Results of Audits for Entities with other than 30 June 2008 Balance Dates

Victorian Auditor-General's Report | May 2009 | 2008-09:22

VICTORIA

Victorian
Auditor-General

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Ordered to be printed

VICTORIAN
GOVERNMENT PRINTER
May 2009

PP No 193, Session 2006–09

ISBN 978 1 921650 01 7

VAGO

Victorian Auditor-General's Office

Auditing in the Public Interest

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

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

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my report on the *Results of Audits for Entities with other than 30 June 2008 Balance Dates.*

Yours faithfully

D D R PEARSON
Auditor-General

6 May 2009

Foreword

This is a report on the 123 entities in Victoria's public sector which close their financial year on a date other than 30 June. They represent 25 per cent of State's total public sector entities and comprise the Higher Education and Vocational Training sectors, Victoria's Alpine Resorts and five smaller entities.

The key conclusion from the audit of this group is that Parliament can have confidence in the accuracy of the financial statements of these entities. However, there are issues emerging that need to be monitored over the next few years.

Chief among these is how they respond to and account for the investment challenges presented by the global financial crisis. Current financial statements show operating performance under pressure, largely due to $371 million of impairment losses on investment assets exposed to financial markets.

The financial sustainability of the entities covered by this report, was a key focus. Information on how entities are performing was obtained by analysing five standard financial sustainability indicators – the underlying result, level of liquidity, debt to equity ratio, self-financing capability and the level of capital replacement.

In the short to medium term, Victoria's public sector faces significant financial management challenges. My office will be placing a high priority on how public sector managers respond to this challenge, by focussing on the accuracy of its financial statements and performance of internal controls.

Internal controls rarely receive public attention. However, the quality and performance of organisational systems, risk assessments, operating procedures and processes play a vital role in gaining confidence that not only are management decisions reliable and soundly based but that published financial information is accurate.

As the focus on the management of finances increases during these tough economic times, the commitment by Victoria's public sector to rigorous internal controls will also be fundamental to its success.

D D R PEARSON
Auditor-General

6 May 2009

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1 Report Summary

1.1 Background

Each financial year, three reports are presented to Parliament containing the results of financial audits completed during the year.

This is the third and final report for 2008–09. Principally it deals with the audit of public sector entities with financial statement balance dates other than 30 June 2008. The other results reported are for entities with 30 June 2008 balance dates (2008–09:14) and Local Government: Results of 2007–08 audits (2008–09:12).

This report covers 123 entities from the Higher Education, Vocational Training, Alpine Resorts, Health, and Community Development sectors. These entities are outlined in Figure 1A.

Figure 1A
Entities with balance dates other than 30 June 2008

			2008–09			
Sector	**Type of entity**	**2007**	**30 Sept**	**31 Oct**	**31 Dec**	**31 Mar**
Higher education and vocational training	Universities	8	–	–	**8**	–
	Associated companies, trusts and joint ventures	76	–	–	**71**	–
	TAFEs (stand-alone)	14	–	–	**14**	–
	Associated companies and trusts	11	–	–	**12**	–
	Other training entities	7	–	–	**6**	–
	Associated companies and trusts	2	–	–	**2**	–
Sustainability and environment	Alpine resorts	5	–	**5**	–	–
Health	Boards and a charity	3	**1**	–	**2**	–
Community development	A company and a trust	2	**1**	–	–	**1**
Total		**128**	**2**	**5**	**115**	**1**

Source: Victorian Auditor-General's Office.

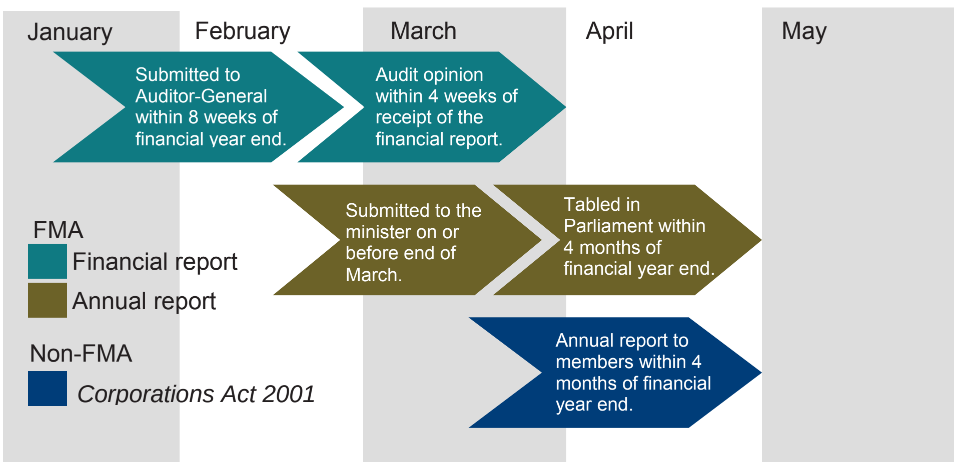
The majority are from the Higher Education and Vocational Training sectors, which accounts for 113 entities.

There are also 11 entities included, whose financial statements were submitted for audit after our close off for reporting on entities with 30 June balance dates. This meant they were not included in the audit report tabled on 3 December 2008 (2008–09:14).

1.1.1 Reporting framework

The public sector must comply with a range of legislative and accounting requirements when preparing its financial statements to be tabled in Parliament, as shown in Figure 1B.

Figure 1B
Victorian financial reporting time frames



Source: Victorian Auditor-General's Office.

The *Financial Management Act 1994* requires entities to submit annual reports for tabling in the Parliament, within four months of the end of the financial year, including financial statements which must be prepared and audited within 12 weeks. These FMA requirements also apply to the majority of entities owned or controlled by the universities and TAFEs, who are required to finalise their financial statements, including the consolidation of their subsidiaries, within 12 weeks.

For companies owned or controlled by public sector entities, the governing legislation is the *Corporations Act 2001*. This Act requires them to report to their members within four months after the end of their financial year.

Financial statements are required to be prepared in accordance with Australian accounting standards.

In October 2007, DIIRD issued an executive memorandum to the TAFEs, universities with TAFE divisions, and two training entities, requesting they disclose the approved key performance indicators in a concise performance statement. This statement was to be audited and included in their annual reports.

In addition there was an increased focus on internal controls and financial sustainability during the audits, as part of the audit planning process.

1.2 Key findings

1.2.1 Results of audits

At 15 April 2009, 115 of the 123 financial statements had been finalised (94 per cent). Of the 115 opinions issued 111 were clear and four required qualification, compared to 126 audit opinions at 30 April 2008, of which four were qualified.

The entities qualified and reasons why are summarised in Figure 1C.

Figure 1C
Qualified audit opinions issued

<table>
<tr><th>Entity</th><th>Status</th><th>Type</th><th>Reason for qualification</th></tr>
<tr><td>Deakin University</td><td>Continuing</td><td>Exception</td><td rowspan="3">Certain grants received were deferred and recognised as a liability, rather than as income when received, contrary to the requirements of AASB 1004 ‘Contributions’.</td></tr>
<tr><td>The University of Melbourne</td><td>Continuing</td><td>Exception</td></tr>
<tr><td>The Meanjin Company Limited</td><td>Continuing</td><td>Exception</td></tr>
<tr><td>Anti-Cancer Council of Victoria</td><td>Continuing</td><td>Exception</td><td>We were unable to assess the completeness of cash donations, due to the inherent risk involved in the collection of this revenue which cannot be mitigated by further internal controls.</td></tr>
</table>

Source: Victorian Auditor-General's Office.

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

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

Deakin University and **The University of Melbourne** have again had their financial statements qualified. This is because their accounting policies for recording non-reciprocal research grants do not accord with current Australian accounting standards.

These universities are not recording this revenue when received, which is when they gain control, consistent with *Australian Accounting Standards Board AASB 1004 'Contributions'*. Rather they are recording grant receipts as a liability until they spend the grants.

The AASB has not issued any amendments to the applicable accounting standards, so the qualifications remain.

The type of qualification issued to the **Anti-Cancer Council of Victoria** is one generally attached to the financial statements for entities that have significant 'public appeal' based fundraising activities, where it is particularly difficult to meet the evidentiary standards for revenue verification.

Clear audit opinions were issued on the 19 performance statements submitted for audit. An audit opinion was not issued on the performance statement of **Holmesglen Institute of TAFE** as it was not certified by the governing body and was not submitted for audit.

As reported last year, the requirement for TAFEs to prepare audited performance statements is not mandatory.

Holmesglen Institute of TAFE is a significant entity in the sector with the result that consistent credible performance information is not universally reported for the $1.2 billion sector.

With the current government reforms to improve choice and contestability by supporting a broader range of providers in the vocational training market, there is now further argument for a robust monitoring framework to operate across this sector.

1.2.2 Quality of reporting

An important attribute of the quality of financial reporting is its timeliness and accuracy. It is important that public sector entities prepare and publish timely financial information. The later the reports are produced and published after year-end, the less useful they become.

Overall, 28 of the 34 entities or 82 per cent reporting under the FMA finalised their statements within the 12-week statutory timeframe (76 per cent in 2007). Of the 89 non-FMA entities, 82 entities or 92 per cent finalised their statements within the required four months (98 per cent in 2007). At 15 April 2009, there are seven entities that are yet to finalise their financial statements, which are detailed in Figure 2B.

Higher education and vocational training entities generally performed well with 89 of the 113 entities or 79 per cent completing their financial statements within the required 12 weeks (81 per cent in 2007). However, four TAFEs and one training entity have not met the timetable (one TAFE in 2007).

Alpine resorts significantly improved their timeliness of reporting in 2008, with all five entities completing their financial statements within 12 weeks (all resorts were late in 2007).

Another measure of report quality is the number and size of adjustments required to finalise the financial statements. When the audit process reveals errors in the draft financial statements, they are raised with the entity. If the errors are considered material, adjustments are requested.

The 2008 results are comparable to the previous year, however the quality control over reporting in most TAFEs and ARMBs could improve.

1.2.3 Financial performance

Universities as a group generated a total operating surplus of $27 million. This is a decrease of $337 million or 93 per cent from 2007.

The significant reduction in the result is due mainly to $356 million of impairment losses on investment assets.

TAFEs generated a collective operating surplus of $53 million, which was a reduction from 2007 of $26 million or 33 per cent. Generally, operating expenses grew faster than revenues in 2008. TAFEs were also affected by the global financial crisis where impairment losses on investments accounted for $15 million of the decline in the operating surplus.

Alpine resorts collectively generated a combined operating surplus of $533,000, a decrease of $3.3 million or 86 per cent from 2007. All the alpine resorts recorded an operating deficit, except Falls Creek, which recorded an operating surplus.

1.2.4 Impact of global financial crisis

The current global financial crisis has significantly reduced the values of equities traded on share markets during 2008. Some Victorian universities and TAFE institutions hold substantial investment portfolios of Australian and international equities.

A significant issue this year was the impairment losses on investment assets. In total, $371 million of impairment losses were expensed by the higher education and vocational training sector. The following entities recorded impairment losses:

- four universities – **The University of Melbourne, Monash University, Swinburne University of Technology** and **University of Ballarat**
- three university controlled entities – **Melbourne Business School Ltd, Monash University Foundation** and **RMIT Foundation**
- two TAFEs – **Holmesglen TAFE** and **East Gippsland TAFE**.

Consistent with accounting standards, these losses have been recognised as expenses in their income statements, and severely affected their operating results. The impairment losses are due to the general deterioration in equities invested in the sharemarket, and are broadly consistent with the market's decline in 2008.

1.2.5 Increase in international student fees

The trend for the past three years for universities and TAFEs shows a steady growth in international student fees. The growing contribution from international student fees increases the exposure for both universities and TAFEs to the increasingly competitive market for international students.

1.2.6 Financial sustainability

Financial sustainability information is gained from the analysis of five selected indicators – the underlying result, level of liquidity, debt to equity ratio, self-financing capability and the level of capital replacement.

For higher education and vocational training entities, the findings are similar to 2007. Most universities and TAFEs are in a healthy condition.

While based on only three years data, the 'self-financing ratio' shows the weakest results of the indicators, with the entities having limited ability to fund new assets from operating cash flows. While TAFEs are generating small operating surpluses, they do not generate sufficient own-source revenues to be able to build up enough retained earnings to finance future asset replacement. Under the current government funding approach, depreciation expenses are generally not funded until capital requirements are established. However, the TAFE boards are held fully accountable for financial management and performance.

In respect of the Alpine resorts, financial sustainability findings are similar to 2007 with **Lake Mountain** and **Mt Baw Baw** in the weakest condition. These ARMBs are heavily reliant on snow-related revenue and do not have enough capacity to replace assets and fund new assets.

Bush Fires

The future operating results of **Lake Mountain** and **Mt Baw Baw** will be affected by the recent bush fire events. As the areas surrounding the smaller Alpine resorts have suffered significant fire damage, this may affect their ability to generate revenue from visitor fees.

In addition, **Lake Mountain** has lost assets from the bush fires and will need to acquire replacement assets in time for the 2009 snow season. The ARMB has yet to fully quantify the value of these assets.

1.2.7 Effectiveness of internal controls

Internal controls should provide reliable, accurate and timely reporting. The audit of financial reports includes an examination of the internal control framework that relates to financial reporting. Where significant control weaknesses or breakdowns are identified these matters are reported to the entity's management.

This year our audits confirmed that entities' systems of internal control were overall sufficient to produce reliable financial reports. The most significant commonly identified control weaknesses were inadequacies in:

- preparation and review of reconciliations
- financial policy and procedure manuals
- management of information system (IS) access controls.

1.2.8 Investment management

This year as part of our cyclical approach to reviewing significant aspects of financial management, we carried out a review of investment management at universities and TAFEs. The higher education and vocational training sector had $2.5 billion in investments at 31 December 2008.

