Tertiary Education and Other Entities: Results of the 2009 Audits

Victorian Auditor-General's Report

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Tertiary Education and Other Entities: Results of the 2009 Audits

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VAGO

Victorian Auditor-General's Office

Auditing in the Public Interest

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

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

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my report on the *Tertiary Education and Other Entities: Results of the 2009 Audits.*

Yours faithfully

D D R PEARSON
Auditor-General

26 May 2010

Contents

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:	
• periodically review and update their travel management policies against our travel management framework guidance	27 & 29
• establish travel management systems to assure consistency in processing of and monitoring of travel-related activities	28
• prepare regular reports of travel activities for their governing bodies	29
• 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.

Audit Act 1994 section 16—submissions and comments

Introduction

In accordance with section 16(3) of the *Audit Act 1994* a copy of this report, or relevant extracts from the report, was provided to universities, TAFEs, ARMBs, the Department of Treasury and Finance, the Department of Innovation, Industry and Regional Development, and the Department of Sustainability and Environment with a request for comments or submissions.

The comments and submissions provided are not subject to audit nor the evidentiary standards required to reach an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

Submissions and comments received

RESPONSE provided by the Secretary of the Department of Treasury and Finance

The Public Finance and Accountability Bill (PFAB) currently before Parliament establishes a comprehensive framework for public financial management, driving high standards of governance, transparency and accountability in relation to financial planning, resource allocation and financial and performance reporting.

It is anticipated that the performance management framework, incorporated within the planned PFAB reforms, will strengthen public sector accountability to Parliament and the public and will drive the achievement of government objectives and improved performance reporting through a strong outcomes focussed delivery framework. This framework will apply to all public sector bodies, including TAFE Institutes.

RESPONSE provided by the Vice-Chancellor of The University of Melbourne

The university's treatment of government research grants is in accordance with Australian Accounting Standard AASB 118 Revenue. The university notes that the accounting profession is currently reviewing the accounting treatment for grants of not-for-profit organisations.

RESPONSE provided by the chairperson of the Lake Mountain Alpine Resort Management Board and the Mt Baw Baw Alpine Resort Management Board

The Global Financial Crisis and a below average snow fall season continue to highlight that one of the fundamental issues for both resorts is economic sustainability. Support and investment for the transformation and diversification of the revenue base will be necessary to achieve this outcome.

Both Boards are in the process of the development, funding and execution of a 5 year Strategic Management Plan for the transformation of both Resorts. Stakeholder and public consultation will commence this year.

1 Background

1.1 Scope

This 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 results of 106 tertiary education sector entities, comprising universities, TAFE institutes, training entities and the entities that they control. These entities are outlined in Figure 1A.

Figure 1A
Entities with a financial year other than 30 June 2009

			2009–10				
Sector	**Type of entity**	**2008**	**30 Sept**	**31 Oct**	**31 Dec**	**31 Mar**	**Total**
Tertiary education	Universities	8			8		**8**
	Entities controlled by universities	71			64		**64**
	TAFE Institutes	14			14		**14**
	Entities controlled by TAFE Institutes	12			12		**12**
	Other training entities	6			6		**6**
	Entities controlled by training entities	2			2		**2**
Sustainability and environment	Alpine resorts	5		5			**5**
Health	Boards and a charity	3	1		2		**3**
Community development	A company and a trust	2	1			1	**2**
Total		**123**	**2**	**5**	**108**	**1**	**116**

Source: Victorian Auditor-General's Office.

The purpose of this report is to inform Parliament about the significant issues arising from the annual audits within the tertiary education and alpine resort sectors, augmenting the assurance provided through audit opinions issued on financial reports and performance reports that are included in individual 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.

Figure 1B outlines the VAGO reports on the results of financial audits for 2009.

Figure 1B
VAGO reports on the results of financial audits

Report	Description
Local Government: Results of the 2008–09 Audits	Tabled in Parliament on 11 November 2009, contains the results of the annual audit of 79 councils, 12 entities they control and 12 regional library corporations.
Public Hospitals: Results of the 2008–09 Audits	Tabled in Parliament on 11 November 2009, contains the results of the annual audit of 88 public hospitals, 22 entities they control and four associated entities.
Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2008–09	Tabled in Parliament on 24 November 2009, contains the results of the audit of the State's Annual Financial Report.
Water Entities: Results of the 2008–09 Audits	Tabled in Parliament on 25 November 2009, contains the results of the annual audit of 19 entities, comprising 16 water corporations and three retail distribution companies.
Portfolio Departments and Associated Entities: Results of the 2008–09 Audits	Tabled in Parliament on 9 December 2009, provides a summary of the results of the annual audit of financial reports of the 10 portfolio departments and 198 associated entities with 30 June 2009 balance dates.
Tertiary Education and Other Entities: Results of the 2009 Audits	This report provides the results of the annual audit of financial reports of 116 entities in Victoria's public sector which have a financial year end other than 30 June 2009. Tertiary education is the principal sector of this group with 106 entities.

Source: Victorian Auditor-General's Office.

1.2 Financial audit framework

The annual financial audit has two aims:

- to give an opinion, according to the requirements described in section 9(2) of the *Audit Act 1994*, on whether public sector financial reports are fairly stated
- to consider the probity and financially prudent use of public resources according to the requirements described in section 3A(2) of the *Audit Act 1994.*

The financial audit framework applied in the conduct of the 2009 audits of the tertiary education, alpine resorts and other entities is set out in Figure 1C.

Figure 1C
Financial audit framework

Planning

Planning is not a discrete phase of a financial audit, rather it continues throughout the engagement. However, initial audit planning is conducted at two levels:

- At a high or entity level, planning involves obtaining an understanding of the entity and its environment, including its internal controls. The auditor identifies and assesses: the key risks facing the entity; the entity's risk mitigation strategies; any significant recent developments; and the entity's governance and management control framework.
- At a low or financial statements line item level, planning involves the identification, documentation and initial assessment of processes and controls over management, accounting and information technology systems.

The output from the initial audit planning process is a detailed audit plan and a client strategy document, which outlines the proposed approach to the audit. This strategy document is issued to the client after initial audit planning and includes an estimate of the audit fee.

Conduct

The conduct phase involves the performance of audit procedures aimed at testing whether or not financial statement balances and transactions are free of material error. There are two types of tests undertaken during this phase:

- Tests of controls, which determine whether controls identified during planning were effective throughout the period of the audit and can be relied upon to reduce the risk of material error.
- Substantive tests, which involve: detailed examination of balances and underlying transactions; assessment of the reasonableness of balances using analytical procedures; and a review of the presentation and disclosure in the financial statements, for compliance with the applicable reporting framework.

The output from this phase is a final (and possibly an interim) management letter which details significant findings along with value-adding recommendations on improving controls and processes. These documents are issued to the client after any interim audit work and during the reporting phase.

Reporting

The reporting phase involves the formal presentation and discussion of audit findings with the client management, and / or the audit committee. The key outputs from this process are:

- A signed audit opinion, which is presented in the client's annual report alongside the certified financial reports.
- A report to Parliament on significant issues arising from audits either for the individual entity or for the sector as a whole.

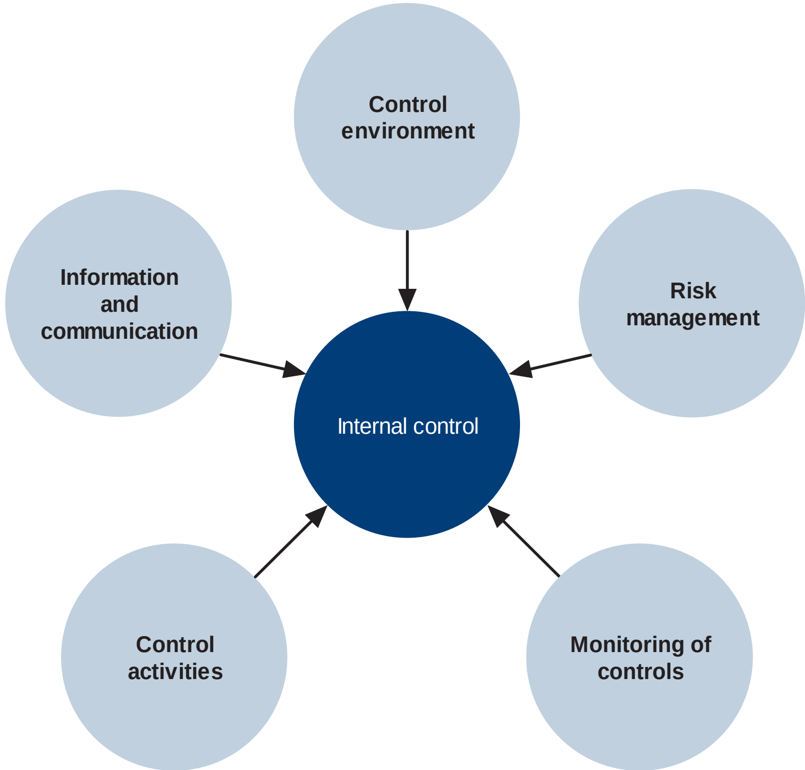
Source: Victorian Auditor-General's Office.

Audit of internal control

The assessment of an entity's internal controls is a basic part of a financial audit. 'Internal control' is how an organisation or entity can reasonably assure that its financial reporting is reliable, its operations are effective and efficient and that it is complying with laws and regulations.

Figure 1D identifies the major components of an effective internal control framework.

Figure 1D
Internal control framework



Source: Victorian Auditor-General's Office.

Control environment—establishes the foundation for the internal control system by providing fundamental discipline and structure. The control environment includes the governance and management functions and the attitudes, awareness, and actions of those charged with governance and management concerning the entity's internal control and its importance.

Risk management—involves the identification and analysis by management of relevant risk to achieving predetermined objectives.

Monitoring of controls—process to assess the effectiveness of internal control performance over time.

Control activities—the policies, procedures and practices used by management to help meet entity objectives.

Information and communication—process to communicate control responsibilities to employees and provide information in a form and time frame that allows people to carry out their duties.

The annual financial audit results in the formation of an opinion on an entity's financial report. An integral part of this process, and a requirement of Australian Auditing Standard 315 *Understanding the Entity and its Environment and Assessing the Risk of Material Misstatement*, is to assess the adequacy of the entity's internal control framework and governance processes as they relate to the accuracy, completeness and reliability of financial reporting.

Section 16 of the *Audit Act 1994* empowers the Auditor-General to report to Parliament on the results of audits. In any report under this section, the Auditor-General may include information he thinks is pertinent to an audit, including the effectiveness of internal controls.

Internal control weaknesses identified during an audit will usually not result in a qualified audit opinion. Only when they give rise to significant uncertainty about the financial information being reported is a qualification warranted. Often, there are other compensating control procedures and audit processes used to mitigate the risk of material error. In any event, weaknesses noted during an audit are brought to management's attention.

Audit of performance reports

Section 8(3) of the *Audit Act 1994* (the Act) provides the Auditor-General with the authority to audit performance indicators included in the annual reports of public sector entities. The Act provides that performance indicators are to be assessed in terms of whether performance is fairly represented.

The Auditor-General uses this authority to audit the performance reports prepared by the TAFE sector.

1.3 Structure of the report

Part 2 of this report covers 106 entities from the tertiary education sector that have a financial year end of 31 December 2009. Principally it deals with the audits of eight universities, 14 TAFE institutes, six training entities and the entities that they control.

Part 3 of this report covers the five alpine resort management boards which have a 31 October 2009 balance date.

Part 4 of this report addresses the other entities, not covered under the previous sector-based parts of this report, which have balance dates after 30 June 2009.

2 Tertiary education

At a glance

Background

This part of the report covers 106 entities, from the tertiary education sector, which have a financial year end of 31 December 2009. Principally it deals with the audits of eight universities, 14 TAFE institutes, six training entities and the entities that they control. The Department of Innovation, Industry and Regional Development (DIIRD) is the responsible department.

Key findings

- All financial reports received clear audit opinions except for Deakin University and The University of Melbourne. They were qualified due to their accounting treatment for certain grants recognised as a liability, rather than as income. This is contrary to the requirements of Australian Accounting Standards.
- All performance reports received clear audit opinions.
- The timeliness of financial reporting has deteriorated compared to 2008, with 68 per cent (79 per cent in 2008) satisfying the 12-week time frame.
- The overall financial reporting processes were adequate as they relate to accuracy, completeness and reliability. However, further improvement is needed in preparing:
  - financial report plans
  - shell financial reports.
- The strength of entities' internal control systems and processes was generally satisfactory, though variable between entities. Particular areas where internal controls should be strengthened were identified.
- The policy framework and management controls over travel expenditure by universities and TAFEs overall need strengthening.
- The overall financial sustainability risk assessment is low, though:
  - La Trobe University and Victoria University have a moderate risk assessment.
  - Bendigo Institute of TAFE and Wodonga Institute of TAFE have a moderate risk assessment.

At a glance – *continued*

Key recommendations

- Mandating performance reporting for the TAFE sector should be considered as part of the current legislative reforms to the performance reporting framework.
- Universities and TAFEs should further improve their financial reporting processes by preparing plans and shell financial reports.
- Universities and TAFEs 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.
- DIIRD should develop better practice guidance for a travel management framework for universities and TAFEs.
- Universities and TAFEs should:
  - periodically review and update their travel management policies against our travel management framework guidance
  - establish travel management systems to assure consistency in processing of and monitoring of travel-related activities
  - prepare regular reports of travel activities for their governing bodies
  - establish monitoring arrangements to assess the effectiveness of travel management controls and policy compliance.

2.1 Scope

This chapter deals with tertiary education entities with balance dates of 31 December 2009, as shown in Figure 2A.

Figure 2A
Tertiary education entities

Type of entity	2008	2009
Universities	8	**8**
Entities controlled by universities	71	**64**
TAFEs	14	**14**
Entities controlled by TAFEs	12	**12**
Other training entities	6	**6**
Entities controlled by other training entities	2	**2**
Total	**113**	**106**

Note: Controlled entities generally include associated companies, trusts and joint ventures.
Source: Victorian Auditor-General's Office.

Figure 2A shows that fewer entities were subject to our audit in 2009 due to the following entities ceasing operations:

- La Trobe University Housing Ltd, formerly a controlled entity of La Trobe University
- Monash International SRL, formerly a controlled entity of Monash University
- Hawthorn English Language Centres (Canada) Ltd, Melbourne Enterprises International Limited, Melbourne Information Management Pty Ltd, MU Private (NZ) Ltd and The Meanjin Company Limited, formerly controlled entities of The University of Melbourne.

2.2 The reporting framework

2.2.1 Financial report

A total of 26 entities prepare financial reports in accordance with the *Financial Management Act 1994* (FMA), including Victoria's eight public universities, 14 stand-alone TAFE institutes and four training entities. Sixty two entities prepare their financial reports under the *Corporations Act 2001* and 18 entities do not report under a specified legislative framework.

The FMA requires annual reports to be submitted to the relevant minister. These reports should be tabled in Parliament within four months of the end of the financial year, and include financial reports for the entity and any controlled entities, which are required to be prepared and audited within 12 weeks.

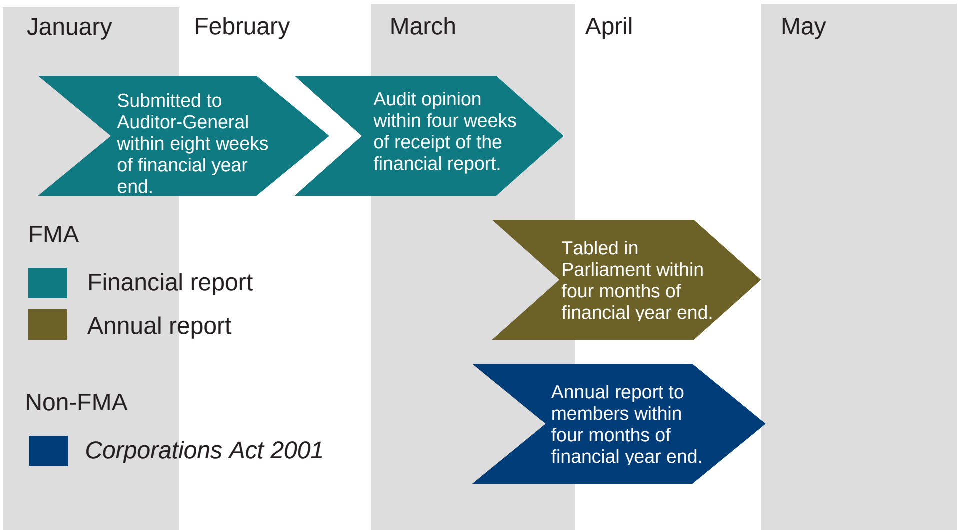
The 62 entities reporting under the *Corporations Act 2001* are effectively also required to report within 12 weeks. Although the *Corporations Act 2001* allows entities to report to their members within four months of the end of the financial year, the FMA requirements applicable to universities and TAFEs overlay the *Corporations Act 2001* requirements.

Financial statements are required to be prepared in accordance with Australian Accounting Standards, including the Australian Accounting Interpretations.

Under the FMA, the Minister for Finance has the authority to issue directions in relation to financial administration and reporting issues.

Figure 2B outlines the legislated reporting time frames.

Figure 2B
Legislative financial reporting time frames



Source: Victorian Auditor-General's Office.

2.2.2 Performance report

In October 2007, the Department of Innovation, Industry and Regional Development (DIIRD) issued an executive memorandum requesting 20 entities, including 14 TAFEs, four universities with TAFE divisions, and two training entities, to report certain key performance indicators. DIIRD required these performance indicators be disclosed in a performance report, subject to audit by the Auditor-General, and included in their annual reports.

During 2009, no further changes have been made to the performance reporting framework for the TAFE sector. Reliance continues to be placed on the DIIRD executive memorandum request for such information to be produced.

The preparation of the performance report by TAFEs has not been mandated under the current legislative performance reporting framework. This can occur only through the declaration of these entities by the Minister for Finance, under *FRD 27A Presentation and Reporting of Performance Information*.

In its June 2009 report, *New Directions in Accountability: Inquiry into Victoria's Public Finance Practices and Legislation* (Report No 85), the Public Accounts and Estimates Committee (PAEC) found that the more progressive jurisdictions require all public sector entities to produce audited performance reports for inclusion in their annual report to Parliament.

In December 2009, the Government provided their response to PAEC's 85th report, accepting in principle that the departments and the majority of public bodies will be required to prepare performance measures for inclusion in their annual report. The government is currently considering the specific content and extent of performance reporting.

In December 2009, the Public Finance and Accountability Bill (the Bill) was introduced to Parliament. The Bill reflects the Government's 2006 election commitment to modernise fundamental legislation in Victoria, including the State's public finance legislation. In drafting the Bill, the Department of Treasury and Finance (DTF) circulated a discussion paper on reforming Victoria's public finance legislation and considered submissions from both the public and private sectors.

One of the three key elements of the Bill involves the requirement for government planning, budgeting and accountability processes to focus on the achievement of outcomes.

