# Tertiary Education and Other Entities: Results of the 2010 Audits

Victorian Auditor-General's Report

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Auditor-General

# Tertiary Education and Other Entities: Results of the 2010 Audits

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Victorian Auditor-General's Office

*Auditing in the Public Interest*

The Hon. Bruce Atkinson MLC
President
Legislative Council
Parliament House
Melbourne

The Hon. Ken Smith 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 *Tertiary Education and Other Entities: Results of the 2010 Audits.*

Yours faithfully

D D R PEARSON
*Auditor-General*

25 May 2011

# Contents

# Audit summary

## Background

This report covers the results of the annual audit of 113 entities from the tertiary education, sustainability and environment, health, planning and community development and local government sectors, with a financial year end other than 30 June 2010. It focuses principally on 105 tertiary education sector entities, comprising the eight public universities and their 63 controlled entities, 14 technical and further education (TAFE) institutes and their 12 controlled entities, six training entities and the two entities they control.

The report informs Parliament about significant issues arising from the audits of financial and performance reports and augments the assurance provided through audit opinions included in the respective entities' annual reports.

The report comments on the effectiveness of internal controls and, for the tertiary education sector, controls over creditors and the management of employee leave. It also comments on the financial sustainability of universities, TAFE institutes and alpine resort management boards (ARMBs), and their financial management and reporting activities.

## Overall conclusion

Parliament can have confidence in 107 of the 110 financial reports and all performance reports that received clear audit opinions.

The internal control structures over financial reporting within audited entities were adequate, that is they enabled production of accurate, complete and reliable information for reporting. However, controls over creditors and management of employee leave for universities and TAFEs could be strengthened by developing comprehensive policies, introducing more effective management practices, and enhancing compliance monitoring.

While financial reporting processes, overall, were adequate, the consistency and quality of financial reporting would improve if entities prepared shell financial statements early, undertook rigorous quality control and assurance procedures and prepared materiality assessments.

Overall the financial sustainability risk for the tertiary education and alpine resort sectors is low, consistent with our 2009 assessment.

# Findings

## Audit opinions and quality of financial reporting

### Audit opinions issued on financial reports

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

A ‘clear’ audit opinion means that the financial statements present fairly the transactions and balances for the reporting period in accordance with the relevant legislative reporting framework. A ‘qualified’ audit opinion means that the financial report is materially different to the requirements of the relevant reporting framework or accounting standards, and is less reliable and useful as an accountability document.

At 30 April 2011, audit opinions on 110 of the 113 entities’ financial reports had been issued (111 of 116 at 30 April 2010). Of the three remaining, two are yet to be finalised and one financial report was not required to have been finalised at the time of preparing this report. Of the 110 opinions issued, 107 were clear and three were qualified, compared to 108 clear and three qualified at 30 April 2010.

Figure A shows which entities were qualified at 30 April 2011 and why.

**Figure A**
**Qualified audit opinions issued at 30 April 2011**

| Entity | Status of qualification | Reason for qualification |
|---|---|---|
| Deakin University<br>The University of Melbourne | Continuing<br>Continuing | Non-reciprocal research and capital grants were recognised as a liability, rather than as income, contrary to the requirements of *AASB 1004 Contributions*. |
| Anti-Cancer Council of Victoria | Continuing | The inherent risk involved with the collection of cash donations cannot be reasonably mitigated by further internal controls. Therefore, we were unable to obtain evidence as to the completeness of their revenue. |

*Note:* AASB is Australian Accounting Standards Board.

*Source*: Victorian Auditor-General’s Office.

In certain circumstances an audit opinion may draw attention to, or emphasise, a matter relevant to the users of an entity’s financial report which does not warrant a qualification.

For 2010, audit opinions on the financial reports of Monash Educational Enterprises, Monash South Africa Ltd, Driver Education Centre Australia Pty Ltd and DECA Ltd emphasised each entity’s reliance on the continuing financial support from its parent entity to sustain its operations. Without this support, the ‘going concern’ assumption used as the basis of the preparation of the financial reports, would be invalid.

## Audit opinions issued on performance reports

Fourteen TAFEs, four universities with TAFE divisions, and two training entities have been requested to prepare annual performance reports. These reports show results against performance indicators. They are audited by the Auditor-General and included in the entities' annual reports.

The requirement to prepare performance reports is not part of the existing legislative performance reporting framework. More than three years after the initial request for their performance indicators to be disclosed in a performance report, reliance continues to be placed on the former Department of Innovation, Industry and Regional Development executive memorandum for such information to be produced, and the requirement has no legislative basis.

For 2010 all audit opinions on the performance reports were clear.

## Quality of reporting

The quality of an entity's financial reporting can be measured by the accuracy and timeliness of the preparation and finalisation of the financial report. We found that overall, the financial report preparation processes of universities, TAFEs and ARMBs are adequate as they produce accurate, complete and reliable information. They could be improved by:

- preparing and providing timely shell financial statements so that issues with disclosure requirements can be identified and resolved early
- performing rigorous quality control and assurance to improve the accuracy of the draft financial report
- preparing a materiality assessment including assessments against quantitative and qualitative thresholds to identify potential errors in the financial statements.

Recognising the importance of financial reports in providing accountability for the use of public monies, entities should prepare and publish their financial information on a timely basis. The later the reports are produced and published after year-end, the less useful they are for stakeholders and for informing decision-making.

The average time taken by tertiary education entities to finalise their financial statements improved from 11.6 weeks in 2009 to 11.4 in 2010. ARMBs also reduced the average time to finalise their statements from 10.5 weeks in 2009 to 9.8 in 2010.

Seventy-eight per cent (88 of 113) of the audited entities finalised their financial reports within 12 weeks of year end, up from 69 per cent in 2009. Specifically:

- 82 of the 105 tertiary education entities or 78 per cent achieved the time frame—a significant improvement compared to 2009 when only 68 per cent achieved the time frame
- all five ARMBs and the Anti-Cancer Council of Victoria finalised their statements within 12 weeks, consistent with the result for 2009.

## Financial results

Universities had a total operating surplus of $481 million in 2010, down $28.4 million (or 5.6 per cent) from 2009 due to expenses growing at a faster rate than revenues. Student fee revenue rose $124 million or 7.2 per cent from 2009 to $1.8 billion in 2010 and government funding rose by $246 million or 7.5 per cent from 2009 to $3.5 billion in 2010.

TAFEs had a total operating surplus of $149 million for the 2010 year, up $18.4 million (or 14.1 per cent) from 2009. This was mainly a result of increased government capital funding of $47 million or 39.6 per cent in 2010.

The five-year trend in international student fees for universities showed an increase of $493 million (or 62 per cent) to $1.3 billion in 2010, and for TAFEs an increase of $68 million (or 118 per cent) to $126 million in 2010. The growth in international student fees heightened the risk for universities and TAFEs arising from the vagaries of the competitive market for such students.

Alpine resorts collectively made an operating surplus of $6.3 million, up $3.6 million or 128.2 per cent from 2009. Revenue from visitor fees rose by $1.7 million or 17.3 per cent from 2009, mainly due to the longer snow season in 2010.

Bushfire relief funding of $1.6 million, insurance recoveries for assets destroyed by fires of $3.9 million, and support payments from the Department of Sustainability and Environment of $2.7 million contributed to the alpine resort sector's surplus. Without these, the sector's operating result would have been a deficit of $1.9 million for 2010.

## Financial sustainability

The financial sustainability of the eight universities, 14 TAFEs, and five ARMBs was analysed to determine their capacity to meet current and future expenditure as it falls due. These entities must be able to absorb foreseeable changes and the effect of financial risks materialising, without significantly changing their revenue and expenditure policies.

Financial sustainability indicators and assessments can indicate departures from the norm that warrant management attention. To form a definitive view of any entity's financial sustainability requires a holistic analysis that moves beyond financial considerations to include the entity's operations and environment.

The five financial sustainability indicators, analysed for the five years from 2006 to 2010 were:

- the underlying result
- liquidity
- debt-to-equity
- self-financing
- capital replacement.

A summary of the results of our analysis of the 27 entities is provided in Figure B.

**Figure B**
**Tertiary education and alpine resort sectors: Results of 2010 overall financial sustainability risk assessment**

| Sector | High | Medium | Low |
|---|---|---|---|
| **Tertiary education sector** | | | |
| Universities | 0 | 2 | 6 |
| TAFEs | 0 | 0 | 14 |
| **Total tertiary education sector** | **0** | **2** | **20** |
| **Total alpine resort sector** | **1** | **1** | **3** |

*Source:* Victorian Auditor-General's Office.

Overall the financial sustainability risk for the tertiary education and alpine resort sectors is low, consistent with our 2009 assessment.

Consistent with previous years, the analysis shows:

- two universities were assessed as medium risk—there is a risk that they may not be generating sufficient cash from operations to fund new assets and replace existing assets over the long term
- one ARMB was assessed as high risk and another as medium risk—these resorts show operating deficits, low liquidity and low levels of investment in assets.

All TAFE institutes were assessed as low risk in 2010. In 2009, two TAFEs were assessed as medium risk due to the results of their assessment against the self-financing indicator. In 2010, those TAFEs received additional capital grant funding which resulted in their assessment moving from medium risk to low.

## Potential for the funding model to affect operational performance

Over and above the analysis of financial sustainability indicators, trends and risks, the ability of management and the governing body to make decisions necessary to affect an entity's operations needs to be taken into account in assessing the entity's performance. In the case of public sector entities, notwithstanding the application of transaction neutral Australian Accounting Standards and accrual accounting, the funding model does not progressively fund entities for the depreciation of their assets.

The funding model allocates capital grants strategically across the sector rather than progressively to each entity. This means that funds for replacing assets are not provided until such time as the government considers replacement is appropriate given its strategic review of the sectors needs and other spending priorities. Nevertheless, the governing board of each entity is accountable for the entity's financial management and performance.

Therefore, the capital funding model limits the ability of governing bodies and management to exercise discretion or make decisions around asset maintenance and replacement. This could have implications for holding them to account for an entity's operational performance.

## Internal controls

### General internal controls

Effective internal controls help entities reliably and cost effectively meet their objectives. Reliable internal controls are a prerequisite for the delivery of reliable, accurate and timely external and internal reports.

The internal control structures for all entities audited were adequate for producing reliable, accurate and timely financial reports. However, entities commonly could strengthen their internal controls by:

- reviewing masterfile standing data changes
- preparing and reviewing key account reconciliations
- documenting and/or reviewing core financial policies and procedures.

### Controls over creditors

Universities and TAFEs owed creditors $174 million at 31 December 2010 ($156 million at 31 December 2009).

We examined controls over creditor management at universities and TAFEs and found they could be improved as:

- 42 per cent of TAFEs (six of 14) did not have a creditor management policy
- 63 per cent of universities (five of eight) and 50 per cent of TAFEs (seven of 14) could not determine the average days elapsed from invoice date to payment, and therefore, were unable to effectively manage and monitor their payment performance
- all universities and 79 per cent of TAFEs (11 of 14) did not use external benchmarks to review the reasonableness of the age of their creditor balances
- 88 per cent of universities (seven of eight) and 93 per cent of TAFEs (13 of 14) did not maintain and report performance statistics about the management of creditors to their governing board
- 38 per cent of universities (three of eight) and 71 per cent of TAFEs (10 of 14) had not included risks associated with the management of creditors and payment processing in their risk register.

### Management of employee leave

In 2010, 58 per cent of total spending by universities and TAFEs was on salaries and related costs. In addition, at 31 December 2010, universities had employee leave liabilities of $640 million ($589 million at 31 December 2009), and TAFE employee leave liabilities were $110 million ($105 million at 31 December 2009).

We examined controls over the management of employee leave by these entities and found that they could be improved as:

- 25 per cent of universities (two of eight) and 71 per cent of TAFEs (10 of 14) had not established leave management policies
- 50 per cent of universities (four of eight) and 43 per cent of TAFEs (six of 14) had not benchmarked leave trends and balances against external benchmarks
- governing bodies at 50 per cent of universities (four of eight) and 64 per cent of TAFEs (nine of 14) had not conducted a review of leave practices and processes
- 75 per cent of universities (six of eight) and 50 per cent of TAFEs (seven of 14) do not provide their governing body with reports on leave performance outcomes
- 75 per cent of universities (six of eight) and 86 per cent of TAFEs (12 of 14) have not commissioned internal audits of their leave management policies and practices during the past three years.

## Recommendations

| Recommendation | Page |
|---|---|
| That performance reporting for the TAFE sector be elevated to legislative status. | 23 |
| That universities and TAFEs continue to refine their financial reporting processes by preparing shell financial statements and conducting rigorous quality control and assurance procedures. | 23 |
| That universities, TAFEs and ARMBs assess their policies and processes against the commonly identified internal control weaknesses to assure they are operating in a reliable and cost-effective manner. | 71 & 90 |
| That governing bodies and management of universities and TAFEs improve the controls over creditor management, by:<br>• establishing comprehensive creditor management policies and procedures and reviewing them periodically<br>• using external benchmarks to assess creditor management performance<br>• reviewing the ageing of creditors on a regular basis<br>• cleansing the vendor masterfile at least annually<br>• requiring comprehensive creditor payment and aged analysis reports, including benchmarked payment performance information, to be regularly provided to governing bodies<br>• engaging internal audit to periodically review creditor management practices and related policy compliance. | 71 |

# Recommendations – *continued*

| **Recommendation** | Page |
|---|---|
| That governing bodies and management of universities and TAFEs improve the controls over leave management, by:<br>• establishing comprehensive leave management policies and procedures and reviewing them periodically<br>• introducing comprehensive leave monitoring arrangements, including benchmarking leave performance outcomes and costs<br>• reviewing practices and processes periodically<br>• requiring comprehensive leave management reports, including action plans for any adverse movements identified, to be provided to governing bodies<br>• engaging internal audit to periodically review leave management practices and related policy compliance. | 72 |
| That universities and TAFEs establish processes that encourage staff to take their recreation leave entitlements at planned intervals to reduce leave liabilities and maintain a healthy workforce. | 72 |
| That universities and TAFEs benchmark sick leave absences against industry averages to enable timely decision-making to reduce the impact on operational performance. | 72 |

# Submissions and comments received

In addition to progressive engagement during the course of the audit, 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 all universities, TAFEs, ARMBs, the Department of Treasury and Finance, the Department of Education and Early Childhood Development, and the Department of Sustainability and Environment with a request for submissions or comments.

Agency views have been considered in reaching our audit conclusions and are represented to the extent relevant and warranted in preparing this report. Their full section 16(3) submissions and comments however, are included in Appendix E.

# Part A:

# Background

# 1 Background

## 1.1 Introduction

This report covers 113 entities from the tertiary education, sustainability and environment, health, planning and community development and local government sectors, with a financial year end other than 30 June 2010. Principally it deals with the results of the audits of 105 tertiary education sector entities, comprising universities, technical and further education (TAFE) institutes, training entities and the entities that they control. The profile of these entities is set out in Figure 1A.

**Figure 1A**
**Entities with a financial year end other than 30 June 2010**

| | | | 2010–11 | | | | |
|---|---|---|---|---|---|---|---|
| | | | Balance date | | | | |
| **Sector** | **Type of entity** | **2009** | **30 Sept** | **31 Oct** | **31 Dec** | **31 Mar** | **Total** |
| Tertiary Education | University | 8 | | | 8 | | **8** |
| | Entity controlled by university | 64 | | | 63 | | **63** |
| | TAFE Institute | 14 | | | 14 | | **14** |
| | Entity controlled by TAFE Institute | 12 | | | 12 | | **12** |
| | Training entity | 6 | | | 6 | | **6** |
| | Entity controlled by training entity | 2 | | | 2 | | **2** |
| Total Tertiary Education | | 106 | | | | | **105** |
| Sustainability and Environment | Alpine resort | 5 | | 5 | | | **5** |
| Health | Charity | 3 | | | 1 | | **1** |
| Planning and Community Development | Trust | 1 | | | | 1 | **1** |
| Local Government | Company | 1 | 1 | | | | **1** |
| **Total** | | **116** | **1** | **5** | **106** | **1** | **113** |

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

The report informs Parliament about significant issues arising from the audits within the tertiary education and alpine resort sectors, and augments the assurance provided through audit opinions on financial reports and performance reports included in the respective entities' annual reports.

The report comments on the effectiveness of internal controls, and for the tertiary education sector, controls over creditors and the management of employee leave. It also comments on the financial sustainability of universities, TAFE institutes and alpine resort management boards, and their financial management and reporting activities.

This report is the last of seven reports to be presented to Parliament covering the results of the audits finalised during 2010–11. Figure 1B lists those reports.

**Figure 1B**
**VAGO reports on results of audits**

| Report | Description |
|---|---|
| *Portfolio Departments: Interim Results of the 2009–10 Audits*<br>(2010–11:1 tabled 28 July 2010 | Reported on the interim results of audits of the 11 portfolio departments. It examined the effectiveness of internal controls for IT systems; for identifying, declaring and managing conflicts of interest; and for procurement. It also commented on financial reporting developments. |
| *Local Government: Interim Results of the 2009–10 Audits*<br>(2010–11:3 tabled 11 August 2010) | Reported on the interim results of audits of 79 local councils, 13 agencies they control and 12 regional library corporations. It examined the effectiveness of internal controls supporting the preparation of the financial reports, controls over conflicts of interest and IT change management. |
| *Water Entities: Interim Results of the 2009–10 Audits*<br>(2010–11:4 tabled 11 August 2010) | Reported on the interim results of audits of 19 water entities. It examined the effectiveness of internal control supporting the preparation of the financial reports and aspects of how they manage capital projects and creditors. |
| *Public Hospitals: Interim Results of the 2009–10 Audits*<br>(2010–11:5 tabled 1 September 2010) | Reported on the interim results of audits of approximately 110 agencies in the sector. It examined the effectiveness of internal control supporting the preparation of the financial reports and aspects of how they manage leave and creditors. |
| *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2009–10*<br>(2010–11:16 tabled 7 October 2010) | Provided the result of the audit of the state's annual financial report. It examined the quality and timeliness of financial reporting, explained significant financial results for the state and made observations on the status and financial implications of the more significant projects and developments. |
| *Acquittal Report: Results of the 2009–10 Audits*<br>(2010–11:19 tabled 9 February 2011) | Provided the results of the annual financial statement audits of 445 agencies across the portfolio departments and associated entities, and the local government, public hospital and water sectors. The report commented on the quality of financial reporting and financial sustainability. |

*Source:* Victorian Auditor-General's Office.

# 1.2 Financial audit framework

## 1.2.1 Audit of financial reports

An annual financial audit has two aims:

- to give an opinion consistent with section 9 of the *Audit Act 1994*, on whether financial reports are fairly stated
- to consider whether there has been wastage of public resources or a lack of probity or financial prudence in the management or application of public resources, consistent with section 3A(2) of the *Audit Act 1994*.

The financial audit framework applied in the conduct of the 2010 audits of the tertiary education, alpine resorts and other entities is set out in the 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 reports 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 reports, 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.

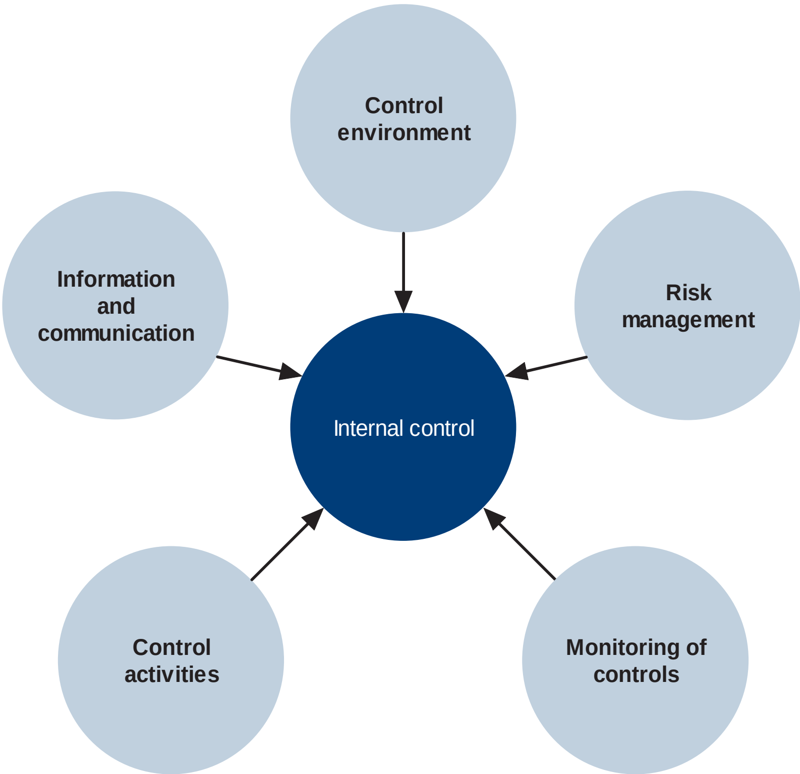
*Source:* Victorian Auditor-General's Office.

## 1.2.2 Audit of internal controls

An entity's governing body is responsible for developing and maintaining its internal control framework. Internal controls are systems, policies and procedures that help an entity to reliably and cost effectively meet its objectives. Sound internal controls enable the delivery of reliable, accurate and timely external and internal reporting.

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

**Figure 1D**
**Components of an internal control framework**




*Source:* Victorian Auditor-General's Office.

In the diagram:

- the **control environment** provides the fundamental discipline and structure for the controls and includes governance and management functions and the attitudes, awareness, and actions of those charged with governance and management of an entity
- **risk management** involves identifying, analysing and mitigating risks
- **monitoring of controls** involves observing the internal controls in practice and assessing their effectiveness

- **control activities** are policies, procedures and practices prescribed by management to help meet an entity's objectives
- **information and communication** involves communicating control responsibilities throughout the entity and providing information in a form and time frame that allows officers to discharge their responsibilities.

The annual financial audit enables the Auditor-General to form an opinion on an entity's financial report. An integral part of this, 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 an entity's internal control framework and governance processes related to its financial reporting.

Internal control weaknesses we identify during an audit do not usually result in a 'qualified' audit opinion. A qualification is usually warranted only if weaknesses cause significant uncertainty about the accuracy, completeness and reliability of the financial information being reported. Often, an entity will have compensating controls that mitigate the risk of a material error in the financial report.

Weaknesses we find during an audit are brought to the attention of an entity's chairperson, chief executive officer and audit committee by way of a management letter.

Section 16 of the *Audit Act 1994* empowers the Auditor-General to report to Parliament on the results of audits. This report includes the results of our review of internal controls related to the financial reporting responsibilities of the tertiary education and alpine resort sectors.

### 1.2.3 Audit of performance reports

Section 8(3) of the *Audit Act 1994* authorises the Auditor-General to audit performance indicators included in the annual reports of a public sector entity to determine whether they fairly represent the entity's actual performance.

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

## 1.3 Audit conduct

The audits were undertaken in accordance with the Australian Auditing Standards.

The total cost of preparing and printing this report was $225 000.

## 1.4 Structure of this report

The details in relation to entities within each sector are reported as set out in Figure 1E.

**Figure 1E**
**Report parts – sector entities**

| Report part | Description |
|---|---|
| Part B: Tertiary education | Covers 105 entities from the tertiary education sector that have a financial year end of 31 December 2010. Principally it deals with the audits of eight universities, 14 TAFE institutes, six training entities and the 77 entities that they control. |
| Part C: Alpine resorts | Covers the five alpine resort management boards which have a 31 October 2010 balance date. |
| Part D: Other entities | Addresses the other three entities, not covered under the previous sector-based parts of this report, which have balance dates after 30 June 2010. |

*Source:* Victorian Auditor-General's Office.

# Part B:

# Tertiary education

# 2 Tertiary education: Audit opinions and quality of reporting

## At a glance

### Background

This chapter covers the results from the audits of 105 entities from the tertiary education sector, whose financial year ends on 31 December 2010, comprising eight universities and their 63 controlled entities, 14 technical and further education (TAFE) institutes and their 12 controlled entities, six training entities and the two entities they control.

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

The quality of an entity's financial reporting can be measured by the timeliness and accuracy of the preparation and finalisation of its financial report. This chapter compares financial reporting practices in 2010 against better practice and time lines, and with 2009 performance.

### Conclusions

Parliament can have confidence in the financial and performance reports that received clear audit opinions.

We found that overall, the financial report preparation processes of universities and TAFEs are adequate. They produce accurate, complete and reliable information, however there are opportunities for further improvement.

### Findings

- The financial reports of all but two entities received clear audit opinions: Deakin University and The University of Melbourne were again qualified due to their accounting treatment for non-reciprocal research and capital grants.
- All 20 performance reports received clear audit opinions (20 in 2009).
- Financial reporting quality would improve if entities prepared shell financial statements early to identify issues to be resolved, undertook rigorous quality control and assurance procedures and prepared materiality assessments.
- The timeliness of financial reporting improved significantly in 2010, 78 per cent of entities satisfied the 12-week time frame, compared with 68 per cent in 2009.

# At a glance – *continued*

## Recommendations

- That performance reporting for the TAFE sector be elevated to legislative status.
- That universities and TAFEs continue to refine their financial reporting processes by preparing shell financial statements and conducting rigorous quality control and assurance procedures.

## 2.1 Introduction

This chapter covers the results from the audits of tertiary education entities with balance dates of 31 December 2010, as shown in Figure 2A.

**Figure 2A**
**Tertiary education entities**

| Type of entity | 2009 | 2010 |
|---|---|---|
| Universities | 8 | **8** |
| Entities controlled by universities | 64 | **63** |
| Technical and further education (TAFE) institutes | 14 | **14** |
| Entities controlled by TAFE institutes | 12 | **12** |
| Training entities | 6 | **6** |
| Entities controlled by training entities | 2 | **2** |
| **Total** | **106** | **105** |

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

In 2010 the number of entities subject to our audit reduced by one because:

- five entities ceased operations and were wound up:
  - Monyx Education Services Pty Ltd, Monyx Pty Ltd and Monyx Services Pty Ltd, formerly controlled entities of Monash University
  - MUP Services Pty Ltd, formally a controlled entity of The University of Melbourne
  - RMIT International Pty Ltd, formerly a controlled entity of Royal Melbourne Institute of Technology
- four entities commenced operations:
  - Deakin Residential Services Pty Ltd, a controlled entity of Deakin University
  - Monash Accommodation Services Pty Ltd, a controlled entity of Monash University
  - Swinburne College Pty Ltd, a controlled entity of Swinburne University of Technology
  - William Angliss Institute Foundation, a controlled entity of William Angliss Institute of TAFE.

### 2.1.1 Machinery of government changes

Effective from 31 December 2010, the machinery of government changes transferred the responsibility for oversight of universities and TAFE institutes to the Department of Education and Early Childhood Development (DEECD) from the former Department of Innovation, Industry and Regional Development (DIIRD).

## 2.2 Reporting framework

### 2.2.1 Financial reporting

Each of the 105 audited entities must prepare its financial report in accordance with Australian Accounting Standards, including the Australian Accounting Interpretations.

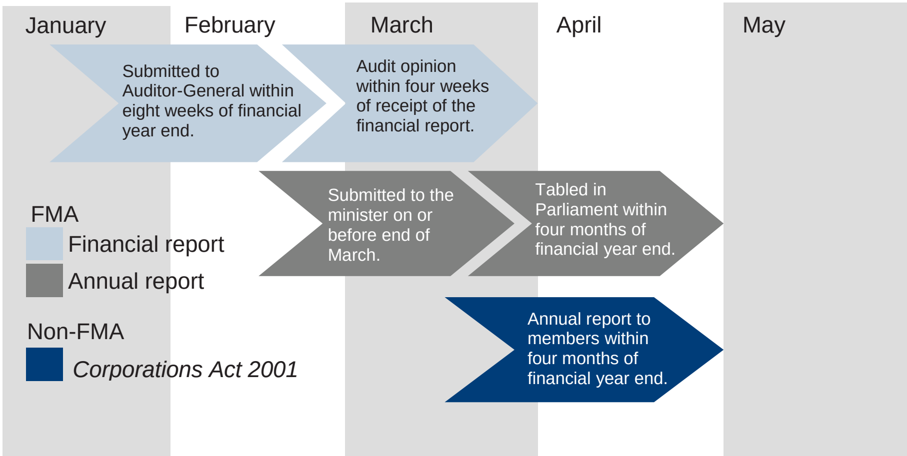
Twenty-six entities, including the eight universities, 14 TAFE institutes and four training entities are required to prepare their financial reports in accordance with the *Financial Management Act 1994* (FMA). Sixty-one entities prepare their financial reports under the *Corporations Act 2001* and 18 do not report under a specified legislative framework.

The FMA requires an entity to submit its annual report to its minister. The report should include financial reports for the entity and any controlled entities and are to be prepared and audited within 12 weeks of the end of the financial year. The annual report should be tabled in Parliament within four months of the end of the financial year.

The need to consolidate the results of controlled entities into their parent entity's financial report means that the 61 entities reporting under the *Corporations Act 2001* are in effect also required to report within 12 weeks of the end of the financial year. Although the *Corporations Act 2001* allows companies to report to their members within four months of the end of the financial year, the FMA requirements applicable to universities and TAFEs override the *Corporations Act 2001* requirements.

Figure 2B summarises the legislated reporting time frames.

**Figure 2B**
**Legislative financial reporting time frames**




*Source:* Victorian Auditor-General's Office.

### 2.2.2 Performance reporting

In October 2007, DIIRD (now the Department of Business and Innovation) issued an executive memorandum requesting 20 entities, comprising the 14 TAFEs, four universities with TAFE divisions, and two training entities, to report certain key performance indicators. DIIRD required the performance indicators to be disclosed in a performance report, subject to audit by the Auditor-General, and included in the entity's annual report.

Under the FMA the Minister for Finance can declare that entities prepare performance reports in accordance with Financial Reporting Direction 27A *Presentation and Reporting of Performance Information*. However, currently, the preparation of performance reports by TAFEs is not mandated under a legislative performance reporting framework.

During 2010, no further changes have been made to the performance reporting framework for the TAFE sector. More than three years after the initial request for their performance indicators to be disclosed in a performance report, reliance continues to be placed on the DIIRD executive memorandum for such information to be produced, and the requirement has no legislative basis.

## 2.3 Audit opinions issued

### 2.3.1 Financial reports

At 30 April 2011, 103 of 105 audit opinions had been issued on financial reports for the sector. Of these, 101 were clear and two were qualified (101 clear and two qualifications at 30 April 2010).

Figure 2C lists the two entities yet to finalise their financial reports at 30 April 2011.

**Figure 2C**
**Incomplete audits – 30 April 2010**

| Entity name | Entity type |
|---|---|
| Holmesglen Institute of Technical and Further Education | FMA |
| Melbourne University Publishing Ltd | Non-FMA |
| **Total incomplete audits** | **2** |

*Source:* Victorian Auditor-General's Office.

Independent audit opinions add credibility to financial reports by providing reasonable assurance that the information is reliable. A clear audit opinion confirms that the financial report has been prepared according to the requirements of relevant accounting standards and legislation. 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 or accounting standards, and is less reliable and useful as an accountability document.

Definitions of qualified and clear audit opinions are included in Appendix C.

#### Qualifications

Two qualified audit opinions were issued for the 2010 financial year (two for 2009).

The University of Melbourne and Deakin University received qualified audit opinions again this year because their accounting treatment of non-reciprocal research and capital grant income as a liability was not in accordance with Australian Accounting Standards. Accounting standards require grants which are non-reciprocal in nature to be recognised as revenue in the year they are received—when the entity gains control of the funds.

The Australian Accounting Standards Board is currently reviewing grant accounting in not-for-profit organisations. However, until that review is complete, the accounting standards in their current form apply.