Best practice guidelines on investment policies have been published in Queensland[1] and Western Australia[2]. These guidelines have been used to develop criteria for assessing investment management practices in Victorian universities and TAFEs.

Our review found elements of the best practice guidelines were not included in the majority of investment policies reviewed, including:

- requirements for the governing body to actively monitor the performance of their investments
- criteria that would trigger liquidation of their investments
- criteria for the selection and removal of external investment managers.

1.3 Key recommendations

These recommendations follow from the key findings outlined above.

1.3.1 Higher education and vocational training

- **Holmesglen TAFE** should prepare and publish their audited performance statement in their annual report. **(Recommendation: 2.1)**
- Entities with material errors in their draft financial statements, and those unable to achieve the legislated timeframes, should adopt better practice initiatives for financial reporting. **(Recommendation: 2.2)**

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[1] Queensland Treasury 2007, Investment Policy Guidelines, Queensland Government

[2] Department of Local Government and Regional Development 2008, Investment *Policy – Local Government Operational Guidelines*, No. 19, Government of Western Australia.

- Entities should assess their policies and procedures against the commonly identified weaknesses within internal and information system control environments and implement any required changes so that their controls are operating in a reliable and cost-effective manner. **(Recommendation: 2.3)**
- Universities and TAFEs should have a current investment management policy, which is approved by the governing body, and reviewed at least annually against the best practice guidelines. **(Recommendation 2.4)**
- Governing bodies should at least annually review the quality of reports received. **(Recommendation 2.5)**
- Investment policies should state the role, function and controls in relation to the engagement of external investment managers. **(Recommendation 2.6)**

1.3.2 Alpine resorts

- Each board should determine and monitor the long term implications of financial sustainability, as there are significant challenges for the smaller ARMBs. **(Recommendation 3.1)**
- Each board should monitor the sustainability of its revenue and expenditure policies, and model the affect of proposed changes to these policies. **(Recommendation 3.2)**
- The **Lake Mountain** and **Mt Baw Baw** ARMBs should make further contributions to the legislatively required 'snow drought' and 'capital' funds. **(Recommendation 3.3)**

1.4 General

The total cost of preparing and printing this was $185 000.

2 Higher education and vocational training

At a glance

Background

There are eight universities, four with technical and further education (TAFE) divisions, and 14 stand-alone TAFE institutes which are required to prepare financial statements and be audited under the *Financial Management Act 1994*.

These 22 entities control a further 83 reporting entities, mainly subsidiary companies which report under the *Corporations Act 2001*. In addition, there are six other vocational training entities and two associated entities. Following a DIIRD directive, 20 entities in the vocational training sector are also requested to submit performance statements for audit.

Findings

All financial statements received clear audit opinions except those for **Deakin University**, **The University of Melbourne** and **The Meanjin Company Limited**. They were qualified due to their accounting treatment for certain grant income not according with current accounting standards. **Holmesglen Institute of TAFE** did not prepare a performance statement. Clear audit opinions were issued on performance statements prepared by the other 19 entities.

Timeliness of reporting is similar to 2007, with 79 per cent of audited entities meeting the 12 weeks timeline. Operating surpluses were significantly lower than 2007 due to the global financial crisis.

Financial sustainability ratios are similar to 2007, with most universities and TAFEs in a healthy condition. Internal controls are generally sound, though some weaknesses in areas of investment management, information systems, financial policy and procedures were noted.

Recommendations

- Entities with material errors in their financial statements and those not submitting them on time, should adopt the better practice initiatives.
- Investment management policies should be reviewed at least annually against the best practice guidelines.

2.1 Scope

This chapter deals with higher education and vocational training entities with balance dates as at 31 December 2008, as shown in Figure 2A.

Figure 2A
Entities with balance dates other than 30 June 2008

Type of entity	Year 2007	2008
Universities	8	**8**
Associated companies, trusts and joint ventures	76	**71**
TAFEs (stand-alone)	14	**14**
Associated companies and trusts	11	**12**
Vocational training entities	7	**6**
Associated companies, trusts and joint ventures	2	**2**
Total	118	**113**

Source: Victorian Auditor-General's Office.

2.2 Reporting framework

Victoria's eight publicly funded universities and 14 stand-alone TAFE institutes prepare financial statements in accordance with the *Financial Management Act 1994* (FMA), including Australian accounting standards.

The FMA requires entities to submit annual reports for tabling in the Parliament, within four months of the end of the financial year, including financial statements which must be prepared and audited within 12 weeks. These FMA requirements also apply to the majority of entities owned or controlled by the universities and TAFEs, who are required to finalise their financial statements, including the consolidation of their subsidiaries, within 12 weeks.

For companies owned or controlled by public sector entities, the governing legislation is the *Corporations Act 2001*. This Act requires them to report to their members within four months after the end of their financial year.

Financial statements are required to be prepared in accordance with Australian accounting standards.

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

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

The Minister for Skills and Workforce Participation may make directions under the *Education and Training Reform Act 2006* to clarify the management, reporting and other responsibilities of TAFEs and universities with TAFE divisions. There have been no ministerial directions issued that modify or add to the general financial reporting requirements under the FMA.

In 2006, a comprehensive suite of key performance indicators (KPIs) was approved by the then Minister for Education for inclusion in TAFE annual reports.

In October 2007, the Department of Innovation, Industry and Regional Development (DIIRD) issued an executive memorandum to the TAFEs, universities with TAFE divisions, and two training entities, requesting they disclose the approved KPIs in a concise performance statement. This statement was to be audited and included in their annual reports.

2.3 Results of audits

2.3.1 Financial statements

At 15 April 2009, 106 audit opinions had been issued on financial statements, of which 103 were clear and three were qualified (122 opinions and four qualifications issued at 30 April 2008). Figure 2B lists the seven entities that are yet to finalise their financial statements at 15 April 2009. Of these seven entities, the six that do not report under the FMA have until 30 April 2009 to finalise their financial statements.

Figure 2B
Incomplete audits – 15 April 2009

Entity Name	Entity Type
Driver Education Centre of Australia Ltd	FMA
DECA Ltd	Non-FMA
Telematics Course Development Fund	Non-FMA
Australian National Academy of Music Ltd	Non-FMA
Australian National Academy of Music Foundation Ltd	Non-FMA
MU Private (NZ)	Non-FMA
RMIT Drug Discovery Technologies Pty Ltd	Non-FMA
Total FMA	**1**
Total Non-FMA	**6**
Total incomplete audits	**7**

Source: Victorian Auditor-General's Office.

Qualifications

An audit qualification alerts readers that the financial statements have not been prepared in accordance with the legislated requirements of the financial reporting framework.

Deakin University, **The University of Melbourne** and **The Meanjin Company Limited**, a subsidiary of **The University of Melbourne**, received audit qualifications again this year because their accounting treatment of certain research grant income which is non-reciprocal in nature was not in accordance with current Australian accounting standards.

The qualifications issued to **The University of Melbourne**, **The Meanjin Company Limited** and **Deakin University** were a continuation of last year's qualified opinions.

Current accounting standards require research grants to be recognised as revenue in the year they are received, which is when the entity gains control of the funds. The Australian Accounting Standards Board (AASB) is currently reviewing grant accounting in not-for-profit organisations. However, until the review is complete the current accounting standards apply.

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

The University's treatment of Government research grants is in accordance with Australian Accounting Standard AASB 118 Revenue. The University has sought expert advice which confirms the University's interpretation of the standards. The University notes that the accounting profession is currently reviewing the accounting treatment for grants of not-for-profit organisations.

Emphasis of matter

Audit opinions on the financial statements of **Monash Educational Enterprises** and **Monash South Africa Ltd** contained an 'emphasis of matter' comment. This is not an audit qualification but highlights the entity's reliance on continuing financial support from the parent entity to sustain its operations.

In 2008, **Monash South Africa Ltd** and **Monash Educational Enterprises** owed $47 million to **Monash University** and the university continues to financially support the South African campus.

2.3.2 Performance statements

Clear audit opinions were issued on the 19 performance statements submitted for audit. As occurred in 2007, **Holmesglen TAFE** was the only entity which did not submit a certified performance statement for audit, notwithstanding the DIIRD executive memorandum request.

Holmesglen TAFE's decision not to submit the performance statement does not constitute a breach of the FMA. However, the failure to submit a certified performance statement highlights a flaw in the accountability framework that weakens the credibility, and therefore, the usefulness of its performance statement.

Holmesglen TAFE provides education services to approximately 50 000 students (10 per cent of Victorian students) and generates $157 million of revenue (13 per cent of total sector revenue). Consequently, consistent credible performance information is not universally reported for this $1.2 billion sector. This compromises both the institution's own and system wide monitoring and accountability.

In last year's report it was noted that the preparation of the concise performance statement by TAFEs had not been mandated under the current accountability framework. This can occur only through the declaration of these entities by the Minister for Finance under *FRD 27A Presentation and Reporting of Performance Information.*

In December 2008, the Minister for Finance tabled his responses to the 2007–08 Auditor-General's recommendations that the Minister should make such declaration for the TAFE sector. This noted DTF and DIIRD support and encourage the development of financial measures and performance indicators. There are however no immediate plans to extend the application of *FRD 27A Presentation and Reporting of Performance Information* to include the TAFE sector. Reliance continues to be placed on the DIIRD executive memorandum request.

An encouraging development however has been the Public Accounts and Estimates Committee's (PAEC) 13 November 2008 report *Inquiry into Victoria's Public Finance Practices and Legislation* which proposed for consideration that public sector entities produce an audited performance statement and include it in their annual report to Parliament.

With the current government reforms to improve choice and contestability by supporting a broader range of providers in the vocational training market, there is now further argument for a robust monitoring framework to operate across this sector.

Recommendation

2.1 Holmesglen TAFE should prepare and publish an audited performance statement in their annual report.

2.4 Quality of reporting

An important attribute of the quality of financial reporting is its timeliness and accuracy.

2.4.1 Accuracy

Errors revealed in draft financial statements during the audit process are raised with the entity and, if the errors are considered to be material, adjustments are requested. The frequency and size of errors in the draft financial statements requiring adjustment are therefore, direct measures of accuracy.

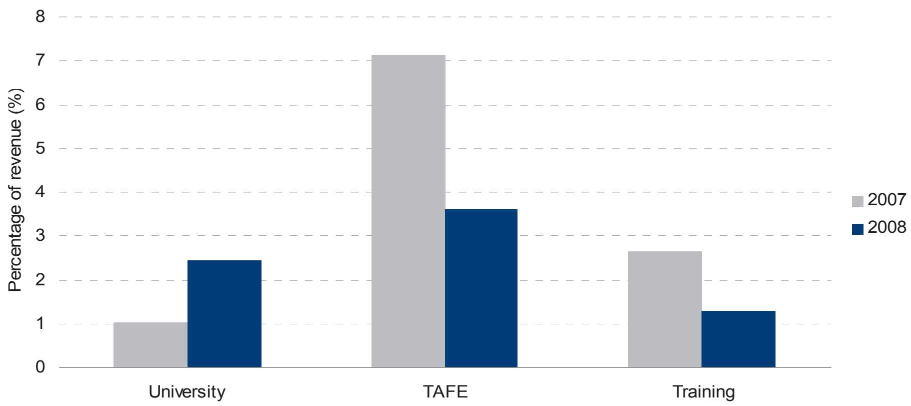
An analysis of errors for the 28 universities, TAFEs and training entities revealed that eight did not require any material adjustments to finalise their financial statements (14 in 2007). This means that during 2008, 20 entities within the sector required material adjustments in order for their financial statements to be finalised.

For the 20 entities requiring adjustments, an average of three adjustments were required for each university and TAFE, and two for each training entity (three adjustments for each University and TAFE, and two for each training entity in 2007).

While the average number of adjustments required for each affected entity is similar to last year, there were more entities which required material adjustments to their financial statements this year.

Where adjustments were required, the size ranged from approximately one to four per cent of the entity's total revenue as shown in Figure 2C.

Figure 2C
Total value of adjustments as a percentage of revenue



Note: The value of adjustments has been reflected as a percentage of total revenue for the affected entities, to allow for effective comparisons to be made in line with the size of these entities.

Source: Victorian Auditor-General's Office.

Overall, when compared against total revenue for the affected entities, the TAFE and training sectors experienced a declining trend in the percentage of adjustments required from 2007 to 2008, whereas the university sector had experienced an increasing trend.

Five material adjustments of $27 million in total were made by **La Trobe University**, and eight material adjustments of $31 million were made by **Swinburne University**. The matters requiring adjustments were varied, with the biggest audit adjustments relating to:

- the calculation and classification of employee benefit provisions
- the estimate of useful lives used in depreciation expense calculations.

RESPONSE provided by Swinburne University of Technology

This statement by VAGO could be interpreted to mean that the net asset position within the balance sheet and/or the net income reported in the income statement, as at 31 December 2008, changed by $31 million as a result of these adjustments whereas in fact only two adjustments totalling approximately $1.9 million could be categorised as such: the remainder being reclassifications and a timing difference.

Further audit comment

The net adjustment to both the income statement and balance sheet was $4.1 million. The eight material adjustments are set out below.

Figure 2D
Material audit adjustments – Swinburne University of Technology

Adjustments		Amount
Reclassification adjustments not affecting the net asset position or net income		
No.	**Balance Sheet**	**$s**
1	• Increase in long service leave provisions – current • Decrease in long service leave provisions – non current	11 430 276
2	• Decrease in other creditors • Decrease in other non-financial assets	4 757 646
3	• Increase in trade creditors • Increase in receivables	2 462 213
4	• Increase in GST payable • Increase in GST receivable	753 429
		19 403 564
	Income Statement	
5	• Decrease in depreciation expense • Increase in other expenses	7 106 512
Total Reclassification adjustments		**26 510 076**
Adjustments affecting the net asset position and net income		
	Balance Sheet	
6	• Increase in annual leave provisions – current	1 404 054
7	• Decrease in receivables – accrued interest	542 839
8	• Increase in annual leave provisions – current	2 123 853
		4 070 746
	Income Statement	
6	• Increase in employee benefits expense	1 404 054
7	• Decrease in interest income	542 839
8	• Increase in employee benefits expense	2 123 853
		4 070 746
Total Adjustments		**30 580 822**

Source: Victorian Auditor-General's Office.