In respect of performance indicators, the Minister for Finance stated in the second reading speech to the Bill that:

> *'Departments will prepare a detailed report of operations each year that will compare:*
> - *actual performance against output measures*
> - *actual performance against intermediate performance indicators*
> - *historical trend series information for performance against intermediate performance indicators.*'

Recommendation

1. Mandating performance reporting for the TAFE sector should be considered as part of the current legislative reforms to the performance reporting framework.

2.3 Audit opinions issued

2.3.1 Financial report

At 30 April 2010, 103 audit opinions had been issued on financial reports. Of these opinions issued, 101 were clear and two were qualified (104 opinions and three qualifications issued at 30 April 2009).

Figure 2C lists the three entities yet to finalise their financial reports at 30 April 2010.

Figure 2C
Incomplete audits—30 April 2010

Entity name	Entity type
La Trobe Innovation Pty Ltd	Non-FMA
La Trobe International Pty Ltd	Non-FMA
Melbourne University Publishing Ltd	Non-FMA
Total Non-FMA	**3**
Total incomplete audits	**3**

Source: Victorian Auditor-General's Office.

Independent audit opinions add credibility to financial reports by providing reasonable assurance that the information is reliable.

If the report has not been prepared in accordance with the relevant reporting framework it is issued with a qualified audit opinion.

A qualified audit opinion means that the financial report is materially different to the requirements of the relevant reporting framework, and therefore, is less reliable and useful as an accountability document.

Definitions on qualified and clear audit opinions are included in the glossary in Appendix B.

Qualifications

The University of Melbourne and Deakin University received qualified audit opinions again this year because their accounting treatment of certain grant income is not in accordance with Australian Accounting Standards.

Current accounting standards require grants which are non-reciprocal in nature 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 apply.

The 2008 audit opinion for The Meanjin Company Limited contained a qualification. As the entity ceased operations in 2008, an audit was no longer required.

Emphasis of matter

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. This is not an audit qualification but highlights the entity's reliance on continuing financial support from their parent entity to sustain its operations.

At 31 December 2009, Monash Educational Enterprises and Monash South Africa Ltd owed $65.9 million to Monash University. As their parent entity, Monash University continues to financially support the South African campus and has agreed not to require repayment of this loan in 2010. Without this support, the going concern assumption used to prepare the financial reports would be invalid.

DECA Ltd owed $1.9 million to its parent entity, Driver Education Centre of Australia Ltd, at 31 December 2009. The parent entity continues to financially support DECA Ltd operations, and has agreed to not require repayment of this loan in 2010. Without this support, the going concern assumption used to prepare the financial report would be invalid.

The financial report of the Australian National Academy of Music Limited received an emphasis of matter comment in the 2008 audit opinion. An emphasis of matter was not required in 2009 because the future of the company is no longer uncertain due to the Federal Government's commitment to provide funding support for its operations.

2.3.2 Performance report

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.

2.4 Quality of reporting

2.4.1 Financial report

The timeliness and accuracy of the preparation and finalisation of the financial report underpins its quality. Universities, TAFEs and their associated entities need to plan for, and allocate sufficient and appropriate resources, to financial report preparation. This will allow them to produce a complete, accurate and compliant financial report within the legislative time frame.

Entities should exhibit the specific practices detailed in Figure 2D.

Figure 2D
Selected better practice—financial report preparation

Key area	Better practice
Financial report preparation plan	A plan should be established which outlines the processes, resources required, milestones, oversight, and quality assurance practices required in preparing the financial report.
Preparation of shell reports	The preparation and timely provision of a shell financial report to audit allows for early identification of amendments, minimising the need for significant disclosure changes at year-end.
Materiality assessment	An assessment of materiality, including quantitative and qualitative thresholds, should be established at the planning phase in consultation with the audit committee. Materiality assists the preparers in assessing potential errors in the financial report.
Monthly financial reporting	Full accrual monthly reporting should be adopted to assist in preparing the annual financial report. This allows for the year-end process to be an extension of the month-end process.
Rigorous quality control and assurance procedures	A review of the supporting documentation, data and the financial report itself should be undertaken by an appropriately experienced and independent officer prior to providing to audit.
Supporting documentation	Documentation should be of a high standard and support and validate the financial report and provide a management trail.
Rigorous analytical reviews	Rigorous and objective analytical review procedures should be undertaken during the financial report preparation process to help to improve the accuracy of the financial report.
Reviews of controls/self assessment	Quality control and assurance processes should be sufficiently robust to provide assurance to the audit committee as to the accuracy and completeness of the financial report.
Competency of staff	Preparers of the financial report should have a good understanding and experience in applying relevant accounting standards and legislation. In addition they require project management and interpersonal skills.
Financial compliance reviews	Periodic compliance reviews should be undertaken to identify areas of non-compliance or changes to legislation that impact the financial report.
Adequate security	Sensitive information should be protected and safeguarded throughout the process to prevent inappropriate public disclosure.

Source: VAGO and ANAO *Better Practice Guide Preparation of Financial Statements* June 2009.

Assessment of university and TAFE entities performance against better practices were based on the following criteria:

- no existence—function not conducted by the entity
- developing—partially encompassed in the entities financial reporting preparation processes
- developed—entity has implemented the process, however, it is not fully effective or efficient
- better practice—entity has implemented the processes which are effective and efficient.

The ranking of each area reflects our assessment of the adoption, efficiency and effectiveness of each better practice. As shown in figure 2E, the overall quality of financial reporting has improved in 2009, when compared to 2008.

Figure 2E
Overall quality of financial reporting in 2009

	Universities		TAFEs		Total	
	(%)	(number)	(%)	(number)	(%)	(number)
Improved from previous year	63%	5	21%	3	36%	8
Same as previous year	37%	3	65%	9	55%	12
Worse than previous year	0%	0	14%	2	9%	2
Total	**100%**	**8**	**100%**	**14**	**100%**	**22**

Source: Victorian Auditor-General's Office.

The areas where better practice is commonly shared by university and TAFE entities include:

- rigorous quality control and assurance procedures
- supporting documentation
- reviews of controls/self assessment
- adequate security.

However, further improvement is needed in preparing:

- financial report plans
- shell financial reports
- materiality assessments.

Improving these areas will assist the timely preparation of quality financial reports, oversight of resource allocation planning and quality assurance procedures and the early detection and correction of errors.

Universities

This year, 63 per cent of universities improved the quality of their financial reporting processes, compared to 2008.

Over half of the universities have implemented efficient and effective processes in the following areas:

- materiality assessment
- rigorous quality control and assurance procedures
- reviews of controls/self assessment
- competency of staff
- adequate security.

Further improvement is still needed in preparing shell financial reports.

TAFEs

This year, 21 per cent of TAFEs improved the quality of their financial reporting processes when compared to 2008. A significant portion of the better practice areas were still not addressed.

Further improvement is still needed in:

- preparing financial report plans
- preparing shell financial reports
- undertaking materiality assessments
- undertaking rigorous analytical reviews
- undertaking self assessment reviews.

Following the 2006 election commitment to modernise fundamental legislation in Victoria, DTF commenced reviewing the State's public finance legislation with the objective of introducing the Public Finance and Accountability Bill (the Bill) to replace the *Financial Management Act 1994*.

In October 2008, DTF circulated a discussion paper on reforming Victoria's public finance legislation. Submissions from both the public and private sectors were received and considered by DTF. The Bill was introduced into Parliament on 8 December 2009.

If passed, the Bill will change the reporting requirements of departments and public bodies. Annual reports, including the financial report, will be submitted to the relevant minister and tabled in Parliament within three months of the end of the financial year.

This new requirement is one month earlier than the current FMA requirement. Consequently, entities will need to review and improve their reporting in order to meet the shortened time frames.

There are better practice initiatives that entities could implement to improve the quality of reporting both before and after the end of the financial year.

Initiatives before year end include:

- preparation of a project plan that includes the required human and financial resources, assignment of responsibility, and sets time frames for financial reporting
- reviewing actual and proposed changes to accounting standards, Financial Reporting Directions (FRDs) and other pronouncements, to identify significant accounting and reporting issues, and obtain agreement with VAGO about any significant changes in accounting policy or reporting practice
- preparation of shell financial reports that can be reviewed by VAGO before the final audit visit
- undertaking a hard close at an interim balance date, a month or two ahead of the end of the financial year
- give consideration to the extent to which current financial systems have performance gaps, such as the ability to generate full accrual information with minimal manual intervention.

Initiatives after year end include:

- analyse significant variances between actual and the previous period results and budgeted outcomes to identify any potential omissions or errors
- establish a system of documented sign-offs by executive managers with responsibility for components of the financial report
- undertake a quality assurance review of the draft financial report before submission for audit
- submit the draft financial report to the audit committee for review and endorsement before finalisation.

These better practice initiatives are actively promoted by VAGO as part of our engagement with entities.

Recommendation

2. Universities and TAFEs should further improve their financial reporting processes, by preparing plans and shell financial reports.

2.4.2 Timeliness

Recognising the accountability role in relation to 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.

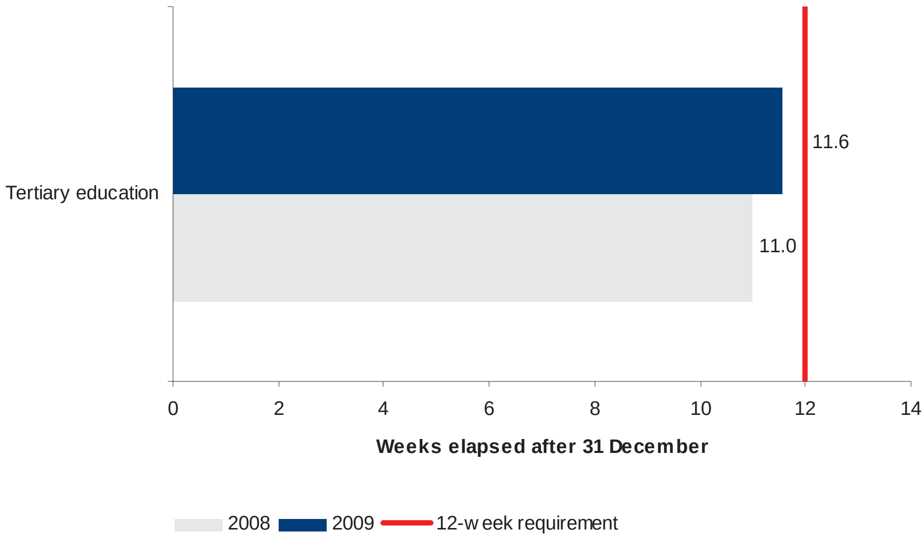
The legislated time frame for entities that report in accordance with the FMA is to finalise their audited financial reports within 12 weeks of the end of the financial year. These requirements also apply to entities controlled by universities and TAFEs reporting under the FMA, as FMA entities are required to finalise their financial reports, including the consolidation of the controlled entities, within 12 weeks.

For 2009, 68 per cent or 72 of the 106 tertiary education entities achieved the 12-week time frame to finalise their financial report. The timeliness of financial reporting deteriorated compared to 2008, where 79 per cent satisfied the 12-week requirement.

In addition, 103 out of 106 entities completed their financial reports by 30 April 2010.

Figure 2F sets out the average time taken by tertiary education entities to finalise their financial reports.

Figure 2F
Average time to finalise financial reports for tertiary education entities

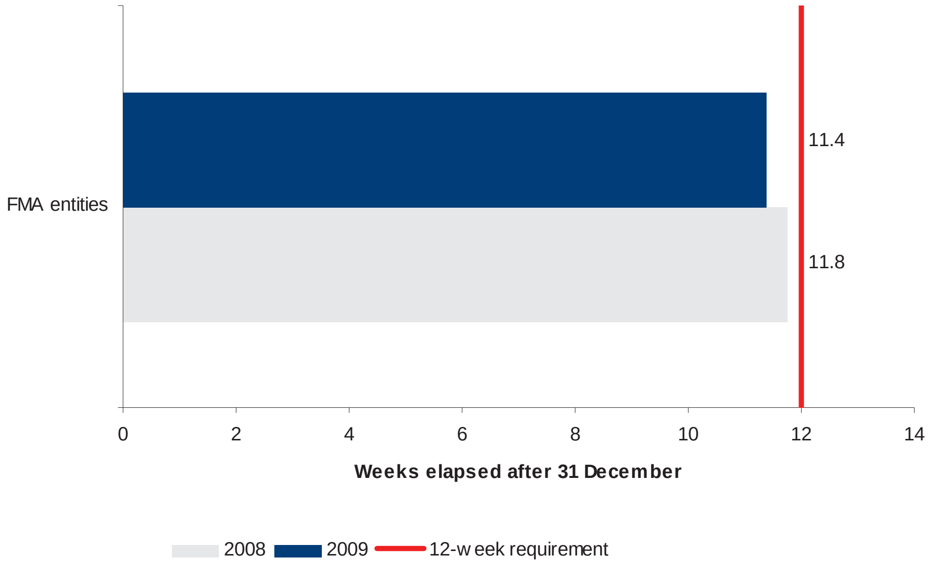


Source: Victorian Auditor-General's Office.

For those entities within the tertiary education sector that report under the FMA, 23 out of 26 entities or 88 per cent completed their financial reports within the statutory 12-week time frame. This is an increase of two entities when compared to 2008.

Figure 2G sets out the average time taken by tertiary education entities reporting under the FMA to finalise their financial reports.

Figure 2G
Average time to finalise financial reports for FMA tertiary education entities



Source: Victorian Auditor-General's Office.

2.4.3 Accuracy

The frequency and size of errors in the draft financial statements requiring adjustment are direct measures of accuracy. Ideally, there should be no errors or adjustments.

When the auditor detects errors in the draft financial statements they are raised with management. Material errors need to be corrected before a clear audit opinion can be issued. The entity itself may also change its draft financial statements after submitting it to audit, if their quality assurance procedures disclose that reported information is incorrect or incomplete.

Overall, there are two types of adjustments:

- financial balance adjustments—changes to the balances being reported
- disclosure adjustments—changes to the commentary or financial note disclosure within the financial statements.

An analysis of errors for the eight universities, 14 TAFEs and three training entities revealed accuracy has improved. This year 11 entities required material adjustments to finalise their financial statements, compared to 17 entities in 2008.

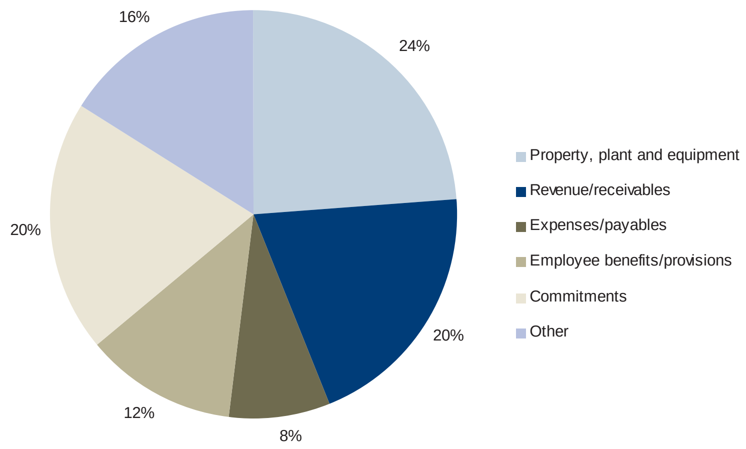
For the 11 entities requiring adjustments, an average of two adjustments were required for each university, one adjustment for each TAFE, and one for each training entity. This is an improvement on the prior year, where each university and TAFE required three adjustments, and each training entity required two adjustments. These results indicate that the average number of adjustments required for each entity has decreased from the prior year.

There were a total of 25 material adjustments to the net result or the net asset position reported in the draft financial statements in 2009. There were five significant classification errors that required adjustment in the draft financial statements. Eight errors were identified for note disclosures that required adjustment of which five related to the commitments note. There was no discernable trend in the incidence of material adjustments and significant classification errors across the sector.

The total value of adjustments on the net asset position was $8 million, comprising adjustments to assets of $15 million and liabilities of $23 million. The total value of adjustments on the net result was $15 million, comprising of adjustments to revenue of $3 million and adjustments to expenses of $18 million. In addition, five classification errors were identified, which did not affect the net result or net position, amounting to $5 million.

Figure 2H identifies the proportion of material adjustments by category required to the draft financial statements.

Figure 2H
2009 Material adjustments



Source: Victorian Auditor-General's Office.

Further comment on the nature of the material adjustments and classification errors follows:

- **Property, plant and equipment**—A substantial number of adjustments were required to correct the disclosure of property, plant and equipment, particularly in regard to land and building revaluation amounts, and the calculation of depreciation. A number of classification adjustments were also required as assets were incorrectly classified.

- **Revenue/receivables**—Adjustments were required to the amount of revenue recognised where entities had incorrectly brought certain revenue to account or had brought revenue to account in the wrong year, contrary to the applicable accounting standard.
- **Accrued expenses**—A number of adjustments were required to accrued expenses as certain accounts payable expenses had been incorrectly recorded in the wrong accounting period, had not been correctly calculated, or had been overlooked.
- **Employee benefits provisions**—Adjustments were required to correct errors in the calculation of long-service leave provisions, generally caused by the incorrect application of on-costs and probability factors. Incorrect calculation of on-costs also resulted in adjustments to annual leave provisions.
- **Commitments**—A number of adjustments were required to correct the disclosure of commitments, in particular to the calculation methodology of capital commitments and remuneration commitments.

2.5 Effectiveness of general internal controls

2.5.1 Introduction

Tertiary education governing bodies are responsible for the development and maintenance of adequate systems of internal control to enable:

- preparation of accurate financial records and other information
- timely and reliable external and internal reporting
- appropriate safeguarding of assets
- prevention or detection of errors and other irregularities.

The respective legislation for each of the universities is similar and requires management to implement an internal control structure.

In respect of TAFEs, the *Education and Training Reform Act 2006*, also requires management to implement an internal control structure.

2.5.2 Common internal control weaknesses

Overall, our assessment of internal control structures found the strength of internal control systems and processes for financial reporting purposes was adequate. We identified a number of instances where important internal controls needed to be strengthened. These matters were reported to the entity's governing body and management team.

The commonly identified areas requiring improvement were:

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

Review of masterfile standing data changes

Financial systems, such as accounts payable and payroll systems, rely on the maintenance of standing data on masterfiles to process individual payments. Masterfile data can include name, address, pay rates and bank account details.

It is important that all changes made to standing data on masterfiles are checked so that they are complete, accurate and legitimate. Otherwise subsequent processing errors can be repeated many times over. Further, an independent review of masterfile standing data changes is important for the detection and timely correction of unintentional or fraudulent changes, and to reduce the risk of payments to unauthorised suppliers or unauthorised adjustments to pay rates.

This year we found the following control weaknesses in masterfile maintenance:

- no review of changes made to vendor and employee master files
- no audit trail kept of changes made to employee master files
- no assessment of user access rights to employee master files.

Preparation and review of account reconciliations

The majority of entities maintain subsidiary systems such as payroll, fixed assets and accounts payable systems, which should be periodically reconciled to the general ledger to confirm they balance.

