing the volatility of this market
- manage the governance of their on- and off-shore companies and other ventures
- address the ageing of their work forces and the decline in academic salaries relative to average weekly earnings and the consumer price index over the last quarter century
- manage the impacts of voluntary student unionism
- deal with the implementation of new higher education workplace relations requirements
- implement the new web-based Higher Education Information Management System.

Implementation of the Higher Education Information Management System (HEIMS)

One of the initiatives in the package was a new web-based information management system called the Higher Education Information Management System. This system will help students and higher education providers to manage the consequences of the reform package. Implementation of the system was a significant project for all universities and required substantial resources to meet the 2004 deadline. All universities reported delivering the required information within the agreed time frames.

Implementation of the system has resulted in universities centralising their data collection processes and improving the integrity of their data. Implementation costs for each university ranged from $1 million to $2.8 million.

2.7 Financial standing of Victoria's TAFE institutes

2.7.1 Background

Victoria's 18 TAFE institutes are the state's major providers of vocational education and training (VET). In 2004, these government-owned and funded institutes provided 80 per cent of Victoria'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.

In 2005, The University of Melbourne announced that it would discontinue the land and food programs it delivered through the School of Vocational Education and Training located within its Institute of Land and Food Resources.

In 2005, around 111 million VET student contact hours of training were delivered to some 484 000 Victorian students. TAFE institutes delivered about 88 million student contact hours, with the rest delivered by adult and community education providers and private registered training organisations. About 80 million student contact hours were government-funded, with TAFE institutes delivering 79 per cent of this training.

TAFE institutes had total annual revenues and expenditures of about $1 billion, total assets of about $2 billion and total liabilities of about $200 million. The TAFE asset portfolio included around 1 000 buildings, the average age of which was 22 years.

Governments provide about 68 per cent of TAFE institutes' revenue. Of this, the Victorian Government provides around 70 per cent and the Commonwealth around 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 the funding to be provided per student contact hour.

Victorian TAFE institutes receive the lowest government funding (including commonwealth and state funding) per student contact hour of any jurisdiction in Australia. Figure 2J shows some relevant comparisons.

FIGURE 2J: GOVERNMENT FUNDING PER STUDENT CONTACT HOUR (2004 DOLLARS)

	Vic.	NSW	Qld	Aust.
2000	$10.83	$15.58	$15.91	$14.20
2001	$11.72	$14.20	$13.78	$13.51
2002	$11.88	$14.44	$14.25	$13.92
2003	$12.23	$15.18	$14.66	$14.29
2004 (a)	$12.14	$14.03	$15.25	$14.09

(a) Figures for 2005 were unavailable at the date of preparing this report.

Source: Report on Government Services 2006, Table 4A.13, Commonwealth Government.

Institutes' other major revenue source are fees for services. In 2005, fee-for-service activity accounted for about 14 per cent of total revenue. About one-quarter of this revenue came from full-fee-paying overseas students. Some TAFE institutes also offered accredited degree programs on a full-fee-paying basis, although students may be eligible for FEE-HELP (the Commonwealth Government's student loan program). Degree program enrolees at TAFE institutes pay about $10 000 a year in fees. Box Hill, Gordon, Northern Melbourne and Holmesglen institutes of TAFE offer degree programs.

TAFE institutes also received revenue from student fees and charges (about 11 per cent of total revenue) and from ancillary trading and other miscellaneous sources (about 7 per cent).

In March 2006, the Victorian Government released its *Maintaining the Advantage: Skilled Victorians* statement, committing a further $241.47 million to VET from 2006-07 to 2009-10. The statement builds on the *Knowledge and Skills for the Innovation Economy* statement released in 2002.

In 2004, the Victorian Minister for Education and Training allowed TAFE institutes to increase student fees by 25 per cent, increasing the fee per student contact hour from $1.00 to $1.25. This was the first increase in student fees since 1995. In 2005, student fees were indexed, increasing to $1.28 per student contact hour. Figure 2K shows TAFE student fees in 2004 and 2005.

FIGURE 2K: VICTORIAN TAFE STUDENT FEES ($)

Fee	2004	2005
Student contact hour fee	1.25	1.28
Maximum chargeable fee	625	819
Minimum chargeable fee	50	51
Maximum fee for apprentices and trainees	290	819
Maximum fee for VCE students doing a TAFE course	420	819

Source: Office of Training and Tertiary Education.

While the revised fees are similar to those in other states and territories, Figure 2L shows that the Victorian maximum fee is lower than in most other states.

FIGURE 2L: MAXIMUM TAFE STUDENT FEES ($)

Maximum fee per year	Vic.	NSW	SA	WA	Qld
2004	625	1 650	1 200	883	713
2005	819	1 684	1 250	964	758

Source: Office of Training and Tertiary Education.

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 arrangement 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 Financial performance of TAFE institutes

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

FIGURE 2M: INDICATORS OF FINANCIAL PERFORMANCE

Indicator	Notes
Operating result for year	A deficit results if an agency's revenues do not cover its operating costs. Ongoing deficits might indicate the agency is underfunded or unable to contain its costs.
Operating result (excluding capital grants, depreciation and amortisation)	A TAFE institute is given a capital grant when one of its asset needs replacing (rather than given funds to match its depreciation expense). This causes fluctuations in operating results because capital grants rise and fall from year-to-year. Excluding these grants, and depreciation and amortisation costs "normalises" the operating result.
Net cash flows from operating activities (excluding capital grants)	In line with accounting standards, capital grants are classified as inflows from operating activities but the resultant asset acquisitions are classified as outflows from investing activities. Excluding capital grants normalises the net cash flows from operating activities.
Working capital position	Negative working capital can suggest that a TAFE institute will not be able to pay its debts 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* assessed the financial condition of Victoria's TAFE institutes. The June 2001 report concluded that 4 institutes were operating under financial difficulties (that all 4 indicators were unfavourable) at 31 December 2000. Our May 2004 report concluded that this had reduced to one provider at 31 December 2003.

Figure 2N shows the aggregate key financial information for TAFE institutes at 31 December 2005, compared with the previous 2 years.

FIGURE 2N: TAFE INSTITUTES SUMMARY FINANCIAL RESULTS

		31 December 2003	31 December 2004(a)	31 December 2005
Operating result -				
Operating surplus/(deficit)	($m)	60	39	57
Operating surplus/(deficit), excluding capital grants, depreciation and amortisation	($m)	(42)	28	57
Net cash flows from operating activities, excluding capital grants	($m)	18	59	91
Working capital -				
Current assets less current liabilities	($m)	105	101	124
Ratio	($m)	1.94	1.93	2.03

(a) The 2004 figures are the A-IFRS adjusted comparatives as they appear in the 2005 financial statements.

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

Figure 2N shows that when the operating result is adjusted to exclude capital grants, depreciation and amortisation, the sector's operating result is positive and has shown a steady increase over the 3 years. The sector's operating cash flows and working capital position have also improved over the past 3 years.

The working capital ratio of the TAFE sector was robust at 2.03. This was substantially the result of the high level of working capital held by a few TAFE institutes, however all institutes had a working capital ratio of at least one.

It is very pleasing to report that in 2005, only 2 TAFE institutes (Gordon and Wodonga) showed adverse results in only one financial condition indicator. Gordon reported an operating deficit (excluding capital grants, depreciation and amortisation) of $34 000 and Wodonga a reported an operating deficit of $187 000. For Wodonga, this was a significant improvement on the $386 000 deficit reported in 2004. However, Gordon's was not: it deteriorated from an operating surplus (excluding capital grants, depreciation and amortisation) of $1.392 million in 2004.

Improvement at Chisholm Institute of TAFE

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* referred specifically to Chisholm Institute of TAFE, the one institute with 4 unfavourable financial condition indicators between 2000 and 2003.

Figure 2O shows Chisholm's financial performance in the last 6 years against the 4 indicators of financial condition.

FIGURE 2O: CHISHOLM INSTITUTE OF TAFE SUMMARY FINANCIAL RESULTS ($'000)

	2000	2001	2002	2003	2004	2005
Operating result -						
Operating surplus/(deficit), including capital grants	(3 069)	2 847	6 515	(361)	7 326	13 843
Operating (deficit), excluding capital grants (a)	(9 983)	(4 212)	(986)	(4 379)	4 134	5 887
Net cash flows from operating activities, excluding capital grants	(4 051)	(1 640)	(1 006)	(207)	2 151	7 411
Working capital -						
Current assets less current liabilities	(10 221)	(7 012)	(6 050)	(5 615)	(2 341)	3 350
Ratio	0.38	0.47	0.40	0.38	0.69	1.43

(a) For comparison purposes (with figures presented in other parts of this report), the 2004 and 2005 figures also exclude depreciation and amortisation.

Source: Chisholm Institute of TAFE 2000 to 2005 audited financial statements.

Figure 2O shows that Chisholm's overall financial performance and position has improved over the 6-year period. In 2005, Chisholm achieved favourable results in all 4 indicators. Chisholm's financial turnaround reflects the effective implementation of an extensive program of financial and structural reform between 2002 and 2005. OTTE continues to monitor its financial reports.

Conclusion

It is pleasing to report that the financial condition of TAFE institutes in 2005 improved. Of Victoria's 18 TAFE institutes, 17 reported an operating surplus, excluding funding for capital purposes and depreciation and amortisation. The aggregate operating surplus for the sector (excluding capital grants, depreciation and amortisation) improved significantly, from $28 million in 2004 to $57 million in 2005. The working capital position of TAFE institutes was also sound.

2.8 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. The new Australian standards (A-IFRS) apply to reporting periods starting on or after 1 January 2005.

Agencies with 31 December balance dates were the first agencies to prepare financial statements that complied fully with A-IFRS. These agencies prepared their 2005 financial statements under A-IFRS, and restated all 2004 figures included for comparative purposes on an A-IFRS basis.

The main standards that affected agencies' financial statements addressed:

- the valuation and impairment of property, plant and equipment
- the recognition of defined benefit superannuation assets or liabilities
- the use of foreign currency exchange rates in agency transactions and balances
- the classification of financial instruments
- the measurement and classification of employee benefits.

In total, the dollar value of the adjustments required for compliance with A-IFRS was not material for either net assets or operating results. However, some agencies had to make large A-IFRS adjustments to their opening balances. These related mainly to contributed capital; non-current assets classified as "available-for-sale"; and property, plant and equipment.

The additional disclosure requirements and calculations for A-IFRS and related resourcing demands did delay the completion of some agencies' financial statements. We do not envisage that these delays will recur.

Conclusion

We consider that the A-IFRS was successfully implemented by education and training portfolio agencies in the year ended 31 December 2005. Although the effect on financial statements was immaterial in total, some agencies did make some large adjustments.

2.9 Performance reporting by TAFE institutes

Our May 2004 *Report on Public Sector Agencies – Results of special reviews and financial statement audits for agencies with 2003 balance dates other than 30 June* explained that several decades of government reforms had exposed TAFE institutes to much greater competition, which required them to operate in a more commercial manner. In such an environment, the use of performance indicators in decision-making processes is very important.

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

- performance targets and indicators set by the responsible minister
- actual results for the financial year against the targets and indicators
- an explanation of any significant variations between the actual results and the performance targets and indicators.

To be useful, an indicator should give the reader enough information to enable them to evaluate how well an institute has achieved its objectives, targets or goals. For example, the information might show:

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

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

Following our previous report, OTTE asked TAFE institutes to include specified key performance indicators in their 2005 annual reports and to report targets, actual performance and explanations for major variances. Figure 2P shows the required performance indicators.

FIGURE 2P: TAFE INSTITUTES' PERFORMANCE INDICATORS TO BE INCLUDED IN 2005 ANNUAL REPORTS

Category	Performance indicator
Financial/resource management	Operating result (revenue less capital grants and expenses before depreciation)
	Working capital (liquidity)
	Total cost per student contact hour (including depreciation)
Students	Module load completion rate
	Student contact hours (total delivered)
Operations	Teaching:non-teaching staff ratio

After analysing the 2005 experience and consulting with TAFE institutes, OTTE developed proposed performance indicators for 2006. At the time of finalising this report, the indicators were being considered by TAFE institute chief executive officers – prior to their submission for consideration by the minister.

OTTE chose indicators that could be objectively measured and reported on by all TAFE institutes. OTTE expects that institutes will include them in their business plans and regularly report against them in 2006 to their governance committees.

OTTE is continuing to work with TAFE institutes to make the indicators more comprehensive and detailed, and to address organisational capabilities as well as efficiency and effectiveness.

Conclusion

We consider that the usefulness of TAFE institute annual reports would be improved, and public accountability increased, if OTTE required institutes to report performance in line with Financial Reporting Direction 27 *Presentation of Reporting and Performance Information*. It is our intention to audit this information once it is reported.

Recommendation

4. **That the Office of Training and Tertiary Education, through the minister, mandate the application of FRD 27 *Presentation of Reporting and Performance Information* by Victorian TAFE institutes for 2006, in respect to the performance indicators approved for reporting by the minister.**

RESPONSE provided by Secretary, Department of Education and Training

The department supports this recommendation. OTTE encouraged all TAFE institutes to include certain performance indicators in their 2005 annual reports. Accordingly, most TAFE institutes included these performance indicators and reported targets, actual performance and explanations for major variances. OTTE continues to work with the TAFE institute CEOs and the Victorian Learning and Employment Skills Commission to select more comprehensive indicators that address organisational capabilities as well as efficiency and effectiveness. Once a set of performance indicators have been agreed and approved for the TAFE sector, TAFE institutes will be advised on requirements for application.

2.10 Financial standing of alpine resort management boards

In 1998, 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 boards:

- 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 largely self-sufficient. Their main revenue sources are service charges, gate fees and site rentals[7]. The boards may also receive capital works grants from the Victorian and Commonwealth governments.

[7] The smaller alpine resorts are less developed and, consequently, their revenue sources are more limited than the larger resorts.