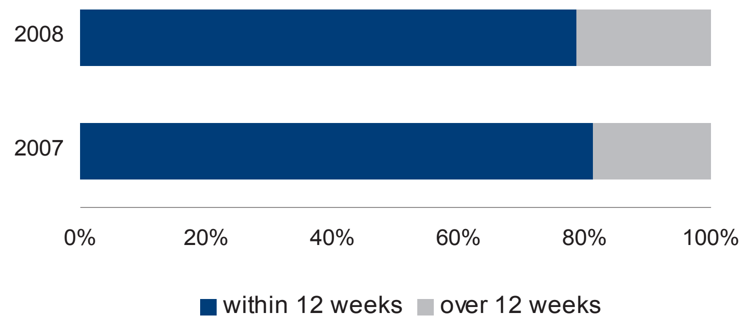
2.4.2 Timeliness

It is important that public sector entities prepare and publish timely financial information. The later the reports are produced and published after year-end, the less useful they become.

Overall the higher education and vocational training sector completed 79 per cent of their financial statements within 12 weeks as shown in Figure 2E. This is similar to 2007, where 81 per cent satisfied the 12 weeks requirement.

In addition, 106 out of 113 entities completed their financial statements by 15 April 2009. Section 2.10 details the status of all audits.

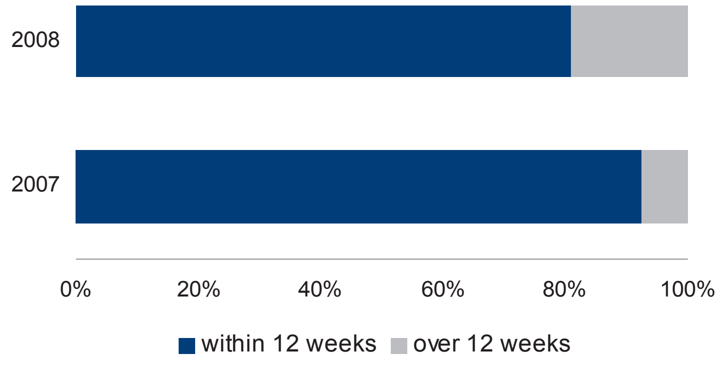
Figure 2E
Finalisation of all higher education and vocational training entities



Source: Victorian Auditor-General's Office.

For those entities within the higher education and vocational training sector that report under the FMA, 21 out of 26 entities or 81 per cent completed their financial statements within the statutory 12-week timeframe, as shown in Figure 2F. This is a decline of three entities when compared to 2007.

Figure 2F
Finalisation of FMA entities



Source: Victorian Auditor-General's Office.

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

Initiatives before year end include:

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

Initiatives after year end include:

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

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

Recommendation

2.2 Entities with material errors in their draft financial statements, and those unable to achieve the legislated timeframes, should adopt these better practice initiatives for financial reporting.

2.5 Effectiveness of internal controls

Each entity's governing body is responsible for the development and maintenance of its internal control structure. Sound internal controls provide an effective and efficient vehicle for the delivery of reliable, accurate and timely external and internal reporting.

The audit of financial reports includes an examination of the internal control framework that relates to financial reporting.

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

This section summarises the major internal and information system (IS) control weaknesses found in a number of entities.

Common control weaknesses

Overall, our assessment of internal and IS integrity established that systems for internal control were generally adequate for financial reporting purposes. However, we did identify some weaknesses at the universities and TAFEs. The most significant commonly identified control weaknesses were inadequacies in:

- preparation and review of reconciliations
- financial policy and procedure manuals
- management of IS access controls.

Preparation and review of reconciliations

The majority of entities maintain subsidiary systems which should be periodically reconciled to the general ledger to ensure they balance.

This year, it was found that while entities were generally performing reconciliations, appropriate timeliness was not evident with:

- clearing accounts being cleared
- student fee reconciliations being prepared and reviewed
- balance sheet reconciliations were not being prepared and reviewed

The lack of timely preparation and independent review of reconciliations increases the risk that errors may go undetected or may not be resolved and further complications avoided.

Financial policy and procedure manuals

This year a number of universities and TAFEs did not adequately update their policies and procedures manuals.

Current updated and approved policies and procedures manuals are necessary to minimise errors in processing. Also, in instances of staff absences or leave, new employees have access to documented guidance to follow.

Management of IS access controls

Effective management of IS security is critical to the confidentiality, integrity and availability of programs and the associated data. This is in addition to maintaining the reliability of system processing.

This year, the following access control weaknesses were identified:

- poor password settings
- inadequate change management policies and procedures for IT applications
- poor controls over network security
- lack of attention to logging of unauthorised access to the network
- inappropriate developer's access to the production environment.

Recommendation

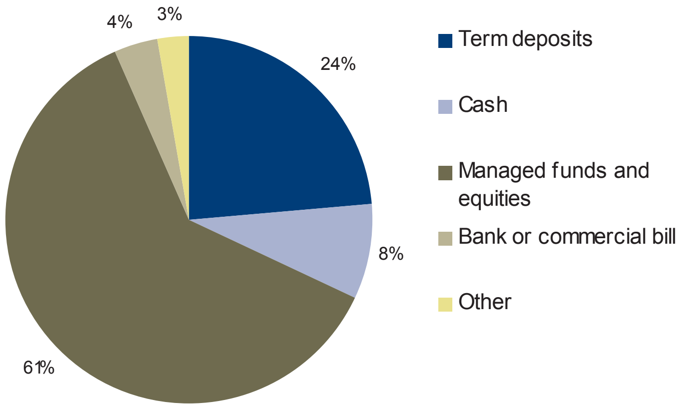
2.3 Entities should assess their policies and processes against the commonly identified weaknesses within internal and information system control environments and implement any required changes so that their controls are operating in a reliable and cost-effective manner.

2.6 Investment management

This year as part of our cyclical approach to reviewing significant aspects of financial management, we carried out a review of investment management. The higher education and vocational training sector had $2.5 billion in investments at 31 December 2008.

Figure 2G shows the investments held by universities are 61 per cent managed funds and equities and 24 per cent term deposits.

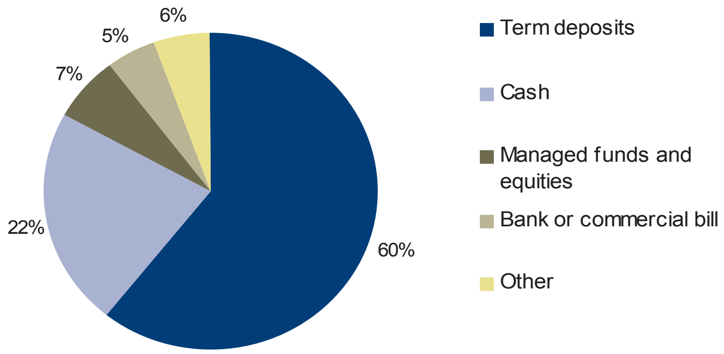
Figure 2G
2008 University investments



Source: Victorian Auditor-General's Office.

Figure 2H shows the investments held by TAFEs are 60 per cent term deposits and 22 per cent cash.

Figure 2H
2008 TAFE investments



Source: Victorian Auditor-General's Office.

2.6.1 Legislation

The investment provisions of the enabling legislations are similar for each of the universities and allow for the investment of funds in any manner authorised by the governing council. A university's investment activities are not subject to the *Borrowing and Investment Powers Act 1958*.

The approach to investments taken by TAFEs is also governed by their enabling legislation, the *Education and Training Reform Act 2006*. This Act requires a TAFE's investing activity to adhere to the *Borrowing and Investment Powers Act 1958*.

2.6.2 Investment management policy

Responsibility for managing investments rests with the governing bodies of the universities and TAFEs. Controls should exist to provide an appropriate balance between risk and return.

An effective means of establishing control is for universities and TAFEs to adopt an investment management policy that:

- documents the acceptable level of risk
- sets the parameters for making investment decisions and for reacting to changes in market conditions
- prescribes the frequency and type of information to be reported to the governing body.

Best practice guidelines on investment policies have been published in Queensland[1] and Western Australia[2]. These guidelines have been used to develop criteria for assessing investment management practices in Victorian universities and TAFEs. The key elements of an investment policy in Figure 2I are based on these guidelines.

Figure 2I
Key elements of an investment policy

Investment objectives
What is the expected outcome of the investment?
Why is the money invested?
Level of risk aversion
What is the risk appetite?
What is the minimum Standard & Poor (S&P) rating that the governing body requires for its investments?
Legislative requirements
Does the investment comply with the university acts, the *Education and Training Reform Act 2006,* and for TAFEs, *the Borrowing and Investment Powers Act 1958*?
Any restriction from using the investment portfolio as leverage
For example – a restriction on using the portfolio as a means to obtain borrowings.
Limits on speculative investing
For example – a restriction that the portfolio is not to be used to bet on investment movements.
Valuation method and frequency
Is market value the most appropriate valuation methodology?
Should investments be re-valued monthly or annually?
What is this information for, and who should the report be presented to?
Reporting and monitoring
Are reports prepared and presented to governing bodies on regular basis?
Do reports contain a list of securities and value of the total portfolio?
Do reports contain a comparison of performance against anticipated returns and reference against benchmarks?
Criteria or situations triggering liquidation of investments
For example – if the Standard & Poor rating of an institution falls below what is specified as acceptable, should the investment be liquidated?
Documented process for selecting and managing an external investment manager
Why is the external investment manager required?
Details of the selection process that will be utilised.
How will the external investment manager be managed?
What reporting levels will be required from the external investment manager?
Under what circumstances the external investment manager would be removed?

Source: Victorian Auditor-General's Office.

[1] Queensland Treasury 2007, Investment Policy Guidelines, Queensland Government

[2] Department of Local Government and Regional Development 2008, *Investment Policy – Local Government Operational Guidelines*, No. 19, Government of Western Australia.

During this year's review, we found that all eight universities and 12 out of 14 TAFEs had an investment policy and collectively controlled investments valued at $2.5 billion. The 12 TAFEs controlled investments valued at $213.5 million (72.5 per cent); $81 million (27.5 per cent) was invested by the two TAFEs with no investment policy.

While no entity's investment policy contains all the key elements identified in Figure 2I, the majority of the policies reviewed incorporated the following:

- investment objectives
- level of risk aversion
- list of permitted investments.

Conversely, the following elements were not included in the majority of the investment policies reviewed:

- list of prohibited investments
- minimum S&P rating required for investment or financial institutions providing the investment
- restriction on using portfolio as leverage to obtain borrowings
- criteria on which valuation method would be most appropriate for an investment
- procedures in selecting, managing and reporting from external investment manager
- criteria that would trigger replacement of the external investment manager
- criteria that would trigger liquidation of investment
- procedures to obtain investment decision approval from the treasurer (TAFE specific)
- specific requirements and procedures for governing body to actively monitor the performance of an investment
- events that trigger the liquidation of an investment.

Recommendation

2.4 Universities and TAFEs should have a current investment management policy, which is approved by the governing body, and reviewed at least annually against the best practice guidelines.

2.6.3 Reporting to the governing body

It is the responsibility of the governing body of the university or TAFE to oversight that investments comply with relevant internal policies and governing legislation. Accordingly, the governing body needs appropriate, clear and regular reports about their investments portfolios.

Regular reports on investments enable the governing body to:

- review the portfolio
- decide changes to the portfolio
- be comfortable that all investments comply with the investment policy and Victorian legislation.

All universities and TAFEs provide their governing bodies with regular reports on their investment portfolios. However, the quality of reporting varied across the entities.

Two key elements absent from the majority of investment reports were a trend analysis of the performance of their investments over the year, and a benchmarking of their investments against a relevant index. Benchmarking of investment returns facilitates informed decisions by using comparisons of different institutions and products. Benchmarking information also lets an entity better assess their returns.

Recommendation

2.5 Governing bodies should at least annually review the quality of reports received.

2.6.4 External investment manager

External investment managers can be used by entities where management does not possess the relevant skills or expertise.

Universities and TAFEs can use external investment managers in the following ways:

- fund management
- product providers
- investment advisors
- investment valuers.

The engagement of an external investment manager does not diminish a university's or a TAFE's responsibilities for the management or performance of investments.

Where management engages such specialists, it is appropriate that investment policies detail the selection process and subsequent management of external investment managers.

Five out of eight universities and one out of 14 TAFEs, used external investment managers as part of their investment advisory and management process. Of the universities and TAFEs using an external investment manager, the following aspects were not covered in the majority of policies:

- the selection process
- managing the external investment manager
- the required level of reporting from the external entity
- stated circumstances that would require the external investment manager be removed.

Recommendation

2.6 Investment policies should state the role, function and controls in relation to the engagement of external investment managers.

2.7 Financial performance

The financial objectives of universities and TAFEs include generating sufficient operating surpluses to fund future growth and meet financial obligations.

2.7.1 Universities

Operating result

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

Figure 2J
Universities operating results

	Operating result 2008 $'000s	Operating result 2007 $'000s	Movement $'000s	Movement %
Universities	**26 514**	**363 151**	**(336 637)**	**–93%**

Source: Victorian Auditor-General's Office.

Universities' generated a combined operating surplus of $27 million this year, a decrease of $337 million or 93 per cent from 2007. The significant reduction is attributed to large impairment losses on investments across the sector. This is discussed in more detail in section 2.7.3.

