

ANZUIAG

“Education Sector and Public Sector Issues”

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1. Role of the Victorian Auditor-General
2. Parliamentary Reporting – *“Tertiary Education and Other Entities: Results of the 2010 Audits”*
3. 2011 Possible Audit Issues
4. Open Forum - questions

Our Role

- Independent assurance to Parliament
- Constitutional safeguard

Our Purpose

- Providing assurance to Parliament on the accountability and performance of the Victorian public sector

Underlying this, we aim to

- Be a **catalyst for improvement** in the public sector
- Presentations and discussions like this are a key way to promote improvement and share lesson from audits

Role of the Auditor-General: Audit mandate

Financial audit – ‘how much’?

- Review financial statements of 560+ entities each year
- Report on State’s Budget & financial statements
- Audit of some entities’ performance indicators

Performance audit – ‘how well’?

- Determine whether an entity is achieving objectives & operating economically, efficiently and effectively in compliance with all relevant Acts
- Not to question the merits of policy objectives
- Wide powers of access and examination

Role of the Auditor-General: Our clients and our organisation

Over 560 client agencies include:

- Government departments
- Companies, trusts and joint ventures
- Public bodies
- Public hospitals and ambulances
- Financial
- Local government
- Water corporations
- Police, emergency services and courts
- **Universities and TAFEs**
- Superannuation schemes

Our organisation

- ~\$36 million actual 2010-11, ~140 FTE people
- Financial audit → 2011-12 target: audit opinions on 560+ financial statements and 113 performance statements, CPA/CA staff
- Performance audit → in-house teams, 30+ audits p.a., multi-disciplinary

Tertiary Education and Other Entities: Results of the 2010 Audits



Background

113 entities with a financial year end other than 30 June 2010

- 105 tertiary education sector entities, including:
 - 8 universities and their 63 controlled entities
 - 14 TAFE institutes and their 12 controlled entities
 - 6 training entities and their 2 controlled entities
- 5 alpine resorts
- 3 other entities.

Overall conclusion

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

Audit opinions issued on financial reports at 30 April 2011

- 103 of 105 for universities, TAFEs and controlled entities
- 2 qualifications – both Universities and related to recognition of grant revenue.

Audit opinions issued on performance reports at 30 April 2011, all in the TAFE sector.

- Clear opinion issues on all 20 reports

Quality of reporting

Universities and TAFEs assessed against financial report preparation better practices

	Universities		TAFEs		Total	
Quality of financial reporting	(%)	(number)	(%)	(number)	(%)	(number)
Improved from previous year	0	0	14	2	9	2
Same as previous year	100	8	65	9	77	17
Worse than previous year	0	0	21	3	14	3
Total	100	8	100	14	100	22

Quality of reporting (cont)

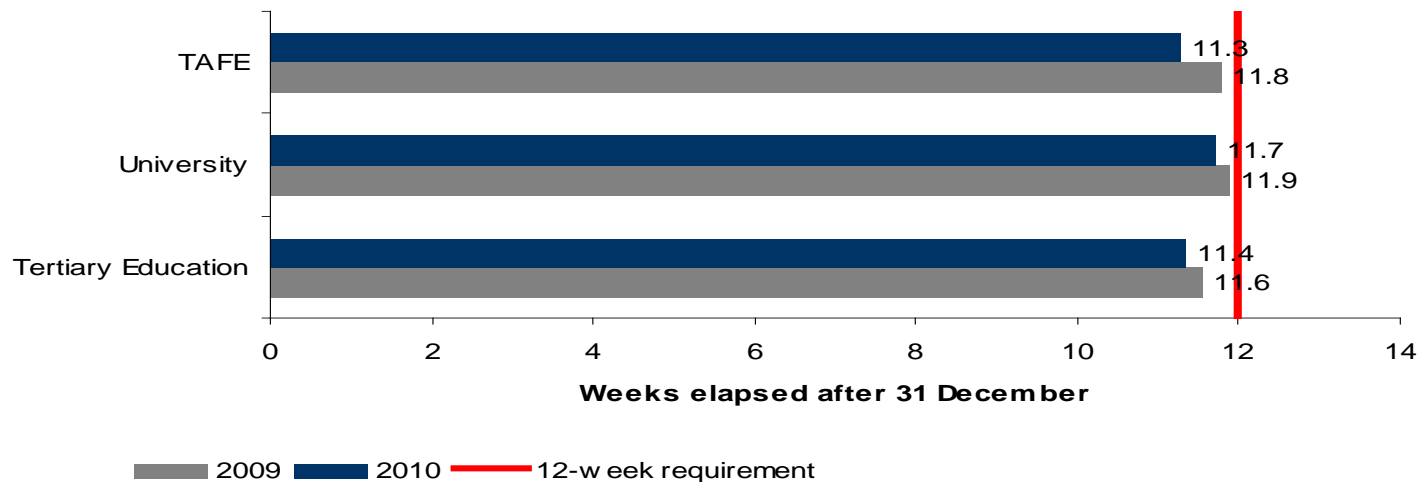
Further improvement is still needed in:

- preparing financial report plans
- preparing shell financial statements
- undertaking materiality assessments
- undertaking rigorous quality control and assurance procedures
- undertaking reviews of controls/self assessment
- undertaking financial compliance reviews
- ensuring adequate security.

Quality of reporting (cont)

Timeliness – 12-week requirement

Average time to finalise financial reports for TAFEs, universities and tertiary education entities



Quality of reporting (cont)

Recommendations

- That universities and TAFEs continue to refine their financial reporting processes by preparing shell financial statements and conducting rigorous quality control and assurance procedures.

Effectiveness of internal control

General internal control

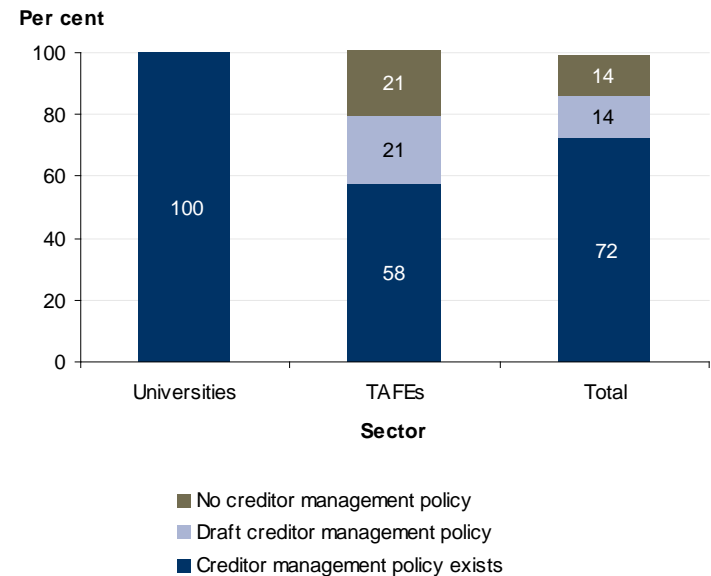
- Systems and processes in place were adequate for financial reporting purposes
- Internal controls require strengthening in the following areas:
 - review of masterfile standing data changes
 - preparation and review of account reconciliations
 - documentation and review of core financial policies and procedures
 - absence of information system security strategies.

Effectiveness of internal control (cont)

Controls over creditors

Universities owed creditors \$153 million at 31 December 2010 (2009: \$133 million).

Universities and TAFEs with creditor management policies



Controls over creditors (cont)

Effective creditor controls and processes include:

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

Recommendations

1. Improve the controls over creditor management, by:
 - establishing comprehensive creditor management policies and procedures and reviewing them periodically
 - using external benchmarks to assess creditor management performance
 - reviewing the ageing of creditors on a regular basis
 - cleansing the vendor masterfile at least annually
 - providing comprehensive creditor payment and aged analysis reports, including benchmarked payment performance information, to be regularly provided to governing bodies
 - engaging internal audit to periodically review creditor management practices and related policy compliance.