Our May 2004 *Report on Public Sector Agencies – Results of special reviews and financial statement audits for agencies with 2003 balance dates other than 30 June* reported on the financial viability of the alpine resorts, particularly the smaller resorts of Lake Mountain, Mt Baw Baw, and Mt Stirling. In May 2004, the *Alpine Resorts (Management) Act 1997* was amended to disband (in November 2004) the Mt Buller and the Mt Stirling boards and establish the Mt Buller and Mt Stirling Alpine Resort Management Board. The new board is responsible for managing the Mt Buller and Mt Stirling alpine resorts.

As part of the legislative changes, all alpine resort boards were also required to establish:

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

Because of the poor 2005 snow season at Lake Mountain and Mt Baw Baw, both these boards have yet to establish the funds. This indicates the need to monitor the long-term financial viability of these boards.

The poor season also heightened concerns about the long-term financial viability of these boards. Both required cash injections, which took the form of revenue grants, from the Department of Sustainability and Environment to meet their operating costs in the year ended 31 October 2005. Lake Mountain received $350 455 and Mt Baw Baw $830 769. Both also received further cash payments after 1 November 2005.

Figure 2Q shows that the financial performance, position and cash flows from operating activities of the Lake Mountain and Mt Baw Baw boards deteriorated from 2003 to 2005. Without government grants, the Lake Mountain and Mt Baw Baw boards would have incurred operating losses of $1.3 million and $648 000 respectively for the year ended 31 October 2005. Because of a cash shortage, the Lake Mountain board also had to draw down $650 000 from its financing facility with the Treasury Corporation of Victoria in 2005.

FIGURE 2Q: ALPINE RESORT BOARDS SUMMARY FINANCIAL RESULTS ($'000)

Board	Operating result			Net current assets			Net cash flow from operations		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
Falls Creek	1 052	12	352	2 162	1 828	2 156	2 425	1 017	1 101
Lake Mountain	856	1 187	(976)	1 766	110	(713)	999	1 551	(537)
Mt Baw Baw	1 959	1 472	182	717	781	78	2 511	1 788	373
Mt Hotham	2 037	717	355	104	322	1 318	1 808	1 090	1 081
Mt Buller and Mt Stirling	..	..	896	..	..	4 091	..	..	2 360
Mt Buller (a)	604	1 267	..	1 024	2 280	..	2 341	2 045	..
Mt Stirling (a)	(103)	294	..	54	155	..	9	43	..

(a) Merged on 1 November 2004.

Conclusion

The larger alpine resort boards have continued to achieve positive operating results and net cash inflows in 2005. However, the Department of Sustainability and Environment will need to closely monitor the financial condition of the smaller boards (Lake Mountain and Mt Baw Baw) which required government financial support in the year. The department may need to continue to support these boards during poor snow seasons if they are to remain financially viable, until such time as they build adequate reserves from good seasons or from other revenue raising activities or both.

RESPONSE provided by Secretary, Department of Sustainability and Environment

Whilst the conclusions are considered valid, in relation to the Lake Mountain and Mt Baw Baw boards, it should be noted that 2005 was a very poor snow season at these 2 resorts. As a consequence, their results were adversely affected. The department continues to work closely with the 2 boards to improve their operational and financial performance, consistent with the actions set out in the Government's Alpine Resorts 2020 Strategy.

I note your comments, earlier in this report, in relation to timeliness of reporting and risk management policies by the boards. The department will draw these matters to the attention of the relevant boards and provide assistance to them where appropriate.

3. Government vehicle fleet disposals

3.1 Audit conclusions

VicFleet[1] has overall responsibility for managing the Victorian Government vehicle fleet. Its responsibilities include the disposal of vehicles at the end of their lease terms. VicFleet uses the services of motor vehicle auctioneers for this purpose.

In October 2004, during the course of a tender process to appoint motor vehicle auctioneers, allegations were made to VicFleet that one of its 2 preferred tenderers, Auto Group Brooklyn Pty Ltd (which was also providing auction services to VicFleet before the tender), had breached its existing contract by buying and selling government vehicles at its own auctions. A subsequent departmental investigation into these allegations led to Auto Group confirming that 141 government vehicles that it had auctioned had been re-acquired and sold by the company.

At the request of the Minister for Finance, we investigated the probity of the tender process and the appropriateness of DTF's investigation. In doing so, we also assessed how well VicFleet managed the performance of its contracted vehicle auctioneers.

We found that the tender process met expected standards of probity. The tender evaluation had been substantially completed before the allegations were made to VicFleet. The tender evaluation team was made aware of the allegations once the investigation had been completed, and of the outcome of the investigation. The team considered the impact of the investigation's findings on its original tender assessment and evaluation, and subsequently confirmed its recommendation that Auto Group should be appointed as one of the 2 preferred suppliers.

However, the investigation was not as comprehensive as we would have expected. While the initial stages of the investigation were well managed, DTF did not subsequently seek to independently verify the completeness of admissions made by Auto Group. Nor did DTF comprehensively assess the integrity of Auto Group management in relation to the inappropriate transactions.

In our opinion, any adverse findings relating to the completeness of the Auto Group disclosures, or the integrity of Auto Group management, could have impacted on the outcomes of the tender process. Therefore, it would have been preferable for DTF to directly access Auto Group records and carry out its own analysis of data.

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[1] VicFleet is a business unit within the Department of Treasury and Finance.

Finally, we found that VicFleet's management of vehicle disposal arrangements from 1999 to 2005 was not fully effective. While various "contractual" mechanisms appeared to be available to VicFleet to more closely monitor provider performance, these were not utilised.

VicFleet has since taken action to improve contract management. It has developed and implemented a contract management plan, including an improved performance reporting and monitoring regime. It will be important that the revised arrangements are periodically re-assessed to ensure they remain effective.

RESPONSE provided by Secretary, Department of Treasury and Finance

DTF welcomes the Auditor-General's conclusions that the tender process conducted by DTF met expected standards of probity and that the initial investigation into allegations of contract breaches by Auto Group was well managed, and that the Auditor-General noted that there were no findings suggesting any impropriety on the part of any DTF staff.

DTF notes the Auditor-General's opinion that the department did not choose to utilise its full access rights under the contract to further substantiate Auto Group Brooklyn Pty Ltd's admissions of contract breaches. Auto Group admitted to the breach and offered compensation. DTF however continues to see it as a matter of judgement as to how much further investigation was reasonable and warranted, given Auto Group's cooperation in the investigation, especially in setting-up processes to identify whether any vehicles sold at auction had subsequently been re-acquired. DTF's decision to cease further investigation at that point and accept the offer of compensation included these considerations and also the recommendation of a well qualified and experienced investigator.

In addition, DTF does not consider it had any powers under the contract to verify, independently or otherwise, how many Auto Group employees were involved or whether Auto Group management had any involvement in the scheme.

DTF acknowledges the comments made regarding opportunities to improve the effectiveness of fleet disposal contract management, noting that steps to improve contract management have commenced.

3.2 Background

The Victorian Government's motor vehicle fleet is managed by VicFleet, a business unit within the commercial division of the Department of Treasury and Finance (DTF).

VicFleet currently manages around 8 000 fleet vehicles which have an approximate value of $230 million. Around two-thirds of these vehicles are subject to a finance lease arrangement financed by the Treasury Corporation of Victoria (TCV). This arrangement commenced from 1 February 2004. The remaining vehicles are subject to a previous lease arrangement financed by the Commonwealth Bank of Australia (CBA).

Surplus motor vehicles are disposed by VicFleet through licensed motor car traders it engages, who auction the vehicles on behalf of the state.

In September 2004, VicFleet issued a request for tender from interested parties for the provision of disposal services. Following the evaluation of proposals received, 2 tenderers were selected for appointment, and were advised accordingly in July 2005. One of the 2 successful tenderers was Auto Group Brooklyn Pty Ltd (Auto Group), which had provided this service to VicFleet since 1995 (then trading as Jupps Motor Traders). Auto Group Brooklyn Pty Ltd is a wholly owned subsidiary of Auto Group Limited.

During the tender process, an external party made a number of allegations to VicFleet about possible irregularities in Auto Group's auction process for government vehicles. These allegations were investigated by DTF. Subsequently, instances of contractual breaches were identified and admitted by Auto Group. These breaches occurred from October 2000 to late 2004.

The contract breaches related to the purchase by Auto Group of a number of government vehicles that it had sold at public auction. Auto Group purchased the vehicles and subsequently sold them on its own behalf.

The tender evaluation panel had concluded its evaluation of the tenders before being made aware of the contractual breaches. The panel had agreed that 2 preferred providers, including Auto Group, be awarded the disposal contracts. When subsequently advised of the contractual breaches, the tender evaluation panel determined that the breaches did not affect their original tender assessment and confirmed their recommendation to award a contract to Auto Group.

Prior to awarding the contract to Auto Group, the Minister for Finance requested our Office to investigate whether:

- all protocols and procedures were followed in the tender process leading to the final recommendation of Auto Group for the government vehicle disposal tender
- the investigation and subsequent actions regarding the identified irregularities in the auction process at Auto Group were appropriately conducted.

Our investigation examined:

- the contract management arrangements and fleet disposal practices of VicFleet over the period that the contractual breaches occurred
- the DTF investigation process and the outcomes of that investigation
- the probity of the tender evaluation process.

In February 2006, Auto Group was placed in voluntary administration and trading in its securities was suspended as, in the opinion of the administrators, the company and its subsidiaries were insolvent or likely to become insolvent.

VicFleet had not signed the contract with Auto Group at the time it went into administration. It has since removed all of its unsold vehicles from Auto Group's site and stopped selling vehicles through Auto Group.

3.3 Were the contract management arrangements and the administration of vehicle disposals effective?

When assessing whether the contract management arrangements and the administration of vehicle disposals were effective, we examined:

- the extent of compliance by the auctioneers with relevant contract requirements
- the nature of monitoring by VicFleet of contractual compliance and performance.

In 1995, VicFleet entered into vehicle disposal contracts with 2 auctioneers, one of which was Jupps (which was subsequently acquired by Auto Group). These contracts were for a term of one year, with provision for 2 one-year extensions, subject to a satisfactory performance review. VicFleet could not locate and provide to us any signed contracts for either auctioneer beyond the initial one-year term covered by the 1995 contracts, although an unsigned 1999 contract was obtained from one auctioneer.

The 1995 contracts imposed a number of operating and reporting requirements on the service providers. One operating requirement was for the auctioneer to pay sales proceeds from auctions into a trust account prior to remitting them to VicFleet. The contracts also established performance targets and allowed VicFleet to audit each auctioneer's records of vehicle sales. The unsigned 1999 contract further required the auctioneers to instigate an internal audit of the disposal services on a 6-monthly basis, with the objective of assessing and reporting on contractual compliance.

We found that Auto Group did not comply with the requirement to establish a trust account until 2005. Before that time, sale proceeds were paid into a general Auto Group bank account prior to transfer to VicFleet.

VicFleet did not enforce or utilise the "access clauses" in the contracts to directly ascertain contractual compliance. We also found no evidence of formal review of contractor performance by VicFleet up to 2005. There was also no evidence of any internal audits of compliance having been undertaken or reported since 1999.

The 1995 contracts and the unsigned 1999 contract required that all government vehicles shall be sold by auction, which is consistent with government policy. However, from October 2000 to late 2004, VicFleet disposed of 935 vehicles using a "fixed price" method, through Auto Group.

The "fixed price" method was proposed to VicFleet by Auto Group as a "VicFleet Retail Sales Program". Under this method, agreed to by VicFleet, selected vehicles were sold directly to the public for a price set as a fixed premium above the reserve price set by VicFleet. Total sale proceeds for these vehicles were around $22.8 million, which exceeded their total reserve prices by around $1.7 million. The additional sale proceeds over the reserve price were shared between VicFleet and Auto Group.

Government policy generally requires that government assets are disposed by public auction. All of the vehicles disposed by the fixed price method were subject to the lease arrangement financed by the Commonwealth Bank of Australia (CBA). VicFleet took the view that, at the end of the lease term, these vehicles were legally owned by CBA and were not government assets. They were, therefore, not subject to the government disposal policy.

Audit conclusions

The management of vehicle disposal arrangements by VicFleet from 1999 to 2005 was not fully effective. While various "contractual" mechanisms appeared to be available to VicFleet to more closely monitor provider performance, these were not utilised.

VicFleet has now established a contract management plan and arrangements for performance monitoring by its fleet operations manager. The current contract for auctioneering services also retains the requirement for 6-monthly internal audit reviews to be undertaken of the arrangements, and new reporting requirements to identify any state vehicles purchased by the auctioneer.

It is unclear whether the "fixed price" disposal method complied with the spirit and intent of government policy. We acknowledge that VicFleet ceased using this disposal method in 2004, after the issue of potential non-compliance with government policy was raised internally.

Recommendation

1. **That VicFleet periodically review the operation of the revised contract management arrangements to ensure they remain effective.**

3.4 Was the investigation into the alleged irregularities effective?

3.4.1 Background

In early October 2004, VicFleet received a phone call from an external party alleging that representatives of Auto Group were purchasing and re-selling VicFleet vehicles at Auto Group auctions. This practice was prohibited under the terms of the vehicle disposal contract.

A member of the legal branch of DTF contacted the complainant and was given details about several vehicles believed to be involved in the scheme. An initial investigation into these vehicles by DTF did not find any irregularities about their disposal. Some were not VicFleet vehicles and some had been sold by another auctioneer.

Subsequently, at a meeting in January 2005 between Auto Group and DTF representatives, Auto Group agreed to review its records of vehicle disposals to determine whether any auctioned vehicles were re-acquired by Auto Group within a short period. The initial review by Auto Group covered a period of 18 months. The review identified a number of VicFleet vehicles auctioned by Auto Group that had subsequently been acquired and sold by Auto Group. Based on this result, it was agreed with DTF that the period of review would extend back 4.5 years, to late 1999, when the "fixed price" scheme began.