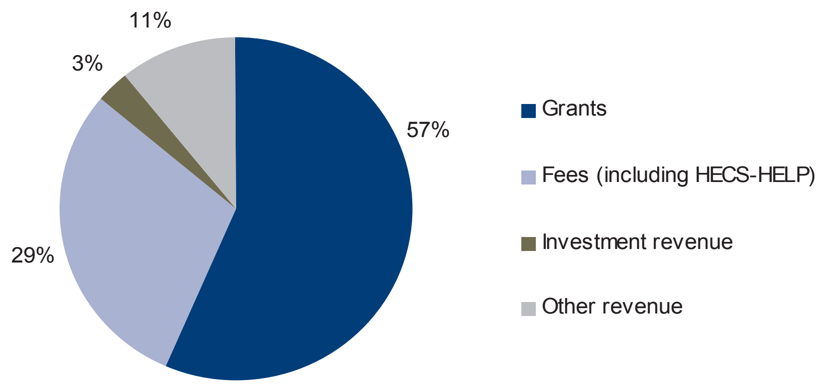
Revenue

In 2008, universities generated $5.4 billion in operating revenues; an increase of $366 million or seven per cent from 2007. The large increase in revenue is primarily due to an increase in government funding of $389 million or 15 per cent from 2007. The increase in government funding is partly due to the Federal Government's "Better Universities Renewal Funding" grants of $126 million.

Investment revenue decreased by $140 million; however this was partially offset by an increase in student fees and charges of $156 million or 11 per cent.

The overall composition of operating revenues for universities has remained comparable with 2007, as shown in Figure 2K. Government funding continues to make up 57 per cent of total revenues, and student fees 29 per cent.

Figure 2K
Composition of revenue – universities 2008



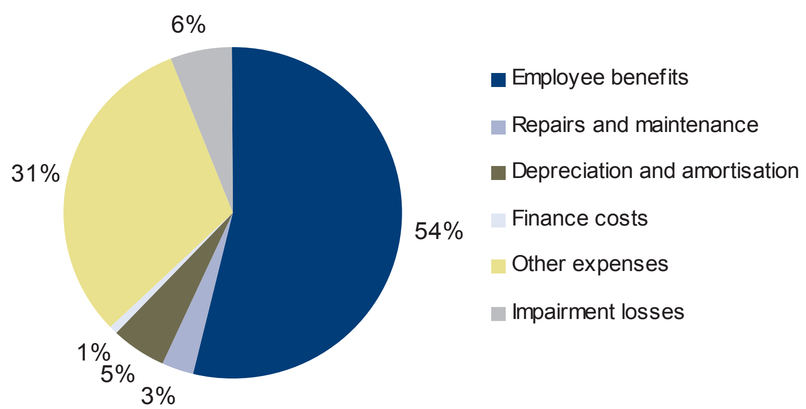
Source: Victorian Auditor-General's Office.

Expenditure

In 2008, universities incurred $5 billion of operating expenses, an increase of $806 million or 18 per cent on the prior year. The most significant increases in expenditure were to employee benefits which grew by $259 million or 10 per cent, impairment losses on investments which grew by $306 million or 100 per cent, and other expenses which increased by $236 million or 16 per cent.

Figure 2L provides an overview of the composition of operating expenditure in universities. The composition of operating expenditure for universities has also remained comparable to 2007 except for impairment losses on investments.

Figure 2L
Composition of expenditure – universities 2008



Source: Victorian Auditor-General's Office.

2.7.2 TAFEs

Operating result

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

Figure 2M
TAFEs operating results

	Operating result 2008	Operating result 2007	Movement	Movement
	$'000s	$'000s	$'000s	%
TAFEs	53 274	79 464	(26 190)	–33%

Source: Victorian Auditor-General's Office.

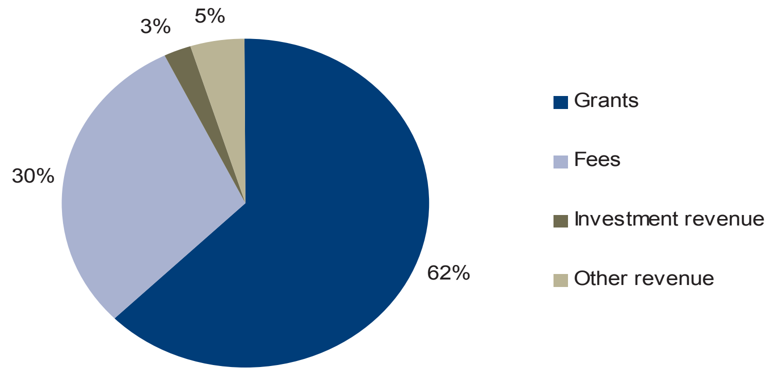
In 2008, TAFEs generated a collective operating surplus of $53 million, a decrease of $26 million or 33 per cent on the prior year. Generally, operating expenses grew faster than revenues in 2008. TAFEs were also affected by the global financial crisis, which accounted for $15 million of this decline. This is discussed in more detail in section 2.7.3.

Revenue

In 2008, TAFEs generated operating revenues of $1 billion, an increase of $91 million or 10 per cent on the prior year. The most significant component of the increase was in government funding which grew by $48 million or 8 per cent and contributed 52 per cent of the overall increase in operating revenues. Student fees grew by $34 million or 13 per cent on the prior year and represented the other major contributor to the overall increase in operating revenues.

The composition of operating revenue for TAFEs - as detailed in Figure 2N has remained consistent from 2007. Government funding continues to make up 62 per cent of total revenue, and student fees contribute 30 per cent of total revenue.

Figure 2N
Composition of revenue – TAFEs 2008



Source: Victorian Auditor-General's Office.

Expenditure

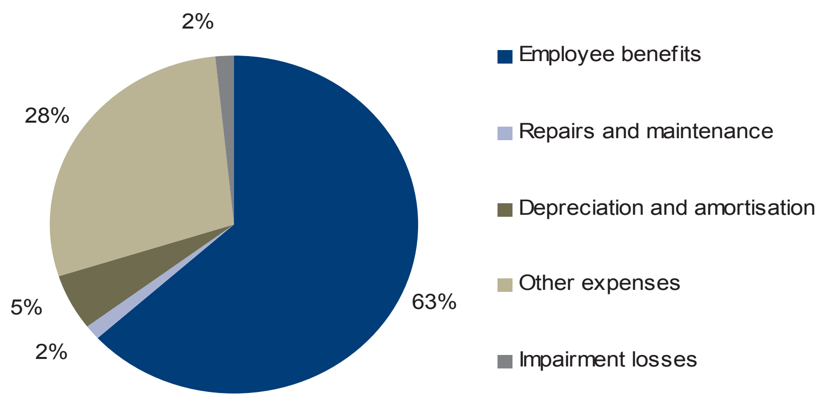
In 2008 TAFEs incurred $949 million in operating expenditure, an increase of $117 million or 14 per cent from the prior year.

The most significant increase was to employee benefits which grew by $53 million or nine per cent.

Other significant increases included other expenses which grew by $44 million or 19 per cent, and a $15 million impairment loss on investments recorded by **Holmesglen Institute of TAFE**.

The composition of operating expenditure for the TAFEs - as detailed in Figure 2O has remained comparable with 2007, except for the increase in impairment losses on investments.

Figure 2O
Composition of expenditure – TAFEs 2008



Source: Victorian Auditor-General's Office.

2.7.3 Impact of global financial crisis on investments

Universities

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

A summary of impairment losses on investments expensed by universities is shown in Figure 2P.

Figure 2P
Summary of investment losses – universities

University	Impairment loss $'000s	Total investments (before impairment) $'000s	Total investments (after impairment) $'000s	% of total investments (before impairment)	% of total investments (after impairment)
The University of Melbourne	231 631	1 240 230	1 008 599	19%	23%
Monash University	61 633	209 954	148 321	29%	42%
Swinburne University of Technology	7 718	49 427	41 709	16%	19%
University of Ballarat	4 574	5 335	761	86%	601%
Universities	**305 556**	**1 504 946**	**1 199 390**	**20%**	**25%**
Monash University Foundation	29 673	124 300	94 627	24%	31%
Melbourne Business School Ltd	19 292	75 961	56 669	25%	34%
RMIT Foundation	1 871	7 561	5 690	25%	33%
Controlled entities	**50 836**	**207 822**	**156 986**	**24%**	**32%**
Total Universities & controlled entities	**356 392**	**1 712 768**	**1 356 376**	**21%**	**26%**

Source: Victorian Auditor-General's Office.

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

In response to the reductions in the market value of the financial assets, universities have recorded a total of $356 million of impairment losses in their operating results.

The higher education sector has been subjected to similar outcomes as other investors in the financial markets around the world. Although the impairment losses are substantial, they do reflect the general downward movement in the global financial markets.

TAFEs

A summary of impairment losses on investment held by TAFEs is shown in Figure 2Q.

Figure 2Q
Summary of investment losses – TAFEs

TAFE	Impairment loss $'000s	Total investments (before impairment) $'000s	Total investments (after impairment) $'000s	% of total investments (before impairment)	% of total investments (after impairment)
Holmesglen TAFE	15 006	45 868	30 862	33%	49%
East Gippsland TAFE	58	2 987	2 929	2%	2%
Total TAFEs	**15 064**	**48 855**	**33 791**	**31%**	**45%**

Source: Victorian Auditor-General's Office.

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

2.7.4 Student fees

As identified in Figure 2K and 2N, student fee revenue makes up a significant portion of revenue for universities and TAFEs.

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

Universities

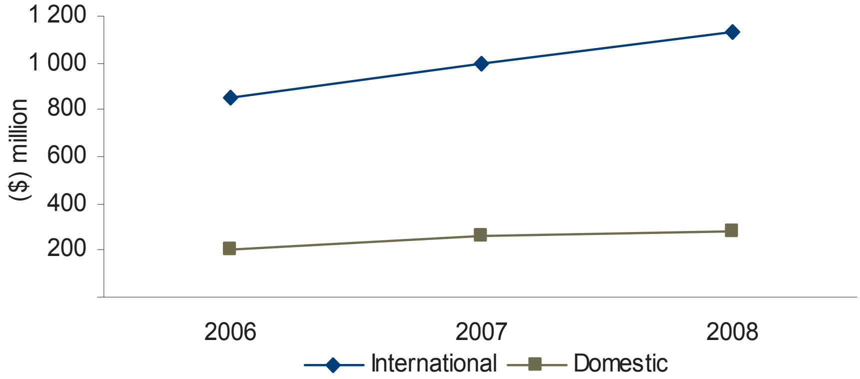
Deakin University recorded the highest relative growth in student fees with a $29 million or 23 per cent increase on the prior year. **La Trobe University** recorded the second highest relative growth of $13 million or 21 per cent. Of the two larger universities, **The University of Melbourne** and **Monash University** increased student fees by $25 million and $19 million or 10 per cent and eight per cent respectively. Generally, the smaller universities achieved higher levels of growth in relation to student fees.

Figure 2R provides an analysis of student fees for universities where international student fees form a significant part of total student fees. Of the $148 million increase, $135 million or 91 per cent was attributable to revenue from international students.

The University of Melbourne has the highest proportion of student fees at 23 per cent and **Monash University** have 22 per cent of the market share.

This significant growth highlights the increasing contribution of fee revenue from international students to total revenue.

Figure 2R
Student fee revenue – universities



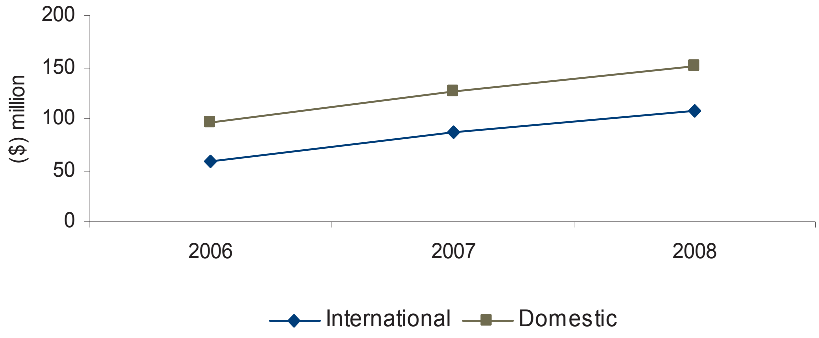
Source: Victorian Auditor-General's Office.

TAFEs

Northern Melbourne Institute of TAFE and **Kangan Batman Institute of TAFE** have both recorded the highest student fee growth of 43 per cent and 46 per cent or $7 million and $4 million, respectively. The increase for both TAFEs is consistent with 2007, whereby they had the highest growth of all TAFEs. The continuing trend in international student numbers and fees shows that TAFEs are still pursuing overseas markets to generate revenue.

Figure 2S provides an analysis of student fees for TAFEs where international student fees form a significant part of total student fees.

Figure 2S
Student fees revenue – TAFEs



Source: Victorian Auditor-General's Office.

2.8 Financial sustainability

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

Insight to the financial sustainability of the higher education and vocational training sector is obtained from analysis of five financial sustainability indicators. These indicators reflect each entity's funding and expenditure policies, and indicate whether current revenue and expenditure policies are sustainable.

No one indicator is sufficient to determine long-term financial sustainability; however, the underlying result is more significant. All other indicators complement the underlying result to the extent that they measure short-term capacity, as with the liquidity ratio, and long-term capacity, as with the capital replacement ratio.

Figure 2T describes the sustainability indicators we use in this report. These indicators have been applied to the published financial information of the universities and TAFEs for the period from 2006 to 2008.

