

VICTORIA

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Victorian  
Auditor-General

# Results of Financial Statement Audits for Agencies with 30 June 2007 Balance Dates

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VAGO

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 the *Results of Financial Statement Audits for Agencies with 30 June 2007 Balance Dates*.

Yours faithfully



DDR PEARSON  
*Auditor-General*

5 December 2007

# Foreword

This report summarises the results of financial statement audits of the 388 State entities with 30 June 2007 balance dates, and the status of audits previously reported as incomplete.

The objective of the report is to bring together the results of these financial statement audits and, by doing so, provide Parliament with assurance regarding the overall level of accountability of these entities while also informing the ongoing improvement of the financial administration and reporting process.

Key indicators of the quality of financial reporting are the number of qualified audit opinions issued and the timeliness of financial reporting. While I am pleased that all but three of the audit opinions issued were clear, there was a deterioration in the timeliness of reporting compared with the previous year. This is disappointing given that the time frames achieved last year were in more challenging circumstances. Reporting on the 2005-06 period was affected by significant change to the financial reporting framework due to the first time adoption of Australian equivalents to International Financial Reporting Standards. In contrast, there were no significant new disclosure, or changed accounting requirements in respect of the 2006-07 reporting period.

This highlights a need for entities to develop remedial strategies for 2008 to address delay points and ensure both legislated and better practice reporting time frames are met.

The internal control frameworks established to ensure reliable financial reporting were again found to be sound in most agencies. However, a number of agencies still require improvement to their control environments. Primarily, these exposures are around information systems and have been raised in previous reports.



DDR PEARSON  
*Auditor-General*

5 December 2007

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# 1 Summary of audit results

## At a glance

### Background

There were 388 State Government agencies required to prepare financial statements for the financial year ended 30 June 2007.

### Key findings

- We issued audit opinions on the financial statements of 356 entities, of which 353 were unqualified. Three agencies received qualified opinions, and 32 agencies' statements remained outstanding at 31 October 2007.
- The average elapsed time to finalise the financial statements was 11 weeks. While this compared favourably with the 12-week benchmark, the average elapsed time increased by over one week compared with 2005-06.
- Nine stand-alone community health centres remain unaccountable to Parliament. These centres did not submit their 2006-07 financial statements for audit by the Auditor-General.
- The internal control frameworks established to ensure reliable financial reporting were found to be sound in most agencies.
- Several general and information systems control weaknesses reported in previous years' reports have not been addressed.



## At a glance - *continued*

### 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 take action to address the causes of delay.
- 1.2 All agencies should develop strategies to improve the timeliness of their financial reporting.
- 1.3 Agencies should self-assess against the commonly identified weaknesses in general and information systems control environments, and implement any required changes to ensure that their information systems are appropriate and operating effectively.
- 1.4 All public sector agencies should review the adequacy of their fraud management practices.

#### ***RESPONSE provided by Secretary, Department of Treasury and Finance***

*The Auditor-General's report acknowledges the positive financial reporting and financial management outcomes achieved by Victorian public sector agencies during the 2006-07 financial year. In particular, the reducing incidence of unqualified audit opinions; the maintenance of sound internal controls frameworks; and the achievement by most agencies of reporting timelines better than those mandated by legislation.*

*These results support my Department's commitment to ensuring that public sector agencies maintain strong financial management processes supporting the delivery of key financial reports, and to working closely with agencies to ensure that the quality and timeliness of financial reporting continues to improve - building on the high standard already being delivered.*

*With regards to stand alone Community Health Centres, my Department acknowledges the need to clarify the public accountability responsibilities and, in particular, the applicability of the Financial Management Act 1994 requirements, to these entities. In this regard, officers from this Department have been working closely with the Department of Human Services to address these issues as soon as possible.*

## 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 2007 balance dates.

## 1.2 Reporting framework

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State agencies are required to prepare financial statements by the *Financial Management Act 1994*, the *Corporations Act 2001*, and other legislation. In addition, 16 water sector agencies are also required to prepare non-financial performance statements.

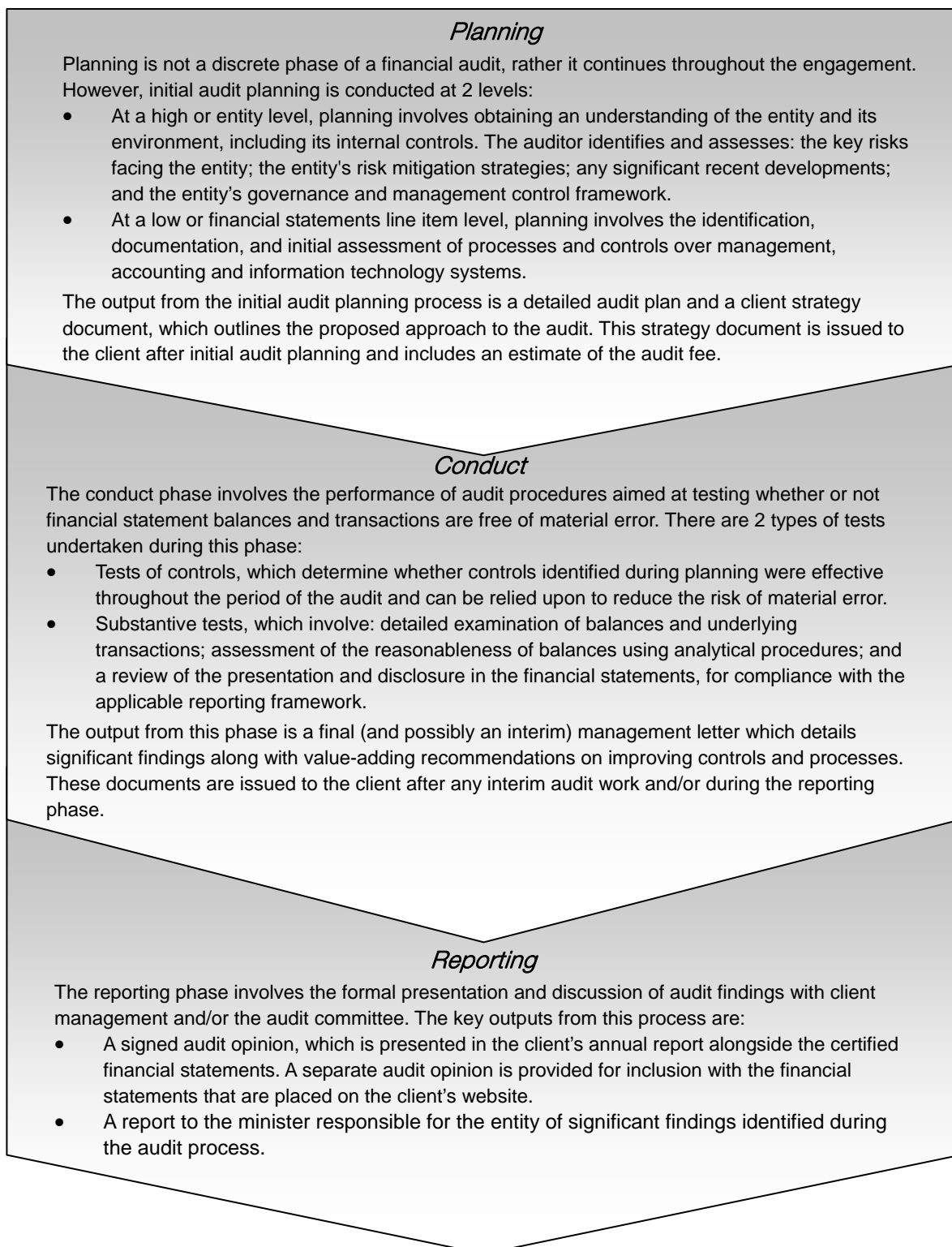
The financial and performance statements prepared must be independently audited, and an audit opinion expressed on each report. The statements and the accompanying audit opinions are included in the annual report of each agency.

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.

A summary of the financial audit framework is provided in Figure 1A.

**Figure 1A**  
**Summary of the financial audit framework**



Source: Victorian Auditor-General's Office.

## 1.3 Results of audits

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There were 388 State Government agencies required to prepare financial statements for the financial year ended 30 June 2007.

At 31 October 2007, 356 of the 388 agencies had finalised their 2006-07 financial statements, including the issue of an audit opinion on their certified financial statements.

Of the 356 opinions issued on financial statements, 3 were qualified (9 in 2005-06). One qualified opinion resulted from a disagreement with management about the appropriateness of an accounting treatment adopted, and one related to completeness of revenue received from voluntary donations. These qualifications existed previously. A further qualified audit opinion related to the inability to express an audit opinion on certain comparative figures from 2005-06.

Details of the qualified audit opinions are as follows:

### *Accounting treatment*

Grampians Wimmera Mallee Water Authority – the authority did not recognise treatment plants constructed and operated under a public-private partnership 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.

### ***RESPONSE provided by the Managing Director, Grampians Wimmera Mallee Water Authority***

*This qualification was based on a view formed by VAGO, that the GMMWater 'Water Treatment Service Agreement' (WTSA) contains a finance lease component. Based on this view, a position was formed by your office that a finance lease asset and a finance lease liability should be recognised on the Balance Sheet of GMMWater. Your office has been unable to quantify the financial effect of the qualification on the financial statements (in particular the carrying value of the finance lease asset and the finance lease liability) on the grounds that GMMWater has not determined the fair value of the leased assets, nor the finance lease liabilities under the arrangement.*

*GMMWater obtained independent accounting advice as to whether the WTSA contains a lease and, if so, the appropriate accounting classification and treatment of such lease component. This advice expressed a view that:*

1. *The lease element of the WTSA should be classified as an operating lease. The operating lease payments should be charged as expenses in the periods in which they are incurred (rather than recognised as an expense on a straight-line basis) as each lease payment is contingent on the amount of future use.*

2. *In the event that the lease element of the WTSA were classified as a finance lease (which, based on the independent accounting advice received, it should not), the lease asset and the lease liability would be initially measured at \$nil.  
This is because the amount payable by GMMWater for the right to use the water treatment facilities (i.e., the lease payment) is contingent on the amount of future use. Therefore, finance lease payments would be charged as expenses in the periods in which they are incurred.*
3. *On the basis that the amount payable by GMMWater for the right to use the water treatment facilities (i.e., the lease payment) is contingent on the amount of future use, the classification of the lease element of the arrangement as either an operating lease or as a finance lease has no impact on the accounting outcome. That is, under either lease classification, the lease payments under the WTSA would be charged as expenses in the periods in which they are incurred.*

*The independent accounting advice was based on a review of the WTSA that acknowledged the significant risk transfer. The fully variable toll and the absence of any exclusivity to provide water treatment services being the most significant of the many risks transferred. The fully variable toll gives rise to a further issue in that any value that could be attributed to the asset cannot be reliably measured.*

*A copy of the independent accounting advice was provided to your office at the time of the audit of the financial statements.*

*In accordance with the independent accounting advice, GMMWater classified the lease component of the WTSA as an operating lease, with the operating lease payments charged as expenses in the periods in which they are incurred (i.e., as the toll payments are made).*

*Furthermore, we disagree with the statement by your office that GMMWater has not determined the fair value of the leased assets, nor the finance lease liabilities under the arrangement (if the arrangement was treated as a finance lease), which has been stated as the reason that your office has been unable to quantify the financial effect of the qualification on the financial statements.*

*In accordance with the independent accounting advice, we believe that it would have been appropriate for the financial lease asset and the finance lease liability to be measured at \$nil (if the arrangement was treated as a finance lease) on the basis of the fully variable toll. Accordingly, even in the event that the lease component of the arrangement should have been classified as finance lease, as is the view of your office, there is no financial impact on the financial statements.*

***Further audit comment***

*An over-riding requirement of accounting standards is the need to look beyond the legal form of an agreement to its economic substance. Our analysis of the economic substance of the lease arrangement entered into by the Grampians Wimmera Mallee Water Authority determined that it needed to recognise the leased assets and a corresponding lease liability in its financial statements. To be able to do this it needed first to obtain an estimate of the fair value of the physical assets subject to the lease. The Authority did not obtain a valuation of the physical assets and accordingly we had no basis for assessing the financial effect of their omission from the balance sheet.*

***Completeness of receipts***

CFA & Brigades Donations Fund – we were unable to verify, in terms of the stringent requirements of the accounting standards, the completeness of voluntary cash donations.

***Comparative figures***

The Fawkner Crematorium and Memorial Park Trust – insufficient evidence was available to express an audit opinion on certain revenue and cost of sales comparative figures from the prior year.

***Expected wind-up***

While not an audit qualification, the audit opinion for the Industry Supervision Fund contained an “emphasis of matter” to draw attention to the expected wind-up of its operations in 2007-08.

***Water sector performance statements***

All 16 regional and rural water authorities prepared performance statements in accordance with a direction issued by the Minister for Finance in 2003-04. We issued clear opinions on 15 performance statements. In relation to the Grampians Wimmera Mallee Region Water Authority, we issued a qualified opinion because certain performance measures reported by the authority use financial information reported in its qualified financial statements.

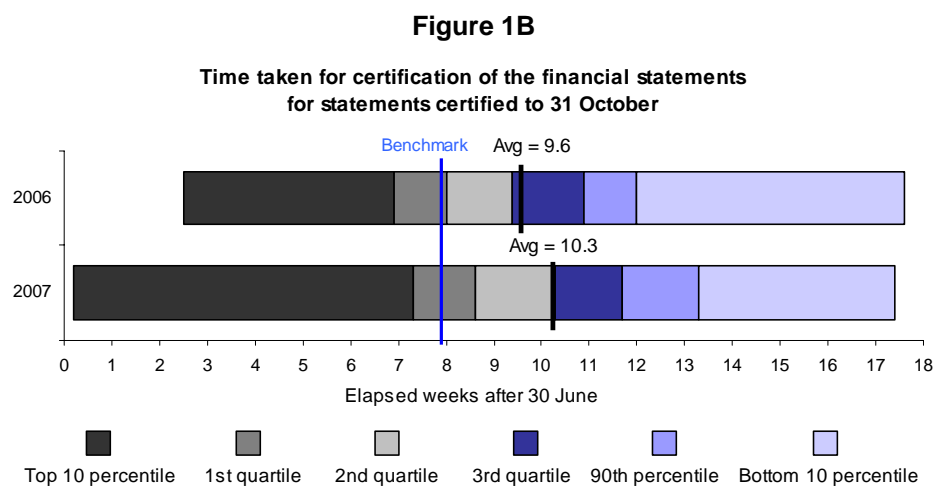
## 1.4 Timeliness and quality of financial reporting

### 1.4.1 Timeliness of financial reporting

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

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.

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



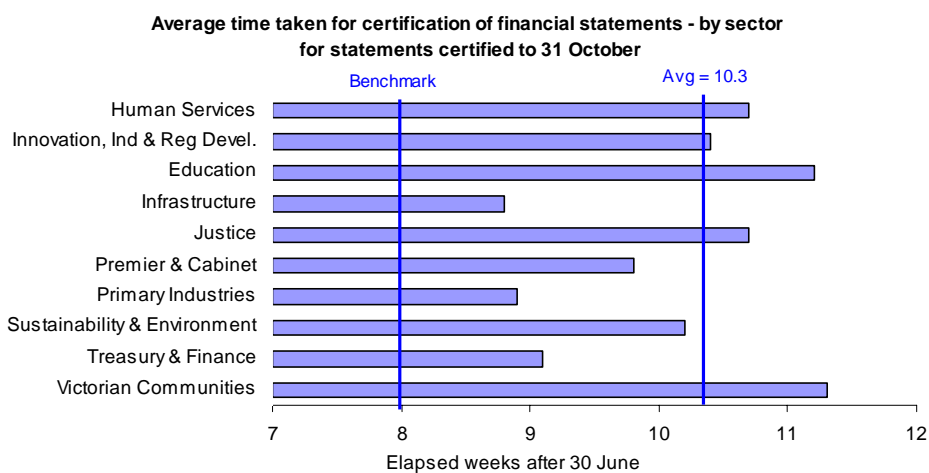
Source: Victorian Auditor-General's Office.

For 2006-07, 18 per cent of agencies submitted their signed statements to audit within 8 weeks (27 per cent in 2005-06), 48 per cent within 10 weeks (64 per cent in 2005-06), and 81 per cent within 12 weeks of year-end (90 per cent in 2005-06). The average time was 10.3 weeks (9.6 weeks in 2005-06).

Only 18 per cent of agencies met the 8-week benchmark for the certification of their financial statements, a significant reduction from the 27 per cent achieved in 2005-06. On average, the 2006-07 financial statements were certified more than a half-week later than in 2005-06.

Figure 1C shows the average number of weeks taken for financial statements to be certified by sector.

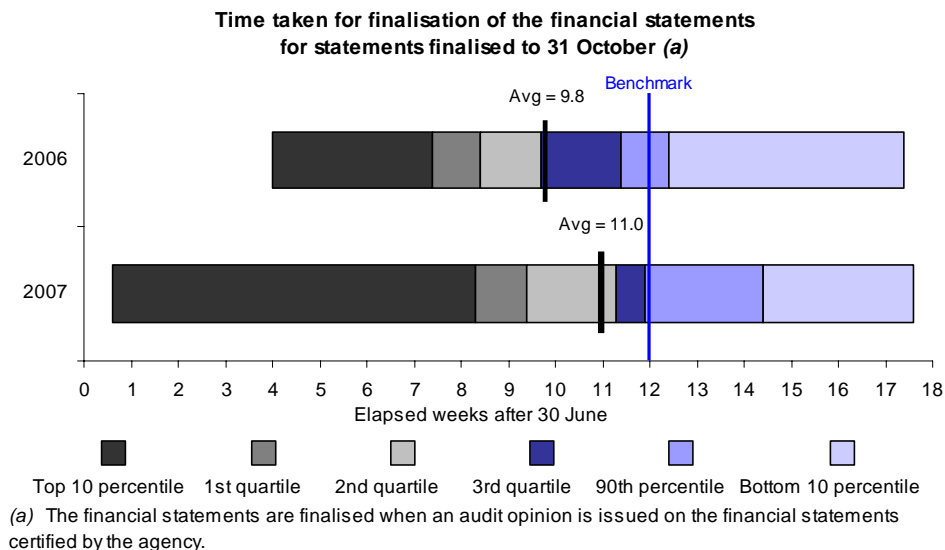
**Figure 1C**



Source: Victorian Auditor-General's Office.

Figure 1D shows (in percentile bands) the elapsed number of weeks taken for financial statements to be finalised, including the issue of an audit opinion.

**Figure 1D**



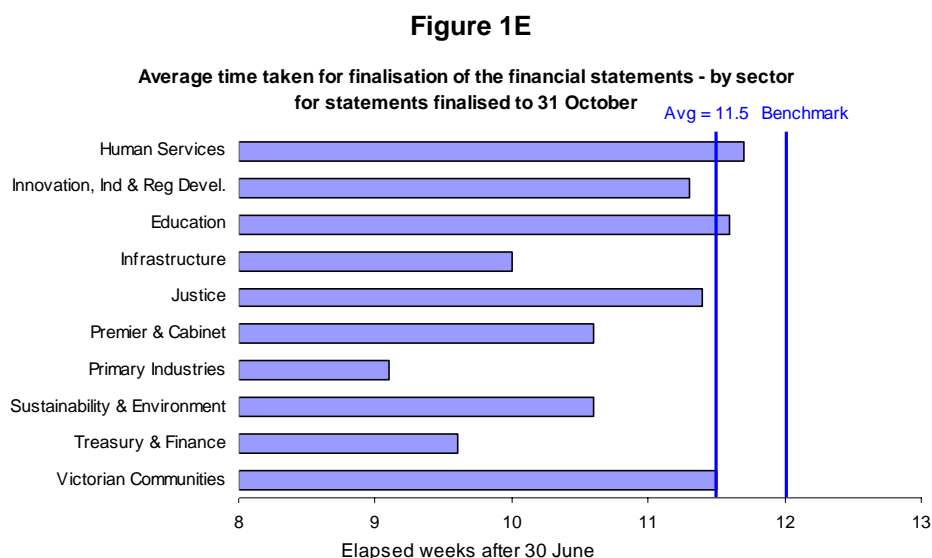
Source: Victorian Auditor-General's Office.

For 2006-07, just under 10 per cent of agencies had their financial statements finalised, including the issue of an audit opinion, within 8 weeks (24 per cent in 2005-06), 37 per cent within 10 weeks (60 per cent in 2005-06), and 76 per cent within the benchmark of 12 weeks of year-end (89 per cent in 2005-06). The average time was 11 weeks (under 10 weeks in 2005-06).



On average, the 2006-07 financial statements were finalised over a week later than the 2005-06 average. Only 76 per cent of agencies met the 12-week benchmark for the finalisation of their financial statements, a significant reduction from the 89 per cent achieved in 2005-06. This means that 24 per cent of agencies failed to meet the 12-week benchmark in 2007, compared with 11 per cent in 2006. Entities that did not finalise their financial statements within the benchmark should re-evaluate their financial reporting processes and take action necessary to ensure this benchmark is met in 2007-08.

Figure 1E shows the average number of elapsed weeks taken for financial statements to be finalised, including the issue of an audit opinion, by sector. The results show that the average performance in finalising financial statements across all sectors was within the 12-week benchmark.



Source: Victorian Auditor-General's Office.

### Conclusions

The timeliness results shown above for 2006-07 indicate a deterioration when compared with the 2005-06 performance. This is disappointing given that the time frames achieved last year were in more challenging circumstances. Reporting on the 2005-06 period was affected by significant change to the financial reporting framework due to the first time adoption of Australian equivalents to International Financial Reporting Standards. This required adjustments to some opening and closing balances, and additional disclosure. In contrast, there was no significant new disclosure or changed accounting requirements in respect of the 2006-07 reporting period.

State Government agencies must table their annual reports (containing their audited financial statements) in Parliament within 4 months of financial year-end (i.e. by 31 October for agencies with a 30 June balance date).

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

For the 2005-06 financial year, the then Premier requested all public sector agencies to table their annual reports by 4 October 2006, due in part to the timing of the impending State election. To achieve this externally imposed deadline, there was an imperative to conclude the financial statement reporting process as quickly as possible last year and 55 per cent of affected agencies tabled their annual reports by 4 October 2006, and 97 per cent had tabled their reports by the next day. This outcome demonstrated that earlier financial reporting was feasible and established a benchmark worth sustaining.

The tabling requirement reverted to 31 October for the 2006-07 financial year. Only 50 per cent of affected agencies had tabled their annual reports by 31 October 2007, and 88 per cent had tabled their reports by the next day. It is disappointing that in the absence of an external imperative, the timelines of the reporting slipped in 2006-07.

Agencies should seek to improve their financial reporting processes, to achieve more timely reporting. This would both enhance accountability and contain the time and energy spent after year end to finalise the accounts.

## **Recommendations**

- 1.1 Agencies that failed to meet legislated reporting time frames should undertake an analysis of their financial reporting process to identify and take action to address the causes of delay.
- 1.2 All agencies should develop strategies to improve the timeliness of their financial reporting.

### **Financial statement preparation process**

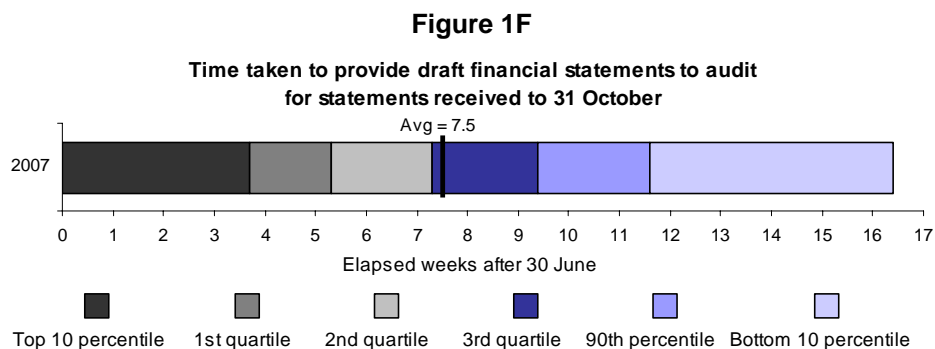
Agencies need to plan for, and allocate sufficient and appropriate resources to, financial report preparation so they can produce a report consistent with accounting standards and within the stipulated time frames.

#### ***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 in a timely fashion.

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. After financial year-end, the sooner draft statements can be produced the more likely an agency will meet its 8-week benchmark.

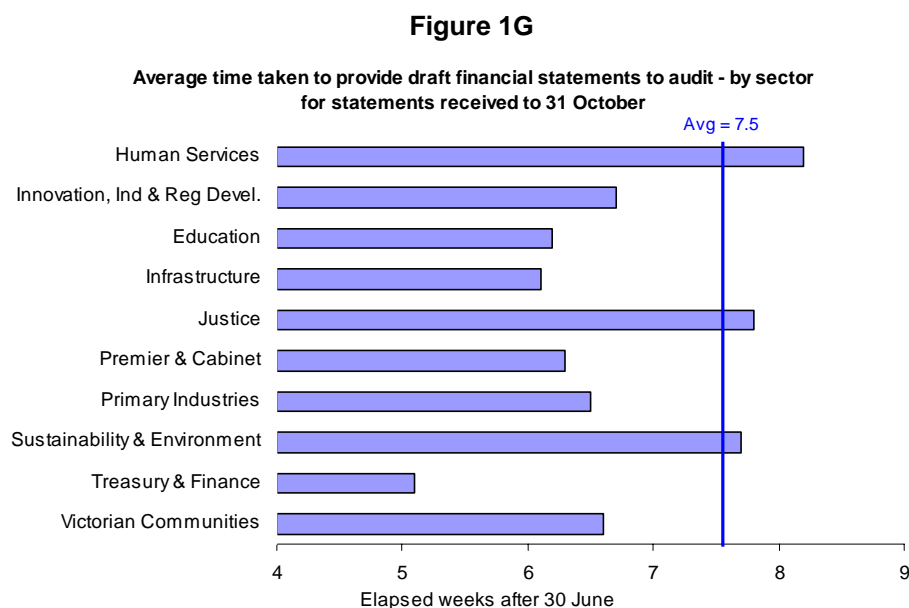
Figure 1F shows (in percentile bands) the number of elapsed weeks after 30 June that agencies provided a first acceptable draft set of financial statements to our Office.



Source: Victorian Auditor-General's Office.

For 2006-07, 58 per cent of agencies submitted their draft statements for audit within 8 weeks of 30 June, 82 per cent within 10 weeks, and 92 per cent within 12 weeks, with an average elapsed time of 7.5 weeks. These results, when viewed in combination with analysis of the timeliness of certification and finalisation of the financial statements above, indicates that there is significant opportunity to improve the timeliness of financial reporting.

Figure 1G shows the average number of weeks taken to provide a first acceptable draft set of financial statements by sector.



Source: Victorian Auditor-General's Office.

The results show that the average period for providing an acceptable draft set of financial statements was 7.5 weeks. This is too long, given the benchmark of 8 weeks for the provision of certified financial statements for audit. All agencies should revisit their financial reporting processes to determine the resources and procedures required to improve the timeliness of their financial reporting.

## 1.4.2 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 prepare only one draft report and with 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**

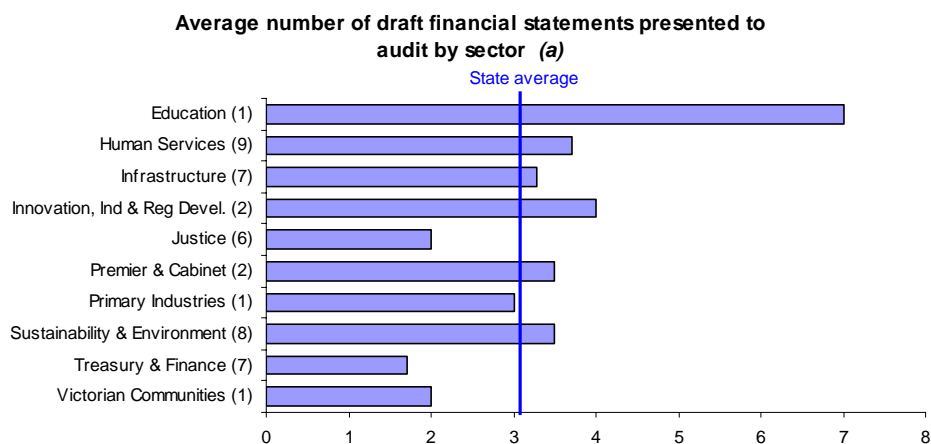
- Prepare a project plan that includes requisite human and financial resources, assigns responsibility, and sets time frames that have been agreed with the external auditor.
- Review actual and proposed changes to accounting standards, Financial Reporting Directions and other pronouncements to identify 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, preferably 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.

Figure 1H shows the average number of draft financial statements provided to us by the most significant agencies in each sector, compared with the State average of 3.1.

**Figure 1H**



(a) The figure in brackets is the number of financially-significant entities within the sector.

Source: Victorian Auditor-General's Office.

## 1.5 Significant reporting issue – Accountability of community health centres

Community health centres are located in every local government area and adopt a community-based model of care. The services managed and delivered by the centres varies throughout the State but includes health promotion, early identification and intervention, assessment and treatment, and coordinated care with general practitioners, other primary providers and the acute, aged care and mental health sectors. The centres also provide a range of primary health services, including drug and alcohol, dental, medical, post-acute care, home and community care, community rehabilitation and day centres.

In a 1999 report to Parliament, we identified a need for the reporting framework of stand-alone community health centres to be enhanced to ensure appropriate accountability to Parliament and ultimately to Victorian taxpayers over their expenditure of government funds. As Parliament's auditor, our report indicated that it will be important that the Auditor-General be involved in this accountability process.

It is estimated that the stand-alone community health centres had a combined turnover of approximately \$300 million in 2006-07, of which greater than 80 per cent is estimated to be generated from government grants.

During 2006, we received legal advice from the Victorian Government Solicitor that the stand-alone community health centres met the definition of a “public statutory authority” under the *Audit Act 1994* and the *Financial Management Act 1994* and, as a consequence, they had a legislative obligation to prepare financial statements in accordance with the *Financial Management Act 1994* and to submit those statements for audit by this Office. Also during 2006, the Department of Human Services confirmed in writing that it was appropriate for our Office to advise the stand-alone community health centres of our intention to commence auditing them in the 2006-07 financial year.

Our February 2007 report titled *Results of financial statement audits for agencies with 30 June 2006 balance dates* identified 39 stand-alone (independently managed) community health centres that have been declared under section 45 of the *Health Services Act 1988*, and which had not previously been subject to audit by our Office. Further, in accordance with the requirements of the *Audit Act 1994*, we indicated that we would commence the annual financial audit of these centres for the 2006-07 year. There are approximately another 60 community health services which are managed by public hospitals and, as such, are already subject to our audit and are accountable to Parliament.

In response to our written advice to the centres in early 2007, many indicated that they had received alternative legal advice indicating that they are not public statutory authorities. In addition, the department had also sought its own alternative legal advice on this matter.

Most centres had expressed a concern that designation as a public statutory authority may put at risk their concessional and/or exempt taxation status. The centres enjoy a variety of taxation benefits (both Commonwealth and State), including GST concessions and exemptions from income tax, payroll tax, land tax, stamp duty and fringe benefits tax. For example, all of the centres can provide annual benefits of up to \$30 000 to each employee which are exempt from fringe benefits tax. We have been advised that this benefit assists the centres to attract medical staff.

We referred the alternative legal advice provided on behalf of the centres, and that sought by the department, to the Victorian Government Solicitor for his consideration. After having considered the alternative advice, the Victorian Government Solicitor remained of the opinion that the centres are public statutory authorities (under the *Financial Management Act 1994* and the *Audit Act 1994*).

Nevertheless, in recognition of the differing legal interpretations provided by the department and on behalf of some centres, we requested in writing that the department, as lead agency in the sector:

- ensure that the centres fully comply with the requirements of the *Financial Management Act 1994* and the *Audit Act 1994*
- confirm that it has clarified the status of these entities with their governing boards.

The department subsequently wrote to the centres in support of our audit of the 2006-07 financial reports of the centres, and the Minister for Health also wrote to the industry body (the Victorian Healthcare Association) in support of our audit for the 2006-07 financial report.

Transitional arrangements were put in place for the 2006-07 financial year whereby we appointed the existing auditors of the community health centres as audit service providers of the Auditor-General to facilitate the audit process and avoid duplication of effort.

However, the following 9 centres (as at 26 November 2007) had advised that they would not, or did not, submit their 2006-07 financial statements for audit by the Auditor-General, and presumably had elected to continue with their existing arrangements with their auditors appointed under the *Associations Incorporation Act 1981*:

- Bendigo Community Health Service Inc.
- Darebin Community Health Service Inc.
- Eastern Access Community Health Inc.
- Goulburn Valley Community Health Service Inc.
- Inner East Community Health Service Inc.
- ISIS Primary Care Inc.
- Nillumbik Community Health Service Inc.
- North Yarra Community Health Inc.
- Plenty Valley Community Health Service Inc.

