

VICTORIA

Victorian
Auditor-General

Audit summary
of
Tertiary Education and
Other Entities:
Results of the 2009
Audits

Tabled in Parliament
26 May 2010

Audit summary

Background

The report covers 116 entities from the tertiary education, sustainability and environment, health and community development sectors, which have a financial year end other than 30 June 2009. Principally it deals with the audit of 106 tertiary education sector entities, comprising universities, TAFE institutes, training entities and the entities they control.

The purpose of this report is to inform Parliament about significant issues arising from the annual audit of financial and performance reports, augmenting the assurance provided through audit opinions issued that are included in the respective entities' annual reports.

This report comments on the effectiveness of internal controls, the financial sustainability of universities, TAFE institutes and Alpine Resort Management Boards (ARMBs), and financial management and reporting. It also recommends better practices for improving management controls over travel expenditure.

Overall conclusion

At 30 April 2010, audit opinions on 111 of the 116 or 96 per cent of financial reports had been issued. Of the 111 opinions issued, 108 were clear and three required qualification (four in the previous year). Clear audit opinions were issued on the 20 performance reports submitted for audit.

In 2009, we found that the overall financial reporting processes were adequate as they relate to accuracy, completeness and reliability. The overall quality of financial reporting improved in 2009, when compared to 2008, due to improved quality control and assurance processes and more comprehensive supporting documentation. However, the entities can still improve when preparing their financial report plans and shell financial reports. Improvement is important as the Public Finance and Accountability Bill, now before Parliament, is proposing shorter reporting time frames.

Overall, our assessment of internal control structures found the systems and processes in place were adequate for financial reporting purposes. Management controls over travel expenditure by universities and TAFEs however needs improvement, particularly in terms of documenting the policy framework and in the reporting of costs and outcomes to the governing body.

The university, TAFE and alpine resort sectors' overall financial sustainability risk assessments are low.

Findings

Audit opinions issued on financial reports

All entities covered in this report prepare their financial reports in accordance with Australian Accounting Standards, including the Australian Accounting Interpretations. Further, 34 of the 116 entities prepare their financial reports in accordance with the *Financial Management Act 1994* (FMA) and 64 entities prepare their financial reports in accordance with the *Corporations Act 2001*. The remaining 18 do not report under a specified legislative framework.

The independent audit opinion adds credibility to the financial report by providing reasonable assurance that the information in the financial report is reliable.

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

At 30 April 2010, audit opinions on 111 of the 116 (96 per cent) financial reports had been issued. Of the 111 opinions issued, 108 were clear and three required qualification, compared to 116 audit opinions at 30 April 2009, of which four were qualified.

Figure A shows which entities were qualified and why.

Figure A
Qualified audit opinions issued

| Entity | Status | Type | Reason for qualification |
|---------------------------------|------------|-----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Deakin University | Continuing | Exception | Certain grants were recognised as a liability, rather than as income, contrary to the requirements of AASB 1004 'Contributions'. |
| The University of Melbourne | Continuing | Exception | |
| 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.

In certain circumstances it is appropriate to draw attention to or emphasise a matter in the audit opinion that is relevant to the users of an entity's financial report but does not warrant qualification of the audit opinion.

Audit opinions on the financial reports of Monash Educational Enterprises, Monash South Africa Ltd and DECA Ltd contained an 'emphasis of matter' comment. These are not audit qualifications but they highlight each entity's reliance on continuing financial support from their parent entity to sustain their operations. Without this support, the going concern assumption used to prepare the financial reports would be invalid.

Audit opinions issued on performance reports

The Department of Innovation, Industry and Regional Development (DIIRD) requires 20 entities, including 14 TAFEs, four universities with TAFE divisions, and two training entities, to prepare a performance report. The performance report discloses certain key performance indicators, which is subject to audit by the Auditor-General, and included in their annual reports.

DIIRD's requirement to prepare performance reports is not part of the existing legislative performance reporting framework. These performance reports should be considered for inclusion as part of the current legislative reforms to the performance reporting framework.

