



# Results of financial statement audits for agencies with 30 June 2006 balance dates

VICTORIA

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Victorian  
Auditor-General

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Victorian Auditor-General's Office  
*Auditing in the Public Interest*

The Hon. Robert Smith MLC  
President  
Legislative Council  
Parliament House  
Melbourne

The Hon. Jenny Lindell MP  
Speaker  
Legislative Assembly  
Parliament House  
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my report on *Results of financial statement audits for agencies with 30 June 2006 balance dates*.

Yours faithfully



DDR PEARSON  
*Auditor-General*

28 February 2007

# Foreword

This report summarises the results of financial statement audits undertaken by my Office for the year ended 30 June 2006. The report covers the audits of 465 agencies, including all government departments, local governments and most other agencies. The objective of the report is to bring together the major observations and recommendations resulting from these financial statement audits and, by doing so, assist in the ongoing improvement of the financial administration and reporting process.

The report notes a reduction in the number of qualified opinions issued, as well as an overall improvement in the timeliness of financial reporting. These are both key indicators of quality financial reporting. The result was particularly pleasing given the added challenges faced by agencies in the transition to the Australian equivalents to International Financial Reporting Standards (A-IFRS). Although the ultimate financial impact of the transition to A-IFRS was limited, the requirements on agencies in relation to the transition were nevertheless significant.

While I am pleased by the overall improvements, the report does note that there remains in many agencies the ability to improve the quality and timeliness of financial reporting, which will, in turn, lead to enhanced accountability.

The internal control frameworks established to ensure reliable financial reporting were again found to be sound in most agencies. However, the report also notes a number of agencies still requiring improvements to their control environments. Of concern are a number of ongoing exposures, primarily around information systems, that have been noted in previous reports.



DDR PEARSON  
*Auditor-General*

28 February 2007

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# 1

## Summary of audit results

### At a glance

#### Background

There were 465 (364 state and 101 local government) agencies required to prepare financial statements for the financial year ended 30 June.

#### Key findings

- We have issued audit opinions on all of the signed financial statements received, of which 451, or 98 per cent, were unqualified. Nine agencies received qualified opinions, and 5 agencies statements remained outstanding (**see pages 2 to 7**).
- The average elapsed time to finalise financial statements was just over 10 weeks. This compared favourably against the 12-week statutory requirement (**see pages 7 to 10**).
- The internal control frameworks established to ensure reliable financial reporting were found to be sound in most agencies (**see pages 14 to 15**).

#### Key recommendations

- 1.1 Agencies that failed to meet legislated reporting time frames should undertake an analysis of their financial reporting process to identify and minimise or remove delay (**see page 9**).
- 1.3 Given the demonstrated ability of agencies to provide annual reports in advance of the statutory requirement, it is recommended that this level of accountability be sustained (**see page 10**).
- 1.5 Agencies should self-assess against the weaknesses identified, and confirm that their information systems are appropriate and operating effectively (**see page 15**).



## 1.1 Introduction

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This part of the report summarises the results of our audits of the financial statements and performance statements of public sector agencies with 30 June 2006 balance dates.

## 1.2 Overall conclusions

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A number of positive financial reporting outcomes were achieved this year, including:

- a reduction from 11 to 9 in the number of qualified audit opinions issued on financial statements
- removal of all remaining qualifications on local government standard statements and performance statements
- earlier certification of financial statements by a larger number of agencies compared with last year
- significantly earlier tabling of annual reports by state agencies, in line with the directive from the Premier.

There nevertheless remains scope for improvement in financial statement preparation processes of many agencies if the gains in the timeliness of financial reporting are to be sustained.

This year was the first year that agencies were required to prepare financial statements under new accounting standards - the Australian equivalents to International Financial Reporting Standards (A-IFRS). The impact of the new standards on the balances reported by public sector agencies was fortunately limited both in terms of the balances affected and the quantum of the adjustments required to those balances.

Notwithstanding this, a number of agencies experienced difficulties in ensuring that they complied with the requirements of the new standards, particularly in relation to increased disclosures compared with the previous standards. These agencies now need to ensure that the transitional processes and systems used are automated and better integrated with their financial management information systems.

The internal control frameworks established to ensure reliable financial reporting were again found to be sound in most agencies. As always, there were exceptions to this, which need to be addressed. Of most concern are the basic control weaknesses that we continue to identify in agencies' financial information systems.

## 1.3 Financial statements prepared

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There were 465 (364 state and 101 local government) agencies required to prepare financial statements for the financial year ended 30 June 2006 (476 for the year ended 30 June 2005).

The net reduction in the number of agencies preparing financial statements this year was largely a result of the winding up of a number of special purpose subsidiary companies in the prior year.

In addition, 79 local government and 16 water sector agencies were also required to prepare non-financial performance statements for the same period.

State agencies are required by the *Financial Management Act 1994* to prepare financial statements. Local government agencies must comply with the *Local Government Act 1989*.

The financial and performance statements prepared must be independently audited, and an audit opinion is expressed on each report. The statements and the accompanying audit opinions are included in the annual report of each agency.

At 31 January 2007, 460 of the 465 agencies had prepared their 2005-06 financial statements and submitted them for audit. Those agencies yet to finalise their financial statements for the year ended 30 June 2006 are listed in Figure 1A.

**Figure 1A**  
**Financial statements outstanding at 31 January 2007**

Agency	Portfolio
TAFE Development Centre Ltd	Education
VCAMM Ltd	Education
Fawkner Crematorium and Memorial Park	Human Services
Humenet Ltd	Human Services
VCPO Ltd	Innovation, Industry and Regional Development

Source: Victorian Auditor-General's Office.

We are working with these agencies to finalise their financial statements.

***RESPONSE provided by TAFE Development Centre Ltd***

*Financial statements for TAFE Development Centre Ltd were unable to be lodged by 31 January 2007 due to a delay caused by the outsourcing of the preparation of the entity's financial accounts.*

## 1.4 Results of audits

### 1.4.1 Audit opinions issued

The independent audit opinion adds credibility to the financial and other reports by providing reasonable assurance that the information in the statements is reliable.

A qualified audit opinion is an indication that a report has not been prepared in accordance with the relevant reporting framework and, therefore, is likely to be less reliable and useful as an accountability document.

We have issued audit opinions on all of the signed financial statements received, of which 451 or 98 per cent were unqualified (456 or 96 per cent for 2004-05).

**Figure 1B**  
**Audit opinions issued for agencies with 30 June balance dates**

Sector	Clear opinions issued		Qualified opinions issued		Total	
	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06
State agencies -						
Financial statements	357	351	8	8	365	359
Performance statements	15	15	-	1	15	16
	<b>372</b>	<b>366</b>	<b>8</b>	<b>9</b>	<b>380</b>	<b>375</b>
Local government agencies -						
Financial statements and standard statements (a)	98	100	(b) 4	1	102	101
Performance statements	77	79	2	-	79	79
	<b>175</b>	<b>179</b>	<b>6</b>	<b>1</b>	<b>181</b>	<b>180</b>
<b>Total</b>	<b>547</b>	<b>545</b>	<b>14</b>	<b>10</b>	<b>561</b>	<b>555</b>

(a) For municipal councils and regional library corporations, a combined audit opinion was issued covering both the financial statements and standard statements.

(b) This includes one audit qualification of a regional library's standard statements where a clear opinion was issued on that agency's financial statements.

Source: Victorian Auditor-General's Office.

Nine opinions on financial statements were qualified (11 in 2004-05). Four of the qualified opinions resulted from disagreement with management about the appropriateness of the accounting treatment adopted, 2 related to the failure to consolidate controlled entities, 2 related to completeness of revenue received from voluntary donations, and one related to a failure to comply with disclosure requirements.

Details of the qualified audit opinions are as follows:

*Accounting treatments*

- Grampians Wimmera Mallee Water Authority – the authority did not recognise treatment plants constructed and operated under a public private partnership (PPP) in its financial statements. The arrangement, in our view, has the characteristics of a finance lease as outlined under AASB 117 *Leases*. Accordingly, we consider that the assets should have been recognised, together with a liability reflecting the future payments to be made by the authority to the operator for the use of the assets.
- Melbourne and Olympic Park Trust – the financial statements of the trust have been qualified since 1999 for recognising a liability in respect of future contributions towards the construction of the State Training Velodrome. The qualification this year relates to comparative information only and it is not expected to continue.
- Wimmera Development Association – the association did not recognise non-reciprocal grants as revenue when it gained control of the grants. Rather, it recognised the grants as the funds were spent.
- St Vincent’s Hospital (Melbourne) Ltd – the hospital did not recognise amounts receivable arising from financing arrangements for the original redevelopment of the hospital.

*Consolidation of controlled entities*

- The Queen Elizabeth Centre - the centre did not consolidate the financial statements of the Queen Elizabeth Centre Foundation.
- Mercy Public Hospital Inc.—the hospital did not consolidate the financial statements of the Werribee District Hospital Charitable Foundations Nos. 1 and 2.

*Completeness of receipts*

- Royal Women’s Hospital Foundation Trust Funds, and CFA & Brigades Donations Fund – due to the inherent nature of these entities’ operations we were unable to verify the completeness of voluntary cash donations.

*Non-compliance with disclosure requirements*

- Bass Coast Regional Health Benefit Fund Trust – we concluded that the financial report of the trust did not comply with the disclosure requirements applicable to agencies of this type.

All of these qualifications existed previously, with the exception of those relating to the Grampians Wimmera Mallee Water Authority and the CFA & Brigades Donations Fund.

While not audit qualifications, audit opinions for the Housing Guarantee Fund Limited and Industry Supervision Fund contained an “emphasis of matter”, to draw attention to issues impacting on their ongoing operations. Both entities are being wound-up following the transfer of their operations to other entities.

***RESPONSE provided by the Chief Executive Officer, GWMWater***

*The qualified opinion was issued on the grounds that it was the view of the Victorian Auditor-General's Office that the nature of the Water Treatment Service agreement (WTSA) with Aquatower to provide treated water to GWMWater constituted a finance lease under AASB 117.*

*Consistent with representations made through the audit process, GWMWater does not support the position established by the Victorian Auditor-General's Office. This view is based on the economic substance of the agreement and the substantial risks assumed by Aquatower under the contract. The position is reinforced by the inability of the proposed accounting treatment to be reliably measured.*

***RESPONSE provided by the Chief Executive Officer, Melbourne and Olympic Parks Trust***

*This year's qualification relates to comparative information provided in the financial statements and, therefore, this issue did not affect the current year's figures.*

*Even so, the trust is firmly of the view that in connection with the funding arrangements for the construction of Vodafone Arena 5 years ago, the government required the trust to make a contribution towards the cost of a new training velodrome. As there was a clear option for the trust to contribute funding towards the cost of the facility, the trust considered it proper to create a provision for the future funding obligation.*

*As the trust would not have any ownership of the training velodrome, it was not considered prudent to include the funding obligation in the capitalised cost of Vodafone Arena, so it was expensed at the time of creating the provision. The Auditor-General is of the view that the contributions should have been expensed in the year they were actually paid and not when the trust became aware of the funding obligation. Accordingly, it would seem that the issue has been one of timing and not of substance.*

***RESPONSE provided by the Chief Executive Officer, Wimmera Development Association***

*It is agreed that the Australian equivalents to International Financial Reporting Standards (A-IFRS) require that non-reciprocal grant income should be recognised as income when control is gained over the funds. However, if we applied this treatment, we would have recorded a large profit for the year in which we receipted the funds and subsequent years, when the grant funds are spent, would result in operating losses. It is our view that our treatment of the grants receipted as unearned income reflects the real position more accurately.*

**RESPONSE provided by St Vincent's Hospital (Melbourne) Ltd**

*The year ending 30 June 1999 was the first year the Auditor-General issued a qualified report based on a dispute with St Vincent's (Melbourne) Limited over the appropriate accounting treatment concerning a revenue stream payable to St Vincent's pursuant to the 25-year Health Services Agreement. The financial statements have been qualified on an ongoing basis since that time. The St Vincent's directors are of the view that the Auditor-General's recommended accounting treatment is not in accordance with both the true substance of the arrangement and the relevant accounting standards. St Vincent's and the Auditor-General are currently undertaking an independent review of all aspects of the transaction.*

**RESPONSE provided by Bass Coast Regional Health Benefit Fund Trust**

*The qualification is due to the trust's limited accounting function and basic reporting requirements. It is not practical or appropriate for the financial report to comply with statements of accounting concepts and applicable accounting standards.*

## 1.4.2 Timeliness of reporting

It is important that all agencies prepare and publish timely financial information as part of their public accountability obligations.

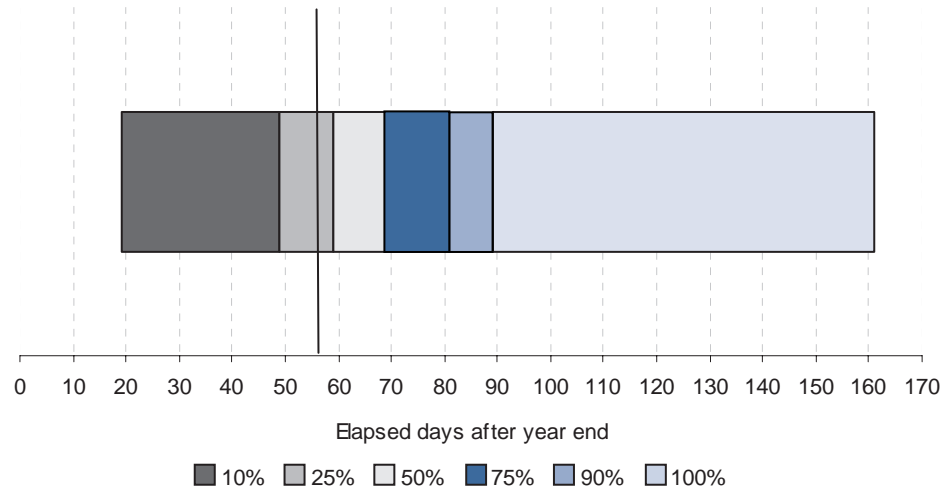
### Financial statements

The required time frames for the preparation of financial statements of public sector agencies are legislated. The *Financial Management Act 1994* requires state government agencies to submit certified financial statements to the Auditor-General within 8 weeks after the end of the financial year. The *Audit Act 1994* requires an audit opinion to be provided within 4 weeks of receipt of signed financial statements. Consequently, certified and audited statements should be produced within 12 weeks of the end of the financial year.

The usefulness of financial statements is directly related to their timely provision – the later they are produced and published after year-end the less useful they become.

Figure 1C shows (in percentile bands) the number of elapsed days after 30 June that state agencies provided a signed set of financial statements to our Office.

**Figure 1C**  
**Time taken for certification of financial statements**



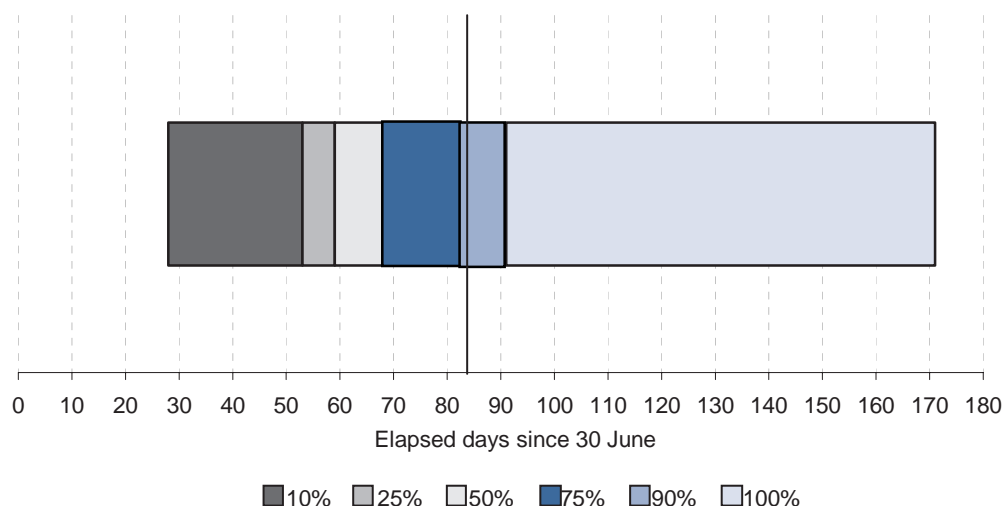
Source: Victorian Auditor-General's Office.

For 2005-06, 10 per cent of agencies submitted their signed statements to audit within 7 weeks, 22 per cent within 8 weeks, 50 per cent within 10 weeks, and 90 per cent within 13 weeks of year-end. The average time was just over 10 weeks (71 days). The Pharmacy Board of Victoria led the sector by submitting signed statements for audit 19 days after 30 June.

Only 22 per cent of agencies submitted signed financial statements within the 8-week statutory time frame. However, it has been the past practice of this Office and agencies to use the combined 12-week benchmark to measure timeliness. In this regard, 85 per cent of state agencies finalised their financial statements, including the audit opinion, within 12 weeks (80 per cent for 2004-05).

Figure 1D shows the elapsed days taken for financial statements to be finalised, including the issue of an audit opinion.

**Figure 1D**  
**Time taken for finalisation of financial statements**



Source: Victorian Auditor-General's Office.

For 2005-06, the top 10 per cent of agencies had their financial statements finalised within 53 days of year-end. The Pharmacy Board of Victoria was also the first agency to have its audit opinion issued, on 28 July, 4 weeks after year-end. The average elapsed time to finalise statements was just over 10 weeks (72 days) and the median was 68 days.

Agencies should seek to continually improve their financial report preparation processes, to achieve shorter reporting time frames. This will not only enhance accountability but will minimise the time and energy spent looking backwards, after the financial year has ended.

## Recommendations

- 1.1 Those agencies that failed to meet legislated reporting time frames should undertake an analysis of their financial reporting process, to identify and minimise or remove delay points and non-value-added activities.
- 1.2 All agencies should benchmark their performance against the above reporting timelines, and for those not in the 50-percentile range, they develop strategies to improve the timeliness of reporting.

## Annual reports

State government agencies must table their annual reports (containing their audited financial statements) within 4 months of financial year-end (i.e. by 31 October for agencies with a 30 June balance date). However, this year the Premier requested agencies to table their annual reports by 4 October 2006.



Small agencies are exempt from the tabling requirements, however, the responsible minister must advise parliament of the receipt of the annual report.

This year, 55 per cent of agencies tabled their annual reports by 4 October, and 97 per cent had tabled their reports by the next day. This is a commendable achievement and a clear demonstration that better-practice performance is achievable.

This outcome is significantly ahead of the statutory deadline, and undoubtedly largely attributable to the Premier's direction. It nevertheless demonstrated that early tabling of annual reports is feasible and established a benchmark worthy of sustaining.

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## Recommendation

- 1.3 Given the demonstrated ability of agencies to provide annual reports in advance of the statutory requirement, it is recommended that this level of accountability be sustained.

### 1.4.3 Financial statement preparation process

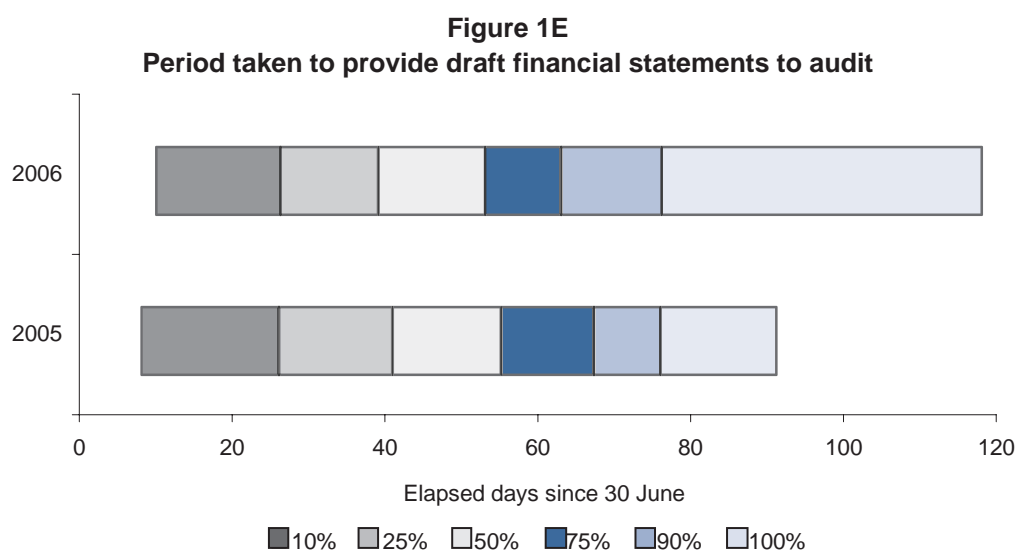
Agencies need to plan for, and allocate sufficient and appropriate resources to, financial report preparation so they can produce a high-quality report within the necessary time frames.

#### Timeliness of draft financial statements

Agencies generally provide draft financial statements for audit review and clearance before they are certified. This provides the opportunity to identify and correct any financial reporting issues identified by the auditor on a timely basis.

A lead indicator of how well an agency is likely to meet its reporting time frame is the date on which it provides draft financial statements to audit for review. The sooner after financial year-end that this can be achieved, the higher the likelihood that an agency will meet its 8-week statutory target.

Figure 1E shows (in percentile bands) the number of elapsed days after 30 June that agencies provided a first acceptable draft set of financial statements to our Office.



Source: Victorian Auditor-General's Office.

For 2005-06, 10 per cent of agencies submitted their draft statements for audit within 26 days (26 days in 2004-05) of 30 June, 50 per cent within 53 days (55 days in 2004-05), and 90 per cent within 76 days (76 days in 2004-05).

The average elapsed time in 2006 was 53 days (53 days in 2004-05). The Public Transport Ticketing Body demonstrated best practice by submitting draft statements for audit 10 days after 30 June.

The results show no significant improvement compared with the previous year, except in relation to the agencies in the ninetieth percentile which were able to significantly shorten the elapsed days to submission.

The results remain encouraging, given additional effort required by agencies to prepare their 2005-06 financial statements in accordance with the increased requirements of the new A-IFRS framework.

It was pleasing to note that a number of agencies attempted "hard closes" during the 2005-06 year. This is a process where a full set of financial statements is prepared at an interim balance date (such as 31 May) and submitted for audit prior to the year-end, thereby enabling audit effort to be brought forward and the final audit process to be expedited.

### Quality of draft financial statements

Indicators of the quality of the draft financial statements submitted for audit review include:

- the number of drafts required prior to finalisation
- the number, value and significance of adjustments, corrections and additional or amended disclosures required to the statements as a result of the audit process.

Ideally, each agency would need to prepare only one draft report and there would be no adjustments identified by audit. However, in practice, most agencies have been required to adjust their initial draft accounts, either as a result of the audit process, or following their own identification of errors or anomalies.

Steps that agencies can take to improve the cost-effectiveness, quality and timeliness of financial reporting include:

*Before year-end*

- Prepare a project plan that includes requisite human and financial resources, assigns responsibility, and sets time frames that have been agreed with the external auditor.
- Review actual and proposed changes to accounting standards, Financial Reporting Directions and other pronouncements to identify significant accounting and reporting issues and obtain agreement with the external auditor to any changes in accounting policy or controversial reporting practices.
- Prepare a “shell” set of financial statements, preferable in conjunction with a “hard close” at an interim reporting date

*After year-end*

- Establish a rigorous review of significant variances between actual results against forecast and budgeted outcomes, to identify any omissions or errors.
- Establish a cascading system of supporting accountability “sign-off” by executive managers with responsibility for components of the financial statements.
- Institute a quality assurance review of the draft financial statements prior to submission for audit, preferably by internal audit or other independent, suitably qualified professionals.
- Submit the draft statements to the audit committee for review and endorsement prior to finalisation.

## 1.5 Significant reporting issues

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### 1.5.1 Implementation of A-IFRS

The 2005-06 was the first that agencies with a 30 June balance date were required to prepare their financial statements in full compliance with the Australian equivalents to International Financial Reporting Standards (A-IFRS).

While a range of disclosure and formatting matters were encountered with the transition to A-IFRS, the one major impact for the majority of agencies related to the classification of employee benefit liabilities.

For employee benefit liabilities, agencies were required to reclassify these balances from “non-current” to “current” classes of liabilities, regardless of the when the actual liability was expected to be paid.

A number of individual agencies encountered a range of transitional issues resulting in changes to specific accounting policies or practices. These included:

- recognising the surplus of defined benefit superannuation funds as an asset in the financial statements
- recognising embedded derivatives as an asset separate from the host contract
- writing down the valuation of assets as a result of the need to apply an impairment test
- recognising and providing additional disclosure of land and buildings held for investment purposes.

As part of the transition process, it was noted that many agencies had to use non-routine reporting processes and establish stand-alone “systems” such as spreadsheets, to generate the information required by A-IFRS. These ad hoc processes and systems now generally need to be further developed and integrated with their financial management information systems (FMIS).

## Recommendation

1.4 In preparing their 2006-07 financial statements, agencies should:

- identify what required information was prepared outside the FMIS
- where practicable, automate and preferably integrate into the FMIS the capture, collation and/or reporting of this information.

### 1.5.2 Accounting for public-private partnerships

After a reassessment of the accounting for public-private partnerships (PPPs) in light of the new A-IFRS framework, a number of PPP arrangements were recognised for the first time in the financial statements of relevant agencies. The arrangements recognised related to:

- County Court facilities
- correctional services facilities
- water treatment plants and other water infrastructure.

The combined financial impact across all agencies of recognising these arrangements at 30 June 2006 was to increase:

- leased infrastructure assets by \$605 million
- finance lease liabilities by \$648 million.

## 1.6 Internal control structure issues

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An agency's governing body is responsible for the development and maintenance of its internal control structure. Internal control consists of:

- the control environment
- the entity's risk assessment process
- the information system, including the related business processes, relevant to financial reporting, and communication
- control activities
- monitoring of controls.

An effective system of internal controls is necessary to enhance the effectiveness and efficiency of the entity's operations, to deliver reliable internal and external reporting, and to achieve compliance with laws and regulations.

### 1.6.1 General controls

Overall, our audits confirmed that agencies' systems of internal control were generally adequate. However, we identified opportunities to further strengthen internal control at many agencies. The areas identified included:

- the need for further refinement of risk management processes
- strengthening the membership of audit committees
- strengthening controls over the completeness and accuracy of underlying accounting records, and improving physical control over assets
- improving reconciliation processes
- segregating incompatible functions, especially in relation to expenditure.

We will continue to focus on control issues as part of our audit and make appropriate recommendations for improvements where warranted.

### 1.6.2 Information systems controls

Agencies rely on information systems (IS) to produce reliable financial statements. Strong IS controls help to maintain the integrity, confidentiality and availability of the financial information in agency systems. Assessment of agency IS controls is, therefore, an important part of the financial audit process.

Our audits found that agencies had established appropriate IS controls over most aspects of IS operations. However, there were certain areas that required further attention. The majority of the control weaknesses identified by audit were in the 3 areas of security, change management and continuity planning.

IS security controls are needed to protect the confidentiality, integrity and availability of data and systems. Inadequate security can lead to unauthorised access to, or release of, sensitive information. It can also impair the production of reliable data for use in financial reporting.

During our financial audits, we found opportunities for improvement in the following areas of IS security:

- registration of IS users, the granting of access rights to users, and the subsequent monitoring of users and their access levels
- weaknesses in standards applied to the setting and renewal of passwords
- failure to appropriately log and monitor user activities to identify possible security breaches
- poor physical security.

Reliable financial reporting requires that agencies establish change management control practices to ensure that changes to financial systems are authorised, tested, implemented and accepted, and that systems function as intended.

We found that some agencies had not established adequate procedures to document changes to networks and applications.

IS continuity planning is designed to ensure that an agency can maintain operations and recover its financial systems in the event of a disaster or a major system interruption.

During our financial audits, we identified the following IS continuity control weaknesses:

- lack of comprehensive business continuity and disaster recovery plans and procedures for critical business process and systems
- failure to periodically test continuity and disaster recovery plans and procedures
- failure to update plans and procedures to reflect changes in IS systems and infrastructure.

Of concern is that many of the weaknesses identified during this audit cycle have been previously identified and reported, either specifically to the management of each agency, or generally through this report. It is disappointing, therefore, that these weaknesses recur, particularly given the potential exposures that can arise from poor security, poor change management practices and poor continuity planning.

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## Recommendation

- 1.5 Agencies should self-assess against the weaknesses identified, and confirm that their information systems are appropriate and operating effectively.

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## 1.7 General

The total costs of the preparation and printing of this report was \$225 000.

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# 2 Parliament

## At a glance

### Background

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

Parliament is not required by legislation to report on its administrative activities. However, under a standing arrangement with the presiding officers of both houses, our Office audits the financial statements of parliament (which comprises the financial statements of parliamentary departments) annually.

### Key finding

- Clear audit opinions were issued on the financial statements of parliament and our Office for the year ended 30 June 2006. Both entities met the 12-week statutory reporting requirement for 2005-06 (**see page 18**).

## 2.1 Audit conclusions

---

Clear audit opinions were issued on the financial statements of parliament and my Office for the year ended 30 June 2006. Both entities met the 12-week statutory reporting requirement for 2005-06.

***RESPONSE provided by the Speaker of the Legislative Assembly and the President of the Legislative Council***

*The Parliament of Victoria continues to have its accounts promptly completed on time and has continued to improve its internal controls.*

## 2.2 Overview

---

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

Its operations are funded from appropriations provided to each of the parliamentary departments which service the 2 houses of parliament and the associated committees, and provide administrative support to members and electorate offices. The parliamentary appropriations also provide funds for the Victorian Auditor-General's Office; the Auditor-General being an officer of parliament.

Parliament is not required by legislation to report on its administrative activities. However, under a standing arrangement with the presiding officers of both houses, my Office audits the financial statements of parliament (which comprises the financial statements of parliamentary departments) annually. These financial statements are prepared in line with the requirements of the *Financial Management Act 1994*.