#### Emphasis of matters

In certain circumstances an audit opinion may draw attention to, or emphasise, a matter relevant to the users of an entity's financial report but which does not warrant a qualification.

Audit opinions on the financial reports of Monash Educational Enterprises, Monash South Africa Ltd, Driver Education Centre of Australia Ltd and DECA Ltd contained an 'emphasis of matter' comment. The opinion emphasised each entity's reliance on continuing financial support from its parent entity to sustain its operations.

At 31 December 2010, Monash Educational Enterprises and Monash South Africa Ltd together owed $55.3 million to Monash University. However, as their parent entity, Monash University continues to financially support the South African campus and has agreed not to require repayment of this amount in 2011. Without this support, the going concern assumption used as the basis of the financial reports would be invalid, leading to a qualified opinion.

Driver Education Centre of Australia Ltd had total liabilities of $4.3 million, a working capital deficit of $2.3 million at 31 December 2010 and reported an operating deficit of $2.8 million for 2010. Skills Victoria, an office of DEECD, has agreed to financially support Driver Education Centre of Australia Ltd to enable it to meet its current and future obligations.

DECA Ltd, a controlled entity of Driver Education Centre of Australia Ltd owed $1.6 million to its parent entity at 31 December 2010. However, the parent entity continues to financially support DECA Ltd's operations, and has agreed to not require repayment of this loan in 2011. Without this support, the going concern assumption used to prepare the financial reports would be invalid, leading to a qualified opinion.

### 2.3.2 Performance reports

In 2010 and 2009, clear audit opinions were issued on all 20 performance reports submitted for audit.

## 2.4 The quality of reporting

### 2.4.1 Introduction

The quality of an entity's financial reporting can be measured by the timeliness and accuracy of the preparation and finalisation of its financial report. To achieve cost effective financial reporting universities, TAFEs and their controlled entities need to have well planned and managed financial report preparation processes.

Entities should aim for the better practice elements detailed in Figure 2D to assist them to produce a complete, accurate and compliant financial report within the legislative time frame.

**Figure 2D**
**Selected better practice – financial report preparation**

| Key area | Better practice |
|---|---|
| Financial report preparation plan | Establish a plan that outlines the processes, resources, milestones, oversight, and quality assurance practices required in preparing the financial report. |
| Preparation of shell financial statements | Prepare a shell financial report and provide early to the auditors to enable early identification of amendments, minimising the need for significant disclosure changes at year-end. |
| Materiality assessment | Assess materiality, including quantitative and qualitative thresholds, at the planning phase in consultation with the audit committee. The assessment assists preparers in identifying potential errors in the financial report. |
| Monthly financial reporting | Adopt full accrual monthly reporting 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 | Require review of the supporting documentation, data and the financial report itself by an appropriately experienced and independent officer prior to providing to the auditors. |
| Supporting documentation | Prepare high standard documentation to, support and validate the financial report, and provide a management trail. |
| Rigorous analytical reviews | Undertake rigorous and objective analytical review during the financial report preparation process to help to improve the accuracy of the report. |
| Reviews of controls/self assessment | Establish sufficiently robust quality control and assurance processes to provide assurance to the audit committee on the accuracy and completeness of the financial report. |
| Competency of staff | Require that preparers of the financial report have a good understanding and experience in applying relevant accounting standards and legislation. Require that they also have project management and interpersonal skills. |
| Financial compliance reviews | Undertake periodic compliance reviews to identify areas of non compliance or changes to legislation that impact the financial report. |
| Adequate security | Protect and safeguard sensitive information throughout the process to prevent inappropriate public disclosure. |

*Source:* Victorian Auditor-General's Office and Australian National Audit Office *Better Practice Guide Preparation of Financial Statements*, June 2009.

## 2.4.2 Quality of financial reporting

As shown in Figure 2E, the overall quality of financial reporting was substantially the same in 2010 as in 2009.

**Figure 2E**
**Overall quality of financial reporting in 2010**

| | Universities | | TAFEs | | Total | |
|---|---|---|---|---|---|---|
| | (%) | (no.) | (%) | (no.) | (%) | (no.) |
| Improved from previous year | 0 | 0 | 14 | 2 | 9 | 2 |
| Same as previous year | 100 | 8 | 65 | 9 | 77 | 17 |
| Worse than previous year | 0 | 0 | 21 | 3 | 14 | 3 |
| **Total** | **100** | **8** | **100** | **14** | **100** | **22** |

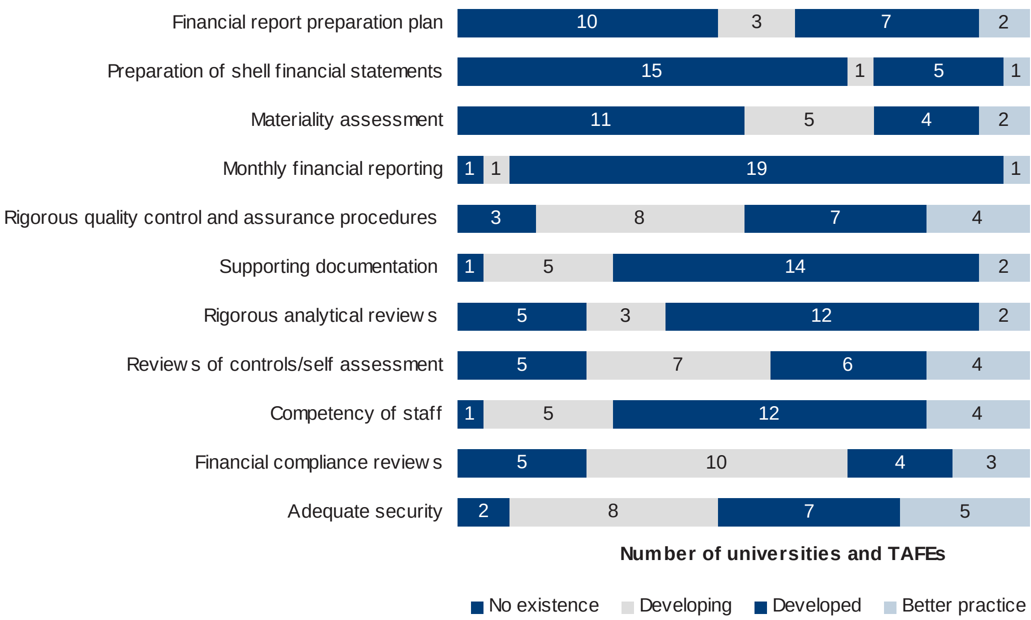
*Source:* Victorian Auditor-General's Office.

The assessment of performance was against better practice criteria using the following scale:

- **no existence**—function not conducted by the entity
- **developing**—partially encompassed in the entity's 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 results of our analysis are summarised in Figure 2F.

**Figure 2F**
**Results of assessment of report preparation processes against better practice elements**




*Source:* Victorian Auditor-General's Office.

The developed or better practice elements commonly shared by university and TAFE entities include:

- monthly financial reporting
- supporting documentation
- rigorous analytical reviews
- competency of staff.

However, further improvement is needed in relation to:

- financial report preparation plan
- preparation of shell financial statements
- materiality assessment
- rigorous quality control and assurance procedures
- reviews of controls/self assessment
- financial compliance reviews
- adequate security.

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.

### 2.4.3 Universities

The quality of financial reporting processes by all universities remained consistent with 2009.

Developed or better practice elements commonly shared by universities were:

- financial report preparation plan
- monthly financial reporting
- competency of staff
- adequate security.

Further improvement is still needed in relation to:

- preparing shell financial statements
- materiality assessment
- rigorous quality control and assurance procedures
- supporting documentation
- rigorous analytical reviews
- reviews of controls/self assessment
- financial compliance reviews.

### 2.4.4 TAFEs

The quality of financial reporting processes at 65 per cent of TAFEs remained consistent with 2009. Developed or better practice elements commonly shared by TAFEs were:

- monthly financial reporting
- supporting documentation
- rigorous analytical reviews
- competency of staff.

A significant portion of the developed and better practice areas were still not addressed by TAFEs. Further improvement is still needed in:

- financial report preparation plan
- preparation of shell financial statements
- materiality assessments
- rigorous quality control and assurance procedures
- reviews of controls/self assessment
- financial compliance reviews
- adequate security.

## 2.5 Timeliness of reporting

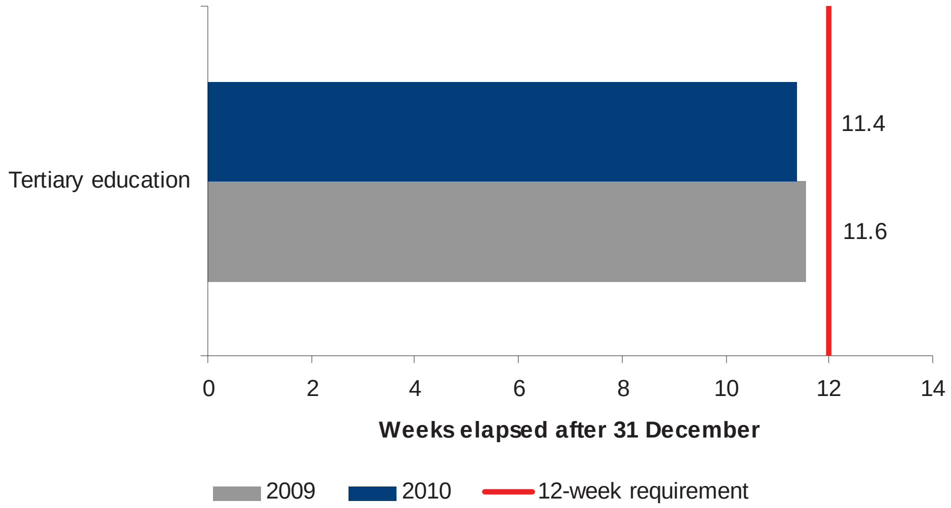
Recognising the importance of financial reports in providing accountability for the use of public monies, entities should prepare and publish their financial information on a timely basis. The later the reports are produced and published after year-end, the less useful they are for stakeholders and for informing decision-making.

The legislated time frame for entities reporting under the FMA to finalise their audited financial reports is within 12 weeks of the end of the financial year. These requirements also apply to entities controlled by universities and TAFEs, as the finalised financial report of the controlling entity is to include the consolidation of the controlled entities.

Figure 2G shows that the average time taken by tertiary education entities to finalise their financial reports has improved from 11.6 weeks in 2009 to 11.4 weeks in 2010.

For 2010, 78 per cent or 82 of the 105 tertiary education entities achieved the 12-week time frame. This was a significant improvement from 2009, when 68 per cent met the 12-week requirement.

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

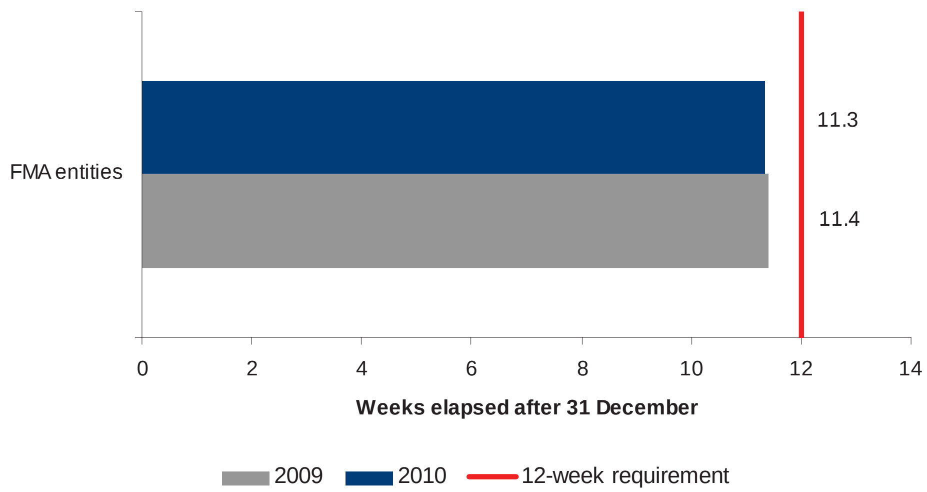



*Source:* Victorian Auditor-General's Office.

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

For those entities that report under the FMA, 23 of the 26 entities or 88 per cent completed their financial reports within the statutory 12-week time frame in 2010, the same number as in 2009.

**Figure 2H**
**Average time to finalise financial reports for tertiary education entities reporting under the FMA**




*Source:* Victorian Auditor-General's Office.

## 2.6 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 arising through the audit process.

When our staff detect 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 them to audit, if their quality assurance procedures identify 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 material adjustments for the eight universities, 14 TAFEs and three training entities revealed accuracy has remained consistent. This year 12 entities required material adjustments to finalise their financial statements, compared to 11 in 2009.

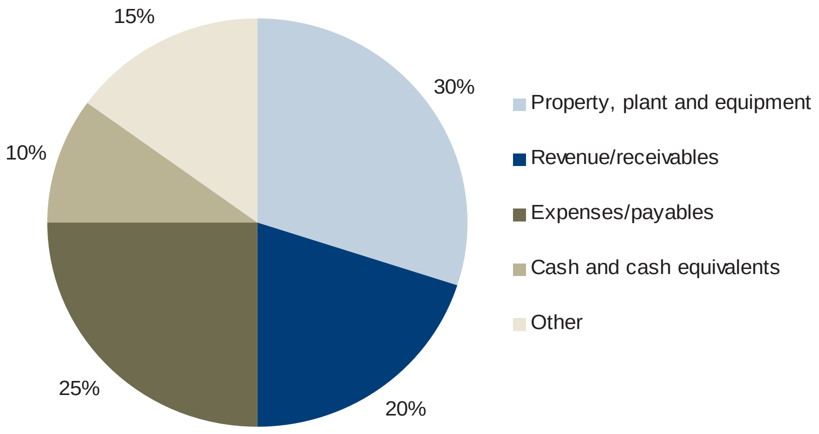
Of those 12, an average of two adjustments were required for each university, two adjustments for each TAFE, and one for each training entity. The results indicate that the average number of adjustments required for universities and training entities has remained the same as the prior year and TAFEs have an average increase of one error.

There were 14 material adjustments to the net results or the net asset positions reported in the draft financial statements of tertiary education entities in 2010. There were six significant classification errors that required adjustment in the draft financial statements. Three errors in note disclosures required adjustment. There was no discernible trend in the incidence of material adjustments or significant classification errors across the sector.

The total value of adjustments on the net asset position was $20 million ($8 million in 2009), comprising adjustments to assets of $44 million ($15 million in 2009) and liabilities of $24 million ($23 million in 2009). The total value of adjustments on the net result was $3 million ($15 million in 2009), comprising of adjustments to revenue of $3 million ($3 million in 2009) and adjustments to expenses of $0.15 million ($18 million in 2009). In addition, six classification errors were identified (five in 2009), which did not affect the net result or net position, amounting to $103 million ($5 million in 2009).

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

**Figure 2I**
**Material adjustments – 2010**




*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, the calculation of depreciation and to correct assets that had incorrectly been brought to account in the wrong year.
- **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 or had not been correctly calculated.
- **Cash and cash equivalents**—adjustments were required to reclassify items from cash and cash equivalents to investments as the expiry terms were greater than three months.

## Recommendations

1. That performance reporting for the TAFE sector be elevated to legislative status.
2. That universities and TAFEs continue to refine their financial reporting processes by preparing shell financial statements and conducting rigorous quality control and assurance procedures.

# 3 Tertiary education: Financial results

## At a glance

### Background

The financial objective for universities and technical and further education (TAFE) institutes should be to generate a sufficient surplus from operations to meet their financial obligations, and to fund asset replacement and new asset acquisitions. The ability of universities and TAFEs to achieve this depends largely on how well they manage their expenditure and whether they maximise revenue. Their financial performance is measured by the operating result—the difference between revenue inflows and expenditure outflows.

### Findings

- Universities had a total operating result of $481 million in 2010, down $28.4 million (or 5.6 per cent) from 2009 due to expenses growing at a faster rate than revenues. Student fee revenue rose $124 million or 7.2 per cent from 2009 to $1.8 billion in 2010 and government funding rose by $246 million or 7.5 per cent from 2009 to $3.5 billion in 2010.
- TAFEs had a total operating result of $149 million for the 2010 year, up $18.4 million (or 14.1 per cent) from 2009. This was mainly a result of increased capital funding of $47 million or 39.6 per cent in 2010 under the government's investment program.
- The five-year trend in international student fees for universities showed an increase of $493 million (or 62 per cent) to $1.3 billion in 2010, and for TAFEs an increase of $68 million (or 118 per cent) to $126 million in 2010.
- The growth in international student fees has heightened the risk for universities and TAFEs arising from the vagaries of the competitive market for such students.

# 3.1 Introduction

The financial objective for universities and technical and further education (TAFE) institutes should be to generate a sufficient surplus from operations to meet their financial obligations, and to fund asset replacement and new asset acquisitions. The ability of universities and TAFEs to achieve this depends largely on how well they manage their expenditure and whether they maximise revenue. Whether they succeed is reflected in the composition and rate of change in their operating revenues and expenses. Their financial performance is measured by the operating result—the difference between revenue inflows and expenditure outflows.

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

As the revenue base for universities and TAFEs is not tied to the value of their asset base and they cannot obtain funds by selling many of their assets, their objective should be to maintain the condition of their infrastructure assets, while managing debt so it can be reduced from the proceeds from future operations.

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

Appendix B provides information on the composition of revenue, expenses, assets and liabilities for universities and TAFEs for 2010.

# 3.2 Financial results

## 3.2.1 Universities

### Operating result

Figure 3A provides a comparison of the total operating results for the eight universities for 2010 and 2009.

**Figure 3A**
**Universities: Total operating result**

| Operating result ($'000) | | Movement | |
|---|---|---|---|
| 2010 | 2009 | ($'000) | (%) |
| 480 894 | 509 265 | (28 371) | (5.6) |

*Source:* Victorian Auditor-General's Office.

Universities had a total operating result of $481 million in 2010, down $28.4 million (or 5.6 per cent) from 2009 due to expenses growing at a faster rate than revenues. The operating result of all universities except Monash University increased during 2010.

The composition of both operating revenue and operating expenditure has remained stable over the past five years.

### *Operating revenue*

In 2010, universities generated operating revenue of $6.4 billion, an increase of $411.6 million (6.9 per cent) when compared to 2009.

Commonwealth and state government funding accounted for 55 per cent of total revenue in 2010. Government funding grew by $246.3 million (7.5 per cent) from 2009.

Government funding comes in two categories: operating grants for delivery of services, and capital grants for projects. In 2010, universities received $3.4 billion in operating grants, an increase of $296.3 million (9.6 per cent) from 2009. Conversely, capital funding received from the Commonwealth and state governments decreased by $50.0 million (28.2 per cent), to $127.6 million in 2010.

Student fee revenue, the second largest source of revenue, accounted for 29 per cent of total revenue in 2010. Universities generated $1.8 billion from student fees in 2010, an increase of $123.6 million (7.2 per cent) over 2009.

### *Operating expenditure*

In 2010, universities reported operating expenses of $5.9 billion, an increase of $440 million (8.1 per cent) from 2009.

The largest component of expenditure for 2010 was employee benefits—56 per cent of total expenditure. Employee benefits grew by $229.1 million (7.4 per cent) on the prior year due to the outcomes of new collective salary agreements.

## Assets

Total assets increased by $708.8 million (5.5 per cent) from 2009. This was mainly due to the large movement in the property, plant and equipment balance for 2010—an increase of $359.5 million (4.0 per cent). This was primarily driven by the construction of new buildings which increased by $291.2 million (5.0 per cent).

Consistent with the situation for the past five years property, plant and equipment continues to be the largest component of total assets.

### Liabilities

Total liabilities amounted to $3.4 billion, an increase of $265.6 million (8.4 per cent) from 2009.

Payables increased by $50.9 million (13.8 per cent) due to payments owed for capital expenditure. Provisions increased by $50.6 million (8.6 per cent) reflecting the outcome of new collective salary agreements. The deferred superannuation liability balance rose by $164.4 million (14.4 per cent). This balance is subject to actuarial assessment each year and can fluctuate greatly depending on market conditions.

These increases were partially offset by a decrease of $25.8 million (4.3 per cent) in interest bearing liabilities.

Over the past five years, the composition of liabilities of universities has shifted. In 2006 and 2007 the total liabilities balance primarily consisted of provisions and interest bearing liabilities. However from 2008 the deferred superannuation liability is the main component of total liabilities.

## 3.2.2 TAFEs

### Operating result

Figure 3B provides a summary of the total operating result for the 14 TAFEs and an analysis against the prior year's result.

**Figure 3B**
**TAFEs: Total operating result**

| Operating result ($'000) | | Movement | |
|---|---|---|---|
| **2010** | **2009** | **($'000)** | **(%)** |
| 149 007 | 130 636 | 18 371 | 14.1 |

*Source:* Victorian Auditor-General's Office.

In 2010, all 14 TAFEs generated an operating surplus totalling $149 million, up $18.4 million (14.1 per cent) on the prior year. The movement is mainly due to increased capital funding of $47 million (39.6 per cent) in 2010. This reflects the significant number of capital projects underway as part of the government's capital investment program.

The composition of operating revenue and operating expenditure has remained stable over the past five years.

#### *Operating revenue*

In 2010, TAFEs generated operating revenue of $1.2 billion, an increase of $77.3 million (6.9 per cent) from 2009. The most significant increase was in government funding, which grew by $69.0 million (9.6 per cent) including $47 million for capital funding. Student fees grew by $15.1 million (4.6 per cent) from 2009.

The composition of operating revenue for TAFEs remained consistent in 2010—government funding contributed 65 per cent to total revenue, student fees 29 per cent and other revenue 6 per cent.

#### *Operating expenditure*

In 2010 operating expenditure was $1.0 billion, an increase of $57.0 million (5.8 per cent) from 2009. This is consistent with the increase between 2009 and 2008, where the increase was $46.9 million (5.0 per cent).

The largest component of expenditure was for employee benefits—$701 million (67 per cent) of total expenditure. Employee benefits grew by $38.4 million (5.8 per cent) from 2009 due to the outcome of the new collective salary agreements.

### Assets

Assets increased by $137.9 million (6.9 per cent) in 2010 mainly due to the increase in the construction of new buildings of $108.6 million (10.2 per cent). Property, plant and equipment made up the majority of the asset holdings of TAFEs—80 per cent of total assets.

The composition of assets has remained stable over the past five years with property, plant and equipment continuing to be the largest component.

### Liabilities

Liabilities primarily comprise employee leave provisions, payables and other liabilities. In 2010, total liabilities dropped by $4.6 million (2.1 per cent). This was due to a decrease in other liabilities of $13.2 million (22.0 per cent) mainly as a result of reduced student fees in advance. This decrease was offset by an increase in employee leave provisions of $5.1 million (4.8 per cent) and payables of $3.5 million (6.7 per cent).

The composition of liabilities has remained stable over the past five years.

## 3.3 Trends in student fee revenue

Student fees are a significant portion of revenue for universities and TAFEs. More than 80 per cent of student's fees are from international students. Because of its significance student fee revenue is critical in our assessment of whether the entity is a going concern, required under ASA 570 *Going Concern*. Universities and TAFEs must also consider the going concern assumption when preparing their financial reports under AASB 101 *Presentation of Financial Statements*.

The past five years have seen a steady growth in international student fees for universities and TAFES. The growing contribution of international student fees to revenue has increased the exposure for both universities and TAFEs to the increasingly competitive market for international students.

## 3.3.1 Universities

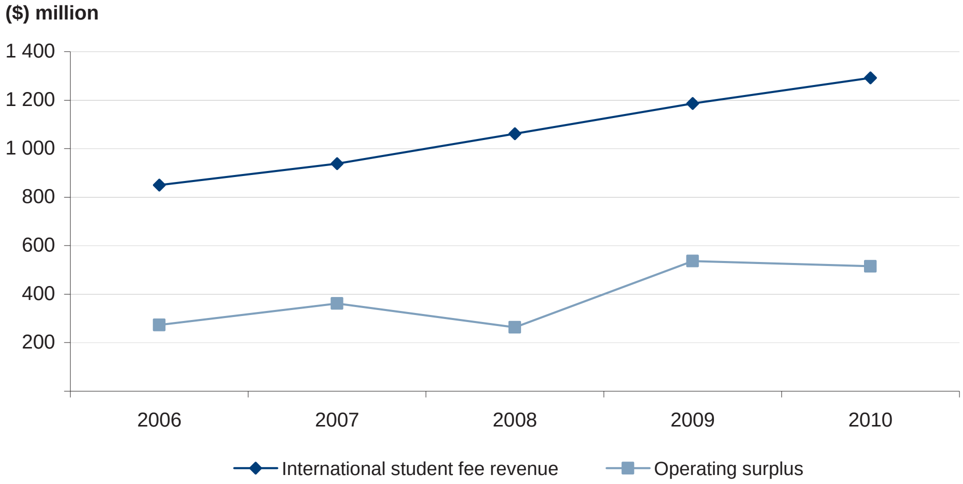
In 2010, total student fee revenue increased by $110.3 million to $1.5 billion, an increase of 7.5 per cent from 2009. This was due to a $114.7 million rise in international student revenue offset by a decrease of $4.4 million in domestic student revenue.

The University of Melbourne recorded the highest relative growth in student fees with a $32.7 million (11.6 per cent) increase on the prior year. Monash University recorded the second highest relative growth of $32 million (10.3 per cent).

The University of Ballarat recorded a decline in student revenue in 2010 of $13 million (18 per cent).

Figure 3C shows the relationship between international student fee revenue and operating surpluses over the past five years.

**Figure 3C**
**International student fee revenue and operating surpluses – universities**



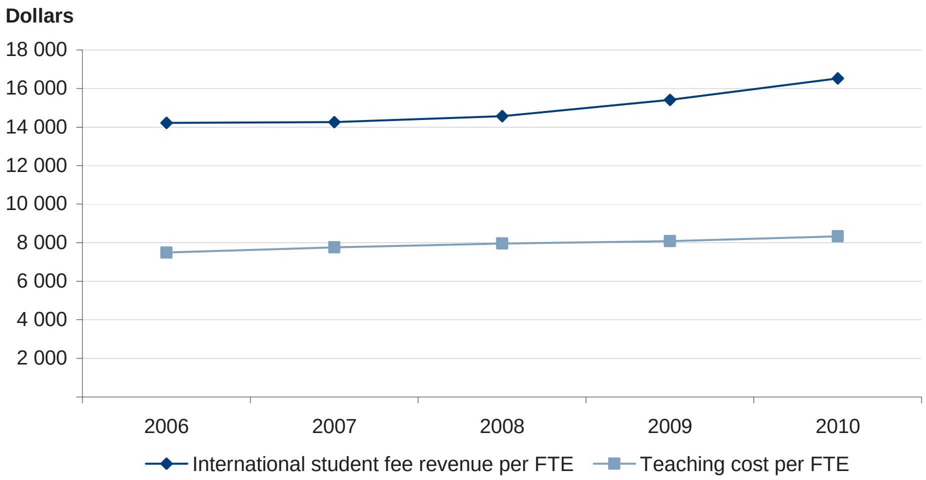

*Source:* Victorian Auditor-General's Office.

The trend in international student fees over the past five years shows an increase of $493 million (62.5 per cent) to $1.3 billion in 2010. This significant growth highlights the increasing contribution of revenue from international students to university operating surpluses.

The international student market has become volatile as a result of recent social issues, government reforms, the volatility of the Australian dollar, and legislative changes to student visa requirements. Statistics released by the Commonwealth Department of Education, Employment and Workplace Relations shows a 10.9 per cent decrease in international student numbers in January 2011 compared to the same time last year.

Figure 3D shows the international student fee revenue earned per full time equivalent (FTE) student and the corresponding teaching cost for those students over the five years to 2010.

**Figure 3D**
**International student fee revenue and teaching costs, per FTE student – universities**




*Source:* Victorian Auditor-General's Office.

Over the past five years, the margin between revenue earned per FTE international student has remained consistent with the teaching costs for these students. However, as student numbers fall, the margin is expected to diminish and place pressure on future surpluses.

With the expected downturn in the number of international students enrolling in universities it is critical that they effectively manage their operating budgets to remain financially sustainable.

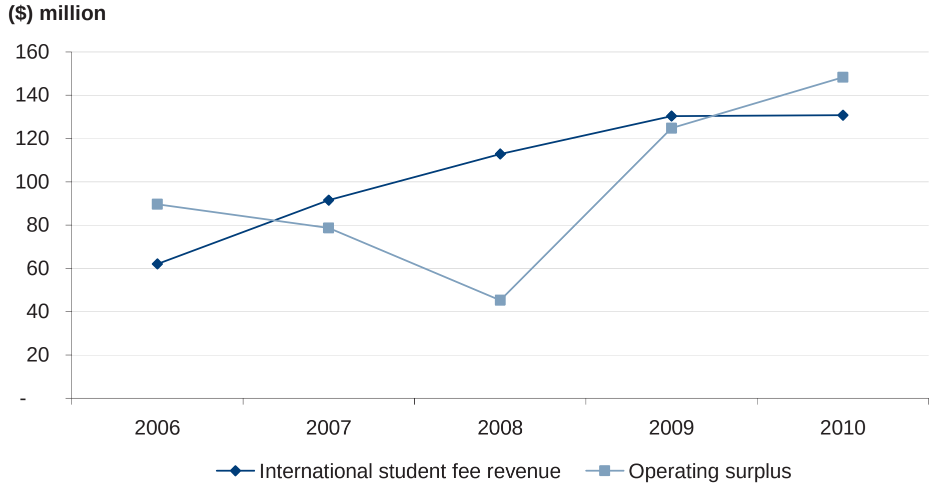
## 3.3.2 TAFEs

In 2010, total student fee revenue increased by $22.5 million (13.1 per cent) to $194 million in 2010, compared to 2009. This was due to a $1.2 million increase in international student revenue and an increase of $21.3 million in domestic student revenue.

Northern Melbourne Institute of TAFE and Chisholm Institute of TAFE recorded the highest dollar value student revenue increases of $8.6 million (32 per cent) and $3.1 million (16 per cent), respectively.

Figure 3E shows the relationship between international student fee revenue and operating surpluses over the past five years.

**Figure 3E**
**International student fee revenue and operating surpluses – TAFEs**




*Source:* Victorian Auditor-General's Office.

The five-year trend in international student fees shows an increase of $68 million (118 per cent) to $126 million in 2010. The continuing increase in international student numbers and revenue for the period shows that TAFEs are still pursuing overseas markets to generate revenue.

The TAFE sector has seen revenue growth in international student fees over the past five years, however, profits have not grown at the same rate. With the expected downturn in international student numbers, operating surpluses are likely to be significantly affected.

Following reforms introduced by the former government, the first full year of operation of the contestable market in 2011 is expected to affect TAFE operating surpluses. This new environment will pose additional challenges to the sector to maintain operating surpluses.

Managements will need to continually monitor these pressures so that entities remain financially sustainable.

# 4 Tertiary education: Financial sustainability

## At a glance

### Background

To be financially sustainable, universities and technical and further education (TAFE) institutes need the capacity to meet current and future expenditure as it falls due. They need also to be able to absorb foreseeable changes and risks materialising, without significantly changing their revenue and expenditure policies. This chapter provides our insight into the financial sustainability of tertiary education sector entities obtained from analysing the trends in five financial sustainability indicators over a five-year period.

### Conclusions

- The university sector's overall financial sustainability risk is assessed as low based on the analysis of the indicators. However, the risk to Monash University's and Victoria University's overall financial sustainability is assessed as medium.
- The TAFE sector's overall financial sustainability risk is assessed as low based on the analysis of the indicators. However, the funding model means that these entities are limited in their ability to exercise discretion or make decisions around asset maintenance and replacement.