Timely preparation and independent review of reconciliations decreases the risk that errors may go undetected or may not be resolved in a timely manner; both of which can adversely impact on the accuracy of periodic financial reporting.

It was found that while entities were generally performing reconciliations, the following exceptions occurred:

- account reconciliations were not performed and independently reviewed
- unreconciled items were not investigated and resolved promptly.

Payment of invoices

Entities should have in place policies and procedures surrounding the processing of invoices. A number of failures in controls were identified this year including:

- invoices not matched to a pre-approved purchase order
- multiple payment of invoices
- invoices had not been authorised for payment by the appropriate delegate
- invoices had no general ledger references
- no approval prior to payment.

Tendering policies

Entities should have in place policies for the tendering of goods and services. Incidences of non-adherence to these policies were noted:

- incorrect method of quotes obtained
- no quotes or tenders.

Information system controls

Effective management of financial information system controls is critical to the accuracy, confidentiality and integrity of transaction processing and financial reporting, and to reduce the potential for errors and the possibility of fraudulent behaviour.

This year, the common control weaknesses identified were:

- weak password settings
- lack of attention to logging of unauthorised access to database management systems
- inadequate change management procedures for IS applications
- inadequate policies and procedures for user acceptance testing.

Recommendation

3. Universities and TAFEs 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.

2.6 Management controls over travel expenditure

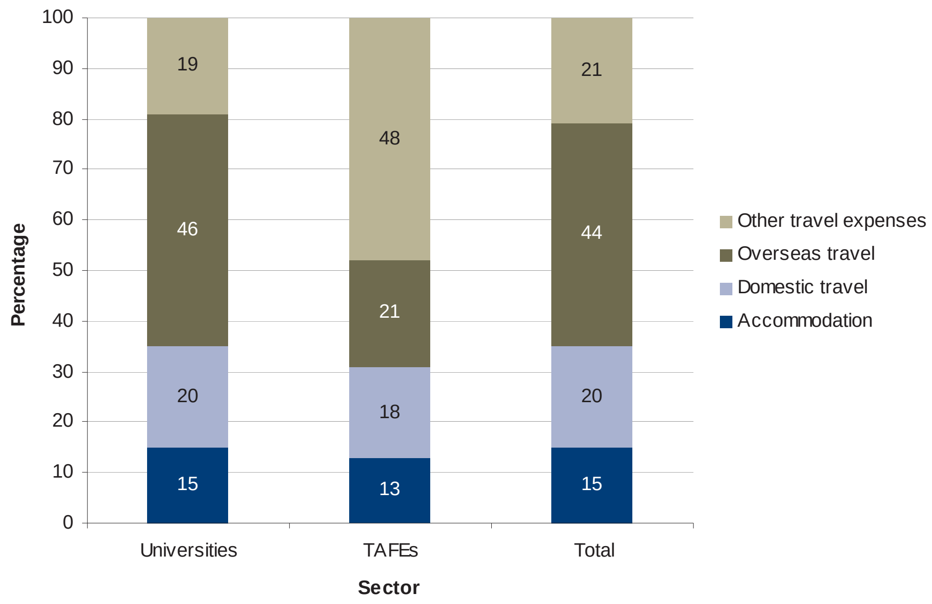
2.6.1 Introduction

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.

Figure 2I shows the composition of travel expenditure by universities and TAFEs, where 44 per cent or $52 million relates to overseas travel, 20 per cent or $23 million relates to domestic travel and 15 per cent or $18 million relates to accommodation.

Figure 2I
Amount and composition of travel expenditure in 2009



Source: Victorian Auditor-General's Office.

2.6.2 Legislative framework

The universities are governed by separate but similar enabling legislation, which allows for the expenditure of funds in any manner authorised by their governing council. In respect of TAFEs, the *Education and Training Reform Act 2006* also permits TAFEs to spend their funds in any manner authorised by their governing body.

There is no specific legislation governing the reporting of travel-related activities for the tertiary education sector as a whole. There has also been very limited guidance issued for tertiary sector entities on better practices for the management and reporting of travel-related activities.

There have been some better practice guidelines developed by the Commonwealth Department of Education, Employment and Workplace Relations. However, these documents do not provide specific guidance on how an entity should manage travel-related activities and expenditure—rather, they specify broad requirements on the acceptable classes of travel and acceptable categories of travel-related expenditure.

The Victorian Government Purchasing Board had developed some better practice guidelines in 2006, entitled the 'Victorian Public Sector Travel Principles'. However, these principles were developed for government departments, and only provide guidance in the following areas:

- domestic and overseas travel approval
- recording of acceptable travel expenditure
- accommodation related expenditure
- non-state funded travel.

These best practice guidelines are not mandatory—rather, they are to be used by entities to help inform their own governing bodies when developing their travel policies and practices.

Employees within the tertiary education sector undertake substantial travel, including overseas travel. This travel is undertaken to conduct academic research, to contribute to research activities, and investigate commercial opportunities. As such, specific guidance is warranted for the tertiary education sector to more comprehensively and reliably inform their individual travel management policies. This would also assist their governing bodies' oversight and management of travel expenditure.

Recommendation

4. DIIRD should develop better practice guidance for a travel management framework for universities and TAFEs.

2.6.3 Travel management framework

The primary responsibility for managing travel expenditure lies with the governing body of the university or TAFE. Prudent financial management requires that these governing bodies should establish and monitor controls to achieve an appropriate balance between costs and benefits. It is important that the travel management framework includes appropriate risk management controls that address probity in this sensitive area of spending.

An effective means of establishing controls is for universities and TAFEs to adopt a travel management framework that:

- has comprehensive travel policies
- prescribes appropriate travel management practices
- establishes appropriate governance and oversight arrangements.

The key elements of an effective travel management framework are detailed in Figure 2J.

Figure 2J
Key elements of an effective travel management framework

Framework component	Key element
Policy	• Succinct statement of travel principles and objectives • Legislative requirements • Executive management regularly review and update travel policies • Criteria for determining the need for a travel service provider and process for selecting a preferred provider • Reflective of terms and conditions of contractual arrangements with suppliers or travel service providers • Includes details on contentious travel related issues, such as frequent flyer schemes, private travel arrangements and best fare prices and appropriate travel expenses • Governing body responsibilities, monitoring and oversight arrangements
Management practices	• Adhere to travel management policies including financial delegation, travel expense claim limits, risk management controls and probity • Travel arrangements should be approved prior to travelling by the relevant financial delegate • Establishment of a central ‘travel management’ unit which processes and manages all travel-related activities, including managing contracts with preferred suppliers • Develop an integrated information management system for tracking, processing, approving and disseminating travel activities and expenditure • Comprehensive reporting to executives and the governing body
Governance and oversight	• The governing body regularly oversees travel expenditure, including outcomes obtained from travel • Regular review and approval of travel policies and procedures • Establish monitoring arrangements of travel management controls and policy compliance, including the use of internal audit

Source: Victorian Auditor-General’s Office.

We reviewed the travel management framework of the eight universities and 14 TAFEs. The entities’ travel policies, practices and governance and oversight arrangements were assessed against the elements outlined in Figure 2J.

Overall, we found that the policy frameworks and management controls over travel expenditure by universities and TAFEs should be improved.

2.6.4 Travel policies

All eight universities and 14 TAFEs have an approved travel policy.

While no entity's travel policy contained all of the elements identified in Figure 2J, we found that the policy documents maintained by the universities were generally more detailed than those maintained by the TAFEs. We also found the policy documents maintained by the universities were more in line with better practice when compared to the TAFE policies.

The following elements of an effective travel management framework were included in travel policies reviewed:

- appropriate financial delegations and approval authorities
- acceptable levels and categories for reimbursement of travel expenditure
- appropriate personnel who are authorised to approve travel activities and travel-related expenditure
- pre travel and post travel documentation required to be submitted for approval
- how to achieve the best fare available
- acceptable classes for domestic and international air travel.

However, the following elements of the travel management framework were not included in the travel policies reviewed:

- 75 per cent of universities and 43 per cent of TAFEs did not include approved monetary limits on accommodation whilst interstate or overseas
- 63 per cent of universities and 79 per cent of TAFEs did not include arrangements for altered or cancelled tickets
- 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 process for selecting a preferred provider
- 61 per cent of TAFEs did not include guidance on car hire arrangements whilst interstate/overseas, including preferred suppliers and refuelling arrangements
- 63 per cent of universities and 57 per cent of TAFEs did not document the governing body's monitoring and oversight role
- 71 per cent of TAFEs did not include guidance on the preferred airlines to be utilised for domestic and international air travel
- 29 per cent of TAFEs did not specify acceptable private travel arrangements, including arrangements for accompanying family members.

Recommendation

5. Universities and TAFEs should review their travel management policies against our travel management framework guidance.

2.6.5 Travel management practices

This section summarises the major findings from the review of elements of travel management practices operating at universities and TAFEs. Travel management practices vary greatly between the universities and TAFEs.

The ability of management to monitor and approve travel-related expenditure in a timely manner is dependent on having an approved set of policies and procedures in place and effective reporting systems. An entity can mitigate the risk of inappropriate or unauthorised travel expenditure by having effective travel management practices.

Our review found that 63 per cent of universities and 93 per cent of TAFEs do not have an integrated system for tracking, approving and processing travel activities. Monash University, The University of Melbourne, Victoria University and Sunraysia Institute of TAFE have an integrated system for the collection, tracking and approval of all travel-related activity and expenditure.

To facilitate greater transparency and monitoring of travel activities, universities and TAFEs should consider establishing integrated travel management systems to process and monitor travel-related activities.

Our review found that 50 per cent of universities and 79 per cent of TAFE entities do not have a central travel management unit which handles all travel-related bookings and enquiries. It was notable that universities and TAFEs that utilised a central travel management unit typically had more comprehensive policies and reporting to governing bodies, and were better able to demonstrate regular and more robust monitoring of compliance.

Improvements in travel management practices would mitigate the risk that policies and procedures are not observed. These improved controls would also form part of an entity's risk mitigation strategy against inappropriate or unauthorised travel expenditure.

Recommendation

6. Universities and TAFEs should establish travel management systems to assure consistency in processing of and monitoring of travel-related activities.

2.6.6 Governance and oversight

Periodic policy review and update

It is important that travel management policies are periodically reviewed by the governing board. This enables the governing body to update policies to recognise changing circumstances and where deficiencies in controls and management practices are identified.

Overall we found that 50 per cent of universities' and 71 per cent of TAFEs' governing bodies do not regularly review their travel management policy. This lack of a regular review process increases the risk that policies are incomplete or outdated.

Monitoring of expenditure and policy compliance, and outcomes gained from travel activities

It is the responsibility of the governing body of each university or TAFE to oversee that expenditure complies with relevant internal policies and governing legislation.

Our review found that 57 per cent of TAFEs do not regularly report travel expenditure to the governing body. Further, 63 per cent of universities and 57 per cent of TAFEs do not report the outcomes obtained from travel to the governing body.

Of those that did report to their governing body, there was a high correlation with the existence of comprehensive policies, a central management unit and monitoring of compliance. This is particularly important for travel related to marketing, commercial and research purposes, as it enables the governing body to review the outcomes of interstate and overseas travel.

Internal audit

Internal audit reviews can provide universities and TAFEs with assurance that internal controls and processes are working as intended, and that they have an effective governance and risk management framework to enable achievement of their desired outcomes and appropriately manage associated risks.

Our review found that 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.

Recommendations

7. Universities and TAFEs should periodically review and update their travel management policies.

8. Universities and TAFEs should prepare regular reports of travel activities for their governing bodies.

9. Universities and TAFEs should establish monitoring arrangements to assess the effectiveness of travel management controls and policy compliance, including regular internal audit reviews.

2.7 Financial performance

2.7.1 Introduction

The objective for universities and TAFEs should be to generate a sufficient surplus from operations to meet financial obligations, fund asset replacement and new asset acquisitions. The ability of universities and TAFEs to achieve these objectives depends largely on each entity's expenditure management and revenue maximisation practices. This is reflected in the composition and rate of change in their operating revenues and expenses.

Financial performance is measured by the operating result that is the difference between revenue inflows and expenditure outflows.

Financial position is generally measured by reference to net assets—the difference between total assets and total liabilities. However, this measure is less relevant in the public sector context, as most public sector entities are not-for-profit, and do not hold assets that generate revenue. Instead, they hold infrastructure assets, which require funding for operating costs, repairs and maintenance, replacement and renewal.

As the revenue base for universities and TAFEs is not tied to the value of their asset base and they cannot sell most of their assets to obtain funds, the objective should be to maintain their infrastructure assets, while managing debt so it can be paid back from future operations.

The ability of universities and TAFEs to maintain infrastructure depends on asset and debt management policies, and is reflected in the composition and rate of change of the value of assets and liabilities.

2.7.2 Universities

Operating result

Figure 2K provides a summary of the operating results for the universities as well as an analysis against the prior year.

Figure 2K
Universities operating results

	Operating result 2009 $'000s	Operating result 2008 $'000s	Movement $'000s	Movement (%)
Universities	**509 265**	**32 054**	**477 211**	**1 489 %**

Source: Victorian Auditor-General's Office.

Universities generated a total operating surplus of $509 million in 2009, a substantial increase of $477 million from 2008. This improvement 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 and is discussed in more detail in section 2.7.5.

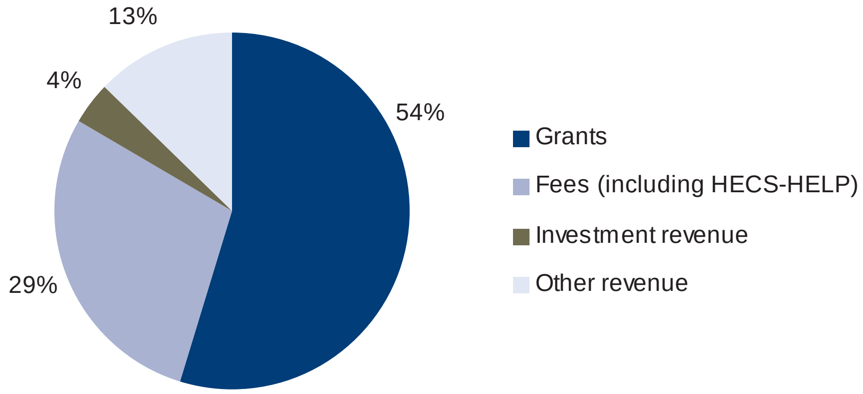
Government funding comes in two categories—delivery of services, and capital projects. This year, universities received $166 million in capital funding from the commonwealth government, an increase of $24 million or 17 per cent. This reflects the significant capital programs in place at a number of universities as part of the federal government's education investment fund.

Revenue

In 2009, universities generated $6 billion in operating revenue, an increase of $582 million when compared to 2008.

Figure 2L shows that the overall composition of operating revenues for the universities, which has remained comparable with 2008.

Figure 2L
Universities revenue composition



Source: Victorian Auditor-General's Office.

The largest source of revenue for universities is commonwealth and state government funding, which collectively accounted for 54 per cent of total revenue received in 2009. Government funding grew by $217 million or 7 per cent from 2008.

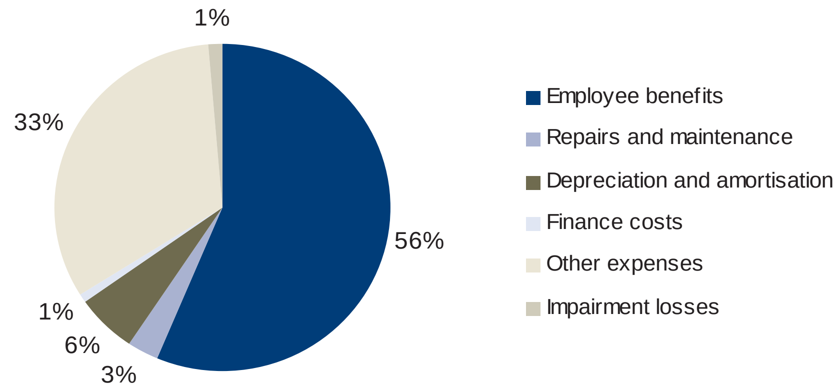
The second largest revenue source is student fee revenue, which accounted for 29 per cent of total revenue received in 2009. Student fee revenue received by the universities had also increased from the prior year by $127 million or 8 per cent to $1.7 billion in 2009. This is in line with the growth in the international student market, as international full time equivalent student numbers had increased by 7 per cent in 2009.

Expenditure

In 2009, universities reported $5.5 billion of operating expenses, an increase of $104 million or 2 per cent from 2008. Figure 2M provides an overview of the composition of operating expenditure in universities. The composition has remained comparable to 2008 except for impairment losses on investments which, as previously mentioned, was a major expense item in 2008.

The largest component of university expenditure for 2009 relates to employee benefits, representing 56 per cent of total expenditure. The universities experienced an increase in this balance of $207 million or 7 per cent, due to new higher education salary agreements during the year. This increase was offset by the $251 million decrease in impairment losses recognised.

Figure 2M
Universities expenditure composition



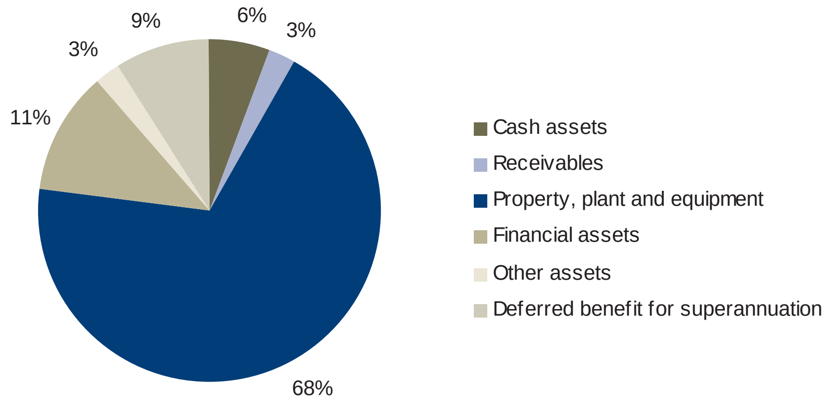
Source: Victorian Auditor-General's Office.

Assets

The total assets for universities increased by 11 per cent or $1.3 billion, when compared to 2008. This increase was mainly attributed to the large movement in property, plant and equipment balance for 2009. This movement was due to the revaluation of land and buildings totalling $560 million.

Figure 2N shows the composition of total assets for the universities for 2009, with property, plant and equipment making up the largest component of total assets this year.

Figure 2N
Universities asset composition



Source: Victorian Auditor-General's Office.

