

Results of Audits for Entities with other than 30 June 2007 Balance Dates



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Auditor-General

Results of Audits for Entities with other than 30 June 2007 Balance Dates

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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 Audits for Entities with other than 30 June 2007 Balance Dates*.

Yours faithfully



DDR PEARSON
Auditor-General

28 May 2008

Foreword

This report summarises the results of audits of entities with other than 30 June 2007 balance dates, and the status of audits previously reported as incomplete.

It covers the audits of 128 entities – including the State's universities and technical and further education (TAFE) institutes and their associated entities, as well as the state's alpine resorts and several other small entities. The report brings together the major observations and recommendations resulting from these financial statement audits.

The report notes continuing improvement in the financial performance and condition of Victorian universities and TAFE institutes. There has been an improvement in the financial performance of the State's alpine resorts, however seasonal volatility particularly impacts the smaller resorts, this requires close monitoring.

It is commendable that all but four of the audit opinions issued on entities' financial statements were clear and there was a marked improvement in the timeliness of reporting compared with the previous year. This highlights that it is possible to produce accurate and timely financial statements to meet legislated reporting time frames.

The internal control frameworks established to ensure reliable financial reporting were generally found to be sound. However, opportunities to strengthen internal controls in several areas, particularly the security and change implementation arrangements over information systems, account reconciliation procedures and implementation of fraud risk management were identified.



DDR PEARSON
Auditor-General

28 May 2008

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Executive summary

At a glance

Background

This report is the last in a series of three reports to Parliament on the results of audits of financial statements for Victorian public sector entities. The first report, tabled on 5 December 2007, contained the results of audits of the majority of state entities that have a 30 June balance date. The second report covered local government and was tabled on 6 February 2008. This report covers entities that have balance dates other than 30 June 2007.

Key findings

At 30 April 2008, audit opinions had been issued on 126 out of 128 entity financial statements, of which 122 were clear and four required qualification. One entity the **International Training Australia Pty Ltd** is late and the **MCG Trust** has until 30 June 2008 to report.

Key recommendations

- Concise, audited performance statements for technical and further education institutes (TAFEs) be mandated through the application of Financial Reporting Direction 27A *Presentation of Reporting and Performance Information*.
- Entities with material errors in their draft statements, and those unable to achieve legislated timeframes, should externally benchmark their financial 'close' processes.
- Universities and TAFEs without a current fraud control plan undertake a fraud risk assessment as the basis for developing a plan.
- The Lake Mountain and Mt Baw Baw alpine resort management boards establish the legislatively required 'snow drought' and 'capital' funds.

1.1 Scope of this report

This report is the last in a series of reports to Parliament on the results of the annual audits of financial statements for Victorian public sector entities. The first report, tabled on 5 December 2007 (Report 2007–08:11)¹, contained the results of audits of state entities with a 30 June balance date. The second report covered local government entities and was tabled on 6 February 2008 (Report 2007–08:12)².

The results from the audits of 128 public sector entities with financial statement balance dates that fall after 30 June 2007 are included in this report. Figure 1A summarises the number and type entities covered in this report by their balance date. This is a net reduction of nine entities from the 2006 report, primarily due to sale of the **Monash IVF group of companies**.

Figure 1A
Entities with balance dates other than 30 June 2007

Sector	Type of entity	2006	2007–08			
			30 Sept	31 Oct	31 Dec	31 Mar
Higher education and vocational training	Universities ^(a)	8	-	-	8	-
	Associated companies, trusts and joint ventures	82	-	-	76	-
	TAFEs (stand-alone)	14	-	-	14	-
	Associated companies and trusts	11	-	-	11	-
	Other training entities	7	-	-	7	-
	Associated companies and trusts	2	-	-	2	-
Sustainability and environment	Alpine resorts	5	-	5	-	-
Health	Boards and a charity	3	1	-	2	-
Community development	A company and a trust ^(b)	2	1	-	-	1
Treasury and finance	Companies ^(c)	3	-	-	-	-
Total		137	2	5	120	1

(a) Includes four universities that are dual-sector institutions, having both a TAFE division and a university.

(b) The MCG Trust has a 31 March 2008 year end and until 30 June 2008 to finalise its statements.

(c) These companies were deregistered in 2007.

Source: Victorian Auditor-General's Office.

¹ Victorian Auditor-General's Office 2007, *Results of financial statement audits for agencies with 30 June 2007 balance dates (2007–08:11)*.

² Victorian Auditor-General's Office 2008, *Local Government: Results of the 2006–07 audits (2007–08:12)*.

1.2 Reporting framework

The principal legislation governing financial reporting by public sector entities is the *Financial Management Act 1994* (FMA). For companies and other incorporated entities owned or controlled by public sector entities, it is the *Corporations Act 2001*.

The FMA requires entities to submit annual reports to the relevant minister, for tabling in the Parliament, within four months of the end of the financial year. The annual report must include the audited financial statements.

The Corporations Act requires all entities to report to members within four months after the end of their financial year.

The FMA specifies that financial statements must be prepared and audited within 12-weeks of the financial year end. Under the Corporation Act audited financial statements must be finalised within four months after the end of the financial year.

All financial statements are required to be prepared in accordance with Australian equivalents to international financial reporting standards (A-IFRS).

In October 2007, the Department of Innovation, Industry and Regional Development issued an executive memorandum requesting that key performance indicators be audited and included in the annual reports of technical and further education institutes (TAFEs) in the form of a concise performance statement.

1.3 Results of audits

1.3.1 Financial statements

At 30 April 2008, 126 financial statement audit opinions had been issued; of which 122 were clear and four required qualification, compared to 110 audit opinions at 30 April 2007, of which five were qualified. The entities qualified and reasons are summarised in Figure 1B.

The new qualification for **Deakin University**, and the continuing qualification for the **University of Melbourne**, are because their accounting policies for recording non-reciprocal research grants are not consistent with current Australian accounting standards. These universities are not recording this revenue when received, which is when they gain control, consistent with AASB 1004³. Rather they are recording grant receipts as a liability until they spend the grants.

Authoritative external advice obtained and the interpretation of the accounting standards in other jurisdictions supports the basis for the qualifications.

³ Australian Accounting Standards Board 2004, *Accounting Standard AASB 1004 Contributions*, Commonwealth of Australia.

RESPONSE provided by Vice-Chancellor of Deakin University

Deakin University obtained expert advice on the treatment of this grant income. Deakin based its treatment on this interpretation of the relevant Australian Accounting Standard.

RESPONSE provided by Vice-Principal and Chief Financial Officer of The University of Melbourne

The University believes that the applicable standard is AASB 118–Revenue. The University has sought expert advice which confirms the University’s interpretation of the standards. The Auditor-General has sought an alternative view from another accounting expert. The University notes that the accounting profession does not have a consistent view on which accounting standards should apply to the treatment of research income received in advance.

The University has been advised that some interstate jurisdictions allow Universities to treat research income as a reciprocal transfer in accordance with AASB 118 Revenue as is the treatment of the University of Melbourne.

Further audit comment

The university has been unable to nominate jurisdictions. Further audit inquiries of other jurisdictions contradict the advice provided to The University of Melbourne. Where material, such grants are treated as reciprocal transfers in other jurisdictions, or are subject to audit qualification.

Figure 1B
Qualified audit opinions issued

Entity	Status	Type	Reason for qualification
Deakin University	New	Exception	Certain grants received were deferred and recognised as a liability, rather than as income when received, contrary to the requirements of AASB 1004 ‘Contributions’.
The University of Melbourne	Continuing		
The Meanjin Company Limited	Continuing		
Anti-Cancer Council of Victoria	Continuing	Exception	We were unable to assess the completeness of cash donations, due to the inherent risk involved in the collection of this revenue which cannot be mitigated by further internal controls.

Source: Victorian Auditor-General’s Office.

The type of qualification issued to the **Anti-Cancer Council of Victoria** is one generally attached to the financial statements for entities that have significant fundraising activities.

The qualifications issued last year that have since been resolved are:

- **Melbourne Business School Building Fund**—the entity was deregistered during the year.
- **Hawthorn English Language Centres (Canada) Ltd**—the financial statements are now prepared on the appropriate liquidation basis.

1.3.2 Performance statement audit opinions issued

Clear audit opinions were issued on 19 out of the 20 performance statements submitted for audit.

An audit opinion was not issued on the performance statement of **Holmesglen Institute of TAFE** as it was not certified by their accountable officers.

As reported last year, the requirement for TAFEs to prepare audited performance statements is not mandatory. This is a weakness in the accountability framework.

1.3.3 Statements not finalised

At 30 April 2008, the only entity with a 31 December balance date that had not finalised its financial statements was **International Training Australia Pty Ltd**. This entity was wound up by 15 November 2007 and is yet to prepare a final set of financial statements.

1.3.4 Statements since last report

There were 17 entities with 30 June 2007 balance dates that have finalised their audited financial statements since the December report. These are set out in Part 4.

1.4 Quality of reporting

The quality of reporting can be measured by its accuracy and the timeliness of preparation and finalisation of the financial report.

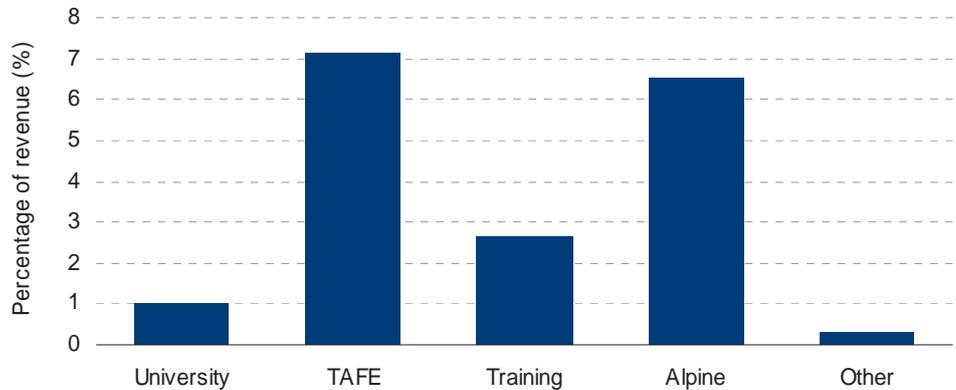
1.4.1 Accuracy

When the audit process reveals errors in draft financial statements they are raised with the entity. If the errors are considered to be material, adjustments are requested. The frequency and size of errors requiring adjustment, are therefore, two direct measures of accuracy.