### Findings

- The risk to the overall financial sustainability for the sector is low. The assessment shows that:
    - two universities are assessed as at medium risk, meaning there is a risk that assets cannot be replaced and new assets purchased from operating cash flows over the long term
    - the risk for all TAFE institutes is assessed as low. Two TAFEs have moved from an assessment of medium risk in 2009, due to additional capital grants received in 2010.
- The funding model for TAFEs allocates capital grants strategically across the sector rather than progressively to each entity, with funds for replacing assets not provided until the government considers replacement is necessary.
- The model limits the ability of governing bodies and management to exercise discretion or make decisions around asset maintenance and replacement. This could have implications for holding them to account for an entity's operational performance.

## 4.1 Introduction

To be financially sustainable, universities and technical and further education (TAFE) institutes need the capacity to meet current and future expenditure as it falls due. They also need to be able to absorb foreseeable changes and risks materialising, without significantly changing their revenue and expenditure policies.

Our insight into the financial sustainability of universities and TAFEs is obtained from analysing five financial sustainability indicators over a five-year period. The five indicators used are underlying result, liquidity, debt-to-equity, self-financing and capital replacement. These indicators reflect each entity's funding and expenditure policies, and indicate whether these 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.

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 risk assessment criteria we use in this report.

The financial sustainability indicators and assessments flag departures from the norm that warrant attention. To form a definitive view of any entity's financial sustainability requires a holistic analysis that moves beyond financial considerations to include the entity's operations and environment.

## 4.2 Financial sustainability: Universities

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

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
- spending on fixed assets is generally higher than depreciation.

Figure 4A summarises the results of the five financial sustainability indicators at a sector and individual entity level, over the five-year period, 2006 to 2010.

High-risk results are shown as red, medium-risk as orange, and low-risk as green.

**Figure 4A**
**Five-year mean financial sustainability risk assessment 2006–10 – universities**

| | Underlying result (%) | Liquidity | Debt-to-equity (%) | Self-financing (%) | Capital replacement | Overall risk assessment |
|---|---|---|---|---|---|---|
| Universities | 5-year mean | 5-year mean | 5-year mean | 5-year mean | 5-year mean | 5-year mean |
| Deakin University | 12.7% | 2.3 | 1.6% | 22.3% | 2.0 | ● |
| La Trobe University | 5.5% | 1.7 | 5.0% | 11.7% | 1.7 | ● |
| The University of Melbourne | 1.8% | 1.7 | 5.2% | 12.4% | 1.6 | ● |
| Monash University | 4.5% | 0.7 | 21.1% | 9.2% | 2.1 | ● |
| RMIT University | 8.6% | 1.1 | 2.0% | 16.8% | 3.2 | ● |
| Swinburne University | 10.8% | 3.3 | 1.0% | 17.6% | 2.4 | ● |
| University of Ballarat | 11.6% | 3.8 | 1.3% | 16.4% | 1.5 | ● |
| Victoria University | 5.6% | 2.9 | 0.0% | 9.0% | 2.4 | ● |
| **University average** | **7.6%** | **2.2** | **4.7%** | **14.4%** | **2.1** | ● |

*Source:* Victorian Auditor-General's Office.

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

Risk related to the average self-financing indicator is assessed as medium. However, for this indicator Monash University and Victoria University are assessed as high risk, meaning there is a likelihood that assets cannot be replaced and new assets purchased from operating cash flows over the long term. Monash University's operating cash flows declined in 2010 because of the cost of its voluntary separation program, implemented to reduce future salary costs. For both entities, cash flows from operating activities will require monitoring and active management, as asset renewals and additions are important contributors to the growth of universities.

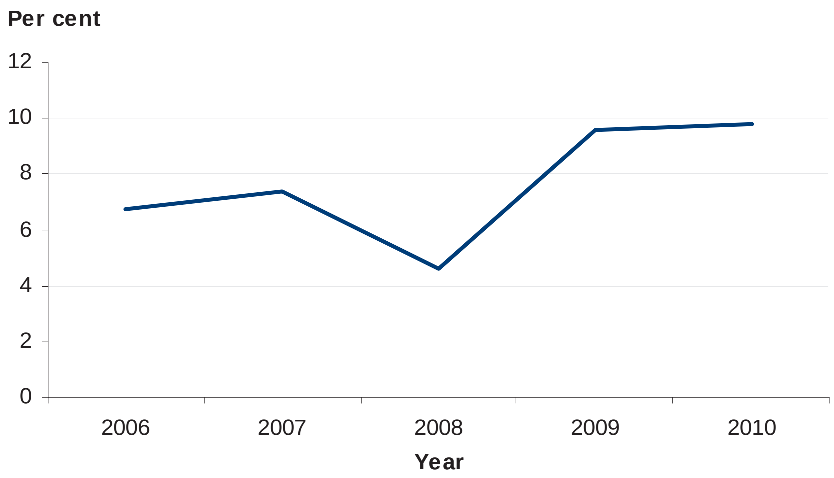
## 4.2.1 Five-year trend analysis

This section provides an analysis and commentary on the trends for each indicator for the past five years. The financial sustainability indicators for 2006 to 2010 are provided in Appendix A.

### Underlying result

Figure 4B shows that the average underlying result indicator has improved from 6.8 per cent in 2006 to 9.8 per cent in 2010. The trend indicates that revenues are exceeding expenses.

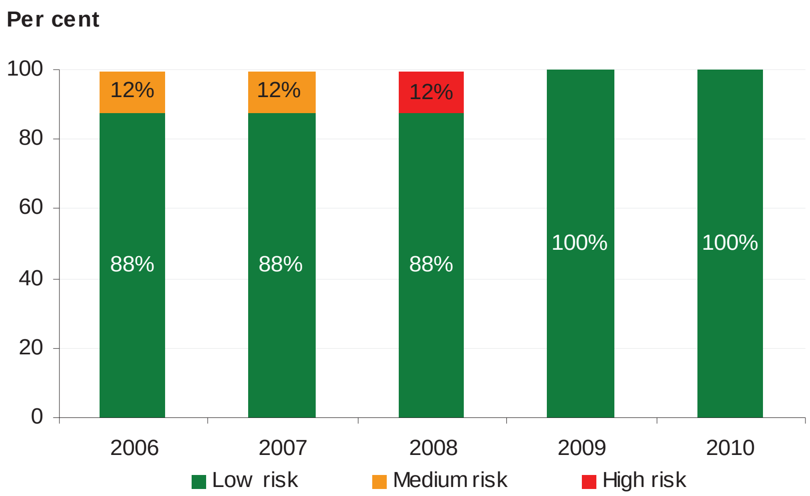
**Figure 4B**
**Average underlying result – universities**




*Source:* Victorian Auditor-General's Office.

Figure 4C shows that the underlying result indicator for all universities is assessed as low for 2010.

**Figure 4C**
**Underlying result risk assessment – universities**

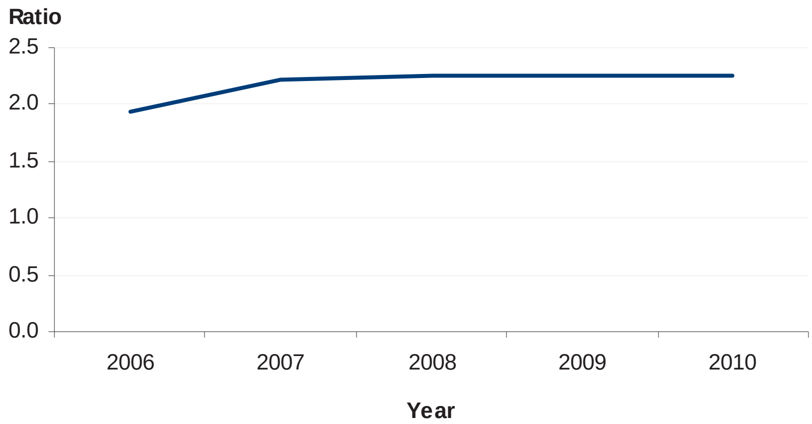



*Source:* Victorian Auditor-General's Office.

## Liquidity

Figure 4D shows that the risk for the average liquidity indicator results has been assessed consistently as low over the five years to 2010, with the ratio increasing from 1.9 in 2006 to 2.3 in 2010.

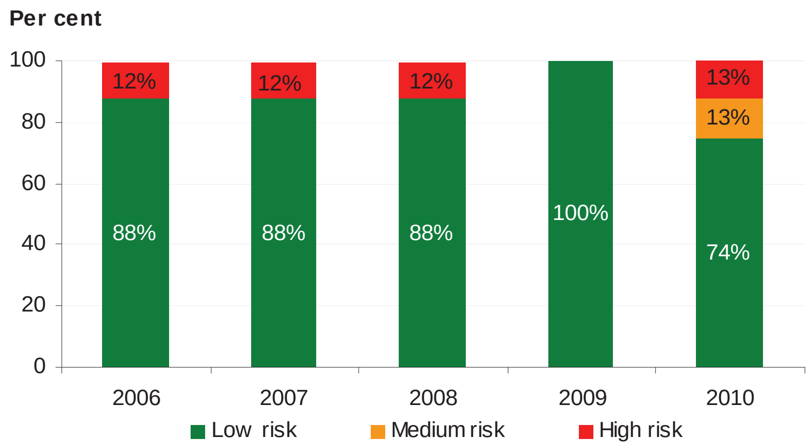
**Figure 4D**
**Average liquidity ratio – universities**




*Source:* Victorian Auditor-General's Office.

Figure 4E shows that the overall ability of universities to repay short-term liabilities deteriorated in 2010. The risk assessment for two universities moved from low in 2009 to high and medium in 2010 because their short-term liabilities exceed their short-term assets.

**Figure 4E**
**Liquidity risk assessment – universities**

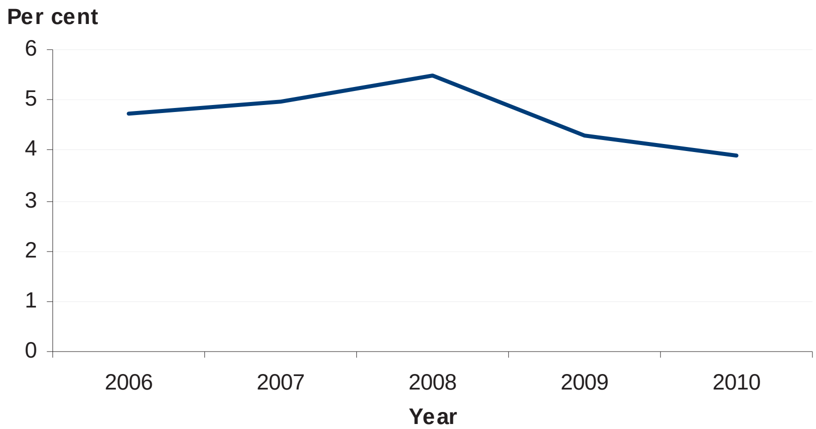



*Source:* Victorian Auditor-General's Office.

## Debt-to-equity

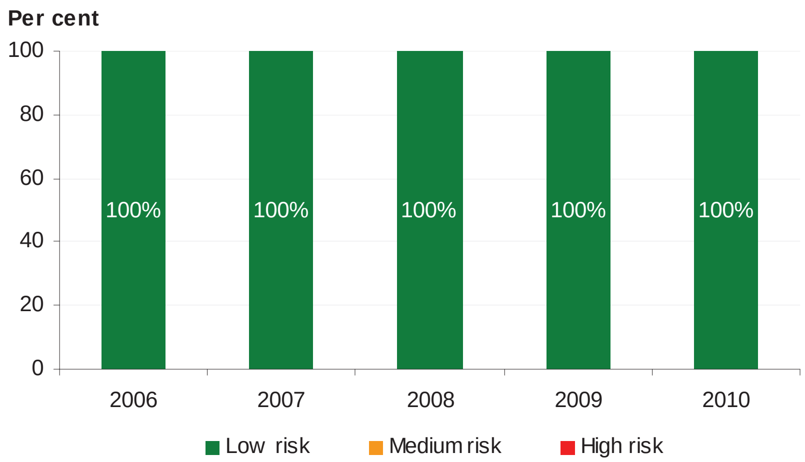
Figures 4F and 4G show that the debt-to-equity indicator has marginally improved from 2006 to 2010. Consequently, the debt-to-equity indicator for all universities is assessed as low assessment for 2010.

**Figure 4F**
**Average debt-to-equity indicator – universities**




*Source:* Victorian Auditor-General's Office.

**Figure 4G**
**Debt-to-equity risk assessment – universities**

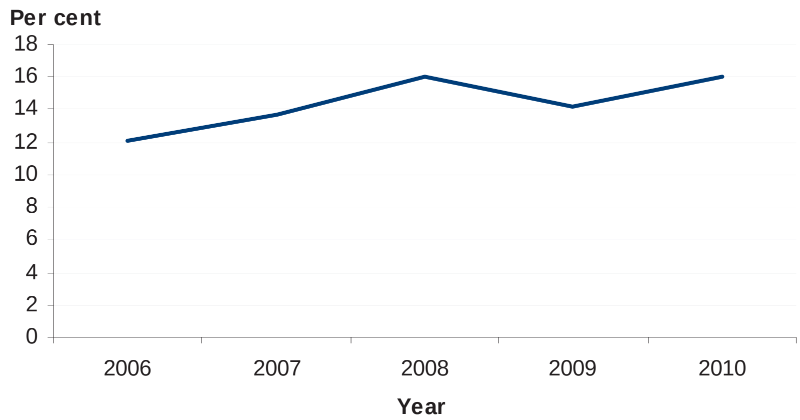



*Source:* Victorian Auditor-General's Office.

## Self-financing

Figure 4H shows the trend in the self-financing indicator has marginally improved over the five-year period.

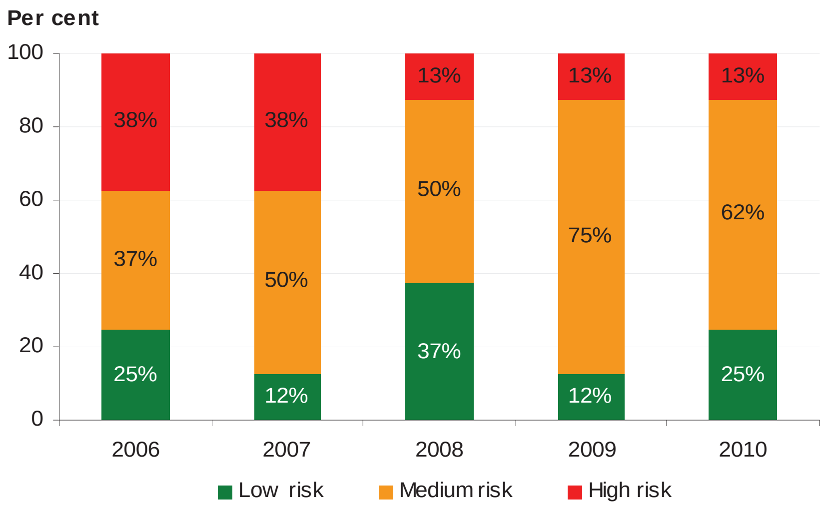
**Figure 4H**
**Average self-financing indicator – universities**




*Source:* Victorian Auditor-General's Office.

Figure 4I shows that 75 per cent (six of eight) of universities have been assessed as high or medium risk for the self-financing indicator in 2010. This means that the universities cannot effectively replace their assets over the long term using income generated by their operations. Under these circumstances there is a greater reliance on government funding for asset renewal and replacement.

**Figure 4I**
**Self-financing risk assessment – universities**




*Source:* Victorian Auditor-General's Office.

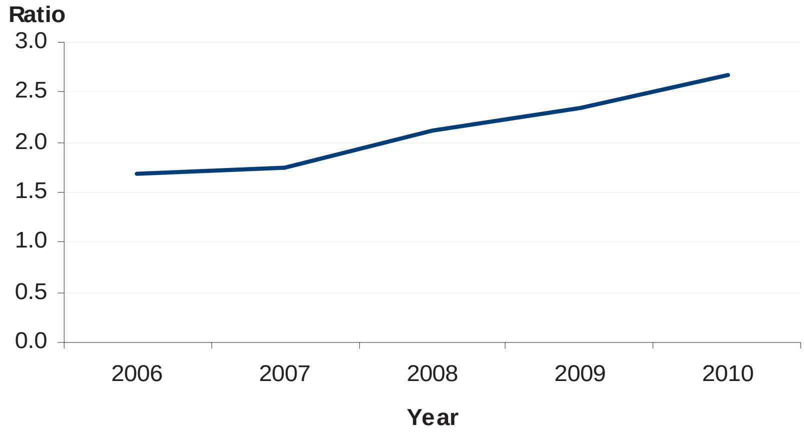
This indicator will need to be monitored as a continuing decline would indicate that assets will not be able to be replaced from operating cash flows over the long term.

Overall the indicator continues to be assessed as a medium risk for 2010.

## Capital replacement

Figure 4J shows the average capital replacement indicator for the university sector has improved over the five-year trend period and the risk remains low. Aggregate capital spending on property, plant and equipment has consistently and significantly exceeded aggregate depreciation. However, caution is required when interpreting these results as annual spending on assets includes new and expanded facilities, in addition to existing facilities. As a result, the true level of spending on asset renewal is less than indicated.

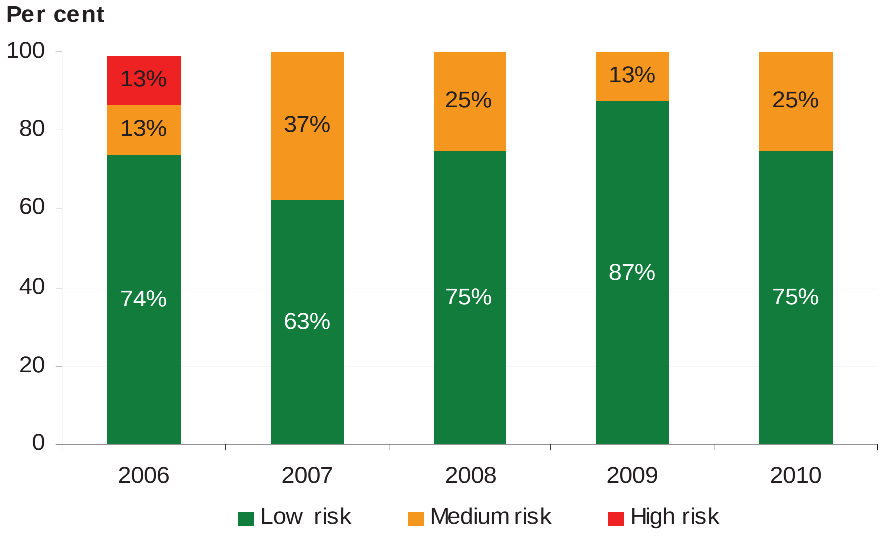
**Figure 4J**
**Average capital replacement ratio – universities**




*Source:* Victorian Auditor-General's Office.

Figure 4K shows that 25 per cent of universities (two of eight) have been assessed as medium risk for the capital replacement indicator in 2010. This illustrates that for these entities spending on capital works is not sufficient to maintain and upgrade existing infrastructure and equipment. The university's ability to keep up with the increasing demand for education services facilities is at risk.

**Figure 4K**
**Capital replacement risk assessment – universities**




*Source:* Victorian Auditor-General's Office.

## 4.3 Financial sustainability: TAFEs

The TAFE sector's overall financial sustainability risk is assessed as low, based on an analysis of five indicators over a five-year period. The sector's indicators are generally positive, including:

- positive underlying operating results
- short-term liabilities can be met by short-term assets.

Figure 4L summarises the results of the assessment of the risks for the five financial sustainability indicators at a sector and individual entity level over the period 2006 to 2010.

High-risk results are shown as red, medium-risk as orange, and low-risk as green.

**Figure 4L**
**Five-year mean financial sustainability risk assessment 2006–10 – TAFEs**

| TAFEs | Underlying result (%) 5-year mean | Liquidity 5-year mean | Debt-to-equity (%) 5-year mean | Self-financing (%) 5-year mean | Capital replacement 5-year mean | Overall risk assessment 5-year mean |
|---|---|---|---|---|---|---|
| Bendigo Institute | 7.1% | 2.3 | 0.0% | 13.0% | 2.7 | ● |
| Box Hill Institute | 7.9% | 5.2 | 0.0% | 10.8% | 2.5 | ● |
| Central Gippsland Institute | 10.7% | 2.7 | 0.7% | 16.7% | 2.7 | ● |
| Chisholm Institute | 10.6% | 2.4 | 0.0% | 13.1% | 2.9 | ● |
| East Gippsland Institute | 10.2% | 2.8 | 0.3% | 16.6% | 1.9 | ● |
| Gordon Institute | 8.3% | 4.6 | 0.0% | 13.0% | 2.0 | ● |
| Goulburn Ovens Institute | 7.2% | 3.1 | 0.0% | 12.0% | 2.5 | ● |
| Holmesglen Institute | 8.1% | 4.1 | 0.0% | 16.9% | 2.8 | ● |
| Kangan Batman Institute | 14.2% | 3.1 | 0.0% | 19.8% | 2.3 | ● |
| Northern Melbourne Institute | 8.4% | 4.4 | 0.1% | 13.8% | 2.2 | ● |
| South West Institute | 12.5% | 2.5 | 0.0% | 19.2% | 3.4 | ● |
| Sunraysia Institute | 5.5% | 3.6 | 0.0% | 12.5% | 1.8 | ● |
| William Angliss Institute | 9.0% | 4.0 | 0.0% | 13.8% | 3.0 | ● |
| Wodonga Institute | 6.8% | 3.1 | 0.4% | 13.8% | 2.0 | ● |
| **TAFE Average** | **9.0%** | **3.4** | **0.1%** | **14.6%** | **2.5** | ● |

*Source:* Victorian Auditor-General's Office.

The average risk for the indicators of underlying result, liquidity, debt-to-equity and capital replacement is assessed as low.

The average underlying result indicator for each TAFE is assessed as low risk. The assessed risk for the underlying result indicator for regional TAFEs are generally lower than the metropolitan TAFEs because they have a declining share of the international student market.

The assessed risk of the average self-financing indicator is medium. 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 are not generating sufficient revenues to build enough retained earnings to finance future asset replacement and purchase new assets.

Over and above the analysis of financial sustainability indicators, trends and risks, the ability of management and the governing body to make decisions necessary to affect an entity's operations needs to be taken into account in assessing the entity's performance. In the case of public sector entities, notwithstanding the application of transaction neutral Australian Accounting Standards and accrual accounting, the funding model does not progressively fund entities for the depreciation of their assets.

The impact of the funding model is best illustrated by the self-financing indicator risk assessments for Bendigo Regional Institute of TAFE and Wodonga Institute of TAFE. The risk assessment for the self-financing indicator for these TAFEs reduced from high in 2009 to medium in 2010. This is because these entities received increased capital grants in 2010 of $11 million and $10 million, respectively. Consequently, the increase in capital funding has reduced the risk.

The funding model allocates capital grants strategically across the sector rather than progressively to each entity. This means that funds for replacing assets are not provided until such time as the government considers replacement is appropriate given its strategic review of the sector's needs and other spending priorities. Nevertheless, the governing board of each entity is accountable for the entity's financial management and performance.

Therefore, the capital funding model limits the ability of governing bodies and management to exercise discretion or make decisions around asset maintenance and replacement. This could have implications for holding them to account for an entity's operational performance.

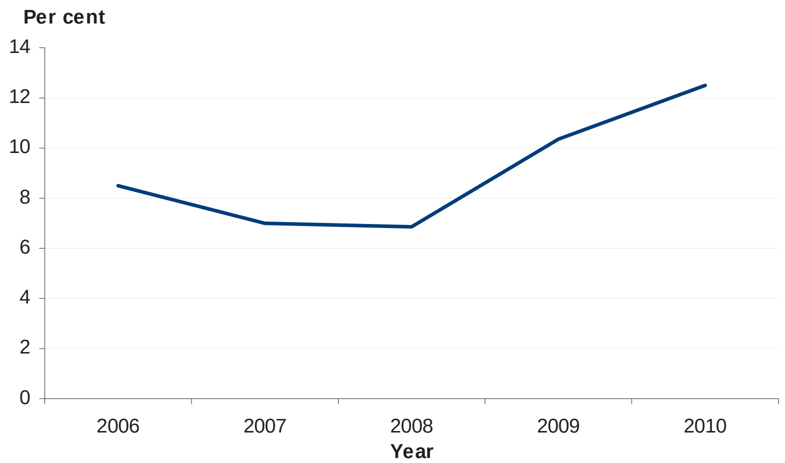
## 4.3.1 Five-year trend analysis

This section provides an analysis and commentary on the trends for each indicator for the past five years. The financial sustainability indicators for 2006 to 2010 are provided in Appendix A.

### Underlying result

Figure 4M shows that the average underlying result indicator for the TAFE sector has improved from 8.5 per cent in 2006 to 12.5 per cent in 2010. The trend indicates that revenues are exceeding expenses.

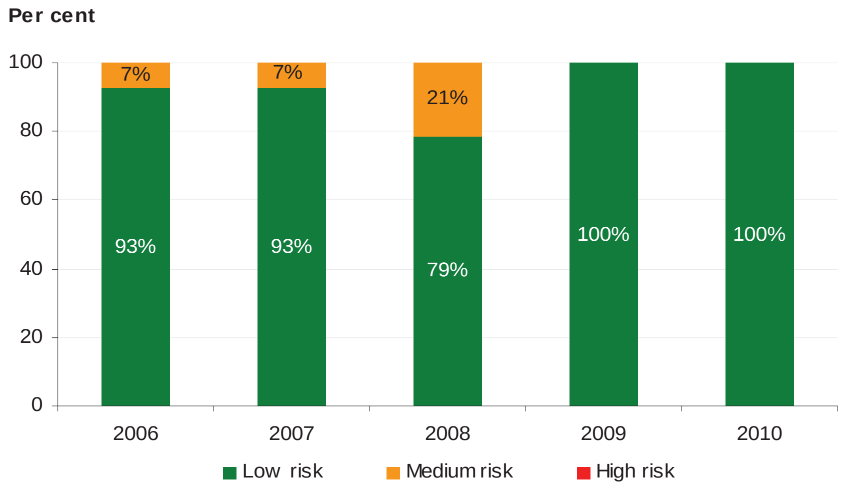
**Figure 4M**
**Average underlying result – TAFEs**




*Source:* Victorian Auditor-General's Office.

Figure 4N shows that all TAFEs have a risk assessment of low for the underlying result indicator for 2010.

**Figure 4N**
**Underlying result risk assessment – TAFEs**

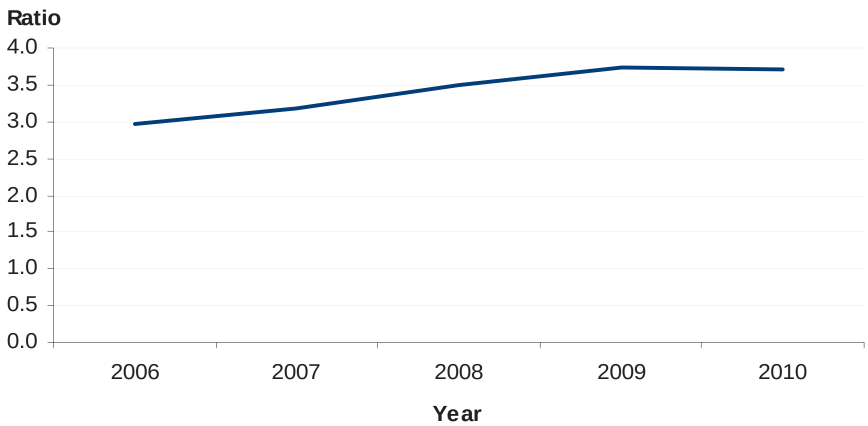



*Source:* Victorian Auditor-General's Office.

## Liquidity

Figure 4O shows that on average TAFEs have strong liquidity positions, well above the 1:1 risk threshold.

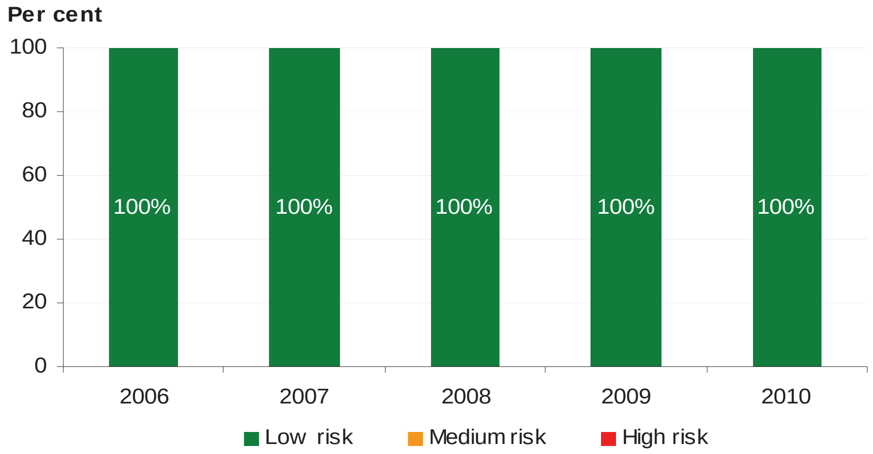
**Figure 4O**
**Average liquidity ratio – TAFEs**




*Source:* Victorian Auditor-General's Office.

Figure 4P shows that the ability of TAFEs to repay short-term liabilities has been consistently assessed as low for the five years to 2010.

**Figure 4P**
**Liquidity risk assessment – TAFEs**

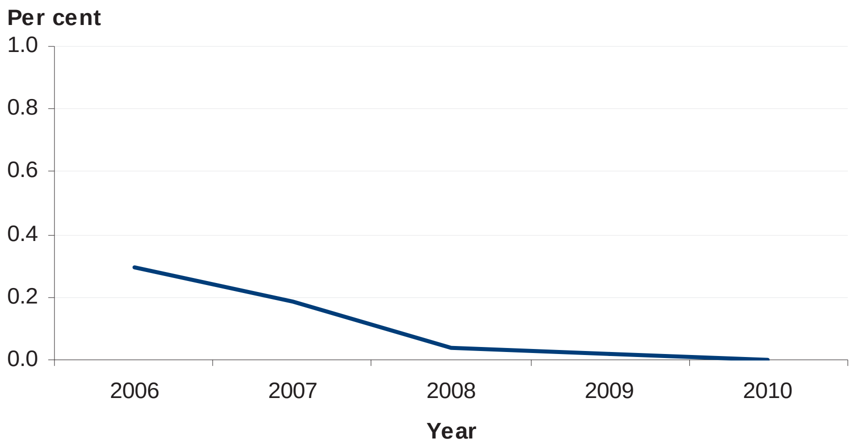



*Source:* Victorian Auditor-General's Office.

## Debt-to-equity

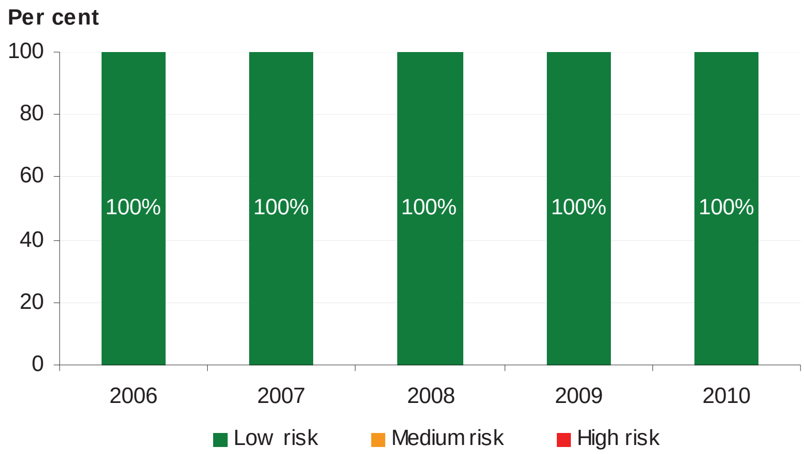
Figures 4Q and 4R show that the debt-to-equity indicator has marginally improved for the sector from 2006 to 2010. The risk related to the debt-to-equity indicator for all TAFEs is assessed as low for 2010.