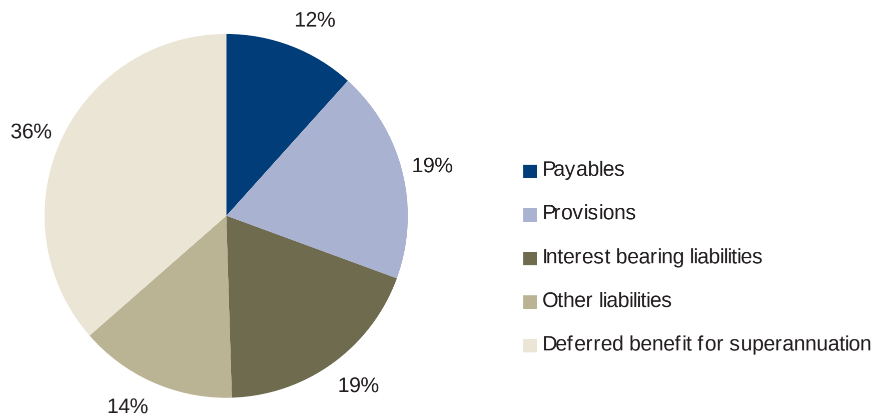
Liabilities

Total liabilities for the universities amounted to $3.1 billion, an increase of $111 million or 4 per cent from 2008.

The primary driver of this movement was the deferred superannuation liability balance, which rose by $143 million or 14 per cent. This balance is subject to actuarial assessment each year, and can fluctuate greatly depending on market conditions. This movement was also partially offset by a decrease in payables of $69 million or 16 per cent.

Figure 2O shows the composition of total liabilities for universities for 2009.

Figure 2O
Universities liability composition



Source: Victorian Auditor-General's Office.

2.7.3 TAFEs

Operating result

Figure 2P provides a summary of the operating results for the TAFEs and an analysis of prior year comparatives.

Figure 2P
TAFEs operating results

	Operating result 2009 $'000s	Operating result 2008 $'000s	Movement $'000s	Movement (%)
TAFEs	130 636	57 552	73 084	127 %

Source: Victorian Auditor-General's Office.

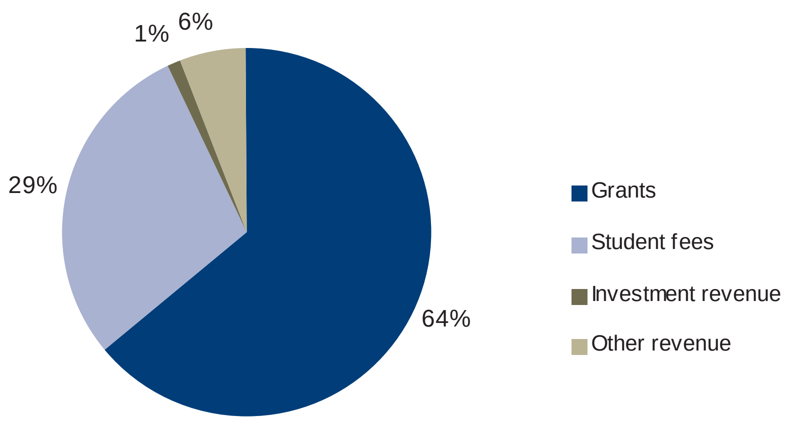
In 2009, TAFEs generated a total operating surplus of $131 million, an increase of $73 million or 127 per cent on the prior year. The significant movement in their underlying result is due to the increased capital funding of $44 million or 60 per cent received this year. This reflects the significant number of capital projects underway as part of the Federal Government's education investment fund. In 2008, a number of TAFEs were also affected by the global financial crisis, and were required to recognise one off impairment losses amounting to $15 million last year.

Revenue

In 2009, TAFEs generated operating revenues of $1.1 billion, an increase of $121.1 million or 12 per cent on the prior year. The most significant component of the increase was again in government funding, which grew by $91 million or 15 per cent and contributed to 75 per cent of the overall increase in operating revenues. Student fees grew by $21 million or 7 per cent, and were the other major contributor to the overall increase in operating revenues.

The composition of operating revenue for TAFEs as detailed in Figure 2Q has remained consistent from 2008. Government funding contributed 64 per cent to total revenue, and student fees contributed to 29 per cent of total revenue.

Figure 2Q
TAFEs revenue composition



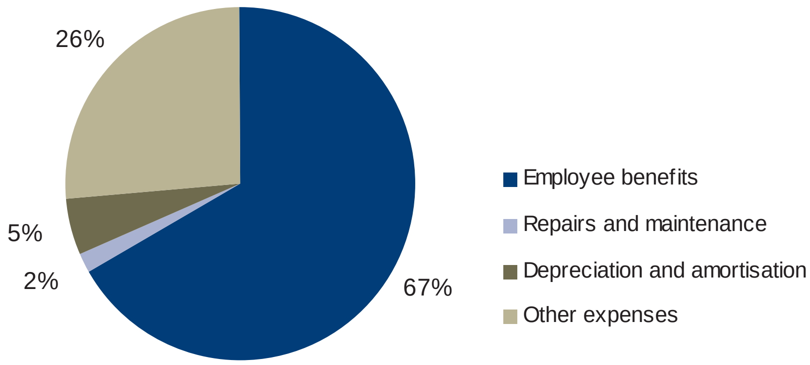
Source: Victorian Auditor-General's Office.

Expenditure

In 2009 TAFEs incurred $992 million in operating expenditure, an increase of $48 million or 5 per cent from the prior year. This is an improvement from 2008, where expenses increased by $109 million or 13 per cent.

Figure 2R provides an overview of the composition of operating expenditure in TAFEs. The largest component of TAFE expenditure relates to employee benefits, representing $662 million or 67 per cent of total expenditure. Employee benefits grew by $63 million or 11 per cent due to the outcomes of a new collective salary agreement.

Figure 2R
TAFEs expenditure composition

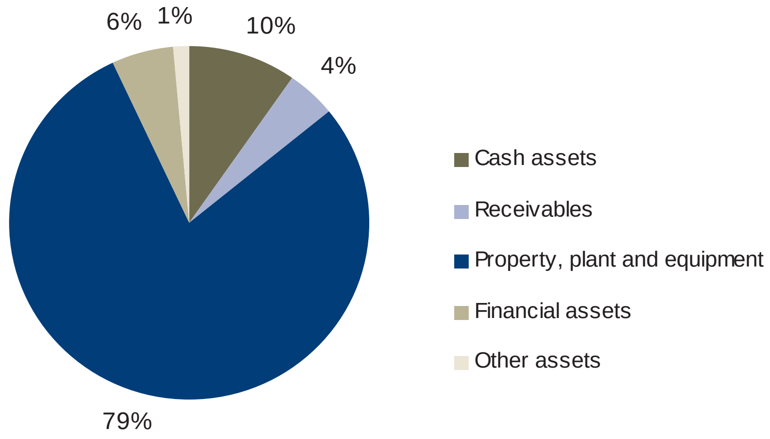


Source: Victorian Auditor-General's Office.

Assets

Assets have increased by $146 million or 8 per cent in 2009. Figure 2S outlines the composition of TAFE assets, where property, plant and equipment make up the majority of the asset holdings of TAFEs. This is consistent with the prior year.

Figure 2S
TAFEs asset composition

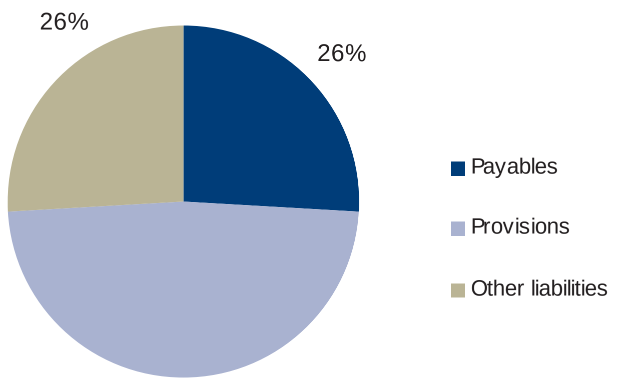


Source: Victorian Auditor-General's Office.

Liabilities

TAFE sector liabilities primarily comprise employee leave provisions, and payables. In 2009, total liabilities grew by $9 million or 4 per cent. This was due to increases in employee leave provisions of $4 million or 4 per cent and payables of $4 million or 8 per cent. Figure 2T shows the composition of the TAFEs liabilities.

Figure 2T
TAFEs liability composition



Source: Victorian Auditor-General's Office.

2.7.4 Trends in student related revenue

As identified in Figures 2L and 2Q, student fee revenue is a significant portion of revenue for universities and TAFEs. As required by ASA 570 *Going Concern*, student fee revenue is critical in our assessment of whether the entity is a going concern. The entity must also consider the going concern assumption when it prepares its financial report under AASB 101 *Presentation of Financial Statements*.

The trend for the past four years for universities and TAFEs has been a steady growth in international student fees. The growing contribution of international student fees increases the exposure for both universities and TAFEs to the increasingly competitive market for international students.

Universities

In 2009, total student revenue increased by $132 million, compared to 2008. This increase is due to a $154 million rise in international student revenue. However, domestic student revenue fell $22 million or 8 per cent, and can be attributed to the abolition of domestic full fee paying places from 1 January 2009.

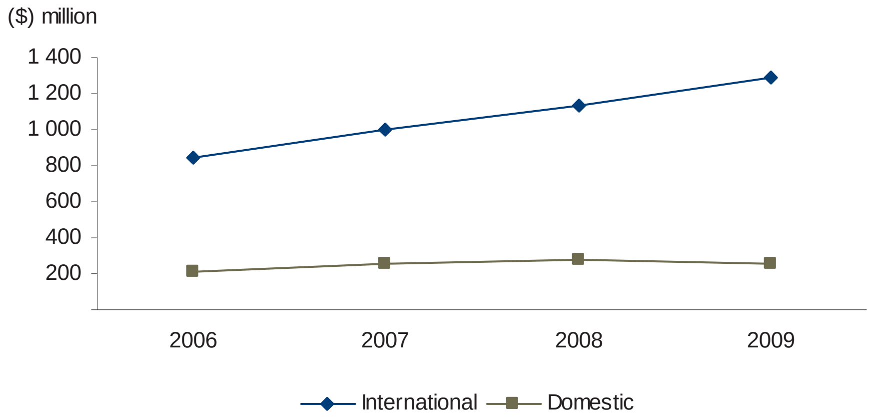
La Trobe University recorded the highest relative growth in student fees with a $21 million or 29 per cent increase on the prior year. Victoria University recorded the second highest relative growth of $10 million or 15 per cent. Of the two larger universities, Monash University's student fee revenue increased by $47 million or 14 per cent and The University of Melbourne's student fee revenue decreased by $1 million or 0.3 per cent.

The University of Ballarat recorded a decline in student revenue in 2009 of $6 million or 7 per cent.

Figure 2U provides an analysis of student fees for universities over the past four years, where international student revenue forms a significant part of total student revenue.

The trend in international student fees over the past four years shows an increase of $438 million or 52 per cent for universities. This significant growth highlights the increasing contribution of revenue from international students.

Figure 2U
Student fee revenue—universities



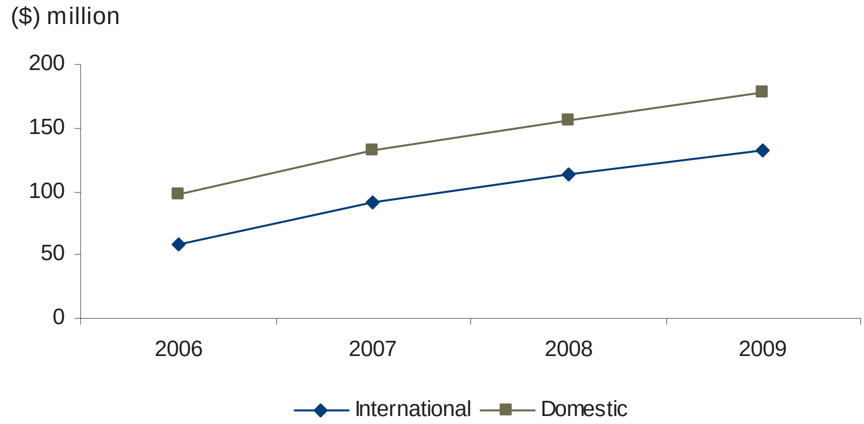
Source: Victorian Auditor-General's Office.

TAFEs

Box Hill Institute of TAFE and Holmesglen Institute of TAFE recorded the highest dollar value student revenue increases of $5 million each or 18 per cent and 12 per cent, respectively. Consistent with this growth in student revenue, international student load numbers have grown in 2009 by 17 per cent compared to the prior year.

Figure 2V provides an analysis of student revenue for TAFEs over the past four years, where international student fees form a significant part of total student revenue.

Figure 2V
Student fee revenue—TAFEs



Source: Victorian Auditor-General's Office.

The four-year trend in international student fees shows an increase of $74 million or 128 per cent. The continuing trend in international student numbers and revenue shows that TAFEs are still pursuing overseas markets to generate revenue.

2.7.5 Impact of the financial market recovery on investments

Universities

The recent global financial crisis severely reduced the value of equities traded on share markets during 2008 and 2009. Victorian universities and TAFE institutions hold substantial investment portfolios which consist of Australian and international equities.

A summary of investment movements experienced by universities is shown in Figure 2W.

Figure 2W
Summary of investment movements—universities

Entity	Movement in investments (after impairment) 2009 $'000s	Total investments (after impairment) 2009 $'000s	Total investments (after impairment) 2008 $'000s	Impairment loss 2009 $'000s	Impairment loss 2008 $'000s
The University of Melbourne	52 711	1 061 310	1 008 599	53 703	231 631
Monash University	36 846	185 167	148 321	-	61 633
Swinburne University of Technology	18 204	59 913	41 709	779	7 718
The University of Ballarat	23	784	761	-	4 574
Universities	**107 784**	**1 307 174**	**1 199 390**	**54 482**	**305 556**
Monash University Foundation	16 060	110 687	94 627	-	29 673
Melbourne Business School Ltd	6 028	61 474	55 446	189	19 292
RMIT Foundation	2 914	8 604	5 690	-	1 871
Controlled entities	**25 002**	**180 765**	**155 763**	**189**	**50 836**
Total universities and controlled entities	**132 786**	**1 487 939**	**1 355 153**	**54 671**	**356 392**

Note: Investments shown above are only those classified as available for sale financial assets.
Source: Victorian Auditor-General's Office.

The applicable accounting standard, AASB139 *Financial instruments: Recognition and Measurement*, requires an entity to assess, at each reporting date, whether there is any objective evidence that an investment is impaired. When impairment occurs, the loss is recognised in the operating result, and is measured as the difference between the acquisition cost and current market value. Impairment losses are non-cash in nature and only impact on cash flows on disposal of the investment.

In 2008, universities and controlled entities recorded a total of $356 million of impairment losses in their operating results due to the reductions in the market value of the financial assets.

During 2009, the value of financial assets traded on financial markets had improved compared to the prior year resulting in a reduction in impairment losses. Total impairment losses recorded for 2009 was $55 million, which is a significant improvement from the $356 million recorded in the prior year.

The University of Melbourne recorded $53.7 million of impairment losses in their 2009 operating result, where $32 million is due to the decline in the market value of three unlisted management investment schemes. No other university holds these particular investments.

TAFEs

A summary of investment movements experienced by TAFEs is shown in Figure 2X.

Figure 2X
Summary of investment movements—TAFEs

TAFEs	Movement in investments (after impairment) 2009 $'000s	Total investments (after impairment) 2009 $'000s	Total investments (after impairment) 2008 $'000s	Impairment loss 2009 $'000s	Impairment loss 2008 $'000s
Holmesglen Institute of TAFE	5 651	36 513	30 862	289	15 006
East Gippsland Institute of TAFE	310	3 239	2 929	-	58
TAFEs	**5 961**	**39 752**	**33 791**	**289**	**15 064**

Note: Investments shown above are only those classified as available for sale financial assets.
Source: Victorian Auditor-General's Office.

During 2008, two TAFEs impaired their investments by $15.1 million, including investments in collateralised debt obligations which were impaired by $7.5 million. The market for collateralised debt obligations became less active due to the global financial crisis, resulting in a decline in the market value.

In 2009, the value of financial assets traded on financial markets had improved, though impairment losses of $0.3 million were recorded. TAFEs who were previously exposed to impairment losses are now recording positive gains in their investment market values.

2.8 Financial sustainability

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.

Insight into the financial sustainability of the tertiary education sector is obtained from analysis of five financial sustainability indicators over a four-year period. The indicators comprise five core indicators, being underlying result, liquidity, debt-to-equity, self-financing and capital replacement. These indicators reflect each entity's funding and expenditure policies, and indicate whether current revenue and expenditure policies are sustainable.

Financial sustainability should be viewed from both a short-term and long-term perspective. The shorter-term indicators involve the entity's ability to maintain a positive operating cash flow and adequate cash holdings, and to generate an operating surplus over time. These are the underlying result and liquidity indicators.

Whereas the longer-term indicators signify whether there is adequate funding available for spending on asset replacement to enable the entity to maintain the quality of service delivery and to help meet community expectations and the demand for these services. These are the self-financing and capital replacement indicators.

The debt-to-equity indicator is also a longer-term indicator as it measures the entity's financial leverage, being the degree to which an entity's activities are funded by debt.

Appendix A describes the sustainability indicators and the risk assessment criteria we use in this report.

2.8.1 Universities

The university sector's overall financial sustainability risk assessment is low based on an analysis of five indicators over a four-year period. However, La Trobe University's and Victoria University's overall financial sustainability risk assessments are moderate.

The sector's results for the five indicators are generally positive, including:

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

Figure 2Y summarises the results of the five financial sustainability indicators at a sector and individual entity level, over a four-year period.

Figure 2Y
Four-year mean financial sustainability risk assessment 2006–2009

Universities	Underlying result (%) 4-year mean	Liquidity 4-year mean	Debt-to-equity (%) 4-year mean	Self-financing (%) 4-year mean	Capital replacement 4-year mean	Overall risk assessment 4-year mean
Deakin University	12.6%	2.1	2.1%	22.6%	1.9	●
La Trobe University	2.8%	1.4	5.2%	9.3%	1.4	●
The University of Melbourne	1.4%	1.7	5.1%	12.1%	1.8	●
Monash University	4.7%	0.7	21.7%	10.0%	2.2	●
RMIT University	8.4%	1.2	2.1%	16.6%	3.0	●
Swinburne University	10.6%	3.3	1.2%	17.1%	1.9	●
University of Ballarat	11.2%	3.6	1.4%	16.4%	1.5	●
Victoria University	5.1%	3.2	0.0%	7.9%	2.0	●
University average	**7.1%**	**2.2**	**4.9%**	**14.0%**	**2.0**	●

Note: High-risk results are shown as red, moderate-risk results are shown as orange, and low-risk results are shown as green.

Source: Victorian Auditor-General's Office.

The university sector average for the underlying result, liquidity, debt-to-equity and capital replacement indicators are low risk assessments.

The university sector average for the self-financing indicator is a moderate risk assessment. However, La Trobe University and Victoria University are high risk, meaning there is a risk that assets cannot be replaced and new assets purchased from operating cash flows over the long term. Their cash flows from operating activities require monitoring, as asset renewals and additions are an important element in the growth of the universities.