Of the 37 material reporting entities, 19 did not require any adjustments to finalise their financial statements.

Where adjustments were required the value ranged from one to seven per cent of the entity's total revenue as shown in Figure 1C.

Figure 1C
Total adjustments as a percentage of revenue



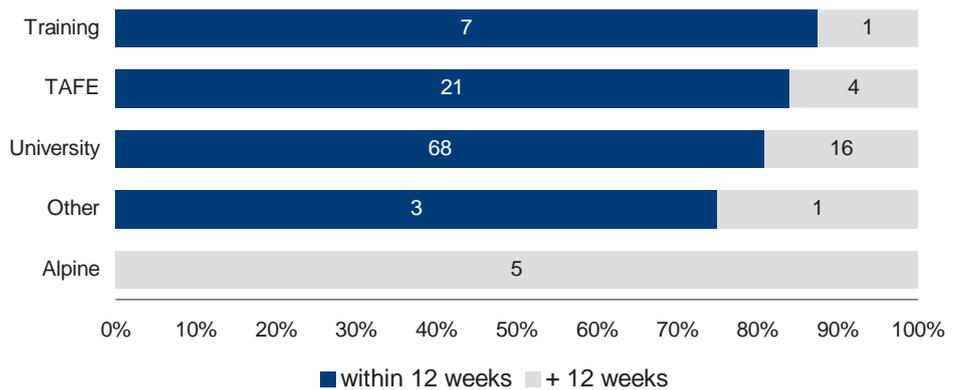
Source: Victorian Auditor-General's Office.

Audit analysis identified a direct correlation between financial statements requiring adjustment and the early submission of draft statements. This implies a trade-off between timeliness and accuracy, as draft statements submitted later had fewer errors.

1.4.2 Timeliness

Figure 1D summarises the comparative performance for each sector in finalising their financial statements after their respective year ends.

Figure 1D
Comparative timeliness performance



Source: Victorian Auditor-General's Office.

Overall, 26 of the 34 entities or 76 per cent reporting under the FMA, finalised their statements within the 12-week statutory timeframe. Of the 94 non-FMA entities, 92 entities or 98 per cent finalised their statements within the required four months.

This is a significant improvement from last year.

Higher education and vocational training

The higher education and vocational training sector performed well, with more than 80 per cent of all entities meeting their relevant timeframes, compared with 50 per cent last year.

Swinburne University of Technology did not finalise their financial statements within the statutory timeframe as certification of the financial statements by the university's council was not scheduled to align with the statutory timeframe. The **Gordon Institute of TAFE** had an information system failure that resulted in delayed production of complete and accurate financial statements for audit. The financial statements of both entities were nevertheless finalised within 15 weeks; three weeks after the required timeline. They were included in their annual reports which were tabled within the required four-month timeframe.

RESPONSE provided by Chief Financial Officer of Swinburne University of Technology

The Audit and Risk Committee (on behalf of Council) of Swinburne University of Technology has undertaken to ensure that meetings will be scheduled to enable compliance in the future.

Alpine resorts

None of the alpine resort management boards (ARMBs) met their 12-week statutory timeframe due to delays in preparing completed financial statements and in obtaining board certification. However, all statements were finalised within 15 weeks; three weeks after the statutory timeline. They were included in their annual reports, which were tabled within the required four-month timeframe. This mirrors last year's performance for these entities, although last year's delays were largely attributed to the severe bushfires in the alpine region.

Recommendations

- Concise, audited performance statements for TAFEs should be mandated through the application of Financial Reporting Direction 27A *Presentation of Reporting and Performance Information*. **(Recommendation 2.1)**
- Higher education and vocational training entities with material errors in their draft statements, and those unable to achieve legislated timeframes, should externally benchmark their financial 'close' processes. **(Recommendation 2.2)**
- The ARMBs should improve the accuracy and timeliness of reporting by:
 - starting year-end reporting earlier
 - preparing a 'shell' set of financial statements with comparative figures, including all new required financial reporting standards, before year end
 - using appropriate property valuation indices to determine whether revaluations are likely to be required, and if so, completing revaluations before year end. **(Recommendation 3.1)**

RESPONSE provided by the Secretary of the Department of Treasury and Finance (DTF)

DTF has no immediate plans to extend the application of FRD 27A.

As previously advised, a productive approach for government agencies is to foster the development of meaningful internal performance indicators and measures, and embed such measures into management decision making.

DTF notes that only one of 20 TAFE institutes did not prepare a performance statement for 2007, and that Skills Victoria will continue to work with this and other institutes to encourage them to include performance statements in their Annual Reports.

1.5 Effectiveness of internal control

Internal controls operate to ensure reliable, accurate and timely reporting. Figure 1E identifies the major components of internal control.

Figure 1E
Internal control framework

Component	Description
Control environment	The attitudes, awareness and actions of management concerning the entity's internal control and its importance including: <ul style="list-style-type: none"> management's philosophy and operating style human resource policies and practices.
Risk assessment process	The process for identifying and responding to business risks and the results, due to circumstances such as: <ul style="list-style-type: none"> changes in operating environment new business models, products, or activities.
Information systems	In relation to the financial reporting system, and consisting of the procedures and records established to: <ul style="list-style-type: none"> initiate, record, process and report transactions maintain accountability for assets, liabilities and equity.
Control activities	Policies and procedures to ensure that management directives are carried out, including: <ul style="list-style-type: none"> information processing segregation of duties.
Monitoring of controls	To assess the quality of internal control performance over time and ensure that controls continue to operate effectively. This is achieved through ongoing monitoring activities, separate evaluations, or a combination of the two.

Source: Victorian Auditor-General's Office.

The audit of financial statements includes an examination of aspects of the internal control framework that relate to financial reporting. Where significant control weaknesses or breakdowns are identified, these are reported to the management of the entity.

1.5.1 Common control weaknesses

During the course of the audits, a number of common control weaknesses were identified. Figure 1F summarises these weaknesses.

Figure 1F
Common internal control weaknesses

Component	Nature of weakness
Control environment	<ul style="list-style-type: none"> • Policies for managing changes to IT systems were unclear.
Risk assessment process	<ul style="list-style-type: none"> • Smaller entities had inadequate or no disaster recovery plans or business continuity plans.
Information systems	<ul style="list-style-type: none"> • Policies and guidelines over password security were inadequate. • IT systems developers had inappropriate access to operating systems.
Control activities	<ul style="list-style-type: none"> • Ledger accounts were not reconciled on a timely basis. • Purchase orders were not issued in accordance with purchase policy.

Source: Victorian Auditor-General's Office.

A targeted examination of fraud risk management confirmed that all entities have implemented some of the key elements of a fraud control program. However, fraud control plans and pre-employment screening had not been implemented by all entities.

Recommendations

- Universities and TAFEs without a current fraud control plan should undertake a fraud risk assessment as the basis for developing a plan. **(Recommendation 2.3)**
- As part of a comprehensive fraud management, pre-employment screening should be implemented for all designated positions of trust. **(Recommendation 2.4)**

1.6 Financial performance and sustainability

To be financially sustainable entities must have the capacity to meet current and future expenditure as it falls due. They must also be able to absorb foreseeable changes and risks materialising without significantly changing their revenue and expenditure policies.

Five indicators have been developed to provide a basis for evaluating short and long-term financial sustainability. Figure 1G describes each indicator. They are included for the first time and will be built on to provide a trend analysis for each entity in future years.

No one indicator is sufficient to determine long-term financial sustainability; however, the underlying result is the most significant. All other indicators complement the underlying result to the extent that they measure short-term capacity, as with the liquidity ratio, and long-term capacity, as with the capital replacement ratio.

Figure 1G
Financial sustainability indicators

Indicator	Formula	Description
Underlying result ratio (%)	Adjusted net surplus/total underlying revenue	A positive result indicates a surplus and the larger the percentage, the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the longer-term. Underlying revenue does not take into account non-cash contributions and one-off (non-recurring) adjustments.
Liquidity ratio	Current assets: Current liabilities	This measures the ability to pay existing liabilities in the next 12 months. A ratio greater than one indicates that there are more cash and liquid assets than short-term liabilities.
Self-financing ratio (%)	Net operating cash flows/ underlying revenue	This measures the ability to fund replacement of assets from cash generated from operations—the higher the percentage, the more effectively it can be done.
Debt to equity ratio (%)	All interest bearing borrowings/ equity	This is a longer-term measure that compares all current and non-current interest bearing liabilities to equity. It complements the liquidity ratio which is a short-term measure. A lower ratio indicates less reliance on debt to finance the capital structure of an organisation.
Capital replacement ratio	Capital spend: Depreciation	This measures the rate of spending on infrastructure compared with infrastructure depreciation. Ratios higher than 1:1 indicate the spending rate is faster than the depreciating rate. This is a longer-term indicator, as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations and borrowing is not an option.

Source: Victorian Auditor-General's Office.

1.6.1 Higher education and vocational training

Universities

This year universities recorded combined revenues of \$4.9 billion, a 10 per cent, or \$440 million, increase on last year. The main growth areas were investment revenue, which increased by \$48 million or 27 per cent, and student fees, which increased by \$149 million or 12 per cent.

Expenditure growth largely matched revenue and currently amounts to \$4.6 billion. Employee benefits accounted for the largest increase of \$200 million or eight per cent.

The sustainability indicators provided in Figure 1H show an overall improvement in the university sector since last year, with a positive underlying operating result, good capacity to cover short-term debt, low reliance on long-term debt, positive cash operating surpluses and the ability to spend on assets at a greater rate than depreciation.

Figure 1H
Summary financial sustainability indicators for universities

Indicator	2006	2007
Underlying result (%)	6.9	7.0
Liquidity	1.6	1.7
Debt to equity (%)	5	5
Self-financing (%)	12	14
Capital replacement	1.8	1.8

Source: Victorian Auditor-General's Office.

TAFEs

The stand-alone TAFEs collectively recorded revenues of \$913 million, a \$62 million or seven per cent increase since last year. Revenue growth was largely achieved from increased student fees of, \$49 million or 22 per cent, compared with last year.

However, total expenditure amounted to \$833 million, an increase of \$75 million or 10 per cent exceeding the 2007 revenue growth.

