

A U D I T V I C T O R I A

**REPORT ON MINISTERIAL
PORTFOLIOS**

MAY 1990

OFFICE OF THE AUDITOR-GENERAL OF VICTORIA

VICTORIA

R.A. WALKER
Chief Director of Audits

AUDITOR-GENERAL
OF VICTORIA

**REPORT ON
MINISTERIAL PORTFOLIOS,
MAY 1990**

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May 1990

The Honourable the Speaker
Legislative Assembly
Parliament House
Melbourne, Vic. 3002

Sir

Under the authority of section 48 of the *Audit Act* 1958, I transmit a report on the audit of ministerial portfolios. The report also contains a section on the Parliament of Victoria as well as a section on matters of broad scope interest.

This report completes the cycle of my auditing activities in relation to the 1988-89 financial year, and reflects ministerial portfolios and responsibilities operative at the end of March 1990.

Yours faithfully


C.A. BARAGWANATH
Auditor-General

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FOREWORD

In introducing my 1989 *Report on Ministerial Portfolios* I expressed the view that, if an Auditor-General is to act in the public interest, the audit mandate must extend beyond the verification of financial statements. I went on to point out that the comprehensive audit approach first adopted by my predecessors is not restricted to the verification of financial statements but includes examinations of economy, efficiency and effectiveness in the use of public funds, and that the reports of such examinations are a key link in the public sector accountability chain.

The findings of my 1990 *Report on Ministerial Portfolios*, summarised in the Executive Summary on pages 3 to 10 of this report, have reinforced my belief that examining economy, efficiency and effectiveness is a vital element in the audit of public entities.

In recent times, considerable public attention has centred on the financial problems of the State Bank of Victoria. In view of the fact that the Bank is guaranteed by the State Government, concern has been expressed within the community about the likelihood of Victorian taxpayers having to underwrite any losses arising from the financial problems. I have been disturbed that numerous inquiries directed to my Office concerning the Bank's operations indicate that there is a misconception prevalent in the community that the Auditor-General is the auditor of the Bank and its associated bodies. This has obviously given rise to the

erroneous expectation that in this report to Parliament I would be commenting on the losses incurred by a subsidiary of the Bank and, more importantly, the reasons underlying those losses.

On 11 April this year, a motion was passed by the Legislative Council requesting me to inquire into and report on the extent to which the financial affairs of the State Bank Group impact on the State's financial position. As I am not the auditor of the State Bank or its subsidiaries, I have advised the Legislative Council that my inquiries into the financial affairs of the State Bank Group will therefore be limited to an examination of the relevant government records and I will report to the Parliament in due course.

The *Audit Act* 1958 authorises me as Auditor-General to include in any of my reports to the Parliament recommendations aimed at "more effectually and economically auditing and examining the public accounts or the accounts of public authorities". In that context I must express my concern that the current provisions in the *State Bank Act* 1988 for the audit of the Bank have an unnecessarily narrow focus which is restricted to the attestation of the financial statements. There are no provisions requiring the private auditor to extend the scope of the audit to include an examination of the economy, efficiency and effectiveness of the Bank's operations or to report directly to the Parliament on the results of the audit.

As a consequence, I consider that an adequate level of accountability is not being achieved on behalf of the shareholders of the Bank - the taxpayers of Victoria. There is a growing expectation that the Parliament and the public in general are entitled to receive independent assurances that government agencies, such as the State Bank, which are entrusted with public resources are discharging their fiscal, managerial and program responsibilities economically, efficiently and effectively for the benefit of Victorian citizens.

I firmly believe that independent examinations of economy, efficiency and effectiveness in policy implementation must be an integral part of the audit of all public bodies and that the results of those examinations should be promptly reported to the public through the Parliament. I am pleased to acknowledge that legislation is currently before Parliament to confirm my mandate to conduct such examinations. However, in respect of those public bodies, including public sector companies and trusts which are audited by private auditors, I recommend to the Parliament that it consider the necessary changes to existing auditing provisions to ensure that such bodies are subject to similar audit scrutiny and reporting.

PART 1

EXECUTIVE SUMMARY

1.1

EXECUTIVE SUMMARY

1.1.1 Key findings arising from the audit reviews of the Parliament of Victoria, ministerial portfolios, and issues of broad scope interest are highlighted at the beginning of each individual section of this report.

1.1.2 The findings support the views expressed both by myself and my predecessors in past years that there is an urgent need for agencies to give high priority to enhancing financial management in the public sector.

1.1.3 By way of example, this report highlights the fact that the incidence of interest revenue being forgone by the State because of inefficient cash management practices has increased to a level where it is likely to have an adverse impact on the delivery of some community programs.

1.1.4 Another trend which has become evident in this report is the tendency by some agencies to provide somewhat negative and at times inaccurate responses to constructive audit comments and observations. This tendency demonstrates that there is a lack of appreciation of the role that the Auditor-General plays in the provision of objective and independent opinions on the operations of public sector agencies.

1.1.5 In my view the poor attitude displayed by some agencies towards audit recommendations is counterproductive in terms of improving the financial management of the State and not in the interest of the community.

1.1.6 Major findings are summarised below:

AGRICULTURE AND RURAL AFFAIRS
<p>♦ Need for the Department to enhance the management of its scientific equipment.</p> <p style="text-align: right;"><i>paras 3.1.4 to 3.1.14</i></p>

ARTS

- ♦ Storage facilities of the Museum of Victoria have not been improved resulting in continuing damage to the State Collection involving several million dollars annually.
paras 3.2.5 to 3.2.7
- ♦ Need for improved management procedures relating to financial assistance to film producers at Film Victoria.
paras 3.2.31 to 3.2.57
- ♦ The State Film Centre has abandoned the "Video in Library" program following financial losses.
paras 3.2.63 to 3.2.70

ATTORNEY-GENERAL

- ♦ Beneficiaries were disadvantaged as a result of the statutory transfer of in excess of \$20 million of their assets to the State Trust Corporation.
paras 3.3.21 to 3.3.35
- ♦ By retaining funds in non-interest bearing bank accounts, the Department has forgone interest income totalling approximately \$1.1 million during the past 3 years.
paras 3.3.1 to 3.3.8

COMMUNITY SERVICES

- ♦ Need for the Department to review catering practices at training centres with the aim of improving economy and efficiency of operations.
paras 3.4.1 to 3.4.10

CONSERVATION, FORESTS AND LANDS

- ♦ Consistently high level of long outstanding debtors of the Department with an average value of \$6.3 million in excess of 3 months.
paras 3.5.1 to 3.5.5
- ♦ The Department should review the viability of its weedicides resale scheme.
paras 3.5.14 to 3.5.19

CONSUMER AFFAIRS

- ♦ The Ministry does not actively seek to detect unlicensed motor car traders.
paras 3.6.1 to 3.6.6
- ♦ Substantial government subsidies are required to finance administration costs of the Motor Car Traders Guarantee Fund.
paras 3.6.7 to 3.6.10

EDUCATION

- ♦ False documentation was used by the Ministry to support expenditure estimated by audit to be in the order of \$7.8 million.
paras 3.8.1 to 3.8.5.
- ♦ Full-time and emergency teachers were overpaid several million dollars by the Ministry.
paras 3.8.36 to 3.8.46
- ♦ The Ministry continued to experience substantial budget overruns with an overrun of \$88 million in 1988-89.
paras 3.8.85 to 3.8.92
- ♦ For the third year in a row, inefficiencies in the State Training Board have caused substantial delays in the State claiming Commonwealth Government funding.
paras 3.8.219 to 3.8.226
- ♦ Unless the weaknesses in the Council of Adult Education's financial position are addressed, the Council's programs may be jeopardised.
paras 3.8.106 to 3.8.142

EDUCATION - continued

- ♦ Delays in finalisation of accommodation needs of La Trobe University's School of Health Sciences have led to a substantial loss of public funds.
paras 3.8.143 to 3.8.172
- ♦ Significant deficiencies in financial management and accountability at the Victorian Schools' Nursery.
paras 3.8.47 to 3.8.78

HEALTH

- ♦ Substantial savings could be achieved through the elimination of inefficient work practices in relation to cleaning duties in psychiatric hospitals.
paras 3.10.1 to 3.18.13
- ♦ Standard of financial reporting by public hospitals requires improvement.
paras 3.10.47 to 3.10.59
- ♦ Accountability of public hospitals and associated entities needs to be clarified.
paras 3.10.18 to 3.10.46

HOUSING AND CONSTRUCTION

- ♦ Ministry strategies have failed to substantially reduce the unsatisfactory level of rental arrears amounting to \$15.5 million at 4 March 1990.
paras 3.11.1 to 3.11.22
- ♦ Serious overcharging to the Ministry by maintenance contractors.
paras 3.11.31 to 3.11.37
- ♦ Current estimate of cost of cleaning a parcel of land acquired from a petroleum company for the Port of Melbourne Bayside site is now \$19 million, which will be mainly borne by the State.
paras 3.11.38 to 3.11.45

INDUSTRY, TECHNOLOGY AND RESOURCES

- ♦ The Department has improved its procedures for providing financial assistance to industry.

paras 3.12.1 to 3.12.4

PLANNING AND ENVIRONMENT

- ♦ Self-monitoring of waste discharge and stack emissions has potential for abuse by Environment Protection Authority licence holders.

paras 3.15.16 and 3.15.18

POLICE AND EMERGENCY SERVICES

- ♦ Lack of follow-up of outstanding warrants valued at \$46 million held at the Police Information Bureau.

paras 3.16.10 to 3.16.12

- ♦ Scope for substantial reduction in the cost of providing meals to prisoners through the use of arrangements other than those presently made with Police social clubs.

paras 3.16.16 to 3.16.25

- ♦ Potential for additional annual interest earnings of approximately \$465 000 on balances held in bank accounts maintained by the Force.

paras 3.16.42 to 3.16.45

- ♦ Revenue of \$650 000 has been forgone during 1988-89 as a result of delays by the Force in processing parking and traffic infringement notices.

paras 3.16.50 to 3.16.52

PROPERTY AND SERVICES

- ♦ Serious concern at the protracted development since 1983 of the major land information project known as "Landata".
paras 3.18.1 to 3.18.12
- ♦ The Department has incurred considerable additional annual costs because of extended delays in awarding of cleaning contracts.
paras 3.18.26 to 3.18.34
- ♦ The State is currently exposed to potential insurance liability in the event of negligence by cleaning contractors employed by the Department.
paras 3.18.35 to 3.18.37

SPORT AND RECREATION

- ♦ Need for the Department to disclose to the Parliament the aggregate level of assistance provided by the State for the Olympic Games bid.
paras 3.19.6 to 3.19.10
- ♦ The National Tennis Centre Trust's capacity to meet substantial future debt obligations needs to be promptly addressed by the Government.
paras 3.19.17 to 3.19.21
- ♦ The Government has provided special short-term financial assistance to the National Tennis Centre Trust because of the Trust's serious liquidity problems.
paras 3.19.22 to 3.19.27
- ♦ Significant problems have been encountered with the development of Tabaret, with substantial revenue and cost implications.
paras 3.19.28 to 3.19.60

TOURISM

- ♦ The success of the Victorian Tourism Commission in meeting the Government's tourism strategy cannot be determined.
paras 3.20.10 to 3.20.13
- ♦ Projects managed by the Commission have not generated a return on government investments amounting to \$12 million.
paras 3.20.16 to 3.20.40
- ♦ Excessive expenditure incurred by the Commission in the operation of its international offices.
paras 3.20.41 to 3.20.50

TRANSPORT

- ♦ Repairs to transport assets affected by vandalism and graffiti cost \$6 million in 1988-89. Preventative measures are expected to cost the taxpayer \$14.3 million in 1989-90.
paras 3.21.23 to 3.21.41
- ♦ MET buses cost 48 per cent more to operate on a cost per kilometre basis than contracted private bus services. In 1988-89, this cost differential equated to \$12.8 million.
paras 3.21.42 to 3.21.67
- ♦ Need for the Roads Corporation to examine whether retention of properties acquired for road development (valued at \$766 million) over substantial periods represents optimal resource management.
paras 3.21.79 to 3.21.87
- ♦ Substantial financial implications to the Port of Melbourne Authority as a consequence of delays in the sale of the World Trade Centre.
paras 3.21.14 to 3.21.22

TREASURER

- ♦ Pending legislative enactment, secrecy provisions in the Taxation legislation currently preclude the Auditor-General from auditing substantial segments of State revenue.
paras 3.22.1 to 3.22.5
- ♦ Government initiatives in the administration of public sector insurance have achieved cost savings in excess of \$4 million.
paras 3.22.6 to 3.22.9
- ♦ WorkCare funds available at 30 June 1989 represented 16 per cent of funds required to meet outstanding claims.
paras 3.22.10 to 3.22.17
- ♦ At 30 June 1989 former VEDC loans written-off or considered doubtful amounted to \$130 million.
paras 3.22.27 to 3.22.30

WATER RESOURCES

- ♦ Shortcomings in the method of assessing the entitlement of non-metropolitan water authorities to government financial assistance.
paras 3.23.21 to 3.23.26
- ♦ Serious doubts exist as to the financial viability of many water authorities.
paras 3.23.27 to 3.23.34
- ♦ Due to industrial action, publicly-funded fluoridation assets to the value of \$3.3 million remain idle at certain water authorities.
paras 3.23.35 to 3.23.39

PART 2

PARLIAMENT OF VICTORIA

2.1

PARLIAMENT

KEY FINDING

- ♦ Increase in Members' unpaid accounts at State Parliament Refreshment Rooms requires follow-up action.

paras 2.1.7 to 2.1.11

PARLIAMENT OF VICTORIA

2.1.1 The Parliament of Victoria is composed of the Crown (represented by the Governor), the Legislative Council and the Legislative Assembly which collectively form the legislature.

2.1.2 The Legislative Council and Legislative Assembly are serviced by 5 parliamentary departments, namely:

- ♦ The Department of the Legislative Council which provides technical and administrative support services for the Legislative Council and its committees;
- ♦ The Department of the Legislative Assembly which provides technical and administrative support services for the Legislative Assembly and its committees;
- ♦ The Parliamentary Library which provides specialised information and research services to Members of Parliament, parliamentary committees, and their associated research and academic staff;
- ♦ The Parliamentary Debates (Hansard) Department which reports and publishes the debates of Parliament in the official report *Hansard* and reports minutes of evidence taken by parliamentary committees; and
- ♦ The Joint House Committee which co-ordinates the provision of the ancillary services necessary to facilitate the operations of the legislature. These services include financial management and all accounting services, the operation of the Refreshment Rooms, the maintenance of parliamentary gardens and buildings, and the management of all State electorate offices.

2.1.3 Officers of the Parliament are employed under the provisions of the *Parliamentary Officers Act* 1975 and as such are not subject to the conditions of the *Public Service Act* 1974.

2.1.4 Under the *Parliamentary Officers Act* 1975 the persons holding the offices of Clerk of the Legislative Council, Clerk of the Legislative Assembly, Librarian, Chief Reporter of the Victorian Parliamentary Debates and Secretary of the House Committees are the chief administrative officers of the respective parliamentary departments.

FINANCIAL TRANSACTIONS

2.1.5 As there is no legislative requirement to present audited financial statements to Parliament, the payments of the Parliament of Victoria for the year ended 30 June 1989, together with comparative figures for the previous year, are detailed in Table 2.1A on a parliamentary department/program basis.

TABLE 2.1A. PARLIAMENT OF VICTORIA, PAYMENTS
(\$'000)

<i>Program</i>	<i>1987-88</i>	<i>1988-89</i>
Legislative Council Program -		
Members' salaries and expenses	2 962	3 187
Committee expenses (incl. Select Committee)	960	823
Payroll tax	236	248
Office staff salaries and expenses	631	707
	<u>4 789</u>	<u>4 965</u>
Legislative Assembly Program -		
Members' salaries and expenses	5 442	5 827
Committee expenses (incl. Select Committee)	714	617
Payroll tax	416	436
Parliamentary printing	2 124	2 293
Office staff salaries and expenses	1 459	1 574
	<u>10 155</u>	<u>10 747</u>
Parliamentary Library Program -		
Payroll tax	35	40
Salaries and payments in the nature of salary	594	661
Administrative expenses	144	151
	<u>773</u>	<u>852</u>
Parliamentary Debates Program -		
Payroll tax	63	64
Salaries and payments in the nature of salary	1 076	1 073
Administrative expenses	41	48
	<u>1 180</u>	<u>1 185</u>
Parliamentary Support Services Program -		
Payroll tax	335	346
Salaries and payments in the nature of salary	5 012	5 498
Administrative expenses	619	664
Refreshment Rooms	606	697
Members' accommodation	76	20
Electorate offices -		
Expenses	4 301	3 984
Adaptations	194	783
Other expenses	658	854
	<u>11 680</u>	<u>12 967</u>
Total payments	28 577	30 716

STATE PARLIAMENT REFRESHMENT ROOMS

Audit arrangements

2.1.6 The State Parliament Refreshment Rooms are located in the precincts of Parliament House and provide dining room and bar facilities for Members and staff. The audit of the Refreshment Rooms is undertaken in accordance with a resolution of the House Committee dated 2 September 1952.

Unpaid meal accounts

2.1.7 Members of Parliament using the facilities of the Refreshment Rooms may pay for their meals or drinks either in cash or by utilising deferred payment facilities made available to them. Where deferred payment facilities are used, the Members are invoiced on a monthly basis. Fines of 10 per cent are imposed on accounts outstanding in excess of 30 days.

2.1.8 The overall operating result for 1988-89 was a surplus of \$100 000. However, without subsidies from the Consolidated Fund amounting to \$867 000, which were provided to cover the cost of the wages of the staff employed in the Refreshment Rooms, the Refreshment Rooms would have had an operating deficit of \$767 000.

2.1.9 An audit examination of the Refreshment Rooms' debtors disclosed that the unpaid accounts of Members availing themselves of the deferred payment facilities had increased by 83 per cent from \$32 000 at 30 June 1988 to \$58 600 at 30 June 1989.

2.1.10 Audit also noted that unpaid accounts at 31 December 1989 had increased to \$128 000 despite a fall in credit sales in the 6 month period to that date compared with the same period in 1988. Of this amount, \$10 800, which relates to 33 Members, had remained unpaid for periods in excess of 3 months and \$70 000 had remained unpaid for periods between one month and 3 months.

2.1.11 Audit has suggested to the Joint House Committee that the following strategies be considered to improve the collection of unpaid accounts:

- ♦ the withdrawing of deferred payment facilities where accounts are outstanding in excess of 60 days;
- ♦ the collection of outstanding amounts by way of authorised deductions from Members' pay; or
- ♦ the payment of accounts by use of credit cards.

Response by Speaker of the Legislative Assembly

Since the audit undertaken by the Auditor-General, the House Committee has received a comprehensive report from Mr K. Byron who was appointed as a consultant to review all aspects of the catering operations of the Parliament House Refreshment Rooms.

Contained in the report are recommendations for the financial management of the Refreshment Rooms which include matters raised in the Auditor-General's report.

The House Committee subsequently established a Catering Subcommittee to determine the appropriateness of matters of policy both existing and for the future, taking into consideration the matters raised in both reports.

At present, there is a facility available for Members of Parliament to authorise deductions from their salary for the payment of outstanding accounts.

The provision of deferred payment facilities and the method of payment of accounts is being further considered by the Catering Subcommittee in conjunction with the newly appointed Catering Manager with a view to establishing strategies to improve the collection of unpaid accounts, having regards to the observations of the Auditor-General and to Mr Byron's report.

Schedule A. Status of matters raised in previous reports

There were no matters outstanding.

Schedule B. Completed/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits				
Parliament of Victoria	30 June 1989	No reporting requirements. Audit conducted under <i>Audit Act 1958, s.31.</i>	27 November 1989	21 December 1989
State Parliament Refreshment Rooms	30 June 1988	No reporting requirements. Audit conducted at request of Joint House Committee.	3 April 1989	23 May 1989
" "	30 June 1989	" "	24 November 1989	28 December 1989

PART 3

AUDIT OF MINISTERIAL PORTFOLIOS

3.1

AGRICULTURE AND RURAL AFFAIRS

KEY FINDING
<ul style="list-style-type: none">♦ The attention of the Department has been drawn to the need to enhance the management of its scientific equipment. <i>paras 3.1.4 to 3.1.14</i>

The Minister for Agriculture and Rural Affairs is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Department of Agriculture and Rural Affairs

Public bodies

Citrus Fruit Marketing Board
Daratech Pty Ltd
Egg Licensing Committee
Good Food Products Australia Pty Ltd
Melbourne Wholesale Fruit and Vegetable Market Trust
Tobacco Leaf Marketing Board
Victorian Dairy Industry Authority
Victorian Dried Fruits Board
Victorian Dried Fruits Board Superannuation Fund
Victorian Egg Marketing Board
Victorian Fishing Industry Council
Western Metropolitan Market Trust

Comments on matters arising from the audit of certain of the above entities are discussed below.

DEPARTMENT OF AGRICULTURE AND RURAL AFFAIRS

Management of scientific equipment

3.1.1 The primary role of the Department is to implement government policies for maximising long-term economic and social development for Victoria through rural industries. The Department operates 40 centres involved in research and laboratory services which require substantial scientific equipment.

3.1.2 The Auditor-General's *Special Report No. 10, Utilisation of Plant and Equipment*, tabled in Parliament in November 1988, identified a number of issues requiring attention within the Department including the retention of assets beyond their useful lives, inadequacies in information systems and disincentives in the disposal of surplus or obsolete equipment.

3.1.3 During the year audit undertook a review of procedures within the Department associated with the management of scientific equipment. **This review indicated that very little action had been taken by the Department to address the matters identified in the previous report to Parliament.**

Management response

The Department queries audit's comment that little action had been taken to address the matters identified in the previous report to Parliament.

The Department has unsuccessfully approached the Department of Management and Budget (DMB) with a view to retaining revenue generated through the sale of surplus assets. An approach to DMB requesting an increase to the Department's plant and equipment allocation also proved unsuccessful.

Since the previous report to Parliament, a number of Departmental Instructions have been issued which provide staff with guidelines and procedures relating to the purchase, control and disposal of stores and assets. In addition, an instruction has been issued relating to the maintenance of the departmental assets register. Furthermore, reviews have been initiated on both the incorporation of mobile agricultural plant and trucks into the Department's transport management system, and also into the further development of the departmental assets register system.

Deficiencies in the recording of scientific equipment

3.1.4 The Department has placed a value of \$26 million on all assets (excluding motor vehicles, land and buildings) within its control at 30 June 1989.

3.1.5 Current asset recording systems within the Department do not disclose specific information on the extent and value of scientific equipment held. Information on the equipment's overall condition, maintenance history, remaining useful life and location, is also not recorded. In addition, audit found several errors and inaccuracies in asset records (in one case, assets with a value in excess of \$300 000 had not been recorded). In such circumstances, the Department is not well placed to be able to determine, with confidence, the total value of scientific equipment within its responsibility, the location of the equipment and whether the equipment is being properly utilised.

3.1.6 The Department is moving to establish asset registers in accordance with the requirements of regulations under the Audit Act and to meet new responsibilities for assets under the Annual Reporting Act. However, the data gathered to date under this process does not specifically distinguish between special categories of assets such as scientific equipment.

3.1.7 **Until accurate and complete information on all classes of assets is available to assist decision-making, the Department cannot be assured that all of its assets (including scientific equipment) have been effectively managed and controlled.**

Management response

The Department expresses concern that audit had identified some inaccuracies and omissions in the register. The Department will initiate immediate action to determine the extent of this problem. It is expected that the creation of an ADM-5 position will significantly reduce inaccuracies in the register.

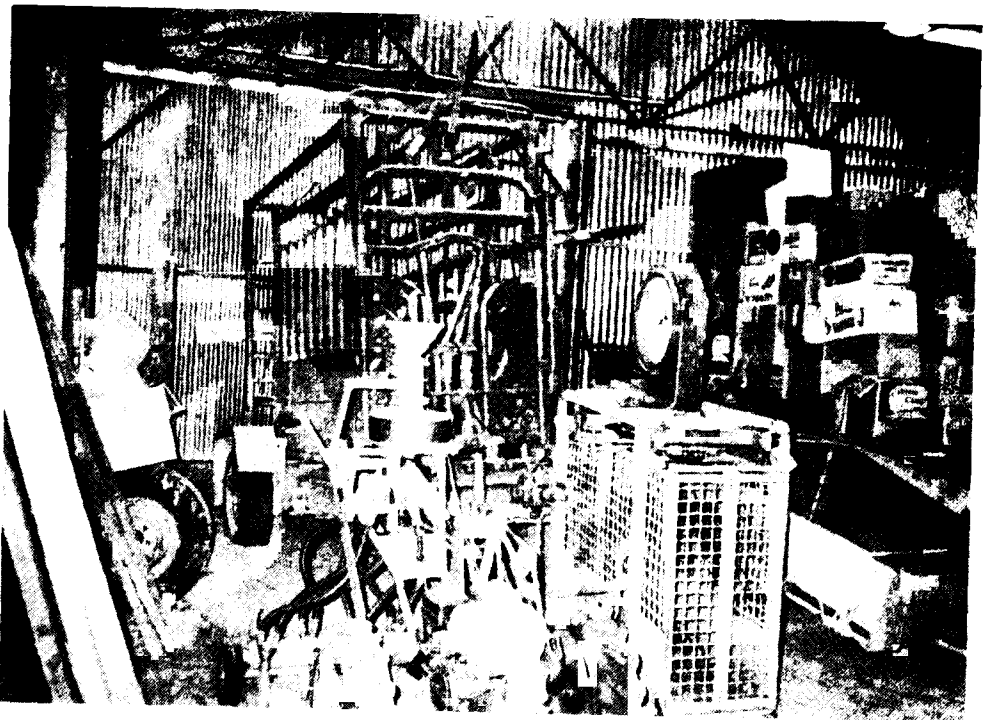
The audit report criticises the Department for failing to disclose specific information on the extent and value of scientific equipment held. When the Department's assets register was developed, it was recognised that there would be a need for ongoing refinement and development of the register. In recognition of this, the new position at ADM-5 level is expected to manage the development and maintenance of the register. In addition, a project team with representation from across the Department has been established to assist in this regard.

The assets register will continue to be developed in a way which best meets the needs of the Department. The requirement for a category of assets, outside those categories specified in the Treasury Regulations, will be evaluated in the course of the abovementioned review.

Substantial accumulation of obsolete and replaced scientific equipment

3.1.8 Although the Department has procedures in place for the disposal of obsolete and surplus scientific equipment, most research centres visited by audit had accumulated, over several years, substantial quantities of obsolete or idle equipment including dairy testing equipment and microscopes.

3.1.9 It appeared to audit that this equipment had not been utilised for some time and action had not been taken to establish alternative uses within the Department or to dispose of the equipment by sale.



Example of stored idle equipment.

3.1.10 The retention of obsolete equipment results in the Department incurring unnecessary storage costs and overlooking the opportunity to enhance revenue by disposing of such equipment.

3.1.11 There is a need for the Department to ensure that all idle obsolete scientific equipment is sold in a timely manner.

Management response

Audit has identified that some departmental locations have accumulated surplus scientific equipment. The Department does not believe that this is a major problem and a number of Units have recently conducted board of surveys. The Department has sought a more detailed report on the extent of the problem. A partial explanation will almost certainly be that, in relation to farm equipment and some scientific equipment, managers are often extremely reluctant to dispose of obsolete equipment as it can often be used at a later date as a source of spare parts for other equipment.

Unrestricted access to research centres

3.1.12 Scientific equipment and research records within departmental centres across the State are highly valuable assets which require special security measures. Audit found many instances where expensive portable equipment and valuable research records had been left unattended at research centres. Furthermore, there was unrestricted access to the centres in question.

3.1.13 In such circumstances, the Department is exposed to substantial risk of loss or damage to expensive equipment and valuable records.

3.1.14 **Audit has recommended that the Department review current security arrangements at research centres as a matter of priority.**

Management response

In respect of audit's comments on unrestricted access to research centres, the Department will write to the relevant managers asking them to look into the extent of the problem and, where necessary, take the required level of action within existing budgetary constraints.

Results of recent ministerial review

3.1.15 Early in 1989, the Minister commissioned a review of agriculture research in Victoria. The report of the Review Panel, issued in February 1990, identified deficiencies in the asset information systems of the Department which mirrored the findings of the audit review. The Review Panel reported that:

- ♦ it was not able to obtain useful aggregate information on assets from departmental asset registers; and
- ♦ specific information such as asset maintenance costs and replacement values were not recorded.

3.1.16 **The Review Panel recommended that the Department initiate appropriate corrective action to improve asset recording procedures.**

Schedule A. Status of matters raised in previous reports

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
Department of Agriculture and Rural Affairs		
<i>Second Report, 1985-86, p.57</i>	Claim on Commonwealth not paid.	Position now satisfactory. The claim for \$149 000 has been adjusted within reimbursements from the Commonwealth.
<i>Second Report, 1986-87, p.32</i>	Report on financial reporting and auditing procedures for statutory bodies within the Agriculture portfolio.	Position now satisfactory. Statutory bodies have been brought under the Annual Reporting Act.
Melbourne Wholesale Fruit and Vegetable Market Trust		
<i>Ministerial Portfolios, May 1989, p.20</i>	As a result of internal control weaknesses, it was impossible to determine whether all income from casual growers and carrier agents was being brought to account.	Position now satisfactory. Management have improved the controls operating over the collection of fees for casual growers and carrier agents.
Victorian Egg Marketing Board		
<i>Second Report, 1985-86, p.61</i>	The Board should obtain legal advice to clarify whether it is empowered to make advances to employees.	Position now satisfactory. No new advances were made during 1988-89 and the balance of outstanding advances at 30 June 1989 had decreased from \$18 000 to \$8 000.
<i>Ministerial Portfolios, May 1989, pp.18-19</i>	The Board had not complied with government policies for overseas and domestic travel arrangements, and the engagement of consultants.	Position now satisfactory. During 1988-89, the Board complied with government policies.

Schedule B. Completed/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits				
Department of Agriculture and Rural Affairs	30 June 1989	31 October. <i>Annual Reporting Act 1983, s.8.</i>	11 October 1989	11 October 1989
Citrus Fruit Marketing Board	31 December 1988	31 March. <i>Marketing of Primary Products Act 1958, s.12A.</i>	26 May 1989	6 July 1989
Daratech Pty Ltd	30 June 1989	No reporting requirements. Audit conducted at request of Treasurer.	22 November 1989	21 December 1989
Good Food Products Australia Pty Ltd	Period 1 July 1988 to 12 August 1989	No reporting requirements. Audit conducted at request of Treasurer(b).	17 November 1989	27 November 1989
Melbourne Wholesale Fruit and Vegetable Market Trust	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.9.</i>	23 August 1989	29 September 1989(a)
Poultry Farmer Licensing Committee	30 June 1988	30 September. <i>Egg Industry Stabilisation Act 1983, s.52.</i>	24 April 1989	4 May 1989
Poultry Farmer Licensing Committee	30 June 1989 (c)	" "	12 October 1989	18 October 1989
Poultry Farmer Licensing Review Committee	30 June 1988	" "	21 April 1989	12 May 1989
Poultry Farmer Licensing Review Committee	30 June 1989	" "	25 October 1989	25 October 1989
Poultry Farmer Licensing Review Committee (d)	Period 1 July 1989 to 31 October 1989	" "	21 February 1990	26 February 1990
Tobacco Leaf Marketing Board	31 March 1989	30 June. <i>Marketing of Primary Products Act 1958, s.12A.</i> Minister granted extension of time to 31 August.	10 August 1989	25 August 1989 (a)

Schedule B. Completed/incomplete audits - continued

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor- General's report signed</i>
Victorian Dairy Industry Authority	30 June 1989	30 September. <i>Annual Industry Act</i> 1983, s.9.	22 September 1989	27 September 1989
Victorian Dried Fruits Board	31 December 1988	1 May. <i>Dried Fruits Act</i> 1958, s.18a. Minister granted extension of time to 1 September.	1 August 1989	25 August 1989
Victorian Dried Fruits Board Superannuation Fund	31 December 1988	No reporting requirements. Audit conducted at request of Treasurer.	6 December 1989	22 February 1990
Victorian Dried Fruits Board Superannuation Fund (e)	31 December 1989	" "	16 February 1990	22 February 1990
Victorian Egg Marketing Board	30 June 1989	30 September. <i>Annual Reporting Act</i> 1983, s.9. Treasurer granted extension of time to 30 November.	27 November 1989	28 November 1989
Victorian Fishing Industry Council	30 June 1989	30 November. <i>Victorian Fishing Industry Council Act</i> 1979, s.16. Minister granted extension of time to 31 March.	29 March 1990	29 March 1990
Incomplete audit				
Western Metropolitan Market Trust (f)	30 September 1989	31 December. <i>Annual Reporting Act</i> 1983, s.9. Treasurer granted extension of time to 30 April.	Audit is in progress.	

(a) Qualified audit report issued.

(b) Audit conducted jointly with the New South Wales Auditor-General.

(c) Final audit. Replaced by Egg Licensing Committee from 1 July 1989.

(d) Legislation repealed from 31 October 1989.

(e) Fund wound-up on transfer of remaining contributors' entitlement to the State Employees Retirement Benefits Board.

(f) New audit from 1988-89 following designation of the Trust under the Annual Reporting Act.

3.2

ARTS

KEY FINDINGS

- ♦ Inadequate accountability procedures relating to grants at the Ministry.
paras 3.2.1 to 3.2.4
- ♦ Storage facilities of the Museum of Victoria have not been improved resulting in continuing damage to the State Collection involving several million dollars annually.
paras 3.2.5 to 3.2.7
- ♦ Control over the State Collection at the Museum of Victoria is inadequate as the register of items in the State Collection has not yet been completed.
paras 3.2.8 to 3.2.10
- ♦ Deficiencies in inventory control at the National Gallery of Victoria.
paras 3.2.13 to 3.2.15
- ♦ Need for improved management procedures relating to financial assistance to film producers at Film Victoria.
paras 3.2.31 to 3.2.57
- ♦ Continuing losses being incurred by Film Victoria on the operations of the Melbourne Film Studio.
paras 3.2.58 to 3.2.62
- ♦ Following a loss estimated by audit to be \$170 000, the "Video in Library" program was abandoned by the State Film Centre.
paras 3.2.63 to 3.2.70

The Minister for the Arts is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Ministry for the Arts

Public bodies

Council of the Museum of Victoria
Council of the State Library of Victoria
Council of Trustees of the National Gallery of Victoria
Film Victoria
Geelong Performing Arts Centre Trust
State Film Centre of Victoria Council
Victorian Arts Centre Trust

Comments on matters of significance arising from the audit of certain of the above entities are discussed below.

MINISTRY FOR THE ARTS

Grants and subsidies

3.2.1 The Ministry provided financial assistance to public libraries (\$19 million, 1988-89) and regional art galleries (\$1 million, 1988-89) as part of its Development of Cultural Activities program. In return for such financial assistance, there is an obligation on the grant recipients to provide various financial and non-financial information to the Ministry.

3.2.2 During the year, audit undertook a review of the Ministry's procedures relating to the provision of grants and subsidies and noted the following unsatisfactory features:

- ♦ the Ministry does not determine whether the funds provided to libraries and regional art galleries have been applied for the intended purpose;
- ♦ various financial and non-financial reports required from grant recipients were not always provided to the Ministry; and
- ♦ financial reports submitted by grant recipients were not always independently audited nor were they subject to review by the Ministry.

3.2.3 With respect to financial assistance to public libraries, audit established in addition to the above deficiencies that:

- ♦ Grants were made to libraries during 1988-89 despite the fact that the required reports had not been provided to the Ministry. As a consequence, the Ministry's new funding formula which replaced the per capita formula of previous years was not able to be fully applied in the calculation of grants made in 1988-89. The new formula incorporates factors for need, disability and performance in addition to a per capita factor as well as a component for the provision of special projects.

Further, a special allocation of \$469 000 was made available by the Government to ensure that the grant to each library in 1988-89 would not be less than the corresponding amount in 1987-88;

- ♦ The Ministry does not set a deadline for the submission of reports by municipal councils and little use is made of those reports when received by the Ministry;
- ♦ No procedures exist within the Ministry to follow-up reports not provided by municipal councils and libraries; and
- ♦ Information included in reports was found by audit, on occasions, to be inaccurate.

3.2.4 The Ministry needs to enhance accountability for grants through improved monitoring procedures, particularly in relation to ensuring that funds are used for the purposes intended and provided in accordance with the revised funding formula.

Management response

While acknowledging there will always be room for refinement in the monitoring procedures of the grants/subsidies program of the Ministry, it is the Ministry's view that the above comments by audit are only relevant in a very limited number of instances.

COUNCIL OF THE MUSEUM OF VICTORIA

Storage facilities

3.2.5 The *Report on Ministerial Portfolios, May 1989* commented on the deterioration of the State Collection due to the inadequate storage facilities at the Museum. In 1986, a consultant engaged by the Council estimated that the State Collection was deteriorating at a rate of \$4 million annually.

3.2.6 In response, the Council indicated that it had approached the Government through the Minister for the Arts requesting adequate storage be provided for the next 4-5 years, while the new Museum complex estimated to cost \$165 million was being developed on the south bank of the Yarra River. The Council anticipated that the provision of additional storage space was imminent.

3.2.7 It is disappointing to note that at the date of preparation of this report the situation regarding the provision of additional storage facilities has remained unchanged and the State Collection continues to deteriorate at a rate of several million dollars annually.

Management response

The Council of the Museum has approached the Government through the Ministry for the Arts and in its submissions for the development of the Spotswood and Southbank Museums has recommended that adequate storage facilities be financed. Storage facilities are included in the contract let at Spotswood and are incorporated in the Southbank design.

State Collection of exhibits

3.2.8 Previous reports to Parliament dating back to 1983-84 have included comments that effective control by the Council over the State Collection has been impaired due to the absence of a complete, comprehensive and centralised register which would facilitate regular stock checks of the Collection.

3.2.9 Progress by the Council to date in compiling the register has been slow. In the areas of Human Studies and Science and Technology, the register is estimated to be 80 per cent and 90 per cent completed, respectively. In the area of Natural History exhibits, approximately only 10 per cent of the items have been registered. The task of registering these exhibits is more difficult due to the large number of small items involved and the inadequate storage facilities. Audit has been advised that the register is now expected to be completed in conjunction with the relocation of the Museum in 4-5 years time.

3.2.10 The State Collection has a value in excess of \$200 million. Until it is fully registered and regular stocktakes instituted, the opportunity exists for items to be lost, stolen or misplaced without the knowledge of the Council.

