9 December 2015 ▌ *Portfolio Departments and Associated Entities: 2014–15 Audit Snapshot*

VAGO
Victorian Auditor-General's Office

1

Portfolio Departments and Associated Entities: 2014–15 Audit Snapshot

Tabled 9 December 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 9 December 2015, the Acting Auditor-General tabled his audit report, *Portfolio Departments and Associated Entities: 2014–15 Audit Snapshot.*

9 December 2015 ▌ *Portfolio Departments and Associated Entities: 2014–15 Audit Snapshot*

VAGO
Victorian Auditor-General's Office

Overview

2

- The report presents the outcomes and observations from the financial audits of nine portfolio departments and 221 associated entities.
- The results of these audits include:
  - unqualified audit opinions issued to 204 entities
  - the financial statements of 24 entities were not complete at the date of our report
  - Department of Education & Training (DET) received a disclaimer of opinion
  - Department of Treasury & Finance received a modified opinion.
- Forty-nine high, or medium, risk issues reported to portfolio departments in 2013–14, or earlier, had not yet been resolved.

The report summarises:

- The results of the 2014–15 financial audits of 230 public sector agencies; including nine portfolio departments and 221 other public sector agencies.
- The issues identified during the 2014–15 financial audit of the Department of Education & Training (DET)
- The financial sustainability of self-funded entities; and
- The results of the 31 October 2014 financial audits of the state's alpine resorts. The 31 October 2015 financial audits of the alpine resorts were not complete at the time of preparing this report.

Of the entities covered by this report, unqualified audit opinions were issued to 204 entities.

A further 24 entities had not completed their financial statement audits at the time of preparing this report.

The financial report of DET was issued with a disclaimer of audit opinion—meaning an audit opinion could not be formed.

The financial report of the Department of Treasury & Finance (DTF) was issued with a modified opinion due to the accounting treatment of the East West Link funding.

The qualification matters were commented on in the Auditor-General's Annual Financial Report of the State of Victoria, 2014–15, which was tabled in Parliament in November 2015.

During the 2014–15 financial audits, it was identified that portfolio departments had not resolved 49 high or medium risk-rated control weaknesses that were identified during the previous year's financial audits.

This lack of timely resolution means that the control frameworks in place at the portfolio departments are not as effective as they could be.

9 December 2015 ▌ *Portfolio Departments and Associated Entities: 2014–15 Audit Snapshot*

VAGO
Victorian Auditor-General's Office

3

Financial reporting and control at DET

pages 13–28

- A number of internal control issues were identified at DET.
- Resulted in a disclaimer opinion being issued.
- The audit was not able to obtain sufficient, appropriate evidence to support:
  - transactions and balances of 1 569 state schools
  - property, plant and equipment balances.
- Issues were identified in relation to internal controls and financial reporting processes.

During 2014–15, DET failed to adequately address a number of previously identified deficiencies in relation to records supporting property, plant and equipment, and school-based transactions and balances.

As a result of these issues, we issued a disclaimer of audit opinion on DET's 2014–15 financial report.

A disclaimer of audit opinion is issued when an auditor is unable to obtain sufficient appropriate audit evidence, to enable them to form an opinion on all or part of an entity's financial statements.

In the case of DET, the areas of the financial report that were not supported by sufficient, appropriate evidence, included school based balances, and property, plant and equipment—which were considered to be material to the financial report as a whole.

9 December 2015 ▌ *Portfolio Departments and Associated Entities: 2014–15 Audit Snapshot*

VAGO
Victorian Auditor-General's Office

Financial reporting and control at DET

4

pages 13–28

Key balances

Balance sheet:

- Property, plant and equipment ($16.830 billion)
- Physical asset revaluation surplus ($7.382 billion)

Comprehensive income statement:

- Supplies and services expenditure ($1.107 billion)
- Other income ($510.1 million)

Some of the key balances we could not obtain appropriate evidence for included:

- property, plant and equipment
- physical asset revaluation surplus; and
- supplies and services expenditure.