Figure 2T
Financial sustainability indicators

Indicator	Formula	Description
Underlying results (%)	Adjusted net surplus / Total underlying revenue	A positive result indicates a surplus, and the larger the percentage, the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long-term. Underlying revenue does not take into account one-off (non-recurring) transactions.
Liquidity	Current assets / Current Liabilities	This measures the ability to pay existing liabilities in the next 12 months. A ratio of one or more means there are more cash and liquid assets than short-term liabilities.
Debt-to-equity (%)	Debt / Equity	This is a longer-term measure that compares all current and non-current interest bearing liabilities to equity. It complements the liquidity ratio which is a short term measure. A low ratio indicates less reliance on debt to finance the capital structure of an organisation.
Self-financing (%)	Net operating cash flows / Underlying revenue	Measures the ability to replace assets using cash generated by their operations. The higher the percentage the more effectively this can be done.
Capital replacement	Cash outflows for PP&E / Depreciation	Comparison of the rate of spending on infrastructure with its depreciation. Ratios higher than 1:1 indicate that spending is faster than the depreciating rate. This is a long-term indicator, as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations, and borrowing is not an option.

Note: PP&E is an acronym for property, plant and equipment.
Source: Victorian Auditor-General's Office.

2.8.1 Financial sustainability assessment

The financial health of each university and TAFE has been assessed using the risk criteria outlined in Figure 2U.

Figure 2U
Risk assessment criteria for financial sustainability indicators

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.	**Equal to or less than 1** Immediate sustainability issues with insufficient current assets to cover current 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.	**Equal or less than 1.0** Spending on capital works has not kept pace with consumption of assets.
Medium	**Negative 10% to 0** A risk of long-term run down of cash reserves and inability to fund asset renewals.	**1.0 – 1.5** 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 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 1.5** No issues with repaying short-term liabilities as they fall due.	**40% or less** No concern over the ability to repay debt from own-source revenue.	**20% or more** Generating enough cash from operations to fund assets.	**More than 1.5** Low risk of insufficient spending on asset renewal.

Source: Victorian Auditor-General's Office.

We have calculated the average for each university and TAFE over the past three years for each ratio.

2.8.2 Universities

Using our criteria, Figure 2V shows the results for the five indicators.

Figure 2V
Three year average – Financial sustainability indicators

Universities	Underlying result (%)	Liquidity	Debt to equity (%)	Self-financing (%)	Capital replacement
Deakin University	12.8%	1.4	2.4%	22.9%	1.9
La Trobe University	0.5%	1.6	5.3%	9.0%	1.3
The University of Melbourne	0.8%	0.9	5.0%	14.2%	1.7
Monash University	2.6%	0.5	22.4%	8.5%	2.2
RMIT University	7.2%	1.1	2.1%	16.7%	2.8
Swinburne University	10.7%	2.7	1.7%	16.6%	1.7
University of Ballarat	10.0%	2.6	1.6%	17.4%	1.5
Victoria University	4.6%	2.8	0.0%	8.4%	1.6
Average	**6.2%**	**1.7**	**5.0%**	**14.2%**	**1.8**

Note: Indicators are explained in Figure 2T and 2U of this report.
Source: Victorian Auditor-General's Office.

The indicators are generally positive, including:

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

According to the indicators, all universities reported a positive underlying result. Of those universities that did not meet the sector average, **The University of Melbourne** and **Monash University** have been affected by significant impairment losses on their investments.

The majority of universities have maintained a favourable liquidity ratio of greater than one over the past three years. The less than favourable ratios for **The University of Melbourne** and **Monash University** suggest a liquidity issue. However, the treasury management policies of these universities require funds that are surplus to day-to-day operations to be invested in financial markets. These investments are generally classified as non-current for accounting purposes, and are therefore excluded from the ratio calculations. Further, **The University of Melbourne** has included $134.2 million of deferred revenue within current liabilities, which adversely affects the calculation of the liquidity ratio.

All universities with exception for **Monash University** have maintained an average debt-to-equity ratio of approximately 5 per cent or less. **Monash University's** average ratio of 22 per cent is still assessed as a low risk to financial sustainability.

The self-financing ratio average for all universities is 14 per cent, which is medium risk. **Victoria University**, **La Trobe University** and **Monash University** have three year average self-financing ratios of below 10 per cent, meaning that there is a higher risk that assets cannot be replaced from operating cash flows over the long-term.

Universities – three year trend analysis

The results of the three year trend analysis of financial sustainability indicators for universities are provided in section 2.9.

The underlying result of most universities has remained constant since 2006. The underlying result for **The University of Melbourne** and **Monash University** has declined over the three years, due to the impairment losses recorded in 2008. The **University of Ballarat** profitability has halved since 2006 from 12.8 per cent to 6.7 per cent. Conversely **La Trobe** has improved their profitability from -2.2 per cent to 3.7 per cent.

According to the indicators, most universities have marginally improved their self-financing capacity since 2006. However, the **University of Ballarat's** capacity to self-finance operations has decreased from 22 per cent to 15 per cent. **Victoria University's** self-financing ratio of nine per cent has improved, but remains at high risk. This explains these universities' limited ability to replenish capital assets as and when required.

2.8.3 TAFEs

The three year average financial sustainability indicators for TAFEs are provided in Figure 2W.

Figure 2W
Three year average – Financial sustainability indicators

TAFEs	Underlying result (%)	Liquidity	Debt to Equity (%)	Self-financing (%)	Capital replacement
Bendigo Regional Institute	0.9%	1.9	0.0%	9.1%	1.4
Box Hill Institute	10.4%	3.1	0.0%	12.7%	2.2
Central Gippsland Institute	6.1%	2.6	1.2%	11.7%	1.7
Chisholm Institute	9.2%	1.7	0.0%	14.6%	2.7
East Gippsland Institute	11.0%	1.6	0.4%	19.7%	2.0
Gordon Institute	5.2%	3.0	0.0%	13.5%	1.9
Goulburn Ovens Institute	3.3%	2.9	0.0%	8.1%	1.7
Holmesglen Institute	8.4%	1.4	0.0%	20.7%	2.2
Kangan Batman Institute	11.8%	2.0	0.0%	17.9%	2.1
Northern Melbourne Institute	5.9%	2.6	0.2%	12.2%	1.2
South West Institute	11.9%	2.4	0.0%	19.7%	3.7
Sunraysia Institute	7.1%	2.5	0.0%	15.5%	2.0
William Angliss Institute	9.1%	1.7	0.0%	16.2%	3.0
Wodonga Institute	2.9%	1.8	0.6%	10.5%	1.2
Average	**7.4%**	**2.2**	**0.2%**	**14.4%**	**2.1**

Note: (a) TAFEs borrowings are subject to ministerial approval.
(b) Indicators are explained at Figures 2T and 2U of this report.
Source: Victorian Auditor-General's Office.

The indicators are generally positive, including:

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

The average underlying result ratio for the TAFE sector is seven per cent, which is considered to be low-risk in terms of long-term sustainability and is consistent with 2007.

Those TAFEs that did not meet the sector average are predominantly regional TAFEs with a lower market share of international students.

The average self-financing ratio for all TAFEs is in the medium risk range, at 14.4 per cent. This represents the entities ability to fund new assets from operating cash flows. While TAFEs are generating small operating surpluses, they do not generate sufficient own-source revenues to be able to build up enough retained earnings to finance future asset replacement. Under the current government funding approach, depreciation expenses are generally not funded until capital requirements are established. However, the TAFE boards are held fully accountable for financial management and performance.

Overall the financial sustainability indicators suggest that the TAFEs are in a healthy condition. The self-financing ratio is the only indicator of concern, as not only is the sector a medium risk of not being able to finance assets with the cash generated from operating activities, but all TAFEs are in this same position.

TAFEs – three year trend analysis

The results of the three year trend analysis of financial sustainability indicators for TAFEs are provided in section 2.9.

The overall trend for the TAFEs' underlying result is slightly deteriorating. In the past three years no TAFE has been rated a high risk relating to their underlying result. However, the decrease for the majority of TAFEs from 2006 does raise some concerns about the stability of the long term underlying result.

The liquidity ratios are varied and there has been no common trend in the individual TAFEs.

The TAFE average self-financing ratio highlights a medium risk that the operations of the entity will not be sufficient to fund the purchase of assets. The overall trend is consistent with the TAFE average, as most TAFEs have started off in 2006 as medium risk and then remained medium or moved to a high risk in 2008. This is the expected result given the current TAFE capital funding model.

The financial sustainability of TAFEs over the period is positive. There are no high risk indicators and the trend generally shows that TAFEs are financially viable over the long term. While the financial sustainability of the TAFEs on the whole is encouraging, some individual TAFEs may need to be monitored to maintain sustained viability.

In our previous report to Parliament, *Results of audits for entities with 30 June 2008 balance dates (2008–09:14)*, we recommended that entities that rely on significant own-sourced revenues consult with portfolio departments and DTF to establish targets for sustainability indicators and use these targets to monitor actual performance. Entities can then use these targets to model the impact of changes to their revenue and expenditure policies.

During March 2009, DTF established a working party comprising representatives of portfolio departments and VAGO to consider the financial sustainability indicators. Future reports to Parliament will comment on progress in developing targets for the financial sustainability indicators.

2.9 Financial sustainability indicators

2.9.1 Universities

Universities	Underlying result (%)				Liquidity				Debt-to-equity (%)				Self-financing (%)				Capital replacement			
	2006	2007	2008	Trend	2006	2007	2008	Trend	2006	2007	2008	Trend	2006	2007	2008	Trend	2006	2007	2008	Trend
Deakin University	12.8%	10.4%	15.1%	▲	1.3	1.4	1.3	►	3.0%	2.3%	1.7%	▼	21.2%	24.4%	23.2%	▲	2.4	1.8	1.6	▼
La Trobe University	-2.2%	-0.1%	3.7%	▲	1.7	1.6	1.5	▼	3.7%	5.5%	6.6%	▲	4.8%	8.9%	13.4%	▲	0.9	1.1	1.8	▲
The University of Melbourne	7.1%	10.0%	-14.7%	▼	1.0	1.1	0.7	▼	4.2%	4.5%	6.1%	▲	13.9%	11.8%	16.9%	▲	1.2	1.7	2.1	▲
Monash University	2.8%	4.4%	0.7%	▼	0.4	0.5	0.6	▲	20.1%	22.5%	24.6%	▲	8.0%	7.0%	10.7%	▲	1.8	2.0	2.7	▲
RMIT University	7.5%	5.9%	8.2%	▲	1.2	1.2	0.9	▼	2.1%	1.8%	2.3%	▲	10.6%	15.9%	23.7%	▲	1.5	2.8	4.0	▲
Swinburne University	8.5%	13.6%	10.1%	▲	2.3	2.8	3.0	▲	2.4%	1.6%	1.0%	▼	11.5%	16.8%	21.6%	▲	1.7	1.3	2.0	▲
University of Ballarat	12.8%	10.4%	6.7%	▼	2.5	2.9	2.5	►	2.2%	1.4%	1.2%	▼	21.8%	15.7%	14.6%	▼	2.3	1.4	1.0	▼
Victoria University	3.7%	5.5%	4.6%	▲	2.5	3.0	3.1	▲	0.0%	0.0%	0.0%	►	6.1%	9.8%	9.3%	▲	1.7	1.7	1.4	▼
University Average	**6.6%**	**7.5%**	**4.3%**	▼	**1.6**	**1.8**	**1.7**	▲	**4.7%**	**5.0%**	**5.5%**	▲	**12.2%**	**13.8%**	**16.7%**	▲	**1.7**	**1.7**	**2.1**	▲

Note: Legend for trends:
▲ (red) = an increasing ratio is a deteriorating trend
▼ (red) = a decreasing ratio is a deteriorating trend
▲ (green) = an increasing ratio is an improving trend
▼ (green) = a decreasing ratio is an improving trend
► = no substantial trend
Source: Victorian Auditor-General's Office.

2.9.2 TAFEs

TAFES	Underlying Result (%)				Liquidity				Debt to equity (%)				Self-financing (%)				Capital Replacement			
	2006	2007	2008		2006	2007	2008		2006	2007	2008		2006	2007	2008		2006	2007	2008	
Bendigo Regional Institute	2.2%	-2.9%	3.4%	▲	1.9	2.0	1.9	►	0.0%	0.0%	0.0%	►	10.7%	6.2%	10.2%	▼	1.4	0.8	1.9	▲
Box Hill Institute	14.6%	9.4%	7.2%	▼	2.7	3.0	3.5	▲	0.0%	0.0%	0.0%	►	13.0%	16.7%	8.4%	▼	2.4	2.6	1.7	▼
Central Gippsland Institute	7.6%	6.4%	4.2%	▼	1.8	3.0	2.9	▲	2.0%	1.7%	0.0%	▼	15.2%	11.5%	8.5%	▼	1.2	0.9	2.9	▲
Chisholm Institute	9.3%	13.1%	5.2%	▼	2.0	1.7	1.4	▼	0.0%	0.0%	0.0%	►	15.5%	16.2%	12.1%	▼	1.7	4.1	2.4	▲
East Gippsland Institute	8.0%	8.1%	16.9%	▲	1.4	1.6	2.0	▲	0.8%	0.3%	0.2%	▼	16.6%	17.3%	25.3%	▲	1.5	1.1	3.5	▲
Gordon Institute	14.9%	1.5%	-0.8%	▼	4.0	2.4	2.5	▼	0.0%	0.0%	0.0%	►	21.1%	11.7%	7.7%	▼	3.2	1.3	1.1	▼
Goulburn Ovens Institute	6.8%	3.8%	-0.7%	▼	2.8	2.9	2.9	►	0.0%	0.0%	0.0%	►	11.0%	6.6%	6.9%	▼	1.3	2.6	1.2	►
Holmesglen Institute	14.7%	14.4%	-3.9%	▼	1.2	1.3	1.9	▲	0.0%	0.0%	0.0%	►	25.3%	22.5%	14.4%	▼	2.3	2.5	1.9	▼
Kangan Batman Institute	18.8%	10.4%	6.4%	▼	2.3	1.8	1.8	▼	0.0%	0.0%	0.0%	►	21.4%	15.8%	16.5%	▼	3.2	2.1	1.0	▼
Northern Melbourne Institute	5.6%	7.0%	5.1%	▼	2.5	2.6	2.7	▲	0.2%	0.1%	0.1%	►	10.8%	13.6%	12.4%	▲	1.1	1.4	1.2	►
South West Institute	5.7%	2.3%	27.9%	▲	2.7	2.4	2.1	▼	0.0%	0.0%	0.0%	►	12.1%	9.0%	37.9%	▲	1.7	1.5	8.0	▲
Sunraysia Institute	6.3%	13.7%	1.2%	▼	2.8	2.6	2.0	▼	0.0%	0.0%	0.0%	►	15.4%	19.0%	11.9%	▼	0.9	3.8	1.3	▲
William Angliss Institute	6.4%	3.1%	17.8%	▲	1.9	1.8	1.6	▼	0.0%	0.0%	0.0%	►	12.8%	10.9%	25.1%	▲	1.6	1.2	6.2	▲
Wodonga Institute	-1.9%	7.7%	2.9%	▲	1.0	2.1	2.4	▲	1.2%	0.4%	0.3%	▼	6.9%	13.3%	11.3%	▲	1.1	1.8	0.7	▼
Average	**8.5%**	**7.0%**	**6.6%**	▼	**2.2**	**2.2**	**2.2**	►	**0.3%**	**0.2%**	**0.0%**	▼	**14.8%**	**13.6%**	**14.9%**	►	**1.8**	**2.0**	**2.5**	▲

Note: Legend for trends:
▲ = an increasing ratio is a deteriorating trend
▼ = a decreasing ratio is a deteriorating trend
▲ = an increasing ratio is an improving trend
▼ = a decreasing ratio is an improving trend
► = no substantial trend

Source: Victorian Auditor-General's Office.