The indicators in Figure 1I for TAFEs show a decline in operating result. However, the other indicators were unchanged or slightly improved. In particular, the sector is generating positive operating cash surpluses, and its spending on assets is at a greater rate than depreciation.

Figure 1I
Summary financial sustainability indicators for TAFEs

Indicator	2006	2007
Underlying result (%)	8.5	7.2
Liquidity	2.2	2.1
Debt to equity (%)	0.9	0.2
Self-financing (%)	15	14
Capital replacement	1.8	2.0

Source: Victorian Auditor-General's Office.

1.6.2 Alpine resorts

Revenue grew faster than expenditure in 2007 due to the good seasonal snowfalls in the alpine regions, which resulted in higher visitor numbers, and as result all ARMBs reported operating surpluses.

ARMBs reported combined revenues of \$36 million. This was an increase of \$7 million or 25 per cent, on last year despite a decrease of \$1 million or 33 per cent, in grant revenues. The main revenue growth was in visitor' fees, which increased by \$4 million or 78 per cent.

Total expenditure amounted to \$32 million, increasing by \$4 million or 16 per cent on last year.

Figure 1J, the movement in the underlying result between years gives a clear indication of the impact that volatile seasonal conditions have had on the sustainability of ARMBs.

Figure 1J
Summary financial sustainability indicators for alpine resorts

Indicator	2006	2007
Underlying result (%)	-2.5	7.0
Liquidity	1.8	2.2
Debt to equity (%)	6	2
Self-financing (%)	17	25
Capital replacement	3.0	2.5

Source: Victorian Auditor-General's Office.

The volatility in the underlying result means that long-term financial sustainability continues to be a concern, particularly for the smaller resorts.

Recommendations

- All ARMBs establish a suite of appropriate indicators of financial sustainability and monitor trends in these indicators as part of an ongoing review of their revenue and expenditure policies. **(Recommendation 3.2)**
- The Lake Mountain and Mt Baw Baw ARMBs establish the legislatively required 'snow drought' and 'capital' funds. **(Recommendation 3.3)**

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

The Department of Sustainability and Environment notes the marked improvement in the financial performance of Victoria's alpine resorts and the improvement in compliance with personal expense reimbursement policies of board members. The department will also work in collaboration with the ARMBs to ensure that Audit recommendations are addressed.

1.7 General

The total cost of preparing and printing this report was \$150,000.

2 Higher education and vocational training

At a glance

Background

Victoria has eight universities, four of which also have technical and further education (TAFE) divisions, and a further 14 stand-alone TAFE Institutes that must prepare financial statements under the *Financial Management Act 1994*. Universities and TAFEs control a further 87 reporting entities, mainly subsidiary companies. Together with seven other vocational training entities and their two associated entities, the higher education and vocational training sector comprises 118 entities in total.

Key findings

- The timeliness of reporting improved significantly this year—however, accuracy remains a problem.
- Universities and TAFEs have the capacity to meet future expected financial requirements without significantly changing revenue and expenditure policies.
- The higher education and vocational training sector is working towards effective fraud management practices and there were no major instances of fraud reported during the year.

Key recommendations

- Concise, audited performance statements for TAFEs should be mandated through the application of Financial Reporting Direction 27A *Presentation of Reporting and Performance Information*.
- Entities with material errors in their draft statements, and those unable to achieve legislated timeframes, should externally benchmark their financial 'close' processes.
- Universities and TAFEs without a current fraud control plan should undertake a fraud risk assessment as the basis for developing a plan.
- Pre-employment screening should be implemented for designated positions of trust as part of a comprehensive fraud management approach.

2.1 Scope

This chapter of the report deals with higher education and vocational training entities that have balance dates of 31 December 2007.

There were 118 higher education and vocational training entities required to prepare financial statements for the current financial year. This is a net decrease of six entities, which is principally due to the sale of the **Monash IVF group** during 2007.

Figure 2A
Number of reporting entities

Type of entity	Year	
	2006	2007
Universities	8	8
Associated companies, trusts and joint ventures	82	76
TAFEs (stand-alone)	14	14
Associated companies and trusts	11	11
Vocational training entities	7	7
Associated companies, trusts and joint ventures	2	2
Total	124	118

Source: Victorian Auditor-Generals' Office.

2.2 Reporting framework

Victoria's eight publicly funded universities and 14 stand-alone TAFE Institutes must prepare financial statements in accordance with the *Financial Management Act 1994* (FMA).

The Minister for Skills and Workforce Participation may make directions under the *Vocational Education and Training Act 1990* to clarify the management, reporting and other responsibilities of TAFEs and universities with TAFE divisions. There have been no ministerial directions issued that modify or add to the general financial reporting requirements under the FMA.

In 2006, a comprehensive suite of key performance indicators (KPIs) was approved by the then Minister for Education for inclusion in TAFE annual reports.

In October 2007, the Department of Innovation, Industry and Regional Development (DIIRD) issued an executive memorandum to the TAFEs, universities with TAFE divisions, and to two training entities, requesting they disclose the approved KPIs in a concise performance statement. This statement was to be audited and included in their annual reports.

2.3 Results of audits

2.3.1 Financial statements

At 30 April 2008, 117 audit opinions had been issued on financial statements, of which 114 were clear and three were qualified (2006: 110 opinions and four qualifications issued at 30 April 2007). Further details of these entities are available in Section 2.8.

Qualifications

An audit qualification alerts readers to the fact that the financial statements are potentially misleading. As they have not been prepared in accordance with the legislated requirements of the financial reporting framework.

Deakin University, the University of Melbourne and The Meanjin Company Limited, a subsidiary of the **University of Melbourne**, received audit qualifications this year because their accounting treatment of certain grant income did not accord with current Australian accounting standards.

While the qualifications issued to the **University of Melbourne** and **The Meanjin Company Limited** were a continuation of last year's qualified opinions, the qualification for **Deakin University** was new.

Last year the **University of Melbourne** undertook a review by a third party of its accounting policy for grants. This review was undertaken by the same professional the university had used in formulating their original policy position. Not surprisingly, their earlier advice was reconfirmed.

External professional advice obtained separately by Audit, and advice from other Australian jurisdictions, confirmed that this type of grant income is a 'non-reciprocal transfer', not an 'exchange' transaction. This is because the grant provider does not get a direct benefit equal to the value of the grant.

Current accounting standards require non-reciprocal transfers to be recognised as revenue in the year they are received, which is when the entity gains control of the funds. The Australian Accounting Standards Board (AASB) is currently reviewing grant accounting in not-for-profit organisations. However, until the review is complete the current accounting standards must apply.

Last year's qualification for **Melbourne Business School Building Fund** was not required as the entity wound up during the year. The qualification for **Hawthorn English Language Centres (Canada) Ltd** has also been removed as the financial statements are now prepared on an appropriate liquidation basis.

Emphasis of matter

Audit opinions on the financial statements of **DECA Ltd**, **RMIT International Pty Ltd**, **MU Private (NZ) Pty Ltd**, **Monash Educational Enterprises** and **Monash South Africa Ltd** contained an 'emphasis of matter' comment. This is not an audit qualification but highlights the entity's reliance on continuing financial support from the parent entity to sustain its operations.

In 2007, **Monash South Africa Ltd** and **Monash Educational Enterprises** owed \$44 million to **Monash University**, and the university continues to financially support the South African campus.

2.3.2 Performance statements

Clear audit opinions were issued on all 19 performance statements submitted for audit. Once again, **Holmesglen TAFE**, did not submit a certified performance statement for audit. As a result, an audit opinion was not issued.

Holmesglen's failure to submit certified performance statements highlights a flaw in the accountability framework that weakens the credibility, and therefore, the usefulness of its performance statement.

In last year's report it was noted that the preparation of the concise performance statement by TAFEs had not been mandated. This can occur only through the declaration of these entities by the Minister for Finance under FRD 27A *Presentation and Reporting of Performance Information*.

This declaration was recommended last year. It was not acted on, so there is still no legislative backing for compliance with this requirement. Consequently, consistent credible performance information is not universally reported for the \$900 million sector servicing 500 000 students.

Recommendation

- 2.1 Concise, audited performance statements for TAFEs should be mandated through the application of Financial Reporting Direction 27A *Presentation of Reporting and Performance Information*.

2.4 Quality of reporting

The quality of reporting can be measured by the accuracy and the timeliness of report preparation and finalisation.

2.4.1 Accuracy

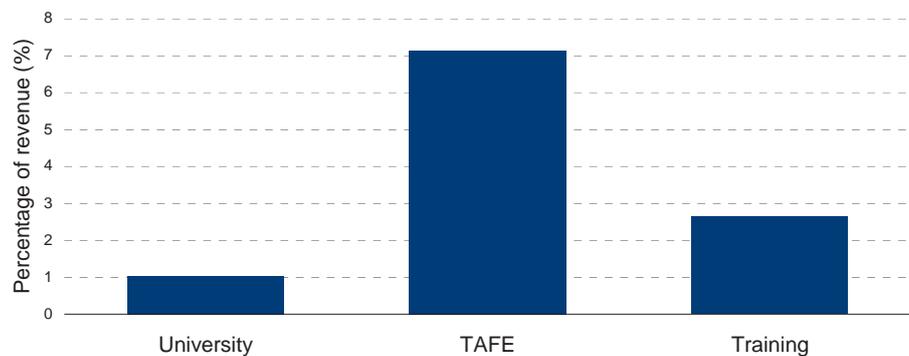
Errors identified and adjusted after the draft financial statements are submitted for audit are a key performance indicator of accuracy.

Audit analysed errors for the 28 most material reporting entities in the sector, primarily universities and TAFEs. For 14 of these entities, no errors were identified that were material enough to require adjustment to the draft statements.

For the remainder an average of three adjustments were required for universities, four for TAFEs, and two for training entities.

Collectively adjustments to draft statements for universities amounted to \$26 million or one per cent of the aggregate revenue; in TAFEs, \$15 million or seven per cent of revenue; and in training entities, \$3 million, which is around three per cent of revenue, as seen in Figure 2B.

Figure 2B
Total adjustments as a percentage of revenue



Source: Victorian Auditor-General's Office.