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

## 2.3 Results of financial audits

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Clear audit opinions were issued on the financial statements of parliament and the Victorian Auditor-General's Office for the year ended 30 June 2006. Figure 2A shows that both entities met the 12-week statutory reporting requirement for 2005-06. Further details of these agencies is provided in Appendix 2A.



**Figure 2A**  
**Timeliness of audited financial statement completion, Parliament and Victorian Auditor-General's Office**

Number of weeks after end of financial year audited financial statements were finalised	2004-05		2005-06	
	Number	Per cent (cumulative)	Number	Per cent (cumulative)
Less than 8 weeks	1	50	2	100
8 to 10 weeks	1	100	-	100
10 to 12 weeks	-	100	-	100
<b>Total</b>	<b>2</b>	<b>-</b>	<b>2</b>	<b>-</b>

Source: Victorian Auditor-General's Office.

Consistent with prior years, parliament completed its audited financial statements within 8 weeks. Our Office completed its audited financial statements more promptly than the previous year, meeting the 8-week mark.

### 2.3.1 Adequacy of control environment

Each entity is required to establish and maintain an adequate system of internal controls to ensure that:

- its financial records and other information completely and accurately reflect its entire activities
- it adequately safeguards its assets
- it prevents or detects errors and other irregularities.

Our 2005-06 financial audit process for parliament confirmed that the control environment and the internal control systems that we examined, were satisfactory.

**Appendix 2A  
Audit status, Parliament sector**

Entity	Financial statements signed	Clear opinion issued	Auditor-General's (AG's) report signed (a)
COMPLETED AUDITS – 30 JUNE 2006 BALANCE DATES			
<i>AG's report signed less than 8 weeks after year-end</i>			
Parliament of Victoria	11 Aug. 2006	✓	14 Aug. 2006
Victorian Auditor-General's Office	18 Aug. 2006	✓	22 Aug. 2006

(a) The Victorian Auditor-General's Office was audited by a private sector auditor.  
Source: Victorian Auditor-General's Office.



# 3

## Education and Training

### At a glance

#### Background

The Education and Training sector comprises the Department of Education and Training and other agencies that provide, purchase and regulate compulsory and post-compulsory education and training services.

The department provides primary and secondary education in government schools, and regulates and funds (including on-passing Commonwealth funding to) non-government schools in Victoria.

#### Key findings

- The timeliness of financial reporting by sector agencies was similar to the previous year, with only 6 of the 11 agencies with a 30 June 2006 balance date achieving the 12-week statutory reporting deadline (**see pages 25 to 26**).
- We issued 9 audit opinions on agencies' financial statements, all of which were clear. The audits of the remaining 2 agencies' financial statements (TAFE Development Centre Ltd and VCAMM Ltd) were incomplete at the date of preparing this report (**see page 25**).
- Our audits found the control environments of sector agencies to be generally sound. The quality of financial reporting by sector agencies also continues to improve (**see pages 26 to 27**).

#### Key recommendation

- 3.1 Universities should strengthen their oversight of the financial affairs of subsidiary and other related entities to ensure that these entities meet their statutory reporting obligations in a timely manner (**see page 25**).

## 3.1 Audit conclusions

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The Education and Training sector includes 11 agencies that were required to prepare financial statements with a 30 June 2006 balance date and submit them for audit<sup>1</sup>. We issued 9 audit opinions on agencies' financial statements, all of which were clear. The audits of the remaining 2 agencies' financial statements (TAFE Development Centre Ltd and VCAMM Ltd) were incomplete at the date of preparing this report.

We also issued 5 clear audit opinions on the financial statements of sector agencies with 31 December 2005 balance dates, which were outstanding at the date of preparing our June 2006 report *Results of financial statement audits for agencies with other than 30 June 2005 balance dates, and other audits*. Audit opinions on the financial statements of 5 agencies (also reported as outstanding at the time of our June 2006 report) remain outstanding<sup>2</sup>. We are working with these agencies to finalise their financial statements.

The timeliness of financial reporting by sector agencies was similar to the previous year, with only 6 of the 11 agencies with a 30 June 2006 balance date achieving the 12-week statutory reporting deadline, compared with 7 of 10 agencies in 2004-05. Of the 4 agencies that did not achieve the statutory reporting deadline, 2 had still not completed their financial statements at the date of preparing this report. We are working with these agencies to complete their financial statements. We will also be encouraging them to improve their reporting timeliness for 2006-07.

Our audits found the control environments of sector agencies to be generally sound. The quality of financial reporting by sector agencies also continues to improve.

## 3.2 Sector overview

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The Education and Training sector comprises the Department of Education and Training and other agencies that provide, purchase and regulate compulsory and post-compulsory education and training services for Victorians of all ages. Education and training services are delivered through schools, TAFE institutes, adult education institutions, adult and community education providers, other registered training organisations and higher education institutions.

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<sup>1</sup> The majority of agencies within this sector (including universities and TAFE institutes) have 31 December balance dates and are not covered in this report. We will report to parliament on the audit of the 2006 financial statements of these agencies in autumn 2007.

<sup>2</sup> Details of these outstanding audits are provided in Appendix 3A.

In 2005-06, the department expended \$6.9 billion on the provision of education and training in Victoria. This was approximately 22 per cent of the total expenditure incurred by the state's general government sector. The department managed school buildings valued at \$4 billion and land valued at \$4.5 billion as at 30 June 2006.

Two ministers, the Minister for Education and Training and the Minister for Education Services were responsible for the department. The Minister for Education and Training had sole responsibility for the other agencies in the sector.

The majority of sector agencies (primarily universities and TAFE institutes) have 31 December balance dates and are not covered in this report. We will report to parliament on the audit of the 2006 financial statements of these agencies in autumn 2007.

Figure 3A shows the nature of sector agencies with a 30 June 2006 balance date.

**Figure 3A**  
**Education and Training sector agencies with a**  
**30 June 2006 balance date**

Reporting entity	Number
Department	1
Public bodies (a)	6
Companies (b)	4
<b>Total</b>	<b>11</b>

(a) Comprised of the following statutory authorities: the Adult Community and Further Education Board, the Victorian Learning and Employment Skills Commission, the Victorian Qualifications Authority, the Victorian Institute of Teaching, the Victorian Tertiary Admissions Centre, and the Victorian Curriculum and Assessment Authority.

(b) Includes NMIT International Ltd (a shelf company), TAFE Development Centre Ltd, VCAMM Limited and the Victorian Institute for Chemical Sciences Limited.

Source: Victorian Auditor-General's Office.

The department provides primary and secondary education in government schools, and regulates and funds (including on-passing Commonwealth funding to) non-government schools in Victoria.

Victoria has 1 606 government schools providing primary and junior secondary education in the compulsory years (Prep to Year 10) and senior secondary education in the post-compulsory years (Years 11 and 12). These include 1 213 primary schools with around 18 900 full-time equivalent (FTE) teaching staff and 263 secondary schools with around 17 300 FTE teaching staff. There are also 78 special schools, 4 English language schools and 48 combined primary/secondary schools with around 4 000 FTE teaching staff. In all, approximately 540 000 FTE students are enrolled in Victoria's government schools<sup>3</sup>.

Other sector agencies with a 30 June 2006 balance date develop curriculum and assess schools across all year levels; provide post-compulsory education and training, and accreditation of training qualifications, courses and providers; and regulate the teaching profession. The composition of sector agencies remained stable, with only one new entity (TAFE Development Centre Limited) established in the year, to provide ongoing developmental opportunities for TAFE teaching and non-teaching staff.

### Accounting for schools' financial affairs

The department's annual financial statements incorporate the transactions and balances of government school councils for the July to June financial year. However, school councils' cash and investment balances are reported as at 31 December, to coincide with the school operating, reporting and audit arrangements (further comment on the reporting and auditing arrangements is included later in this part of the report).

For the year ended 30 June 2007, the department has implemented reporting procedures that will result in the school council's cash and investment balances as at 30 June being reported in its financial statements.

The department's reported assets for both 2005-06 and 2004-05 included school cash balances totaling \$408.5 million. These assets represented 86 per cent of the department's total cash balances for 2005-06.

At 30 June 2006, 1 331 of the 1 606 government schools had transferred from cash-based to part accrual-based accounting, after implementing the new CASES21 finance software which was introduced by the department in 2004-05. While this change resulted in the additional recognition of schools' accruals in the department's financial statements, the overall impact of the additional accruals on the reported balances was not material. The department has advised that the roll-out of the new software across the remaining schools was completed in October 2006.

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<sup>3</sup> Figures provided by the Department of Education and Training. School figures are as at 31 March 2006, while FTE teaching staff figures are as at June 2006.

## 3.3 Results of financial audits

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### 3.3.1 Audit opinions issued

The sector comprises 11 agencies that were required to prepare financial statements as at 30 June 2006 and submit them for audit. We issued 9 audit opinions, all of which were clear. The audits of the financial statements of the remaining 2 agencies (VCAMM Limited and TAFE Development Centre Ltd) were incomplete at the date of preparing this report.

We also completed the audits of the financial statements of 5 agencies with 31 December 2005 balance dates, which were incomplete at the time of preparing our June 2006 report *Results of financial statement audits for agencies with other than 30 June 2005 balance dates, and other audits*. We issued clear opinions on these financial statements.

Audit opinions on the financial statements of 5 further agencies that were incomplete at the date of preparing the above report (DeakinPrime USA, Inquirion Pty Ltd, Learningfast Inc. (2 financial reporting periods), Monash Learningfast Pty Ltd, and Monash International SRL) remained outstanding at the date of finalising this report, because we had not received their completed statements or had not completed auditing them. We are working with these agencies to finalise their financial statements.

### Recommendation

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- 3.1 Universities should strengthen their oversight of the financial affairs of subsidiary and other related entities, to ensure that these entities meet their statutory reporting obligations in a timely manner.

***RESPONSE provided by Department of Education***

*The Department of Education will refer the matters to the Department of Industry, Innovation and Regional Development which now has responsibility for higher education matters, with a request to draw the recommendation to the attention of university vice chancellors.*

### 3.3.2 Timeliness of reporting

Figure 3B provides a summary of how the sector agencies with a 30 June 2006 balance date met the 12-week statutory reporting requirement for 2005-06. Further details of these agencies is available in Appendix 3A.

**Figure 3B**  
**Timeliness of audited financial statement completion, Education and Training sector**

Number of weeks after end of financial year audited financial statements were finalised	2004-05		2005-06	
	Number of agencies	Per cent (cumulative)	Number of agencies	Per cent (cumulative)
Less than 8 weeks	-	-	-	-
8 to 10 weeks	1	10	3	27
10 to 12 weeks	6	70	3	55
12 to 14 weeks	-	70	-	55
14 to 16 weeks	1	80	2	73
More than 16 weeks (a)	2	100	3	100
<b>Total</b>	<b>10</b>	<b>..</b>	<b>11</b>	<b>..</b>

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

Source: Victorian Auditor-General's Office.

Figure 3B shows that the timeliness of completion of agencies' financial statements was generally consistent with the previous year, with 6 of the 11 sector agencies able to achieve the 12-week reporting deadline (7 of the 10 sector agencies in 2004-05). Delays were mainly experienced by TAFE Development Centre Ltd and VCAMM Ltd due to initial uncertainties regarding their reporting responsibilities, and the Victorian Tertiary Admissions Centre due to resourcing shortages. We are working with these agencies to improve the timeliness of their reporting for 2006-07.

### 3.3.3 Quality of financial reporting

The quality of draft financial statements that agencies presented for audit improved on the previous year. This was mainly because agencies took greater care to prepare their 2005-06 financial statements, being the first year they were required to fully comply with the new Australian equivalents to International Financial Reporting Standards (A-IFRS). Overall, the quality of financial reporting by sector agencies is now considered satisfactory.

### 3.3.4 Adequacy of control environments

Each sector agency is required to establish and maintain an adequate system of internal controls to ensure that:

- its financial records and other information completely and accurately reflect its entire activities
- it adequately safeguards its assets
- it prevents or detects errors and other irregularities.



Our financial audit process confirmed that the control environments of sector agencies, and the internal control systems that we examined, were generally sound. We identified several opportunities to improve internal controls over the department's accounts payable system (including vendor masterfile amendments and supplier records) and the physical verification of fixed assets. The department is currently addressing these issues.

### 3.3.5 Other issues and developments

#### Implementation of A-IFRS

As previously mentioned, 2005-06 was the first year that agencies with a 30 June balance date were required to prepare their financial statements in full compliance with A-IFRS. The major impacts for the sector of adopting the new standards related to the valuation of non-current assets, and the classification of employee benefit liabilities.

For asset valuations, Australian accounting standards AASB 116 *Property, Plant and Equipment* and AASB 136 *Impairment of Assets* require entities to assess the value of their assets for indicators of impairment, and to adjust the reported values, as appropriate. The department identified that excess capacity in schools was an indicator of impairment and, accordingly, reduced the reported value of its school buildings by \$843 million to reflect this impairment. We agreed with this adjustment to the reported balances.

For employee benefit liabilities, agencies were required to change the basis used to classify these balances, between the "current" and "non-current" classes of liabilities. In previous years, liabilities that were expected to be settled within 12 months were classified as "current". However, for the 2005-06 financial statements, regardless of the timing of expected settlement, employee benefit liabilities were required, by the new standards, to be classified as "current" unless there was an unconditional right for agencies to defer settlement beyond 12 months.

While this change did not affect the overall reported value of liabilities, it did result in the reclassification of substantial balances (mainly related to employee long service leave) from "non-current" to "current" liabilities, and impacted on the agencies' reported working capital (liquidity) ratios. However, agencies' financial statements provided additional disclosures so that users could identify the component of "current liabilities" attributable to employee benefits that were expected to be settled beyond the following 12 months.

## Reporting and audit arrangements for government school councils

Under the *Education Act 1958*, each of Victoria's government schools is required to have a school council. The Act requires school councils to prepare accounts on a cash basis each calendar year and to have them audited by an approved auditor<sup>4</sup> within 3 months of the end of the calendar year. The Act also requires a school council to publish an annual report of its activities and to present a statement of receipts and expenditure at a public meeting.

As previously mentioned in our December 2005 report *Results of 30 June 2005 financial statement and other audits*, in 2003 the Victorian Government Solicitor advised the department that school councils are public statutory authorities; meaning that they are subject to the accountability and auditing provisions of the *Financial Management Act 1994* and the *Audit Act 1994*. To comply with these Acts, school councils would have to prepare separate financial statements on an accrual basis, which are to be audited by the Auditor-General and then presented to parliament as part of a report of operations.

The department recognises the need to address government schools' reporting requirements under the *Financial Management Act 1994* and, since 2003, has taken several steps to improve the financial accountability of school councils. These include development of the CASES21 school administration and financial management computer system. Installation of this system's finance component (which will help schools better manage their financial, payroll and asset transactions) started in July 2004. As previously mentioned in this part of the report, 1 331 schools had implemented the new system by 30 June 2006. The department has advised that the remaining schools had completed their software implementation by October 2006.

The implementation of reforms included in the *Education and Training Reform Act 2006* will also strengthen school council accountability, through improved reporting to school communities. The Act is expected to be proclaimed in early 2007, and provides for a major overhaul of Victoria's education-related legislation.

In light of these initiatives, and given the *Education Act 1958* requirement for councils to appoint approved auditors to provide assurance about their financial affairs, we have continued to exercise the authority available to the Auditor-General under section 8 of the *Audit Act 1994* and dispense with audits of school councils.

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<sup>4</sup> The *Education Act 1958* defines an approved auditor as a person registered as an auditor or taken to be registered as an auditor under Part 9.2 of the Corporations Act; or a member of the Institute of Chartered Accountants in Australia, or the National Institute of Accountants or the Australian Society of Certified Practising Accountants; or a person approved by the minister for the purposes of the Act.

For the year ended 30 June 2006, our Office and the department agreed that the following previously adopted arrangements would continue:

- school councils' financial transactions would continue to be included with those of the Department of Education and Training in accordance with section 53 of the *Financial Management Act 1994*
- private sector auditors would continue to audit school councils' statements of receipts and expenditure, and provide independent audit reports about those statements, in accordance with the requirements of the *Education Act 1958*
- the department's internal auditors would audit selected schools and focus on internal controls and resource management issues.

More recently, the Department of Education and Training in consultation with our Office and the Department of Treasury and Finance, has developed a new risk-based approach to the audit of school councils. The new approach, with appointed private sector auditors, will be implemented for the 2006 calendar year. We will inform parliament of the outcome of this work in future reports.

### Results of school council audits for 2005-06

As mentioned above, the department currently engages private sector approved auditors to audit the calendar year financial statements of Victoria's government school councils.

The auditors issued qualified audit opinions on the 2005 financial statements of:

- 9 school councils (6 of which reflected an inability to form an audit opinion) - referring to deficiencies or unexplained items in bank reconciliations, un-reconciled miscellaneous transactions and lack of supporting evidence for some transactions
- 996 further school councils - drawing attention to the inability to audit cash receipts from fund raising events due to the inherent risks in cash handling practices. This type of audit qualification is regarded as "standard" for entities that engage in cash-based fund raising activities.

The department has told us that it intends to instruct its financial services division to contact the affected schools and provide advice and assistance as required, to address the relevant issues. Its regional directors will also be encouraged to liaise with the financial services division to ensure appropriate follow-up action occurs.

**Appendix 3A**  
**Audit status, Education and Training sector**

Entity	Financial statements signed	Clear opinion issued	Auditor-General's (AG's) report signed
<b>COMPLETED AUDITS – 30 JUNE 2006 BALANCE DATES</b>			
<i>AG's report signed 8 to 10 weeks after year-end</i>			
Department of Education and Training	6 Sept. 2006	✓	8 Sept. 2006
<b>EDUCATION AND TRAINING</b>			
<i>8 to 10 weeks</i>			
Victorian Institute of Teaching	7 Sept. 2006	✓	7 Sept. 2006
Victorian Learning and Employment Skills Commission	8 Sept. 2006	✓	8 Sept. 2006
<i>10 to 12 weeks</i>			
Adult, Community and Further Education Board	13 Sept. 2006	✓	14 Sept. 2006
Victorian Curriculum and Assessment Authority	13 Sept. 2006	✓	20 Sept. 2006
Victorian Qualifications Authority	13 Sept. 2006	✓	19 Sept. 2006
<i>14 to 16 weeks</i>			
NMIT International Ltd	2 Oct. 2006	✓	17 Oct. 2006
<i>More than 16 weeks</i>			
Victorian Tertiary Admissions Centre	8 Dec. 2006	✓	18 Dec. 2006
<b>POST-COMPULSORY EDUCATION INSTITUTES</b>			
<i>14 to 16 weeks</i>			
Victorian Institute of Chemical Sciences Limited	17 Oct. 2006	✓	20 Oct. 2006
<b>COMPLETED AUDITS – WITH OTHER BALANCE DATES (a)</b>			
<b>EDUCATION AND TRAINING</b>			
<i>More than 16 weeks</i>			
Telematics Course Development Fund	2 May 2006	✓	2 May 2006
<b>POST-COMPULSORY EDUCATION INSTITUTES</b>			
<i>More than 16 weeks</i>			
International Training Australia Ltd (1 Jan. 2004 to 31 Dec. 2004)	29 Nov. 2006	✓	7 Dec. 2006
International Training Australia Ltd	29 Nov. 2006	✓	7 Dec. 2006
Monash Educational Enterprises	7 Jul. 2006	✓	11 Jul. 2006
Monash South Africa Ltd	25 Feb. 2006	✓	27 Apr. 2006

**Appendix 3A**  
**Audit status, Education and Training sector - continued**

Entity	Financial statements signed	Clear opinion issued	Auditor-General's (AG's) report signed
<b>INCOMPLETE AUDITS – AS AT 31 JANUARY 2007 (b)</b>			
<b><i>EDUCATION AND TRAINING</i></b>			
TAFE Development Centre Limited (c)	<i>Audited financial statements yet to be finalised</i>		
VCAMM Limited	<i>Audited financial statements yet to be finalised</i>		
<b><i>POST-COMPULSORY EDUCATION INSTITUTES</i></b>			
DeakinPrime USA (d) (1 Jan. 2005 to 31 Oct. 2005)	<i>Audited financial statements yet to be finalised</i>		
Inquirion Pty Limited (e) (1 Jan. 2005 to 30 Sept. 2005)	<i>Audited financial statements yet to be finalised</i>		
LearningFast Inc (1 Jan. 2004 to 31 Dec. 2004)	<i>Audited financial statements yet to be finalised</i>		
LearningFast Inc (1 Jan. 2005 to 31 Dec. 2005)	<i>Audited financial statements yet to be finalised</i>		
Monash International SRL (1 Jan. 2005 to 31 Dec. 2005)	<i>Audited financial statements yet to be finalised</i>		
Monash LearningFast Pty Limited (1 Jan. 2005 to 31 Dec. 2005)	<i>Audited financial statements yet to be finalised</i>		

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

(b) Financial statements with 30 June 2006 balance dates, unless otherwise indicated.

(c) TAFE Development Centre Limited began operations on 1 Oct 2005.

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

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

Source: Victorian Auditor-General's Office.

# 4

## Human Services

### At a glance

#### Background

The Human Services sector comprises the Department of Human Services and other entities that deliver, purchase or regulate health and human services in Victoria.

Total expenditure by the department in 2005-06 amounted to \$10.5 billion, an increase of 7.2 per cent over 2004-05. Expenditure on acute health services accounted for half of the total expenditure in 2005-06. Remaining expenditure was spread over a range of programs, the more significant being Disability Services, Mental Health, Aged and Home Care, and Housing Assistance.

#### Key findings

- We issued 145 clear audit opinions and 5 qualified opinions. The financial statements of 2 entities had not been finalised at the end of January 2007 **(see pages 36 to 37)**.
- The timeliness of finalisation of financial statements has improved significantly **(see pages 37 to 38)**.
- Entities' control environments and their systems of internal control were generally satisfactory **(see page 39)**.
- Our review of 13 major public cemeteries identified significant governance, financial management and control issues within the industry. Further, we noted a number of cemetery activities which, due to their nature and/or the lack of adequate internal controls over those activities, put cemetery financial assets at risk **(see pages 39 to 40)**.
- During our 2006 review of Fawkner Crematorium and Memorial Park, a significant fraud was uncovered in the payroll area. Subsequent investigations by management have identified further instances of significant irregular transactions, which are still being investigated **(see pages 39 to 40)**.

## 4.1 Audit conclusions

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The Human Services sector comprises 152 entities (145 in 2004-05) required to prepare financial statements at 30 June 2006 and submit them for audit. We issued 145 clear audit opinions (134 in 2004-05) and 5 qualified opinions (7 in 2004-05). The financial statements of 2 entities (4 in 2004-05) had not been finalised at the date of preparing this report.

The timeliness of finalisation of financial statements has improved significantly compared with last year. In 2005-06, 89 per cent of entities met the statutory 12-week completion deadline, compared with 74 per cent in 2004-05. This improvement has added significance because it was achieved against the background of the introduction of new accounting standards – the Australian equivalents to International Financial Reporting Standards (A-IFRS).

Entities' control environments and their systems of internal control were generally satisfactory, although, as outlined below, there were some control issues that arose in relation to major public cemeteries.

Our 2006 review of 13 of the state's major public cemeteries<sup>1</sup> identified significant governance, financial management and control issues within the industry. Further, while our audit did not specifically seek to identify theft and misappropriation, we did note a number of cemetery activities which, due to their nature and/or the lack of adequate internal controls over those activities, put cemetery financial assets at risk.

During our 2006 review of Fawkner Crematorium and Memorial Park a significant fraud was uncovered in the payroll area. Subsequent investigations by management have identified further instances of significant irregular transactions, which are still being investigated. We will review the outcome of police, and other related investigations conducted by the Trust, as part of our 2006-07 annual financial audit and will report any significant findings to parliament in the 2007 spring session.

## 4.2 Sector overview

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The Human Services sector comprises the Department of Human Services and other entities that deliver, purchase or regulate health and human services in Victoria. These services aim to enhance and protect the health and wellbeing of all people in Victoria, as well as provide particular services for people who are vulnerable and most in need. Other health and human services are also delivered by a range of non-government organisations with funding provided by the department.

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<sup>1</sup> Victorian Auditor-General's Office, 2006, *Review of major public cemeteries*, Victorian Government Printer, Melbourne.

Total expenditure by the department in 2005-06 amounted to \$10.5 billion, an increase of 7.2 per cent over 2004-05. Expenditure on acute health services accounted for half of the total expenditure in 2005-06. Remaining expenditure was spread over a range of programs, the more significant being Disability Services (10 per cent), Mental Health (7 per cent), Aged and Home Care (6 per cent), and Housing Assistance (6 per cent).

Responsible ministers in the human services sector are the Minister for Health, the Minister for Community Services, the Minister for Children, the Minister for Aged Care, the Minister for Mental Health and the Minister for Housing.

Figure 4A shows the type of entities within the sector:

**Figure 4A**  
**Human Services sector entities with a 30 June 2006 balance date**

Reporting entity (a)	Number
Department of Human Services	1
Public hospitals and ambulance services	95
Companies, trusts/foundations and joint ventures (b)	26
Public cemeteries	14
Other public bodies (including registration boards)	16
<b>Total</b>	<b>152</b>

(a) Subject to audit by the Auditor-General.

(b) Companies, trusts and joint ventures include entities controlled by public hospitals and rural information technology alliances. The number of these entities has increased by 9 over last year primarily due to the inclusion of additional foundations (trusts) controlled by rural hospitals.

Source: Victorian Auditor-General's Office.

In addition to the above entities, there are 39 independently managed community health centres that have been declared under section 45 of the *Health Services Act 1988* and which have not previously been subject to audit by our Office. In accordance with the requirements of the *Audit Act 1994*, we will commence the annual financial audit of these centres for the 2006-07 year. There are other community health services which are managed by public hospitals and, as such, are already subject to our audit.

The department regulates and delivers public health services, public housing, accommodation support services, services for people with disabilities, services for the aged, services for children and other community services.

Other sector entities subject to our audit include:

- health services (including public hospitals and controlled entities), which provide acute inpatient, non-admitted and emergency, mental health, aged care, community health and public health services to the community
- ambulance services, which provide emergency services through the Metropolitan Ambulance Service, Rural Ambulance Victoria and the Alexandra and District Ambulance Service



- information technology alliances, which provide information and communication technology services to public health services in Victoria's rural regions
- public cemeteries, which provide burial and cremation services and manage cemetery trusts and land
- registration boards, which register a range of health professionals such as medical practitioners, nurses, optometrists, pharmacists, physiotherapists, Chinese medicine practitioners, dental practitioners, chiropractors, osteopaths and podiatrists
- statutory authorities, such as the Victorian Health Promotion Foundation, Health Purchasing Victoria and the Infertility Treatment Authority.

In 2005-06:

- a new legislative framework was introduced with the aim to protect the interests of vulnerable children and young people, including the establishment of the Child Safety Commissioner, Victorian Children's Council and the Children's Services Coordination Board
- the Office of the Registrar of Housing Agencies was established and 5 not-for-profit agencies were registered as housing associations to assist with the provision of affordable housing
- the development of a new Royal Children's Hospital was announced, to be undertaken as a Partnerships Victoria project
- major capital facility redevelopments were completed at Dandenong Hospital and Latrobe Regional Hospital
- 2 key health policy frameworks were released – *Victoria: A better state of health* and *Rural directions for a better state of health* – indicating a changing role for hospital and community-based care to meet increasing demand, particularly from people with chronic illnesses
- a new service, Nurse-On-Call, was established as a 24-hour, 7-day a week telephone health advice and information service
- new legislation was passed to promote and protect the rights of people with a disability and to regulate disability services; and a new Disability Housing Trust was established to facilitate new homes for people with a disability.

## 4.3 Results of financial audits

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### 4.3.1 Audit opinions issued

The Human Services sector has 152 entities (145 in 2004-05) that were required to prepare financial statements at 30 June 2006 and submit them for audit by the Auditor-General. We issued 145 clear audit opinions (134 in 2004-05). We also issued 5 qualified opinions (7 in 2004-05), the reasons for which are detailed in Figure 4B. The financial statements of 2 entities (4 in 2004-05) had not been finalised at the time of preparing this report.

**Figure 4B**  
**Human Services sector, qualified audit opinions, 2005-06**

Entity	Reason for qualification
Bass Coast Regional Health Benefit Fund Trust	Non compliance of the financial report with certain requirements of applicable accounting standards.
Queen Elizabeth Centre	Failure to consolidate the financial statements of a controlled entity - the Queen Elizabeth Centre Foundation.
Mercy Public Hospital Inc.	Failure to consolidate the financial statements of the controlled entities Werribee District Hospital Charitable Foundations Nos. 1 and 2.
Royal Women's Hospital Foundation Trust Funds	Inability to verify the completeness of cash donations.
St Vincent's Hospital (Melbourne) Ltd	Understatement of receivable arising from financing arrangements for the original redevelopment of the hospital.

Source: Victorian Auditor-General's Office.

We removed the previous years' qualification for Calvary Health Care Bethlehem Limited after resolving the issues which gave rise to the qualification. The financial statements of the Trustees of the Fawkner Crematorium Memorial Park, subject to audit qualification in 2004-05, had not been finalised at the time of preparing this report.

### 4.3.2 Timeliness of reporting

Figure 4C shows how well entities with 30 June 2006 balance dates met the 12-week statutory reporting requirement for 2005-06. Further detail of these entities is provided in Appendix 4A.

**Figure 4C**  
**Timeliness of audited financial statement completion, Human Services sector**

Number of weeks after end of financial year audited financial statements were finalised	2004-05		2005-06	
	Number of entities	Per cent (cumulative)	Number of entities	Per cent (cumulative)
Less than 8 weeks	13	9	30	19
8 to 10 weeks	31	30	64	61
10 to 12 weeks	64	74	43	89
12 to 14 weeks	18	87	7	94
14 to 16 weeks	12	95	1	94
More than 16 weeks (a)	7	100	7	100
<b>Total</b>	<b>145</b>	<b>..</b>	<b>152</b>	<b>..</b>

(a) Includes the financial statements of 2 entities that had not been completed at the date of preparing this report.

Source: Victorian Auditor-General's Office.