Auto Group and representatives from DTF met again in early February 2005 where the results of the Auto Group transaction analysis were discussed. Auto Group advised DTF that 141 vehicles had been identified as being acquired by Auto Group a short time after they were sold at Auto Group auctions.

At that meeting, the Auto Group management representatives advised that senior management of Auto Group were not aware of the scheme. They advised that, to their knowledge, only one employee was involved in this scheme. They further claimed that the vehicles were re-acquired by an Auto Group employee by approaching traders at Auto Group auctions and offering to buy vehicles that the traders had just purchased. We understand that the traders were offered $200 more for each vehicle than the price they had paid at auction.

However, other parties alleged that vehicles were acquired by an Auto Group employee asking traders if their "dealer's number" could be used to make bids. It was alleged that the Auto Group employee would then make a "dummy" telephone bid using these dealers' numbers, and the employee would give the dealer a "thank-you" fee of $200 for the use of their dealer's number.

We were unable to find conclusive documentary evidence to substantiate either the Auto Group claims or the other allegations.

Based on the admissions of Auto Group, the DTF legal branch advised VicFleet that, while the scheme did not constitute criminal fraud, it was inconsistent with the contract.

The purchase and subsequent sale of vehicles was recorded in Auto Group's "Auto Fleet" system. However, Auto Group management advised VicFleet that the "Auto Fleet" system did not have a tool that allowed either branch consignment managers or Auto Group head office to monitor sales for "instances of possible re-purchase or any activity that might constitute a breach [of the contract], whether perceived or otherwise".

In late February 2005, Auto Group wrote to VicFleet offering a proposed "way forward". In that letter, Auto Group offered monetary compensation to VicFleet. The amount of compensation was calculated as the gain-share that VicFleet would have received if the 141 vehicles had been sold under the "fixed price" scheme. The sale proceeds received by Auto Group above the reserve prices for the 141 vehicles was calculated to be $178 000, of which VicFleet would have been entitled to $138 000 had they been sold under the "fixed price" scheme. DTF accepted Auto Group's offer of compensation.

The letter from Auto Group also proposed corrective actions relating to changes in organisational responsibility at Auto Group Brooklyn; the "removal" of certain employees from their positions; and system changes to allow the production of reports that would identify repurchase of vehicles by looking for repeat occurrences of vehicle identification numbers.

3.4.2 Effectiveness of the investigation

In assessing whether the DTF investigation into the previously mentioned allegations was effective, we considered whether:

- the investigation was timely
- the nature and source of the evidence obtained was appropriate
- the personnel involved in the investigation were appropriate.

We found that DTF reacted quickly to the initial allegations and the subsequent investigation was completed within a reasonable time frame.

However, we are concerned that DTF subsequently relied mainly on admissions made, and data supplied, by Auto Group. This information was not independently verified by DTF. Key admissions made by Auto Group that were not verified include:

- whether the quantum of vehicles involved and value of sales proceeds disclosed by Auto group were complete
- whether only one employee was involved and, hence, that there was no evidence of senior management knowledge of the scheme.

The latter point is particularly relevant to the evaluation of the tender, as indications of senior management involvement could have affected the final tender evaluation.

While DTF staff assessed Auto Group executive management as "fully cooperative", we found no evidence that DTF considered directly accessing Auto Group records to validate the information supplied. This would have been possible under the provisions of the 1995 and unsigned 1999 contracts. There was also no evidence that DTF sought other independent evidence to corroborate whether Auto Group's admissions and representations were reliable.

Audit conclusion

The initial stages of the investigation were well managed. However, the subsequent admissions by Auto Group were not fully investigated. DTF should have accessed Auto Group's records itself and should have sought data that would allow it to corroborate the representations made by Auto Group about the extent and value of state government vehicles sold in breach of contractual conditions.

3.5 Were appropriate standards of probity followed in the tender process?

3.5.1 Background

In July 2004, a tender reference group (TRG) was established to oversee the development of a request for tender and the tender process for the engagement of state vehicle auctioneers. The group comprised VicFleet staff and representatives from other government agencies with large vehicle fleets, including Victoria Police, the Department of Justice and the Department of Sustainability and Environment. To assist the TRG, DTF supplied a probity advisor.

The TRG developed a strategic procurement plan which contained tender evaluation criteria. A sub-committee of the TRG was set up as the tender evaluation team (TET). The members of the TET were required to disclose conflicts of interest.

The request for tender (RFT) was advertised on 1 September 2004, with registration of interest required by 3 September 2004. A public briefing was held on 10 September 2004 and the tender closed on 23 September 2004. Four responses were received. Following a preliminary assessment, 3 tenderers were short-listed and site visits carried out.

An assessment of the financial capacity of the short-listed tenderers was undertaken by a contracted assessment agency. The agency concluded that all short-listed tenderers had the financial capacity to fulfil the contract.

A tender assessment, based on tender responses, was conducted in late September. This assessment was complemented by visits to each tenderer's auction site. The final evaluation report was provided to the TRG on 22 October 2004 which recommended that Auto Group and another provider both be contracted to provide vehicle disposal services.

As mentioned earlier in this report, in early October 2004 VicFleet received a letter alleging that representatives of Auto Group were purchasing and re-selling VicFleet vehicles at Auto Group auctions. Following receipt of this letter, the recommendation of the TET to proceed with contract negotiations was deferred until an investigation of the allegations was completed.

A legal adviser was engaged in February 2005 to advise DTF on whether the information about the allegations and any findings from the investigation could be used in the evaluation of Auto Group's tender responses. The legal advice, received on 14 February 2005, was that the information should be used in the evaluation of Auto Group's tender. The legal advice stated that information received by DTF should be collated and provided to the TET, and that the TET should then reconvene and consider that information.

Consequently, the TET was briefed on 24 February 2005 about the allegations and the results of the investigation. The TET agreed at that meeting that it was unnecessary to re-score the tender evaluation for the following reasons set out in the minutes of the meeting:

- re-scoring would not make Auto Group ineligible as its action related to the previous contract
- the TET was not aware of the irregularities at the time of initial scoring.

The TET agreed to continue with its original recommendations, provided that the actions agreed to by Auto Group were included in the contract and implemented by Auto Group.

A report was prepared by the TET for the TRG to the Victorian Government Purchasing Board, seeking approval to execute the contracts. No reference was made in that report to the allegations, the investigation or the agreed outcome with Auto Group. However, we were advised by VicFleet that separate briefings were provided on these matters to the chair of DTF's accredited purchasing unit and the minister (who was had ultimate responsibility for approving the contracts subject to tender).

3.5.2 Our assessment

In assessing whether the tender process followed appropriate standards of probity in the evaluation and selection of the preferred tenderers, we considered whether:

- the tender process complied with government policy
- any perceived and actual conflicts of interest of the TRG and the TET were dealt with appropriately

- the nature and timing of information provided to the TET about the alleged scheme and the subsequent investigation were appropriate.

We found that the tender process was conducted consistent with government policy. None of the tenderers we interviewed indicated any concerns with the timing of the tender process or the probity of the related evaluation process.

The TRG and the members of the TET provided appropriate declarations of conflict of interest. The previous employment history of one of the TET members with Auto Group was fully disclosed at the commencement of the tender process.

The information about the allegations and investigation provided to the TET was appropriately admitted into the tender evaluation process, in accordance with the probity advice obtained.

Audit conclusion

The tender process followed appropriate standards of probity in the evaluation and selection of the preferred tenderers.

4. Latrobe Valley Marketing Advisory Panel - Financial management and oversight

4.1 Audit conclusions

The Latrobe Valley Marketing Advisory Panel (LVMAP) was established in 2001 by the government to develop and implement a targeted marketing campaign for the Latrobe Valley region of Victoria. The campaign was to be funded from a $1 million allocation from the then Department of State and Regional Development (now the Department of Industry, Innovation and Regional Development), with the aim of improving the economic and social environment of communities in the Latrobe Valley region. The LVMAP operated from December 2001 until March 2004 and was chaired by the then chief executive officer (CEO) of Latrobe City Council.

A final reconciliation of LVMAP expenditure by the council in May 2004 found that $1.303 million had been spent on LVMAP-related activities. This exceeded the $1 million provided by the government. A subsequent council request for additional funding was rejected by the department and the council was required to meet the additional expenditure itself.

We investigated the control and management of LVMAP finances after having concerns about these matters drawn to our attention. We concluded that a lack of clarity about who was responsible for the expenditure significantly contributed to the budget overrun. The absence of funding and related administrative agreements between the department, the council and the LVMAP, together with the absence of regular/progressive monitoring and reporting to the key parties of expenditure incurred, indicated that basic financial management principles and practices were not observed.

The failure to obtain competitive quotes for certain LVMAP-related contracted expenditures under $100 000, while not a breach of formal council policy, was also in our view a breach of good practice in terms of the application of value-for-money principles.

Finally, the lack of purchase orders and separate cost codes, and the approval and payment of invoices without itemisation was also, in our view, a breach of good practice. Even had the council wished to do so, these weaknesses made it impossible to track actual expenditure against available budget for each marketing tactic or activity approved by the LVMAP.

It was apparent that the council and the CEO did not become aware of the full extent of expenditure on LVMAP-related activities until March 2004, after the government funding allocation had been exceeded.

There are several lessons to be learned from the LVMAP experience by the department and other grant recipients when establishing similar "auspiced grant" arrangements. These include the need to ensure clarity from the outset about the roles and responsibilities of the respective parties, and that effective financial oversight and control is exercised by grant/funding recipients, facilitated through regular reporting by the administering entity.

RESPONSE provided by CEO, Latrobe City Council

The report concurs with the council's own investigations in respect of this matter. I accept the conclusions and recommendations made in the report.

Latrobe City's internal audit program will include regular reviews of all government funded programs or projects to ensure that current funding agreements are in place between council and the funding body, whilst ensuring appropriate accounting systems have been set up to enable the required financial reporting. Latrobe City's independent audit committee includes a standing agenda item for the internal auditors to report on the internal audit program, including the above matters.

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

The department acknowledges that a written agreement with the council would have provided greater clarity on the roles and responsibilities of the parties involved in the administration of state funding for the Latrobe Valley marketing initiatives. The department was, however, diligent in ensuring that state expenditure did not exceed $1 million.

4.2 Background

In 2001, the government established the Latrobe Ministerial Taskforce to examine a range of issues impacting on communities located in Victoria's Latrobe Valley region, and assist with rebuilding the confidence of these communities. The task force subsequently made 50 recommendations to government, aimed at improving the economic and social environment of the Latrobe Valley.

After considering the taskforce recommendations, in June 2001, the government allocated $105.8 million towards their implementation. This allocation included a sum of $1 million to be directed towards the development and implementation of a targeted marketing campaign for the Latrobe Valley region. The campaign was to be modelled on the *Geelong Smart Move* campaign that had been previously developed for that region of Victoria.

The Latrobe Valley Marketing Advisory Panel (the LVMAP or the panel) was established later in 2001, by the Minister for State and Regional Development, to oversight the marketing campaign. The panel was chaired by the then chief executive officer (CEO) of Latrobe City Council (the council). Other panel members included a Latrobe City councillor, representatives of the Department of Industry, Innovation and Regional Development (the department), and Latrobe Valley community and business leaders.

The panel prepared a final report on its activities in May 2004. This report included a statement showing how the $1 million of government funding was applied. In the course of preparing that report, a council analysis of LVMAP-related expenditure determined that approximately $1.303 million had been spent on LVMAP activities, of which the council had spent approximately $1.150 million.

In July 2004, the council formally requested that the minister approve a further payment to reimburse the council for the additional moneys expended on LVMAP activities, but this request was denied.

A number of concerns about the administration, management and control of LVMAP finances were raised with my Office. We have now completed our examination of those issues. The audit assessed whether:

- appropriate governance and accountability arrangements had been established for the operation of the LVMAP
- expenditure incurred on LVMAP projects and tactics was effectively managed, and complied with the relevant policies and procedures.

Our investigation involved the review of LVMAP records and reports, an assessment of the procurement and expenditure processes of the council and the department, and a detailed examination of the records supporting LVMAP expenditures. We also interviewed LVMAP members, relevant council staff and councillors, and relevant departmental staff.

4.3 Were the governance and accountability arrangements for the LVMAP appropriate and effective?

4.3.1 Background

Panel membership and terms of reference

The LVMAP first met in December 2001, after its members were appointed by the minister. In February 2002, the panel established its original terms of reference, including the key aim "to develop opportunities to raise the profile of the Latrobe Valley through a dedicated internal and external marketing campaign".

The LVMAP was responsible under its terms of reference for:

- developing a marketing strategy
- undertaking community consultation
- obtaining the participation of local expertise
- reporting on its work to the community.

The original terms of reference made the LVMAP responsible for applying to the department for part of the $1 million marketing fund to engage a marketing strategist. It also contained an action plan and an initial budget of $200 000.

In accordance with the terms of reference, a marketing strategy was developed and approved by the LVMAP in November 2002. The strategy contained an implementation plan comprising 28 proposed action points (referred to in the plan as "tactics") with an action plan and proposed budget allocated to each tactic. The strategy was officially launched in March 2003.

The proposed budget to implement all 28 tactics was $1 108 000. The LVMAP was aware that the funding available to it was limited to $1 million, and that some of this sum had already been spent on the development of the strategy or was committed to other approved projects. It, therefore, decided not to fund 4 of the tactics proposed in the strategy, and to modify the proposed budgets of the remainder.

The LVMAP also decided in November 2002 to review its original terms of reference to reflect its shift in focus, from developing to implementing the marketing strategy and the related action points. It also decided to recruit new members to assist during the implementation phase.

Revised terms of reference were drafted in August 2003 and approved by the LVMAP in September 2003. The revised terms of reference included an action plan that contained expenditure estimates of $650 000 for the previous 2002-03 financial year, and a budget estimate of $400 000 for the then current 2003-04 financial year. The LVMAP was then to apply for the balance of the $1 million marketing fund to implement the key elements of the marketing strategy.