Management response

The report makes reference to the low percentage of artefacts registered within the Natural History Collection. It should be noted that the predominance of sample artefacts within this Collection have little or no commercial value. Priority has been given to registration of that part of the Natural History Collection which has a commercial value such as precious stones. The level of registration of these items is similar to that of the Human Studies and Science and Technology Collections.

COUNCIL OF THE STATE LIBRARY OF VICTORIA

Loss and damage to Library Collection

3.2.11 Audit was advised by the Council that following the first stocktake since 1861 of all items in the Collection which was completed in January 1988, 10 500 volumes valued at approximately \$525 000 were missing. In addition, although formal advice has not been received from the Council audit understands 23 Collection items worth approximately \$100 000 incurred damage due to flooding during 1989.

COUNCIL OF TRUSTEES OF THE NATIONAL GALLERY OF VICTORIA

3.2.12 The Council was established under the *National Gallery of Victoria Act 1966*. Its functions include the management and control of the National Gallery and the maintenance and development of the State Collection of works of art.

Register of works of art

3.2.13 The *Fourth Report of the Auditor-General for 1983-84* included comments that effective control over the preservation and monitoring of the State Collection by the Council was impaired due to the absence of a complete and comprehensive centralised register of works of art, together with regular stocktakes of the Collection. Audit recommended that the Council develop a plan to provide for the establishment of a register incorporating valuation of all items representing the State Collection.

3.2.14 In response, the Council commenced the implementation of a computerised central register in March 1986. Later that year, the Economic and Budget Review Committee recommended that the Council disclose in its annual report the number and value of works of art held. **Progress to date in compiling the register has been slow and the Collection has not been valued.** At the date of preparation of this report, approximately 67 per cent of all works of art thought to be under the control of the Council had been entered in the register and 29 per cent had been verified by stocktake. Audit was advised that the register is now expected to be completed by June 1991. The Council indicated that the State Collection would not be valued as it would be exceedingly expensive, shortlived and at odds with accepted practice by major world art museums.

3.2.15 While acknowledging the latest advice that a comprehensive centralised register of works of art will be completed by June 1991 it is imperative that this deadline be adhered to by the Council. Physical security measures must be complemented by appropriate accounting controls such as a complete register and regular stocktakes to ensure that the State Collection is adequately protected.

Management response

The Government has made funding available to complete the stocktake with an estimated end cost of \$260 000. Because of the complex nature of the work and time involved in adequate identification of various pieces, it is unlikely that the register will be completed until the latter part of 1991.

Bookshop and publication activities

3.2.16 As part of its commercial operations the Council engages in bookshop and publications activities which were reviewed by audit during 1988-89.

Bookshop

3.2.17 In previous years, various deficiencies in inventory control have been referred by audit to the Council for appropriate action.

3.2.18 These representations have not been particularly effective as, following audit attendance at the annual stocktake of the Council's bookshop, concern was again expressed on matters such as the adequacy of the procedures adopted and the lack of proper supervision during the stocktake. The bookshop maintains a significant inventory; \$392 000 at 30 June 1989. Audit noted that while this represented an increase of 77 per cent compared with stock at 30 June 1988 (\$221 000), gross sales for the same period had increased by only 13 per cent from \$1 million to \$1.13 million.

3.2.19 Based on the existing inventory levels, audit estimates it will take at least 6 months to clear existing stock on hand. The low inventory turnover rate is an indication of overstocking resulting in funds being unnecessarily tied up in unproductive assets.

3.2.20 **The Council needs to implement effective inventory controls and review its purchasing policies.**

Management response

The Council of Trustees has been aware of management problems in the bookshop and has taken action to address issues raised by audit. The matter of bookshop purchases vis-a-vis sales and stock levels will be addressed by management through the proposed new staffing structure assisted by the new computerised control.

Publications

3.2.21 The cost of publications sold by the Council during 1988-89 increased by approximately 5 times the rate of increase in sales revenue for the year. This contributed to a significant turnaround in operating results of the publications activity from a net profit of \$156 000 in 1987-88 to a loss of \$15 000 in 1988-89. In addition, audit noted that the current average stock turnover of 405 days is excessive and may be indicative of over-stocking or the accumulation of unsaleable stock.

3.2.22 **In view of the deteriorating results, the Council needs to undertake a detailed review of the publications activity with a view to minimising or eliminating further losses. The review should address matters such as types of publications held for sale, pricing policy, cost structure and optimum stock levels.**

Management response

The comments are noted and as a result the trading operation of the publication area is under review.

Amounts owed to the Council

3.2.23 Audit examination revealed that amounts owed to the Council increased by 115 per cent from \$163 000 at 30 June 1988 to \$350 000 at 30 June 1989. Further, of the total amounts outstanding at 30 June 1989, \$151 500 (43 per cent) were outstanding for a period greater than 90 days and \$52 600 (15 per cent) were outstanding for a period greater than one year.

3.2.24 The following practices were identified as contributing to the substantial increase in amounts outstanding:

- ♦ Overseas sales made on a credit basis. Such sales continued to be made even though the relevant customers had not paid for previous purchases;
- ♦ Lack of follow-up of outstanding debts by the Council; and
- ♦ Credit sales made for low value transactions. If these sales were subsequently deemed uncollectable by the Council, they were not pursued.

3.2.25 While audit acknowledges that new credit guidelines addressing the above weaknesses were implemented on 1 April 1989, the Council still needs to make every effort to collect outstanding amounts.

Management response

The Council of Trustees has been concerned for some time over the issue of debtors' balances. For precisely this reason the new credit guidelines were adopted. These guidelines are already being enforced by management.

Unpaid accounts

3.2.26 Audit examination indicated that the value of unpaid accounts at year-end has increased by 295 per cent from \$96 900 in 1987-88 to \$382 300 in 1988-89.

3.2.27 The significant increase in the level of unpaid accounts indicates a lack of commitment by the Council to the management of its accounts payable.

3.2.28 The Council needs to introduce measures to monitor the level of unpaid accounts on a regular basis and to comply with the Government's accounts payable policy.

Management response

The Council of Trustees has noted the increases in creditors. The level of creditors is being constantly monitored by management to ensure that as far as possible payments are made in accordance with the Government's guidelines.

FILM VICTORIA

3.2.29 Film Victoria was established under the *Film Victoria Act 1981*. Its role is to encourage, promote, produce, distribute and exhibit films and sound recordings for the entertainment and information of the public. The conduct of research aimed at improvements in these areas also is included in the functions of Film Victoria.

3.2.30 During the year, audit undertook a review of the Corporation's operations in the area of financial assistance to film producers.

Financial assistance to producers

3.2.31 The Corporation provides financial assistance to film producers by way of:

- ♦ direct investment for production and filming expenses (\$17.1 million at 30 June 1989); and
- ♦ loans for the marketing of completed projects (\$253 000 at 30 June 1989).

Performance measures

3.2.32 In the Auditor-General's *Second Report for the year 1986-87*, audit recommended that the Corporation's operations would be greatly enhanced if performance measures were developed to enable critical evaluation of its activities. **It is noted from the current review that little progress has been made by the Corporation in this regard.**

3.2.33 Performance measures are important as they enable the Corporation to assess the extent to which it is achieving its objectives. In addition, they can be used in the continuing process of monitoring the Corporation's performance and thereby, enabling any corrective action considered necessary to be taken on a timely basis.

3.2.34 The Corporation should continue to develop measures against which it can assess both the efficiency and effectiveness of its performance. Such measures could include the rates of return of investment, return on investment (profit), the expected payback period for each investment and the level of loan recovery.

Management response

The performance of a particular project is measured in relation to a number of considerations, not just its financial performance.

The Corporation believes that it has measures in place to assess both the efficiency and effectiveness of its performance. Such measures are constantly being reviewed and reassessed by the Corporation in view of changes within the film and television industry.

*Investments in projects**Accountability for production assistance*

3.2.35 Current procedures provide that once a project is approved for financial assistance, the Corporation makes funds available to producers on a progressive basis. Sufficient progress needs to be made in each stage of production before further funds are committed. In line with project conditions, producers are required to submit weekly reports on progress and, in addition, regular cost reports detailing budgeted and actual expenditure to the Corporation. Audit was advised that productions are permitted to exceed budgets by a benchmark figure of 10 per cent (6 per cent for smaller production houses) before remedial action is considered.

3.2.36 Audit noted that the information provided by producers was taken at face value and was not independently verified by the Corporation. In the absence of independent verification of information, there is the possibility that expenditure could be understated by producers in order to secure further funds from the Corporation.

3.2.37 Consequently, any cost overrun may be deferred and reported at or near completion of the project thus rendering it difficult for the Corporation to take corrective action.

3.2.38 **In view of the substantial level of funds invested (\$17.1 million at 30 June 1989), the Corporation needs to develop procedures to verify the information included in producers' reports.**

Management response

The Corporation is generally a minor investor, in line with government policy, and therefore the responsibility for the monitoring of projects often passes to the major investor, now most likely to be the Australian Film Finance Corporation Ltd (AFFC). The Corporation works very closely with the AFFC and has access to their investigations on producers in receipt of finance from both the Corporation and the AFFC.

The Corporation will, subject to its limited resources, investigate further procedures to verify information included in production reports.

Return on investments

3.2.39 The Corporation's returns on investments are dependent upon the level of success of the projects in which it invests. Returns received from producers are regarded as a return of investment until all costs are recouped. Any subsequent returns are regarded as profits.

3.2.40 The percentage of Corporation's project investments returning a profit are detailed in Table 3.2A.

TABLE 3.2A. CUMULATIVE INVESTMENTS TO 30 JUNE 1989

<i>Categories</i>	<i>Total number of investments</i>	<i>Number of investments generating profit</i>	<i>Number of investments for which cost not yet recovered</i>	<i>Percentage of successful investments</i>
Television	44	8	36	18.2
Feature films	43	2	41	4.6
Documentary	22	-	22	-
Other	1	-	1	-
Total	110	10	100	9.1

3.2.41 In view of the success rate of only 9.1 per cent, it is not surprising to note that the Corporation's returns on investments for the past 3 years have been low, as illustrated in Table 3.2B.

TABLE 3.2B. INVESTMENT PERFORMANCE

<i>Particulars</i>		<i>1986-87</i>	<i>1987-88</i>	<i>1988-89</i>
Total investments at end of year before write-off	(\$)	9 375 720	13 520 106	17 145 997
Return on investments (profit)	(\$)	19 743	23 779	162 079
Rate of return on investment	(%)	0.21	0.17	0.94

3.2.42 The cumulative investment losses incurred by the Corporation as at the end of the past 3 financial years are set out in Table 3.2C.

TABLE 3.2C. INVESTMENT LOSSES

<i>Particulars</i>		<i>1986-87</i>	<i>1987-88</i>	<i>1988-89</i>
Total investment at end of year before write-off	(\$)	9 375 720	13 520 106	17 145 997
Accumulated return received (including return on investment)	(\$)	3 712 519	5 536 216	7 262 992
Accumulated losses on investment	(\$)	5 663 201	7 983 890	9 883 005
Percentage of loss	(%)	60.4	59.0	57.6

3.2.43 It can be seen from the above table that the Corporation incurred losses of between 57 cents and 60 cents for every dollar invested.

3.2.44 While it is recognised that the Corporation's primary objective is the promotion, distribution and exhibition of films and sound recordings for the entertainment and information of the public, it is nevertheless important that an adequate return is achieved on the Corporation's investments to ensure its long-term financial viability. The fact that the costs of investments are not all recovered point to a need for the Corporation to establish targeted recovery rates to serve as a measure of its performance against Corporation objectives.

Management response

The Corporation does not measure success in financial terms alone and issues such as training opportunities, employment, promotional opportunities for the State and the retention of the industry in the State are considered prior to recommendations for funding being approved. It is not Board policy to determine benchmarks purely in terms of a percentage return on investment.

However, the Corporation believes that its current recovery rates in terms of returns on investments are sufficient to indicate that the Corporation is, in fact, achieving its objectives.

Verification of investment return

3.2.45 In essence, recoupment of investment costs and receipt of profit on investment from producers is based on an honour system as the Corporation only brings to account moneys as and when they are received from producers. There are no procedures to verify the accuracy of amounts received from producers.

3.2.46 Audit is of the opinion that the present system of recognising revenue is unsatisfactory, especially when such revenue accounted for approximately 47.6 per cent of the Corporation's total revenue in 1988-89.

3.2.47 To ensure all revenue due to the Corporation is in fact received, consideration needs to be given to incorporating into future production agreements a requirement for audit certificates to be provided to the Corporation on return of investment and distribution of profit.

Management response

The cost of audit certificates on returns would be an additional cost to the investors (including the Corporation). The Corporation also believes that little would be achieved by insisting on audit certificates in the absence of a capacity to verify these certificates. Audit should be aware that the principal means available to the Corporation for non-compliance with reporting procedures is not to support a producer again if that producer fails in their reporting obligations. In a small industry with a limited number of producers and scarce funds, this is a real disincentive to dishonest reporting.

The Corporation recognises the difficulty of verifying returns on investments and will continue to review this matter.

Loans to producers

Loan repayments

3.2.48 Generally, loans are made to producers for the marketing of projects in which the Corporation has an investment. Loan agreements stipulate that repayments of principal do not commence until productions are sold.

3.2.49 Audit noted that there are no procedures in place to enable the Corporation to determine whether a production has been sold. Consequently, the Corporation places heavy reliance on advice from producers in this respect.

3.2.50 In view of the absence of adequate procedures regarding verification of dates on which productions are sold, the Corporation is not in a position to determine whether all loan repayments are made on a timely basis in accordance with provisions of the loan agreements.

3.2.51 **The Corporation needs to establish procedures to enable verification of information relating to production sales and to ensure outstanding loans are regularly repaid.**

Management response

The Corporation will review measures regarding the verification of dates of production sales and ensure outstanding loan repayments are received regularly.

Interest on loans

3.2.52 It is the Corporation's policy to charge interest on all loans. However, audit noted that, contrary to commercial practice, such interest is charged on the principal outstanding only. As a result, interest accrued does not attract a subsequent interest charge and effectively becomes additional interest-free funding. Further, loan repayments are allocated first against principal and then against interest accrued.

3.2.53 Audit is of the opinion that the Corporation's policy of not charging interest on all outstanding amounts (i.e. both interest and principal) provides an incentive for producers to defer repayment of loan and payment of interest as long as possible. This will no doubt have an adverse impact on the Corporation's cash flow.

3.2.54 **The Corporation should give consideration to revising its policy so that interest is charged on all outstanding loan balances. This would enable the Corporation to generate additional revenue, improve its cash flow position and provide funds for further loans.**

Management response

The Corporation notes audit's comments in relation to interest being charged on all outstanding loan balances.

Outstanding loans

3.2.55 The Corporation's policy in assessing loan applications is that the expectation of repayment of principal and interest is the prime consideration.

3.2.56 The Corporation wrote-off loans and accrued interest totalling approximately \$85 000 during 1988-89. While acknowledging the entrepreneurial nature of these loans audit still considers that the amount written-off, which represents 24.5 per cent of the outstanding debt of \$346 000, is excessive.

3.2.57 The Corporation should adopt more stringent loan screening procedures with a view to improving the loan recovery rate.

Management response

The Corporation is reducing its loan portfolio as a result of more stringent assessment procedures on applicants. This has had the effect of shifting the responsibility for marketing finance away from the Corporation and on to distributors and/or sales agents.

Melbourne Film Studio

3.2.58 The Corporation has, from 1980, leased premises at Port Melbourne for use as a film studio for rental to film producers.

3.2.59 Table 3.2D details financial information on the operation of the Studio for the past 5 years.

TABLE 3.2D. OPERATIONS OF MELBOURNE FILM STUDIO

Item		1984-85	1985-86	1986-87	1987-88	1988-89
Rental revenue	(\$)	108 934	121 175	85 823	53 671	120 578
Expenses -						
Lease	(\$)	180 000	197 887	202 919	160 700	152 150
Other	(\$)	4 374	58 500	55 738	51 844	149 724
Total expenses	(\$)	184 374	256 387	258 657	212 544	301 874
Net losses	(\$)	75 440	135 212	172 834	158 873	181 296
Percentage of occupancy	(%)	70	42	50	56	58
Rental revenue as a percentage of total Corporation's revenue	(%)	6.3	5.2	3.4	1.8	3.2
Net losses as a percentage of total Corporation's losses	(%)	8.7	10.5	4.5	8.1	8.3

3.2.60 An audit review of the Studio's operations revealed the following:

- ♦ Losses have been incurred in every year in the period under review. Accumulated losses resulting from the operations for the 5 years to 30 June 1989 amounted to almost \$725 000;
- ♦ Annual rental revenue from producers during the period was not sufficient to cover annual lease expenses paid by the Corporation;

- ♦ Fluctuations in other expenses were not in line with variations in revenue. In particular, other expenses for 1988-89 increased by 189 per cent compared with the prior year, whereas revenue improved only by 124 per cent over the same period;
- ♦ The Corporation raised its hire rates by only approximately 5 per cent effective from 1 January 1989, therefore, it is unlikely that even with full occupancy levels, the operation of the Studio will become financially self-supporting; and
- ♦ The Studio operations contributed between 1.8 per cent and 6.3 per cent to the total annual revenue of the Corporation during the period. However, related losses accounted for between 4.5 per cent and 10.5 per cent of the Corporation's annual losses.

3.2.61 The Corporation advised that the provision of the Studio facilities was considered to be of assistance to the film industry as a whole and accordingly, hire rates were never based upon any cost recovery methodology.

3.2.62 Audit expresses concern at the extent of the losses incurred by the Corporation on the operation of the Studio, the financial results of which are unlikely to improve in the future in the light of the Corporation's current approach to determining hire rates. The Corporation should undertake a detailed review of the operation of the Studio to address matters such as its future viability, the adequacy of hire rates, cost structure and marketing methods.

Management response

The Corporation has always supported the provision of a film studio as a form of subsidy for the industry in accordance with the Corporation's functions. It re-leased the Studio in 1987 as at that time there was no viable alternative facility in Victoria.

The Board is required to set rental rates in line with the Government's fees and charges policy. Accordingly, its ability to generate returns from the Studio is somewhat limited.

The Corporation is currently reviewing the operation of the Studio and its future viability.

STATE FILM CENTRE OF VICTORIA COUNCIL

"Video in Libraries" program

3.2.63 In 1987, the Council introduced its "Video-in-Libraries" (VIL) program. The Council's role in the program was to negotiate bulk discounts for quality educational and cultural video tapes which it purchased on behalf of Victorian and interstate member libraries.

3.2.64 Under ministerial policy Victorian members were not charged the full cost of video tapes supplied to them, resulting in the Council subsidising approximately two-thirds of the cost of each video tape supplied. The subsidisation has been funded through recurrent government grants. In 1988-89, Victorian members paid approximately \$17 per video tape, while interstate libraries were charged the full cost of the video tape plus 15 per cent for administrative costs. This amounted to approximately \$59 for each item of 1989 stock.

3.2.65 Despite the heavy subsidisation of sales to Victorian libraries, it was initially expected that the program would become self-supporting over a number of years with the success of the scheme relying largely on a rapid growth in interstate sales and planned price increases.

3.2.66 Table 3.2E sets out the number of member libraries and video tape sales volumes over the life of the program.

TABLE 3.2E. VIDEOTAPE SALES

<i>Item</i>	<i>1986-87</i>	<i>1987-88</i>	<i>1988-89</i>
Number of member libraries -			
Victorian	38	38	47
Interstate	-	64	(a)58
Number of video tapes sold for year's program -			
Victorian	(b)-	3 060	3 630
Interstate	(b)-	2 747	1 597

(a) Western Australia and Australian Capital Territory treated as single members as video tapes remain the property of the State purchasing body.

(b) No sales.

3.2.67 A review of the VIL program during 1988-89 revealed that:

- ♦ The expectation that the program would, in time, become self-supporting received a severe setback in 1988-89 when interstate sales declined by 42 per cent compared with 1987-88 sales. In the same period the number of Victorian libraries participating in the program increased, with sales improving by nearly 19 per cent;
- ♦ The substantial decline in interstate sales contributed to the loss of \$75 000 incurred by the VIL program in 1988-89, compared with a reported profit of \$50 000 earned in the prior year. These amounts, however, do not take into account any stock write-down and salaries and administrative costs incurred in the running of the program;
- ♦ Due to the overstocking in the first year of the program, the value of the stock on hand at 30 June 1989 was written-down by \$48 000 to reflect its net realisable value. Further, audit estimates that salaries and on-costs for 1988-89 year which were funded by the Ministry for the Arts amounted to approximately \$50 000. Consequently, the total loss on the program for the year was in excess of \$170 000; and
- ♦ Proper cost analyses were not undertaken by the Council to determine the viability of the program before its introduction.

3.2.68 Given the subsidisation of sales to Victorian libraries and based on the 1989 selling prices, it is estimated that to recover the gross loss incurred on the sale of one video tape to a Victorian library, it would be necessary to sell around 5 video tapes to interstate libraries. In view of the trend towards increasing sales to Victorian libraries and decreasing sales to interstate libraries, audit is of the opinion that the program will be unlikely to become self-supporting. In fact, the longer the program continues to run, the greater will be the loss incurred by the Council. Based on 1988-89 sales volumes to Victorian libraries of 3 630 video tapes, interstate sales volumes of 1 597 would have needed to be in excess of 16 000 for the Council to achieve break-even point.

3.2.69 At a Council meeting in September 1989, it was concluded that the VIL program was not viable in its present form. Consequently, in October 1989 the Council advised the Minister for the Arts that it had resolved to terminate the program due to the failure to achieve rapid growth in interstate sales and because the level of subsidy for Victorian libraries could no longer be afforded.

3.2.70 Notwithstanding the decision of the Council to abandon the program due to its failure to attract interstate sales and therefore become financially viable, the annual report of the Ministry for the Arts tabled in Parliament on 1 November 1989 stated that "1989 saw the third successful round of the Centre's Video In Libraries Program". The Council advised that this conclusion has been made on the basis that libraries in Victoria now carry a range of video tapes as a result of the program.

Management response

It is Council policy to constantly monitor the performance of all its programs and to make changes in order to achieve improved efficiency and effectiveness. Accordingly, in September 1989, the Council resolved to terminate the Video in Libraries program in its present form and to replace it by a program of upgrading and up-keeping its central collection and the dissemination of information about the collection and the distribution of an advisory guide for use by public libraries in Victoria on the most economical basis possible.

Audit comment

Because of the serious issue raised by audit the Chairman of the Council has requested the following additional comments be included in this report. To not do so would, in his opinion, "deny the Council natural justice by not allowing it to make a full and detailed public rejoinder".

Further management response

The notion of a program "loss" is misleading because, as planned, the Centre's recurrent budget subsidised the purchase of videos to support the program. As planned, the level of direct allocation from vote funds to the program was progressively reduced (from \$310 403 in the first year to \$150 000 in the third year). No budget overrun occurred and the Film Centre's cash balance was not adversely affected.

Essentially, the Video in Libraries program involved a re-ordering of Council priorities away from Central Collection film purchases towards a decentralised network. The Council sought and obtained the approval of the Minister for the Arts prior to implementation of the program.

The Council's primary aim in implementing the Video in Libraries program was to provide a mechanism to develop and test the Victorian public library market for quality non-mainstream video. By establishing this market, where previously it had not existed, the Centre facilitated benefits to libraries, their users, producers and distributors. At the end of its first 3 years the program had been responsible for distributing more than 17 000 tapes worth nearly \$1 million in revenue to distributors. Eighty per cent of Victorian public library systems had become involved in the free loan of video material, public libraries had rapidly developed confidence and many were augmenting their collections independent of Video in Libraries. As well, Video in Libraries helped to bring down the average price of such tapes as sold to the non-theatrical market in Australia (i.e. government film libraries, public libraries, education libraries, schools and institutions).

Initially, it had been hoped that eventually Video in Libraries would become self-funding. Although this has not been achieved, the overall achievements of the program are substantial and consistent with the Council's corporate objectives. Culturally the Council's aims are to circulate videos in ways to maximise community access, to decentralise lending and to provide borrowers with material not normally available through commercial outlets. Its economic aims are to circulate videos in ways which initiate new markets for the sale of filmmakers' works, encourage production and generate revenue to assist the film industry, and its financial aim is to increase revenue generating activities.

VICTORIAN ARTS CENTRE TRUST

Cash thefts

3.2.71 The Trust advised that cash totalling between \$2 000 and \$3 000 was stolen over a period of time during the year by an employee of the Trust's security contractor. The employee, who was prosecuted and convicted in Court, was ordered to repay the amount stolen. To date no payment has been received.

3.2.72 In addition, a theft of cash, cheques and credit card vouchers totalling approximately \$28 000 also occurred during the year. Police investigations have not been able to identify any suspects.

Schedule A. Status of matters raised in previous reports

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
Ministry for the Arts		
<i>First Report, 1987-88, p.37</i>	Internal audit arrangements not implemented in accordance with government policy.	Position now satisfactory. Internal audit unit now comprised of 2 officers. Its charter was approved by the Ministry in August 1989. ✓
Council of the Museum of Victoria		
<i>Fourth Report, 1983-84, p.29</i> <i>Second Report, 1985-86, p.65</i>	Action should be initiated by the Council to implement a complete centralised register incorporating all exhibits.	For further comments, refer to paragraphs 3.2.8 to 3.2.10 of this report. ✓
<i>Second Report, 1985-86, p.65</i>	Delays in finalising financial statements.	Improvement noted. However, the Council was still unable to meet its legislative deadline of 30 September in 1988-89. ✓
<i>Second Report, 1986-87, p.36</i>	Unsatisfactory financial records.	Improvement noted. However, land, buildings and other real and personal fixed assets are still not quantified or valued by the Council. ✓
<i>Ministerial Portfolios, May 1989, pp.25-7</i>	Inadequate storage facilities causing damage to State Collection at rate of \$4 million per year.	For further comments, refer to paragraphs 3.2.5 to 3.2.7 of this report. ✓
Library Council of Victoria		
<i>Second Report, 1985-86, p.66</i>	Physical stocktakes of State Collection undertaken at infrequent intervals.	Position now satisfactory. A full stocktake was completed during the year. The successor of the Council, the Council of the State Library of Victoria, proposed to undertake future stocktakes of the State Collection on a progressive basis. ✓
<i>Second Report, 1985-86, p.66</i>	State Collection not valued.	Specialists have placed a broad estimate of approximately \$175 - 200 million on the State Collection. However, the Council should obtain reliable valuations for financial statement purposes. ✓
Film Victoria		
<i>Second Report, 1986-87, pp.38-40</i>	Corporation's operations would be greatly enhanced if additional performance measures were used to critically evaluate the Corporation's activities.	For further comments, refer to paragraphs 3.2.32 to 3.2.34 of this report. ✓

Schedule B. Completed/incomplete audits

<i>Entity ended</i>	<i>Financial year</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits				
Ministry for the Arts	30 June 1989	31 October. <i>Annual Reporting Act 1983, s.8.</i>	25 October 1989	30 October 1989
Council of the Museum of Victoria	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension to 30 November 1989.	29 November 1989	30 November 1989 (a)
Council of the State Library of Victoria (b)	Period 24 May 1989 to 30 June 1989	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension to 31 January 1990.	22 December 1989	18 January 1990 (a)
Council of Trustees of the National Gallery of Victoria	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension to 30 November 1989.	29 November 1989	4 December 1989 (a)
Film Victoria	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension to 31 October 1989.	18 September 1989	10 October 1989
Geelong Performing Arts Centre Trust	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension to 31 October 1989.	10 October 1989	31 October 1989 (a)
Library Council of Victoria	30 June 1988	30 September. <i>Library Council of Victoria Act 1965, s.11C.</i>	23 May 1989	6 July 1989 (a)
" "	Period 1 July 1988 to 23 May 1989	" "	21 December 1989	18 January 1990 (a)
State Film Centre of Victoria Council	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension to 31 October 1989.	27 September 1989	3 October 1989
Victorian Arts Centre Trust	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension to 31 December 1989.	21 December 1989	28 December 1989 (a)

(a) Qualified audit report issued.

(b) Formerly Library Council of Victoria.

3.3

ATTORNEY-GENERAL

KEY FINDINGS

- ♦ Interest income totalling approximately \$1.1 million during the past 3 years was forgone by the Department by retaining funds in non-interest bearing bank accounts.
paras 3.3.1 to 3.3.8
- ♦ Inadequate procedures in relation to the granting of legal assistance at the Legal Aid Commission.
paras 3.3.17 to 3.3.20
- ♦ Beneficiaries were disadvantaged as a result of the statutory transfer of in excess of \$20 million of their assets to the State Trust Corporation.
paras 3.3.21 to 3.3.35
- ♦ Concern was expressed by the Senior Master of the Supreme Court on certain aspects of the State Trust Corporation's operations affecting the administration of the estates of beneficiaries.
paras 3.3.36 to 3.3.48

The Attorney-General is responsible for the following entities which are subject to audit by the Auditor-General:

Departments

Attorney-General's Department
Office of the Director of Public Prosecutions

Public bodies

Estate Agents Board
Guardianship and Administration Board
Law Reform Commission
Legal Aid Commission
Legal Aid Commission Staff Superannuation Fund
Office of the Public Advocate
Patriotic Funds Council
State Trust Corporation
Victorian Institute of Forensic Pathology

Comments on matters of significance arising from the audit of certain of the above entities are discussed below.

ATTORNEY GENERAL'S DEPARTMENT

Loss of interest income

3.3.1 A review of cash management practices adopted by the Department in relation to the operation of its trust accounts revealed a number of unsatisfactory features. Details are provided in the following paragraphs.

Departmental Trust Account

3.3.2 No interest has been earned on the balance of the departmental Trust Account which is held outside the Public Account and, until 14 August 1989, included the Victorian Government Solicitor's Trust Account. **Audit estimated that, based on prevailing short-term unofficial market rates during the past 3 years, the Department has forgone interest income totalling approximately \$700 000 during the period.** The balance held at 30 June 1989 was \$5.7 million.

3.3.3 In February 1989, the Department decided to cease operating the Victorian Government Solicitor's Trust Account outside the Public Account and to transfer all transactions to the Department of Management and Budget. However, the transfer did not take place until 14 August 1989. There was no apparent reason for this delay.

3.3.4 **Audit estimates that interest earnings of approximately \$425 000 were forgone due to delays in effecting the transfer.** This calculation was based on the average interest rate of 16.97 per cent for Public Account funds invested on a short-term basis with the Victorian Development Fund between March and August 1989.

Court Trust Accounts

3.3.5 Interest has not been earned on all Court bank accounts. While the aggregate cash book balance of Court Trust and Poor Box Accounts was \$4.2 million at 30 June 1989, total interest earnings for the year were only \$171 000. Audit examination revealed that interest rates received on Court Trust Accounts varied between 6 per cent and 9 per cent, whereas Poor Box Accounts returned between 3.5 per cent and 12.7 per cent.

3.3.6 Table 3.3A shows the number of bank accounts which have/have not earned interest during the year:

TABLE 3.3A. COURT BANK ACCOUNTS

<i>Account</i>	<i>Court</i>	<i>Total number of accounts</i>	<i>Accounts not attracting interest</i>	<i>Interest earned 1988-89</i>
				(\$)
Poor Box	Magistrates'	78	23	8 059
Trust	Supreme, County and Magistrates'	100	73	163 300
Total		178	96	171 359

3.3.7 The Department advised audit that it was the responsibility of individual Courts to manage the accounts under their control and negotiate with the banks in relation to any interest earnings on account balances. It was of concern to audit that over 5 years after a major review of cash management practices was undertaken, and reported to Parliament in October 1984, 54 per cent of Court Trust Accounts still do not attract interest.

3.3.8 To maximise returns to the State, the Department should enter into direct negotiations with relevant banks with a view to ensuring that interest is paid on all bank account balances at prevailing market rates.

Management response

All the Department's bank accounts, except Infant Accounts, are being transferred to a single bank under an agreement which provides for interest to be earned on balances at current market levels.

Clearance of the Victorian Government Solicitor's Trust Account was delayed due to investigations into \$5.5 million worth of unpresented cheques drawn against the Account. The Department considered it inappropriate to transfer account funds to the Department of Management and Budget during these investigations due to the risk of dishonouring valid payments.

Court investments

3.3.9 Various investments are managed and administered by the Supreme Court, County Court, Magistrates' Courts and the Crimes Compensation Tribunal on behalf of infants, estates, persons of unsound mind and amounts paid into court in accordance with various Acts. In the Auditor-General's *Second Report for the year 1986-87*, audit recommended that, to maximise the return on such investments, the funds should be pooled and managed by a specialised investment group.

3.3.10 The Department advised in 1987-88 that trust funds invested by the Master of the Supreme Court were being transferred to the State Trust Corporation. The proposed transfer of funds from the County Court to the Corporation was still under consideration by the Country Court judges.

3.3.11 The Senior Master of the Supreme Court had, up until 31 May 1989, made orders in 622 cases transferring sums totalling \$38 million to the Corporation. However, in view of his findings in relation to the levying of fees and charges by the Corporation (refer paragraphs 3.3.45 to 3.3.48 of this report), the Senior Master has since suspended all court transfers to the Corporation. Audit was advised that the Corporation is to undertake discussions with the Senior Master with a view to resolving the issue.

Financial management

3.3.12 Under the *Annual Reporting Act 1983*, the Attorney-General is required to table before both Houses of Parliament the annual report of the Department, including audited financial statements, before the expiration of the seventh sitting day after 31 October in each year. The financial statements for 1988-89 were not formally adopted by the Department until 31 October 1989.

3.3.13 Audit identified the following deficiencies in the Department's financial management process as contributing to the delays in the finalisation of its financial statements:

- ♦ The Department experienced considerable difficulties in completing the reconciliation of its financial records with the State's accounts maintained by the Department of Management and Budget (DMB) within the required deadline of 10 July 1989. The reconciliation process was not finalised until 13 October 1989;
- ♦ The draft financial statements provided to audit contained a significant number of errors, omissions and incorrect information. In addition, supporting documentation for a number of items reported in the financial statements was not readily available and, when provided at audit's request, was often found to be incorrect; and
- ♦ Lack of involvement by the Department's internal audit unit in financial audits during the year and the financial statements' verification process at year end.

3.3.14 The inability of management to prepare reliable financial information on a timely basis impacts upon its ability to make informed decisions on financial matters.

3.3.15 It is further noted that the Guardianship and Administration Board and the Office of the Public Advocate, which are public bodies within the Attorney-General's portfolio, use the Department's accounting system for recording their financial information. Consequently, the long delays in the Department's reconciliation process resulted in both bodies failing to meet their legislative reporting deadlines under the Annual Reporting Act.

3.3.16 The Department should:

- ♦ ensure prompt reconciliation with DMB's records;
- ♦ ensure greater care and attention be given to the preparation of the financial statements;
- ♦ adopt a more stringent quality control review of the statements and related supporting documentation; and
- ♦ involve internal audit in the continuous audit of the major financial systems of the Department as well as the year-end financial statements verification.

Management response

Many problems, including the Department's inability to reconcile ledgers to those at the Department of Management and Budget and unexpected hardware faults, caused the unsatisfactory performance in 1988-89. The Financial Management Branch has recently undergone a major restructure and review, and a timetable has been prepared to ensure deadlines will be met in 1989-90.

LEGAL AID COMMISSION

Legal assistance

3.3.17 The Commission provides legal assistance in accordance with the *Legal Aid Commission Act 1978* to persons who, in the Commission's opinion, are in need of such assistance but are unable to afford the full cost of obtaining legal services from private practitioners. Further, the Commission may require contributions from assisted persons towards the costs of providing the assistance.

3.3.18 Eligibility for legal assistance and the level of contributions required is based upon financial information provided by applicants relating to income, assets and liabilities.

3.3.19 During 1988-89, the Commission incurred expenses totalling \$35.3 million for legal assistance provided by private practitioners and related out-of-pocket expenses. Contributions received from assisted persons and costs recovered were \$15.1 million for the same period.

3.3.20 Audit examination revealed that:

- ♦ there was no documented evidence of the reasons for the decision to approve applications for legal assistance; and
- ♦ there were not sufficient procedures in place to verify the financial information provided by applicants for assistance.

Management response

In most cases, it is unnecessary to document reasons for decision on the financial eligibility and legal merit of applications for legal assistance because eligibility is clearly apparent to suitably trained persons from the application form and supporting documentation.

In accordance with the requirements of the Legal Aid Commission Act, written reasons for decisions in relation to the provision of legal assistance are provided when requested by applicants and when required for the purpose of the reconsideration and review of decisions under the Act.

The Commission has introduced additional procedures to verify the financial position of applicants.

STATE TRUST CORPORATION OF VICTORIA

Transfer of beneficiaries' assets

Background

3.3.21 The State Trust Corporation was established by the *State Trust Corporation of Victoria Act 1987* (the new Act) on 2 November 1987 to, among other things, take over the functions and assets of the former Public Trust Office.

3.3.22 At the date of takeover, the former Public Trust Office held assets of \$25.6 million derived from the income received from beneficiaries' funds. These assets included:

- ♦ a building at 168 Exhibition Street, Melbourne, occupied by the Corporation and valued at \$11.1 million in 1987 (originally purchased from beneficiaries' funds in 1972 for \$3.4 million by the then Public Trustee); and
- ♦ moneys totalling \$9.3 million held in the Estate Guarantee Reserve Account (EGRA) which under the *Public Trustee Act 1958* (the repealed Act) could only be used to cover capital losses on the sale of beneficiaries' investments, or to incur expenses to protect the interest of beneficiaries.

3.3.23 In the *Report on Ministerial Portfolios, May 1989*, audit expressed concern that the new Act, and in particular section 43, had the effect of retrospectively changing the ownership status of assets previously held in trust for beneficiaries. In response to representations made by my Office, the Corporation referred the matter to the Supreme Court of Victoria for a ruling to clarify the position.

3.3.24 In a judgement delivered on 16 December 1988, Mr Justice Gray found that by virtue of the operation of section 43 of the new Act the Corporation was the legal owner of the assets vested in it including the building and the funds held in EGRA.

3.3.25 In addition, the judgement stated that:

"There is an element of injustice involved because a large sum has been accumulated in EGRA because of the modesty of the rates of interest fixed by the Public Trustee . . . the \$9 million in EGRA is largely interest forgone by the Common Fund holders (beneficiaries), whose only entitlement to interest was at the rates fixed by the Public Trustee.

"There are doubtless other anomalies or perhaps injustices involved in the changes effected by the new Act".

3.3.26 With the passing of the new Act it is clear that the assets in question are now legally owned by the Corporation.

Consultant's review

3.3.27 In view of the comments made by Mr Justice Gray on the anomalies or perhaps injustices involved in the changes effected by the new Act and the various representations by my Office, the Attorney-General appointed an independent consultant in 1989 to determine whether any injustices to beneficiaries occurred as a result of the new Act.