9 December 2015 ▌ *Portfolio Departments and Associated Entities: 2014–15 Audit Snapshot*

VAGO
Victorian Auditor-General's Office

Financial reporting and control at DET

5

pages 13–28

DET's financial report includes the results of 1 569 state government schools.

DET operates a number of internal assurance measures to obtain comfort over the schools' balances. However, these assurance measures were insufficient due to:

- decreasing number of schools audited
- increasing number of qualifications
- increasing number of management letter points.

The DET financial report also consolidates the transactions and balances of more than 1 500 state government schools.

While DET operates a number of internal assurance measures to obtain comfort over school's transactions and balances, we found these measures were insufficient for a number of reasons; including that the proportion of schools audited has declined, and these audits resulted in over 2 200 management letter points in 2014.

9 December 2015 ▌ *Portfolio Departments and Associated Entities: 2014–15 Audit Snapshot*

VAGO
Victorian Auditor-General's Office

Financial reporting and control at DET

6

pages 13–28

Issues identified with supporting records of DET's property, plant and equipment balances.

Issues included:

- inadequate accounts and records
- inadequate resolution of prior period issues.

We assessed the DET control environment as weak. This was due to:

- significant findings from prior years that were not resolved
- lack of evidence to support management's judgments.

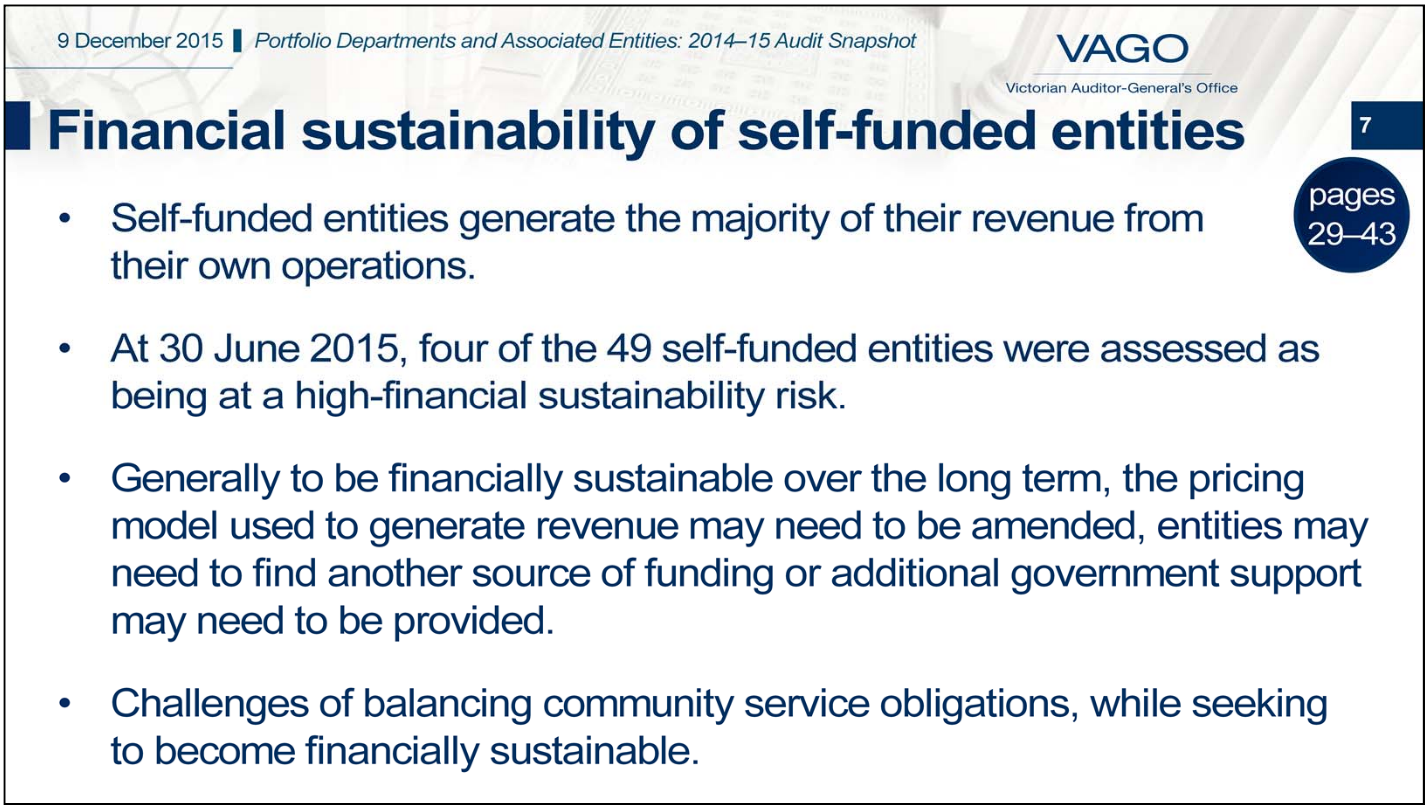
The supporting records of DET's property, plant and equipment balances were found to be insufficient at 30 June 2015.