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

*It is noted that of the 31 agencies which had not finalised their financial statements as at 31 October 2007, 21 were community health centres.*

*A community health centre (CHC) under the Associations Incorporation Act 1981 must present at its annual general meeting a statement of income and expenditure, assets and liabilities for that financial year. Section 30(2A) of the Associations Incorporation Act 1981 states that "the second and any subsequent annual general meeting must be held within 5 months after the end of the financial year of the incorporated association". It is important to acknowledge that the required time frames for the preparation of financial statements set out in the Financial Management Act 1994 and Audit Act 1994 differ from the reporting time frames set out in the Associations Incorporation Act 1981.*

*Given the relatively short lead time for agencies to comply with the request to submit audited financial statements and the various reporting timelines outlined under the Financial Management Act 1994, the Audit Act 1994 and Associations Incorporation Act 1981, it may be reasonable in this transitional year to expect some agencies could not finalise audited financial statements by 31 October.*

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

*It is noted that while the Victorian Government Solicitor continues to maintain that stand-alone CHCs are public statutory authorities, there is “lively debate” about this matter. It is likely that those CHCs who did not submit their 2006-07 financial statements did not consider that they were legally bound to do so. Given the uncertainty surrounding the issue, I have sought the assistance of the Secretary, Department of Treasury and Finance to seek the Minister for Finance to exercise a power under the Financial Management Act 1994 to declare stand-alone CHCs to be subject to that Act, to put the matter beyond doubt.*

*There is an implicit assumption that the implementation of the accountability and reporting requirements outlined in Part 7 of the Financial Management Act also requires compliance with a number of Directions. Some CHCs, particularly those smaller agencies, may find it difficult to comply with all aspects of the reporting framework immediately. It will be important to develop a transition plan to assist agencies develop the necessary reporting and accountability processes and systems in order to fulfil full reporting and audit requirements.*

## 1.6 Internal control over financial reporting

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Each entity's governing body is responsible for the development and maintenance of 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.

While the main purpose of financial statement audits is to add credibility to an entity's financial statements through the audit opinion, audits also assess the adequacy of entities' financial control and governance processes to the extent they impact on the financial statements.

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



## 1.6.1 General controls

Overall, our audits established that agencies' systems of internal control, to the extent we examined and relied upon those controls, were generally adequate for financial reporting purposes. However, we did identify opportunities to further strengthen internal control at many agencies. The more significant and commonly identified areas requiring improvement 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
- improving physical control over assets
- improving reconciliation processes
- segregating incompatible functions.

## 1.6.2 Information system controls

Assessment of agency information systems (IS) controls is an important part of the financial audit process. Entities rely on IS to produce reliable and accurate information for the preparation of financial statements, and to run various systems that affect the operation of the entity. Strong IS controls help to maintain the integrity, confidentiality and availability not only of the financial information in agency systems, but also other areas which promote the smooth operational running of the entity.

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.

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 areas of security, change management and continuity planning.

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.

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 planning 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 ongoing concern is that many of the weaknesses identified during this audit cycle have been previously identified and reported, both specifically to the management of relevant agencies, and generally through our reports to Parliament. It is disappointing, therefore, that such weaknesses remain, particularly given the exposures that can arise from poor security, poor change management practices and poor continuity planning.

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

## Recommendation

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- 1.1 Agencies should self-assess against the commonly identified weaknesses in general and information system control environments, and implement any required changes to ensure that their information systems are appropriate and operating effectively.

## 1.7 Fraud management

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The Standing Directions of the Minister for Finance under the *Financial Management Act 2004* include a requirement that public sector agencies establish a system of internal controls which are adequate for the safeguarding of assets, including the prevention and detection of fraud.

Fraud is defined within Australian Standard's AS8001-2003 as "Dishonest activity causing actual or potential financial loss to any person or entity including theft of moneys or other property by employees or persons external to the entity and whether or not deception is used at the time, immediately before or immediately following the activity. This also includes the deliberate falsification, concealment, destruction or use of falsified documentation used or intended for use for a normal business purpose or the improper use of information or position".

As part of our 2006-07 financial statements audits, we surveyed 44 significant agencies on their fraud prevention practices and found:

- most agencies have basic fraud prevention practices in place as part of their general internal control systems

- several agencies do not have specific fraud prevention plans and procedures, designed to mitigate the likelihood of fraud
- few agencies have high-level fraud detection processes to actively identify fraudulent activity.

In our planning for the 2007-08 financial statement process we will follow-up the results of the survey on the adequacy of fraud prevention and detection practices with specific agencies.

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### Recommendation

- 1.2 All public sector agencies should review the adequacy of their fraud management practices.

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## 1.8 2005-06 recommendations

Our February 2007 report to Parliament titled *Results of financial statement audits for agencies with 30 June 2006 balance dates* included a number of general recommendations applicable to most agencies and 4 specific recommendations relevant to State Government agencies included in this report. Of these specific recommendations, only one remains unresolved. That recommendation related to the need for the Department of Sustainability and Environment (DSE) to allocate the resources necessary to complete the review and confirm the accuracy of its crown land records by 30 June 2008. DSE agreed with our findings and responded that resources had been allocated to complete the review by 30 June 2008. In Part 10 of this report, we indicate our concern that it is unlikely that DSE will meet its deadline for the completion of this task.

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## 1.9 General

The total cost of the preparing and printing this report was \$250 000.

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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.

As the Auditor-General is an officer of the Parliament, 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.

### Key finding

- Clear audit opinions were issued on the financial statements of Parliament and our Office for the year ended 30 June 2007, all within the 12-week reporting benchmark.

## 2.1 Introduction

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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.

The operations of the Parliament are funded through appropriations to each of the parliamentary departments which, in turn, service the 2 Houses of the Parliament and its associated committees. The departments also provide administrative support to members and electorate offices. As the Auditor-General is an Officer of Parliament, appropriations are also provided to the Victorian Auditor-General's Office.

## 2.2 Reporting framework

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Although the Parliament is not required to report on its administrative activities, our Office does complete an annual audit of the financial statements of the Parliament (this comprises the financial statements of parliamentary departments) under a standing arrangement with the presiding officers of both houses. 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 audits

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Parliament and the Victorian Auditor-General's Office had finalised their financial statements for the year ended 30 June 2007, by 31 August 2007. Clear audit opinions were issued on the financial statements for the Parliament and our Office. Both entities met the 12-week statutory reporting benchmark for 2006-07.

## 2.4 Timeliness and quality of financial reporting

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

Consistent with prior years, both Parliament and our Office had certified their financial statements within 8 weeks of 30 June 2007. The audited financial statements for both entities had been finalised within 9 weeks. Further detail on these entities is provided in Figure 2A.

We assessed the quality of financial reporting by Parliament as satisfactory.

## 2.5 Internal control over financial reporting

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Each entity's governing body is responsible for the development and maintenance of an adequate system of internal control to ensure:

- 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.

While the main purpose of financial statement audits is to add credibility to an entity's financial statements through the audit opinion, audits also assess the adequacy of entities' financial control and governance processes to the extent they impact on the financial statements.

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

Our 2006-07 financial audit process for Parliament confirmed that the control environment and internal control systems that we examined over its financial operations were satisfactory.

**Figure 2A**  
**Audit status: Parliament**

Entity	Financial statements			Timeliness of audited financial statement completion					
	Financial Statements signed	Clear opinion issued	Audit report signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
<b>COMPLETED AUDITS – 30 JUNE 2007 BALANCE DATES</b>									
Parliament of Victoria	23 Aug. 2007	✓	27 Aug. 2007		●				
Victorian Auditor-General's Office (a)	20 Aug. 2007	✓	22 Aug. 2007	●					

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

Source: Victorian Auditor-General's Office

# 3 Education

## At a glance

### Background

The Education sector comprises the Department of Education and 3 other agencies that provide, purchase and regulate compulsory and post-compulsory education services. The department manages the delivery of primary and secondary education in government schools, supports non-government schools, and seeks to ensure a high quality education for all Victorian children.

### Key findings

- We issued 4 audit opinions on agencies' financial statements, all of which were clear. There were no incomplete audits at the date of preparing this report.
- The timeliness of financial reporting by sector agencies was mixed. Two agencies improved compared with the previous year and achieved the 12-week statutory deadline, while the other 2 agencies were less timely in their financial reporting than the previous year and they failed to meet the 12-week statutory deadline.
- The number of draft financial reports submitted by the department was above average compared with other sector agencies and the State average.
- Our audits found the control environments of sector agencies to be generally adequate.



## 3.1 Introduction

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The Education sector comprises the Department of Education and 3 other agencies that provide, purchase and regulate compulsory and post-compulsory education services for Victorians of all ages.

In December 2006, the Government issued an administrative order formalising machinery-of-government changes under which certain activities of the department were relinquished. Training and tertiary education activities were transferred to the Department of Innovation, Industry and Regional Development (DIIRD) and the Department for Victorian Communities (DVC). Under these changes, the Adult, Community and Further Education Board was transferred to DVC and the Victorian Learning and Employment Skills Commission was transferred to DIIRD.

In 2006-07, the department spent \$7 billion (2005-06, \$6.9 billion) on the provision of education in Victoria. This was approximately 21 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 at 30 June 2007.

Two ministers, the Minister for Education and the Minister for Skills, Education Services and Employment were responsible for the department until 30 June 2007.

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 2007 financial statements of these agencies in autumn 2008.

The department provides primary and secondary education in government schools, and regulates and funds non-government schools in Victoria. The funding activity includes the on-passing of Commonwealth funding to non-government schools in Victoria.

Victoria has 1 594 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 are made up of 1 206 primary schools with about 18 900 FTE teaching staff and 258 secondary schools with about 17 200 FTE teaching staff. There were also 76 special schools, 4 English language schools and 50 combined primary/secondary schools with around 4 130 FTE teaching staff. In total, there are around 539 000 FTE students enrolled in Victoria's government schools.

The other sector agencies with a 30 June 2007 balance date develop curriculum and assess schools across all year levels, accredit training qualifications and courses, and regulate and promote the teaching profession in Victoria.

## 3.2 Reporting framework

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State agencies are required by the *Financial Management Act 1994* to prepare financial statements. The financial statements prepared must be independently audited, and an audit opinion is expressed on the report. The financial statements and the accompanying audit opinion are included in the annual report of each agency.

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 the statement 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.

A summary of the financial audit framework is provided in Part 1 of this report.

## 3.3 Results of audits

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By 31 October 2007, all 4 agencies in the sector had prepared their 2006-07 financial statements and submitted them for audit, and we had issued clear audit opinions on these financial statements.

## 3.4 Timeliness and quality of financial reporting

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### 3.4.1 Timeliness

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

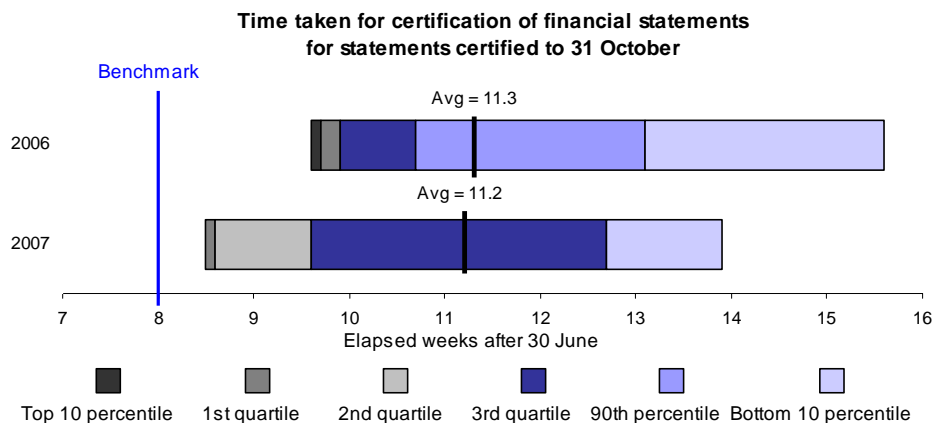
The required time frames for the preparation of financial statements of public sector agencies are legislated. The *Financial Management Act 1994* requires State government agencies to submit certified financial statements to the Auditor-General within 8 weeks after the end of the financial year. The *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.

Figure 3A shows (in percentile bands) the number of elapsed weeks after 30 June that sector agencies provided a signed set of financial statements to our Office. Further detail on these entities is provided in Figure 3D.

For 2006-07, 50 per cent of agencies had certified their financial statements within 10 weeks, and 75 per cent within 13 weeks of year-end. The average time was 11.2 weeks. The Victorian Institute of Teaching led the sector by submitting signed statements for audit 8.6 weeks after 30 June.

No agencies submitted signed financial statements within the 8-week statutory time frame. However, it has been the past practice of our Office and agencies to use the combined 12-week benchmark to measure timeliness. In this regard, 50 per cent of agencies in the sector finalised their financial statements, including the audit opinion, within 12 weeks in 2006-07 (55 per cent in 2005-06).

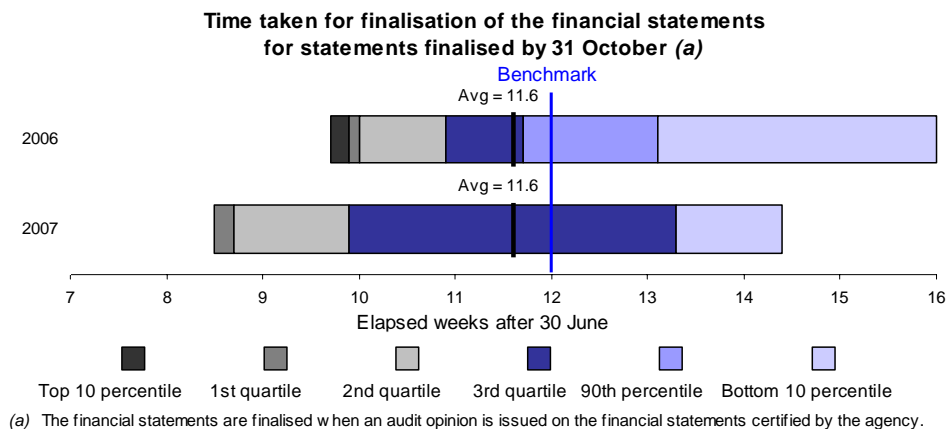
**Figure 3A**



Source: Victorian Auditor-General's Office.

Figure 3B shows the number of elapsed weeks taken for financial statements to be finalised, including the issue of an audit opinion.

**Figure 3B**



(a) The financial statements are finalised when an audit opinion is issued on the financial statements certified by the agency.

Source: Victorian Auditor-General's Office.

### Financial statement preparation process

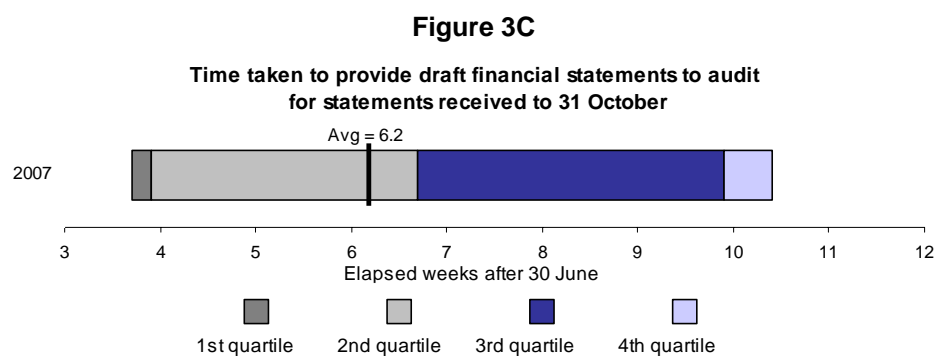
Agencies need to plan for, and allocate, sufficient and appropriate resources to financial report preparation to produce a report consistent with accounting standards and within the stipulated time frames.

### *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 in a timely fashion.

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. After financial year-end, the sooner draft statements can be produced the more likely an agency will meet its 8-week statutory target.

Figure 3C shows (in percentile bands) the number of elapsed weeks after 30 June that agencies provided a first acceptable draft set of financial statements to our Office.



Source: Victorian Auditor-General's Office.

For 2006-07, 10 per cent of agencies submitted their draft statements for audit within 4 weeks of 30 June, 50 per cent within 7 weeks, and 90 per cent within 10 weeks.

The average elapsed time in 2007 for agencies to submit their draft statements for audit was 6.2 weeks. Commendably, the Victorian Institute of Teaching submitted its draft statements for audit 3.9 weeks after 30 June.

## 3.4.2 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 prepare only one draft report and with 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, preferably 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.

The department issued 7 drafts of its financial statements prior to finalisation. The average number of drafts issued on a statewide basis was 3.1. Though the number of drafts issued by the department was high compared with the average, the financial statements were still certified within 10 weeks of financial year-end.

## 3.5 Internal control over financial reporting

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Each entity’s governing body is responsible for the development and maintenance of an adequate system of internal control to ensure:

- 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.

While the main purpose of financial statement audits is to add credibility to an entity’s financial statements through the audit opinion, audits also assess the adequacy of entities’ financial control and governance processes to the extent they impact on the financial statements.

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

### 3.5.1 General controls

Overall, our financial audits confirmed that the systems of internal control in sector agencies were adequate. However, we identified opportunities to further strengthen internal control at various sector agencies in the following areas:

- controls over corporate credit card expenditure
- controls over the completeness and accuracy of underlying accounting records, and physical control over assets
- reconciliation processes
- detail supporting estimates adopted for calculations of long service leave liability provisions.

These issues have been brought to the attention of the relevant agencies' management who are addressing them.

### 3.5.2 Information systems controls

Assessment of agency information systems (IS) controls is an important part of the financial audit process. Entities rely on IS to produce reliable and accurate information for the preparation of financial statements, and to run various systems that affect the operation of the entity. Strong IS controls help to maintain the integrity, confidentiality and availability not only of the financial information in agency systems, but also other areas which promote the smooth operational running of the entity.

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.

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, namely:

- 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.

Reliable financial reporting requires agencies to 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 planning weaknesses in the agencies:

- 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.

These weaknesses have been identified and reported previously. Management of each agency are currently addressing these weaknesses.

## 3.6 Other issues and developments

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### 3.6.1 Revision of accounting policies

During 2006-07, the department increased the capitalisation threshold for expenditure on plant and equipment from \$1 000 to \$5 000. This change in accounting policy required the recording of an expense of \$90 million in the department's 2006-07 financial statements in relation to the write-off of assets recognised under the previous capitalisation threshold of \$1 000. Of the \$90 million expense, \$25.9 million related to assets purchased in 2006-07 and \$64.1 million to assets purchased in prior years.

In previous years, cash and investment balances held by schools were reported in the department's financial statements as at the preceding 31 December. This was to coincide with the schools' operating year which is on a calendar year basis while the department is on a financial year basis. From the 2006-07 financial year onwards, such balances will be recorded as at 30 June in the department's financial statements. This change resulted in an increase in the department's accumulated surplus of \$91 million for the 2006-07 financial year, as 30 June is only the mid-year point of the schools' financial year and they have higher cash and investment balances at that time than typically is held at 31 December.

### 3.6.2 Reporting and audit arrangements for government school councils

As previously mentioned in our February 2007 report *Results of financial statement audits for agencies with 30 June 2006 balance dates*, in 2003 the Victorian Government Solicitor advised the department that school councils are public statutory authorities. This means that they are subject to the accountability and auditing provisions of the *Financial Management Act 1994* and the *Audit Act 1994*. To comply with these Acts, school councils would have to prepare separate financial statements on an accrual basis, submit them for audit by the Auditor-General and then have them presented to Parliament as part of a report of operations.

In order to address government schools' reporting requirements under the *Financial Management Act 1994*, the department has taken steps to improve the financial accountability of school councils since 2003. These steps include the development of the CASES21 school administration and financial management system. The system's financial component was started in July 2004 and had been fully implemented in all schools by 30 June 2007.

While the *Education Act 1958* was in force for the 2006-07 financial year, it was repealed on 1 July 2007 and replaced by the *Education and Training Reform Act 2006*. Under the *Education Act 1958*, each Victorian government school was required to have a school council. The Act required school councils to prepare accounts on a cash basis each calendar year and to have them audited by an approved auditor<sup>1</sup> within 3 months of the end of the calendar year (i.e. by 31 March 2007). The Act also required a school council to publish an annual report of its activities and to present a statement of receipts and expenditure at a public meeting.

Given the *Education Act 1958* requirement for school councils to appoint approved auditors to provide assurance about their financial affairs, and the accountability provisions in the *Education and Training Reform Act 2006*, we have continued to exercise the authority available to the Auditor-General under section 8 of the *Audit Act 1994* and dispensed with audits of school councils.

The *Education and Training Reform Act 2006* was proclaimed on 1 July 2007. This Act replaced 11 Acts and other legislative provisions dealing with education and training. The Act does not affect individual university Acts. The Act has updated the legislation relating to the financial reporting and audit activities in relation to schools finances by requiring;

- the department to ensure that an effective quality assurance regime is in place over the financial and operational activities of school councils

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<sup>1</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 purpose of the Act.



- preparation of an annual report by school councils in relation to their financial activities
- consolidation of financial information in the annual reports of school councils in the department's financial statements.

The *Education and Training Reform Act 2006* has removed the mandatory requirement which previously existed in the *Education Act 1958*, requiring school councils to have their accounts for each calendar year audited by an approved auditor.

In 2006-07, the Department and the Department of Treasury and Finance developed a new risk-based program for the audit of financial statements prepared by school councils in consultation with our Office. In 2007, 593 schools were subject to audit under the risk-based program designed to ensure audit coverage of all schools over a 3-year cycle and which also provides for ad hoc audits required by the department. Private sector auditors are engaged by the department to conduct these audits.

Following the receipt of advice that the *Education and Training Reform Act 2006* would not be proclaimed until late June 2007 and that the audit provisions under the *Education Act 1958* still applied for the audits of school councils for the year ended 31 December 2006, the department put in place arrangements to expand the risk-based audit program to include coverage of all school councils. This expanded program was only for the year ending 31 December 2006. The number of schools audited under the expanded audit program was 1 036.

Under the *Education Act 1958*, all school audits have to be completed by 31 March or within a longer period allowed by the minister. A contingent arrangement was put in place to extend the completion deadline for all school council audits to 30 June 2007 which was approved by the then Minister for Education.

All audits for the financial year ending 31 December 2006 under the risk-based program were completed in the required timelines, with reports and management letters forwarded to the department by 30 April 2007. Ninety-nine per cent of audits required in the expanded program were completed by 30 June 2007. All audits, except for that of a closed school, were subsequently completed, including audit reports and management letters by 31 July 2007.

### Results of school council audits for year ended 31 December 2006

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

Of the 1 629 school councils audited on their 2006 financial statements, 167 school councils received clear audit opinions with 1 462 school councils issued with some form of qualified audit opinion (note: some school councils received more than one qualification). Qualified audit opinions were issued to:

- 1 462 school councils – drawing attention to the inability to audit cash receipts from fundraising 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 fundraising activities
- 288 school councils – where fixed assets were not subjected to a stocktake or where the valuations recorded were unable to be confirmed, these qualifications relate to the inability to express an opinion on the reported value of fixed assets
- 812 school councils – where the 31 December 2006 balance sheet could be affected to the extent of any misstatement of financial statement components derived from the unaudited prior year balance sheet.

A report prepared by the department summarising the results of audits conducted during 2006-07 indicates that the auditors found that most schools have adequate controls over the preparation of their financial statements. However, there were 5 areas identified in the audits which were raised at over 10 per cent of the schools audited:

- coding errors in grants
- overdrawn accounts
- asset management
- electronic banking via the internet
- cheque signatories.

The department is taking action to provide advice to schools on these systemic issues. In addition, a number of schools identified in the report summarising the results of audits will be the subject of specific follow-up actions by the department. The outcomes of those actions will be monitored as part of future audits.

**Figure 3D**  
**Audit status, Education sector**

Entity	Financial statements			Timeliness of audited financial statement completion					
	Financial statements signed	Clear opinion issued	Auditor-General's report signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
<b>COMPLETED AUDITS – 30 JUNE 2007 BALANCE DATES</b>									
Department of Education and Training	5 Sept. 2007	✓	7 Sept. 2007		●				
<b>EDUCATION AND TRAINING</b>									
Victorian Curriculum and Assessment Authority	27 Sept. 2007	✓	1 Oct. 2007				●		
Victorian Institute of Teaching	29 Aug. 2007	✓	30 Aug. 2007		●				
Victorian Qualifications Authority	5 Oct. 2007	✓	9 Oct. 2007					●	
2006-07 Total number of agencies = 4				0	2	0	1	1	0
Per cent (cumulative)				0	50	50	75	100	100
2005-06 Total number of agencies = 11				0	3	3	0	2	3
Per cent (cumulative)				0	27	55	55	73	100

# 4 Human Services

## At a glance

### Background

The Human Services sector comprises entities that deliver, purchase or regulate health and human services in Victoria. There are 197 agencies within the sector subject to our audit (around 50 per cent of all State agencies with 30 June balance dates).

For 2006-07, the Human Services sector accounted for one-third of total expenditure by the State of Victoria.

### Key findings

- We issued 166 audit opinions on agencies' financial statements, 165 of which were clear and The Fawkner Crematorium and Memorial Park Trust was qualified in relation to prior year comparative figures.
- The financial statements of 31 agencies were outstanding, with 9 stand-alone community health centres not submitting financial statements for audit and 22 other audits still in course.
- The timeliness of financial reporting by sector agencies<sup>1</sup> deteriorated in 2006-07 when compared with the previous year, with 26 per cent of sector agencies not meeting the 12-week benchmark.
- The quality of financial reporting by sector agencies is variable, but generally satisfactory.
- Our audits found the control environments of sector agencies to also be variable in both general and information system controls, but generally adequate for financial reporting purposes.

<sup>1</sup> Excluding stand-alone community health centres, the audit of which commenced in 2006-07 pursuant to the financial reporting requirements of the *Associations Incorporation Act 1981*, refer section 4.6.

## 4.1 Introduction

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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. The department is committed to ensuring that all Victorians have access to quality services that protect and enhance the community's physical, mental and social wellbeing. Health and human services are delivered by the department, and a range of government and non-government organisations.

For 2006-07, the Human Services sector accounted for one-third of total expenditure by the State of Victoria.

Total expenditure by the department in 2006-07 amounted to \$11.2 billion, an increase of 6.5 per cent over 2005-06. Expenditure on acute health services accounted for half of the total expenditure in 2006-07. The remaining expenditure was spread over a range of programs, the more significant being Disability Services (10 per cent), Housing Assistance (7 per cent), Mental Health (7 per cent), and Aged and Home Care (6 per cent).

Responsible ministers in the Human Services sector during the 2006-07 year were 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.

In August 2007, as part of the machinery-of-government change, responsible ministers for the sector became the Minister for Health, the Minister for Mental Health, the Minister for Community Services, and the Minister for Housing. Further, part of the then Office for Children of the Department of Human Services was transferred to the newly formed Department of Education and Early Childhood Development.

Sector entities subject to audit include:

- the Department of Human Services, which plans, funds and delivers health, community and housing services
- public hospitals (including public health services, metropolitan hospitals, denominational hospitals and related entities), which provide acute inpatient, non-admitted and emergency, mental health, aged care, community health and public health services
- rural information technology alliances, which provide information and communication technology services to health services in Victoria's rural regions
- ambulance services, which provide emergency services through Ambulance Service Victoria – Metropolitan Region, Rural Ambulance Victoria, and the Alexandra and District Ambulance Service
- stand-alone community health centres, which provide community-based health services to a designated area
- major 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.

As set out in Figure 4A, 197 agencies within the sector were subject to our audit, representing around 50 per cent of all State agencies subject to audit with 30 June balance dates.

**Figure 4A**  
**Human Services sector entities**  
**with a 30 June 2007 balance date**

Reporting entity (a)	Number
Department of Human Services	1
Public hospitals and ambulance services -	
Public health services, metropolitan hospitals, denominational hospitals and public hospitals (b)	92
Other companies, trusts, foundations and joint ventures (c)	32
Ambulance services	3
Stand-alone community health centres (d)	39
Major public cemeteries (e)	14
Other public bodies (including registration boards and statutory authorities)	16
<b>Total</b>	<b>197</b>

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

(b) Includes a variety of legal structures, including public bodies, companies and incorporated associations.

(c) Includes entities controlled by public hospitals and the rural information technology alliances.

(d) The centres are incorporated associations.

(e) There are in excess of 500 public cemeteries within Victoria, of which the largest 14 are subject to our audit.

Source: Victorian Auditor-General's Office.

## 4.2 Reporting framework

Approximately 60 per cent of agencies within the sector are required by the *Financial Management Act 1994* to prepare financial statements. The remainder of sector agencies prepare financial statements in accordance with other reporting frameworks, including the *Corporations Act 2001*. The financial statements should be independently audited, and an audit opinion is expressed on each set of statements. The statements and the accompanying audit opinions are included in the annual report of each agency.

The independent audit opinion adds credibility to the financial statements by providing reasonable assurance that the information in the statements is reliable (fairly presented).

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

### 4.3 Results of audits

At 31 October 2007, 148 of the 158 sector agencies<sup>2</sup> had prepared their 2006-07 financial statements, submitted them for audit and finalised those statements. Of the 39 stand-alone community health centres, 18 had prepared their 2006-07 financial statements, submitted them for audit and finalised those statements (refer section 4.6).

Those agencies yet to finalise their financial statements for the year ended 30 June 2007 are listed in Figure 4B.

**Figure 4B**  
**Financial statements outstanding at 31 October 2007**

Agency
Bass Coast Regional Health Benefit Fund Trust
Beaufort & Skipton Health Service Foundation Limited
HumeNET Limited
Kilmore and District Nursing Home Society Inc.
Northern After Hours GP Clinic
Northern Health Research Training and Equipment Foundation Limited
Northern Health Research Training and Equipment Trust
Stawell District Hospital Foundation
Victoria Health Promotion Foundation
Victoria Relief Committee
21 stand-alone community health centres (refer section 4.6 and Figure 4G)

Source: Victorian Auditor-General's Office.

<sup>2</sup> Excluding stand-alone community health centres, the audit of which commenced in 2006-07 and is undertaken pursuant to the financial reporting requirements of the *Associations Incorporation Act 1981*, refer section 4.6.

***RESPONSE provided by the Chief Executive Officer, Kilmore & District Hospital***

*The finalisation of the 2006-07 financial statements for the Kilmore & District Nursing Home Society Inc. has been delayed due to the occurrence of a "subsequent event".*

***Audit clarification:*** *The society is being wound-up.*

***RESPONSE provided by Director, Northern After Hours GP Clinic***

*The financial statements for the year ended 30 June 2007 have now been submitted by the Northern After Hours GP Clinic's externally appointed auditor to your Office for approval.*

In 2006-07, 4 audit qualifications previously issued in respect of the 2005-06 financial statements of sector agencies were discontinued due to:

- changes to Australian accounting standards regarding consolidation of controlled entities by the Queen Elizabeth Centre and Mercy Public Hospital Inc., and recognition of a receivable by St Vincent's Hospital (Melbourne) Limited
- changed circumstances relating to the extent of cash collections made by the Royal Women's Hospital Foundation Trust Fund.

The 2005-06 financial statements of Bass Coast Regional Health Benefit Fund Trust were subject to audit qualification as they did not comply with certain requirements of Australian accounting standards. The trust's 2006-07 financial report was incomplete as at 31 October 2007.

For 2006-07, one audit opinion was qualified (6 in 2005-06). The qualified opinion related to The Fawkner Crematorium and Memorial Park Trust and resulted from insufficient evidence being available to audit in relation to the prior year amounts for revenue from internment, cremation and memorial fees and cost of sales included as comparatives in its 2006-07 financial statements. Consequently, we were unable to provide assurance as to the completeness and accuracy of those comparative balances.

The 2005-06 financial statements of the trust were also subject to audit qualification in respect of these balances and in respect of inventory and pre-need sales, as evidence available to audit regarding cash sales and inventories was limited and internal controls were deficient in some key respects. The trust had established adequate internal control, and reconstructed certain accounting records, with respect to the year ended 30 June 2007.



Our February 2007 report *Results of financial statement audits for agencies with 30 June 2006 balance dates* indicated that the lack of adequate internal controls over certain cemetery activities (and/or due to their nature) put cemetery assets at risk, and that a significant fraud was uncovered in the payroll area during our 2006 review of The Fawkner Crematorium and Memorial Park Trust. Further, our report indicated that subsequent investigations by management had identified further instances of significant irregular transactions, which at that time were still being investigated.

As disclosed in the trust's 2005-06 and 2006-07 financial statements, management had detected a significant fraud conducted by previous employees of the trust which was reported to Victoria Police. The alleged fraudulent activities occurred between 1 January 2000 and 31 July 2006, and involved former employees misappropriating trust funds. A certified fraud examiner has investigated the matter and a total of \$3.2 million had been misappropriated over that period, of which \$2.9 million had been repaid or recovered. The costs of the investigation and associated legal costs amounted to approximately \$600 000, making the approximate net cost of the misappropriations to be \$900 000.