The university sector average for the capital replacement sustainability indicator is a low-risk assessment. All universities had positive results for this indicator, which highlights that spending on replacing existing assets is occurring at a faster rate than depreciation.

Universities—four-year trend analysis

The results of the four-year trend analysis of financial sustainability indicators for universities are provided in Appendix A.

The underlying result indicator for the university sector maintains a low-risk assessment over the four-year trend period, and has improved from 6.8 per cent in 2006 to 9.6 per cent in 2009.

The University of Melbourne's underlying result had declined in 2008 due to one off impairment losses recognised in that year. However, the indicator has since improved to be low risk in 2009.

The underlying result indicator for the University of Ballarat shows a slight increase over the past four years, and maintained a low risk assessment. The university recorded a positive 12.5 per cent result for 2009, which is driven by $22 million of capital funding grants.

The liquidity indicator results for the university sector have remained consistent at a low-risk assessment over the four-year period up to 2009.

The self-financing indicator trend for the university sector has marginally improved over the four-year period and remains at a moderate risk assessment.

The University of Ballarat and The University of Melbourne's capacity to self-finance operations has declined over the four-year period. This indicator will need to be monitored for all universities, as a continuing decline may suggest that assets will not be able to be replaced from operating cash flows over the long-term.

2.8.2 TAFEs

The TAFE sector's overall financial sustainability risk assessment is low based on an analysis of five indicators over a four-year period. However, Bendigo Institute of TAFE's and Wodonga Institute of TAFE's overall financial sustainability risk are moderate.

The sector's indicators are generally positive, including:

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

Our analysis of the indicators covers a four-year period, 2006 to 2009. Figure 2Z summarises the results of the five financial sustainability indicators at a sector and individual entity level.

Figure 2Z
Four-year mean financial sustainability risk assessment 2006–2009

	Underlying result (%)	Liquidity	Debt-to-equity (%)	Self-financing (%)	Capital replacement	Overall risk assessment
TAFEs	**4-year mean**	**4-year mean**	**4-year mean**	**4-year mean**	**4-year mean**	**4-year mean**
Bendigo Institute	3.1%	2.4	0.0%	9.8%	1.6	●
Box Hill Institute	9.0%	5.4	0.0%	10.6%	2.9	●
Central Gippsland Institute	7.4%	2.7	0.9%	13.3%	2.0	●
Chisholm Institute	9.8%	2.2	0.0%	12.8%	2.6	●
East Gippsland Institute	10.7%	2.4	0.3%	18.6%	1.9	●
Gordon Institute	6.0%	4.6	0.0%	12.7%	2.0	●
Goulburn Ovens Institute	8.5%	3.0	0.0%	12.6%	2.7	●
Holmesglen Institute	7.7%	4.5	0.0%	17.5%	2.2	●
Kangan Batman Institute	12.9%	3.0	0.0%	17.8%	2.0	●
Northern Melbourne Institute	8.2%	4.1	0.1%	14.1%	2.0	●
South West Institute	12.6%	2.5	0.0%	19.3%	3.6	●
Sunraysia Institute	6.2%	3.6	0.0%	13.4%	1.9	●
William Angliss Institute	9.9%	3.9	0.0%	15.7%	3.2	●
Wodonga Institute	2.6%	1.9	0.5%	9.8%	1.3	●
TAFE Average	**8.2%**	**3.3**	**0.1%**	**14.2%**	**2.3**	●

Note: High-risk results are shown as red, moderate-risk results are shown as orange, and low-risk results are shown as green.

Source: Victorian Auditor-General's Office.

The TAFE sector average for the underlying result, liquidity, debt-to-equity and capital replacement indicators are low risk assessments.

The TAFE sector average for the underlying result indicator shows that all TAFEs are low risk. Regional TAFEs have a declining market share of international students, which is a contributing factor to their underlying result indicators being lower than the metropolitan TAFEs.

The TAFE sector average for the self-financing indicator is a moderate-risk assessment, with Bendigo and Wodonga Institute of TAFE at high risk. This indicator represents a TAFE’s ability to fund new assets and replace existing assets from operating cash flows.

While TAFEs are generating small operating surpluses, they do not generate sufficient revenues to be able to build up enough retained earnings to finance future asset replacement and purchase new assets. Under the current government funding approach, depreciation expenses are generally not funded until capital requirements are established. However, the TAFE boards are held fully accountable for financial management and performance. This situation blurs accountability for the financial performance of the individual TAFE institute. This warrants attention to explore and delineate the accountability implications so there is certainty regarding responsibilities and performance expectations.

TAFEs—four-year trend analysis

The results of the four-year trend analysis of financial sustainability indicators for TAFEs are provided in Appendix A.

The underlying result indicator for the TAFE sector maintains a low-risk assessment over the four-year trend period, and has improved from 8.5 per cent in 2006 to 10.4 per cent in 2009.

The self-financing indicator trend for the TAFE sector has marginally deteriorated over the four-year period and remains a moderate risk. Of concern, four TAFEs have moved from moderate risk to high risk in 2009. Over the long-term, the operations of these TAFEs may not be able to generate sufficient revenue to fund new assets. This outcome is largely a consequence of the existing TAFE capital funding model that allocates the capital funding strategically across the sector, rather than progressively to individual TAFEs.

2.9 Audit status

Entity	Audit type		Financial statements		Timeliness of financial statements completion		
	FMA	Non-FMA	Clear opinion	Opinion date	<= 12 wks	12 wks <= 18 wks	18 wks >
COMPLETED AUDITS—31 DECEMBER 2009 BALANCE DATES							
UNIVERSITIES							
Deakin University	✓		✗	19-Mar-10	✓		
Reason for Qualification: *Grant income recognised as liabilities rather than as income, as required by AASB 1004 Contributions.*							
Callista Software Services Pty Ltd		✓	✓	22-Mar-10	✓		
Canopi Network Pty Ltd		✓	✓	22-Mar-10	✓		
Deakin Foundation		✓	✓	23-Mar-10	✓		
Deakin Foundation Limited		✓	✓	23-Mar-10	✓		
Deakin Nominee's Pty Ltd		✓	✓	23-Mar-10	✓		
The Australian Professional Association Services Company Ltd		✓	✓	23-Mar-10	✓		
Unilink Ltd		✓	✓	23-Mar-10	✓		
La Trobe University	✓		✓	25-Mar-10	✓		
Medical Centre Development Pty Ltd		✓	✓	25-Mar-10	✓		
Monash University	✓		✓	25-Mar-10	✓		
Australian Regenerative Medicine Institute Joint Venture		✓	✓	25-Mar-10	✓		
Monash College Pty Ltd		✓	✓	16-Feb-10	✓		
Monash Commercial Pty Ltd		✓	✓	03-Mar-10	✓		
Monash Custodians Pty Ltd		✓	✓	22-Mar-10	✓		
Monash Educational Enterprises		✓	✓	25-Mar-10	✓		
Audit report contained an 'emphasis of matter': *Attention drawn to the need for continuing financial support from Monash University.*							

Entity	Audit type		Financial statements		Timeliness of financial statements completion		
	FMA	Non-FMA	Clear opinion	Opinion date	<= 12 wks	12 wks <= 18 wks	18 wks >
COMPLETED AUDITS—31 DECEMBER 2009 BALANCE DATES – *continued*							
UNIVERSITIES – *continued*							
Monash University – *continued*							
Monash Health Research Precinct Pty Ltd		✓	✓	03-Mar-10	✓		
Monash Investment Holdings Pty Ltd		✓	✓	03-Mar-10	✓		
Monash Investment Trust		✓	✓	03-Mar-10	✓		
Monash Property South Africa Pty Ltd		✓	✓	22-Mar-10	✓		
Monash South Africa Ltd ***Audit report contained an 'emphasis of matter':*** *Attention drawn to the need for continuing financial support from Monash University.*		✓	✓	25-Mar-10	✓		
Monash University Foundation		✓	✓	03-Mar-10	✓		
Monash University Foundation Pty Ltd		✓	✓	03-Mar-10	✓		
Monyx Education Services Pty Ltd (a)		✓	✓	16-Jun-09	✓		
Monyx Pty Ltd (b)		✓	✓	16-Jun-09	✓		
Monyx Services Pty Ltd (c)		✓	✓	16-Jun-09		✓	
Royal Melbourne Institute of Technology	✓		✓	23-Mar-10	✓		
Meltech Services Limited		✓	✓	01-Mar-10	✓		
RMIT Drug Discovery Technologies Pty Ltd		✓	✓	25-Mar-10	✓		
RMIT Foundation		✓	✓	22-Mar-10	✓		
RMIT International Pty Ltd		✓	✓	26-Feb-10	✓		
RMIT International University Vietnam		✓	✓	25-Mar-10	✓		
RMIT Training Pty Ltd		✓	✓	16-Mar-10	✓		
RMIT Union		✓	✓	25-Mar-10	✓		
RMIT Vietnam Holdings Pty Ltd		✓	✓	25-Mar-10	✓		
Spatial Vision Innovations Pty Ltd		✓	✓	25-Mar-10	✓		

Entity	Audit type		Financial statements		Timeliness of financial statements completion		
	FMA	Non-FMA	Clear opinion	Opinion date	<= 12 wks	12 wks <= 18 wks	18 wks >
COMPLETED AUDITS—31 DECEMBER 2009 BALANCE DATES – *continued*							
UNIVERSITIES – *continued*							
Swinburne University of Technology	✓		✓	25-Mar-10	✓		
National Institute of Circus Arts Limited		✓	✓	26-Mar-10		✓	
Swinburne (Holdings) Pty Ltd		✓	✓	26-Mar-10		✓	
Swinburne Intellectual Property Trust		✓	✓	26-Mar-10		✓	
Swinburne Ltd		✓	✓	26-Mar-10		✓	
Swinburne Student Amenities Association Ltd		✓	✓	26-Mar-10		✓	
Swinburne Ventures Limited		✓	✓	26-Mar-10		✓	
The University of Melbourne ***Reason for Qualification:*** *Grant Income recognised as liabilities rather than as income, as required by AASB 1004 Contributions.*	✓		✗	25-Mar-10	✓		
Australian International Health Institute (The University of Melbourne) Ltd		✓	✓	29-Mar-10		✓	
Australian Music Examinations Board (Vic) Ltd		✓	✓	29-Mar-10		✓	
Australian National Academy of Music Foundation Ltd		✓	✓	15-Apr-10		✓	
Australian National Academy of Music Ltd		✓	✓	15-Apr-10		✓	
Melbourne Business School Foundation		✓	✓	31-Mar-10		✓	
Melbourne Business School Foundation Ltd		✓	✓	31-Mar-10		✓	
Melbourne Business School Ltd		✓	✓	31-Mar-10		✓	
Melbourne Ventures Pty Ltd		✓	✓	29-Mar-10		✓	
Mount Eliza Graduate School of Business and Government Ltd		✓	✓	31-Mar-10		✓	
MU Student Union Ltd		✓	✓	08-Apr-10		✓	
MUP Services Pty Ltd		✓	✓	29-Mar-10		✓	
UM Commercialisation Pty Ltd		✓	✓	29-Mar-10		✓	
UM Commercialisation Trust		✓	✓	29-Mar-10		✓	
UMEE Ltd		✓	✓	29-Mar-10		✓	
Victorian Institute for Chemical Sciences Limited		✓	✓	08-Apr-10		✓	

Entity	Audit type		Financial statements		Timeliness of financial statements completion		
	FMA	Non-FMA	Clear opinion	Opinion date	<= 12 wks	12 wks <= 18 wks	18 wks >
COMPLETED AUDITS—31 DECEMBER 2009 BALANCE DATES – *continued*							
UNIVERSITIES – *continued*							
University of Ballarat	✓		✓	28 April 10		✓	
Datascreen Pty Ltd		✓	✓	21 April 10		✓	
Inskill Pty Ltd		✓	✓	21 April 10		✓	
School of Mines and Industries Ballarat Limited		✓	✓	21 April 10		✓	
Victoria University	✓		✓	24-Mar-10	✓		
Victoria University Enterprises Pty Ltd		✓	✓	19-Feb-10	✓		
Victoria University Foundation		✓	✓	16-Mar-10	✓		
Victoria University Foundation Ltd		✓	✓	16-Mar-10	✓		
Victoria University International Pty Ltd		✓	✓	19-Feb-10	✓		
Victoria University of Technology (Singapore) Pte Ltd		✓	✓	24-Feb-10	✓		
TAFE INSTITUTES							
Bendigo Institute of Technical and Further Education	✓		✓	25-Mar-10	✓		
Box Hill Institute of Technical and Further Education	✓		✓	03-Mar-10	✓		
Box Hill Enterprises Ltd		✓	✓	03-Mar-10	✓		
Central Gippsland Institute of Technical and Further Education	✓		✓	25-Mar-10	✓		
Chisholm Institute of Technical and Further Education	✓		✓	26-Feb-10	✓		
Caroline Chisholm Education Foundation		✓	✓	26-Feb-10	✓		
East Gippsland Institute of Technical and Further Education	✓		✓	25-Mar-10	✓		
Gordon Institute of Technical and Further Education	✓		✓	19-Mar-10	✓		
GOTEC Limited		✓	✓	19-Mar-10	✓		
Gordon Foundation Ltd		✓	✓	19-Mar-10	✓		
Gordon Foundation Trust		✓	✓	19-Mar-10	✓		
Goulburn Ovens Institute of Technical and Further Education	✓		✓	25-Mar-10	✓		
Holmesglen Institute of Technical and Further Education	✓		✓	05-Mar-10	✓		
Holmesglen International Training Services Pty Ltd		✓	✓	18-Mar-10	✓		
Kangan Batman Institute of Technical and Further Education		✓	✓	06-Apr-10		✓	

Entity	Audit type		Financial statements		Timeliness of financial statements completion		
	FMA	Non-FMA	Clear opinion	Opinion date	<= 12 wks	12 wks <= 18 wks	18 wks >
COMPLETED AUDITS—31 DECEMBER 2009 BALANCE DATES – *continued*							
TAFE INSTITUTES – *continued*							
John Batman Consultancy & Training Pty Ltd	✓		✓	06-Apr-10	✓		
Northern Melbourne Institute of Technical and Further Education	✓		✓	15-Mar-10	✓		
South West Institute of Technical and Further Education	✓		✓	18-Mar-10	✓		
Sunraysia Institute of Technical and Further Education	✓		✓	15-Mar-10	✓		
TAFE Kids Incorporated		✓	✓	15-Mar-10	✓		
TAFE Work Safety Centre		✓	✓	25-Mar-10	✓		
William Angliss Institute of Technical and Further Education	✓		✓	25-Mar-10	✓		
Angliss Consulting Pty Limited		✓	✓	25-Mar-10	✓		
Angliss Multimedia Pty Ltd		✓	✓	25-Mar-10	✓		
Angliss Solutions Pty Ltd		✓	✓	25-Mar-10	✓		
Wodonga Institute of Technical and Further Education	✓		✓	25-Mar-10	✓		
TRAINING ENTITIES							
Adult Multicultural Education Services	✓		✓	16-Feb-10	✓		
AMES Vietnam		✓	✓	02-Mar-10	✓		
Centre for Adult Education	✓		✓	15-Mar-10	✓		
Driver Education Centre of Australia Ltd	✓		✓	30-Mar-10		✓	
DECA Ltd ***Audit report contained an 'emphasis of matter':*** *Attention drawn to the need for continuing financial support from Driver Education Centre of Australia Ltd.*		✓	✓	08-Apr-10		✓	
International Fibre Centre Limited	✓		✓	22-Mar-10	✓		
Telematics Course Development Fund		✓	✓	28-Apr-10		✓	
VERNet Pty Ltd		✓	✓	25-Mar-10	✓		
2009 Total	**26**	**77**			**72**	**31**	**0**
		103					**103**
2008 Total	**25**	**81**			**89**	**17**	**0**
		106					**106**

	Audit type		Financial statements		Timeliness of financial statements completion		
Entity	**FMA**	**Non-FMA**	**Clear opinion**	**Opinion date**	**<= 12 wks**	**12 wks <= 18 wks**	**18 wks >**
INCOMPLETE AUDITS—At 30 April 2010							
UNIVERSITIES							
La Trobe Innovation Pty Ltd		✓				Audit to be finalised	
La Trobe International Pty Limited		✓				Audit to be finalised	
Melbourne University Publishing Ltd		✓				Audit to be finalised	
2009 Total	**0**	**3**					
		3					
2008 Total	**1**	**6**					
		7					

Note: *(a)* Monyx Education Services Pty Ltd ceased operations on 20 April 2009. Financial statements cover the period from 1 January 2009 to 20 April 2009.
(b) Monyx Pty Ltd ceased operations on 13 April 2009. Financial statements cover the period from 1 January 2009 to 13 April 2009.
(c) Monyx Services Pty Ltd ceased operations on 16 February 2009. Financial statements cover the period from 1 January 2009 to 16 February 2009.

Source: Victorian Auditor-General's Office.

3 Alpine resorts

At a glance

Background

Victoria's alpine resorts located at Mount Buller and Mount Stirling, Falls Creek, Mount Hotham, Mt Baw Baw and Lake Mountain, are managed by Alpine Resort Management Boards (ARMBs) and coordinated through the Alpine Resorts Coordinating Council (ARCC). The Department of Sustainability and Environment (DSE) is the responsible department.

The ARMBs were established under the *Alpine Resorts (Management) Act 1997* and are appointed by the Minister for Environment and Climate Change. They are required to prepare financial reports with balance dates of 31 October.

Key findings

- Clear audit opinions were issued on all ARMBs financial reports.
- The timeliness of reporting was similar to 2008, with all ARMBs meeting the 12–week time frame.
- 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 DSE of $3.2 million and insurance recoveries for assets destroyed by fires of $2.6 million have contributed to this improvement.
- The alpine resort sector's overall financial sustainability risk assessment is low, and is similar to 2008, though, Lake Mountain's and Mt Baw Baw's overall financial sustainability risk is high and moderate, respectively.

Key recommendation

- 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.

3.1 Introduction

3.1.1 Scope

This chapter deals with the alpine resort management board (ARMB) entities which have a financial year ending 31 October 2009.

The *Alpine Resorts (Management) Act 1997* sets out the roles and functions of the ARMBs. The Minister for Environment and Climate Change has appointed ARMBs for Victoria's alpine resorts of Mount Buller and Mount Stirling, Falls Creek, Mount Hotham, Mt Baw Baw, and Lake Mountain.

3.2 The reporting framework

3.2.1 Financial report

The five ARMBs prepare financial reports in accordance with the *Financial Management Act 1994* (FMA).

The FMA requires annual reports to be submitted to the relevant minister. These reports should be tabled in Parliament within four months of the end of the financial year, and include a financial report which must be prepared and audited within 12 weeks.

Financial statements are required to be prepared in accordance with Australian Accounting Standards, including the Australian Accounting Interpretations. These directions set minimum standards for public sector entities to achieve sound systems of internal control to support financial management.

Under the FMA, the Minister for Finance has the authority to issue directions in relation to financial administration and reporting issues. These directions set minimum standards for public sector entities to achieve sound systems of internal control to support financial management.