3.3.28 The independent consultant concluded that:

- ♦ the former Public Trustee did not hold the assets in his own right absolutely nor on trust for any person or persons but rather as "statutory owner" under the terms of the repealed Act;
- ♦ injustices, as referred to by Mr Justice Gray, did occur to the fund holders of the Common Fund under the repealed Act; and
- ♦ the new Act exacerbated the unfair elements of the repealed legislation.

3.3.29 The unfair elements of the repealed legislation were seen as:

- ♦ Ownership of the building was transferred to the State Trust Corporation under the new Act. As a consequence, fund holders were deprived of the benefits flowing from the capital appreciation of the building from the date of purchase in 1972 of \$7.7 million;
- ♦ The building was originally financed from a single common fund, which has since been divided into Common Fund No. 1 and Common Fund No. 2. While the new Act recognised that the original purchase price of the building of \$3.4 million was repayable to beneficiaries, it deemed that only beneficiaries of Common Fund No. 1 should benefit. As a consequence, beneficiaries of the original fund who are now members of Common Fund No. 2 received no benefit despite the fact that a portion of their moneys also financed the building; and
- ♦ Fund holders have incurred an additional loss of investment income since the establishment of the Corporation on 2 November 1987. On that date, the Corporation as the declared owner of the building, reverted from paying market rental to members, to paying interest on the \$3.4 million it had originally borrowed.

3.3.30 Audit has calculated the income forgone by fund holders for the period 2 November 1987 to the date the loan was repaid by the Corporation to Common Fund No. 1 was \$1.5 million.

3.3.31 The consultant's report which provides a number of alternatives to remedy the injustices to beneficiaries has been referred to the Attorney-General.

3.3.32 Even though the Minister has not yet made any decision in relation to addressing the injustices suffered by the beneficiaries, the Corporation has pre-empted the Minister's decision by repaying the loan of \$4.3 million, comprising \$3.4 million for land and buildings and \$900 000 for furniture and fittings, in November 1989.

3.3.33 The repayment of the loan coincided with a substantial increase in the rate of interest on that loan from 13.7 per cent to 23.5 per cent as determined by the Minister in accordance with the Penalty Interest Rates Act 1983. While it was commercially beneficial for the Corporation to pay the lower interest rates, when such rates were increased to 23.5 per cent from 1 October 1989 the Corporation moved quickly to repay the loan.

3.3.34 Audit agrees with the advice of the Corporation that the decision to repay the loan was a sound commercial decision but questions whether the Corporation acted in the best interests of the beneficiaries in this instance.

3.3.35 In fairness to the Corporation, the State Trust Corporation of Victoria Act 1987 has placed the Corporation in a situation of conflict in that the Corporation as trustee is required to act in the best interests of persons under its care while at the same time is required to operate efficiently and effectively.

Management response

As far as the Corporation is concerned, the matter now rests with the Attorney-General to determine the most appropriate solution to issues raised in the consultant's report.

However, the Corporation considers audit's conclusion regarding income forgone by fundholders to be erroneous. Under the Public Trustee Act rental paid on the building was funded in part from interest earned on Common Fund investments but not returned to fund holders as interest. Under the new Act, all interest moneys are distributed to fund holders.

The Corporation had followed the requirements laid down in its Act and, at the appropriate time, took a commercial decision to repay the loan.

Represented persons' administration

3.3.36 During the year ended 30 June 1989, the Senior Master of the Supreme Court was critical of certain aspects of the Corporation's method of discharging its duties as administrator of the estates of represented persons. Details are provided in the following paragraphs.

Delegation of investment power

3.3.37 The Corporation had an agreement with a financial institution to which the Corporation refers its financial planning business. The Senior Master was concerned that: *"The Corporation may have wholly or substantially delegated to the institution its function of investment for such persons - other than investment in its Common Fund No. 1".*

3.3.38 Under common law, a trustee is **prohibited** from delegating any duties or powers. The judgement, in summary, stated that the evidence before the Senior Master was insufficient to enable a finding as to whether, under the agreement, the institution was an independent contractor (in which case the agreement was unlawful) or an agent of the Corporation.

3.3.39 The Senior Master was also concerned that: *"The Corporation's schedule of fees and commissions does not reflect the failure to provide a full investment service"*.

3.3.40 The Senior Master felt that there ought to be some distinct reduction in the Corporation's schedule of fees and commissions if the Corporation had provided less than a full investment service to its clients.

Retention of investment commissions

3.3.41 The financial planning agreement referred to above also allowed for the institution and the Corporation to share any commissions earned as a result of the advice provided. For the period ended 30 June 1989, the Corporation received approximately \$10 600 under the commission sharing arrangement.

3.3.42 In the judgement it was noted that at common law a trustee was not to abuse his position by making it a means of profit or benefit to himself or any third party. **The Senior Master concluded that the Corporation had offended this fundamental principle of trusteeship with respect to the commissions received by the institution and shared with the Corporation.**

3.3.43 The Corporation contended that its schedule of fees and commissions of 1 February 1989 provided adequate disclosure. In part, it states: *"Where the State Trustees have a formal agreement with financial planning bodies for the provision of professional advice concerning the affairs of a State Trustee's client, the State Trustees are entitled to a share of the financial planner's commission or fee under the terms of the agreement"*.

3.3.44 In the Senior Master's view, the provision was "totally inadequate" regarding disclosure and that, **on the evidence presented, there had been no disclosure, adequate or otherwise, of the sharing by the Corporation and the institution of the commissions collected by the latter for investing the funds of represented persons.**

Levying of fees and charges

3.3.45 Under the schedule, the Corporation had 3 options for remuneration for services in administering the affairs of represented persons. The option applied by the Corporation for funds transferred from the Court, except in cases where charges were waived, allowed for a \$200 establishment fee and "transaction fees" of 1.5 per cent of the capital value for either **realising** or purchasing an asset. At the time of promulgation of the schedule on 1 February 1989, certain administrative guidelines were issued by the Corporation to its trust officers. The guidelines interpreted the schedule as providing for *"an establishment fee of \$200 and 1.5 per cent on any capital sum received"*. In other words, the receipt of funds on the opening of an account with the Corporation was regarded as a transaction.

3.3.46 According to the Senior Master, however, the receipt by the Corporation of funds pursuant to an order of the Court under the relevant provisions the *Guardianship and Administration Board Act 1986* or the *State Trust Corporation of Victoria Act 1987* was **neither** a transaction realising an asset **nor** a transaction purchasing an asset in the ordinarily accepted meanings of those terms. The position of the Corporation on this point was seen to be "indefensible". The Senior Master regarded the charging of **both** an establishment fee and a 1.5 per cent commission on the receipt of funds as "incongruous in the extreme". The Senior Master also determined that for the Corporation to charge commissions not provided for in the schedule was unlawful.

3.3.47 Up until 31 May 1989 the Senior Master of the Supreme Court had made orders in 622 cases transferring sums totalling nearly \$38 million to the Corporation. In view of his findings in the aforementioned case, the Senior Master suspended all transfers to the Corporation.

3.3.48 At the date of preparation of this report no further court transfers have taken place. Audit was advised that the Corporation is undertaking discussions with the Senior Master with a view to resolving the issue.

Management response

All of the matters raised by the Senior Master of the Supreme Court have been addressed by the Corporation. While the Corporation does not agree with some of the observations made by the Senior Master, the Corporation is currently seeking amendments to its Act and, in due course, the schedule of fees and commissions to place all matters raised beyond reasonable doubt. It is not intended by either party that the Court transfer process resume until the necessary amendments are in place.

Management of Common Funds investments

3.3.49 In March 1987, the Corporation negotiated an agreement with the State Bank to manage part of the Corporation's fixed interest government securities portfolio.

3.3.50 On 6 April 1989, a further agreement was entered into for the Bank to manage the entire portfolio of both Common Funds, with the exception of commercial mortgages. The amount managed by the Bank approximates \$190 million.

3.3.51 While it is acknowledged that the appointment of the Bank is a management decision, audit nevertheless questions the appropriateness of the decision to have such a large amount of funds under the management of one fund manager.

3.3.52 Audit noted that, prior to February 1989, there were no written guidelines or established investment categories and parameters within which the funds manager could operate. In addition, the Corporation's internal auditors reported on the inadequate monitoring by the Corporation of the performance of its fund manager. In particular, the report commented that, in the past, there had been no formal reporting of investment performance other than in the annual report and that to effectively manage a significant investment portfolio, the rates of return on various classes of investment should be measured and compared with suitable benchmarks.

3.3.53 It is pleasing to note that the Corporation established an investment committee in February 1989 to address the above and other issues. The investment committee has not recommended the appointment of more than one fund manager.

3.3.54 Audit is of the opinion that there are many advantages in having more than one fund manager, including the spreading of risk and promotion of healthy competition to maximise returns on investors' funds. Accordingly, audit recommends that the Board should consider the appointment of more than one fund manager over its substantial investment portfolio.

Management response

The funds under management are Trustee Act investments and therefore risk averse and the benefits that would arise through the engagement of more than one funds manager may not be sufficient to offset the additional considerable cost that would be involved.

Management of the portfolio will be put to tender at the expiration of the existing contract when engagement of additional funds managers will be addressed.

Common Fund investments

3.3.55 During March 1989 the Corporation sold a number of investments resulting in a loss of approximately \$1.2 million. Of this loss, \$904 000 was due to the sale of \$10 million of Commonwealth Government Inscribed Stock. This stock was sold and a similar amount of securities purchased with a view to increasing the portfolio's yield to maturity.

3.3.56 Although it is the Corporation's current practice to credit interest earnings on Common Fund investments to beneficiaries' accounts on a monthly basis, it was felt that to have distributed the loss to current beneficiaries in one month would have been most inequitable and harsh as the objective in trading the securities was to benefit future beneficiaries. Accordingly, the Corporation decided to spread the loss, after offsetting the discount obtained upon the purchase of the new securities, over 25 months to the maturity date of the replacement securities.

3.3.57 This treatment is, however, contrary to the State Trust Corporation of Victoria Act which provides for:

"Any profit or loss on an investment made out of money forming part of a Common Fund is to be credited or debited to the Common Fund and credited or debited proportionately to the accounts of each estate, trust, property or person participating in that Common Fund at the time the profit or loss is calculated".

3.3.58 The Corporation should operate in accordance with the provisions of its Act. However, should it consider that inequities could arise in doing so, a review of the Act should be undertaken to ensure the interests of all beneficiaries are protected.

Management response

The Corporation took the action it did on the basis of equity and has since instructed the funds manager that such transactions are not to be undertaken.

State Investment Trust

3.3.59 In the Auditor-General's *Second Report for the year 1985-86* comment was made on the increasing involvement of the Victorian public sector in companies, trusts and joint venture arrangements. It was recommended that proper accountability mechanisms be established including a consolidated record of all such arrangements.

3.3.60 In October 1987, the Department of Management and Budget issued guidelines for public sector companies, joint ventures and trusts requiring, among other things, the maintenance of a register of such entities by the Department.

3.3.61 On 30 June 1989, the State Investment Trust was established under a deed of trust between the Treasurer of Victoria and the State Trust Corporation. The Corporation was appointed custodian trustee of share units, and other interests in certain companies, trusts and other enterprises which are held beneficially by or on behalf of the State.

3.3.62 The main objective in establishing the Trust is to provide a central asset register for all State Government holdings and to facilitate dealings in these holdings.

3.3.63 At the date of preparation of this report, a number of public sector investments in companies have been transferred to the Corporation as detailed below:

- ♦ Amrad Corporation Ltd;
- ♦ Applied Bioscience (Aust.) Ltd;
- ♦ Australian Artificial Institute Ltd;
- ♦ Cala Pty Ltd;
- ♦ Overseas Projects Corporation of Victoria Ltd;
- ♦ Ramex Ltd;
- ♦ Trace Scientific Pty Ltd; and
- ♦ Victorian Building Applied Pty Ltd.

3.3.64 Audit was advised that the Department of Management and Budget is responsible for determining the timing of any future transfer of investments to the Corporation.

Schedule A. Status of matters raised in previous reports

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
Attorney-General's Department		
<i>Second Report, 1982-83, p.65 Third Report, 1983-84, p.33 Second Report, 1986-87, p.43</i>	Investment of court funds.	For further comments, refer to paragraphs 3.3.9 to 3.3.11 of this report.
<i>Third Report, 1983-84, p.32 Second Report, 1985-86, pp.70-1</i>	Debtors understated in Department's financial statements.	The financial statements were qualified with regard to outstanding fines held at the Information Bureau Registry of the Victorian Police Force. For further comments, refer to paragraphs 3.16.10 to 3.16.12 of this report.
<i>Second Report, 1984-85, p.29</i>	Recovery of misappropriated trust funds amounting to \$3 750 from a former employee of the Sheriff's Office.	Position now satisfactory. The employee was examined as a Judgement Debtor by the Court, consequently, approval of the Treasurer was sought and given for the write-off of the amount of \$3 750.
Legal Aid Commission of Victoria		
<i>Second Report, 1986-87, p.44</i>	Delays and additional costs incurred in the development and implementation of the computerised legal aid services system.	Position now satisfactory. Major internal control weaknesses identified in subsequent review of the system have been rectified by the Commission.
State Trust Corporation of Victoria		
<i>Ministerial Portfolios, May 1989, pp.31-3</i>	Injustice occurred due to the transfer of beneficiaries' assets to the Corporation pursuant to provisions of the <i>State Trust Corporation of Victoria Act 1987</i> .	For further comments, refer to paragraphs 3.3.21 to 3.3.35 of this report.
<i>Ministerial Portfolios, May 1989, p.33</i>	Failure to bring to account accrued revenue and expenses at the date of setting up the Commission and accrued capital commissions at 30 June 1988.	All accrued revenue and expenses are now brought to account. However, the Corporation could not substantiate the amount of capital commission accrued resulting in qualification of its financial statements.
<i>Ministerial Portfolios, May 1989, p.34</i>	Lack of centralised register of beneficiaries' assets.	A computerised register of beneficiaries' assets was established and became operational during the year. However, there are a number of shortcomings with the register.

Schedule B. Completed/incomplete audits

Entity	Financial year ended	Reporting to Parliament	Financial statements signed by entity	Auditor- General's report signed
Completed audits				
Attorney-General's Department	30 June 1989	31 October. <i>Annual Reporting Act 1983, s.8.</i>	31 October 1989	8 November 1989(a)
Office of the Director of Public Prosecutions	30 June 1989	31 October. <i>Annual Reporting Act 1983, s.8.</i>	31 August 1989	16 October 1989
Estate Agents Board	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.9.</i>	30 September 1989	17 October 1989
Guardianship and Administration Board	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension of time to 31 October 1989.	5 October 1989	31 October 1989
Law Reform Commission	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.9.</i>	22 September 1989	29 September 1989
Legal Aid Commission	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.9.</i>	19 September 1989	29 September 1989(a)
Legal Aid Commission Staff Superannuation Fund	30 June 1989	30 September. <i>Legal Aid Commission Act 1978, s.42.</i>	19 September 1989	29 September 1989
Office of the Public Advocate	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension of time to 31 October 1989.	5 October 1989	30 October 1989
Patriotic Funds Council	Period 9 January 1988 to 13 November 1989	No date specified. <i>Patriotic Funds Act 1958, s.28.</i>	(b)	(b)
State Trust Corporation	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.8.</i>	29 September 1989	29 September 1989(a)
Victorian Institute of Forensic Pathology	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.9.</i>	12 September 1989	22 September 1989

(a) Qualified audit report issued.

(b) Not applicable.

3.4

COMMUNITY SERVICES

KEY FINDING

- ♦ Need for the Department of Community Services to review catering practices at training centres with the aim of improving economy and efficiency of operations.

paras 3.4.1 to 3.4.10

The Department of Community Services is the only entity subject to audit by the Auditor-General for which the Minister for Community Services is responsible.

Comments on matters of significance arising from the audit of the Department are discussed below.

DEPARTMENT OF COMMUNITY SERVICES

Food services costs at State training centres

Absence of monitoring of catering costs

3.4.1 The Department of Community Services Victoria (CSV) is responsible for the operation of 8 Intellectually Disabled Service (IDS) training centres and 4 youth training centres within Victoria. During 1988-89 \$7 million was spent by the training centres in providing food services to residents and staff.

3.4.2 Audit review of the Department's catering management practices disclosed that while each training centre's overall costs were monitored within CSV's financial management system, catering costs had not been compiled and analysed at a central level.

3.4.3 Audit analysis of catering costs revealed significant variations between centres in the average cost per meal. Details of variations are set out in Table 3.4A.

TABLE 3.4A. VARIATIONS IN COSTS OF CATERING, 1988-89

Training centre	Annual catering costs		Meals prepared(b)	Average cost per meal
	Salaries(a)	Provisions		
	(\$)	(\$)	(number)	(\$)
Youth training centres -				
Turana	360 814	487 795	245 000	3.46
Winlaton	70 692	142 675	71 000	3.01
Langi Kal Kal	41 055	136 093	77 000	2.30
IDS training centres -				
Sunbury	819 067	754 743	594 000	2.65
Kew Cottages	729 949	825 823	754 000	2.06
Janefield	507 427	404 869	456 000	2.00
Pleasant Creek	429 552	118 819	101 000	5.42

(a) Catering staff only. Does not include costs of other staff whose duties include breakfast preparation.

(b) Estimated by audit; departmental figures not available.

3.4.4 While it is recognised that such factors as purchase costs of foodstuffs and type of meals prepared influence the average cost of meals, variations could also indicate differences in labour productivity and wastage and pilfering levels.

3.4.5 Audit is of the view that CSV should monitor and analyse catering costs across all centres to ensure that centres are operating economically and efficiently. There is a need for the Department to determine, for each centre, the average cost of meals and to investigate significant variations in costs between centres.

Need to review method of food preparation

3.4.6 Mid-day and evening meals are prepared in bulk at each training centre and delivered to each residential unit within the centre to be individually plated by CSV staff.

3.4.7 There are other food preparation arrangements used in the catering arena, such as cook-chill methods, which offer potential for reduced labour costs, improved meal quality and improved hygiene.

3.4.8 Audit has recommended that CSV undertakes a cost-benefit analysis of alternative food preparation methods to determine whether cost savings and other benefits can be achieved.

Lack of an overall policy on food services

3.4.9 The review of the Department's procedures for the management of food services disclosed that CSV had no central policy documentation to provide overall guidance to training centres on such matters as quality assurance programs, standards of meals preparation and acceptable levels of wastage.

3.4.10 To ensure that resources are employed in an effective manner audit recommended that CSV develop an overall policy on food services in order to give direction on standard practices to be applied at all IDS and youth training centres.

Management response

The Department of Community Services accepts the comments made by audit.

Schedule A. Status of matters raised in previous reports

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
Department of Community Services		
<i>Ministerial Portfolios</i> , May 1989, p.39	Incorrect classification of expenditure in DMB records.	Matter substantially resolved.
<i>Ministerial Portfolios</i> , May 1989, p.40	Current personnel practices and management procedures require review with the aim of eliminating practices which contribute to higher levels of overtime and allowances.	No major changes to practices. Department has introduced relief staff pooling arrangements at 2 training centres and is currently reviewing staff resourcing at IDS training centres.

Schedule B. Completed/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits				
Department of Community Services	30 June 1989	31 October. <i>Annual Reporting Act</i> 1983,s.8	26 October 1989	31 October 1989

3.5

CONSERVATION, FORESTS AND LANDS

KEY FINDINGS

- ♦ The level of long outstanding debtors of the Department, with an average value of \$6.3 million in excess of 3 months, has remained consistently high.

paras 3.5.1 to 3.5.5

- ♦ Need for the Department to review the viability of its weedicides resale scheme.

paras 3.5.14 to 3.5.19

- ♦ Review of controls over evening activities at State Swimming Centre reveals potential for loss of admission funds.

paras 3.5.37 to 3.5.44

The Minister for Conservation, Forests and Lands is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Department of Conservation, Forests and Lands

Public bodies

Albert Park Committee of Management Incorporated
Bundoora Park Committee of Management
Mount Macedon Memorial Cross Committee of Management
Olympic Park Management
Penguin Reserve Committee of Management
Port Bellarine Committee of Management
Shrine of Remembrance Trustees
State Swimming Centre Committee of Management
Victorian Institute of Marine Sciences
Yarra Bend Park Trust
Zoological Board of Victoria
Zoological Board of Victoria Superannuation Fund

Comments on matters of significance arising from the audit of certain of the above entities are discussed below.

DEPARTMENT OF CONSERVATION, FORESTS AND LANDS

Continuing problems with debt management

3.5.1 Previous reports of the Auditor-General have referred to deficiencies in debt management procedures within the Department, including comments on the absence of formalised dispute settling procedures which have contributed to large debts remaining outstanding for substantial periods of time.

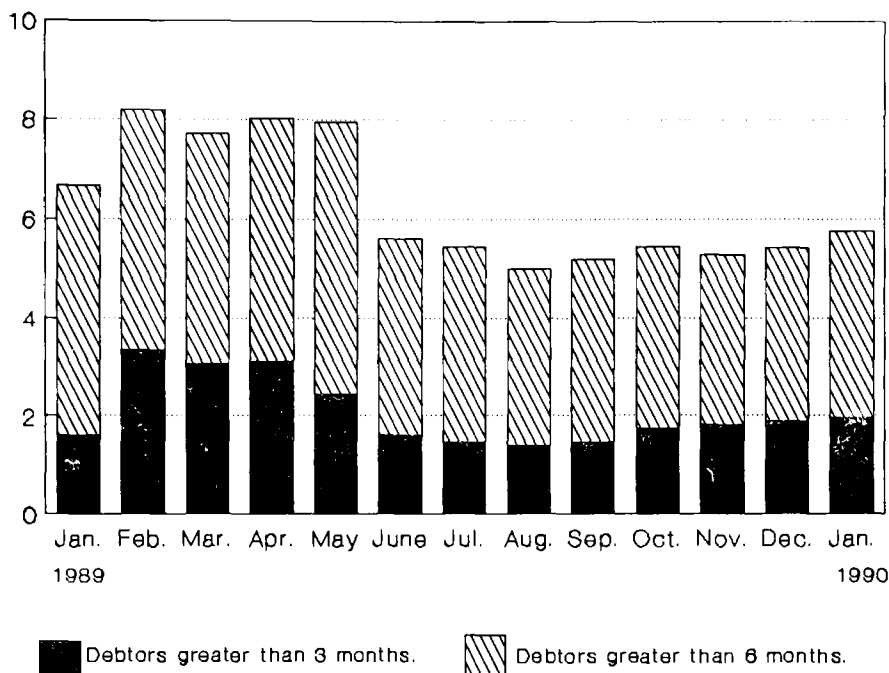
3.5.2 In July 1988, the Department implemented a new computerised accounts receivable system to improve the effectiveness of debt management. During the year, audit reviewed the impact of the new system on debt management procedures within the Department.

3.5.3 Audit found that the new computerised system has improved the capacity of the Department to analyse debtors. However, because of continuing problems arising from debts subject to dispute, the level of debts outstanding for periods exceeding 3 months has remained consistently high.

3.5.4 Total debtors of the Department outstanding in January 1990 amounted to \$14.9 million.

3.5.5 For the period January 1989 to January 1990, debtors with an average value of \$6.3 million were outstanding in excess of 3 months, with an average of 68 per cent of those debtors exceeding 6 months in arrears. This position is illustrated in Chart 3.5A.

CHART 3.5A. LEVEL OF AGED DEBTORS
(\$million)



Long outstanding debts in dispute

3.5.6 In January 1990, debts in arrears for more than 6 months amounted to \$3.8 million, of which \$2.3 million (or 61 per cent) related to amounts due for lease rentals which were subject to dispute by lessees.

3.5.7 While the Department has put in place a dispute settling process, the continuing high level of debtors outstanding for lengthy periods because of disputed rentals indicates that the Department's dispute settling procedures are not operating effectively.

3.5.8 The Department has considered the inclusion of standard settlement procedures in all future leases to facilitate early resolution of disputes but is yet to make a final decision on the matter.

3.5.9 If the revenue outstanding in excess of 3 months had been collected by the Department within 3 months of the due dates and was available to the Department of Management and Budget for investment in the Victorian Development Fund, audit estimates the State could have earned interest income of around \$940 000 during 1989.

3.5.10 Audit has recommended that the Department take early action to resolve the current long outstanding rental disputes and to ensure that procedures are in place for timely collection of all debts.

Management response

Upon the amalgamation of the 3 former agencies the consolidated department inherited debt management policy and operations problems of major proportions. Since July 1988, when a modern accounts receivable system commenced operation excellent progress has occurred.

As a result of information provided by the new system and the major efforts directed throughout the Department to enhance debt recovery, between February 1989 and February 1990 total outstanding debt has been reduced by 30 per cent from \$20.9 million to \$14.6 million, and debt in excess of 3 months has been reduced by 29 per cent from \$8.2 million to \$5.8 million.

The Department accepts that at January 1990, arrears in excess of 6 months amounted to \$3.8 million. However, it should be noted that \$1.8 million of that sum related to 6 debtors with whom the Department is either negotiating directly or involves a third party and hence to this extent was beyond the control of the Department of Conservation, Forests and Lands.

It should also be noted that in the year to February 1990 the interest rate on outstanding debt, which is based on the rate applying to the Penalty Interest Act, was as low as 11.9 per cent in the period audited. In view of its level relative to the commercial interest rates which prevailed for much of this period this represented a disincentive to discharge debt in a timely manner.

The Department firmly believes that its actions have significantly increased interest income for the State. Since 1986 it can be clearly demonstrated that the time cycle for the transmission of local collections from work centres to the Department's Head Office has been reduced from up to 12 weeks down to an average of less than 1 week. In addition, other actions taken by the Department have resulted in the identification of unauthorised land occupancies which will gain an estimated extra \$400 000 in 1989-90.

Purchase and sale of weedicides

3.5.11 The Department has the statutory responsibility under the *Vermin and Noxious Weeds Act 1959* for the eradication and control of various noxious weeds in the State. One of the means by which it attempts to control weeds is by the use of weedicides.

3.5.12 Weedicides are acquired by the Department to control weeds which threaten the conservation value of public land. In addition, under a scheme which has been in existence for 12 years, the Department purchases weedicides for sale to landowners to assist them to meet their statutory obligations to control and suppress noxious weeds on their private land.

3.5.13 Weedicides in stock at 30 June 1989 amounted to \$3 million at cost and represented some 55 per cent of the Department's general stores on hand at that date. Expenditure on the purchase of weedicides (including purchases for departmental use) in 1988-89 totalled \$2.5 million and revenue collected from weedicide sales was \$1.9 million.

Need for periodic reviews of resale scheme's viability

3.5.14 Since the Department assumed responsibility for weed control in 1985, there has been only one comprehensive review of the operation of the weedicides resale scheme. That review, undertaken during 1985, found that the scheme was *"financially and administratively self-supporting and demonstrably efficient in its operations"*. At the time of the review, representatives of farmer organisations expressed their support for the scheme.

3.5.15 Since 1985, resale prices for weedicides have been calculated on the basis of purchase cost plus a fixed mark-up of 10 per cent. In one region visited by audit, the departmental prices set on this basis were substantially lower than commercial prices.

3.5.16 The 1985 review had concluded that a 10 per cent mark-up would be sufficient to recover all direct and indirect costs associated with the administration of the scheme. However, the audit review disclosed that the 1988-89 revenue of \$1.9 million was barely sufficient to cover the purchase cost of weedicides let alone the salary costs and associated overhead costs. A similar situation prevailed in the previous 2 financial years.

3.5.17 **The cost recovery levels achieved over the last 3 years indicates that the adequacy of the current mark-up needs to be reviewed to ensure direct and indirect costs are being recovered and the scheme is in fact financially and administratively self-supporting.**

3.5.18 The Department has not developed specific performance measures, for example, sales targets per region, to assist in evaluations of the scheme's effectiveness. It appeared to audit that the main criterion used by the Department to date, to support continuation of the scheme, was feedback from private landowners and departmental representatives.

3.5.19 **It is 5 years since the scheme has been comprehensively reviewed and audit has recommended that, given the current operating results and the commercial availability of most of the weedicides provided under the scheme, it would be timely to conduct a further review.**

Management response

The pricing of weedicides was reviewed at the time of the 1989-90 Budget. On the evidence available to the Department pricing was determined to be generally in line with private industry. Consequently, it was considered that any price increase would result in reduced revenue and would impair the Department's ability to continue to use weedicides stores as a valuable extension service which provide advice to rural landholders in chemical usage and safety.

Number of weedicide stores

3.5.20 **The Department currently has 144 regional stores holding weedicide stocks for use or resale.** Each store requires specialised storage and security facilities and, in most cases, the attendance of a Land Protection Officer for one day per week to attend to sales, provide advisory services to the public, and undertake other administrative functions.

3.5.21 The Department has not regularly evaluated whether the retention of this number of stores represented the most efficient use of resources. In addition, the Department does not systematically record and review the level of weedicide sales generated from each store and the applicable costs of operating stores. Audit considered that rationalisation options have not been specifically considered in relation to administration of weedicide stores.

3.5.22 Audit recognises that the provision of an efficient service delivery to the landowner is an important factor which needs to be taken into account by the Department when determining the number and location of stores. However, because of the high number of stores which currently hold weedicides, the Department needs to be assured, on a periodic basis, that retention of all stores is warranted.

3.5.23 The Department has recently undertaken a review of all departmental premises transferred from predecessor organisations in previous years.

3.5.24 **Audit has recommended that the Department incorporate, within its latest initiative, consideration as to the economic justification of the current number of weedicide stores in operation.**

Management response

Under the Department's Depot Rationalisation Program the number of depots has been reduced from 309 at the time of amalgamation to 187 at present. This has resulted in substantial operating economies and will provide an estimated \$1.2 million in receipts from asset sales in 1989-90 and a total of some \$7.8 million over 3 years, which is being reallocated to the Asset Management Program. The number of weedicide stores had been reduced broadly in this same proportion. While further consideration will be given to this matter the Department believes that in this context any additional rationalisation will be relatively minor.

Deficiencies in stores administration

3.5.25 The Department has not established uniform guidelines to assist Land Protection Officers and regional staff in the administration of weedicide stores. In addition, Land Protection Officers do not receive any formal training in stores management procedures although they have responsibility for requisitioning and managing weedicide supplies. It was not surprising, therefore, that the audit review identified several shortcomings in stores management practices within regions. These shortcomings included:

- ♦ excessive holdings of particular weedicides (in some cases stocks on hand represented between 2 to 12 years' supply based on prior annual usage rates);
- ♦ timely information such as stock levels and turnover rates for particular weedicides, was not available to support management decision-making;
- ♦ optimum stock re-ordering levels for use in stores had not been established;
- ♦ performance measures had not been developed to assist in monitoring the efficiency of stores management; and

- ♦ a lack of segregation of duties with Land Protection Officers being responsible for all accounting and stores procedures relating to the acquisition and sale of weedicides.

3.5.26 There is a need for the Department to assess the adequacy of stores management procedures currently in place for weedicides.

Management response

The Department has reduced weedicide stocks from \$5.3 million at April 1986 to \$2.5 million in April 1989 which because of seasonal purchasing increased to \$3 million at 30 June 1989. Accordingly, it is considered that any excessive holdings at individual locations are now minimal. Some longstanding holdings became obsolete stock after particular chemical brands were determined as becoming excessively dangerous after their purchase.

The Department has accepted the need to improve stores management procedures for weedicides and the necessary development work is proceeding. This will continue to be a priority objective.

Handling, storage and transportation of weedicides

3.5.27 Weedicides are deemed to be hazardous and are subject to various regulations which fall within the responsibility of the Department of Labour (DOL).

3.5.28 During the review, audit consulted with DOL to discuss issues relevant to handling, storage and transportation of weedicides. Following these discussions, DOL inspected all weedicide stores in one region of the Department. The inspection identified a number of issues which need to be addressed by the Department in order to ensure compliance with the Dangerous Goods (Handling and Storage) Regulations 1989, which become operative from June 1990. These issues included:

- ♦ the need for adequate ventilation in stores;
- ♦ upgrading of facilities for handling and storage of poisons; and
- ♦ the licensing of departmental vehicles and drivers involved in the transportation of chemicals

3.5.29 It is understood that DOL has informed the Department on the results of the inspection.

3.5.30 The Department has advised audit that while it had conformed with existing regulations concerning hazardous chemicals, it is currently assessing what changes are necessary in the light of the DOL review and the new regulations.

Management response

As indicated, the Department is currently assessing the impact of the Dangerous Goods (Handling and Storage) Regulations which will become operative in June 1990. It is planned to identify a Works Program to undertake a range of safety initiatives which can be progressively implemented in accordance with the funds which are made available.

Current departmental strategies for firefighting

3.5.31 Under previous fire emergency arrangements, the Department used the resources of the National Safety Council of Australia (NSCA) Victorian Division to supplement its firefighting capabilities.

3.5.32 The facilities provided by the NSCA comprised the use of helicopters for the transportation of water and firefighters, the provision of relevant training to departmental staff and the hiring of specialised equipment such as an infra-red line scanner to assist in locating fire boundaries at night.

3.5.33 Since the collapse of the NSCA, the Department has initiated action to overcome the loss of services previously provided by the NSCA. This action has included:

- ♦ the purchase at a cost of \$285 000 from the NSCA's liquidators of the infra-red line scanner previously hired by the Department which has been installed in an aircraft for the duration of the fire season;
- ♦ a new joint arrangement with the Country Fire Authority to have available on standby 3 privately-owned helicopters for use from strategic points in the State; and
- ♦ use of departmental resources for the training of crews for rapid descent from helicopters.

3.5.34 In addition to the above action arising specifically from the loss of the NSCA services, the Department has increased from 5 to 8 the number of fixed-wing fire bombers hired from private firms.

3.5.35 The Department is confident the above initiatives will compensate for the loss of firefighting support previously available from the NSCA.

Losses and thefts

3.5.36 The Department has notified audit of losses and thefts for the year ended 31 December 1989 as set out Table 3.5B.

TABLE 3.5B. LOSSES AND THEFTS
(\$)

<i>Item</i>	<i>Amount</i>
Misappropriations and losses of funds	5 000
Losses and thefts of equipment	26 000
Total	31 000

STATE SWIMMING CENTRE COMMITTEE OF MANAGEMENT

Review of admission controls

3.5.37 The State Swimming Centre, although mainly used for competition, is also open to recreational swimmers and to swimming organisations on a fee-for-hire basis.

3.5.38 A standard fee is charged to all patrons except for officials involved in competitions run at the Centre. The level of fee, including free entry, at fee-for-hire activities is determined by the hirer. After deduction of hiring costs, which covers use of Centre staff for the collection of fees, the Centre remits net collections to the hirer.

3.5.39 For 1988-89, the Centre's revenue amounted to \$511 000 (including an operating grant of \$165 000 from the Department of Sport and Recreation) of which \$195 000 was collected in admission fees for fee-for-hire activities.

3.5.40 During August 1989, audit conducted a review of admission operations at an evening swimming competition. The purpose of the review was to evaluate the reliability and effectiveness of revenue management controls at evening competitions. **Most evening activities are organised by hirers and are not subject to periodic supervisory reviews of attendance numbers and fee collections of the type performed by Committee management during daily activities.**

3.5.41 As part of the audit exercise, 2 separate but concurrent counts of patrons entering the Centre, as well as monitoring at other exits for unauthorised entry, were undertaken.

3.5.42 The audit count established that approximately **1 130** patrons, i.e. after allowance for officials, attended the event. The number of paying patrons officially accounted for on the night of observation was **804**, which represented a difference of **326** or 41 per cent on admissions recorded.

3.5.43 If this difference of 41 per cent was representative of all evening activities conducted at the Centre, the annual impact on amounts collected on behalf of hirers, in terms of potential loss of admission funds, could be substantial. It was not possible for audit to determine with any confidence the potential annual loss to hirers as the Centre's records did not readily allow identification of collections received and attendance numbers for evening activities.

3.5.44 As a public authority, the Centre has an obligation to ensure that all funds, including hirers' funds, are properly accounted for and in view of the potential seriousness of the position, it was recommended to the Committee that:

- ♦ **investigative action be initiated, without delay, to determine whether admission revenue arising from all activities conducted at the Centre has been collected; and**
- ♦ **the adequacy of current management control procedures relating to admission revenue be reviewed.**

Management response

The Centre assists hirers to collect revenue from their use of the Centre by providing cashiers; all proceeds beyond hire charges and staff costs are returned to the hirer.

Following the report, the Committee reviewed procedures used to control entry to the Centre and initiated independent checks on the number of people entering the Centre compared with receipts at similar events to the one covered by the review.

The result of the first check was consistent with audit findings, however, a number of people were able to enter without paying. A second check after narrowing the entries was inconclusive as it appeared that some patrons had also entered without paying. Two further checks at later hires indicated that the entries and receipts were approximately equal, possibly because of awareness of observation or the reduced entries.

New procedures are being introduced to make staff on counter duty more accountable for individual cash receipts during daily operations. The Committee proposes a number of checks of admission revenue each year and has directed that signs be erected in the foyer indicating that patrons should obtain and retain tickets as proof of valid entry. Employment of an additional full-time staff member to enable direct monitoring of receipts is also under consideration. In addition, the methods of entry which are complex due to the combinations of free entry, are under review to see if they can be simplified while remaining acceptable to hirers and provide better control of gate money. The Committee does not underestimate the seriousness of the issues.

Since the above response the Centre Manager has had further discussions with user groups and has advised that these groups are satisfied with the present entry control systems. However, the Committee of Management intends to initiate further negotiations with user groups in an endeavour to introduce more effective and accountable procedures.

Schedule A. Status of matters raised in previous reports

Report	Subject	Status at date of preparation of this report
Department of Conservation, Forests and Lands		
<i>Third Report</i> , 1983-84, p.22 <i>First Report</i> , 1984-85, p.81 <i>Ministerial Portfolios</i> , May 1989, p.46	Inadequate procedures to either collect outstanding licence fees for occupied Crown land or terminate tenancies.	Development by the Department of a Land Information Management System is continuing and completion is now expected in June 1991.
<i>Second Report</i> , 1985-86, pp.90-1 <i>Second Report</i> , 1986-87, pp.52-3 <i>Ministerial Portfolios</i> , May 1989, pp.45-6	Deficiencies in the debtors/revenue collection system. Potential interest forgone.	While the introduction of a new accounts receivable system has assisted debt management, the level of outstanding debts remains excessive. For further comments, refer to paragraphs 3.5.1 to 3.5.10 of this report.