**Figure 4Q**
**Average debt-to-equity indicator – TAFEs**




*Source:* Victoria Auditor-General's Office.

**Figure 4R**
**Debt-to-equity risk assessment – TAFEs**

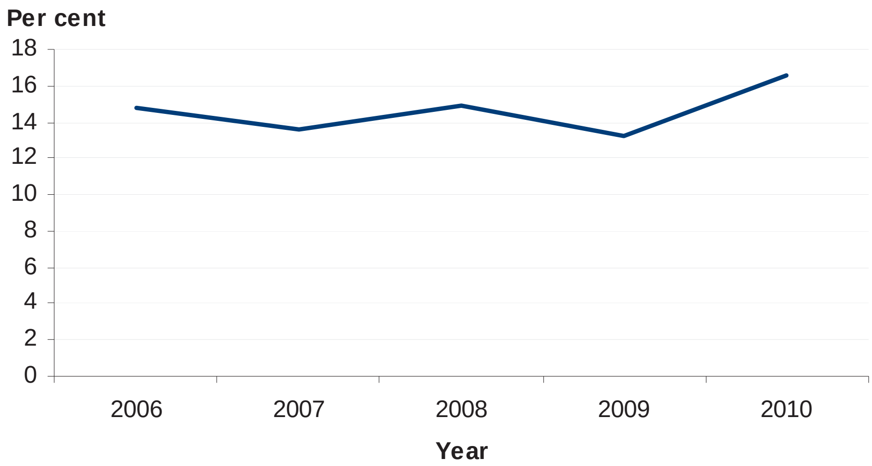



*Source:* Victorian Auditor-General's Office.

## Self-financing

Figure 4S shows the self-financing indicator trend for the TAFE sector has not changed over the five-year period and retains a risk assessment of medium.

**Figure 4S**
**Average self-financing indicator – TAFEs**

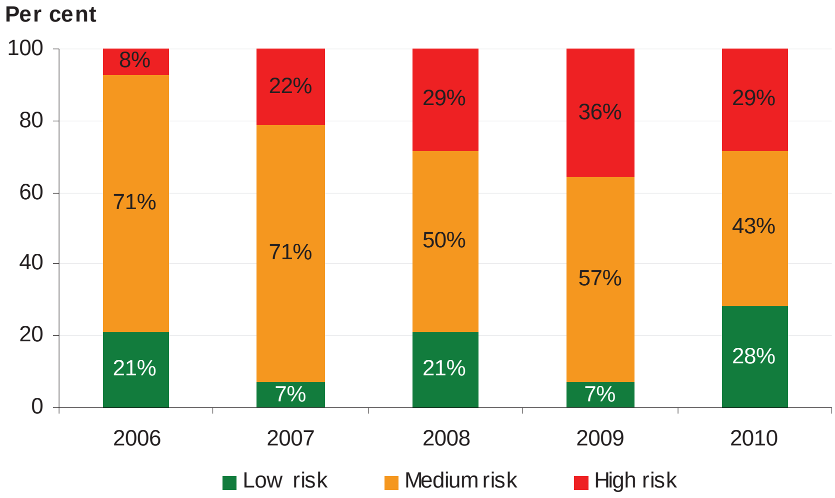



*Source:* Victorian Auditor-General's Office.

Figure 4T shows that 72 per cent (10 of 14) of TAFEs have an assessed risk of either high or medium for the self-financing indicator in 2010. This means that the 10 entities cannot effectively replace their assets over the long term using income funded from operations. Under these circumstances there is a greater reliance on government funding for asset renewal and replacement. This is largely because the TAFE capital funding model allocates capital funding strategically across the sector, rather than progressively to individual TAFEs.

This indicator will need to be monitored and actively managed. A continuing decline indicates that over the long term assets will not be able to be replaced from operating cash flows.

**Figure 4T**
**Self-financing risk assessment – TAFEs**

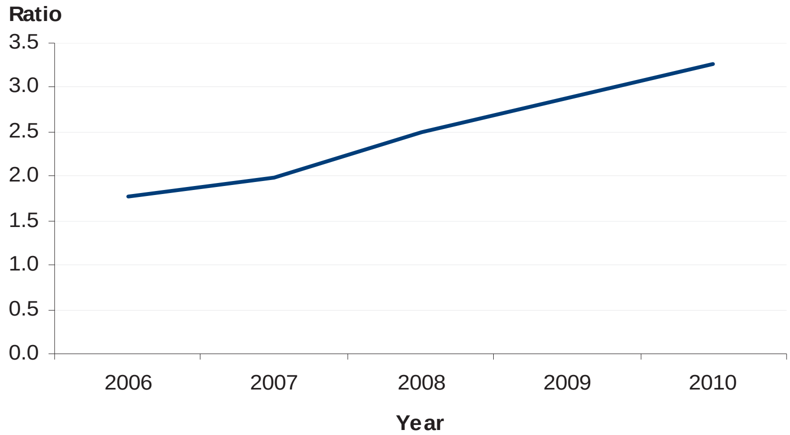



*Source:* Victorian Auditor-General's Office.

## Capital replacement

Figure 4U shows the average capital replacement indictor for the TAFE sector has been relatively consistent over the five-year trend period and retains a risk assessment of low. Aggregate capital spending on property, plant and equipment has consistently and significantly exceeded aggregate depreciation. However, caution is required when interpreting these results as annual spending on assets includes new and expanded facilities, in addition to existing facilities. As a result, the true level of spending on asset renewal is less than indicated.

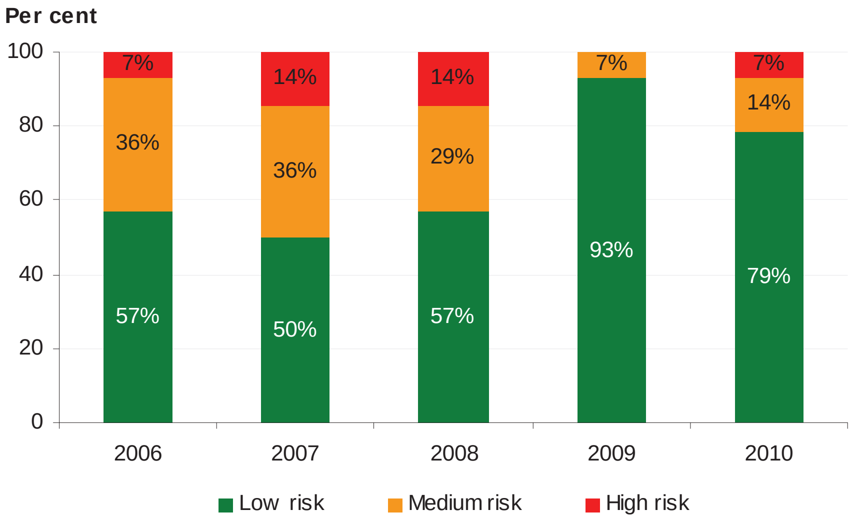
**Figure 4U**
**Average capital replacement ratio – TAFEs**




*Source:* Victorian Auditor-General's Office.

Figure 4V shows that the risk to capital replacement for one TAFE has moved to high in 2010, and the number of TAFEs assessed at medium risk in 2010 has increased from one to two. This indicates that spending on capital works is not sufficient to maintain and upgrade existing infrastructure and equipment. The ability to keep up with the increasing demand for education services facilities is at risk.

**Figure 4V**
**Capital replacement risk assessment – TAFEs**




*Source:* Victorian Auditor-General's Office.

# 5 Tertiary education: Internal controls

## At a glance

### Background

Effective internal controls help entities reliably and cost effectively meet their objectives. Reliable internal controls are a prerequisite for the delivery of reliable, accurate and timely external and internal reports.

### Conclusions

We found that the internal control structures for all entities audited were adequate for producing reliable, accurate and timely financial reports.

### Findings

- Universities and TAFEs commonly could strengthen their internal controls by:
  - reviewing masterfile standing data changes
  - preparing and reviewing key account reconciliations
  - documenting and/or reviewing core financial policies and procedures
  - documenting information system security strategies.
- Universities and TAFEs could strengthen controls over creditors and management of employee leave, by developing comprehensive policies, more effective management practices, and enhanced compliance monitoring.

### Recommendations

- That universities and TAFEs assess their policies and processes against the commonly identified internal control weaknesses to assure they are operating in a reliable and cost-effective manner.
- That governing bodies and management of universities and TAFEs improve the controls over creditor management, by:
  - establishing comprehensive creditor management policies and procedures and reviewing them periodically
  - using external benchmarks to assess creditor management performance
  - reviewing the ageing of creditors on a regular basis
  - cleansing the vendor masterfile at least annually
  - requiring comprehensive creditor payment and aged analysis reports, including benchmarked payment performance information, to be regularly provided to governing bodies
  - engaging internal audit to periodically review creditor management practices and related policy compliance.

# At a glance – *continued*

## Recommendations – *continued*

- That governing bodies and management of universities and TAFEs improve the controls over leave management, by:
  - establishing comprehensive leave management policies and procedures and reviewing them periodically
  - introducing comprehensive leave monitoring arrangements, including benchmarking leave performance outcomes and costs
  - reviewing practices and processes periodically
  - requiring comprehensive leave management reports, including action plans for any adverse movements identified, to be provided to governing bodies
  - engaging internal audit to periodically review leave management practices and related policy compliance.
- That universities and TAFEs establish processes that encourage staff to take their recreation leave entitlements at planned intervals to reduce leave liabilities and maintain a healthy workforce.
- That universities and TAFEs benchmark sick leave absences against industry averages to enable timely decision-making to reduce the impact on operational performance.

## 5.1 Introduction

Effective internal controls help entities reliably and cost effectively meet their objectives. Reliable internal controls are a prerequisite for the delivery of reliable, accurate and timely external and internal reports.

In our annual financial audits, we focus on the internal controls relating to financial reporting and assess whether entities have managed the risk that their financial statements will not be complete and accurate. Poor controls diminish management's ability to achieve their entity's objectives and comply with relevant legislation. They also increase the risk of fraud.

Universities and technical and further education (TAFE) institutes governing bodies are responsible for developing and maintaining 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 legislation for each of the eight universities we audit is similar and requires management to implement an internal control structure. For TAFEs, the *Education and Training Reform Act 2006* requires management to implement an internal control structure.

## 5.2 General internal controls

All universities and TAFEs operate adequate internal controls to maintain the reliability of financial reporting, the efficiency and effectiveness of their operations and compliance with all relevant laws and regulations. Nevertheless, we identified a number of instances where important internal controls need to be strengthened. These matters were reported to the related entity's governing body and management team.

The commonly identified areas that require improving were:

- review of masterfile standing data changes
- preparation and review of account reconciliations
- documentation and review of core financial policies and procedures
- absence of information system security strategies.

### 5.2.1 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 enable reliable processing of individual payments. Masterfile data can include name, address, pay rates, course rates and bank account details.

It is important that all changes made to standing data on masterfiles are checked for completeness, accuracy and legitimacy. Otherwise subsequent processing errors can be repeated many times over or data integrity reduced. Further, an independent review of masterfile standing data changes is important:

- for the detection and timely correction of unintentional or fraudulent changes
- to guard against payments to unauthorised suppliers or unauthorised adjustments to pay rates.

This year we found the following instances of control weaknesses in masterfile maintenance in some entities:

- no review of changes to individual or global employee pay rates in employee masterfiles
- no review of changes to course rates in course fee masterfiles
- no review of changes to vendor masterfiles
- no audit trail kept of changes to employee masterfiles.

## 5.2.2 Preparation and review of account reconciliations

A financial report is generally prepared based on information captured in an entity's general ledger, with key balances within the general ledger often supported by information recorded in subsidiary ledgers such as accounts payable, billing, fixed assets and payroll systems. Periodic reconciliation of the general ledger with the subsidiary ledger balances is vital to confirm the completeness and accuracy of data.

Timely preparation and independent review of key account 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.

While entities were generally performing reconciliations, the following exceptions we found in our audits:

- some account reconciliations were not prepared
- some account reconciliations were not prepared in a timely manner
- some account reconciliations were not independently reviewed either in a timely manner, or at all.

## 5.2.3 Documentation and review of core financial policies and procedures

Universities and TAFEs should maintain up-to-date policies and procedures on the core areas of administration and governance such as cash receipting, accounts payable, accounts receivable, physical assets and fraud. Policies and procedures are important in enabling boards and management to reliably communicate responsibilities and accountabilities of and to staff. Documented policies and procedures also make it easier to identify control weaknesses or occurrences of non-compliance.

This year we found instances of the following weaknesses in policies and procedures:

- policies had not been reviewed and approved in a timely manner
- procedure documents for some core areas were absent.

## 5.2.4 Information systems security strategy

All entities that rely on information systems (IS), including universities and TAFEs, should have an IS security strategy setting out controls to mitigate IS risks or threats. The IS security strategy should be based on a rigorous risk assessment that identifies relevant risks and how the risks are to be mitigated. Policies that support the IS security strategy should be regularly reviewed to deal with emerging risks and threats, particularly acceptable usage, password controls, confidentiality of information and the integrity of information. Classification of data within information systems should be based on a risk based methodology.

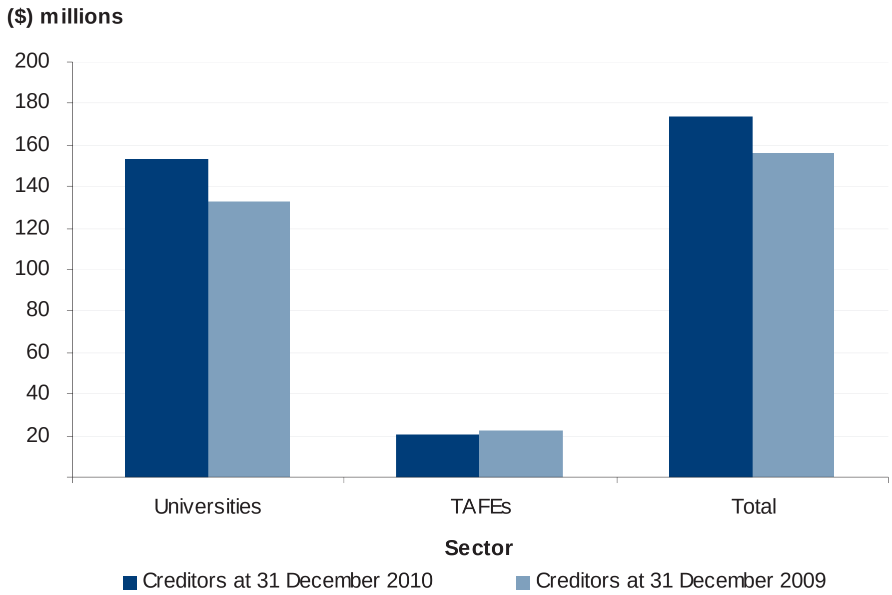
We found that IS security strategies are not in place in a number of entities audited.

## 5.3 Controls over creditors

Liabilities of universities and TAFEs totalled $3.6 billion as at 31 December 2010 ($3.4 billion at 31 December 2009). In balance sheet terms, as at 31 December 2010, 13 per cent or $475 million of liabilities related to payables. Given the financial significance of payables, we reviewed the management controls and processes over expenditure and liabilities relating to creditors at universities and TAFEs.

Universities and TAFEs owed creditors $174 million at 31 December 2010 ($156 million at 31 December 2009). Figure 5A shows that universities recorded creditors of over $153 million at 31 December 2010, up from $133 million in 2009. TAFEs recorded creditors of over $21 million at 31 December 2010, down from $23 million in 2009.

**Figure 5A**
**Outstanding creditor balances**




*Source:* Victorian Auditor-General's Office.

The effective management of creditors is important from a cash flow perspective, and becomes more critical as the volume and value of invoices processed increases.

The Standing Directions issued by the Minister for Finance outline the government's expectations with respect to internal controls and promote prudent creditor management. The directions address the authorisation and approval of transactions, the payment of invoices and the timely and accurate reporting of financial information.

## 5.3.1 Creditor management framework

The governing bodies of universities and TAFEs are responsible for establishing controls over the accounts payable function. Controls should address the initiation, approval, processing, payment, recording and reporting of transactions. Controls should facilitate effective monitoring and provide for board oversight of performance.

Effective creditor controls and processes include:

- comprehensive policies and procedures
- appropriate management practices
- sound governance and oversight.

The key elements of an effective creditor management framework are further detailed in Figure 5B.

**Figure 5B**
**Key elements of an effective creditor management framework**

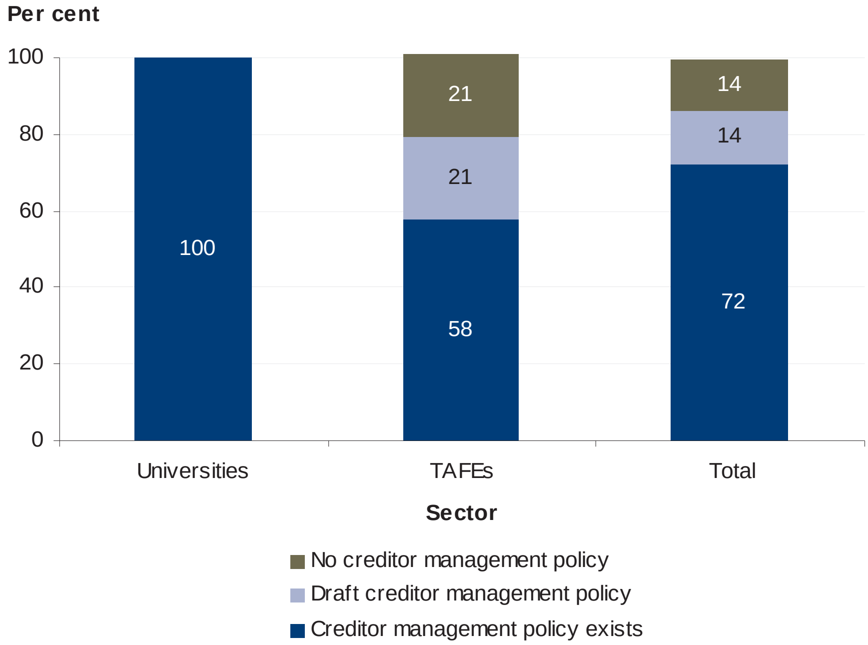
| Component | Key elements |
|---|---|
| **Policy** | Has an objective |
| | Makes reference to legislative requirements |
| | Specifies the entity's terms of trade |
| | Addresses financial delegations and the segregation of incompatible duties |
| | Outlines the roles and responsibilities of staff |
| | Specifies the nature and regularity of reporting |
| **Management practices** | Comprehensive guidelines for each phase of the accounts payable process exist |
| | Regular cleansing of the vendor masterfile to confirm the integrity of standing data |
| | Generation and review of aged creditors listings |
| | Timely and accurate payment of creditors |
| | Systems enable efficient payment processing |
| | Key performance indicators set and reported against |
| **Governance and oversight** | Review, update and approve policies and procedures |
| | Monitor compliance with approved policies and procedures |
| | Assess the nature and level of risk attached to creditors from an entity perspective |
| | Regular reporting to the governing board and/or subcommittee of the board |
| | Monitoring performance given key performance indicators set |

*Source:* Victorian Auditor-General's Office.

## 5.3.2 Creditor management policies

Figure 5C sets out the proportion of university and TAFE entities with established policies for managing their creditors, identified through our 2010 audits.

**Figure 5C**
**Universities and TAFEs with creditor management policies**




*Source:* Victorian Auditor-General's Office.

At 31 December 2010, 72 per cent (16 of 22) of universities and TAFEs had a creditor management policy. These 16 entities collectively had creditors valued at $166 million representing 95 per cent of the total creditors held by the tertiary education sector.

A further 14 per cent or three TAFEs were drafting creditor management policies. The remaining 14 per cent or three TAFEs did not have documented creditor policies. The entities without a policy collectively had creditors valued at $8 million, or 5 per cent of the total creditors held by the sector at 31 December 2010.

## Adequacy of established policies

While no entity's creditor management policy contained all the elements identified in Figure 5B, the policy documents of the universities were generally more detailed than those of the TAFEs.

The majority of the policies examined did incorporate the following important aspects:

- **objectives of the creditor management policy**—were included in policies of 63 per cent of universities and 88 per cent of TAFEs
- **reference to legislative requirements**—75 per cent of universities and 88 per cent of TAFEs
- **specification on terms of trade**—75 per cent of universities and 88 per cent of TAFEs

- **an outline of authorisation and approval arrangements**—100 per cent of universities and 100 per cent of TAFEs
- **an outline of staff roles and responsibilities**—63 per cent of universities and 100 per cent of TAFEs.

However, the following elements were not commonly found in the creditor management policies reviewed:

- **details of reporting frequency and accountabilities**—not included in policies of 75 per cent of universities and 50 per cent of TAFEs
- **key performance indicators**—100 per cent of universities and 100 per cent of TAFEs.

Overall there is scope for improvement in the quality of creditor management policies in all universities and TAFEs.

### Approval of policies

Governing bodies have primary responsibility for effectively managing the creditor payment function at universities and TAFEs. In discharging its responsibilities the governing body should establish and periodically review policies—they are ultimately responsible for any deficiencies in policy setting.

For the eight universities and eight TAFEs that had creditor management policies, the governing bodies of six universities and four TAFEs had reviewed and approved the policies.

## 5.3.3 Creditor management practices

### Efficiency of creditor payments processing

Administering creditor payments is an important responsibility of universities and TAFEs and the technology supporting the activity is constantly evolving. More efficient systems have at least some of the following features:

- online purchasing capability
- system-based matching of documents for authorisation
- payment by electronic funds transfer
- automatic ageing analysis
- the ability to use emails to raise invoices and send remittance advices.

Some of these relatively new facilities present opportunities for efficiency gains, but can also pose a risk to the internal control framework, warranting attention from both management and governing bodies.

To determine whether creditor payments were being processed efficiently and effectively we assessed if:

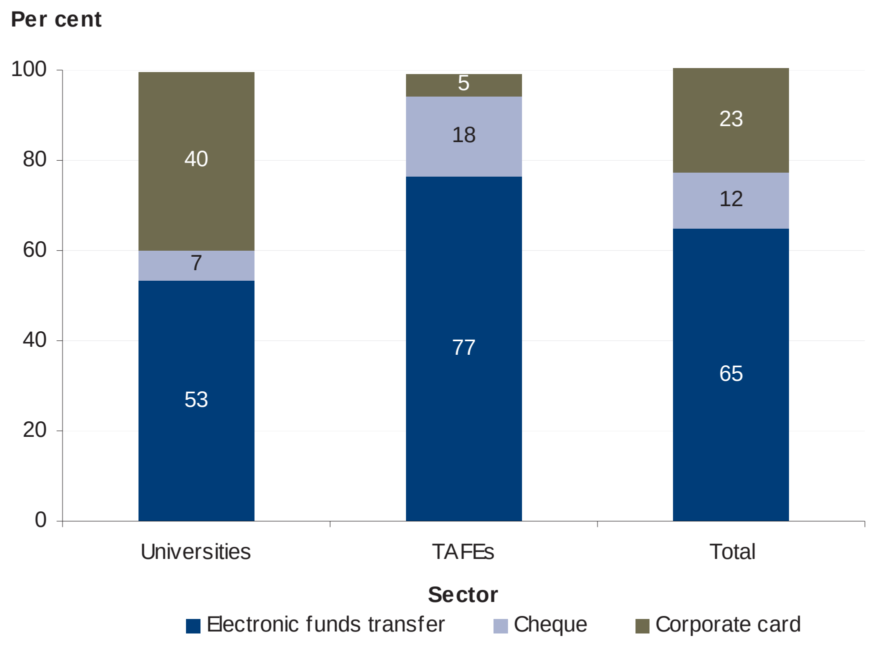
- systems could automatically produce creditor balance details and an ageing analysis
- systems were capable of scheduling payments
- electronic funds transfers were the preferred method of payment
- emails were used to communicate remittance advices to suppliers.

Eighty-eight per cent of universities (seven of eight) and 86 per cent of TAFEs (12 of 14) use an automated ageing analysis facility to monitor creditor balances.

All universities and 79 per cent of TAFEs (11 of 14) had systems capable of scheduling payments to meet creditor terms of trade. However 25 per cent of universities (two of eight) and 57 per cent of TAFEs (eight of 14) did not have mechanisms to capture and report on compliance with terms of trade.

Figure 5D shows that both universities and TAFEs make the majority of their creditor payments in volume by electronic fund transfer with TAFEs using this function more.

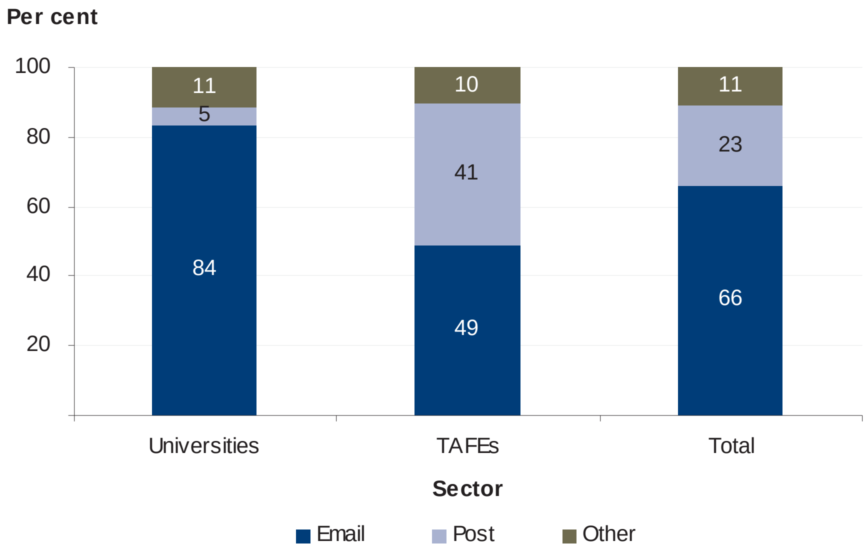
**Figure 5D**
**Preferred payment method by volume**




*Source:* Victorian Auditor-General's Office.

However, universities and TAFEs are not receiving the full benefits of this technology, as Figure 5E shows that 84 per cent of universities and only 49 per cent of TAFEs send remittance advices by email.

**Figure 5E**
**Method of sending remittance advices**




*Source:* Victorian Auditor-General's Office.

## Ageing of creditors

Creditors set payment terms of varying time frames, generally from immediate payment to within 30 days. Delays in paying suppliers can have repercussions, including the loss of early payment discounts, impacts on cash flow projections, the need to access short-term borrowings for working capital purposes, and potential damage to an entity's reputation.

As at 31 December 2010, 18.7 per cent of university creditors and 17.4 per cent of TAFE creditors were outstanding for more than 30 days. Given universities and TAFEs have total outstanding creditors of $174 million at 31 December 2010, this meant that around $32 million had been outstanding for more than 30 days. Figure 5F shows the ageing of creditors for universities and TAFEs at year end for both 2010 and 2009. It shows the situation has marginally got worse in universities since 2009, but improved in TAFEs.

**Figure 5F**
**Ageing of creditors**

| | 31 December 2010 (%) | | | | | 31 December 2009 (%) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Sector Days** | **1–30** | **31–60** | **61–90** | **91–120** | **120+** | **1–30** | **31–60** | **61–90** | **91–120** | **120+** |
| Universities | 81.3 | 12.3 | 1.4 | 0.8 | 4.2 | 85.0 | 11.8 | 1.3 | 0.8 | 1.1 |
| TAFEs | 82.6 | 11.2 | 2.4 | 3.7 | 0.1 | 74.5 | 16.3 | 7.0 | 2.0 | 0.2 |

*Source:* Victorian Auditor-General's Office.

An important function of paying accounts on the terms of trade and managing creditor payments is monitoring actual payment performance. Many accounts payable systems have the capacity to monitor creditor balances through the use of an automated ageing analysis. Eighty-eight per cent of universities (seven of eight) and 86 per cent of TAFEs (12 of 14) have this capacity.

Management regularly performed an ageing analysis of creditors in 63 per cent of universities (five of eight) and 71 per cent of TAFEs (10 of 14). Management at seven entities (32 per cent), comprising three universities and four TAFE institutes, did not monitor the ageing of creditors. In those entities delays in payment were less likely to be addressed in a timely manner.

Sixty-three per cent of universities (five of eight) and 50 per cent of TAFEs (seven of 14) were unable to determine the average days elapsed from invoice date to payment, and were therefore not able to effectively manage and monitor their payment performance.

## Benchmarking creditor payment performance

Benchmarking is an effective means of assessing each entity's creditor management performance. Both external and internal benchmarks should be used, and comparison should not be limited solely to assessment against the entity's past performance. Wider comparison provides a more objective measure of the standard of performance.

No university and only three TAFEs used external benchmarks to assess their aged creditor balances. No university and only one TAFE used external benchmarks, such as industry averages or targets, to assess payment terms achieved.

## Vendor masterfile maintenance

Financial systems, such as accounts payable, rely on the maintenance of standing data in masterfiles to enable the processing of individual payments. The standing data includes details such as the supplier's name, terms of trade, preferred payment methods, bank account details and payment history.

Changes made to standing data must be complete, accurate and legitimate, otherwise processing errors can occur and have the potential to be repeated many times. An independent review of masterfile changes is critical to the detection and timely correction of unintentional or fraudulent changes, to reduce the risk of payments to unauthorised or fictitious suppliers.

A regular cleansing of the masterfile enables the detection and removal of duplicated and superfluous data and can improve the operational efficiency of the system.

Fifty per cent of universities (four of eight) and 36 per cent of TAFEs (five of 14) did not undertake routine cleansing of the vendor masterfile to remove duplicate, inaccurate and superfluous data.

## 5.3.4 Governance and oversight of creditor management

### Periodic policy review and update

The primary responsibility for setting policies and procedures rests with executive management; however, they should be approved or endorsed by the governing body prior to implementation. They should also be reviewed on a periodic basis. In the absence of approval and review there is a higher risk that:

- the policies and procedures are inadequate and gaps may not be identified
- the policies and procedures may no longer reflect relevant best practice and legislative requirements.

Of the eight universities and eight TAFEs with creditor management policies, six universities and four TAFEs had policies approved by their governing bodies. Creditor management policies of five universities and five TAFEs had been periodically reviewed.

### Monitoring of expenditure and policy compliance

Key performance indicators over creditor management can relate to the achievement of payment terms, the number of late payments, duplicate payments, supplier complaints, active suppliers, the ageing of creditors and percentage of payments made by electronic funds transfer (EFT). Our review indicated that 88 per cent of universities (seven of eight) and 93 per cent of TAFEs (13 of 14) do not maintain and report performance statistics to their governing board about creditor management.

### Risk recognition and management

Creditor management is a risk for all organisations. Inadequate payment systems can result in inefficient processing, duplicated payments and fraud. Poor cash flow management may result in additional interest expenses being incurred, loss of discounts and an increase in supplier complaints. Sixty-three per cent of universities (five of eight) and 29 per cent of TAFEs (four of 14) had risks associated with the management of creditors and payment processing in their risk register.