3.3 Audit opinions issued

All of the five ARMBs received clear audit opinions for the financial year ended 31 October 2009. Further details of these entities are available in Section 3.8.

Independent audit opinions add credibility to financial reports by providing reasonable assurance that the information is reliable.

3.4 Quality of reporting

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

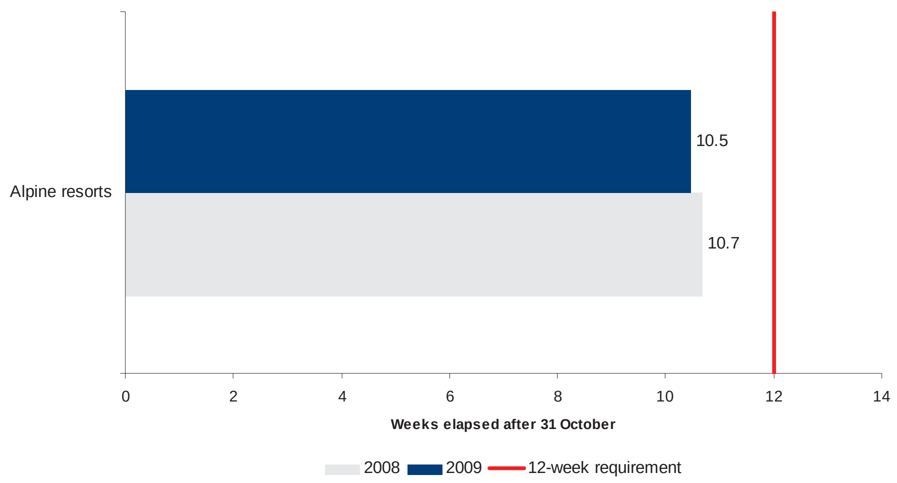
ARMBs need to plan for, and allocate sufficient and appropriate resources, to financial report preparation. This will allow them to produce a complete, accurate and compliant financial report within the legislative time frame.

3.4.1 Timeliness

Recognising the accountability role in relation to 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.

In 2009, all of the ARMBs completed their financial reports within the mandated 12-week time frame. As shown in Figure 3A, this was a similar result to 2008.

Figure 3A
Average time taken to finalise financial reports



Source: Victorian Auditor-General's Office.

3.4.2 Accuracy

The frequency and size of errors in the draft financial statements requiring adjustment are direct measures of accuracy. Ideally, there should be no errors or adjustments.

When an auditor detects errors in the draft financial statements they are discussed with management. Before an auditor can issue a clear audit opinion, management need to correct material errors. The entity itself may also change its draft statements after submitting it to audit, if their quality assurance procedures disclose that reported information is incorrect or incomplete.

Overall, there are two types of adjustments:

- financial balance adjustments—changes to the balances being reported
- disclosure adjustments—changes to the commentary or financial note disclosure within the financial statements.

An analysis of errors for the five ARMBs revealed that four required material adjustments to finalise their financial statements (three in 2008).

Overall, there were a total of six material adjustments to the net result or the net asset position reported in the financial statements in 2009 with a combined value of $1 million. There were no significant classification or disclosure errors identified that required adjustment in the financial statements across the sector. No discernible trend in the incidence of material adjustments was identified.

3.5 Effectiveness of general internal controls

3.5.1 Introduction

The *Alpine Resorts (Management) Act 1997* requires the ARMBs to implement an effective internal control structure. In accordance with the Act, ARMBs are responsible for the development and maintenance of adequate systems of internal control to enable:

- preparation of accurate financial records and other information
- timely and reliable external and internal reporting
- appropriate safeguarding of assets
- prevention or detection of errors and other irregularities.

3.5.2 Common internal control weaknesses

Our audits confirmed that the ARMBs' internal controls were sufficient to produce a reliable financial report.

This year the internal controls have improved, as common weaknesses identified previously have been corrected.

Nevertheless, we identified instances where important internal control activities needed to be strengthened. These matters were reported to the boards and the management team.

Common control weaknesses identified related to:

- review of masterfile standing data changes
- review of cash floats.

Review of masterfile standing data changes

Financial systems, such as accounts payable and payroll systems, rely on the maintenance of standing data on masterfiles to process individual payments. Masterfile data can include name, address, pay rates and bank account details.

It is important that all changes made to standing data on masterfiles are checked so that they are complete, accurate and legitimate. Otherwise subsequent processing errors can be repeated many times over. Further, an independent review of masterfile standing data changes is important for the detection and timely correction of unintentional or fraudulent changes, and to reduce the risk of payments to unauthorised suppliers or unauthorised adjustments to pay rates.

The control weaknesses identified, related to discrepancies between the payroll masterfile and the employees' personnel file.

Review of cash floats

Alpine resorts maintain cash floats which are independently reconciled and reviewed on a daily basis. This process is important, as it helps determine whether cash takings are complete and are accurately recorded for the day.

We found specific weaknesses relating to cash floats primarily during the snow season. In particular, we noted that there was a lack of segregation of duties between the cash receipting, processing and review functions.

Recommendation

10. 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.

3.6 Financial performance

3.6.1 Introduction

The objective for ARMBs should be to generate a sufficient surplus from operations to be able to meet financial obligations, fund asset replacement and new asset acquisition. The ability of ARMBs to achieve this objective depends largely on the funding policies established by the Department of Sustainability and Environment (DSE) and on each ARMB's expenditure management and revenue maximisation practices.

Financial performance is measured by the operating result which is the difference between revenue inflows and expenditure outflows.

Financial position is generally measured by reference to net assets—the difference between total assets and total liabilities. However, this measure is less relevant in the public sector context, as most public sector entities are not-for-profit; and do not hold assets that generate revenue. Instead, they hold infrastructure assets, which require funding for operating costs, repairs and maintenance, replacement and renewal.

The revenue base for the ARMBs is not tied to the value of their asset base and they cannot sell most of their assets to obtain funds. Accordingly, their objective should be to maintain their infrastructure assets, while managing debt so it can be paid back from future operations.

The ability of the ARMBs to maintain their infrastructure depends on asset and debt management policies, and is reflected in the composition and rate of change of the value of assets and liabilities.

3.6.2 Operating result

ARMBs collectively generated a combined operating surplus of $2.8 million, an increase of $2.2 million on last year, as shown in Figure 3B.

Figure 3B
ARMBs operating results

	Operating result 2009 $'000s	Operating result 2008 $'000s	Movement $'000s	Movement %
ARMBs surplus / (deficit)	**2 772**	**533**	**2 239**	**420%**

Source: Victorian Auditor-General's Office.

Three of the ARMBs recorded an operating surplus and Mt Baw Baw and Mt Hotham, recorded an operating deficit. This is a significant improvement on 2008, when only Falls Creek reported an operating surplus.

Lake Mountain and Mt Baw Baw received $3.2 million in support payments from the DSE. This is an increase of $1.6 million from last year, indicating that they were less self-sufficient.

Lake Mountain recorded an operating surplus, which included net income of $2.6 million from insurance recoveries for assets destroyed by fires.

Excluding the DSE support payments and the insurance recoveries received, the sector's operating result would have been a deficit of $3 million.

3.6.3 Revenue

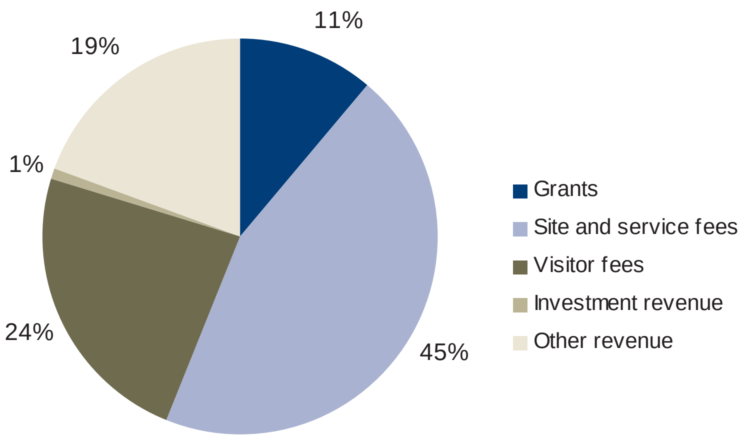
During 2008–09, the combined operating revenues for ARMBs increased by 15.6 per cent from $36.3 million to $42 million. Site and service fees increased by $2 million or 12.1 per cent, and is mainly due to new sites established for Mt Buller and Mount Stirling and Falls Creek. In addition, site rental increased because of inflation and adjustments to property leases. The smaller resorts increased their site rental and service fees in conjunction with directions from their respective Boards.

Revenue from visitor fees decreased by $0.2 million or 2.7 per cent. The three larger resorts, Mt Hotham, Falls Creek and Mt Buller and Mt Stirling all had increases in visitor fees, however these increases were offset by decreases at the smaller resorts of Lake Mountain and Mt Baw Baw. Lake Mountain experienced a shorter snow season due to the impact of replacing infrastructure and equipment destroyed by the 2009 bush fires and a subsequent fire at retail outlets.

Lake Mountain recognised $4.3 million for insurance recoveries relating to assets destroyed by fires.

The overall composition of revenue is provided in Figure 3C, and remains consistent with prior year results.

Figure 3C
ARMBs—2009 revenue composition



Source: Victorian Auditor-General's Office.

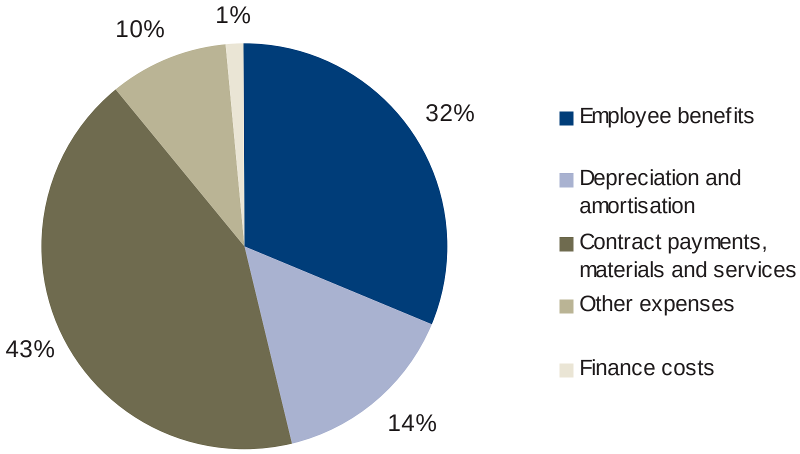
3.6.4 Expenditure

In 2008–09, total expenditure for ARMBs increased by 9.5 per cent from $35.8 million to $39.2 million. The most significant increase in expenditure was to employee benefits which increased by $1.4 million or 12 per cent. This is primarily due to a longer running snow season at the larger alpine resorts in 2009, of approximately four weeks. Under the enterprise bargaining agreement, there was an increase in pay rates of 3 per cent for all resorts. As a result of the 2009 bushfires, additional casual staff were also required at Lake Mountain, to prepare the resort for the snow season.

Other expenses increased by $2.5 million or 74 per cent, and are mainly due to the replacement of $1.6 million of assets destroyed by fires at Lake Mountain.

The composition of operating expenditure is provided in Figure 3D and remains consistent with prior year results.

Figure 3D
ARMBs—2009 expenditure composition



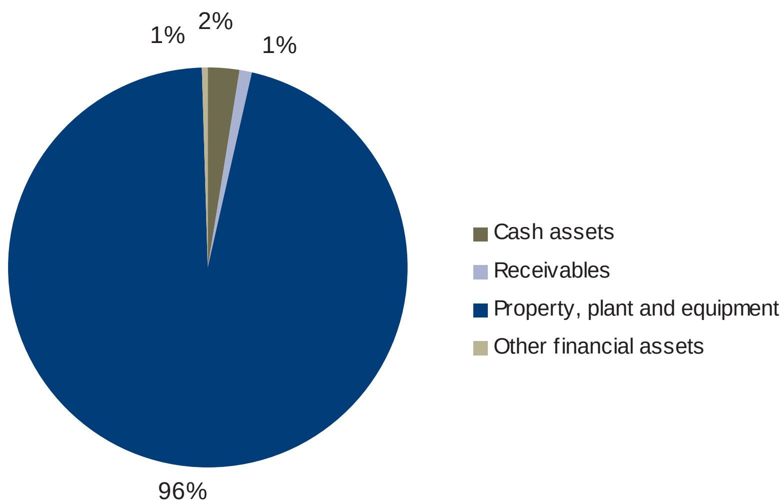
Source: Victorian Auditor-General's Office.

3.6.5 Assets

There was a small overall increase in assets for 2009 of $1.8 million, from $413.7 million in 2008 to $415.5 million in 2009. The primary driver of the movement is an increase in receivables of $2.3 million or 96 per cent, due to increases in capital projects for the larger resorts. This was offset by a reduction in the value of property, plant and equipment of $1.4 million, as a result of the revaluation of land in 2009.

Figure 3E provides an overview of the composition of assets for the ARMBs.

Figure 3E
ARMBs—2009 asset composition



Source: Victorian Auditor-General's Office.

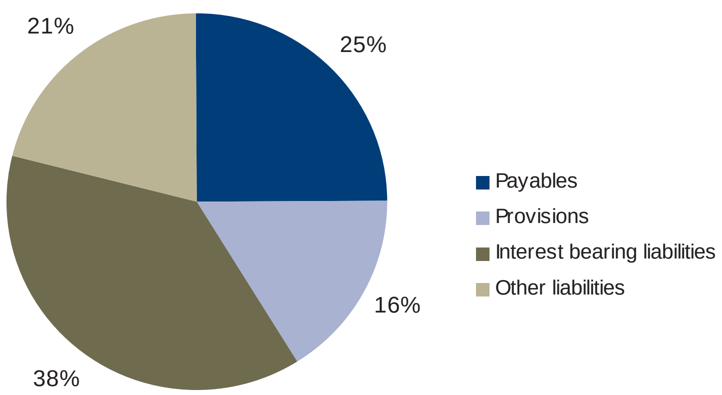
3.6.6 Liabilities

As shown in Figure 3F, liabilities are primarily comprised of interest bearing liabilities and payables, making up 38 per cent and 25 per cent respectively.

In 2009, liabilities increased by $0.3 million or 2 per cent, from $11.7 million in 2008 to $12 million in 2009. The movement is primarily attributable to an increase in payables of $0.1 million or 4 per cent.

Figure 3F provides an overview of the composition of liabilities in ARMBs.

Figure 3F
ARMBs—2009 liability composition



Source: Victorian Auditor-General's Office.

3.7 Financial sustainability

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.

Insight into the financial sustainability of the alpine resort sector is obtained from analysis of five financial sustainability indicators over a four-year period. The indicators comprise five core indicators, being underlying result, liquidity, debt-to-equity, self-financing and capital replacement. These indicators reflect each entity’s funding and expenditure policies, and indicate whether current revenue and expenditure policies are sustainable.

Financial sustainability should also be viewed from both a short term and long term perspective. The shorter-term indicators involve the ARMB’s ability to maintain a positive operating cash flow and adequate cash holdings, and to generate an operating surplus over time. These are the underlying result and liquidity indicators.

Whereas the longer-term indicators signify whether there is adequate funding available for spending on asset replacement to enable the ARMBs to maintain the quality of service delivery and to help meet the ever increasing community expectations and the demand for these services. Such indicators are the self-financing and capital replacement indicators.

The debt-to-equity indicator is also a longer-term indicator as it measures the entity's financial leverage, being the degree to which an entity's activities are funded by debt.

Appendix A describes the sustainability indicators and the risk assessment criteria we use in this report.

3.7.1 Conclusion

The alpine resort sector's overall financial sustainability risk is low. However Lake Mountain's and Mt Baw Baw's overall financial sustainability risk assessments are high and moderate, respectively.

Our analysis of the indicators covers the four-year period, 2006 to 2009. For each ARMB, we have calculated the mean for each ratio over this period. Using our criteria, Figure 3G shows the results for the five indicators.

Figure 3G
Four year mean financial sustainability risk assessment 2006–2009

	Underlying result (%)	Liquidity	Debt-to-equity (%)	Self-financing (%)	Capital replacement	Overall risk assessment
Alpine Resort Management Boards	**4-year mean**	**4-year mean**	**4-year mean**	**4-year mean**	**4-year mean**	**4-year mean**
Mt Baw Baw	-7%	0.8	1%	8%	0.8	●
Lake Mountain	-36%	0.8	5%	35%	1.2	●
Falls Creek	12%	3.9	0%	21%	1.9	●
Mount Hotham	2%	1.9	2%	22%	5.4	●
Mount Buller and Mount Stirling	8%	4.4	1%	25%	1.5	●
Sector average	**-4%**	**2.4**	**2%**	**22%**	**2.2**	●

Note: High-risk results are shown as red, moderate-risk results are shown as orange, and low-risk results are shown as green.
Source: Victorian Auditor-General's Office.

For the larger ARMBs, there are no immediate short-term liquidity problems highlighted by these indicators. However, the indicators raise concerns for the long-term sustainability of the smaller ARMBs of Lake Mountain and Mt Baw Baw. These resorts show operating deficits, low liquidity and low levels of investment in fixed assets. This assessment is consistent with prior years.

Lake Mountain has a slightly improved capital replacement ratio, moving from high risk to medium risk in 2009. This was due to funding received for the replacement of assets destroyed by the 2009 bush fires. Mt Baw Baw has assets depreciating at a greater rate than they are being replaced, as shown by the capital replacement indicator of high risk. This coupled with their low self-financing and liquidity indicators shows that this will have a significant effect on their future financial sustainability.

Four-year trend analysis

This section provides an analysis and commentary on the trends for each indicator for the past four years. The financial sustainability indicators for 2006 to 2009 are provided in Appendix A.

Falls Creek is the only ARMB to have an improving underlying result ratio, from –1 per cent in 2006 to 23 per cent in 2009. The other ARMBs' underlying result ratios have decreased significantly in the same period.

The trend in the liquidity ratios suggest that Mt Baw Baw is not improving sufficiently. All other ARMBs have improved their liquidity.

While all ARMBs' debt-to-equity ratios are at a low level, Lake Mountain, Mt Hotham and Mt Baw Baw are more reliant on debt in 2009 than in 2006.

The nature of alpine activities and services provided to residents and visitors means the industry is capital intensive and heavily reliant on capital infrastructure to generate revenue. The capital replacement ratio is a long-term measure of a resort's ability to replace capital assets. The three larger resorts have maintained ratios greater than one, suggesting they are replacing assets as required. Mt Baw Baw and Lake Mountain continue to remain low, reflecting their limited ability to replace assets.

3.7.2 Future developments

In 2007, the Minister for Environment and Climate Change commissioned the State Services Authority (SSA) to perform a review of the institutional and governance arrangements for the individual ARMBs, the Alpine Resorts Coordinating Council (ARCC), and the role of the DSE in facilitating the goals and overall objectives of the ARMBs.