Financial management arrangements

LVMAP members were involved in the review of tenders where undertaken, and in the initial selection of major suppliers. One of the major suppliers of services to the LVMAP was also a panel member. Other panel members were aware of this relationship.

The LVMAP had no legal identity and was not a "public body" subject to the financial management or reporting provisions of the *Financial Management 1994* or the *Local Government Act 1989*. It was therefore not able to enter into contracts in its own right. Accordingly, it required other bodies (such as the department or the council) to act on its behalf in relation to contracting with, and payment of, suppliers.

During the "development" phase of the LVMAP, the department fulfilled this administrative role. This was consistent with the terms of reference which stated that the department would provide secretariat services to the LVMAP. However, from mid-2002, the council took over administrative responsibility for contracting and paying suppliers on behalf of the LVMAP. LVMAP members were aware of these administrative arrangements. However, we found no evidence of a formal agreement having been established between the LVMAP and either the department or the council in relation to this administrative role.

Monitoring and oversight arrangements

The LVMAP met regularly throughout 2002 and 2003, and the minutes of its meetings confirmed that it routinely reviewed progress against its action plans. However, it was not until September 2003 that an "implementation matrix" report was developed to provide up-to-date reporting to LVMAP members against the 28 action points detailed in the marketing strategy. In this report, the overall budget for the 24 action points that were funded was shown as $720 000.

For the February 2004 LVMAP meetings, the "implementation matrix" was updated with a financial report identifying how the $1 million budget had been allocated between the agreed marketing action points and included some notes on whether each budget had been utilised or remained unspent. However, the report did not show the actual expenditure that had been incurred to that date by the department and the council, either in total or against each action point.

4.3.2 Our assessment

When assessing the effectiveness of the governance and accountability arrangements of the LVMAP we considered:

- the clarity and appropriateness of the roles adopted by LVMAP members
- the nature, extent and timeliness of reporting on LVMAP activities to its members.

We found that neither the department nor the council required the LVMAP to enter into a funding agreement for the moneys committed and spent towards its activities and, hence, there was no formal external requirement for the LVMAP to account for its use of these funds.

The primary role of the LVMAP was to oversight the development and implementation of the marketing activities and communication strategy. In this respect, the LVMAP undertook its role and discharged its responsibilities in accordance with its terms of reference. However, the terms of reference did not deal specifically with the responsibility and accountability of its members for controlling LVMAP expenditure.

The terms of reference stated that the LVMAP's role included making application for $1 million in government funding. The LVMAP also determined the dollar budgets to be applied to each activity and action point, and was engaged in selecting appropriate suppliers and for oversighting the activities of suppliers. In our view, these roles imposed at least an implied responsibility on the LVMAP for the stewardship and control over the use of the government funds. This responsibility could ordinarily be expected to extend to ensuring that financial budgets allocated by it were not exceeded without its prior knowledge and approval. It would also extend to ensuring that, where expenditure might exceed available funding, steps would be taken to bring revenues and expenditure into balance.

The LVMAP members we interviewed stated that this was not their view. They advised that they were aware that all of the proposed marketing action points could not be funded from the $1 million funding allocation, and that the panel had discussed the need to seek other sources of funding on at least one occasion. However, in their view, responsibility for ensuring that expenditure did not exceed the budgets they had set lay primarily with the bodies (the department initially, and later the council) administering the payments on their behalf. This view was influenced by the fact that the LVMAP chair was also the CEO of the council and, therefore, in his role as CEO, would have been aware of the detail of actual expenditure against approved budgets.

Conclusion

In the absence of a funding agreement or similar instrument between the LVMAP, the department and the council, clear financial management and accountability responsibilities were not established for the LVMAP for its administration and expenditure of the $1 million government funds. The fact that the LVMAP was not provided with adequate information on the final budget allocations against each marketing action point until late 2003 is a clear indication that its activities and deliberations did not have a strong focus on financial oversight and control.

In our view, in circumstances where a grant/funding recipient (such as the LVMAP) transfers administrative responsibility to another entity (such as the council), it is appropriate for the funding recipient (the LVMAP) to oversight the administering body on the discharge of that responsibility. The specific circumstances of the LVMAP arrangement that mitigated against this proposition, in our view, include:

- lack of clarity of the legal status of the LVMAP
- the dual role of the LVMAP chair as the CEO of the council
- the lack of formal agreements or memorandums of understanding between the LVMAP and the department and council.

This ambiguity about the financial management and accountability responsibilities of the LVMAP contributed to the perception by LVMAP members that "someone else" had responsibility for monitoring actual expenditure. It also contributed to the end outcome, whereby total expenditure on LVMAP activities exceeded the available government funding by approximately $303 000, without the prior knowledge or effective management by any responsible body.

Recommendation

1. **In circumstances where grants or other forms of funding are provided by a department to "administering entities" for expenditure by grant recipients (i.e. auspiced grants), that the department ensure, as part of its funding conditions, that:**
   - **the relevant entities establish appropriate agreements setting out their respective financial management and accountability responsibilities**
   - **the administering entity reports to the grant recipient and the department with sufficient regularity to allow the effective oversight of expenditure.**

4.4 Did the department control and oversight its expenditure against the government fund allocation effectively?

4.4.1 Background

As previously mentioned, the department was responsible for oversighting the government's $1 million funding allocation to the Latrobe Valley marketing campaign. In this role, it was responsible for ensuring that payments were only made against the allocation for the purposes for which it was established, and that they were limited to the $1 million available.

During 2001-02, the department directly controlled expenditure on LVMAP projects. The department engaged a consultant to assist with the development of the marketing strategy and, in total, spent around $153 000 of the $1 million allocation. At the inception of the initiative, the department established a separate cost centre to record and monitor total LVMAP expenditure.

Once administrative responsibility was transferred to the council, the department reimbursed the council for the expenditure it incurred on behalf of the LVMAP. These payments to the council were analogous to a grant program, whereby grant moneys are released subject to appropriate evidence that expenditure had been incurred by the recipient for the purposes for which the grant is made.

No funding agreement was entered into between the department and the council to formalise this arrangement.

The council made 2 claims for reimbursement of LVMAP-related expenditure – one in June 2003 and one in May 2004. The department required the council to provide invoices supporting its claims for reimbursement.

In relation to the first claim in June 2003, the council issued the department invoices totalling $505 000 for LVMAP expenditure. The full amount claimed was paid by the department on 30 June 2003. However, our review showed that the council had only incurred expenditure on LVMAP-related activities totalling $381 300 to that date. We found that the claim was based on the total of actual expenditure incurred and contractual commitments entered into (but not settled) at 30 June 2003.

In May 2004, the council sought a final reimbursement from the department of $644 500. However, as the department had spent $153 400 and previously reimbursed the council $505 000, only $341 600 was available from the $1 million funding allocation. Consequently, the department only paid the council the remaining balance of the funding allocation, leaving the council $302 900 to fund from its own resources.

4.4.2 Our assessment

When assessing the appropriateness and effectiveness of departmental control over the $1 million funding allocation, we considered:

- the extent of compliance with departmental policies and procedures for the payment of grants
- the effectiveness of the department's monitoring of grant expenditure.

We found that the department's finance system appropriately tracked the payments made under the LVMAP funding program, and its internal policies and procedures were followed for all LVMAP-related payments.

However, as previously mentioned, no formal funding agreement was established between the department and the LVMAP or the council. The basis upon which funding would be provided (that is, on a "reimbursement" or "advance" basis) was, therefore, unclear.

Conclusion

The department's total expenditure on LVMAP-related activities was $1 million, which was equivalent to the approved funding allocation. However, the lack of clarity of the basis upon which funding was to be provided by the department for LVMAP activities, led to it providing $123 700 to the council in June 2003 in advance of actual expenditure.

Recommendation

2. **That, in future, the department enter into a formal funding agreement with any entity auspicing grant expenditure on behalf of another, ensuring that the basis of funding as well as the roles and responsibilities of the various parties are explicit and clear.**

4.5 Did the council control and oversight LVMAP-related expenditure effectively?

4.5.1 Background

From June 2002, the council became responsible for initially funding LVMAP-related expenditure. While this arrangement was agreed by the council CEO, who was also the chair of the LVMAP, the council's administrative and finance staff were not formally notified of this arrangement by either the CEO or the department.

As the department had previously used $153 400 from the LVMAP funding prior to administrative responsibility being assumed by the council in June 2002, the council had only around $847 000 available to spend on LVMAP-related activities and projects. However, as previously mentioned, council administration staff were not aware of this limitation as the department did not require the council to enter into a funding agreement for the balance of the $1 million funding allocation.

Our analysis indicated that, by 31 December 2003, the council had spent $895 000 on activities it subsequently attributed to the LVMAP project. By March 2004, the council had spent $1 125 000 and had $25 000 still committed to spend. It had, therefore, spent and committed $302 900 more than was available.

4.5.2 Our assessment

When assessing the appropriateness and effectiveness of controls applied by the council to LVMAP-related expenditures, we examined the extent of compliance with council's general policies and procedures for:

- the procurement and payment of suppliers
- the monitoring and reporting of expenditure.

Procurement of services

The council's procurement policy at the time that LVMAP-related contracts were awarded required any contracts over $100 000 to be subject to public tender and to be approved by the council. The council did not have a clear policy statement for contracts below $100 000 at that time for the engagement of suppliers, but common practice was to prepare a project brief specifying the required services and to obtain at least 3 written quotes. The CEO had the delegated authority to approve the engagement of suppliers and enter into contracts for amounts up to $100 000.

We examined the major contracts let by the council in relation to LVMAP activities and found that the above policy and common practice was complied with for the 2 largest contracts of $99 000 and $224 600.

However, in relation to one contract for $62 400, while a project brief was prepared by the council, we found no evidence that it was issued to any parties other than the supplier that was engaged. This supplier was also a member of the LVMAP and panel members were aware of the appointment.

Further, one of the original contracted suppliers undertook 9 additional projects totalling $343 030. The council issued project briefs for each of these additional projects to the original supplier, however, there was no evidence that quotes were sought from other potential suppliers.

The council's procurement policy also required a purchase order to be raised for all purchases, apart from expenditure on utilities. We found that no purchase orders were raised for any LVMAP-related expenditure. This inhibited the council's ability to monitor actual expenditure against approved contracted amounts. However, we also understand that the requirement to raise purchase orders generally was not complied with at that time for other council expenditure.

Payment of accounts

Our examination of invoices paid by the council in relation to LVMAP activities identified that all were approved by the CEO, consistent with his delegated authority.

However, a significant number of invoices approved by the CEO, totalling more than $705 000, were not clearly itemised. In these cases, the amount invoiced was not allocated against individual tactics. This is not consistent with the general practice of the council and other similar organisations which require itemised invoices.

The lack of itemisation of costs made it difficult for council staff to definitively allocate costs against specific action items when they prepared their final reconciliation. Consequently, in some instances, the allocation of these costs against tactics in the final LVMAP report on the outcomes of the project was necessarily arbitrary.

In addition, some of the suppliers engaged to provide LVMAP-related services were also providing other services to the council under separate contracts. In some instances, not only were the amounts invoiced for LVMAP activities not itemised, but the invoices also did not clearly differentiate between LVMAP and non-LVMAP activities. This also made it difficult for council staff to determine accurately how much should be attributed to LVMAP activities. These invoices totalled over $147 000.

Council expenditure policies require variations greater than 20 per cent of the contracted price to be approved prior to payment. For contracts with a value greater than $100 000, council approval is required. Contracts with a value less than $100 000 require CEO approval.

We found several cases where these council policies were not complied with in relation to LVMAP-contracted expenditure below the $100 000 threshold. For example, in one case, a supplier was contracted to provide project management services to the LVMAP until August 2003 at a total price of $62 400. Services under this contract were provided until May 2004 at a total cost of $175 881, however no new project briefs were issued for the additional services. In addition, we found no evidence of formal approval by the CEO or the council of this and several other significant variations we found. This was not surprising, given that expenditure against contracted amounts was not tracked through purchase orders, and that expenditure against budgeted amounts for individual LVMAP activities was also not tracked by either the LVMAP or the council.

Given his dual role, the council CEO advised us that he was aware that expenditures on certain LVMAP-related activities would exceed the amounts available from the marketing fund. For instance, "Tactic 9 - Clean Air Campaign" was allocated an initial budget of $30 000 in the November 2002 marketing strategy, and a revised budget of $10 000 in the implementation matrix at March 2004. However, a quote of $45 000 was accepted by the CEO in relation to the project brief issued for this campaign in February 2002, and a total of $56 000 was finally charged by the supplier under this contract.

The CEO advised us that his intention was that any additional expenditure he approved above the funds available would be met from the council budget.

Monitoring and reporting

The usual practice adopted by the council for monitoring grant expenditures involved creating a separate cost centre within its general ledger so that expenditure on each grant program can be separately tracked. However, in the case of LVMAP activities, council staff stated that they were not notified that administrative responsibility had transferred to the council. Accordingly, a separate cost centre was not created. LVMAP-related expenditure incurred by the council was instead, at the direction of the CEO, charged against a "CEO consultancy" general ledger code, together with other non-LVMAP related consultancy expenditure.

We also found that council staff were not aware of the budgets approved for each marketing project, or how much had been spent progressively against each project. They did not, and could not therefore, track actual expenditure on LVMAP marketing projects against the LVMAP approved budgets.

The lack of disaggregation/itemisation of LVMAP-related expenditure also meant that this expenditure was not able to be clearly separated or identified in expenditure reports to senior management and the council.

Conclusions

The failure of the council to obtain competitive quotes for LVMAP-related expenditures under $100 000, while not a breach of council policy, was in our view not consistent with good practice in terms of the application of value-for-money principles.

The approval and payment of invoices without itemisation was also, in our view, a breach of good practice. Even had the council wished to do so, this approach would have made it impossible to track actual expenditure against available budget for each marketing project/activity approved by the LVMAP.