### Internal audit

The internal audit function within universities and TAFEs can provide management with assurance that the policies and procedures are complied with. All universities and TAFEs have an internal audit function which is generally engaged to review key accounting systems on a rotational basis. Sixty-three per cent of universities (five of eight), and 50 per cent of TAFEs (seven of 14) had their policies and procedures reviewed by internal audit in the past three years.

## 5.4 Management of employee leave

The largest item of expenditure for universities and TAFEs is salaries and related costs: it accounted for 58 per cent of total spending in 2010 (58 per cent in 2009). University salaries and related expenses totalled $3.3 billion for 2010 ($3.1 billion in 2009) and TAFE salaries and related expenses totalled $700.6 million in 2010 ($662.2 million in 2009).

Universities employed approximately 27 500 equivalent full time staff at 31 December 2010 and TAFEs employed approximately 10 500 equivalent full time staff at the same date (27 300 and 10 400 respectively at 31 December 2009).

At 31 December 2010, universities had employee leave liabilities of $640 million ($589 million at 31 December 2009), and TAFEs had employee leave liabilities of $110 million ($105 million at 31 December 2009). This represents 19 per cent of total liabilities of universities and 52 per cent of total liabilities of TAFEs.

Employment costs are a significant cost that needs to be managed in order for tertiary education sector entities to remain financially sustainable and to contain the cost of leave. Effectively managing recreation leave also promotes the health and wellbeing of staff, and work-life balance outcomes, providing benefits in the long term as staff are likely to be more productive at work, and reduce the risk of stress and exhaustion.

Given the financial significance of salaries and related costs, we reviewed the management controls and processes over related expenditure and liabilities, in particular those around leave management and governance.

### 5.4.1 Leave management framework

Effective leave management requires governing bodies to establish and monitor controls so that operational requirements are efficiently met, staff wellbeing is promoted and leave costs are controlled.

In establishing effective controls universities and TAFEs should adopt a leave management framework with:

- comprehensive leave policies
- effective leave management practices
- sound governance and oversight.

Figure 5G outlines the key elements of an effective leave management framework drawing on the Australian Public Service Commission's 2006 better practice guidelines detailed in the report *Fostering an Attendance Culture: A guide for APS agencies*. The framework assists entities to identify workplace absences and their possible causes, and improve their capacity to address problems by implementing better practice strategies.

**Figure 5G**
**Key elements of an effective leave management framework**

| Component | Key elements |
|---|---|
| **Policy** | Has leave management objectives |
| | Complies with enterprise bargaining agreement requirements |
| | Details leave entitlements and limitations |
| | Outlines staff responsibilities and leave application requirements |
| | Specifies approval arrangements and delegations |
| | Nominates reporting frequencies and accountabilities |
| | Requires policies to be reviewed and approved by the board |
| **Management practices** | Adhering to leave management policies and enterprise bargaining agreements |
| | Timely and efficient processing of leave applications |
| | Arrangements for monitoring leave balances and staff absences |
| | Analysing leave balances and staff absences, including benchmarking |
| | Developing action plans to address areas of concern |
| | Management review of policies, practices and processes |
| | Internal audit review |
| **Governance and oversight** | Comprehensive and regular reporting to executive and board |
| | Monitoring compliance with policy requirements |
| | Reviewing leave outcomes and benchmarked performance |
| | Periodic review of leave management policies |
| | Providing direction to management on areas of concern |
| | Assessing risks associated with leave arrangements and outcomes |
| | Engaging internal audit to review policy compliance and processes |

*Source:* Victorian Auditor-General's Office based on *Fostering an Attendance Culture: A guide for APS agencies*.

We assessed the leave management frameworks of the eight universities and 14 TAFEs by considering the above elements.

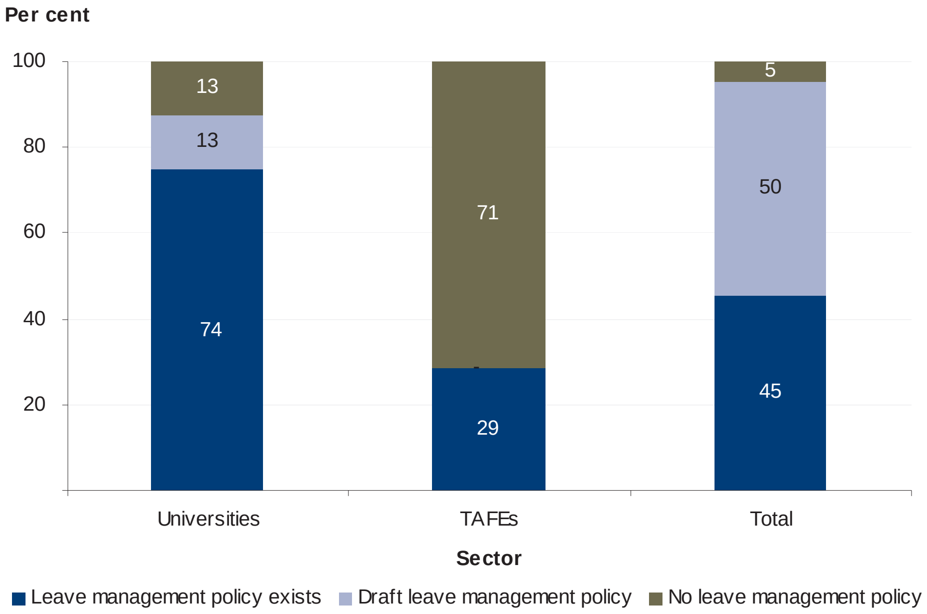
Overall, leave management policies and practices were found to be adequate, although there were a range of deficiencies in leave reporting systems and monitoring and oversight arrangements at many universities and TAFEs.

### 5.4.2 Leave management policies

Comprehensive leave policies are important in enabling governing bodies and management to communicate the responsibilities and entitlements of staff and management's expectations, as well as aligning operations with the strategic direction of the entity. Procedures developed to support policies established may include leave approval arrangements and delegations, approval for leave requests, staff responsibilities and leave application requirements.

Figure 5H sets out the proportion of universities and TAFEs with leave management policies.

**Figure 5H**
**Universities and TAFEs with leave management policies**




*Source:* Victorian Auditor-General's Office.

At 31 December 2010, 74 per cent of universities (six of eight) and 29 per cent of TAFEs (four of 14) had leave management policies. These entities were responsible for 80 per cent of the total salaries and related costs of universities and TAFEs.

One other university is drafting a leave policy. The remaining university and 10 TAFEs do not have leave policies and are not in the process of drafting one. These entities collectively were responsible for $789 million, or 20 per cent of the total salaries and related costs of universities and TAFEs.

### Adequacy of leave policies

Very few of the leave management policies for the universities and TAFEs contained all elements identified in Figure 5G. However, the majority incorporated the following elements:

- **objectives of the leave management policy**—included in policies of 83 per cent of universities and 100 per cent of TAFEs
- **reference to legislation or EBA requirements**—100 per cent of universities and 75 per cent of TAFEs
- **specification on leave entitlements and limitations for the different types of leave, i.e. annual leave, sick leave, long service leave, etc.**—100 per cent of universities and 50 per cent of TAFEs
- **an outline of staff responsibilities and application requirements**—100 per cent of universities and 100 per cent of TAFEs
- **specification of leave approval arrangements and delegations**—100 per cent of universities and 75 per cent TAFEs.

Thirty-three per cent of universities and 50 per cent of TAFEs did not include details of reporting frequency and accountabilities in their leave management policies.

### Approval of policies

Effectively managing employee leave costs and liabilities is a core factor for the ongoing financial sustainability of universities and TAFEs. Governing bodies are responsible for oversighting leave arrangements. In discharging these responsibilities the governing body should establish and periodically review policies, as they are ultimately responsible for any deficiencies in policy setting.

For the six universities and four TAFEs that had a leave management policy, in 67 per cent of universities (four of six), and 25 per cent of the TAFEs (one of four), the policy had been reviewed and approved by the governing body.

## 5.4.3 Leave management practices

### Compliance with policies and enterprise bargaining agreement requirements

Procedures that enable universities and TAFEs to comply with leave management policies and leave provisions contained within the relevant enterprise bargaining agreements (EBAs) include:

- communicating leave entitlements and associated expectations to staff
- monitoring and authorising individual employee leave by direct line managers
- staff training for processing leave entitlements.

Eighty-eight per cent of universities (seven of eight), and 86 per cent of TAFEs (12 of 14) had appropriate arrangements in place to assist them in complying with leave policies, and EBA provisions.

### Benchmarking leave outcomes and costs

Benchmarking of leave performance and costs against other universities and TAFEs or industry standards provides an objective reference point for management to establish targets and monitor performance and leave trends. Benchmarking can also be used to assess whether sick leave trends are within 'normal' parameters, recreation leave accruals are not excessive, and that the entity is minimising the additional costs associated with taking unplanned leave.

Fifty per cent of universities (four of eight), and 57 per cent of TAFEs (eight of 14) benchmarked leave trends and balances against external standards. Where undertaken, the targets used for assessment varied, and included the Queensland University of Technology HR benchmarking program, the State Services Authority annual workforce data analysis, or other industry generated targets.

### Analysis of leave

Management should assess whether established benchmarks are being met, and regularly review the need for remedial action in light of the actual leave outcomes experienced and current trends. This enables unfavourable leave outcomes or deficiencies in policies and procedures to be identified and addressed in a timely manner.

Eighty-eight per cent of universities (seven of eight), and 79 per cent of TAFEs (11 of 14) regularly monitor leave balances to determine excessive recreation leave accruals and sick leave absences.

## 5.4.4 Recreation leave outcomes

Under the enterprise bargaining agreements for universities and TAFEs, staff are entitled to four weeks recreation leave each year. Regular use of recreation leave promotes a healthy and productive workforce, and avoids work disruptions and additional costs associated with staff taking large blocks of leave.

Universities and TAFEs who effectively manage leave at an operational and strategic level have policies and practices designed to reduce the accumulation of excess recreation leave, thereby avoiding:

- adverse occupational health and safety outcomes
- impacts on employee productivity and opportunities to take leave
- higher financial costs of accumulating excess recreation leave to be paid at higher rates.

### Universities

Each university has two types of EBAs, one for academic staff and one for general staff. Academic and general staff are each entitled to four weeks recreation leave per year.

The value of recreation leave liability for all universities increased by 2.9 per cent or $5.8 million to $206.7 million as at 31 December 2010 from $200.9 million as at 31 December 2009.

Under the applicable EBAs for universities, recreation leave entitlements are to be taken within two years after they are accrued. Unless otherwise agreed, the maximum balance a university employee may generally carry forward is therefore 40 days.

Figure 5I shows the total number of staff with excessive recreation leave and the average excessive days held.

**Figure 5I**
**Excess recreation leave balances – universities**

| | 31 December 2010 | 31 December 2009 |
|---|---|---|
| Number of staff with leave balances in excess of 40 days | 1 809 | 1 866 |
| Total days in excess of 40 days | 33 402 | 39 152 |
| **Average days in excess of 40 days per staff member** | **18.5** | **21.0** |

*Source:* Victorian Auditor-General's Office.

Only 7 per cent of university employees had recreation leave balances in excess of 40 days as at 31 December 2010. Figure 5I shows that the number of staff with excess leave balances has decreased since 2009. The estimated accumulated value of this excessive leave liability was $13.5 million at 31 December 2010. These results indicate universities are effectively managing the impact and prevalence of staff with excess leave balances.

## TAFEs

TAFEs have two EBAs for their staff, one for teaching staff and one for professional, administrative, clerical, computing and technical (PACCT) staff. Teaching and PACCT staff are each entitled to four weeks recreation leave per year.

The total recreation leave liability for TAFEs increased by 6.1 per cent or $1.4 million to $23.9 million as at 31 December 2010, from $22.5 million as at 31 December 2009.

Under the applicable EBAs for TAFEs, recreation leave entitlements are to be taken within 15 months of accrual by teaching staff and within 24 months for PACCT staff. Unless otherwise agreed, the maximum balance a TAFE teacher may carry forward is 25 days, and the maximum balance a PACCT staff member may carry forward is 40 days.

Figure 5J shows the total number of teaching staff with excessive recreation leave and the average days held in excess of 25 days at 31 December 2010.

**Figure 5J**
**Excess recreation leave balances – TAFEs teaching staff**

| | 31 December 2010 | 31 December 2009 |
|---|---|---|
| Number of staff with leave balances in excess of 25 days | 279 | 249 |
| Total days in excess of 25 days | 3 543 | 2 765 |
| **Average days in excess of 25 days per staff member** | **12.7** | **11.1** |

*Source:* Victorian Auditor-General's Office.

Only 7.0 per cent of TAFE teaching staff had recreation leave balances in excess of 25 days as at 31 December 2010. However, Figure 5J shows an increase in the number of staff with excess leave balances since 2009. The estimated accumulated value of this excessive leave liability for TAFE teaching staff was $1.06 million at 31 December 2010.

Figure 5K shows the total number of PACCT staff with excessive recreation leave and the average days held in excess of 40 days.

**Figure 5K**
**Excess recreation leave balances – TAFEs PACCT staff**

| | 31 December 2010 | 31 December 2009 |
|---|---|---|
| Number of staff with leave balances in excess of 40 days | 205 | 130 |
| Total days in excess of 40 days | 3 952 | 3 553 |
| **Average days in excess of 40 days per staff member** | **19.3** | **27.3** |

*Source:* Victorian Auditor-General's Office.

Only 6.7 per cent of TAFE PACCT staff had recreation leave balances in excess of 40 days at 31 December 2010. However, Figure 5K shows a significant increase in the number of staff with excess leave balances since 2009. The estimated accumulated value of this excessive leave liability for TAFE PACCT staff is $1.11 million at 31 December 2010.

These results indicate that TAFEs need to improve the management of staff with excess leave balances.

### 5.4.5 Sick leave outcomes

Employees of universities and TAFEs are generally entitled to 15 days sick leave each year. Unused sick leave accumulates from year to year, however accumulated sick leave entitlements lapse on resignation or retirement, that is, they are not paid out.

Effectively managing sick leave entitlements should reduce difficulties such as covering unplanned staff absences and reduce additional costs associated with avoidable sick leave absences.

Figure 5L provides details of the average sick leave days taken by university and TAFE employees.

**Figure 5L**
**Average sick leave taken per full time equivalent employee (FTE)**

| | 31 December 2010 (days) | 31 December 2009 (days) |
|---|---|---|
| Universities | 4.5 | 4.4 |
| TAFEs | 5.8 | 5.9 |
| **Total** | **4.8** | **4.7** |

*Source:* Victorian Auditor-General's Office.

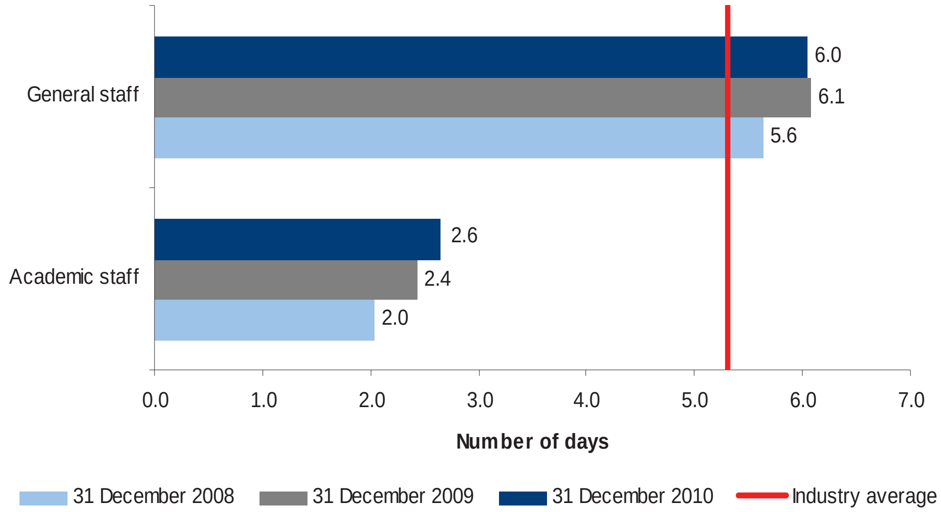
Figure 5L shows that average sick leave per FTE was 4.8 in 2010, marginally higher than in 2009.

The average sick leave taken without a certificate was 1.6 days for university staff and 1.5 days for TAFE staff, consistent with 2009 levels.

We analysed sick leave taken by the main employee classifications—general staff and academic staff for universities, and teaching and PACCT staff for TAFEs.

Figure 5M shows the average number of sick leave days taken over three years to 31 December 2010 for the general and academic staff categories at universities. Average sick leave days taken has steadily increased for both staff categories over the three-year period.

**Figure 5M**
**Average number of sick days taken by staff category – universities**



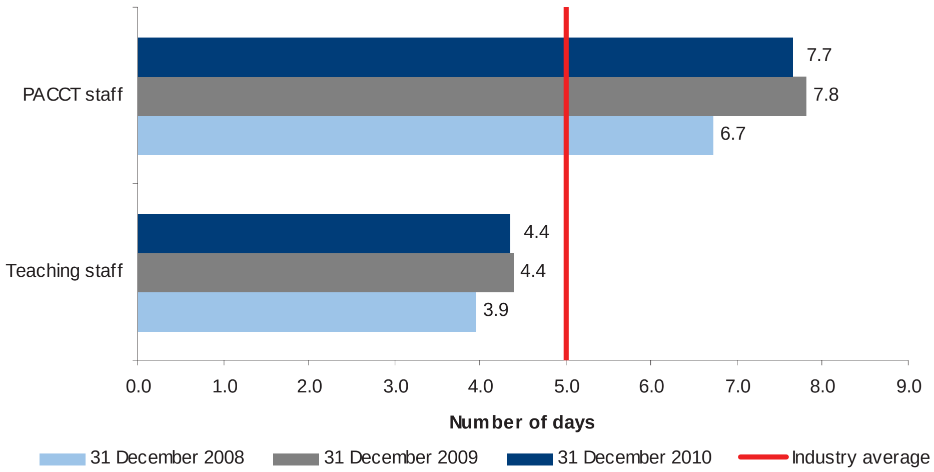

*Source:* Victorian Auditor-General's Office.

Benchmarking is useful in assisting the entity in determining whether sick leave absences are reasonable. The Queensland University of Technology produces the universities' HR benchmarking program analysis which compares human resource performance indicators for Australian universities. The unscheduled absence average from the current period for the sector is 5.3 days per employee. As per Figure 5M general staff are taking more absences than the industry average with a three-year average of 5.9 days per employee. In comparison academic staff are taking less than the industry average with the three-year average of 2.4 days per employee.

Only one university we reviewed had benchmarks in place for monitoring sick leave absences.

Figure 5N shows the average number of sick leave days taken over three years to 31 December 2010 for the PACCT and teaching staff categories in TAFEs. Average sick leave days taken has steadily increased for both staff categories over the three-year period.

**Figure 5N**
**Average number of sick days taken by staff category – TAFEs**




*Source:* Victorian Auditor-General's Office.

The State Services Authority produces an annual analysis on workforce data of the public sector workforce covering TAFEs. The current industry average for sick days taken is 5 days per full time equivalent. Figure 5N shows that PACCT staff are taking more absences than the industry average with the three-year average of 7.4 days per full time equivalent employee. In comparison, teaching staff are taking less than the industry average with the three-year average of 4.2 days per full time equivalent employee.

Only two TAFEs we reviewed had benchmarks in place for monitoring sick leave absences.

## 5.4.6 Governance and oversight

### Periodic policy review and update

Governing bodies should periodically review leave management policies and procedures so they continue to accurately reflect the operational direction and strategic position of the entity, and so that any areas of emerging concern can be proactively addressed.

Sixty-three per cent of universities (five of eight) and 93 per cent of TAFEs (13 of 14), governing bodies had not been involved in a review of the adequacy of leave management policies and processes.

### Management review of practices and processes

Management was unable to demonstrate it had conducted a review of leave practices and processes at 50 per cent of universities (four of eight) and 64 per cent of TAFEs (nine of 14). Such reviews are important for confirming whether practices and processes are up-to-date following changes in requirements, which for example, may arise from modifications to EBAs, operational requirements, or to address areas of concern. They also allow for business improvements to be identified, for example, more effective reporting procedures or enhancing the use of computer software.

### Monitoring of leave and policy compliance

Governing bodies are responsible for reviewing the adequacy of leave management procedures, assessing compliance with relevant internal policies, and monitoring leave trends.

Regular leave reports enable the governing body to identify areas of concern and direct management to implement appropriate remedial action in response to:

- increasing sick leave absences
- additional costs incurred from excess recreation leave or unplanned sick leave absences
- accumulation of excess recreation leave balances
- taking of leave in excess of entitlements
- unauthorised absences.

Our review revealed that 75 per cent of universities (six of eight) and 50 per cent of TAFEs (seven of 14) do not provide their governing body with reports on leave performance outcomes. Where this reporting was performed, it was most commonly done either monthly or half yearly.

## Risk recognition and management

Leave management is an area of risk in all organisations. It needs to be appropriately recognised and monitored. Low staff productivity, poor occupational health and safety outcomes, and significant additional costs can result if leave is not managed effectively.

Seventy-five per cent of universities (six of eight) and 43 per cent of TAFEs (six of 14) had included risks associated with the management and processing of leave in the entity's risk management register.

## Internal audit

Internal audit should provide universities and TAFEs with comfort that the internal controls and process are working as intended, and that there is an effective governance and risk management framework in place. Such reviews also assist universities and TAFEs in achieving their desired leave outcomes and appropriately manage the associated risks.

Over the past three years, 75 per cent of universities (six of eight) and 86 per cent of TAFEs (12 of 14) had not commissioned internal audits of their leave management policies and practices.

## Recommendations

3. That universities and TAFEs assess their policies and processes against the commonly identified internal control weaknesses to assure they are operating in a reliable and cost-effective manner.
4. That governing bodies and management of universities and TAFEs improve the controls over creditor management, by:
   - establishing comprehensive creditor management policies and procedures and reviewing them periodically
   - using external benchmarks to assess creditor management performance
   - reviewing the ageing of creditors on a regular basis
   - cleansing the vendor masterfile at least annually
   - requiring comprehensive creditor payment and aged analysis reports, including benchmarked payment performance information, to be regularly provided to governing bodies
   - engaging internal audit to periodically review creditor management practices and related policy compliance.

## Recommendations – *continued*

5. That governing bodies and management of universities and TAFEs improve the controls over leave management, by:
   - establishing comprehensive leave management policies and procedures and reviewing them periodically
   - introducing comprehensive leave monitoring arrangements, including benchmarking leave performance outcomes and costs
   - reviewing practices and processes periodically
   - requiring comprehensive leave management reports, including action plans for any adverse movements identified, to be provided to governing bodies
   - engaging internal audit to periodically review leave management practices and related policy compliance.
6. That universities and TAFEs establish processes that encourage staff to take their recreation leave entitlements at planned intervals to reduce leave liabilities and maintain a healthy workforce.
7. That universities and TAFEs benchmark sick leave absences against industry averages to enable timely decision-making to reduce the impact on operational performance.

# Part C:

# Alpine resorts

# 6 Alpine resorts

## At a glance

### Background

Victoria's alpine resorts located at Mount Buller and Mount Stirling, Falls Creek, Mount Hotham, Mount Baw Baw and Lake Mountain, are managed by alpine resort management boards (ARMBs). The *Alpine Resorts (Management) Act 1997* sets out the roles and functions of the ARMBs.

ARMBs are required to prepare financial reports with balance dates of 31 October.

### Conclusion

Parliament can have confidence in the financial reports that received clear audit opinions.

### Findings

- Clear audit opinions were issued on the financial reports of all ARMBs.
- The timeliness of reporting was similar to 2009, with all ARMBs meeting the 12-week time frame.
- Alpine resorts collectively made an operating surplus of $6.3 million, up $3.6 million or 128.2 per cent from 2009. Revenue from visitor fees rose by $1.7 million or 17.3 per cent from 2009, mainly due to the longer snow season in 2010.
- Bushfire relief funding of $1.6 million, insurance recoveries for assets destroyed by fires of $3.9 million, and support payments from the Department of Sustainability and Environment of $2.7 million contributed to the alpine resort sector's surplus. Without these, the sector's operating result would have been a deficit of $1.9 million for 2010.
- The alpine resort sector's overall financial sustainability risk assessment is low, and is similar to 2009. However, Lake Mountain's and Mount Baw Baw's overall financial sustainability risks are assessed as high and medium, respectively.

### Recommendation

That ARMBs assess their policies and processes against the commonly identified internal control weaknesses to assure they are operating in a reliable and cost-effective manner.

# 6.1 Introduction

This chapter deals with the results of the audit of the alpine resort management board (ARMBs) entities which have a financial year ending 31 October 2010.

The *Alpine Resorts (Management) Act 1997* (the Act) 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, Mount Baw Baw, and Lake Mountain.

# 6.2 Reporting framework

## 6.2.1 Financial reporting

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

The FMA requires annual reports to be submitted to its 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, which are required to be prepared and audited in 12 weeks.

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

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

# 6.3 Audit opinions issued

All five ARMBs received clear audit opinions for the financial year ended 31 October 2010. Further details of these entities are available in Appendix D.

Independent audit opinions add credibility to financial reports by providing reasonable assurance that the information is reliable. A clear audit opinion confirms that the financial report has been prepared according to the requirements of relevant accounting standards and legislation. 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 or accounting standards, and is less reliable and useful as an accountability document.

Definitions of qualified and clear audit opinions are included in Appendix C.

## 6.4 The quality of reporting

The quality of an entity's financial reporting can be measured by the timeliness and accuracy of the preparation and finalisation of its financial report. To achieve cost-effective financial reporting ARMBs need to have well planned and managed financial report preparation processes.

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.

### 6.4.1 Timeliness of reporting

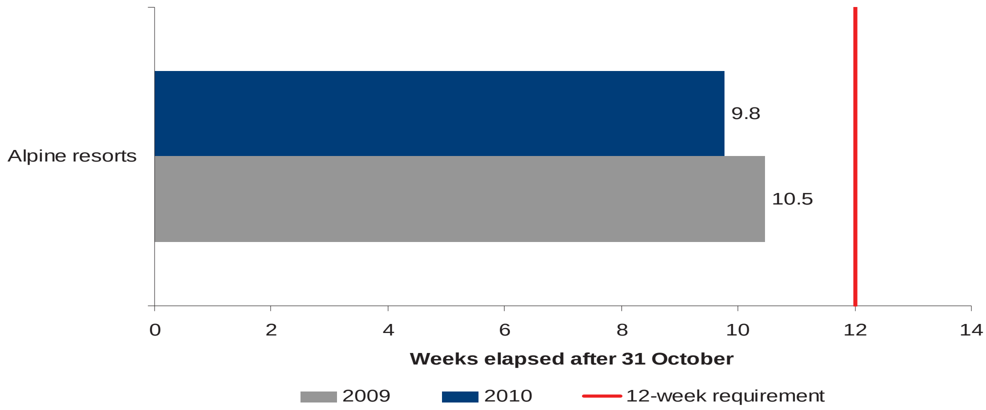
Recognising the importance of financial reports in providing accountability for the use of public monies, entities should prepare and publish their financial information on a timely basis. The later the reports are produced and published after year-end, the less useful they are for stakeholders and for informing decision making.

The legislated time frame for entities reporting under the FMA to finalise their audited financial reports is within 12 weeks of the end of the financial year.

In 2010, all of the ARMBs completed their financial reports within the mandated 12-week time frame. As shown in Figure 6A, this is an improvement from 2009.

The average time taken by the ARMBs to finalise their financial statements improved from 10.5 weeks in 2009 to 9.8 weeks in 2010.

**Figure 6A**
**Average time taken to finalise financial reports**




*Source:* Victorian Auditor-General's Office.

### 6.4.2 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 arising through the audit process.

When our staff 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 them 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 ARMBs required material adjustments to finalise their financial statements (four in 2009).

Overall, there were a total of four material adjustments to the net result or the net asset position reported in the financial statements in 2010 with a combined value of $207 405. There were no significant classification or disclosure errors identified that required adjustment in the financial statements across the sector. We did not identify any discernible trend in the incidence of material adjustments.

## 6.5 Financial results

### 6.5.1 Introduction

The financial objective for ARMBs should be to generate a sufficient surplus from operations to meet their financial obligations, and to fund asset replacement and new asset acquisitions. The ability of ARMBs to achieve this depends largely on the funding policies established by the Department of Sustainability and Environment (DSE) and on how well they manage their expenditure and whether they maximise revenue. Whether they succeed is reflected in the composition and rate of change in their operating revenues and expenses. Financial performance is measured by the operating result—the difference between revenue inflows and expenditure outflows.

An entity's 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 funds to meet operating costs, repairs and maintenance, and replacement and renewal.

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

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

Appendix B provides information on the composition of revenue, expenses, assets and liabilities for ARMBs for 2010.

## 6.5.2 Operating result

Figure 6B provides a comparison of the total operating results for the ARMBs for 2010 and 2009.

**Figure 6B**
**ARMBs: Total operating result**

| Operating result ($'000) | | Movement | |
|---|---|---|---|
| **2010** | **2009** | **($'000)** | **(%)** |
| 6 326 | 2 772 | 3 554 | 128 |

*Source:* Victorian Auditor-General's Office.

Four of the ARMBs recorded an operating surplus and Mount Baw Baw recorded an operating deficit. This is an improvement on 2009, when both Mount Baw Baw and Mount Hotham reported operating deficits.

Mount Baw Baw received $2.7 million in support payments from the DSE. This is an increase of $0.5 million from last year, indicating that it was less self-sufficient.

Lake Mountain recorded an operating surplus, which included net income of $3.9 million from insurance recoveries for assets destroyed by fires and $1.6 million from Regional Development Victoria (RDV) for bushfire relief funding.

Excluding the DSE support payments, the insurance recoveries received and bushfire relief funding, the sector's operating result would have been a deficit of $1.9 million.

### Operating revenue

During 2009–10, the combined operating revenues for ARMBs increased by 10.2 per cent from $42.0 million to $46.3 million. Revenue from visitor fees increased by $1.7 million or 17.3 per cent. The increase is mainly due to the longer snow season as a result of greater snow falls in 2010.

Government grant revenue increased by $1.9 million or 40.5 per cent and is mainly driven by the $1.6 million bushfire relief funding from RDV to Lake Mountain.

Lake Mountain also recognised revenue of $3.9 million for insurance recoveries relating to assets destroyed by fires.

The composition of operating revenue has remained stable over the past five years.

### Operating expenditure

In 2009–10, total operating expenditure for ARMBs increased by 2.0 per cent or $0.8 million from $39.2 million to $40.0 million. Employee benefits increased by $1.3 million or 10.3 per cent and is primarily due to additional casual employees recruited for the longer snow season in 2010.

Supplies and services also increased by $1.8 million or 12.2 per cent reflecting operating costs associated with the longer snow season.

The increases in employee benefits and supplies and services were offset by a decrease in other expenditure which included the write off of $1.6 million of assets destroyed by fires at Lake Mountain in 2008–09.

The composition of operating expenditure has remained consistent over the past five years.

## 6.5.3 Assets

There was a small overall increase in assets for 2010 of $9.6 million, from $415.5 million in 2009 to $425.1 million in 2010. This is mainly due to an increase in cash assets of $5.1 million or 50.7 per cent, including an increase of $2.9 million from Lake Mountain reflecting $1.6 million funding from RDV and $2.0 million increase from Mount Buller and Mount Stirling from the receipt of capital grant funding. The overall increase in assets was also driven by an increase in property, plant and equipment of $5.8 million or 1.5 per cent.