Figure 4C shows that many of the audited financial statements for sector agencies were finalised earlier and that the proportion of entities completing their audited financial statements within the statutory 12-week deadline improved substantially.

In 2005-06, 89 per cent of entities met the statutory 12-week completion deadline compared with 74 per cent in 2004-05. It is pleasing to note that the level of statutory compliance has been significantly improved as a consequence of a number of initiatives undertaken by entity management and our Office, assisted by financial reporting guidance provided by the department. This improvement is given added significance because it was achieved against the background of earlier reporting time frames set by the government and the introduction of new accounting standards – A-IFRS.

### 4.3.3 Quality of financial reporting

The sector's adoption of A-IFRS in 2005-06 generated a number of adjustments in entity financial statements, including the reclassification of some employee entitlement provisions from non-current to current liabilities in the balance sheet, and the inclusion of a new sub-total in the operating statements of sector entities.

The inclusion of this new sub-total, entitled *Net result from continuing operations before capital and specific items*, was recommended in the financial reporting guidance prepared by the department. A-IFRS allows the inclusion of additional sub-totals on the face of the operating statement where such presentation is relevant to an understanding of an entity's financial performance.

Further enhancement of supporting accounting policies is required, setting out the basis upon which items are included or excluded from this sub-total, to further assist both readers and preparers of financial reports in future years. Nevertheless, 2005-06 financial reports did set out those items of revenue and expense included or excluded from the sub-total (such as depreciation and amortisation expenses), and importantly also set out the overall net result for the year.

While acknowledging the improved timeliness of financial reporting by sector entities in 2005-06, there are still opportunities for further improvement in the presentation of financial statements.

***RESPONSE provided by the Secretary, Department of Human Services***

*The department agrees that stating the basis of sub-totalling in future financial reports will enhance understanding of a hospital's financial performance.*

#### 4.3.4 Adequacy of health services' control environments

Each sector entity is required to establish and maintain an adequate system of internal controls to ensure that:

- its financial records and other information completely and accurately reflect its entire activities
- it adequately safeguards its assets
- it prevents or detects errors and other irregularities.

Our audit process confirmed that the control environments of entities, and the internal control systems that we examined, were generally satisfactory, with the exception of certain major cemeteries and controls over grant payments in the department.

##### Major public cemeteries

In 2006, we reviewed 13 of the state's 14 major public cemeteries and assessed the department's role in overseeing the operation of the industry. We reported on the results of that audit to the parliament in July 2006, in our report entitled *Review of major public cemeteries*.

The audit identified significant issues within the industry and scope for improvement in the manner in which major cemeteries operate, including in their governance frameworks, financial management and operating procedures; as well as an enhanced oversight function by the department.

Our audit did not specifically undertake an investigation to identify theft and misappropriation. However, in conducting the review, we noted a number of cemetery activities which, due to their nature and/or the lack of adequate internal controls over these activities, put cemetery assets at risk.

During our audit, a significant payroll fraud was uncovered at Fawkner Crematorium and Memorial Park. Another cemetery was investigating some unusual transactions in its sales/cash receipting systems at that time.

Subsequent to the finalisation of our audit, further instances of significant irregular transactions have been identified at Fawkner Crematorium and Memorial Park. These transactions were the subject of a police investigation at the time of preparing this report. We will review the outcome of the police, and other related investigations conducted by the Trust, as part of our 2006-07 annual financial audit and will report any significant findings to the parliament in the 2007 spring session.

***RESPONSE provided by the Secretary, Department of Human Services***

*The department was not able to verify the facts provided by the Auditor-General in the July 2006 report in relation to the operation of the trusts. The invitation by me to the Auditor-General to conduct the investigation was an efficient method of compiling advice on the state of management of cemeteries to inform on action I might take, given the new powers of direction accorded to the secretary by Parliament from July 2005.*

*The current legislative framework governing cemeteries and crematoria is consistent with the way successive governments have decided to regulate and monitor cemeteries and crematoria. It stems from the traditional public health interests regarding the hygiene of interment. The department accepts the intent of the detailed recommendations in the Auditor-General's July 2006 report and has:*

- reviewed the response from trusts to the report*
- consulted with other government entities suggested for a future role in this area – noting a substantial industry review by the State Services Authority is in process*
- developed a plan of how the issues raised can be addressed including requirements for remedial actions by a number of trusts.*

## 4.3.5 Financial performance and position of health services

In previous reports to parliament, we have assessed the financial position and performance of Victoria's health services and initiatives taken to improve their financial standing.

During 2005-06, we undertook a detailed review of public hospital financial performance and sustainability, the results of that audit are included in our February 2007 report *Results of special reviews and other investigations*.

## 4.4 Other significant issues

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### 4.4.1 Rural health information and communication technology alliances

In our December 2005 report *Results of 30 June 2005 financial statement and other audits*, we recommended that the 5 information and communication technology alliances established by the department be subject to the financial reporting and accountability requirements of the *Financial Management Act 1994*. Our report noted that while the Auditor-General is responsible for the audit of the alliances, they are not subject to the financial reporting provisions of the *Financial Management Act 1994*. Therefore, there is no requirement to provide the annual financial statements to the responsible minister for tabling in parliament.

The department partially accepted our recommendation at that time. Further, the department's response to our recommendation also supported improved and more consistent governance and accountability for rural health alliances. The department undertook to implement more appropriate governance and financial accountability arrangements during 2005-06.

The department recently advised that it had distributed a document "Policy Contexts and Strategic Directions for Rural Health ICT Alliances" to the 5 alliances in early May 2006. This statement includes a requirement that alliances operate under joint venture agreements, and that the relevant agencies will specifically have joint responsibility to ensure compliance with the *Financial Management Act 1994*. The department indicated that when these arrangements have been implemented (completion expected during the 2006-07 financial year) the alliances will be subject to the financial and accountability requirements of the *Financial Management Act 1994*.

While we support the department's action on this matter, our opinion is that the alliances should be subject to the financial reporting and accountability requirements of the *Financial Management Act 1994*, for example, by being declared by the Minister for Finance to be a body to which the accountability and reporting aspects of the Act apply. This would create a requirement for the alliances to provide the annual financial statements to the responsible minister for tabling in parliament.

***RESPONSE provided by the Secretary, Department of Human Services***

*The department agrees that the tabling of Alliances' financial statements in Parliament will enhance accountability. We will, therefore, pursue declaration of the Alliances under section 53(A (2) of the Financial Management Act 1994 as entities required to table annual reports, including audited financial statements.*

#### 4.4.2 Performance reporting by public health services

In our June 2006 report - *Results of financial statement audits for agencies with other than 30 June 2005 balance dates, and other audits*, we made recommendations relating to performance reporting by public health services.

In particular we recommended that performance information included in health service annual reports be subject to audit by our Office. The department noted that recommendation and undertook to discuss the matter further with the Department of Treasury and Finance and our Office.

Subsequently, in the Minister for Finance's October 2006 report - *Response by the Minister for Finance to the Auditor-General's Reports issued during 2005-06*, the department's response to our recommendation was updated. The department's updated response included that "it is considered that further audit of performance information is unnecessary, as it would involve duplication of work conducted by health services, which have rigorous verification processes of data prior to release".

While we acknowledge that health services will have processes in place for the preparation of performance information, as they do for the preparation of the annual financial report, it is important that parliament receives independent assurance that that information has been fairly presented in accordance with the *Financial Management Act 1994*. Consequently, we remain of the view that the performance information included in health service annual reports should be subject to audit so that it carries equivalent status to financial reporting.

***RESPONSE provided by the Secretary, Department of Human Services***

*The department acknowledges the Auditor-General's position on this matter.*

**Appendix 4A**  
**Audit status, Human Services sector**

Entity	Financial statements signed	Clear opinion issued	Auditor-General's (AG's) report signed
<b>COMPLETED AUDITS – 30 JUNE 2006 BALANCE DATES</b>			
<i>AG's report signed 10 to 12 weeks after year-end</i>			
Department of Human Services	30 Aug. 2006	✓	11 Sept. 2006
<b>HEALTH</b>			
<i>Less than 8 weeks</i>			
Chinese Medicine Registration Board of Victoria	7 Aug. 2006	✓	17 Aug. 2006
Chiropractors Registration Board of Victoria	9 Aug. 2006	✓	15 Aug. 2006
Dental Practice Board of Victoria	22 Aug. 2006	✓	23 Aug. 2006
Health Purchasing Victoria	16 Aug. 2006	✓	18 Aug. 2006
Infertility Treatment Authority	16 Aug. 2006	✓	18 Aug. 2006
Nurses Board of Victoria	24 Aug. 2006	✓	24 Aug. 2006
Pharmacy Board of Victoria	19 July 2006	✓	28 July 2006
<i>8 to 10 weeks</i>			
Mental Health Review Board	8 Sept. 2006	✓	8 Sept. 2006
Optometrists Registration Board of Victoria	15 Aug. 2006	✓	6 Sept. 2006
Osteopaths Registration Board of Victoria	14 Aug. 2006	✓	30 Aug. 2006
Physiotherapists Registration Board of Victoria	14 Aug. 2006	✓	30 Aug. 2006
Podiatrists Registration Board of Victoria	14 Aug. 2006	✓	30 Aug. 2006
Psychosurgery Review Board	8 Sept. 2006	✓	8 Sept. 2006
Rural Ambulance Victoria	4 Sept. 2006	✓	6 Sept. 2006
<i>10 to 12 weeks</i>			
Alexandra and District Ambulance Service	20 Sept. 2006	✓	22 Sept. 2006
Ambulance Service Victoria - Metropolitan Region	12 Sept. 2006	✓	12 Sept. 2006
Victorian Health Promotion Foundation	20 Sept. 2006	✓	20 Sept. 2006
Victorian Institute of Forensic Mental Health	12 Sept. 2006	✓	12 Sept. 2006



**Appendix 4A**  
**Audit status, Human Services sector - continued**

Entity	Financial statements signed	Clear opinion issued	Auditor-General's (AG's) report signed
<b>COMPLETED AUDITS – 30 JUNE 2006 BALANCE DATES - continued</b>			
<b>CEMETERIES</b>			
<i>Less than 8 weeks</i>			
Geelong Cemeteries Trust	25 Aug. 2006	✓	25 Aug. 2006
<i>8 to 10 weeks</i>			
Ballarat General Cemeteries Trust	30 Aug. 2006	✓	30 Aug. 2006
Wyndham Cemeteries Trust	30 Aug. 2006	✓	1 Sept. 2006
<i>10 to 12 weeks</i>			
Anderson's Creek Cemetery Trust	11 Sept. 2006	✓	18 Sept. 2006
Bendigo Cemeteries Trust	22 Sept. 2006	✓	22 Sept. 2006
Mildura Cemetery Trust	19 Sept. 2006	✓	19 Sept. 2006
Templestowe Cemetery Trust	11 Sept. 2006	✓	18 Sept. 2006
The Cheltenham and Regional Cemeteries Trust	19 Sept. 2006	✓	22 Sept. 2006
The Trustees of the Necropolis Springvale	21 Sept. 2006	✓	21 Sept. 2006
<i>AG's report signed within 12 to 14 weeks of year-end</i>			
Trustees of the Altona Memorial Park Trust	27 Sept. 2006	✓	28 Sept. 2006
Trustees of the Lilydale Memorial Park and Cemetery	29 Sept. 2006	✓	29 Sept. 2006
Preston Cemetery Trust	26 Sept. 2006	✓	28 Sept. 2006
<i>More than 16 weeks</i>			
Keilor Cemetery Trust	19 Oct. 2006	✓	6 Dec. 2006
<b>COMMUNITY SERVICES</b>			
<i>AG's report signed within 10 to 12 weeks of year-end</i>			
Victorian Relief Committee	13 Sept. 2006	✓	14 Sept. 2006

**Appendix 4A**  
**Audit status, Human Services sector - continued**

Entity	Financial statements signed	Clear opinion issued	Auditor-General's (AG's) report signed
<b>COMPLETED AUDITS – 30 JUNE 2006 BALANCE DATES - continued</b>			
<b>PUBLIC HOSPITALS AND ASSOCIATED ENTITIES</b>			
<i>Less than 8 weeks</i>			
Bairnsdale Regional Health Service	16 Aug. 2006	✓	16 Aug. 2006
Bass Coast Regional Health	22 Aug. 2006	✓	22 Aug. 2006
Bass Coast Regional Health Benefit Fund Trust <i>Reason for qualification: Non-compliance of financial report with certain requirements of applicable accounting standards.</i>	22 Aug. 2006	Qualification	22 Aug. 2006
Caritas Christi Hospice Limited	25 Aug. 2006	✓	25 Aug. 2006
Communities That Care Limited	25 July 2006	✓	14 Aug. 2006
Dental Health Services Victoria	25 Aug. 2006	✓	25 Aug. 2006
Gippsland Southern Health Service	17 Aug. 2006	✓	17 Aug. 2006
Heywood Rural Health	25 Aug. 2006	✓	25 Aug. 2006
Kitaya Holdings Pty Ltd	15 Aug. 2006	✓	17 Aug. 2006
Kooweerup Regional Health Service	17 Aug. 2006	✓	17 Aug. 2006
Latrobe Regional Hospital	22 Aug. 2006	✓	22 Aug. 2006
Orbost Regional Health	22 Aug. 2006	✓	22 Aug. 2006
Otway Health and Community Services	21 Aug. 2006	✓	21 Aug. 2006
Portland and District Hospital	21 Aug. 2006	✓	21 Aug. 2006
Royal Children's Hospital Foundation Limited	17 Aug. 2006	✓	24 Aug. 2006
Royal Children's Hospital Foundation Trust Funds	17 Aug. 2006	✓	24 Aug. 2006
Rural Northwest Health	21 Aug. 2006	✓	22 Aug. 2006
Southern Health	17 Aug. 2006	✓	17 Aug. 2006
St Georges Health Service Limited	25 Aug. 2006	✓	25 Aug. 2006
Timboon and District Healthcare Service	22 Aug. 2006	✓	25 Aug. 2006
Western District Health Service (a)	16 Aug. 2006	✓	16 Aug. 2006
Yarram and District Health Service	22 Aug. 2006	✓	22 Aug. 2006

**Appendix 4A**  
**Audit status, Human Services sector - continued**

Entity	Financial statements signed	Clear opinion issued	Auditor-General's (AG's) report signed
<b>COMPLETED AUDITS – 30 JUNE 2006 BALANCE DATES - continued</b>			
<b>PUBLIC HOSPITALS AND ASSOCIATED ENTITIES- continued</b>			
<i>8 to 10 weeks</i>			
Alexandra District Hospital	8 Sept. 2006	✓	8 Sept. 2006
Alpine Health	31 Aug. 2006	✓	31 Aug. 2006
Austin Health	31 Aug. 2006	✓	31 Aug. 2006
Ballarat Health Services	8 Sept. 2006	✓	8 Sept. 2006
Ballarat Health Services Foundation (b)	1 Sept. 2006	✓	5 Sept. 2006
<i>AG's report signed within 8 to 10 weeks of year-end</i>			
Barwon Health	8 Sept. 2006	✓	8 Sept. 2006
Bayside Health	8 Sept. 2006	✓	8 Sept. 2006
Beechworth Health Service	7 Sept. 2006	✓	7 Sept. 2006
Bendigo Health Care Group	8 Sept. 2006	✓	8 Sept. 2006
Boort District Hospital	31 Aug. 2006	✓	31 Aug. 2006
Casterton Memorial Hospital	4 Sept. 2006	✓	4 Sept. 2006
Cell Therapies Pty Ltd	6 Sept. 2006	✓	6 Sept. 2006
Cobram District Hospital	4 Sept. 2006	✓	4 Sept. 2006
Eastern Health	31 Aug. 2006	✓	31 Aug. 2006
Echuca Regional Health	4 Sept. 2006	✓	4 Sept. 2006
Echuca Regional Health Foundation Limited	4 Sept. 2006	✓	4 Sept. 2006
Edenhope and District Memorial Hospital	1 Sept. 2006	✓	1 Sept. 2006
Goulburn Valley Health	6 Sept. 2006	✓	6 Sept. 2006
Hesse Rural Health Service	5 Sept. 2006	✓	6 Sept. 2006
Inglewood and Districts Health Service	6 Sept. 2006	✓	6 Sept. 2006
Kerang District Health	29 Aug. 2006	✓	29 Aug. 2006
Kilmore and District Hospital	30 Aug. 2006	✓	30 Aug. 2006
Kyabram and District Health Services	29 Aug. 2006	✓	29 Aug. 2006
Kyneton District Health Service	25 Aug. 2006	✓	1 Sept. 2006
Maldon Hospital	31 Aug. 2006	✓	31 Aug. 2006

**Appendix 4A**  
**Audit status, Human Services sector - continued**

Entity	Financial statements signed	Clear opinion issued	Auditor-General's (AG's) report signed
<b>COMPLETED AUDITS – 30 JUNE 2006 BALANCE DATES - continued</b>			
<b>PUBLIC HOSPITALS AND ASSOCIATED ENTITIES- continued</b>			
Manangatang and District Hospital	4 Sept.2006	✓	5 Sept. 2006
Maryborough District Health Service	1 Sept. 2006	✓	1 Sept. 2006
Mclvor Health and Community Services	30 Aug. 2006	✓	31 Aug. 2006
Melbourne Health	28 Aug. 2006	✓	5 Sept. 2006
Moyne Health Services	6 Sept. 2006	✓	6 Sept. 2006
Moyne Health Services Inc.	28 Aug. 2006	✓	29 Aug. 2006
Mt. Alexander Hospital	31 Aug. 2006	✓	31 Aug. 2006
Nathalia District Hospital	5 Sept. 2006	✓	5 Sept. 2006
Northeast Health Wangaratta	5 Sept. 2006	✓	5 Sept. 2006
Omeo District Hospital	22 Aug. 2006	✓	28 Aug. 2006
Peninsula Health	23 Aug. 2006	✓	28 Aug. 2006
Peter MacCallum Cancer Centre	30 Aug. 2006	✓	30 Aug. 2006
Peter MacCallum Cancer Foundation	30 Aug. 2006	✓	30 Aug. 2006
Peter MacCallum Cancer Foundation Limited	30 Aug. 2006	✓	30 Aug. 2006
Queen Elizabeth Centre <i>Reason for qualification: Failure to consolidate a "controlled" entity.</i>	2 Aug. 2006	Qualification	6 Sept. 2006
Rochester and Elmore District Health Service	29 Aug. 2006	✓	29 Aug. 2006
Royal Children's Hospital	29 Aug. 2006	✓	29 Aug. 2006
Royal Women's Hospital	4 Sept. 2006	✓	4 Sept. 2006
Royal Victorian Eye and Ear Hospital	31 Aug. 2006	✓	31 Aug. 2006
<i>AG's report signed within 8 to 10 weeks of year-end</i>			
South Gippsland Hospital	24 Aug. 2006	✓	28 Aug. 2006
South West Health Care	28 Aug. 2006	✓	28 Aug. 2006
South West Alliance of Rural Health	28 Aug. 2006	✓	28 Aug. 2006
Swan Hill District Hospital	29 Aug. 2006	✓	29 Aug. 2006

**Appendix 4A**  
**Audit status, Human Services sector - continued**

Entity	Financial statements signed	Clear opinion issued	Auditor-General's (AG's) report signed
<b>COMPLETED AUDITS – 30 JUNE 2006 BALANCE DATES - continued</b>			
<b>PUBLIC HOSPITALS AND ASSOCIATED ENTITIES- continued</b>			
Terang and Mortlake Health Service	31 Aug. 2006	✓	31 Aug. 2006
West Gippsland Healthcare Group	31 Aug. 2006	✓	31 Aug. 2006
West Wimmera Health Service	24 Aug. 2006	✓	31 Aug. 2006
Western Health	4 Sept. 2006	✓	4 Sept. 2006
Winchelsea and District Nursing Home Society	5 Sept. 2006	✓	6 Sept. 2006
Wodonga Regional Health Service	30 Aug. 2006	✓	30 Aug. 2006
Yea and District Memorial Hospital	6 Sept. 2006	✓	6 Sept. 2006
<i>10 to 12 weeks</i>			
Beaufort and Skipton Health Service	11 Sept. 2006	✓	19 Sept. 2006
Benalla and District Memorial Hospital	29 Aug. 2006	✓	13 Sept. 2006
Central Gippsland Health Service	28 Aug. 2006	✓	13 Sept. 2006
Cohuna District Hospital	13 Sept. 2006	✓	13 Sept. 2006
Colac Area Health	21 Sept. 2006	✓	21 Sept. 2006
Djerriwarrh Health Services	13 Sept. 2006	✓	13 Sept. 2006
Donald District Hospital Foundation (b)	19 Sept. 2006	✓	22 Sept. 2006
Dunmunkle Health Services	11 Sept. 2006	✓	21 Sept. 2006
Dunmunkle Health Service Foundation (b)	5 Sept. 2006	✓	22 Sept. 2006
East Grampians Health Service	19 Sept. 2006	✓	22 Sept. 2006
East Wimmera Health Service	21 Sept. 2006	✓	22 Sept. 2006
Hepburn Health Service	11 Sept. 2006	✓	11 Sept. 2006
Lorne Community Hospital	21 Sept. 2006	✓	21 Sept. 2006
Mansfield District Hospital	14 Sept. 2006	✓	14 Sept. 2006
Melbourne Health Research and Development (b)	22 Sept. 2006	✓	22 Sept. 2006
Mercy Public Hospitals Inc. <i>Reason for qualification: Failure to consolidate a "controlled" entity.</i>	19 Sept. 2006	Qualification	19 Sept. 2006
Numurkah District Health Service	12 Sept. 2006	✓	12 Sept. 2006

**Appendix 4A**  
**Audit status, Human Services sector - continued**

Entity	Financial statements signed	Clear opinion issued	Auditor-General's (AG's) report signed
<b>COMPLETED AUDITS – 30 JUNE 2006 BALANCE DATES - continued</b>			
<b>PUBLIC HOSPITALS AND ASSOCIATED ENTITIES- continued</b>			
O'Connell Family Centre (Grey Sisters) Inc.	11 Sept. 2006	✓	19 Sept. 2006
Robinvale District Health Services	19 Sept. 2006	✓	19 Sept. 2006
Royal Children's Hospital Education Institute Limited	31 Aug. 2006	✓	11 Sept. 2006
Royal Women's Hospital Foundation Limited	4 Sept. 2006	✓	21 Sept. 2006
Royal Women's Hospital Foundation Trust Funds <b>Reason for qualification: Inability to verify the completeness of cash donations.</b>	4 Sept. 2006	Qualification	21 Sept. 2006
St Arnaud District Hospital Foundation (b)	14 Sept. 2006	✓	22 Sept. 2006
<i>AG's report signed within 10 to 12 weeks of year-end</i>			
Stawell Regional Health	19 Sept. 2006	✓	22 Sept. 2006
Stawell District Hospital Foundation	19 Sept. 2006	✓	22 Sept. 2006
Tallangatta Health Service	8 Sept. 2006	✓	19 Sept. 2006
Tweddle Child and Family Health Service	1 Sept. 2006	✓	12 Sept. 2006
Upper Murray Health and Community Services	4 Sept. 2006	✓	14 Sept. 2006
Wimmera Base Hospital Foundation	13 Sept. 2006	✓	21 Sept. 2006
Wimmera Health Care Group	13 Sept. 2006	✓	21 Sept. 2006
Yarrowonga District Health Service	11 Sept. 2006	✓	11 Sept. 2006
<i>12 to 14 weeks</i>			
Calvary Health Care Bethlehem Ltd	3 Oct. 2006	✓	3 Oct. 2006
Mallee Track Health and Community Service	27 Sept. 2006	✓	27 Sept. 2006
Seymour District Memorial Hospital	2 Oct. 2006	✓	2 Oct. 2006
Northern Health	28 Sept. 2006	✓	28 Sept. 2006
<i>14 to 16 weeks</i>			
Royal Melbourne Hospital Foundation Ltd	9 Oct. 2006	✓	17 Oct. 2006

**Appendix 4A**  
**Audit status, Human Services sector - continued**

Entity	Financial statements signed	Clear opinion issued	Auditor-General's (AG's) report signed
<b>COMPLETED AUDITS – 30 JUNE 2006 BALANCE DATES - continued</b>			
<b>PUBLIC HOSPITALS AND ASSOCIATED ENTITIES- continued</b>			
<i>More than 16 weeks</i>			
Gippsland Health Alliance	15 Jan. 2007	✓	15 Jan. 2007
LMHA Network Limited	30 Oct. 2006	✓	30 Oct. 2006
St Vincent's Hospital (Melbourne) Limited <b>Reason for qualification:</b> Understatement of receivable from financial arrangements for the original development of the hospital	25 Aug. 2006	Qualification	21 Nov. 2006
<b>INCOMPLETE AUDITS – AS AT 31 JANUARY 2007 (30 JUNE 2006 BALANCE DATES UNLESS OTHERWISE NOTED) (c)</b>			
<b>CEMETERIES</b>			
Trustees of the Fawkner Crematorium and Memorial Park	<i>Audited financial statements yet to be finalised</i>		
<b>HEALTH AND ASSOCIATED ENTITIES</b>			
HumeNET Limited (31 October 2003 to 30 June 2004)	<i>Audited financial statements yet to be finalised</i>		
HumeNET Limited (1 July 2004 to 30 June 2005)	<i>Audited financial statements yet to be finalised</i>		
HumeNET Limited (1 July 2005 to 30 June 2006)	<i>Audited financial statements yet to be finalised</i>		

- (a) On 1 July 2005, Western District Health Service and Coleraine District Health Service were amalgamated to form the Western District Health Service.
- (b) Financial statements were audited by the Victorian Auditor-General's Office for the first time in 2005-06.
- (c) Lorne Community Hospital Ladies Auxiliary Inc. was a controlled entity of Lorne Community Hospital at 30 June 2006, pursuant to its then purpose and rules. However, during January 2007, the auxiliary changed its purpose, rules and name, under the *Associations Incorporation Act 1981*, and is no longer considered to be a controlled entity of Lorne Community Hospital.

# 5 Infrastructure

## At a glance

### Background

The Infrastructure sector comprises the Department of Infrastructure and other agencies that are responsible for providing safety and security of transport services and infrastructure, policy over information and communication, technology and energy, and large-scale development and construction.

### Key findings

- We issued 21 audit opinions on agencies' financial statements, all of which were clear (**see page 53**).
- The timeliness of financial reporting by sector agencies was similar to the previous year, with 20 of the 21 agencies with a 30 June 2006 balance date achieving a 12-week statutory deadline. Agencies generally took longer to complete their financial statements, with only 9 agencies achieving this milestone within 8 weeks of year-end (14 agencies in 2004-05) (**see pages 53 to 54**).
- Our audits found the control environments of sector agencies to be generally sound, though improvements could be made to systems access, reconciliation of key account balances and disaster recovery (**see page 55**).
- The quality of financial reporting by sector agencies was generally satisfactory, although we considered that the department and V/Line Passenger Pty Ltd could improve their financial reporting processes (**see page 55**).



## 5.1 Audit conclusions

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The Infrastructure sector comprises 21 agencies that were required to prepare financial statements at 30 June 2006 and submit them for audit. We issued 21 audit opinions, all of which were clear.

Twenty agencies met the 12-week statutory reporting deadline for completing their audited financial statements, the same number as the previous year. However, agencies generally took longer than the previous year to complete their audited financial statements, with only 9 agencies achieving this milestone within 8 weeks of year-end (14 agencies in 2004-05). The added complexities and reporting requirements arising from the first full implementation of Australian equivalents to International Financial Reporting Standards (A-IFRS), and inadequate resourcing of the financial reporting functions by some agencies due to the unexpected departure of key staff in both the Department of Infrastructure (DoI) and V/Line Passenger Pty Ltd, were the key factors contributing for this deterioration in the timeliness of reporting.

While the quality of draft financial statements submitted for audit were generally satisfactory, we considered that 2 agencies (DoI and V/Line Passenger Pty Ltd) could improve their financial reporting processes to help ensure high quality financial reports are prepared for both management and audit purposes. This could be achieved by enhancing internal quality assurance processes which involve the detailed checking of draft financial statements before they are submitted to audit (for completeness, internal consistency, presentation and disclosure), and the conduct of rigorous analytical review procedures.

Our audits of 2005-06 financial statements confirmed that overall agency control environments and their systems of internal control were generally satisfactory. However, there were opportunities to strengthen agency controls and better manage risks in the areas of information technology (IT) systems access, the reconciliation of key account balances and disaster recovery.

## 5.2 Sector overview

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The Infrastructure sector comprises DoI and 20 other agencies with a 30 June 2006 balance date.

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

DoI and the agencies support 4 ministerial portfolios: transport, major projects, information and communication technology, and energy industries.

Figure 5A shows the nature of sector agencies with a 30 June 2006 balance date.

**Figure 5A**  
**Infrastructure sector agencies with a 30 June 2006 balance date**

Reporting entity	Number
Department	1
Public bodies	12
Companies, trusts and joint ventures	8
<b>Total</b>	<b>21</b>

Source: Victorian Auditor-General's Office.

The composition of the sector remained relatively stable in 2005-06, with the only change occurring in August 2005, whereby the Office of Gas Safety and the Office of the Chief Electrical Inspector merged to form Energy Safe Victoria, pursuant to the *Energy Safe Victoria Act 2005*.

In 2005-06, sector agencies:

- managed property, plant and equipment valued at \$27.5 billion (\$25.3 billion in 2004-05)
- had interest-bearing liabilities of \$1.52 billion (\$1.54 billion in 2004-05), mainly comprising secured loans and lease liabilities associated with the provision of rail services
- spent \$806 million on the state's rail services (\$703 million in 2004-05)<sup>1</sup>
- spent \$539 million on bus services (\$494 million in 2004-05)
- spent \$854 million on roads (\$725 million in 2004-05)<sup>2</sup>.

## 5.3 Results of financial audits

### 5.3.1 Audit opinions issued

Clear audit opinions were issued on the financial statements of all 21 agencies with a 30 June 2006 balance date.

### 5.3.2 Timeliness of reporting

Figure 5B shows how well sector agencies with a 30 June 2006 reporting balance date met the 12-week reporting requirement for 2005-06. Further detail of these agencies is provided in Appendix 5A.