As part of our audit we assessed the overall internal control system at DET as weak. Accordingly, we could not place reliance on the control environment.

Significant financial reporting and control issues covering many areas were identified at DET during the 2014–15 financial audit, and DET needs to take action to address a number of outstanding issues.

There are a number of project plans being developed to ensure remedial actions are effective and timely.

It is pleasing to note that DET has accepted the issues we raised and has committed to taking action to address them. We will work closely with the department, within the bounds of our independence obligations, to provide feedback and advice as they work through these issues.



Self-funded entities are public sector agencies that generate the majority of their revenue from their own operations.

They should aim to generate enough revenue from their operations to meet their financial obligations as they fall due, and to fund asset replacement, if they are to be sustainable over the long-term.

Generally, we identified that if self-funded entities are to be financially sustainable, the pricing model used to generate their revenue may need to be amended—they may need to find another source of funding or additional government support may be required.

The challenge for self-funded entities appears to be balancing their community service obligations and the broader economic development objectives of the state, while seeking to become financially sustainable.

Four of the 49 self-funded entities in this report were identified as being at a high financial sustainability risk at 30 June 2015.

9 December 2015 ▌ *Portfolio Departments and Associated Entities: 2014–15 Audit Snapshot*

VAGO
Victorian Auditor-General's Office

Financial sustainability of self-funded entities

8

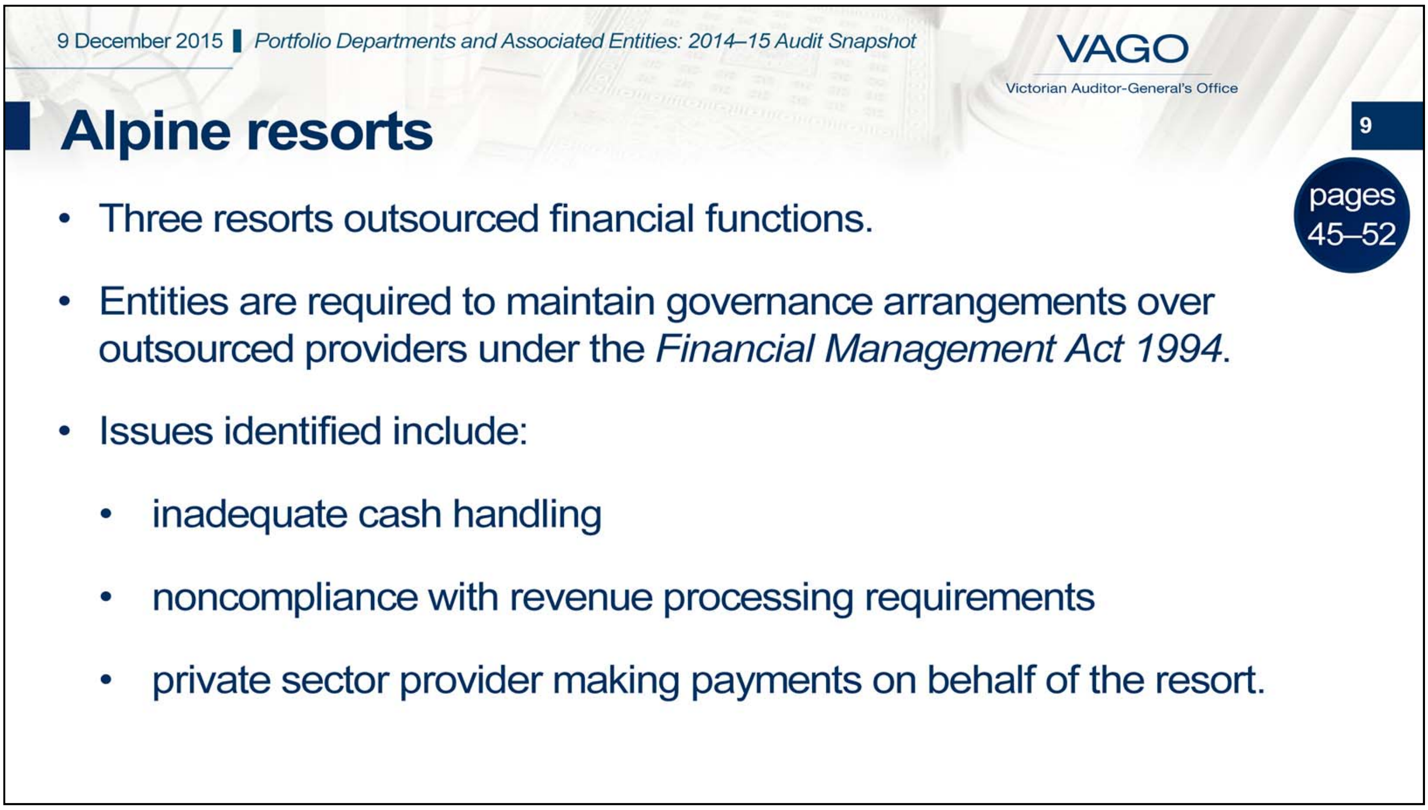
pages 29–43

- Three cases studies were reviewed:
  - The Victorian Arts Centre Trust
  - The State Sports Centre Trust
  - Docklands Studio Melbourne
- While all are different, none were able to set prices to cover long-term replacement of assets.
- All three rely on ongoing state government funding.

We completed an in-depth review of three self-funded entities during 2014–15 to determine how they manage their long-term financial sustainability.