The composition of assets for the ARMBs has not changed since 2006. Property, plant and equipment continue to make up more than 95 per cent of total assets.

## 6.5.4 Liabilities

Liabilities are primarily comprised of interest bearing liabilities and payables, making up 33 per cent and 30 per cent respectively.

In 2010, liabilities increased by $0.8 million or 6.7 per cent, from $12.0 million in 2009 to $12.8 million in 2010 due to an increase in payables.

The composition of liabilities has remained consistent over the past five years.

## 6.6 Financial sustainability

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

Our insight into the financial sustainability of the alpine resort sector is obtained from analysing five financial sustainability indicators over a five-year period. The five indicators used are underlying result, liquidity, debt-to-equity, self-financing and capital replacement. These indicators reflect each entity's funding and expenditure policies, and indicate whether these 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.

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 risk assessment criteria we use in this report.

The financial sustainability indicators and assessments flag departures from the norm that warrant attention. To form a definitive view of any entity's financial sustainability requires a holistic analysis that moves beyond financial considerations to include the entity's operations and environment.

### 6.6.1 Conclusion

The alpine resort sector's overall financial sustainability risk assessment is low. However, Lake Mountain's and Mount Baw Baw's overall financial sustainability risk assessments are high-risk and medium-risk, respectively.

Figure 6C summarises the results of the five financial sustainability indicators at a sector and individual entity level, over the five-year period, 2006 to 2010.

High-risk results are shown as red, medium-risk as orange, and low-risk as green.

**Figure 6C**
**Five-year mean financial sustainability risk assessment 2006–10**

| Alpine Resort Management Boards | Underlying result (%) 5-year mean | Liquidity 5-year mean | Debt-to-equity (%) 5-year mean | Self-financing (%) 5-year mean | Capital replacement 5-year mean | Overall risk assessment 5-year mean |
|---|---|---|---|---|---|---|
| Mount Baw Baw | -6.2% | 0.8 | 1.2% | 8.0% | 0.8 | ● |
| Lake Mountain | -31.4% | 1.1 | 5.2% | 53.1% | 2.1 | ● |
| Falls Creek | 11.9% | 3.9 | 0.0% | 23.7% | 2.0 | ● |
| Mount Hotham | 3.1% | 2.0 | 2.0% | 21.8% | 4.7 | ● |
| Mount Buller and Mount Stirling | 8.6% | 4.8 | 0.4% | 25.2% | 1.4 | ● |
| **Sector average** | **-2.8%** | **2.5** | **1.8%** | **26.4%** | **2.2** | ● |

*Source:* Victorian Auditor-General's Office.

The indicators raise concerns for the long-term sustainability of the smaller ARMBs of Lake Mountain and Mount Baw Baw. These resorts have operating deficits, low liquidity and low levels of investment in fixed assets. This assessment is consistent with prior years.

Mount 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. As a result DSE has provided financial support to Mount Baw Baw and will meet essential operational expenditure in 2011 should the need arise.

Lake Mountain has improved its capital replacement indicator from 2009. This is due to government funding and insurance payments used to replace assets destroyed by the 2009 bushfires.

The financial sustainability risk assessments for Mount Baw Baw and Lake Mountain illustrate their limited capacity to continue as a going concern without ad-hoc operational funding from the government.

In our previous reports to Parliament, we have noted the previous government's developments and reforms to the alpine resort sector. 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 Resort Co-ordinating Council (ARCC), and the role of the DSE in facilitating the goals and overall objectives of the ARMBs.

The SSA final report '*Review of Alpine Resort Areas*' (SSA Review), released in 2009, made recommendations on key legislation and government policies. In response to the SSA review, the Minister for Environment and Climate Change published a discussion paper '*Sustainable Alpine Resort: A Framework for Discussion'*. This paper stated that the government 'will continue to appoint independent ARMBs for each resort'.

The newly elected government has yet to outline its strategic and long-term plan for the alpine resorts. We will continue to report on the financial sustainability of the ARMBs and future developments in the sector.

## 6.6.2 Five-year trend analysis

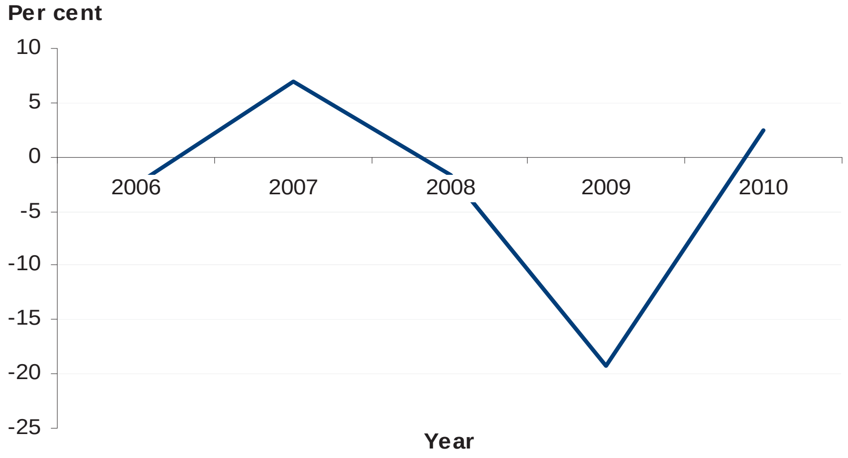
This section provides an analysis and commentary on the trends for each indicator for the past five years. The financial sustainability indicators for 2006 to 2010 are provided in Appendix A.

### Underlying result

Figure 6D shows that the average underlying result indicator for ARMBs has fluctuated since 2006. The improvement in 2010 is mainly due to the longer snow season as a result of greater snow falls. All three larger ARMBs have a positive underlying result indicator, and both Lake Mountain and Mount Baw Baw have significantly reduced their underlying deficit compared to 2009.

The underlying result indicator for Lake Mountain has improved from –110 per cent in 2009 to –15 per cent in 2010. In addition to the longer snow season, Lake Mountain is now able to operate at full capacity after replacing its assets destroyed by bushfire in 2009.

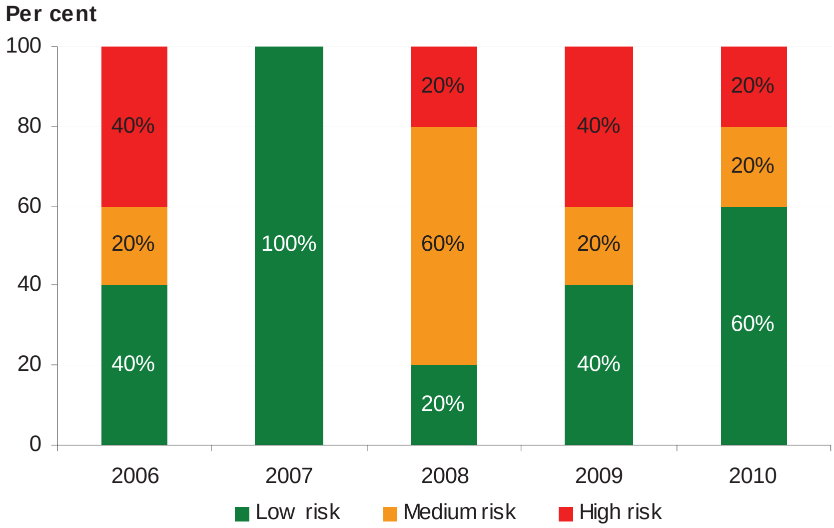
**Figure 6D**
**Average underlying result**




*Source:* Victorian Auditor-General's Office.

Figure 6E shows a steady improvement in the underlying result of the ARMBs since 2008 with three of the five resorts now a low risk. However two resorts still generated underlying deficits in 2010. Operating deficits are of concern in that, while manageable in the short term, over the longer term persistent deficits will affect an entity's ability to sustain it operations. If operating deficits persist there is a risk that cash reserves become depleted and expenditure on capital programs may need to be curtailed. In particular, expenditure that is perceived to be discretionary, especially for maintenance, may be deferred or abandoned.

**Figure 6E**
**Underlying result risk assessment**

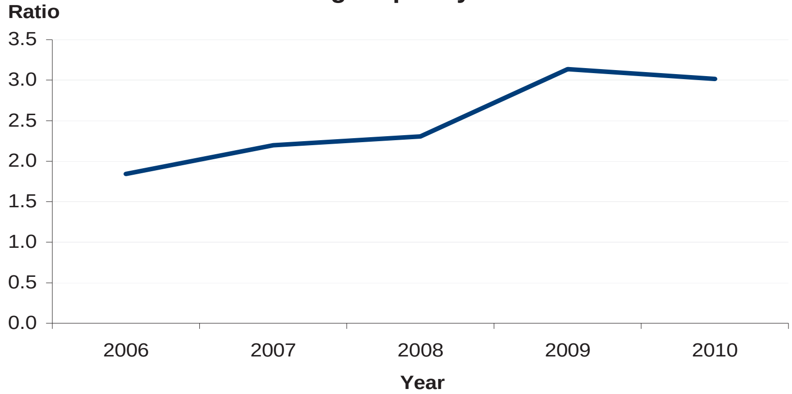



*Source:* Victorian Auditor-General's Office.

## Liquidity

Figure 6F shows that the average liquidity indicator for all ARMBs has improved since 2006.

**Figure 6F**
**Average liquidity ratio**

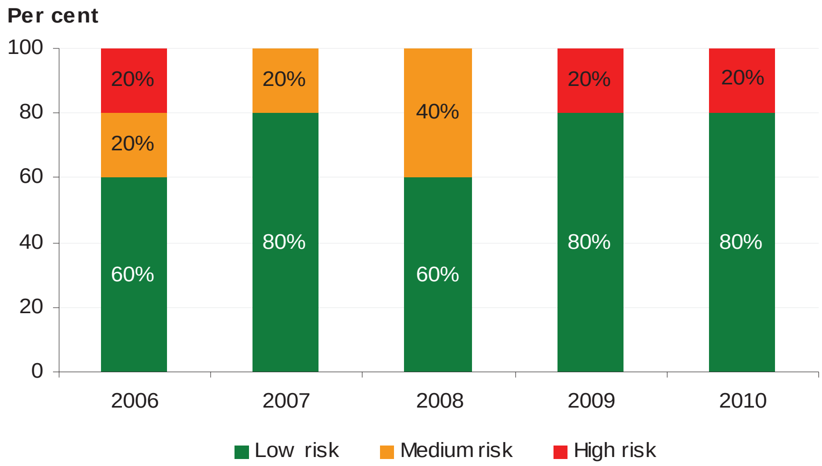



*Source:* Victorian Auditor-General's Office.

Figure 6G shows that the overall ability of ARMBs to repay short-term liabilities has not improved in 2010 from the prior year.

The liquidity indicator for Mount Baw Baw has remained at a high risk in 2010, and the trend indicates that it is not improving sufficiently. All other ARMBs have maintained a low risk assessment.

**Figure 6G**
**Liquidity risk assessment**

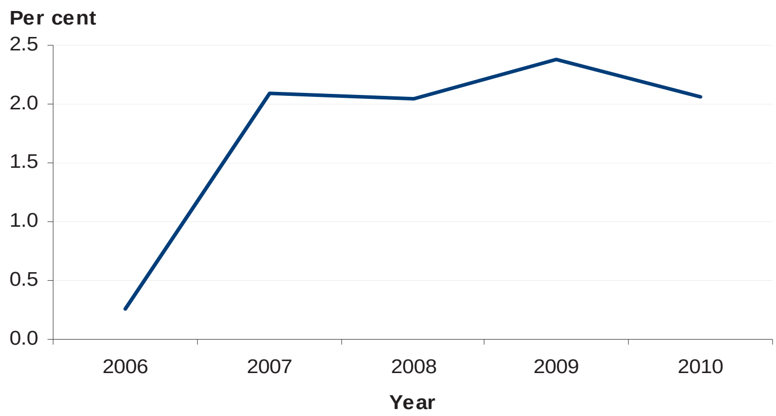



*Source:* Victorian Auditor-General's Office.

## Debt-to-equity

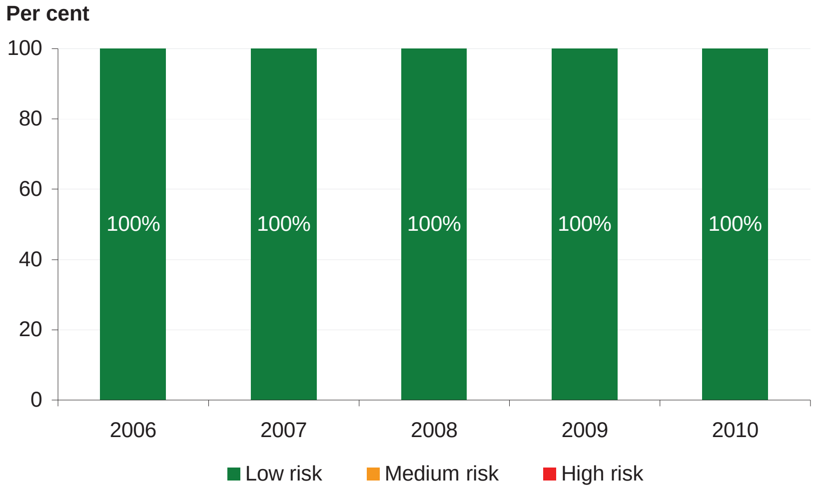
Figure 6H and 6I show that the debt-to-equity indicator for all ARMBs remained at a similar low risk level from 2006 to 2010.

**Figure 6H**
**Average debt-to-equity indicator**




*Source:* Victorian Auditor-General's Office.

**Figure 6I**
**Debt-to-equity risk assessment**

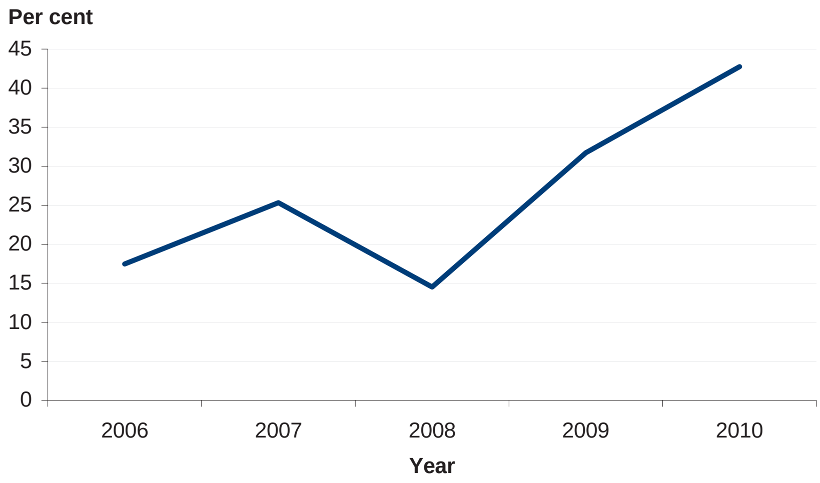



*Source:* Victorian Auditor-General's Office.

## Self-financing

Figure 6J shows the ARMBs self-financing indicator has improved significantly since 2008. This shows that the ability of the ARMBs to fund new assets and replace existing assets using cash generated by operations is improving.

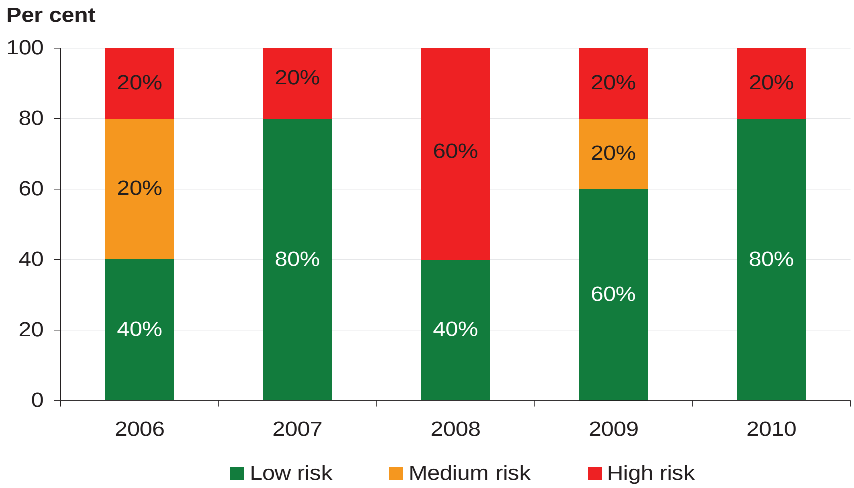
**Figure 6J**
**Average self-financing indicator**




*Source:* Victorian Auditor-General's Office.

Figure 6K shows a steady improvement in the self-financing of the ARMBs since 2008 with four of the five resorts now at a low risk assessment. These entities can effectively replace their assets over the long term using income generated by their operations.

**Figure 6K**
**Self-financing risk assessment**

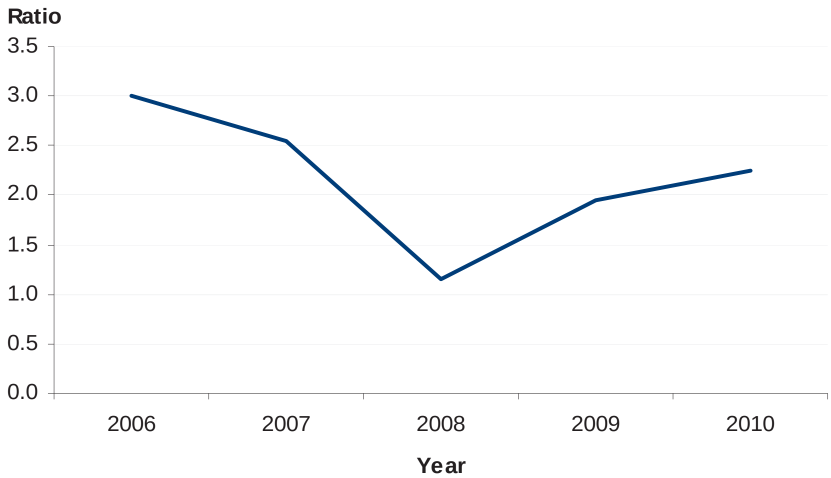



*Source:* Victorian Auditor-General's Office.

## Capital replacement

Figure 6L shows the average capital replacement indicator for ARMBs has decreased significantly between 2006 and 2008 and is now continuing to improve.

**Figure 6L**
**Average capital replacement ratio**




*Source:* Victorian Auditor-General's Office.

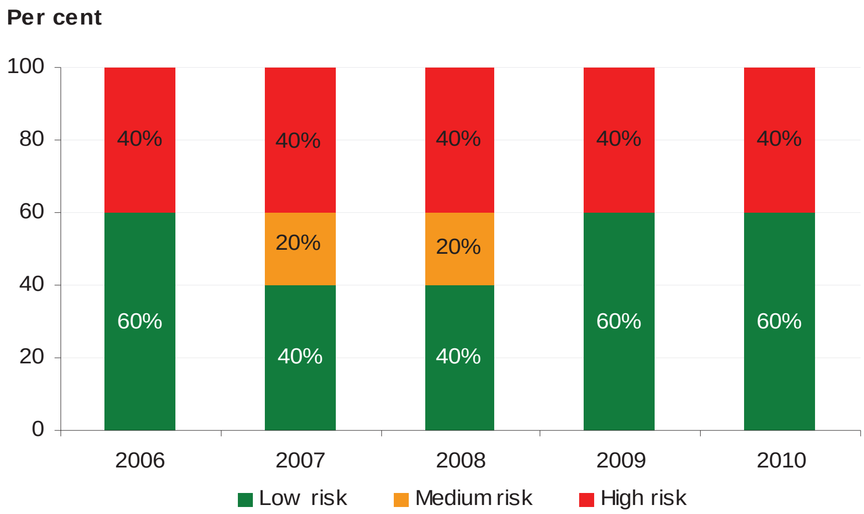
The nature of alpine activities and services provided to residents and visitors means the industry is capital intensive and heavily reliant on capital infrastructure to generate revenue. The capital replacement indicator is a long-term measure of a resort's ability to replace these capital assets.

Caution is required when interpreting these results as annual spending on assets includes new and expanded facilities, in addition to existing facilities. As a result, the true level of spending on asset renewal is less than indicated.

Figure 6M shows two ARMBs have not improved and still have a high-risk capital replacement indicator of less than one in 2010.

Mount Baw Baw and Mount Buller and Mount Stirling indicators are assessed as high risk, as their indicator is below one, reflecting their limited ability to replace assets. Falls Creek, Mount Hotham and Lake Mountain are assessed as low risk, as their indicator is greater than one, suggesting they are replacing assets as required. The capital replacement indicator for Lake Mountain is at a high level of 5.7 in 2010 but this is mainly due to the replacement of bushfire damaged equipment and infrastructure.

**Figure 6M**
**Capital replacement risk assessment**




*Source:* Victorian Auditor-General's Office.

## 6.7 Effectiveness of general internal controls

All ARMBs operate adequate internal controls to maintain the reliability of financial reporting, the efficiency and effectiveness of their operations and compliance with all relevant laws and regulations. In our annual financial audits, we focus on the internal controls relating to financial reporting and assess whether entities have managed the risk that their financial statements will not be complete and accurate. Poor controls diminish management's ability to achieve their entities' objectives and comply with relevant legislation, and increase the risk of fraud occurring.

The Act 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.

## 6.7.1 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 boards and the management teams.

Common control weaknesses identified related to:

- preparation and review of account reconciliations
- compliance with financial delegations
- review of cash banking procedures.

### Preparation and review of account reconciliations

The majority of entities maintain subsidiary systems such as cash, 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.

The audits found that while ARMBs were performing reconciliations, there were instances where there was no independent review.

### Compliance with financial delegations

ARMBs should establish and approve a financial delegations listing to facilitate the approval of transactions commensurate with the efficient operation of the resort and prudent financial governance. A financial delegations listing should result in:

- financial, administrative and business decisions being made at the appropriate level of responsibility
- staff having clear guidelines in relation to their respective levels of authority and their responsibilities when exercising those delegations.

Non-compliance with approved financial delegations increases the risk of unapproved payments and misappropriation of assets.

This year we found the following control weaknesses:

- some payments were made which were not authorised in accordance with the relevant financial delegations listing
- financial delegation lists were not regularly reviewed to reflect changes in circumstances.

## Review of cash banking procedures

ARMBs receive cash payments for visitor entry fees. ARMBs must implement and maintain an effective internal control framework over cash handling and banking. This will make sure cash from all sources is completely and accurately identified, banked and recorded in the financial records.

We found specific weaknesses relating to cash banking procedures. In particular, variances were identified between cash takings and amounts banked as a proportion of the cash takings are kept aside for float use. An audit trail of these transactions is not maintained.

### Recommendation

8. That Alpine Resort Management Boards assess their policies and processes against the commonly identified internal control weaknesses to assure they are operating in a reliable and cost-effective manner.

# Part D:

# Other entities

# 7 Other entities

## At a glance

### Background

Our 2010–11 Annual Plan had a target of issuing 560 audit opinions on entities' financial reports. Our reports to Parliament on the results of 2010 audits have progressively acquitted these audit opinions. At 30 April 2011, in addition to the tertiary education and alpine resort sectors, there remain three audit opinions to be acquitted.

### Findings

Of the three entities, which have a financial year other than 30 June 2010, two audit opinions had been issued as follows:

- MAPS Group Limited received a clear audit opinion
- Anti-Cancer Council of Victoria received a qualified audit opinion due to the inherent risks associated with cash donations.

As the Melbourne Cricket Ground Trust has a balance date of 31 March 2011 they are not required to have their financial report finalised at the time of preparing this report.

# 7.1 Introduction

This chapter of the report addresses other entities not covered under the previous sector based parts of this report that have balance dates after 30 June 2010. Figure 7A lists these other entities and the date of financial year-end.

**Figure 7A**
**Other entities with balance dates after 30 June 2010**

| Sector | Entity | Balance date |
|---|---|---|
| Local government | MAPS Group Limited | 30 September |
| Health | Anti-Cancer Council of Victoria | 31 December |
| Planning and community development | Melbourne Cricket Ground Trust | 31 March |

*Source:* Victorian Auditor-General's Office.

Appendix D details the status of all audits.

# 7.2 Reporting framework

The legislation governing the financial reporting requirements of these entities is the *Financial Management Act 1994* for the Anti-Cancer Council of Victoria, the *Corporations Act 2001* for the MAPS Group Limited and the Australian Accounting Standards for the Melbourne Cricket Ground Trust.

# 7.3 Audit opinions issued

At 30 April 2011, for the entities which have a financial year other than 30 June 2010, audit opinions were issued on their financial reports as follows:

- MAPS Group Limited received a clear audit opinion
- Anti-Cancer Council of Victoria received a qualified audit opinion.

The 2010–11 financial report for the Melbourne Cricket Ground Trust for the year ending 31 March 2011 was not required to be completed at the date of this report.

Further details are provided in Appendix D.

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

## 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.

## 7.4 The quality of reporting

The quality of an entity's financial reporting can be measured by the timeliness and accuracy of the preparation and finalisation of its financial report. To achieve cost-effective financial reporting entities need to have well planned and managed financial report preparation processes.

### 7.4.1 Timeliness of reporting

Recognising the importance of financial reports in providing accountability for the use of public monies, entities should prepare and publish their financial information on a timely basis. The later the reports are produced and published after year-end, the less useful they are for stakeholders and for informing decision-making.

Of the entities with a balance date after 30 June 2010, the Anti-Cancer Council of Victoria finalised their audited financial report within the required 12-week time frame. MAPS Group Limited finalised their audited financial report within 20 weeks, well after the required 12-week timeframe and the Melbourne Cricket Ground Trust was not required to have its financial report finalised at the time of preparing this report.

### 7.4.2 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 arising through the audit process.

When our staff 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 them 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.

One of the two entities was required to make one adjustment in order to finalise their financial statements. This is an improvement on 2009 where one of the three entities made four adjustments to finalise their financial statements.

# Appendix A. Financial sustainability indicators and criteria

## Indicators of financial sustainability

**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.<br>Underlying revenue does not take into account one-off or non-recurring transactions.<br>Net result and total underlying revenue is obtained from the comprehensive operating statement and is adjusted to take into account large one-off (non-recurring) transactions. |
| Liquidity | Current assets / Current liabilities | This measures the ability to pay existing liabilities in the next 12 months.<br>A ratio of one or more means there are more cash and liquid assets than short-term liabilities.<br>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.<br>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.<br>The higher the percentage the more effectively this can be done.<br>Net operating cash flows are obtained from the cash flow statement. |
| 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.<br>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. Cash outflows for infrastructure are taken from the cash flow statement. Depreciation is taken from the comprehensive operating statement. |

*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, technical and further education (TAFE) institutes and alpine resort management boards (ARMBs) for the period from 2006 to 2010.

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**
**Financial sustainability indicators – risk assessment criteria**

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

**Figure A3**
**Overall financial sustainability risk assessment**

| Risk rating | Risk indicators |
|---|---|
| | High risk of short-term and immediate sustainability concerns indicated by:<br>• **red** underlying result indicator or<br>• **red** liquidity indicator |
| | Medium risk of long-term sustainability concerns indicated by either:<br>• **red** self-financing indicator<br>• **red** debt-to-equity indicator<br>• **red** capital replacement indicator |
| | 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 | 2010 | 5-year mean | Trend |
| Deakin University | 12.6% | 10.1% | 15.1% | 12.8% | 13.1% | 12.7% | ● |
| La Trobe University | -2.2% | -0.1% | 3.7% | 9.9% | 16.3% | 5.5% | ▲ |
| The University of Melbourne | 7.1% | 10.0% | -15.0% | 3.3% | 3.4% | 1.8% | ▼ |
| Monash University | 2.8% | 4.4% | 0.7% | 10.9% | 3.6% | 4.5% | ▲ |
| RMIT University | 9.1% | 5.9% | 8.2% | 10.3% | 9.5% | 8.6% | ● |
| Swinburne University | 8.3% | 13.1% | 10.4% | 10.5% | 11.5% | 10.8% | ▲ |
| University of Ballarat | 12.8% | 10.4% | 9.1% | 12.5% | 13.1% | 11.6% | ● |
| Victoria University | 3.6% | 5.5% | 4.6% | 6.6% | 7.7% | 5.6% | ▲ |
| **University average** | **6.8%** | **7.4%** | **4.6%** | **9.6%** | **9.8%** | **7.6%** | ▲ |

*Source:* Victorian Auditor-General's Office.

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

## Liquidity

| Universities | Liquidity | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 5-year mean | Trend |
| Deakin University | 1.9 | 2.0 | 2.1 | 2.5 | 3.2 | 2.3 | ▲ |
| La Trobe University | 1.2 | 1.3 | 1.4 | 1.8 | 2.9 | 1.7 | ▲ |
| The University of Melbourne | 1.8 | 2.2 | 1.6 | 1.5 | 1.3 | 1.7 | ▼ |
| Monash University | 0.5 | 0.5 | 0.6 | 1.0 | 0.6 | 0.7 | ● |
| RMIT University | 1.4 | 1.3 | 1.1 | 1.1 | 0.7 | 1.1 | ▼ |
| Swinburne University | 2.5 | 2.9 | 4.4 | 3.2 | 3.2 | 3.3 | ▲ |
| University of Ballarat | 3.3 | 3.9 | 3.2 | 4.2 | 4.2 | 3.8 | ▲ |
| Victoria University | 2.9 | 3.5 | 3.6 | 2.8 | 1.9 | 2.9 | ▼ |
| **University average** | **1.9** | **2.2** | **2.2** | **2.2** | **2.3** | **2.2** | ▲ |

*Source:* Victorian Auditor-General's Office.

## Debt-to-equity

| Universities | Debt-to-equity (%) | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 5-year mean | Trend |
| Deakin University | 3.0% | 2.3% | 1.7% | 1.1% | 0.0% | 1.6% | ▲ |
| La Trobe University | 3.7% | 5.5% | 6.6% | 5.0% | 4.1% | 5.0% | ● |
| The University of Melbourne | 4.2% | 4.5% | 6.2% | 5.4% | 5.6% | 5.2% | ▼ |
| Monash University | 20.1% | 22.5% | 24.6% | 19.5% | 19.0% | 21.1% | ▲ |
| RMIT University | 2.1% | 1.8% | 2.3% | 2.3% | 1.4% | 2.0% | ● |
| Swinburne University | 2.4% | 1.6% | 1.0% | 0.0% | 0.2% | 1.0% | ▲ |
| University of Ballarat | 2.2% | 1.4% | 1.2% | 1.0% | 0.8% | 1.3% | ▲ |
| Victoria University | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | ● |
| **University average** | **4.7%** | **5.0%** | **5.5%** | **4.3%** | **3.9%** | **4.7%** | ● |

*Source:* Victorian Auditor-General's Office.

## Self-financing

| Universities | Self-financing (%) | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 5-year mean | Trend |
| Deakin University | 20.8% | 23.7% | 23.2% | 22.6% | 21.1% | 22.3% | ● |
| La Trobe University | 4.8% | 8.9% | 13.4% | 10.1% | 21.0% | 11.7% | ▲ |
| The University of Melbourne | 13.8% | 11.8% | 11.6% | 11.2% | 13.7% | 12.4% | ● |
| Monash University | 8.0% | 7.0% | 10.7% | 14.4% | 6.0% | 9.2% | ▼ |
| RMIT University | 10.3% | 15.9% | 23.7% | 16.4% | 17.5% | 16.8% | ▲ |
| Swinburne University | 11.2% | 16.8% | 22.0% | 18.3% | 19.6% | 17.6% | ▲ |
| University of Ballarat | 21.8% | 15.7% | 14.6% | 13.4% | 16.6% | 16.4% | ▼ |
| Victoria University | 6.0% | 9.8% | 9.3% | 6.6% | 13.1% | 9.0% | ▲ |
| **University average** | **12.1%** | **13.7%** | **16.1%** | **14.1%** | **16.1%** | **14.4%** | ▲ |

*Source:* Victorian Auditor-General's Office.