2.10 Audit status

Entity	Audit Type		Financial Statements		Timeliness of financial statements completion		
	FMA	Non-FMA	Clear Opinion	Opinion Date	< 12 wks	12 wks < 18 wks	18 wks >
COMPLETED AUDITS – 31 DECEMBER 2008 BALANCE DATES							
UNIVERSITIES							
Deakin University ***Reason for Qualification:*** *Grant Income recognised as liabilities rather than as income, as required by AASB 1004 Contributions.*	✓		×	20-Mar-09	✓		
Callista Software Services Pty Ltd		✓	✓	12-Mar-09	✓		
Canopi Network Pty Ltd		✓	✓	12-Mar-09	✓		
The Australian Professional Association Services Company Ltd (formerly Australian Human Resources Institute)		✓	✓	12-Mar-09	✓		
Unilink Ltd		✓	✓	12-Mar-09	✓		
Deakin Nominee's Pty Ltd		✓	✓	12-Mar-09	✓		
Deakin Foundation		✓	✓	19-Mar-09	✓		
Deakin Foundation Ltd		✓	✓	19-Mar-09	✓		
La Trobe University	✓		✓	24-Mar-09	✓		
La Trobe International Pty Limited		✓	✓	31-Mar-09		✓	
La Trobe University Housing Ltd		✓	✓	14-Apr-09		✓	
Medical Centre Development Pty Ltd		✓	✓	31-Mar-09		✓	
La Trobe Innovation Pty Ltd		✓	✓	31-Mar-09		✓	
Monash University	✓		✓	24-Mar-09	✓		
Monash College Pty Ltd		✓	✓	05-Mar-09	✓		
Monash Commercial Pty Ltd		✓	✓	16-Mar-09	✓		

Entity	Audit Type		Financial Statements		Timeliness of financial statements completion		
	FMA	Non-FMA	Clear Opinion	Opinion Date	< 12 wks	12 wks < 18 wks	18 wks >
COMPLETED AUDITS – 31 DECEMBER 2008 BALANCE DATES – *continued*							
UNIVERSITIES – *continued*							
Monash University – *continued*							
Monash Educational Enterprises ***Audit report contained an "emphasis of matter":*** *Attention drawn to the need for continuing financial support from Monash University.*		✓	✓	25-Mar-09	✓		
Monash Health Research Precinct Pty Ltd		✓	✓	05-Mar-09	✓		
Monash International SRL		✓	✓	12-Sep-08	✓		
Monash Investment Holdings Pty Ltd		✓	✓	17-Mar-09	✓		
Monash Investment Trust		✓	✓	17-Mar-09	✓		
Monash Property South Africa Pty Ltd		✓	✓	25-Mar-09	✓		
Monash South Africa Ltd ***Audit report contained an "emphasis of matter":*** *Attention drawn to the need for continuing financial support from Monash University.*		✓	✓	25-Mar-09	✓		
Monash University Foundation		✓	✓	17-Mar-09	✓		
Monash University Foundation Pty Ltd		✓	✓	17-Mar-09	✓		
Monyx Education Services Pty Ltd		✓	✓	11-Feb-09	✓		
Monyx Pty Ltd		✓	✓	11-Feb-09	✓		
Monyx Services Pty Ltd		✓	✓	11-Feb-09	✓		
Australian Regenerative Medicine Institute Joint Venture		✓	✓	05-Mar-09	✓		
Monash Custodians Pty Ltd		✓	✓	05-Mar-09	✓		

	Audit Type		Financial Statements		Timeliness of financial statements completion		
Entity	**FMA**	**Non-FMA**	**Clear Opinion**	**Opinion Date**	**< 12 wks**	**12 wks < 18 wks**	**18 wks >**
COMPLETED AUDITS – 31 DECEMBER 2008 BALANCE DATES – *continued*							
UNIVERSITIES – *continued*							
Royal Melbourne Institute of Technology University	✓		✓	25-Mar-09	✓		
Meltech Services Limited		✓	✓	25-Mar-09	✓		
RMIT Foundation		✓	✓	25-Mar-09	✓		
RMIT International Pty Ltd		✓	✓	25-Mar-09	✓		
RMIT International University Vietnam		✓	✓	15-Apr-09		✓	
RMIT Training Pty Ltd		✓	✓	17-Mar-09	✓		
RMIT Union		✓	✓	25-Mar-09	✓		
RMIT Vietnam Holdings Pty Ltd		✓	✓	15-Apr-09		✓	
Spatial Vision Innovations Pty Ltd		✓	✓	25-Mar-09	✓		
Swinburne University of Technology	✓		✓	25-Mar-09	✓		
National Institute of Circus Arts Limited		✓	✓	25-Mar-09	✓		
Swinburne (Holdings) Pty Ltd		✓	✓	25-Mar-09	✓		
Swinburne Intellectual Property Trust		✓	✓	25-Mar-09	✓		
Swinburne Ltd		✓	✓	25-Mar-09	✓		
Swinburne Student Amenities Assocation Ltd		✓	✓	25-Mar-09	✓		
Swinburne Ventures Limited		✓	✓	25-Mar-09	✓		
The University of Melbourne ***Reason for Qualification:*** *Grant Income recognised as liabilities rather than as income, as required by AASB 1004 Contributions.*	✓		×	24-Mar-09	✓		
Australian International Health Institute (The University of Melbourne) Ltd		✓	✓	25-Mar-09	✓		
Australian Music Examinations Board (Vic) Ltd		✓	✓	23-Mar-09	✓		

Entity	Audit Type		Financial Statements		Timeliness of financial statements completion		
	FMA	Non-FMA	Clear Opinion	Opinion Date	< 12 wks	12 wks < 18 wks	18 wks >
COMPLETED AUDITS – 31 DECEMBER 2008 BALANCE DATES – *continued*							
UNIVERSITIES – *continued*							
The University of Melbourne – *continued*							
Hawthorn English Language Centres (Canada) Ltd		✓	✓	11-Mar-09	✓		
The Meanjin Company Limited ***Reason for Qualification:** Grant Income recognised as liabilities rather than as income, as required by AASB 1004 Contributions.*		✓	×	25-Mar-09	✓		
Melbourne Business School Foundation		✓	✓	25-Mar-09	✓		
Melbourne Business School Foundation Ltd		✓	✓	25-Mar-09	✓		
Melbourne Business School Ltd		✓	✓	25-Mar-09	✓		
Melbourne Enterprises International Limited		✓	✓	11-Mar-09	✓		
Melbourne Information Management Pty Ltd		✓	✓	11-Mar-09	✓		
Melbourne University Publishing Ltd		✓	✓	25-Mar-09	✓		
Melbourne Ventures Pty Ltd		✓	✓	12-Mar-09	✓		
Mount Eliza Graduate School of Business and Government Limited		✓	✓	25-Mar-09	✓		
MU Student Union Ltd		✓	✓	20-Mar-09	✓		
MUP Services Pty Ltd		✓	✓	11-Mar-09	✓		
UMEE Ltd		✓	✓	19-Mar-09	✓		
Victorian Institute of Chemical Sciences Limited		✓	✓	25-Mar-09	✓		
UM Commercialisation Pty Ltd		✓	✓	11-Mar-09	✓		
UM Commercialisation Trust		✓	✓	12-Mar-09	✓		

	Audit Type		Financial Statements		Timeliness of financial statements completion		
Entity	**FMA**	**Non-FMA**	**Clear Opinion**	**Opinion Date**	**< 12 wks**	**12 wks < 18 wks**	**18 wks >**
COMPLETED AUDITS – 31 DECEMBER 2008 BALANCE DATES – *continued*							
UNIVERSITIES – *continued*							
University of Ballarat	✓		✓	25-Mar-09	✓		
Inskill Limited		✓	✓	23-Mar-09	✓		
School of Mines and Industries Ballarat Limited		✓	✓	23-Mar-09	✓		
Datascreen Pty Ltd		✓	✓	23-Mar-09	✓		
Victoria University	✓		✓	24-Mar-09	✓		
Victoria University Enterprises Pty Ltd		✓	✓	11-Feb-09	✓		
Victoria University Foundation		✓	✓	05-Mar-09	✓		
Victoria University Foundation Ltd		✓	✓	05-Mar-09	✓		
Victoria University International Pty Ltd		✓	✓	11-Feb-09	✓		
Victoria University of Technology (Singapore) Pte Ltd		✓	✓	04-Feb-09	✓		
TAFE INSTITUTES							
Bendigo Regional Institute of Technical and Further Education	✓		✓	12-Mar-09	✓		
Box Hill Institute of Technical and Further Education	✓		✓	19-Mar-09	✓		
Box Hill Enterprises Ltd		✓	✓	19-Mar-09	✓		
Central Gippsland Institute of Technical and Further Education	✓		✓	25-Mar-09	✓		
Chisholm Institute of Technical and Further Education	✓		✓	05-Mar-09	✓		
Caroline Chisholm Education Foundation		✓	✓	05-Mar-09	✓		
East Gippsland Institute of Technical and Further Education	✓		✓	19-Mar-09	✓		
Gordon Institute of Technical and Further Education	✓		✓	30-Mar-09		✓	

Entity	Audit Type		Financial Statements		Timeliness of financial statements completion		
	FMA	Non-FMA	Clear Opinion	Opinion Date	< 12 wks	12 wks < 18 wks	18 wks >
COMPLETED AUDITS – 31 DECEMBER 2008 BALANCE DATES – *continued*							
TAFE INSTITUTES – *continued*							
Gordon Foundation Ltd		✓	✓	30-Mar-09		✓	
Gordon Foundation Trust		✓	✓	30-Mar-09		✓	
GOTEC Limited		✓	✓	30-Mar-09		✓	
Goulburn Ovens Institute of Technical and Further Education	✓		✓	25-Mar-09	✓		
Holmesglen Institute of Technical and Further Education	✓		✓	09-Apr-09		✓	
Holmesglen International Training Services Pty Ltd		✓	✓	09-Apr-09		✓	
Kangan Batman Institute of Technical and Further Education	✓		✓	25-Mar-09	✓		
John Batman Consultancy & Training Pty Ltd		✓	✓	25-Mar-09	✓		
Northern Melbourne Institute of Technical and Further Education	✓		✓	05-Mar-09	✓		
South West Institute of Technical and Further Education	✓		✓	25-Mar-09	✓		
Sunraysia Institute of Technical and Further Education	✓		✓	30-Mar-09		✓	
TAFE Kids Incorporated		✓	✓	30-Mar-09		✓	
TAFE Work Safety Centre		✓	✓	15-Apr-09		✓	
William Angliss Institute of Technical and Further Education	✓		✓	25-Mar-09	✓		
Angliss Consulting Pty Limited		✓	✓	25-Mar-09	✓		
Angliss Multimedia Pty Ltd		✓	✓	25-Mar-09	✓		
Angliss Solutions Pty Ltd		✓	✓	25-Mar-09	✓		
Wodonga Institute of Technical and Further Education	✓		✓	31-Mar-09		✓	

	Audit Type		Financial Statements		Timeliness of financial statements completion		
Entity	**FMA**	**Non-FMA**	**Clear Opinion**	**Opinion Date**	**< 12 wks**	**12 wks < 18 wks**	**18 wks >**
COMPLETED AUDITS – 31 DECEMBER 2008 BALANCE DATES – *continued*							
TRAINING ENTITIES							
Adult Multicultural Education Services	✓		✓	25-Feb-09	✓		
AMES Vietnam		✓	✓	09-Apr-09		✓	
Centre for Adult Education	✓		✓	20-Mar-09	✓		
International Fibre Centre Limited	✓		✓	25-Mar-09	✓		
VERNet Pty Ltd		✓	✓	25-Mar-09	✓		
2008 Total	**25**	**81**			**89**	**17**	**-**
		106					**106**
2007 Total	**26**	**92**			**91**	**21**	**1**
		118					**113**
INCOMPLETE AUDITS –31 DECEMBER 2008							
Universities							
RMIT Drug Discovery Technologies Pty Ltd		✓					
Australian National Academy of Music Foundation Ltd		✓					
Australian National Academy of Music Ltd		✓					
MU Private (NZ) Ltd		✓					
Training entities							
Driver Education Centre of Australia Ltd	✓						
DECA Ltd		✓					
Telematics Course Development Fund		✓					
Total	**1**	**6**					
		7					

	Audit Type		Financial Statements		Timeliness of financial statements completion		
Entity	FMA	Non-FMA	Clear Opinion	Opinion Date	< 12 wks	12 wks < 18 wks	18 wks >
INCOMPLETE AUDITS – 31 DECEMBER 2007							
Training entities							
International Training Australian Pty Ltd (a)		✓	*Financial report yet to be submitted for audit*				
Total		**1**					

Note: (a) International Training Australia Pty Ltd ceased operations on 15 November 2007. Financial statements cover the period from 1 January 2007 to 15 November 2007.
Source: Victorian Auditor-General's Office.