<sup>1</sup> Increase due to a one-off country rail maintenance program of \$50 million, and price escalations in existing contracts for service.

<sup>2</sup> Increase due to a \$125 million increase for the Better Roads Victoria project.

**Figure 5B**  
**Timeliness of audited financial statement completion, Infrastructure sector**

Number of weeks after end of financial year audited financial statements were finalised	2004-05		2005-06	
	Number of agencies	Per cent (cumulative)	Number of agencies	Per cent (cumulative)
Less than 8 weeks	14	64	9	43
8 to 10 weeks	5	86	2	52
10 to 12 weeks	1	91	9	95
12 to 14 weeks	1	95	1	100
14 to 16 weeks	-	95	-	100
More than 16 weeks	1	100	-	100
<b>Total</b>	<b>22</b>	<b>..</b>	<b>21</b>	<b>..</b>

Source: Victorian Auditor-General's Office.

As Figure 5B shows, 95 per cent of agencies met the 12-week deadline, representing an improvement on the 91 per cent achieved in 2004-05. However, a significant number of agencies took longer to finalise their financial statements when compared with the prior year:

- 9 agencies completed their audited financial statements within 8 weeks of the balance date (14 agencies in 2004-05)
- a further 2 agencies completed their audited financial statements within 10 weeks of balance date (5 in 2004-05).

This deterioration was mainly due to the impact of the significant changes in accounting standards (the first time full implementation of A-IFRS in the year, and inadequate resourcing of year-end financial reporting process by 2 agencies (DoI and V/Line Passenger Pty Ltd).

Inadequate resourcing caused by the unexpected departure of key experienced staff within both DoI and V/Line Passenger Pty Ltd significantly impacted on the timeliness and quality of the draft financial statements and supporting material provided to audit.

As a result, DoI was one of the last agencies within the sector to finalise its 2005-06 financial statements. It is pleasing to note, however, that DoI is proactively addressing this issue. DoI is working closely with our Office to improve the quality of documentation supporting its financial statements, and has advised us that additional staff have been recruited to support the 2006-07 financial reporting process.

### 5.3.3 Quality of financial reporting

During the year, increased priority was given by sector agencies to completing their annual reports in time for their tabling in parliament by early October 2006, in the lead-up to the November 2006 state election.

While the quality of sector agency 2005-06 financial statements was generally satisfactory, we considered that DoI and V/Line Passenger Pty Ltd could enhance their financial statement preparation processes to improve the quality and timeliness of the draft financial statements and working papers provided for audit.

Improving internal quality assurance processes would assist in this endeavour, particularly the detailed checking of draft financial statements before they are submitted to audit (for completeness, internal consistency, presentation and disclosure), and the conduct of rigorous analytical review procedures to ensure the reported balances are consistent with management expectations and major business influences. We have recommended these improvements to the respective agencies.

***RESPONSE provided by the Secretary, Department of Infrastructure***

*The Department has implemented additional internal quality assurance processes to ensure that draft financial statements will provide sufficient analytical information for audit at an early stage in the review process.*

### 5.3.4 Adequacy of control environments

Each agency is required to establish and maintain an adequate system of internal controls to ensure that:

- its financial records and other information completely and accurately reflect its entire activities
- it adequately safeguards its assets
- it prevents or detects errors and other irregularities.

Our 2005-06 financial statement audit process confirmed that the overall control environments of sector agencies and the systems of internal control that we examined as part of our audit procedures, were generally satisfactory.

We identified several areas where agencies could strengthen their internal controls, to more effectively manage their financial and other operational risks - including IT systems access controls at DoI and V/Line Passenger Pty Ltd; major account reconciliation procedures in relation to assets and salaries at DoI and bank reconciliations at the Victorian Urban Development Authority - and disaster recovery planning at DoI. These agencies have indicated that they are taking steps to address the above issues.

### 5.3.5 Other significant issues requiring attention

#### Application of parliamentary appropriations

The Victorian output appropriation framework is based on a purchaser/provider model and is supported by standing directions of the Minister for Finance. The standing directions require departments to set output performance targets and indicators in accordance with the business rules contained in the Budget and Financial Management Guidance documents issued by the Department of Treasury and Finance. These business rules require performance measures to be established which can be used to assess whether departmental outputs have been delivered in terms of quantity, quality and timeliness.

In our past reports, we raised concerns about whether the current framework allows for output appropriation funding to be provided ahead of service delivery.

In responding to the concerns raised in our *Results, of 30 June 2005 financial statement and other audits*, December 2005, DoI advised that its draw-down and recognition of appropriations was consistent with its output delivery (as assessed against the agreed output performance measures and targets) and was not inconsistent with any Acts, regulations or guidelines.

As foreshadowed in last year's report, we have now commenced a review of output performance measures across a number of agencies (including DoI) and the process used by the Department of Treasury and Finance to assess service delivery by departments.

#### ***RESPONSE provided by the Secretary, Department of Infrastructure***

*As I stated in last year's report, the Department has met all the requirements agreed between the Department and the Treasurer to receive output funding in accordance with the Financial Management Act 1994. Equally, the Treasurer has certified outputs and provided the funding to the Department.*

*Funding received relates to committed projects, which is held in the Better Roads Victoria Trust Fund and the Public Transport Trust Fund, and cash remains in the Public Account until it is required to meet commitments.*

*The intended review by audit to analyse this issue did not eventuate and subsequently the matter has been raised again in this year's report. It is anticipated that when the audit takes place the matter can be fully reviewed and audit concerns addressed.*

**Appendix 5A**  
**Audit status, Infrastructure sector**

Entity	Financial statements signed	Clear opinion issued	Auditor-General's (AG's) report signed
<b>COMPLETED AUDITS – 30 JUNE 2006 BALANCE DATES</b>			
<i>AG's report signed 10 to 12 weeks after year end</i>			
Department of Infrastructure	15 Sept. 2006	✓	20 Sept. 2006
<b>ENERGY INDUSTRIES</b>			
<i>Less than 8 weeks</i>			
Victoria Energy Networks Corporation	21 Aug. 2006	✓	21 Aug. 2006
<i>10 to 12 weeks</i>			
Energy Safe Victoria (a)	13 Sept. 2006	✓	14 Sept. 2006
<i>12 to 14 weeks</i>			
Network Tariff Rebate Trust Fund	4 Oct. 2006	✓	6 Oct. 2006
<b>TRANSPORT AND MAJOR PROJECTS</b>			
<i>Less than 8 weeks</i>			
Roads Corporation	17 Aug. 2006	✓	25 Aug. 2006
Rolling Stock Holdings (Victoria) P/L	23 Aug. 2006	✓	23 Aug. 2006
Rolling Stock (Victoria – VL) P/L	23 Aug. 2006	✓	23 Aug. 2006
Rolling Stock (VL – 1) P/L	23 Aug. 2006	✓	23 Aug. 2006
Rolling Stock (VL – 2) P/L	23 Aug. 2006	✓	23 Aug. 2006
Rolling Stock (VL – 3) P/L	23 Aug. 2006	✓	23 Aug. 2006
Victorian Rail Track	23 Aug. 2006	✓	23 Aug. 2006
Victorian Regional Channels Authority	2 Aug. 2006	✓	2 Aug. 2006
<i>8 to 10 weeks</i>			
Public Transport Ticketing Body	31 Aug. 2006	✓	1 Sept. 2006
Victorian Urban Development Authority	28 Aug. 2006	✓	6 Sept. 2006
<i>10 to 12 weeks</i>			
Melbourne Port Corporation	22 Aug. 2006	✓	11 Sept. 2006
Port of Hastings Corporation	13 Sept. 2006	✓	13 Sept. 2006
Southern and Eastern Integrated Transport Authority	12 Sept. 2006	✓	12 Sept. 2006
Southern Cross Station Authority (b)	18 Sept. 2006	✓	18 Sept. 2006

**Appendix 5A**  
**Audit status, Infrastructure sector - *continued***

Entity	Financial statements signed	Clear opinion issued	Auditor-General's (AG's) report signed
<b>COMPLETED AUDITS – 30 JUNE 2006 BALANCE DATES - <i>continued</i></b>			
Victorian Railway Heritage Operations Pty Limited	14 Sept. 2006	✓	15 Sept. 2006
V/Line Passenger Corporation	14 Sept. 2006	✓	15 Sept. 2006
V/Line Passenger Pty Ltd	14 Sept. 2006	✓	15 Sept. 2006

(a) In August 2005, the Office of Chief Electrical Inspector and Office of Gas Safety merged to form Energy Safe Victoria, pursuant to the *Energy Safe Victoria Act 2005*.

(b) In December 2005, the redeveloped Spencer Street Station was renamed Southern Cross Station.

Source: Victorian Auditor-General's Office.



# 6 Innovation, Industry and Regional Development

## At a glance

### Background

The Innovation, Industry and Regional Development sector comprises the Department of Innovation, Industry and Regional Development (DIIRD) and other agencies that support 7 ministerial portfolios, being state and regional development, industrial relations, innovation, manufacturing and export, financial services industry, small business and tourism.

### Key findings

- We issued 8 audit opinions on agencies' financial statements, all of which were clear. The audit of VCPO Limited was incomplete at the date of preparing this report as it is being wound-up (**see pages 61 to 62**).
- The timeliness of financial reporting by sector agencies was the same as the previous year, with all sector agencies with a 30 June 2006 balance date, except VCPO Limited, achieving the 12-week statutory deadline (**see page 62**).
- Our audits found the control environments of sector agencies to be generally sound. The quality of financial reporting by sector agencies was also satisfactory (**see page 64**).
- In recent years, DIIRD has underspent the parliamentary appropriations available to it. In 2004-05, DIIRD commissioned an internal audit review of its business processes for spending appropriations, with that report's findings being addressed at the date of this report (**see page 60**).

### Key recommendations

- 6.1 DIIRD should ensure that it receives all relevant information and documentation to enable it to account for transactions appropriately (**see pages 63 to 64**).
- 6.2 DIIRD should assess joint venture agreements prior to signing, to determine the taxation consequences of proposed joint venture agreements (**see page 64**).



## 6.1 Audit conclusions

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The Innovation, Industry and Regional Development sector comprises 8 agencies that were required to prepare financial statements at 30 June 2006 and submit them for audit. We issued 8 audit opinions, all of which were clear. The 2005 financial statements of one sector agency, VCPO Limited<sup>1</sup>, are still incomplete at the date of finalising this report, as the entity is being wound-up.

For 2004-05 and 2005-06, all sector agencies (except for VCPO Limited) completed their audited financial statements within the 12-week deadline.

Our 2005-06 audits again confirmed that agencies' overall control environments and their systems of internal control were satisfactory. The quality of financial reporting by sector agencies was also satisfactory.

In recent years, the Department of Innovation, Industry and Regional Development (DIIRD) has not fully utilised the parliamentary appropriations available to it. In 2005-06, DIIRD underspent its budget by \$125 million. This reduces to \$16 million (2.5 per cent of the total available appropriation), after allowing for the conversion of the Melbourne Convention Centre Development (MCCD) from a capital construction project to a public private partnership (\$109 million). In 2004-05, DIIRD underspent its budget by \$70 million, which reduces to \$51 million after also allowing for capital appropriation for the MCCD project (\$19 million).

In previous reports, we noted that DIIRD's continuing underspend of its parliamentary appropriation raised questions about the quality of its internal budgeting and financial management processes. In 2004-05, DIIRD commissioned an internal audit review of its business processes for spending appropriations. The review identified some deficiencies and made recommendations for improvement, which DIIRD was addressing at the time of preparing this report.

We support DIIRD's continuing focus on improved management of its budget.

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

*The department has concentrated on improving internal processes associated with grants management. The reduction in the underspend for the financial year 2005-06 is pleasing, given not only the reduction but also the increase in expenditure over 2004-05, however, further work needs to continue to ensure that the department minimises the underspend in future years.*

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<sup>1</sup> VCPO Limited was formally known as the Overseas Projects Corporation of Victoria Ltd. The company changed its name in January 2005.

## 6.2 Sector overview

The Innovation, Industry and Regional Development sector comprises DIIRD and 7 other agencies. These agencies support 7 ministerial portfolios, being state and regional development, industrial relations, innovation, manufacturing and export, financial services industry, small business, and tourism.

Figure 6A shows the nature of sector agencies with 30 June 2006 balance dates.

**Figure 6A**  
**Innovation, Industry and Regional Development sector agencies with a 30 June 2006 balance date**

Reporting entity	Number
Department	1
Public bodies	3
Companies, trusts and joint ventures	4
<b>Total</b>	<b>8</b>

DIIRD is the lead agency for economic and regional development in Victoria. Other sector agencies operate in the tourism industry, stage the Australian Formula 1 and Motorcycle Grand Prix events, and manage Federation Square in the Melbourne central business district.

DIIRD is one of the smaller government departments. In 2005-06, it had an annual operating expenditure of \$417 million, compared with \$334 million in 2004-05.

In 2005-06:

- DIIRD provided grants of about \$289 million to private and public sector organisations, compared with \$229 million in 2004-05
- Fed Square Pty Ltd managed assets valued at about \$497 million
- the Australian Grand Prix Corporation generated about \$52 million in ticket sales and sponsorship revenue (\$58 million in 2004-05).

## 6.3 Results of financial audits

### 6.3.1 Audit opinions issued

All 8 sector agencies were required to prepare financial statements at 30 June 2006 and submit them for audit. We issued 8 audit opinions, all of which were clear.

The 2004-05 financial statements of VCPO Limited were incomplete at the date of preparing this report.

Our 2003-04 audit report on VCPO Limited (which was then known as the Overseas Projects Corporation of Victoria Ltd) contained an “emphasis of matter” relating to the “going concern” assumption. The company prepared its 2003-04 financial statements on a liquidation basis, because it was preparing for voluntary liquidation during 2004-05. The liquidation process has yet to be finalised.

Figure 6B shows how well sector agencies with a 30 June reporting date met the 12-week reporting requirement for 2004-05 and 2005-06. Further detail of these agencies is provided in Appendix 6A.

**Figure 6B**  
**Timeliness of audited financial statement completion, Innovation, Industry and Regional Development sector**

Number of weeks after end of financial year audited financial statements were finalised	2004-05		2005-06	
	Number of agencies	Per cent (cumulative)	Number of agencies	Per cent (cumulative)
Less than 8 weeks	1	11	2	22
8 to 10 weeks	3	44	3	55
10 to 12 weeks	4	89	2	77
12 to 14 weeks	-	89	1	89
14 to 16 weeks	-	89	-	89
More than 16 weeks (a)	1	100	1	100
<b>Total</b>	<b>9</b>	<b>..</b>	<b>9</b>	<b>..</b>

(a) The results include one agency (VCPO Limited) that has not finalised its 2005 and 2006 financial statements at the date of preparing this report.

Source: Victorian Auditor-General's Office.

As Figure 6B shows, all sector agencies except VCPO Limited and the Victorian Trade and Investment Office Pty Ltd (VTIO) completed their audited financial statements within the 12-week deadline. The VTIO audit was delayed by our Office due to resourcing and earlier deadlines. In 2004-05, all agencies, except VCPO Limited, met the deadline.

### 6.3.2 Quality of financial reporting

Our 2005-06 audits found that the quality of reporting by sector agencies was generally of a high standard - consolidating the improvements made in previous years. This was particularly pleasing given the additional reporting requirements and pressures placed on agencies, associated with the first time full implementation of the Australian equivalents to International Financial Reporting Standards (A-IFRS) and the need to achieve shorter reporting deadlines in the lead-up to the November 2006 state election.

Agencies were generally well prepared for the implementation of A-IFRS, with work commenced in the prior year to identify any major impacts on their financial statements and the responses thereto. The major impacts of the new accounting standards for sector agencies were:

- the valuation and impairment of property, plant and equipment
- the measurement and classification of employee benefits.

In total, the value of the required adjustments was not material on either the agencies' reported net assets or operating results. However, some agencies had to make substantial adjustments to their opening balances (mainly property, plant and equipment, and employee leave entitlements) to comply with the accounting standards. In all cases, we were satisfied that agency financial statements were A-IFRS compliant.

### Accounting for the Melbourne Exhibition and Convention Centre public-private partnership by DIIRD

During 2005-06, the government entered into a public-private partnership with a consortium to design, construct and finance a new convention centre in the convention centre precinct on the south bank of the Yarra River. The financial close, which occurred in early June 2006, resulted in a \$93 million upfront payment to the government. Of this, \$80 million was for the present value of the lease payments for the hotel and car park facilities site and \$13 million proceeds from the sale of land to the developer.

The \$93 million payment has been recognised in DIIRD's administered balance sheet as unearned income in 2005-06. The accounting for the proceeds of sale of land will be finalised in 2006-07 upon amalgamation of the various titles for the land sold to the consortium.

In preparing its draft financial statements for audit, DIIRD initially recorded these transactions as administered income based on advice from the Department of Treasury and Finance, without first obtaining all relevant documentation. The contracts were not reviewed to determine the appropriate accounting treatment prior to their inclusion in the draft financial statements. In consultation with our Office and the Department of Treasury and Finance, the transaction was recorded as administered deferred income in the financial statements of DIIRD.

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## Recommendation

- 6.1 DIIRD should ensure that it receives all relevant information and documentation to enable it to account for transactions appropriately.

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

*While the transaction happened very late in the financial year and it was of an unusual nature, the department will ensure in future that the accounting for these one-off unusual transactions will only be determined after all relevant documentation is reviewed.*

### 6.3.3 Adequacy of control environments

Each sector agency is required to establish and maintain an adequate system of internal control to ensure that:

- its financial records and other information completely and accurately reflect its entire activities
- it adequately safeguards its assets
- it prevents or detects errors and other irregularities.

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

Our 2005-06 audits confirmed that agencies' overall control environments, and their systems of internal control that we examined as part of conducting our audits, were generally satisfactory.

### 6.3.4 Issues requiring attention

#### Monash University joint venture

DIIRD entered into an unincorporated joint venture agreement in 2005-06 with Monash University for the purpose of establishing and funding the Australian Regenerative Medicine Institute.

We reviewed the joint venture agreements and identified that the investment will be held in an entity that may be subject to taxation. If this is the case, part of the government operating funding could be used to pay any income tax owed by the entity. DIIRD is currently seeking advice on this matter.

#### **Recommendation**

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- 6.2 DIIRD should assess joint venture agreements prior to signing, to determine the taxation consequences of the proposed joint venture arrangements.

**Appendix 6A**  
**Audit status, Innovation Industry and Regional Development sector**

Entity	Financial statements signed	Clear opinion issued	Auditor-General's (AG's) report signed
<b>COMPLETED AUDITS – 30 JUNE 2006 BALANCE DATES</b>			
<i>AG's Report signed 8 to 10 weeks after year-end</i>			
Department of Innovation, Industry and Regional Development	28 Aug. 2006	✓	28 Aug. 2006
<b><i>INNOVATION, STATE AND REGIONAL DEVELOPMENT</i></b>			
<i>Less than 8 weeks</i>			
Prince Henry's Institute of Medical Research	24 Aug. 2006	✓	24 Aug. 2006
<i>10 to 12 weeks</i>			
Fed Square Pty Ltd	14 Sept. 2006	✓	14 Sept. 2006
<b><i>TOURISM</i></b>			
<i>Less than 8 weeks</i>			
Australian Grand Prix Corporation	3 Aug. 2006	✓	10 Aug. 2006
<i>8 to 10 weeks</i>			
Melbourne Convention and Exhibition Trust	30 Aug. 2006	✓	30 Aug. 2006
Tourism Victoria	31 Aug. 2006	✓	31 Aug. 2006
<i>10 to 12 weeks</i>			
Emerald Tourist Railway Board	4 Sept. 2006	✓	13 Sept. 2006
<i>12 to 14 weeks</i>			
Victoria Trade and Investment Office Pty Ltd	2 Oct. 2006	✓	2 Oct. 2006
<b>INCOMPLETE AUDITS – WITH OTHER BALANCE DATES</b>			
VCPO Limited (a)	<i>Audited financial statements yet to be finalised.</i>		

(a) The company was placed into voluntary liquidation during the 2004-05 financial year, and at the date of preparing this report it has not finalised its 2004-05 financial statements. At the date of preparing this report, it could not be determined whether 2005-06 financial statements will be prepared.

Source: Victorian Auditor-General's Office.

# 7 Justice

## At a glance

### Background

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

### Key findings

- We issued 28 audit opinions on agencies' financial statements, of which 27 were clear and one qualified. The qualification of the CFA & Brigades Donations Fund arose as we were unable to verify the completeness of cash donations received by the fund. This is an issue faced by other charitable and not-for-profit entities **(see page 68)**.
- The timeliness of financial reporting by sector agencies deteriorated from the previous year, with 12 agencies not able to meet the 12-week statutory deadline – 6 more than the prior year **(see pages 71 to 72)**.
- Our audits found the control environments of sector agencies to be generally sound. The quality of financial reporting by sector agencies was also satisfactory **(see pages 72 to 74)**.

### Key recommendation

- 7.1 Victoria Police should complete a validation process as soon as possible to ensure the accuracy and completeness of employees' leave balances **(see page 74)**.

## 7.1 Audit conclusions

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We issued 28 audit opinions on the financial statements of Justice sector agencies with a 30 June 2006 balance date. Of these, 27 were clear and one qualified. The audit qualification was issued on the financial statements of the CFA & Brigade Donations Fund because we were unable to verify the completeness of cash donations received by the fund. The qualification alerts users of these financial statements to an inherent risk involved in the collection of cash donations which cannot be mitigated by further internal controls. This is an issue faced by other charitable and not-for-profit entities.

The timeliness of completion of agencies' audited financial statements deteriorated from the prior year, with 12 agencies not able to meet the statutory 12-week completion deadline - 6 more than the prior year. The implementation of new Australian equivalents to International Standards (A-IFRS); delays in the finalisation of administrative arrangements at several newly created sector agencies; and a shortage of staff at our Office during the year-end reporting period due to prevailing market conditions, were the major factors contributing to this deterioration in the timeliness of financial reporting by sector agencies. As most of the factors were unique for 2005-06, we envisage the timeliness of sector reporting to improve in future periods.

Our audits of 2005-06 financial statements confirmed that agencies' overall control environments and their systems of internal control that we examined were generally satisfactory. While some exceptions were identified, the relevant agencies have been proactive in addressing them.

## 7.2 Sector overview

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The Justice sector comprises the Department of Justice and 27 other agencies. These include 4 major agencies (Victoria Police, the Metropolitan Fire and Emergency Services Board, the Country Fire Authority and the Victorian Commission for Gambling Regulation), and a variety of statutory agencies and offices, and judicial and quasi-judicial bodies (including the Senior Master of the Supreme Court, which manages court-awarded funds on behalf of beneficiaries).

In 2005-06, Justice sector agencies incurred expenditure of \$5.1 billion associated with service delivery. They managed assets of \$5.5 billion (mainly property plant and equipment, and investments) and liabilities of \$2.9 billion (mainly employee benefits, court-awarded sums held on behalf of beneficiaries and finance leases).

The Attorney-General, Minister for Police and Emergency Services, Minister for Corrections, Minister for Consumer Affairs, Minister for Gaming and Minister for Racing were responsible for the department and the other agencies.

Figure 7A shows the nature of sector agencies with a 30 June 2006 balance date.



**Figure 7A**  
**Justice sector agencies with a 30 June 2006 balance date**

Reporting entity	Number
Department and other administrative units	7
Public bodies	20
Trusts	1
<b>Total</b>	<b>28</b>

Source: Victorian Auditor-General's Office.

## 7.2.1 Major sector developments

There were several significant changes to the composition of sector agencies in 2005-06, as outlined below.

### Tattersall's agencies

Following the public float of Tattersall's in July 2005, 4 related entities (Footy Consortium Pty Ltd, Tattersall's Club Keno Pty Ltd, Tattersall's Gaming Pty Ltd and Tattersall's Sweeps Pty Ltd) ceased to be audited by our Office<sup>1</sup>.

### Legal Services Board and Legal Services Commissioner

The Legal Services Board (LSB) and the Legal Services Commissioner (LSC) commenced operation on 12 December 2005, pursuant to the *Legal Profession Act 2004*. The new entities were preceded by the Legal Practice Board and the Office of the Legal Ombudsman, respectively.

The LSB is now the peak regulator of the legal industry in Victoria. Its objectives include ensuring effective regulation of the legal profession, maintenance of professional standards, addressing concerns of legal practitioners and their clients, and ensuring adequate management of trust accounts. The LSB is funded from interest earned on solicitor trust accounts and statutory deposit accounts.

The LSC was created to provide a single gateway for handling of complaints against legal practitioners. The LSC is funded from a "public purpose fund" established by the LSB.

<sup>1</sup> These entities were previously audited by our Office in accordance with section 62 of the *Public Lotteries Act 2000*.

### Emergency Services Telecommunications Authority

The Emergency Services Telecommunications Authority (ESTA) was created by the *Emergency Services Telecommunications Authority Act 2004* and commenced operations on 1 July 2005. ESTA was preceded by Emergency Communication Victoria and is responsible for the provision of multi-agency emergency services communications across Victoria.

### Victoria State Emergency Services Authority

The Victoria State Emergency Services Authority was established on 1 November 2005 to assume certain functions previously performed by the Department of Justice, following the proclamation of the *Victoria State Emergency Service Act 2005*.

These functions include the provision of emergency management planning, emergency response, emergency support services and other authorised emergency activities.

### Professional Standards Council

The Professional Standards Council was formally established on the commencement of the *Professional Standards Act 2003* on 8 June 2004. The Act provides for the creation of schemes which limit the civil liability of members of occupational associations in certain circumstances, and facilitates the improvement in standards of services provided by those members. The council's role is to supervise the preparation and approval of such schemes, to assist in the improvement of occupational standards and to help protect consumers.

We audited the financial statements of the council for the year ended 30 June 2006 and, as the council had not previously prepared financial statements for the period ended 30 June 2004 and 2005, these were also prepared and audited this year.

### Domestic Building (HIH) Indemnity Fund

The Domestic Building (HIH) Indemnity Fund was re-classified from the Justice to the Treasury portfolio and has been excluded from this section of the report.

### CFA & Brigade Donations Fund

The CFA & Brigade Donations Fund is a controlled entity of the County Fire Authority, which came within the Auditor-General's audit mandate pursuant to recent amendments to the *Audit Act 1994*.

## 7.3 Results of financial audits

### 7.3.1 Audit opinions issued

The Justice sector comprises 28 agencies that were required to prepare financial statements at 30 June 2006 and submit them for audit. Details of the audit opinions issued were noted previously in section 7.1.

### 7.3.2 Timeliness of reporting

Figure 7B shows how agencies with a 30 June balance date met the 12-week statutory reporting requirement in 2004-05 and 2005-06. Further detail of these agencies is provided in Appendix 7A.

**Figure 7B**  
**Timeliness of audited financial statement completion, Justice sector**

Number of weeks after end of financial year audited financial statements were finalised	2004-05		2005-06	
	Number of agencies	Per cent (cumulative)	Number of agencies	Per cent (cumulative)
Less than 8 weeks	-	-	4	14
8 to 10 weeks	6	20	5	32
10 to 12 weeks	18	80	7	57
12 to 14 weeks	2	87	6	79
14 to 16 weeks	3	97	1	82
More than 16 weeks	1	100	5	100
<b>Total</b>	<b>30</b>	<b>..</b>	<b>28</b>	<b>..</b>

Source: Victorian Auditor-General's Office.

Figure 7B shows that the timeliness of completion of agencies' audited financial statements deteriorated from the prior year, with 12 sector agencies unable to meet the statutory 12-week completion deadline (6 more than the prior year). This was mainly due to:

- the additional complexities and reporting requirements introduced in the year by the implementation of A-IFRS for all reporting entities
- delays in the finalisation of administrative arrangements, and new systems and financial procedures for the Legal Services Board, Legal Services Commissioner and Victoria State Emergency Services Authority, the newly created sector agencies
- the first time preparation of general purpose financial statements by the Senior Master of the Supreme Court, which required significant changes to the previous presentation and disclosures

- a shortage of audit staff in our Office during the year-end reporting period, due to prevailing market conditions, which meant that we were unable to achieve earlier completion dates for some of the smaller agencies.

As most of these factors were unique to this year, we envisage that the timeliness of sector reporting will improve for future periods.

### 7.3.3 Quality of financial reporting

Our 2005-06 audits found that the quality of reporting by sector agencies was generally of a high standard - consolidating the improvements made in previous years. This was particularly pleasing given the additional reporting requirements and pressures placed on agencies, associated with the first time full implementation of A-IFRS and the need to achieve shorter reporting deadlines in the lead-up to the November 2006 state election.

Agencies were generally well prepared for the implementation of A-IFRS, with work commenced in the prior year to identify any major impacts on their financial statements and the responses thereto. The major impacts of the new accounting standards for sector agencies were:

- the valuation and impairment of property, plant and equipment
- the classification of financial instruments
- the classification of build-own-operate arrangements, such as private prisons and county court contracts
- the measurement and classification of employee benefits.

In total, the value of the required adjustments was not material on either the agencies' reported net assets or operating results. However, some agencies had to make substantial adjustments to their opening balances to comply with the new accounting standards. In all cases, we were satisfied that agency financial statements were A-IFRS compliant.

### 7.3.4 Adequacy of control environments

Each sector agency is required to establish and maintain adequate systems of internal controls to ensure that:

- its financial records and other information completely and accurately reflect its entire activities
- it adequately safeguards its assets
- it prevents or detects errors and other irregularities.

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

Our audits of 2005-06 financial statements confirmed that the overall control environments of sector agencies, and the systems of internal control that we examined as part of our audit procedures, were generally satisfactory.

## Information technology environments

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

While our audits found that agencies had addressed most of the key controls considered necessary to maintain adequate systems of controls over IT operations, there were several aspects that required further attention, including:

- controls over the creation, maintenance, removal and periodic review of user access rights to key applications and systems (one agency)
- development of comprehensive IT security policies and procedures, established by management and based on recognised standards (3 agencies)
- the quality and management of passwords (2 agencies)
- development of comprehensive business continuity and disaster recovery plans (3 agencies)
- documentation, testing and authorisation of information technology changes in financial applications and systems (2 agencies).