## 4.4 Timeliness and quality of financial reporting

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### 4.4.1 Timeliness

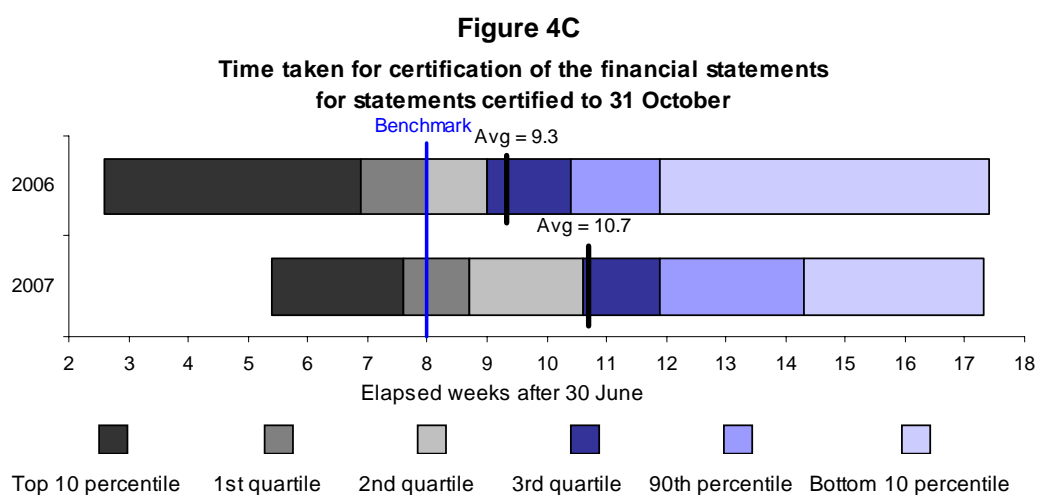
It is important that all agencies prepare and publish timely financial information as part of their public accountability obligations. The usefulness of financial statements is directly related to their timely provision – the later they are produced and published after year-end, the less useful they become.

The required time frames for the preparation of financial statements of most public sector agencies are legislated. The *Financial Management Act 1994* requires departments and public bodies to submit 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 the financial statements. Consequently, certified and audited statements should be produced within 12 weeks of the end of the financial year.

Figure 4C shows (in percentile bands) the number of elapsed weeks after 30 June that sector agencies provided a signed set of financial statements to our Office. The figure indicates that the certification of financial statements commenced significantly earlier in the 2005-06 year when compared with the 2006-07 year, however, this was consistent between the years other than in respect of 2 entities. It should also be noted that Figure 4C does not include the number of incomplete financial statements at 31 October for each year, and that the number of agencies subject to our audit in 2006-07 increased significantly over 2005-06 (mainly due to the inclusion of stand-alone community health centres). Further detail of these entities is provided in Figure 4G.

For 2006-07, 8 per cent of agencies submitted their signed statements to audit within 7 weeks, 15 per cent within 8 weeks, 41 per cent within 10 weeks, and 83 per cent within 13 weeks of year-end.

However, it has been the past practice of this office to use the combined 12-week benchmark to measure timeliness. In this regard, 74 per cent of sector agencies finalised their financial statements, including the audit opinion, within 12 weeks (89 per cent for 2005-06)<sup>3</sup>.



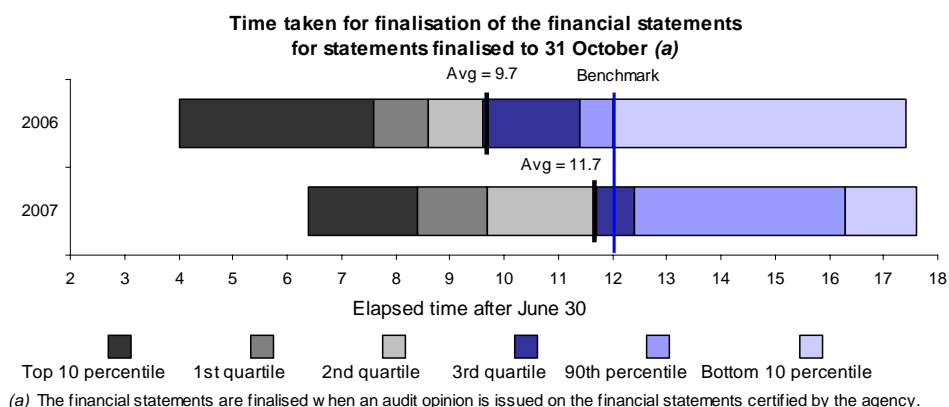
Source: Victorian Auditor-General's Office.

These figures demonstrate deterioration in the timeliness of the finalisation of agency financial statements. A possible reason for this change was that the best practice 8-week timetable recommended by the department for the finalisation of the 2005-06 financial statements reverted to the 12-week benchmark for 2006-07. The department had recommended the best practice timetable for the 2005-06 financial statements consistent with the then Premier's request for earlier tabling of 2005-06 annual reports in Parliament.

Figure 4D shows the number of elapsed weeks taken for financial statements to be certified by agencies and finalised by the issue of an audit opinion. The figure indicates that the certification of financial statements commenced significantly earlier in the 2005-06 year when compared with the 2006-07 year, however, this was consistent between the years other than in respect of one entity. It should also be noted that Figure 4D does not include the number of incomplete financial statements at 31 October for each year, and that the number of agencies subject to our audit in 2006-07 has significantly increased over 2005-06 (mainly due to the inclusion of stand-alone community health centres).

<sup>3</sup> Excluding stand-alone community health centres, the audit of which commenced in 2006-07 pursuant to the financial reporting requirements of the *Associations Incorporation Act 1981*, refer section 4.6

**Figure 4D**



Source: Victorian Auditor-General's Office.

### Financial statement preparation process

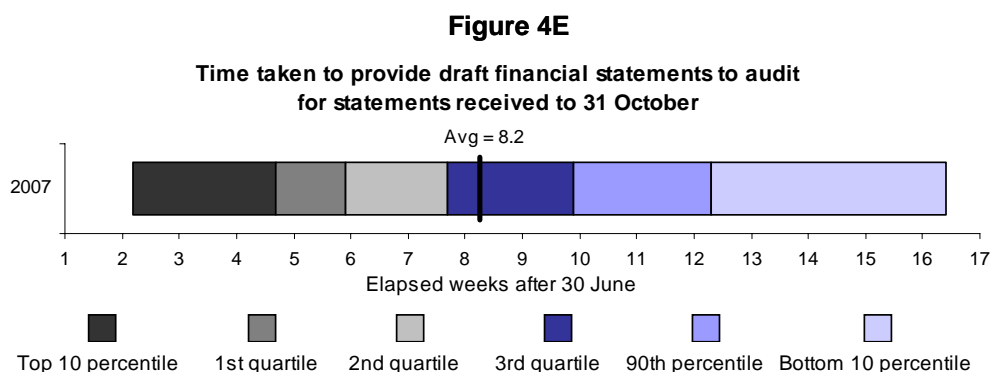
Agencies need to plan for, and allocate sufficient and appropriate resources to, financial statement preparation so they can produce a report consistent with accounting standards and within the stipulated time frames.

#### *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 in a timely fashion.

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. After financial year-end, the sooner draft statements can be produced the more likely an agency will meet the 8-week benchmark.

Figure 4E shows (in percentile bands) the number of elapsed weeks after 30 June that agencies provided a first acceptable draft set of 2006-07 financial statements to our Office. It should be noted that the figure does not include the number of incomplete financial statements at 31 October.



Source: Victorian Auditor-General's Office

For 2006-07, 6 per cent of agencies submitted their draft statements for audit within 4 weeks of 30 June, 50 per cent within 8 weeks, and more than 90 per cent within 13 weeks.

#### 4.4.2 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 prepare only one draft report and with 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**

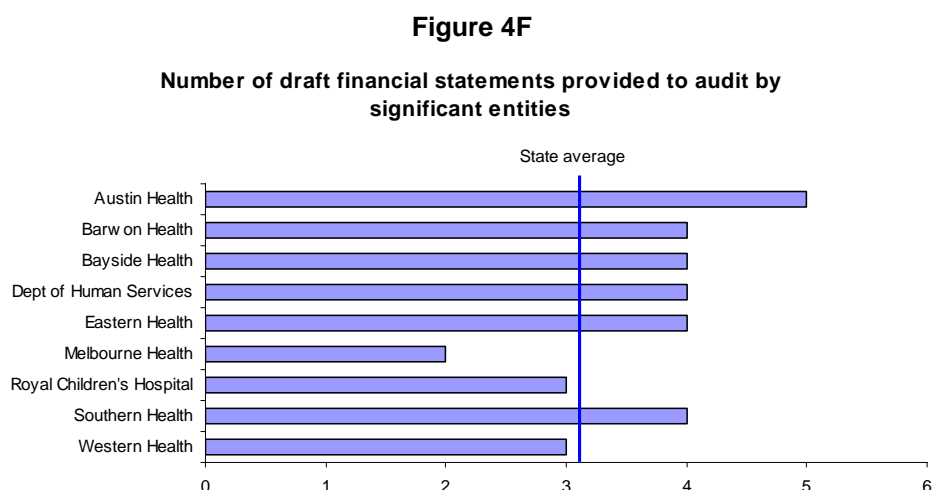
- Prepare a project plan that includes requisite human and financial resources, assigns responsibility, and sets time frames that have been agreed with the external auditor.
- Review actual and proposed changes to accounting standards, Financial Reporting Directions and other pronouncements to identify 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, preferably 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.

Figure 4F provides an indication of the quality of draft financial statements provided to audit by showing the number of draft financial statements provided to audit by 9 of the largest sector agencies.



Source: Victorian Auditor-General's Office.

The quality of financial reporting by sector agencies is variable, but generally satisfactory. We believe that further improvement in both the timing and quality of financial reporting across the sector can be achieved.

Austin Health issued 5 drafts of its financial statements prior to finalisation. The average number of drafts issued on a statewide basis was 3.1. Though the number of drafts issued by Austin Health was high compared with the average, the financial statements were still finalised within the 12-week benchmark from financial year-end.

***RESPONSE provided by the Executive Director Finance, Austin Health***

*The number of draft accounts related predominately to changes resulting from the outcome of the asset stocktake. The asset stocktake commenced in April and was anticipated to finish well before year end. However, we were soon notified that the asset information incorporated on asset tags from the previous valuation (in about 1999) was incomplete. The consequences were that specific assets that had subsequently moved, or were disposed of, could not be tracked. As a result, the revised stocktake was not available until the second half of August.*

*From a report preparation perspective I am confident that Austin Health meets all requirements, as evidenced by DHS using our previous Annual Accounts as the Industry template incorporated in the Annual Guidelines.*

## 4.5 Internal control over financial reporting

---

Each entity's governing body is responsible for the development and maintenance of an adequate system of internal control to ensure:

- 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.

While the main purpose of financial statement audits is to add credibility to an entity's financial statements through the audit opinion, audits also assess the adequacy of entities' financial control and governance processes, to the extent that they impact on the financial statements.

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

### 4.5.1 General controls

Overall, our audits established that agencies' systems of internal control, to the extent we examined and relied upon those controls, were variable, but generally adequate for financial reporting purposes. We did identify opportunities to further strengthen internal control at some agencies. The more significant areas requiring improvement identified at a number of agencies included:

- developing fraud risk policies and prevention strategies
- building on existing initiatives and strategies to establish greater financial viability
- ensuring that more stringent control procedures are in place over electronic funds transfers
- enhancing accounting reconciliation processes, ensuring that reconciliations are performed on a timely basis, independently reviewed and adequately supported

- improving controls over general journals and masterfile information changes (for payroll and payables), ensuring that they are independently reviewed and authorised
- developing and testing business continuity plans.

These issues have been brought to the attention of the relevant entities' management, who are addressing them or have addressed them.

We will continue to note control issues that come to our attention as part of our audit and make recommendations for improvement where warranted.

#### 4.5.2 Information systems controls

Assessment of agency information systems (IS) controls is an important part of the financial audit process. Entities rely on IS to produce reliable and accurate information for the preparation of financial statements, and to run various systems that affect the operation of the entity. Strong IS controls help to maintain the integrity, confidentiality and availability not only of the financial information in agency systems, but also other areas which promote the smooth operational running of the entity.

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

Overall, our audits established that the effectiveness of agencies' IS controls, to the extent we examined and relied upon those controls, were variable but generally adequate for financial reporting purposes. We did identify opportunities to further strengthen IS controls at some agencies. The more significant areas identified at a number of agencies related to access security controls (including password controls) and the development and testing of disaster recovery plans (including their linkage to business continuity plans).

### 4.6 Audit of stand-alone community health centres

Community health centres are located in every local government area and adopt a community-based model of care. The type and scope of services managed and delivered by the centres varies throughout the State. Those services include health promotion, early identification and intervention, assessment and treatment, and coordinated care with general practitioners, other primary providers and the acute, aged care and mental health sectors. The centres also provide a range of primary health services, including drug and alcohol, dental, medical, post-acute care, home and community care, community rehabilitation and day centres.

Our May 1999 *Report on Ministerial Portfolios* identified a need for the reporting framework of stand-alone community health centres to be enhanced to ensure appropriate accountability over their expenditure of government funds. Furthermore, as the centres become larger and responsible for the management of increasing levels of public resources, consideration needed to be given to their level of accountability to Parliament and ultimately to Victorian taxpayers. Lastly, as Parliament's auditor, our report indicated that it will be important that the Auditor-General be involved in this accountability process.

It is estimated that the stand-alone community health centres had a combined turnover of approximately \$300 million in 2006-07, of which greater than 80 per cent is estimated to be generated from government grants.

Our February 2007 report *Results of financial statement audits for agencies with 30 June 2006 balance dates* identified 39 stand-alone (independently managed) community health centres that have been declared under section 45 of the *Health Services Act 1988*, and which had not previously been subject to audit by our Office. Further, in accordance with the requirements of the *Audit Act 1994*, we indicated that we would commence the annual financial audit of these centres for the 2006-07 year. There are approximately another 60 community health services which are managed by public hospitals and, as such, are already subject to our audit and are accountable to Parliament.

We received legal advice from the Victorian Government Solicitor during 2006 that the stand-alone community health centres met the definition of a "public statutory authority" under the *Audit Act 1994* and the *Financial Management Act 1994*, and as a consequence, they had a legislative obligation to prepare financial statements in accordance with the *Financial Management Act 1994* and to submit those statements for audit by this Office. Also during 2006, the department confirmed in writing that it was appropriate for our Office to advise the stand-alone community health centres of our intention to commence auditing them in the 2006-07 financial year.

In response to our written advice to the centres in early 2007, many indicated that they had received alternative legal advice indicating that they are not public statutory authorities. In addition, the department had also sought its own alternative legal advice on this matter.

Most centres had expressed a concern that designation as a public statutory authority may put at risk their concessional and/or exempt taxation status. Most of the centres self-assess for taxation purposes as a Public Benevolent Institution (PBI), while 9 self-assess as Health Promotion Charities. A PBI is a non-profit institution organised for the direct relief of poverty, sickness, suffering, distress, misfortune, disability or helplessness, and its dominant purpose is to provide benevolent relief; while a Health Promotion Charity is a non-profit charitable institution whose principal activity is promoting the prevention or control of diseases in human beings.



As a consequence, the centres enjoy a variety of taxation benefits (both Commonwealth and State), including GST concessions and exemptions from income tax, payroll tax, land tax, stamp duty and fringe benefits tax. For example, all of the centres can provide annual benefits of up to \$30 000 to each employee which are exempt from fringe benefits tax. We have been advised that this benefit assists the centres to attract medical staff.

We referred the alternative legal advice provided on behalf of the centres, and that sought by the department, to the Victorian Government Solicitor for his consideration. After having considered the alternative advice, the Victorian Government Solicitor remained of the opinion that the centres are public statutory authorities (under the *Financial Management Act 1994* and the *Audit Act 1994*).

Nevertheless, in recognition of the differing legal interpretations provided by the department and on behalf of some centres, we requested in writing that the department, as lead agency in the sector:

- ensure that the centres fully comply with the requirements of the *Financial Management Act 1994* and the *Audit Act 1994*
- confirm that it has clarified the status of these entities with their governing boards.

The department subsequently wrote to the centres in support of our audit of the 2006-07 financial reports of the centres, and the Minister for Health also wrote to the industry body (the Victorian Healthcare Association) in support of our audit for the 2006-07 financial report.

Transitional arrangements were put in place for the 2006-07 financial year whereby we appointed the existing auditors of the community health centres as audit service providers of the Auditor-General to facilitate the audit process and avoid duplication of effort.

However, the following 9 centres (as at 26 November 2007) had advised they would not, or did not, submit their 2006-07 financial statements for audit by the Auditor-General and, presumably, had elected to continue with their existing arrangements with their auditors appointed under the *Associations Incorporation Act 1981*:

- Bendigo Community Health Service Inc.
- Darebin Community Health Service Inc.
- Eastern Access Community Health Inc.
- Goulburn Valley Community Health Service Inc.
- Inner East Community Health Service Inc.
- ISIS Primary Care Inc.
- Nillumbik Community Health Service Inc.
- North Yarra Community Health Inc.
- Plenty Valley Community Health Service Inc.

The financial statements of a further 8 centres had not been finalised as at 26 November 2007.

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

*It is noted that of the 31 agencies which had not finalised their financial statements as at 31 October 2007, 21 were community health centres.*

*A community health centre (CHC) under the Associations Incorporation Act 1981 must present at its annual general meeting a statement of income and expenditure, assets and liabilities for that financial year. Section 30(2A) of the Associations Incorporation Act 1981 states that “the second and any subsequent annual general meeting must be held within 5 months after the end of the financial year of the incorporated association”. It is important to acknowledge that the required time frames for the preparation of financial statements set out in the Financial Management Act 1994 and Audit Act 1994 differ from the reporting time frames set out in the Associations Incorporation Act 1981.*

*Given the relatively short lead time for agencies to comply with the request to submit audited financial statements and the various reporting timelines outlined under the Financial Management Act 1994, the Audit Act 1994 and Associations Incorporation Act 1981, it may be reasonable in this transitional year to expect some agencies could not finalise audited financial statements by 31 October.*

*It is noted that while the Victorian Government Solicitor continues to maintain that stand-alone CHCs are public statutory authorities, there is “lively debate” about this matter. It is likely that those CHCs who did not submit their 2006-07 financial statements did not consider that they were legally bound to do so. Given the uncertainty surrounding the issue, I have sought the assistance of the Secretary, Department of Treasury and Finance to seek the Minister for Finance to exercise a power under the Financial Management Act 1994 to declare stand-alone CHCs to be subject to that Act, to put the matter beyond doubt.*

*There is an implicit assumption that the implementation of the accountability and reporting requirements outlined in Part 7 of the Financial Management Act also requires compliance with a number of Directions. Some CHCs, particularly those smaller agencies, may find it difficult to comply with all aspects of the reporting framework immediately. It will be important to develop a transition plan to assist agencies develop the necessary reporting and accountability processes and systems in order to fulfil full reporting and audit requirements.*

Figure 4G

## Audit status: Human Services sector

Entity	Financial statements			Timeliness of audited financial statement completion					
	Financial statements signed	Clear opinion issued	Auditor-General's report signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
<b>COMPLETED AUDITS – 30 JUNE 2007 BALANCE DATES</b>									
Department of Human Services	30 Aug. 2007	✓	31 Aug. 2007		●				
<b>PUBLIC HOSPITALS, AMBULANCE SERVICES AND ASSOCIATED ENTITIES</b>									
Alexandra and District Ambulance Service	24 Sept. 2007	✓	28 Sept. 2007					●	
Alexandra District Hospital	18 Sept. 2007	✓	20 Sept. 2007				●		
Alpine Health	19 Sept. 2007	✓	21 Sept. 2007				●		
Ambulance Service Victoria – Metropolitan Region	27 Aug. 2007	✓	21 Sept. 2007				●		
Austin Health	11 Sept. 2007	✓	12 Sept. 2007				●		
Bairnsdale Regional Health Service	22 Aug. 2007	✓	6 Sept. 2007		●				
Ballarat Health Services	21 Aug. 2007	✓	30 Aug. 2007		●				
Ballarat Health Services Foundation	7 Sept. 2007	✓	19 Sept. 2007				●		
Barwon Health	24 Aug. 2007	✓	18 Sept. 2007				●		
Bass Coast Regional Health	7 Sept. 2007	✓	21 Sept. 2007				●		
Bayside Health	5 Sept. 2007	✓	7 Sept. 2007		●				
Beaufort and Skipton Health Service	21 Sept. 2007	✓	12 Oct. 2007					●	
Beechworth Health Service	18 Sept. 2007	✓	20 Sept. 2007				●		
Benalla and District Memorial Hospital	18 Sept. 2007	✓	21 Sept. 2007				●		
Bendigo Health Care Group	3 Sept. 2007	✓	21 Sept. 2007				●		
Boort District Hospital	17 Sept. 2007	✓	17 Sept. 2007				●		
Calvary Health Care Bethlehem Ltd	20 Oct. 2007	✓	22 Oct. 2007						●
Caritas Christi Hospice Limited	31 Aug. 2007	✓	4 Sept. 2007		●				
Casterton Memorial Hospital	27 Aug. 2007	✓	31 Aug. 2007		●				
Cell Therapies Pty Ltd	30 Aug. 2007	✓	30 Aug. 2007		●				
Central Gippsland Health Service	7 Sept. 2007	✓	7 Sept. 2007		●				

**Figure 4G**  
**Audit status: Human Services sector - *continued***

Entity	Financial statements			Timeliness of audited financial statement completion					
	Financial statements signed	Clear opinion issued	Auditor-General's report signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
<b>COMPLETED AUDITS – 30 JUNE 2007 BALANCE DATES – <i>continued</i></b>									
<b><i>PUBLIC HOSPITALS, AMBULANCE SERVICES AND ASSOCIATED ENTITIES continued</i></b>									
Cobram District Hospital	21 Sept. 2007	✓	21 Sept. 2007			●			
Cohuna Community Nursing Home Inc. (a)	2 Oct. 2007	✓	29 Oct. 2007						●
Cohuna District Hospital	2 Oct. 2007	✓	12 Oct. 2007					●	
Colac Area Health	22 Aug. 2007	✓	24 Aug. 2007	●					
Communities That Care Limited	7 Aug. 2007	✓	28 Aug. 2007		●				
Dental Health Services Victoria	3 Sept. 2007	✓	4 Sept. 2007		●				
Djerriwarrh Health Service	26 Sept. 2007	✓	2 Oct. 2007				●		
Donald District Hospital Foundation	17 Sept. 2007	✓	21 Sept. 2007			●			
Dunmunkle Health Service Foundation	31 Aug. 2007	✓	21 Sept. 2007			●			
Dunmunkle Health Services	31 Aug. 2007	✓	21 Sept. 2007			●			
East Grampians Health Service	21 Sept. 2007	✓	21 Sept. 2007			●			
East Wimmera Health Service	17 Sept. 2007	✓	21 Sept. 2007			●			
Eastern Health	16 Aug. 2007	✓	17 Aug. 2007	●					
Echuca Regional Health	7 Sept. 2007	✓	20 Sept. 2007			●			
Echuca Regional Health Foundation Limited	3 Oct. 2007	✓	5 Oct. 2007				●		
Edenhope and District Memorial Hospital	10 Sept. 2007	✓	13 Sept. 2007			●			
Evivar Medical Pty Ltd (b)	8 Oct. 2007	✓	18 Oct. 2007					●	
Gippsland Health Alliance	3 Oct. 2007	✓	25 Oct. 2007						●
Gippsland Southern Health Service	20 Sept. 2007	✓	21 Sept. 2007			●			
Goulburn Valley Health	13 Sept. 2007	✓	19 Sept. 2007			●			
Hepburn Health Service	10 Sept. 2007	✓	18 Sept. 2007			●			
Hesse Rural health Service	25 Sept. 2007	✓	27 Sept. 2007				●		

**Figure 4G**  
**Audit status: Human Services sector - *continued***

Entity	Financial statements			Timeliness of audited financial statement completion					
	Financial statements signed	Clear opinion issued	Auditor-General's report signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
<b>COMPLETED AUDITS – 30 JUNE 2007 BALANCE DATES – <i>continued</i></b>									
<b><i>PUBLIC HOSPITALS, AMBULANCE SERVICES AND ASSOCIATED ENTITIES – continued</i></b>									
Heywood Rural Health	27 Aug. 2007	✓	31 Aug. 2007		●				
Inglewood and Districts Health Service	10 Sept. 2007	✓	13 Sept. 2007				●		
Kerang District Health	20 Sept. 2007	✓	21 Sept. 2007				●		
Kilmore and District Hospital	28 Aug. 2007	✓	18 Sept. 2007				●		
Kitaya Holdings Pty Ltd	16 Aug. 2007	✓	17 Aug. 2007	●					
Kooweerup Regional Hospital	19 Sept. 2007	✓	21 Sept. 2007				●		
Kyabram and District Health Services	11 Sept. 2007	✓	18 Sept. 2007				●		
Kyneton District Health Service	23 Aug. 2007	✓	28 Aug. 2007		●				
Latrobe Regional Hospital	23 Aug. 2007	✓	6 Sept. 2007		●				
LMHA Network Limited	25 Oct. 2007	✓	29 Oct. 2007						●
Lorne Community Hospital	27 Sept. 2007	✓	2 Oct. 2007				●		
Maldon Hospital	10 Sept. 2007	✓	10 Sept. 2007				●		
Mallee Track Health and Community Service	19 Oct. 2007	✓	30 Oct. 2007						●
Manangatang and District Hospital	18 Sept. 2007	✓	18 Sept. 2007				●		
Mansfield District Hospital	29 Oct. 2007	✓	29 Oct. 2007						●
Maryborough District Health Service	12 Sept. 2007	✓	18 Sept. 2007				●		
Mclvor Health and Community Services	31 Aug. 2007	✓	18 Sept. 2007				●		
Melbourne Health	3 Sept. 2007	✓	4 Sept. 2007		●				
Melbourne Health Research and Development Ltd (f)	31 Aug. 2007	✓	19 Sept. 2007				●		
Mercy Public Hospitals Inc.	20 Sept. 2007	✓	20 Sept. 2007				●		
Moyne Health Services	20 Sept. 2007	✓	21 Sept. 2007				●		
Moyne Health Services Inc.	20 Sept. 2007	✓	21 Sept. 2007				●		
Mt. Alexander Hospital	17 Sept. 2007	✓	19 Sept. 2007				●		

**Figure 4G**  
**Audit status: Human Services sector - *continued***

Entity	Financial statements			Timeliness of audited financial statement completion					
	Financial statements signed	Clear opinion issued	Auditor-General's report signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
<b>COMPLETED AUDITS – 30 JUNE 2007 BALANCE DATES – <i>continued</i></b>									
<b><i>PUBLIC HOSPITALS, AMBULANCE SERVICES AND ASSOCIATED ENTITIES – continued</i></b>									
Nathalia District Hospital	12 Sept. 2007	✓	12 Sept. 2007			●			
Northeast Health Wangaratta	19 Sept. 2007	✓	21 Sept. 2007			●			
Northern Health	27 Sept. 2007	✓	1 Oct. 2007				●		
Numurkah District Health Service	10 Sept. 2007	✓	19 Sept. 2007			●			
O'Connell Family Centre (Grey Sisters) Inc.	20 Sept. 2007	✓	20 Sept. 2007			●			
Omeo District Hospital	10 Sept. 2007	✓	13 Sept. 2007			●			
Orbost Regional Health	11 Sept. 2007	✓	21 Sept. 2007			●			
Otway Health and Community Services	13 Sept. 2007	✓	20 Sept. 2007			●			
Peninsula Health	24 Aug. 2007	✓	30 Aug. 2007		●				
Peter MacCallum Cancer Centre	30 Aug. 2007	✓	6 Sept. 2007		●				
Peter MacCallum Cancer Foundation	30 Aug. 2007	✓	30 Aug. 2007		●				
Peter MacCallum Cancer Foundation Limited	30 Aug. 2007	✓	30 Aug. 2007		●				
Portland and District Hospital	28 Aug. 2007	✓	3 Sept. 2007		●				
Queen Elizabeth Centre	10 Aug. 2007	✓	31 Aug. 2007		●				
Robinvale District Health Services	12 Oct. 2007	✓	15 Oct. 2007					●	
Rochester and Elmore District Health Service	11 Sept. 2007	✓	18 Sept. 2007			●			
Royal Children's Hospital	28 Aug. 2007	✓	30 Aug. 2007		●				
Royal Children's Hospital Education Institute Ltd	7 Aug. 2007	✓	28 Aug. 2007		●				
Royal Children's Hospital Foundation Trust Funds	9 Aug. 2007	✓	28 Aug. 2007		●				
Royal Melbourne Hospital Foundation Ltd	22 Aug. 2007	✓	19 Sept. 2007			●			
Royal Victorian Eye and Ear Hospital	30 Aug. 2007	✓	30 Aug. 2007		●				

Figure 4G  
Audit status: Human Services sector - *continued*

Entity	Financial statements			Timeliness of audited financial statement completion					
	Financial statements signed	Clear opinion issued	Auditor-General's report signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
<b>COMPLETED AUDITS – 30 JUNE 2007 BALANCE DATES – <i>continued</i></b>									
<b><i>PUBLIC HOSPITALS, AMBULANCE SERVICES AND ASSOCIATED ENTITIES – continued</i></b>									
Royal Women's Hospital	21 Sept. 2007	✓	21 Sept. 2007			●			
Royal Women's Hospital Foundation Ltd	25 Sept. 2007	✓	25 Sept. 2007				●		
Royal Women's Hospital Trust Fund	25 Sept. 2007	✓	25 Sept. 2007				●		
Rural Ambulance Victoria	1 Oct. 2007	✓	2 Oct. 2007				●		
Rural Northwest Health	22 Aug. 2007	✓	28 Aug. 2007		●				
Seymour District Memorial Hospital	18 Sept. 2007	✓	20 Sept. 2007			●			
South Gippsland Hospital	30 Aug. 2007	✓	6 Sept. 2007		●				
South West Alliance of Rural Health	23 Aug. 2007	✓	6 Sept. 2007		●				
South West Healthcare	3 Sept. 2007	✓	3 Sept. 2007		●				
Southern Health	16 Aug. 2007	✓	17 Aug. 2007	●					
St Arnaud District Hospital Foundation	17 Sept. 2007	✓	8 Oct. 2007					●	
St George's Health Service Limited	31 Aug. 2007	✓	4 Sept. 2007		●				
St Vincent's Hospital (Melbourne) Limited	31 Aug. 2007	✓	4 Sept. 2007		●				
Stawell Regional Health	21 Sept. 2007	✓	21 Sept. 2007			●			
Swan Hill District Hospital	11 Sept. 2007	✓	11 Sept. 2007			●			
Tallangatta Health Service	24 Sept. 2007	✓	24 Sept. 2007				●		
Terang and Mortlake Health Service	4 Sept. 2007	✓	10 Sept. 2007			●			
Timboon and District Healthcare Service	11 Sept. 2007	✓	12 Sept. 2007			●			
Tweddle Child and Family Health Service	15 Oct. 2007	✓	15 Oct. 2007					●	
Upper Murray Health and Community Services	19 Sept. 2007	✓	21 Sept. 2007			●			
West Gippsland Healthcare Group	4 Sept. 2007	✓	18 Sept. 2007			●			
West Wimmera Health Service	6 Sept. 2007	✓	11 Sept. 2007			●			
Western District Health Service	15 Aug. 2007	✓	15 Aug. 2007	●					

**Figure 4G**  
**Audit status: Human Services sector - *continued***

Entity	Financial statements			Timeliness of audited financial statement completion					
	Financial statements signed	Clear opinion issued	Auditor-General's report signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
<b>COMPLETED AUDITS – 30 JUNE 2007 BALANCE DATES – <i>continued</i></b>									
<b><i>PUBLIC HOSPITALS, AMBULANCE SERVICES AND ASSOCIATED ENTITIES – continued</i></b>									
Western Health	17 Aug. 2007	✓	17 Aug. 2007	●					
Wimmera Base Hospital Foundation	28 Aug. 2007	✓	6 Sept. 2007		●				
Wimmera Health Care Group	28 Aug. 2007	✓	6 Sept. 2007		●				
Winchelsea and District Nursing Home Society	25 Sept. 2007	✓	27 Sept. 2007				●		
Wodonga Regional Health Service	12 Sept. 2007	✓	20 Sept. 2007			●			
Yarram and District Health Service	3 Sept. 2007	✓	18 Sept. 2007			●			
Yarrawonga District Health Service	19 Sept. 2007	✓	21 Sept. 2007			●			
Yarrawonga Old People's Welfare Committee Inc. (trading as Warrina Hostel) (a)	27 Sept. 2007	✓	29 Oct. 2007						●
Yea and District Memorial Hospital	10 Sept. 2007	✓	10 Sept. 2007			●			
<b><i>COMMUNITY HEALTH CENTRES (a)</i></b>									
Ballarat Community Health Centre Inc.	28 Sept. 2007	✓	2 Oct. 2007				●		
Banyule Community Health Service Inc.	28 Aug. 2007	✓	18 Sept. 2007			●			
Bass Coast Community Health Service Inc.	3 Oct. 2007	✓	15 Oct. 2007					●	
Bellarine Community Health Inc.	15 Oct. 2007	✓	23 Oct. 2007						●
Castlemaine District Community Health Service Inc.	19 Sept. 2007	✓	5 Oct. 2007				●		
Central Bayside Community Health Service Inc.	27 Sept. 2007	✓	1 Oct. 2007				●		
Cobaw Community Health Service Inc.	5 Oct. 2007	✓	5 Oct. 2007				●		
Dianella Community Health Inc.	17 Oct. 2007	✓	26 Oct. 2007						●
Doutta Galla Community Health Service Inc.	27 Sept. 2007	✓	1 Oct. 2007				●		
Gippsland Lakes Community Health Service Inc.	18 Sept. 2007	✓	21 Sept. 2007			●			
Knox Community Health Service Inc.	7 Sept. 2007	✓	31 Oct. 2007						●
LaTrobe Community Health Service Inc.	19 Sept. 2007	✓	21 Sept. 2007			●			