Our analysis identified that while all three entities were operationally different, none were able to set prices to cover the long-term replacement of assets.

All three entities rely on ongoing funding from the state government to fund asset replacement and renewal. Consequently they face longer-term financial sustainability risks.



Three of the five alpine resorts outsourced their financial functions to a private sector provider during the 2013–14 financial year.

Under the Financial Management Act 1994, public sector entities are responsible for maintaining an effective control environment over their transactions. Where functions are outsourced, this requirement extends to the control environment of the outsourced provider.

At all three resorts, we identified that the services being undertaken by the outsourced provider did not enable the resorts to fully discharge their statutory reporting obligations.

Issues identified include:

- inadequate cash handling procedures
- noncompliance with revenue processing requirements; and
- poor financial reporting practices – including the private sector provider making payments on behalf of the resort.

9 December 2015 ▌ *Portfolio Departments and Associated Entities: 2014–15 Audit Snapshot*

VAGO
Victorian Auditor-General's Office

Key recommendations

10

2.	That portfolio departments address identified internal control issues in a timely manner, especially those rated as high- or medium-risk.
3.	That DET addresses all identified internal control issues around its asset records and school-based financial information.
5.	That relevant portfolio departments and self-funded entities review underlying pricing models, sources of funding and cost structures, in order to improve long-term financial sustainability.
8.	The three alpine resorts immediately remedy the issues identified around their internal control environments and outsourced arrangements.

The report makes a total of 10 recommendations.

These recommendations were largely accepted by relevant agencies.

These are the most significant recommendations, and have been addressed throughout this presentation.

9 December 2015 ▌ *Portfolio Departments and Associated Entities: 2014–15 Audit Snapshot*

VAGO
Victorian Auditor-General's Office

Contact details

11

For further information on this presentation please contact:

Victorian Auditor-General's Office
[p] 8601 7000
[w] www.audit.vic.gov.au/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.