Council staff stated that they were not made aware by the LVMAP or by the CEO of either the total available funds or the individual budgets that had been allocated to the various marketing projects by the LVMAP. This lack of knowledge led to a failure to adequately monitor expenditure. Accordingly, neither the CEO nor council staff were aware when actual expenditure exceeded available funds in December 2003.

The CEO was aware throughout the project that not all costs incurred by the council on LVMAP-related activities would be able to be met from the available funds. However, there is no evidence that the CEO, the LVMAP or the council administration were tracking actual expenditure in sufficient detail to determine exactly how much of council funds had been committed or spent on LVMAP activities. The council did not become aware of the full extent of actual expenditure on LVMAP-related activities until March 2004. The additional funds approved by the CEO that the council was required to meet from its own funds totalled $302 900.

The council commissioned an internal audit of LVMAP expenditure in 2004. The findings of the internal audit in relation to expenditure controls were consistent with the findings of our investigation. The council is taking steps to address the control weaknesses identified by the internal auditor.

Recommendation

3. **That that council instigate a follow-up review of controls over grant expenditure to ensure that the findings of this report and the internal audit report have been addressed.**

5. Transport Accident Commission - CEO's travel and entertainment expenditure

5.1 Introduction

As highlighted in my foreword to this report, the investigation of concerns conveyed by external parties to my Office about aspects of public sector administration has become an important part of our work in recent times. While we conduct these investigations under the authority of the *Audit Act 1994*, the Act does not allow us to report the results of our work directly to the parties that expressed the concerns. Accordingly, the public record on these matters can only be completed by our reporting on the concerns through our reports to parliament. Below is one such report.

5.2 Background

In August 2005, a member of parliament raised various concerns with my Office about the Transport Accident Commission's (TAC) expenditure relating to travel and entertainment expenses incurred by the then TAC chief executive officer (CEO).

In response to that request, we undertook a detailed review to determine:

- the adequacy of TAC's policies and procedures that govern travel, entertainment and similar expenditure
- whether the travel and entertainment expenses incurred by the CEO over a 5-year period, from November 2000 to October 2005, were business related, adequately supported with appropriate documentation and properly approved.

Over the 5-year review period, the CEO had incurred $133 614 in travel and entertainment expenses.

5.3 Audit conclusion

Based on the results of our review, we concluded that:

- TAC's policies and procedures for travel and entertainment-related expenditure were adequate to maintain appropriate control over this type of expenditure
- the level of travel and entertainment expenditure incurred by the CEO over the review period was not excessive
- virtually all expenditure claims by the CEO had been appropriately approved in line with TAC's policies, and were adequately supported with documentation.

We identified a small number of minor departures from established TAC approval policies, which we advised to TAC so that it may strengthen its procedures for the future. However, these departures were not significant enough in either the number of occurrences or the nature of the departure to impact on the positive conclusion drawn above.

As part of the 2005-06 financial audit of TAC, we plan to broaden the above review to examine travel and entertainment expenditure incurred across the organisation. If any significant matters are identified, they will be reported to parliament in a future report.

RESPONSE provided by the chairman, TAC

The TAC welcomes the positive conclusion drawn by the report, in particular the positive findings in relation to the adequacy of its expenditure controls, and the application of, and adherence to, those controls.

6. Performance reporting by public health services

6.1 Audit conclusions

We consider that external performance reporting by health services[1] under the current performance management and reporting framework is progressing, and that health services' performance can be clearly linked to government outcomes. That notwithstanding, there is scope to improve the reporting and auditing framework to increase the public accountability of health services.

Health services and the Department of Human Services (DHS) currently collect a large amount of data about the performance of health services. However, the reporting framework focuses on acute health with substantially less focus on indicators for mental health, aged care services and subacute services.

There is no legislative requirement for DHS or health services to report performance against indicators in their annual reports to parliament. While DHS determines indicators against which each health services report their performance, these indicators may not be included in health service annual reports and any performance information reported is not subject to audit.

Current reported information by health service agencies in annual reports could also be improved by including:

- targets for all performance indicators
- commentary with performance information that shows trends over time and compares performance with national or international benchmarks
- efficiency performance indicators (such as average cost information)
- capability performance indicators (such as staff turnover or staff vacancy rates)
- explanations of clinical terms and concepts in language that lay people can understand.

DHS and health services have adequate management information systems and internal control procedures that should ensure that performance information is complete and accurate.

[1] "Health services" comprise public hospitals, aged and home care services and mental health services, but not community or dental health services.

In our opinion, DHS should mandate the inclusion of a performance statement in each health agency's annual report. Once this is done, we will write to the Minister of Finance to ask that a ministerial direction be issued under the *Financial Management Act 1994* to require health agencies to include performance statements in their annual reports of operations, and for these to be audited by our Office. Once a direction is issued, DHS should reach agreement with the health agencies and stakeholders on the performance indicators to be used.

6.2 Introduction

6.2.1 About performance management

In 1999, the government began to implement a performance management and reporting framework as part of an integrated planning, resource allocation and reporting system for the budget sector[2].

Our June 2001 *Report on Ministerial Portfolios* examined the framework. The report noted that a good management and reporting framework should report achievements against whole-of-government outcomes, so as to increase accountability to parliament and stakeholders. It should also have agency performance indicators that:

- report things that are relevant and appropriate
- report things accurately and even-handedly
- are evaluated and/or audited to provide assurance about their relevance, appropriateness, accuracy and even-handedness
- are supported by information systems that efficiently provide the data necessary to measure and monitor performance.

At the time of our November 2001 performance audit report *Departmental performance management and reporting*, the government had not yet finalised its high-level outcomes and measures of progress. At the time of that audit, it had not finalised performance indicators that would link the resource allocation process to departmental objectives and to government outcomes. These performance indicators will be a key component of the framework.

[2] For more information, see Victorian Auditor-General's Office, 2003, *Performance management and reporting: Progress report and a case study*, Victorian Government Printer, Melbourne.

We reported again in April 2003 on this issue. That report[3] found that the continued delays in finalising the performance management and reporting framework have limited the audited assurance we could provide for performance indicators. It also noted that the reporting requirements in the Minister for Finance's directions did not sufficiently require agencies to report against performance indicators in their annual reports to parliament.

All 3 of these reports have indicated that the likelihood of there being an across-the-board shift in the practice and standard of performance reporting by public sector agencies to the point where my Office could audit these indicators was unlikely, and that if we were to be successful in bringing about improvement in public sector reporting in this important area, a different strategy was called for. In 2005, we therefore shifted our attention from one of focusing across the public sector to an incremental approach, focusing on selected sectors.

The first step in the process was to critically review the current practice and standards in the selected sector and report the outcome to parliament. That examination is designed to gauge whether the sector has developed robust measures, that the measures are publicly reported in agency annual reports and whether the integrity of the underlying data systems would withstand the rigours of an audit. The longer-term aim being to include non-financial performance measures within the scope of the annual audit focus, as envisaged by section 8 (3) of the *Audit Act 1994*.

The first sector identified in 2003 was the water industry. That sector and the Department of Sustainability and Environment responded promptly and positively to the challenge, resulting in the issuance in 2004 of a directive of the Minister for Finance for the industry to include a set of non-financial performance measures in their annual reports (as part of their annual performance reporting requirements), and that the measures would be subject to audit. That now occurs.

The second industry sector identified for attention under this strategy was the Technical and Further Education Institutes (TAFE) sector. We have completed a preliminary review of performance information in TAFE institutes with the aim that similar audited performance statements will be included in TAFE annual reports. Again, it would be our desire that this industry and the department emulate the water industry experience, leading to the end outcome where the performance measures and indicators of the industry are suitable for reporting and subject to audit.

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[3] Victorian Auditor-General's Office, 2003, *Performance management and reporting: Progress report and a case study*, Victorian Government Printer, Melbourne.

This review of health services performance reporting is the next step in our review of sectors.

6.2.2 About performance indicators

Performance indicators are indicators of how well an agency is meeting its objectives or achieving its intended outcomes. Key performance indicators (KPIs) are high-level indicators that provide an overview of how an agency or program is achieving its primary purposes. Other performance indicators look at lower-level activities and achievements.

Health service performance indicators can be categorised as:

- ***effectiveness indicators***, which measure the extent to which a service has achieved its objectives. These indicators are related to outcomes or outputs (such as "activity/outcome achieved over a specified time period", or "cost of output"). One such indicator is "actual against budgeted total cost of admitted service"
- ***efficiency indicators***, which compare outputs with the quality of inputs required to produce them. These indicators are often expressed as an index, ratio or some other comparative measure (such as "average cost per service provided" or "average salary cost by staffing category")
- ***organisational capability indicators***, which are indicators of an agency's capacity (in terms of its leadership, people, assets and financial resources) to meet its immediate and future objectives. An example is "accreditation of hospitals and number of beds".

An important function of performance indicators is to inform stakeholders about an agency's activities and performance. Health sector stakeholders include the Commonwealth and Victorian governments, the medical profession, peak health bodies, local communities, health services users and the general public.

6.2.3 Audit scope and methodology

Given the importance of the performance management and reporting framework to the health sector's performance and accountability, we undertook this analysis to assess:

- the relevance, appropriateness and even-handedness of Victorian health services' performance indicators
- the adequacy of DHS's data quality systems, but did not review the accuracy of data
- the alignment and linkages of health services' performance reporting to DHS' and whole-of-government performance reporting systems

We also sought to promote the inclusion of audited performance information in the annual reports of health services.

To do so, we:

- examined the performance indicators prescribed by DHS in its *Public Hospitals Financial Reporting Guidelines* and *Quality of care reports - guidelines and minimum reporting requirements*
- assessed the performance indicators using our Office's performance indicator audit methodology
- examined the performance reporting practices of 6 major metropolitan and 5 medium-to-small regional health services
- met with DHS representatives to assess its reporting requirements and the integrity of its data management practices
- examined performance reporting frameworks used elsewhere in Australia and overseas.

Our audit examined performance indicators that are publicly reported (in agencies' annual or quality of care reports, or through DHS). It did not look at the much larger number of indicators that health services use to monitor their performance, and which is not generally available to the public.

6.3 Were health service indicators relevant and appropriate?

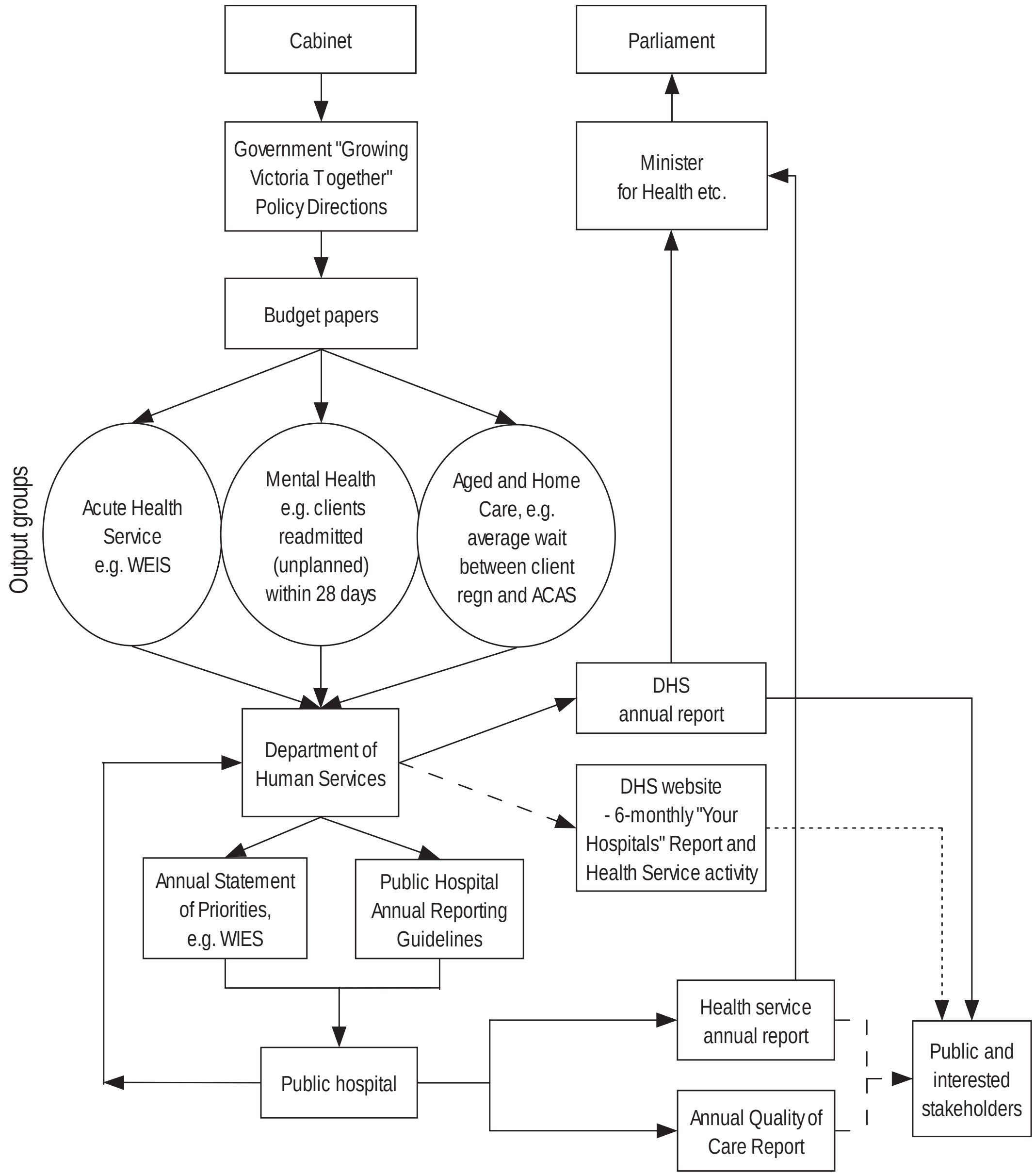
In assessing whether health services' performance indicators were relevant and appropriate, we examined if the indicators:

- related logically and consistently to health services' objectives
- gave enough information to assess the extent to which a health service had achieved a target, goal or outcome
- had adequate commentary to help users draw meaningful conclusions
- met the needs of stakeholders.