Figure 4G  
Audit status: Human Services sector - *continued*

Entity	Financial statements			Timeliness of audited financial statement completion					
	Financial statements signed	Clear opinion issued	Auditor-General's report signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
<b>COMPLETED AUDITS – 30 JUNE 2007 BALANCE DATES – <i>continued</i></b>									
<b>COMMUNITY HEALTH CENTRES (a) <i>continued</i></b>									
Manningham Community Health Service Inc.	11 Oct. 2007	✓	24 Oct. 2007						●
Mitchell Community Health Service Inc.	13 Sept. 2007	✓	29 Oct. 2007						●
Northern District Community Health Service Inc.	9 Oct. 2007	✓	9 Oct. 2007					●	
Nowa Nowa Community Health Centre Inc.	10 Sept. 2007	✓	5 Oct. 2007				●		
Upper Hume Community Health Service Inc.	25 Oct. 2007	✓	25 Oct. 2007						●
Whitehorse Community Health Service Inc.	2 Oct. 2007	✓	29 Oct. 2007						●
<b>MAJOR CEMETERIES</b>									
Anderson's Creek Cemetery Trust	18 Oct. 2007	✓	26 Oct. 2007						●
Ballarat General Cemeteries Trust	12 Sept. 2007	✓	19 Sept. 2007			●			
Bendigo Cemeteries Trust	20 Sept. 2007	✓	21 Sept. 2007			●			
Geelong Cemeteries Trust	7 Sept. 2007	✓	18 Sept. 2007			●			
Keilor Cemetery Trust	21 Sept. 2007	✓	21 Sept. 2007			●			
Mildura Cemetery Trust	15 Oct. 2007	✓	30 Oct. 2007						●
Preston Cemetery Trust	10 Sept. 2007	✓	14 Sept. 2007			●			
Templestowe Cemetery Trust	15 Oct. 2007	✓	15 Oct. 2007					●	
The Cheltenham and Regional Cemeteries Trust	31 Aug. 2007	✓	17 Sept. 2007			●			
The Fawkner Crematorium and Memorial Park Trust (g)	11 Oct. 2007	Qualified	15 Oct. 2007					●	
The Trustees of the Necropolis Springvale	31 Aug. 2007	✓	6 Sept. 2007		●				
Trustees of the Altona Memorial Park	20 Sept. 2007	✓	21 Sept. 2007			●			
Trustees of the Lilydale Memorial Park and Cemetery	19 Oct. 2007	✓	26 Oct. 2007						●
Wyndham Cemeteries Trust	17 Sept. 2007	✓	17 Sept. 2007			●			

**Figure 4G**  
**Audit status: Human Services sector - *continued***

Entity	Financial statements			Timeliness of audited financial statement completion					
	Financial statements signed	Clear opinion issued	Auditor-General's report signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
<b>COMPLETED AUDITS – 30 JUNE 2007 BALANCE DATES – <i>continued</i></b>									
<b><i>OTHER PUBLIC BODIES</i></b>									
Chinese Medicine Registration Board of Victoria	27 Aug. 2007	✓	27 Aug. 2007		●				
Chiropractors Registration Board of Victoria	14 Aug. 2007	✓	14 Aug. 2007	●					
Dental Practice Board of Victoria	30 Aug. 2007	✓	6 Sept. 2007		●				
Health Purchasing Victoria	24 Aug. 2007	✓	19 Sept. 2007			●			
Infertility Treatment Authority	21 Aug. 2007	✓	22 Aug. 2007	●					
Mental Health Review Board	20 Sept. 2007	✓	21 Sept. 2007			●			
Nurses Board of Victoria	21 Sept. 2007	✓	21 Sept. 2007			●			
Optometrists Registration Board of Victoria	24 Sept. 2007	✓	25 Sept. 2007				●		
Osteopaths Registration Board of Victoria	15 Aug. 2007	✓	24 Aug. 2007	●					
Pharmacy Board of Victoria	27 Aug. 2007	✓	28 Aug. 2007		●				
Physiotherapists Registration Board of Victoria	12 Sept. 2007	✓	20 Sept. 2007			●			
Podiatrists Registration Board of Victoria	14 Aug. 2007	✓	24 Aug. 2007	●					
Psychosurgery Review Board	20 Sept. 2007	✓	21 Sept. 2007			●			
Victorian Institute of Forensic Mental Health	19 Sept. 2007	✓	19 Sept. 2007			●			
<b>INCOMPLETE AUDITS</b>									
Bass Coast Regional Health Benefit Fund Trust (d)	<i>Audited financial statements yet to be finalised</i>								
Beaufort & Skipton Health Service Foundation Limited	<i>Audited financial statements yet to be finalised</i>								
HumeNET Limited (c)	<i>Audited financial statements yet to be finalised</i>								
Kilmore and District Nursing Home Society Inc. (a)	<i>Audited financial statements yet to be finalised</i>								

**Figure 4G**  
**Audit status: Human Services sector - *continued***

Entity	Financial statements			Timeliness of audited financial statement completion					
	Financial statements signed	Clear opinion issued	Auditor-General's report signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
<b>INCOMPLETE AUDITS <i>continued</i></b>									
Northern After Hours GP Clinic (a)	<i>Audited financial statements yet to be finalised</i>								
Northern Health Research Training and Equipment Foundation Limited (a) (e)	<i>Audited financial statements yet to be finalised</i>								
Northern Health Research Training and Equipment Trust (a) (e)	<i>Audited financial statements yet to be finalised</i>								
Stawell District Hospital Foundation	<i>Audited financial statements yet to be finalised</i>								
Victoria Health Promotion Foundation	<i>Audited financial statements yet to be finalised</i>								
Victoria Relief Committee	<i>Audited financial statements yet to be finalised</i>								
<b>INCOMPLETE AUDITS: COMMUNITY HEALTH CENTRES</b>									
Bendigo Community Health Service Inc.	<i>Did not submit their 2006-07 financial statements for audit by the Auditor-General. Refer section 4.6</i>								
Bentleigh Bayside Community Health Service Inc.	<i>Audited financial statements yet to be finalised</i>								
Darebin Community Health Service Inc.	<i>Did not submit their 2006-07 financial statements for audit by the Auditor-General. Refer section 4.6</i>								
Eastern Access Community Health Inc.	<i>Did not submit their 2006-07 financial statements for audit by the Auditor-General. Refer section 4.6</i>								
Ensay Community Health Centre Inc.	<i>Audited financial statements yet to be finalised</i>								
Goulburn Valley Community Health Service Inc.	<i>Did not submit their 2006-07 financial statements for audit by the Auditor-General. Refer section 4.6</i>								
Grampians Community Health Centre Inc.	<i>Audited financial statements yet to be finalised</i>								
Inner East Community Health Service Inc.	<i>Did not submit their 2006-07 financial statements for audit by the Auditor-General. Refer section 4.6</i>								
Inner South Community Health Service Inc.	<i>Audited financial statements yet to be finalised</i>								
ISIS Primary Care Inc.	<i>Did not submit their 2006-07 financial statements for audit by the Auditor-General. Refer section 4.6</i>								
Monashlink Community Health Service Inc.	<i>Audited financial statements yet to be finalised</i>								
Moreland Community Health Service Inc.	<i>Audited financial statements yet to be finalised</i>								
Nillumbik Community Health Service Inc.	<i>Did not submit their 2006-07 financial statements for audit by the Auditor-General. Refer section 4.6</i>								
North Richmond Community Health Centre Inc.	<i>Audited financial statements yet to be finalised</i>								
North Yarra Community Health Inc.	<i>Did not submit their 2006-07 financial statements for audit by the Auditor-General. Refer section 4.6</i>								
Ovens and King Community Health Centre Inc.	<i>Audited financial statements yet to be finalised</i>								

Figure 4G

Audit status: Human Services sector - *continued*

Entity	Financial statements			Timeliness of audited financial statement completion					
	Financial statements signed	Clear opinion issued	Auditor-General's report signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
<b>INCOMPLETE AUDITS: COMMUNITY HEALTH CENTRES – <i>continued</i></b>									
Peninsula Community Health Service Inc.	<i>Audited financial statements yet to be finalised</i>								
Plenty Valley Community Health Service Inc.	<i>Did not submit their 2006-07 financial statements for audit by the Auditor-General. Refer section 4.6</i>								
Ranges Community Health Service Inc.	<i>Audited financial statements yet to be finalised</i>								
Sunbury Community Health Centre Inc.	<i>Audited financial statements yet to be finalised</i>								
Sunraysia Community Health Centre Inc.	<i>Did not submit their 2006-07 financial statements for audit by the Auditor-General. Refer section 4.6</i>								
2006-07 Total number of agencies = 197				10	36	75	18	10	48
Per cent (cumulative)				5	23	61	70	75	100
2005-06 Total number of agencies = 152				30	64	43	7	1	7
Per cent (cumulative)				19	61	89	94	94	100

- (a) New audits for 2006-07
- (b) Evivar Medical Pty Ltd. was previously known as Virtual Virology Pty Ltd. The financial statements for the year ended 30 June 2006 were finalised during 2007.
- (c) The previously outstanding financial statements for HumeNET Limited for the periods ending 30 June 2004, 2005 and 2006 were finalised during 2007. The director's of HumeNET Limited proposed to cease trading on 30 June 2006.
- (d) Bass Coast Regional Health Benefit Fund Trust was wound up on 27 June 2007
- (e) The outstanding financial statements for Northern Health Research Training and Equipment Foundation Limited and Northern Health Research Training and Equipment Trust for the periods ending 30 June 2004, 2005 and 2006 were finalised during 2007.
- (f) Melbourne Health Research and Development Ltd. applied to the Australian Securities and Investment Commission for deregistration on 5 April 2007
- (g) The previously outstanding financial statements for The Fawkner Crematorium and Memorial Park Trust for the year ending 30 June 2006 were finalised during 2007.
- (h) The Royal Children's Hospital Foundation Limited ceased to be a controlled entity of the Royal Children's Hospital, and therefore no longer subject to audit by the Auditor-General, due to a change in the accounting standards for the preparation of consolidated financial statements. Nevertheless, the Royal Children's Hospital Foundation Trust Funds continue to be subject to audit by the Auditor-General.

# 5 Infrastructure

## At a glance

### Background

The Infrastructure sector comprises the Department of Infrastructure and 18 other agencies that are responsible for providing transport services including safety and security, infrastructure, and large-scale development and construction. Machinery-of-government changes varied the composition of the sector during the year with the department relinquishing responsibilities in the areas of energy policy and information and communication technologies.

### Key findings

- We issued 19 audit opinions on agencies' financial statements, all of which were clear. No audits were incomplete at the date of preparing this report.
- The timeliness of financial reporting by sector agencies was similar to the previous year, with 18 of the 19 sector agencies meeting the 12-week benchmark. Agencies also improved the time taken to complete their financial statements, with 11 agencies achieving this milestone within 8 weeks of year-end (9 agencies in 2005-06).
- The quality of financial reporting by sector agencies was generally satisfactory, although we considered that the department and Victorian Rail Track could improve their financial reporting processes.
- Our audits found the control environments of sector agencies to be generally sound, though improvements could be made to systems access controls, reconciliation of key account balances and disaster recovery policies.

## 5.1 Introduction

---

The Infrastructure sector comprises the Department of Infrastructure (DOI) and 18 other agencies with a 30 June 2007 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; ports and marine facilities and services; large-scale development and construction projects; and the safety and security of essential transport services and infrastructure.

DOI and the agencies support 3 ministerial portfolios: Public Transport, Roads and Ports, and Major Projects.

While the composition of the sector remained relatively stable in 2006-07, machinery-of-government changes resulted in DOI relinquishing responsibilities in the areas of energy policy and information and communication technologies (ICT). As a consequence of the transfer of responsibility for energy policy to the Department of Primary Industries, Energy Safe Victoria and Victorian Energy Networks Corporation moved to the Primary Industries sector.

## 5.2 Reporting framework

---

State agencies are required by the *Financial Management Act 1994* to prepare financial statements. The financial statements prepared must be independently audited, and an audit opinion expressed on the report. The financial statements and the accompanying audit opinion are included in the annual report of each agency.

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.

A summary of the financial audit framework is provided in Part 1 of this report.

## 5.3 Results of audits

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By 31 October 2007, we had issued unqualified audit opinions on the 2006-07 financial statements prepared by all 19 agencies in the sector (no qualified opinions issued in 2005-06).

In 2006-07, sector agencies:

- managed property, plant and equipment valued at \$28.5 billion (\$27.5 billion in 2005-06)

- had interest-bearing liabilities of \$1.44 billion (\$1.52 billion in 2005-06) mainly comprising secured loans and lease liabilities associated with the provision of rail services
- spent \$932 million on the State's rail services (\$806 million in 2005-06). The increased expenditure is primarily attributable to an increase of \$59.2 million in subsidy payments to V/Line Passenger Pty Ltd due to higher operation costs of rolling stock in 2007, and an increase of \$32.7 million in expenditure by Victorian Rail Track in relation to the introduction of additional rolling stock units in 2007
- spent \$584 million on bus services (\$539 million in 2005-06)
- spent \$1.5 billion on roads (\$854 million in 2005-06). The increase of \$646 million mainly relates to large road projects moving from planning phase to full construction phase in 2006-07, including the Pakenham bypass, Calder Freeway upgrade, Deer Park bypass and the Geelong bypass.

The following significant transactions were noted during our 2006-07 financial audits of sector agencies:

- In October 2006, the Commonwealth Games Village site (valued at \$70.9 million) was transferred from the Department of Victorian Communities to Major Projects Victoria. This occurred due to the role of the Office of Commonwealth Games Coordination being phased out and transition of the games village to a residential development project.
- In November 2006, the Government announced that due to inadequate expenditure on track maintenance, the regional rail network had become dilapidated and that it would buy back the network to ensure that it was properly maintained in the future. In April 2007, the Government announced that it had agreed with Pacific National to buy back the regional rail network for \$133.8 million.
- The responsibility for meeting ongoing service payment obligations for the current public transport ticketing system was transferred to the Transport Ticketing Authority from DOI commencing 1 March 2007, creating a future commitment of \$57 million in the authority. The commitment assumes eventual cessation of the existing ticketing system by 31 October 2009.
- On 1 August 2006, Civic Nexus was granted a 30-year lease over the Southern Cross Station facilities by the Southern Cross Station Authority and has an obligation to operate and maintain the facility over that period. The authority will make quarterly payments to Civic Nexus over the 30-year operating period with a net present value of \$360 million commencing from 27 April 2005.
- Revaluation of the land and buildings held by the Southern Cross Station Authority took place in March 2007. As a result of the revaluation, the value of land increased by \$108 million and buildings increased by \$185 million.
- From 1 July 2007, the municipal responsibility for Melbourne Docklands was transferred from the Victorian Urban Development Authority (VicUrban) to the City of Melbourne. These assets included roads, bridges, promenades and parks and pedestrian bridges. The Government has agreed to fund \$8.4 million for the operating costs relating to the municipal responsibilities incurred by VicUrban.

## 5.4 Timeliness and quality of financial reporting

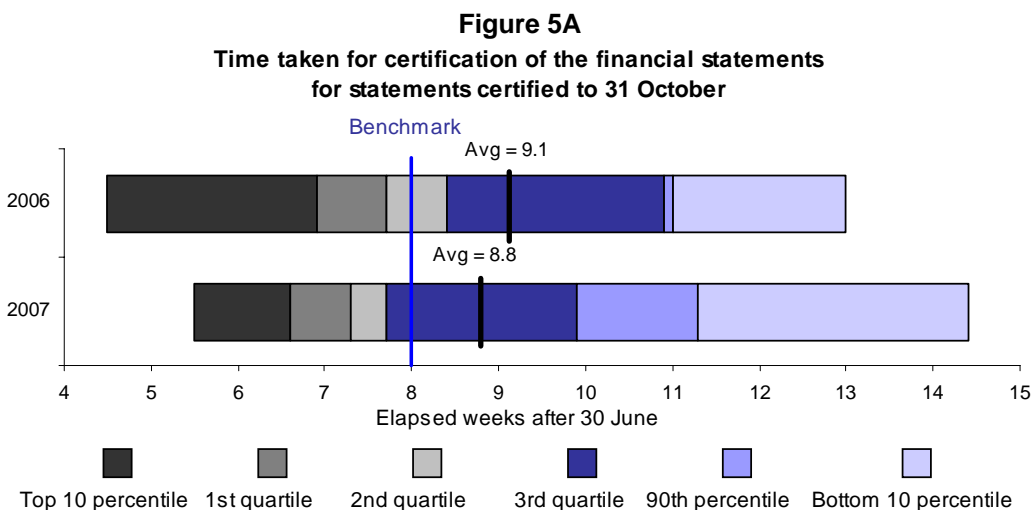
### 5.4.1 Timeliness

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

The required time frames for the preparation of financial statements of public sector agencies are legislated. The *Financial Management Act 1994* requires each department and public body 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.

Figure 5A shows (in percentile bands) the number of elapsed weeks after 30 June that sector agencies provided a signed set of financial statements for audit. Further detail on these agencies is provided in Figure 5E.

For 2006-07, 58 per cent of sector agencies submitted their signed statements to audit within 8 weeks, 79 per cent within 10 weeks, and 95 per cent within 12 weeks of year-end. The average time was just under 9 weeks.



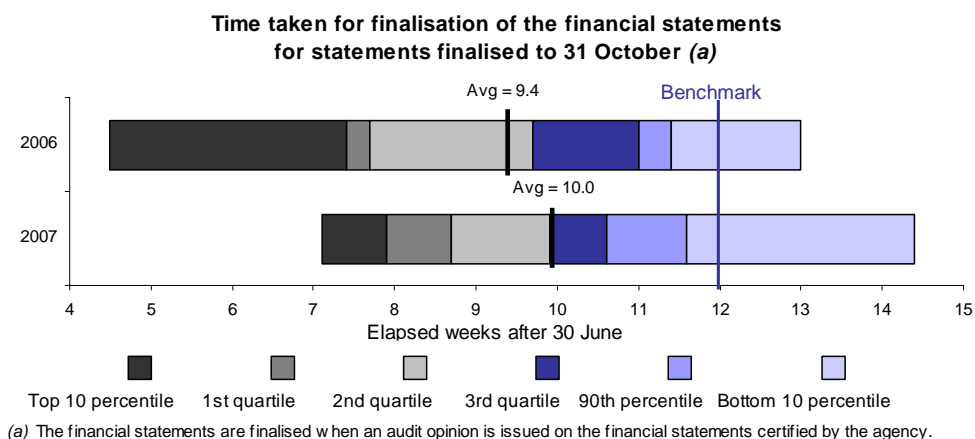
Source: Victorian Auditor-General's Office

Figure 5B shows the elapsed weeks taken for financial statements to be finalised, including the issue of an audit opinion.

For 2006-07, 95 per cent of sector agencies finalised their financial statements, including the audit opinion, within 12 weeks (95 per cent for 2005-06).



**Figure 5B**



Source: Victorian Auditor-General's Office.

### Financial statement preparation process

Agencies need to plan for, and allocate sufficient and appropriate resources to, financial report preparation to produce a report consistent with accounting standards and within the stipulated time frames.

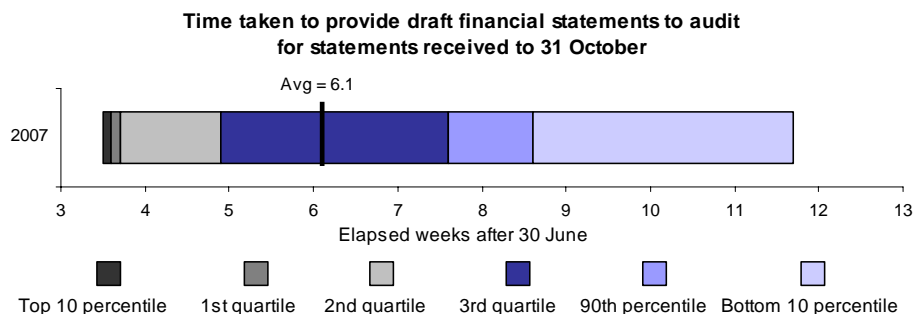
#### *Timeliness of draft financial statements*

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

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. After financial year-end, the sooner draft statements can be produced the more likely an agency will meet the 8-week benchmark.

Figure 5C shows (in percentile bands) the number of elapsed weeks after 30 June that agencies provided a first acceptable draft set of financial statements to our Office.

**Figure 5C**



Source: Victorian Auditor-General's Office.

For 2006-07, 25 per cent of agencies submitted their draft statements for audit within 4 weeks of 30 June, 50 per cent within 5 weeks, and 90 per cent within 9 weeks.

The average elapsed time in 2006-07 was 6 weeks. Commendably, the Southern Cross Station Authority submitted its draft statements for audit 3 weeks after 30 June.

It was pleasing to note that a number of agencies attempted “hard closes” during the 2006-07 year. This is a process where a full set of financial statements is prepared at an interim balance date (such as at 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.

### 5.4.2 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 prepare only one draft report and with 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**

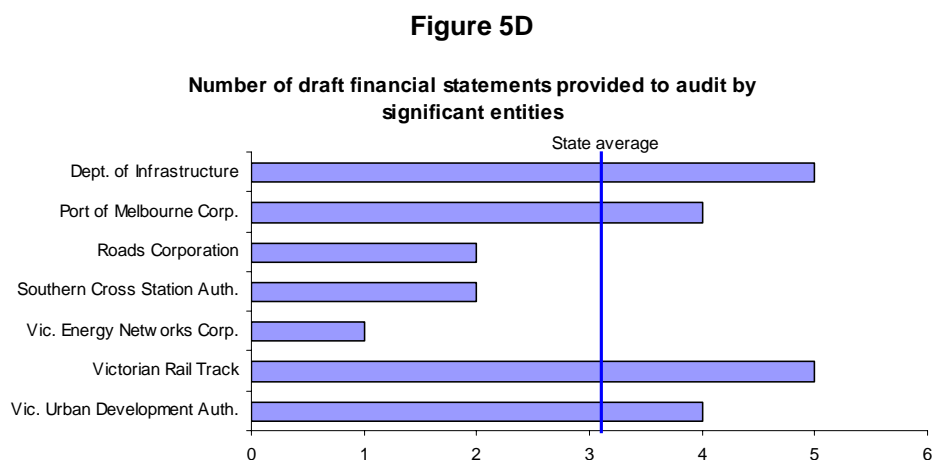
- Prepare a project plan that includes requisite human and financial resources, assigns responsibility, and sets time frames that have been agreed with the external auditor.

- 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, preferably 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.

Figure 5D shows the number of draft financial statements provided to us by the seven most significant agencies in the sector compared with the State average of 3.1.



Source: Victorian Auditor-General's Office.

While the quality of draft financial statements submitted for audit was generally satisfactory, only 43 per cent of significant entities submitted a fewer number of draft financial statements than the State's average. We considered that 2 agencies (DOI and Victorian Rail Track or VicTrack) could improve their financial reporting processes to help ensure that high quality financial statements are prepared for both management and audit purposes.

In 2005-06, we recommended that DOI improve its financial statement preparation processes. DOI implemented processes to improve the quality of draft financial statements submitted for audit, however, further improvements can be made to enhance the process of internal quality assurance. This involves detailed checking of draft financial statements before they are submitted to audit (for completeness, internal consistency, presentation and disclosure).

***RESPONSE provided by Chief Executive, VicTrack***

*VicTrack is satisfied that the facts presented in the report are accurate. We will attempt to reduce the number of drafts in future and improve financial reporting processes. This is a very high priority for our new Chief Finance Officer.*

## 5.5 Internal control over financial reporting

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Each entity's governing body is responsible for the development and maintenance of 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.

While the main purpose of financial statement audits is to add credibility to an entity's financial statements through the audit opinion, audits also assess the adequacy of entities' financial control and governance processes to the extent they impact on the financial statements.

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

### 5.5.1 General controls

Overall, our audits confirmed that sector agencies' systems of internal control were adequate. However, we identified opportunities to further strengthen internal control at all 19 agencies. The areas identified for improvement included:

- annual financial statement preparation processes
- preparation and review of account reconciliation
- segregation of incompatible functions, especially in relation to revenue and expenditure
- processing of information received from third party operators.

These issues have been brought to the attention of the relevant agencies' management, who are addressing them.

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

## 5.5.2 Information systems controls

In September 2005, the secretaries for the Department of Sustainability and Environment (DSE), the Department of Primary Industries (DPI), the Department of Victorian Communities (DVC) and DOI signed a memorandum of agreement to create a shared services organisation providing information and communication technology services by merging the former shared services environments for DSE/DPI and DOI/DVC. The Shared Services Centre (SSC) provides infrastructure and helpdesk support services to the 4 departments and other small entities such as VicForests.

The SSC formally commenced operations on 4 July 2006, as part of DOI. The machinery-of-government changes (on 31 December 2006) resulted in the SSC being transferred as an administrative office to the Department of Treasury and Finance.

Assessment of agency information systems (IS) controls is an important part of the financial audit process. Entities rely on IS to produce reliable and accurate information for the preparation of financial statements, and to run various systems that affect the operation of the entity. Strong IS controls help to maintain the integrity, confidentiality and availability not only of the financial information in agency systems, but also other areas which promote the smooth operational running of the entity.

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.

Our audits found that sector 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 related to the SSC. While the SSC's overall control environment was satisfactory, weaknesses were identified in the following areas:

- registration of IS users, the granting of access rights to users, and the subsequent monitoring of users and their access levels
- standards applied to the setting and renewal of passwords
- failure to appropriately log and monitor user activities to identify possible security breaches
- lack of disaster recovery plans and business continuity plans.

These issues have been brought to the attention of the SSC and it is addressing them.

Reliable financial reporting requires agencies to 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 the SSC 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 planning weaknesses at some agencies:

- 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.

**Figure 5E**  
**Audit status: Infrastructure sector**

Agency	Financial statements			Timeliness of audited financial statement completion					
	Financial statements signed	Clear opinion issued	Auditor-General's report signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
<b>COMPLETED AUDITS – 30 JUNE 2007 BALANCE DATES</b>									
Department of Infrastructure	7 Sept. 2007	✓	10 Sept. 2007			●			
<b>ENERGY INDUSTRIES</b>									
Network Tariff Rebate Trust Fund	17 Sept. 2007	✓	19 Sept. 2007			●			
<b>TRANSPORT AND MAJOR PROJECTS</b>									
Melbourne Port Corporation	20 Aug. 2007	✓	27 Aug. 2007		●				
Port of Hastings Corporation	12 Sept. 2007	✓	12 Sept. 2007			●			
Public Transport Ticketing Body	7 Sept. 2007	✓	7 Sept. 2007		●				
Roads Corporation	20 Aug. 2007	✓	24 Aug. 2007	●					
Rolling Stock Holdings (Victoria) P/L	23 Aug. 2007	✓	7 Sept. 2007		●				
Rolling Stock (Victoria – VL) P/L	23 Aug. 2007	✓	7 Sept. 2007		●				
Rolling Stock (VL – 1) P/L	23 Aug. 2007	✓	7 Sept. 2007		●				
Rolling Stock (VL – 2) P/L	23 Aug. 2007	✓	7 Sept. 2007		●				
Rolling Stock (VL – 3) P/L	23 Aug. 2007	✓	7 Sept. 2007		●				
Southern and Eastern Integrated Transport Authority	9 Oct. 2007	✓	9 Oct. 2007					●	
Southern Cross Station Authority	16 Aug. 2007	✓	20 Aug. 2007	●					
Victorian Rail Track	23 Aug. 2007	✓	7 Sept. 2007		●				
Victorian Railway Heritage Operations Pty Limited	20 Sept. 2007	✓	20 Sept. 2007			●			
Victorian Regional Channels Authority	9 Aug. 2007	✓	30 Aug. 2007		●				
Victorian Urban Development Authority	15 Aug. 2007	✓	28 Aug. 2007		●				
V/Line Passenger Corporation	7 Sept. 2007	✓	13 Sept. 2007			●			
V/Line Passenger Pty Ltd	7 Sept. 2007	✓	13 Sept. 2007			●			

**Figure 5E**  
**Audit status: Infrastructure sector - continued**

Agency	Financial statements			Timeliness of audited financial statement completion					
	Financial statements signed	Clear opinion issued	Auditor-General's report signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
<b>COMPLETED AUDITS – 30 JUNE 2007 BALANCE DATES - continued</b>									
2006-07 Total number of agencies = 19				<b>2</b>	<b>10</b>	<b>6</b>	<b>0</b>	<b>1</b>	<b>0</b>
Per cent (cumulative)				11	63	95	95	100	100
2005-06 Total number of agencies = 21				<b>9</b>	<b>2</b>	<b>9</b>	<b>1</b>	<b>0</b>	<b>0</b>
Per cent (cumulative)				43	52	95	100	100	100



# 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 its 14 portfolio entities. The sector has changed significantly during the year through machinery-of-government changes. The most significant of these changes was the transfer of further education and training responsibilities from the Department of Education to DIIRD.

The sector now supports 8 ministerial portfolios, being regional and rural development; innovation; industrial relations; small business; industry and state development; skills, education services and employment; information and communication technology; and tourism.

### Key findings

- We issued clear audit opinions on 14 entities' financial statements. DIIRD is in the process of preparing financial statements for the years ended 30 June 2005, 2006 and 2007 for VCPO Limited.
- The timeliness of financial reporting by sector entities has deteriorated due to the inclusion of the education sector entities. While late, these entities have improved their reporting timeliness.
- Our audits found the control environments of sector entities to be generally sound.
- The quality of financial reporting by sector entities was also satisfactory.

## 6.1 Introduction

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The Innovation, Industry and Regional Development sector comprises the Department of Innovation, Industry and Regional Development (DIIRD) and 14 other entities. The Victorian Learning and Employment Skills Commission (VLESC) and Film Victoria transferred into the sector as a result of machinery-of-government changes. The change was effective from 1 January 2007.

Sector entities now support 8 ministerial portfolios (previously 7), being regional and rural development; innovation; industrial relations; small business; industry and state development; skills, education services and employment; information and communication technology; and tourism.

DIIRD is the lead entity for economic, regional development, employment and skills and further education services in Victoria. Other sector entities operate in the tourism industry, stage the Australian Formula 1 and Motorcycle Grand Prix events, manage Federation Square in the Melbourne central business district and are responsible for the State training system.

DIIRD has become one of the larger government departments during the financial year due to machinery-of-government changes. In 2006-07, DIIRD had operating expenditure of \$941 million, compared with \$417 million in 2005-06. The difference of \$524 million includes expenditure of \$459 million relating to training and further education services, as a result of the introduction of VLESC into the portfolio.

In recent years, DIIRD has not fully utilised the parliamentary appropriations available to it. In 2006-07, DIIRD underspent its budget by \$47 million. In 2005-06, DIIRD underspent its budget by \$125 million, or by \$16 million (2.5 per cent of the total available appropriation), after allowing for the conversion of the Melbourne Convention Centre Development from a capital construction project to a public-private partnership (\$109 million).

The \$35.8 million surplus reported by DIIRD for 2006-07 (a surplus of \$8.3 million was reported in 2005-06) came from underspending in the regional development output group of \$33.3 million (21 per cent of the output group budget) and underspending in the developing innovative industries output group of \$4.8 million (2 per cent of the output group budget). This was offset by overspending in the investment attraction output group of \$4 million (5 per cent of the output group budget). The majority of the \$35.8 million surplus is committed for future expenditure.

