

Universities: 2014 Audit Snapshot

Tabled 27 May 2015

The Auditor-General provides assurance to Parliament on the accountability and performance of the Victorian Public Sector. The Auditor-General conducts financial audits and performance audits, and reports on the results of these audits to Parliament.

On 27 May 2015, the Auditor-General tabled his financial audit report, *Universities: 2014 Audit Snapshot*.

Overview

2

- Discusses issues arising from the 2014 financial audits of the eight universities and 51 entities that they control.
- Key findings:
 - Three entities received qualified audit opinions.
 - Longer-term financial sustainability risks are emerging.
 - Policies and procedures over travel expenditure are not comprehensive or always followed.
- Control frameworks over travel need to demonstrate value for money.

This report focuses on the university sector, discussing issues arising from our audits of the 2014 financial year for the eight Victorian universities and the 51 entities they controlled.

The key findings of this report are:

- Three entities, including two universities, received qualified financial audit opinions relating to their treatment of commonwealth grant funding. This is a long-standing issue.
- While universities generally have a low financial sustainability risk, longer-term issues are starting to emerge regarding the funding of new assets and asset renewal that require monitoring.
- And policies and procedures to guide travel and accommodation expenditure are not comprehensive and not always adhered to.

Focus of this audit

Key areas examined

- Financial outcomes, audit qualifications and financial sustainability risk analysis.
- Travel and accommodation expenditure.

Audit scope

- Eight universities in Victoria, and the 51 entities they control.
- Results of the 2014 financial audits.

The report identifies and discusses the key issues within the university sector that arose during our financial audits for the 2014 financial year.

As well as assessing the financial outcome and financial sustainability risks for the sector, the report also reviews the frameworks and policies in place for managing travel and accommodation expenses across the eight universities during the 2014 financial year.

Qualified audit opinions

pages
2–3

- Three entities received an audit qualification:
 - Deakin University—eighth year of qualification.
 - Melbourne University—ninth year of qualification.
 - Australian National Academy of Music Ltd—second year of qualification.
- Did not recognise commonwealth funding in accordance with Australian Accounting Standards.

This is a long standing issue that remains unresolved and means the financial statements of these entities are materially misstated.

Qualified audit opinions were issued on the financial statements for the year ending 31 December 2014 for the following entities:

- Deakin University
- the University of Melbourne, and
- the Australian National Academy of Music Ltd.

All of these entities received a qualified audit opinion because their treatment of Commonwealth Government Funding during the financial year was not in accordance with Australian Accounting Standards.

This is a long-standing issue against which there has been no progress.

This is the eighth year Deakin University has received a qualified audit opinion on this issue, and the ninth year for the University of Melbourne.

Unresolved control weaknesses

5

pages
4–5

- Control weaknesses identified during an audit are communicated through management letters.
- Should be resolved promptly.
- 40% of prior period high- and medium-risk rated issues have not been resolved.

Prior period internal control issues—resolution status by risk

Resolution status	Risk rating		Total
	High	Medium	
Unresolved	5	22	27
Resolved	13	27	40
Total	18	49	67

In conducting financial audits, we review the financial reporting internal controls and—through interim and final management letters—report any weaknesses identified to management and the audit committee.

During the 2014 audits, we raised 44 high- and medium-risk issues, of which over 60 per cent related to the IT control environment.