Schedule A. Status of matters raised in previous reports - continued

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<i>Ministerial Portfolios, May 1989, pp.46-8</i>	Need to improve the accountability and monitoring of the activities of committees of management.	The Department plans to initiate steps to improve Statewide monitoring and reporting processes of committees of management. However, resource constraints will determine the priority of this matter.
Bundoora Park Committee of Management		
<i>Second Report, 1986-87, p.53</i>	Audits for past 7 years not finalised due to failure of the Committee to provide satisfactory financial statements.	Audit of the Committee's financial statements for the past 8 years is substantially advanced.
State Swimming Centre Committee of Management		
<i>Fourth Report, 1983-84, pp.76-7</i>	Action required to recover costs and obtain compensation for structural defects in the Centre's building.	Legal action is currently under way.

Schedule B. Completed/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits				
Department of Conservation, Forests and Lands	30 June 1989	31 October. <i>Annual Reporting Act 1983, s.8.</i>	9 October 1989	12 October 1989
Albert Park Committee of Management Incorporated	31 December 1987	No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.	27 February 1989	5 July 1989 (a)
" "	31 December 1988	" "	1 December 1989	27 February 1989(a)
Mount Macedon Memorial Cross Committee of Management	31 December 1988	No reporting requirements. Audit conducted at request of Treasurer.	14 February 1989	29 March 1989

Schedule B. Completed/incomplete audits - continued

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor- General's report signed</i>
Olympic Park Management	30 June 1988	No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.	5 October 1989	5 January 1990 (a)
Penguin Reserve Committee of Management	30 June 1988	" "	28 February 1989	21 April 1989(a)
Port Bellarine Committee of Management	30 September 1988	No reporting requirements. <i>Port Bellarine Tourist Reserve Act 1981, s.21</i> provides for the audit of the accounts.	14 February 1989	26 May 1989
State Swimming Centre Committee of Management	30 June 1988	No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.	1 June 1989	25 July 1989 (a)
" "	30 June 1989	" "	28 November 1989	30 March 1990(a)
Victorian Institute of Marine Sciences	31 December 1988	31 March. <i>Victorian Institute of Marine Sciences Act 1974, s.26.</i>	6 December 1989	8 February 1990 (a)
Yarra Bend Park Trust	30 June 1988	No reporting requirements. Audit conducted at request of Treasurer.	8 May 1989	5 June 1989
Zoological Board of Victoria	30 June 1989	30 September. <i>Zoological Parks and Gardens Act 1967, s.15F.</i>	22 September 1989	27 September 1989 (a)
Incomplete audits				
Bundoora Park Committee of Management	Years 30 June 1981 to 30 June 1988	No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.	Audit is currently underway.	
" "	30 June 1989	" "	Audit is currently underway.	

Schedule B. Completed/incomplete audits - continued

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor- General's report signed</i>
Olympic Park Management	30 June 1989	No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.	Audit substantially completed.	
Penguin Reserve Committee of Management	30 June 1989	No reporting requirements. <i>Crown Land (Reserves) Act 1978, s.15</i> provides for the audit of the accounts.	Audit substantially completed.	
Port Bellarine Committee of Management	30 September 1989	No reporting requirements. <i>Port Bellarine Tourist Reserve Act 1981, s.21</i> provides for the audit of the accounts.	Audit substantially completed.	
Shrine of Remembrance Trustees	30 June 1989	No reporting requirements. Audit conducted at request of Treasurer.	Financial statements only recently received by audit. Field audit work currently underway.	
Yarra Bend Park Trust	30 June 1989	No reporting requirements. Audit conducted at request of Treasurer.	Audit substantially completed.	
Zoological Board of Victoria Superannuation Fund	30 June 1988	No reporting requirements. Audit conducted at request of Treasurer.	Audit substantially completed.	
" "	30 June 1989	" "	" "	

(a) Qualified audit report issued.

3.6

CONSUMER AFFAIRS

KEY FINDINGS
<ul style="list-style-type: none">♦ Ministry does not actively seek to monitor the motor car trade to detect unlicensed motor car traders. <i>paras 3.6.1 to 3.6.6</i>♦ Inability of the Motor Car Traders Guarantee Fund to support the full costs of administration without substantial government subsidies. <i>paras 3.6.7 to 3.6.10</i>

The Minister for Consumer Affairs is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Ministry of Consumer Affairs

Public bodies

Liquor Licensing Commission

Comments on matters of significance arising from the Ministry are discussed below.

MINISTRY OF CONSUMER AFFAIRS

Motor car traders' operations

3.6.1 Pursuant to the *Motor Car Traders Act* 1986 the Ministry is required to provide for the regulation of motor car traders to protect the rights of individuals who purchase motor cars.

3.6.2 A review of the Ministry's operations relating to motor car traders indicated that it does not actively seek to monitor the motor trade and detect unlicensed motor car traders, but in the main responds to complaints and reports by the public.

3.6.3 This approach is illustrated by a 10 week survey undertaken by the Victorian Automobile Chamber of Commerce late in 1988. The results of the survey, which were provided to the Ministry, listed 445 vehicles where 4 or more of the vehicles were advertised for sale by 58 individuals who may be trading as unlicensed motor car traders.

3.6.4 Audit is aware that limited investigation has taken place and the Ministry is in the process of prosecuting 2 unlicensed motor traders.

3.6.5 The consequence of the Ministry's approach is that the consumer is not being protected because of the proliferation of unlicensed traders.

3.6.6 By adopting a pro-active approach to the detection of unlicensed motor car traders, the Ministry will be in a position to more effectively protect the interests of consumers.

Management response

It is the Ministry's view that the most efficient way to stop unlicensed trading is to control the source of supply for those traders. Lists such as those provided by the VACC, while valuable as a source of information, do not represent a particularly efficient way of approaching the problem. In fact it has been the Ministry's experience that by the time sufficient additional evidence has been gathered, many "traders" have disappeared.

Even so, a number of "traders" included on the 1988 VACC survey were investigated and prosecution action is pending against 2 persons listed. In addition, the Ministry has successfully prosecuted 3 persons for unlicensed trading in the current financial year.

Cost of operating the Motor Car Traders Guarantee Fund

3.6.7 The Motor Car Traders Guarantee Fund, was established pursuant to the *Motor Car Traders Act 1986*, for the purpose of meeting consumer claims arising from losses incurred through dealings with licensed motor car traders. The Fund is sourced from licence fees, fines and investment interest. The Act required that: "*. . . there shall be paid out of the Fund in each financial year from any amount standing to the credit of the Fund the costs of administration of the Act*". The Ministry does not recover the full salary costs associated with administering the Act from the Fund.

3.6.8 At 30 June 1989 the Fund had an accumulated surplus of \$1.7 million. However, audit noted that had all costs of administration, including an estimated \$1 million for salary costs not charged to the Fund in respect of the past 2 years, been deducted from the Fund in accordance with the Act the balance would have been substantially reduced. The Ministry has indicated that the Fund could not support the full costs associated with its administration without a large subsidy because of the need to accumulate surpluses to meet future claims and operating costs.

3.6.9 In essence the Fund, which is meant to be financed by the motor car industry, is dependent upon a large indirect government subsidy in the form of a substantial proportion of administration costs being borne by the State.

3.6.10 All costs associated with administering the Fund should be deducted from any Fund surplus pursuant to legislative provisions. In addition, it is recommended that an actuarial assessment of the Fund be undertaken to determine the level of income required to maintain its future viability.

Management response

At 15 December 1989, the allocation of salaries is approximately 60 per cent of that determined by a review in July 1989 as to the proper apportionment. The Minister for Consumer Affairs has since submitted to the Treasurer for consideration, a proposal to increase revenue to the Fund to meet the full cost of administering the Act. Salaries apportioned to Appropriations and Trust Funds are reviewed annually as part of the normal budget cycle.

Schedule A. Status of matters raised in previous reports

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
Ministry of Consumer Affairs		
<i>First Report, 1987-88, p.36</i>	Internal audit arrangements not implemented in accordance with government policy.	Position now satisfactory. In conjunction with the Local Government Department and the Ministry of Planning and Environment an audit section for the 3 departments has now been established and an audit manager appointed.
<i>Ministerial Portfolios, May 1989, pp.54-6</i>	Need to review various aspects of operations and administration of the Residential Tenancies Fund.	The Ministry is continuing to take action on improving the operation and administration of the Fund.

Schedule B. Completed/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits				
Ministry of Consumer Affairs	30 June 1989	31 October. <i>Annual Reporting Act 1983, s.8.</i>	27 October 1989	31 October 1989
Liquor Licensing Commission	30 June 1989	30 September <i>Annual Reporting Act 1983, s.9.</i>	26 September 1989	29 September 1989

3.7

CORRECTIONS

KEY FINDING

- ◆ Despite measures being taken by the Victorian Prison Industries Commission, the standard of financial management continues to deteriorate.

paras 3.7.1 to 3.7.3

The Minister responsible for Corrections is responsible for the following entities which are subject to audit by the Auditor-General:

Departments

Office of Corrections

Public bodies

Victorian Prison Industries Commission

Comments on matters of significance from the audit of the Victorian Prison Industries Commission are discussed below.

VICTORIAN PRISON INDUSTRIES COMMISSION

Financial management

3.7.1 In the *Second Report of the Auditor-General for the year 1985-86*, comments were made on the inadequate performance of the Commission, particularly its mismanagement of prison industry operations such as the production of leisure furniture and netball skirts. Audit's view was based on the Commission's poor financial controls, significantly increasing administrative costs which were not reflected in productivity gains, failure to effectively monitor activities and the absence of strategic policies and objectives.

3.7.2 A review by audit during 1988-89 indicated that the Commission has continued to take action on the issues raised by audit and recommendations are being progressively implemented. However, there has been a further substantial deterioration in the financial and operational management of the Commission during the year. Audit noted the following matters:

- ♦ Excessive delays in the finalisation of the Commission's 1988-89 financial statements requiring the Treasurer to grant an extension of time to 31 January 1990 for the Commission to report.
- ♦ Significant deficiencies in the Commission's financial management process which contributed to the delays in the finalisation of its financial statements. These deficiencies included:
 - lack of care in the preparation of financial statements resulting in numerous errors and omissions in the information included in the statements provided to audit;
 - failure to give due regard to fundamental accounting principles; and
 - the existence of many errors in the Commission's accounting records.
- ♦ Inadequate monitoring and assessment of decisions and actions of subordinate staff created a poor control environment with significant risk that errors or irregularities could go undetected;

- ♦ Inadequate planning of stock requirements resulting from lack of co-ordination between purchasing, marketing and manufacturing programs. Consequently, stock turnover has deteriorated to an extent which would be unacceptable in a commercial environment;
- ♦ Acquisition of a computer software package which does not produce the benefit anticipated by management; and
- ♦ Payments being made without proper authorisation.

3.7.3 The Commission needs to undertake a complete review of its financial operations. The review should address matters such as accountability responsibilities, optimum inventory levels, adequacy and reliability of its management information system, timeliness of financial reporting and effectiveness of its internal control systems.

Management response

A program of structuring Standard Procedures for all functions at the Commission has been instituted from February 1990 and this will ensure that the Commission does not have a repetition of the weaknesses highlighted above.

The Commission, since the end of the financial year 1988-89, has embarked on a program of reducing excess stocks. This program, and the review of the present number of line items in store, will be finalised by the end of March 1990 and it is anticipated that this action will progressively ensure that stock levels are commensurate with the nature of our business.

Schedule A. Status of matters raised in previous reports

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
Office of Corrections		
<i>Second Report, 1985-86, p.73</i>	During 1985-86, 26 per cent of total salary costs were attributed to overtime and penalty rates.	The Office is continuing to pursue strategies to improve the efficiency of operations and to reduce overtime costs. Further improvement still required.
<i>Second Report, 1985-86, p.73</i>	Significant number of custodial service employees have been absent during the year on extended sick leave (i.e. periods beyond 3 weeks duration).	Matter unresolved but improving through the Office implementing a WorkCare information system and an Occupational Health, Safety and Welfare Unit having 2 permanent staff.
<i>Second Report, 1986-87, p.45</i>	Construction of Barwon Training Centre deferred on 9 September 1986. Costs incurred were \$1.2 million and Public Works Department estimated completion of project would cost a further \$11.4 million.	Project still deferred.

Schedule A. Status of matters raised in previous reports - continued

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
Victorian Prison Industries Commission		
<i>Second Report, 1985-86, pp.76-82</i>	<p>Matters of major audit significance were:</p> <ul style="list-style-type: none"> ▪ mismanagement of industry operations; ▪ production of leisure furniture; ▪ capital works undertaken at Beechworth and Ararat; ▪ manufacture of netball skirts; and ▪ appointment of, and entertainment expenses incurred by, the former General Manager. 	<p>The Commission has continued to take action on the issues raised by audit and recommendations are being progressively implemented by management.</p> <p>However, significant deficiencies were noted in the Commission's financial and operational management process during 1988-89. For further comments, refer to paragraphs 3.7.1 to 3.7.3 of this report.</p>

Schedule B. Completed/incomplete audits

<i>Entity ended</i>	<i>Financial year</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits				
Office of Corrections	30 June 1989	31 October. <i>Annual Reporting Act 1983, s.8.</i>	20 October 1989	31 October 1989
Victorian Prison Industries Commission	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension of time to 31 January 1990.	19 January 1990	30 January 1990(a)

(a) Qualified audit report issued.

3.8

EDUCATION

KEY FINDINGS

- ♦ Falsified documentation was used by the Ministry to support expenditure estimated by audit to be in the order of \$7.8 million.
paras 3.8.1 to 3.8.35
- ♦ Full-time and emergency teachers were overpaid several million dollars by the Ministry.
paras 3.8.36 to 3.8.46
- ♦ Significant deficiencies in financial management and accountability at the Victorian Schools' Nursery.
paras 3.8.47 to 3.8.78
- ♦ The Ministry continues to experience substantial budget overruns; \$88 million in 1988-89.
paras 3.8.85 to 3.8.92
- ♦ Unless the weaknesses in the Council of Adult Education's financial position are addressed, the adult education programs of the Council may be jeopardised.
paras 3.8.106 to 3.8.142
- ♦ Delays in finalisation of accommodation needs of La Trobe University's School of Health Sciences have led to substantial loss of public funds.
paras 3.8.143 to 3.8.172
- ♦ Royal Melbourne Institute Ltd is not in a position to quantify productivity gains in return for salary increases.
paras 3.8.201 to 3.8.218
- ♦ For the third year in a row inefficiencies in the State Training Board have caused substantial delays in the State claiming Commonwealth Government funding.
paras 3.8.219 to 3.8.226

The Minister for Education is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Ministry of Education

Public bodies

Council of Adult Education
Institute of Educational Administration
Knowledge Victoria Ltd
Post-secondary education institutions:
 4 universities and 7 associated companies of universities;
 14 colleges of advanced education;
 31 colleges of technical and further education; and
 3 institutes of tertiary education.
State Training Board
Victorian Curriculum and Assessment Board
Victorian Post-Secondary Education Commission
Victorian Tertiary Admissions Centre

Comments on matters of significance arising from the audit of certain of the above entities are discussed below.

MINISTRY OF EDUCATION

Irregular works and services payments

3.8.1 Each year the Ministry of Education administers, through its Office of Schools Administration (OSA), a significant works and services program. Works and services expenditure in 1988-89 exceeded \$280 million with the majority of this amount, 67 per cent (\$188 million) expended in the school education area.

3.8.2 An audit review of irregular works and services payments made by the Ministry in May and June 1989 was undertaken. The audit review emanated from the results of a detailed examination by the Ministry's OSA Audit and Review Unit (internal audit) which identified a number of irregular works and services payments.

Review findings

3.8.3 The key findings of the review were:

- ◆ Invoices and completion reports for projects not completed at 30 June 1989 were endorsed to erroneously suggest works had been completed enabling payments to be made from 1988-89 program allocations;

- ♦ An internal audit sample testing of payments revealed an error rate of 26.4 per cent and identified irregular payments in excess of \$1.7 million. Based on this error rate this Office estimated that the level of irregular payments during this period could be in the order of \$7.8 million. The Ministry did not attempt to quantify the extent or level of the irregular payments.
- ♦ Serious breaches of the *Annual Reporting Act* 1983 and the Treasury Regulations in that:
 - Ministry officers falsified documentation to give the impression that goods and services had been received when in fact they had not;
 - The Ministry's 1988-89 financial statements were certified on 18 October 1989 as presenting fairly the receipts and payments made by the Ministry; and
 - The Ministry failed to notify the Auditor-General of the irregularities until 20 December 1989 and as a result, all the information, which would have affected the Auditor-General's opinion on the financial statements, was not available until this date.
- ♦ There is a need for the Ministry to ensure that the internal audit function maintains the necessary degree of independence from executive management to enable it to effectively perform its audit duties.
- ♦ Serious deficiencies were noted in Ministry procedures and practices for administering and monitoring its works and services program including budgeting, expenditure and commitment procedures and year-end practices.
- ♦ The absence of the required checks and balances, the bypassing of the tendering process together with the practice of making advance payments created the potential for abuse and payments could have been made which were not bona fide.

Delay in advising Auditor-General

3.8.4 As previously indicated, the audit review arose from the results of a detailed examination by the Ministry's internal audit which identified a number of irregular works and services payments. The internal audit review was conducted during July 1989 and reports were issued on 21 July 1989 and 2 August 1989.

3.8.5 Audit did not become aware of the internal audit review until the Auditor-General received information from an anonymous source on 5 December 1989. This source indicated that the Ministry's then Acting Chief General Manager (OSA) had been advised on 8 August 1989 of the content of the 2 internal audit reports. Inquiries by audit indicated the reports could not be released until the Ministry had fulfilled its obligations of notifying the Auditor-General of the irregularities in accordance with the Treasury Regulations. Such notification, received on 20 December 1989, disclosed certain financial irregularities involving accelerated works and services expenditure.

3.8.6 The Treasury Regulations require the Chief Administrator to notify the Auditor-General and the Treasurer of all cases of suspected or actual theft, wilful damage, arson, irregularity or fraud forthwith. Such notification was not provided until almost 5 months after the Acting Chief General Manager (OSA) was advised.

3.8.7 The Ministry has advised that the reports were not forwarded to either the Chief Executive or the Minister because a legal opinion on whether Treasury Regulations had been breached was still pending.

3.8.8 Subsequent to receiving the required notification copies of relevant reports prepared by internal audit were provided to audit.

3.8.9 These reports revealed that a large number of irregular works and services payments had been made by the Ministry during May and June 1989. **The irregularities included the falsification of payment documentation by Ministry staff to give the impression that the goods and services for which the payments related had been received when in fact they had not.**

Impact on the Auditor-General's opinion

3.8.10 In view of the importance placed on the legal advice by the Ministry it is of concern to audit that Ministry officers provided the required certification to the Ministry's financial statements prior to receiving the legal advice.

3.8.11 This certification, dated 18 October 1989, in part stated: *"In our opinion the information set out in the financial statements presents fairly the receipts of and payments made by, on behalf of or falling within the policy responsibility of the Ministry for the year ended 30 June 1989 and of the Supplementary Information and Statement of Balances at 30 June 1989".*

3.8.12 The certified financial statements were provided to the Auditor-General despite the prior knowledge within the Ministry that significant irregularities had occurred in the Ministry's expenditure and that at that time no action had been instigated by the Ministry to ascertain the full extent of the irregularities. A confirming opinion on the financial statements was issued by the Auditor-General on 31 October 1989.

3.8.13 **If audit had been aware of the irregularities it is most unlikely that the Auditor-General would have provided a confirming opinion on the 1988-89 financial statements.**

3.8.14 The Ministry has given an unqualified assurance that no concerted effort to deliberately withhold information from audit has occurred in relation to the events surrounding the irregular payments.

Extent of irregular payments

3.8.15 The internal audit review disclosed that 26.4 per cent of claims selected for check were irregular in that payments totalling \$1.7 million were made in advance of works being undertaken and/or completed. The Ministry has advised that the statistical sampling technique it used was essentially to give an indication of compliance irregularities and its use is limited to this purpose.

3.8.16 However, assuming a population error rate consistent with the rate disclosed in the internal audit review, audit calculated that approximately \$7.8 million of May - June 1989 works and services program (OSA) expenditure which totalled \$29.3 million may have been expended by the Ministry in advance of works being undertaken or completed. As there is evidence to suggest that the error rate derived by internal audit should be viewed with caution, the amount calculated by audit should be regarded as an estimate only. At the time the Ministry did not attempt to quantify the extent or level of irregular payments.

3.8.17 The more significant irregular payments disclosed during the internal audit review in July 1989 were:

♦ *Ministry-wide*

- Payments to Telecom Australia for the installation of new telephone systems totalling approximately \$743 000. The review established that, in most instances, the actual installation of equipment had not occurred by the week commencing 24 July 1989.
- Payments by 18 schools totalling \$633 000 to the Victorian Schools' Nursery for services which had not been provided by 30 June 1989. The Nursery indicated to audit that all services were not finalised until early 1990. Further comments on this matter are included in paragraphs 3.8.69 to 3.8.71 in this report.

♦ *Barwon South-Western Region*

- A pre-payment of \$200 000 in respect of a joint school/community multi-purpose hall;
- A pre-payment of \$58 000 for intruder detection systems, incomplete at the time of the internal audit review, and not completed until August 1989; and
- A pre-payment of \$40 000 for an intruder detection system which was being installed at the school at the time of the internal audit visit.

♦ The following additional points were noted by audit:

- Instances where invoices were requested by Ministry employees from suppliers in advance of works being completed;
- In further instances, signatures appeared on invoices erroneously implying that works had been completed; and
- Cheques were not always paid to contractors when drawn. At the time of audit verification instances were noted where schools and regional offices were withholding issue of the cheques, presumably until works were completed.

Deficiencies in Ministry practices

3.8.18 A review of internal audit reports and other related documentation highlighted the following unsatisfactory matters:

Breakdown in management procedures

3.8.19 Realising the level of works and services expenditure was insufficient to expend the year's appropriation **the Ministry entered into an exercise of accelerating payments, a number of which were supported by false documentation.**

3.8.20 Based on the level of expenditure at year-end and the findings of the internal audit review, it is apparent that a serious breakdown of procedures for the payment and monitoring of OSA works and services occurred during 1988-89 at the school, regional office and head office levels.

3.8.21 Serious deficiencies were noted in Ministry procedures and practices for administering and monitoring its works and services programs including budgeting, expenditure and commitment procedures and year-end practices. These deficiencies were further exacerbated by a later than usual Treasury notification of significant additional works and services funding. The events following the late advice of additional funding highlighted weaknesses in the Ministry's administration of its works and services programs.

3.8.22 In audit opinion these weaknesses and **the practice of accelerating payments allowed a number of projects to be selected for funding on the basis of expediency rather than need within the Ministry.**

3.8.23 There were a number of other deficiencies associated with the irregular payments. These included:

- ♦ payment of suppliers and contractors in advance of works being undertaken or goods received is poor business practice and leaves the Ministry vulnerable in the event of disputes over work performance or the quality/quantity of goods received;
- ♦ drawing funds from the Public Account well in advance of issuing cheques to contractors and making payments prior to any legal obligation to do so, results in lost income for the Government; and
- ♦ the vigilance of a number of Ministry officers involved in the committing, approving and certifying process must be questioned given that daily and weekly expenditure in June 1989 was over 4 times higher than the overall average for the year.

3.8.24 Furthermore, the Ministry did not avail itself of the provisions of the *Audit Act* 1958 which allow for certain unspent moneys, with the approval of the Treasurer, to be carried forward to the next year.

Independence of internal audit

3.8.25 While it is appreciated that the internal audit program is determined by management, with cognisance to professional auditing standards, the internal auditor also has a responsibility to advise the external auditor of any significant matter that comes to the internal auditor's attention which may affect the work of the external auditor.

3.8.26 Audit noted that while the previously mentioned internal audit reports dated 21 July 1989 and 2 August 1989 revealed a high level of irregular payments made by the Ministry in May and June 1989, internal audit did not communicate its findings to my Office. This is particularly disappointing given that the findings would have had a direct impact on the external audit opinion on the Ministry's 1988-89 financial statements and further given the Ministry's commitment that internal audit closely co-operate with external audit during the audit of the financial statements.

3.8.27 **There is a need for the Ministry to ensure that the internal audit function maintains the necessary degree of independence from management to enable it to effectively perform its audit duties.**

Breaches of Treasury Regulations

3.8.28 The Treasury Regulations provide essential controls in relation to the expenditure of public moneys. These controls include:

- ♦ the requirement for departments to obtain quotes or tenders for the supply of goods and services where expenditure is estimated to exceed prescribed amounts;
- ♦ the checking of accounts for payment to ensure that the goods or services to which the account relates have been supplied, performed or completed, that the account is due and payable and the amount claimed is correct; and
- ♦ certification that funds are legally available and that the instructions and determinations of the Treasurer have been followed.

3.8.29 The internal audit review of May-June 1989 works and services payments disclosed that a number of the above controls had been circumvented by the Ministry.

Potential for irregular and fictitious payments

3.8.30 **In the absence of the prescribed control environment in the expenditure of public moneys, a situation was unfortunately created where there was potential for abuse and payments could have been made which were not bona fide.**

3.8.31 As already mentioned the internal audit review disclosed a number of irregularities involving expenditure vouchers being falsely certified to give the impression that goods and services had been received/completed when in fact they had not.

3.8.32 The Ministry has advised that its legal officer has examined each identified irregularity and concluded that there was no evidence of fraud. It has also accepted the advice of its legal officer that the irregularities were not cases of misappropriation and that no officer had personally benefited from the process. The Ministry indicated that no inquiries were made of contractors or suppliers in arriving at that conclusion.

3.8.33 **Audit has been advised by the Ministry that a full investigation of all major May-June 1989 works and services payments will be carried out.**

Proposed corrective action by Ministry

3.8.34 The Ministry has advised audit of the following proposed strategy:

- ♦ **Concerted action will be taken by the Ministry to ensure that irregularities do not recur in subsequent financial years.** This will involve:
 - An audit of works and services vouchers for \$10 000 or over during 1989-90, including the close of the year;
 - The issuing of clear directives to **all** Ministry units indicating the terms of relevant Treasury Regulations, the penalties for non-compliance and the Ministry's intention to prosecute officers acting in breach of the regulations;
 - The setting up of targeted training programs designed to acquaint relevant officers with the terms of the Treasury Regulations and government accountability requirements; and
 - The conduct of regular sampling to ensure compliance with these directives. While this sampling would occur across the Ministry throughout the financial year, it would be expanded in the months immediately preceding the end of the financial year. In addition, particular attention would be paid to regions performing poorly in the sampling already undertaken.
- ♦ The Ministry has determined that it was necessary to expand the investigation to cover all transactions over \$10 000 for May and June 1989 to identify all breaches of the regulations. This is being implemented;
- ♦ Disciplinary action regarding already known breaches of the regulations has been commenced by the Ministry; and
- ♦ The Ministry will continue to develop procedures to ensure improved communication between the 2 Ministry audit groups, OSA and the Chief Executive, and the Ministry and the Auditor-General.

3.8.35 The Ministry needs to address the following matters to ensure sound financial management:

- ♦ **improved cash management;**
- ♦ **effectiveness of internal audit as a management tool including liaison with the Auditor-General;**
- ♦ **planning and budgetary deficiencies;**
- ♦ **effective and efficient management of available resources; and**
- ♦ **total adherence to all relevant legislative and administrative requirements.**

Management response

The use of prepayments followed the late injection of \$30 million in the 1988-89 budget. The problems caused by this injection of funds were exacerbated by overheating in the building industry.

In order to ensure that schools benefited from much needed capital funding, many regions elected to bring forward minor projects from existing priority lists. The priorities for Works and Services expenditure by schools were set by regions based on the work of locally-based Works and Services Committees.

Despite the Auditor-General's view that the Ministry should have utilised the carry forward provision of section 26 of the Audit Act in relation to Works and Services expenditure, informal advice from the Department of Management and Budget was that it was unlikely that this provision could have been used for this purpose.

The Ministry's commencement of trend analysis in January 1989, together with the initiation of an Audit Improvement Program in June 1989, indicates the commitment of senior management for ensuring that Works and Services funds were expended in priority areas in accordance with relevant regulations.

The Ministry accepts that there is room for improvement in procedures and practices for administering and monitoring its Works and Services programs including budgeting, expenditure and commitment procedures, and has initiated action to achieve this.

The central thrust of Ministry policy in Works and Services expenditure was to ensure that funds for the benefit of schools were not lost. While General Managers were encouraged to improve the performance of regions in expenditure of the Works and Services budget, the Ministry had also issued clear instructions regarding the necessity of complying with relevant regulations.

The Ministry sees its obligation under the regulation as being to ensure that its suspicions are reasonably based before activating the notification process. In view of the practice among other large agencies to enter into an agreement to provide 6 monthly or annual returns to the Treasurer and Auditor-General, the notification after 4.5 months of financial and legal investigation is not considered abnormal.

The Ministry rejects the Auditor-General's implication that the delay put the Chief Executive in breach of Treasury Regulations. As soon as legal advice was received, the Treasurer and the Auditor-General were advised that breaches had occurred. At the time of the signing of the financial statements, the Chief Executive and the Acting Assistant General Manager (Resource Management Branch) were satisfied by the OSA's Internal Audit Unit that everything was in order. This was confirmed in the report of the Internal Audit Unit on the financial statements dated 26 September 1989.

The Ministry has accepted the advice of its legal officers that the irregularities were not cases of misappropriation and that no officer had personally benefited from the process.

As regards third parties, neither the Ministry nor the Auditor-General's Office has any evidence of financial benefit to such persons and the Auditor-General's staff have been advised of the difficulties of interviewing every individual contractor and supplier.

Legal action has been set in train to prosecute officers proven to have acted in breach of regulations that were identified in the Audit Review Program. In addition, the Ministry will streamline both the internal audit processes within the Ministry and the Legal Services Unit to ensure that timely and accurate advice is provided to the Chief Executive and Chief General Manager at all times.

The Acting Chief General Manager took action to ensure that the integrity of the Internal Audit Unit was protected from pressures external to the Chief General Manager's office. However, the Ministry regrets that, in this instance, the direct communication between the Auditor-General and the Internal Audit Unit was less than satisfactory.

The Ministry will take immediate steps to streamline the internal audit function in OSA.

Substantial overpayment of emergency teachers

3.8.36 Over the years, employment of emergency teachers has played an increasingly important role in the provision of education throughout the State. Costs associated with emergency teaching have steadily increased, e.g. emergency teacher costs rose from \$38.3 million in 1984-85 to \$61.8 million in 1988-89 an increase of \$23.5 million (\$14.5 million in real terms using 1984-85 as the base year).

3.8.37 A recent Ministry strategy is to employ a relatively higher proportion of emergency teachers to cover teacher shortfalls in schools compared with permanent teachers.

3.8.38 The Condition and Staffing Agreement (1988-89) between the Ministry and the Teachers' Federation of Victoria, defines emergency teachers as *"those teachers employed on a casual basis to cover daily or short-term absences"*.

3.8.39 Under the terms of this Agreement and Ministerial teaching policy, numerous conditions have been implemented for regional office management and school principals to follow. Such policy stipulates the various circumstances whereby an emergency teacher can be employed.

3.8.40 Emergency teachers are paid on the basis of number of days worked. There are 2 payment rates which vary in accordance with the teacher's qualifications. Consistent with these payment rates, emergency teachers are classified as being either fully qualified (FQ) or less than fully qualified (LTFQ). Effective from December 1989, the daily rate paid to FQ emergency teachers was \$132.60 compared with \$113.90 paid to LTFQ emergency teachers.

3.8.41 An audit review of the payments to emergency teachers within both primary and post-primary schools, concentrating on the years 1988 and 1989, identified a number of aspects of the administration of emergency teachers where significant improvements are needed in control mechanisms and accountability procedures. Detailed findings of the review follow:

Overpayment of emergency teachers

3.8.42 A review of payments to emergency teachers during 1988 and 1989 revealed that:

- ♦ a high proportion of emergency teachers with a classification equivalent to LTFQ had claimed, and were paid, at the FQ rate, i.e. overpaid \$18.70 per day;
- ♦ the overpayment to emergency teachers between 1984 and 1989 ranged from \$3.5 million to \$7 million; and
- ♦ unless the Ministry undertakes appropriate remedial action the overpayments will continue.

3.8.43 Factors contributing to the overpayments were:

- ♦ the absence of a fundamental built-in check on payment rates in the Ministry's payroll system GENIUS is the primary cause for the non-detection and subsequent overpayment of LTFQ emergency teachers;

- ♦ school principals and regional office staff did not check the qualification of emergency teachers when approving and processing claim forms in the majority of instances;
- ♦ the lack of an accurate and comprehensive database of emergency teachers, providing reliable information on emergency teachers' qualifications, diminished the effectiveness of checks when emergency teacher payments were subject to scrutiny by the Ministry; and
- ♦ the distinction between FQ and LTFQ emergency teachers is not explained to the teachers in any of the key documentation involved both with their initial employment or mode of payment.

3.8.44 Discussions with Ministry staff and the results of a review of the emergency teacher function undertaken in 1986 by the Audit and Review Unit (OSA), indicated that the deficiencies in procedures and controls contributing to the high incidence of overpayment of LTFQ emergency teachers during 1988 and 1989 have existed at the Ministry for several years.

3.8.45 Concern is expressed at the lack of Ministry action to address these deficiencies which have been apparent for many years. The Ministry needs to identify and recoup the overpayments.

3.8.46 In addition, the Ministry needs to adopt measures to minimise the incidence of overpayments in the future, including:

- ♦ improved procedures and controls at the school, regional office and Ministry Head Office levels;
- ♦ verification and incorporation of the salary rate applicable to each emergency teacher in the GENIUS database; and
- ♦ establishment and maintenance of a complete and accurate database of emergency teachers.

Management response

The audit staff have completed a thorough investigation in a difficult area and have identified a number of important issues. However, the Ministry has serious concerns with the sampling process used and as such cannot accept the calculated level of overpayments. Indeed the Ministry will strongly contest the stated magnitude of the overpayments in future forums.

Audit recommends the Ministry consider strategies and measures to address problems in the area of recovery of overpayments. No recognition is given to the fact that regions are addressing this problem and are taking the necessary remedial action.

Audit also indicates a belief that potential recoveries will easily justify the additional administration costs involved in pursuing overpayment recovery. With individual overpayments being a maximum of \$18 per day and given that audit projections are accurate, the task of recovery will be enormous, involving perhaps thousands of teachers. However, the magnitude of actual overpayments is believed, by the Ministry, to be much less than that indicated by audit.

Further audit comment

Although the Ministry considers the overpayments to be less than the amount estimated by audit it has not undertaken any review to substantiate its assertion.

Victorian Schools' Nursery

3.8.47 The Victorian Schools' Nursery (VSN) operates from a site in Glen Waverley with the aim of providing a wide range of education services to Victorian schools specifically relating to horticulture, botany and environmental education.

3.8.48 Although the Ministry's Eastern Metropolitan Region has overall responsibility for the operations of the VSN, the structure of the Nursery encompasses features which make it unique within the Ministry, in that it:

- ♦ generates and controls the majority of its own funds;
- ♦ acts as an employer;
- ♦ provides apprenticeships;
- ♦ services both government and non-government schools; and
- ♦ is administratively controlled by a school council.

3.8.49 The commercial operations of the VSN are substantially conducted through its Nursery and Landscape Divisions.

3.8.50 During 1988-89, audit carried out a review of the VSN, the results of which were included in a report forwarded to the Ministry in June 1989.

Policy development

3.8.51 The broad policy framework for the VSN is contained within the strategic plan of the Ministry and is supported by specific policies and strategies internally generated by the VSN. Due to the autonomy of the VSN School Council, such internal policy decisions are generally not subject to review or ratification by regional office management.

3.8.52 Furthermore standards had not been developed by the Ministry in relation to the nature, scope and type of landscaping works undertaken in school grounds. As a variety of standards and practices existed it was not possible to determine whether those practices complemented Ministry priorities and objectives.

3.8.53 **Unless appropriate overview processes are in place, policy decisions of the VSN may not be consistent with the Ministry's overall objectives and, as a consequence, resources may not be effectively utilised.**

Financial management and accountability

3.8.54 As a formally constituted primary school, the VSN is required to submit audited statements of receipts and payments to the Ministry in accordance with the *Education (School Councils) Act 1975*. The audit of school councils in Victoria are undertaken by private sector auditors appointed by the Council and not by the Auditor-General. Although financial statements have been prepared for the VSN on an annual basis, it was noted that at the time of the review the statements had not been audited since 1983.

3.8.55 In view of the commercial nature of certain operations of the VSN, it has, since 1984, prepared annual statements on a modified accrual basis of accounting including debtors, creditors and depreciation on motor vehicles.

3.8.56 For financial reporting purposes, the activities of the VSN are separated into 4 divisions. The unaudited financial results of these divisions for the year to 31 December 1988, together with comparative results for 1987, are detailed in Table 3.8A.

TABLE 3.8A. VICTORIAN SCHOOLS' NURSERY, FINANCIAL RESULTS
(\\$)

<i>Division</i>	<i>Income 1988</i>	<i>Expenditure 1988</i>	<i>Surplus/ (deficit) 1988</i>	<i>Surplus/ (deficit) 1987</i>
Administration	35 206	33 569	1 637	(a)
Education	80 617	71 975	8 642	3 379
Nursery	1 017 928	1 042 517	(24 589)	8 653
Landscape	1 876 529	2 108 210	(231 681)	126 043
Total	2 988 686	3 234 693	(246 007)	138 075

(a) Results for 1987 are combined with those of the Education Division.

3.8.57 The results shown above do not reflect the true financial situation in that they do not include:

- ♦ salaries which are paid by the Ministry for 7 teaching staff and 5 administrative staff;
- ♦ recognition of land, buildings and other capital equipment provided by the Ministry; and
- ♦ provision for employee entitlements including long service leave and superannuation.

3.8.58 Audit is of the opinion that the absence of timely independent verification of financial information together with a lack of financial reporting mechanisms which disclose the complete results of each area of operation, has diminished the VSN's accountability.

3.8.59 There is an urgent need for an external auditor to be appointed to clear the backlog of unaudited financial statements, and for the VSN to provide regular financial information based on commercial accounting principles.

Operations of the Landscape Division

3.8.60 The Landscape Division, which was established in 1978, provides landscaping services for the Ministry and other government agencies such as the Ministry for Housing and Construction. The Division considers it is now one of the largest landscaping enterprises in Victoria with receipts in 1988 of approximately \$1.9 million.

Viability of Division

3.8.61 A review undertaken by the Ministry in 1984 recommended that landscaping activities only continue if the Division was capable of operating successfully on a commercial basis.