In 2006-07:

- DIIRD provided grants of around \$714 million to private and public sector organisations. Apart from grants totalling \$373 million for education and further education services, DIIRD paid grants totalling \$341 million, compared with \$289 million in 2005-06

- the value of assets held by Fed Square Pty Ltd increased by \$63 million in 2006-07 due to the revaluation of land. The value of assets under management by the company was \$548 million for 2006-07, compared with \$497 million in 2005-06
- the Australian Grand Prix Corporation, which manages both the Formula 1 Grand Prix and the Motor Cycle Grand Prix, generated about \$49 million in ticket sales and sponsorship revenue (\$52 million in 2005-06) and incurred a loss of \$2.5 million compared with a loss of \$1.8 million in 2005-06. The corporation has indicated that the main reason for the decline in ticket sales and sponsorship revenue was the loss of the V8 Supercars event during the Formula 1 race weekend
- the Commonwealth Government provided funding of \$50 million in advance, for the operating costs of the Synchrotron. This funding contribution represents \$10 million a year for the next 5 years. DIIRD is required to match the Commonwealth funding and did so in the 2006-07 financial year. DIIRD is holding the Commonwealth funding in a trust account.

## 6.2 Reporting framework

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State entities are required by the *Financial Management Act 1994* to prepare financial statements. The financial statements prepared must be independently audited, and an audit opinion expressed on the report. The statements and the accompanying audit opinions are included in the annual report of each entity.

The independent audit opinion adds credibility to the financial statements 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.

A summary of the financial audit framework is provided in Part 1 of this report.

## 6.3 Results of audits

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At 31 October 2007, 14 of the 15 entities in the sector had prepared their 2006-07 financial statements and submitted them for audit. We issued clear audit opinions for those 14 entities.

DIIRD is in the process of preparing financial statements for VCPO Limited for the years ended 30 June 2005, 2006 and 2007. Our 2003-04 audit opinion 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 now been finalised with only the completion of outstanding financial statements remaining to acquit the accountability requirements.

## 6.4 Timeliness and quality of financial reporting

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### 6.4.1 Timeliness

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

The required time frames for the preparation of financial statements of public sector entities are legislated. The *Financial Management Act 1994* requires State Government entities 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 financial statements. Consequently, certified and audited statements should be produced within 12 weeks of the end of the financial year.

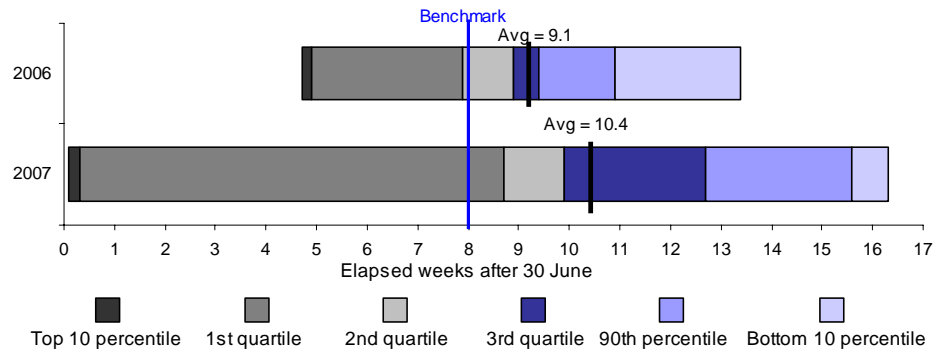
Figure 6A shows (in percentile bands) the number of elapsed weeks after 30 June that sector entities provided a signed set of financial statements to our Office. Further detail on these entities is provided in Figure 6F.

For 2006-07, 14 per cent of entities submitted their signed statements to audit within 8 weeks, 50 per cent within 10 weeks, and 71 per cent within 12 weeks of year-end. The average time was 10 weeks. Emerald Tourist Railway Board led the sector by submitting signed statements for audit 7.4 weeks after 30 June.

Only 14 per cent of entities 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, 71 per cent of entities finalised their financial statements, including the audit opinion, within 12 weeks (88 per cent for 2005-06).

**Figure 6A**

**Time taken for certification of financial statements for statements certified to 31 October**

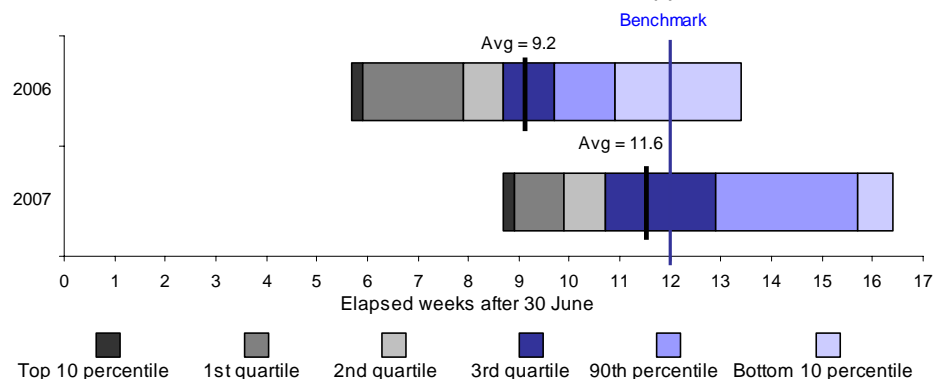


Source: Victorian Auditor-General's Office.

Figure 6B shows the elapsed weeks taken for financial statements to be finalised, including the issue of an audit opinion. The timeliness of financial reporting by sector entities has deteriorated due to the inclusion of the education sector entities. These entities were included for the first time in the Innovation, Industry and Regional Development sector as a result of the recent machinery-of-government changes. While not meeting the benchmark, these entities have significantly improved their reporting timeliness from the prior year.

**Figure 6B**

**Time taken for finalisation of the financial statements for statements finalised to 31 October (a)**



(a) The financial statements are finalised when an audit opinion is issued on the financial statements certified by the agency.

Source: Victorian Auditor-General's Office.

### Financial statement preparation process

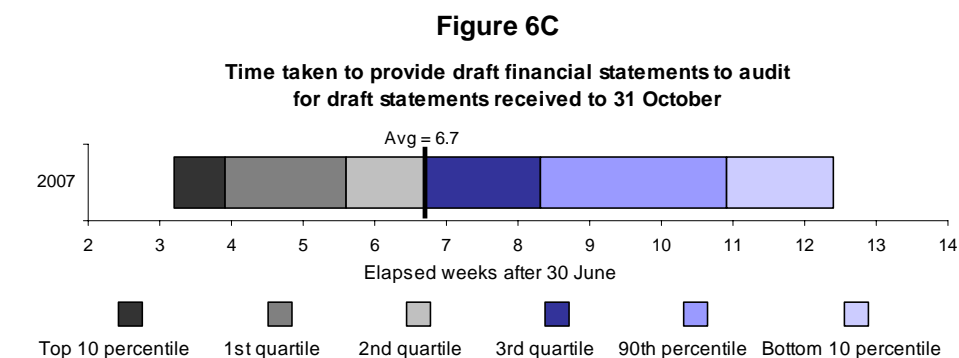
Entities need to plan for, and allocate sufficient and appropriate resources to financial report preparation to produce a report consistent with accounting standards and within the stipulated time frames.

## Timeliness of draft financial statements

Entities 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 in a timely fashion.

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. After financial year-end, the sooner draft statements can be produced, the more likely an agency will meet its 8-week statutory target.

Figure 6C shows (in percentile bands) the number of elapsed weeks after 30 June that entities provided a first acceptable draft set of financial statements to our Office.



Source: Victorian Auditor-General's Office.

For 2006-07, 10 per cent of entities submitted their draft statements for audit within 3.9 weeks of 30 June, 50 per cent within 6.7 weeks, and 100 per cent within 12.4 weeks.

The average elapsed time in 2007 was 6.7 weeks. Commendably, the Melbourne Convention and Exhibition Trust submitted its draft statements for audit 3.4 weeks after 30 June.

It was pleasing to note that a number of entities improved their processes, including submitting "shell" accounts to audit prior to year-end, thereby enabling audit effort to be brought forward and the final audit process to be expedited.

### 6.4.2 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 prepare only one draft report and with 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 entities can take to improve the cost-effectiveness, quality and timeliness of financial reporting include:

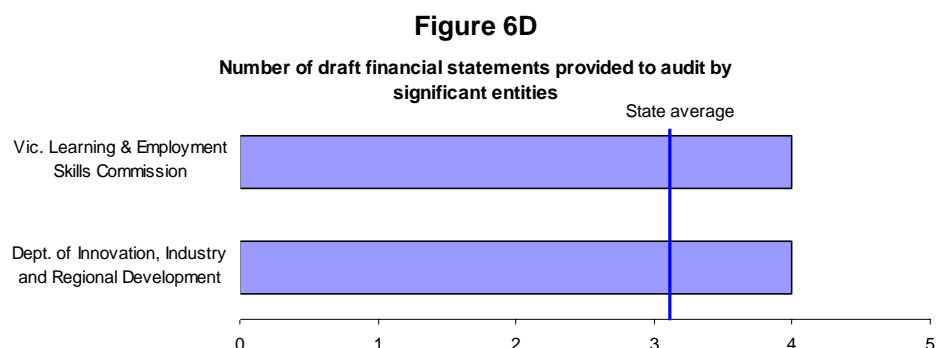
**Before year-end**

- 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, preferably 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.

Figure 6D shows the number of draft financial statements provided to us by the 2 most significant agencies in the sector compared with the State average of 3.1.



Source: Victorian Auditor-General's Office.

The quality of draft financial statements submitted to audit were generally satisfactory, however, improvements to processes to identify and resolve issues earlier will assist in reducing the number of draft financial statements to within the State's average in future.

### 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 on the south bank of the Yarra River in Melbourne. The financial close, which occurred in early June 2006, resulted in a \$93 million upfront payment by the consortium to the Victorian Government. We have previously reported that \$80 million of this payment represented the present value of future lease payments for the hotel and car park facilities site, and \$13 million comprised proceeds for the sale of land to the developer. As the development approaches commercial close, the exact nature of the transaction will be determined.

The \$93 million payment was again recognised in DIIRD's administered balance sheet as unearned income in 2006-07. The appropriate accounting for the proceeds will be determined upon commercial close, which is anticipated to be during 2007-08. In November 2007, we tabled a report in Parliament titled *Audits of 2 Major Partnerships Victoria Projects*, dealing with the State's management of this project.

## 6.5 Internal control over financial reporting

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Each entity's governing body is responsible for the development and maintenance of 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.

While the main purpose of financial statement audits is to add credibility to an entity's financial statements through the audit opinion, audits also assess the adequacy of entities' financial control and governance processes to the extent they impact on the financial statements.

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



### 6.5.1 General controls

Overall, our audits confirmed that the systems of internal control in sector agencies were adequate. However, we identified opportunities to further strengthen internal control at many entities. These issues were brought to the attention of the relevant agencies' management, who are addressing them.

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

### 6.5.2 Information systems controls

Assessment of agency information systems (IS) controls is an important part of the financial audit process. Entities rely on IS to produce reliable and accurate information for the preparation of financial statements, and to run various systems that affect the operation of the entity. Strong IS controls help to maintain the integrity, confidentiality and availability not only of the financial information in agency systems, but also other areas which promote the smooth operational running of the entity.

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.

Our audits found that entities had established appropriate controls over most aspects of IS operations.

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

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

During our financial audits, we did not identify any IS continuity planning weaknesses in sector agencies.

## 6.6 2005-06 recommendations

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Our February 2007 report to Parliament titled *Results of financial statement audits for agencies with 30 June 2006 balance dates* included 2 recommendations relevant to the Innovation, Industry and Regional Development sector. Figure 6E shows the status of action on those recommendations and indicates that one matter has been resolved and the other is outstanding.

**Figure 6E**  
**Status of 2005-06 recommendations**

Entity	2005-06 recommendations		
	Issued	Resolved	Outstanding
DIIRD – Accounting for the Melbourne Exhibition and Convention Centre public-private partnership by DIIRD (a)	1		1
DIIRD – Monash University Joint Venture	1	1	

(a) The outstanding issue in relation to the Melbourne Exhibition and Convention Centre is expected to be determined during 2007-08, refer to section 6.4 of this part of the report.

**Figure 6F**  
**Audit status: Innovation, Industry and Regional Development sector**

Entity	Financial statements			Timeliness of audited financial statement completion					
	Financial statements signed	Clear opinion issued	Auditor-General's report signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
<b>COMPLETED AUDITS – 30 JUNE 2007 BALANCE DATES</b>									
Department of Innovation, Industry and Regional Development	29 Aug. 2007	✓	31 Aug. 2007		●				
<b>ARTS</b>									
Film Victoria	10 Sept. 2007	✓	10 Sept. 2007			●			
<b>EDUCATION AND TRAINING</b>									
NMIT International Limited	2 Jul. 2007	✓	20 Sept. 2007			●			
TAFE Development Centre Ltd	27 Sept. 2007	✓	28 Sept. 2007				●		
VCAMM Limited	17 Oct. 2007	✓	18 Oct. 2007					●	
Victorian Learning and Employment Skills Commission	7 Sept. 2007	✓	13 Sept 2007			●			
Victorian Tertiary Admissions Centre	22 Oct. 2007	✓	23 Oct. 2007						●
<b>INNOVATION, INDUSTRY AND REGIONAL DEVELOPMENT</b>									
Fed Square Pty Ltd	19 Sept. 2007	✓	19 Sept. 2007			●			
Prince Henry's Institute of Medical Research	30 Aug. 2007	✓	6 Sept. 2007		●				
<b>TOURISM</b>									
Australian Grand Prix Corporation	7 Sept. 2007	✓	10 Sept. 2007			●			
Emerald Tourist Railway Board	21 Aug. 2007	✓	7 Sept. 2007		●				
Melbourne Convention and Exhibition Trust	13 Sept. 2007	✓	17 Sept. 2007			●			
Tourism Victoria	4 Sept. 2007	✓	4 Sept. 2007		●				
Victoria Trade and Investment Office Pty Ltd	4 Oct. 2007	✓	5 Oct. 2007				●		
<b>INCOMPLETE AUDITS – AS AT 31 OCTOBER 2007 (30 JUNE 2007 BALANCE DATE)</b>									
VCPO Limited (a)	<i>Audited financial statements yet to be finalised</i>								●
2006-07 Total number of entities = 15				0	4	6	2	1	2
Per cent (cumulative)				0	27	67	80	87	100
2005-06 Total number of entities = 9				2	3	2	1	0	1
Per cent (cumulative)				22	55	77	89	89	100

(a) The financial statements for VCPO Limited for the years ending 30 June 2005 and 2006 are also outstanding.

# 7 Justice

## At a glance

### Background

The Justice sector comprises the Department of Justice, 4 major agencies (Victoria Police, the Metropolitan Fire and Emergency Services Board, the Country Fire Authority and the Victorian Commission for Gambling Regulation) and 23 statutory agencies, offices and quasi-judicial bodies. The sector supports 6 ministerial portfolios, being Attorney-General, Police and Emergency Services, Corrections, Consumer Affairs, Gaming, and Racing.

### Key findings

- We issued 28 audit opinions on agencies' financial statements, 27 of which were clear and one qualified. The qualification of the CFA & Brigades Donations Fund arose as we were unable to verify, in terms of the stringent requirements of the accounting standards, the completeness of cash donations received by the fund. This is an issue faced by other charitable and not-for-profit agencies.
- The timeliness of financial reporting by sector agencies was similar to the previous year, with 16 sector agencies with a 30 June 2007 balance date, achieving the 12-week statutory deadline. Twelve agencies did not meet the 12-week benchmark in 2006-07.
- The quality of financial reporting by sector agencies was satisfactory.
- Our audits found the control environments of sector agencies to be generally sound and operating effectively.

## 7.1 Introduction

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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 entities and judicial and quasi-judicial bodies.

These agencies are responsible for the following functions:

- all police and prosecution functions
- administration of the court system
- provision of the prison and community corrections services
- administration of various tribunals and agencies established to protect citizens' rights
- emergency management
- provision of emergency services
- policy on racing and gaming issues
- provision of legal advice to government.

In 2006-07, Justice sector agencies incurred expenditure of \$5.7 billion associated with service delivery. They managed assets of \$6.8 billion (mainly property, plant and equipment, and investments) and liabilities of \$3.5 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 sector agencies.

The following changes took place during 2006-07 in relation to sector agencies:

- the Office of Police Integrity was transferred from the Premier and Cabinet portfolio to the Justice portfolio from 1 July 2006 and has been included in this section of the report
- the Australasian Police Multicultural Advisory Bureau ceased to be audited by the Victorian Auditor-General from 1 July 2006.

## 7.2 Reporting framework

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State agencies are required by the *Financial Management Act 1994* to prepare financial statements. The financial statements prepared must be independently audited, and an audit opinion is expressed on the report. The financial statements and the accompanying audit opinion are included in the annual report of each agency.

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.

A summary of the financial audit framework is provided in Part 1 of this report.

## 7.3 Results of audits

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At 31 October 2007, the 28 agencies in the sector had prepared their 2006-07 financial statements and submitted them for audit and we had issued audit opinions on all of these financial statements. All of the audit opinions were clear with the exception of the opinion on the CFA & Brigades Donations Fund financial statements which was qualified. This qualification was also in place on the fund's 2005-06 financial statements. The qualification relates to the completeness of revenue received from cash donations. This is a common issue faced by other charitable and not-for-profit agencies due to the nature of cash donations.

## 7.4 Timeliness and quality of financial reporting

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### 7.4.1 Timeliness

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

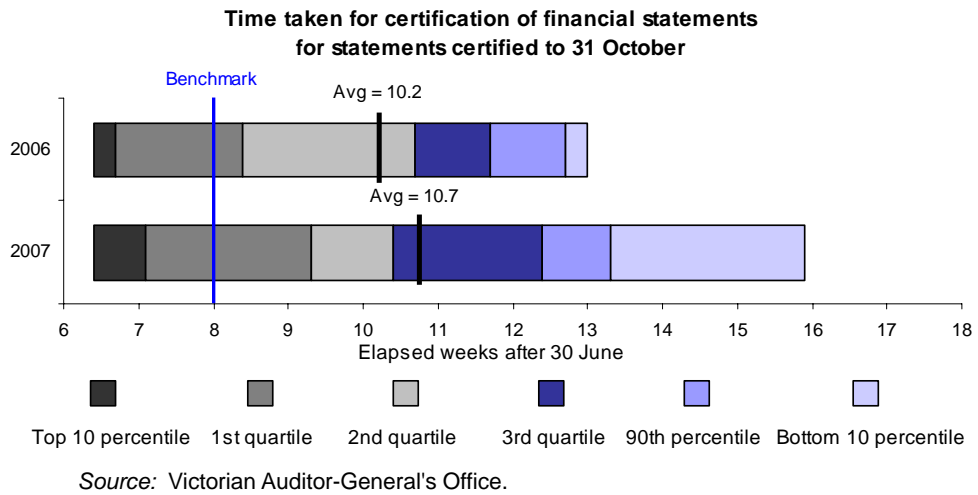
The required time frames for the preparation of financial statements of public sector agencies are legislated. The *Financial Management Act 1994* requires State Government agencies to submit certified financial statements to the Auditor-General within 8 weeks after the end of the financial year. The *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.

Figure 7A shows (in percentile bands) the number of elapsed weeks after 30 June that sector agencies provided a signed set of financial statements to our Office. Further detail on these agencies is provided in Figure 7E.

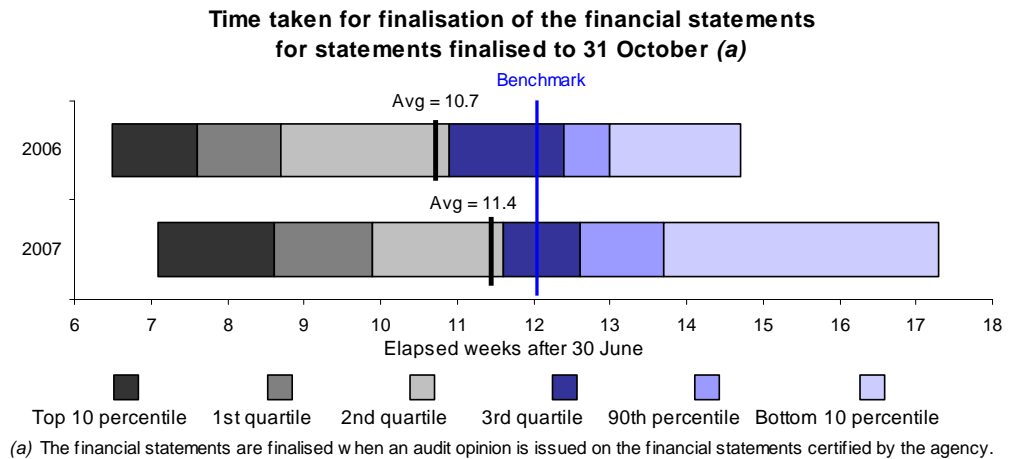
For 2006-07, 11 per cent of agencies submitted their signed statements to audit within 8 weeks, 46 per cent within 10 weeks, and 68 per cent within 12 weeks of year-end. The average time was just under 11 weeks. Victoria Legal Aid led the sector by submitting signed statements for audit 6.6 weeks after 30 June.

Figure 7B shows the elapsed weeks taken for financial statements to be finalised, including the issue of an audit opinion. For 2006-07, 57 per cent of agencies finalised their financial statements, including the audit opinion, within 12 weeks (57 per cent for 2005-06). Twelve agencies did not meet the 12-week benchmark in 2006-07.

**Figure 7A**



**Figure 7B**



### Financial statement preparation process

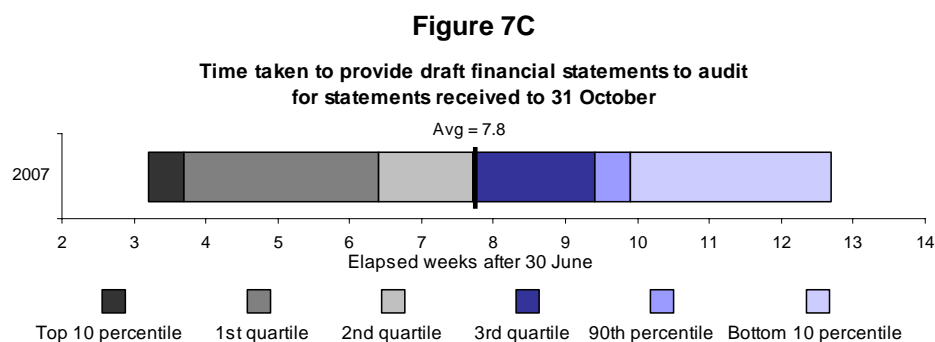
Agencies need to plan for, and allocate sufficient and appropriate resources to, financial report preparation to produce a report consistent with accounting standards and within the stipulated time frames.

### *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 in a timely fashion.

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. After financial year-end, the sooner draft statements can be produced the more likely an agency will meet its 8-week statutory target.

Figure 7C shows (in percentile bands) the number of elapsed weeks after 30 June that agencies provided a first acceptable draft set of financial statements to our Office.



Source: Victorian Auditor-General's Office.

For 2006-07, 10 per cent of agencies submitted their draft statements for audit within 3.7 weeks of 30 June, 50 per cent within 7.7 weeks, and 90 per cent within 9.9 weeks.

The average elapsed time in 2006-07 was just under 8 weeks. Commendably, the Victorian Electoral Commission submitted its draft statements for audit 3.4 weeks after 30 June.

It was pleasing to note that a number of agencies attempted "hard closes" during the 2006-07 year. This is a process where a full set of financial statements is prepared at an interim balance date (such as at 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.

## 7.4.2 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 prepare only one draft report and with 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:

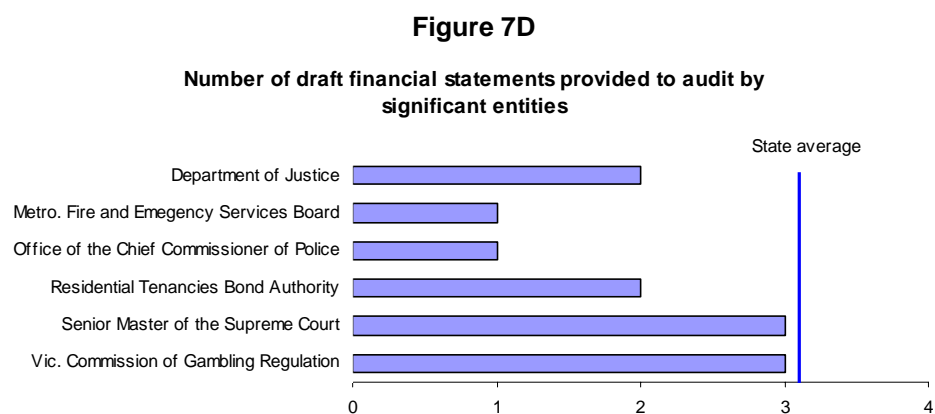
#### Before year-end

- 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, preferably 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.

Figure 7D shows the number of draft financial statements provided to us by the 6 most significant agencies in the sector compared with the State average of 3.1.



Source: Victorian Auditor General's Office.

The quality of draft financial statements submitted to audit were satisfactory, and 100 per cent of significant sector agencies submitted fewer sets of draft financial statements than the State average.

## 7.5 Internal control over financial reporting

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Each entity's governing body is responsible for the development and maintenance of an adequate system of internal control to ensure:

- 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.

While the main purpose of financial statement audits is to add credibility to an entity's financial statements through the audit opinion, audits also assess the adequacy of entities' financial control and governance processes to the extent they impact on the financial statements.

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

### 7.5.1 General controls

Overall, our audits confirmed that agencies' systems of internal control were adequate.

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

### 7.5.2 Information systems controls

Assessment of agency information systems (IS) controls is an important part of the financial audit process. Entities rely on IS to produce reliable and accurate information for the preparation of financial statements, and to run various systems that affect the operation of the entity. Strong IS controls help to maintain the integrity, confidentiality and availability not only of the financial information in agency systems, but also other areas which promote the smooth operational running of the entity.

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.

Our audits found that agencies had established appropriate IS controls over most aspects of IS operations.

Reliable financial reporting requires agencies to establish change management control practices to ensure that changes to financial systems are authorised, tested, implemented and accepted, and that systems function as intended. Our audits found that agencies had 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. Our audits found that agencies had established adequate procedures for IS continuity planning.

## 7.6 2005-06 recommendation

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Our February 2007 report to Parliament on the *Results of financial statement audits for agencies with 30 June 2006 balance dates* included one recommendation relevant to the Justice sector. We recommended that Victoria Police should complete a validation processes as soon as possible to ensure the accuracy and completeness of employees' leave balances. During 2006-07, Victoria Police took appropriate steps to resolve this issue.

### ***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.*

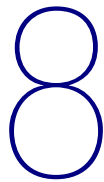
*The department will work with agencies to improve the timeliness of completion of agencies' audited financial statements.*

**Figure 7E**  
**Audit status: Justice sector**

Agency	Financial statements			Timeliness of audited financial statement completion					
	Financial statements signed	Clear opinion issued	Auditor-General's report signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
<b>COMPLETED AUDITS – 30 JUNE 2007 BALANCE DATES</b>									
Department of Justice	29 Aug. 2007	✓	30 Aug. 2007		●				
<b>ATTORNEY-GENERAL</b>									
Judicial College of Victoria	28 Sept. 2007	✓	4 Oct. 2007					●	
Legal Practitioners Liability Committee	5 Sept. 2007	✓	12 Sept. 2007				●		
Legal Services Board	20 Sept. 2007	✓	21 Sept. 2007				●		
Legal Services Commissioner	24 Sept. 2007	✓	24 Sept. 2007					●	
Office of Public Prosecutions	17 Sept. 2007	✓	19 Sept. 2007				●		
Office of the Public Advocate	25 Sept. 2007	✓	26 Sept. 2007					●	
Office of the Victorian Privacy Commissioner	18 Sept. 2007	✓	25 Sept. 2007					●	
Professional Standards Council	5 Sept. 2007	✓	7 Sept. 2007		●				
Senior Master of the Supreme Court	30 Aug. 2007	✓	31 Aug. 2007		●				
Sentencing Advisory Council	1 Oct. 2007	✓	4 Oct. 2007					●	
Victorian Electoral Commission	16 Aug. 2007	✓	11 Sept. 2007				●		
Victorian Equal Opportunity and Human Rights Commission	27 Sept. 2007	✓	27 Sept. 2007					●	
Victorian Law Reform Commission	1 Oct. 2007	✓	1 Oct. 2007					●	
Victoria Legal Aid	15 Aug. 2007	✓	24 Aug. 2007	●					
<b>CONSUMER AFFAIRS</b>									
Residential Tenancies Bond Authority	17 Sept. 2007	✓	19 Sept. 2007				●		

**Figure 7E**  
**Audit status: Justice sector - *continued***

Agency	Financial statements			Timeliness of audited financial statement completion					
	Financial statements signed	Clear opinion issued	Auditor-General's report signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
<b>COMPLETED AUDITS – 30 JUNE 2007 BALANCE DATES - <i>continued</i></b>									
<b>GAMING AND RACING</b>									
Greyhound Racing Victoria	3 Sept. 2007	✓	6 Sept. 2007		●				
Harness Racing Victoria	7 Sept. 2007	✓	13 Sept. 2007				●		
Victorian Commission for Gambling Regulation	28 Aug. 2007	✓	29 Aug. 2007		●				
<b>POLICE AND EMERGENCY SERVICES</b>									
CFA & Brigades Donations Fund	5 Sept. 2007	Qualified	27 Sept. 2007					●	
Country Fire Authority	24 Sept. 2007	✓	26 Sept. 2007					●	
Emergency Services Telecommunications Authority	11 Sept. 2007	✓	17 Sept. 2007				●		
Metropolitan Fire and Emergency Services Board	19 Aug. 2007	✓	20 Aug. 2007	●					
National Institute of Forensic Science	19 Oct. 2007	✓	29 Oct. 2007						●
Office of Police Integrity	20 Sept. 2007	✓	20 Sept. 2007				●		
Office of the Chief Commissioner of Police	4 Sept. 2007	✓	25 Sept. 2007					●	
Victoria State Emergency Service Authority	6 Sept. 2007	✓	7 Sept. 2007		●				
Victorian Institute of Forensic Medicine	4 Oct. 2007	✓	5 Oct. 2007					●	
2006-07 Total number of agencies = 28				2	6	8	11	0	1
Per cent (cumulative)				7	29	57	96	96	100
2005-06 Total number of agencies = 28				4	5	7	6	1	5
Per cent (cumulative)				14	32	57	79	82	100



# Premier and Cabinet

## At a glance

### Background

The Premier and Cabinet sector comprises the Department of Premier and Cabinet (which includes Arts Victoria and 8 arts agencies, the Office of the Governor, the Office of the Chief Parliamentary Counsel and the Public Records Office), the State Services Authority and the Office of the Ombudsman.

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

### Key findings

- We issued clear audit opinions on the financial statements of all 11 agencies in the sector.
- The timeliness of financial reporting by sector agencies improved from the previous year, with 82 per cent of sector agencies with a 30 June 2007 balance date, achieving the 12-week benchmark.
- The quality of financial reporting by sector agencies also improved, with fewer drafts of the financial statements required before finalisation.
- Our audits found the control environments of sector agencies to be generally sound and operating effectively.

## 8.1 Introduction

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The Premier and Cabinet sector comprises the Department of Premier and Cabinet (DPC), the State Services Authority, the Office of the Ombudsman and 8 arts agencies. The Premier and the Minister for the Arts are responsible for DPC, and have specific responsibility for the other entities in the sector.

DPC 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 2006-07, DPC received appropriation funding of \$458 million, (\$426 million in 2005-06); provided grants of \$287 million for arts and cultural development; contributed \$18 million to the State Services Authority and the Office of the Ombudsman; held \$518 million of net assets; and contributed \$8 million of capital to agencies in this sector.

Arts Victoria, which is part of DPC, and the arts agencies, develop and present cultural projects, programs and services to benefit the Victorian arts industry and community. In 2006-07, the arts agencies raised \$15 million in public donations and gifts, and managed cultural assets valued at \$3.1 billion.

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

The State Services Authority advises government and supports departmental secretaries to improve public sector services, standards, governance and work force development.

## 8.2 Reporting framework

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State agencies are required by the *Financial Management Act 1994* to prepare financial statements. The financial statements prepared must be independently audited, and an audit opinion is expressed on the report. The financial statements and the accompanying audit opinion are included in the annual report of each agency.

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.

A summary of the financial audit framework is provided in Part 1 of this report.

## 8.3 Results of audits

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At 31 October 2007, all 11 agencies had prepared their 2006-07 financial statements and submitted them for audit. We issued clear audit opinions on all 11 financial statements for 2006-07.

## 8.4 Timeliness and quality of financial reporting

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### 8.4.1 Timeliness

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

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.