## Capital replacement

| | Capital replacement | | | | | | |
|---|---|---|---|---|---|---|---|
| **Universities** | **2006** | **2007** | **2008** | **2009** | **2010** | **5-year mean** | **Trend** |
| Deakin University | 2.4 | 1.8 | 1.6 | 1.8 | 2.3 | 2.0 | ● |
| La Trobe University | 0.9 | 1.1 | 1.8 | 1.8 | 2.9 | 1.7 | ▲ |
| The University of Melbourne | 1.2 | 1.7 | 2.1 | 2.0 | 1.0 | 1.6 | ● |
| Monash University | 1.8 | 2.0 | 2.7 | 2.2 | 1.9 | 2.1 | ● |
| RMIT University | 1.5 | 2.8 | 4.1 | 3.8 | 3.9 | 3.2 | ▲ |
| Swinburne University | 1.7 | 1.3 | 2.0 | 2.5 | 4.4 | 2.4 | ▲ |
| University of Ballarat | 2.3 | 1.4 | 1.1 | 1.4 | 1.3 | 1.5 | ▼ |
| Victoria University | 1.7 | 1.7 | 1.4 | 3.4 | 3.7 | 2.4 | ▲ |
| **University average** | **1.7** | **1.7** | **2.1** | **2.3** | **2.7** | **2.1** | ▲ |

*Source:* Victorian Auditor-General's Office.

# TAFEs

## Underlying result

| | Underlying result (%) | | | | | | |
|---|---|---|---|---|---|---|---|
| **TAFEs** | **2006** | **2007** | **2008** | **2009** | **2010** | **5-year mean** | **Trend** |
| Bendigo Institute | 2.2% | -2.9% | 3.4% | 9.5% | 23.5% | 7.1% | ▲ |
| Box Hill Institute | 14.6% | 9.4% | 7.2% | 4.7% | 3.4% | 7.9% | ▼ |
| Central Gippsland Institute | 7.6% | 6.4% | 4.2% | 11.2% | 24.2% | 10.7% | ▲ |
| Chisholm Institute | 9.3% | 13.1% | 9.3% | 7.3% | 14.1% | 10.6% | ▲ |
| East Gippsland Institute | 8.0% | 8.1% | 16.0% | 10.8% | 8.2% | 10.2% | ● |
| Gordon Institute | 14.9% | 1.5% | -0.9% | 8.3% | 17.6% | 8.3% | ▲ |
| Goulburn Ovens Institute | 6.8% | 3.8% | -0.7% | 24.3% | 1.6% | 7.2% | ▼ |
| Holmesglen Institute | 14.7% | 14.4% | -3.9% | 5.6% | 10.0% | 8.1% | ▼ |
| Kangan Batman Institute | 18.8% | 10.4% | 6.4% | 16.0% | 19.3% | 14.2% | ● |
| Northern Melbourne Institute | 5.6% | 7.0% | 5.1% | 15.1% | 9.4% | 8.4% | ▲ |
| South West Institute | 5.7% | 2.3% | 27.9% | 14.6% | 12.1% | 12.5% | ▲ |
| Sunraysia Institute | 6.3% | 13.7% | 1.2% | 3.6% | 2.8% | 5.5% | ▼ |
| William Angliss Institute | 6.4% | 3.1% | 17.8% | 12.4% | 5.4% | 9.0% | ▼ |
| Wodonga Institute | -1.9% | 7.7% | 2.9% | 1.9% | 23.4% | 6.8% | ▲ |
| **TAFE average** | **8.5%** | **7.0%** | **6.8%** | **10.4%** | **12.5%** | **9.0%** | ▲ |

*Source:* Victorian Auditor-General's Office.

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

## Liquidity

| | Liquidity | | | | | | |
|---|---|---|---|---|---|---|---|
| **TAFEs** | **2006** | **2007** | **2008** | **2009** | **2010** | **5-year mean** | **Trend** |
| Bendigo Institute | 2.1 | 2.4 | 2.2 | 3.0 | 1.8 | 2.3 | ▼ |
| Box Hill Institute | 4.2 | 5.8 | 6.2 | 5.3 | 4.6 | 5.2 | ▲ |
| Central Gippsland Institute | 1.9 | 3.4 | 3.0 | 2.7 | 2.8 | 2.7 | ▲ |
| Chisholm Institute | 2.4 | 2.2 | 1.8 | 2.6 | 3.0 | 2.4 | ▲ |
| East Gippsland Institute | 1.5 | 1.9 | 3.4 | 2.9 | 4.2 | 2.8 | ▲ |
| Gordon Institute | 6.2 | 4.4 | 3.5 | 4.2 | 4.6 | 4.6 | ▼ |
| Goulburn Ovens Institute | 3.0 | 3.1 | 3.1 | 2.8 | 3.7 | 3.1 | ▲ |
| Holmesglen Institute | 2.8 | 2.8 | 5.7 | 6.5 | 2.9 | 4.1 | ● |
| Kangan Batman Institute | 3.3 | 2.8 | 2.5 | 3.4 | 3.3 | 3.1 | ● |
| Northern Melbourne Institute | 3.2 | 3.9 | 5.2 | 4.0 | 5.8 | 4.4 | ▲ |
| South West Institute | 2.8 | 2.6 | 2.1 | 2.4 | 2.7 | 2.5 | ● |
| Sunraysia Institute | 3.3 | 3.0 | 4.2 | 3.8 | 3.5 | 3.6 | ● |
| William Angliss Institute | 3.9 | 3.8 | 3.6 | 4.2 | 4.3 | 4.0 | ▲ |
| Wodonga Institute | 1.1 | 2.3 | 2.4 | 4.7 | 4.8 | 3.1 | ▲ |
| **TAFE average** | **3.0** | **3.2** | **3.5** | **3.7** | **3.7** | **3.4** | ▲ |

*Source:* Victorian Auditor-General's Office.

## Debt-to-equity

| | Debt-to-equity (%) | | | | | | |
|---|---|---|---|---|---|---|---|
| **TAFEs** | **2006** | **2007** | **2008** | **2009** | **2010** | **5-year mean** | **Trend** |
| Bendigo Institute | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | ● |
| Box Hill Institute | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | ● |
| Central Gippsland Institute | 2.0% | 1.7% | 0.0% | 0.0% | 0.0% | 0.7% | ▲ |
| Chisholm Institute | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | ● |
| East Gippsland Institute | 0.8% | 0.3% | 0.2% | 0.0% | 0.0% | 0.3% | ● |
| Gordon Institute | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | ● |
| Goulburn Ovens Institute | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | ● |
| Holmesglen Institute | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | ● |
| Kangan Batman Institute | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | ● |
| Northern Melbourne Institute | 0.2% | 0.1% | 0.1% | 0.1% | 0.0% | 0.1% | ● |
| South West Institute | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | ● |
| Sunraysia Institute | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | ● |
| William Angliss Institute | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | ● |
| Wodonga Institute | 1.2% | 0.4% | 0.3% | 0.2% | 0.0% | 0.4% | ▲ |
| **TAFE average** | **0.3%** | **0.2%** | **0.0%** | **0.0%** | **0.0%** | **0.1%** | ● |

*Source:* Victorian Auditor-General's Office.

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

## Self-financing

| TAFEs | Self-financing (%) 2006 | 2007 | 2008 | 2009 | 2010 | 5-year mean | Trend |
|---|---|---|---|---|---|---|---|
| Bendigo Institute | 10.7% | 6.2% | 10.3% | 12.0% | 25.8% | 13.0% | ▲ |
| Box Hill Institute | 13.0% | 16.7% | 8.6% | 4.3% | 11.2% | 10.8% | ▼ |
| Central Gippsland Institute | 15.2% | 11.5% | 8.5% | 17.9% | 30.5% | 16.7% | ▲ |
| Chisholm Institute | 15.5% | 16.2% | 12.1% | 7.4% | 14.0% | 13.1% | ▼ |
| East Gippsland Institute | 16.6% | 17.3% | 25.4% | 14.9% | 8.7% | 16.6% | ▼ |
| Gordon Institute | 21.1% | 11.7% | 7.7% | 10.4% | 14.2% | 13.0% | ▼ |
| Goulburn Ovens Institute | 11.0% | 6.6% | 6.9% | 25.9% | 9.9% | 12.0% | ▼ |
| Holmesglen Institute | 25.3% | 22.5% | 14.0% | 8.3% | 14.2% | 16.9% | ▼ |
| Kangan Batman Institute | 21.4% | 15.8% | 16.5% | 17.6% | 27.7% | 19.8% | ▲ |
| Northern Melbourne Institute | 10.8% | 13.6% | 12.4% | 19.5% | 12.9% | 13.8% | ▲ |
| South West Institute | 12.1% | 9.0% | 37.9% | 18.2% | 18.7% | 19.2% | ▲ |
| Sunraysia Institute | 15.4% | 19.0% | 11.6% | 7.6% | 8.8% | 12.5% | ▼ |
| William Angliss Institute | 12.8% | 10.9% | 25.1% | 14.3% | 6.3% | 13.8% | ▼ |
| Wodonga Institute | 6.9% | 13.3% | 11.4% | 7.7% | 29.4% | 13.8% | ▲ |
| **TAFE average** | **14.8%** | **13.6%** | **14.9%** | **13.3%** | **16.6%** | **14.6%** | ▲ |

*Source:* Victorian Auditor-General's Office.

## Capital replacement

| TAFEs | Capital replacement 2006 | 2007 | 2008 | 2009 | 2010 | 5-year mean | Trend |
|---|---|---|---|---|---|---|---|
| Bendigo Institute | 1.4 | 0.8 | 1.9 | 2.2 | 7.1 | 2.7 | ▲ |
| Box Hill Institute | 2.4 | 2.6 | 1.8 | 4.9 | 0.9 | 2.5 | ▼ |
| Central Gippsland Institute | 1.2 | 0.9 | 2.9 | 2.9 | 5.8 | 2.7 | ▲ |
| Chisholm Institute | 1.8 | 4.1 | 2.4 | 2.1 | 4.2 | 2.9 | ▲ |
| East Gippsland Institute | 1.5 | 1.1 | 3.5 | 1.7 | 1.5 | 1.9 | ● |
| Gordon Institute | 3.2 | 1.3 | 1.1 | 2.3 | 2.3 | 2.0 | ▼ |
| Goulburn Ovens Institute | 1.3 | 2.6 | 1.2 | 5.6 | 1.6 | 2.5 | ▲ |
| Holmesglen Institute | 2.3 | 2.5 | 1.7 | 2.1 | 5.1 | 2.8 | ▲ |
| Kangan Batman Institute | 3.2 | 2.1 | 1.0 | 1.7 | 3.7 | 2.3 | ▲ |
| Northern Melbourne Institute | 1.1 | 1.4 | 1.2 | 4.4 | 3.0 | 2.2 | ▲ |
| South West Institute | 1.7 | 1.5 | 8.0 | 3.4 | 2.4 | 3.4 | ▲ |
| Sunraysia Institute | 0.9 | 3.8 | 1.3 | 1.5 | 1.4 | 1.8 | ▲ |
| William Angliss Institute | 1.6 | 1.2 | 6.2 | 4.0 | 1.9 | 3.0 | ▲ |
| Wodonga Institute | 1.1 | 1.8 | 0.9 | 1.5 | 4.8 | 2.0 | ▲ |
| **TAFE average** | **1.8** | **2.0** | **2.5** | **2.9** | **3.3** | **2.5** | ▲ |

*Source:* Victorian Auditor-General's Office.

# Alpine resorts

## Underlying result

| Alpine Resort Management Boards | Underlying result (%) 2006 | 2007 | 2008 | 2009 | 2010 | 5-year mean | Trend |
|---|---|---|---|---|---|---|---|
| Mount Baw Baw | -13.2% | 2.8% | -5.1% | -13.7% | -1.9% | -6.2% | ▲ |
| Lake Mountain | -18.9% | 3.9% | -17.4% | -109.6% | -15.0% | -31.4% | ▲ |
| Falls Creek | -1.3% | 9.8% | 17.3% | 23.3% | 10.4% | 11.9% | ▲ |
| Mount Hotham | 8.7% | 4.2% | -1.9% | -1.2% | 5.8% | 3.1% | ▼ |
| Mount Buller and Mount Stirling | 12.2% | 14.4% | -1.1% | 4.8% | 12.7% | 8.6% | ● |
| **ARMB average** | **-2.5%** | **7.0%** | **-1.6%** | **-19.3%** | **2.4%** | **-2.8%** | ▲ |

*Source:* Victorian Auditor-General's Office.

# Liquidity

| Alpine Resort Management Boards | Liquidity | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 5-year mean | Trend |
| Mount Baw Baw | 0.8 | 1.2 | 0.8 | 0.4 | 0.5 | 0.8 | ▼ |
| Lake Mountain | 0.2 | 0.7 | 0.9 | 1.3 | 2.3 | 1.1 | ▲ |
| Falls Creek | 2.8 | 3.2 | 3.6 | 6.1 | 3.6 | 3.9 | ▲ |
| Mount Hotham | 1.3 | 1.7 | 2.1 | 2.7 | 2.2 | 2.0 | ▲ |
| Mount Buller and Mount Stirling | 4.2 | 4.1 | 4.1 | 5.1 | 6.5 | 4.8 | ▲ |
| **ARMB average** | **1.8** | **2.2** | **2.3** | **3.1** | **3.0** | **2.5** | ▲ |

*Source:* Victorian Auditor-General's Office.

# Debt-to-equity

| Alpine Resort Management Boards | Debt-to-equity (%) | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 5-year mean | Trend |
| Mount Baw Baw | 0.2% | 0.9% | 0.7% | 2.0% | 2.4% | 1.2% | ▲ |
| Lake Mountain | 1.1% | 6.6% | 6.3% | 6.7% | 5.2% | 5.2% | ▼ |
| Falls Creek | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | ● |
| Mount Hotham | 0.0% | 2.4% | 2.6% | 2.6% | 2.2% | 2.0% | ▼ |
| Mount Buller and Mount Stirling | 0.0% | 0.6% | 0.6% | 0.5% | 0.5% | 0.4% | ● |
| **ARMB average** | **0.3%** | **2.1%** | **2.0%** | **2.4%** | **2.1%** | **1.8%** | ▼ |

*Source:* Victorian Auditor-General's Office.

# Self-financing

| Alpine Resort Management Boards | Self-financing (%) | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 5-year mean | Trend |
| Mount Baw Baw | 15.0% | 9.7% | 2.1% | 6.2% | 7.2% | 8.0% | ▼ |
| Lake Mountain | 13.5% | 27.1% | 9.6% | 89.8% | 125.3% | 53.1% | ▲ |
| Falls Creek | 6.2% | 23.3% | 28.4% | 27.3% | 33.3% | 23.7% | ▲ |
| Mount Hotham | 22.4% | 41.5% | 9.8% | 13.7% | 21.5% | 21.8% | ▼ |
| Mount Buller and Mount Stirling | 30.3% | 25.0% | 22.6% | 21.6% | 26.4% | 25.2% | ▼ |
| **ARMB average** | **17.5%** | **25.3%** | **14.5%** | **31.7%** | **42.8%** | **26.4%** | ▲ |

*Source:* Victorian Auditor-General's Office.

# Capital replacement

| Alpine Resort Management Boards | Capital replacement | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 5-year mean | Trend |
| Mount Baw Baw | 0.8 | 0.7 | 0.9 | 0.8 | 0.8 | 0.8 | ● |
| Lake Mountain | 0.3 | 0.5 | 0.3 | 3.8 | 5.7 | 2.1 | ▲ |
| Falls Creek | 1.6 | 1.2 | 1.9 | 2.8 | 2.3 | 2.0 | ▲ |
| Mount Hotham | 10.8 | 7.6 | 1.6 | 1.8 | 1.6 | 4.7 | ▼ |
| Mount Buller and Mount Stirling | 1.6 | 2.7 | 1.1 | 0.5 | 0.9 | 1.4 | ▼ |
| **ARMB average** | **3.0** | **2.5** | **1.1** | **2.0** | **2.3** | **2.2** | ▼ |

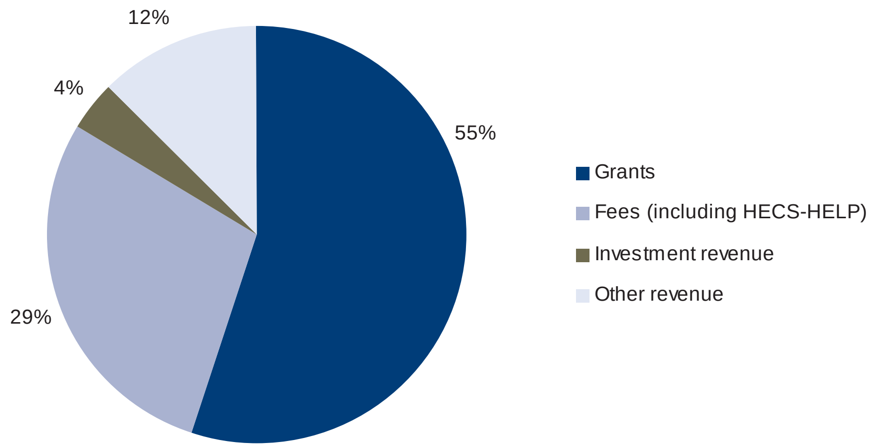
*Source:* Victorian Auditor-General's Office.

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

# Appendix B.
# Financial composition

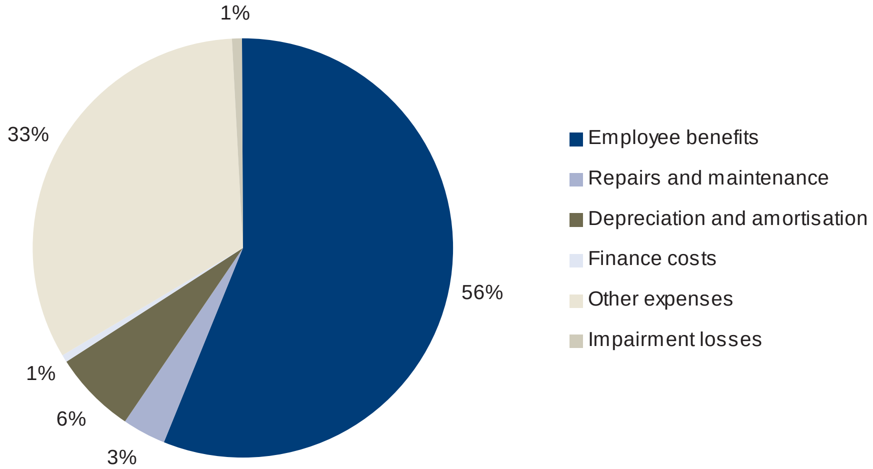
## Universities

### Revenue composition



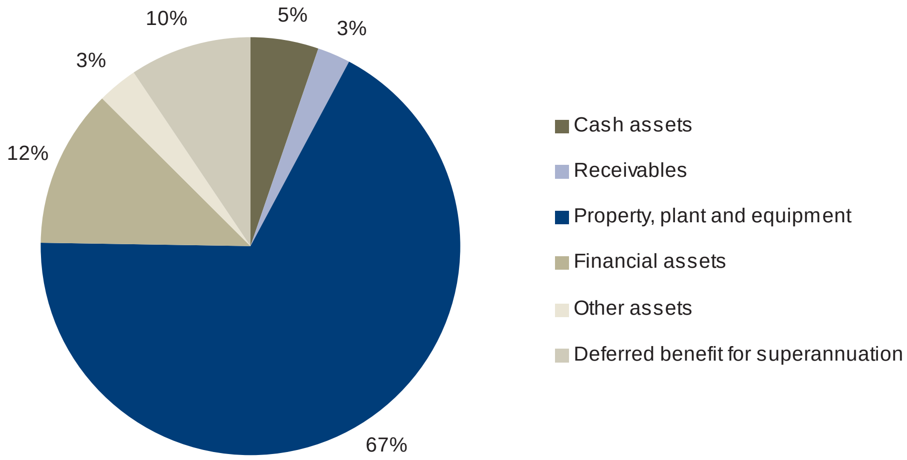

*Source:* Victorian Auditor-General's Office.

### Expenditure composition



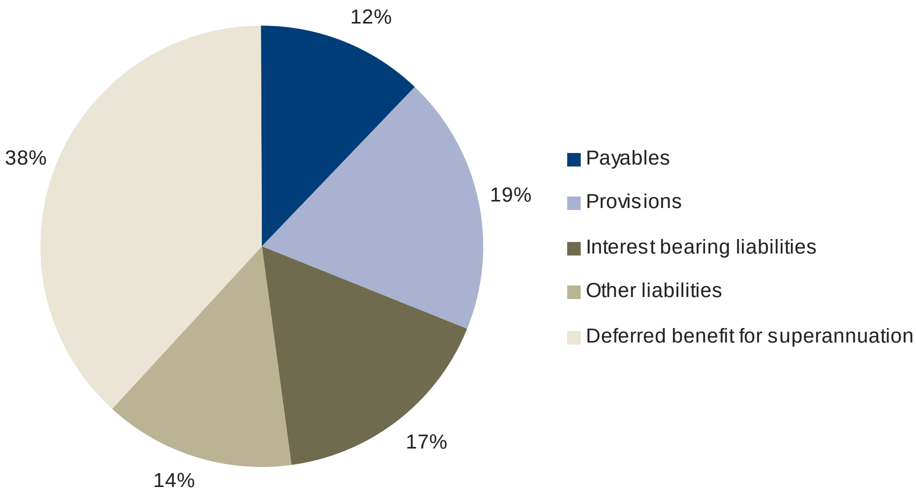

*Source:* Victorian Auditor-General's Office.

## Assets composition




*Source:* Victorian Auditor-General's Office.

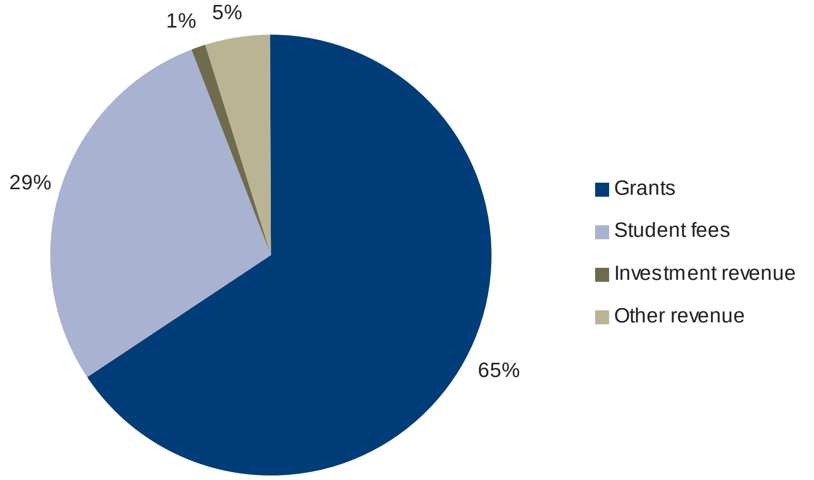
## Liabilities composition




*Source:* Victorian Auditor-General's Office.

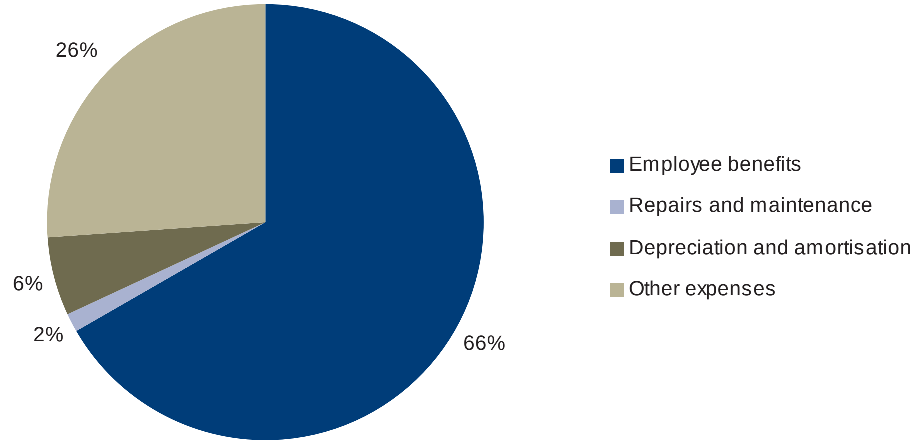
# TAFEs

## Revenue composition



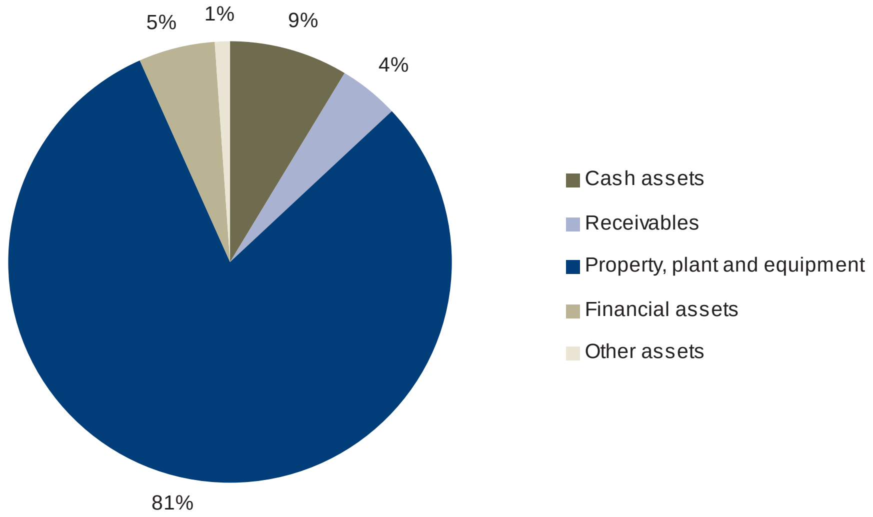

*Source:* Victorian Auditor-General's Office.

## Expenditure composition



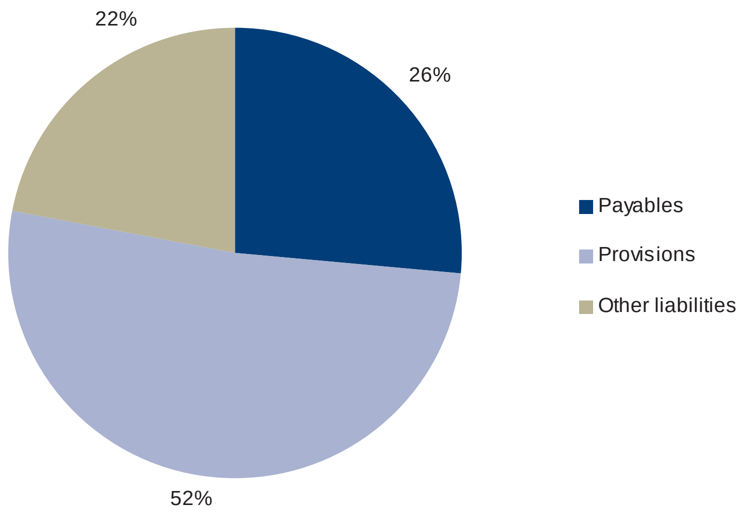

*Source:* Victorian Auditor-General's Office.

## Assets composition




*Source:* Victorian Auditor-General's Office.

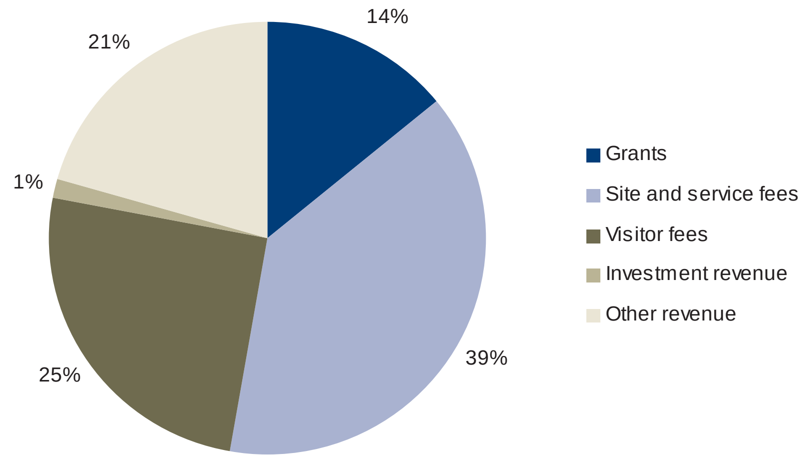
## Liabilities composition




*Source:* Victorian Auditor-General's Office.

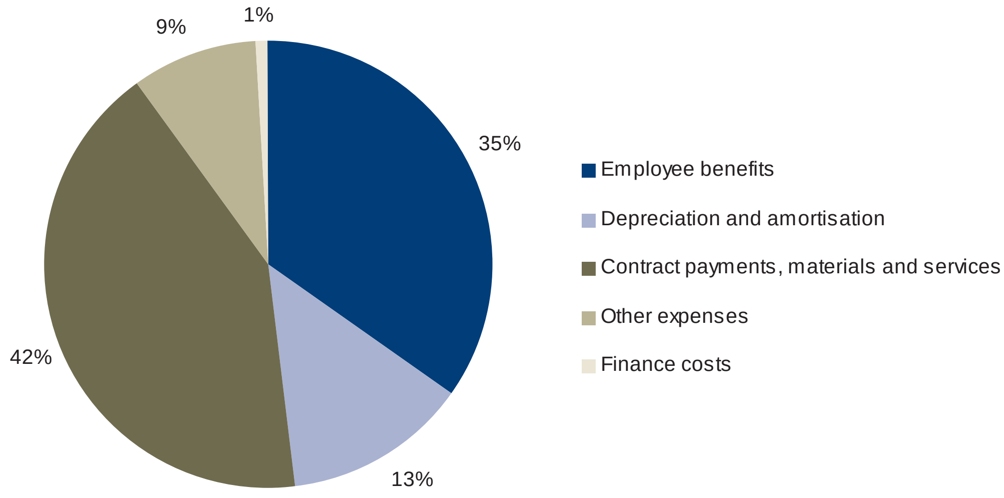
# Alpine resorts

## Revenue composition



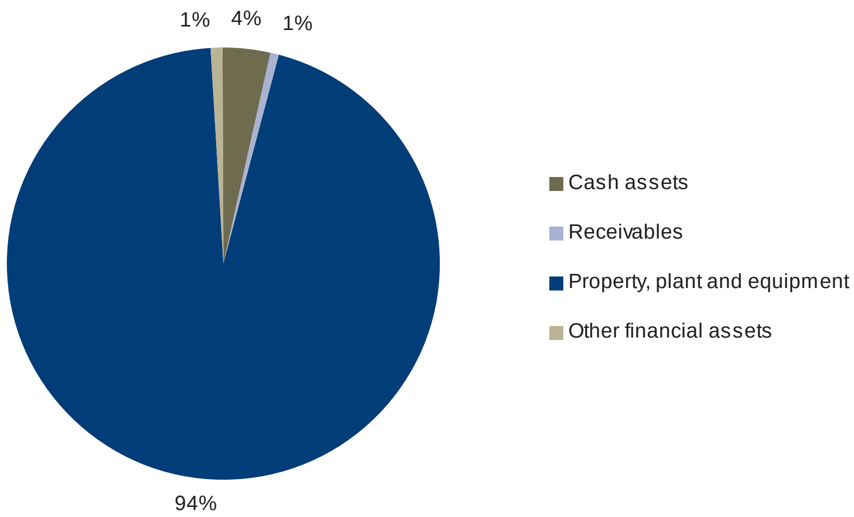

*Source:* Victorian Auditor-General's Office.