The relevant agencies indicated they were taking positive steps to address these issues.

## Improvements by Victoria Police in recording and validation of employee leave benefits

Our December 2005 report *Results of 30 June 2005 financial statement and other audits* commented on several deficiencies in Victoria Police's payroll and financial systems which reduced the timeliness and accuracy of management reporting of employee leave balances, and could lead to employees being overpaid. Victoria Police told us that they planned to improve their processes and systems as an interim solution, pending the development of a business case for a new payroll system. We recommended that they introduce appropriate validation processes to ensure the accuracy and completeness of their employee leave balances.

In 2005-06, Victoria Police implemented an organisation-wide process to validate all employee leave balances. While it was originally planned that this process would be completed by 30 June 2006, the expected completion date was revised to 31 December 2006, due to the unavailability of staff resources during the Commonwealth Games period. At 30 June 2006, the outstanding leave benefits of Victoria Police employees totalled \$345 million. This was 86 per cent of Victoria Police's total liabilities.

## Recommendation

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- 7.1 Victoria Police should complete the validation processes as soon as possible to ensure the accuracy and completeness of employees' leave balances.

***RESPONSE provided by the Chief Commissioner, Victoria Police***

*Recommendation agreed. Victoria Police acknowledges the findings of the Auditor-General in respect of this issue and will continue to give high priority to not only completing the leave validation process, but maintaining a validation rate of at least 95 per cent. Victoria Police will also continue to provide the Auditor-General with regular updates on the progress of the validations backlog.*

***RESPONSE provided by the Secretary, Department of Justice***

*The department considers that the Auditor-General's report on the results of financial statement audits represents a fair and factually accurate assessment of the department's position regarding timeliness of completion of financial statements, quality of financial reporting and adequacy of control environments.*

*The department notes that factors affecting the timeliness of completion of agencies audited financial statements were unique in 2005-06 and timelines will improve in the future.*

**Appendix 7A**  
**Audit status, Justice sector**

Entity	Financial statements signed	Clear opinion issued	Auditor-General's (AG's) report signed
<b>COMPLETED AUDITS – 30 JUNE 2006 BALANCE DATES</b>			
<i>AG's report signed within 8 to 10 weeks of year-end</i>			
Department of Justice	29 Aug. 2006	✓	1 Sept. 2006
<b>ATTORNEY-GENERAL</b>			
<i>Less than 8 weeks</i>			
Victoria Legal Aid	16 Aug. 2006	✓	16 Aug. 2006
Victorian Electoral Commission	16 Aug. 2006	✓	16 Aug. 2006
<i>8 to 10 weeks</i>			
Office of the Victorian Privacy Commissioner	6 Sept. 2006	✓	6 Sept. 2006
Victorian Institute of Forensic Medicine	15 Aug. 2006	✓	30 Aug. 2006
<i>10 to 12 weeks</i>			
Judicial College of Victoria	18 Sept. 2006	✓	22 Sept. 2006
Legal Practitioners Liability Committee	19 Sept. 2006	✓	22 Sept. 2006
Office of Public Prosecutions	20 Sept. 2006	✓	22 Sept. 2006
Sentencing Advisory Council	18 Sept. 2006	✓	22 Sept. 2006
Victorian Law Reform Commission	12 Sept. 2006	✓	12 Sept. 2006
<i>12 to 14 weeks</i>			
Equal Opportunity Commission	29 Sept. 2006	✓	29 Sept. 2006
Legal Services Board (d)	2 Nov. 2006	✓	2 Nov. 2006
Legal Services Commissioner (e)	6 Nov. 2006	✓	6 Nov. 2006
Office of the Public Advocate	29 Sept. 2006	✓	29 Sept. 2006
Professional Standards Council Victoria (a)	27 Sept. 2006	✓	27 Sept. 2006
Senior Master of the Supreme Court	3 Nov. 2006	✓	3 Nov. 2006
<b>CONSUMER AFFAIRS</b>			
<i>Less than 8 weeks</i>			
Residential Tenancies Bond Authority	17 Aug. 2006	✓	23 Aug. 2006
<b>GAMING AND RACING</b>			
<i>Less than 8 weeks</i>			
Victorian Commission for Gambling Regulation	22 Aug. 2006	✓	22 Aug. 2006
<i>10 to 12 weeks</i>			
Greyhound Racing Victoria	14 Sept. 2006	✓	14 Sept. 2006

**Appendix 7A**  
**Audit status, Justice sector - continued**

Entity	Financial statements signed	Clear opinion issued	Auditor-General's (AG's) report signed
<b>COMPLETED AUDITS – 30 JUNE 2006 BALANCE DATES - continued</b>			
<b>GAMING AND RACING - continued</b>			
<i>12 to 14 weeks</i>			
Harness Racing Victoria	27 Sept. 2006	✓	29 Sept. 2006
<b>POLICE AND EMERGENCY SERVICES</b>			
<i>8 to 10 weeks</i>			
Metropolitan Fire and Emergency Services Board	28 Aug. 2006	✓	28 Aug. 2006
Office of the Chief Commissioner of Police	7 Sept. 2006	✓	7 Sept. 2006
<i>10 to 12 weeks</i>			
Emergency Services Telecommunications Authority (f)	13 Sept. 2006	✓	13 Sept. 2006
<i>12 to 14 weeks</i>			
Country Fire Authority	25 Sept. 2006	✓	26 Sept. 2006
Victoria State Emergency Service Authority (c)	22 Sept. 2006	✓	25 Sept. 2006
<i>14 to 16 weeks</i>			
CFA & Brigade Donations Fund (b) (f) <i>Reason for qualification: Inability to attest to the completeness of cash donations.</i>	13 Sept. 2006	Qualified	11 Oct. 2006
<i>More than 16 weeks</i>			
Australasian Police Multicultural Advisory Bureau	20 Nov. 2006	✓	6 Dec. 2006
National Institute of Forensic Science	22 Nov. 2006	✓	6 Dec. 2006



**Appendix 7A**  
**Audit status, Justice sector - continued**

Entity	Financial statements signed	Clear opinion issued	Auditor-General's (AG's) report signed
<b>COMPLETED AUDITS – WITH OTHER BALANCE DATES</b>			
Legal Practice Board (d) (1 July 2005 to 11 December 2005)	19 Jun. 2006	✓	20 Sept. 2006
Office of the Legal Ombudsman (e) (1 July 2005 to 11 December 2005)	19 Jun. 2006	✓	21 Sept. 2006
Professional Standards Council Victoria (a) (8 June 2004 to 30 June 2004)	27 Sept. 2006	✓	27 Sept. 2006
Professional Standards Council Victoria (a) (1 July 2004 to 30 June 2005)	27 Sept. 2006	✓	27 Sept. 2006

(a) The *Professional Standards Act 2003* established the Professional Standards Council Victoria on 8 June 2004.

(b) CFA & Brigade Donations Fund is a controlled entity of the County Fire Authority, which came within the Auditor-General's audit mandate for the first time for the 2005-06 financial year.

(c) The *Victoria State Emergency Service Act 2005* established the Victoria State Emergency Service Authority on 1 November 2005.

(d) The *Legal Profession Act 2004* established the Legal Services Board and abolished the Legal Practice Board on 12 December 2005.

(e) The *Legal Profession Act 2004* established the Legal Services Commissioner and abolished the Office of the Legal Ombudsman on 12 December 2005.

(f) The *Emergency Services Telecommunications Authority Act 2004* established the Emergency Services Telecommunications Authority on 1 July 2005, which replaced Emergency Communications Victoria.

Source: Victorian Auditor-General's Office.



# Premier and Cabinet

## At a glance

### Background

The Premier and Cabinet sector comprises the Department of Premier and Cabinet (comprised of Arts Victoria, the Office of the Governor, the Office of the Chief Parliamentary Council, and the Office of the Chief Information Officer), the State Services Authority, the Office of the Ombudsman, the Office of Police Integrity, and 8 arts agencies.

The department advises the Premier and the Cabinet about all aspects of government policy, develops initiatives, investigates complaints against government departments, develops and presents cultural projects, and manages Victoria's relationships with other governments.

### Key findings

- We issued 12 audit opinions on agencies' financial statements, all of which were clear (**see page 81**).
- The timeliness of financial reporting by sector agencies improved from the previous year, with 7 agencies of the 12 agencies with a 30 June 2006 balance date achieving the 12-week statutory deadline (**see pages 81 to 82**).
- Our audits found the quality of financial reporting by sector agencies to be satisfactory. The control environments of sector agencies were also found to be satisfactory, although we suggested that the State Services Authority, Office of Police Integrity and Office of the Ombudsman should formalise their arrangements for outsourced services (**see page 80**).

## 8.1 Audit conclusions

The Premier and Cabinet sector comprises 12 agencies required to prepare financial statements at 30 June 2006 and submit them for audit. We issued 12 audit opinions, all of which were clear.

Fifty-eight per cent of agencies completed their audited financial statements within the statutory 12-week deadline (73 per cent in 2004-05).

The quality of reporting by entities within the sector was satisfactory. Our audit processes confirmed that the control environment and the internal control systems were satisfactory. However, we suggested that the State Services Authority, Office of Policy Integrity and Office of the Ombudsman strengthen control by formalising their arrangements for outsourced accounting and IT services.

## 8.2 Sector overview

The Premier and Cabinet sector comprises the Department of Premier and Cabinet<sup>1</sup>), the State Services Authority, the Office of the Ombudsman, the Office of Police Integrity, and 8 arts agencies. The Premier, the Minister for the Arts and the Minister for Information and Communications Technology are responsible for the department, and have specific responsibility for the other entities in the sector.

Figure 8A outlines the sector agencies with 30 June balance dates.

**Figure 8A**  
**Premier and Cabinet sector reporting entities with a**  
**30 June 2006 balance date**

Reporting entity	Number
Department and other administrative units	1
Public bodies	8
Companies, trust and joint ventures	2
Independent budget sector agencies	1
<b>Total</b>	<b>12</b>

Source: Victorian Auditor-General's Office.

<sup>1</sup> The Department of Premier and Cabinet comprises Arts Victoria, the Office of the Governor, the Office of the Chief Parliamentary Council, and the Office of the Chief information Officer.

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

In 2005-06, the department received appropriation funding of \$426 million, (\$430 million in 2004-05); provided grants of \$277 million for arts and cultural development; contributed \$28 million to the State Services Authority, the Office of the Ombudsman and the Office of Police Integrity; held \$181 million of net assets; and contributed \$22 million of capital to agencies in this sector.

Arts Victoria, which is a part of the department, and the arts agencies, develop and present cultural projects, programs and services to benefit the Victorian arts industry and community. In 2005-06, the arts agencies raised \$18 million in public donations and gifts, and managed cultural assets valued at \$3.2 billion.

The Office of the Ombudsman investigates complaints about administrative actions taken by Victorian government departments, most statutory authorities and local government.

The Office of Police Integrity aims to ensure that the highest ethical and professional standards are maintained within the Victoria Police Force, and that police corruption and serious misconduct is detected, investigated and prevented. The office was established in November 2004 and reported in 2005-06 for the first time separately from the Office of the Ombudsman.

The State Services Authority was established in April 2005 by the *Public Administration Act 2004*, replacing the Office of Public Employment and Office of Workforce Development. The authority advises the government and supports departmental secretaries in improving public sector services, standards, governance and work force development.

## 8.3 Results of financial audits

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### 8.3.1 Audit opinions issued

The Premier and Cabinet sector comprises 12 agencies of which 12 received clear audit opinions.

### 8.3.2 Timeliness of reporting

Figure 8B shows how well agencies met the 12-week statutory reporting requirement for 2004-05 and 2005-06. Further details of these agencies is provided in Appendix 8A.

**Figure 8B**  
**Timeliness of completion of audited financial statements,**  
**Premier and Cabinet sector**

Number of weeks after end of financial year audited financial statements were finalised	2004-05		2005-06	
	Number of agencies	Per cent (cumulative)	Number of agencies	Per cent (cumulative)
Less than 8 weeks	1	9	3	25
8 to 10 weeks	-	9	3	50
10 to 12 weeks	7	73	1	58
12 to 14 weeks	2	91	4	92
14 to 16 weeks	1	100	-	92
More than 16 weeks	-	100	1	100
<b>Total</b>	<b>11</b>	<b>..</b>	<b>12</b>	<b>..</b>

Source: Victorian Auditor-General's Office.

Figure 8B shows a mixed result in the timeliness in sector agencies' financial reporting. Compared with last year, many more agencies' statements were finalised within 10 weeks, but overall one fewer agency met the 12-week statutory reporting deadline.

### 8.3.3 Quality of financial reporting

In 2005-06, the quality of financial reporting remained satisfactory. No significant reporting issues were identified.

### 8.3.4 Adequacy of control environments

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

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

We found the internal control environments and systems of internal control that we examined to be generally sound.

However, we identified one area warranting attention. The State Services Authority, Office of Policy Integrity and the Office of the Ombudsman do not have a formal service level agreement covering external and internal financial reporting and IT services provided by the Department of Treasury and Finance. The agencies involved have agreed to seek to formalise all relevant arrangements in a service level agreement. This should enhance the governance and management of these activities.

**Appendix 8A**  
**Audit status, Premier and Cabinet sector**

Entity	Financial statements signed	Clear opinion issued	Auditor-General's (AG's) report signed
<b>COMPLETED AUDITS – 30 JUNE 2006 BALANCE DATES</b>			
<i>AG's report signed less than 8 weeks after year-end</i>			
Department of Premier and Cabinet	16 Aug. 2006	✓	21 Aug. 2006
<b>ARTS</b>			
<i>Less than 8 weeks</i>			
Council of Trustees of the National Gallery of Victoria	25 Aug. 2006	✓	25 Aug. 2006
Victorian Arts Centre Trust	23 Aug. 2006	✓	23 Aug. 2006
<i>8 to 10 weeks</i>			
Film Victoria	5 Sept. 2006	✓	5 Sept. 2006
Museums Board of Victoria	28 Aug. 2006	✓	6 Sept. 2006
<i>10 to 12 weeks</i>			
Australian Centre for the Moving Image	7 Sept. 2006	✓	20 Sept. 2006
<i>12 to 14 weeks</i>			
Library Board of Victoria	15 Sept. 2006	✓	25 Sept. 2006
Geelong Performing Arts Centre Trust	25 Sept. 2006	✓	25 Sept. 2006
State Library of Victoria Foundation (a)	15 Sept. 2006	✓	4 Jan. 2007
<b>PREMIER</b>			
<i>8 to 10 weeks</i>			
State Services Authority	29 Aug. 2006	✓	4 Sept. 2006
<i>12 to 14 weeks</i>			
Office of Police Integrity (b)	29 Aug. 2006	✓	25 Sept. 2006
Office of the Ombudsman	29 Aug. 2006	✓	25 Sept. 2006

(a) The Foundation's financial statements were part of the consolidated Library Board of Victoria's financial statements which were signed off in September.

(b) The Office of Police Integrity was previously included in the Office of the Ombudsman, and has been reported separately for the first time in 2005-06.

Source: Victorian Auditor-General's Office.

# 9

## Primary Industries

### At a glance

#### Background

The Primary Industries sector comprises the Department of Primary Industries and 10 other agencies. The department's main mission is the sustainable development of Victoria's primary industries, including agriculture, fisheries, minerals and petroleum.

Of the other sector agencies, 5 focus on industry development, 3 on research and 2 provide regulation and assurance services for product and service safety.

#### Key findings

- All agencies within the sector received clear audit opinions (**see page 86**).
- The timeliness in sector agencies' financial reporting substantially improved in 2005-06, with 7 of the 11 agencies having their audited financial statements completed within 8 weeks (**see pages 88 to 89**).
- There is scope for agencies to improve the quality of financial statements submitted for audit. Some agencies (particularly smaller ones) have not allocated the required resources for conducting an appropriate level of quality assurance over the preparation of their financial statements (**see page 89**).
- Our financial statement audits assess agencies' governance and financial control processes. We found that sector agencies generally maintained adequate control environments and systems of internal control. We did not identify any significant issues of concern (**see page 89**).

## 9.1 Audit conclusions

The Primary Industries sector comprises 11 agencies that were required to prepare financial statements at 30 June 2006 and submit them for audit. We issued 11 audit opinions, all of which were clear.

The timeliness of financial reporting in this sector improved on last year, with 10 agencies (91 per cent) having their audited financial statements completed within the 12-week statutory deadline (9 agencies, 82 per cent in 2004-05). The quality of financial reporting in the sector also continued to improve.

Our financial audits confirmed that agencies' overall control environments and their systems of internal control that we examined were generally satisfactory. We did not identify any significant issues of concern.

## 9.2 Sector overview

The Primary Industries sector comprises the Department of Primary Industries and 10 other agencies. Figure 9A shows the nature of sector agencies with a 30 June 2006 balance date.

**Figure 9A**  
**Primary Industries sector agencies with a 30 June 2006**  
**balance date**

Reporting entity	Number
Department	1
Public bodies	8
Companies, trusts and joint ventures	2
<b>Total</b>	<b>11</b>

Source: Victorian Auditor-General's Office.

The Department of Primary Industries is one of the smaller state government departments. Its main mission is the sustainable development of Victoria's primary industries, including agriculture, fisheries, minerals and petroleum. The department helps maximise the long-term productivity, profitability and potential of these primary industries through the development and implementation of policy, science and technology, protection and regulation, and sustainable practice change. In 2005-06, these activities were delivered at a cost of about \$413 million (2004-05, \$394 million).



In previous years, the department's output structure was industry-specific, comprising 3 outputs that focused on the key industries to which the department's activities were directed. In 2005-06, the department's outputs were redefined to more clearly reflect the role it plays in delivering services to primary industries, as follows:

- *Primary industries policy* – Developing policy frameworks and legislative reforms that aim to improve investment in, and protection of, primary industries through the establishment of efficient and equitable resource definition, allocation and management processes - leading to improved market access, industry performance, efficiency of resource use and reduced adverse impacts on the environment.
- *Regulation and compliance* – Protecting the sustainability of Victoria's primary industries by regulating natural resource use in the public interest; Encouraging best practice behaviours through a proactive approach to self-regulation, while undertaking education, inspection and enforcement services to ensure industry and community compliance with legislation and regulations; Protecting the quality and safety of Victoria's primary products by building and maintaining Victoria's capability to monitor, detect and respond to disease, pest and residue incidents, outbreaks and other biosecurity threats.
- *Strategic and applied scientific research* – Using science and innovation to increase the productivity, profitability, sustainability, international competitiveness and export value of primary industries, by investing in research and development, new technologies and practices, knowledge and science-based tools and resource information.
- *Sustainable practice change* – Facilitating the adoption of new ideas and practices, and assisting industries and communities to understand, manage and adapt to change; Promoting trade by enhancing access to markets and securing market opportunities for Victoria.

The department's responsibilities also include funding and overseeing the state's interest in the Royal Melbourne Showgrounds redevelopment which commenced in October 2005<sup>1</sup>. The redevelopment was successfully completed in time for the Royal Melbourne Show, which was held in September 2006.

Of the other sector agencies, 5 focus on industry development, 3 on research and 2 provide regulation and assurance services for product and service safety.

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

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<sup>1</sup> An outline of this redevelopment and the related financial arrangements was included in our November 2005 *Report of the Auditor-General on the Finances of the State of Victoria, 2004-05*.

## 9.3 Results of financial audits

### 9.3.1 Audit opinions issued

The Primary Industries sector comprises 11 agencies that were required to prepare financial statements at 30 June 2006 and submit them for audit. Details of the audit opinions issued were noted previously in section 9.1.

### 9.3.2 Timeliness of reporting

Figure 9B shows how well sector agencies with a 30 June balance date met the 12-week statutory reporting requirement for 2004-05 and 2005-06. Further details of these agencies is provided in Appendix 9A.

**Figure 9B**  
**Timeliness of audited financial statement completion,**  
**Primary Industries sector**

Number of weeks after end of financial year audited financial statements were finalised	2004-05		2005-06	
	Number of agencies	Per cent (cumulative)	Number of agencies	Per cent (cumulative)
Less than 8 weeks	2	18	7	64
8 to 10 weeks	3	45	3	91
10 to 12 weeks	4	82	-	91
12 to 14 weeks	1	91	-	91
14 to 16 weeks	-	91	-	91
More than 16 weeks	1	100	1	100
<b>Total</b>	<b>11</b>	<b>..</b>	<b>11</b>	<b>..</b>

Source: Victorian Auditor-General's Office.

As Figure 9B shows, the timeliness in sector agencies' financial reporting substantially improved in 2005-06, with:

- 7 of the 11 agencies having their audited financial statements completed within 8 weeks (2 agencies in 2004-05)
- 10 of the 11 agencies having their audited financial statements completed within 12 weeks (9 agencies in 2004-05).

The major factor contributing to this positive outcome for the year was the increased emphasis/priority given by the department and other sector agencies to completing their annual reports in time for their tabling in parliament by early October 2006, in the lead-up to the November 2006 state election.

It will be important that this heightened priority on timely financial reporting be maintained by sector agencies over future years, so that the positive outcomes achieved in 2005-06 are maintained and improved.

### 9.3.3 Quality of financial reporting

Over recent years, our Office has acknowledged the continued improvement observed in the quality of financial reporting by sector agencies. This improvement has continued in 2005-06.

For 2005-06, the department's financial reporting processes continued to improve. The draft financial statements submitted for audit were of a high standard, reflecting the increased emphasis the department placed on ensuring their accuracy and completeness through use of a rigorous quality assurance process. This process involved a number of levels of internal review, and the early involvement of the department's Financial Issues Group (a sub-committee of its Audit and Risk Management Committee) in reviewing the draft financial statements and the identification and resolution of any contentious issues impacting thereon.

While other sector agencies largely met their reporting requirements, there is still scope for them to improve the quality of financial statements submitted for audit. Some agencies (particularly smaller ones) have not allocated the required resources for conducting an appropriate level of quality assurance over the preparation of the financial statements. As a result, the financial statements submitted for audit required a significant number of changes. These agencies need to give greater priority to ensuring that the financial statements submitted for audit are complete and accurate, through use of improved internal review and validation processes.

### 9.3.4 Adequacy of control environments

Each sector agency is required to establish and maintain an adequate system of internal controls to ensure that:

- its financial records and other information completely and accurately reflect its entire activities
- it adequately safeguards its assets
- it prevents or detects errors and other irregularities.

Our financial audits assess agencies' governance and financial control processes. This year, we again found that sector agencies generally maintained adequate control environments and systems of internal control. We did not identify any significant issues of concern.

**Appendix 9A**  
**Audit status, Primary Industries**

Entity	Financial statements signed	Clear opinion issued	Auditor-General's (AG's) report signed
<b>COMPLETED AUDITS – 30 JUNE 2006 BALANCE DATES</b>			
<i>AG's report signed less than 8 weeks after year-end</i>			
Department of Primary Industries	23 Aug. 2006	✓	24 Aug. 2006
<b>AGRICULTURE</b>			
<i>Less than 8 weeks</i>			
Dairy Food Safety Victoria	23 Aug. 2006	✓	23 Aug. 2006
Melbourne Market Authority	24 Aug. 2006	✓	24 Aug. 2006
Phytogene Pty Ltd	25 Aug. 2006	✓	25 Aug. 2006
PrimeSafe	17 Aug. 2006	✓	17 Aug. 2006
Veterinary Practitioners Registration Board	2 Aug. 2006	✓	8 Aug. 2006
Victorian Strawberry Industry Development Committee	16 Aug. 2006	✓	17 Aug. 2006
<i>8 to 10 weeks</i>			
Agriculture Victoria Services Pty Ltd	14 Aug. 2006	✓	30 Aug. 2006
Murray Valley Citrus Marketing Board	28 Aug. 2006	✓	29 Aug. 2006
Murray Valley Wine Grape Industry Development Committee	31 Aug. 2006	✓	1 Sept. 2006
<i>More than 16 weeks</i>			
Northern Victorian Fresh Tomato Industry Development Committee	30 Oct. 2006	✓	27 Nov. 2006

Source: Victorian Auditor-General's Office.

# 10 Sustainability and Environment

## At a glance

### Background

The Sustainability and Environment sector comprises the Department of Sustainability and Environment, and 64 other agencies. Of these other agencies, 20 are water agencies, 10 are catchment management authorities and 16 are waste management groups.

The Department of Sustainability and Environment assists in delivering the government's vision to position Victoria as a world leader in sustainability, in terms of both the natural and built environment. The department leads the state's effort to use limited natural resources in a sustainable manner and to improve productivity. The other sector agencies provide water and waste water services, manage the state's catchments and waterways, regulate the water industry, provide waste management services and manage the infrastructure used for these activities.

### Key findings

- We issued 65 audit opinions and 64 were clear opinions. The financial statements of one agency, the Grampians Wimmera Mallee Water Authority, were qualified as a result of a disagreement over an accounting treatment **(see page 94)**.
- Clear audit opinions on the performance statements of all the state's regional water authorities were issued, except for the Grampians Wimmera Mallee Water Authority. However, the authority's performance statement was only qualified because of the consequential impact of the qualification on its financial statements **(see page 92)**.
- There was a substantial improvement this year in the number of agencies having audited financial statements completed within 12 weeks **(see pages 94 to 95)**.
- The Department of Sustainability and Environment is still unable to confirm that its records of crown land managed by other agencies are complete and accurate **(see pages 96 to 97)**.

### Key recommendation

10.1 The Department of Sustainability and Environment should allocate the resources required to complete the review and confirm the accuracy of its crown land records **(see page 97)**.

## 10.1 Audit conclusions

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The Sustainability and Environment sector comprises 65 agencies that were required to prepare financial statements at 30 June 2006 and submit them for audit. We issued 65 audit opinions and 64 were clear opinions. The financial statements of one agency, the Grampians Wimmera Mallee Water Authority, were qualified.

This authority's financial statements were qualified because we considered that assets under a 25-year public private partnership arrangement for the provision of treated water should be recognised in the financial statements of the authority, together with a corresponding finance lease liability. The authority's view is it does not control the assets and it treats the arrangement as an operating lease in their financial statements.

Clear audit opinions on the performance statements of all the state's regional water authorities were issued except for the Grampians Wimmera Mallee Water Authority. However, its performance statement was only qualified because of the consequential impact of the qualification on its financial statements.

The 3 rural water authorities were required to prepare performance statements for the first time and all were provided with clear audit opinions.

Timeliness of financial reporting in this sector improved significantly. This year, 58 agencies (89 per cent) had their financial statements completed and audited within the 12-week statutory deadline (46 agencies, 68 per cent in 2004-05).

In prior years, we raised concerns about the risks arising from the Department of Sustainability and Environment's (DSE) records of crown land, which are possibly incomplete and inaccurate. DSE has commenced a structured program to progressively address these issues.

## 10.2 Sector overview

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The Sustainability and Environment sector comprises DSE, and 64 other agencies. Of these other agencies, 20 are water agencies, 10 are catchment management authorities and 16 are waste management groups. The remaining 18 agencies are involved with the natural and built environment, including such diverse aspects as the Melbourne Zoo, botanical gardens, parks, environment protection and a number of registration commissions associated with the building industry.

The Minister for Environment, the Minister for Water and the Minister for Planning are responsible for DSE and each have responsibility for particular sector agencies.

The 20 water agencies include 3 retailers. While policy responsibility rests mainly in the Sustainability and Environment sector, the shares in these agencies are held by the Treasurer of Victoria on the state's behalf. The Department of Treasury and Finance, accordingly, has certain governance and financial management responsibilities in relation to these agencies.

Figure 10A shows the nature of sector agencies with a 30 June 2006 balance date.

**Figure 10A**  
**Sustainability and Environment sector agencies with a**  
**30 June 2006 balance date**

Reporting entity	Number
Department and another administrative unit	2
Other public bodies	13
Metropolitan water bodies	4
Regional water authorities (a)	13
Rural water authorities	3
Catchment management authorities	10
Waste management groups	16
Companies, trusts and joint ventures	4
<b>Total</b>	<b>65</b>

(a) Effective from 1 July 2005, 3 regional water authorities in south-west Victoria were amalgamated to form Wannon Water.

Source: Victorian Auditor-General's Office.

DSE assists in delivering the government's vision to position Victoria as a world leader in sustainability, in terms of both the natural and built environment. DSE leads the state's effort to use limited natural resources in a sustainable manner and to improve productivity. The other sector agencies provide water and waste water services, manage the state's catchments and waterways, regulate the water industry, provide waste management services and manage the infrastructure used for these activities.

In 2005-06, the sector's total expenditure was \$3.6 billion (\$3.1 billion, 2004-05). This included \$1.9 billion spent by water agencies. Water agencies generated \$2.3 billion in revenue mainly derived from water and sewage charges. Sector agencies also managed a substantial asset portfolio, with the water agencies managing infrastructure assets valued at \$15.8 billion (\$15.3 billion 2004-05) and DSE managing land valued at \$8.7 billion (\$9.1 billion 2004-05). This land was mainly crown land, land within national parks and state forests.

In 2005-06, water agencies also paid \$208 million (\$162 million, 2004-05) in dividends to the Consolidated Fund. Most of this was paid by Melbourne's 3 water retailers and by the Melbourne Water Corporation.

## 10.3 Results of financial audits

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### 10.3.1 Audit opinions issued

The Sustainability and Environment sector comprises 65 agencies that were required to prepare financial statements at 30 June 2006 and submit them for audit. We issued 65 audit opinions and 64 were clear opinions. The financial statements of one agency, the Grampians Wimmera Mallee Water Authority, were qualified. The Grampians Wimmera Mallee Water Authority had entered into an agreement with an external party to build, own, operate and transfer (at the end of the lease period) 4 water treatment plants. The authority did not recognise these treatment plants in its financial statements. The arrangement, in our view, has the characteristics of a finance lease as outlined under AASB 117 *Leases*. Accordingly, we consider that the assets should have been recognised, together with a liability reflecting the future payments to be made by the authority to the operator for the use of the assets.