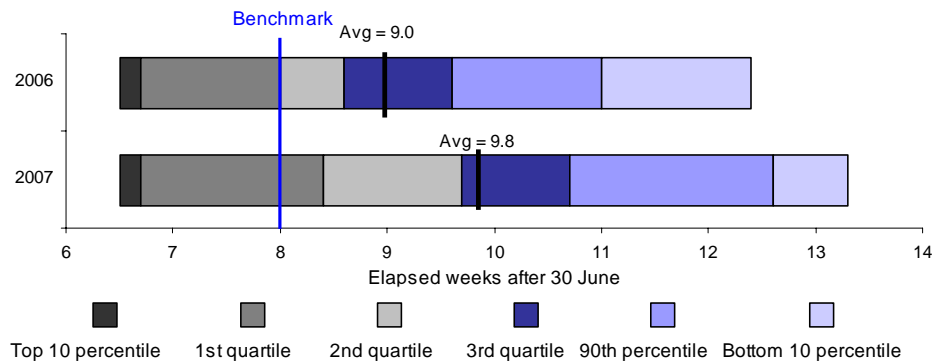
Figure 8A shows (in percentile bands) the number of elapsed weeks after 30 June that sector agencies provided a signed set of financial statements to our Office. Further detail of these entities is provided in Figure 8E.

For 2006-07, 9 per cent of agencies submitted their signed statements to audit within 8 weeks, 45 per cent between 8-10 weeks, 27 per cent between 10-12 weeks, and 19 per cent between 12-14 weeks of year-end. The average time was just under 10 weeks. DPC led the sector by submitting signed statements for audit 47 days after 30 June.



**Figure 8A**

**Time taken for certification of financial statements for statements finalised by 31 October**



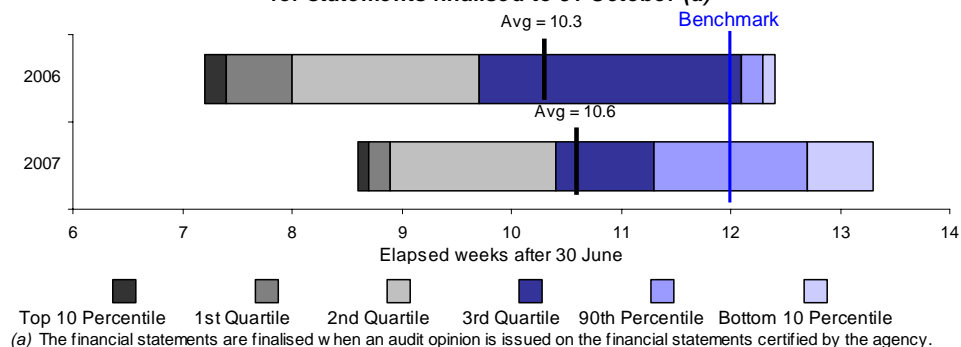
Source: Victorian Auditor-General's Office.

Only 9 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, 82 per cent of State agencies finalised their financial statements, including the audit opinion, within 12 weeks (58 per cent for 2005-06).

Figure 8B shows the elapsed weeks taken for financial statements to be finalised, including the issue of an audit opinion.

**Figure 8B**

**Time taken for finalisation of the financial statements for statements finalised to 31 October (a)**



(a) The financial statements are finalised when an audit opinion is issued on the financial statements certified by the agency.

Source: Victorian Auditor-General's Office.

### Financial statement preparation process

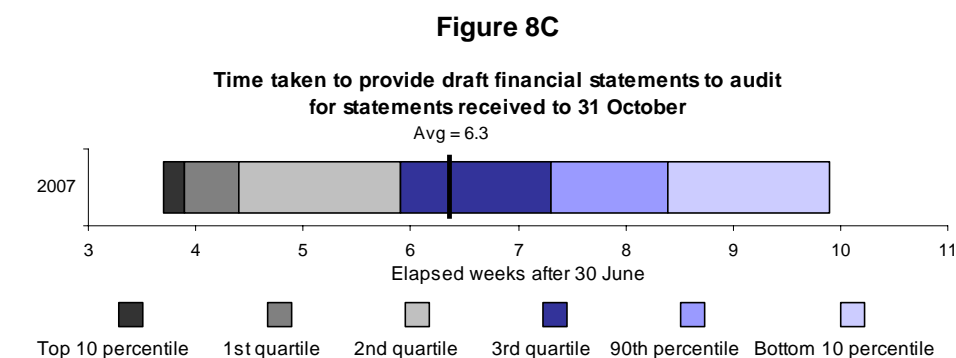
Agencies need to plan for, and allocate sufficient and appropriate resources to, financial report preparation to produce a report consistent with accounting standards and within the stipulated time frames.

### *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 in a timely fashion.

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. After financial year-end, the sooner draft statements can be produced, the more likely an agency will meet its 8-week statutory target.

Figure 8C shows (in percentile bands) the number of elapsed weeks after 30 June that agencies provided a first acceptable draft set of financial statements to our Office.



Source: Victorian Auditor-General's Office.

For 2006-07, 10 per cent of agencies submitted their draft statements for audit within 3.9 weeks of 30 June, 50 per cent within 5.9 weeks, and 90 per cent within 8.4 weeks.

The average elapsed time in 2007 was 6.3 weeks. Commendably, DPC submitted its draft statements for audit 3.9 weeks after 30 June.

The results are markedly better compared with the previous year, with the sector showing a strong improvement in the timeliness of submitting draft financial statements to audit.

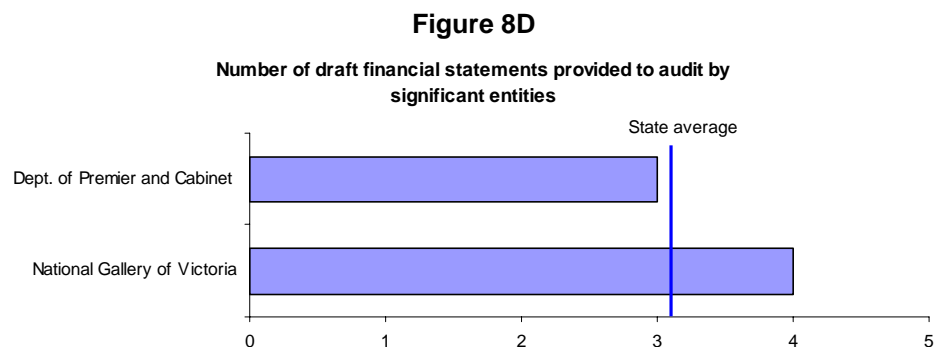
## 8.4.2 Quality of draft financial statements

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 prepare only one draft report and with 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.

Figure 8D shows the number of draft financial statements provided to us by the 2 most significant agencies in the sector compared with the State average of 3.1.



Source: Victorian Auditor-General's Office.

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, preferably 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.

## 8.5 Internal control over financial reporting

---

Each entity's governing body is responsible for the development and maintenance of 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.

While the main purpose of financial statement audits is to add credibility to an entity's financial statements through the audit opinion, audits also assess the adequacy of entities' financial control and governance processes to the extent they impact on the financial statements.

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

### 8.5.1 General controls

Overall, our audits confirmed that sector agencies' systems of internal control were adequate. However, we identified a number of internal control weaknesses in other entities in the Premier and Cabinet portfolio, as follows:

- timing of inventory management reports (Museums Board of Victoria)
- accruals processes (Museums Board of Victoria)
- authorisation of EFT payments (Australian Centre for the Moving Image)
- tracking of payroll and accounts payable masterfile changes (Geelong Performing Arts Centre)
- cheque security (Geelong Performing Arts Centre)
- quality assurance processes for financial statement preparation (Library Board of Victoria).

These issues have been brought to the attention of the relevant agencies' management, who are addressing them.

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

***RESPONSE provided by the Director, Australian Centre for the Moving Image***

*The Finance Team has addressed and reported to the Audit Committee the "Authorisation of EFT Payment" internal control weakness identified. During 2006-07, ACMI upgraded the banking system to Corporate Online that requires two authorised employees to log-on and approve the payment. This approval process requires the authoriser to go through a secure two level log-on process. Once the payments are authorised, the authoriser signs the hard copy of the EFT payment report.*

*The account payable officer will complete a final review of all EFT payment reports prior to filing of payments to ensure that the appropriate authorisation process has been adhered.*

## 8.5.2 Information systems controls

Assessment of agency information systems (IS) controls is an important part of the financial audit process. Entities rely on IS to produce reliable and accurate information for the preparation of financial statements, and to run various systems that affect the operation of the entity. Strong IS controls help to maintain the integrity, confidentiality and availability not only of the financial information in agency systems, but also other areas which promote the smooth operational running of the entity.

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.

DPC is party to a shared services agreement with the Department of Treasury and Finance (DTF). Under this agreement, DTF supplies DPC with accounting, asset management, IT and other services. Weaknesses found in this control environment are discussed in this report in the chapter dealing with DTF and have, therefore, not been repeated here.

***RESPONSE provided by the Ombudsman, Office of the Ombudsman***

*The IS and associated controls relied upon by the Office of the Ombudsman (OV) are provided to the Office by the Corporate Financial Services (CFS) under a Memorandum of Understanding (MoU) between the CFS and Department of Premier and Cabinet (DPC). As a portfolio agency of the DPC, my Office has access to these services but is not a direct party to the MoU. It has no role in the development, enhancements, management and maintenance of the systems.*

*My Office is negotiating with the DPC with a view to having the MoU amended in order to allow OV to have a role in the governance arrangements of the services provided to it by the CFS.*

**Figure 8E**  
**Audit status: Premier and Cabinet sector**

Entity	Financial statements			Timeliness of audited financial statement completion					
	Financial Statements signed	Clear opinion issued	Auditor-General's report signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
<b>COMPLETED AUDITS – 30 JUNE 2007 BALANCE DATES</b>									
Department of Premier and Cabinet	16 Aug. 2007	✓	7 Sept. 2007		●				
<b>ARTS</b>									
Australian Centre for the Moving Image	6 Sept. 2007	✓	11 Sept. 2007			●			
Geelong Performing Arts Centre Trust	26 Sept. 2007	✓	27 Sept. 2007				●		
Library Board of Victoria	13 Sept. 2007	✓	17 Sept. 2007			●			
Melbourne Recital Centre	1 Oct. 2007	✓	1 Oct. 2007				●		
Museums Board of Victoria	27 Aug. 2007	✓	7 Sept. 2007		●				
National Gallery of Victoria	30 Aug. 2007	✓	31 Aug. 2007		●				
State Library of Victoria Foundation	13 Sept. 2007	✓	17 Sept. 2007			●			
Victorian Arts Centre Trust	28 Aug. 2007	✓	31 Aug. 2007		●				
<b>OTHER</b>									
Office of the Ombudsman	29 Aug. 2007	✓	31 Aug. 2007		●				
State Services Authority	10 Sept. 2007	✓	20 Sept. 2007			●			
2006-07 Total number of agencies = 11				0	5	4	2	0	0
Per cent (cumulative)				0	45	82	100	100	100
2005-06 Total number of agencies = 12				3	3	1	4	0	1
Per cent (cumulative)				25	50	58	92	92	100

Source: Victorian Auditor-General's Office.

# 9 Primary Industries

## At a glance

### Background

The Primary Industries sector comprises the Department of Primary Industries and 12 other agencies.

The department aims to ensure the sustainable development of Victoria's primary industries. Of the other agencies, 5 focus on industry development, 3 on research and 4 provide regulation and assurance services for product and service safety.

### Key findings

- We issued clear audit opinions on the financial statements of all agencies in the sector.
- While the timeliness of financial reporting by sector agencies declined in comparison with 2005-06, all sector agencies achieved the 12-week statutory deadline.
- The department's financial reporting processes have continued to improve.
- The department relies on shared services arrangements for its information technology hardware and operating systems, and maintains access controls to these services at the department. Our assessment of the information systems controls at both the department and the shared services facilities identified the need to improve password controls, access monitoring and establish a process to review all network user accounts.

## 9.1 Introduction

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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 seeks to assist in maximising 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 2006-07, these activities were delivered at a cost of about \$515 million (2005-06, \$426 million).

The department's output structure reflects 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.

Major infrastructure development projects currently underway in the sector include:

- the relocation of the Melbourne Wholesale Markets from Footscray to a 130-hectare site in Epping which will provide improved transport access, state-of-the-art food handling facilities and the capacity for future growth. This project is due for completion in 2011



- development of the Biosciences Research Centre at the Bundoora campus of La Trobe University. In May 2007, the Victorian Government announced an investment of \$180 million to build the centre which will house more than 400 scientists and be completed by 2011.

Following the Victorian State election in November 2006, a new Energy and Minerals Resources Division was established within the department comprising the department's existing Minerals and Petroleum Division, the Energy Policy Division from the Department of Infrastructure and the Energy Technology Innovation Strategy Group from the Department of Innovation, Industry and Regional Development. These changes were effective from 1 January 2007 and have resulted in the following 2 regulatory entities becoming part of the primary industries sector:

- Energy Safe Victoria
- Victorian Energy Networks Corporation.

In addition to the department, there are 12 other agencies in the sector. Of these agencies, 5 focus on industry development, 3 on research and 4 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.

## 9.2 Reporting framework

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State agencies are required by the *Financial Management Act 1994* to prepare financial statements. The financial statements prepared must be independently audited, and an audit opinion is expressed on the report. The statements and the accompanying audit opinions are included in the annual report of each agency.

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.

A summary of the financial audit framework is provided in Part 1 of this report.

## 9.3 Results of audits

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At 31 October 2007, all 13 agencies in the sector had prepared and submitted their 2006-07 financial statements for audit, and clear audit opinions had been issued on these financial statements.

## 9.4 Timeliness and quality of financial reporting

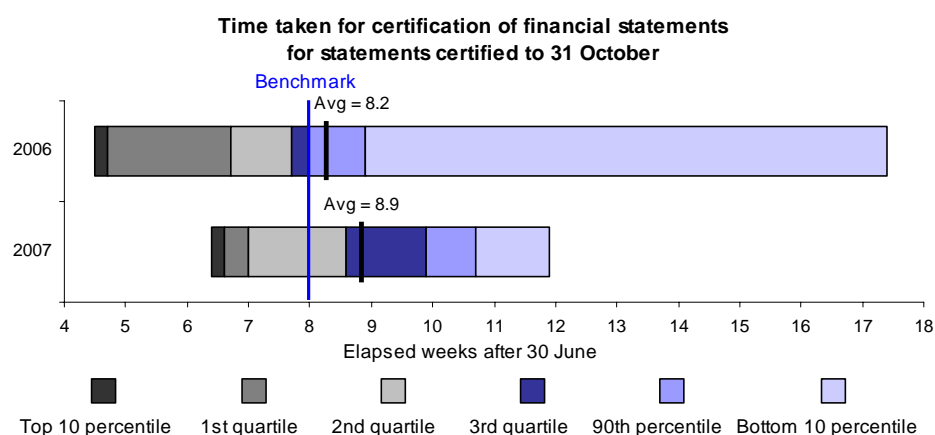
### 9.4.1 Timeliness

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

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.

Figure 9A shows (in percentile bands) the number of elapsed weeks after 30 June that sector agencies provided a signed set of financial statements to our Office. Further detail of these entities is provided in Figure 9D. In 2005-06, the Northern Victorian Fresh Tomato Industry Development Committee certified its financial statements on 30 October 2006, but did not have its financial statements finalised, including the issuing of an audit opinion, until 27 November 2006. For this reason, it is included in Figure 9A but excluded from Figure 9B which shows the elapsed weeks taken for financial statements to be finalised, including the issue of an audit opinion.

**Figure 9A**



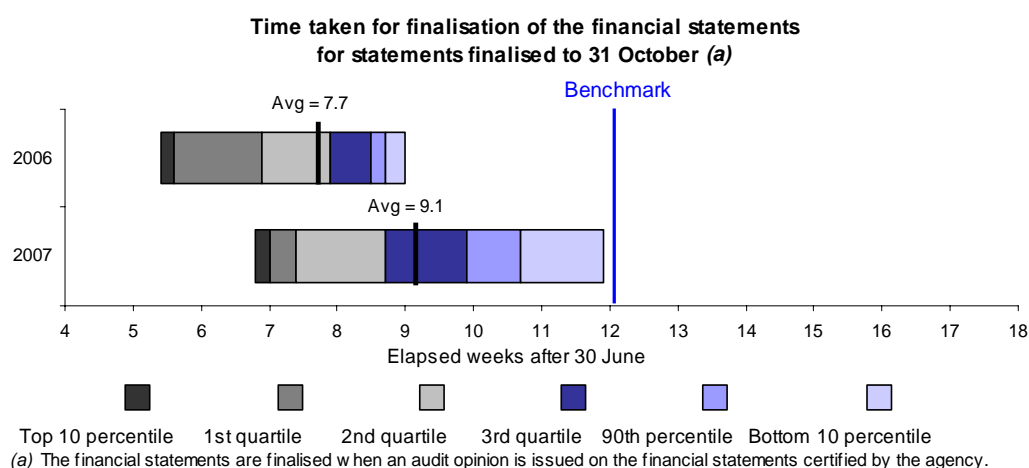
Source: Victorian Auditor-General's Office.

For 2006-07, the average time taken by agencies to submit their signed statements to audit was 8.9 weeks (8.2 weeks for 2005-06). The Victorian Energy Networks Corporation led the sector by submitting signed statements for audit 6.5 weeks after 30 June. While the average time taken by sector agencies to submit signed financial statements exceeded the 8-week benchmark, it has been the past practice of this Office and agencies to use the combined 12-week benchmark to measure the timeliness of financial reporting. In this regard, 100 per cent of sector agencies finalised their financial statements, including the audit opinion, within 12 weeks (91 per cent for 2005-06).

While all sector agencies achieved the 12-week benchmark in 2006-07 the timeliness of financial reporting by sector agencies declined in comparison to 2005-06. Figure 9B shows the elapsed weeks taken for financial statements to be finalised, including the issue of an audit opinion.

It is noted that the department did not receive the required certification of the application of its annual budget appropriations until 4 September 2007. This was outside the department's control and delayed the finalisation and certification of its financial statements by 2.5 weeks.

**Figure 9B**



Source: Victorian Auditor-General's Office.

### Financial statement preparation process

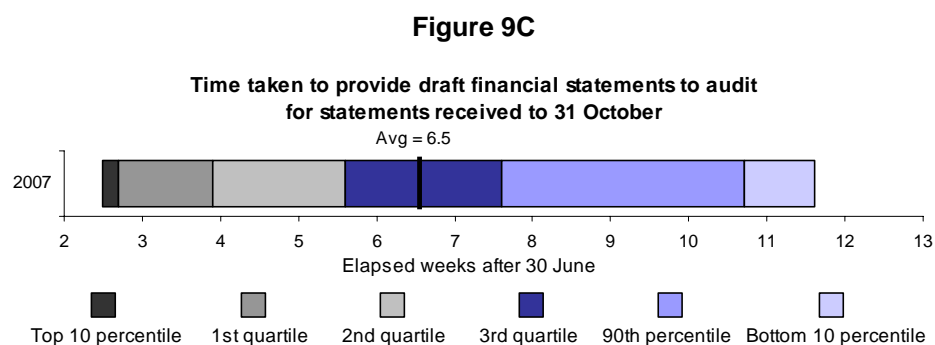
Agencies need to plan for, and allocate sufficient and appropriate resources to, financial report preparation so they can produce a report consistent with accounting standards within the stipulated time frames.

### *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 in a timely fashion.

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. After financial year-end, the sooner draft statements can be produced the more likely an agency will meet its 8-week statutory target.

Figure 9C shows (in percentile bands) the number of elapsed weeks after 30 June that agencies provided a first acceptable draft set of financial statements to our Office.



Source: Victorian Auditor-General's Office.

For 2006-07, 10 per cent of agencies submitted their draft statements for audit within 3 weeks of 30 June, 50 per cent within 6 weeks, and 75 per cent within 8 weeks.

The average elapsed time in 2007 was 6.5 weeks. Commendably, PrimeSafe submitted an acceptable set of draft statements for audit 3 weeks after 30 June.

## 9.4.2 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 prepare only one draft report and with 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, preferably 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 financial statements to the audit committee for review and endorsement prior to finalisation.

For 2006-07, the department’s financial reporting processes continued to improve. The 3 draft financial statements submitted for audit were within the State average and required only limited changes. The high standard achieved by the department reflects the strong emphasis placed upon ensuring accuracy and completeness through the use of a rigorous quality assurance process. This process involved the early preparation of a shell set of financial statements for audit review, 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.

While the sector agencies largely met their reporting requirements, there is still scope for improvement in the quality of financial statements submitted for audit. Some agencies (particularly smaller ones) do not allocate sufficient 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 generally required a number of changes. These agencies need to give greater priority to ensuring that the financial statements submitted for audit are complete and accurate, through the use of improved internal review and validation processes.

## 9.5 Internal control over financial reporting

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Each entity's governing body is responsible for the development and maintenance of an adequate system of internal control to ensure:

- 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.

While the main purpose of financial statement audits is to add credibility to an entity's financial statements through the audit opinion, audits also assess the adequacy of entities' financial control and governance processes to the extent they impact on the financial statements.

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

### 9.5.1 General controls

Overall, our audits confirmed that agencies' systems of internal control were adequate. However, we identified opportunities to further strengthen internal control at some agencies in the following areas:

- 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.

These issues have been brought to the attention of the relevant agencies' management who are addressing them.

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

### 9.5.2 Information systems controls

Assessment of agency information systems (IS) controls is an important part of the financial audit process. Entities rely on IS to produce reliable and accurate information for the preparation of financial statements, and to run various systems that affect the operation of the entity. Strong IS controls help to maintain the integrity, confidentiality and availability not only of the financial information in agency systems, but also other areas which promote the smooth operational running of the entity.

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.

While the department relies on shared services arrangements for its hardware and operating systems, there are still access controls to these services that are required to be maintained at the department. Our assessment of the access controls maintained by the department identified a need to improve password controls and establish a process to review all network user accounts.

### *Shared computer hardware facilities*

In September 2005, the secretaries for the Department of Sustainability and Environment (DSE), the Department of Primary Industries (DPI), the Department of Victorian Communities (DVC) and the Department of Infrastructure (DOI) signed a memorandum of agreement to create a Shared Services Centre (SSC) providing Information Communication Technology services to the 4 departments by merging the former shared services environments for DSE/DPI and DOI/DVC. The SSC provides the computer hardware and helpdesk support services to the 4 departments and other small entities such as VicForests.

The SSC formally commenced operations on 4 July 2006, within the Department of Infrastructure. The machinery-of-government changes (on 31 December 2006) resulted in the SSC being transferred as an administrative office to the Department of Treasury and Finance although it is presently still located within DOI.

Our assessment of IS controls at the SSC found that appropriate IS controls over most aspects of IS operations had been established. However, there were certain areas that required further attention. Key control weaknesses identified by audit included inadequate review of network user accounts and certain deficiencies in the use of password controls.

### *Shared financial operating systems*

For a number of years, financial operating system services have been provided to the department through Shared Business Systems (SBS) which is also a shared services arrangement involving DSE, DPI, DVC and VicForests. SBS provides these entities with financial and payroll processing services using the Oracle Financials and Oracle HR application, and operates as an independent unit within DPI.

As part of our financial audit of the respective entities, a review of the IS controls was conducted at SBS. The review identified deficiencies in both access controls over Oracle Financials maintenance accounts and monitoring access to the Oracle Financials application.

While the issues raised across the three IS operational areas impacting on the department's financial systems need to be addressed, we were still able to rely on the overall effectiveness of the IS controls. It is pleasing to note that the relevant entities' management have addressed, or are in the process of addressing, these IS issues.

***RESPONSE provided by the Secretary, Department of Primary Industries***

*The Department agrees with the conclusions reached and is addressing the matters raised in the reports provided as a result of the audit.*



**Figure 9D**  
**Audit status: Primary Industries sector**

Entity	Financial statements			Timeliness of audited financial statement completion					
	Financial statements signed	Clear opinion issued	Auditor-General's report signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
<b>COMPLETED AUDITS – 30 JUNE 2007 BALANCE DATES</b>									
Department of Primary Industries	5 Sept. 2007	✓	6 Sept. 2007		●				
<b>AGRICULTURE</b>									
Agriculture Victoria Services Pty Ltd	27 Aug. 2007	✓	29 Aug. 2007		●				
Dairy Food Safety Victoria	28 Aug. 2007	✓	28 Aug. 2007		●				
Melbourne Market Authority	12 Sept. 2007	✓	13 Sept. 2007			●			
Murray Valley Citrus Marketing Board	13 Sept. 2007	✓	13 Sept. 2007			●			
Murray Valley Wine Grape Industry Development Committee	21 Sept. 2007	✓	21 Sept. 2007			●			
Northern Victorian Fresh Tomato Industry Development Committee	18 Aug. 2007	✓	18 Aug. 2007	●					
Phytogene Pty Ltd	27 Aug. 2007	✓	30 Aug. 2007		●				
PrimeSafe	17 Aug. 2007	✓	21 Aug. 2007	●					
Veterinary Practitioners Registration Board	28 Aug. 2007	✓	31 Aug. 2007		●				
Victorian Strawberry Industry Development Committee	29 Aug. 2007	✓	30 Aug. 2007		●				
<b>ENERGY INDUSTRIES</b>									
Energy Safe Victoria	7 Sept. 2007	✓	7 Sept. 2007		●				
Victoria Energy Networks Corporation	15 Aug. 2007	✓	21 Aug. 2007	●					
2006-07 Total number of agencies = 13				3	7	3	0	0	0
Per cent (cumulative)				23	77	100	100	100	100
2005-06 Total number of agencies = 7				7	3	0	0	0	1
Per cent (cumulative)				64	91	91	91	91	100

# 10 Sustainability and Environment

## At a glance

### Background

The Sustainability and Environment sector comprises the Department of Sustainability and Environment (DSE) and 62 other agencies. Of these other agencies, 20 are water agencies, 10 are catchment management authorities, 13 are waste management groups, and 19 are involved with the natural and built environment.

### Key findings

- We issued 63 audit opinions on agencies' financial statements, 62 of which were clear. The financial statements of the Grampians Wimmera Mallee Water Authority were qualified over an accounting treatment.
- We issued clear opinions on 15 out of 16 performance statements prepared by regional and rural water authorities.
- We found the control environments of sector agencies to be generally satisfactory. However, additional procedures can further improve the quality of financial reporting.
- While policies for the reimbursement of personal expenditure were generally adequate across the sector, there was a lack of documented procedures for the authorisation of such expenditure for chairpersons and board members at most sector agencies.
- We concluded that the fixed asset systems of water sector entities were operating effectively. Notwithstanding this, we found that policies and procedures had not been established for some fixed asset areas.
- It is disappointing that weaknesses in information systems controls previously identified and reported remain.
- DSE is unlikely to meet its self-imposed 30 June 2008 deadline for confirming the State's crown land holdings.

## At a glance - *continued*

### Key recommendations

- 10.1 Sector entities should review, enhance and enforce their policies and procedures relating to personal expenditure reimbursements, so that reimbursements are appropriately authorised and supported by required documentation.
- 10.2 Sector agencies should review and enforce their policies and procedures relating to fixed assets, so that fixed asset transactions are processed in a timely manner, authorised, classified correctly and carried at the correct value. In addition, DSE should address the inaccuracies in its fixed assets records and undertake a comprehensive revaluation of all land parcels in 2007-08. The revaluation should also consider the impact of land purchases, sales, transfers, recognitions and de-recognitions.
- 10.3 DSE should, in 2007-08, allocate the resources necessary to complete the review and confirm the accuracy of its crown land records by 30 June 2008. 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.

## 10.1 Introduction

The Sustainability and Environment sector comprises the Department of Sustainability and Environment (DSE), and 62 other agencies. Of these other agencies, 20 are water agencies, 10 are catchment management authorities and 13 are waste management groups. The remaining 19 agencies are involved with the natural and built environment, such as the Melbourne Zoo, botanical gardens, parks and environment protection.

For the year ended 30 June 2007, the Minister for Water, Environment and Climate Change and the Minister for Planning were responsible for DSE and each had responsibility for particular sector agencies. From 2 August 2007, the activities associated with the Minister for Planning were transferred to the Department of Planning and Community Development (formerly the Department for Victorian Communities), including 6 regulatory and other agencies associated with planning and the building industry.

The 20 water agencies include 3 retail water companies. While policy responsibility rests with 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 2007 balance date.

**Figure 10A**  
**Sustainability and Environment sector agencies**  
**with a 30 June 2007 balance date**

Reporting entity	Number
Department and another administrative unit	2
Other public bodies	14
Metropolitan water bodies	4
Regional water authorities	13
Rural water authorities	3
Catchment management authorities	10
Waste management groups	13
Companies, trusts and joint ventures	4
<b>Total</b>	<b>63</b>

Source: Victorian Auditor-General's Office.

DSE assists in delivering the Government's objective to position Victoria as a world leader in sustainability. DSE leads the State's effort to do more with less. This means utilising our limited natural resources while improving productivity and ensuring that Victoria's ecological systems remain sustainable. The other sector agencies provide water and waste management services, and manage the infrastructure used for these activities.

In 2006-07, the sector's total expenditure was \$4 billion (\$3.6 billion, 2005-06). This included \$2.1 billion spent by water agencies. Water agencies generated \$2.3 billion in revenue mainly derived from water and sewage charges. Sector agencies also managed substantial asset portfolios, with the water agencies managing infrastructure assets valued at \$16.7 billion (\$15.8 billion, 2005-06) and DSE managing land valued at \$9.8 billion (\$8.7 billion, 2005-06). This land is mainly crown land and land within national parks and State forests.

In 2006-07, water agencies also paid \$134 million (\$208 million, 2005-06) in dividends to the Consolidated Fund. Most of this was paid by Melbourne's 3 water retailers and by the Melbourne Water Corporation.

## 10.2 Reporting framework

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State entities are required by the *Financial Management Act 1994* to prepare financial statements. In addition, 16 water sector agencies are also required to prepare non-financial performance statements. The financial and performance statements prepared must be independently audited, and an audit opinion expressed on each report. The statements and the accompanying audit opinions are included in the annual report of each agency.

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.

A summary of the financial audit framework is provided in Part 1 of this report.

## 10.3 Results of audits

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As at 31 October 2007, all 63 agencies in the sector had prepared and submitted their 2006-07 financial statements for audit, and clear audit opinions had been issued on 62 of these financial statements. In addition, we issued clear audit opinions on 15 of the 16 performance statements prepared by regional and rural water authorities.

The audit opinion on the financial statements of the Grampians Wimmera Mallee Water Authority was qualified on the same basis as 2005-06. Because our audit opinion on the financial statements was qualified, we also qualified the performance statement of this authority. The authority has 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, still has the characteristics of a finance lease as outlined in 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.

We were not in a position to determine the financial impact of the qualification as the authority has 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 2007 could not be determined.

***RESPONSE provided by the Managing Director, Grampians Wimmera Mallee Water Authority***

*This qualification was based on a view formed by VAGO, that the GMMWater 'Water Treatment Service Agreement' (WTSA) contains a finance lease component. Based on this view, a position was formed by your office that a finance lease asset and a finance lease liability should be recognised on the Balance Sheet of GMMWater. Your office has been unable to quantify the financial effect of the qualification on the financial statements (in particular the carrying value of the finance lease asset and the finance lease liability) on the grounds that GMMWater has not determined the fair value of the leased assets, nor the finance lease liabilities under the arrangement.*

*GMMWater obtained independent accounting advice as to whether the WTSA contains a lease and, if so, the appropriate accounting classification and treatment of such lease component. This advice expressed a view that:*

- 1. The lease element of the WTSA should be classified as an operating lease. The operating lease payments should be charged as expenses in the periods in which they are incurred (rather than recognised as an expense on a straight-line basis) as each lease payment is contingent on the amount of future use.*
- 2. In the event that the lease element of the WTSA were classified as a finance lease (which, based on the independent accounting advice received, it should not), the lease asset and the lease liability would be initially measured at \$nil.*

*This is because the amount payable by GWMWater for the right to use the water treatment facilities (i.e., the lease payment) is contingent on the amount of future use. Therefore, finance lease payments would be charged as expenses in the periods in which they are incurred.*

3. *On the basis that the amount payable by GWMWater for the right to use the water treatment facilities (i.e., the lease payment) is contingent on the amount of future use, the classification of the lease element of the arrangement as either an operating lease or as a finance lease has no impact on the accounting outcome. That is, under either lease classification, the lease payments under the WTSA would be charged as expenses in the periods in which they are incurred.*

*The independent accounting advice was based on a review of the WTSA that acknowledged the significant risk transfer. The fully variable toll and the absence of any exclusivity to provide water treatment services being the most significant of the many risks transferred. The fully variable toll gives rise to a further issue in that any value that could be attributed to the asset cannot be reliably measured.*

*A copy of the independent accounting advice was provided to your office at the time of the audit of the financial statements.*

*In accordance with the independent accounting advice, GWMWater classified the lease component of the WTSA as an operating lease, with the operating lease payments charged as expenses in the periods in which they are incurred (i.e., as the toll payments are made).*

*Furthermore, we disagree with the statement by your office that GWMWater has not determined the fair value of the leased assets, nor the finance lease liabilities under the arrangement (if the arrangement was treated as a finance lease), which has been stated as the reason that your office has been unable to quantify the financial effect of the qualification on the financial statements.*

*In accordance with the independent accounting advice, we believe that it would have been appropriate for the financial lease asset and the finance lease liability to be measured at \$nil (if the arrangement was treated as a finance lease) on the basis of the fully variable toll. Accordingly, even in the event that the lease component of the arrangement should have been classified as finance lease, as is the view of your office, there is no financial impact on the financial statements.*

**Further audit comment**

*An over-riding requirement of accounting standards is the need to look beyond the legal form of an agreement to its economic substance. Our analysis of the economic substance of the lease arrangement entered into by the Grampians Wimmera Mallee Water Authority determined that it needed to recognise the leased assets and a corresponding lease liability in its financial statements. To be able to do this it needed first to obtain an estimate of the fair value of the physical assets subject to the lease. The Authority did not obtain a valuation of the physical assets and accordingly we had no basis for assessing the financial effect of their omission from the balance sheet.*

## 10.4 Timeliness and quality of financial reporting

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### 10.4.1 Timeliness

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

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.