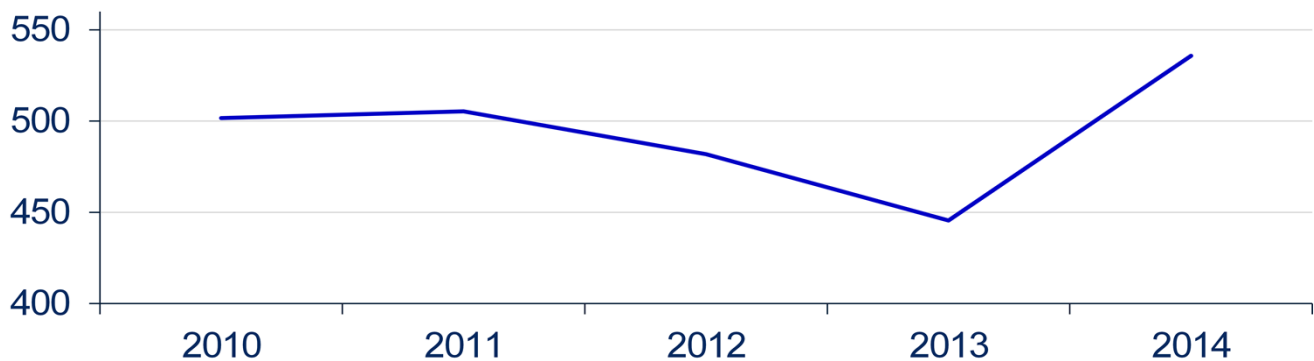
Unfortunately, universities have not adequately responded to issues raised through management letters arising from our 2013 financial audits—with 40 per cent of prior period high- and medium-risk rated issues still unresolved.

Financial outcomes 2014

pages
8–11

- \$537.1 million surplus for 31 Dec 2014—across sector.
- Builds on continued surplus for past five years.

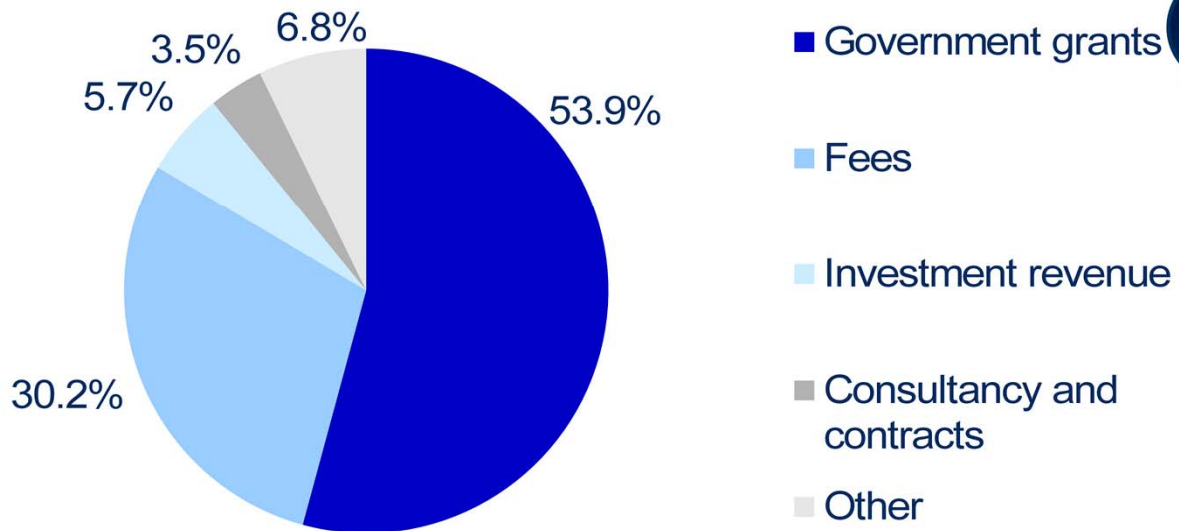
\$ million



For the financial year ending 31 December 2014, the university sector generated a combined net surplus of \$537.1 million, after taking into account audit adjustments arising from the three qualified financial statements discussed earlier, building on strong surpluses generated over the past five years. This is shown in the graph.

This surplus includes \$232.8 million of investment gains realised by Monash University and the University of Melbourne as a result of investment portfolio restructures.

Sources of revenue



This slide shows where a university gets its money from and this pie chart has not changed significantly over the past five years.

Government grants makes up 53.9% of university revenue, most of which is received from the Commonwealth Government. The pie chart demonstrates how reliant universities are on this source of funding.