In 2009, clear audit opinions were issued on all 20 performance reports submitted for audit.

It is pleasing to note that Holmesglen Institute of TAFE has acted to provide a performance report for audit for the first time in 2009.

Quality of reporting

The timeliness and accuracy of the preparation and finalisation of the financial report underpins its quality.

Recognising the accountability role for the use of public monies that financial reports serve, it is important that all public sector entities prepare and publish timely financial information. The later the reports are produced and published after year-end, the less useful they become.

The Public Finance and Accountability Bill currently before the Parliament proposes to change the reporting requirements for public bodies. Annual reports, including the financial report, would be submitted to the relevant minister and tabled in Parliament within three months of the end of the financial year. This is one month earlier than the current FMA requirement. As a result, entities will need to review and improve their reporting processes in order to meet this shortened time frame.

Overall, 80 of the 116 entities or 69 per cent of entities finalised their financial reports within the 12-week time frame, compared to 79 per cent in 2008. In particular:

- 30 of the 34 FMA entities or 88 per cent finalised their financial reports within the 12-week statutory requirement, compared to 82 per cent in 2008.
- 72 of the 106 tertiary education entities or 68 per cent achieved the 12-week time frame to finalise their financial report. The timeliness of financial reporting has deteriorated compared to 2008, where 79 per cent satisfied the 12-week time frame.
- At 30 April 2010, there were five entities that have yet to finalise their financial reports compared to seven for the same time in 2009.

The frequency and size of errors that have to be adjusted in the draft financial statements are direct measures of accuracy. Ideally, there should be no errors or adjustments. An analysis of errors for the eight universities, 14 TAFEs and three training entities has revealed an improvement in accuracy. This year 11 entities required material adjustments to finalise their financial statements, compared to 17 entities in 2008.

In 2009, we found that the overall financial reporting processes are adequate as they relate to accuracy, completeness and reliability. The quality of financial reporting improved in 2009, when compared to 2008, due to improved:

- quality control and assurance processes
- comprehensive supporting documentation.

However, further improvement is needed in preparing:

- financial report plans
- shell financial reports.

Improvements would help entities to:

- prepare accurate and timely good quality financial reports
- oversee resource allocation planning and quality assurance procedures
- detect and correct errors.

Effectiveness of general internal controls

Internal control encompasses the policies, systems and behaviours established by entities to reliably and cost effectively meet their objectives. Internal controls are needed to provide an effective and efficient vehicle for the delivery of reliable, accurate and timely external and internal reporting.

In undertaking financial audits, we assess the effectiveness of internal controls established by management to assure the reliability of financial reporting. While our responsibility does not extend to forming an opinion on internal controls, we raise with management any control weaknesses or breakdowns we identify.

To the extent we examined those controls, the strength of entities' internal control systems and processes were generally satisfactory, though variable between entities. Specifically, important internal control mechanisms required strengthening in the following areas:

- review of masterfile standing data changes
- preparation and review of key account reconciliations
- payment of invoices including approval processes and reducing the risk of duplicate payments
- adherence to tendering policies
- inadequate information system security controls.

Management controls over travel expenditure

This year we reviewed the management controls within universities and TAFEs over travel expenditure. This review was undertaken as part of our cyclical assessment of management controls relating to significant annual financial report balances and disclosures consistent with Australian Auditing Standards.

The tertiary education sector spent approximately \$120 million on travel activities in 2009. This area of university and TAFE spending has attracted significant public debate.

The review of travel management policies found that:

- 75 per cent of universities and 43 per cent of TAFEs did not include approved monetary limits on accommodation whilst interstate/overseas
- 63 per cent of universities and 71 per cent of TAFEs did not include criteria for determining the need for an external travel service provider and the process for selecting a preferred provider
- 63 per cent of universities and 57 per cent of TAFEs did not include details of the governing body's monitoring and oversight role
- 29 per cent of TAFEs did not include details on acceptable private travel arrangements, including arrangements for accompanying family members.