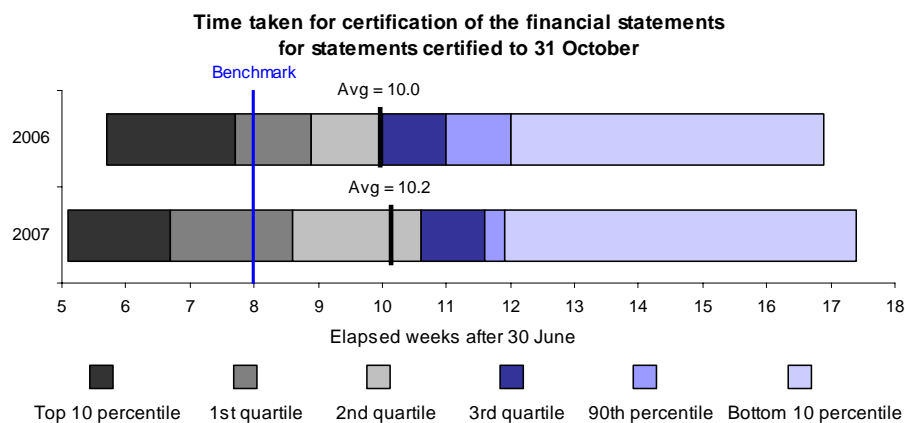
Figure 10B shows (in percentile bands) the number of elapsed weeks after 30 June that sector agencies provided a signed set of financial statements to our Office. Further detail of these entities is provided in Figure 10I.

For 2006-07, 17 per cent of agencies submitted their signed statements to audit within 8 weeks, 44 per cent within 10 weeks, and 97 per cent within 13 weeks of year-end. The average time was just over 10 weeks. The Alpine Resort Co-ordinating Council led the sector by submitting signed statements for audit 5.3 weeks after 30 June.

Only 17 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, 89 per cent of State agencies finalised their financial statements, including the audit opinion, within 12 weeks (89 per cent for 2005-06).



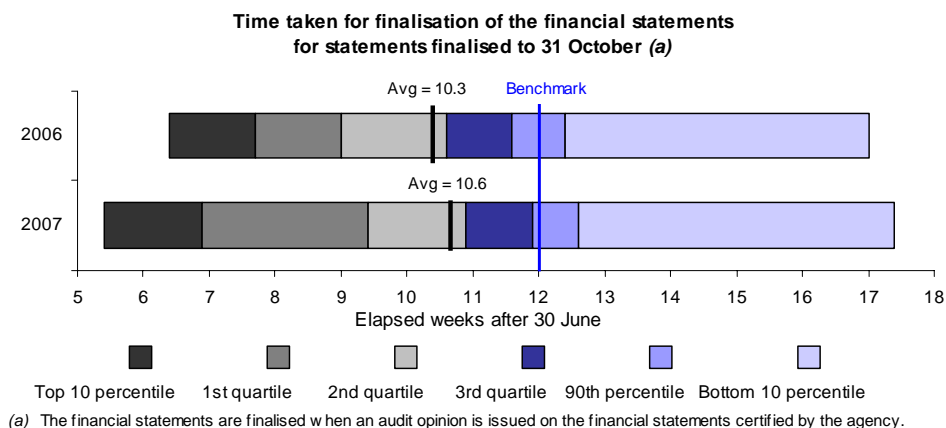
**Figure 10B**



Source: Victorian Auditor-General's Office.

Figure 10C shows the elapsed weeks taken for financial statements to be finalised, including the issue of an audit opinion.

**Figure 10C**



Source: Victorian Auditor-General's Office.

### Financial statement preparation process

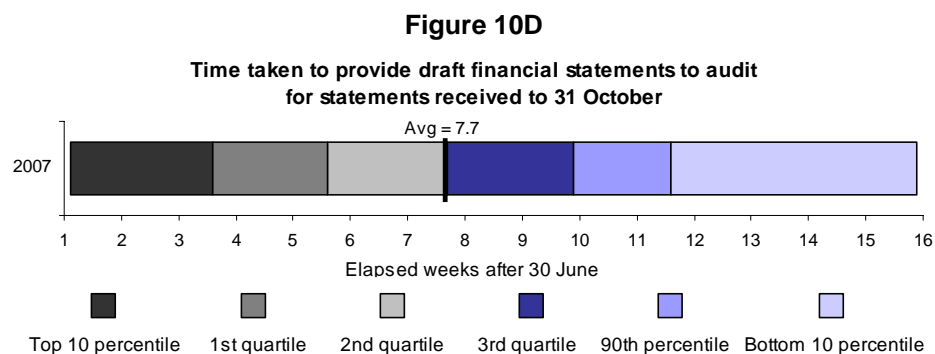
Agencies need to plan for, and allocate sufficient and appropriate resources to, financial report preparation so they can produce a report consistent with accounting standards and within the stipulated time frames.

### *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 in a timely fashion.

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. After financial year-end, the sooner draft statements can be produced the more likely an agency will meet its 8-week statutory target.

Figure 10D shows (in percentile bands) the number of elapsed weeks after 30 June that agencies provided a first acceptable draft set of financial statements to our Office.



Source: Victorian Auditor-General's Office.

For 2006-07, 10 per cent of agencies submitted their draft statements for audit within 3.6 weeks of 30 June, 50 per cent within 7.7 weeks, and 90 per cent within 11.6 weeks.

The average elapsed time in 2006-07 was 7.7 weeks. Commendably, the Alpine Resorts Co-ordinating Council submitted its draft statements for audit 1.3 weeks after 30 June.

There was an overall decline in timeliness compared with the previous year

## 10.4.2 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 prepare only one draft report and with 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**

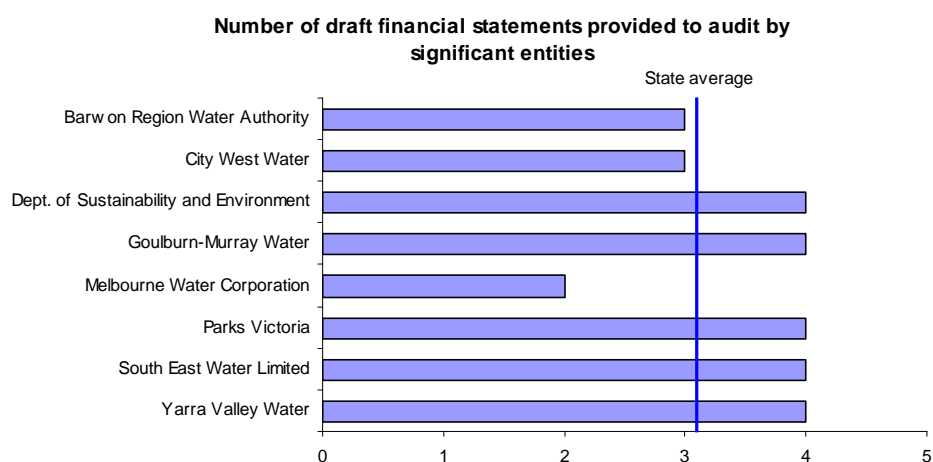
- Prepare a project plan that includes requisite human and financial resources, assigns responsibility, and sets time frames that have been agreed with the external auditor.
- Review actual and proposed changes to accounting standards, Financial Reporting Directions and other pronouncements to identify 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, preferably 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.

Figure 10E shows the number of draft financial statements provided to us by the most significant agencies in the sector compared with the State average of 3.1. Five out of the 8 significant entities in the sector were above the State average for number of draft financial statements.

**Figure 10E**



Source: Victorian Auditor-General's Office.

## 10.5 Internal control over financial reporting

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Each entity's governing body is responsible for the development and maintenance of 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.

While the main purpose of financial statement audits is to add credibility to an entity's financial statements through the audit opinion, audits also assess the adequacy of entities' financial control and governance processes to the extent they impact on the financial statements.

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

### 10.5.1 General controls

Except for the matters outlined below, our audits confirmed that the control environments of these entities, and the internal control systems we examined, were generally satisfactory.

#### Expenditure reimbursement arrangements

As part of our 2007 financial audit program, we reviewed the adequacy of arrangements in place across sector agencies for the reimbursement of personal expenditure claimed by senior staff and board members.

We found that expenditure reimbursement arrangements and policies were generally adequate across the sector. However, there was a lack of documented procedures associated with the authorisation of expenditure for chairpersons and board members at most agencies.

In addition, while the expenditure reimbursement arrangements were generally operating satisfactorily, we did identify process and documentation deficiencies in most agencies examined, including:

- tax invoices not provided to support expense claims
- expense claims not appropriately authorised
- reimbursement claims not submitted in a timely manner
- lack of documentation to support claims for expenditure reimbursement.

These deficiencies demonstrate a need for sector agencies to update their procedures and controls over the processing of personal expenditure reimbursement claims for senior staff and board members.

## Recommendation

10.1 Sector entities should review, enhance and enforce their policies and procedures relating to personal expenditure reimbursements, so that reimbursements are appropriately authorised and supported by required documentation.

### Fixed asset systems

Fixed assets or property, plant and equipment represent around 95 per cent of total assets held by water sector entities. Accordingly, the adequacy of fixed asset systems is critical to each entity's ability to manage and report on fixed assets. We reviewed the adequacy of water sector entities' fixed asset systems in terms of their capacity to accurately record and report on fixed assets from the date of acquisition to disposal.

We concluded that the fixed asset systems of water sector entities were operating effectively. Notwithstanding this overall conclusion, we found that many entities had not established adequate policies, procedures and controls in the following areas:

- classification of expenditure as either repairs or capital
- timely capitalisation of completed projects
- usage of correct depreciation rates.

Our audit of the fixed asset systems at DSE also identified issues requiring attention. Specifically, DSE is required to formally revalue land at least every 5 years and the last complete revaluation of land was undertaken in 2002-03. Since that time, valuation indices (provided by the Valuer-General Victoria) have been applied to DSE's asset base to "index" its value, with a view to ensuring that the carrying value of land assets does not materially differ from its "fair" value.

The methodology and approach adopted by DSE in recent years has resulted in a land valuation that contains errors and does not fully comply with the revaluation requirements of accounting standards. However, we do not consider that this has resulted in material misstatement of DSE's financial statements. The errors in the land valuation are primarily as a result of indices being applied to inaccurate fixed asset records. As such, not all assets were appropriately indexed. Any prolongation of the use of indices will, over time, accentuate the accumulated impact of these errors and has the potential to result in a material misstatement of the value of land recorded in DSE's financial statements. DSE has indicated that it will undertake a full revaluation in 2007-08.

We also identified the following issues relating to DSE's fixed asset system:

- delays in processing land de-recognitions
- asset additions, disposals and revaluations were not processed in a timely manner
- completed projects were not capitalised in a timely manner.

These deficiencies indicate a need for DSE to improve procedures and controls over its fixed asset systems.

## Recommendation

10.2 Sector agencies should review and enforce their policies and procedures relating to fixed assets, so that fixed asset transactions are processed in a timely manner, authorised, classified correctly and carried at the correct value. In addition, DSE should address the inaccuracies in its fixed assets records and undertake a comprehensive revaluation of all land parcels in 2007-08. The revaluation should also consider the impact of land purchases, sales, transfers, recognitions and de-recognitions.

### 10.5.2 Information systems controls

Assessment of agency information systems (IS) controls is an important part of the financial audit process. Entities rely on IS to produce reliable and accurate information for the preparation of financial statements, and to run various systems that affect the operation of the entity. Strong IS controls help to maintain the integrity, confidentiality and availability not only of the financial information in agency systems, but also other areas which promote the smooth operational running of the entity.

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.

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.

During our audits of sector agencies, 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
- standards applied to the setting and renewal of passwords.

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 sector 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 audits, we identified the following IS continuity planning weaknesses across sector agencies:

- lack of comprehensive, up-to-date and endorsed business continuity and disaster recovery plans and procedures for critical business processes 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.

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 remain, particularly given the potential exposures that can arise from poor security, poor change management practices and poor continuity planning.

### 10.5.3 Departmental information systems controls

While DSE relies on shared services arrangements for its hardware and operating systems, there are still access controls to these services that are required to be maintained at DSE. Our assessment of the access controls maintained by DSE identified a need to improve password controls and establish a more rigorous process to review all network user accounts.

#### *Shared computer hardware facilities*

In September 2005, the Secretaries for DSE, the Department of Primary Industries (DPI), the Department of Victorian Communities (DVC) and the Department of Infrastructure (DOI) signed a memorandum of agreement to create a Shared Services Centre (SSC) providing Information Communication Technology services to the 4 departments by merging the former shared services environments for DSE/DPI and DOI/DVC. The SSC provides the computer hardware and helpdesk support services to the 4 departments and other entities such as VicForests. The SSC formally commenced operations on 4 July 2006, within the DOI.

Our assessment of information system controls at the SSC found that appropriate IS controls over most aspects of IS operations had been established. However, there were certain areas that required further attention. Key control weaknesses identified by audit included inadequate review of network user accounts and deficiencies in the use of password controls.

#### *Shared financial operating systems*

For a number of years, financial operating system services have been provided to DSE through Shared Business Systems (SBS) which is also a shared services arrangement involving DSE, DPI, DVC and VicForests. SBS provides these entities with financial and payroll processing services using the Oracle Financials and Oracle HR application, and operates as an independent unit within DPI.

As part of our financial audit of the respective entities, a review of the IS controls was conducted at SBS. The review identified deficiencies in both access controls over the Oracle Financials maintenance accounts and monitoring access to the Oracle Financials application.

While the issues raised across the three IS operational areas impacting on DSE's financial systems need to be addressed, we were still able to rely on the overall effectiveness of the IS controls. It is pleasing to note that the relevant entities' management have addressed, or are in the process of addressing, these IS issues.

## 10.6 Other significant issues

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### 10.6.1 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 4 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.

DSE has commenced a data matching exercise with other agencies to reconcile their respective crown land holdings with DSE's records. DSE has previously advised that this project is expected to be completed by 30 June 2008.

While some progress has been made with this reconciliation exercise over the past 12 months, it is behind schedule. For example, out of requests for confirmation of crown land holdings issued to 14 agencies, 4 key agencies (the Department of Treasury and Finance, the Department of Justice, VicRoads and VicTrack) had not responded to DSE's request for confirmation of their crown land holdings by 30 June 2007. These missing confirmations relate to just over half the crown land parcels that DSE is seeking to reconcile. Unless all crown land confirmation requests are returned, DSE will be unable to verify crown land movements between agencies and identify duplicate recordings of crown land holdings.

Given that the reconciliation of crown land holdings remains largely unresolved, it is unlikely that DSE will meet its 30 June 2008 deadline for the completion of this task.

***RESPONSE provided by Chief Executive, VicTrack***

*VicTrack has no record of having received a request from DSE for confirmation of our crown land holdings. VicTrack will arrange a meeting with DSE to ensure all available information is provided to meet the current target completion date.*



## Recommendation

- 10.3 DSE should, in 2007-08, allocate the resources necessary to complete the review and confirm the accuracy of its crown land records by 30 June 2008. 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.

### 10.6.2 Water agency operations

The Sustainability and Environment sector includes 20 agencies (20 in 2005-06) that provide water and waste water services. 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 10F summarises the financial performance & position of the water agencies.

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

	Metropolitan		Regional		Rural		Total	
	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07
Financial performance -								
Total revenue	1 613	<b>1 613</b>	570	<b>577</b>	151	<b>149</b>	2 334	<b>2 339</b>
Total expenses	1 183	<b>1 273</b>	548	<b>595</b>	157	<b>183</b>	1 888	<b>2 051</b>
Profit/loss (pre-tax)	430	<b>340</b>	22	<b>(18)</b>	(6)	<b>(34)</b>	446	<b>288</b>
Financial position -								
Infrastructure, property, plant and equipment assets	7 446	<b>7 930</b>	5 983	<b>6 430</b>	2 339	<b>2 356</b>	15 768	<b>16 716</b>
Borrowings	2 664	<b>2 950</b>	137	<b>236</b>	14	<b>19</b>	2 815	<b>3 205</b>

Source: Victorian Auditor-General's Office.

Figure 10F shows that profits before tax reported by water agencies in 2006-07 totalled \$288 million, a reduction of 35 per cent from 2005-06. There has been little movement in revenue from 2005-06 to 2006-07. Water price increases and changes to tariff arrangements in recent years have been offset by the impact of reduced consumption resulting from water restrictions and permanent water saving measures.

Expenditure growth in the water sector has been strong in recent years and exceeded the growth in revenue over 2006-07. Major areas of expenditure growth in 2006-07 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.

In 2006-07, water agencies reported an increase in fixed asset holdings of \$948 million, and an increase in their net borrowings of \$389 million. The asset additions mainly related to water and sewage infrastructure assets. Apart from 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, as a result of the prolonged drought, many of the larger entities in the sector have considerable capital works programs in place (refer Figure 10G) which are to be funded mainly through future borrowings. On current projections, debt levels in the water sector will at least triple within 5 years to around \$9 billion.

Figure 10G summarises the actual infrastructure spend for the water agencies over the last 2 years and the proposed expenditure for the next 5 years.

**Figure 10G**  
**Summary of actual and proposed capital expenditure by water agencies**  
((\$million))

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Infrastructure, property, plant and equipment assets	543	1 041	964	1 285	2 066	2 796	1 092

Source: Victorian Auditor-General's Office.

## 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 based on a percentage of profits after allowing for certain non-assessable transactions. Although water authorities were not required to make an interim dividend payment on 2006-07 income during the financial year, they were required to pay this interim dividend with their final dividend payment in October 2007, 6 months after it would normally be paid.

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 \$60.3 million in 2006-07 (\$60.2 million in 2005-06).

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. To 30 June 2007, the metropolitan water businesses and DSE had contributed \$12.6 million. Each business and DSE may be required to contribute a further \$1 million to the fund by 30 June 2008, depending on the number of applications submitted to the fund for water saving initiatives.

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

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

	Metropolitan		Regional		Rural		Total	
	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07
Environmental contributions paid	42	<b>42</b>	18	<b>18</b>	0.3	<b>0.3</b>	60.3	<b>60.3</b>
Dividends paid	207	<b>134</b>	1	-	-	-	208	<b>134</b>
Income tax paid	68	<b>64</b>	2	<b>2</b>	-	-	70	<b>66</b>
<b>Total</b>	<b>317</b>	<b>240</b>	<b>21</b>	<b>20</b>	<b>0.3</b>	<b>0.3</b>	<b>338.3</b>	<b>260.3</b>

Source: Victorian Auditor-General's Office.

Contributions by water sector agencies to government have decreased during the 2006-07 financial year largely as a result of the impact of drought on their profitability and the decision to defer the interim dividend payment. Notwithstanding this decline, such contributions have been increasing in recent years, with almost \$870 million contributed over the last 3 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 the water sector's available cash flows. In this context, there is a need to examine the sustainability of current levels of contributions by the water authorities to the State.

### *Water sector performance statements*

In 2003-04, the Minister for Finance directed all regional water authorities to prepare performance statements, rural water authorities were required to prepare performance statements from 2005-06. 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.

All 16 regional and rural water authorities prepared statements in accordance with this requirement. We issued clear opinions on 15 performance statements. In relation to the Grampians Wimmera Mallee Region Water Authority, we issued a qualified opinion because certain performance measures reported by the authority use financial information reported in its qualified financial statements.

### *Catchment management authorities*

There are 10 catchment management authorities and they generated a combined loss of \$2.6 million in 2006-07 compared with a \$1.5 million profit in 2005-06. Seven catchment management authorities generated an operating loss in 2006-07, compared with 6 authorities that reported a loss in 2005-06.

Catchment management authorities reported a 12 per cent increase in expenses for the year which exceeded the 9 per cent increase in revenue. The rise in expenses is mainly due to project-based expenditures and has contributed to the loss. Nevertheless, the authorities' working capital ratios are generally strong, indicating an ability to meet their obligations as they fall due.

### *Water pricing and the essential services commission*

The Essential Services Commission (ESC) has established the pricing framework for water authorities to 30 June 2008. Water authorities are in the process of submitting "water plans" to the ESC for approval of the new schedule of tariffs and pricing principles for the 5-year period commencing 1 July 2008.

While a new water pricing framework is not due until 1 July 2008, the metropolitan water businesses have been granted approval to increase prices by up to 14.8 per cent in 2008-09. A final decision relating to the metropolitan water businesses is expected in May 2008. An interim pricing decision is due for regional water businesses in March 2008 with a final determination due in June 2008.

## 10.7 2005-06 recommendation

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Our February 2007 report to Parliament titled *Results of financial statement audits for agencies with 30 June 2006 balance dates*, included one recommendation relevant to DSE. The recommendation related to the need for DSE to allocate the resources necessary to complete the review and confirm the accuracy of its crown land records by 30 June 2008. This recommendation has not been fully addressed by DSE and remains unresolved, refer to section 10.6.1 of this Part.

**Figure 10I**  
**Audit status: Sustainability and Environment sector**

Entity	Financial statements			Timeliness of audited financial statement completion					
	Financial statements signed	Clear opinion issued	Auditor-General's report signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
<b>COMPLETED AUDITS – 30 JUNE 2007 BALANCE DATES</b>									
Department of Sustainability and Environment	4 Sept. 2007	✓	6 Sept. 2007		●				
<b>PLANNING</b>									
Architects' Registration Board of Victoria	11 Sept. 2007	✓	12 Sept. 2007				●		
Building Commission	9 Aug. 2007	✓	13 Aug. 2007	●					
Growth Areas Authority	19 Sept. 2007	✓	19 Sept. 2007				●		
Heritage Council	20 Sept. 2007	✓	21 Sept. 2007				●		
Plumbing Industry Commission	5 Sept. 2007	✓	7 Sept. 2007		●				
Surveyors Registration Board of Victoria	17 Sept. 2007	✓	17 Sept. 2007				●		
<b>ENVIRONMENT AND WATER</b>									
Alpine Resort Co-ordinating Council	6 Aug. 2007	✓	8 Aug. 2007	●					
Barwon Region Water Authority	16 Aug. 2007	✓	17 Aug. 2007	●					
Barwon Regional Waste Management Group	21 Sept. 2007	✓	21 Sept. 2007				●		
Calder Regional Waste Management Group	22 Oct. 2007	✓	23 Oct. 2007						●
Central Gippsland Region Water Authority	18 Sept. 2007	✓	19 Sept. 2007				●		
Central Highlands Region Water Authority	25 Sept. 2007	✓	25 Sept. 2007					●	
Central Murray Regional Waste Management Group	20 Aug. 2007	✓	20 Aug. 2007	●					
City West Water Ltd	28 Aug. 2007	✓	28 Aug. 2007		●				
Coliban Region Water Authority	20 Sept. 2007	✓	20 Sept. 2007				●		
Commissioner for Environmental Sustainability	21 Sept. 2007	✓	21 Sept. 2007				●		
Corangamite Catchment Management Authority	19 Sept. 2007	✓	20 Sept. 2007				●		
Desert Fringe Regional Waste Management Group	29 Aug. 2007	✓	31 Aug. 2007		●				
East Gippsland Catchment Management Authority	20 Sept. 2007	✓	21 Sept. 2007				●		
East Gippsland Region Water Authority	3 Sept. 2007	✓	4 Sept. 2007		●				
Environment Protection Authority	13 Sept. 2007	✓	14 Sept. 2007				●		

**Figure 10I**  
**Audit status: Sustainability and Environment sector - continued**

Entity	Financial statements			Timeliness of audited financial statement completion					
	Financial statements signed	Clear opinion issued	Auditor-General's report signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
<b>COMPLETED AUDITS – 30 JUNE 2007 BALANCE DATES - continued</b>									
<b>ENVIRONMENT AND WATER – continued</b>									
First Mildura Irrigation Trust	21 Sept. 2007	✓	21 Sept. 2007			●			
Gippsland and Southern Rural Water Authority	19 Sept. 2007	✓	20 Sept. 2007			●			
Gippsland Regional Waste Management Group	12 Sept. 2007	✓	18 Oct. 2007					●	
Glenelg-Hopkins Catchment Management Authority	6 Sept. 2007	✓	7 Sept. 2007		●				
Goulburn Broken Catchment Management Authority	14 Sept. 2007	✓	17 Sept. 2007			●			
Goulburn-Murray Rural Water Authority	15 Aug. 2007	✓	16 Aug. 2007	●					
Goulburn Valley Region Water Authority	5 Sept. 2007	✓	7 Sept. 2007		●				
Goulburn Valley Regional Waste Management Group	27 Sept. 2007	✓	27 Sept. 2007				●		
Grampians Regional Waste Management Group	29 Aug. 2007	✓	31 Aug. 2007		●				
Grampians Wimmera Mallee Water Authority	17 Sept. 2007	Qualified	9 Oct. 2007					●	
Highlands Regional Waste Management Group	14 Sept. 2007	✓	18 Sept. 2007			●			
Lower Murray Urban and Rural Water Authority	14 Sept. 2007	✓	17 Sept. 2007			●			
Mallee Catchment Management Authority	26 Sept. 2007	✓	26 Sept. 2007			●			
Melbourne Water Corporation	17 Aug. 2007	✓	17 Aug. 2007	●					
Metropolitan Waste Management Group (a)	30 Oct. 2007	✓	30 Oct. 2007						●
Mildura Regional Waste Management Group	21 Sept. 2007	✓	21 Sept. 2007			●			
Mornington Peninsula Regional Waste Management Group	28 Aug. 2007	✓	11 Sept. 2007			●			
North Central Catchment Management Authority	5 Sept. 2007	✓	6 Sept. 2007		●				
North East Water	21 Aug. 2007	✓	23 Aug. 2007	●					
North East Catchment Management Authority	6 Sept. 2007	✓	11 Sept. 2007			●			
North East Regional Waste Management Group	11 Sept. 2007	✓	12 Sept. 2007			●			
Parks Victoria	17 Aug. 2007	✓	17 Aug. 2007	●					

**Figure 10I**  
**Audit status: Sustainability and Environment sector - continued**

Entity	Financial statements			Timeliness of audited financial statement completion					
	Financial statements signed	Clear opinion issued	Auditor-General's report signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
<b>COMPLETED AUDITS – 30 JUNE 2007 BALANCE DATES - continued</b>									
<b>ENVIRONMENT AND WATER – continued</b>									
Phillip Island Nature Park Board of Management	24 Aug. 2007	✓	3 Sept. 2007		●				
Port Phillip and Westernport Catchment Management Authority	13 Sept. 2007	✓	14 Sept. 2007			●			
Royal Botanic Gardens Board	18 Sept. 2007	✓	19 Sept. 2007			●			
Smart Water Fund	6 Sept. 2007	✓	7 Sept. 2007		●				
South East Water Limited	27 Aug. 2007	✓	27 Aug. 2007		●				
South Gippsland Region Water Authority	7 Sept. 2007	✓	11 Sept. 2007			●			
South Western Regional Waste Management Group	31 Aug. 2007	✓	6 Sept. 2007		●				
Sustainability Victoria	17 Sept. 2007	✓	17 Sept. 2007			●			
Trust for Nature (Victoria)	27 Sept. 2007	✓	27 Sept. 2007				●		
VicForests	21 Sept. 2007	✓	21 Sept. 2007			●			
Victorian Plantations Corporation	21 Sept. 2007	✓	21 Sept. 2007			●			
Wannon Water	10 Sept. 2007	✓	12 Sept. 2007			●			
Western Region Water Authority	15 Aug. 2007	✓	16 Aug. 2007	●					
Westernport Region Water Authority	21 Sept. 2007	✓	21 Sept. 2007			●			
West Gippsland Catchment Management Authority	17 Sept. 2007	✓	18 Sept. 2007		●				
Wimmera Catchment Management Authority	7 Sept. 2007	✓	10 Sept. 2007			●			
Yarra Bend Park Trust	17 Sept. 2007	✓	18 Sept. 2007			●			
Yarra Valley Water Limited	22 Aug. 2007	✓	22 Aug. 2007	●					
Zoological Parks and Gardens Board	6 Sept. 2007	✓	10 Sept. 2007			●			
2006-07 Total number of agencies = 63				10	14	32	3	2	2
Per cent (cumulative)				16	38	89	94	97	100
2005-06 Total number of agencies = 65				10	20	28	5	1	1
Per cent (cumulative)				15	46	89	97	98	100

(a) The Eastern, Northern, South Eastern and Western Regional Waste Management Groups were merged to form the Metropolitan Waste Management Group on 1 October 2006.



# 11

## Treasury and Finance

### At a glance

#### Background

The Treasury and Finance sector comprises the Department of Treasury and Finance (DTF) and 24 agencies that were required to prepare financial statements at 30 June 2007 and submit them for audit.

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 main revenue collection agency. The Victorian Government Purchasing Board, responsible for producing government procurement policies and guidelines, is also incorporated DTF's services. Other sector agencies provide a range of financial, superannuation, insurance and regulatory services.

Machinery-of-government changes were finalised on 31 December 2006. The changes resulted in the Shared Services Centre (SSC) and Chief Technology Office being transferred to DTF from the Department of Infrastructure (DOI). Although the SSC is still currently located within DOI, DTF is responsible for all administrative functions that are required.

## At a glance - *continued*

### Key findings

- We issued 25 audit opinions on agencies' financial statements, all of which were clear. The audit opinion for the Industry Supervision Fund contained an "emphasis of matter" drawing attention to disclosures made in the accompanying financial statements.
- The timeliness of financial reporting by sector agencies was similar to the previous year, with 18 of the 25 sector agencies achieving the 12-week statutory deadline. Agencies were consistent in the time taken to complete their financial statements, with 7 agencies achieving this milestone within 8 weeks of year-end.
- The quality of financial reporting by sector agencies was generally of a high standard and consistent with the previous year. Agencies took appropriate steps to increase the quality of the reports provided to audit so that fewer drafts were required.
- Our audits found the control environments of sector agencies to be generally sound, though improvements could be made to systems access controls, reconciliation of land valuation differences and disaster recovery policies. Agencies are generally addressing the issues identified.

### ***RESPONSE provided by Secretary, Department of Treasury and Finance***

*The Department welcomes the Auditor-General's report, affirming the positive outcomes achieved by agencies within the Treasury and Finance portfolio in 2006-07, in respect to the quality and timeliness of financial reporting.*

*The improvement in financial reporting achieved by sector agencies in 2006-07 builds on an already strong base and reflects the on-going focus by individual agencies to further strengthening public accountability. Consistent with this focus, my Department will continue to work closely with agencies across the sector to identify and leverage opportunities for further improvement.*

*The Auditor-General's overall positive assessment of the sector's control environment is also welcomed.*

## 11.1 Introduction

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The Treasury and Finance sector comprises the Department of Treasury and Finance (DTF) and 24 other agencies with a 30 June 2007 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. The operations of the State Revenue Office are incorporated with DTF as the main revenue collection agency. The Victorian Government Purchasing Board, responsible for producing government procurement policies and guidelines, is also incorporated within DTF's services.

On 1 January 2007, the Chief Technology Office and the Shared Services Centre (SSC) transferred to the Treasury and Finance sector from the Department of Infrastructure (DOI). The transfer took place as part of the machinery-of-government changes that were finalised on 31 December 2006. Although the SSC is still currently located within DOI, DTF is responsible for all administrative functions that are required.

Other sector agencies provide a range 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 oversees pricing, mainly in the electricity and gas industries
- State Electricity Commission of Victoria – which manages the residual financial and other obligations from the privatisation of public sector utilities.

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

The number of sector agencies with a 30 June balance date in 2006-07 was 18 less than the previous year, resulting from a combination of:

- VFM Equity Trust was previously reported as 3 separate entities
- State Trustees Common Funds was previously reported as 9 separate entities
- STL Financial Services Premium Funds was previously reported as 4 separate entities

- 6 agencies, including 4 Gasco companies, Housing Guarantee Funds Ltd and TAC Law Ltd ceased operations
- the Victorian Neurotrauma Initiative commenced operation during the year.

## 11.2 Reporting framework

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State entities are required by the *Financial Management Act 1994* to prepare financial statements. The financial statements prepared must be independently audited, and an audit opinion is expressed on the report. The statements and the accompanying audit opinions are included in the annual report of each entity.

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.

A summary of the financial audit framework is provided in Part 1 of this report.

## 11.3 Results of audits

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By 31 October 2007, we had issued unqualified audit opinions on the 2006-07 financial statements prepared by all 25 agencies in the sector (no qualified opinions issued in 2005-06). The audit opinion for the Industry Supervision Fund (ISF) contained an emphasis of matter to draw attention to the expected wind-up of the ISF's operations in 2007-08.