Under the agreement, the operator is to provide treated water to the authority over a 25-year period in exchange for toll payments. While the toll payments are based on the volume of treated water supplied, in our view, the economic substance of the agreement is that it contains a finance lease component for the water treatment assets. This view is based on the fact that notwithstanding the volume-based toll payments, the arrangement meets the “in substance” criteria for determining a finance lease under AASB 117 *Leases*. On this view, the arrangement should have been brought “on balance sheet” in accordance with the requirements of AASB 117 *Leases*.

We were not in a position to determine the financial impact of the qualification as the authority had not determined the fair value of the leased assets, nor the finance lease liabilities under this arrangement. Accordingly, the effect of the understatement on non-current assets, interest-bearing liabilities, and the associated depreciation and interest expense in the authority’s balance sheet and its operating statement for the year ended 30 June 2006 could not be determined.

### 10.3.2 Timeliness of reporting

There was a substantial improvement this year in the number of agencies having audited financial statements completed within 12 weeks, from 68 per cent in 2004-05 to 89 per cent in 2005-06.

Figure 10B shows how well sector agencies met the 12-week statutory reporting requirement this year compared with last year. Further details on these agencies is provided in Appendix 10A.



**Figure 10B**  
**Timeliness of audited financial statement completion, Sustainability and Environment sector**

Number of weeks after end of financial year audited financial statements were finalised	2004-05		2005-06	
	Number of agencies	Per cent (cumulative)	Number of agencies	Per cent (cumulative)
Less than 8 weeks	10	15	<b>10</b>	<b>15</b>
8 to 10 weeks	11	31	20	46
10 to 12 weeks	25	68	28	89
12 to 14 weeks	18	94	5	97
14 to 16 weeks	3	99	1	98
More than 16 weeks	1	100	1	100
<b>Total</b>	<b>68</b>	<b>..</b>	<b>65</b>	<b>..</b>

Source: Victorian Auditor-General's Office.

The major factor contributing to this positive outcome for the year was the increased emphasis given by DSE and related sector agencies to completing their annual reports in time for their tabling in parliament by early October 2006, in the lead-up to the November 2006 state election.

Sector agencies should seek to maintain this emphasis in future years to further improve the timeliness of reporting.

### 10.3.3 Quality of financial reporting

The overall quality of reporting by sector agencies remained at a generally good standard. However, some agencies did not adequately cope with the implementation of the new reporting requirements under the Australian equivalents to International Financial Reporting Standards (A-IFRS), and submitted low-quality draft financial statements for audit. This resulted in delays and additional work to complete their audits.

While sector agencies largely met their reporting requirements, there is scope for some to improve the quality of financial statements submitted for audit. Based on the significant number of errors identified through the audit process, we consider that some agencies have not allocated sufficient resources to the quality assurance of their financial statements. These agencies need to give greater priority to ensuring that financial statements submitted for audit are complete and accurate, through the use of improved internal review and validation processes.

### 10.3.4 Adequacy of control environments

Each sector agency is required to establish and maintain an adequate system of internal controls to ensure that:

- its financial records and other information completely and accurately reflect its entire activities
- it adequately safeguards its assets
- it prevents or detects errors and other irregularities.

Our financial audits assess agencies' governance and financial control processes. This year, we again found that sector agencies had generally maintained adequate control environments and systems of internal control.

### 10.3.5 Other significant issues

#### Completeness of crown land records

DSE has the key responsibility for recording the state's holdings of crown land. It directly manages about 70 per cent of all crown land, and reports details about these holdings in its financial statements. The other 30 per cent is managed and reported by various other government agencies.

Over the past 3 years, we have expressed concerns about DSE's inability to confirm that its records of crown land managed by other agencies are complete and accurate. This deficiency could result in:

- double counting of land holdings, if a holding recognised by DSE is also recognised by another agency or agencies
- crown land holdings not recognised by either DSE or any other agency
- agencies not fully accounting for, or effectively managing, crown land under their control.

At the date of preparing this report, DSE's internal auditor has completed a high level review of the management of government land records, and reported a number of issues requiring management's attention, including:

- there is currently no central or authoritative source to validate state government land and boundary details,
- notification of changes in Crown land status is not automated or enforceable,
- lack of control processes to ensure data integrity
- data consistency is impacted by multiple systems and multiple viewing applications.

DSE has commenced a data matching exercise with other agencies to reconcile their respective crown land holdings with DSE's records. Where any discrepancies are identified, a more detailed analysis of records will be done prior to 31 December 2006.

While the above actions are reassuring, more needs to be done and additional resources will be needed. We will continue to monitor progress being made by DSE to reduce the risks arising from DSE's records of crown land holdings.

## Recommendation

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10.1 DSE should, in 2006-07, allocate the resources required to complete the review and confirm the accuracy of its crown land records. Further, DSE should take action to implement systems and procedures that can adequately capture and record changes to crown land data, and assist with the management of crown land holdings.

***RESPONSE provided by the Secretary, Department of Sustainability and Environment***

*We accept your recommendation that the department allocate resources to complete the review to confirm the accuracy of crown land records. This project has commenced and is progressing with full completion expected by 30 June 2008. We also note your recommendation that the department should take action to implement systems and procedures that can adequately capture and record the changes to crown land data and will take steps to ensure this is achieved.*

## Water agency operations

The Sustainability and Environment sector includes 20 agencies (22 in 2004-05) that provide water and waste water services<sup>1</sup>. These water agencies are further grouped as:

- 3 metropolitan water retailers and the Melbourne Water Corporation
- 13 regional water authorities
- 3 rural water authorities.

### *Financial performance and position*

Figure 10C summarises the key financial statistics of the water agencies.

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<sup>1</sup> The reduction in sector agencies reflects the result of administrative restructures. Wannon Region Water Authority established on 1 July 2005 following the merger of Glenelg Region Water Authority, Portland Coast Region Water Authority and South West Water Authority.

**Figure 10C**  
**Water agency financial information summary (\$million) (a)**

	Metropolitan		Regional		Rural		Total	
	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06
Financial performance -								
Total revenue	1 550	<b>1 613</b>	559	<b>570</b>	137	<b>151</b>	2 246	<b>2 334</b>
Total expenses	1 121	<b>1 183</b>	527	<b>548</b>	149	<b>157</b>	1 797	<b>1 888</b>
Profit/loss (pre-tax)	429	<b>430</b>	32	<b>22</b>	(12)	<b>(6)</b>	449	<b>446</b>
Financial position -								
Infrastructure, property, plant and equipment assets	7 069	<b>7 446</b>	5 886	<b>5 983</b>	2 316	<b>2 339</b>	15 271	<b>15 768</b>
Borrowings	2 414	<b>2 664</b>	95	<b>137</b>	15	<b>14</b>	2 524	<b>2 815</b>

(a) Figures for 2004-05 and 2005-06 are audited A-IFRS figures.

Source: Victorian Auditor-General's Office.

Figure 10C shows that water agencies' total profits before tax in 2005-06 were \$446 million. This slight decrease on the previous year's profits follows a reduction in 2004-05 profits of 17 per cent.

As shown in Figure 10C, revenue growth across the whole water sector has remained strong. Water price increases and changes to tariff arrangements in recent years have more than offset the impact of reduced consumption resulting from water restrictions and permanent water saving measures.

These pricing and tariff changes have also offset the impact of reduced developer contributions. This financial year revenue from developer contributions dropped to \$37.9 million compared with \$121.2 million in 2004-05, a decrease of around \$83.3 million or 69 per cent.

Developers in the past have made contributions towards the cost of developing water distribution and sewage disposal systems based on charges established by the respective water agencies. However, from 1 July 2005, the Essential Services Commission determined that water agencies can only charge developers a maximum fee of \$500 for each new subdivision connection. This decision was based on the commission's view that costs involved in distribution and mains connection should be recouped over a longer time period rather than upfront as previously occurred. As a result, all water sector agencies recorded falls in developer contributions revenue for 2005-06.

Expenditure growth in the water sector has also been strong in recent years and has matched the growth in revenue over 2005-06. Major areas of expenditure growth in 2005-06 included:

- borrowing costs - have continued to increase each year as the level of borrowings increase to fund improved water and waste water treatment systems
- depreciation expenses - increased infrastructure investment over recent years has increased the value of the asset base, resulting in a higher depreciation expense
- environmental contributions levy - introduced by the government on 1 October 2004, water agencies contributed an additional \$15.6 million in 2005-06.

In 2005-06, water agencies reported an increase in fixed asset holdings of \$497 million, and an increase in their net borrowings of \$291 million. The asset additions mainly related to water and sewage infrastructure assets. Apart from their increased borrowings, water agencies have managed, to date, to finance a considerable portion of infrastructure investment from their operating cash flows and cash reserves.

However, going forward many of the bigger entities in the sector have large capital works programs in place which are to be funded through substantial increases in future borrowings. On current projections the industry debt levels will approximately double within 5 years.

### *Contributions to the government*

Water agencies, except for the rural water authorities, are required to operate in a commercial manner and to pay dividends to the Consolidated Fund. The dividends payable are a percentage of profits after allowing for certain non-assessable transactions. Although rural water authorities are not required to make a dividend payment, the government periodically requires them to make payments to the Consolidated Fund.

As well, under national tax equivalent arrangements, certain public sector agencies are "taxed" on their income on the same basis as private sector companies. However, the tax is paid to the Victorian Department of Treasury and Finance, not to the Australian Taxation Office. All metropolitan, regional and rural water authorities are subject to these taxation arrangements.

Since 1 October 2004, water agencies have also been required to make annual environmental contributions to the Consolidated Fund. In accordance with the *Environmental Contributions Act 2004* these contributions totalled \$60.2 million in 2005-06 (\$44.6 million in 2004-05).

The Victorian Government and 4 metropolitan water businesses have also established the Smart Water Fund for the purpose of providing grant funding to support the development of projects for improved water efficiency. Each metropolitan water agency had contributed \$2 million to the Smart Water Fund by 30 June 2004 and each business may be required to contribute a further \$4 million to the fund by 30 June 2008, depending on the number of applications submitted to the fund for water saving initiatives

Figure 10D summarises the key contributions by the water agencies to the State Government.

**Figure 10D**  
**Summary of contributions by water agencies to state government**  
**(\$million) (a)**

	Metropolitan		Regional		Rural		Total	
	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06
Environmental contributions paid	32	<b>42</b>	12	<b>18</b>	-	-	44	<b>60</b>
Dividends paid	162	<b>207</b>	-	<b>1</b>	-	-	162	<b>208</b>
Income tax paid	66	<b>68</b>	-	<b>2</b>	-	-	66	<b>70</b>
<b>Total</b>	<b>260</b>	<b>317</b>	<b>12</b>	<b>21</b>	-	-	<b>272</b>	<b>338</b>

(a) Figures for 2004-05 and 2005-06 are audited A-IFRS figures.

Source: Victorian Auditor-General's Office.

Contributions by water sector agencies to government have increased significantly in recent years, with more than \$600 million contributed over the last 2 years.

Climate change and the consequential impact on supply and demand for water, has the potential to impact adversely on water authorities' revenue streams and operating cash flows. The additional capital expenditure required for improved water saving and recycling measures, and existing large capital works programs, will also impact on cash reserves. In this context, the sustainability of the increased level of contributions by the authorities to the state needs to be closely monitored.

### *Water sector performance statements*

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

For the third year, all 13 regional water authorities prepared statements in accordance with this requirement. We issued clear opinions on 12 performance statements. In relation to the Grampians Wimmera Mallee Region Water Authority, we issued a qualified opinion because certain financial performance measures use financial information reported in the financial statements. Because the financial statements were qualified, we also qualified the performance statement.

In 2005-06, the 3 rural water authorities were required to prepare performance statements for the first time. We issued clear opinions on all statements.

### *Catchment management authorities*

There are 10 catchment management authorities and they generated a combined profit of \$1.5 million in 2005-06 compared with \$10.6 million in 2004-05. Six catchment management authorities generated an operating loss in 2005-06 compared with 2 authorities that reported a loss in 2004-05.

A reduction in revenue, due to a decrease in government contributions, and an increase in expenses, namely, project work expenditures, has contributed to the lower profit. Nevertheless, the authorities' working capital ratio is generally strong, indicating an ability to settle obligations in the future.

**Appendix 10A**  
**Audit status, Sustainability and Environment**

Entity	Financial statements signed	Clear opinion issued	Auditor-General's (AG's) report signed (a)
<b>COMPLETED AUDITS – 30 JUNE 2006 BALANCE DATES</b>			
<i>AG's report signed 10 to 12 weeks after year-end</i>			
Department of Sustainability and Environment	15 Sept. 2006	✓	21 Sept. 2006
<b>PLANNING</b>			
<i>Less than 8 weeks</i>			
Building Commission	15 Aug. 2006	✓	15 Aug. 2006
<i>8 to 10 weeks</i>			
Plumbing Industry Commission	1 Sept. 2006	✓	1 Sept. 2006
<i>10 to 12 weeks</i>			
Architects' Registration Board of Victoria	12 Sept. 2006	✓	13 Sept. 2006
Surveyors Registration Board of Victoria	18 Sept. 2006	✓	19 Sept. 2006
<i>12 to 14 weeks</i>			
Heritage Council	29 Sept. 2006	✓	29 Sept. 2006
<b>ENVIRONMENT AND WATER</b>			
<i>Less than 8 weeks</i>			
Barwon Region Water Authority	16 Aug. 2006	✓	16 Aug. 2006
Central Murray Regional Waste Management Group	10 Aug. 2006	✓	17 Aug. 2006
City West Water Ltd (b)	22 Aug. 2006	✓	22 Aug. 2006
Goulburn-Murray Rural Water Authority	23 Aug. 2006	✓	24 Aug. 2006
Melbourne Water Corporation	18 Aug. 2006	✓	18 Aug. 2006
Parks Victoria	15 Aug. 2006	✓	17 Aug. 2006
Wimmera Catchment Management Authority	23 Aug. 2006	✓	25 Aug. 2006
Yarra Bend Park Trust	25 Aug. 2006	✓	25 Aug. 2006
Yarra Valley Water Limited (b)	23 Aug. 2006	✓	23 Aug. 2006
<i>8 to 10 weeks</i>			
Barwon Regional Waste Management Group	1 Sept. 2006	✓	4 Sept. 2006
Corangamite Catchment Management Authority	28 Aug. 2006	✓	28 Aug. 2006
East Gippsland Region Water Authority	31 Aug. 2006	✓	1 Sept. 2006
Environment Protection Authority	31 Aug. 2006	✓	7 Sept. 2006
Glenelg-Hopkins Catchment Management Authority	28 Aug. 2006	✓	28 Aug. 2006
Goulburn Broken Catchment Management Authority	6 Sept. 2006	✓	8 Sept. 2006
Goulburn Valley Region Water Authority	6 Sept. 2006	✓	8 Sept. 2006



**Appendix 10A**  
**Audit status, Sustainability and Environment - continued**

Entity	Financial statements signed	Clear opinion issued	Auditor-General's (AG's) report signed (a)
<b>COMPLETED AUDITS – 30 JUNE 2006 BALANCE DATES – continued</b>			
<b>ENVIRONMENT AND WATER – continued</b>			
Mallee Catchment Management Authority	6 Sept. 2006	✓	6 Sept. 2006
Mildura Regional Waste Management Group	6 Sept. 2006	✓	6 Sept. 2006
Mornington Peninsula Regional Waste Management Group	29 Aug. 2006	✓	31 Aug. 2006
North East Water	6 Sept. 2006	✓	6 Sept. 2006
Phillip Island Nature Park Board of Management	4 Sept. 2006	✓	5 Sept. 2006
South East Water Limited (b)	28 Aug. 2006	✓	28 Aug. 2006
South Gippsland Region Water Authority	5 Sept. 2006	✓	5 Sept. 2006
South Western Regional Waste Management Group	29 Aug. 2006	✓	7 Sept. 2006
Wannon Water (c)	1 Sept. 2006	✓	1 Sept. 2006
West Gippsland Catchment Management Authority	28 Aug. 2006	✓	8 Sept. 2006
Western Region Water Authority	31 Aug. 2006	✓	31 Aug. 2006
Zoological Parks and Gardens Board	7 Sept. 2006	✓	7 Sept. 2006
<i>10 to 12 weeks</i>			
Alpine Resort Co-ordinating Council	19 Sept. 2006	✓	20 Sept. 2006
Calder Regional Waste Management Group	18 Sept. 2006	✓	20 Sept. 2006
Central Gippsland Region Water Authority	11 Sept. 2006	✓	11 Sept. 2006
Central Highlands Region Water Authority	18 Sept. 2006	✓	18 Sept. 2006
Commissioner for Environmental Sustainability	22 Sept. 2006	✓	22 Sept. 2006
Desert Fringe Regional Waste Management Group	12 Sept. 2006	✓	13 Sept. 2006
Eastern Regional Waste Management Group	7 Sept. 2006	✓	14 Sept. 2006
East Gippsland Catchment Management Authority	15 Sept. 2006	✓	15 Sept. 2006
First Mildura Irrigation Trust	21 Sept. 2006	✓	21 Sept. 2006
Gippsland and Southern Rural Water Authority	19 Sept. 2006	✓	22 Sept. 2006
Gippsland Regional Waste Management Group	12 Sept. 2006	✓	12 Sept. 2006
Goulburn Valley Regional Waste Management Group	13 Sept. 2006	✓	13 Sept. 2006
Grampians Regional Waste Management Group	11 Sept. 2006	✓	12 Sept. 2006
Highlands Regional Waste Management Group	15 Sept. 2006	✓	15 Sept. 2006
Lower Murray Urban and Rural Water Authority	15 Sept. 2006	✓	15 Sept. 2006
North East Catchment Management Authority	5 Sept. 2006	✓	11 Sept. 2006
North East Regional Waste Management Group	14 Sept. 2006	✓	15 Sept. 2006

**Appendix 10A**  
**Audit status, Sustainability and Environment - continued**

Entity	Financial statements signed	Clear opinion issued	Auditor-General's (AG's) report signed (a)
<b>COMPLETED AUDITS – 30 JUNE 2006 BALANCE DATES – continued</b>			
<b>ENVIRONMENT AND WATER – continued</b>			
Northern Regional Waste Management Group	13 Sept. 2006	✓	15 Sept. 2006
Port Phillip and Westernport Catchment Management Authority	12 Sept. 2006	✓	12 Sept. 2006
South Eastern Regional Waste Management Group	6 Sept. 2006	✓	18 Sept. 2006
Sustainability Victoria (d)	18 Sept. 2006	✓	19 Sept. 2006
Trust for Nature (Victoria)	15 Sept. 2006	✓	15 Sept. 2006
VicForests	20 Sept. 2006	✓	20 Sept. 2006
Western Regional Waste Management Group	11 Sept. 2006	✓	20 Sept. 2006
Westernport Region Water Authority	15 Sept. 2006	✓	15 Sept. 2006
<i>12 to 14 weeks</i>			
Coliban Region Water Authority	27 Sept. 2006	✓	27 Sept. 2006
North Central Catchment Management Authority	25 Sept. 2006	✓	25 Sept. 2006
Royal Botanic Gardens Board	28 Sept. 2006	✓	28 Sept. 2006
Victorian Plantations Corporation (b)	29 Sept. 2006	✓	29 Sept. 2006
<i>14 to 16 weeks</i>			
Grampians Wimmera Mallee Water Authority <i>Reason for Qualification: Failure to recognise an asset and related liability under a public-private partnership arrangement.</i>	12 Sept. 2006	Qualified	18 Oct. 2006
<i>More than 16 weeks</i>			
Smart Water Fund	26 Oct. 2006	✓	27 Oct. 2006

(a) For regional water authorities, audit opinions were issued on the authorities' financial statements and statement of performance. For some of these authorities, the dates of the performance statements and audit opinions may differ from the financial statements dates.

(b) The Treasurer of Victoria holds the shareholdings in these companies.

(c) On 1 July 2005, South West Water Authority, Glenelg Region Water Authority and Portland Coast Region Water Authority amalgamated to form Wannon Region Water Authority.

(d) EcoRecycle Victoria and the Sustainable Energy Authority Victoria merged on 1 October 2005 to form Sustainability Victoria.

Source: Victorian Auditor-General's Office.

## At a glance

### Background

The Treasury and Finance sector comprises 43 agencies that were required to prepare financial statements at 30 June 2006 and submit them for audit.

The Department of Treasury and Finance is responsible for leadership in economic, financial and resource management across the Victorian public sector. It also delivers services associated with government financial reporting and budget, liability and risk management. The department incorporates the operations of the State Revenue Office, which is the state's main revenue collection agency, and the Victorian Government Purchasing Board, which is responsible for government procurement policies and guidelines. Other sector agencies provide a variety of financial, superannuation, insurance and regulatory services.

### Key findings

- We issued 43 audit opinions, all of which were clear. These included 2 audit opinions (Industry Supervision Fund and the Housing Guarantee Fund Limited) which contained "emphasis of matter" comment, drawing attention to disclosures made in the accompanying financial statements (**see page 106**).
- The timeliness of completion of audited financial statements by sector agencies in 2005-06 was very good and consistent with the previous year (**see pages 110 to 111**).
- The internal control environments and systems of internal control that we examined were found to be generally sound (**see page 112**).

## 11.1 Audit conclusions

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The Treasury and Finance sector comprises 43 agencies that were required to prepare financial statements at 30 June 2006 and submit them for audit. We issued 43 audit opinions, all of which were clear. These included 2 audit opinions (Industry Supervision Fund and the Housing Guarantee Fund Limited) which contained “emphasis of matter” comment, drawing attention to disclosures made in the accompanying financial statements, that they were not prepared on a “going concern basis”. Both entities are being wound-up following the transfer of their operations to other entities.

The timeliness of completion of audited financial statements by sector agencies in 2005-06 was very good, with more than 90 per cent of agencies achieving the 12-week statutory financial reporting time frame. The quality of financial reporting by agencies was also of a generally high standard, contributing to the need for few audit adjustments and the timely completion of audits.

The internal control environments of agencies in the sector were generally sound. However, the State Revenue Office could strengthen the controls in place over access to its operating and payroll systems to better protect against unauthorised changes to systems data. Management has advised us that it is in the process of strengthening these controls.

## 11.2 Sector overview

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The Treasury and Finance sector comprises the Department of Treasury and Finance (DTF) and 42 other agencies with a 30 June 2006 balance date.

DTF is responsible for leadership in economic, financial and resource management across the Victorian public sector. It also delivers services associated with government financial reporting and budget, liability and risk management. DTF incorporates the operations of the State Revenue Office, which is the state’s main revenue collection agency, and the Victorian Government Purchasing Board, which is responsible for government procurement policies and guidelines.

Other sector agencies provide a variety of financial, superannuation, insurance and regulatory services. They include:

- Treasury Corporation of Victoria, Victorian Funds Management Corporation, Rural Finance Corporation and State Trustees Limited -which provide a range of financial services
- Transport Accident Commission, Victorian WorkCover Authority and Victorian Managed Insurance Authority - which manage statutory insurance schemes
- Emergency Services Superannuation Scheme and Parliamentary Contributory Superannuation Fund - which provide superannuation to public sector employees and parliamentarians

- Essential Services Commission - which regulates major utilities, mainly in the electricity and gas industries
- State Electricity Commission of Victoria - which manages the residual financial and other obligations remaining from the privatisation of public sector utilities.

The Treasurer of Victoria, Minister for Finance and Minister for WorkCover have joint responsibility for DTF and specific responsibility for individual sector agencies.

Figure 11A shows the nature of Treasury and Finance sector agencies with a 30 June 2006 balance date.

**Figure 11A**  
**Treasury and Finance sector agencies with a**  
**30 June 2006 balance date**

Reporting entity	Number
Department and administrative unit	1
Public bodies	8
Superannuation funds	2
Companies, trusts and joint ventures	30
Other (a)	2
<b>Total</b>	<b>43</b>

(a) Comprises the Housing Guarantee Claims Fund and the Domestic Building (HIH) Indemnity Fund.

Source: Victorian Auditor-General's Office.

The number of sector agencies with a 30 June balance date in 2005-06 was 16 less than the previous year, resulting from the combination of:

- the integration of the State Superannuation Fund and Government Superannuation Office into the Emergency Service Superannuation Scheme
- the Emergency Services Superannuation Board preparing, for the first time, separate financial statements. In previous years, the board's operations formed part of the consolidated financial statements of the Emergency Service Superannuation Scheme
- the integration of 8 VFM Trusts (VFM Australian Equities Trust, VFM Australian Fixed Interest Trust, VFM Global Bond Trust, VFM Hedged International Equities Trust, VFM Income Trust, VFM Indexed Bonds Trust, VFM International Equities Trust and VFM Short Term Money Market Trust) into the Victorian Funds Management Corporation

- 4 agencies coming within the sector's responsibilities or commencing operations in the year, namely, Housing Guarantee Fund Limited<sup>1</sup>, Housing Guarantee Claims Fund, Domestic Building (HIH) Indemnity Fund and VFM Infrastructure Trust
- 11 agencies, including 10 of the Gascor companies and South Eastern Medical Complex Ltd, being wound-up in the year.

In 2005-06, sector agencies:

- collected about \$8 billion in state taxes
- administered about \$29 billion in parliamentary appropriations, representing payments from the Consolidated Fund
- managed about \$54 billion in state liabilities - mainly including superannuation liabilities, insurance scheme outstanding claims liabilities, state debt, and an onerous contract provision associated with the state's flexible electricity tariff obligations linked to the Portland and Point Henry aluminium smelters
- managed investments of about \$24.6 billion
- held about \$1.6 billion in trust for the clients of state-controlled entities.

The state's insurance agencies and superannuation funds reported positive operating results and improved financial positions for 2005-06. The strong national and international equity markets in the year positively impacted on investment returns and values, and contributed to:

- the Victorian workers compensation and transport accident schemes remaining fully funded
- the Victorian Managed Insurance Authority's solvency margin remaining at target levels.

The improved operating performance and financial position of the Transport Accident Commission in 2005-06 also contributed to its payment into the Consolidated Fund of a \$232 million dividend and \$600 million as a capital repatriation.

## 11.2.1 Major portfolio developments

### Integration of State Superannuation Fund and Emergency Service Superannuation Scheme

The *Superannuation Legislation (Governance Reform) Act 2005* came into operation on 1 December 2005 and provided for the integration of the State Superannuation Fund (SSF) and the Government Superannuation Office into the Emergency Service Superannuation Scheme, as at that date.

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<sup>1</sup> At the date of preparing this report, Housing Guarantee Fund Limited was in the process of being wound-up, with its responsibilities transferred to the Victorian Managed Insurance Authority.

Under the Act, the benefits and entitlements of SSF members were not affected by this integration and the relevant schemes will continue to be administered in accordance with the governing acts, which remain largely unchanged. The Emergency Services Superannuation Board was also re-constituted as a separate reporting entity. It now comprises 12 board members who are responsible for managing all schemes (including the SSF) within the ambit of the Emergency Services Superannuation Scheme.

Prior to its integration into the Emergency Service Superannuation Scheme, the SSF prepared its final financial statements for audit, covering the period 1 July 2005 to 1 December 2005. We issued a clear opinion on these financial statements on 30 March 2006.

### Victorian Funds Management Corporation role change

Our December 2005 report *Results of 30 June 2005 financial statement and other audits* commented on the changing role of the Victorian Funds Management Corporation (VFMC) in public sector investment funds management.

On 1 July 2006, a centralised funds management model was adopted by the government, whereby VFMC clients would be responsible for setting investment objectives and the VFMC would be responsible for determining and implementing investment strategies to achieve those objectives. Under the previous model, the VFMC's clients set both the investment objectives and strategies.

DTF's Prudential Statement issued in June 2006 outlined the roles and responsibilities for all the relevant parties under the revised arrangements. DTF has scheduled a post-implementation review of the VFMC Centralised Model Project for 2007. We will monitor the implementation of the new arrangements as part of our financial audits, and will work with the relevant agencies to address any issues we identify.

### Transfer of Housing Guarantee Fund Limited's responsibilities to the Victorian Managed Insurance Authority

The *House Contracts Guarantee (Amendment) Act 2005* was passed by parliament in September 2005, providing for the transfer of the roles and responsibilities of the Housing Guarantee Fund Limited (HGFL) to the Victorian Managed Insurance Authority (VMIA) from 1 February 2006. In particular, the Act:

- transferred responsibility of the Housing Guarantee Fund and the Domestic Building (HIH) Indemnity Fund that were previously managed by HGFL, to the VMIA
- provided for the transfer of the property, rights and liabilities of HGFL to the state, thereby making the state the successor in law to HGFL.

Consequently, during 2005-06, net assets totalling \$4.8 million of HGFL were transferred into the Housing Guarantee Claims Fund (a fund administered by the VMIA).

## Expected wind-up of the Industry Supervision Fund

The Industry Supervision Fund (ISF) is a trust fund managed by DTF which was established to facilitate the administration and supervision of co-operative housing societies (CHS) within Victoria, under the provisions of the *Co-operative Housing Societies Act 1958*. The ISF's activities are primarily funded by levies charged to the CHS, known as supervision levies. DTF is required to prepare separate financial statements each year on the operations of the fund, and we are required to audit them.

A program to wind-up the industry commenced in 2005-06, with operations of the fund anticipated to cease in 2006-07 following the liquidation of all remaining cooperative housing societies in Victoria.

## 11.3 Results of financial audits

### 11.3.1 Audit opinions issued

The Treasury and Finance sector comprises 43 agencies that were required to prepare financial statements at 30 June 2006 and submit them for audit. Details of the audit opinions issued were noted previously in section 11.1.

### 11.3.2 Timeliness of reporting

Figure 11B shows how well sector agencies with a 30 June balance date met the 12-week statutory reporting requirement for 2004-05 and 2005-06. Further details of these agencies is provided in Appendix 11A.

**Figure 11B**  
**Timeliness of audited financial statement completion,**  
**Treasury and Finance sector**

Number of weeks after end of financial year audited financial statements were finalised	2004-05		2005-06	
	Number of agencies	Per cent (cumulative)	Number of agencies	Per cent (cumulative)
Less than 8 weeks	9	15	<b>9</b>	<b>21</b>
8 to 10 weeks	31	68	<b>21</b>	<b>70</b>
10 to 12 weeks	16	95	<b>5</b>	<b>81</b>
12 to 14 weeks	2	98	<b>3</b>	<b>88</b>
14 to 16 weeks	-	98	<b>1</b>	<b>91</b>
More than 16 weeks	1	100	<b>4</b>	<b>100</b>
<b>Total</b>	<b>59</b>	<b>..</b>	<b>43</b>	<b>..</b>

Source: Victorian Auditor-General's Office.