Reporting and accountability overview

DHS and health services have various forums where performance information is reported, including: websites, quality of care reports, annual statement of priorities, the "*Your hospitals*" publication and annual reports. Figure 6A shows the high-level reporting and accountability arrangements in the health sector.

FIGURE 6A: HEALTH SECTOR REPORTING AND ACCOUNTABILITY ARRANGEMENTS



Source: Victorian Auditor-General's Office.

Budget paper performance indicators

The annual state budget papers set the key performance indicators to be met by DHS for acute health services, mental health, and aged and home care delivered by Victoria's health services. Figure 6B shows some examples of these performance indicators.

FIGURE 6B EXAMPLE DHS PERFORMANCE INDICATORS

Major output group (as per Budget Paper No. 3)	Major deliverable	Performance indicators (unit of measure)	Performance indicator type/comments
Acute health services	Admitted and emergency services	Weighted Inlier Equivalent Separations (WIES) (number)	Measures level of activity
		Emergency patients admitted within 8 hours (%)	Measures efficiency
		Public hospital accredited (%)	Measures capability
Mental health	Clinical care	Clients readmitted (unplanned) within 28 days (%)	Measures effectiveness
Aged and home care	Aged care assessment	Average wait between client registrations and assessment by Aged Care Assessment Services Assessment (days)	Measures efficiency

Health services' reporting requirements

Health services must comply with financial and performance reporting requirements which are specified in:

- *Public Hospitals annual reporting guidelines 2004-05*[4], issued under the *Financial Management Act 1994* by DHS
- *Quality of care reports - Guidelines and minimum reporting requirements for 2004-05.*

DHS updates both publications annually.

Public Hospitals Financial Reporting Guidelines

The financial reporting guidelines prescribe the form and contents of health services' annual reports, financial statements and notes to their financial statements. They also require health services to report against specified performance indicators and performance measures in their annual reports, some of which are shown in Figure 6C. The guidelines do not require health services to report targets for these performance indicators and measures.

The guidelines categorise performance indicators as "access" or "activity". The performance criteria for "access" mostly focus on waiting times for service; "activity" focuses on the number of people serviced.

[4] These guidelines apply to all health services, not only public hospitals.

FIGURE 6C: EXAMPLE PERFORMANCE INDICATORS IN FINANCIAL REPORTING GUIDELINES

Government objective	Performance criteria	Performance indicator (unit of measure)	Performance measure
Access	Elective surgery performance	Category 1 proportion of patients admitted within 30 days (%)	
	Emergency department performance	Category 1 patients receiving immediate attention (%)	
Activity	Separations admitted patients by output group		Same day separations (no.) Multi-day separations (no.) Total WIES (no.) Total bed days (no.)
	Non-admitted patients by output group		Emergency department presentations (no.) Outpatient services: occasions of services (no.) Victorian Ambulatory Classification System: number of encounters (no.)

Source: Public Hospitals annual reporting guidelines 2004-05.

Quality of Care Reports - Guidelines and minimum reporting requirements

DHS also publishes annual guidelines and minimum reporting requirements for the quality of care reports that it requires each health service to produce. These reports describe how the health service monitors and improves the quality of their service. Figure 6D shows some of the performance indicators prescribed by the guidelines.

FIGURE 6D: EXAMPLE PERFORMANCE INDICATORS IN QUALITY OF CARE REPORTING GUIDELINES

Mandatory reporting categories (a)	Indicative area of interest (a)	E.g. of performance measures reported (b)
Key consumer care program areas	Complex care program profile	Number of complex care patients and impact on hospital of clients, such as reduction in emergency department presentations
Progress area	Hospital initiated surgical postponements Clinical governance framework	Number of hospital-initiated postponements by urgency from Category 1 – urgent, to Category 3- least urgent
Safety and quality	Infection control Medication errors Falls monitoring and prevention	Rate of multi-resistant staphylococcus aureus rate per 100 patients Percentage of level of harm in potential medication errors Rate of falls with harm/injury per 1 000 bed days
Continuity of care	Consideration given to how selected programs reported respond to the needs of the consumers, families/carers and community across the continuum of cares.	Patient case studies examples

(a) *Quality of care reports - Guidelines and minimum reporting requirements for 2004-05*.

(b) These are examples of performance measures included in Quality of care reports published by health services.

The guidelines require health services to accompany information reported against the indicators with commentary which is understandable to a lay reader and which explains what the indicator measures, how any figures should be interpreted and how the indicator is used in the health service.

Although DHS encourages health services to report their performance in their quality of care reports against interstate and local benchmarks, this is not mandatory. Some health services did, but most did not.

Annual statements of priorities

Since 2004, the Minister for Health and major metropolitan and regional health services sign individual statement of priorities. The statement of priorities is a key accountability agreement between individual health services and the Minister for Health, and so to the wider public. This document sets out the government's policy directions and priorities for the provision of health services. It also states indicators and targets for financial, service and access performance for each health service. DHS and each health service monitor their performance in meeting the targets.

The 2004-05 statements of priorities included several performance indicators against which health services could report (but did not) in their annual reports. These included "sick leave hours as a percentage of ordinary hours" and "agency expenditure as a percentage of total nursing costs", and a number of other financial performance targets.

Performance information on DHS website

As explained above, health services publish performance information in their annual and quality of care reports. DHS also publishes other performance information (such as about emergency care and elective surgery for public hospitals) on the *Your hospitals* page of its website. DHS further publishes *Your hospitals: A six monthly report on Victoria's Public Hospitals*. The report is also intended to report to the wider community on how each public hospital is performing against the government's performance targets, such as emergency department waiting times and elective surgery procedures.

Health service reporting

The annual and quality of care reports of the health services we examined complied with DHS' reporting requirements. Annual reports had statistics about activities (such as separations, contacts or bed days) but provided little explanatory information about performance indicators or activity against them. However, quality of care reports did include more explanatory text. Some reports did not define the performance indicators and related clinical terms (such as triage). Services usually only reported performance information for activities for the past 2 years, and did not report data about longer-term trends. As well, some reports did not compare actual results with targets.

The performance indicators reported by health services focused on acute health. DHS' *Victoria - Public Hospitals and Mental Health Services Policy and Funding Guidelines 2004-2005*, and the government's budget papers, included a number of mental health and aged care performance indicators against which health services did not report.

Conclusion

In our opinion, the performance indicators specified in DHS' *Public Hospitals Financial Reporting Guidelines for 2004-2005* were relevant and appropriate. The performance information published in health services' annual reports had a logical and consistent relationship with the health services' objectives and with government outcomes.

However, we saw no evidence that all stakeholders had been systematically consulted on the development of performance indicators nor that specific indicators had been identified as providing performance information which would build public confidence in health services. We believe it would be useful for DHS and stakeholder representatives to identify a small number of performance indicators that are central to public perceptions of health services.

Health services are not required to report targets for each performance indicator. It is very hard for annual report readers to assess agency performance if they do not include targets.

Because there was little explanation in annual reports about the performance indicators and clinical terms, it would be hard for a lay person to fully understand health services' performance. Stakeholders would need to refer to the health service's quality of care report for more in-depth and understandable performance information (such as a discussion about waiting lists or emergency department activity).

We also consider it would be useful for health services to report their performance against national comparisons.

Recommendations

1. **That the Department of Human Services (DHS) (in conjunction with stakeholders and through surveys of public opinion) determine which are the most important performance indicators in the health services, and mandate that performance against these indicators is reported in annual reports.**
2. **That DHS require health services' annual reports to report targets and national comparisons, as well as performance against indicators; and to include meaningful definitions and, where necessary, further explanations (such as examples) of clinical terms.**
3. **That DHS requires health services to report against the full range of performance indicators in its policy and funding guidelines (including mental health and aged and home care indicators).**
4. **That performance information included in health service annual reports is subject to audit.**

RESPONSE provided by Secretary, Department of Human Services

The department partially agrees to recommendation 1. Performance indicators are dynamic and will change to reflect government priorities and changes in the service system. As such, it is not appropriate to mandate a fixed set of indicators for inclusion in annual reports. However, to determine which indicators are appropriate for inclusion in annual reports, the department proposes to regularly review the full set of performance indicators against which health services performance is monitored in consultation with relevant stakeholders.

The department partially agrees to recommendation 2. The department accepts that if an indicator reported in the annual report has a publicly available target then that target should be considered for inclusion. The department also accepts the inclusion of definitions and explanations of clinical terminology where that will assist in understanding the content of the annual report.

The department does not agree to the inclusion in annual reports of health service performance against national comparisons. Caution needs to be exercised in requiring health services to report against national comparisons. To enable measurement against national indicators, there needs to be comparability of services, systems, outputs and data. The department believes that there should be a direct and meaningful correlation between the gathering and reporting of outcomes. To report national comparisons without ensuring system comparability will generate indicators that are meaningless and misleading. The timing of data availability would also be problematic in that national data are published more than 12 months after state-wide data become available, and similarly state-wide data lag health service specific data.

The department partially agrees to recommendation 3. As part of the process developed to implement recommendation 1, the department will review the list of indicators and measures in the policy and funding guidelines in consultation with relevant stakeholders to agree a set of indicators that will assist the public in understanding health service performance, and which are appropriate for inclusion in health service annual reports.

The department notes recommendation 4 and will discuss this matter further with the Department of Treasury and Finance and the Victorian Auditor-General's Office.

6.4 Were data quality systems adequate?

In assessing whether DHS' and health services' systems yielded data that was measurable, accurate and auditable, we:

- examined reporting requirements under the Australian Health Care Agreement (AHCA) between the Commonwealth Government Department of Health and Ageing (DH&A) and the State of Victoria
- assessed the information systems used by DHS and health services to collate data about patients and health service activity
- assessed the data quality procedures of DHS and health services.

6.4.1 AHCA reporting requirements

In 2003, the State of Victoria entered into the 5-year AHCA with the Commonwealth Government. Under this agreement, health services are required to:

- submit regular statistical and financial reports to DH&A to be used to monitor activity and to pay and acquit grants
- operate and maintain (to a minimum standard) patient costing systems that monitor service provision to patients and allow recalibration of the funding formulae
- maintain systems that enable monitoring of clinical effectiveness.

If health services through the Department of Human Services do not supply DH&A with accurate and timely statistical information, the Commonwealth Minister for Health and Aging can impose financial penalties on the state.

6.4.2 DHS and health service information systems

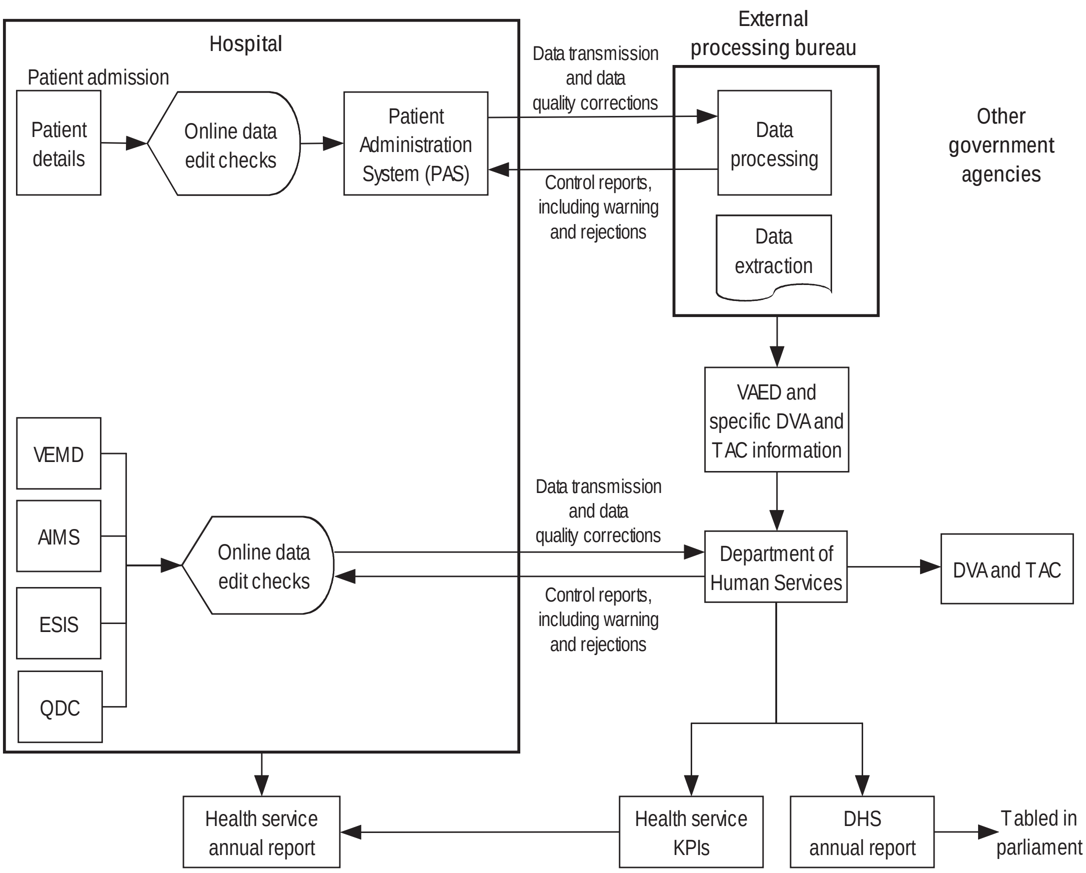
To meet the requirements of the agreement, DHS utilises several management information systems that collect and collate the health service performance information. Figure 6E shows these systems and the unit within DHS responsible for each system.