In 2006-07, sector agencies:

- collected approximately \$11.5 billion in state taxes
- administered about \$30.6 billion in parliamentary appropriations, representing payments from the Consolidated Fund
- managed about \$53 billion in State liabilities – mainly including superannuation liabilities, insurance scheme outstanding 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 \$26.4 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 2006-07. 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 2006-07 also contributed to its payment into the Consolidated Fund of a \$302 million dividend.

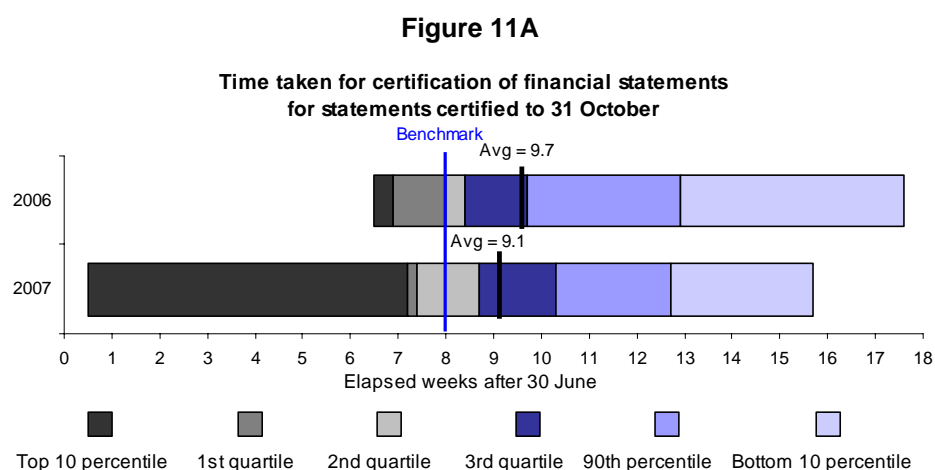
## 11.4 Timeliness and quality of financial reporting

### 11.4.1 Timeliness

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

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.

Figure 11A shows (in percentile bands) the number of elapsed weeks after 30 June that sector agencies provided a signed set of financial statements for audit. Further detail of these entities is provided in Figure 11E.

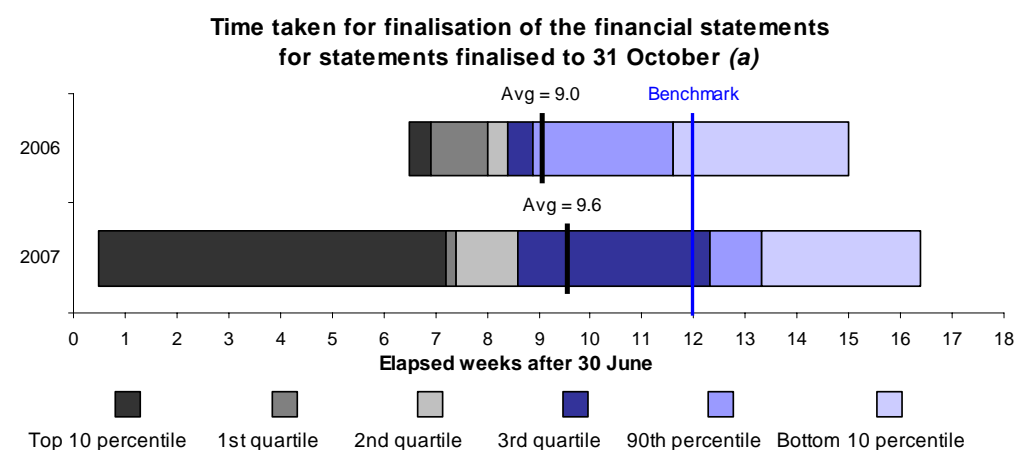


Source: Victorian Auditor-General's Office.

For 2006-07, 28 per cent of agencies submitted their signed statements to audit within 8 weeks, 72 per cent within 10 weeks, 88 per cent within 12 weeks, and 92 per cent within 14 weeks of year-end. The average time was just over 9 weeks.

Figure 11B shows the elapsed weeks taken for financial statements to be finalised, including the issue of an audit opinion. For 2006-07, 72 per cent of sector agencies finalised their financial statements, including the audit opinion, within the statutory benchmark of 12 weeks (81 per cent for 2005-06).

**Figure 11B**



(a) The financial statements are finalised when an audit opinion is issued on the financial statements certified by the agency.

Source: Victorian Auditor-General's Office.

### Financial statement preparation process

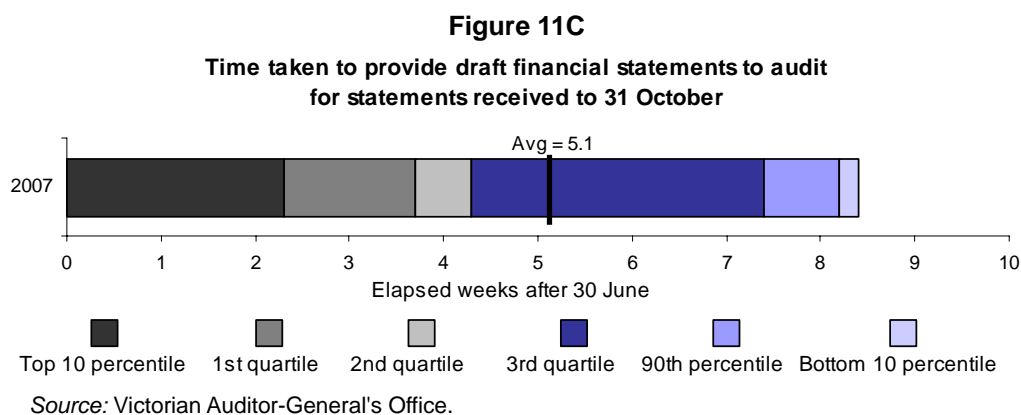
Agencies need to plan for, and allocate sufficient and appropriate resources to, financial report preparation so they can produce a report consistent with accounting standards and within the stipulated time frames.

#### *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 in a timely fashion.

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. After financial year-end, the sooner draft statements can be produced the more likely an agency will meet its 8-week statutory target.

Figure 11C shows (in percentile bands) the number of elapsed weeks after 30 June that agencies provided a first acceptable draft set of financial statements to our Office.



For 2006-07, 38 per cent of agencies submitted their draft statements for audit within 4 weeks of 30 June, 70 per cent within 5 weeks, and 85 per cent within 8 weeks.

The average elapsed time in 2006-07 was 5 weeks. Commendably, the Rural Finance Corporation of Victoria submitted its draft statements for audit 3 weeks after 30 June.

## 11.4.2 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 prepare only one draft report and with 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:

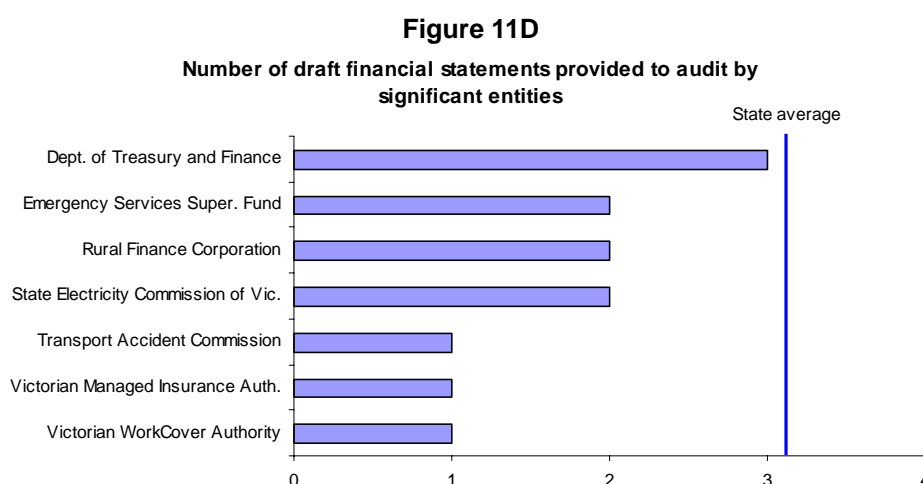
### **Before year-end**

- 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, preferably 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.

Figure 11D shows the number of draft financial statements provided to us by the most significant agencies in the sector compared with the State average of 3.1.



Source: Victorian Auditor-General's Office.

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 2006-07. All agencies were under the State's average for the number of draft financial statements provided.

## 11.5 Internal control over financial reporting

Each entity's governing body is responsible for the development and maintenance of 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.



While the main purpose of financial statement audits is to add credibility to an entity's financial statements through the audit opinion, audits also assess the adequacy of entities' financial control and governance processes to the extent they impact on the financial statements.

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

### 11.5.1 General controls

Overall, our audits confirmed that agencies' systems of internal control were adequate. However, we identified opportunities to further strengthen internal control at various sector agencies in the following areas:

- explanation of differences between municipal council and Valuer-General valuations for land tax purposes DTF
- updating of systems-based controls for the STRATIS system, to reflect operational controls (State Trustees Limited).

These issues have been brought to the attention of the relevant agencies' management, who are addressing them.

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

### 11.5.2 Information systems controls

Assessment of agency information system (IS) controls is an important part of the financial audit process. At DTF, the IS controls support both DTF and the Department of Premier and Cabinet (DPC) financial statements under a shared services arrangement. Entities rely on IS to produce reliable and accurate information for the preparation of financial statements, and to run various systems that affect the operation of the entity. Strong IS controls help to maintain the integrity, confidentiality and availability not only of the financial information in agency systems, but also other areas which promote the smooth operational running of the entity.

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.

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. While the overall control environment was satisfactory, weaknesses were identified in the following areas:

- standards applied to the setting and renewal of passwords
- transmission of passwords in clear text over unsecured networks
- procedures for reviewing network access privileges
- a number of documents forming the ICT security policy are still under development
- failure to appropriately log and monitor user activities to identify possible security breaches
- restriction on the number of logon attempts in Oracle not enabled.

These issues have been brought to the attention of DTF and it is addressing them.

**Figure 11E**  
**Audit status: Treasury and Finance sector**

Entity	Financial statements			Timeliness of audited financial statement completion					
	Financial statements signed	Clear opinion issued	Auditor-General's report signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
<b>COMPLETED AUDITS – 30 JUNE 2007 BALANCE DATES</b>									
Department of Treasury and Finance	27 Sept. 2007	✓	27 Sept. 2007					●	
<b>FINANCE</b>									
Emergency Services Superannuation Scheme	30 Aug. 2007	✓	31 Aug. 2007		●				
Emergency Services Superannuation Board	30 Aug. 2007	✓	31 Aug. 2007		●				
Essential Services Commission	21 Sept. 2007	✓	24 Sept. 2007				●		
Housing Guarantee Claims Fund	20 Aug. 2007	✓	20 Aug. 2007	●					
Industry Supervision Fund	10 Sept. 2007	✓	25 Sept. 2007				●		
Parliamentary Contributory Superannuation Fund	18 Sept. 2007	✓	24 Sept. 2007				●		
Vicfleet Pty Ltd	4 Jul. 2007	✓	4 Jul. 2007	●					
Victorian Managed Insurance Authority	20 Aug. 2007	✓	20 Aug. 2007	●					
<b>TREASURER</b>									
Domestic Building Indemnity (HIH) Fund	20 Aug. 2007	✓	20 Aug. 2007	●					
STL Financial Services Premium Funds comprising:	27 Aug. 2007	✓	27 Aug. 2007		●				
• Premium Cash Fund									
• Premium Cash Plus Fund									
• Premium Diversified Fund									
• Premium Equity Fund									
Rural Finance Corporation	13 Aug. 2007	✓	13 Aug. 2007	●					
State Electricity Commission of Victoria	12 Sept. 2007	✓	13 Sept. 2007				●		

**Figure 11E**  
**Audit status: Treasury and Finance sector - continued**

Entity	Financial statements			Timeliness of audited financial statement completion					
	Financial statements signed	Clear opinion issued	Auditor-General's report signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
<b>COMPLETED AUDITS – 30 JUNE 2007 BALANCE DATES</b>									
<b>TREASURER – continued</b>									
State Trustees Common Funds comprising:	27 Aug. 2007	✓	27 Aug. 2007		●				
<ul style="list-style-type: none"> <li>• Common Fund No. 1</li> <li>• Common Fund No. 2</li> <li>• Equity Common Fund</li> <li>• Fixed Interest Common Fund</li> <li>• Charitable Common Fund</li> <li>• Property Common Fund</li> <li>• Premium Fixed Interest Fund</li> <li>• Premium International Fund</li> <li>• Premium Property Fund</li> </ul>									
State Trustees Limited	27 Aug. 2007	✓	27 Aug. 2007						●
STL Financial Services Limited	27 Aug. 2007	✓	27 Aug. 2007						●
Treasury Corporation of Victoria	21 Aug. 2007	✓	27 Aug. 2007						●
VFM Equity Trust comprising:	31 Aug. 2007	✓	4 Sept. 2007						●
<ul style="list-style-type: none"> <li>• VFM Emerging Markets Trust</li> <li>• VFM Global Small Companies Trust</li> <li>• VFM Infrastructure Trust</li> </ul>									
Victorian Funds Management Corporation	31 Aug. 2007	✓	4 Sept. 2007						●
<b>WORKCOVER</b>									
Accident Compensation Conciliation Service	3 Sept. 2007	✓	3 Sept. 2007						●
Transport Accident Commission	3 Sept. 2007	✓	4 Sept. 2007						●

Figure 11E

Audit status: Treasury and Finance sector - *continued*

Entity	Financial statements			Timeliness of audited financial statement completion					
	Financial statements signed	Clear opinion issued	Auditor-General's report signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
<b>COMPLETED AUDITS – 30 JUNE 2007 BALANCE DATES</b>									
<i>WORKCOVER – continued</i>									
Victorian Neurotrauma Initiative	4 Sept. 2007	✓	1 Oct. 2007				●		
Victorian Trauma Foundation	18 Oct. 2007	✓	23 Oct. 2007						●
Victorian Trauma Foundation Pty Ltd	18 Oct. 2007	✓	23 Oct. 2007						●
Victorian WorkCover Authority	24 Aug. 2007	✓	29 Aug. 2007		●				
<b>COMPLETED AUDITS – OTHER BALANCE DATES</b>									
Gascor Holdings No. 1 Pty Ltd (a)	6 Jul. 2007	✓	6 Jul. 2007						
Gascor Holdings No. 2 Pty Ltd (b)	22 Dec. 2006	✓	22 Dec. 2006						
Gascor Holdings No. 3 Pty Ltd (c)	22 Dec. 2006	✓	22 Dec. 2006						
Gascor (TH) Pty Ltd (d)	22 Dec. 2006	✓	22 Dec. 2006						
2006-07 Total number of agencies = 25				<b>5</b>	<b>12</b>	<b>1</b>	<b>5</b>	<b>0</b>	<b>2</b>
Per cent (cumulative)				20	68	72	92	92	100
2005-06 Total number of agencies = 43				<b>9</b>	<b>21</b>	<b>5</b>	<b>3</b>	<b>1</b>	<b>4</b>
Per cent (cumulative)				21	70	81	88	91	100

(a) Gascor Holdings No. 1 Pty Ltd ceased operations on 6 May 2007  
 (b) Gascor Holdings No. 2 Pty Ltd ceased operations on 4 Sept. 2006  
 (c) Gascor Holdings No. 3 Pty Ltd ceased operations on 4 Sept. 2006  
 (d) Gascor (TH) Pty Ltd ceased operations on 4 Sept. 2006

# 12 Victorian Communities

## At a glance

### Background

The Victorian Communities sector comprises 12 agencies, all of which submitted statements for audit before 31 October 2007.

The Department for Victorian Communities provided funding to the 2007 World Swimming Championships Corporation to support the delivery of the 12th FINA World Swimming Championships held in Melbourne from 17 March to 1 April 2007.

### Key findings

- We issued clear audit opinions on the financial statements of all sector agencies.
- The timeliness of financial reporting by sector agencies declined slightly compared with 2005-06 results.
- The quality of financial reporting by sector agencies was satisfactory.
- Our audits found the control environments of sector agencies to be generally adequate.
- The State's contribution to the 2007 World Swimming Championships Corporation in relation to the staging of the championships totalled \$44.8 million; this was \$9.8 million, or 28 per cent, more than the original budget.

## 12.1 Introduction

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The Victorian Communities sector comprises the Department for Victorian Communities (DVC) and 11 smaller agencies with specific event or service delivery responsibilities.

Local government in Victoria operates under the *Local Government Act 1989* and is supported by Local Government Victoria, a division of DVC. Given the size and diversity of the local government sector, we will report the results of our financial audits in this sector in a separate report later in 2007.

DVC seeks to work with local people throughout Victoria to deliver the Government's goal of strengthening communities. This work is underpinned by the following values:

- Communities first — planning and engaging before acting, by taking the time to listen properly and actively, and by inviting the views of others.
- People and place — highlighting the importance of people and place, understanding and appreciating the difference between people and between local areas.
- Doing government differently — acting as a broker for communities and serving as a catalyst for change by being responsive, approachable and flexible.

DVC provides policy advice and services in a range of areas including employment and adult education, local government, youth affairs, multicultural affairs, seniors and veterans affairs, indigenous affairs, and sport and recreation.

DVC was responsible for the Public Records Office and Registry of Births, Deaths and Marriages from 1 July 2006 to 31 December 2006, after which time the Public Records Office transferred to the Department of Premier and Cabinet and the Registry of Births, Deaths and Marriages relocated to the Department of Justice as a result of machinery-of-government changes.

DVC operates sport and recreation camps, as well as the Community Support Fund and the Victorian Grants Commission. During 2006-07, the Office of Commonwealth Games Co-ordination was wound-up following the successful delivery of the Melbourne 2006 Commonwealth Games in March 2006.

Some of DVC's key financial responsibilities were:

- administration and operation of the Community Support Fund (\$92.47 million in contributions paid into the fund for 2006-07 compared with \$90.95 million in 2005-06)
- payments from the Victorian Grants Commission to local government (\$395 million in 2006-07 compared with \$398 million in 2005-06)
- funding of the 2007 FINA World Swimming Championships (\$24.55 million paid in 2006-07).

Other agencies within the sector include:

- Melbourne 2006 Commonwealth Games Corporation, which was responsible for planning, organising and managing the operational requirements for the Melbourne 2006 Commonwealth Games held in March 2006. The corporation was wound-up on 30 November 2006
- 2007 World Swimming Championships Corporation, which was responsible for organising and managing the FINA World Swimming Championships held in March and April 2007 (discussed further in section 12.6).
- 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 State Netball and Hockey Centre)
- Victorian Institute of Sport and Victorian Institute of Sport Ltd, which support the development of talented athletes
- 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
- Adult, Community and Further Education Board (from 1 January 2007) which manages the delivery of training programs to adults, delivered through a number of "registered training offices:", "Adult Community Education" centres, Adult Multicultural Education Services and TAFE institutes
- Victorian Veterans Council, which distributes the ANZAC Day Proceeds Fund to ex-service organisations for welfare activities, and advises the Premier on issues affecting the ex-service community.

## 12.2 Reporting framework

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State agencies are required by the *Financial Management Act 1994* to prepare financial statements. The financial statements prepared must be independently audited, and an audit opinion is expressed. The statements and the accompanying audit opinion are included in the annual report of each agency.

The independent audit opinion adds credibility to the financial 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.

A summary of the financial audit framework is provided in Part 1 of this report.



## 12.3 Results of audits

At 31 October 2007, all 12 agencies within the portfolio had prepared their 2006-07 financial statements and submitted them for audit.

Clear audit opinions were provided on all 12 financial statements for 2006-07. This compares favourably with 2005-06 where a qualified opinion was provided on the financial statements of the Melbourne and Olympic Parks Trust due to material errors in the comparatives relating to understatement of expenditure.

## 12.4 Timeliness and quality of financial reporting

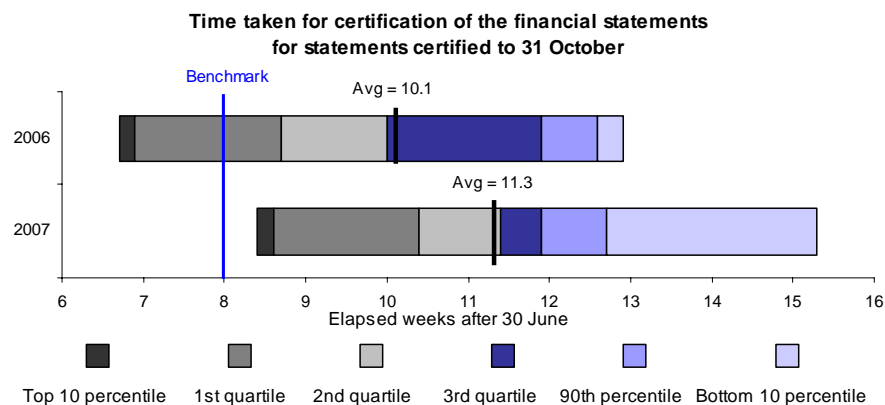
### 12.4.1 Timeliness

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

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.

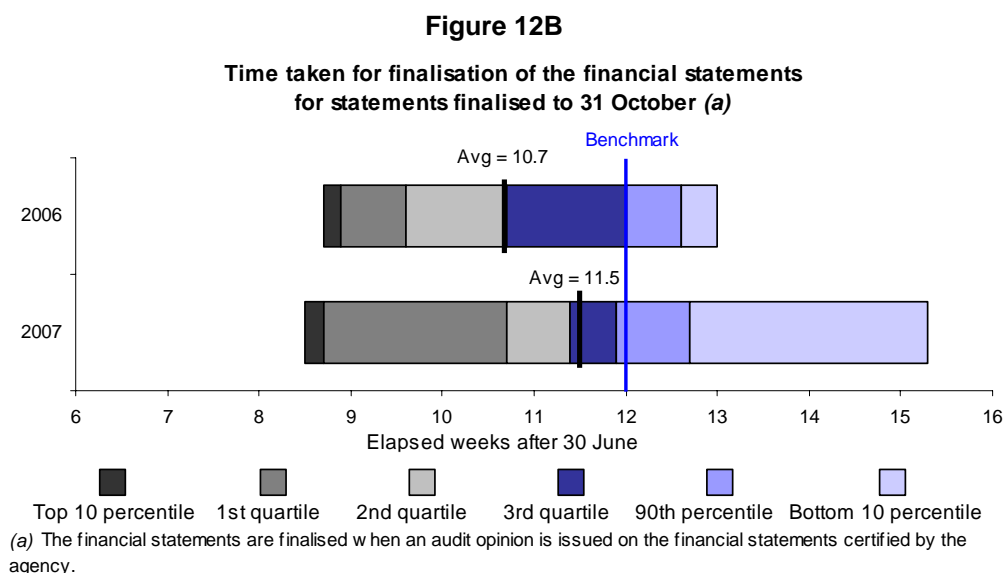
Figure 12A shows (in percentile bands) the number of elapsed weeks after 30 June that sector agencies provided a signed set of financial statements to our Office and indicates a decline in timeliness compared with 2005-06. Further detail on these entities is provided in Figure 12D.

**Figure 12A**



Source: Victorian Auditor-General's Office.

Figure 12B shows the elapsed weeks taken for financial statements to be finalised, including the issue of an audit opinion. The timeliness of financial reporting by sector agencies declined compared with 2005-06.



Source: Victorian Auditor-General's Office.

## Financial statement preparation process

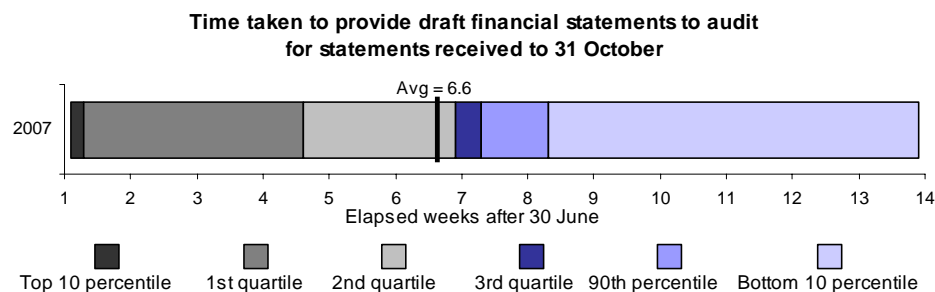
Agencies need to plan for, and allocate sufficient and appropriate resources to, financial report preparation to produce a report consistent with accounting standards and within the stipulated time frames.

### *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 in a timely fashion.

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. After financial year-end, the sooner draft statements can be produced the more likely an agency will meet its 8-week statutory target.

Figure 12C shows (in percentile bands) the number of elapsed weeks after 30 June that agencies provided a first acceptable draft set of financial statements to our Office.

**Figure 12A Figure 12C**

Source: Victorian Auditor-General's Office.

For 2006-07, 10 per cent of agencies submitted their draft statements for audit within 1.3 weeks of 30 June, 50 per cent within 6.9 weeks, and 90 per cent within 8.3 weeks. The average elapsed time in 2006-07 was 6.6 weeks.

## 12.4.2 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 prepare only one draft report and with 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, preferably 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.

DVC submitted 2 drafts of its financial statements to audit, which compares favourably with the State average of 3.1 financial statement drafts. In addition, no significant adjustments were required to the financial statements which reflect positively on the quality of DVC’s financial statements.

## 12.5 Internal control over financial reporting

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Each entity’s governing body is responsible for the development and maintenance of 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.

While the main purpose of financial statement audits is to add credibility to an entity’s financial statements through the audit opinion, audits also assess the adequacy of entities’ financial control and governance processes to the extent they impact on the financial statements.

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

### 12.5.1 General controls

Overall, our financial audits confirmed that systems of internal control in sector agencies were adequate. However, we identified opportunities to further strengthen internal control at various agencies in the following areas:

- the need for further refinement of risk management processes
- 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.

These issues have been brought to the attention of the relevant agencies’ management, who are addressing them.

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

## 12.5.2 Information systems controls

Assessment of agency information system (IS) controls is, therefore, an important part of the financial audit process. Entities rely on IS to produce reliable and accurate information for the preparation of financial statements, and to run various systems that affect the operation of the entity. Strong IS controls help to maintain the integrity, confidentiality and availability not only of the financial information in agency systems, but also other areas which promote the smooth operational running of the entity.

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.

In September 2005, the secretaries for the Department of Sustainability and Environment (DSE), the Department of Primary Industries (DPI), the Department of Victorian Communities (DVC) and the Department of Infrastructure (DOI) signed a memorandum of agreement to create a shared services organisation providing Information Communication Technology services by merging the former shared services environments for DSE/DPI and DOI/DVC. The Shared Services Centre (SSC) provides infrastructure and helpdesk support services to the 4 departments and other small entities such as VicForests.

The SSC formally commenced operations on 4 July 2006, as part of DOI. The machinery-of-government changes (on 31 December 2006) resulted in the SSC being transferred as an administrative office to the Department of Treasury and Finance.

Our audits found that sector 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 related to the SSC. While the SSC's overall control environment was satisfactory, weaknesses were identified in the following areas:

- registration of IS users, the granting of access rights to users, and the subsequent monitoring of users and their access levels
- standards applied to the setting and renewal of passwords
- failure to appropriately log and monitor user activities to identify possible security breaches
- lack of disaster recovery plans and business continuity plans.

These issues have been brought to the attention of the SSC and it is addressing them.

Reliable financial reporting requires agencies to 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 the SSC 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 planning weaknesses at some agencies:

- 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.

## 12.6 2007 World Swimming Championships Corporation

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The 2007 World Swimming Championships Corporation was established on 16 February 2005 under the *2007 World Swimming Championships Act 2004*. It was responsible for the delivery of the 12th FINA World Swimming Championships held in Melbourne from 17 March 2007 to 1 April 2007. The event attracted competitors from over 150 countries who participated in one of 5 disciplines held at 3 venues across Melbourne, namely:

- swimming and synchronised swimming events were held at the Susie O'Neill Pool, a temporary pool set up in Rod Laver Arena
- water polo and diving competition were held at the Melbourne Sports and Aquatic Centre
- open water swimming events were held at St Kilda Beach.

The State's original bid budget for the World Swimming Championships of \$35 million was established at the time of winning the event in 2003. However, the corporation received a total of \$44.8 million in government funding between 16 February 2005 and 30 June 2007; this was \$9.8 million or 28 per cent more than the original bid budget. The need for additional State funding can be attributed to the purchase of the temporary pools used in Rod Laver Arena, which were then provided to municipal councils as community pools, unplanned Melbourne Sports and Aquatic Centre improvements to increase the size of the diving and water polo venues, added flight costs associated with the competitors and officials to cover increases in fuel costs since the bid, and extra security costs, on the advice of Victoria Police, following major international terrorist incidents, including Madrid and London.

The 2007 World Swimming Championships generated a deficit of \$10.9 million for the year ending June 2007. The deficit was brought about due to the funding timelines for the corporation, as a significant proportion of the government funding was provided in 2005-06, when the corporation reported a surplus \$11.5 million. Total ticket revenue was \$5.7 million which was approximately \$8.3 million or 60 per cent less than the final budgeted amount. Sponsorship revenue was also less than the original bid budget by approximately 30 per cent, totalling \$4.5 million, but matched the final budget. However, this was offset by increased revenue from other areas such as hotel commissions and interest, and reduced expenditure on operations, venues, finance and administration. Overall, this resulted in the corporation reporting a surplus for its complete trading period of \$500 000.

The corporation's financial statements were not prepared on a going concern basis for the year ending 30 June 2007 as it was expected to wind-up in the near future, with any outstanding assets and liabilities absorbed by the State. As at 30 June 2007, the corporation's total assets were \$3.3 million and total liabilities were \$2.8 million.

Figure 12D  
Audit status: Victorian Communities sector

Entity	Financial statements			Timeliness of audited financial statement completion					
	Financial statements signed	Clear opinion issued	Auditor-General's report signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
<b>COMPLETED AUDITS – 30 JUNE 2007 BALANCE DATES</b>									
Department for Victorian Communities	31 Aug. 2007	✓	4 Sept. 2007		●				
<b>COMMONWEALTH GAMES, AND SPORT AND RECREATION</b>									
2007 World Swimming Championships Corporation	21 Sept. 2007	✓	24 Sept. 2007				●		
Melbourne and Olympic Parks Trust	29 Aug. 2007	✓	30 Aug. 2007		●				
State Sport Centres Trust	20 Sept. 2007	✓	21 Sept. 2007			●			
Victorian Institute of Sport Ltd	11 Sept. 2007	✓	13 Sept. 2007			●			
Victorian Institute of Sport Trust	11 Sept. 2007	✓	13 Sept. 2007			●			
<b>EDUCATION AND TRAINING</b>									
Adult, Community and Further Education Board	14 Sept 2007	✓	17 Sept. 2007			●			
<b>MULTICULTURAL AFFAIRS</b>									
VITS Languagelink	7 Sept. 2007	✓	27 Sept. 2007				●		
<b>VETERAN'S AFFAIRS</b>									
Shrine of Remembrance Trustees	21 Sept. 2007	✓	21 Sept. 2007			●			
Victorian Veteran's Council	15 Oct. 2007	✓	15 Oct. 2007					●	
<b>WOMEN'S AFFAIRS</b>									
Queen Victoria Women's Centre Trust	18 Sept. 2007	✓	18 Sept. 2007			●			
<b>COMPLETED AUDITS WITH OTHER BALANCE DATES (30 NOVEMBER 2006 )</b>									
Melbourne 2006 Commonwealth Games Corporation (a)	1 Dec. 2006	✓	1 Dec. 2006	●					
2006-07 Total number of agencies = 12				1	2	6	2	1	0
Per cent (cumulative)				8	25	75	91	100	100
2005-06 Total number of agencies = 10				1	4	3	2	0	0
Per cent (cumulative)				10	50	80	100	100	100

(a) The Melbourne 2006 Commonwealth Games Corporation was wound-up on 30 November 2006. Any remaining assets and liabilities of the corporation as at 30 November 2006 were taken over by the Department for Victorian Communities.



# Auditor-General's reports

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## Reports tabled during 2007-08

Report title	Date tabled
Program for Students with Disabilities: Program Accountability (2007-08:1)	September 2007
Improving our Schools: Monitoring and Support (2007-08:2)	October 2007
Management of Specific Purpose Funds by Public Health Services (2007-08:3)	October 2007
New Ticketing System Tender (2007-08:4)	October 2007
Public Sector Procurement: Turning Principles into Practice (2007-08:5)	October 2007
Discovering Bendigo Project (2007-08:6)	November 2007
Audits of 2 Major Partnership Victoria Projects (2007-08:7)	November 2007
Parliamentary Appropriations: Output Measures (2007-08:8)	November 2007
Auditor General's Report on the Annual Financial Report of the State of Victoria, 2006-07 (2007-08:9)	November 2007
Funding and Delivery of Two Freeway Upgrade Projects (2007-08:10)	December 2007

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