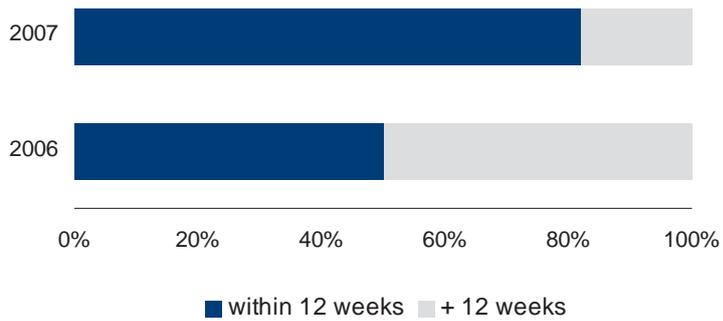
In the university sector, **La Trobe University** required six material adjustments of \$18 million or four per cent of revenue resulting in a net increase of \$1 million to operating surplus. In the TAFE sector, **Gordon Institute of TAFE** required adjustments of \$10 million or 20 per cent of revenue.

2.4.2 Timeliness

Overall the higher education and vocational training sector improved on the timeliness of reporting significantly in 2007, completing 81 per cent of their financial statements within 12 weeks as shown in Figure 2C.

In addition, all but **International Training Australia Pty Ltd** completed their financial statements by 30 April 2008.

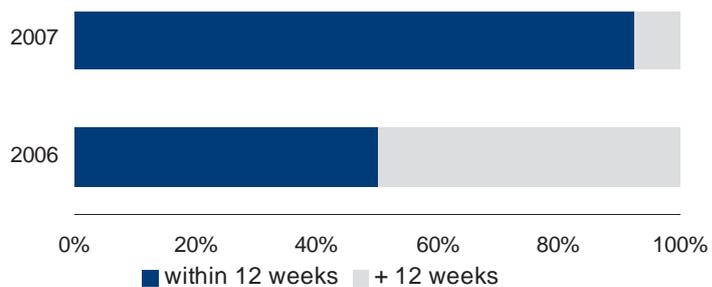
Figure 2C
Timing of finalisation for all higher education and vocational training entities



Source: Victorian Auditor-General's Office.

Those entities within the higher education and vocational training sector that report under the FMA, significantly improved timeliness this year, completing 92 per cent of their financial statements within the statutory 12-week timeframe, as shown in Figure 2D.

Figure 2D
Timing of finalisation for FMA entities



Source: Victorian Auditor-General's Office.

Swinburne University of Technology did not certify their audited financial statements within 12 weeks, as certification of the financial statements by the university's council was not scheduled to align with the statutory timeframe. The **Gordon Institute of TAFE** had an information system failure that resulted in delayed production of complete and accurate financial statements for audit. Both entities finalised their audited statements within 15 weeks, three weeks after the statutory timeline.

The significant improvement in timeliness this year is generally attributed to:

- earlier completion and submission of draft financial statements for audit
- earlier completion of the financial statements of controlled entities enabling earlier consolidation into group accounts, and
- better scheduling of council and board meetings to approve financial statements in sufficient time to adhere to the timeframe.

While the improvement in overall timeliness is welcomed, it is noted that entities with material errors in their draft statements requiring adjustment, generally also submitted their draft statements early. These entities appear to have traded-off accuracy for timeliness.

Recommendation

- 2.2 Entities with material errors in their draft statements, and those unable to achieve legislated timeframes, should externally benchmark their financial 'close' processes.

2.5 Effectiveness of internal control

Overall, entities in this sector had established appropriate internal controls for their financial operations.

Most rely heavily on information systems (IS) to produce reliable and accurate information for financial reporting. Control weaknesses were identified in the areas of IS security and access controls. Common control weaknesses were:

- system change management policies did not provide for an appropriate level of testing of product before going 'live'
- disaster recovery and business continuity plans were weak or missing
- user access to system operating environments was inappropriate
- weak standards were applied to setting, renewal and retention of passwords.

Other common control weaknesses identified in financial systems and processes included:

- lack of independent review of credit card statements
- clearing accounts not being reviewed or reconciled on a timely basis
- purchase orders not being issued on a timely basis or appropriately authorised
- lack of segregating incompatible functions, especially in relation to payroll processing
- weak controls over the accuracy of fixed assets accounting records.

2.5.1 Fraud risk management

This year, as part of the general review of internal controls, a targeted examination of fraud risk management in the university and TAFE sector was undertaken.

Fraud risk management is an important element of internal control activity. Fraud can severely impact an entity's reputation and the ability to achieve its goals.

In response to concerns about fraud, in 2006 DIIRD initiated the *TAFE Fraud Control Best Practice Project*. DIIRD held a workshop in March 2007 for chief executives and council presidents about fraud control. The workshop outcomes have been published by DIIRD as a best practice guidance toolkit. The key elements identified in the guidelines for conducting an effective fraud control program are listed in Figure 2E.

Figure 2E
Key elements of fraud control in TAFEs

- A sound ethical culture reflected in a code of ethics or conduct.
- Annual training on awareness of fraud risks.
- Periodic assessments of an entity's fraud risks.
- The implementation of a fraud control plan.
- Policies and procedures for dealing with suspected fraud, including protection for whistleblowers.
- Pre-employment screening of staff.

Source: TAFE Fraud Control Best Practice Project Findings Workshop for TAFE Chief Executives and Council Presidents, Department of Innovation, Industry and Regional Development, 8 March 2007.

The review confirmed that all entities in the sector have implemented some of the key elements. All of the entities audited had an up to date fraud policy and procedure manual with distinct business units in charge of updating the document. The policy and procedure manual also defined processes for dealing with suspected fraud and for protection of whistleblowers.

All entities in the sector had a code of ethics or code of conduct document. However, only 20 per cent required staff to certify yearly compliance with the code's ethical requirements.

Fraud control plans and pre-employment staff screening had not been implemented in a number of entities. Only half of the TAFEs were currently working toward achieving full compliance with the best practice guidelines toolkit.

Recommendations

- 2.3 Universities and TAFEs without a current fraud control plan should undertake a fraud risk assessment as the basis for developing a plan.
- 2.4 Pre-employment screening should be implemented for designated positions of trust as part of a comprehensive fraud management approach.

2.6 Financial performance

The financial objectives of universities and TAFEs include generating sufficient operating surpluses to fund future growth and retire debt.

2.6.1 Universities

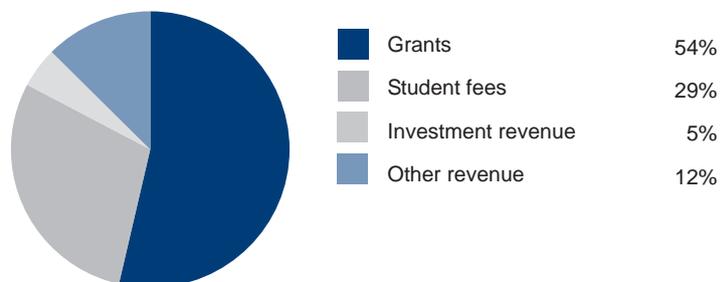
Universities' collectively generated a combined operating surplus of \$300 million this year, an increase of \$27 million or 10 per cent over last year. Operating revenue growth remained higher than expenditure growth.

Revenue

In 2007, universities generated \$4.9 billion in operating revenues, an increase of \$440 million or 10 per cent on last year. The largest increase this year was government grants which grew by \$193 million or eight per cent. Student fees grew by \$149 million or 12 per cent, and investment revenue grew by \$48 million or 27 per cent.

The overall composition of operating revenues for universities has remained consistent between years. Government grants continue to make up 54 per cent of total revenues, and student fees 29 per cent.

Figure 2F
2007 operating revenue composition



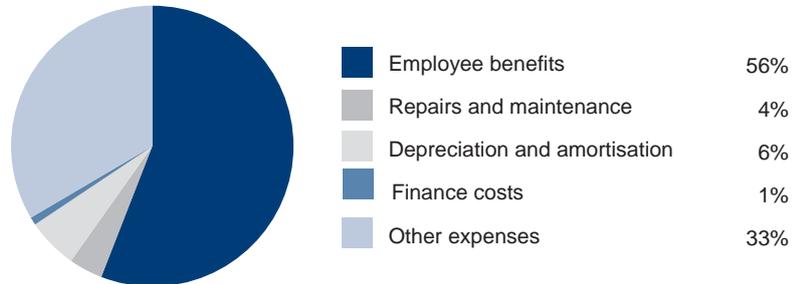
Source: Victorian Auditor-General's Office.

Expenditure

Figure 2G provides an overview of the composition of operating expenditure in universities. The composition of operating expenditure for universities has also remained constant compared with 2006.

In 2007, universities incurred \$4.6 billion in operating expenses, an increase of \$413 million or 10 per cent on the prior year. The most significant increase in expenses was employee benefits which grew by \$200 million or eight per cent.

Figure 2G
2007 expenditure composition



Source: Victorian Auditor-General's Office.

2.6.2 TAFEs

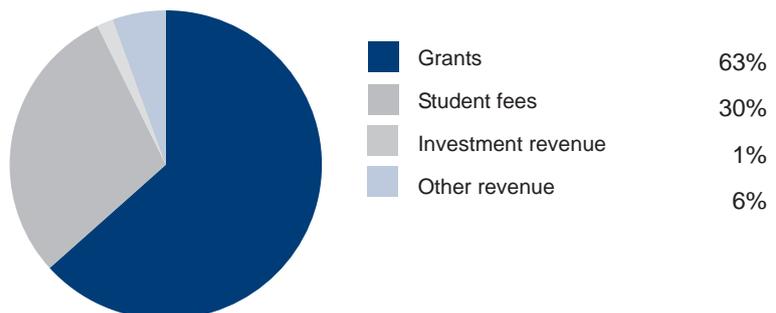
Operating results

In 2007, TAFEs generated a collective operating surplus of \$80 million, a decrease of \$10 million or 10 per cent on the prior year. The smaller surplus in 2007 is due to operating expenses growing at a faster rate than revenues.

Revenue

The composition of operating revenue for TAFEs as provided in Figure 2H has remained consistent with 2006. Government grants continue to make up 63 per cent of total revenue, and student fees contribute 30 per cent of total revenue.

Figure 2H
2007 revenue composition



Source: Victorian Auditor-General's Office.