3 Alpine resorts

At a glance

Background

Located at Mount Buller and Mount Stirling, Falls Creek, Mount Hotham, Mt Baw Baw and Lake Mountain, Victoria's alpine resorts are managed by Alpine Resort Management Boards (ARMBs) and coordinated through the Alpine Resorts Co-ordinating Council (ARCC).

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

Findings

All ARMBs received clear audit opinions and timeliness of reporting significantly improved in 2008. Combined operating surplus was significantly down on 2007 due to increased expenses from longer snow season.

Financial sustainability findings are similar to 2007, with **Lake Mountain** and **Mt Baw Baw** in the weakest condition. These resorts are heavily reliant on snow-related revenue and do not have enough capacity to replace assets and fund new assets.

The areas surrounding the smaller alpine resorts have suffered significant fire damage, which may affect their ability to generate revenue from visitor fees. In addition, **Lake Mountain** lost assets in the bush fires and will need to acquire replacement assets in time for the 2009 snow season.

Recommendations

- Each board should determine and monitor the long term implications of sustainability, as there are significant concerns for the smaller ARMBs.
- Each board should continue to monitor the sustainability of its revenue and expenditure policies, and model the affect of proposed changes to these policies.
- **Lake Mountain** and **Mt Baw Baw** ARMBs should make further contributions to the legislatively required 'snow drought' and 'capital' funds.

3.1 Scope

Five ARMBs are required to prepare financial statements with balance dates at 31 October. ARMBs have been appointed for Victoria's alpine resorts of Mount Buller and Mount Stirling, Falls Creek, Mount Hotham, Mt Baw Baw, and Lake Mountain.

3.2 Reporting framework

The ARMBs are established under the *Alpine Resorts (Management) Act 1997* and are appointed by the Minister for Environment and Climate Change.

Under the *Financial Management Act 1994* (FMA), the ARMBs are required to prepare financial statements and have them audited by the Auditor-General within 12 weeks of year end, for inclusion in their annual reports.

3.3 Results of audits

All of the ARMBs received clear audit opinions for the financial year ended 31 October 2008. Further details of these entities are available in Section 3.9.

3.4 Quality of reporting

The quality of reporting is measured by accuracy and timeliness of report preparation and finalisation.

3.4.1 Accuracy

Errors revealed in draft financial statements during the audit process are raised with the entity and, if the errors are considered to be material, adjustments are requested. The frequency and size of errors in the draft financial statements requiring adjustment are therefore, direct measures of accuracy.

Three of the five ARMBs required adjustments to finalise their financial statements. There were 10 changes made, with a combined value of $1 million. This represented 5 per cent of total revenue and means the adjustments made were material to the financial statements. This is an improvement from 2007 where four of the five ARMBs made adjustments with a combined value of $2 million.

3.4.2 Timeliness

In 2008, all of the ARMBs completed their financial statements within the mandated 12-week timeframe. This was a significant improvement from 2007, where it took 15 weeks to complete all financial statements.

3.5 Effectiveness of internal control

Each entity's governing body is responsible for the development and maintenance of its internal control structure. Internal controls are needed to provide an effective and efficient vehicle for the delivery of reliable, accurate and timely external and internal reporting.

The audit of financial reports includes an examination of the internal control framework that relates to financial reporting. Where significant control weaknesses or breakdowns are identified these matters are reported to the entity's management.

Our audits confirmed that the ARMBs' systems of internal controls were sufficient to produce a reliable financial report. No significant common control weaknesses were identified.

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

3.6 Financial performance

3.6.1 Operating results

ARMBs collectively generated a combined operating surplus of $533 000, a decrease of $3.275 million or 86 per cent on last year, as shown in Figure 3A.

Figure 3A
ARMBs operating results

	Operating result 2008 $'000s	Operating result 2007 $'000s	Movement $'000s	Movement %
ARMBs	**533**	**3 808**	**(3 275)**	**–86%**

Source: Victorian Auditor-General's Office.

All of the ARMBs recorded an operating deficit, except Falls Creek, which recorded an operating surplus.

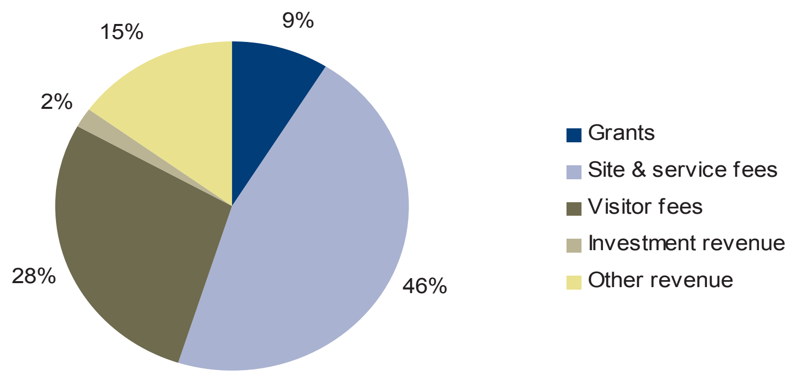
Although **Lake Mountain** and **Mt Baw Baw** recorded operating deficits, they received 20 per cent less support payments from the Department of Sustainability and Environment (DSE) than last year, indicating that they were more self-sufficient.

3.6.2 Revenue

During 2007–08, the combined operating revenues for ARMBs increased by 1.4 per cent, from $35.8 million to $36.3 million. Revenue from visitor fees increased by $400 000 or four per cent, however the increase was not as significant as in 2007. This minor increase is due to a delayed start to the snow season and no snow during the school holiday period.

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

Figure 3B
Composition of revenue – ARMBs 2008



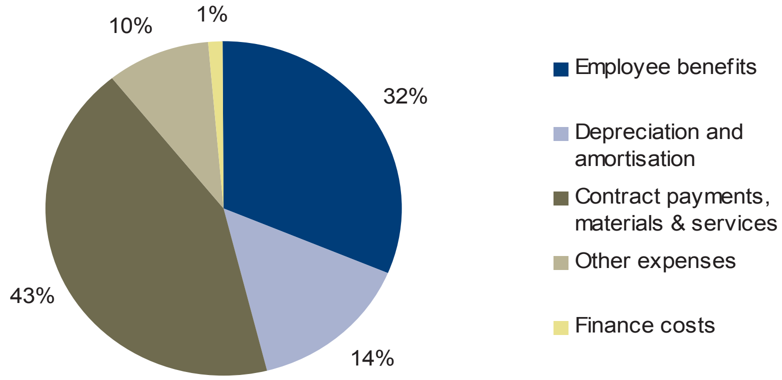
Source: Victorian Auditor-Generals Office.

3.6.3 Expenditure

In 2007–08, total expenditure for ARMBs increased by 12 per cent from $32 million to $36 million. The most significant increase in expenditure was to employee benefits which increased by $1.2 million or 12 per cent. This primarily relates to the snow season running longer than expected. Although the season started late, employees were required from the beginning to the end of the season.

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

Figure 3C
Composition of expenditure – ARMBs 2008



Source: Victorian Auditor-General's Office.

3.7 Financial sustainability

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

Insight into the financial sustainability of the alpine resort sector is obtained from analysis of five financial sustainability indicators. These indicators reflect each entity’s funding and expenditure policies, and indicate whether current revenue and expenditure policies are sustainable.

Figure 3D describes the sustainability indicators we use in this report. These indicators have been applied to the published financial information of ARMBs for the period from 2006 to 2008.

Figure 3D
Financial sustainability indicators

Indicator	Formula	Description
Underlying results (%)	Adjusted net surplus / Total underlying revenue	A positive result indicates a surplus, and the larger the percentage, the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long-term. Underlying revenue does not take into account one-off (non-recurring) transactions.
Liquidity	Current assets / Current Liabilities	This measures the ability to pay existing liabilities in the next 12 months. A ratio of one or more means there are more cash and liquid assets than short-term liabilities.
Debt-to-equity (%)	Debt / Equity	This is a longer-term measure that compares all current and non-current interest bearing liabilities to equity. It complements the liquidity ratio which is a short-term measure. A low ratio indicates less reliance on debt to finance the capital structure of an organisation.
Self-financing (%)	Net operating cash flows / Underlying revenue	Measures the ability to replace assets using cash generated by the entity's operations. The higher the percentage the more effectively this can be done.
Capital replacement	Cash outflows for PP&E / Depreciation	Comparison of the rate of spending on infrastructure with its depreciation. Ratios higher than 1:1 indicate that spending is faster than the depreciating rate. This is a long-term indicator, as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations, and borrowing is not an option.

Note: PP&E is an acronym for property, plant and equipment.
Source: Victorian Auditor-General's Office.

3.7.1 Financial sustainability assessment

The financial health of each ARMB has been assessed using the risk criteria outlined in Figure 3E.

Figure 3E
Risk assessment criteria for financial sustainability indicators

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.	**Equal to or less than 1** 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.	**Equal or less than 1.0** Spending on capital works has not kept pace with consumption of assets.
Medium	**Negative 10% to 0** A risk of long-term run down of cash reserves and inability to fund asset renewals.	**1.0–1.5** 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 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 1.5** No issues with repaying short-term liabilities as they fall due.	**40% or less** No concern over the ability to repay debt from own-source revenue.	**20% or more** Generating enough cash from operations to fund assets.	**More than 1.5** Low risk of insufficient spending on asset renewal.

Source: Victorian Auditor-General's Office.

We have calculated the average for each ARMB over the past three years for each ratio.

Using our criteria, Figure 3F shows the results for the five indicators.

Figure 3F
Three year average financial sustainability indicators

Alpine Resort Management Boards	Underlying result (%)	Liquidity	Debt to equity (%)	Self-financing (%)	Capital replacement
Mt Baw Baw	-5%	0.9	1%	8.9%	0.8
Lake Mountain	-11%	0.6	5%	16.7%	0.3
Falls Creek	9%	3.2	0%	19.3%	1.6
Mount Hotham	4%	1.7	2%	24.6%	6.7
Mount Buller and Mount Stirling	8%	4.2	1%	26.0%	1.8
Average	**1%**	**2.1**	**1%**	**19.1%**	**2.2**

Source: Victorian Auditor-Generals Office.

The three–year average financial sustainability indicators for alpine resorts were generally positive.

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

Currently **Lake Mountain** and **Mt Baw Baw** have assets depreciating at a greater rate than they are being replaced. This coupled with their low self-financing and liquidity indicators shows that this will have a significant effect on the financial viability of the ARMBs.

The sustainability indicators for both **Lake Mountain** and **Mt Baw Baw** suggest they are at risk, and require action to address their future sustainability. These smaller resorts may be forced to rely on additional government funding to maintain current operations and services.

The ARMB of **Mount Hotham** and the ARMB of **Mount Buller** and **Mount Stirling,** both have a high self-financing percentage. This indicator demonstrates their ability to fund the replacement of assets from cash generated by their operations.

The operating results of **Lake Mountain** and **Mt Baw Baw** may also be affected by the recent bush fire events. The areas surrounding the smaller alpine resorts have suffered significant fire damage, which may impact their ability to generate revenue from visitor fees. In addition, **Lake Mountain** lost assets in the bush fires and will need to acquire replacement assets in time for the 2009 snow season. The ARMB has yet to fully quantify the value of these assets.

The resorts' ability to expand their income streams to incorporate additional non-snow related revenue may also be impacted by the recent bush fire events. Recently summer tourism has been an important strategy for ARMBs to supplement their winter operations. The recent bush fire events may adversely affect the summer tourism initiatives.

3.7.2 Three year trend analysis

This section provides an analysis and commentary on the trends for each indicator for the past three years. The financial sustainability indicators for 2006 to 2008 are provided in section 3.8.

The operating result ratio for **Falls Creek** has increased from –1 per cent in 2006 to 17 per cent in 2008. The other ARMBs' operating result ratios have decreased significantly in the same period.

The trend in the liquidity ratios suggest that **Mt Baw Baw** and **Lake Mountain** are not improving sufficiently.

While all ARMBs' debt-to-equity ratios are at a low level, **Lake Mountain** is less reliant on debt in 2008 than in 2006.

The nature of alpine activities and services provided to residents and visitors means the industry is capital intensive and heavily reliant on capital infrastructure to generate revenue. The capital replacement ratio is a long-term measure of a resort's ability to replace capital assets. The three larger resorts have maintained ratios greater than one, suggesting they replaced assets as required. The ratio for **Mount Hotham** has declined from 10.8 in 2006 to 1.6 in 2008, suggesting that this capacity to replace is diminishing. The 2006 and 2007 capital replacement ratios for **Mount Hotham** were high due to the Water Recycling Project – this project was completed in 2007.

3.7.3 Reserve funds

As part of the state government's 2003 Alpine Resorts Reform Package, each of the ARMBs was required to establish:

- a snow drought reserve to maintain cash flow during poor snow seasons
- a capital improvement fund to finance asset maintenance and replacement.