FIGURE 6E DHS MANAGEMENT INFORMATION SYSTEMS

Management information system	Information collected	DHS unit responsible
Victorian Admitted Episode Data Set (VAED)	Admitted patient activity	Metropolitan Health Service Performance Unit
Victorian Emergency Minimum Dataset (VEMD)	Emergency department performance	
Agency Information Management System (AIMS)	Non-admitted patients, health service financial information	
Elective Surgery Information System (ESIS)	Elective surgery performance	
Quarterly Data Collection (QDC)	Disability services	Disability Services Division
	Mental health Aged care	Home and Community Care (HACC) Collection and Analysis Team

Figure 6F shows how the health services we examined capture and collate patient details for reporting purposes. DHS requires all health services to have patient information systems that use this flow, so it can meet its reporting requirements to DH&A.

FIGURE 6F INFORMATION FLOW FOR PERFORMANCE ACTIVITY DATA, RECORDING AND REPORTING



Source: Victorian Auditor-General's Office.

6.4.3 DHS and health services' data quality procedures

All the services we examined had procedures to ensure that patient details and health service activity were completely and accurately transmitted to DHS.

Each health services patient administration system conducted routine online edit checks to assure the completeness and accuracy of patient information. The integrity of patient data (including validation of patient coding) is also subsequently validated by a number of systems. Error and exception reports are sent back to the health service for review, correction and resubmission.

The health services we examined routinely assess the completeness and accuracy of their patient data. They told us that their boards, chief executives and senior managers monitor patient activity and other statistical reports in accordance with their statements of priority. This included the consideration by the board of each health service of a comprehensive monthly key performance indicators report.

In the past, DHS has undertaken patient coding audits on hospital-admitted patient data. Theses audits enabled DHS to assess if hospitals were accurately coding patient data used for calculating casemix funding. The last coding audit was undertaken in 2002. DHS told us that it was, at the time of this audit, seeking tenders for the audit of hospital-admitted patient data for 2005-08.

6.4.4 Conclusion

We consider that DHS and health services have adequate management information systems and control procedures to accurately measure and report against health service key performance indicators.

6.5 Were health services' performance indicators clearly linked to government outcomes?

In assessing whether health services' performance indicators were clearly linked to government outcomes, we examined performance indicators included in:

- *2004-05 Budget Paper 3: Service Delivery*
- *2004-05 DHS Departmental Corporate Plan* and DHS' *Annual Report 2004-05*
- a selection of health services' 2004-05 statement of priorities

- *Public Hospitals Financial Reporting Guidelines for 2004-2005* and *Quality of Care Reports - Guidelines and minimum reporting requirements for 2004-05*
- a selection of public hospital annual reports and quality of care reports for 2004-05.

In November 2002, the government released its *Growing Victoria Together* strategy. The strategy sets out the key policy goals for the next 10 years in relation to the provision of high-quality, accessible health and community services, achievement of which would be measured by:

- an improvement in the health of Victorians
- an improvement in the wellbeing of children
- a reduction in waiting times for emergency, elective and dental services
- an increase in levels of confidence in health and community services.

The budget papers, public hospital annual reports and quality of care reports consistently referred to government outcomes.

A statement of priorities is the highest-level link between a health service and DHS' performance indicators and targets (as specified in the budget papers). The statement includes a comprehensive range of financial performance indicators (such as staff turnover, cost of WorkCover claims, and agency expenditure as a percentage of total nursing costs). However, services are not required to publish information against these indicators in their annual report of operations, although DHS does publish that information on its website. Although the information is publicly available, its main use is to enable DHS to monitor the outcomes agreed to by health services.

Conclusions

We consider that the health service performance management and reporting framework effectively aligns the performance of health services to government outcomes.

However, we consider that the reporting framework should include other performance information not currently published by health services but available on the DHS website. Disclosure of this information (such as staff turnover rates), which we considered to be low, could help to increase public confidence in the state's health system and reinforce the public accountability of agencies with their community.

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 2005 BALANCE DATES			
POST-COMPULSORY EDUCATION INSTITUTES			
Universities and associated companies			
Australian Human Resources Institute Pty Ltd	23 Mar. 2006	✓	3 Apr. 2006
Australian International Health Institute (The University of Melbourne) Ltd	15 Feb. 2006	✓	2 Mar. 2006
Australian Music Examination Board (Vic) Ltd	31 Mar. 2006	✓	5 Apr. 2006
Australian National Academy of Music Foundation Ltd (a)	23 Mar. 2006	✓	24 Mar. 2006
Australian National Academy of Music Ltd	23 Mar. 2006	✓	24 Mar. 2006
Br (Vic) Pty Ltd	17 Mar. 2006	✓	31 Mar. 2006
Callista Software Services Pty Ltd	23 Mar. 2006	✓	3 Apr. 2006
Canopi Network Pty Ltd (b)	23 Mar. 2006	✓	3 Apr. 2006
Deakin University	23 Mar. 2006	✓	3 Apr. 2006
Hawthorn Edinburgh Limited	13 Feb. 2006	✓	27 Feb. 2006
Hawthorn English Language Centres (Canada) Ltd	13 Feb. 2006	✓	27 Feb. 2006
Inskill Ltd	22 Mar. 2006	✓	22 Mar. 2006
La Trobe International Pty Ltd	23 Mar. 2006	✓	23 Mar. 2006
La Trobe Marketing Pty Ltd	24 Mar. 2006	✓	24 Mar. 2006
La Trobe University	24 Mar. 2006	✓	24 Mar. 2006
La Trobe University Housing Ltd	31 Mar. 2006	✓	31 Mar. 2006
La Trobe University Union	24 Mar. 2006	✓	3 Apr. 2006
Meanjin Company Ltd ***Reason for qualification:*** *Incorrect recognition of a grant.*	23 Mar. 2006	Qualified	10 Apr. 2006
Medical Centre Development Pty Ltd	8 Apr. 2006	✓	8 Apr. 2006
Melbourne Business School Foundation (c)	22 Feb. 2006	✓	18 Apr. 2006
Melbourne Business School Foundation Ltd (c)	22 Feb. 2006	✓	10 Apr. 2006
Melbourne Business School Building Fund (c) ***Reason for qualification:*** *Unable to attest to the completeness of cash donations.*	1 Mar. 2006	Qualified	18 Apr. 2006
Melbourne Business School Ltd	1 Mar. 2006	✓	10 Apr. 2006
Melbourne Enterprise International Ltd	16 Feb. 2006	✓	27 Feb. 2006
Melbourne Information Management Pty Ltd	8 Feb. 2006	✓	27 Feb. 2006
Melbourne University Publishing Ltd	22 Mar. 2006	✓	24 Mar. 2006
Melbourne Ventures Pty Ltd	16 Feb. 2006	✓	24 Feb. 2006
Meltech Services Ltd	3 May 2006	✓	5 May 2006
Monash College Group Pty Ltd (d)	6 Feb. 2006	✓	3 Apr. 2006
Monash Commercial Pty Ltd	14 Mar. 2006	✓	27 Apr. 2006
Monash Digital Media Pty Ltd	24 Feb. 2006	✓	24 Feb. 2006
Monash ED Pty Ltd	21 Feb. 2006	✓	21 Feb. 2006
Monash Health Research Precinct Pty Ltd (c)	10 Feb. 2006	✓	10 Feb. 2006

Education and Training - *continued*

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 31 DECEMBER 2005 BALANCE DATES			
POST-COMPULSORY EDUCATION INSTITUTES			
Universities and associated companies			
Monash Investment Holdings Pty Ltd	23 Feb. 2006	✓	23 Mar. 2006
Monash Investment Trust	23 Feb. 2006	✓	23 Feb. 2006
Monash IT Pty Ltd	7 Mar. 2006	✓	7 Mar. 2006
Monash IVF Pty Ltd	19 Apr. 2006	✓	20 Apr. 2006
Monash Property Management Pty Ltd	9 Feb. 2006	✓	9 Feb. 2006
Monash Property South Africa Pty Ltd (e)	25 Feb. 2006	✓	27 Apr. 2006
Monash Reproductive Health Enterprises Pty Ltd	6 Mar. 2006	✓	6 Mar. 2006
Monash Reproductive Pathology and Genetics Pty Ltd	20 Mar. 2006	✓	20 Mar. 2006
Monash Ultrasound Pty Ltd	20 Mar. 2006	✓	20 Mar. 2006
Monash University	12 Apr. 2006	✓	28 Apr. 2006
Monash University Foundation	10 Mar. 2006	✓	27 Apr. 2006
Monash University Foundation Pty Ltd	10 Mar. 2006	✓	10 Mar. 2006
Montech Pty Ltd	7 Mar. 2006	✓	22 Mar. 2006
Monyx Education Services Pty Ltd	14 Mar. 2006	✓	27 Apr. 2006
Monyx Pty Ltd	14 Mar. 2006	✓	27 Apr. 2006
Monyx Services Pty Ltd	14 Mar. 2006	✓	27 Apr. 2006
Mount Eliza Graduate School of Business and Government Limited (c)	22 Feb. 2006	✓	10 Apr. 2006
MU Private (NZ) Ltd (f) ***Audit report contained an "emphasis of matter" comment*** *Attention drawn to the need for continuing financial support from the shareholder (UMEE Ltd)*	2 Feb. 2006	✓	23 Mar. 2006
MU Student Union Limited	24 Mar. 2006	✓	27 Mar. 2006
MUP Services Pty Ltd	8 Feb. 2006	✓	24 Mar. 2006
National Institute of Circus Arts Ltd	9 Mar. 2006	✓	31 Mar. 2006
RMIT Foundation	5 Apr. 2006	✓	6 Apr. 2006
RMIT Innovation Ltd	3 May 2006	✓	4 May 2006
RMIT International Pty Ltd	10 Mar. 2006	✓	20 Mar. 2006
RMIT International University Vietnam	25 Apr. 2006	✓	11 May 2006
RMIT Training Pty Ltd	6 Apr. 2006	✓	11 Apr. 2006
RMIT Union	7 Apr. 2006	✓	11 Apr. 2006
RMIT University	12 Apr. 2006	✓	18 Apr. 2006
RMIT Vietnam Holdings Pty Ltd	25 Apr. 2006	✓	11 May 2006
School of Mines and Industries Ballarat Ltd	22 Mar. 2006	✓	22 Mar. 2006
Spatial Vision Innovations Pty Ltd	7 Apr. 2006	✓	11 Apr. 2006
Swinburne Graduate School of Integrative Medicine Pty Ltd	21 Mar. 2006	✓	31 Mar. 2006
Swinburne Intellectual Property Trust	17 Mar. 2006	✓	31 Mar. 2006

Education and Training - *continued*

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 31 DECEMBER 2005 BALANCE DATES			
POST-COMPULSORY EDUCATION INSTITUTES			
Universities and associated companies			
Swinburne Ltd	21 Mar. 2006	✓	31 Mar. 2006
Swinburne Student Amenities Association Ltd (g)	21 Mar. 2006	✓	19 May 2006
Swinburne University of Technology	3 Apr. 2006	✓	19 Apr. 2006
Swinburne Ventures Ltd	5 Apr. 2006	✓	5 Apr. 2006
The University of Melbourne ***Reason for qualification:*** *Incorrect recognition of grants.*	23 Mar. 2006	Qualified	10 Apr. 2006
UMEE Ltd (h)	23 Mar. 2006	✓	24 Mar. 2006
Unilink Ltd	23 Mar. 2006	✓	3 Apr. 2006
University of Ballarat	22 Mar. 2006	✓	22 Mar. 2006
Utemis Pty Ltd (c)	22 Feb. 2006	✓	22 Feb. 2006
Victoria University (i)	16 Mar. 2006	✓	16 Mar. 2006
Victoria University Enterprises Pty Ltd	2 Mar. 2006	✓	16 Mar. 2006
Victoria University Foundation	15 Mar. 2006	✓	16 Mar. 2006
Victoria University Foundation Ltd (j)	15 Mar. 2006	✓	16 Mar. 2006
Victoria University International Pty Ltd	2 Mar. 2006	✓	16 Mar. 2006
Victoria University of Technology (Singapore) Pty Ltd	14 Mar. 2006	✓	16 Mar. 2006
Victorian College of the Arts ***Audit report contained an "emphasis of matter" comment*** *Attention drawn to the going concern assumption, due to the entity's proposed integration with The University of Melbourne.*	28 Mar. 2006	✓	10 Apr. 2006
VERNet Pty Ltd (k)	27 Apr. 2006	✓	27 Apr. 2006
Wesley Monash IVF Pty Ltd (l)	29 Mar. 2006	✓	29 Mar. 2006
Wesley Monash IVF Joint Venture (l)	29 Mar. 2006	✓	29 Mar. 2006
INSTITUTES OF TECHNICAL AND FURTHER EDUCATION AND ASSOCIATED COMPANIES AND PROVIDERS OF ADULT EDUCATION			
Adult Multicultural Education Services	20 Mar. 2006	✓	20 Mar. 2006
Angliss Consulting Pty Ltd	9 Mar. 2006	✓	20 Mar. 2006
Angliss Multimedia Pty Ltd	21 Feb. 2006	✓	20 Mar. 2006
Angliss Solutions Pty Ltd	21 Feb. 2006	✓	20 Mar. 2006
Bendigo Regional Institute of TAFE	6 Mar. 2006	✓	6 Mar. 2006
Box Hill Enterprises Ltd	15 Mar. 2006	✓	23 Mar. 2006
Box Hill Institute of TAFE	15 Mar. 2006	✓	15 Mar. 2006
Central Gippsland Institute of TAFE	2 Mar. 2006	✓	23 Mar. 2006
Centre for Adult Education	23 Mar. 2006	✓	23 Mar. 2006
Chisholm Institute of TAFE	28 Feb. 2006	✓	28 Feb. 2006
Driver Education Centre of Australia Ltd	17 Mar. 2006	✓	24 Mar. 2006
East Gippsland Institute of TAFE	8 Mar. 2006	✓	8 Mar. 2006