Figure 11B indicates a deterioration in the timeliness of sector agencies' financial reporting during 2005-06, with fewer agencies having their audited financial statements completed within 12 weeks of balance date. This result is mainly due to 4 gas industry "shell" companies not submitting their financial statements to audit by the deadline. These "shell" companies are from the former privatisation of the Victorian gas industry, and are in the process of being wound-up.

Excluding the above companies, the timeliness of completion of audited financial statements by sector agencies in 2005-06 was very good and consistent with the previous year, with more than 90 per cent of agencies achieving the 12-week statutory financial reporting time frame.

### 11.3.3 Quality of financial reporting

In previous years, our Office has assessed the quality of financial statements prepared by sector agencies for audit to be of a generally high standard. We observed similar financial reporting outcomes for 2005-06.

In preparing to adopt the new Australian equivalents to International Financial Reporting Standards (A-IFRS) for 2005-06, most sector agencies produced pro forma financial statements prior to year-end so that any new disclosures could be developed, reviewed and agreed early. Managers of some agencies also continued to use quality control check lists to review and certify the information used in their financial statements for completeness and accuracy, and to check for compliance with A-IFRS and the *Financial Management Act 1994*. These processes contributed to the agencies' production of quality draft financial statements for audit, requiring few audit adjustments, and thereby contributing to the timeliness of audit completion.

#### Impacts of adopting Australian equivalents to International Financial Reporting Standards

From 1 July 2005, agencies were required to prepare their financial statements in accordance with A-IFRS. The transition to A-IFRS was accounted for in accordance with Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, with 1 July 2004 being the date of transition. Accordingly, both the 2005-06 and 2004-05 comparative balances in financial statements were required to be presented in accordance with A-IFRS

It is pleasing to note that during 2005-06, sector agencies proactively managed the A-IFRS implementation transition. We were satisfied that agencies' financial statements were consistent with the new A-IFRS financial reporting requirements. The major impacts for the sector of adopting the new reporting requirements related to the valuation of the state's unfunded superannuation liabilities and the insurance agencies' outstanding claims liabilities, whereby changed methods/assumptions were required to be used to value these outstanding liabilities.

### 11.3.4 Adequacy of control environments

Each sector agency is required to establish and maintain an adequate system of internal controls to ensure that:

- its financial records and other information completely and accurately reflect its entire activities
- it adequately safeguards its assets
- it prevents or detects errors and other irregularities.

Our audits of 2005-06 financial statements found the internal control environments and systems of internal control that we examined to be generally sound.

We identified that the State Revenue Office could improve its controls over access to its operating and payroll systems to mitigate the risk of unauthorised changes to its systems data. Management has advised us it is in the process of strengthening these controls.

**Appendix 11A**  
**Audit status, Treasury and Finance sector**

Entity	Financial statements signed	Clear opinion issued	Auditor-General's (AG's) report signed
<b>COMPLETED AUDITS – 30 JUNE 2005 BALANCE DATES</b>			
<i>AG's report signed 12 to 14 weeks after year-end</i>			
Department of Treasury and Finance	28 Sept. 2006	✓	28 Sept. 2006
<b>FINANCE</b>			
<i>Less than 8 weeks</i>			
Victorian Managed Insurance Authority	17 Aug. 2006	✓	17 Aug. 2006
Housing Guarantee Claims Fund (a)	17 Aug. 2006	✓	17 Aug. 2006
<i>8 to 10 weeks</i>			
Emergency Services Superannuation Scheme	31 Aug. 2006	✓	31 Aug. 2006
Emergency Services Superannuation Board (b)	31 Aug. 2006	✓	31 Aug. 2006
<i>10 to 12 weeks</i>			
Essential Services Commission	6 Sept. 2006	✓	19 Sept. 2006
Parliamentary Contributory Superannuation Fund	14 Sept. 2006	✓	14 Sept. 2006
<i>12 to 14 weeks</i>			
Housing Guarantee Fund Limited (a) <b>Audit report contained an “emphasis of matter” comment:</b> Attention drawn to disclosures in the financial statements that were not prepared on a going concern basis.	21 Sept. 2006	✓	29 Sept. 2006
Vicfleet Pty Ltd	27 Sept. 2006	✓	27 Sept. 2006
<b>TREASURER</b>			
<i>Less than 8 weeks</i>			
Domestic Building Indemnity (HIH) Fund (a)	17 Aug. 2006	✓	17 Aug. 2006
Rural Finance Corporation	15 Aug. 2006	✓	15 Aug. 2006
Treasury Corporation of Victoria (c)	17 Aug. 2006	✓	17 Aug. 2006
Victorian Funds Management Corporation (d)	25 Aug. 2006	✓	25 Aug. 2006
VFM Emerging Markets Trust	25 Aug. 2006	✓	25 Aug. 2006
VFM Global Small Companies Trust	25 Aug. 2006	✓	25 Aug. 2006
VFM Infrastructure Trust (a)	25 Aug. 2006	✓	25 Aug. 2006
<i>8 to 10 weeks</i>			
State Trustees Limited	28 Aug. 2006	✓	28 Aug. 2006
Common Fund No. 1	28 Aug. 2006	✓	28 Aug. 2006
Common Fund No. 2	28 Aug. 2006	✓	28 Aug. 2006

**Appendix 11A**  
**Audit status, Treasury and Finance sector - continued**

Entity	Financial statements signed	Clear opinion issued	Auditor-General's (AG's) report signed
<b>COMPLETED AUDITS – 30 JUNE 2005 BALANCE DATES - continued</b>			
<i>TREASURER - continued</i>			
Equity Common Fund	28 Aug. 2006	✓	28 Aug. 2006
Fixed Interest Common Fund	28 Aug. 2006	✓	28 Aug. 2006
Property Common Fund	28 Aug. 2006	✓	28 Aug. 2006
Charitable Common Fund	28 Aug. 2006	✓	28 Aug. 2006
Premium Cash Fund	28 Aug. 2006	✓	28 Aug. 2006
Premium Cash Plus Fund	28 Aug. 2006	✓	28 Aug. 2006
Premium Diversified Fund	28 Aug. 2006	✓	28 Aug. 2006
Premium Equity Fund	28 Aug. 2006	✓	28 Aug. 2006
Premium Fixed Interest Fund	28 Aug. 2006	✓	28 Aug. 2006
<b>COMPLETED AUDITS – 30 JUNE 2006 BALANCE DATES</b>			
<i>8 to 10 weeks</i>			
Premium International Fund	28 Aug. 2006	✓	28 Aug. 2006
Premium Property Fund	28 Aug. 2006	✓	28 Aug. 2006
STL Financial Services Limited	28 Aug. 2006	✓	28 Aug. 2006
<i>10 to 12 weeks</i>			
State Electricity Commission of Victoria	15 Sept. 2006	✓	15 Sept. 2006
<i>14 to 16 weeks</i>			
Industry Supervision Fund <b>Audit report contained an “emphasis of matter” comment:</b> Attention drawn to disclosures in the financial statements that were not prepared on a going concern basis.	22 Sept. 2006	✓	13 Oct 2006
<i>More than 16 weeks</i>			
Gascor Holdings No. 1 Pty Ltd	31 Oct. 2006	✓	1 Nov. 2006
Gascor Holdings No. 2 Pty Ltd	31 Oct. 2006	✓	1 Nov. 2006
Gascor Holdings No. 3 Pty Ltd	31 Oct. 2006	✓	1 Nov. 2006
Gascor (TH) Pty Ltd	31 Oct. 2006	✓	1 Nov. 2006

**Appendix 11A**  
**Audit status, Treasury and Finance sector - continued**

Entity	Financial statements signed	Clear opinion issued	Auditor-General's (AG's) report signed
<b>COMPLETED AUDITS – 30 JUNE 2005 BALANCE DATES - continued</b>			
<b>WORKCOVER</b>			
<i>8 to 10 weeks</i>			
Accident Compensation Conciliation Service	6 Sept. 2006	✓	6 Sept. 2006
Transport Accident Commission	30 Aug. 2006	✓	30 Aug. 2006
TAC Law Pty Ltd	26 Aug. 2006	✓	26 Aug. 2006
Victorian WorkCover Authority	30 Aug. 2006	✓	30 Aug. 2006
<i>10 to 12 weeks</i>			
Victorian Trauma Foundation	12 Sept. 2006	✓	12 Sept. 2006
Victorian Trauma Foundation Pty Ltd	6 Sept. 2006	✓	12 Sept. 2006
<b>COMPLETED AUDITS – WITH OTHER BALANCE DATES</b>			
Gascor EPL Pty Ltd (e)	31 Oct. 2006	✓	1 Nov. 2006
Gascor IEPL Pty Ltd (e)	31 Oct. 2006	✓	1 Nov. 2006
Gascor KEPL Pty Ltd (e)	31 Oct. 2006	✓	1 Nov. 2006
Gascor MAPL Pty Ltd (e)	31 Oct. 2006	✓	1 Nov. 2006
Gascor MGPL Pty Ltd (e)	31 Oct. 2006	✓	1 Nov. 2006
Gascor SAPL Pty Ltd (e)	31 Oct. 2006	✓	1 Nov. 2006
Gascor SNPL Pty Ltd (e)	31 Oct. 2006	✓	1 Nov. 2006
Gascor (T No.1) Pty Ltd (e)	31 Oct. 2006	✓	1 Nov. 2006
Gascor WAPL Pty Ltd (e)	31 Oct. 2006	✓	1 Nov. 2006
Gascor WPL Pty Ltd (e)	31 Oct. 2006	✓	1 Nov. 2006

**Appendix 11A**  
**Audit status, Treasury and Finance sector - continued**

Entity	Financial statements signed	Clear opinion issued	Auditor-General's (AG's) report signed
<b>COMPLETED AUDITS – WITH OTHER BALANCE DATES - continued</b>			
Government Superannuation Office (f)	30 Mar. 2006	✓	30 Mar. 2006
State Superannuation Fund (f)	30 Mar. 2006	✓	30 Mar. 2006

- (a) These agencies came under the sector's responsibilities, or commenced operations in the year.
- (b) The Emergency Services Superannuation Board prepared separate financial statements for the first time in 2005-06. In previous years, the board's operations formed part of the consolidated financial statements of the Emergency Services Superannuation Scheme.
- (c) On 9 August 2004, pursuant to section 44A(1) of the *Financial Management Act 1994* (FMA), the Minister for Finance directed the Treasury Corporation of Victoria to prepare, in addition to the existing reporting requirements under Part 7 of the FMA, audited concise financial statements for every financial year until otherwise directed.
- (d) For 2005-06, the following trusts were amalgamated into the Victorian Funds Management Corporation, of which aggregate financial statements were prepared:
- VFM Australian Equities Trust
  - VFM Australian Fixed Interest Trust
  - VFM Global Bond Trust
  - VFM Hedged International Equities Trust
  - VFM Income Trust
  - VFM Indexed Bonds Trust
  - VFM International Equities Trust
  - VFM Short Term Money Market Trust.
- (e) These companies were deregistered on 17 March 2006. These financial statements for these entities covered the period from 1 July 2005 through to 17 March 2006.
- (f) The net assets of the Government Superannuation Office and the State Superannuation Fund were integrated into the Emergency Services Superannuation Board on 1 December 2006. The financial statements for these entities covered the period from 1 July through to 1 December 2005.

# 12

## Victorian Communities<sup>1</sup>

### At a glance

#### Background

The Victorian Communities sector comprises 11 agencies. All 11 statements were submitted for audit.

The Department for Victorian communities, in conjunction with the Melbourne 2006 Commonwealth Games Corporation, was also responsible for the delivery of the Commonwealth Games.

#### Key findings

- We issued clear audit opinions on the financial statements of all agencies, except for the Melbourne and Olympic Parks Trust, which were again qualified this year **(see pages 120 to 121)**.
- The quality of the financial statements provided for audit by the sector agencies has remained steady **(see page 122)**.
- No issues were experienced in 2005-06 that delayed the clearance and signing of financial statements. This is consistent with the results of the sector in past reporting periods **(see page 121)**.
- No significant control issues were identified during our audits **(see page 122)**.

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<sup>1</sup> This part does not include the local government sector, which is in Part 13 of this report.

## 12.1 Audit conclusions

The Victorian Communities sector comprises 11 agencies, 10 of which were required to prepare financial statements at 30 June 2006, and one trust<sup>2</sup> whose financial reporting period ended at 31 March 2006. All 11 statements were submitted for audit. We issued clear audit opinions on the financial statements of all agencies, except for the Melbourne and Olympic Parks Trust, which was again qualified this year.

The quality of the financial statements provided for audit by the sector agencies has remained steady, apart from the issues giving rise to the qualification of the Melbourne Olympics Parks Trust. No significant accounting or control issues delayed finalisation of the financial statements for the sector.

## 12.2 Sector overview

The Victorian Communities sector comprises the Department for Victorian Communities and 10 smaller agencies with specific event or service delivery responsibilities.

Local government in Victoria is administered under the *Local Government Act 1989* by Local Government Victoria (a division of the Department for Victorian Communities). Given the size and diversity of the department, and the size and diversity of the local government sector, we have reported the results of our financial audits of local government in Part 13 of this report.

Figure 12A shows Victorian Communities sector agencies (excluding local government) with 30 June 2006 balance dates.

**Figure 12A**  
**Victorian Communities sector agencies with a**  
**30 June 2006 balance date**

Reporting entity	Number
Department and other administrative units	1
Statutory authorities	4
Companies, trusts and joint ventures	5
<b>Total</b>	<b>10</b>

Source: Victorian Auditor-General's Office.

<sup>2</sup> During 2005-06, the Melbourne Cricket Ground Trust was added to the sector following a change in the trust's legislation. The trust now falls under the definition of a public body under the Audit Act.



The department continued to provide support for the Victorian communities, employment and youth affairs, multicultural affairs, women's affairs, Aboriginal affairs and aged care, local government, sport and recreation, and Melbourne 2006 Commonwealth Games ministerial portfolios.

The department includes the Public Records Office, Information Victoria, and the Registry of Births, Deaths and Marriages. It operates 5 sport and recreation camps as well as the Community Support Fund and the Victorian Grants Commission. The department also includes the Office of Commonwealth Games Co-ordination, which was responsible for developing the infrastructure required for the games, planning and funding games' time operations, and the successful delivery of the games.

The department's key financial responsibilities were:

- administration and operation of the Community Support Fund (\$90.95 million in contributions paid into the fund in 2005-06)
- funding of, and payments from, the Victorian Grants Commission to local government (\$398 million)
- coordination and funding of the Melbourne 2006 Commonwealth Games (\$78 million paid in 2005-06)

The other agencies within the sector are:

- Melbourne 2006 Commonwealth Games Corporation, which was responsible for scoping, planning, organising and managing the operational requirements (including negotiating key contracts) for the Melbourne 2006 Commonwealth Games held in March 2006
- 2007 World Swimming Championships Corporation, which is responsible for organising and managing this event to be delivered in March 2007
- Shrine of Remembrance Trustees, which has responsibility for the management and maintenance of the Shrine of Remembrance
- Melbourne and Olympic Parks Trust, and State Sports Centre Trust, which are responsible for the care, improvement, use and promotion of sports facilities (including Melbourne Park, Olympic Park, Melbourne Sports and Aquatic Centre, and the State Netball and Hockey Centre)
- Victorian Institute of Sport and Victorian Institute of Sport Ltd, which give talented athletes the opportunity to achieve at the highest level
- Queen Victoria Women's Centre Trust which, as custodian of the former Queen Victoria Hospital site, manages the development of the site and resources, informs and encourages women throughout the community
- VITS Languagelink, which provides interpreting and translating services
- Melbourne Cricket Ground (MCG) Trust which formulates the strategies required to maintain the Melbourne Cricket Ground as the leading provider of sporting content. The MCG Trust principally manages the land and grounds around the MCG, and oversees any redevelopment and maintenance works.

## 12.3 Results of financial audits

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### 12.3.1 Audit opinions issued

Clear audit opinions were issued on the financial statements of 9 sector agencies with 30 June 2006 balance dates. A clear opinion was also issued on the MCG Trust accounts with a 31 March 2006 balance date. The audit opinion on the Melbourne and Olympic Parks Trust financial statements was qualified. This is a continuing qualification arising from a disagreement with the trust about the appropriate accounting treatment of a past liability, the payments against which gave rise to a material misstatement of expenditure in 2004-05.

The financial statements of the trust have been qualified since 1999 for recognising a liability in respect of future contributions towards the construction of the State Training Velodrome. Audit considers the amount should have been disclosed as a commitment in the notes to the financial statements because it did not satisfy the liability recognition criteria of SAC 4 *Definition and Recognition of the Elements of Financial Statements* which was applicable at that time. In subsequent reporting periods, the trust progressively made payments for works completed in relation to the velodrome, which was offset against the recognised liability. Accordingly, the financial statements for all subsequent reporting periods were qualified with respect to the incorrect recognition of a liability and the understatement of expenses.

For the year ended 30 June 2005, the trust paid \$921 000 towards the construction of the velodrome. This amount was offset against the recognised liability instead of being recognised as an expense. As a result, the comparative information provided in the 30 June 2006 financial statements understates expenses by \$921000, and the net result for the reporting period is overstated by the same amount.

***RESPONSE provided by the Chief Executive Officer, Melbourne and Olympic Parks Trust***

*This year's qualification relates to comparative information provided in the financial statements and, therefore, this issue did not affect the current year's figures.*

*Even so, the trust is firmly of the view that in connection with the funding arrangements for the construction of Vodafone Arena 5 years ago, the government required the trust to make a contribution towards the cost of a new training velodrome. As there was a clear option for the trust to contribute funding towards the cost of the facility, the trust considered it proper to create a provision for the future funding obligation.*

**RESPONSE provided by the Chief Executive Officer, Melbourne and Olympic Parks Trust - continued**

As the trust would not have any ownership of the training velodrome, it was not considered prudent to include the funding obligation in the capitalised cost of Vodafone Arena, so it was expensed at the time of creating the provision. The Auditor-General is of the view that the contributions should have been expensed in the year they were actually paid and not when the trust became aware of the funding obligation. Accordingly, it would seem that the issue has been one of timing and not of substance.

### 12.3.2 Timeliness of reporting

No issues were experienced in 2005-06 that delayed the clearance and signing of financial statements. This is consistent with the results of the sector in past reporting periods.

Figure 12B shows how well sector agencies met the 12-week statutory reporting requirement for 2004-05 and 2005-06. Further details of these agencies is provided in Appendix 12A.

**Figure 12B**  
**Timeliness of completion of audited financial statements, Victorian communities sector**

Number of weeks after end of financial year audited financial statements were finalised	2004-05		2005-06	
	Number of agencies	Per cent (cumulative)	Number of agencies	Per cent (cumulative)
Less than 8 weeks	2	20	1	10
8 to 10 weeks	2	40	4	50
10 to 12 weeks	5	90	3	80
12 to 14 weeks	1	100	2	100
14 to 16 weeks	-	100	-	100
More than 16 weeks	-	100	-	100
<b>Total</b>	<b>10</b>	<b>..</b>	<b>10</b>	<b>-</b>

Note: Excludes MCG Trust as this body has a 31 March balance date.

Source: Victorian Auditor-General's Office.

### 12.3.3 Quality of financial reporting

Apart from the issue resulting in the qualification of the financial statements of the Melbourne and Olympic Parks Trust, the quality of financial statements produced by sector agencies was satisfactory. Audit did not identify any significant reporting issues in 2005-06.

### 12.3.4 Adequacy of control environments

The responsible officer and chief finance officer of every agency are principally responsible for establishing and maintaining a sound control environment and an adequate system of internal controls to ensure that:

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

Our financial audits assess agencies' governance and financial control processes. No significant control issues were identified during our audits.

**Appendix 12A**  
**Audit status, Victorian Communities sector**

Entity	Financial statements signed	Clear opinion issued	Auditor-General's (AG's) report signed
<b>COMPLETED AUDITS – 30 JUNE 2006 BALANCE DATES</b>			
<i>AG's report signed within 8 to 10 weeks of year-end</i>			
Department for Victorian Communities	31 Aug. 2006	✓	4 Sept. 2006
<b>COMMONWEALTH GAMES, AND SPORT AND RECREATION</b>			
<i>Within 8 weeks</i>			
Melbourne 2006 Commonwealth Games Corporation	8 Aug. 2006	✓	8 Aug. 2006
<i>8 to 10 weeks</i>			
2007 World Swimming Championships Corporation	30 Aug. 2006	✓	5 Sept. 2006
Melbourne and Olympic Parks Trust <i>Reason for qualification: The comparative information provided in the 30 June 2006 financial statements understates expenses and overstates net result for the reporting period. This is due to the incorrect recognition of a liability in 2000-01 in respect of future contributions towards the construction of the State Training Velodrome. Payments have been offset against this liability when they should have been expensed.</i>	30 Aug. 2006	Qualified	31 Aug. 2006
State Sport Centres Trust	17 Aug. 2006	✓	5 Sept. 2006
<i>10 to 12 weeks</i>			
Victorian Institute of Sport Ltd	8 Sept. 2006	✓	13 Sept. 2006
Victorian Institute of Sport Trust	8 Sept. 2006	✓	13 Sept. 2006
<b>MULTICULTURAL AFFAIRS</b>			
<i>12 to 14 weeks</i>			
VITS LanguageLink	28 Sept. 2006	✓	29 Sept. 2006

**Appendix 12A**  
**Audit status, Victorian Communities - continued**

Entity	Financial statements signed	Clear opinion issued	Auditor-General's (AG's) report signed
<b>COMPLETED AUDITS – 30 JUNE 2006 BALANCE DATES - continued</b>			
<b><i>VETERAN'S AFFAIRS</i></b>			
<i>12 to 14 weeks</i>			
Shrine of Remembrance Trustees	26 Sept. 2006	✓	26 Sept. 2006
<b><i>WOMEN'S AFFAIRS</i></b>			
<i>10 to 12 weeks</i>			
Queen Victoria Women's Centre Trust	21 Sept. 2006	✓	22 Sept. 2006
<b>COMPLETED AUDITS – WITH OTHER BALANCE DATES</b>			
Melbourne Cricket Ground Trust (1 April 2005 – 31 March 2006)	1 Aug. 2006	✓	1 Aug. 2006



## At a glance

### Background

The Local Government sector comprises 101 entities that were required to prepare financial statements. Local governments (municipal councils) and regional library corporations were also required to prepare standard financial statements at 30 June 2006 and submit them for audit. Local governments were further required to prepare (non-financial) performance statements and have them audited.

### Key findings

- Clear audit opinions were issued on the financial statements and standard statements of all 79 local governments and 13 regional library corporations. We also issued clear audit opinions on the financial statements of all other sector entities, except for those of the Wimmera Development Association **(see pages 134 to 135)**.
- The timeliness of financial reporting in this sector was outstanding with 100 per cent of the entities in the sector finalising their statements within the statutory deadline **(see pages 135 to 137)**.
- The completeness and accuracy of infrastructure assets continues to be an issue for the sector **(see pages 137 to 138)**.
- Inadequate segregation of duties within the accounts payable functions of a number of local governments is weakening the internal control environment **(see page 138)**.

### Key recommendations

13.2 Local governments should address asset recording and management issues to enhance the completeness and accuracy of infrastructure asset figures **(see page 138)**.

13.3 Requisitioning and purchasing functions within accounts payable should be segregated. Where possible this segregation should be automated within the purchasing system **(see page 138)**.

## 13.1 Audit conclusions

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The Local Government sector comprises 101 entities that were required to prepare financial statements at 30 June 2006 and submit them for audit. Local governments (municipal councils) and regional library corporations were also required to prepare standard financial statements at 30 June 2006 and submit them for audit. Local governments were further required to prepare (non-financial) performance statements and have them audited.

We issued clear audit opinions on the financial statements and standard statements of all 79 local governments and 13 regional library corporations. We also issued clear audit opinions on the financial statements of all other sector entities, except for those of the Wimmera Development Association.

We issued clear audit opinions on the performance statements of all local governments.

The timeliness of financial reporting in this sector was outstanding with 100 per cent of the entities in the sector finalising their statements within the 3-month statutory deadline (95 per cent in 2004-05).

The financial performance and financial position of the sector improved again in 2005-06.

The completeness and accuracy of infrastructure assets continues to be an issue for the sector. This is significant given the total value of non-current assets controlled by the sector in 2005-06 was \$43.5 billion, a growth of \$3.2 billion from 2004-05.

Inadequate segregation of duties within the accounts payable functions of a number of local governments is weakening the internal control environment.

## 13.2 Sector overview

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### 13.2.1 Introduction

The state has constitutional responsibility for local governments and provides the legal framework in which local governments operate. Local government in Victoria is administered under the *Local Government Act 1989*.

Local Government Victoria (a division of the Department for Victorian Communities) administers the Act. Given the size and diversity of the department, and the size and diversity of the local government sector, we have reported the results of entities from these groups within separate parts of this report.

Figure 13A shows the nature of the local government entities with a 30 June balance date.



**Figure 13A**  
**Local Government sector entities with a 30 June balance date**

Reporting entity	2005	2006
Local governments	79	<b>79</b>
Regional library corporations (a)	14	<b>13</b>
Companies, trusts and joint ventures	9	<b>9</b>
<b>Total</b>	<b>102</b>	<b>101</b>

(a) Glenelg Regional Library Corporation was wound-up on 30 June 2005.

Source: Victorian Auditor-General's Office.

As well as auditing the financial statements of entities in the sector, we audited the standard statements that local governments and regional library corporations are required to prepare under the *Local Government Act 1989*. We also audited the performance statements prepared by local governments.

### 13.2.2 Financial performance and position

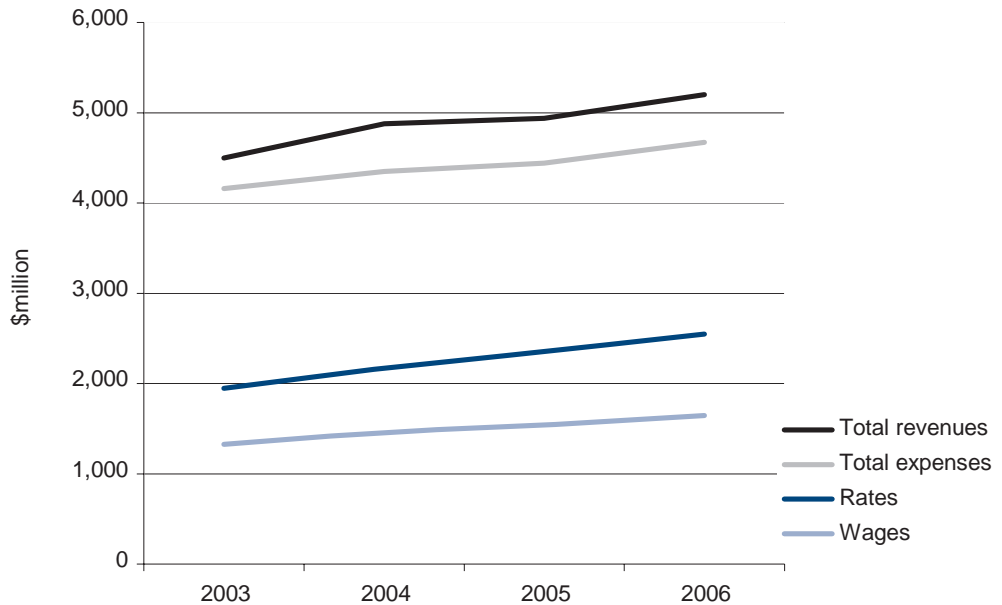
In 2005-06, local governments collected \$5.2 billion in revenue (\$4.9 billion in 2004-05) and spent \$4.7 billion (\$4.4 billion in 2004-05) on services.

In 2005-06, total local government revenue grew by \$259.8 million, or 5.3 per cent. The main area of growth was rate revenue (up \$196.3 million, or 8.3 per cent) and government grant revenue (up \$101.2 million, or 10.4 per cent).

In 2005-06, total local government expenditure grew by \$229.4 million, or 5.2 per cent. The main area of growth was in wages (up \$104.3 million, or 6.8 per cent), materials and contract costs (up \$67.1 million, or 4.1 per cent) and depreciation (up \$35.7 million, or 4.6 per cent).

Figure 13B shows trends over the last 4 years in total local government revenue, expenditure, rates revenue and wages expenditure.

**Figure 13B**  
**Local government revenue and expenditure trends**



Source: Victorian Auditor-General's Office.

Local governments' net assets grew in value by \$3.1 billion (or 7.8 per cent), to \$45.2 billion at 30 June 2006. The growth in net assets is mostly attributed to continued growth in the value of infrastructure assets from revaluations, additions and adjustments.

While current assets grew by \$87 million (or 5 per cent), current liabilities also grew by \$43.3 million (or 5 per cent).

### 13.2.3 Financial viability

#### Local government

This year, we again reviewed local governments' performance against a number of indicators, rather than focusing solely on the bottom-line operating result.

The 5 indicators of short-term viability and long-term sustainability which local governments' have been measured against are their underlying result, liquidity ratio, indebtedness, self-financing capabilities, and investment gap ratio.

Figure 13C shows the performance of local governments for the past 4 years. It should be noted that the financial data used for the indicators before 2004-05 is based on superseded accounting standards and, therefore, will not be directly comparable with more recent results.

**Figure 13C**  
**Local Government financial performance indicators**

Indicator	Formula	2002-03	2003-04	2004-05	2005-06
<b>Underlying result</b>	Adjusted net surplus/total underlying revenue	-1.9%	1.7%	2%	2%
<b>Liquidity</b>	Current assets: Current liabilities	2.06:1	2.20:1	2.03:1	2.03:1
<b>Indebtedness</b>	Non-current liabilities/own-sourced revenue	25.3%	23.7%	21%	19%
<b>Self-financing</b>	Net operating cash flows/ underlying revenue	19.6%	19.0%	20%	21%
<b>Investment gap</b>	Capital spend: depreciation	1.16:1	1.17:1	1.22:1	1.295:1

Source: Victorian Auditor-General's Office.