3.8.62 It was a matter of concern to audit that no action has been taken on the above recommendation to establish the Landscape Division on a commercial basis, particularly in view of the poor results of the Division shown earlier. Discussions with management indicated that losses resulted largely from the reduction in the level of work undertaken for the Ministry.

3.8.63 In addition, higher labour costs and inflexible employment conditions such as tenure of employment, in comparison with the private sector, have impacted adversely on the Division's competitiveness in the marketplace. However, these disadvantages are partially offset by the degree of protection afforded the Division through the Treasury Regulations which exclude competitors from the public tendering process when inter-departmental projects are undertaken.

3.8.64 If the present situation continues the Division will either incur further losses or be forced to scale down its activities. It was noted the uncertainty surrounding the future direction of the Landscape Division contributed to a number of experienced staff resigning. In view of the substantial costs not taken into account **there is a need for an immediate review of the economic viability and operational feasibility of the landscaping operations.**

Landscape debtors

3.8.65 At 31 December 1988 amounts owed to the VSN for the provision of landscaping services amounted to \$422 000. Of this amount 28.6 per cent remained outstanding in excess of 90 days.

3.8.66 Audit was advised that the major reason for such a high proportion of debts outstanding for over 90 days resulted from disagreements involving terms and conditions of the contracts.

3.8.67 The position had deteriorated further at 31 December 1989 with outstanding amounts totalling \$494 000 of which 45.7 per cent remained unpaid in excess of 90 days.

3.8.68 **The failure to collect outstanding amounts promptly has adversely affected the cash flow position of the VSN. This situation highlights the need for urgent action to remedy deficiencies in contract terms and conditions.**

Payments in advance

3.8.69 A review conducted by the Ministry's Internal Audit Unit of works and services expenditure by the Ministry in May-June 1989, revealed that the VSN had raised invoices and had received full payment for landscaping works in some cases prior to jobs commencing. In fact audit has been advised that some of these works have only recently been completed.

3.8.70 **The review identified payments in advance by schools of \$633 000 to the VSN for landscaping services which had not been provided at 30 June 1989.**

3.8.71 The VSN management indicated that invoicing schools at the end of the financial year prior to landscaping works being completed was a generally accepted practice adopted by the VSN. While schools were not required to make payments prior to jobs being completed, they were not discouraged from doing so.

Operations of the Nursery Division

3.8.72 The Division operates a plant nursery which generates its own revenue (1988 sales, \$953 000) to promote horticultural and environmental education in Victorian schools.

Pricing structure

3.8.73 Prices established by the VSN for plants produced by the Nursery or acquired for resale are generally based on pot size together with a knowledge of prices charged by competitors for each plant type. The VSN does not maintain a costing system which identifies all costs associated with bringing each type and size of plant to a saleable condition. Consequently, information is not available to determine whether:

- ♦ all production and relevant overhead costs are recouped in the sale prices;
- ♦ slow moving stocks continue to be grown; or
- ♦ any cross-subsidisation of plant items occurs.

3.8.74 A survey conducted by audit of prices charged by several local competitors for 20 common household and garden plants revealed that prices charged by the VSN were, on average, 22 per cent lower than the competitors.

3.8.75 To ensure that management decisions concerning pricing policies are soundly based, it is recommended that all costs are identified to assist management in making sound decisions on pricing in the future.

Stock control

3.8.76 The Division does not maintain financial records of stock on hand and the Division's stock control procedures are limited substantially to a physical stocktake of nursery plants in February of each year, the results of which are used to determine production for the coming year. Furthermore, no record of the volume of plant sales or purchases other than in basic monetary terms is maintained.

3.8.77 In audit opinion these systems and procedures are totally inadequate for stock monitoring and control purposes.

3.8.78 There is a need for information relating to stock items on hand at each stage of production and the quantity of sales for individual plant types or sizes to be recorded and monitored enabling management to be in a position to:

- ♦ **Identify losses due to natural causes.** The identification and monitoring of such losses will assist in determining deficiencies in work practices or production methods;

- ♦ **Identify stock thefts.** Although senior nursery staff indicated that their detailed knowledge of plants and familiarity with the nursery would enable them to identify major stock losses, any systematic process of minor thefts may not be detected; and
- ♦ **Identify and monitor the quantity of surplus stock destroyed each year.** This information, together with details of trends in plant sales, will assist in determining future production plans.

Management response

The OSA Internal Audit Unit upon receiving the Auditor-General's 15 June 1989 report on the VSN, immediately undertook a financial audit of the VSN for the last 5 financial years, ending 31 December 1988. This was completed in November 1989.

The OSA Internal Audit Unit will, in the future, conduct an audit of the VSN as part of its annual audit program. The 1989 financial audit is scheduled to be conducted during April 1990.

Matters relating to policies and overall direction, stock control, and marketing strategy are being considered as part of the long-term future of the nursery.

Salary overpayments

3.8.79 At 30 June 1989, salary overpayments to be recouped by the Ministry from teachers and other employees amounted to \$4.2 million. In addition, audit has estimated that emergency teachers have been overpaid between \$3.5 and \$7 million during the period 1984 to 1989. (Refer paragraphs 3.8.36 to 3.8.46.)

3.8.80 Table 3.8B details unresolved salary overpayments and underpayments for the past 4 years.

TABLE 3.8B. INCORRECT SALARY PAYMENTS
(\$million)

<i>Details</i>	<i>At 30 June -</i>			
	<i>1986</i>	<i>1987</i>	<i>1988</i>	<i>1989</i>
Gross overpayments	2.4	2.2	3.6	4.2
Gross underpayments	0.9	0.5	1.7	1.0
Net overpayments	1.5	1.7	1.9	3.2

Note: Figures are presented on a cumulative basis.

3.8.81 Previous reports of the Auditor-General have been critical of the high level of salary overpayments and have provided comment on Ministry initiatives to minimise the level of overpayments. **In view of these initiatives, it is particularly disappointing to find further increases in the salary overpayments situation during 1988-89.**

3.8.82 An audit review indicated that the following factors have contributed towards the higher level of salary overpayments during 1988-89:

- ♦ Excessive delays in school principals notifying Head Office of changes to teacher entitlements;
- ♦ The Ministry policy of continuing payments for up to 28 days to employees not on duty pending extension to paid leave. Overpayments occur when extensions to leave are not approved and/or the employee fails to resume work;
- ♦ A lack of experienced staff in the salary overpayments recovery area in the Ministry's Teacher Leave and Payroll Unit;
- ♦ The low priority given by the Ministry to the recovery of salary overpayments;
- ♦ Deficiencies in management information systems which do not provide details such as an age break-up of salary overpayments or details of individual salary overpayments and any subsequent repayments; and
- ♦ Problems inherent in the handling of a large inflexible payroll system, e.g. an inability to effect changes to the payroll in a timely manner.

3.8.83 The review noted that previous action taken by the Ministry to reduce the salary overpayment backlog had been unsystematic and had largely failed to address the major shortcomings in overpayment recovery procedures and practices. During 1988-89 the situation had deteriorated to such an extent that the Ministry was experiencing difficulties in coping with recovery action associated with current salary overpayments and was not in a position to begin to clear the backlog of salary overpayment cases from previous years. In addition, delays of 2-3 years were noted before the Ministry initiated recovery action.

3.8.84 The Ministry needs to give a higher priority to the identification and recovery of salary overpayments.

Management response

The following initiatives have been implemented by the Ministry to address the overpayments issues:

- *advice to school principals and regions on responsibilities in this area;*
- *monthly reporting procedures to people responsible in various areas;*
- *installation of fax machines in larger schools; and*
- *adoption of recommendations from reviews relating to salary overpayments.*

The Ministry recognises its obligation under section 38A of the Audit Act and the need to achieve compliance. Current major impediments include those imposed by the Audit Act relating to recovery arrangements and its associated industrial relations difficulties.

Education budget overrun

3.8.85 Following the Auditor-General's *Second Report for the year 1987-88* which referred to the significant 1987-88 budget overrun of \$38.3 million, for salaries and associated costs in respect of the School Education Program and concluded that \$13.1 million was "controllable by management", the Ministry undertook a review to determine the causes underlying the budget overruns with the aim of preventing a recurrence of such overruns in future years.

3.8.86 The *Report* also referred to the Ministry's introduction of several measures aimed at improving the overall budget planning and management of salary resources in 1988-89 and beyond. Some of the measures flowed from industrial negotiations and include:

- ♦ greater flexibility for system transfers of excess teachers to those schools with teacher numbers below approved establishment levels;
- ♦ anticipated annual efficiency gains of \$4 million in school cleaning labour costs;
- ♦ introduction of a pilot project in 1989 under which around 80 schools have been allocated a specific budget for emergency teachers; and
- ♦ freeing up (from 1990) of past restrictions on transfer of technical school teachers to other post-primary schools.

3.8.87 However, despite these measures, actual expenditure during 1988-89 of the Ministry in respect of salaries and associated costs within the School Education Program exceeded budget allocations by approximately \$88.1 million. Budget overruns in all other programs were minor.

3.8.88 It was necessary for the Ministry to obtain the Treasurer's approval to charge expenditure in excess of budget to the Treasurer's Advance pending Parliamentary sanction, as well as utilising various provisions of the *Appropriation (1988-89, No. 1) Act 1988*.

3.8.89 A review of the components of the budget overrun of \$88.1 million indicated that \$57.6 million could be described as beyond the direct control of the Ministry. This amount represented additional costs flowing from national wage increases and unexpected factors such as a higher than anticipated school enrolment levels.

3.8.90 The balance of overruns, totalling \$30.5 million, was assessed by audit to fall within management's control and comprised the following elements:

- ♦ school cleaners' salaries and associated costs in excess of budget (\$9.3 million);
- ♦ salaries and associated costs of short term emergency teachers and long term replacement teachers in excess of budgeted levels (\$10.1 million); and
- ♦ general salaries and associated costs in excess of budget outlays (\$11.1 million).

3.8.91 This result is disappointing given that the Ministry initiated a number of actions aimed at avoiding budgetary overruns of the levels experienced in 1987-88. Clearly, the strategies introduced by the Ministry to overcome similar problems in the previous year were not soundly based.

3.8.92 The Ministry needs to take decisive action to establish a framework which ensures, through systematic monitoring, that the maximum productivity and efficiency gains are obtained from the various measures introduced and that the budget overruns of the past 2 years are avoided in future.

Management response

The targeted savings packages implemented by the OSA Internal Audit Unit to minimise the cash shortfall at 30 June 1989 is not mentioned. (Approximately \$10.2 million was saved in this manner.)

In addition, audit's recommendations fail to recognise important developments since 1988-89 such as:

- the development of the Monthly Business Report (i.e. a monitoring framework) and the implementation of Planning and Monitoring Groups; and*
- actions taken in the area of school cleaning which have resulted in an FMWU agreement aimed at significant savings in expenditure.*

Status of audit of school bus contracting service

3.8.93 The major shortcomings identified during an audit review in 1988 of school bus contracting services were the absence of contract tenure and conventional re-tendering procedures. The review found that even without addressing these 2 issues, annual savings in the vicinity of \$7 million could be achieved simply by streamlining existing procedures. The review also identified the following deficiencies, many of which can be directly linked to the basic shortcomings mentioned above:

- ♦ need for regular reviews of bus route distances;
- ♦ over-compensation of depreciation to bus proprietors;
- ♦ cases of under-utilised bus capacity;
- ♦ transportation of non-government school students;
- ♦ cost implications for the Ministry of the use of buses for multiple purposes; and
- ♦ important safety issues.

3.8.94 During 1989 the Ministry developed a comprehensive instruction manual for principals of all schools responsible for the co-ordination of school transport services. The manual was reviewed by audit and it was observed that the document satisfactorily addressed a number of the key issues/findings raised in the audit report. **However, areas in which audit had identified significant potential cost savings to the Ministry, e.g. regular bus route re-measurement and the correction of over-compensation of depreciation to bus proprietors, were not adequately reviewed by the Ministry.**

3.8.95 Responsibility for all aspects of administration of bus contracts, including payment to contractors, was transferred to the Transport portfolio as from 1 January 1990. Principals of co-ordinating schools are to retain responsibility for day-to-day bus operations under the new scheme.

3.8.96 Given the problems which existed in many areas in co-ordinating school buses, locating responsibility within the one agency will enable many of the problems to be addressed and assist in the development of effective and efficient overall services.

Management response

Savings identified by the Auditor-General are excessive.

Reviewing of bus route distances is occurring in country regions, particularly Barwon South Western, Goulburn North Eastern and Central Highlands Wimmera.

The issue of over-compensation of depreciation to bus proprietors ignores the balance between profit and depreciation in the standard contract system. Independent consultants employed by the Ministry reviewed the basis of payment within the standard contract system and found procedures to be appropriate.

The Ministry is achieving significant economies by reducing under-utilised bus capacity.

Safety issues have been referred to a joint OSA/Ministry of Transport Liaison Committee.

Further audit comment

The Ministry has not undertaken any review to substantiate its assertion that the savings identified by audit are excessive.

Arrears of audits of school councils

Reduction in backlog of arrears

3.8.97 Previous reports of the Auditor-General have commented on the significant backlog of arrears of audits of school council accounts. While it was noted that some improvements were made during 1987-88, the arrears situation was still viewed as serious and several recommendations were made in the Auditor-General's *Report on Ministerial Portfolios, May 1989* to facilitate the Ministry's effort at eliminating the audit backlog.

3.8.98 Table 3.8C shows a substantially improved situation in relation to the audits of primary and post-primary schools, as well as details of outstanding audits at 30 June 1988 and 1989.

TABLE 3.8C. STATUS OF SCHOOL COUNCIL AUDITS

Year	Total audits	Audits outstanding		Percentage of outstanding audits	
		June 1988	June 1989	June 1988	June 1989
POST-PRIMARY SCHOOLS					
1984	414	25	-	6.0	-
1985	419	157	6	37.5	1.2
1986	421	310	15	73.6	3.6
1987	421	405	52	96.2	12.4
1988	421	-	254	-	60.3
Audits outstanding		897	327	53.5	19.4
PRIMARY SCHOOLS (a)					
1984	1 614	79	-	4.9	-
1985	1 612	143	49	8.9	3.0
1986	1 614	265	70	16.4	4.3
1987	1 612	561	98	34.8	6.1
1988	1 612	-	581	-	36.0
Audits outstanding		1 048	798	16.2	12.4
Total audits outstanding		1 945	1 125	23.9	13.8

(a) The Education Act 1958 requires councils of primary schools to appoint auditors and submit audited financial statements to the Ministry.

3.8.99 At the date of preparation of this report, the total number of audits outstanding at 31 December 1989 was not able to be provided by the Ministry due to the unavailability of audit arrears data for 2 Regional Offices: Southern Metropolitan Region and Central Highlands/Wimmera Region. The Ministry informed audit that the regions in question did not have the appropriate staff to compile the audit arrears statistics. Audit considers that accurate and up-to-date audit arrears information should be provided to Ministry management on a regular and timely basis to enable effective decision-making.

3.8.100 The most significant Ministry initiatives undertaken during 1988-89 were as follows:

- ♦ The Ministry appointed 2 accounting firms to reduce the backlog of post-primary school audits. The program was undertaken in 2 stages (December 1988 and May-June 1989) and resulted in the successful completion of 203 audits; and
- ♦ With respect to primary schools, there was once again a marked improvement in the timing of submission of audited accounts by school councils to the Ministry. This is principally due to better monitoring of the lodgement of primary school accounts by both Regional Office management and the Office of Schools Administration (OSA) Audit Committee, and more effective follow-up action in instances where schools are slow in submitting accounts.

3.8.101 Audit commends the Ministry on the progress achieved in reducing the backlog of audits of school council accounts. However, the total audits outstanding figure at 30 June 1989 of 1 125 is still cause for concern.

Management response

The OSA Internal Audit Unit has undertaken a concerted effort in 1988 and 1989 to reduce the backlog of the audits of school council accounts.

The OSA Audit Committee regularly monitors the financial audit of primary and post-primary schools and will continue to implement the necessary actions to minimise the backlog.

In 1990 the OSA Audit Committee has approved the appointment of 3 accounting firms to undertake a further 92 contract audits during the period March to June 1990 to reduce the backlog of post-primary school audits.

In order to ensure that primary and special school councils comply with their auditing requirements, procedures were initiated by the OSA for use by regional auditors.

Status of Ministry's analysis of school cleaning following the 1987 audit review

3.8.102 During 1987, audit conducted an extensive review of the provision of cleaning services across the Education sector. The results of the review included the **identification of potential annual savings** from adoption of contractual arrangements for cleaning of primary and post-primary schools of **up to \$34.6 million per year** (at 1987 prices).

3.8.103 The Ministry's response stated that the Treasurer had indicated to the Federated Miscellaneous Workers' Union (FMWU) that contract cleaning would not be pursued (as recommended in the Auditor-General's Second Report for 1986-87), provided that other savings of a similar magnitude could be identified.

3.8.104 In addition, the Ministry advised that it had identified savings of \$10.9 million per year from the elimination of relief for cleaners on rostered days off and adjustments to some elements of the cleaning formula used to establish entitlement for cleaning services. This figure compared with estimated savings of \$10.3 million the Ministry had identified by employing cleaning contractors in all schools using Ministry rates of pay and conditions of employment.

3.8.105 On this basis the Ministry began negotiations with the FMWU to determine the level of savings which could be achieved given the present industrial agreement. Negotiations resulted in a formal agreement being established between the 2 bodies which became operative on 4 December 1989. **The Ministry anticipates that in 3-5 years, annual savings of up to \$10.6 million will be achieved.**

Management response

The Auditor-General persists with the belief that there are savings of \$34.6 million (in 1987 prices) as being achievable from the introduction of contract cleaning in schools. This figure is based on an unrepresentative sample of only 3 schools.

An OSA study of a larger sample of schools indicated maximum savings of some \$10.6 million before allowing for retrenchment costs.

The issue of contract cleaning is a policy one which is the prerogative of the Government to decide.

Further audit comment

Audit's estimate of potential savings of \$34.6 million from the introduction of contract cleaning with the Schools sector of the Education System was based on a sample of 23 schools, not 3 as indicated in the Ministry's response.

Audit disagrees that cleaning is a policy matter, it is more in the nature of a strategy which is demonstrated by the fact that contract cleaning is extensively used in other organisations within the public sector.

COUNCIL OF ADULT EDUCATION

3.8.106 An audit review of the financial management and accountability processes adopted by the Council of Adult Education highlighted serious deficiencies in the overview processes and financial reporting framework for the Council's activities. Delays by the Council in finalising financial statements in recent years has resulted in an absence of audited financial information on the Council's operations. However, an analysis of available financial details highlighted a deterioration in the overall financial position of the Council including severe cash flow problems which have occurred despite the sale of the Council's major asset, the Russell Street Theatre, for \$1.3 million in 1987.

3.8.107 Unless the weaknesses in the Council's financial position are addressed, the adult education programs of the Council may be jeopardised. In particular, the Council may find it is unable to meet its current operating expenses as they become due. As the Council no longer has a marketable asset of the magnitude of the Russell Street Theatre to generate cash in the future, other options will need to be considered.

3.8.108 Due to his concern at the seriousness of the findings of the audit review, the Minister responsible for Post-Secondary Education initiated the engagement of a consultant to identify measures necessary to improve the Council's cash flow position and accounting and reporting systems in addition to assisting the Council in meeting Government standards of accountability. The findings of this review substantially concur with the deficiencies disclosed by audit.

3.8.109 Specific details of the areas of audit concern follow.

Need for clarification of roles and responsibilities

3.8.110 The *Council of Adult Education Act 1981* assigns responsibility for policy advice, planning and the provision of adult education in Victoria to the Council of Adult Education. In 1987 a report resulting from a Ministerial review of adult education (the *Edgar Report*) disclosed a number of deficiencies in the arrangements for the provision of adult education within the State which needed to be addressed. With particular reference to the Council, the *Edgar Report* indicated that while it had played a very active and innovative role in expanding adult education activities, the Council had not demonstrated skill in or commitment to its statutory policy and planning roles.

3.8.111 The report went on to recommend that a new statutory authority be established with responsibility for central planning. It suggested that the Government revise the legislative arrangements for the Council with a view to removing any sections of the Act indicating a direct Statewide policy or funding role for the Council. The report also noted that confused and overlapping responsibility lines existed in relation to the various community groups involved in delivering further education throughout the State. It recommended that regional co-ordinating bodies be established to ensure that community providers and users of further education are able to contribute to policy development and decision-making.

3.8.112 Further to the issue of the *Edgar Report*, a restructure of the TAFE Sector was undertaken by the Government. As part of this restructure, the Division of Further Education was established within the Ministry of Education in November 1987 with the aim of providing a new focus, direction and support for further education. A ministerial statement issued in May 1988 noted the transfer of the State recurrent budget and operations of the Council to this Division. Subsequently, the Division was given a mandate to establish Regional Councils of Further Education to co-ordinate the activities and funding of community providers.

3.8.113 Although the change in structure has located responsibility for policy, planning and development of further education for the State within the Division there has been no change to the provisions of the Act relating to the Council's functions in the policy and planning area.

3.8.114 Audit concluded that the resulting conflict between the executive mandate of the Division and the legislative responsibilities of the Council creates the potential for overlap of functions and makes it difficult for the respective bodies to execute their responsibilities in an efficient and effective manner. This situation is not conducive to a good working relationship between the 2 bodies.

3.8.115 There is an urgent need for the roles and nature of the relationships between the Council, the Division of Further Education and community providers to be clarified.

- *Management response by Council of Adult Education*

The Council concedes the potential for dysfunction in the present administrative arrangements. These have come about by government decision and not by any action of the Council. The Council has endeavoured to develop and maintain a good working relationship with the Division of Further Education, and believes that this is currently the case.

- *Management response by Ministry of Education*

A process has been put in place to develop further education legislation to delineate and clarify the roles and relationships of organisations/groups within the further education sector.

Financial management

3.8.116 Analyses of the Council's recent financial results, cash and liquidity positions disclose a deterioration in its overall financial position.

Liquidity position

3.8.117 An organisation's short-term financial position depends upon its ability to meet debts as they fall due. Financial resources represented by current assets are commonly referred to as "working capital" and the excess of current assets over current liabilities is known as "net working capital". An organisation's short-term financial strength is often interpreted as varying directly with the level of net working capital, or may be measured by the organisation's current ratio (current assets as a proportion of current liabilities).

3.8.118 Based on these measurements of liquidity, Table 3.8D highlights the downward trend in the financial position of the Council and indicates that liabilities falling due within the next 12 months exceed assets currently available to meet these liabilities.

TABLE 3.8D. LIQUIDITY POSITION
(\$)

Item	1985-86	1986-87	1987-88(a)	1988-89(a)
Current assets	514 681	1 952 908	2 379 846	2 055 038
Current liabilities	(1 846 734)	(1 993 002)	(2 895 444)	(3 099 248)
Negative working capital	(1 332 053)	(40 094)	(515 598)	(1 044 210)
Current ratio (%)	28	98	82	66

(a) Based on unaudited figures.

Management response by Council of Adult Education

The Council has concerns about the misleading basis of the Table. For example, the current ratio in the year 1986-87 was as low as 28 per cent and only reached 98 per cent after the sale of the Russell Street Theatre. Adjustment for the extraordinary costs of the Sir John Monash Centre would change the current ratio to around 78 per cent.

Cash position

3.8.119 The Council's cash position has deteriorated essentially due to a contribution of over \$850 000 to a joint venture with Monash University (refer paragraphs 3.8.126 to 3.8.129), and to a lesser extent, delays in the timing of grants from the Division of Further Education and the carry forward effect of operating deficits in recent years. The Council also advised that certain government funding upon which it believed it had a firm undertaking had not eventuated.

3.8.120 A review of the Council's bank statements for the year ended 30 June 1989 revealed average monthly overdrafts on the Council's 2 major operating accounts ranging between \$24 500 and \$258 000. Audit noted that **the Council had not obtained approval from the Treasurer for these overdrafts as required under the Act.** It was also noted that the overdrafts had become substantial and more frequent towards the latter part of 1989 with the unauthorised overdrafts on these accounts at 29 November 1989 totalling approximately \$830 000. The credit balances of the remaining bank accounts held by the Council at that date totalled \$98 400.

3.8.121 Audit was informed that the State Bank Victoria does not charge a fee on the bank overdrafts and no formal arrangements have been made with the bank for the account to be overdrawn. Consequently, the Council feels somewhat obliged to hold a substantial balance of its bequest funds with the bank. In audit opinion this does not constitute a sound basis for investment decision making as it may not necessarily optimise the return on investment balances. The Council estimates that charges applicable to the overdrafts would amount to around \$90 000.

3.8.122 The Council's cash flow problems are further illustrated by the fact that a significant number of assets in the form of furniture and equipment are leased by the Council. The total lease liability of these assets amounted to approximately \$460 000 at 30 June 1989. Audit was advised that this method of financing had been adopted as funds were not available to purchase the items outright.

- *Management response by Council of Adult Education*

Audit has failed to identify issues which affect the nature of the Council's cashflow, in particular the heavy dependence on course fee revenue (around \$4 million) concentrated in the seasonal enrolment periods. With 2 major enrolment periods in the January-June period, and one in the July-December period, the established normal cash flow pattern is for a build-up in the first 6 months and a deterioration in the second.

The Council Board, Executive, Finance Committee and management have for some time recognised the difficulties in cash flow and financial reporting. Budget and management strategies, including weekly cash flow reports and monitoring by senior management, have been developed to rectify both situations.

Ministerial and Treasurer's approval of the Sir John Monash project would have an immediate positive impact on cash flow.

The Council has not sought Treasurer's approval for overdrafts as it believed that it was necessary to do so only in regard to the total of accounts in the Council Fund and when the bank has sought a formal overdraft arrangement. No such arrangement has ever been sought from the bank and no overdraft fees have been charged. The Council has sought clarification on this matter from the Treasurer.

- *Management response by Ministry of Education*

Since May 1989 the Division has forwarded monthly contribution payments to the Council on a timely basis. To ensure appropriate funding is forwarded the Division has liaised closely with the Council in respect to its cash flow needs and has revised cash flows accordingly.

Commercial activities

3.8.123 In recent years the Council has diversified its revenue base through the establishment of a number of programs aimed at encouraging the use of Council facilities on a fee for service basis. However, audit considers that the new directions taken by the Council have not been adequately evaluated to ensure that they are in line with the Council's roles and objectives and with overall government policy objectives.

3.8.124 Although the legislative framework for the operations of the Council defines the functions and powers of the Council Board, the broad nature of the legislation provides little guidance in relation to the scope of the Council's activities.

3.8.125 The lack of a clear and precise policy framework has led to a situation where the Council has recently committed itself to a number of entrepreneurial projects seemingly without challenge. While recognising the broad legislative powers of the Council, audit is concerned that unless adequate overview processes are in place, the policy decisions and strategies of the Council may not be consistent with government objectives and consequently State resources may not be effectively utilised.

Management response by Council of Adult Education

The Council rejects the suggestion that it does not operate within "a clear and precise policy framework". The Council has always operated in accordance with its Act, the functions and powers under the Act, well-documented consultation with the responsible Minister and well-developed policy priorities which are reviewed annually.

The Council believes that the "new" directions taken in recent years are in line with government policies and have been carefully evaluated. Most of the matters have proceeded with the general approval of the Minister(s) and with appropriate documentation to the Executive or Board.

Sir John Monash Business Centre

3.8.126 In late 1988 the Council commenced discussions with Monash University regarding possible co-operative ventures between the 2 institutions and in particular the potential for a joint venture between the Monash University Graduate School of Management and the Council in the field of business education. Subsequently, the Sir John Monash Business Centre was established in city premises leased by the Council with the intention of providing a full range of business and management training from basic programs in computer and office skills to advanced work at post-graduate level. It was proposed that the management of the venture would be through a joint arrangement in which both the Council and Monash University would be equally represented and responsible for all establishment and recurrent costs with any surplus or deficit shared equally.

3.8.127 A Business Plan for the venture, prepared in May 1989 by a firm of external consultants, recommended that capital funding in the order of \$1 million be sought to establish the joint venture facilities with at least \$600 000 sought on a non-repayment basis and the remaining \$400 000 as a repayable loan over at least 4 years. The Business Plan estimated a pay-back period of between 3 and 6 years assuming maximum capital borrowings of \$750 000 and a decreasing interest rate from 18 per cent to 14 per cent by 1992-93.

3.8.128 Audit has a number of concerns regarding the establishment of the Centre which was officially opened on 18 October 1989, namely:

- ♦ Although the venture was to be established as a company under the *Monash University Act* 1958 with the Council acquiring 50 per cent of the share capital **no formal joint venture agreement or document specifying the legal status, role, functions or the financial terms and conditions of the venture has been signed by the 2 parties;**
- ♦ At the date of preparation of this report, **the Centre had not been established as a formal legal entity although it has been fully operational since September 1989. Audit was informed that the memorandum and articles of association were still with solicitors and had not yet been lodged with the Corporate Affairs Commission;**
- ♦ Ministerial approval for the venture as required by government policy relating to the establishment of companies, joint ventures and trusts has not been obtained;
- ♦ Refurbishment of the Centre commenced in March 1989 and by November 1989 establishment costs of approximately \$1.1 million had been incurred. Of these costs, Monash contributed \$250 000 in September 1989 with the Council financing the balance from a bequest fund and from general Council operating funds. Audit was informed that all moneys had been provided to the venture by way of loan. **In view of the 47 per cent increase in the planned level of borrowed funds from \$750 000 to \$1.1 million, the financial viability of the project is questionable.** Based on the Business Plan prepared for the venture it is apparent that a pay-back period of much greater than the maximum anticipated 6 years would now be expected; and
- ♦ The absence of a signed legal agreement between the 2 parties may result in the Council being liable for the additional costs incurred in the establishment of the Centre.

3.8.129 The Council needs to take urgent action to formalise the legal status and joint agreements for this venture. The financial contribution from Monash University also needs to be clarified in order to address the present imbalance in funding and the unfavourable impact on the cash flow position of the Council resulting from the outlay of over \$850 000.

Management response by Council of Adult Education

The Council accepts that the difficulties inherent in finalising the Sir John Monash venture have had a significant impact on its work, but believes that the appropriate funding agreements have been reached with Monash University and that the joint venture will provide greatly valued educational outcomes and longer-term financial benefits.

It is Council's view, supported by legal advice, that approval from the Minister and the Treasurer is unnecessary as the Council does not have a controlling interest. The Council has at all times wished to continue with full disclosure to and support of the Minister and Treasurer and has acted with that intention. However, it acknowledges that ministerial approval needs to be obtained for specific financial arrangements.

The Council Board has been kept informed of the progress of the venture and shares audit concerns about the current imbalance in funding arrangements. As a result, the Board instructed the Chairman and Director at its December meeting to bring the matter to the earliest possible resolution and to limit further outgoings on the project. This matter is now close to resolution.

The process of setting up the company has taken much longer than anticipated. However, unless there is an assumption that Monash University is a poor risk it is difficult to see the matter as one of serious concern. The Vice-Chancellor confirmed in writing in February 1990 that the equity contribution for the purchase of shares in the company will be \$300 000 each from Monash and the Council. This will be in addition to the existing loan. The documents will be lodged with the Corporate Affairs Commission as soon as Ministerial and Treasurer's approval are received.

Other activities

3.8.130 The Council has been involved in a number of other commercial activities **which it claims are directly related to the promotion of adult education in Victoria** including:

- ♦ A book and art supply shop which provides a service to students, tutors and the general public. Over the past 3 years the bookshop has expanded the volume and range of books offered and has changed the image of the bookshop with the introduction of various types of cards, stationery, art supplies and soft toys. Gross sales have increased significantly over the past 3 years from approximately \$105 000 in 1986-87 to over \$300 000 in 1988-89;
- ♦ A travel agency which promotes a range of educational tours within Victoria, interstate and overseas. Sales revenue from the tour programs for 1988-89 totalled \$558 000; and
- ♦ A Business Education Centre which conducts programs for industry, government and the general public in such areas as computers, keyboard skills, management and marketing. This centre also generates revenue from a conference centre through the hire of rooms, catering facilities and support services.

3.8.131 Audit noted that the Council does not allocate all relevant overhead costs including rental and administrative costs associated with conducting these activities. However, an audit examination of available financial information showed that the allocation of such costs during 1988-89 would have resulted in both the bookshop and tours program operating at a deficit.

3.8.132 The Council needs to develop systems which identify and allocate all costs associated with its commercial areas of operation. Until it develops such systems it will not be in a position to establish appropriate pricing policies nor will it be in a position to determine whether such activities should continue.

Management response by Council of Adult Education

The bookshop was set up primarily to provide a service to students and staff. It does this at no cost to Council in space which was not commercially viable when leased externally. The full-year results for 1989 are ahead of the budget set for the year and show a surplus of \$13 000 after apportionment of all costs. Thus, the shop is achieving its primary objective and is commercially viable.

Educational tours have been part of the program of the Council since the early 1950s. The Tours Department has worked for some years to an overall budget strategy designed to improve financial effectiveness over a period of time. The success of that strategy is shown in the results for 1989 which are \$15 000 ahead of budget and which show an almost breakeven position in commercial terms.

Full cost apportionment to the Conference Centre for 1989 shows a positive contribution to the Council's funds of \$5 000. The Centre is therefore commercially viable.

Special funds

3.8.133 A number of special funds, including bequests, are administered by the Council. The balance of these funds at 30 June in the past 3 years is set out in Table 3.8E.

TABLE 3.8E. SPECIAL FUND BALANCES
(\$'000)

<i>Item</i>	<i>1987</i>	<i>1988(a)</i>	<i>1989(a)</i>
Investments	153	1 490	840
Cash at bank	15	43	226
Loans to Council			377
Total fund balances	168	(b) 1 533	1 443

(a) Unaudited.

(b) Includes \$272 000 relating to a fund established by the Council to fund specific projects including the purchase of computer equipment.

3.8.134 The substantial increase during 1988 in the level of funds was primarily due to the sale in 1987 of the Russell Street Theatre, a property held by the Council in the Melbourne Central Business District. The proceeds of this sale, amounting to \$1.3 million, were applied to the funds.

3.8.135 Investments held in relation to the funds at 30 June 1988 amounted to \$1.5 million with the balance held as cash at bank. At 30 June 1989 investments had been reduced to only \$840 000 with the balance represented by loans to the Council to fund various areas of its operations and cash balances held in the Council's bank accounts earning interest rates of between 3.5 per cent and 8.5 per cent per year. The amount of high interest bearing deposits held on behalf of special funds has further decreased since June 1989 with an additional loan of \$250 000 to the Council.

3.8.136 A number of concerns with respect to the management of the funds were noted, namely;

- ♦ The decrease in investments held on behalf of the funds has impacted unfavourably on the liquidity position of the Council and has diminished returns;
- ♦ The Council's accounting records do not clearly delineate between investments held on behalf of special funds and those relating to general Council funds;
- ♦ The rate of return to the Council on the funds during 1988-89 was significantly less than market rates. While funds held in term deposits during the year were earning on average 15 per cent, the interest income credited to the funds during the period amounted to 13.9 per cent on average fund balances;
- ♦ As the bequest and trust funds have been established for specific purposes, audit considers that the use of the funds in other areas of activity is inappropriate and may result in the misapplication of the funds in terms of their specific objectives; and
- ♦ A trust fund was established in 1987 from proceeds of the sale of the Russell Street Theatre with the intention of targeting \$3 million from public and corporate donations for use in funding activities related to adult education not generally covered through government recurrent funding or direct student fees. By October 1989 only \$70 000 had been raised.

Management response by Council of Adult Education

Total investments must be related to Board decisions about the use of the funds and the Trust. They do not exist simply to accumulate revenue by way of interest, and Executive makes an annual determination about expenditure from each fund and from the Trust.

Prior to the sale of the Russell Street Theatre, income from rental was around \$60 000 per year. Present income from the proceeds of the sale exceeds \$150 000 per year and is clear evidence of good management on the Council's behalf.

Although the original target for the Badger Trust was set at \$3 million, a review of the Policy Priorities has established a short-term target of \$1 million by the end of 1991. Plans are in train for meeting this target by professional fund raising activity.

Financial accountability processes

External reporting

3.8.137 Until 1987-88, the Council was required to submit a copy of its audited statement of accounts and a report of its operations and activities for the year ended 30 June to the Minister on or before 30 September in each year in accordance with the *Council of Adult Education Act 1981*. Where the audited statement of accounts was unavailable by that date, it was to be forwarded to the Minister as a separate report within 30 days after the statement became available. Over the years this particular avenue has been followed and the Council has presented its Annual Report carrying a notation that the accounts are subject to audit.

3.8.138 In June 1989 the Council was proclaimed under the *Annual Reporting Act 1983* and as such is now required to provide audited financial statements to the Minister by 30 September each year.

3.8.139 Due to delays by the Council in finalising financial statements, and the large number of amendments required to the unaudited financial statements published in the Annual Report, substantial delays have occurred in finalising the audit of the Council's accounts in past years. At the date of preparation of this report, the audit of the accounts for the 1987-88 and 1988-89 years had not been completed and the Council advised that an extension of time to mid-April 1990 had been sought from the Treasurer in relation to the provision of audited financial statements for 1988-89.

3.8.140 The usefulness of the Council's external reporting to interested parties has diminished in recent years due to the untimely availability of audited financial information, the failure to disclose the financial results for each commercial area of operation and the lack of detail disclosed in the financial statements in relation to revenue and expenditure.

Management response by Council of Adult Education

Part of the responsibility for "... the untimely nature of audited financial information in recent years ..." and "... failure to disclose ..." lies with the Auditor-General. The Council's accounts accord with all of the requirements of the Department of Management and Budget and all accounting standards have been observed.

Further audit comment

Finalised financial statements for 1987-88 and 1988-89 had still not been received by audit at 30 March 1990.

Internal reporting

3.8.141 The present internal reporting framework of the Council is deficient in a number of areas, including the financial reports presented to the Council Board. Although summary financial information is regularly presented to the Board, details of the performance of individual cost centres or projects, individual bank balances or investments and projected cash flow information are not included in the reports. In addition, significant expenditure items do not require Board authorisation.

3.8.142 As the management of the financial resources of the Council is the ultimate responsibility of the Board, it is essential that the Council's internal reporting systems are strengthened. Failure to monitor the Council's financial performance and detect and correct any problems at an early stage may result in a further deterioration in its financial position.

Management response by Council of Adult Education

The matter of the level of internal reporting to the Board is the subject of ongoing review by the Board, the Executive and the Finance Committee. In addition, important changes in personnel, procedures and planning have taken place in the last 2 years with a view to correcting the identified difficulties.

LA TROBE UNIVERSITY**Provision of accommodation for Health Sciences**

3.8.143 As part of the State and Commonwealth Governments' strategy for a more viable and flexible system of higher education, the University and the Lincoln Institute of Health Sciences (the Institute) amalgamated on 1 January 1988.