The SSA review final report '*Review of Alpine Resort Areas*' (SSA Review), released in 2009, made recommendations on key legislation and government policies, reviewing economic and financial operations, environmental and social significance of each of the resorts, as well as the impact of local and international markets.

In response to the SSA review, the Minister for Environment and Climate Change published a discussion paper '*Sustainable Alpine Resort: A Framework for Discussion'* (Minister's discussion paper) in relation to the sustainability of alpine resorts and the achievement of the vision and goals set out in the Alpine Resorts 2020 Strategy. The Minister's discussion paper focused on:

- protecting our unique alpine environment
- driving financial efficiency and sustained contribution to regional economies
- building resilience to climate change
- providing access to the alpine environment for all Victorians
- increasing community satisfaction and participation in the resorts
- ensuring integrated and transparent planning and leasing processes
- strengthening the market position of the resorts
- ensuring sound governance and clear roles and responsibilities.

The SSA review recommended the dissolution of the individual ARMBs, and creating one integrated body to oversee all of the resorts. DSE would monitor the performance of the single body. The Minister's discussion paper did not support this recommendation, and states that the government 'will continue to appoint independent ARMBs for each resort'. In addition, it reaffirmed the Government's support of the Lake Mountain and Mt Baw Baw ARMBs, recognising their contribution to the Victorian economy as well as their environmental impact.

The Minister's discussion paper recognises the ad-hoc nature of government funding to the ARMBs, and indicates that this is due to the differing capacity and asset holdings of the individual resorts. Under the *Alpine Resorts (Management) Act 1997*, the ARMBs are held fully accountable for their financial management and performance. This situation blurs accountability for the financial performance of the individual ARMB.

We will continue to report on the financial sustainability of the ARMBs and future developments in the sector.

3.8 Audit status

Alpine resort management board	Audit type		Financial statements		Timeliness of financial statement completion		
	FMA	Non-FMA	Clear opinion	Opinion date	<= 12 wks	12 wks <= 18 wks	18 wks >
COMPLETED AUDITS—31 OCTOBER 2009 BALANCE DATES							
Falls Creek Alpine Resort Management Board	✓		✓	07-Jan-10	✓		
Lake Mountain Alpine Resort Management Board	✓		✓	22-Jan-10	✓		
Mount Baw Baw Alpine Resort Management Board	✓		✓	22-Jan-10	✓		
Mount Buller and Mount Stirling Alpine Resort Management Board	✓		✓	18-Jan-10	✓		
Mount Hotham Alpine Resort Management Board	✓		✓	23-Dec-09	✓		
2009 Total	**5**	**0**			**5**	**0**	**0**
		5					**5**
2008 Total	**5**	**0**			**5**	**0**	**0**
		5					**5**

Source: Victorian Auditor-General's Office.

4 Other entities

At a glance

Background

Our 2009–10 Annual Plan had a target of issuing 600 audit opinions on entities' financial reports. Our reports to Parliament on the results of 2009 audits have progressively acquitted these audit opinions. At 30 April 2010, in addition to the tertiary education and alpine resort sectors, there remain eight audit opinions to be acquitted.

Key findings

Three clear audit opinions were issued on the local government entities with 30 June 2009 balance dates, which were previously reported to Parliament as incomplete audits, as follows:

- Goulburn Valley Regional Library Corporation
- Manningham City Council
- Murrindindi Shire Council.

Of the five remaining entities, which have a financial year other than 30 June 2009, three audit opinions had been issued as follows:

- MAPS Group Limited received a clear audit opinion.
- Medical Practitioners Board of Victoria received a clear audit opinion with an emphasis of matter comment due to it ceasing to exist after 30 June 2010.
- Anti-Cancer Council of Victoria received a qualified audit opinion due to the inherent risks associated with cash donations.

Two financial reports relating to the Psychologists Registration Board of Victoria and Melbourne Cricket Ground Trust had not been finalised at 30 April 2010.

4.1 Scope

This part of the report addresses other entities not covered under the previous sector-based parts of this report that have balance dates after 30 June 2009. Figure 4A lists these other entities and the date of financial year-end.

Figure 4A
Other entities with balance dates after 30 June 2009

Sector	Entity	Balance date
Health	Psychologists Registration Board of Victoria	30 June
	Medical Practitioners Board of Victoria	30 September
	Anti-Cancer Council of Victoria	31 December
Local government	MAPS Group Limited	30 September
Sport and recreation	Melbourne Cricket Ground Trust	31 March

Source: Victorian Auditor-General's Office.

In addition, this part of the report provides details on three entities with 30 June balance dates whose financial reports were not submitted or whose audits were incomplete at 30 September 2009, the cut-off date for the *Local Government: Results of the 2008–09 Audits* report. Figure 4B lists these entities.

Figure 4B
Other entities with 30 June 2009 balance dates

Sector	Entity
Local government	Goulburn Valley Regional Library Corporation
	Manningham City Council
	Murrindindi Shire Council

Source: Victorian Auditor-General's Office.

Section 4.5 details the status of all audits.

4.2 The 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 Limited, which reports under the *Corporations Act 2001*.

4.3 Audit opinions issued

At 30 April 2010, for the entities which have a financial year other than 30 June 2009, audit opinions were issued on their financial reports as follows:

- MAPS Group Limited received a clear audit opinion
- Medical Practitioners Board of Victoria received a clear audit opinion with an emphasis of matter comment
- Anti-Cancer Council of Victoria received a qualified audit opinion.

The 2009–10 financial report for the Melbourne Cricket Ground Trust for the year ending 31 March 2010 was not complete at 30 April 2010.

The Psychologists Registration Board of Victoria will prepare their financial report for an eighteen month period, ending 30 June 2010. Previously, its financial report was prepared with a balance date of 31 December.

The three entities with 30 June 2009 balance dates, whose results of their financial audits were not included in the *Local Government: Results of the 2008–09 Audits* report, all received clear audit opinions.

Further details are provided in section 4.5.

Definitions on qualified and clear audit opinions are included in the glossary at Appendix B.

Qualification

The ongoing qualified opinion issued to the Anti-Cancer Council of Victoria is generally attached to the financial reports of entities with significant voluntary fundraising activities. The qualification draws attention to the risk inherent in management assuring the complete recording of cash collected through donations. The risk is unavoidable and cannot be cost-effectively mitigated by further internal controls.

Emphasis of matter

The audit opinion on the financial report of the Medical Practitioners Board of Victoria contained an ‘emphasis of matter’ comment. This is not an audit qualification but highlights the entity’s material uncertainty about whether the board will continue as a going concern as a result of the intergovernmental agreement to create a new national entity and cease the existence of the current board.

On 26 March 2008 the Council of Australian Governments executed an intergovernmental agreement to establish a single national scheme for the registration and accreditation functions for different health professions, including medical practitioners and psychologists.

As a result of this agreement, legislation has been enacted to repeal certain sections of the *Health Professions Registrations Act 2005*, and to enable the transfer of services, assets and liabilities of existing health registration boards to the new national entity.

Consequently, the Medical Practitioners Board of Victoria and the Psychologists Registration Board of Victoria will cease to exist at 30 June 2010.

4.4 Quality of reporting

The timeliness and accuracy of the preparation and finalisation of the financial report underpins its quality. Entities need to plan for, and allocate sufficient and appropriate resources to, financial report preparation. This will allow them to produce a complete, accurate and compliant financial report within the legislative time frame.

4.4.1 Timeliness

Recognising the accountability role in relation to 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.

Of the entities with balance dates after 30 June 2009, all three finalised their audited financial reports within the required 12-week time frame. The two remaining entities were not required to have their financial reports finalised at the time of preparing this report.

4.4.2 Accuracy

The frequency and size of errors in the draft financial statements requiring adjustment are direct measures of accuracy. Ideally, there should be no errors or adjustments.

When the auditor detects errors in the draft financial statements they are raised with management. Material errors need to be corrected before a clear audit opinion can be issued. The entity itself may also change its draft financial statements after submitting it to audit, if their procedures find that reported information is incorrect or incomplete.

Overall, there are two types of adjustments:

- financial balance adjustments—changes to the balances being reported
- disclosure adjustments—changes to the commentary or financial note disclosure within the financial statements.

One of the three entities was required to make four adjustments in order to finalise their financial statements. This is a similar result to 2008 where one of the four entities made adjustments to finalise their financial statements.

4.5 Audit status

Entity	Audit type		Financial statements		Timeliness of financial statements completion		
	FMA	Non-FMA	Clear opinion	Opinion date	<= 12 wks	12 wks <=18 wks	18 wks >
COMPLETED AUDITS—30 SEPTEMBER 2009 BALANCE DATES							
Medical Practitioners Board of Victoria	✓		✓	18-Dec-09	✓		
MAPS Group Limited		✓	✓	08-Dec-09	✓		
COMPLETED AUDITS—31 DECEMBER 2009 BALANCE DATES							
Anti-Cancer Council of Victoria	✓		✗	04-Mar-10	✓		
Reason for 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.*							
2009 Total	**2**	**1**			**3**	**0**	**0**
		3					**3**
2008 Total	**3**	**1**			**3**	**1**	**0**
		4					**4**
NOT COMMENCED AUDITS							
Psychologists Registration Board of Victoria	✓				Financial report yet to be submitted for audit		
Melbourne Cricket Ground Trust		✓			Financial report yet to be submitted for audit		

Source: Victorian Auditor-General's Office.

Entity	Audit type		Financial statements		Timeliness of financial statements completion		
	FMA	Non-FMA	Clear opinion	Opinion date	<= 12 wks	12 wks <=18 wks	18 wks >
COMPLETED AUDITS—30 JUNE 2009 BALANCE DATES							
Local Government							
Outer metropolitan council							
Manningham		✓	✓	3-Dec-09			✓
Small shire council							
Murrindindi		✓	✓	26-Nov-09			✓
Regional library council							
Goulburn Valley		✓	✓	05-Nov-09			✓

Source: Victorian Auditor-General's Office.

Appendix A. Financial sustainability tables

Indicators of financial sustainability

Figure A1 describes the sustainability indicators we use in this report. The indicators comprise five core indicators, being underlying result, liquidity, debt-to-equity, self-financing and capital replacement.

Figure A1
Financial sustainability indicators

Indicator	Formula	Description
Underlying result (%)	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 long-term. Underlying revenue does not take into account one-off or non-recurring transactions.
Liquidity	Current Assets / Current Liabilities	This measures the ability to pay existing liabilities in the next 12 months. A ratio of one or more means there are more cash and liquid assets than short-term liabilities. Current liabilities exclude long term employee provisions and revenue in advance.
Debt-to-equity (%)	Debt / 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 low ratio indicates less reliance on debt to finance the capital structure of an organisation.
Self-financing (%)	Net operating cash flows / Underlying revenue	Measures the ability to replace assets using cash generated by the entity's operations. The higher the percentage the more effectively this can be done.
Capital replacement	Cash outflows for Property, plant and equipment / Depreciation	Comparison of the rate of spending on infrastructure with its depreciation. Ratios higher than 1:1 indicate that spending is faster than the depreciating rate. This is a long-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.

These indicators should be considered collectively, and are more useful when assessed over time as part of a trend analysis. These indicators have been applied to the published financial information of universities, TAFEs and ARMBs for the period from 2006 to 2009.

The analysis of financial sustainability in this report reflects on the position of each individual entity, and for the university sector, TAFE sector, and alpine resort sector, respectively. The financial sustainability indicators used in this report are consistent with those used in previous reports to Parliament, and are indicative of the financial sustainability of universities, TAFEs and ARMBs.

Financial sustainability risk assessment criteria

The financial sustainability of each university, TAFE and ARMB has been assessed using the risk criteria outlined in Figure A2.

Figure A2
Risk assessment criteria for financial sustainability indicators

Risk	Underlying result	Liquidity	Debt-to-equity	Self-financing	Capital replacement
High	**Negative 10% or less**	**Less than 0.7**	**More than 60%**	**Less than 10%**	**Less than 1.0**
	Insufficient revenue is being generated to fund operations and asset renewal	Immediate sustainability issues with insufficient current assets to cover liabilities	Potential long-term concern over ability to repay debt levels from own source revenue.	Insufficient cash from operations to fund new assets and asset renewal.	Spending on capital works has not kept pace with consumption of assets.
Medium	**Negative 10% and 0%**	**Equal to or more than 0.7 but less than 1.0**	**40-60%**	**10-20%**	**1.0-1.5**
	A risk of long-term run down of cash reserves and inability to fund asset renewals.	Need for caution with cash flow, as issues could arise with meeting obligations as they fall due	Some concern over the ability to repay the debt from own source revenue.	May not be generating sufficient cash from operations to fund new assets.	May indicate spending on asset renewal is insufficient.
Low	**More than 0%**	**Equal to or more than 1.0**	**Less than 40%**	**More than 20%**	**More than 1.5**
	Generating surpluses consistently.	No issues with repaying short-term liabilities as they fall due.	No concern over the ability to repay debt from own source revenue.	Generating enough cash from operations to fund new assets.	Low risk of insufficient spending on asset renewal.

Source: Victorian Auditor-General's Office.

The overall financial sustainability risk assessment has been calculated using the ratings determined for each indicator as outlined in Figure A3. This assessment is performed at the sector level and entity level over the past four years.

Figure A3
Overall financial sustainability risk assessment

Risk rating	Risk indicators
Red	High risk of short-term and immediate sustainability concerns indicated by: • **red** underlying result indicator or • **red** liquidity indicator
Orange	Medium risk of long-term sustainability concerns indicated by either: • **red** self-financing indicator • **red** debt-to-equity indicator • **red** capital replacement indicator
Green	Low risk of financial sustainability concerns—there are no high risk indicators

Source: Victorian Auditor-General's Office.

Universities

Underlying result

Universities	Underlying result (%)					
	2006	2007	2008	2009	4-year mean	Trend
Deakin University	12.6%	10.1%	15.1%	12.8%	12.6%	▲
La Trobe University	-2.2%	-0.1%	3.7%	9.9%	2.8%	▲
The University of Melbourne	7.1%	10.0%	-15.0%	3.3%	1.4%	▼
Monash University	2.8%	4.4%	0.7%	10.9%	4.7%	▲
RMIT University	9.1%	5.9%	8.2%	10.3%	8.4%	▲
Swinburne University	8.3%	13.1%	10.4%	10.5%	10.6%	▲
University of Ballarat	12.8%	10.4%	9.1%	12.5%	11.2%	▼
Victoria University	3.6%	5.5%	4.6%	6.6%	5.1%	▲
University average	**6.8%**	**7.4%**	**4.6%**	**9.6%**	**7.1%**	▲

Source: Victorian Auditor-General's Office.

Liquidity

Universities	Liquidity					
	2006	2007	2008	2009	4-year mean	Trend
Deakin University	1.9	2.0	2.1	2.5	2.1	▲
La Trobe University	1.2	1.3	1.4	1.8	1.4	▲
The University of Melbourne	1.8	2.2	1.6	1.5	1.7	▼
Monash University	0.5	0.5	0.6	1.0	0.7	▲
RMIT University	1.4	1.3	1.1	1.1	1.2	▼
Swinburne University	2.5	2.9	4.4	3.2	3.3	▲
University of Ballarat	3.3	3.9	3.2	4.2	3.6	▲
Victoria University	2.9	3.5	3.6	2.8	3.2	▼
University average	**1.9**	**2.2**	**2.2**	**2.2**	**2.2**	▲

Source: Victorian Auditor-General's Office.

Note: Key:
▲ = Improving trend
▼ = Deteriorating trend
● = No substantial trend identified

Debt-to-Equity

	Debt-to-equity (%)					
Universities	**2006**	**2007**	**2008**	**2009**	**4-year mean**	**Trend**
Deakin University	3.0%	2.3%	1.7%	1.1%	2.1%	▲
La Trobe University	3.7%	5.5%	6.6%	5.0%	5.2%	▼
The University of Melbourne	4.2%	4.5%	6.2%	5.4%	5.1%	▼
Monash University	20.1%	22.5%	24.6%	19.5%	21.7%	▲
RMIT University	2.1%	1.8%	2.3%	2.3%	2.1%	▼
Swinburne University	2.4%	1.6%	1.0%	0.0%	1.2%	▲
University of Ballarat	2.2%	1.4%	1.2%	1.0%	1.4%	▲
Victoria University	0.0%	0.0%	0.0%	0.0%	0.0%	●
University average	**4.7%**	**5.0%**	**5.5%**	**4.3%**	**4.9%**	▲

Source: Victorian Auditor-General's Office.

Self-financing

	Self-financing (%)					
Universities	**2006**	**2007**	**2008**	**2009**	**4-year mean**	**Trend**
Deakin University	20.8%	23.7%	23.2%	22.6%	22.6%	▲
La Trobe University	4.8%	8.9%	13.4%	10.1%	9.3%	▲
The University of Melbourne	13.8%	11.8%	11.6%	11.2%	12.1%	▼
Monash University	8.0%	7.0%	10.7%	14.4%	10.0%	▲
RMIT University	10.3%	15.9%	23.7%	16.4%	16.6%	▲
Swinburne University	11.2%	16.8%	22.0%	18.3%	17.1%	▲
University of Ballarat	21.8%	15.7%	14.6%	13.4%	16.4%	▼
Victoria University	6.0%	9.8%	9.3%	6.6%	7.9%	▲
University average	**12.1%**	**13.7%**	**16.1%**	**14.1%**	**14.0%**	▲

Source: Victorian Auditor-General's Office.

Note: Key:
▲ = Improving trend
▼ = Deteriorating trend
● = No substantial trend identified

Capital replacement

Universities	Capital replacement					
	2006	2007	2008	2009	4-year mean	Trend
Deakin University	2.4	1.8	1.6	1.7	1.9	▼
La Trobe University	0.9	1.1	1.8	1.8	1.4	▲
The University of Melbourne	1.2	1.7	2.1	2.2	1.8	▲
Monash University	1.8	2.0	2.7	2.2	2.2	▲
RMIT University	1.5	2.8	4.1	3.8	3.0	▲
Swinburne University	1.7	1.3	2.0	2.5	1.9	▲
University of Ballarat	2.3	1.4	1.1	1.3	1.5	▼
Victoria University	1.7	1.7	1.4	3.4	2.0	▲
University average	**1.7**	**1.7**	**2.1**	**2.4**	**2.0**	▲

Source: Victorian Auditor-General's Office.