The review of travel management practices and oversight found:

- 63 per cent of universities and 93 per cent of TAFEs did not have integrated systems for tracking, approving and processing travel activities
- 50 per cent of universities' and 72 per cent of TAFEs' governing bodies did not regularly review travel policies and procedures
- 57 per cent of TAFEs do not regularly report travel expenditure to the governing body
- 63 per cent of universities and 64 per cent of TAFEs do not report the outcomes obtained from travel to the governing body
- 38 per cent of universities and 86 per cent of TAFEs did not have internal audit undertake a review of compliance with approved travel policies and procedures within the last three years.

Financial performance

Universities generated a total operating surplus of \$509 million in 2009, a substantial increase of \$477 million from 2008. This improvement in 2009 is primarily due to universities recording \$55 million of impairment losses on financial assets in their operating results, compared to \$306 million in 2008. This reduction in impairment losses is a result of the significant recovery in the global financial markets.

In terms of university revenue, student fee revenue increased by \$127 million or 8 per cent from 2008 to \$1 714 million in 2009, and capital funding increased by \$24 million or 17 per cent from 2008 to \$166 million in 2009.

TAFEs generated a total operating surplus of \$131 million, which is an increase from 2008 of \$73 million or 127 per cent. The significant movement in their financial performance is mainly due to the increased capital funding of \$44 million (60 per cent) from \$74 million in 2008 to \$119 million in 2009. This reflects the significant number of capital projects underway as part of the Federal Government's education investment fund.

The four-year trend in international student fees shows an increase of \$438 million or 52 per cent for universities and \$74 million or 128 per cent for TAFEs. The growing contribution from international student fees increases the exposure for both universities and TAFEs to the increasingly competitive market for international students.

Alpine resorts collectively generated a combined operating surplus of \$2.8 million, an increase of \$2.2 million or 420 per cent from 2008. Support payments from the Department of Sustainability and Environment (DSE) of \$3.2 million and insurance recoveries for assets destroyed by bushfires of \$2.6 million have contributed to this increase.

Financial sustainability

Insight into the financial sustainability of the tertiary education and alpine resort sectors is obtained from analysis of five financial sustainability indicators over a four-year period.

The five selected indicators are—the underlying result, level of liquidity, debt-to-equity ratio, self-financing capability and the level of capital replacement. These indicators should be considered collectively, and are more useful when assessed over time as part of a trend analysis.

To be financially sustainable, public sector 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.

The university, TAFE and alpine resort sectors' overall financial sustainability risk assessment is low. Six entities however were assessed as having a moderate or high risk as follows:

- La Trobe University and Victoria University both have a moderate-risk assessment.
- Bendigo Institute of TAFE and Wodonga Institute of TAFE both have a moderate-risk assessment.
- Lake Mountain and Mt Baw Baw have a high and moderate risk assessment respectively.

Recommendations

| Recommendation | Page |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|
| Mandating performance reporting for the TAFE sector should be considered as part of the current legislative reforms to the performance reporting framework. | 11 |
| Universities and TAFEs should further improve their financial reporting processes, by preparing plans and shell financial reports. | 17 |
| Universities, TAFEs and ARMBs should assess their policies and processes against the commonly identified weaknesses within internal control environments to assure they are operating in a reliable and cost-effective manner. | 23 & 57 |
| DIIRD should develop better practice guidance for a travel management framework for universities and TAFEs. | 25 |
| Universities and TAFEs should: | |
| <ul style="list-style-type: none"> periodically review and update their travel management policies against our travel management framework guidance | 27 & 29 |
| <ul style="list-style-type: none"> establish travel management systems to assure consistency in processing of and monitoring of travel-related activities | 28 |
| <ul style="list-style-type: none"> prepare regular reports of travel activities for their governing bodies | 29 |
| <ul style="list-style-type: none"> establish monitoring arrangements to assess the effectiveness of travel management controls and policy compliance. | 29 |

Audit conduct

Audits were undertaken in accordance with the Australian Auditing Standards.

The total cost of preparing and printing this report was \$180 000.