3.8.144 At the time of the amalgamation, the University was located at Bundoora and the Institute at Carlton and Abbotsford.

3.8.145 Up until 1976, the Institute's nursing program was conducted by the College of Nursing, Australia (CNA) from its property in Slater Street, Melbourne.

3.8.146 During mid-1989 a review was undertaken of certain aspects of the provision of accommodation for Health Sciences at La Trobe University. The review found that:

- ♦ Grant moneys amounting to \$280 000 were expended and tenders were being called when a change in State Government policy made it necessary for the University to abandon its plans for accommodating the School of Health Sciences at the Bundoora Campus and therefore the immediate use of \$7 million in Commonwealth Government capital funding was deferred;
- ♦ Various options to provide for the accommodation needs of the University's School of Health Sciences have been examined and costed by the Victorian Post-Secondary Education Commission (VPSEC). The lowest cost option is no longer being pursued;
- ♦ Anticipated savings from the amalgamation will not be fully achieved;
- ♦ Full development of the Abbotsford Campus which was purchased in 1975, has not occurred and it is now considered by audit that the purchase was, in retrospect, poorly researched;
- ♦ Land valued at \$8.3 million in August 1988 has, contrary to Section 16 of the *Education Act* 1958, been occupied rent free since 1979 with no financial return to the University or the State;
- ♦ The State's interests in a property in Slater Street have not been fully protected and the negotiated value of compensation payable to the State (\$2.8 million) no longer reflects the property's current market value;
- ♦ Protracted negotiations between September 1985 and February 1988 have been unsuccessful in finalising compensation for the relinquishment of the Slater Street property; and
- ♦ An amount of \$2 million, held in trust by VPSEC since 1985, has not been utilised due to the non-development of the Abbotsford Campus. The purchasing power in real terms of these moneys has diminished.

3.8.147 During the review discussions were held with representatives of the University and VPSEC, the body which issues reports and makes recommendations to the Minister Responsible for Post-Secondary Education on matters concerning the development, management, and co-ordination of post-secondary education services, other than technical and further education services, within Victoria.

Bundoora Campus

3.8.148 Following the amalgamation the University envisaged that all the Health Sciences programs except nursing, would be transferred from their existing accommodation at the Carlton Campus to the new accommodation at the Bundoora Campus. The University considered that accommodation at the Carlton Campus was inadequate for teaching and not cost effective because of its high rental costs. The University also considered that these factors had long inhibited the expansion of the number of student places and would continue to restrict the development of post-graduate studies and research in Health Sciences.

3.8.149 In 1988, the University was allocated a Commonwealth Government capital grant of \$7.6 million (the University understood this grant was to be matched by \$1 for \$1 State Government funding) for the construction of the first stage of a new complex to accommodate the Health Sciences programs at the Bundoora Campus.

3.8.150 The University had proceeded to call for tenders when in December 1988 the State Government announced that the School of Health Sciences would remain on the Carlton campus. Expenditure to that date was \$280 000 and the balance of the grant has since been withheld by the Commonwealth Government until a decision is made on the future of the University's accommodation needs for health sciences.

3.8.151 Various options to provide for the accommodation needs of the University's School of Health Sciences have since been examined and costed by VPSEC. Estimates of costs ranged between \$44.8 million and \$61.7 million. **The lowest cost option (\$44.8 million) of accommodating health sciences at the Bundoora Campus is no longer being pursued.**

Reduced savings from amalgamation

3.8.152 Audit is of the view that the decision to retain the School of Health Sciences on the Carlton Campus has further delayed the provision of suitable and expanded accommodation and that the level of the savings expected to flow on from the amalgamation will not be achieved.

3.8.153 Savings predicted by the University from the amalgamation with the Institute ranged from \$450 000 in 1988 to \$1.5 million in 1994 and thereafter. However savings achieved during 1988 were only \$40 000 and revised savings are now \$1.3 million by 1994.

Abbotsford Campus redevelopment

3.8.154 The Abbotsford Campus was purchased in 1975 by the State Government on behalf of Lincoln Institute to establish a major educational complex incorporating the Institute's programs and the University of Melbourne's School of Early Childhood Studies.

3.8.155 Since 1975, 3 sets of plans have been developed for the Abbotsford site with the most recent one awaiting Collingwood City Council town planning approval since February 1988. The Collingwood Children's Farm, which occupies part of the site, has lodged objections with the Council against the plans for the Abbotsford site. The University is now of the view that the site is unsuitable for the purposes originally intended.

3.8.156 VPSEC is of the view that as the site is currently being utilised for advanced education fulfilment of the purpose for which it was purchased has been achieved.

3.8.157 While it is difficult to quantify the costs of not promptly up-grading the Abbotsford Campus it was evident from the following that, in retrospect, the purchase was poorly researched:

- ♦ The student load was originally anticipated at 6 000 but was reduced to 2 000 due to restrictions on the building programs due to flood levels and the Collingwood City Council's requirements for access and parking;
- ♦ The high cost of transporting students between the Carlton and Abbotsford Campuses and the Alfred Hospital to access laboratories and lecture theatres together with the related disruption and inconvenience to students;
- ♦ Although the area occupied by the Collingwood Children's Farm has been valued at \$8.3 million (at August 1988 prices) by the Valuer-General with an imputed rental of approximately \$49 000 per year, a nominal rental of \$1 per year was negotiated. In fact, the Farm has occupied the site rent-free since 1979;
- ♦ Legal opinions received by the Ministry for Education in 1980, 1983 and again in 1988 indicated that the Minister does not have the authority to raise "peppercorn" rentals and must maximise the benefits derived from properties held for educational purposes;
- ♦ To overcome the restrictions of the Education Act the State Government is taking action to transfer the ownership of the property from the Minister for Education to the Crown. This will enable a committee to be formed to manage the land and an extended lease (i.e. up to 21 years) at low rental can then be negotiated legally with the Committee;
- ♦ The University will be compensated for the loss of use of part of the Abbotsford campus to the Children's Farm by transfer of the former La Trobe High School property. However, it is the opinion of the University that the high school property only provides an additional campus to be managed and does little to satisfy the accommodation needs of the School of Health Sciences;
- ♦ Escalating annual leasing costs for accommodation at the Carlton Campus exceeded \$800 000 during 1989. Renewal of one lease in 1989 involved a rent increase of 87 per cent from 1990;
- ♦ Escalating redevelopment costs as a consequence of the continuing delays; and

- ♦ Also, significant costs have been incurred in the preparation of redevelopment plans. The most recent has been estimated to exceed \$150 000.

3.8.158 Audit is concerned that delays have led to substantial losses to the State and the University and have adversely impacted on the efficiency of the University's operations.

Sources of project finance

3.8.159 Sources of funding for the various options being considered by VPSEC for the accommodation of the University's School of Health Sciences include Commonwealth and State Government capital funding and the proceeds from the sale of certain properties. The audit review concentrated on the following properties:

Slater Street property

3.8.160 In 1968, a property in Slater Street, Melbourne, adjacent to Fawkner Park, was purchased by the College of Nursing, Australia (CNA) which at that time, had the status of a post-secondary educational institution, with money provided by the State and Commonwealth Governments. Notwithstanding that the property was purchased with government funds, title to the property was vested in the CNA with a caveat placed on the title by the then Minister for Education to protect the interests of the State.

3.8.161 In 1976, the teaching function of CNA and the Lincoln Institute of Health Sciences merged and a Department of Nursing, utilising the teaching facilities at the Slater Street property, was established at the Institute.

3.8.162 In 1985, the State Government, through VPSEC, informed CNA that the teaching activities of the Institute would be transferred to the Institute's Abbotsford Campus as the relocation of the Institute was proceeding and that the Slater Street property was no longer required. VPSEC indicated that it would be appropriate for title to the Slater Street property to be transferred to the Minister for Education to facilitate the property's orderly disposal. CNA under the terms of the caveat was offered the right of first refusal.

3.8.163 The Valuer-General's valuation of the property at 25 September 1985 was:

- ♦ \$2.8 million on the open market; or
- ♦ \$3.4 million as a specialist facility to an interested party (e.g. another educational organisation).

3.8.164 In January 1986, CNA indicated to VPSEC that it wished to retain control of the property and was prepared to make a "donation" of \$2.8 million conditional upon:

- ♦ the donation being used to develop a multi-disciplinary facility at the Abbotsford Campus;
- ♦ removal of the caveat placed on the title of the property by the Minister for Education; and
- ♦ the CNA being free to use the Slater Street property to pursue its objectives.

3.8.165 CNA and VPSEC were involved in a series of negotiations which resulted in the Institute vacating the Slater Street property in January 1987. Removal of the caveat on the property by the Minister for Education was also affected during 1987. CNA advised the Minister for Education that arrangements were being made to raise the required funds.

3.8.166 CNA forwarded an agreement to VPSEC in October 1987 outlining the legal and financial arrangements associated with the "donation". VPSEC responded to CNA in January 1988 advising that it considered certain sections of the agreement to be unsatisfactory. CNA acknowledged VPSEC's response in February 1988 and stated further legal advice would be sought regarding the agreement. **At the date of preparation of this report the position remains unchanged.**

3.8.167 There are many unsatisfactory features of the circumstances described above in respect of the Slater Street property. These include:

- ♦ No money has been received to date by VPSEC and there has been no negotiations by VPSEC since February 1988 even though negotiations commenced in September 1985;
- ♦ Although VPSEC, in a letter dated 5 March 1986 to the Institute, indicated that it is standard policy for property purchased with government funds to be vested in the appropriate Minister, the title was never transferred to the Minister for Education;
- ♦ Removal of the caveat on the title to the property and the failure to register the property in the name of the then Minister for Education has left the State at a disadvantage in negotiating compensation;
- ♦ Currently all benefits from ownership of the property, which was purchased with government funds have accrued to CNA, now a private organisation. CNA is under no legal obligation to relinquish the property;
- ♦ The use of the property as rental premises for a teaching facility indicates that the Valuer-General's higher valuation of \$3.4 million may have been the more appropriate value for compensation. This is evidenced by the fact that CNA is renting the property to a private college for use as a teaching facility; and
- ♦ As negotiations have been unfruitful to date, the \$2.8 million offered by CNA no longer reflects the property's current market value. The opportunity cost to the State of this delay, in the terms of investment interest forgone, is estimated by audit to be approximately \$1.9 million as property values have increased significantly over the past 2 years.

Wantirna South

3.8.168 During the period 1972 to 1976, VPSEC negotiated the purchase of a site in Wantirna South for a new college of advanced education, with funds provided under the relevant Commonwealth legislation.

3.8.169 The need to retain the site was subsequently reviewed and the property was sold for \$3.8 million in 1985.

3.8.170 In accordance with the agreement with the Commonwealth Government that funds from the sale of properties originally purchased from Commonwealth funds be used for high priority capital projects in higher education, \$2 million from the sale of Wantirna South has been earmarked for development of the University's Abbotsford site.

3.8.171 The \$2 million was paid over to VPSEC in July 1985 and has been invested at market rates since that date. Despite the commitment of these funds to a high priority project, VPSEC has indicated it will not release the funds to the University until the development of the Abbotsford site proceeds.

3.8.172 There is an urgent need for VPSEC to take action to:

- ♦ in the interim, protect the interests of the State and arrange for the caveat on the Slater Street property to be reinstated;
- ♦ finalise compensation for the relinquishment of the Slater Street property; and
- ♦ ensure that the proceeds from the sale of the Wantirna South property are used in accordance with the State's agreement with the Commonwealth.

Management response

Since amalgamation on 1 January 1988, the University has been frustrated in its attempts to provide appropriate physical accommodation for its School of Health Sciences.

The University entered the amalgamation in expectation of the re-development of the School of Health Sciences on the Bundoora Campus. In so far as decision of the State Government has limited this development, it is essential that the relevant Ministers give urgent consideration and approval to the University's Development Plan for Bundoora.

In negotiating with VPSEC on an acceptable capital program for the School since the State Government's intervention of December 1988, it has become obvious that the funds being offered are well below those needed to equitably accommodate the School's needs. It is clear from audit's report that if appropriate early action had been taken in relation to the Slater Street property, Wantirna South funds, and the Abbotsford site that these shortfalls would not be evident. Meanwhile, the University is continuing to have to fund high cost rentals in Carlton to the detriment of its teaching and research funds.

The level of cost that this imposes on this University is very concerning. While the Commonwealth Government's agreement to revise and complete the documentation for the State 1A project to proceed has now just been received, no decision on the University's accommodation needs for the School has yet been announced by the State Minister, and overall master planning is thus significantly hampered. The funding proposed to come to this University for the construction of the Stage 1A project in 1989 has now largely been transferred elsewhere for this year. Meanwhile, the accommodation available to the School is continuing to deteriorate.

EDP systems

3.8.173 The Latrobe University maintains its major financial systems including payroll data on computers.

3.8.174 An audit review of major EDP systems generating financial and management information was completed during the year and the following control weaknesses noted during the audit were referred to the attention of the University Administration:

- ♦ controls to ensure the integrity of the University's payroll were considered inadequate with too much emphasis and reliance being placed on oversight by University department heads;
- ♦ lack of adequate program documentation;
- ♦ clear division of EDP responsibilities was lacking;
- ♦ possibility of unauthorised access due to poor computer security;
- ♦ delays in securing back-up tapes; and
- ♦ the need to update the University's disaster recovery plan.

Management response

Other controls in the staff appointment and payment process include the position establishment approvals by the Vice-Chancellor on the advice of Staffing Sub-Committee, budget approval and subsequent monitoring by officers of Finance Division and summary reporting of expenditure to the University's Finance Committee. All of these controls, together with the control implicit in the devolution of salary budgets, support the control provided by the departmental certificate. The University will review whether further or different controls are required.

The University has always acknowledged that control of payroll expenditure is vital both for budget control purposes and for ensuring that only appropriate payments are made.

Following its review of payroll controls generally referred to above, the University will consider whether an expansion of the departmental certificate and more extensive checking of the certificates by department heads is required.

The current procedures for managing program source files are informal and the need for a more formal system for maintaining source code in a library has been agreed but budget and recruitment difficulties have prevented full implementation to date.

Following the recent appointment of a Project Manager, steps are being taken to review program documentation in the Finance System and this will continue and extend to other systems. In addition, the standard for program documentation will be republished and enforced.

Following discussions with audit personnel, the Computer Centre has begun a review of account allocation and control to identify those areas where existing controls can be tightened, without interfering with necessary operations.

A recently appointed Database Administrator has already started to research disaster recovery techniques. It is not yet possible to predict when a complete plan will be in a place but specification of the project is underway.

Travel expenditure

3.8.175 By direction from the Premier, official overseas travel by state government employees and certain other persons is subject to the approval of the Overseas Visits Committee. **While a number of government agencies, including all Universities, are excluded from the Committee's procedures, the Premier has stated that the principles of these guidelines are required to be observed.**

3.8.176 Use of funds for travel by members of the University, excluding travel available to academics as part of the outside studies program during 1988, totalled approximately \$1.2 million including \$496 000 for overseas travel.

3.8.177 The Overseas Visits Committee requires agencies to exercise the greatest degree of restraint in planning overseas visits and only approves those visits which are strictly essential to the requirements of specific work programs necessary for proper administration of Government objectives.

3.8.178 Furthermore, the Committee's procedures provide for Chief Administrators/Executives and Ministers to travel business class or alternatively first class when business class is unavailable. Overseas travel expenses incurred by a spouse are only borne by the State in relation to travel undertaken by a State Minister.

3.8.179 During 1988 the spouse of the former Vice-Chancellor accompanied him flying first-class overseas. The costs to the University were approximately \$25 000 including \$8 200 fringe benefits tax. Audit was advised that these expenses were considered by the University to be part of the Vice-Chancellor's contract of employment which states that *"It is usual for Council to agree that the expenses of the Vice-Chancellor's wife shall be met by the University when she accompanies the Vice-Chancellor on visits overseas."*

3.8.180 The University's business procedures provide for the completion of a travel warrant to document details relating to the purpose of the travel, the date of the travel and conference attendance. **Audit review of the travel warrants disclosed numerous examples of incomplete warrants and as such audit could not assess whether the travel expenditure was for University purposes.**

3.8.181 The Overseas Visits Committee rarely approves travel by 2 or more officers on the same itinerary as it is considered that in most cases one officer properly briefed can adequately perform the duties required.

3.8.182 Audit noted various instances whereby more than one member of the University travelled on the same itinerary. **From perusal of documentation on the travel warrants audit was unable to assess whether or not the benefits (if any) of sending more than one person on the same itinerary had been identified.**

3.8.183 The University needs to implement procedures to ensure that in future all overseas travel arrangements, paid by the University, are appropriately documented, justified and in accord with the spirit of Government policy.

Management response

The University is concerned that presentation of this audit report fails to put the extent of University's expenditure on travel in appropriate perspective with the total expenditure of this University and fails to recognise the particular nature of the University operation.

The procedures of the Overseas Visits Committee have not been brought to the University's attention. The fact that the Universities have been specifically excluded suggest that the principles of the procedures are inappropriate for a University.

The University believes it would be entirely inappropriate for academic travel to require detailed justification to support 2 persons travelling on the same itinerary. Academic opinions are held individually and may be conflicting within the one department. The development, testing and exposition of their individual opinions may well require individuals to pursue the same itinerary.

The Finance Division staff have been instructed that travel warrants are not to be processed unless the purpose is stated.

PRESTON COLLEGE OF TAFE

Background

3.8.184 The *Second Report of the Auditor-General for the year 1986-87* commented on the major deficiencies in financial management procedures which had contributed to the substantial deterioration in the financial position of the College during 1986. The report also noted that the majority of travel and entertainment claims incurred by the College during 1986 were authorised by the former Business Manager and not supported by appropriate documentation.

3.8.185 The Auditor-General's *Report on Ministerial Portfolios, May 1989* noted the absorption of the College into the Northern Metropolitan College of TAFE from September 1988 and that, under the purview of an Interim Director, action had been taken to rectify past problems. It was also noted that Police investigations were in course concerning certain expenditure incurred by the College.

3.8.186 Comments on developments during 1987 and 1988 follow.

Financial reporting

3.8.187 The 1987 and 1988 audits of the College were conducted concurrently due to delays in the submission of the 1987 financial statements by the College.

3.8.188 A qualified audit opinion was issued on the 1987 financial statements due to:

- ♦ lack of documentation to support accounting transactions;
- ♦ inadequacies in recording of amounts due to the College; and
- ♦ lack of proper certification of the financial statements by management.

3.8.189 A confirming audit opinion was issued in respect of the 1988 financial statements.

Financial management

3.8.190 Audit found that the deterioration in the financial position of the College slowed substantially during 1987, with a deficit of \$82 000, compared with the 1986 deficit of \$945 000.

3.8.191 The accumulated deficit at 31 December 1987 totalled \$907 000. This position improved during 1988 with the accumulated deficit being reduced to \$751 000.

3.8.192 The College has taken constructive measures to address the serious financial management and internal control deficiencies identified during the 1986 audit. These measures are directed at achieving stricter and more effective financial management by the College executive.

Termination payment to former Business Manager

3.8.193 The 1988 audit disclosed that the former Business Manager had been paid around \$26 000 on termination of employment. A review by audit disclosed that the amount paid was approximately \$18 000 in excess of his entitlement. The College could not provide evidence of any authorisation or recommendation for payment or details of the basis on which the payment was made.

3.8.194 **The College needs to review the circumstances under which the overpayment to the former Business Manager was made and initiate appropriate recovery action.**

Management response

It is unclear as to why a termination allowance was calculated and at whose request. It is also unclear as to whether the college council approved the payment.

Police review of expenditure

3.8.195 On the basis of findings of a report prepared by a consultant appointed by the College in 1988, the College contacted the Preston C.I.B. in October 1988 and requested that an investigation be conducted into a number of matters relating to certain expenditure incurred on behalf of the College by the former Business Manager. The State Training Board was informed of the action taken by the College.

Management response

There has been no further development in this matter. Although it has been reported to the Preston C.I.B. no action has been taken by them.

Commonwealth funds committed without approval

3.8.196 During 1988 the College, under the Commonwealth Equipment Grant program, placed orders totalling \$100 000 for the equipment component of the Hospitality Training Program.

3.8.197 Government guidelines specify that the minimum cost of individual items of equipment is \$1 000 and that Commonwealth funding approval, via the State Training Board, is to be obtained prior to orders being placed and funds being committed.

3.8.198 Audit noted that the College had placed orders with suppliers for equipment before the required approval for funding had been given.

3.8.199 The College received only partial approval and funding (\$41 000) from the Commonwealth in respect to the equipment orders. Funding for the remaining items of equipment (\$59 000) was disallowed on the grounds that the individual orders were below the minimum cost condition applying to the grant. The shortfall in Commonwealth funding is reflected in the College's result for 1988.

3.8.200 The significance of Commonwealth funding on College financial affairs highlights the importance of obtaining written confirmation of funding approvals prior to committing the College to future expenditure obligations.

Management response

A letter dated 20 May 1988, was received outlining the conditions of the Hospitality Grant with regard to equipment purchases. Prior to receiving the letter information was given by the former Acting Director that an allocation of \$260 000 had been granted and this was the amount acted upon. It was only when the letter detailing the breakdown of funds was received that it became apparent that \$100 000 of the grant had special conditions. Written confirmation should have been received prior to 23 May 1988.

ROYAL MELBOURNE INSTITUTE OF TECHNOLOGY

Teaching staff productivity

3.8.201 Within the environment which the Institute and other public bodies operate are increased demands for accountability and a high quality of service delivery. Audit considers that one of the major factors critical to the Institute's quality of service is staff productivity and examined certain aspects of staff productivity at the Institute.

Salary expenditure and industrial agreements

3.8.202 Institute expenditure in 1988 relating to salary payments to staff totalled \$79.9 million, representing 73 per cent of the Institute's operating expenditure.

3.8.203 Salaries paid to Institute teaching staff during 1988 were subject to 3 increases. One of the 1988 increases, known as the 4 per cent second tier settlement, resulting from a national wage case decision which required, in return, improved work output and efficiency, added around \$1.5 million to the Institute's salary costs for academic and TAFE teaching staff.

3.8.204 To implement the national wage case decision, separate agreements were negotiated at the national level for academic teaching staff and at State level for TAFE teaching staff. The academic teaching staff agreement included implementation of staff assessment procedures to increase productivity by improving the quality of teaching. In contrast, the TAFE teaching staff agreement centred on increasing teaching contact and duty hours to increase productivity.

Academic teaching staff

3.8.205 The salary increase paid to academic teaching staff as a result of the second tier settlement added \$910 000 to the Institute's yearly salary costs.

3.8.206 Subsequent to the salary increase to improve work output and efficiency, the agreement negotiated for academic teaching staff provided for the Institute to implement procedures for:

- ♦ staff assessment and professional development;
- ♦ identifying unsatisfactory performance including misconduct; and
- ♦ addressing the issue of permanency of employment.

3.8.207 Audit examination of the implementation of the negotiated agreement disclosed the above procedures had not been put into place by the Institute and **therefore the Institute is not in a position to quantify the productivity gains achieved under the agreement.**

3.8.208 The Institute has indicated to audit that the major cause of non-implementation of procedures for staff assessment and identification of unsatisfactory performance has been resolved by a December 1989 variation to the agreement. This variation enables assessment and action to be taken by staff other than heads of department and the Institute has advised audit that it is confident implementation of the procedures will occur in 1990.

3.8.209 The Institute has encountered difficulties in relation to tenure of employment of staff, because the agreement is viewed by the Institute to be in conflict with another existing industrial agreement. The Institute anticipates this will be resolved at a national level by the end of 1990.

TAFE teaching staff

3.8.210 The Institute has advised audit that the salary increase paid to TAFE teaching staff as a result of the second tier settlement added \$550 000 to the Institute's yearly salary costs for TAFE teaching staff.

3.8.211 To improve work output and efficiency, the negotiated agreement established the number of hours teaching contact staff members would be required to have with students and perform other teaching duties. Required hours depended on each staff members' circumstances (i.e. position occupied, course content etc.). The Institute agreed an average contact hour load with the State Training Board.

3.8.212 While the increased salaries were paid, the agreed load for contact hours was not achieved in 1988 (i.e. agreed load - 735 hours per year, actual load - 687 hours per year). In 1989 the agreed load for contact hours was reduced to 710 hours per year and this was achieved. The original agreed load of 735 hours was decreased following concerns over teaching quality and will remain at 710 for 1990.

3.8.213 **As the contact hour load achieved is an average for all TAFE teachers at the Institute, audit is of the opinion that individual staff members below the average be encouraged to increase their number of contact hours.**

Action taken by the Institute

3.8.214 In audit opinion the Institute's accord-style culture, which is reliant on decision-making by consensus, is the main factor contributing to a lack of formal Institute-wide mechanisms to ensure improved productivity. **Informal and semi-formal mechanisms do exist but these are not consistent across the Institute and do not provide a mechanism by which productivity can be measured as a whole.**

3.8.215 Four of the Institute's 6 advanced sector faculties have planning procedures which include targets for improving productivity while 3 of the 6 have developed more resource efficient teaching programs through department rationalisation, common core courses and use of technology.

3.8.216 The Institute's TAFE sector provides for productivity improvement by conducting staff development activities, and the introduction of school's performance improvement plans for heads of school.

3.8.217 In addition, the Institute has developed at a direct cost of \$66 000, a team performance model. While not targeted at the individual, the model's objective is to improve the quality of the output of staff. Unfortunately this has not been fully implemented across all the Institute's departments as implementation is voluntary and the model has been subject to non-acceptance by staff.

3.8.218 The Institute is aware of the need to improve both the efficiency and effectiveness of teaching staff. However, action is still required to expedite the:

- ♦ full implementation of the academic agreement;
- ♦ establishment and achievement of teaching load targets for individual TAFE teaching staff; and
- ♦ introduction of formal measures including performance improvement plans to increase productivity for all staff.

Management response

Since the Award Classification of December 1989 has been received, action has been taken to establish supervisor training at RMIT. It is expected that this will occur in May 1990. This is necessarily a first step in implementing the requirements of the second tier agreement in relation to unsatisfactory performance.

Furthermore, it is a requirement in 1990 that all units of the Institutions should have performance plans for 1990 either through the use of team performance planning or through some other planning methodology.

As a result of the re-orientation of the strategic planning process and a review of the budget process performance targets for groups will be monitored during 1990.

STATE TRAINING BOARD

An expensive hat-trick

3.8.219 Under the *States Grants (Tertiary Education Assistance) Act* 1984, audited expenditure statements for TAFE grants are to be submitted by no later than 30 September following the year when grants are provided. The Commonwealth Government has consistently withheld grants due to States if those statements are not furnished by the prescribed deadline.

3.8.220 Over the past 2 years comments have been made in reports to Parliament on the delays by the Board in forwarding audited financial statements to the Commonwealth Government.

3.8.221 Despite unequivocal assurances from the Board that the problems encountered in 1986 and 1987 would not be repeated, similar circumstances have occurred for 1988.

3.8.222 For the third year in succession the deadlines set by the Commonwealth have not been achieved. In fact preparation of the 1988 audit statements by the accounting firm specifically engaged by the Board for that function did not commence until 2 December 1989, i.e. 2 months after expiration of the deadline. The statements were not finalised until late December 1989.

3.8.223 Consequently, the State did not receive the balance of recurrent grants of \$7.6 million for 1988 until 8 January 1990. Capital grants of \$15.6 million, receivable on 17 November 1989, were not received until 18 January 1990.

3.8.224 Furthermore, the State still has not received other capital and recurrent funds totalling approximately \$2 million for equipment and an advanced English language course for migrants.

3.8.225 As a result of the failure to provide the required audit certifications, 1988 funds have been withheld from the State and audit estimates that over the past 3 years, investment interest of around \$2.5 million has been forgone.

3.8.226 Obviously there is a reluctance or perhaps a lack of incentive by the State Training Board to apply sound management practices in cash management. In audit opinion, the Treasurer should offset the interest forgone by the State with an equivalent reduction in the annual budget allocation of the Board.

Management response

The State Training Board was required to provide 1988 certificates by September 1989. For those areas of operation for which the STB is responsible, documentation for audit was ready in August 1989. No documentation was available for a number of areas not controlled by the State Training Board.

The external auditor chose to undertake an unusually extensive audit. This could have been avoided if Victoria, like all other States, provided audit certificates to the Commonwealth through the Auditor-General as the State Training Board has requested.

In view of the adverse report of the Auditor-General, the State Training Board will be making formal submission, through the Department of Management and Budget, for the Auditor-General to be requested to undertake this necessary audit responsibility.

Serious recurrent fund deficit position in colleges

3.8.227 The *Report on Ministerial Portfolios, May 1989* outlined strategies implemented by the Board to improve resource management by Technical and Further Education (TAFE) colleges. The strategies included the formation of performance and business plans for all colleges and the implementation of an industrial agreement (resulting from a national wage case decision) which resulted in a salary increase for teaching staff while ensuring an increase in productivity. The need for improved strategies was indicated by the fact that 20 of the State's 32 colleges operated a 1987 recurrent fund deficit which totalled \$10.2 million.

3.8.228 Strategies implemented by the Board have to date not been fully successful as the total annual operating recurrent funds deficits have increased from \$10.2 million in 1987 to \$10.8 million in 1988.

3.8.229 Table 3.8F details examples of College deficits where attention is warranted by the State Training Board.

TABLE 3.8F. TAFE COLLEGE DEFICITS, 1988
(\$)

<i>College</i>	<i>Recurrent funds deficit</i>
Batman	(a)61 823
Box Hill	3 083 088
Broadmeadows	18 668
Dandenong	1 540 998
Flagstaff	374 640
Footscray	660 673
Gordon	1 124 211
Goulburn Valley	290 230
Loddon Campaspe	242 647
Melbourne College of Decoration	23 230
Melbourne College of Textiles	445 292
Moorabbin	213 391
Newport	85 198
Prahran	99 670
RMIT TAFE	137 338
School of Mines and Industries Ballarat Ltd	292 617
Sunraysia	(a)448 442
Swinburne TAFE	113 445
William Angliss	71 446
Wimmera Community	41 691
Yallourn	(a)1 401 697
Total of deficits	10 770 435

(a) Unaudited.

3.8.230 The Board needs to actively pursue the strategies it has implemented, monitor the financial operations of the Colleges and ensure that each College:

- ♦ focuses on its business plan objectives for increasing income and reducing costs; and
- ♦ closely monitors approved budgets against actual expenditure.

Management response

The nature of the College "deficits" is not adequately defined, no indication is given if they result from overspending, under-funding or accounting treatments. Consequently, the figures do not provide an appropriate picture of resource management in, or the financial state of, colleges. An accurate assessment can only be made by looking at the total financial operation of colleges. Only State recurrent funds are assessed.

In the course of 1988, new resource management practices were introduced progressively. Colleges faced substantial additional costs within budget. The State Training Board believes that a soundly based analysis of the total financial operations of colleges will show a more positive picture of the financial health of colleges.

The State Training Board has grave doubts about the validity of the assessment of colleges' financial position and the conclusions drawn.

REPORTING IMPROVEMENTS REQUIRED FOR POST-SECONDARY EDUCATION INSTITUTIONS

3.8.231 As from the 1989 calendar year, post-secondary education institutions were required to report to Parliament in accordance with the *Annual Reporting Act 1983*. In this regard an annual report, including audited accounts, is required to be submitted to the Minister responsible for Post-Secondary Education by 31 March each year. The Treasurer has extended this date to 30 April 1990 for the year ended 31 December 1989.

Can institutions meet the new legislative reporting deadlines?

3.8.232 Compliance with the new reporting deadlines will require a marked improvement on previous years as few institutions have been able to produce financial statements to audit within 3 months after year end as previously required under the Post-Secondary Education Act. In 1989 only 4 institutions had finalised their financial statements for 1988 and presented them to the Auditor-General for audit by the prescribed date of 31 March 1989.

3.8.233 Lack of commitment by institutions to financial reporting, together with the poor quality of financial statements provided, raises doubts as to the institutions' ability to meet the new legislative reporting requirements.

3.8.234 Recent contact with the institutions has indicated that there is little likelihood of financial statements being available for audit before 31 March 1990 and at the time of preparation of this report only Holmesglen TAFE College had submitted 1989 financial statements for audit. As a consequence, the legislative reporting deadline of 30 April 1990, as set by the Treasurer, will not be achieved by most institutions.

3.8.235 Audit considers that the institutions' designation under the *Annual Reporting Act 1983* is a significant step towards improved financial accountability.

3.8.236 However, a greater commitment is required by institutions to the proper planning and timely presentation of these financial statements. Furthermore, audit is of the view that the success of this government initiative will also depend heavily on the continuing assistance and encouragement of the 2 controlling agencies (Victorian Post-Secondary Education Commission and the State Training Board) as well as the Department of Management and Budget.

Asset management in post-secondary education institutions

3.8.237 The *Annual Reporting Act* 1983 also requires institutions to recognise for the first time in their financial statements all non-current assets such as land, buildings, plant, equipment and furniture, controlled by them. Provision has been made for a 2 year phase-in of this requirement. Non-current assets acquired during 1989 are to be included in the 1989 balance sheet for each institution and all non-current assets are to be included in the 1990 balance sheet.

3.8.238 It is estimated by audit that post-secondary education institutions in Victoria control assets costing several billion dollars. In order to report this information, the institutions are now developing/ improving asset recording systems.

3.8.239 Given the magnitude of the above issues, it is important that effective asset management practices be implemented in the post-secondary education sector.

3.8.240 The purpose of effective control over assets is to ensure that management is in a position to:

- ♦ safeguard assets against waste, loss, unauthorised use and misappropriation;
- ♦ determine the need and cost of asset maintenance and replacement;
- ♦ determine cost of service provision; and
- ♦ identify excess assets that can be sold or assigned to more productive use.

3.8.241 While some progress has been made by a number of institutions certain matters are still inhibiting effective asset management and need to be resolved. These include:

- ♦ development of asset management policy and procedure manuals for asset recording and control;
- ♦ establishment and/or maintenance of up-to-date asset registers to ensure all significant information relating to effective control and management of assets has been recorded (i.e. cost or value of assets, location, relevant identification numbers, estimated useful life and use to which the asset is put);
- ♦ implementation of planned and systematic stocktakes; and
- ♦ reconciliation of asset registers to accounting records.

LOSSES AND THEFTS

3.8.242 Particulars of losses and thefts of equipment and misappropriation of funds, which occurred in the 1989 year notified to my Office by entities within the education portfolio are summarised in Table 3.8G.

**TABLE 3.8G.
THEFTS AND LOSSES WITHIN THE EDUCATION
PORTFOLIO, 1989**

<i>Item</i>	<i>\$</i>
Ministry of Education -	
Losses and thefts of equipment	56 983
Misappropriation of funds in schools	17 464
Universities -	
Losses and thefts of equipment	49 120
Colleges of Advanced Education -	
Losses and thefts of equipment	326 860
TAFE Colleges -	
Losses and thefts of equipment	229 139
Total reported losses, thefts and misappropriations	679 566

Schedule A. Status of matters raised in previous reports

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
Cleaning services within educational institutions		
<i>Second Report</i> , 1986-87, pp.58-66 <i>Ministerial Portfolios</i> , May 1989, pp.90-2	Potential exists for achieving annual savings of up to \$51.5 million from adoption of contract cleaning throughout the State's education system. Certain educational bodies have concentrated on achieving greater efficiency for cleaning services within existing framework.	For further comments, refer to paragraphs 3.8.102 to 3.8.105 of this report.
Ministry of Education		
<i>Second Report</i> , 1982-83, pp.48-9 <i>Third Report</i> , 1983-84, p.25 <i>Second Report</i> , 1986-87, pp.67-8 <i>Ministerial Portfolios</i> , May 1989, pp.72-4	A substantial number of State primary school councils were not meeting legislative requirements to have accounts audited.	There has been a significant improvement in the timing of submission of audited accounts by primary schools. For further comments, refer to paragraphs 3.8.97 to 3.8.101 of this report.
<i>Second Report</i> , 1982-83, pp.48-9 <i>Third Report</i> , 1983-84, p.25 <i>Second Report</i> , 1986-87, pp.67-8 <i>Ministerial Portfolios</i> , May 1989, pp.72-4	The level of arrears of audits of post-primary schools (performed by the Ministry's internal audit personnel) had increased substantially.	The Ministry's internal corrective program has achieved significant results, but additional measures are necessary if the overall arrears problem is to be effectively resolved. For further comments, refer to paragraphs 3.8.97 to 3.8.101 of this report.
<i>Second Report</i> , 1984-85, p.49	Payment of grants and allowances to schools on a monthly basis should be evaluated to ensure interest earnings of the State are maximised.	Position unchanged. A joint working party involving the Ministry and the Department of Management and Budget recently completed a review to assess options available for timing and payment of grants and allowances to schools. The Department has yet to make a definitive recommendation with respect to timing of grant payments.
<i>Second Report</i> , 1984-85, pp.53-4 <i>Second Report</i> , 1985-86, p.98	The incidence and control of salary overpayments requires attention.	Net salary overpayments at 30 June 1989 totalled \$3.2 million (30 June 1988, \$1.9 million). Comments on the deterioration in the position are outlined in paragraphs 3.8.79 to 3.8.84 of this report.

Schedule A. Status of matters raised in previous reports - continued

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<i>Second Report, 1985-86, pp.95-6</i>	Action should be taken to finalise establishment of a computer-based property information system.	The Ministry has finalised planning for implementation of a new property information system and design and development work on the system is almost complete. The target date for completion of the project is 31 December 1990.
<i>Ministerial Portfolios, May 1989, pp.59-72</i>	Substantial annual cost savings would be likely if fixed term contracts and periodic re-tendering could be agreed with the Bus Proprietors Association. Even without addressing these 2 issues potential exists for achieving annual savings of \$7 million by streamlining existing arrangements for the provision of school bus transport services.	Responsibility for administration of bus contracting services transferred to the Transport Portfolio from 1 January 1990. For further comments, refer to paragraphs 3.8.93 to 3.8.96 of this report.
<i>Ministerial Portfolios, May 1989, p.308</i>	The Ministry is currently developing a disaster recovery plan for computerised payroll systems.	Disaster recovery plan developed and the Ministry is currently awaiting Ministerial approval to purchase the necessary computer hardware associated with the plan to enable implementation to proceed.
<i>Ministerial Portfolios, May 1989, pp.75-6</i>	Budget overruns in the School Education program totalling \$25.2 million due to additional teacher salary costs arising from greater than predicted enrolments, salary costs of school cleaners and emergency teachers in excess of budget and projected levels and deferral in anticipated productivity gains.	A further significant budget overrun incurred in 1988-89. For further comments, refer to paragraphs 3.8.85 to 3.8.92 of this report.
<i>Second Report, 1985-86, p.97</i>	The provision of free rental of residences to cleaners was not in line with government policy directives.	Position now satisfactory. Formal approval of the Treasurer to the non-charging of rentals was obtained by the Ministry in September 1989.
<i>Ministerial Portfolios, May 1989, pp.74-5</i>	In view of the increasing number of misappropriations from schools, the Ministry needs to give guidance to regional management, school councils and principals to assist in the development and implementation of effective management control procedures for management of resources within schools.	A special investigator has been appointed to investigate misappropriations and frauds and to develop effective risk control procedures. While the incidence of misappropriations of cash from schools declined in 1988-89, audit noted an increase in the level of thefts from schools of video and computer equipment. For details refer to paragraph 3.8.242 of this report.