Note: Key:
▲ = Improving trend
▼ = Deteriorating trend
● = No substantial trend identified

TAFEs

Underlying result

TAFEs	Underlying result (%)					
	2006	2007	2008	2009	4-year mean	Trend
Bendigo Institute	2.2%	-2.9%	3.4%	9.5%	3.1%	▲
Box Hill Institute	14.6%	9.4%	7.2%	4.7%	9.0%	▼
Central Gippsland Institute	7.6%	6.4%	4.2%	11.2%	7.4%	▲
Chisholm Institute	9.3%	13.1%	9.3%	7.3%	9.8%	▼
East Gippsland Institute	8.0%	8.1%	16.0%	10.8%	10.7%	▲
Gordon Institute	14.9%	1.5%	-0.9%	8.3%	6.0%	▼
Goulburn Ovens Institute	6.8%	3.8%	-0.7%	24.3%	8.5%	▲
Holmesglen Institute	14.7%	14.4%	-3.9%	5.6%	7.7%	▼
Kangan Batman Institute	18.8%	10.4%	6.4%	16.0%	12.9%	▼
Northern Melbourne Institute	5.6%	7.0%	5.1%	15.1%	8.2%	▲
South West Institute	5.7%	2.3%	27.9%	14.6%	12.6%	▲
Sunraysia Institute	6.3%	13.7%	1.2%	3.6%	6.2%	▼
William Angliss Institute	6.4%	3.1%	17.8%	12.4%	9.9%	▲
Wodonga Institute	-1.9%	7.7%	2.9%	1.9%	2.6%	▲
TAFE Average	**8.5%**	**7.0%**	**6.8%**	**10.4%**	**8.2%**	▲

Source: Victorian Auditor-General's Office.

Liquidity

TAFEs	Liquidity					
	2006	2007	2008	2009	4-year mean	Trend
Bendigo Institute	2.1	2.4	2.2	3.0	2.4	▲
Box Hill Institute	4.2	5.8	6.2	5.3	5.4	▲
Central Gippsland Institute	1.9	3.4	3.0	2.7	2.7	▲
Chisholm Institute	2.4	2.2	1.8	2.6	2.2	▲
East Gippsland Institute	1.5	1.9	3.4	2.9	2.4	▲
Gordon Institute	6.2	4.4	3.5	4.2	4.6	▼
Goulburn Ovens Institute	3.0	3.1	3.1	2.8	3.0	▼
Holmesglen Institute	2.8	2.8	5.7	6.5	4.5	▲
Kangan Batman Institute	3.3	2.8	2.5	3.4	3.0	▲
Northern Melbourne Institute	3.2	3.9	5.2	4.0	4.1	▲
South West Institute	2.8	2.6	2.1	2.4	2.5	▼
Sunraysia Institute	3.3	3.0	4.2	3.8	3.6	▲
William Angliss Institute	3.9	3.8	3.6	4.2	3.9	▲
Wodonga Institute	1.1	2.3	2.4	1.6	1.9	▲
TAFE Average	**3.0**	**3.2**	**3.5**	**3.5**	**3.3**	▲

Source: Victorian Auditor-General's Office.

Note: Key:
▲ = Improving trend
▼ = Deteriorating trend
● = No substantial trend identified

Debt-to-Equity

TAFEs	Debt-to-equity (%)					
	2006	2007	2008	2009	4-year mean	Trend
Bendigo Institute	0.0%	0.0%	0.0%	0.0%	0.0%	●
Box Hill Institute	0.0%	0.0%	0.0%	0.0%	0.0%	●
Central Gippsland Institute	2.0%	1.7%	0.0%	0.0%	0.9%	▲
Chisholm Institute	0.0%	0.0%	0.0%	0.0%	0.0%	●
East Gippsland Institute	0.8%	0.3%	0.2%	0.0%	0.3%	▲
Gordon Institute	0.0%	0.0%	0.0%	0.0%	0.0%	●
Goulburn Ovens Institute	0.0%	0.0%	0.0%	0.0%	0.0%	●
Holmesglen Institute	0.0%	0.0%	0.0%	0.0%	0.0%	●
Kangan Batman Institute	0.0%	0.0%	0.0%	0.0%	0.0%	●
Northern Melbourne Institute	0.2%	0.1%	0.1%	0.1%	0.1%	▲
South West Institute	0.0%	0.0%	0.0%	0.0%	0.0%	●
Sunraysia Institute	0.0%	0.0%	0.0%	0.0%	0.0%	●
William Angliss Institute	0.0%	0.0%	0.0%	0.0%	0.0%	●
Wodonga Institute	1.2%	0.4%	0.3%	0.2%	0.5%	▲
TAFE Average	**0.3%**	**0.2%**	**0.0%**	**0.0%**	**0.1%**	▲

Source: Victorian Auditor-General's Office.

Self-financing

TAFEs	Self-financing (%)					
	2006	2007	2008	2009	4-year mean	Trend
Bendigo Institute	10.7%	6.2%	10.3%	12.0%	9.8%	▲
Box Hill Institute	13.0%	16.7%	8.6%	4.3%	10.6%	▼
Central Gippsland Institute	15.2%	11.5%	8.5%	17.9%	13.3%	▲
Chisholm Institute	15.5%	16.2%	12.1%	7.4%	12.8%	▼
East Gippsland Institute	16.6%	17.3%	25.4%	14.9%	18.6%	▼
Gordon Institute	21.1%	11.7%	7.7%	10.4%	12.7%	▼
Goulburn Ovens Institute	11.0%	6.6%	6.9%	25.9%	12.6%	▲
Holmesglen Institute	25.3%	22.5%	14.0%	8.3%	17.5%	▼
Kangan Batman Institute	21.4%	15.8%	16.5%	17.6%	17.8%	▼
Northern Melbourne Institute	10.8%	13.6%	12.4%	19.5%	14.1%	▲
South West Institute	12.1%	9.0%	37.9%	18.2%	19.3%	▲
Sunraysia Institute	15.4%	19.0%	11.6%	7.6%	13.4%	▼
William Angliss Institute	12.8%	10.9%	25.1%	14.3%	15.7%	▲
Wodonga Institute	6.9%	13.3%	11.4%	7.7%	9.8%	▲
TAFE Average	**14.8%**	**13.6%**	**14.9%**	**13.3%**	**14.2%**	▼

Source: Victorian Auditor-General's Office.

Note: Key:
▲ = Improving trend
▼ = Deteriorating trend
● = No substantial trend identified

Capital replacement

TAFEs	Capital replacement 2006	2007	2008	2009	4-year mean	Trend
Bendigo Institute	1.4	0.8	1.9	2.2	1.6	▲
Box Hill Institute	2.4	2.6	1.8	4.9	2.9	▲
Central Gippsland Institute	1.2	0.9	2.9	2.9	2.0	▲
Chisholm Institute	1.8	4.1	2.4	2.1	2.6	▲
East Gippsland Institute	1.5	1.1	3.5	1.7	1.9	▲
Gordon Institute	3.2	1.3	1.1	2.3	2.0	▼
Goulburn Ovens Institute	1.3	2.6	1.2	5.6	2.7	▲
Holmesglen Institute	2.3	2.5	1.7	2.1	2.2	▼
Kangan Batman Institute	3.2	2.1	1.0	1.7	2.0	▼
Northern Melbourne Institute	1.1	1.4	1.2	4.4	2.0	▲
South West Institute	1.7	1.5	8.0	3.4	3.6	▲
Sunraysia Institute	0.9	3.8	1.3	1.5	1.9	▲
William Angliss Institute	1.6	1.2	6.2	4.0	3.2	▲
Wodonga Institute	1.1	1.8	0.9	1.5	1.3	▲
TAFE Average	**1.8**	**2.0**	**2.5**	**2.9**	**2.3**	▲

Source: Victorian Auditor-General's Office.

Note: Key:
▲ = Improving trend
▼ = Deteriorating trend
● = No substantial trend identified

Alpine resorts

Underlying result

Alpine Resort Management Boards	Underlying result (%)					
	2006	2007	2008	2009	4-year mean	Trend
Mt Baw Baw	-13%	3%	-5%	-14%	-7%	▼
Lake Mountain	-19%	4%	-17%	-110%	-36%	▼
Falls Creek	-1%	10%	17%	23%	12%	▲
Mount Hotham	9%	4%	-2%	-1%	2%	▼
Mount Buller and Mount Stirling	12%	14%	-1%	5%	8%	▼
ARMB Average	**-3%**	**7%**	**-2%**	**-19%**	**-4%**	▼

Source: Victorian Auditor-General's Office.

Liquidity

Alpine Resort Management Boards	Liquidity					
	2006	2007	2008	2009	4-year mean	Trend
Mt Baw Baw	0.8	1.2	0.8	0.4	0.8	▼
Lake Mountain	0.2	0.7	0.9	1.3	0.8	▲
Falls Creek	2.8	3.2	3.6	6.1	3.9	▲
Mount Hotham	1.3	1.7	2.1	2.7	1.9	▲
Mount Buller and Mount Stirling	4.2	4.1	4.1	5.1	4.4	▲
ARMB Average	**1.8**	**2.2**	**2.3**	**3.1**	**2.4**	▲

Source: Victorian Auditor-General's Office.

Debt-to-Equity

Alpine Resort Management Boards	Debt-to-equity (%)					
	2006	2007	2008	2009	4-year mean	Trend
Mt Baw Baw	0%	1%	1%	2%	1%	▼
Lake Mountain	1%	7%	6%	7%	5%	▼
Falls Creek	0%	0%	0%	0%	0%	●
Mount Hotham	0%	2%	3%	3%	2%	▼
Mount Buller and Mount Stirling	0%	1%	1%	1%	1%	●
ARMB Average	**0%**	**2%**	**2%**	**2%**	**2%**	▼

Source: Victorian Auditor-General's Office.

Note: Key:
▲ = Improving trend
▼ = Deteriorating trend
● = No substantial trend identified

Self-financing

Alpine Resort Management Boards	Self-financing (%)					
	2006	2007	2008	2009	4-year mean	Trend
Mt Baw Baw	15.0%	9.7%	2.1%	6.2%	8.2%	▼
Lake Mountain	13.5%	27.1%	9.6%	89.8%	35.0%	▲
Falls Creek	6.2%	23.3%	28.4%	27.3%	21.3%	▲
Mount Hotham	22.4%	41.5%	9.8%	13.7%	21.8%	▼
Mount Buller and Mount Stirling	30.3%	25.0%	22.6%	21.6%	24.9%	▼
ARMB Average	**17.5%**	**25.3%**	**14.5%**	**31.7%**	**22.3%**	▲

Source: Victorian Auditor-General's Office.

Capital replacement

Alpine Resort Management Boards	Capital replacement					
	2006	2007	2008	2009	4-year mean	Trend
Mt Baw Baw	0.8	0.7	0.9	0.8	0.8	●
Lake Mountain	0.3	0.5	0.3	3.8	1.2	▲
Falls Creek	1.6	1.2	1.9	2.8	1.9	▲
Mount Hotham	10.8	7.6	1.6	1.8	5.4	▼
Mount Buller and Mount Stirling	1.6	2.7	1.1	0.5	1.5	▼
ARMB Average	**3.0**	**2.5**	**1.1**	**2.0**	**2.2**	▼

Source: Victorian Auditor-General's Office.

Note: Key:
▲ = Improving trend
▼ = Deteriorating trend
● = No substantial trend identified

Appendix B. Acronyms and glossary

Acronyms

AASB	Australian Accounting Standards Board
A-IFRS	Australian Equivalents to International Financial Reporting Standards
ARCC	Alpine Resorts Coordinating Council
ARMB	Alpine Resort Management Board
ASIC	Australian Securities and Investments Commission
DIIRD	Department of Innovation, Industry and Regional Development
DSE	Department of Sustainability and Environment
DTF	Department of Treasury and Finance
FMA	*Financial Management Act 1994*
FRD	Financial Reporting Direction
IS	Information System
KPI	Key Performance Indicator
PAEC	Public Accounts and Estimates Committee
PFAB	Public Finance and Accountability Bill
SSA	State Services Authority
TAFE	Technical and Further Education Institute
The Act	*Audit Act 1994*
The Bill	Public Finance and Accountability Bill
VAGO	Victorian Auditor-General's Office

Glossary

Accountability

Responsibility on public sector entities to achieve their objectives, with regard to reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws, and reporting to interested parties.

Amortisation

The systematic allocation of the cost of intangible assets over the periods benefiting from their use.

Asset

A resource controlled by an entity as a result of past events, and from which future economic benefits are expected to flow to the entity.

Asset useful life

An asset's useful life is the period over which it is expected to provide the entity with economic benefits. Depending on the nature of the asset, the useful life can be expressed in terms of time or output.

Auditor's opinion

Positive written expression within a specified framework indicating the auditor's overall conclusion on the financial report based on audit evidence obtained.

Capital expenditure

Amount capitalised to the balance sheet for contributions by a public sector entity to major assets owned by the entity, including expenditure on:

- capital renewal of existing assets that returns the service potential or the life of the asset to that which it had originally
- capital expansion which extends an existing asset at the same standard to a new group of users.

Depreciation

The apportionment of the capital value of an asset over its expected useful life. The amount of depreciation expensed takes account of normal usage, obsolescence or the passage of time.

Emphasis of Matter

In certain circumstances, an auditor's report is modified by adding an emphasis of matter paragraph to highlight a matter affecting the financial report which is included in a note to the financial statements. The addition of such an emphasis of matter paragraph does not affect the auditor's opinion.

Employee benefits provision

The liability recognised for employees accrued service entitlements, including all accrued costs related to employment comprising of wages and salaries, leave entitlements, redundancy payments and superannuation contributions.

Entity

Is a body whether corporate or unincorporated that has a public function to exercise on behalf of the state or is wholly owned by the state, including departments, statutory authorities, statutory corporations and government business enterprises.

Equity or net assets

Residual interest in the assets of an entity after deduction of its liabilities.

Expense

Outflows or other depletions of economic benefits in the form of liabilities incurred or depletion of assets of the entity, other than those relating to contributions by owners, that result in a decrease in equity during the reporting period.

Fair value

The amount for which a financial or non-financial asset could be exchanged between knowledgeable and willing parties in an arm's-length transaction.

Financial delegation

A schedule that specifies the level or approval required for each transaction category to facilitate the execution of functions necessary for the efficient operation of the entity.

Financial instrument

A contract that represents a financial asset of one party and a financial liability or equity instrument of another party.

Financial report

Structured representation of the financial information, which usually includes accompanying notes, derived from accounting records and intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period in accordance with a financial reporting framework.

Financial sustainability

An entity's ability to manage financial resources so it can meet spending commitments, both at present and into the future.

Financial year

A period of 12 months for which a financial report is prepared.

Going concern

An entity which is expected to be able to pay its debts as and when they fall due, and continue in operation without any intention or necessity to liquidate or otherwise wind up its operations.

Hard close audit

An audit visit undertaken towards the end of the financial year with the intention of substantiating figures to be provided in the financial statements that are available at a date prior to financial year end.

Impairment loss

An impairment loss occurs where there is a write down of the investment's value to reflect its reduced market value. When impairment occurs, the loss is expensed in the operating result, and is measured as the difference between the acquisition cost and current market value. Impairment losses are non-cash and only impact on cash flows on disposal of the investment.

Independent auditor's report

Issued after an audit and contains a clear expression of the auditor's opinion on the entity's financial report.

Internal controls

Processes effected by an entity's structure, work and authority flows, people and management information systems, designed to assist the entity accomplish specific goals and objectives. Internal control is a means by which an entity's resources are directed, monitored and measured. It plays an important role in preventing and detecting error and fraud and protecting the entity's resources.

Joint venture

A contractual agreement joining together two or more parties for the purpose of executing a particular business undertaking. All parties agree to share in the profits and losses of the enterprise.

Liability

A present obligation of the entity, arising from past events, the settlement of which is expected to result in an outflow of resources from the entity.

Masterfile

A database of entries containing data that does not often change (for example, address and bank account details).

Materiality

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial report. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.

Modified audit report

The types of modified audit reports and the basis for issuing these reports are as follows:

- A ‘qualified opinion’ is expressed when the auditor concludes that an unqualified opinion cannot be expressed due to a disagreement with management, a conflict between applicable financial reporting frameworks or a scope limitation; however, the effect is not so material and pervasive as to require an adverse opinion or a disclaimer of opinion. The qualified opinion is expressed as being ‘except for’ the effects of the matter to which the qualification relates.
- A ‘disclaimer of opinion’ is expressed when a limitation of scope of the auditor’s work exists and the possible effect of the limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial statements.
- An ‘emphasis of matter’ is expressed in certain circumstances to draw attention to, or emphasise, a matter that is included in the notes to the financial statements that is relevant to the users of the auditor’s report but is not of such a nature that it affects the auditor’s opinion (i.e. the auditor’s opinion remains unmodified).

Net result

The net result is calculated by subtracting an entity’s total expenses from the total revenue, to show what the entity has earned or lost in a given period of time.

Non-reciprocal

Transfers in which an entity receives assets without directly giving equal value in exchange to the other party to the transfer.

Public sector entity

A department; a local government; a statutory body; an entity controlled by one, or more than one, department, local government or statutory body or by a combination of departments, local governments and statutory bodies; or an entity controlled by an entity that is a public sector entity.

Qualification

A qualification is issued when the auditor concludes that an unqualified opinion cannot be expressed due to one of the following reasons:

- disagreement with those charged with governance
- conflict between applicable financial reporting frameworks
- limitation of scope.

A qualified opinion shall be expressed as being except for the effects of the matter to which the qualification relates.

Revenue

Inflows or other enhancements or savings in outflows of service potential, or future economic benefits in the form of increases in assets or reductions in liabilities of the entity, other than those relating to contributions by owners which results in an increase in equity during the reporting period.

Risk

The chance of a negative impact on the objectives, outputs or outcomes of the entity.

Unqualified audit opinion

An unqualified audit opinion is an expression by the auditor stating that the entity has followed all accounting rules appropriately and that the financial report is an accurate representation of the entity's financial condition. Also referred to as a clear audit opinion.

Auditor-General's reports

Reports tabled during 2009–10

Report title	Date tabled
Local Government: Results of the 2008–09 Audits (2009–10:1)	November 2009
Public Hospitals: Results of the 2008–09 Audits (2009–10:2)	November 2009
Towards a 'smart grid'—*the roll-out of Advanced Metering Infrastructure* (2009–10:3)	November 2009
Responding to Mental Health Crises in the Community (2009–10:4)	November 2009
Management of the Community Support Fund (2009–10:5)	November 2009
Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2008–2009 (2009–10:6)	November 2009
Water Entities: Results of the 2008–09 Audits (2009–10:7)	November 2009
Maintaining the Integrity and Confidentiality of Personal Information (2009–10:8)	November 2009
Vehicle Fleet Management (2009–10:9)	November 2009
Managing Offenders on Community Corrections Orders (2009–10:10)	November 2009
Portfolio Departments and Associated Entities: Results of the 2008–09 Audits (2009–10:11)	December 2009
Making Public Transport More Accessible for People Who Face Mobility Challenges (2009–10:12)	December 2009
Use of Development Contributions by Local Government (2009–10:13)	December 2009
The Effectiveness of Student Wellbeing Programs and Services (2009–10:14)	February 2010
Tendering and Contracting in Local Government (2009–10:15)	February 2010
Management of Concessions by the Department of Human Services (2009–10:16)	February 2010
Irrigation Water Stores: Lake Mokoan and Tarago Reservoir (2009–10:17)	March 2010
Management of Safety Risks at Level Crossings (2009–10:18)	March 2010
Fees and Charges—cost recovery by local government (2009-10:19)	April 2010
Performance Reporting by Departments (2009–10:20)	May 2010

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