Any changes in government funding will have a direct impact on university finances.

More investment revenue was received in 2014 relating to the investment gains discussed in the previous slide.

Financial sustainability

pages
11–14

- Sector has a generally low financial sustainability risk.
- Longer-term risks are starting to emerge.
 - Spending on asset renewal or replacement has reduced between 2013 and 2014.
- Proposed changes to Commonwealth funding model. page 10
 - Received \$2.7 billion in Commonwealth funding excluding capital grants in 2014.
 - Will need to respond to any changes quickly to remain sustainable.

To be financially sustainable, universities should aim to generate sufficient revenue from operations to meet their financial obligations, and to fund asset replacement and asset acquisitions.

Our analysis shows that the university sector has generally low financial sustainability risks, driven by strong year-on-year surpluses and largely good liquidity results. This indicates that the sector has no financial sustainability risks in the short term.

However, we have identified that longer-term risks are emerging with all universities rating high or medium risks for their self-financing indicator. This suggests they are not generating enough cash to replace or renew assets. Coupled with this, the capital replacement indicator results have fallen significantly over the past few years across the sector, with universities spending less on their assets.

Over time the cumulative effect of under spending on asset renewal or replacement could result in assets not being fit-for-purpose.

Spending on travel and accommodation

9

pages
15–20

- \$137.0 million spent on travel and accommodation across the eight universities in 2014.
- Policies regarding travel expenditure are not comprehensive and are not always followed.
- Acquittal of the benefits of travel funded by public money does not always demonstrate value for money.

Each year we conduct a focused review over an area of governance or internal control within a sector. In 2014 our focus at universities was on travel and accommodation.

In 2014, the eight universities spent \$137.0 million on travel and accommodation. As public bodies, universities should be able to demonstrate that value for money has been attained by any travel undertaken—both to the university itself and to the public in general.

While we observed that universities had policies and procedures in place to guide travel and accommodation expenditure, they were neither comprehensive nor always followed.

Recommendations

10

	Accept
1. Universities address issues raised in audit management letters on a timely basis so that any weaknesses in the control environment identified are rectified promptly.	✓
2. Universities review asset replacement and renewal plans to assure themselves that spending on physical assets is sufficient to maintain service delivery.	✓
3. Universities review travel policies and procedures and ensure they are comprehensive and address areas of public interest including ownership and use of frequent flyer points.	✓

In summary, the report made five recommendations, which are listed on the next two slides.

Recommendations – *continued*

11

		Accept
4.	Universities strengthen the procedures covering monitoring and oversight of supporting documentation and acquittal of travel benefits.	✓
5.	Universities implement regular reviews of compliance with travel and accommodation policies and procedures and take action where noncompliance is identified.	✓

The department accepted all recommendations and has provided a detailed outline of how it intends to address each recommendation and by when it intends to achieve these actions. This is contained in Appendix F of the report.

The Auditor-General will monitor this progress over time.

Key messages

12

Parliament can have confidence in the financial reporting of universities except for the three entities who received qualifications.

Long term financial sustainability risks are emerging that need to be monitored.

To summarise, our key messages are:

Parliament can have confidence in the financial reporting of universities except for the three entities who received qualifications.

Long term financial sustainability risks are emerging that need to be monitored.

Key messages – *continued*

13

Frameworks to control travel and accommodation expenditure are in place but are not comprehensive and compliance is poor.

And, frameworks to control travel and accommodation expenditure are in place but are not comprehensive and compliance is poor.

Contact details

14

For further information on this presentation please contact:

Victorian Auditor-General's Office

[p] 8601 7000

[w] www.audit.vic.gov.au/about_us/contact_us.aspx

All our reports are available on our website.

If you have any questions about this or other reports, or if you have anything else you would like to discuss with us including ideas for future audit topics, please call us on 03 8601 7000 or contact us via our website.