Schedule A. Status of matters raised in previous reports - continued

Report	Subject	Status at date of preparation of this report
Royal Melbourne Institute of Technology Limited		
<i>Ministerial Portfolios</i> , May 1989, pp.80-6	Disturbing financial circumstances of 2 subsidiary companies of RMIT Limited. Both companies incurred significant operating losses for 1987 and had sizeable levels of indebtedness to the Institute at 31 December 1987.	<p>Actions taken by Technisearch Ltd had a degree of success in that operating loss for 1988 fell by \$110 000 to \$376 000 and accumulated losses at 31 December 1988 totalled \$1.1 million. Indebtedness to the Institute fell by \$477 000 during 1988 to \$1.7 million at 31 December 1988. Unaudited 1989 financial statements disclose a operating profit of \$449 464 for 1989 and indebtedness to the Institute amounted to \$948 458.</p> <p>Citytech Pty Ltd, Institute's other subsidiary's operating loss remained at the 1987 level of \$2.1 million, therefore at 31 December 1988, accumulated losses amounted to \$4.3 million. Indebtedness to the Institute increased by \$1.4 million to \$17.5 million at 31 December 1988. Action by the subsidiary to sell part of its assets holdings during 1989 were unsuccessful. Unaudited 1989 financial statements disclose a operating loss of \$1.9 million with accumulated losses of \$6.1 million and indebttness to the Institute of \$18.1 million.</p>
<i>Ministerial Portfolios</i> , May 1989, p.83	Non-deduction of taxation in respect of Institute staff working as consultants for one of the Institute's subsidiary companies.	Position now resolved. Deductions for taxation made from consultant's payments.
Post-secondary education institutions - common issues		
<i>Second Report</i> , 1985-86, p.99	Progress on designation of post-secondary education institutions as bodies subject to the <i>Annual Reporting Act</i> 1983.	Post-secondary education institutions designated under the <i>Annual Reporting Act</i> 1983 by Order-in-Council dated 23 May 1989. For further comments, refer to paragraphs 3.8.231 to 3.8.241 of this report.

Schedule A. Status of matters raised in previous reports - continued

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
Preston College of TAFE		
<i>Second Report, 1986-87, pp.76-7</i>	Major deficiencies existed in the overall financial management procedures at the College.	The College now forms part of the Northern Metropolitan College of TAFE. The audit of Preston College of TAFE's 1987 and 1988 financial statements revealed an overall improvement in the College's financial performance. The audit did reveal, however, a number of further issues of concern to audit. For further comments, refer to paragraphs 3.8.184 to 3.8.200 of this report.
Victorian College of the Arts		
<i>Ministerial Portfolios, May 1989, pp.78-9</i>	Serious financial management problems had been experienced at the College.	Some improvement in financial management at the College in 1988. Further improvement expected in future years.
State Training Board		
<i>Ministerial Portfolios, May 1989, pp.88-9</i>	Inability to comply with Commonwealth legislation and submit audited expenditure statements by the required deadline. As a result, Commonwealth grants are withheld and the potential to accrue significant interest is forgone.	Position substantially unchanged. Refer paragraphs 3.8.219 to 3.8.226 of this report for comment on the important financial implications to the State of recent delays in submission of annual audit statements to the Commonwealth.
<i>Ministerial Portfolios, May 1989, pp.178-9</i>	Several shortcomings in the financial administration of the Building and Construction Industry Division Training Foundation were raised by an internal audit review. The Foundation under the control of the Department of Labour prior to January 1989.	The Foundation has merged with the Victorian Building and Construction Industry Training Council Ltd on 1 July 1989. The new body, re-named the "Building and Construction Industry Training Board" is to become a company limited by guarantee. The Board is the company's guarantor. Audit responsibilities are now undertaken by a private accounting firm.
<i>Ministerial Portfolios, May 1989, pp.88-9</i>	Serious deficit position were encountered in several colleges. At 31 December 1987, 20 colleges had recurrent funding deficits totalling \$10.2 million.	Position substantially remains unchanged. Refer paragraphs 3.8.227 to 3.8.230 of this report for comments on the deficit position of colleges at 31 December 1988.

Schedule A. Status of matters raised in previous reports - continued

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
Victorian Post-Secondary Education Commission		
<i>Ministerial Portfolios, May 1989, pp.76-7</i>	Important developments underway in the higher education sector. Universities and colleges encouraged to develop corporate or strategic planning outlines.	The Commission has provided, and will continue to provide, guidance when institutions request assistance.
University sector - common issues		
<i>Second Report, 1986-87, pp.69-70</i>	<ul style="list-style-type: none"> ▪ <i>Administration of Outside Studies Program (OSP).</i> There is a need for more effective arrangements for the exchange of Program information between universities. Also, the full costs of the OSP should be disclosed in the universities' financial statements. ▪ <i>Monitoring of outside earnings of academic staff.</i> Shortcomings exist in the overall management control framework for outside earnings within the 3 universities reviewed by audit. 	<p>Position unchanged.</p> <p>Position substantially unchanged. Two universities are still considering avenues available for improving their position in this area. One university has implemented a personnel system which provides for the recording, monitoring and reporting on approvals for outside earnings by its staff.</p>

Schedule B. Completed/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits				
Ministry of Education	30 June 1989	31 October. <i>Annual Reporting Act 1983, s.8.</i>	18 October 1989	31 October 1989
Institute of Educational Administration	30 June 1988	31 December. <i>Institute of Educational Administration Act 1980, s.17.</i>	21 April 1989	29 June 1989
Institute of Educational Administration	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.11.</i>	19 September 1989	25 September 1989
Victorian Curriculum and Assessment Board	30 June 1989	" "	29 September 1989	13 October 1989

Schedule B. Completed/incomplete audits - continued

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor- General's report signed</i>
Victorian Post-Secondary Education Commission	30 June 1989	" "	7 September 1989	23 November 1989
Victorian Tertiary Admissions Centre	30 June 1989	No reporting requirements. Audit conducted at request of Treasurer.	6 November 1989	22 November 1989
Post-secondary education institutions -				
<i>Universities and associated companies</i>				
Deakin	31 December 1988	As soon as practicable after 31 March. <i>Deakin University Act 1974, s.37.</i>	20 June 1989	16 November 1989 (a)
Durac Limited	31 December 1988	" "	23 June 1989	16 November 1989
Deakin University Foundation Limited	31 December 1988	" "	9 May 1989	16 November 1989
Circular Force Proprietary Limited	31 December 1988	" "	5 October 1989	16 November 1989
La Trobe	31 December 1988	No date specified. <i>La Trobe University Act 1971, s.37.</i>	20 November 1989	9 January 1990
La Trobe University Housing Limited	31 December 1988	" "	5 October 1989	21 November 1989
Melbourne	31 December 1988	No date specified. <i>Melbourne University Act 1958, s.46.</i>	14 March 1990	21 March 1990
Melbourne Business School Limited	31 December 1988	" "	16 March 1989	21 March 1990
Monash	31 December 1988	As soon as practicable after 31 March. <i>Monash University Act 1958, s.41.</i>	March 1990	30 March 1990
Infertility Medical Centre Pty Ltd	31 December 1988	As soon as practicable after 31 March. <i>Monash University Act 1958, s.41.</i>	16 June 1989	30 March 1990
Montech Pty Ltd	31 December 1988	" "	16 June 1989	30 March 1990

Schedule B. Completed/incomplete audits - continued

Entity	Financial year ended	Reporting to Parliament	Financial statements signed by entity	Auditor- General's report signed
<i>Colleges of advanced education</i>				
Ballarat	31 December 1988	No reporting requirements. Audit conducted under the authority of the <i>Post- Secondary Education Act</i> 1978, s.27.	24 June 1989	28 August 1989
Bendigo	31 December 1988	" "	31 March 1989	29 August 1989
Chisholm	31 December 1988	" "	21 August 1989	15 September 1989 (a)
Footscray	31 December 1988	" "	16 May 1989	22 February 1990
Gippsland	31 December 1988	" "	20 July 1989	31 August 1989
Hawthorn	31 December 1988	" "	18 October 1989	27 November 1989
Institute of Catholic Education	31 December 1988	" "	28 July 1989	17 November 1989
Melbourne (b)	31 December 1988	As soon as practicable after 31 March. <i>Melbourne College of Advanced Education Act</i> 1982, s.42.	Undated	28 December 1989
Phillip	31 December 1988	No reporting requirements. Audit conducted under the authority of the <i>Post- Secondary Education Act</i> 1978, s.27.	30 March 1989	19 December 1989 (a)
RMIT Ltd	31 December 1988	No reporting requirements. Audit conducted under the authority of the <i>Post- Secondary Education Act</i> 1978, s.27.	15 November 1989	6 February 1990 (a)
Swinburne Ltd	31 December 1988	" "	17 April 1989	20 November 1989 (a)
Victoria	31 December 1988	" "	1 August 1989	21 November 1989 (a)

Schedule B. Completed/incomplete audits - continued

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Victorian College of the Arts	31 December 1988	As soon as practicable after 31 March. <i>Victorian College of the Arts Act</i> 1981, s.36.	11 September 1989	1 December 1989 (a)
Warrnambool	31 December 1988	" "	8 May 1989	4 January 1990 (a)
<i>Colleges of technical and further education</i>				
Box Hill	31 December 1988	No reporting requirements. Audit conducted under the authority of the <i>Post-Secondary Education Act</i> 1978, s.27.	12 May 1989	5 March 1989
Broadmeadows	31 December 1988	" "	28 June 1989	4 November 1989
Dandenong	31 December 1988	" "	23 June 1989	9 March 1990
East Gippsland	31 December 1988	" "	27 April 1989	25 September 1989
Flagstaff	31 December 1988	" "	11 October 1989	5 December 1989
Footscray	31 December 1987	" "	27 February 1989	24 April 1989
Footscray	31 December 1988	" "	27 November 1989	7 March 1990
Gordon	31 December 1988	" "	8 November 1989	18 January 1990 (a)
Goulburn Valley	31 December 1988	No reporting requirements. Audit conducted under the authority of the <i>Post-Secondary Education Act</i> 1978, s.27.	1 May 1989	28 August 1989
Holmesglen	31 December 1988	" "	22 June 1989	7 September 1989 (a)
Loddon-Campaspe	31 December 1988	" "	31 July 1989	24 November 1989
Melbourne College of Decoration	31 December 1988	" "	31 May 1989	29 November 1989

Schedule B. Completed/incomplete audits - continued

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor- General's report signed</i>
Melbourne College of Printing and Graphic Arts	31 December 1988	" "	21 August 1989	28 November 1989
Melbourne College of Textiles	31 December 1988	" "	23 August 1989	24 October 1989
Moorabbin	31 December 1988	" "	9 August 1989	23 February 1990
Newport	31 December 1988	" "	4 September 1989	19 October 1989
Outer Eastern	31 December 1988	" "	2 August 1989	24 November 1989
Prahran	31 December 1987	" "	8 May 1989	31 May 1989
Prahran	31 December 1988		24 July 1989	29 December 1989
Preston (c)	31 December 1987	" "	23 October 1989	1 November 1989 (a)
Preston (c)	31 December 1988	" "	23 October 1989	1 November 1989
Richmond	31 December 1988	" "	23 February 1989	6 July 1989
RMIT Ltd	31 December 1988	" "	15 November 1989	6 February 1990 (a)
School of Mines and Industries Ballarat Ltd	31 December 1988	No reporting requirements. Audit conducted under the authority of the <i>Post-Secondary Education Act</i> 1978, s.27.	24 October 1989	19 January 1990 (a)
South West	31 December 1988	" "	29 March 1989	11 October 1989 (a)
Swinburne Ltd	31 December 1988	" "	17 April 1989	20 November 1989
Wangaratta	31 December 1988	" "	22 December 1989	28 February 1990

Schedule B. Completed/incomplete audits - continued

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor- General's report signed</i>
William Angliss	31 December 1988	" "	22 November 1989	29 November 1989
Wimmera Community	31 December 1988	" "	25 October 1989	1 December 1989
Wodonga	31 December 1988	" "	28 April 1989	12 February 1990
<i>Institutes of tertiary education</i>				
Victorian College of Agriculture and Horticulture	31 December 1988	" "	1 August 1989	15 February 1990
Western Institute	31 December 1988	" "	1 November 1989	1 December 1989
Wodonga Institute	31 December 1988	" "	24 April 1989	20 February 1990
Incomplete audits				
Council of Adult Education	30 June 1988	30 September. <i>Council of Adult Education Act 1981, s.19.</i>	Field audit work completed by agent. Signed financial statements not yet received from the Council.	
Council of Adult Education	30 June 1989	30 September. <i>Annual Reporting Act 1983 s.11.</i>	" "	
Knowledge Victoria Ltd	31 December 1988	No reporting requirements. Audit conducted at request of the Treasurer.	3 May 1989	(d)
Post-secondary education institutions -				
<i>College of advanced education</i>				
Victorian College of Pharmacy Ltd	31 December 1988	No reporting requirements. Audit conducted under the authority of the <i>Post- Secondary Education Act 1978, s.27.</i>	Agent's field work in process of being finalised.	

Schedule B. Completed/incomplete audits - continued

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor- General's report signed</i>
<i>Colleges of technical and further education</i>				
Batman Automotive College	31 December 1987	No reporting requirements. Audit conducted under the authority of the <i>Post-Secondary Education Act</i> 1978, s.27.		Field audit work completed by agent. Signed financial statements not yet received from the College.
Batman Automotive College	31 December 1988	" "		Field audit work being finalised by agent.
Collingwood (c)	31 December 1987	" "		In view of absorption of the College into the Northern Metropolitan College of TAFE, the 1987 and 1988 audits are being conducted concurrently. Field audit work completed by agent. Signed financial statements not yet received from College.
Collingwood (c)	31 December 1988	" "	" "	
Frankston	31 December 1988	" "		Field work completed by agent. Final audit review currently being undertaken.
Sunraysia	31 December 1988	" "		Field audit completed by agent. Awaiting amendments to financial statements.
Yallourn	31 December 1988	No reporting requirements. conducted under the authority of the <i>Post-Secondary Education Act</i> 1978, s.27.		Field audit completed by agent. Awaiting amendments to financial statements.
State Training Board	30 June 1989	30 September. <i>Annual Reporting Act</i> 1983, s.11.		Field audit work in process of being finalised.

(a) Qualified audit report issued.

(b) Amalgamated with the University of Melbourne as from 1 January 1989.

(c) Preston and Collingwood Colleges were absorbed into the Northern Metropolitan College of TAFE as from September 1988.

(d) Due to the delay between the signing of the financial statements and the audit, a management representation has been requested stating that in the Board's opinion there have been no events subsequent to balance date which would effect the fair presentation of the financial statements.

3.9

ETHNIC AFFAIRS

The Ethnic Affairs Commission is the only entity subject to audit by the Auditor-General for which the Minister for Ethnic Affairs is responsible.

The audit of the Ethnic Affairs Commission proved satisfactory.

Schedule A. Status of matters raised in previous reports

There were no matters outstanding.

Schedule B. Completed/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor- General's report signed</i>
Completed audit				
Ethnic Affairs Commission	30 June 1989	31 October. <i>Annual Reporting Act 1983, s.8.</i>	9 October 1989	10 October 1989

3.10

HEALTH

KEY FINDINGS

- ♦ Substantial savings could be achieved through a revision of inefficient work practices in relation to cleaning duties in psychiatric hospitals.
paras 3.10.1 to 3.10.13
- ♦ Public accountability of public hospitals and associated entities needs to be clearly defined.
paras 3.10.18 to 3.10.46
- ♦ Standard of financial reporting throughout Victorian public hospitals requires improvement.
paras 3.10.47 to 3.10.59
- ♦ Health Department Victoria must ensure that government policies and guidelines relating to public administration standards are applied to public hospitals.
paras 3.10.60 to 3.10.68

The Minister for Health is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Health Department Victoria

Public bodies

Ambulance Officers' Training Centre
Ambulance Services (7)
Dietitians Board of Victoria
Mental Health Review Board
Optometrists Registration Board
Public hospitals and nursing homes (143)
Psychosurgery Review Board
Victorian Health Promotion Foundation
Victorian Nursing Council

Comments on matters of significance arising from the audit of certain of the above entities are discussed below.

HEALTH DEPARTMENT VICTORIA

Cleaning services in psychiatric hospitals

3.10.1 The Health Department Victoria, through its Office of Psychiatric Services, is responsible for the provision of psychiatric services through a network of psychiatric hospitals, clinics, day hospitals, community programs and assessment centres throughout the State.

3.10.2 An audit review was undertaken of cleaning services provided by psychiatric hospital employees. External contracting of cleaning services is not undertaken within these hospitals. The major findings of the review are outlined below.

Work practices

3.10.3 Food and Domestic Services Assistants are employed by psychiatric hospitals primarily to provide meal services to patients and are normally engaged on a roster system working 10 hour shifts. Their duties do not include the preparation and cooking of meals which are performed by catering staff. In recognition of the time available between meal duties, which audit was informed varied between 2 and 4 hours daily, agreement was reached between the Department and the relevant unions in 1983 whereby these employees would undertake ancillary ward cleaning duties.

3.10.4 Despite the above agreement, audit established from a review of 6 of the major psychiatric hospitals, that in 5 of these hospitals the Food and Domestic Services Assistants did not undertake ancillary cleaning duties despite these duties being recognised as part of their conditions of employment. Performance of these duties would reduce the number of cleaning staff.

3.10.5 Furthermore, the general cleaning of wards is undertaken by cleaners who are normally, with some variations, rostered between 8 and 10 hours a day to clean a specific ward. Although certain exceptions could be found, advice from hospital management to audit indicated that most wards could be satisfactorily cleaned within 8 hours or less. However, in the absence of cleaning standards, and basic management information such as floor space and ward details by which productivity in terms of costs per square metre could be measured, the level of idle time could not be accurately calculated.

3.10.6 It was also noted that:

- ♦ Cleaners did not undertake any heavy duty cleaning such as steam cleaning of carpets, stripping and re-polishing of floors etc., as this work was performed on a cyclical basis by specialised cleaning gangs; and
- ♦ Of the 6 hospitals visited by audit, only 4 maintained adequate records of the dimensions of ward areas. From the available records audit established that the average area cleaned per hour was less than 20 square metres. In the absence of formal performance indicators being set by management, evaluation of this indicator was not entirely possible. However, even allowing for special factors found in certain wards, the above hourly cleaning rate compares most unfavourably with a performance measurement of 51.35 square metres per hour set for cleaning staff in State schools by the Ministry of Education.

3.10.7 Hospital management advised audit that problems associated with cleaning duties had previously been reported to the Office of Psychiatric Services with no resolution being reached. Audit was further advised that potential savings could not be realised without:

- ♦ re-negotiation of industrial agreements on manning levels for meal duties and cleaning services;
- ♦ recognition of the authority of hospital management to deploy cleaning staff on a needs basis; and
- ♦ a change in the work practice of allocating a cleaner to a single ward regardless of the level of cleaning required.

3.10.8 In addition to the above practices, audit observed that there were 4 major psychiatric hospitals located within close proximity to each other in the Bundoora area. Accordingly, there was scope for increased efficiency and savings to be achieved from an integrated cleaning service, instead of each hospital being responsible for its own arrangements.

3.10.9 The Treasurer's 1989-90 Budget Speech referred to the Government's intention to develop programs to improve productivity and efficiency in psychiatric services, and that savings could be achieved by addressing inefficient work practices and pursuing structural efficiency. The audit review indicates that this intention has not been implemented in relation to cleaning activities.

3.10.10 Audit estimated that annual savings of at least \$1.4 million could be achieved through a revision of work practices in respect of the 5 hospitals alone, which were included in the audit survey. In the interests of public sector efficiency and better patient care, the Health Department Victoria needs to address inefficient work practices in cleaning operations and to develop management information systems by which management can make informed decisions on use of available resources.

Management response

The Office of Psychiatric Services recognises inequities in the distribution of existing resources. Staffing levels and work practices are the subject of action by the Health Department Victoria to improve efficiency of resource use and effectiveness of service delivery, within the overall strategy to redevelop psychiatric services.

Therefore, work practices are being addressed in the context of industrial agreements relating to structural efficiency, which include issues such as award restructuring, work practices and broadbanding.

Cleaning standards

3.10.11 Cleaning standards for psychiatric hospitals have not been developed at either a central level within the Office of Psychiatric Services or individually by the various hospitals. The Office of Psychiatric Services considers that the development of cleaning standards is a prerogative of the management of the individual hospitals.

3.10.12 However, audit considers that:

- ♦ The development of cleaning standards would be accorded a low priority by hospitals as compared with the provision of direct patient care activities;
- ♦ Hospital management may not have the necessary expertise to develop such standards, and a consultancy arrangement would need to be considered in conjunction with union participation;
- ♦ In the absence of uniform standards there is a risk that required levels of disinfection, sanitation and general cleanliness may not be applied uniformly throughout the State hospitals, thereby impacting upon patient care; and
- ♦ The lack of uniform standards means that a framework does not exist to ensure that resources employed in cleaning duties are utilised to maximum benefit, nor does it provide a benchmark for assessing performance. The development of standards could also lead to re-assessment of various long standing practices such as the need to perform certain cleaning duties on a daily basis.

3.10.13 The Health Department Victoria has a responsibility to ensure that cleaning standards are developed at a central level for Statewide application in order to effectively deploy resources in maintaining required levels of disinfection, sanitation and general cleanliness throughout the State psychiatric hospitals and institutions.

Management response

Standards of cleaning are the prerogative of hospital management. There are too many variables in each patient unit for "standards" in the conventional sense to be applied, including age and mobility of patients, stage of repair of buildings, equipment and furniture, security, incontinence etc.

MENTAL HEALTH REVIEW BOARD

Mental Health Act reporting requirements

3.10.14 The *Mental Health Act* 1986 provides that the Mental Health Review Board must, in respect of each financial year, prepare an Annual Report for tabling in Parliament which includes audited financial statements. Similar provisions concerning the Psychosurgery Review Board exist in the same Act.

3.10.15 Since 1987-88, both the Mental Health Review Board and the Psychosurgery Review Board have obtained exemptions under the *Annual Reporting Act* 1983 and therefore do not produce separate financial statements. Financial transactions of both bodies have been included in the Annual Report of the Health Department Victoria.

3.10.16 It was the intention of the Parliament, and this was confirmed in the *Mental Health Act* 1986, that both Boards should operate financially independent of the Health Department Victoria. To date, this financial independence is not reflected in the reports provided to Parliament.

PUBLIC HOSPITALS

3.10.17 Pursuant to the provisions of the *Health Services Act 1988* the Auditor-General assumed responsibility for the audit of 143 public hospitals and nursing homes throughout Victoria from 1 July 1988. In June 1989 an Order in Council was made requiring these bodies to report to Parliament in accordance with the provisions of the *Annual Reporting Act 1983*. The audit of the various hospitals is conducted by the Auditor-General through the engagement of private sector auditors on a contractual basis.

What activities should hospitals be accountable for?

3.10.18 The Economic and Budget Review Committee in its 1987 report to Parliament entitled *Accountability Requirements for Public Hospitals in Victoria* specifically stressed the need for the accountability to Parliament of public hospitals receiving public funding, whether the funds be through public donations and contributions or through government grants and subsidies. The report also drew attention to the undesirability of Boards of Management in a public environment appointing auditors and having the auditors report back to management, as opposed to independently reporting back to the public through Parliament, which would be the situation if the Auditor-General was the appointed auditor.

3.10.19 The Report included the following recommendations:

- ♦ Boards of Management should be held responsible for the financial management of their hospitals and should be responsible for the preparation of an annual report covering financial and non-financial aspects of hospital performance; and
- ♦ public hospitals be brought under the *Annual Reporting Act 1983* and the financial statements and annual reports of public hospitals be audited by the Auditor-General.

3.10.20 The above recommendations were implemented by the Government as from 1988-89.

3.10.21 Over recent years in terms of the health service agreements, most hospital Boards of Management have been given a great deal of autonomy in achieving their specified targets and objectives. While this course of action has created opportunities for innovative ideas and procedures, audit believes it is essential that Boards remain fully accountable for their actions in terms of the report of the Economic and Budget Review Committee. To this extent it was also the intention of the Committee's recommendations that Parliament be informed of the operations of the total entity for which Boards of Management have either direct or indirect responsibility for.

3.10.22 The total reporting entity can cover accountability for both State and Commonwealth funded nursing homes, day centres, extended care centres, special purpose funds, private practice trust funds, rehabilitation centres etc. Factors to be considered when determining the inclusion of an activity in the reporting entity can include:

- ♦ level of government funding either directly through the provision of grants or indirectly through the provision of services and facilities;
- ♦ ownership of assets;

- ♦ extent of influence exercised by hospital board members over decisions made by ancillary bodies/trusts/companies etc.; and
- ♦ level of public donations provided for general and specific activities of the hospital.

3.10.23 In 1988-89, one of the major problems confronting audit was determining the boundaries of hospital activities, in particular, what activities should be subject to audit under the *Annual Reporting Act 1983* as compared with activities of a private nature, e.g. private practice trust funds controlled by medical practitioners, which do not come within the scope of the Auditor-General's review.

3.10.24 Determination of the scope of the audit is further compounded by the fact that the *Health Services Act 1988* empowers hospital to do all things required to achieve objectives including the establishment of trusts, companies, associations, joint ventures, foundations etc. **However, the Act is silent on the accountability provisions in respect of such activities.**

3.10.25 As a consequence of the above legislative provisions, audit has observed a trend within the hospital industry to establish companies, trusts and foundations with the object of operating them as separate entities distinct from hospital activities. As separate entities, their financial activities do not come within the ambit of the accountability provisions laid down in the *Annual Reporting Act 1983*. Audit understands that the logic behind this trend is that hospitals do not wish to be restricted by government directives and regulations when pursuing entrepreneurial activities. In addition, hospitals consider that donors such as corporations would prefer to donate to foundations rather than direct to hospitals, because of the misconception that donations may fund hospital operating deficits. Where donations are specifically earmarked for capital or research purposes, they are *not used* for recurrent funding.

3.10.26 The following examples illustrate the uncertainty and confusion that exists in determining the reporting entity for public hospitals and the consequent effect on the public accountability process.

Denominational hospitals

3.10.27 The *Health Services Act 1988* lists the following denominational hospitals as being relevant agencies subject to the reporting and auditing provisions contained within that Act:

- ♦ Caritas Christi Hospice;
- ♦ Grey Sisters Mother and Child Care Centre;
- ♦ Little Company of Mary Hospital Incorporated;
- ♦ Mercy Maternity Hospital Incorporated; and
- ♦ St Vincent's Hospital.

3.10.28 The above hospitals were subsequently declared as public bodies pursuant to the provisions of the *Annual Reporting Act 1983*. Of these hospitals, only the Little Company of Mary Incorporated and the Mercy Maternity Hospital Incorporated have separate legal status by virtue of being incorporated under the *Associations Incorporation Act 1981*.

3.10.29 Despite the legislative intentions, it transpired that the Auditor-General was unable to conduct the audit of the Caritas Christi Hospice, Grey Sisters Mother and Child Care Centre and St Vincent's Hospital for the following reasons:

- ♦ Legal advice raised doubts as to whether the hospitals could be defined as public bodies under the *Annual Reporting Act 1983*;
- ♦ The hospitals did not have separate legal status and as such remained segments of private companies owned by the Religious Orders. It was not the intention of the legislation that segments of the operations of private companies be subject to audit by the Auditor-General; and
- ♦ With minor exceptions, all the assets and liabilities are owned or incurred by the Religious Orders and therefore the Auditor-General was not in a position to determine what assets and liabilities are specific to the operations of the hospitals.

3.10.30 Subsequently, the Minister for Health obtained a Governor-in-Council declaration in January 1990 exempting the hospitals from the Annual Reporting Act and audit by the Auditor-General until such time as the hospitals become incorporated. The Governor in Council approval also required the hospitals to submit annual reports to the Minister by February 1990, with the statements being certified by a registered company auditor.

3.10.31 In view of the significant public funding of these denominational hospitals (\$144 million, 1988-89), it is appropriate that every effort be made to re-instate these hospitals under the provisions of the Annual Reporting Act 1983.

Management response

The Department is pursuing with the hospitals the need for incorporation and will, when appropriate, seek to have them included under the provisions of the Annual Reporting Act 1983.

Royal Children's Hospital Foundation

3.10.32 In 1989 the Royal Children's Hospital established the Royal Children's Hospital Foundation as a company limited by guarantee. The objects of the company are, in general terms, to act as a trustee of a trust fund to be administered for the benefit of the Royal Children's Hospital. One of the main sources of income of the Foundation in 1988-89 was the proceeds of the Royal Children's Hospital Good Friday Appeal, which in prior years was paid direct to the Hospital.

3.10.33 In 1988-89 no proceeds of the Appeal were received by the Hospital from the Foundation, which the Hospital intended to be established as a separate entity outside of the control of its Board of Management and as such was **not** to be regarded as a subsidiary for financial reporting purposes.

3.10.34 According to hospital correspondence "... *should the Foundation be considered a 'subsidiary' to the Hospital, then similar reporting requirements to those applying to other Corporation bodies (including the provision of consolidated financial statements) would follow. This would effectively reduce the 'separation' of the Foundation from the Hospital, which was originally envisaged, and lay open the Hospital's 'total assets' for all to see*".

3.10.35 The financial statements of the Hospital were qualified by the Auditor-General on the basis that audit considered that the Foundation was a subsidiary of the Hospital within the meaning of the Annual Reporting (Contributed Income Sector) Regulations 1988 and the financial transactions of the Foundation should have been included in the Hospital's financial statements. The basis for this view was that of the 10 governors of the Foundation, 4 were appointed by the Hospital's Board of Management (classified as class A governors), 2 were staff members appointed by the Heads of Department of the Hospital (classified as class B governors) and the remainder were independent. Consequently, as audit considered that the Hospital was in a position to influence the votes of 6 of the 10 governors, the Foundation should have been regarded as a subsidiary.

3.10.36 The Hospital subsequently obtained a legal opinion which advised that: "... *it seems quite clear that the hospital does not and cannot control the class B governors appointed by heads of the medical departments of the hospital. Plainly the heads of medical departments are not the hospital and do not purport to represent the hospital*".

3.10.37 In effect the legal opinion indicated that the Hospital did not control the Foundation as it could not influence the voting intentions of its employees who were allowed to act in an autonomous manner.

Management response by the Royal Children's Hospital

Based on legal opinion, it is the Hospital's opinion that the finances of the Royal Children's Hospital Foundation Limited should not form part of the accounts of the Royal Children's Hospital, as it cannot be legally considered as a subsidiary of the Hospital pursuant to the Annual Reporting Act 1983.

It is extremely important for fund raising that the Foundation is seen as a totally separate entity to the Hospital. The Foundation has already encountered difficulties with potentially large donors, who have made it clear that they would not donate to the Foundation if it was perceived to be part of the Hospital.

Alfred Group of Hospitals

3.10.38 Over many years 47 trusts have been created for the purpose of providing funds for medical scholarships, research and related activities within the Alfred Hospital. These trusts were disclosed in the Hospital's 1988-89 financial statements as *Equity, Funds held for Restricted Purposes* and were represented by investments recorded at \$2.6 million.

3.10.39 In October 1989 the Hospital obtained a legal opinion which stated that the classification of these moneys as hospital equity was incorrect and that the entries should be removed from the balance sheet as the Hospital:

- ♦ is not the legal owner of the funds;
- ♦ is not the beneficiary of the trusts;

- ♦ is not free to apply the funds for its own purposes;
- ♦ does not own or control any of the trusts (trustees are either a trustee company, individual members of the community or persons occupying staff positions within the Hospital); and
- ♦ need only record in its financial statements trust income which was paid over to and expended by the Hospital.

3.10.40 This issue, which will be reviewed during the course of the current audit, serves as a clear illustration that public bequests or donations provided for hospital purposes, and generating benefits to hospitals, may not be disclosed to the Parliament. It is understood that similar circumstances exist in other hospitals.

Private practice trusts

3.10.41 The Health Department Victoria advised hospitals in 1989 that where medical practitioners were granted the right to private practice in public hospitals and the practice was established under a deed of trust, such a trust was not seen as forming part of the reporting entity. However, where (often identical) arrangements existed which were not established under trust deeds, the hospital was required to record all transactions in its financial statements.


3.10.42 During the course of the audit of hospitals, it became apparent that a variety of other arrangements existed which led to problems relating to the ambit of audit's responsibilities.

3.10.43 It is proposed to refer such arrangements to the Health Department Victoria for clarification of the position relating to audit and public accountability.

Hostels

3.10.44 At the date of preparation of this report, a decision had not been made by the Health Department Victoria as to whether hostels which provide residential-type accommodation with limited nursing facilities for mainly frail and elderly persons, are to be regarded as part of the reporting entity and therefore subject to the *Annual Reporting Act 1983*. It is essential that a prompt decision be made by the Department on this issue to facilitate forward planning by hospitals and audit.

What needs to be done?

 **3.10.45** Audit acknowledges that most of the entities associated with hospitals are privately audited and in the case of companies, returns are lodged with the Corporate Affairs Office. Notwithstanding this fact, audit concurs with similar views expressed by the Economic and Budget Review Committee that where an element of public funding is involved, proper accountability can best be achieved by the presentation to Parliament of annual reports containing financial statements independently audited by auditors other than those appointed by Boards of Management.

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3.10.46 There is an urgent need for the Government to clarify the scope of the audit responsibilities of the Auditor-General in the public hospital sector. In addition, consideration needs to be given to legislative provisions ensuring that the financial statements of hospitals included in annual reports to Parliament reflect the full extent of financial activities controlled or influenced by Boards of Management of public hospitals.

Management response

The Department acknowledges the difficulties of the Auditor-General in determining the reporting entity of some hospitals where companies, trusts or foundations have been established as separate legal entities distinct from normal hospital activities. It is essential that there be clarification of the total entity for which Boards of Management have either direct or indirect responsibility.

The nature of the arrangements and accountability and reporting requirements will be reviewed and where necessary, directions will be developed to ensure public accountability.

Standard of financial reporting

3.10.47 In June 1989 an Order-in-Council was made requiring public hospitals and nursing homes to report to Parliament in accordance with the provisions of the *Annual Reporting Act 1983*, and to present financial statements which comply with the Annual Reporting (Contributed Income Sector) Regulations 1988, which incorporate Australian Accounting Standards.

3.10.48 Prior to the above declaration, hospital financial statements were prepared on a modified accrual accounting basis using a fund accounting approach, with separate financial statements for the operating, special purpose and capital funds. The transition from this approach to compliance with the Annual Reporting (Contributed Income Sector) Regulations 1988 and Australian Accounting Standards was not initially anticipated by the Health bodies to present significant problems as a modified accrual accounting system had been in existence in hospitals for many years. To further assist hospitals, information sessions for hospitals on the new reporting arrangements were conducted by the Health Department Victoria and the Victorian Hospitals Association.

3.10.49 However, despite this optimism, most hospitals throughout Victoria experienced considerable difficulty in preparing acceptable financial statements for 1988-89, as evidenced by the fact that only 61 of 143 hospitals were in a position to have their financial statements signed by the Auditor-General prior to the initial reporting deadline imposed by the Treasurer of 31 October 1989. The reporting deadline was subsequently extended to 30 November 1989 in order to accommodate most of the remaining hospitals.

3.10.50 The main reasons most hospitals did not meet the legislative reporting requirements were as follows:

- ♦ Problems encountered in the first year in adapting to the requirements of the reporting regulations and accounting standards;

- ♦ Many small to medium-sized hospitals did not have staff with appropriate skills to prepare suitable financial information. In this regard reliance had been placed in previous years on auditors to prepare financial statements, a practice which is unacceptable as it impairs the independence of the audit opinion;
- ♦ Inappropriate or obsolete accounting and management information systems; and
- ♦ The inability of a computer service bureau to provide suitable data.

3.10.51 There is a need to urgently upgrade the standard of financial management and related reporting and financial systems throughout the hospital industry to ensure that hospital management is provided with reliable, appropriate and timely information on which to make informed and economic decisions. It is essential that accounting assistance be provided to many small to medium-sized hospitals by either the Health Department Victoria or the larger base hospitals.

Management response

The Health Department Victoria required public hospitals to plan for the appropriateness and efficiency of their services, account for their performance, comply with Health Department Victoria reporting requirements and exercise financial accountability. The Department therefore recognises the need to maintain up-to-date financial systems in public hospitals and to address the need for skilled financial expertise.

It is true that auditors in the past provided assistance to smaller hospitals in the preparation of financial statements and the withdrawal of these services in the new arrangements impacted on the ability of these hospitals to comply with the Annual Reporting requirements.

Hospital managements generally placed high priority on the production of the annual reports. The fact that "most" hospitals were in a position to have financial statements finalised by 30 November 1989 during a year of significant change is evidence of their commitment.

Extent of audit reservations concerning financial statements

3.10.52 The need to qualify the financial statements of virtually all public hospitals in Victoria, mainly in relation to the valuation, recording and reporting of assets raises concerns as to the adequacy of asset management and utilisation within the hospital industry. Until a satisfactory position is reached, doubt must exist as to whether hospital assets are being effectively utilised and generating maximum returns. It is imperative that appropriate action is taken to upgrade existing financial standards and remove the need for further audit qualifications in future years.

3.10.53 Of the 143 public hospitals subject to audit by the Auditor-General, the financial statements of only 7 hospitals were not qualified on one or more issues.

Common qualification issues

3.10.54 The most common issues requiring qualified audit opinions are outlined below:

Assets

- ♦ Failure to maintain asset registers to support amounts recorded as assets in the balance sheet (32 hospitals);
- ♦ Material variances between values recorded in balance sheet and values in asset register (23 hospitals);
- ♦ Failure to depreciate non-current assets, mainly buildings, in accordance with Australian Accounting Standards (65 hospitals); and
- ♦ Valuation of assets such as land, at a deemed value, that could not be substantiated (16 hospitals).