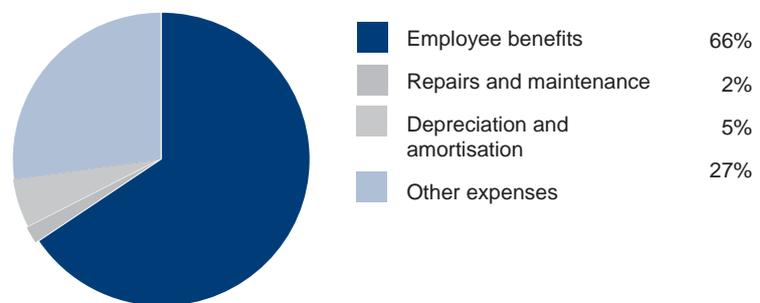
In 2007, TAFEs generated operating revenues of \$913 million, an increase of \$62 million or seven per cent on the prior year. The most significant increase was to student fees which grew by \$49 million or 22 per cent. Government grants grew by \$9 million or two per cent on prior year.

Expenditure

In 2007, TAFEs incurred \$833 million in operating expenditures, an increase of \$75 million or 10 per cent on the prior year. The most significant increase was to employee benefits which grew by \$43 million or eight per cent. Other expenses grew by \$37 million or 19 per cent, primarily due to student-related costs.

The composition of operating expenditure for the TAFEs as detailed in Figure 2I has remained consistent with 2006. Employee benefits continue to make up 66 per cent of total expenditure.

Figure 2I
2007 expenditure composition



Source: Victorian Auditor-General's Office.

2.6.3 Student fees

The trend for the past three years for universities and TAFEs have shown steady growth in the international student fees. The growing contribution of international student fees increases the exposure both of universities and TAFEs to the increasingly competitive market for international students.

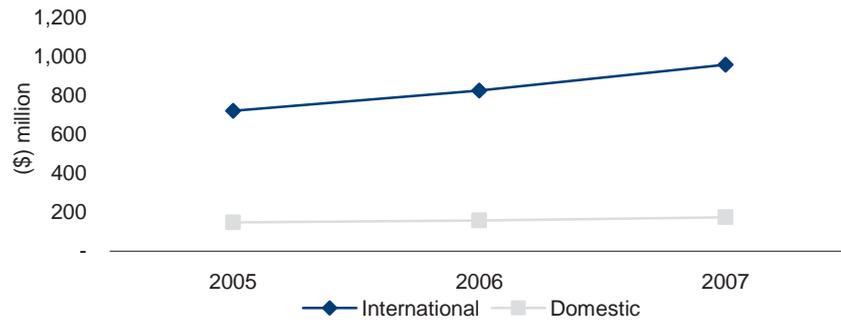
Universities

The **University of Ballarat** recorded the highest relative growth in student fees with a \$22 million or 28 per cent increase on the prior year. **Swinburne University of Technology** recorded the second highest relative growth of \$23 million or 22 per cent. Victoria's two larger universities, the **University of Melbourne** and **Monash University**, increased student fees by \$32 million or 10 per cent, and \$22 million or eight per cent, respectively.

Figure 2J shows the composition of student fee revenue. Of the \$149 million increase, \$134 million or 89 per cent was attributable to revenue from international students. **The University of Melbourne** and **Monash University**, together shared in 33 per cent of this increase in the international student market.

This significant growth highlights the increasing contribution of fee revenue from international students to total revenue.

Figure 2J
Student fee revenue sources: universities



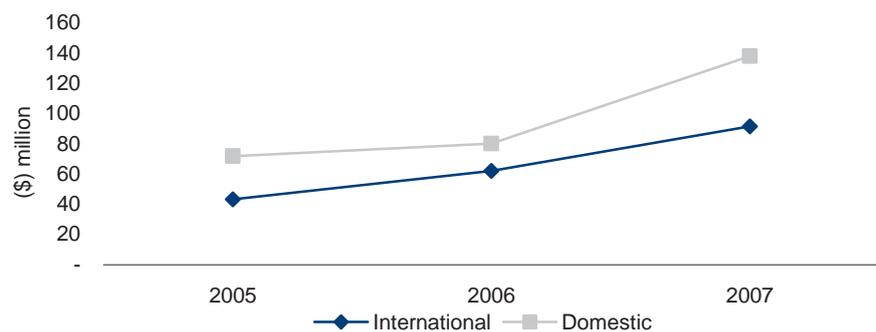
Source: Victorian Auditor-General's Office.

TAFEs

Northern Melbourne Institute of TAFE and **Box Hill Institute of TAFE** have both recorded the highest student fee growth of 37 per cent or \$10 and \$11 million, respectively.

Figure 2K provides an analysis of student fees for TAFEs where international student fees form significant part of total student fees.

Figure 2K
Student fee revenue sources: TAFEs



Source: Victorian Auditor-General's Office.

2.7 Financial sustainability

Insight into the financial sustainability of the university and TAFE sector is obtained from analysis of five key financial sustainability indicators. These indicators reflect each entity's funding and expenditure policies, and indicate whether current revenue and expenditure policies are sustainable.

2.7.1 Universities

The results for the five indicators are set out in Figure 2L for the 2007 financial year.

Figure 2L
Results of financial sustainability indicators

Universities	Underlying results (%)	Liquidity	Debt to equity (%)	Self financing (%)	Capital replacement
Deakin	10.4	1.4	2	24	1.8
La Trobe	-0.1	1.2	6	9	1.2
Melbourne	6.0	1.2	4	13	1.7
Monash	4.4	0.5	22	7	2.0
RMIT	6.2	1.2	2	17	2.8
Swinburne	13.4	2.7	2	17	1.3
Ballarat	10.4	2.9	1	16	1.4
Victoria	5.7	2.6	0	10	1.7
Average	7.0	1.7	5	14	1.8

Note: Indicators are explained in Figure 1G of this report.

Source: Victorian Auditor General's Office.

The indicators for the current year generally show:

- positive underlying operating results
- short-term liabilities can be met by short-term assets
- minimal reliance on long-term debt
- positive cash operating surpluses, and
- spending on assets is higher than depreciation.

While the average underlying result ratio for the university sector is a healthy seven per cent, **La Trobe University** is negative again this year. While this is a relative improvement on the negative result of two per cent in 2006, persistent negative operating results mean that insufficient revenue is being generated to fund operations and asset renewal.

2.7.2 TAFEs

The results for the five financial sustainability indicators for TAFEs are provided in Figure 2M.

The indicators for this year generally show:

- positive underlying operating results
- short-term liabilities can be met by short-term assets
- positive operating cash flows to fund asset replacement
- spending on new assets is higher than depreciation.

The average underlying result ratio for the TAFE sector is also a healthy seven per cent. **Bendigo Regional Institute of TAFE** is the only TAFE with a negative result this year. This is a reversal of the positive result of two per cent in 2006. While its short-term liquidity ratio is reasonable, its longer term self-funding and asset replacement ratios are also relatively low.

RESPONSE provided by Chief Executive Officer of Bendigo Regional Institute of TAFE

The Board of Bendigo Regional Institute of TAFE have reinvested substantially back into the Institute in order to prepare it for the changing environment. With this reinvestment and adjustments, we would be very close to a zero per cent underlying result ratio.

Figure 2M
Results of financial sustainability indicators

TAFEs	Underlying results (%)	Liquidity	Debt to equity (%) (a)	Self financing (%)	Capital replacement
Bendigo Regional	-1.6	2.3	0	6	0.8
Box Hill	9.5	3.0	0	17	2.6
Central Gippsland	6.4	2.0	2	12	0.9
Chisholm	13.1	2.2	0	16	4.1
East Gippsland	8.4	1.6	0	19	1.1
Gordon	2.5	1.9	0	13	1.3
Goulburn Ovens	4.7	2.9	0	7	2.6
Holmesglen	14.2	1.3	0	22	2.5
Kangan Batman	10.4	1.8	0	16	2.1
Northern Melbourne	7.0	2.6	0	14	1.4
South West	2.2	2.4	0	9	1.5
Sunraysia	13.7	2.6	0	19	3.8
William Angliss	3.1	1.8	0	11	1.2
Wodonga	7.7	1.2	0	13	1.8
Average	7.2	2.1	0.2	14	2.0

Note: (a)TAFEs borrowings are subject to ministerial approval.

(b)Indicators are explained at Figure 1G of this report.

Source: Victorian Auditor-General's Office.

2.8 Audit status

Entity	Audit types		Financial statements		Timeliness of audited financial statement completion		
	FMA	Non-FMA	Clear opinion issued	Auditor-General's report signed	< 12 weeks	> 12 < 18 weeks	> 18 weeks (a)
COMPLETED AUDITS – 31 DECEMBER 2007 BALANCE DATES							
UNIVERSITIES							
Deakin University	●		X	20 Mar. 2008	●		
<i>Qualification: Non-reciprocal grant income recognised as liabilities rather than as income, as required by AASB 1004 Contributions.</i>							
Callista Software Services Pty Ltd		●	✓	3 Mar. 2008	●		
Canopi Network Pty Ltd		●	✓	3 Mar. 2008	●		
The Australian Professional Association Services Company Ltd (formerly Australian Human Resources Institute)		●	✓	3 Mar. 2008	●		
Unilink Ltd		●	✓	3 Mar. 2008	●		
Deakin Nominee's Pty Ltd		●	✓	3 Mar. 2008	●		
La Trobe University	●		✓	20 Mar. 2008	●		
La Trobe International Pty Limited		●	✓	1 Apr. 2008		●	
La Trobe University Housing Ltd		●	✓	30 Apr. 2008		●	
Medical Centre Development Pty Ltd		●	✓	1 Apr. 2008		●	
La Trobe Innovation Pty Ltd		●	✓	16 Apr. 2008		●	
Monash University	●		✓	20 Mar. 2008	●		
Monash College Pty Ltd (formerly Monash College Group Pty Ltd)		●	✓	15 Feb. 2008	●		
Monash Commercial Pty Ltd		●	✓	7 Mar. 2008	●		
Monash Educational Enterprises		●	✓	18 Mar. 2008	●		
Emphasis of matter: <i>Attention drawn to the need for continuing financial support from Monash University.</i>							