## Expenditure composition



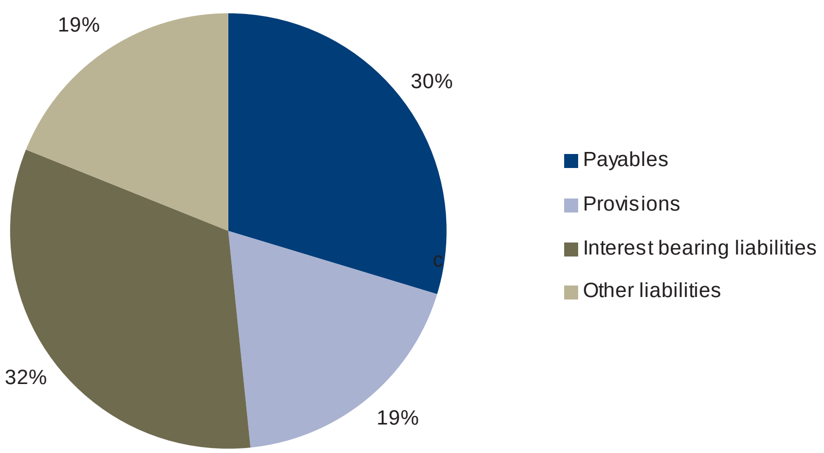

*Source:* Victorian Auditor-General's Office.

## Assets composition




*Source:* Victorian Auditor-General's Office.

## Liabilities composition




*Source:* Victorian Auditor-General's Office.

# Appendix C.
# Acronyms and glossary

## Acronyms

| | |
|---|---|
| AASB | Australian Accounting Standards Board |
| A-IFRS | Australian Equivalents to International Financial Reporting Standards |
| ARCC | Alpine Resorts Co-ordinating Council |
| ARMB | Alpine Resort Management Board |
| ASIC | Australian Securities and Investments Commission |
| DEECD | Department of Education and Early Childhood Development |
| DIIRD | Department of Innovation, Industry and Regional Development |
| DSE | Department of Sustainability and Environment |
| DTF | Department of Treasury and Finance |
| EBA | Enterprise Bargaining Agreement |
| EFT | Electronic Funds Transfer |
| FMA | *Financial Management Act 1994* |
| FRD | Financial Reporting Direction |
| FTE | Full Time Equivalent |
| IS | Information System |
| KPI | Key Performance Indicator |
| PAEC | Public Accounts and Estimates Committee |
| SSA | State Services Authority |
| TAFE | Technical and Further Education |
| 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 depreciable amount of an intangible asset over its expected useful life.

## 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.

## *Audit Act 1994*

The *Audit Act 1994* establishes the operating powers and responsibilities of the Auditor-General. This includes the operations of his office—the Victorian Auditor General's Office (VAGO) as well as the nature and scope of audits conducted by VAGO. The Act also addresses the relationship of the Auditor-General with the Public Accounts and Estimates Committee as the representative body of Parliament and the Auditor-General's accountability to Parliament for discharge of the position's responsibilities.

## 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. A clear opinion indicates that the financial report has been prepared in accordance with the requirements of the relevant legislation and Australian accounting standards.

## 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.

## Clear audit opinion

An unqualified audit opinion is provided when the financial statements present fairly the transactions and balances for the reporting period in accordance with the relevant legislative framework.

## *Corporations Act 2001*

The *Corporations Act 2001* is an act of the Commonwealth of Australia that sets out the laws dealing with business entities in Australia at federal and interstate levels. It focuses primarily on companies, although it also covers some laws relating to other entities such as partnerships and managed investment schemes.

## Depreciation

The systematic allocation of the depreciable amount of an asset over its expected useful life.

## Emphasis of matter

An auditor's report can include an emphasis of matter paragraph that draws attention to a disclosure or item in the financial report. The addition of such an emphasis of matter 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 incurrence of liabilities 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 reporting direction

Financial reports are prepared in accordance with Australian Accounting Standards and Interpretations as issued by the Australian Accounting Standards Board (AASB). When and AASB standard provides accounting treatment options, the Minister for Finance issues financial reporting directions to ensure consistent application of accounting treatment across the Victorian public sector in compliance with that particular standard.

## 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.

## 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

A processes affected 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 from the entity of resources embodying economic benefits.

## 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 or nature 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.

## 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.

## Qualified opinion in the auditor's report

The types of qualified opinions in an auditor's report 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 'adverse opinion' is expressed when the effect of a disagreement with management or a conflict between applicable financial reporting frameworks is so material or pervasive to the financial statements that the auditor concludes that a qualification is not adequate to disclose the misleading or incomplete nature of 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). The circumstances in which an emphasis of matter is used are specified to include:
    - when a significant uncertainty exists, the resolution of which depends upon future events and which may materially affect the financial statements.
    - when information in a document containing the audited financial statements is materially inconsistent with the financial statements
    - when financial statements and the auditor's report have been issued and a fact is discovered that leads to revised financial statements and a new auditor's report is being prepared.

## 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 provided when the financial statements present fairly the transactions and balances for the reporting period in accordance with the relevant legislative framework. Also referred to as a clear audit opinion.

# Appendix D.

# Audit status

# Tertiary education

| | Audit Type | | Financial statements | | Timeliness of financial statements completion | | |
|---|---|---|---|---|---|---|---|
| Entity | FMA | Non-FMA | Clear opinion | Opinion date | Up to 12 weeks | 12 to 18 weeks | More than 18 weeks |
| **COMPLETED AUDITS – 31 DECEMBER 2010 BALANCE DATES** | | | | | | | |
| **UNIVERSITIES** | | | | | | | |
| Deakin University<br>***Reason for qualification:*** *Grant Income recognised as liabilities rather than as income, as required by AASB 1004 Contributions.* | ✓ | | ✗ | 21-Mar-11 | ✓ | | |
| *Callista Software Services Pty Ltd* | | ✓ | ✓ | 21-Mar-11 | ✓ | | |
| *Canopi Network Pty Ltd* | | ✓ | ✓ | 21-Mar-11 | ✓ | | |
| *Deakin Foundation Trust* | | ✓ | ✓ | 21-Mar-11 | ✓ | | |
| *Deakin Foundation Limited* | | ✓ | ✓ | 21-Mar-11 | ✓ | | |
| *Deakin Nominee's Pty Ltd* | | ✓ | ✓ | 21-Mar-11 | ✓ | | |
| *Deakin Residential Services Pty Ltd* | | ✓ | ✓ | 21-Mar-11 | ✓ | | |
| *The Australian Professional Association Services Company Ltd* | | ✓ | ✓ | 21-Mar-11 | ✓ | | |
| *Unilink Limited* | | ✓ | ✓ | 21-Mar-11 | ✓ | | |
| La Trobe University | ✓ | | ✓ | 24-Mar-11 | ✓ | | |
| *La Trobe Innovation Pty Ltd* | | ✓ | ✓ | 12-Apr-11 | | ✓ | |
| *La Trobe International Pty Limited* | | ✓ | ✓ | 07-Apr-11 | | ✓ | |
| *Medical Centre Developments Pty Ltd* | | ✓ | ✓ | 06-Apr-11 | | ✓ | |
| Monash University | ✓ | | ✓ | 25-Mar-11 | ✓ | | |
| *Australian Regenerative Medicine Institute Joint Venture* | | ✓ | ✓ | 29-April-11 | | ✓ | |
| *Monash Accommodation Services Pty Ltd* | | ✓ | ✓ | 09-Mar-11 | ✓ | | |
| *Monash College Pty Ltd* | | ✓ | ✓ | 23-Feb-11 | ✓ | | |
| *Monash Commercial Pty Ltd* | | ✓ | ✓ | 09-Mar-11 | ✓ | | |
| *Monash Custodians Pty Ltd* | | ✓ | ✓ | 29-April-11 | | ✓ | |

| Entity | Audit Type | | Financial statements | | Timeliness of financial statements completion | | |
|---|---|---|---|---|---|---|---|
| | FMA | Non-FMA | Clear opinion | Opinion date | Up to 12 weeks | 12 to 18 weeks | More than 18 weeks |
| **COMPLETED AUDITS – 31 DECEMBER 2010 BALANCE DATES – *continued*** | | | | | | | |
| **UNIVERSITIES – *continued*** | | | | | | | |
| Monash University – *continued* | | | | | | | |
| *Monash Educational Enterprises*<br>***Audit report contained an 'emphasis of matter':***<br>*Attention drawn to the need for continuing financial support from Monash University.* | | ✓ | ✓ | 16-Mar-11 | ✓ | | |
| *Monash Health Research Precinct Pty Ltd* | | ✓ | ✓ | 08-Mar-11 | ✓ | | |
| *Monash Investment Holdings Pty Ltd* | | ✓ | ✓ | 09-Mar-11 | ✓ | | |
| *Monash Investment Trust* | | ✓ | ✓ | 09-Mar-11 | ✓ | | |
| *Monash Property South Africa Pty Ltd* | | ✓ | ✓ | 08-Mar-11 | ✓ | | |
| *Monash South Africa Ltd*<br>***Audit report contained an 'emphasis of matter':***<br>*Attention drawn to the need for continuing financial support from Monash University.* | | ✓ | ✓ | 16-Mar-11 | ✓ | | |
| *Monash University Foundation* | | ✓ | ✓ | 09-Mar-11 | ✓ | | |
| *Monash University Foundation Pty Ltd* | | ✓ | ✓ | 09-Mar-11 | ✓ | | |
| Royal Melbourne Institute of Technology | ✓ | | ✓ | 22-Mar-11 | ✓ | | |
| *Meltech Services Limited* | | ✓ | ✓ | 17-Mar-11 | ✓ | | |
| *RMIT Drug Discovery Technologies Pty Ltd* | | ✓ | ✓ | 16-Feb-11 | ✓ | | |
| *RMIT Foundation* | | ✓ | ✓ | 22-Mar-11 | ✓ | | |
| *RMIT International University Vietnam* | | ✓ | ✓ | 04-Apr-11 | | ✓ | |
| *RMIT Training Pty Ltd* | | ✓ | ✓ | 09-Mar-11 | ✓ | | |
| *RMIT Union* | | ✓ | ✓ | 16-Mar-11 | ✓ | | |
| *RMIT Vietnam Holdings Pty Ltd* | | ✓ | ✓ | 04-Apr-11 | | ✓ | |
| *Spatial Vision Innovations Pty Ltd* | | ✓ | ✓ | 23-Mar-11 | ✓ | | |

| Entity | Audit Type | | Financial statements | | Timeliness of financial statements completion | | |
|---|---|---|---|---|---|---|---|
| | FMA | Non-FMA | Clear opinion | Opinion date | Up to 12 weeks | 12 to 18 weeks | More than 18 weeks |
| **COMPLETED AUDITS - 31 DECEMBER 2010 BALANCE DATES – *continued*** | | | | | | | |
| **UNIVERSITIES – *continued*** | | | | | | | |
| Swinburne University of Technology | ✓ | | ✓ | 23-Mar-11 | ✓ | | |
| *National Institute of Circus Arts Limited* | | ✓ | ✓ | 16-Feb-11 | ✓ | | |
| *Swinburne College Pty Ltd* | | ✓ | ✓ | 25-Feb-11 | ✓ | | |
| *Swinburne (Holdings) Pty Ltd* | | ✓ | ✓ | 25-Feb-11 | ✓ | | |
| *Swinburne Intellectual Property Trust* | | ✓ | ✓ | 10-Mar-11 | ✓ | | |
| *Swinburne Ltd* | | ✓ | ✓ | 15-Mar-11 | ✓ | | |
| *Swinburne Student Amenities Association Ltd* | | ✓ | ✓ | 25-Feb-11 | ✓ | | |
| *Swinburne Ventures Limited* | | ✓ | ✓ | 10-Mar-11 | ✓ | | |
| The University of Melbourne<br>***Reason for qualification:*** *Grant Income recognised as liabilities rather than as income, as required by AASB 1004 Contributions.* | ✓ | | ✗ | 12-Apr-11 | | ✓ | |
| *Australian International Health Institute (The University of Melbourne) Ltd* | | ✓ | ✓ | 31-Mar-11 | | ✓ | |
| *Australian Music Examinations Board (Vic ) Ltd* | | ✓ | ✓ | 25-Mar-11 | ✓ | | |
| *Australian National Academy of Music Foundation Ltd* | | ✓ | ✓ | 12-Apr-11 | | ✓ | |
| *Australian National Academy of Music Ltd* | | ✓ | ✓ | 12-Apr-11 | | ✓ | |
| *Melbourne Business School Foundation* | | ✓ | ✓ | 25-Mar-11 | ✓ | | |
| *Melbourne Business School Foundation Ltd* | | ✓ | ✓ | 25-Mar-11 | ✓ | | |
| *Melbourne Business School Ltd* | | ✓ | ✓ | 25-Mar-11 | ✓ | | |
| *Melbourne Ventures Pty Ltd* | | ✓ | ✓ | 08-Apr-11 | | ✓ | |
| *Mount Eliza Graduate School of Business and Government Limited* | | ✓ | ✓ | 25-Mar-11 | ✓ | | |
| *MU Student Union Ltd* | | ✓ | ✓ | 07-Apr-11 | | ✓ | |
| *UM Commercialisation Pty Ltd* | | ✓ | ✓ | 08-Apr-11 | | ✓ | |

| Entity | Audit Type | | Financial statements | | Timeliness of financial statements completion | | |
|---|---|---|---|---|---|---|---|
| | FMA | Non-FMA | Clear opinion | Opinion date | Up to 12 weeks | 12 to 18 weeks | More than 18 weeks |
| **COMPLETED AUDITS – 31 DECEMBER 2010 BALANCE DATES – *continued*** | | | | | | | |
| **UNIVERSITIES – *continued*** | | | | | | | |
| The University of Melbourne - *continued* | | | | | | | |
| *UM Commercialisation Trust* | | ✓ | ✓ | 08-Apr-11 | | ✓ | |
| *UoM Commercial Ltd (formerly UMEE Ltd)* | | ✓ | ✓ | 08-Apr-11 | | ✓ | |
| *Victorian Institute for Chemical Sciences Limited* | | ✓ | ✓ | 25-Mar-11 | ✓ | | |
| University of Ballarat | ✓ | | ✓ | 18-Mar-11 | ✓ | | |
| *Datascreen Pty Ltd* | | ✓ | ✓ | 25-Mar-11 | ✓ | | |
| *Inskill Pty Ltd* | | ✓ | ✓ | 07-Apr-11 | | ✓ | |
| *The School of Mines and Industries Ballarat Limited* | | ✓ | ✓ | 25-Mar-11 | ✓ | | |
| Victoria University | ✓ | | ✓ | 23-Mar-11 | ✓ | | |
| *Victoria University Enterprises Pty Ltd* | | ✓ | ✓ | 11-Mar-11 | ✓ | | |
| *Victoria University Foundation* | | ✓ | ✓ | 23-Mar-11 | ✓ | | |
| *Victoria University Foundation Ltd* | | ✓ | ✓ | 23-Mar-11 | ✓ | | |
| *Victoria University International Pty Ltd* | | ✓ | ✓ | 23-Mar-11 | ✓ | | |
| *Victoria University of Technology (Singapore) Pte Ltd* | | ✓ | ✓ | 11-Mar-11 | ✓ | | |
| **TAFE INSTITUTES** | | | | | | | |
| Bendigo Regional Institute of Technical and Further Education | ✓ | | ✓ | 11-Mar-11 | ✓ | | |
| Box Hill Institute of Technical and Further Education | ✓ | | ✓ | 03-Mar-11 | ✓ | | |
| *Box Hill Enterprises Ltd* | | ✓ | ✓ | 03-Mar-11 | ✓ | | |
| Central Gippsland Institute of Technical and Further Education | ✓ | | ✓ | 25-Mar-11 | ✓ | | |
| Chisholm Institute of Technical and Further Education | ✓ | | ✓ | 03-Mar-11 | ✓ | | |
| *Caroline Chisolm Education Foundation* | | ✓ | ✓ | 03-Mar-11 | ✓ | | |
| East Gippsland Institute of Technical and Further Education | ✓ | | ✓ | 25-Mar-11 | ✓ | | |
| Gordon Institute of Technical and Further Education | ✓ | | ✓ | 21-Mar-11 | ✓ | | |
| *GOTEC Limited* | | ✓ | ✓ | 21-Mar-11 | ✓ | | |

| Entity | Audit Type | | Financial statements | | Timeliness of financial statements completion | | |
|---|---|---|---|---|---|---|---|
| | FMA | Non-FMA | Clear opinion | Opinion date | Up to 12 weeks | 12 to 18 weeks | More than 18 weeks |
| **COMPLETED AUDITS – 31 DECEMBER 2010 BALANCE DATES – *continued*** | | | | | | | |
| **TAFE INSTITUTES – *continued*** | | | | | | | |
| Gordon Institute of Technical and Further Education – *continued* | | | | | | | |
| *Gordon Foundation Ltd* | | ✓ | ✓ | 21-Mar-11 | ✓ | | |
| *Gordon Foundation Trust* | | ✓ | ✓ | 21-Mar-11 | ✓ | | |
| Goulburn Ovens Institute of Technical and Further Education | ✓ | | ✓ | 24-Mar-11 | ✓ | | |
| *Holmesglen International Training Services Pty Ltd* | | ✓ | ✓ | 13-Apr-11 | | ✓ | |
| Kangan Batman Institute of Technical and Further Education | ✓ | | ✓ | 25-Mar-11 | ✓ | | |
| *John Batman Consultancy & Training Pty Ltd* | | ✓ | ✓ | 25-Mar-11 | ✓ | | |
| Northern Melbourne Institute of Technical and Further Education | ✓ | | ✓ | 03-Mar-11 | ✓ | | |
| South West Institute of Technical and Further Education | ✓ | | ✓ | 24-Mar-11 | ✓ | | |
| Sunraysia Institute of Technical and Further Education | ✓ | | ✓ | 23-Mar-11 | ✓ | | |
| *TAFE Kids Incorporated* | | ✓ | ✓ | 23-Mar-11 | ✓ | | |
| TAFE Work Safety Centre | | ✓ | ✓ | 25-Mar-11 | ✓ | | |
| William Angliss Institute of Technical and Further Education | ✓ | | ✓ | 25-Mar-11 | ✓ | | |
| *Angliss Consulting Pty Limited* | | ✓ | ✓ | 25-Mar-11 | ✓ | | |
| *Angliss Multimedia Pty Ltd* | | ✓ | ✓ | 25-Mar-11 | ✓ | | |
| *Angliss Solutions Pty Ltd* | | ✓ | ✓ | 25-Mar-11 | ✓ | | |
| *William Angliss Institute Foundation* | | ✓ | ✓ | 25-Mar-11 | ✓ | | |
| Wodonga Institute of Technical and Further Education | ✓ | | ✓ | 22-Mar-11 | ✓ | | |
| **TRAINING ENTITIES** | | | | | | | |
| Adult Multicultural Education Services | ✓ | | ✓ | 03-Mar-11 | ✓ | | |
| *AMES Vietnam* | | ✓ | ✓ | 06-Dec-10 | ✓ | | |
| Centre for Adult Education | ✓ | | ✓ | 17-Mar-11 | ✓ | | |

| | Audit Type | | Financial statements | | Timeliness of financial statements completion | | |
|---|---|---|---|---|---|---|---|
| **Entity** | **FMA** | **Non-FMA** | **Clear opinion** | **Opinion date** | **Up to 12 weeks** | **12 to 18 weeks** | **More than 18 weeks** |
| **COMPLETED AUDITS – 31 DECEMBER 2010 BALANCE DATES – *continued*** | | | | | | | |
| Driver Education Centre of Australia Ltd<br>***Audit report contained an 'emphasis of matter':***<br>*Attention drawn to the need for continuing financial support from Skills Victoria.* | ✓ | | ✓ | 21-Apr-11 | | ✓ | |
| *DECA Ltd*<br>***Audit report contained an 'emphasis of matter':***<br>*Attention drawn to the need for continuing financial support from Driver Education Centre of Australia Ltd.* | | ✓ | ✓ | 11-Apr-11 | | ✓ | |
| International Fibre Centre Limited | ✓ | | ✓ | 03-Mar-11 | ✓ | | |
| Telematics Course Development Fund | | ✓ | ✓ | 06-Apr-11 | | ✓ | |
| VERNet Pty Ltd | | ✓ | ✓ | 24-Mar-11 | ✓ | | |
| **2010 Total** | **25** | **78** | | | **82** | **21** | **0** |
| | | **103** | | | | | **103** |
| **2009 Total** | **26** | **77** | | | **72** | **31** | **0** |
| | | **103** | | | | | **103** |
| **INCOMPLETE AUDITS – 30 APRIL 2011** | | | | | | | |
| Holmesglen Institute of Technical and Further Education | ✓ | | | | Audited financial statements yet to be finalised | | |
| Melbourne University Publishing Ltd | | ✓ | | | Audited financial statements yet to be finalised | | |
| **2010 Total** | **1** | **1** | | | | | |
| | | **2** | | | | | |
| **2009 Total** | **0** | **3** | | | | | |
| | | **3** | | | | | |

*Source:* Victorian Auditor-General's Office.

## Alpine resorts

| | Audit Type | | Financial Statements | | Timeliness of financial statements completion | | |
|---|---|---|---|---|---|---|---|
| Alpine resort management board | FMA | Non-FMA | Clear opinion | Opinion Date | Up to 12 weeks | 12 to 18 weeks | More than 18 weeks |
| **COMPLETED AUDITS – 31 OCTOBER 2010 BALANCE DATES** | | | | | | | |
| Falls Creek Alpine Resort Management Board | ✓ | | ✓ | 20-Jan-11 | ✓ | | |
| Lake Mountain Alpine Resort Management Board | ✓ | | ✓ | 07-Jan-11 | ✓ | | |
| Mount Baw Baw Alpine Resort Management Board | ✓ | | ✓ | 07-Jan-11 | ✓ | | |
| Mount Buller and Mount Stirling Alpine Resort Management Board | ✓ | | ✓ | 12-Jan-11 | ✓ | | |
| Mount Hotham Alpine Resort Management Board | ✓ | | ✓ | 22-Dec-10 | ✓ | | |
| **2010 Total** | **5** | **0** | | | **5** | **0** | **0** |
| | | **5** | | | | | **5** |
| **2009 Total** | **5** | **0** | | | **5** | **0** | **0** |
| | | **5** | | | | | **5** |

*Source:* Victorian Auditor-General's Office.

## Other entities

| Entity | Audit Type | | Financial Statements | | Timeliness of financial statements completion | | |
|---|---|---|---|---|---|---|---|
| | FMA | Non-FMA | Clear opinion | Opinion Date | Up to 12 weeks | 12 to 18 weeks | More than 18 weeks |
| **COMPLETED AUDITS – 30 SEPTEMBER 2010 BALANCE DATES** | | | | | | | |
| MAPS Group Limited | | ✓ | ✓ | 14-Feb-11 | | | ✓ |
| **COMPLETED AUDITS – 31 DECEMBER 2010 BALANCE DATES** | | | | | | | |
| Anti-Cancer Council of Victoria | ✓ | | ✗ | 03-Mar-11 | ✓ | | |
| ***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.* | | | | | | | |
| **2010 Total** | **1** | **1** | | | **1** | **0** | **1** |
| | | **2** | | | | | **2** |
| **2009 Total** | **2** | **1** | | | **3** | **0** | **0** |
| | | **3** | | | | | **3** |
| **NOT COMMENCED AUDITS** | | | | | | | |
| Melbourne Cricket Ground Trust | | ✓ | | | Audited financial statements yet to be finalised | | |

*Source:* Victorian Auditor-General's Office.

# Appendix E.

## *Audit Act 1994* section 16—submissions and comments

### Introduction

In accordance with section 16A and 16(3) of the *Audit Act 1994* a copy of this report, or relevant extracts from the report, was provided to all universities, TAFEs, alpine resort management boards, the Department of Treasury and Finance, the Department of Education and Early Childhood Development, and the Department of Sustainability and Environment with a request for submissions or comments.

Responses were received as follows:



The submissions and comments 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, Department of Treasury and Finance***

**Department of Treasury and Finance**

1 Treasury Place
GPO Box 4379QQ
Melbourne Victoria 3001
Telephone: (03) 9651 5111
Facsimile: (03) 9651 5298
DX 210759

5 MAY 2011

Mr Des Pearson
Auditor-General
Victorian Auditor-General's Office
Level 24, 35 Collins Street
MELBOURNE VIC 3000

Dear Mr Pearson

**TERTIARY EDUCATION AND OTHER ENTITIES: RESULTS OF THE 2010 AUDITS**

Thank you for the opportunity to review and provide comment on the proposed Victorian Auditor-General's Report *Tertiary Education and Other Entities: Results of the 2010 Audits* prior to its finalisation and transmission to Parliament in late May 2011.

The Department of Treasury and Finance supports continuous improvement and strengthening of the financial management and accountability framework, including the requirement for Victorian agencies to provide robust and transparent performance reporting.

If you require further information, please contact Mr Steven Harris, Assistant Director, Budget and Financial Management Division on 9651 2840.

Yours sincerely

**Grant Hehir**
**Secretary**

Victoria
The Place To Be

***RESPONSE provided by the Chief Financial Officer, The University of Melbourne***

THE UNIVERSITY OF MELBOURNE

3 May 2011

Mr D Pearson
Auditor-General
Level 24, 35 Collins Street
MELBOURNE VIC 3000

Dear Mr Pearson

**Re: Proposed Audit Report – Tertiary Education and Other Entities: Results of the 2010 Audits**

Thank you for your letter of 28 April 2011 to the Vice-Chancellor with respect to your proposed audit report.

We advise as follows:

1. Accuracy and fairness of the facts and context represented in the report extract

- Accuracy of the facts

  We confirm that the facts are accurate, with the exception of:

  - Section 2.3 - the description of the University's audit qualification should be expanded to include capital grants, in addition to research grants.

- Accuracy and fairness of the context

  - Underlying result

    In your report on the 2009 results you noted that *"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 indicator has continued to improve in 2010 and we believe that a similar statement should be included in the current year report.

  - Self-financing ratio

    In your report on the 2009 results you specifically noted that the *"The University of Melbourne's capacity to self-finance has declined over a four-year period."*. This indicator has improved in 2010 and therefore the 2009 position has reserved, and we believe that this should be specifically noted in the current year report.

2. Response for publication in the report

   The following response should be included in the report in relation to the audit qualification:

   "As in prior years, the University of Melbourne's accounting treatment of government research and capital grants is in accordance with Australian Accounting Standard AASB 118, Revenue. The University notes that the AASB is currently reviewing the accounting

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The University of Melbourne, Parkville Victoria 3010 Australia
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***RESPONSE provided by the Chief Financial Officer, The University of Melbourne – continued***

- 2 -

treatment for grants of not-for-profit organizations and it is likely that the University's qualification will cease to be applicable at some time in the future."

If you require further information or would like to clarify any of the comments above please contact John Demagistris on 8344 2903.

Yours sincerely

**Allan Tait**
**Chief Financial Officer**

***Auditor-General's response to The University of Melbourne***

In addition to our comment on page 15, chapter 2 'Audit opinions and quality of reporting', the following further audit comment is provided.

The fundamental point of difference is whether government research and capital grants are non-reciprocal in nature. VAGO's position is that these grants are non-reciprocal because the university has received them and there is no requirement to provide equal value in exchange to the grant providers. Rather, the benefits derived from the grants flow to the general public, not directly to the grant provider. This position is consistent with Australian Accounting Standard AASB1004 'Contributions' which requires non-reciprocal research and capital grants to be recognised as revenue immediately upon receipt.

Accordingly, in our opinion and consistent with AASB1004 the matching provisions provided for under AASB118 'Revenue' and the treatment by the university are not appropriate, leading to a qualified audit opinion.

***RESPONSE provided by the Chief Executive Officer, Mt Baw Baw Alpine Resort Management Board***

mt baw baw

Mt Baw Baw Alpine Resort Management Board

Box 117 RAWSON 3825 VICTORIA

Telephone: (03) 5165 1136

Facsimile: (03) 5165 1125

Friday, 6 May 2011

Mr D Pearson
Auditor General
Victorian Auditor General's Office
Level 24, 35 Collins Street
Melbourne VIC. 3000

Phone: (03) 8601 7183
Fax: (03) 8601 7010

Dear Mr Pearson;

TertiaryEducationReport11@audit.vic.gov.au

Here is the comment from Leona Turra, on behalf of Ralph Booth (Board Chairman) for the 2011 Tertiary Education Report.

"The Board and Management of Mt Baw Baw Alpine Resort Management Board, acknowledge the tenuous financial position of the organisation. We are actively pursuing the matter with the relevant government departments".

If you have any questions, please contact Ms Leona Turra on 5165 1136.

Yours sincerely

Leona Turra

Chief Executive Officer

# Auditor-General's reports

## Reports tabled during 2010–11

| Report title | Date tabled |
|---|---|
| Portfolio Departments: Interim Results of the 2009–10 Audits (2010–11:1) | July 2010 |
| Taking Action on Problem Gambling (2010–11:2) | July 2010 |
| Local Government: Interim Results of the 2009–10 Audits (2010–11:3) | August 2010 |
| Water Entities: Interim Results of the 2009–10 Audits (2010–11:4) | August 2010 |
| Public Hospitals: Interim Results of the 2009–10 Audits (2010–11:5) | September 2010 |
| Business Continuity Management in Local Government (2010–11:6) | September 2010 |
| Sustainable Farm Families Program (2010–11:7) | September 2010 |
| Delivery of NURSE-ON-CALL (2010–11:8) | September 2010 |
| Management of Prison Accommodation Using Public Private Partnerships (2010–11:9) | September 2010 |
| Soil Health Management (2010–11:10) | October 2010 |
| Sustainable Management of Victoria's Groundwater Resources (2010–11:11) | October 2010 |
| The Department of Human Services' Role in Emergency Recovery (2010–11:12) | October 2010 |
| Access to Ambulance Services (2010–11:13) | October 2010 |
| Management of the Freight Network (2010–11:14) | October 2010 |
| Security of Infrastructure Control Systems for Water and Transport (2010–11:15) | October 2010 |
| Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2009–10 (2010–11:16) | October 2010 |
| Restricting Environmental Flows during Water Shortages (2010–11:17) | October 2010 |
| Victorian Registration and Qualifications Authority (2010–11:18) | October 2010 |
| Acquittal Report: Results of the 2009–10 Audits (2010–11:19) | February 2011 |
| Effectiveness of Victims of Crime Programs (2010–11:20) | February 2011 |
| Motorcycle and Scooter Safety Programs (2010–11:21) | February 2011 |
| Construction of Police Stations and Courthouses (2010–11:22) | February 2011 |

| Report title | Date tabled |
|---|---|
| Environmental Management of Marine Protected Areas (2010–11:23) | March 2011 |
| Managing Drug and Alcohol Prevention and Treatment Services (2010–11:24) | March 2011 |
| Local Community Transport Services: the Transport Connections program (2010–11:25) | March 2011 |
| Effectiveness of Small Business Victoria’s Support Programs (2010–11:26) | March 2011 |
| Facilitating Renewable Energy Development (2010–11:27) | April 2011 |
| Problem-Solving Approaches to Justice (2010–11:28) | April 2011 |
| Managing Student Safety (2010–11:29) | May 2011 |
| Revitalising Central Dandenong (2010–11:30) | May 2011 |

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  Melbourne Vic. 3000
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