The smaller ARMBs of **Lake Mountain** and **Mt Baw Baw** have established these legislatively required funds, but due to poor snow seasons in recent years the contributions made have not been significant.

Recommendations

3.1 Each board should determine and monitor the long-term implications of financial sustainability, as there are significant challenges for the smaller ARMBs.

3.2 Each board should monitor the sustainability of its revenue and expenditure policies, and model the affect of proposed changes to these policies.

3.3 The **Lake Mountain** and **Mt Baw Baw** ARMBs should make further contributions to the legislatively required 'snow drought' and 'capital' funds.

RESPONSE provided by the Chairman of the Lake Mountain and Mt Baw Baw ARMBs

Mt Baw Baw and Lake Mountain report against the Economic Sustainability Indicators outlined in the Ministerial Direction of 2004. Mt Baw Baw and Lake Mountain have consistently not been able to move beyond the first stage of these sustainability indicators - being Cash Flow Positive without Government Support.

The Boards have adopted policies this year to partially fund long term liabilities and provide for asset replacement thereby improving the transparency of the level of on-going operational support required.

RESPONSE provided by the Chairman of the Lake Mountain and Mt Baw Baw ARMBs – continued

Both Boards have a broad plan to address this issue in the medium term and have recently raised the issue of medium term funding with the Minister in the context of the 2009 Corporate Plans Objectives and Financial targets and becoming financially self sufficient

Until these discussions are finalised in terms of both on-going support and additional contributions by Government it is not possible to execute on this strategy.

RESPONSE provided by the Secretary of the Department of Sustainability and Environment

The Department of Sustainability and Environment notes the improved internal controls of the Alpine Resorts Management Boards and the improved timeliness and accuracy of the financial statements. The department will work in collaboration with the Alpine Resorts Management Boards to ensure that audit recommendations are addressed.

3.8 Financial sustainability indicators

Alpine Resort Management Boards	Underlying Result (%)				Liquidity				Debt to equity (%)				Self financing (%)				Capital Replacement			
	2006	2007	2008	Trend	2006	2007	2008	Trend	2006	2007	2008	Trend	2006	2007	2008	Trend	2006	2007	2008	Trend
Mt Baw Baw	-13%	3%	-5%	▲	0.8	1.2	0.8	►	0%	1%	1%	▲	15.0%	9.7%	2.1%	▼	0.8	0.7	0.9	▲
Lake Mountain	-19%	4%	-17%	▲	0.2	0.7	0.9	▲	1%	7%	6%	▼	13.5%	27.1%	9.6%	▼	0.3	0.5	0.3	►
Falls Creek	-1%	10%	17%	▲	2.8	3.2	3.6	▲	0%	0%	0%	►	6.2%	23.3%	28.4%	▲	1.6	1.2	1.9	▲
Mount Hotham	9%	4%	-2%	▼	1.3	1.7	2.1	▲	0%	2%	3%	▲	22.4%	41.5%	9.8%	▼	10.8	7.6	1.6	▼
Mount Buller and Mount Stirling	12%	14%	-1%	▼	4.2	4.1	4.1	►	0%	1%	1%	▲	30.3%	25.0%	22.6%	▼	1.6	2.7	1.1	▼
Average	-3%	7%	-2%	▲	1.8	2.2	2.3	▲	0%	2%	2%	▲	17.5%	25.3%	14.5%	▼	3.0	2.5	1.1	▼

Source: Victorian Auditor-General's Office.

Note: Legend for trends: ▲ = an increasing ratio is a deteriorating trend
▼ = a decreasing ratio is a deteriorating trend
▲ = increasing ratio is an improving trend
▼ = a decreasing ratio is an improving trend
► = no substantial trend

3.9 Audit Status

	Audit Type		Financial Statements		Timeliness of financial statement completion		
Alpine resort management board	FMA	Non-FMA	Clear opinion	Opinion date	< 12 wks	12 wks – 18 wks	18 wks >
COMPLETED AUDITS – 31 OCTOBER 2008 BALANCE DATES							
Falls Creek Alpine Resort Management Board	✓		✓	09-Jan-09	✓		
Lake Mountain Alpine Resort Management Board	✓		✓	08-Jan-09	✓		
Mount Baw Baw Alpine Resort Management Board	✓		✓	08-Jan-09	✓		
Mount Buller and Mount Stirling Alpine Resort Management Board	✓		✓	22-Jan-09	✓		
Mount Hotham Alpine Resort Management Board	✓		✓	22-Jan-09	✓		
2008 Total	**5**				**5**		
2007 Total	**5**					**5**	

Source: Victorian Auditor-General's Office.

4 Other entities

At a glance

Background

There are five other entities with non-June balance dates that are required to prepare financial statements and have them audited. These entities include the:

- Medical Practitioners Board of Victoria
- Psychologists Registration Board of Victoria
- Anti-Cancer Council of Victoria
- Municipal Authorities Purchasing Scheme (MAPS) group Ltd
- Melbourne Cricket Ground (MCG) trust.

There are also 11 entities included whose financial statements were submitted for audit after the 31 October 2008 close-off for entities with 30 June balance dates. This meant they were not included in the audit report tabled in Parliament in December 2008.

Findings

At 15 April 2009, three clear audit opinions and one qualified audit opinion had been issued.

There were 11 clear audit opinions issued on entities with 30 June 2008 balance dates since the December 2008 report.

4.1 Scope

This part of the report addresses other entities not covered under the previous sector-based parts of this report that have balance dates after 30 June 2008. Figure 4A lists these other entities and the date of financial year-end.

Figure 4A
Other entities with balance dates after 30 June 2008

Sector	Entity	Balance date
Health	Medical Practitioners Board of Victoria	30 September
	Psychologists Registration Board of Victoria	31 December
	Anti-Cancer Council of Victoria	31 December
Local government	Municipal Authorities Purchasing Scheme (MAPS) Group Ltd	30 September
Sport and recreation	Melbourne Cricket Ground (MCG) Trust	31 March

Source: Victorian Auditor-General's Office.

In addition, this report provides details on 11 entities with 30 June balance dates whose financial statements were not submitted or whose audits were incomplete at 31 October 2008, the cut-off date for the December 2008 report[1].

4.2 Reporting framework

The principal legislation governing the financial reporting requirements of these entities is the *Financial Management Act 1994* (FMA), with the exception of **MAPS Group Ltd**, which reports under the *Corporations Act 2001*.

4.3 Results of audits

At 15 April 2009, three clear opinions and one qualified audit opinion were issued. The 2008–09 financial statements for the **MCG Trust** are not required to be finalised until 30 June 2009. They are therefore not dealt with in this report. Their 2007–08 financial statements were finalised on 22 May 2008 and were unqualified.

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

4.4 Quality of reporting

The quality of reporting can be measured by the accuracy and the timeliness of report preparation and finalisation.

[1] Victorian Auditor-General's Office 2008, *Results of Financial Statement Audits for Agencies with 30 June 2008 Balance Dates (2008–09:14)*, Victorian Government Printer, Melbourne.

4.4.1 Timeliness

Three of the four entities finalised their audited financial statements within 12 weeks. The **Psychologists Registration Board of Victoria** finalised their statements within 13 weeks. This result is consistent with 2007. Further details of these entities are available in Section 4.5.

4.4.2 Accuracy

Another measure of report quality is the number and size of adjustments required to finalise the financial statements. When the audit process reveals errors in the draft financial statements, they are raised with the entity. If the errors are considered material, adjustments are requested.

One of the four entities was required to make one adjustment in order to finalise their financial statements. This is an improvement from 2007 where two of the four entities made adjustments in finalising the financial statements.

4.5 Audit status

Entity	Audit types		Financial statements		Timeliness of audited financial statement completion		
	FMA	Non-FMA	Clear opinion issued	Auditor-General's report signed	< 12 weeks	> 12 < 18 weeks	> 18 weeks (b)
COMPLETED AUDITS—30 SEPTEMBER 2008 BALANCE DATES							
MAPS Group Ltd *(a)*		●	✓	3 Dec. 2008	●		
Medical Practitioners Board of Victoria	●		✓	19 Dec. 2008	●		
COMPLETED AUDITS— 31 DECEMBER 2008 BALANCE DATES							
Anti-Cancer Council of Victoria ***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.*	●		×	23 Feb. 2009	●		
Psychologists Registration Board of Victoria	●		✓	31 Mar. 2009		●	
2008 TOTAL	**3**	**1**			**3**	**1**	
2007 TOTAL	**3**	**1**			**3**	**1**	
NOT COMMENCED AUDITS— 31 MARCH 2009 BALANCE DATE							
Melbourne Cricket Ground Trust		●			*Financial report yet to be submitted for audit*		

Note: *(a)* Municipal Authorities Purchasing Scheme.
(b) 18 weeks has been used to measure timeliness as it approximates four months after the end of the financial year end.

Source: Victorian Auditor-Generals Office.

Audit status – *continued*

	Audit types		Financial statements		Timeliness of audited financial statement completion		
Entity	FMA	Non-FMA	Clear opinion issued	Auditor-General's report signed	< 12 weeks	> 12 < 18 weeks	> 18 weeks
COMPLETED AUDITS— 30 JUNE 2008 BALANCE DATES							
Department of Human Services							
Bass Coast Community Health Care Service Inc		●	✓	22 Dec. 2008			●
Bendigo Community Health Services Inc		●	✓	7 Nov. 2008		●	
Bentleigh Bayside Community Health Services Inc		●	✓	7 Nov. 2008		●	
Calvary Health Care Bethlehem Ltd		●	✓	7 Nov. 2008		●	
Eastern Access Community Health Inc		●	✓	20 Feb. 2009			●
Gippsland Health Alliance		●	✓	14 Nov. 2008		●	
HumeNet Limited		●	✓	9 Jan. 2009			●
Knox Community Health Service Inc		●	✓	17 Dec. 2008			●
Peninsula Community Health Services Inc		●	✓	14 Nov. 2008		●	
Department of Sustainability and Environment							
First Mildura Irrigation Trust (a)	●		✓	13 Jan. 2009			●
Department of Justice							
Melton Entertainment Trust	●		✓	6 Jan. 2009			●
Total	**2**	**9**				**5**	**6**

Note: First Mildura Irrigation Trust has a revised balance date of 19 August 2008
Source: Victorian Auditor-General's Office.

Entity	FMA	Non-FMA	Clear opinion issued	Auditor-General's report signed	< 12 weeks	> 12 < 18 weeks	> 18 weeks
INCOMPLETE AUDITS—30 JUNE BALANCE DATES							
Department of Human Services							
Cobram District Health Services Foundation		●					*Audit to be finalised*
Grampians Community Health Centre Inc		●					*Audit to be finalised*
Sunraysia Community Health Services Inc		●					*Financial report yet to be finalised*
Goulburn Valley Community Health Services Inc		●					*Financial report yet to be submitted for audit*
ISIS Primary Care Inc		●					*Financial report yet to be submitted for audit*
MonashLink Community Health Services Inc		●					*Financial report yet to be submitted for audit*
Nillumbik Community Health Services		●					*Financial report yet to be submitted for audit*
North Yarra Community Health Inc		●					*Financial report yet to be submitted for audit*
Plenty Valley Community Health Inc		●					*Financial report yet to be submitted for audit*
Department of Innovation, Industry and Regional Development							
VCPO Limited		●					*Audit to be finalised*
TOTAL		**10**					

Note: (a) First Mildura Irrigation Trust has a revised balance date of 19 August 2008.
Source: Victorian Auditor-Generals Office.

Appendix A. Glossary

Acronyms

AASB	Australian Accounting Standards Board
A-IFRS	Australian Equivalents to International Financial Reporting Standards
ARMB	Alpine Resort Management Board
ASIC	Australian Securities and Investments Commission
BIPA	Borrowing and Investment Powers Act 1958
FMA	Financial Management Act 1994
FRD	Financial Reporting Direction
KPI	Key Performance Indicator
TAFE	Technical and Further Education Institute
VAGO	Victorian Auditor-General's Office

Definitions

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.

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.

Auditor's opinion

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

Capital expenditure

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

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

Depreciation

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

Emphasis of matter

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

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.

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.

Impairment loss

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

Independent auditor's report

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

Public sector entity

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

Qualification

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

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

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

Revenue

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

Auditor-General’s reports

Reports tabled during 2008–09

Report title	Date tabled
Managing Complaints Against Ticket Inspectors (2008–09:1)	July 2008
Records Management Checklist: A Tool to Improve Records Management (2008–09:2)	July 2008
Investing Smarter in Public Sector ICT: Turning Principles into Practice (2008–09:3)	July 2008
Private Practice Arrangements in Health Services (2008–09:4)	October 2008
Working with Children Check (2008–09:5)	October 2008
CASES21 (2008–09:6)	October 2008
School Buildings: Planning, Maintenance and Renewal (2008–09:7)	November 2008
Managing Acute Patient Flows (2008–09:8)	November 2008
Biosecurity Incidents: Planning and Risk Management for Livestock Diseases (2008–09:9)	November 2008
Enforcement of Planning Permits (2008-09:10)	November 2008
Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2007–08 (2008–09:11)	November 2008
Local Government: Results of the 2007–08 Audits (2008–09:12)	November 2008
Management of the Multi-Purpose Taxi Program (2008–09:13)	December 2008
Results of Audits for Entities with 30 June 2008 Balance Dates (2008–09:14)	December 2008
Preparedness to Respond to Terrorism Incidents: Essential services and critical infrastructure (2008–09:15)	January 2009
Literacy and Numeracy Achievement (2008–09:16)	February 2009
Administration of the *Flora and Fauna Guarantee Act 1988* (2008–09:17)	April 2009
Access to Public Hospitals: Measuring Performance (2008–09:18)	April 2009
Management of School Funds (2008–09:19)	May 2009
The New Royal Children’s Hospital—a public private partnership (2008–09:20)	May 2009
The Channel Deepening Project (2008–09:21)	May 2009

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