### *Underlying result*

This is a measure of local governments' surpluses (or deficits) as a percentage of their revenues. For surpluses, the higher the percentage, the stronger the result.

A negative result indicates a deficit. Operating deficits cannot be sustained in the longer-term, and deficits by their nature shift the burden of today's costs to future ratepayers.

The underlying result for the sector in 2005-06 was 2 per cent with the lowest result being negative 15.5 per cent and the highest result 16 per cent.

The trend for the underlying result indicates the sector as a whole is reporting stronger surpluses. At the municipal council level, there has also been an improvement in this indicator with only 23 councils having reported negative underlying results, compared with 36 in 2004-05. Of the 23, only Moorabool Shire Council reported an underlying deficit greater than 10 per cent.

### *Liquidity*

This is a measure of local governments' ability to pay their existing liabilities in the next 12 months.

The overall liquidity for the sector in 2005-06 was 2.03:1. The highest liquidity reported was 4.49:1 and the lowest was 0.64:1.

The liquidity indicator shows a consistent position between 2004-05 and 2005-06. The fall in this ratio from 2003-04 onwards is largely attributable to the reclassification of the long service leave liability to current, in accordance with the requirements of the new accounting standards.

The liquidity indicator shows a consistent position between 2004-05 and 2005-06. The fall in this ratio from 2003-04 onwards is largely attributable to the reclassification of the long service leave liability to current, in accordance with the requirements of the new accounting standards.

Only Greater Dandenong Council had liquidity issues, with a liquidity ratio less than 1:1 for the past 2 financial years. Greater Geelong Council has improved its liquidity moving from a ratio of 0.65:1 in 2004-05 to a ratio of 1.04:1 in 2005-06.

***RESPONSE provided by Greater Dandenong Council***

*Greater Dandenong's liquidity ratio was below 1 in 2004-05 and 2005-06 due to some major capital projects that were initiated in those years. Council made a conscious decision to run deficit cash budgets in those years in order to accommodate those projects, 2 of which were the new Drum Theatre in Dandenong and the community service centre in Noble Park. The decision to run deficit budgets in those 2 years were based on a medium to longer-term view of council's cash position, which is projected to return to positive. The liquidity ratios (measured at 30 June) projected for the next 5 years in council's long-term financial plan range from 0.9 (2007-08) to 1.03 (2008-09), with net cash inflows from operations ranging between 23 per cent and 35 per cent of total revenue.*

***Indebtedness***

This is a longer-term measure that compares non-current liabilities (which mainly comprises borrowings) to own-sourced revenue. It complements the liquidity ratio which is a shorter-term measure. The higher the percentage, the less local governments are able to cover their non-current liabilities from the revenues they generate themselves. Own-sourced revenue is used (rather than total revenue) because it does not include capital grants, which are generally tied to specific projects and cannot be used to retire debt.

Consistent with the comments made for liquidity, the indebtedness indicator has been impacted by a change in accounting for employee entitlements with a larger portion of the entitlements now classified as current liabilities reducing the level of non-current liabilities. The improvement in the indebtedness indicator from 2003-04 to 2004-05 and 2005-06 is largely a consequence of this change in accounting treatment.

The indebtedness of the sector overall for 2005-06 was 19 per cent. The range of results for councils was varied with the most indebted council recording a negative ratio of 101.2 per cent. The strongest performing council against this indicator had an indebtedness ratio of only 1.3 per cent.

In 2005-06, 7 councils reported an indebtedness indicator equal to or greater than 50 per cent indicating long-term difficulties repaying liabilities from revenue. This is an improvement on 2004-05 where the financial statements of 9 councils indicated indebtedness concerns. Of the 7 councils identified in 2005-06, 5 also had indebtedness indicators greater than 50 per cent in 2004-05. These 5 councils were Cardinia Shire Council, Benalla Rural City Council, Wodonga Rural City Council, Strathbogie Shire Council and Baw Baw Shire Council.

***RESPONSE provided by Shire of Strathbogie***

*Council's result does not indicate a long-term difficulty in the repayment of liabilities from revenue. Indeed, the suggestion that council's results indicates long-term difficulties contradicts the outcomes of the recent borrowings data Collection for 2007-08 provided for the Department for Victorian Communities which indicates that council's current and forecast debt indicators satisfy their prudential requirements.*

***RESPONSE provided by Benalla Rural City Council***

*Benalla Rural City Council has utilised loans as an important source for capital works. As identified in council's long-term financial plan it will be necessary to continue to supplement capital works with loan funds in the medium-term. Council will maintain its policy of monitoring its non-current liabilities against key prudential ratios.*

***RESPONSE provided by the City of Wodonga***

*Council's debt strategy is in the context of a 10-year financial plan which provides for the managing of this debt in a way which will improve council's financial position over that period.*

*Part of council's debt relates to a major economic development project, "logic" which is a project of state significance, and which is conservatively valued in council's accounts at well in excess of the applicable debt (\$8.5 million debt/asset of \$23.6 million). This project is beginning to generate significant rate revenue which further strengthens council's position.*

*Other financial indicators in this report are strong, including a liquidity ratio of 4.3:1, capital investment/depreciation of 2.6:1 and an underlying result of 10.2 per cent.*

***RESPONSE provided by the Baw Baw Shire Council***

*Baw Baw Shire manages the structured long-term debt extending over the next 10 years by constraining the annual debt repayments to less than 10 per cent of rate revenue.*

***Self-financing***

This is a measure of local governments' ability to fund the replacement of assets from cash generated by their operations: the higher the percentage, the more able they are to do so.

The self-financing indicator for the sector overall for 2005-06 is 21 per cent, with the lowest result recorded being negative 73 per cent and the highest result recorded being 95 per cent.

Steady improvement in the self-financing indicator has occurred each year over the past 4 years. Only 2 councils reported a negative self-financing indicator in 2005-06, with a further 2 reporting percentages close to zero.

***Investment gap***

This is a measure of whether local governments are spending on infrastructure at a greater rate than the infrastructure is depreciating. Ratios higher than 1:1 (for example, 2:1) indicate that they are. It is a longer-term indicator, because capital expenditure can be deferred if there are insufficient funds available from operations and borrowing is not an option.

The investment gap ratio for the sector overall for 2005-06 was 1.30:1 which is a good result. The highest ratio was 2.74:1, and the lowest ratio was 0.84:1.

The results for the sector over the past 4 financial years indicate spending on infrastructure is increasing when compared with the level of depreciation reported. In particular, the 2005-06 figures are an improvement on 2004-05 where 35 councils reported investment gap ratios less than one; compared with 22 councils this year.

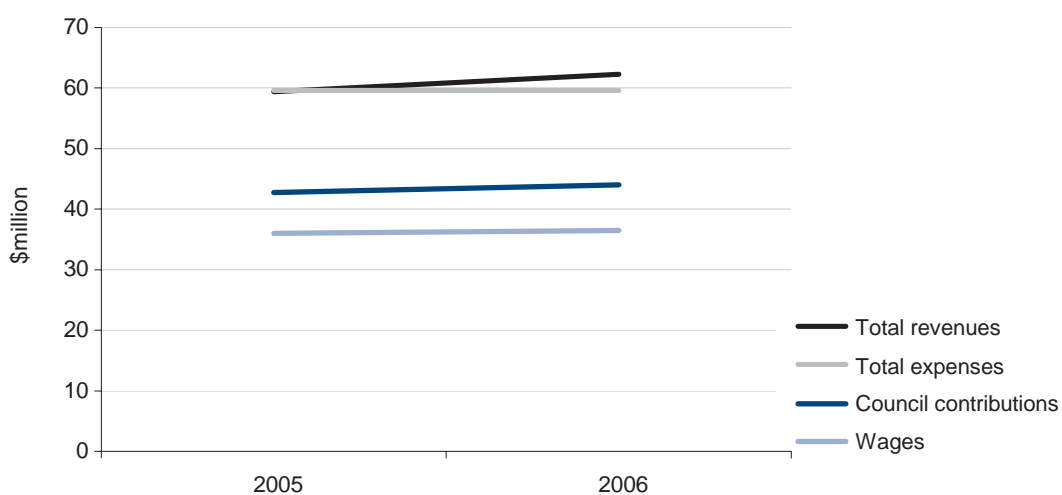
***Conclusion***

The performance of local governments as a group has improved consistently over the past 4 financial years. Some exceptions to these trends exist within the sector and councils need to continue to perform annual self-assessments to identify trends within their council.

***Regional library corporations***

In 2005-06, the regional library corporation's total operating revenue as a group grew more than costs. Cash reserves correspondingly increased. Figure 13D shows trends over the last 2 years in total revenue, expenditure, council contributions and wages expenditure reported by the regional library corporations.

**Figure 13D**  
**Regional library revenue and expenditure trends**



Source: Victorian Auditor-General's Office.

The 2-year trend suggests that the library sector's financial performance is improving, as the gap between expenditure and revenue is growing. In contrast in 2004-05, regional library corporations overall generated a combined net operating deficit.

Figure 13E shows the average performance of the 13 regional library corporations for the past 2 years against the 5 indicators of short-term viability and longer-term sustainability<sup>1</sup>.

**Figure 13E**  
**Regional library financial performance indicators**

Indicator	Formula	2004-05	2005-06	Trend
<b>Underlying result</b>	Adjusted net surplus/total underlying revenue	-0.3%	<b>4.4%</b>	<b>+</b>
<b>Liquidity</b>	Current assets:current liabilities	1.28:1	<b>1.54:1</b>	<b>+</b>
<b>Indebtedness</b>	Non-current liabilities/own-sourced revenue	41.0%	<b>23.1%</b>	<b>+</b>
<b>Self-financing</b>	Net operating cash flows/underlying revenue	19.4%	<b>21.9%</b>	<b>+</b>
<b>Investment gap</b>	Capital spend:depreciation	1.07:1	<b>1.18:1</b>	<b>+</b>

Source: Victorian Auditor-General's Office.

<sup>1</sup> Regional libraries might find these indicators useful as benchmarks against which to compare their financial performance.

In 2005-06, the total combined surplus of all regional library corporations was \$2.7 million, compared with a combined deficit of \$206 000 in 2004-05. The number of libraries reporting an underlying deficit improved from 6 in 2004-05 to 4 in 2005-06. However, part of the reason for this improvement is that the Glenelg Regional Library Corporation ceased operations in 2004-05 – it reported an underlying deficit of \$1.17 million or 68.8 per cent in that year. Corangamite Regional Library Corporation and Yarra Plenty Regional Library Corporation reported negative underlying results for both financial years.

However, the combined underlying deficit of the 4 regional libraries in 2005-06 was \$345 000, compared with \$1.83 million last year.

The liquidity ratio for regional library corporations improved in 2005-06, however, there were still 5 regional libraries with liquidity ratios under 1:1, and only 2 with liquidity ratios above 2:1.

### *Conclusion*

Regional library corporations as a group have shown an improvement in performance against the above 5 indicators..

## 13.3 Results of financial audits

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### 13.3.1 Audit opinions issued

We issued clear audit opinions on the financial statements of all 79 local governments and 13 regional library corporations.

Last year, we qualified our audit opinion on the financial statements of Gannawarra Shire Council and Moira Shire Council as neither council could demonstrate that the value at which they carried some categories of infrastructure assets in their financial statements was accurate. Neither had updated or reviewed valuations that were several years old and, in one case, dated back to 2000. Both councils have now addressed these issues and the qualifications were removed for 2005-06.

We issued clear audit opinions on all standard statements prepared by local governments and the regional library corporations. The qualifications issued on the audit opinions on the 2004-05 standard statements of Gannawarra Shire Council, Moira Shire Council, and the North Central Goldfields Regional Library Corporation have been removed. Our qualification of the 2004-05 Gannawarra and Moira standard statements was a consequence of the qualification of their financial statements in that same year. North Central Goldfields' statements were qualified in 2004-05 because the corporation did not include all of its standard statements in its approved budget document.



Local governments are also required by the *Local Government Act 1989* to produce performance statements and to have these audited. Last year, we issued qualified opinions on the performance statements of Melton Shire Council and Gannawarra Shire Council. These qualifications have been removed in 2005-06 as both councils included key strategic activities and related performance measures in approved budget documents.

As in previous years, we issued clear audit opinions on the financial statements of 8 of the 9 other entities (trusts, companies and joint ventures) that were controlled by local governments. We again qualified the financial statements of the Wimmera Development Association because it continued to defer the recognition of grant and other revenues received until the money is spent. This approach is contrary to the provisions of accounting standards.

### 13.3.2 Timeliness of reporting

Under section 126 of the *Local Government Act 1989*, local governments and regional library corporations must submit their annual reports (including audited financial and standard statements) to the relevant minister by 30 September each year. Local governments must include their performance statements in their annual reports.

Figure 13F and 13G shows how well local governments and regional library corporations performed in having their audited financial statements completed by 30 September. Further detail of these municipal councils and library corporations is provided in Appendix 13A.

**Figure 13F**

**Timeliness of audited financial statement completion, local governments**

Number of weeks after end of financial year audited financial statements were finalised	2004-05		2005-06	
	Number of agencies	Per cent (cumulative)	Number of agencies	Per cent (cumulative)
Less than 2 months	2	3	2	3
2 to 3 months (September 30 deadline)	76	99	77	100
3 to 4 months	1	100	-	100
Over 4 months	-	100	-	100
<b>Total</b>	<b>79</b>	<b>..</b>	<b>79</b>	<b>..</b>

Source: Victorian Auditor-General's Office.

It was pleasing to note that all local governments achieved the 30 September deadline for 2005-06. This is particularly significant given the complexity associated with first time adoption of Australian equivalents to International Financial Reporting Standards (A-IFRS). The benefit of better quality financial statements and cooperation between preparers and auditors is clearly evident to achieve this level of timeliness.

**Figure 13G**  
**Timeliness of audited financial statement completion, regional library corporations**

Number of weeks after end of financial year audited financial statements were finalised	2004-05		2005-06	
	Number of agencies	Per cent (cumulative)	Number of agencies	Per cent (cumulative)
Less than 2 months	-	-	<b>1</b>	<b>8</b>
2 to 3 months (September 30 deadline)	13	93	12	100
3 to 4 months	1	100	-	100
Over 4 months	-	100	-	100
<b>Total</b>	<b>14</b>	<b>..</b>	<b>13</b>	<b>..</b>

Source: Victorian Auditor-General's Office.

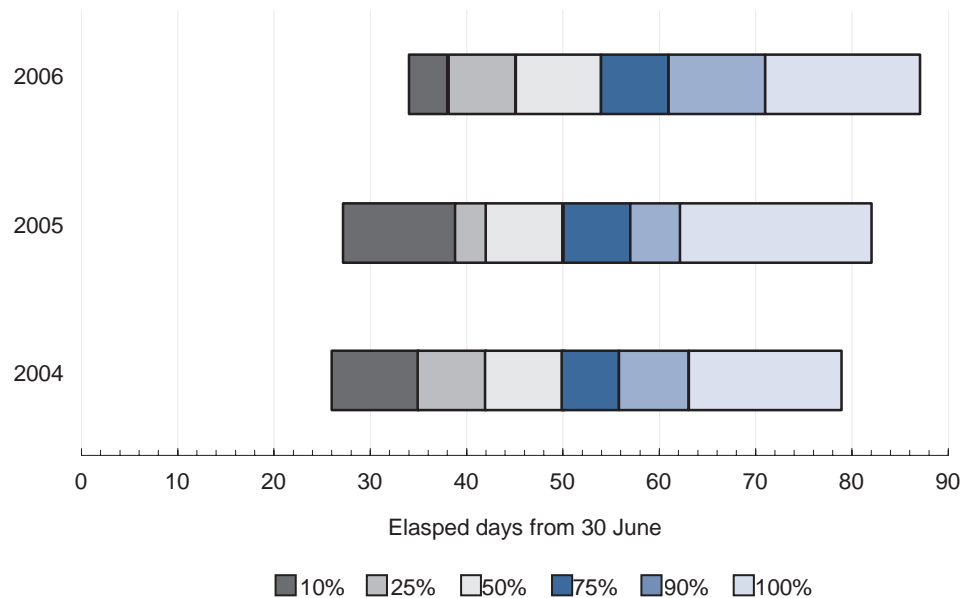
In addition, all 9 local government companies, trusts and joint ventures had been audited.

While all local governments met the deadline for lodging their annual reports, the draft financial statements were prepared in a less timely manner than in past years. With new accounting standards being applicable for the first time in 2005-06, significant additional work was required by local governments, particularly around presentation and disclosure.

Figure 13F shows (in percentile bands and for the past 3 years) the time after 30 June that local governments provided a first acceptable draft set of financial statements to our Office. In 2005-06, 10 per cent submitted their draft statements for audit within 38 days of 30 June. All local governments submitted their draft statements within 87 days of 30 June.

The average elapsed time in 2006 was 54 days, compared with 51 days in 2005 and 50 days in 2004. Best practice (that is, what the quickest 10 per cent of local governments did) was less than 38 days. The quickest (Whitehorse City Council) submitted draft statements for audit 34 days after 30 June.

**Figure 13H**  
**Time taken by local governments to provide draft statements**



Source: Victorian Auditor-General's Office.

## Recommendation

13.1 To reverse the trend of increasing the time taken to provide financial statements for audit, local governments should review the process for preparing financial statements and identify areas for improvement, identify balances which can be prepared prior to year-end and generate "shell" statements before the end of the financial year.

### 13.3.3 Financial reporting issues

The following 2 issues have been identified as impacting on the quality of financial reporting and effective internal control environments for local government.

#### Completeness and accuracy of infrastructure assets

The local government sector continues to process significant adjustments to infrastructure asset balances. This issue was reported in 2004-05 where concerns were raised that local governments continued to make such significant adjustments and while these adjustments help to improve the accuracy of asset records, local governments needed to pay greater attention to ensuring that records of all assets are complete and accurate.

It was further recommended that the recognition and recording of infrastructure assets within asset management systems be addressed to improve the quality of infrastructure asset information.

While some councils are investing time to improve their asset management, the level of adjustments processed again in 2005-06 indicates that issues around the completeness and accuracy of infrastructure assets still exist in a large number of councils.

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## Recommendation

13.2 Local governments should address asset recording and management issues to enhance the completeness and accuracy of infrastructure asset figures.

### Segregation of duties within accounts payable

It has been noted that an increasing trend across the industry is to allow staff with a delegation to raise a purchase order, receipt the goods or service, and approve the payment of the supplier, without the involvement of an independent second party. The increasing automation of the purchasing process enables this to occur without transparency.

This lack of segregation of accounts payable duties increases the risk of inappropriate purchases and/or misappropriation of assets, and also increases the risk of fraud and error.

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## Recommendations

13.3 Requisitioning and purchasing functions within accounts payable should be segregated. Where possible, this segregation should be automated within the purchasing system.

13.4 Approval for purchases should be provided by a person independent of the creation of a purchase order.

**Appendix 13A**  
**Audit status, Local Government sector**

Entity	Financial statements signed	Clear opinion issued (a)	Auditor-General's (AG's) report signed (b)
<b>COMPLETED AUDITS – 30 JUNE 2006 BALANCE DATES</b>			
<b><i>MUNICIPAL COUNCILS AND ASSOCIATED COMPANIES</i></b>			
<i>AG's report signed within 3 months after year-end</i>			
Alpine Shire Council	18 Sept. 2006	✓	25 Sept. 2006
Ararat Rural City Council	7 Sept. 2006	✓	15 Sept. 2006
Ballarat City Council	18 Sept. 2006	✓	25 Sept. 2006
Banyule City Council	18 Sept. 2006	✓	21 Sept. 2006
Bass Coast Shire Council	20 Sept. 2006	✓	21 Sept. 2006
Baw Baw Shire Council	13 Sept. 2006	✓	21 Sept. 2006
Bayside City Council	19 Sept. 2006	✓	20 Sept. 2006
Benalla Rural City Council	25 Sept. 2006	✓	27 Sept. 2006
Borough of Queenscliffe	19 Sept. 2006	✓	21 Sept. 2006
Boroondara City Council	18 Sept. 2006	✓	25 Sept. 2006
Brimbank City Council	15 Sept. 2006	✓	18 Sept. 2006
Buloke Shire Council	28 Sept. 2006	✓	29 Sept. 2006
Campaspe Shire Council	5 Sept. 2006	✓	15 Sept. 2006
Cardinia Shire Council	28 Sept. 2006	✓	29 Sept. 2006
Casey City Council	12 Sept. 2006	✓	19 Sept. 2006
Central Goldfields Shire Council	8 Sept. 2006	✓	19 Sept. 2006
Colac-Otway Shire Council	18 Sept. 2006	✓	25 Sept. 2006
Corangamite Shire Council	12 Sept. 2006	✓	19 Sept. 2006
Darebin City Council	11 Sept. 2006	✓	13 Sept. 2006
East Gippsland Shire Council	19 Sept. 2006	✓	20 Sept. 2006
Frankston City Council	12 Sept. 2006	✓	15 Sept. 2006
Gannawarra Shire Council	28 Sept. 2006	✓	29 Sept. 2006
Glen Eira City Council	18 Sept. 2006	✓	20 Sept. 2006
Glenelg Shire Council	22 Aug. 2006	✓	31 Aug. 2006
Golden Plains Shire Council	14 Sept. 2006	✓	20 Sept. 2006
Greater Bendigo City Council	15 Sept. 2006	✓	20 Sept. 2006

**Appendix 13A**  
**Audit status, Local Government sector - continued**

Entity	Financial statements signed	Clear opinion issued (a)	Auditor-General's (AG's) report signed (b)
<b>COMPLETED AUDITS – 30 JUNE 2006 BALANCE DATES – continued</b>			
<b><i>MUNICIPAL COUNCILS AND ASSOCIATED COMPANIES - continued</i></b>			
Greater Dandenong City Council	25 Sept. 2006	✓	26 Sept. 2006
Greater Geelong City Council	29 Aug. 2006	✓	7 Sept. 2006
Greater Shepparton City Council	11 Sept. 2006	✓	18 Sept. 2006
Hepburn Shire Council	19 Sept. 2006	✓	26 Sept. 2006
Hindmarsh Shire Council	25 Sept. 2006	✓	26 Sept. 2006
Hobsons Bay City Council	12 Sept. 2006	✓	15 Sept. 2006
Horsham Rural City Council	18 Sept. 2006	✓	25 Sept. 2006
Hume City Council	25 Sept. 2006	✓	26 Sept. 2006
Indigo Shire Council	8 Sept. 2006	✓	15 Sept. 2006
Kingston City Council	21 Sept. 2006	✓	25 Sept. 2006
Knox City Council	15 Sept. 2006	✓	21 Sept. 2006
Latrobe City Council	19 Sept. 2006	✓	20 Sept. 2006
Loddon Shire Council	6 Sept. 2006	✓	11 Sept. 2006
Macedon Ranges Shire Council	18 Sept. 2006	✓	20 Sept. 2006
Manningham City Council	14 Sept. 2006	✓	15 Sept. 2006
Mansfield Shire Council	19 Sept. 2006	✓	27 Sept. 2006
Maribyrnong City Council	6 Sept. 2006	✓	11 Sept. 2006
Maroondah City Council	11 Sept. 2006	✓	19 Sept. 2006
Melbourne City Council	29 Aug. 2006	✓	1 Sept. 2006
Melton Shire Council	11 Sept. 2006	✓	15 Sept. 2006
Mildura Rural City Council	27 Sept. 2006	✓	28 Sept. 2006
Mitchell Shire Council	18 Sept. 2006	✓	21 Sept. 2006
Moira Shire Council	11 Sept. 2006	✓	19 Sept. 2006
Monash City Council	19 Sept. 2006	✓	26 Sept. 2006
Moonee Valley City Council	21 Sept. 2006	✓	21 Sept. 2006
Moorabool Shire Council	26 Sept. 2006	✓	26 Sept. 2006
Moreland City Council	20 Sept. 2006	✓	27 Sept. 2006
Mornington Peninsula Shire Council	18 Sept. 2006	✓	26 Sept. 2006

**Appendix 13A**  
**Audit status, Local Government sector - continued**

Entity	Financial statements signed	Clear opinion issued (a)	Auditor-General's (AG's) report signed (b)
<b>COMPLETED AUDITS – 30 JUNE 2006 BALANCE DATES – continued</b>			
<b><i>MUNICIPAL COUNCILS AND ASSOCIATED COMPANIES - continued</i></b>			
Mount Alexander Shire Council	26 Sept. 2006	✓	28 Sept. 2006
Moyne Shire Council	11 Sept. 2006	✓	13 Sept. 2006
Murrundindi Shire Council	19 Sept. 2006	✓	20 Sept. 2006
Nillumbik Shire Council	8 Sept. 2006	✓	13 Sept. 2006
Northern Grampians Shire Council	25 Sept. 2006	✓	27 Sept. 2006
Port Phillip City Council	6 Sept. 2006	✓	13 Sept. 2006
Pyrenees Shire Council	26 Sept. 2006	✓	27 Sept. 2006
South Gippsland Shire Council	14 Sept. 2006	✓	21 Sept. 2006
Southern Grampians Shire Council	26 Sept. 2006	✓	26 Sept. 2006
Stonnington City Council	11 Sept. 2006	✓	14 Sept. 2006
Strathbogje Shire Council	19 Sept. 2006	✓	27 Sept. 2006
Surf Coast Shire Council	8 Sept. 2006	✓	11 Sept. 2006
Swan Hill Rural City Council	26 Sept. 2006	✓	27 Sept. 2006
Towong Shire Council	11 Sept. 2006	✓	25 Sept. 2006
Wangaratta Rural City Council	22 Sept. 2006	✓	27 Sept. 2006
Warrnambool City Council	11 Sept. 2006	✓	13 Sept. 2006
Wellington Shire Council	7 Sept. 2006	✓	13 Sept. 2006
West Wimmera Shire Council	8 Sept. 2006	✓	15 Sept. 2006
Whitehorse City Council	11 Sept. 2006	✓	15 Sept. 2006
Whittlesea City Council	19 Sept. 2006	✓	25 Sept. 2006
Wodonga Rural City Council	18 Sept. 2006	✓	20 Sept. 2006
Wyndham City Council	6 Sept. 2006	✓	11 Sept. 2006
Yarra City Council	22 Sept. 2006	✓	26 Sept. 2006
Yarra Ranges Shire Council	22 Aug. 2006	✓	31 Aug. 2006
Yarriambiack Shire Council	21 Sept. 2006	✓	28 Sept. 2006

**Appendix 13A**  
**Audit status, Local Government sector - continued**

Entity	Financial statements signed	Clear opinion issued (a)	Auditor-General's (AG's) report signed (b)
<b>COMPLETED AUDITS – 30 JUNE 2006 BALANCE DATES – continued</b>			
<b><i>REGIONAL LIBRARY CORPORATIONS</i></b>			
<i>Within 3 months</i>			
Casey - Cardinia Regional Library Corporation	24 Aug. 2006	✓	28 Aug. 2006
Central Highlands Regional Library Corporation	13 Sept. 2006	✓	27 Sept. 2006
Corangamite Regional Library Corporation	18 Sept. 2006	✓	19 Sept. 2006
Eastern Regional Library Corporation	11 Sept. 2006	✓	21 Sept. 2006
Geelong Regional Library Corporation	4 Sept. 2006	✓	4 Sept. 2006
Goulburn Valley Regional Library Corporation	25 Sept. 2006	✓	26 Sept. 2006
High Country Regional Library Corporation	13 Sept. 2006	✓	13 Sept. 2006
North Central Goldfields Regional Library Corporation	19 Aug. 2006	✓	19 Sept. 2006
West Gippsland Regional Library Corporation	26 Sept. 2006	✓	28 Sept. 2006
Whitehorse Manningham Regional Library Corporation	23 Aug. 2006	✓	8 Sept. 2006
Wimmera Regional Library Corporation	25 Sept. 2006	✓	26 Sept. 2006
Yarra Melbourne Regional Library Corporation	27 Sept. 2006	✓	27 Sept. 2006
Yarra Plenty Regional Library Corporation	26 Sept. 2006	✓	26 Sept. 2006
<b><i>ASSOCIATED COMPANIES</i></b>			
<i>Less than 2 months</i>			
CityWide Service Solutions Pty Ltd	16 Aug. 2006	✓	18 Aug. 2006
Queen Victoria Market Pty Ltd	15 Aug. 2006	✓	18 Aug. 2006
Prahran Market Pty Ltd	31 Aug. 2006	✓	31 Aug. 2006



**Appendix 13A**  
**Audit status, Local Government sector - continued**

Entity	Financial statements signed	Clear opinion issued (a)	Auditor-General's (AG's) report signed (b)
<b>COMPLETED AUDITS – 30 JUNE 2006 BALANCE DATES – continued</b>			
<b>ASSOCIATED COMPANIES – continued</b>			
<i>2 to 3 months</i>			
City Library Joint Venture	27 Sept. 2006	✓	27 Sept. 2006
Melbourne Wholesale Fish Market Pty Ltd	15 Sept. 2006	✓	18 Sept. 2006
Streetsahead Cleaning Services	20 Sept. 2006	✓	20 Sept. 2006
Regent Management Company Pty Ltd	29 Sept. 2006	✓	29 Sept. 2006
Sustainable Melbourne Trust Fund	29 Sept. 2006	✓	29 Sept. 2006
Wimmera Development Association <i>Reason for qualification: Inappropriate disclosure of non-reciprocal grants.</i>	29 Sept. 2006	Qualified	29 Sept. 2006

(a) In the case of local governments and regional library corporations, audit opinions refer to the financial and standard statements prepared by these entities.

(b) Auditor-General's report includes the financial statements, standard statements and performance statements, all of which were submitted for audit.

# Auditor-General's reports

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2006-07

<b>Report title</b>	<b>Date issued</b>
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Making travel safer: Victoria's speed enforcement program (2006:7)	July 2006
Results of special audits and other investigations (2006:8)	August 2006
Condition of public sector residential aged care facilities (2006:9)	August 2006
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Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2005-06 (2006:11)	September 2006

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