Management of employee leave

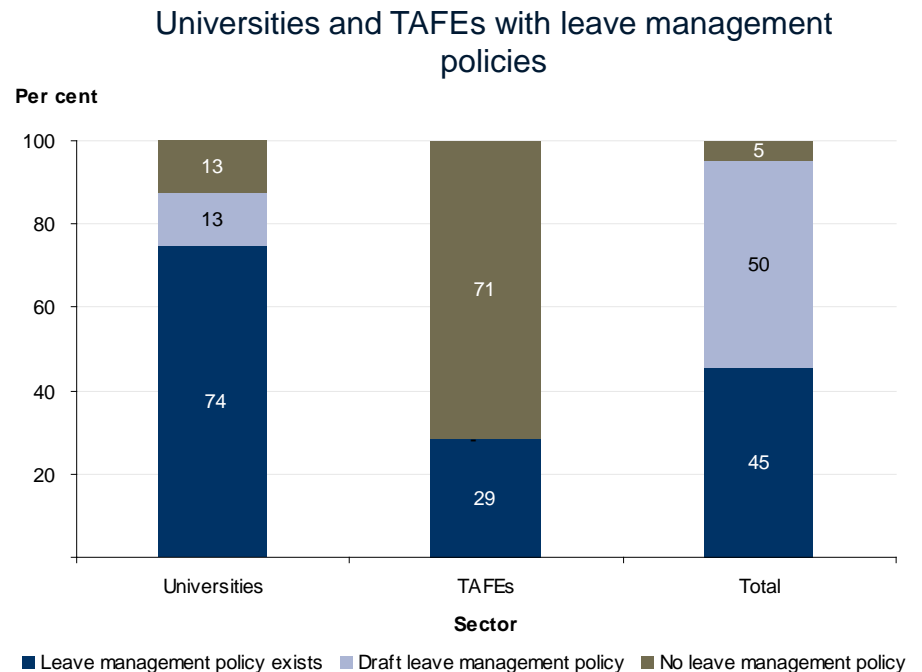
Effective leave management framework includes:

- comprehensive **leave policies**
- effective **leave management practices**
- sound **governance and oversight** arrangements

Effectiveness of internal control (cont) Management of employee leave

Largest item of expenditure for Universities is salaries and related expenditure.

Largest item of liability for Universities is employee leave liabilities.



Management of employee leave (cont)

Effective leave management framework includes:

- comprehensive **leave policies**
- effective **leave management practices**
- sound **governance and oversight** arrangements

Recommendations

1. Improve the controls over leave management, by:
 - Establishing comprehensive leave management policies and procedures and reviewing them periodically
 - Introducing comprehensive leave monitoring arrangements, including benchmarking leave performance outcomes and costs
 - Reviewing practices and processes periodically
 - Requiring comprehensive leave management reports, including action plans for any adverse movements identified, to be provided to governing bodies
 - Engaging internal audit to periodically review leave management practices and related policy compliance.

Recommendations (cont)

2. That Universities establish processes that encourage staff to take their recreation leave entitlements at planned intervals to reduce leave liabilities and maintain a healthy workforce.
3. That Universities benchmark sick leave absences against industry averages to enable timely decision-making to reduce the impact on operational performance.

Financial sustainability

Analysis of five selected indicators – the underlying result, level of liquidity, debt-to-equity ratio, self-financing capability and level of capital replacement.

- the University sector's overall financial sustainability risk assessment is **low**.
- the self-financing ratio shows the weakest results with a **moderate-risk** assessment.

Financial Audit focus areas

- International student fee revenue
- Capital project management
- Information technology security

Performance audits

- TAFE governance
- Ageing of teacher workforce
- Casual relief teacher arrangements

1. Valuation of Available for sale equity instruments

- Need to consider if there is objective evidence that asset is impaired.
- AASB 139, paragraph 59 sets out general indicators of impairment, this includes:
 - A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost. This is not defined.

1. Valuation of Available for sale equity instruments (cont.)

- VAGO has developed guidance to consider these issues:
 - Mutually exclusive, 'significant' or 'prolonged'.
 - Significant , where fair value has fallen by 20% or more below cost.
 - Prolonged, fair value has fallen below cost for period of 12 months or more, regardless of percentage decline.

1. Valuation of Available for sale equity instruments (cont.)

- Prefer that each financial asset be considered individually.
- Tests are indicators, may be an impairment where not met, and visa versa.
- Support with evidence.
- Reversal of previous impairment loss must be taken to equity, not income.

2. Government Grant Funding

Generally meets definition of non-reciprocal transfers and needs to be recognised as revenue. Have issued qualified opinions for non compliance.

3. International Student Revenue

General decline in international student revenue. Assess impact on financial position of universities. Aware that some universities are going through or planning redundancy programs, need to assess if a provision for redundancy needs to be booked at 31 December 2011.

Questions?

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