Entity	Audit types		Financial statements		Timeliness of audited financial statement completion		
	FMA	Non-FMA	Clear opinion issued	Auditor-General's report signed	< 12 weeks	> 12 < 18 weeks	> 18 weeks (a)
COMPLETED AUDITS – 31 DECEMBER 2007 BALANCE DATES - continued							
UNIVERSITIES - continued							
Monash University - continued							
Monash Health Research Precinct Pty Ltd	●	●	✓	20 Mar. 2008	●		
Monash International SRL	●	●	✓	15 Feb. 2008	●		
Monash Investment Holdings Pty Ltd	●	●	✓	25 Feb. 2008	●		
Monash Investment Trust	●	●	✓	25 Feb. 2008	●		
Monash Property Management Pty Ltd (b)	●	●	✓	14 Feb. 2008	●		
Monash Property South Africa Pty Ltd	●	●	✓	18 Mar. 2008	●		
Monash Reproductive Health Enterprises Pty Ltd (c)	●	●	✓	8 Feb. 2008	●		
Monash South Africa Ltd	●	●	✓	18 Mar. 2008	●		
Emphasis of matter: <i>Attention drawn to the need for continuing financial support from Monash University.</i>							
Monash University Foundation	●	●	✓	14 Mar. 2008	●		
Monash University Foundation Pty Ltd	●	●	✓	14 Mar. 2008	●		
Montech Pty Ltd	●	●	✓	11 Feb. 2008	●		
Monyx Education Services Pty Ltd	●	●	✓	22 Feb. 2008	●		
Monyx Pty Ltd	●	●	✓	22 Feb. 2008	●		
Monyx Services Pty Ltd	●	●	✓	22 Feb. 2008	●		
Monash Custodians Pty Ltd	●	●	✓	17 Mar. 2008	●		
Australian Regenerative Medicine Institute	●	●	✓	17 Mar. 2008	●		
Royal Melbourne Institute of Technology University	●	●	✓	20 Mar. 2008	●		
Meltech Services Limited	●	●	✓	20 Mar. 2008	●		
RMIT Foundation	●	●	✓	20 Mar. 2008	●		
RMIT Innovation Ltd	●	●	✓	20 Mar. 2008	●		

Entity	Audit types		Financial statements		Timeliness of audited financial statement completion		
	FMA	Non-FMA	Clear opinion issued	Auditor-General's report signed	< 12 weeks	> 12 < 18 weeks	> 18 weeks (a)
COMPLETED AUDITS – 31 DECEMBER 2007 BALANCE DATES - continued							
UNIVERSITIES - continued							
Royal Melbourne Institute of Technology University - continued							
RMIT International Pty Ltd	●		✓	20 Mar. 2008	●		
Emphasis of matter: <i>Attention drawn to the need for continuing financial support from RMIT University.</i>							
RMIT International University Vietnam	●		✓	20 Mar. 2008	●		
RMIT Training Pty Ltd	●		✓	18 Mar. 2008	●		
RMIT Union	●		✓	20 Mar. 2008	●		
RMIT Vietnam Holdings Pty Ltd	●		✓	4 Apr. 2008		●	
Spatial Vision Innovations Pty Ltd	●		✓	4 Mar. 2008	●		
RMIT Drug Discovery Technologies Pty Ltd	●		✓	28 Apr. 2008		●	
Swinburne University of Technology	●		✓	4 Apr. 2008		●	
National Institute of Circus Arts Limited	●		✓	4 Apr. 2008		●	
Swinburne (Holdings) Pty Ltd	●		✓	4 Apr. 2008		●	
Swinburne Intellectual Property Trust	●		✓	4 Apr. 2008		●	
Swinburne Ltd	●		✓	4 Apr. 2008		●	
Swinburne Student Amenities Association Ltd	●		✓	4 Apr. 2008		●	
Swinburne Ventures Limited	●		✓	4 Apr. 2008		●	
The University of Melbourne	●		X	19 Mar. 2008	●		
Qualification: <i>Non-reciprocal grant income recognised as liabilities rather than as income, as required by AASB 1004 Contributions.</i>							
Australian International Health Institute (The University of Melbourne) Ltd	●		✓	10 Apr. 2008		●	
Australian Music Examinations Board (Vic) Ltd	●		✓	9 Mar. 2008	●		

Entity	Audit types		Financial statements		Timeliness of audited financial statement completion		
	FMA	Non-FMA	Clear opinion issued	Auditor-General's report signed	< 12 weeks	> 12 < 18 weeks	> 18 weeks (a)
COMPLETED AUDITS – 31 DECEMBER 2007 BALANCE DATES - continued							
UNIVERSITIES - continued							
The University of Melbourne - <i>continued</i>							
Australian National Academy of Music Foundation Ltd	●		✓	20 Mar. 2008	●		
Australian National Academy of Music Ltd	●		✓	20 Mar. 2008	●		
UMEE UK Limited (formerly Hawthorn Edinburgh Limited)	●		✓	11 Mar. 2008	●		
Hawthorn English Language Centres (Canada) Ltd	●		✓	11 Mar. 2008	●		
The Meanjin Company Limited	●		×	9 Apr. 2008		●	
Qualification: Non-reciprocal grant income recognised as liabilities rather than as income, as required by AASB 1004 Contributions.							
Melbourne Business School Foundation	●		✓	11 Mar. 2008	●		
Melbourne Business School Foundation Ltd	●		✓	14 Mar. 2008	●		
Melbourne Business School Building Fund	●		✓	11 Mar. 2008	●		
Melbourne Business School Ltd	●		✓	11 Mar. 2008	●		
Melbourne Enterprises International Limited	●		✓	12 Mar. 2008	●		
Melbourne Information Management Pty Ltd	●		✓	14 Mar. 2008	●		
Melbourne University Publishing Ltd	●		✓	20 Mar. 2008	●		
Melbourne Ventures Pty Ltd	●		✓	20 Mar. 2008	●		
Mount Eliza Graduate School of Business and Government Limited	●		✓	14 Mar. 2008	●		
MU Private (NZ) Ltd	●		✓	11 Mar. 2008	●		
MU Student Union Ltd	●		✓	20 Mar. 2008	●		
MUP Services Pty Ltd	●		✓	11 Mar. 2008	●		
UMEE Ltd	●		✓	18 Mar. 2008	●		

Entity	Audit types		Financial statements		Timeliness of audited financial statement completion		
	FMA	Non-FMA	Clear opinion issued	Auditor-General's report signed	< 12 weeks	> 12 < 18 weeks	> 18 weeks (a)
COMPLETED AUDITS – 31 DECEMBER 2007 BALANCE DATES - continued							
UNIVERSITIES - continued							
The University of Melbourne - <i>continued</i>							
UM Commercialisation Pty Ltd	●		✓	20 Mar. 2008	●		
UM Commercialisation Trust	●		✓	20 Mar. 2008	●		
Victorian Institute of Chemical Sciences Limited		●	✓	4 Apr. 2008		●	
University of Ballarat	●		✓	19 Mar. 2008	●		
Inskill Limited		●	✓	17 Mar. 2008	●		
School of Mines and Industries Ballarat Limited		●	✓	17 Mar. 2008	●		
Datascreen Pty Ltd		●	✓	17 Mar. 2008	●		
Victoria University	●		✓	20 Mar. 2008	●		
Victoria University - AFIC College Ltd (d)		●	✓	13 Mar. 2008	●		
Victoria University Enterprises Pty Ltd		●	✓	5 Mar. 2008	●		
Victoria University Foundation		●	✓	11 Mar. 2008	●		
Victoria University Foundation Ltd		●	✓	13 Mar. 2008	●		
Victoria University International Pty Ltd		●	✓	4 Mar. 2008	●		
Victoria University of Technology (Singapore) Pte Ltd		●	✓	5 Mar. 2008	●		
TAFE Institutes							
Bendigo Regional Institute of Technical and Further Education		●	✓	3 Mar. 2008	●		
Box Hill Institute of Technical and Further Education		●	✓	20 Mar. 2008	●		
Box Hill Enterprises Ltd		●	✓	20 Mar. 2008	●		
Central Gippsland Institute of Technical and Further Education		●	✓	20 Mar. 2008	●		

Entity	Audit types		Financial statements		Timeliness of audited financial statement completion		
	FMA	Non-FMA	Clear opinion issued	Auditor-General's report signed	< 12 weeks	> 12 < 18 weeks	> 18 weeks (a)
COMPLETED AUDITS – 31 DECEMBER 2007 BALANCE DATES - continued							
TAFE Institutes - continued							
Chisholm Institute of Technical and Further Education	●		✓	6 Mar. 2008	●		
Caroline Chisholm Education Foundation		●	✓	6 Mar. 2008	●		
East Gippsland Institute of Technical and Further Education	●		✓	20 Mar. 2008	●		
Gordon Institute of Technical and Further Education	●		✓	9 Apr. 2008		●	
Gordon Foundation Ltd		●	✓	3 Apr. 2008		●	
Gordon Foundation Trust		●	✓	3 Apr. 2008		●	
GOTEC Limited		●	✓	3 Apr. 2008		●	
Goulburn Ovens Institute of Technical and Further Education	●		✓	14 Mar. 2008	●		
Holmesglen Institute of Technical and Further Education	●		✓	18 Mar. 2008	●		
Holmesglen International Training Services Pty Ltd		●	✓	18 Mar. 2008	●		
Kangan Batman Institute of Technical and Further Education	●		✓	20 Mar. 2008	●		
John Bateman Consultancy & Training Pty Ltd		●	✓	20 Mar. 2008	●		
Northern Melbourne Institute of Technical and Further Education	●		✓	9 Mar. 2008	●		
South West Institute of Technical and Further Education	●		✓	14 Mar. 2008	●		
Sunraysia Institute of Technical and Further Education	●		✓	14 Mar. 2008	●		
TAFE Kids Incorporated		●	✓	14 Mar. 2008	●		