Education and Training - *continued*

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 31 DECEMBER 2005 BALANCE DATES			
INSTITUTES OF TECHNICAL AND FURTHER EDUCATION AND ASSOCIATED COMPANIES AND PROVIDERS OF ADULT EDUCATION			
Gordon Foundation Ltd	7 Mar. 2006	✓	24 Mar. 2006
Gordon Institute of TAFE	16 Mar. 2006	✓	20 Mar. 2006
GOTEC Limited	7 Mar. 2006	✓	23 Mar. 2006
Goulburn Ovens Institute of TAFE	16 Mar. 2006	✓	20 Mar. 2006
Holmesglen Institute of TAFE	17 Mar. 2006	✓	17 Mar. 2006
Holmesglen International Training Services Pty Ltd	8 Mar. 2006	✓	6 Apr. 2006
International Fibre Centre Ltd	17 Mar. 2006	✓	17 Mar. 2006
John Batman Consultancy and Training Pty Ltd	23 Mar. 2006	✓	23 Mar. 2006
Kangan Batman Institute of TAFE	23 Mar. 2006	✓	23 Mar. 2006
Moortec Limited	28 Feb. 2006	✓	3 Mar. 2006
Northern Melbourne Institute of TAFE	20 Feb. 2006	✓	17 Mar. 2006
South West Institute of TAFE	15 Mar. 2006	✓	24 Mar. 2006
Sunraysia Institute of TAFE	21 Feb. 2006	✓	3 Mar. 2006
Sunraysia Institute of TAFE Community Child Care Centre Inc (c)	16 Feb. 2006	✓	23 Feb. 2006
Transport Education and Training Australia Ltd	17 Mar. 2006	✓	24 Mar. 2006
William Angliss Institute of TAFE	9 Mar. 2006	✓	23 Mar. 2006
Wodonga Institute of TAFE	9 Mar. 2006	✓	20 Mar. 2006
EDUCATION			
Telematics Course Development Fund	2 May 2006	✓	2 May 2006
COMPLETED AUDITS – WITH OTHER BALANCE DATES			
POST-COMPULSORY EDUCATION INSTITUTES			
Monsu Catering Trust (m) (1 Jan. 2005 to 28 Aug. 2005)	24 Mar. 2006	✓	24 Mar. 2006
Monyx Services Food Beverage Pty Ltd (n) (1 Jan. 2005 to 28 Aug. 2005)	24 Mar. 2006	✓	24 Mar. 2006
Monyx Services Retail Pty Ltd (o) (1 Jan. 2005 to 7 Aug. 2005)	24 Mar. 2006	✓	24 Mar. 2006
Peter Dibble Memorial Trust (p) (1 Jan. 2005 to 7 Aug. 2005)	24 Mar. 2006	✓	24 Mar. 2006
Victorian Institute of Chemical Sciences (q) (12 Nov. 2003 to 30 Jun. 2004)	6 Mar. 2006	✓	6 Mar. 2006
Victorian Institute of Chemical Sciences (1 Jul. 2004 to 30 Jun. 2005)	6 Mar. 2006	✓	6 Mar. 2006
VERNet Pty Ltd (30 Nov. 2004 to 31 Dec. 2004)	11 Apr. 2006	✓	13 Apr. 2006
EDUCATION			
VCAMM Ltd (1 Jul. 2004 to 30 Jun. 2005)	12 Dec. 2005	✓	14 Dec. 2005

Education and Training - *continued*

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
INCOMPLETE AUDITS – AS AT 12 MAY 2006 (r)			
POST-COMPULSORY EDUCATION INSTITUTES			
DeakinPrime USA (s) (1 Jan. 2005 to 31 Oct. 2005)	*Audited financial statements yet to be finalised.*		
Inquirion Pty Limited (t) (1 Jan. 2005 to 30 Sep. 2005)	*Audited financial statements yet to be finalised.*		
LearningFast Inc (1 Jan. 2004 to 31 Dec. 2004)	*Audited financial statements yet to be finalised.*		
LearningFast Inc	*Audited financial statements yet to be finalised.*		
Monash Educational Enterprises (u)	*Audited financial statements yet to be finalised.*		
Monash International SRL	*Audited financial statements yet to be finalised.*		
Monash Learningfast Pty Ltd	*Audited financial statements yet to be finalised.*		
Monash South Africa Ltd (v)	*Audited financial statements yet to be finalised.*		
EDUCATION			
International Training Australia Ltd (1 Jan. 2004 to 31 Dec. 2004)	*Audited financial statements yet to be finalised.*		
International Training Australia Ltd	*Audited financial statements yet to be finalised.*		

(a) Australian National Academy of Music Foundation Ltd commenced operations on 26 August 2004. The financial statements cover a 16-month period, 26 August 2004 to 31 December 2005.

(b) Deakin Networks Pty Ltd changed its name on 23 December 2005 to Canopi Network Pty Ltd.

(c) Agencies controlled by the state or another public sector agency, which came within the Auditor-General's audit mandate in 2005 pursuant to recent amendments to the *Audit Act 1994*.

(d) Monash International Pty Ltd changed its name on 18 October 2005 to Monash College Group Pty Ltd.

(e) Monash Southern Africa Pty Ltd changed its name on 29 March 2005 to Monash Property South Africa Pty Ltd.

(f) Melbourne University Private (New Zealand) Ltd changed its name on 26 September 2005 to MU Private (NZ) Ltd.

(g) Swinburne Student Amenities Association Ltd commenced operations on 9 November 2005.

(h) Melbourne University Private Ltd changed its name on 15 December 2005 to UMEE Ltd.

(i) Victoria University of Technology changed its name on 9 August 2005 to Victoria University.

(j) Victoria University of Technology Foundation Ltd changed its name on 9 August 2005 to Victoria University Foundation Ltd.

(k) VERNet Pty Ltd commenced operations on 30 November 2004.

(l) Wesley Monash IVF Pty Ltd and Wesley Monash IVF Joint Venture were established on 14 October 2004 and commenced operations on 1 November 2005. The financial statements cover a 14-month period, 1 November 2004 to 31 December 2005.

(m) Monsu Catering Trust was deregistered on 28 August 2005.

(n) Monyx Services Food Beverage Pty Ltd was deregistered on 28 August 2005.

(o) Monyx Services Retail Pty Ltd was deregistered on 7 August 2005.

(p) Peter Dibble Memorial Trust was deregistered on 7 August 2005.

(q) Victorian Institute of Chemical Sciences commenced operations on 12 November 2003. Financial statements cover a 7-month period, 12 November 2003 to 30 June 2004.

(r) Financial statements with 31 December 2005 balance dates, unless otherwise indicated.

(s) DeakinPrime USA ceased operations on 31 October 2005.

(t) RMIT sold its holdings in Inquirion Pty Limited on 30 September 2005.

(u) Monash University South Africa changed its name on 29 March 2005 to Monash Educational Enterprises.

(v) Monash South Africa Ltd commenced operations on 1 July 2005.

Human Services

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – 30 SEPTEMBER 2005 BALANCE DATE			
HEALTH			
Medical Practitioners Board of Victoria	17 Jan. 2006	✓	17 Jan. 2006
COMPLETED AUDITS – 31 DECEMBER 2005 BALANCE DATES			
HEALTH			
Anti-Cancer Council of Victoria ***Reason for qualification:*** *Unable to attest to the completeness of cash donations.*	20 Apr. 2006	Qualified	20 Apr. 2006
Psychologists Registration Board of Victoria	20 Mar. 2006	✓	21 Mar. 2006
COMPLETED AUDITS – WITH 30 JUNE 2005 BALANCE DATES			
HEALTH			
Beaufort and Skipton Health Service ***Reason for qualification:*** *Asset revaluations not undertaken with sufficient regularity to ensure the reported asset values do not materially differ from their fair values.*	6 Oct. 2005	Qualified	1 Dec. 2005
East Wimmera Health Service	20 Oct. 2005	✓	22 Nov. 2005
The Trustees of the Altona Memorial Park (a)	17 Nov. 2005	✓	21 Nov. 2005
INCOMPLETE AUDITS – AS AT 12 MAY 2006			
HumeNET Limited (30 Oct. 2003 to 30 Jun. 2004)	*Audited financial statements yet to be finalised.*		
HumeNET Limited (1 Jul. 2004 to 30 Jun. 2005)	*Audited financial statements yet to be finalised.*		

(a) Financial statements cover an 18-month period, 1 January 2004 to 30 June 2005.

Infrastructure

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – WITH OTHER BALANCE DATES			
ENERGY INDUSTRIES			
Office of Chief Electrical Inspector (a) (1 Jul. 2004 to 9 Aug. 2005)	10 Nov. 2005	✓	11 Nov. 2005
Office of Gas Safety (a) (1 Jul. 2004 to 9 Aug. 2005)	10 Nov. 2005	✓	11 Nov. 2005
TRANSPORT AND MAJOR PROJECTS			
Victorian Urban Development Authority (1 Jul. 2004 to 30 Jun. 2005)	4 Nov. 2005	✓	10 Nov. 2005

(a) The Office of Chief Electrical Inspector and Office of Gas Safety's balance date for 2004-05 was extended to 9 August 2005 by the Minister for Finance under the *Financial Management Act 1994*. These entities ceased operation at that date and a new entity (Energy Safe Victoria) was created to perform their functions.

Innovation, Industry and Regional Development

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – WITH 30 JUNE 2005 BALANCE DATE			
INNOVATION, STATE AND REGIONAL DEVELOPMENT			
VCPO Limited	4 Nov. 2005	✓	10 Nov. 2005

Primary Industries

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – WITH OTHER BALANCE DATES			
AGRICULTURE			
Northern Victorian Fresh Tomato Industry Development Committee (1 Jul. 2004 to 30 Jun. 2005)	21 Dec. 2005	✓	23 Dec. 2005
INCOMPLETE AUDITS – AS AT 12 MAY 2006			
AGRICULTURE			
Greater Victoria Wine Grape Industry Development Committee (a) (1 Jul. 2004 to 30 Sep. 2004)	*Audited financial statements yet to be finalised.*		

(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 2005 BALANCE DATES			
ENVIRONMENT			
Falls Creek Alpine Resort Management Board	9 Feb. 2006	✓	9 Feb. 2006
Lake Mountain Alpine Resort Management Board	8 Mar. 2006	✓	8 Mar. 2006
Mount Baw Baw Alpine Resort Management Board	6 Feb. 2006	✓	15 Feb. 2006
Mount Buller and Mount Stirling Alpine Resort Management Board (a)	17 Feb. 2006	✓	6 Mar. 2006
Mount Hotham Alpine Resort Management Board	10 Feb. 2006	✓	10 Feb. 2006
COMPLETED AUDITS – WITH OTHER BALANCE DATES			
ENVIRONMENT			
Commissioner of Environmental Sustainability (1 Jul. 2004 to 30 Jun. 2005)	8 Nov. 2005	✓	8 Nov. 2005
EcoRecycle Victoria (b) (1 Jul. 2005 to 30 Sep. 2005)	20 Mar. 2006	✓	11 Apr. 2006
Sustainable Energy Authority Victoria (b) (1 Jul. 2005 to 30 Sep. 2005)	27 Feb. 2006	✓	11 Apr. 2006

(a) Mount Buller and Mount Stirling Alpine Resort Management Board commenced operations on 1 November 2004, following the merger of the former 2 alpine resort management boards.

(b) On 1 October 2005, EcoRecycle Victoria and Sustainable Energy Authority Victoria were amalgamated to form Sustainability Victoria.

Treasury and Finance

Entity	Financial statements signed	Clear opinion issued	Auditor-General's report signed
COMPLETED AUDITS – WITH OTHER BALANCE DATES			
FINANCE			
Government Superannuation Office (a) (1 Jul. 2005 to 1 Dec. 2005)	30 Mar. 2006	✓	30 Mar. 2006
State Superannuation Fund (a) (1 Jul. 2005 to 1 Dec. 2005)	30 Mar. 2006	✓	30 Mar. 2006
TREASURER			
South Eastern Medical Complex Limited (1 Jul. 2004 to 30 Jun. 2005)	15 Nov. 2005	✓	15 Nov. 2005
INCOMPLETE AUDITS – AS AT 12 MAY 2006			
FINANCE			
Twin Waters Resort Pty Ltd (b) (1 Jan. 2005 to 15 Apr. 2005)	*Audited financial statements yet to be finalised.*		
TREASURER			
Securities Finance Corporation Ltd	*Audited financial statements yet to be finalised.*		
Tricontinental Corporation Ltd	*Audited financial statements yet to be finalised.*		
Tricontinental Holdings Ltd	*Audited financial statements yet to be finalised.*		

(a) On 1 December 2005, the Government Superannuation Office and State Superannuation Fund were amalgamated into the Emergency Services Superannuation Board.

(b) Twin Waters Resort Pty Ltd ceased operations on 15 April 2005.

Auditor-General's Reports

2005-06

Report title	Date issued
Managing stormwater flooding risks in Melbourne (2005:8)	July 2005
Managing intellectual property in government agencies (2005:9)	July 2005
East Gippsland Shire Council: Proposed sale of Lakes Entrance property (2005:10)	July 2005
Franchising Melbourne's train and tram system (2005:11)	September 2005
Results of special reviews and other investigations (2005:12)	October 2005
Health procurement in Victoria (2005:13)	October 2005
Community planning services in Glenelg Shire Council (2005:14)	October 2005
Follow-up of selected performance audits tabled in 2002 and 2003 (2005:15)	October 2005
Auditor-General's Report on the Finances of the State of Victoria, 2004-05 (2005:16)	November 2005
RESULTS OF 30 June 2005 financial statement and other audits (2005:17)	December 2005
Planning for a capable Victoria Police workforce (2006:1)	May 2006
Access to specialist medical outpatient care (2006:2)	June 2006

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