Entity	Audit types		Financial statements		Timeliness of audited financial statement completion		
	FMA	Non-FMA	Clear opinion issued	Auditor-General's report signed	< 12 weeks	> 12 < 18 weeks	> 18 weeks (a)
COMPLETED AUDITS – 31 DECEMBER 2007 BALANCE DATES - continued							
TAFE Institutes - continued							
William Angliss Institute of Technical and Further Education	●		✓	14 Mar. 2008	●		
Angliss Consulting Pty Limited		●	✓	14 Mar. 2008	●		
Angliss Multimedia Pty Ltd		●	✓	14 Mar. 2008	●		
Angliss Solutions Pty Ltd		●	✓	14 Mar. 2008	●		
Wodonga Institute of Technical and Further Education	●		✓	14 Mar. 2008	●		
Training Entities							
Adult Multicultural Education Services	●		✓	6 Mar. 2008	●		
AMES Vietnam		●	✓	6 Mar. 2008	●		
Centre for Adult Education	●		✓	20 Mar. 2008	●		
Driver Education Centre of Australia Ltd	●		✓	14 Mar. 2008	●		
DECA Ltd		●	✓	20 Mar. 2008	●		
Emphasis of matter:							
<i>Attention drawn to the need for continuing financial support from Driver Education Centre of Australia Ltd</i>							
International Fibre Centre Limited	●		✓	14 Mar. 2008	●		
Telematics Course Development Fund		●	✓	22 Apr. 2008		●	
VERNet Pty Ltd		●	✓	20 Mar. 2008	●		
2007	26	91			96	21	-
2006	26	84			55	45	10

Entity	Audit types		Financial statements		Timeliness of audited financial statement completion		
	FMA	Non-FMA	Clear opinion issued	Auditor-General's report signed	< 12 weeks	> 12 < 18 weeks	> 18 weeks (a)
INCOMPLETE AUDITS – 31 DECEMBER 2007 BALANCE DATES							
Training Entities							
International Training Australia Pty Ltd (e)		●	<i>Financial Statements yet to be submitted</i>				
2007		1					1
2006		14					14
2007 audits	26	92			96	21	1
	Cumulative	118					118
2006 audits	26	98			55	45	24
	Cumulative	124					124

Note: (a) 18 weeks has been used to measure timeliness as it approximates four months after the end of the financial year.

(b) Monash Property Management Pty Ltd ceased operations on 31 October 2007. Financial statements cover the period from 1 January 2007 to 31 October 2007.

(c) Monash Reproductive Health Enterprises Pty Ltd ceased operations on 18 November 2007. Financial statements cover the period from 1 January 2007 to 18 November 2007.

(d) Victoria University – AFIC College Ltd on 31 August 2007. Financial statements cover the period from 1 January 2007 to 31 August 2007.

(e) International Training Australia Pty Ltd ceased operations on 15 November 2007. Financial statements cover the period from 1 January 2007 to 15 November 2007.

3 Alpine resorts

At a glance

Background

The Victorian alpine resorts are owned by the Crown and managed for and on behalf of all Victorians by Alpine Resort Management Boards (ARMB). Co-ordination is effected through the Alpine Resorts Co-ordinating Council.

There are six alpine resort areas in Victoria. These comprise three large resorts: Falls Creek, Mount Hotham and Mount Buller. The three smaller resorts are Lake Mountain, Mount Stirling and Mt Baw Baw. Although there are six alpine resort areas, there are five alpine resort management boards (ARMBs), with the one board being responsible for both the Mount Buller and Mount Stirling resort operations.

Key findings

- All ARMBs financial statements received clear audit opinions.
- There has been a marked improvement this year in compliance with personal expense reimbursement policies and procedures.
- Operating revenues of alpine resorts increased by 25 per cent and the financial performance of alpine resorts has improved.

Key recommendations

- ARMBs should improve the accuracy and timeliness of their reporting process.
- The Lake Mountain and Mt Baw Baw ARMBs establish the legislated 'snow drought' and 'capital' funds.

3.1 Scope

Five alpine resort management boards (ARMBs) are required to prepare financial statements with balance dates at 31 October. ARMBs have been appointed for Victoria's alpine resorts of Mount Buller and Mount Stirling, Falls Creek, Mount Hotham, Mt Baw Baw, and Lake Mountain.

3.2 Reporting framework

The ARMBs are established under the *Alpine Resorts (Management) Act 1997* and are appointed by the Minister for Environment and Climate Change.

Under the *Financial Management Act 1994* (FMA), the ARMBs are required to prepare financial statements and have them audited by the Auditor-General within 12-weeks of year end, for inclusion in their annual reports.

3.3 Results of audits

All of the ARMBs received clear audit opinions for the financial year ended 31 October 2007. Further details of these entities are available in Section 3.8.

3.4 Quality of reporting

The quality of reporting is measured by accuracy and timeliness of report preparation and finalisation.

3.4.1 Accuracy

The number and value of adjustments required to draft financial statements submitted for audit is the primary indicator of accuracy. Ideally no adjustments should be required.

Four of the five ARMBs needed adjustments to finalise their financial statements. On average two adjustments were required per resort, with a combined value of \$2 million. This represented seven per cent of total revenue and means the adjustments made were material to the financial statements.

3.4.2 Timeliness

In 2007, as in 2006, none of the ARMBs completed their financial statements within the mandated 12 week timeframe. However, they were all completed within 15 weeks, three weeks after the statutory timeframe.

This result is disappointing as all boards had forecast meeting the 12-week statutory reporting requirement during audit planning. The common issues impacting the completion of financial statements this year were:

- known adjustments had not been finalised or processed prior to the submission of draft financial statements for audit
- draft financial statements were not provided by the agreed audit commencement date
- valuation of fixed assets had not been initiated sufficiently early to be available by the time draft statements were required.

Recommendation

3.1 ARMBs should improve the accuracy and timeliness of reporting by:

- starting year-end reporting earlier
- preparing a 'shell' set of financial statements with comparatives figures, including all new required financial reporting standards, before year end
- using appropriate property valuation indices to determine whether revaluations are likely to be required, and if so, completing revaluations before year end.

3.5 Effectiveness of internal control

The control environments and internal controls of the ARMBs were generally satisfactory.

Several control weaknesses were brought to the attention of the relevant ARMBs and are being addressed. Common weaknesses were:

- asset register not reconciling to financial system or lack of a reliable asset management system
- appropriate segregation of duties not able to be implemented due to small staff numbers
- audit committee charters not finalised
- relatively high employee leave balances.

Last year revision and updating of policies and procedures relating to personal expenditure reimbursement to employees and board members was recommended.

In response, the Department of Sustainability and Environment (DSE) engaged a consultant to conduct an internal audit on expense reimbursement policies and procedures in all resorts.

The internal audit findings were presented individually¹ to each of the ARMBs. These findings provided the basis for the development of good practice guidelines for expense reimbursement, and included management agreed actions and target dates for implementation.

This year we followed up the implementation of these recommendations. All resorts have implemented the recommendations. Consequently, there has been a marked improvement in compliance with personal expense reimbursement policies and procedures.

3.6 Financial performance

This year there was a surplus in the operating results for all of the ARMBs, as total revenues exceeded expenditure at each of the resorts. This improvement is directly attributed to increased snow falls during the season.

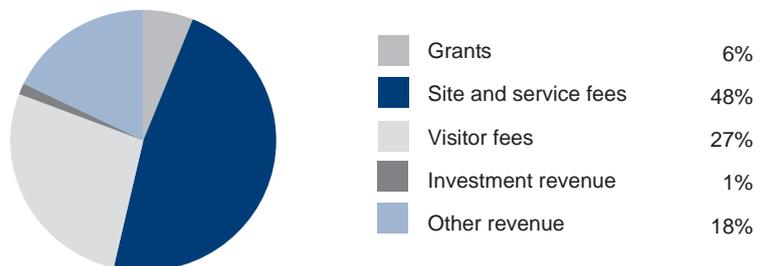
This was the first year that **Lake Mountain** and **Mt Baw Baw** have posted an operating surplus. While they both still rely on support payments from the DSE, in 2007 total support payments reduced from \$3 to \$2 million.

3.6.1 Revenue

During 2006-07, the combined operating revenues for ARMBs increased by 25 per cent, from \$29 to \$36 million. Revenue from visitor fees increased, including \$4 million in gate fees, an increase of 78 per cent from 2006. This more than offset the decrease of 33 per cent or \$1 million in grants received.

The composition of operating revenue for alpine resorts is provided in Figure 3A.

Figure 3A
2007 total revenue



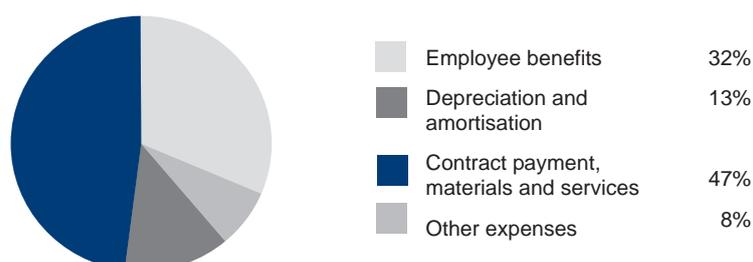
Source: Victorian Auditor-General's Office.

¹ *Alpine Resorts Co-ordinating Council's personal expense reimbursement policies and procedures*, Department of Sustainability and Environment, September 2007.

3.6.2 Expenditure

In 2007, expenditure by ARMBs increased by 16 per cent from \$27 to \$32 million. The overall composition of expenditure has remained relatively unchanged over the past two years. The composition of operating expenditure is provided in Figure 3B.

Figure 3B
2007 total expenditure



Source: Victorian Auditor-General's Office.

3.7 Financial sustainability

During 2006-07, indicators of financial sustainability for alpine resorts were generally positive, as detailed in Figure 3C.

Figure 3C
Results of financial sustainability indicators

Alpine resort	Underlying result (%)	Liquidity	Debt to equity (%)	Self financing (%)	Capital replacement
Falls Creek	9.8	3.2	0	23	1.2
Lake Mountain	3.9	0.7	7	27	0.5
Mount Buller and Mount Stirling	14.4	4.1	1	25	2.7
Mount Hotham	4.2	1.7	2	41	7.6
Mt Baw Baw	2.8	1.2	1	10	0.7
Average	7.0	2.2	2	25	2.5

Note: Indicators are explained in figure 1G of this report.

Source: Victorian Auditor-General's Office.

Overall, there are no immediate short-term liquidity problems highlighted by the indicators for the larger resorts. However the indicators raise concerns for the long-term sustainability of the smaller ARMBs of **Lake Mountain** and **Mt Baw Baw**. These resorts exhibit low operating margins, low liquidity and low levels of investment in replacement of fixed assets.

Each board needs to monitor the sustainability of its revenue and expenditure policies relative to longer term trends in these sustainability indicators.

3.7.1 Reserve funds

As part of the state government's 2003 *Alpine Resorts Reform Package*, each of the ARMBs was required to establish:

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

The smaller ARMBs, of **Lake Mountain** and **Mt Baw Baw**, have yet to establish these legislatively required funds, due to poor snow seasons in recent years.

Recommendations

- 3.2 Boards should establish a suite of appropriate indicators of financial sustainability and monitor trends in these indicators to enable more objective determination of their revenue and expenditure policies.
 - 3.3 The Lake Mountain and Mt Baw Baw ARMBs should establish the legislatively required 'snow drought' and 'capital' funds.
-

3.8 Audit status

Alpine resort management board	Audit types		Financial statements		Timeliness of audited financial statement completion		
	FMA	Non-FMA	Clear opinion issued	Auditor-General's report signed	< 12 weeks	> 12 < 18 weeks	> 18 weeks (a)
COMPLETED AUDITS - 31 OCTOBER 2007 BALANCE DATES							
Falls Creek	●		✓	31 Jan. 2008			●
Lake Mountain	●		✓	11 Feb. 2008			●
Mount Buller and Mount Stirling	●		✓	29 Jan. 2008			●
Mount Hotham	●		✓	8 Feb. 2008			●
Mt Baw Baw	●		✓	11 Feb. 2008			●
2007 TOTAL	5						5
2006 TOTAL	5						5

Note: (a) 18 weeks has been used to measure timeliness as it approximates four months after the end of the financial year.

4 Other entities

At a glance

Background

There are five other entities with non-June balance dates that are required to prepare financial statements and have them audited. In addition, there are 17 entities with 30 June balance dates that have finalised their financial statements after 31 October 2007, the cut-off date for the report on entities with a balance date of 30 June 2007.

Key findings

- At 30 April 2008, three clear audit opinions and one qualified audit opinion had been issued.
- There were 17 clear audit opinions issued on entities with 30 June 2007 balance dates since the December 2007 report.

4.1 Scope

This part of the report addresses other entities that have balance dates after 30 June 2007, not covered under the previous sector-based parts of this report. Figure 4A lists these other entities and the date of financial year end.

Figure 4A
Other entities with balance dates after 30 June 2007

Sector	Entity	Balance date
Health	Medical Practitioners Board of Victoria	30 September
	Psychologist Registration Board of Victoria	31 December
	Anti-Cancer Council of Victoria	31 December
Local government	Municipal Authorities Purchasing Scheme (MAPS) Group Ltd	30 September
Sport and recreation	Melbourne Cricket Ground (MCG) Trust	31 March

Source: Victorian Auditor-General's Office.

In addition, this report provides details on 17 entities with 30 June balance dates whose financial statements were not submitted or whose audits were incomplete at 31 October 2007, the cut-off date for the December 2007 report¹.

4.2 Reporting framework

The principal legislation governing the financial reporting requirements of these entities is the *Financial Management Act 1994* (FMA), with the exception of **MAPS Group Ltd**, which reports under the *Corporation Act 2001*.

4.3 Results of audits

At 30 April 2008, three clear opinions and one qualified audit opinion were issued. The financial statements for the **MCG Trust** do not need to be finalised until 30 June 2008. They are therefore not dealt with in this report. Last year's statements were finalised on 6 June 2007 and were unqualified.

The ongoing qualified opinion issued to the **Anti-Cancer Council of Victoria** generally attaches to the financial statements of entities with significant voluntary fundraising activities. The qualification draws attention to the risk inherent in ensuring complete recording of cash collected through donations. This risk is not able to be avoided and cannot be cost-effectively mitigated by further internal controls.

¹ Victorian Auditor-General's Office 2007, *Results of financial statement audits for agencies with 30 June 2007 balance dates (2007–08:11)*, Victorian Government Printer, Melbourne.

4.4 Quality of reporting

Two out of the four entities made adjustments in finalising their financial statements. The total value of the adjustments was \$36 000, less than one per cent of total revenue.

Three of the entities finalised their audited financial statements within 12 weeks. The **Psychologist Registration Board of Victoria** finalised their statements within 14 weeks. Details of these entities are provided in Section 4.6.

4.5 Audits completed since last report

Since the report tabled in December 2007, there have been 17 clear audit opinions issued on entities with 30 June 2007 balance dates. Details of these entities are provided in Section 4.6.

4.6 Audit status

Entity	Audit types		Financial statements		Timeliness of audited financial statement completion	
	FMA	Non-FMA	Clear opinion issued	Auditor-General's report signed	< 12 weeks	> 12 < 18 weeks > 18 weeks (b)
COMPLETED AUDITS - 30 SEPTEMBER 2007 BALANCE DATES						
MAPS Group Ltd (a)	●	●	✓	5 Dec. 2007	●	●
Medical Practitioners Board of Victoria	●		✓	21 Dec. 2007	●	
COMPLETED AUDITS - 31 DECEMBER 2007 BALANCE DATES						
Anti-Cancer Council of Victoria	●		X	4 Mar. 2008	●	
Qualification: Unable to assess the completeness of cash donations as inherent risk in collecting this type of revenue cannot be mitigated by further internal controls.						
Psychologist Registration Board of Victoria	●		✓	3 Apr. 2008	●	
2007 TOTAL	3	1			3	1
2006 TOTAL	3	5			5	3
NOT COMMENCED AUDITS - 31 MARCH 2008 BALANCE DATE						
Melbourne Cricket Ground Trust		●		<i>Financial statements yet to be submitted</i>		

Note: (a) Municipal Authorities Purchasing Scheme.

(b) 18 weeks has been used to measure timeliness as it approximates four months after the end of the financial year end.

Entity	Audit types		Financial statements		Timeliness of audited financial statement completion		
	FMA	Non-FMA	Clear opinion issued	Auditor-General's report signed	< 12 weeks	> 12 < 18 weeks	> 18 weeks (b)
COMPLETED AUDITS - 30 JUNE 2007 BALANCE DATES							
Department of Human Services							
Bass Coast Regional Health Benefit Trust	●		✓	20 Nov. 2007			●
Kilmore and District Nursing Home Society Inc	●		✓	21 Dec. 2007			●
Northern After Hours GP Clinic	●		✓	22 Feb. 2008			●
Northern Health Research Training & Equipment Foundation Ltd	●		✓	22 Feb. 2008			●
Northern Health Research Training and Equipment Trust	●		✓	22 Feb. 2008			●
Stawell District Hospital Foundation	●		✓	6 Dec. 2007			●
Victoria Health Promotion Foundation	●		✓	8 Nov. 2007			●
Victorian Relief Committee(c)	●		✓	20 Mar. 2008	●		
Community Health Centres							
Bentleigh Bayside Community Health Service Inc	●		✓	13 Nov. 2007			●
Ensay Community Health Centre Inc	●		✓	21 Jan. 2008			●
Grampians Community Health Centre Inc	●		✓	29 Nov. 2007			●
Inner South Community Health Service Inc	●		✓	20 Nov. 2007			●
Moreland Community Health Service Inc	●		✓	7 Nov. 2007			●
North Richmond Community Health Centre Inc	●		✓	7 Dec. 2007			●
Peninsula Community Health Service Inc	●		✓	19 Dec. 2007			●
Ranges Community Health Service Inc	●		✓	20 May. 2008			●
Sunbury Community Health Centre Inc	●		✓	26 Nov. 2007			●
TOTAL	2	15			1		16

(c) Victorian Relief Committee ceased operations on 31 December 2007. The financial statements cover a period of 18-months.

Entity	Audit types		Financial statements		Timeliness of audited financial statement completion	
	FMA	Non-FMA	Clear opinion issued	Auditor-General's report signed	< 12 weeks	> 12 < 18 weeks > 18 weeks (b)
INCOMPLETE AUDITS 30 JUNE 2007 BALANCE DATES						
Department of Human Services						
Beaufort and Skipton Health Service Foundation Limited	●		Financial statements yet to be submitted			
HumeNET Limited	●		Financial statements yet to be submitted			
Community Health Centres						
Bendigo Community Health Services Inc	●		Financial statements yet to be submitted			
Darebin Community Health Service Inc	●		Financial statements yet to be submitted			
Eastern Access Community Health Inc	●		Financial statements yet to be submitted			
Goulburn Valley Community Health Service Inc	●		Financial statements being completed			
Inner East Community Health Service Inc	●		Financial statements yet to be submitted			
ISIS Primary Care Inc	●		Financial statements yet to be submitted			
Monashlink Community Health Service Inc	●		Financial statements yet to be submitted			
Nillumbik Community Health Service	●		Financial statements yet to be submitted			
North Yarra Community Health Inc	●		Financial statements yet to be submitted			
Ovens and King Community Health Centre Inc	●		Financial statements yet to be submitted			
Plenty Valley Community Health Service Inc	●		Financial statements yet to be submitted			
Sunraysia Community Health Centre Inc	●		Financial statements yet to be submitted			
Department of Innovation, Industry & Regional Development						
VCPO Limited (d)	●		Financial statements being completed			

Note: (d) This company was placed into voluntary liquidation during 2004-05. At the date of preparing this report, the department had undertaken to complete the 2004-05 and 2005-06 financial statements as soon as possible

Auditor-General's reports

Reports tabled during 2007-08

Report title	Date tabled
Program for Students with Disabilities: Program Accountability (2007-08:1)	September 2007
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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
Results of Financial Statement Audits for Agencies with 30 June 2007 Balance Dates (2007-08:11)	December 2007
Local Government: Results of the 2006-07 Audits (2007-08:12)	February 2008
Agricultural Research Investment, Monitoring and Review (2007-08:13)	February 2008
Accommodation for People with a Disability (2007-08:14)	March 2008
Records Management in the Victorian Public Sector (2007-08:15)	March 2008
Planning for Water Infrastructure in Victoria (2007-08:16)	April 2008
Delivering Health <i>SMART</i> —Victoria's whole-of-health ICT strategy (2007-08:17)	April 2008
Victoria's Planning Framework for Land Use and Development (2007-08:18)	May 2008
Planning Permit Application: Assessment Checklist (2007-08:19)	May 2008
Planning Scheme Amendment: Assessment Checklist (2007-08:20)	May 2008
Patient Safety in Public Hospitals (2007-08:21)	May 2008
Project Rosetta (2007-08:22)	May 2008



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