Property

- ♦ Failure to maintain a record of the value of Crown land or freehold land donated for hospital purposes (56 hospitals);
- ♦ Failure to separately record the value of land and the value of buildings in accordance with Australian Accounting Standards (51 hospitals); and
- ♦ Failure to bring to account certain property owned/controlled by hospitals.

3.10.55 With regard to asset registers, the Health Department Victoria issued an instruction to all hospitals in 1983 to establish suitable asset registers. This instruction was apparently ignored by hospitals and its implementation was evidently not monitored by the Department.

3.10.56 Ownership of property is not the sole criterion for disclosure. Where an organisation assumes the risks and receives all the benefits incidental to ownership as would occur with Crown land or donated land upon which buildings are situated, the value of land needs to be disclosed as an asset in the balance sheet with a corresponding increase in equity.

Specific issues involving major hospitals

Leasing arrangements

3.10.57 The Monash Medical Centre entered into an arrangement for the lease of a building valued at approximately \$167 million on land owned by the Centre. Although the Centre accepted substantially all the risks and benefits incidental to ownership of the building, it regarded the arrangement as an operating lease and did not record the building as an asset in the balance sheet. Audit considered that the building should have been disclosed as an asset, with the lease being recorded as a finance lease and disclosed as a liability in the balance sheet.

Disclosure of investments

3.10.58 The Alfred Group of Hospitals included in the balance sheet an amount of \$2.6 million representing the investment of trust and scholarship funds provided to the Alfred Hospital over an extended period of time by way of bequests or donations. The market value of these investments at 30 June 1989 was stated to be \$8.3 million and the funds were held and managed by a trustee company. Information was not readily available to enable audit to independently verify the investments.

3.10.59 At 30 June 1989 the trustee company managed a deposit at call account of \$1.2 million representing accumulated income earned on the above investments. As audit considers the Hospital exerts significant control over the application of the investment funds it was audit opinion that the \$1.2 million should have been disclosed as income in the Hospital's financial statements. Accordingly, the Group surplus for the year of \$5.3 million was considered to be understated by this amount.

Management response

The lease arrangement with the South East Medical Complex and the Monash Medical Centre has generally been regarded as an operating lease and therefore is not required to be included in the financial statements of the South East Medical Complex. The financial arrangements in respect of this lease and the ongoing payments for the lease are the responsibility of the Department of Management and Budget.

Public hospitals are required to maintain asset registers as directed by the Health Department Victoria in a detailed 1983 circular and hospitals will be reminded of their responsibilities for accountability for asset management. The Regulations provided for a transitional period whereby assets held prior to 1 January 1989 need not be depreciated for the first 2 years in order that current valuations could be obtained.

Implementation of government policy

3.10.60 The Health Department Victoria has overall responsibility for all health, hospital and associated services administered directly or supported financially by the State Government. As part of this responsibility it is required to monitor the operations and performance of public hospitals against policy and program objectives and guidelines.

3.10.61 Prior to the advent of Health Service Agreements with hospitals, which were introduced progressively from 1986, the monitoring of policy was largely achieved through the issue of various policy circulars and guidelines and through an overview of hospital activities by Regional Offices of the Department. Since the advent of the agreements the issue of policy circulars and guidelines has virtually ceased and hospitals have been free to act autonomously in the development of policies and practices. While in theory the practice of "*letting the managers manage*" may have merit, in practice the absence of policy guidelines and reviews from the central agency, i.e. Health Department Victoria, has led to a divergence of practices throughout the hospital industry, a number of which can conflict with government policy in relation to public administration standards.

3.10.62 In relation to public administration standards the Premier advised audit in a letter dated 9 August 1989, that it was the Government's intention that: "... *the various policies and guidelines governing public administration standards and conduct, including remuneration and classification standards, travel, use of cars, declaration of pecuniary interests etc. are to apply to public hospitals*". Although public hospitals are exempted from specific procedures laid down by the Overseas Visits Committee, e.g. travel is not to be first class nor are the expenses of spouses to be met, hospitals are still required to comply with the general principles and standards associated with those procedures.

3.10.63 Conflict with government policy occurs in relation to areas such as establishment of salaries and conditions, use of motor vehicles, employee housing, travel etc. Examples include:

Executive salaries and allowances

3.10.64 The last policy directive issued by the Health Department Victoria in relation to over-award payments was dated 14 February 1983, which stated in effect that the awards and conditions established by the Hospital Remuneration Tribunal were to apply and that it was formal policy that no new over-award payments or benefits were to be offered to either existing or future employees. The reality is that although in theory the conditions contained in the circular remain current, its implementation has not been monitored by the Health Department Victoria and it has been ignored by hospitals with hospital boards of management negotiating their own agreements with executive and medical staff.

3.10.65 Audit has been advised that the average package for senior executive staff in hospitals throughout Victoria is considerably above the award. Conditions negotiated can include rent-free accommodation, fully serviced vehicles available for private use, use of credit cards, payment of professional subscriptions, travel benefits, reimbursement of superannuation contributions etc. It is noted that pursuant to section 57A of the *Fringe Benefits Tax Assessment Act* 1986, public hospitals are exempted from paying fringe benefits tax on non-cash benefits to employees.

3.10.66 While recognising that performance incentives are common in the private sector, attention is drawn to the following:

- ♦ there are doubts as to the ability of Boards of Management of public hospitals, particularly the smaller country hospitals, to effectively negotiate salary packages with identifiable performance criteria capable of being measured;
- ♦ over-award payments are impacting upon hospital expenditure without necessarily resulting in productivity gains;
- ♦ the lack of guidelines on wage fixing principles to be applied by hospitals may be undermining government policy on salaries and conditions for the public sector, with the potential to lead to industrial conflict; and
- ♦ there are no guidelines available on the use of credit cards or prudent levels of entertainment expenditure in a public environment.

Motor vehicles

3.10.67 Standard policies and procedures relating to motor vehicles are issued by the Directorate, Victorian Government Motor Vehicle Fleet. These have not applied to hospitals, although by definition as a public agency these procedures should apply. The absence of specific guidelines on the use of vehicles provides scope for:

- ♦ a variety of vehicle makes being acquired, including luxury vehicles;
- ♦ extensive use of hospital vehicles for private purposes by staff at all levels;
- ♦ vehicles being acquired free of sales tax being sold to hospital staff; and
- ♦ inadequate justification for purchase of vehicles due to limited use purely for hospital purposes.

3.10.68 **There is a need for the Health Department Victoria to review its current role in policy development and implementation, communication, review and monitoring of performance within Victoria's public hospital system.**

Management response

The roles, functions and accountability of hospital Boards of Management are clearly detailed in the Health Services Act 1988. To achieve greater efficiency and effectiveness in the delivery of public hospital services and to allow Boards of Management more autonomy, the Department developed the Health Service Agreement process whereby hospitals are required to reach agreement with the Department to plan for achievement of service levels and agreed performance targets within agreed funding allocations. It is totally misleading to state that hospitals have been free to act autonomously in the development of policies and practices. The Department continues to issue policy advices covering many facets of hospital operations, including industrial relations, quality assurance and hospital fees and charges.

The current structural efficiency agreement endorsed by the Industrial Relations Commission between the Health Department Victoria and the Hospital Administrative Officers Association is addressing the level of salaries and associated benefits for hospital administrators. The reference to the inability of hospital boards to effectively negotiate salary packages appears to be unsubstantiated. Hospital Boards include many leading business and professional members of the community. To assist board members guidelines are presently being developed in respect of the appointment and performance assessment of chief executive officers.

It is important that the application of policies and guidelines to public hospitals be clarified. Specific issues will be considered by the Department and guidelines developed where appropriate.

Accounting for capital grants and donations

3.10.69 *The Annual Reporting (Contributed Income Sector) Regulations* 1988 require that moneys received from both government and non-government sources for capital purposes should not be regarded as income but must be treated as equity and reported as Contributed Capital. However, a problem arises in that *ordinary* grants received by hospitals from the Health Department Victoria are treated as income in the revenue and expense statement and are used for both operating and capital purposes. A subsequent adjustment is not made to Contributed Capital for that portion of the grant that is used for capital purposes.

3.10.70 The overall effect of the above process is that the operating results of hospitals are not an accurate reflection of hospital operations as income is overstated by the portion of grant money used for capital purposes and contributed capital is understated by a similar amount, contrary to the intentions of the Regulations.

3.10.71 **The Health Department Victoria needs to specify at the time of providing ordinary grants that portion of the grant that is to be used for capital purposes.**

Management response

A clear definition of what comprises capital expenditure is not readily available in the public sector, e.g. EDP equipment and software, motor vehicles, word processing equipment etc. These items are often funded through recurrent appropriations.

The application of recurrent funds for capital purposes within hospitals will vary according to emerging needs, and may not be capable of identification in advance.

Defalcations and losses

3.10.72 The Royal Women's Hospital advised audit of the theft of \$3 278 from car park collections during a 6 month period. The theft was referred to the Victoria Police for further action.

3.10.73 In addition, allegations were made that a former employee was using Hospital materials for personal purposes. The officer reimbursed the Hospital an amount of \$2 289 and subsequently resigned without any admission of improper activities.

VICTORIAN HEALTH PROMOTION FOUNDATION

Budget provisions

3.10.74 The Tobacco Act 1987 requires the Victorian Health Promotion Foundation to obtain the approval of the Minister for Health for annual budgets as to the receipts and payments of the Foundation. The Minister may also approve any subsequent alterations to the budget during the year.

3.10.75 Although an interim budget for the Foundation for 1988-89 was accepted in principle by the Minister on 26 June 1988, final approval was not provided. During the year significant variations occurred between the projected expenditure of \$22 million contained in the budget submission and the actual levels of expenditure and allocations to programs of \$18.5 million.

3.10.76 Failure to approve the Foundation's annual budget could result in funds being allocated for purposes other than that intended by the Government.

Management response

The formal approval for the Foundation budget for 1988-89 was not finalised. Variations from the interim budget occurred as a result of program changes during the year which were reflected in the financial statements.

The Foundation will ensure in future that budget submissions and any substantial variations are approved by the Minister and that the Minister is advised of any instances where actual expenditure varies substantially from budget projections.

Distribution of Health Promotion Levy

3.10.77 Since the Foundation's inception in 1987, revenue received to 30 June 1989 totalled \$38.2 million compared with expenditure, including grants and operating expenses, of \$22.9 million. The balance of \$15.3 million at 30 June 1989 was represented by various reserves and retained earnings.

3.10.78 The accumulation of large reserves has mainly been brought about by revenue from the Health Promotion Levy exceeding estimates and the level of annual expenditure being substantially less than budget projections.

3.10.79 Audit expressed concern at the failure of the Foundation to expend all moneys in accordance with budget submissions and questioned whether it was the intention of the Tobacco Act 1987 that the total Health Promotion Levy received be applied to sporting bodies, health promotion projects and research in the year of receipt. Audit also questioned whether the accumulation of large cash reserves was entirely compatible with the legislative objectives of the Foundation.

Management response

The Foundation has adopted the practice of taking into account any reserves carried forward from previous years together with the projected surplus, if any, for the current year when budget submissions are prepared.

A legal opinion was obtained by the Foundation which stated that: "... the Foundation is justified in maintaining these reserves and may carry forward these reserves provided that the Foundation does not delay expenditure of funds other than to the extent required or permitted by the dictates of good management".

The Foundation has recently adopted a 5 year forward plan designed to progressively and responsibly, with good management practices, reduce reserves to a level of 10 per cent of the tobacco levy by 1993-94.

Schedule A. Status of matters raised in previous reports

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
Health Department Victoria		
<i>Second Report, 1982-83, p.62 and subsequent reports</i>	Arrangements at certain psychiatric centres regarding contributions required from pensioners for upkeep are inequitable compared with arrangements in other institutions.	Approval in principle has been granted by the Minister for Health for introduction of an equitable fee system. Legislative changes are currently in progress.
<i>Second Report, 1983-84, p.22 Second Report, 1984-85, p.73 Ministerial Portfolios, May 1989, p.124</i>	The State has to undertake unnecessary duplication of administrative procedures to recover fees, collected by the Commonwealth, from patients in State benevolent homes.	Matter is expected to be resolved with the introduction of a new fee system. Accordingly, legislation will remove the need for the Australian Government to advise individual psychiatric institutions of maintenance charges for pensioner patients.
<i>Second Report, 1984-85, p.72 Ministerial Portfolios, May 1989, pp.124-5</i>	Legislative amendments should be sought to achieve adequate and consistent requirements in respect of financial reporting by and auditing of statutory bodies responsible to the Minister for Health.	Legislative amendments are currently being prepared and matter is expected to be resolved shortly.
<i>Second Report, 1986-87, p.87</i>	Financial statements do not provide adequate detail of amounts paid to public hospitals from the Hospitals and Charities Fund.	Although additional disclosure was provided in the Department's 1988-89 financial statements, further disclosure is warranted.
<i>Ministerial Portfolios, May 1989, p.107</i>	Need for improved management practices in the development and operation of the Department's 91 community health centres.	The Department is continuing to implement changes in the management of community health centres. However, finalisation of these matters will extend beyond the current year.

Schedule A. Status of matters raised in previous reports - *continued*

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<i>Ministerial Portfolios, May 1989, p.117</i>	Lack of strategic planning for the introduction and use of information technology throughout the Department.	The Department has developed a Strategic Information Systems Planning Framework that will be implemented Statewide. Within the Planning Framework, different units (OPS, public hospitals etc.) will need to develop their own strategic plans. The Department has also issued a memorandum clarifying its policy concerning the acquisition of micro-processor equipment.
<i>Ministerial Portfolios, May 1989, p.121</i>	Improved monitoring practices required in relation to grants made to non-government organisations.	The Department has instituted action to ensure that the key elements of the government guidelines are observed. Discussions are proceeding with grantee organisations to ensure acceptance and compliance with government guidelines for funding of non-government organisations.
<i>Ministerial Portfolios, May 1989, p.126</i>	The <i>Ambulance Services Act</i> 1986 does not provide for legislative reporting deadlines and presentation of annual reports to Parliament, including audited financial statements.	Matter still unresolved. Consideration is being given by the Department of Management and Budget to requiring all Ambulance Services to report to Parliament under the provisions of the <i>Annual Reporting Act</i> 1983. However, a timetable has not been developed.
<i>Ministerial Portfolios, May 1989, p.127</i>	Approval not obtained by the Victorian Health Promotion Foundation for the engagement of consultants.	Position now satisfactory. Foundation guidelines relating to the engagement of consultants have now been formally approved by the Health Department Victoria.

Schedule B. Completed/incomplete audits

Entity	Financial year ended	Reporting to Parliament	Financial statements signed by entity	Auditor- General's report signed
Completed audits				
Health Department Victoria	30 June 1989	31 October. <i>Annual Reporting Act 1983, s.8.</i>	25 October 1989	31 October 1989
Ambulance Officers' Training Centre	30 June 1989	No reporting requirements. <i>Ambulance Services Act 1986, s.38</i> provides for the audit of the accounts.	27 November 1989	22 January 1990
Dietitians Board of Victoria	30 June 1989	30 September. <i>Dietitians Act 1981, s.25.</i>	16 August 1989	21 August 1989
Mental Health Review Board	30 June 1989	30 September. <i>Mental Health Act 1986, s.136.</i>	(b)	-
Optometrists Registration Board	30 June 1989	No reporting requirements. <i>Optometrists Registration Act 1958, s.22.</i>	18 October 1989	26 October 1989
Psychosurgery Review Board	30 June 1989	30 September. <i>Mental Health Act 1986, s.138.</i>	(b)	-
Victorian Health Promotion Foundation	30 June 1989	30 September. <i>Tobacco Act 1987, s.35.</i>	21 September 1989	29 September 1989
Victorian Nursing Council	30 June 1989	31 October. <i>Nurses Act 1958, s.40.</i>	27 September 1989	12 October 1989
Ballarat and District Ambulance Service	Period 1 July 1987 to 29 February 1988	No reporting requirements. <i>Ambulance Services Act 1986,s.38</i> provides for the audit of the accounts.	16 November 1988	18 July 1989 (a)
Geelong and District Ambulance Service	" "	" "	18 April 1989	17 July 1989 (a)
Goulburn Valley Ambulance Service	" "	" "	15 February 1989	15 December 1989 (a)
North Eastern Victoria District Ambulance Service	" "	" "	15 February 1989	13 November 1989 (a)
South Western Ambulance Service	" "	" "	6 April 1989	25 July 1989 (a)
Wimmera District Ambulance Service	" "	" "	31 July 1989	15 September 1989

Schedule B. Completed/incomplete audits - continued

Entity	Financial year ended	Reporting to Parliament	Financial statements signed by entity	Auditor- General's report signed
Alexandra and District Ambulance Service	30 June 1988	No reporting requirements. <i>Ambulance Services Act 1986, s.38</i> provides for the audit of the accounts.	19 September 1989	19 October 1989
Ambulance Service Victoria -				
Metropolitan Region	30 June 1988	" "	2 June 1989	30 August 1989 (a)
North Eastern Region	1 March 1988 to 30 June 1988	" "	15 February 1989	26 March 1990 (a)
North Western Region	30 June 1988	" "	19 December 1988	7 September 1989 (a)
South Eastern Region	30 June 1988	" "	26 June 1989	14 August 1989 (a)
South Western Region	1 March 1988 to 30 June 1988	No reporting requirements. <i>Ambulance Services Act 1986,s.38</i> provides for the audit of the accounts.	18 April 1989	28 March 1990 (a)
Western Region	1 March 1988 to 30 June 1988	" "	21 December 1988	4 April 1990 (a)
Public hospitals and nursing homes	30 June 1989	31 October. <i>Annual Reporting Act 1983, s.8.</i>	For further comments, refer to paragraphs 3.10.47 to 3.10.59 of this report.	
Incomplete audits				
Alexandra and District Ambulance Service	30 June 1989	No reporting requirements. <i>Ambulance Services Act 1986,s.38</i> provides for the audit of the accounts.	Financial statements not received.	

Schedule B. Completed/incomplete audits - continued

Entity	Financial year ended	Reporting to Parliament	Financial statements signed by entity	Auditor- General's report signed
Ambulance Service Victoria -			Audit currently being finalised.	
✓ Metropolitan Region	30 June 1989	No reporting requirements. <i>Ambulance Services Act 1986</i> , s.38 provides for the audit of the accounts.	"	"
North Eastern Region	" "	" "	"	"
North Western Region	" "	" "	"	"
South Eastern Region	" "	" "	"	"
South Western Region	" "	" "	"	"
Western Region	" "	" "	"	"

(a) Qualified audit report issued.

(b) Included in Health Department Victoria financial statements for the year ended 30 June 1989.

3.11

HOUSING AND CONSTRUCTION

KEY FINDINGS

- ♦ Ministry strategies have failed to substantially reduce the unsatisfactory level of rental arrears amounting to \$15.5 million at 4 March 1990.
paras 3.11.1 to 3.11.22
- ♦ Avoidance by Ministry contractors of a range of legal obligations such as payroll and income tax.
paras 3.11.26 to 3.11.30
- ♦ Overcharging/overservicing by contractors employed to perform maintenance on Ministry properties.
paras 3.11.31 to 3.11.37
- ♦ Current estimate of cost of cleaning a parcel of land acquired from a petroleum company for the Port of Melbourne Bayside site is now \$19 million, which will be mainly borne by the State.
paras 3.11.38 to 3.11.45

The Minister for Housing and Construction is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Ministry of Housing and Construction

Public body

Urban Land Authority*

- * The Victorian Government Major Projects Unit, established under the *Urban Land Authority Act 1979*, is responsible to the Minister responsible for Major Projects (Minister for Arts) and is included in this section of the report.

Comments on matters of significance arising from the audit of the above entities are discussed below.

MINISTRY OF HOUSING AND CONSTRUCTION

Rental arrears

Overview

3.11.1 Comment on the unsatisfactory level of rental arrears has been included in Auditor-General's reports to Parliament since 1984-85.

3.11.2 An Arrears Review Panel was appointed by the Minister in July 1989 to review current recovery procedures and practices. The Review Panel concluded in their report of 1 December 1989 that while procedures for rent collection of rental arrears aim at fairness and efficiency, they nonetheless fail to provide across the State the most effective means of bringing about substantial reductions in arrears.

3.11.3 Despite the Ministry giving priority to reducing rental arrears and introducing a major corporate information and reporting system, the significant level of arrears has remained substantially unchanged in recent years even after taking into account the extent of write-off of bad debts.

3.11.4 Audit acknowledges that:

- ♦ the dramatic rise in rental arrears which occurred in the latter half of 1985 and some subsequent tenant arrears have proved difficult to reduce in the short-term due to the financial status of these tenants;
- ♦ net rents receivable increase over time due to increased rental stock and higher rents charged; and
- ♦ the public housing policy in Victoria allows low income earners in arrears to remain in public housing provided current rental payments are met and some attempt is made to meet arrears over an extended period.

3.11.5 Nevertheless, the significant level of rental arrears at 4 March 1990 (\$15.5 million) indicates that while the Ministry has continued to contain the position of rental arrears, its management strategies have failed to substantially reduce the level of rental arrears which has impacted on the cash flow for housing operations in Victoria.

Management response

Allowing for the 24 per cent increase in housing stock since 1985 and the effect of inflation on rents per unit there has been a very significant reduction in arrears since 1985.

The arrears figure of \$15.5 million at 4 March 1990 quoted by audit is "not comparable" to the rental arrears figure published in the Ministry's annual accounts. Audited end of year accounting adjustments will reduce the \$15.5 million figure substantially.

The level of rental arrears at 29 February 1989 was \$16.3 million and this figure which is directly comparable with the arrears figure of \$15.5 million quoted by audit demonstrates an improved performance from last year.

The Ministry also has a number of management actions in train to further reduce the level of rental arrears including:

- implementing recommendations from the rental arrears review panel;
- a new computer-based stock and client management system;
- new cash collection systems;
- revised rental arrears collection procedures with a greater focus on tenant contact; and
- enhanced rental arrears monitoring systems.

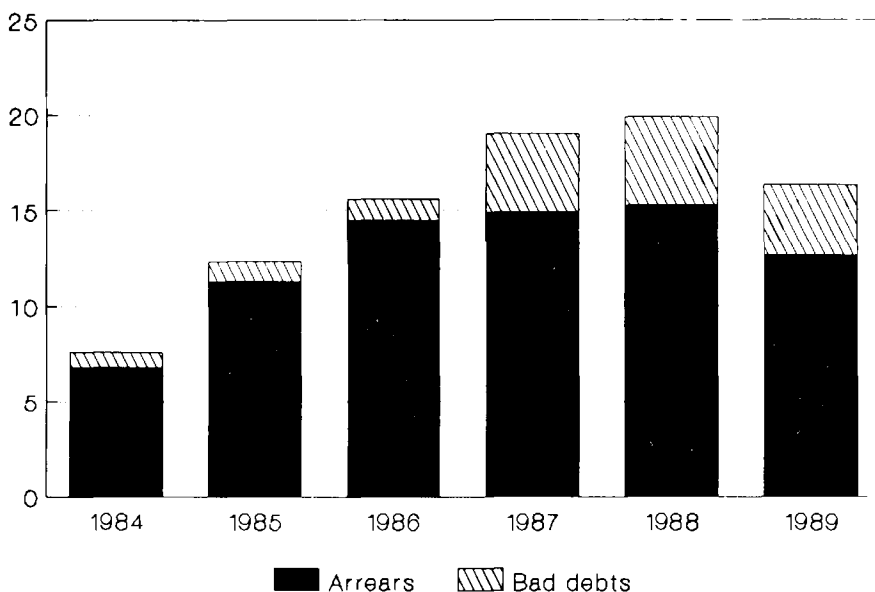
The success of efforts to date is demonstrated by the reduction in rental arrears from \$14.9 million at 30 June 1987 to \$12.6 million at 30 June 1989 (an improvement of 30 per cent in the proportion of arrears to total collectable rent over the period), and the fact that the average number of days in arrears per tenant has declined by 30 per cent since 30 June 1987.

3.11.6 Detailed comments regarding rental arrears and bad debts follow.

Rental arrears and bad debts

3.11.7 The level of rental arrears at 30 June 1989 is detailed in Chart 3.11A.

CHART 3.11A. RENTAL ARREARS AND BAD DEBTS, AT 30 JUNE
(\$million)



3.11.8 In 1988-89 the level of rental arrears declined from \$15.3 million at 30 June 1988 to \$12.6 million at 30 June 1989 despite the level of housing stock increasing. This was due to various factors including:

- ♦ **the writing-off of a significant number of bad debts totalling \$3.7 million;**
- ♦ the backdating of rental rebates;
- ♦ improved procedures in cash collection; and
- ♦ introduction of procedures for payment by direct banking deductions.

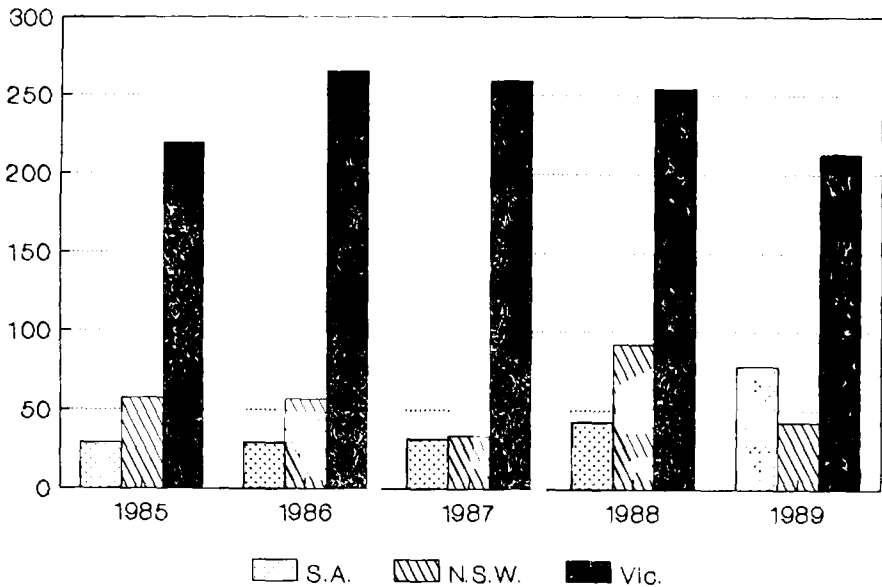
3.11.9 Despite the above improvement, audit considers that the level of rental arrears is still at an unacceptably high level as:

- ♦ The Ministry is effectively owed 33 days rent per public household (41 days at 30 June 1988). This compares with 11 days rent owing per public household in South Australia and 5 days rent owing per public household in New South Wales;
- ♦ 32.9 per cent of all current tenants were in arrears (47.6 per cent at 30 June 1988);
- ♦ On average, each tenant in arrears owed \$542 at 30 June 1989 (\$513 at 30 June 1988);
- ♦ The current level of tenant arrears equates to the value of bad debts written-off in the last 3 years;
- ♦ 2 392 or 24 per cent of the new tenancies entered into during 1989 were over 2 weeks in arrears totalling \$1.2 million at 31 December 1989 (3 909 or 40 per cent of new tenancies over 2 weeks in arrears totalled \$1.2 million at 31 December 1988);
- ♦ 182 tenants had never paid any rent;
- ♦ 93 evictions of tenants for the non-payment of rental arrears occurred during 1988-89 with arrears totalling \$216 360, i.e. an average of \$2 300. This equates to a tenant's average yearly rental after rebates; and
- ♦ 3 511 tenants vacated without paying arrears totalling \$2.8 million, representing an average of \$783 per tenant. (In 1987-88, 3 654 tenants vacated without paying their arrears totalling \$3.1 million, representing an average of \$883 per tenant.)

3.11.10 The magnitude of rental arrears is further highlighted when compared with the situation in other States. Victoria's average arrears per public household are 271 per cent and 504 per cent higher than South Australia and New South Wales, respectively, even though Victoria's net rent is 12.6 per cent and 30.4 per cent lower than South Australia and New South Wales, respectively.

3.11.11 Chart 3.11B shows a comparison of rental arrears per public household in each of the 3 States.

CHART 3.11B.
AVERAGE RENTAL ARREARS PER PUBLIC HOUSEHOLD, AT 30 JUNE
($\$$)



Public households
S.A. 62 339; N.S.W. 113 339; Vic. 59 285

Source: Financial statements of relevant State Housing Authorities.

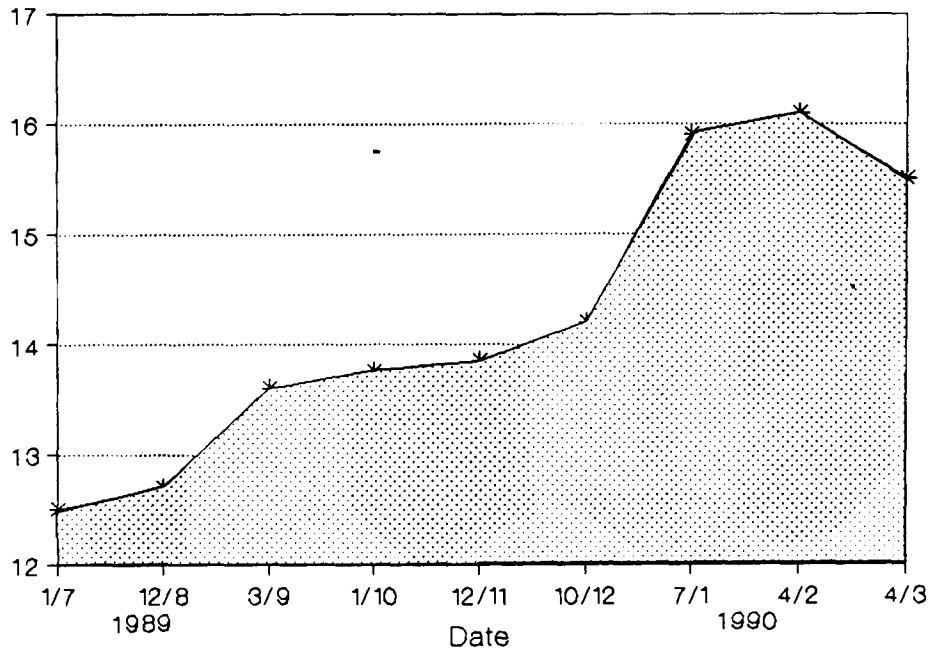
Rental arrears position at 4 March 1990

3.11.12 In the first 8 months of 1989-90 rental arrears have increased from \$12.6 million to \$15.5 million (at 4 March 1990). Factors which have led to this increase include:

- ♦ current tenant rental arrears increased from \$8.7 million to \$9.7 million in the first 7 months of this financial year;
- ♦ vacated tenant arrears (of which 80 per cent is uncollectable) increased from \$2.8 million to \$4.3 million; and
- ♦ departmental tenant arrears (defence houses and community managed dwellings) rose from \$1.1 million to \$1.4 million.

3.11.13 Chart 3.11C highlights the increases in rental arrears over the period 1 July 1989 to 4 March 1990.

CHART 3.11C. TOTAL RENTAL ARREARS
(\$million)



3.11.14 Considering the substantial increase in rental arrears between July 1989 and 4 March 1990, there is a need for new initiatives and reassessment of strategies to address the level of rental arrears and the granting of rebates.

Management response

The Ministry considers that the reduction of rental arrears from \$15.3 million at 30 June 1988 to \$12.6 million at 30 June 1989 reflects a substantial reduction of arrears during 1988-89.

The Ministry acknowledges that the level of arrears at 4 March 1990 has risen from the 30 June 1989 level of \$12.6 million. However, the comparable level of arrears at 4 March 1990 after adjustment for expected write-offs is estimated at \$13.5 million. The increase of \$900 000 primarily reflects the effect of a full contact review of the eligibility of all tenants claiming rental rebates which was conducted primarily in the last quarter of 1989.

As the majority of the Ministry tenants are on low incomes, their only option to repay arrears arising from the cancellation of a rental rebate is to enter into an agreement to pay off the arrears at a few dollars per week. It is expected that a substantial amount of these arrears will be recovered before 30 June 1990.

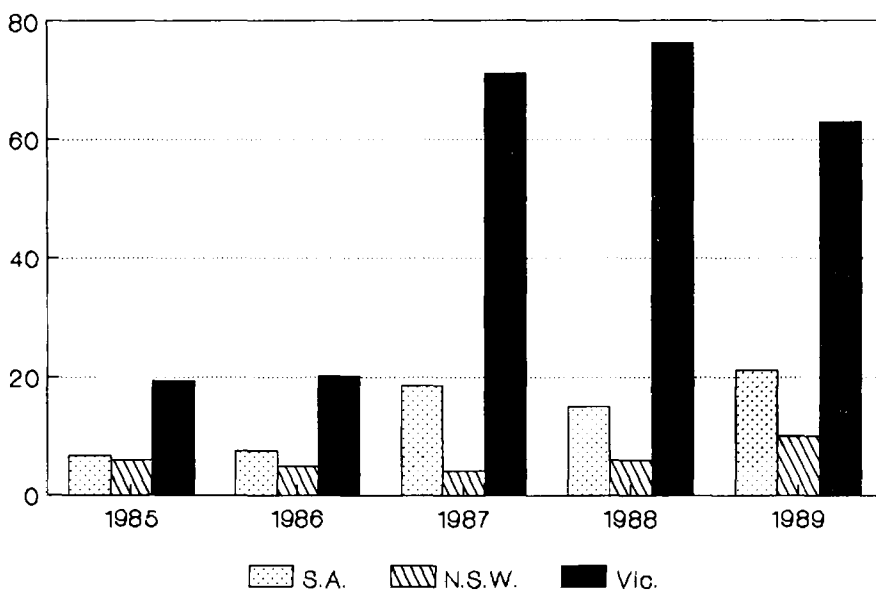
While the contact review resulted in a temporary increase in arrears, it will provide a long-term improvement in revenues to the Ministry. Furthermore, now that the contact review has been completed, since the beginning of February arrears have been steadily falling.

There is a need for effective management and careful monitoring of arrears and such management arrangements are in place. Arrears data is collected at regional and corporate levels by type of debtor, and targets have been set for regional management. Regional arrears management strategies have also been developed and achievement against objectives is monitored.

Bad debts

3.11.15 Over the past 3 financial years the Ministry has written-off \$12.4 million in bad debts which amounted to approximately 22 per cent of average debtor year end balances. This write-off is equivalent to the average yearly rental for 1988-89 (after rebates) for 5 300 tenants. In addition, average bad debts per public household in Victoria at 30 June 1989 of \$63 were 298 per cent higher than South Australia and 622 per cent higher than New South Wales. See Chart 3.11D.

CHART 3.11D.
AVERAGE BAD DEBTS PER PUBLIC HOUSEHOLD, AT 30 JUNE
(\$)



Public households
S.A. 62 339; N.S.W. 113 339; Vic. 59 285

Source: Financial statements of relevant State Housing Authorities.

Management response

The Ministry considers that the comparison of the average yearly rental (after rebates) to the total of the last 3 years bad debts write-off is not meaningful. The average annual write-off over the last 3 years is equivalent to about 3 per cent of the average yearly collections.

The Ministry notes audit's comparison of data on bad debts and arrears from New South Wales, South Australia and Victoria. However, it needs to be recognised that because of fundamental differences in the underlying data such comparisons of broad aggregate data are not meaningful.

The Ministry is operating within a policy context which recognises the low income of many tenants (including many single parent families). This means that the recovery of arrears will inevitably be gradual.

Public housing operations financed from property sales

3.11.16 As in previous years the high level of rental arrears and bad debts has continued to impact on cash flow and the magnitude of the Ministry's housing programs. Since 1 July 1988 the following arrangements were entered into by the Ministry to enable the housing program to be maintained:

- ♦ land sales of \$26 million;
- ♦ mortgage loan sales of \$32 million; and
- ♦ sale of commercial and residential properties of \$6 million.

3.11.17 The level of arrears and bad debts will continue to impact on the ability of Ministry of Housing and Construction to maintain its housing program. This position will be exacerbated if the Ministry is not in a position to maintain its property disposal program.

Management response

The sales of land mortgages and other properties during the past 20 months referred to in the audit review as being necessary to enable the housing program to be maintained are part of a wider Ministry strategy to convert assets which are not essential to the Ministry's operation into investment in rental stock to meet the policy targets of the Government.

Is there potential for increasing the Ministry's rental income?

3.11.18 In the Auditor-General's *Second Report for the year 1987-88* attention was drawn to one of the consequences to the State of the Government's public housing policy, which enabled certain tenants to enjoy the benefits of permanent occupancy while paying cost rent, even though they may have been able to meet full market rates due to their financial circumstances improving since initial occupancy.

3.11.19 At 30 June 1989 the Ministry's stock of housing units, which were valued by the Valuer-General at 1 July 1988 at \$3 900 million, totalled 62 501 (including defence force housing) of which 62 062 were tenanted.

3.11.20 At 30 June 1989 rentals charged to tenants were on the following bases:

- ♦ 45 983 tenants (74 per cent), 20 to 25 per cent of tenants' gross income;
- ♦ 8 634 tenants (14 per cent), 80 per cent of market rent;
- ♦ 4 229 tenants (5 per cent), at a special rental due to the high market value of certain rented properties; and
- ♦ 3 216 tenants (7 per cent), at an agreed rental with the Commonwealth for defence force housing.

3.11.21 A recently revised Commonwealth - State Housing Agreement of March 1990 provides scope for market rent to be charged over a phased-in period where a State considers that a tenant has a sufficient capacity to pay. Under this agreement, States are required to fix rents having regard primarily to the costs to the State of providing that housing and to the capacity of tenants to afford to pay.

3.11.22 This approach, when fully operational, will improve the cash flow of the Ministry for future housing operations and reduce the level of subsidy by the State for public housing in Victoria. The exact number of tenants to be charged market rent has not been determined by the Ministry. However, on the premise that all tenants currently paying 80 per cent of market rental may be in a position to pay full market rates, the additional funds available over the phased-in period could be up to \$8 million based on 1990 figures.

Housing stock

3.11.23 In 1985-86, the Government announced that an additional 12 000 public housing units would be provided over the succeeding 4 years. In the Ministry's 1988-89 *Annual Report*, Parliament was advised that 2 343 units were purchased/constructed during the year at a cost of \$187 million, making a total of 12 143 units acquired in the past 4 years.

3.11.24 However, an audit review of various contract files disclosed that 237 units, valued at \$20 million, while being accepted and certified as completed, had not in fact been completed.

3.11.25 In view of the fact that the Ministry contracts provide for the builder to give certain guarantees on the construction of properties and associated work for a period of 6 months after the Ministry has signed the certificate of practical completion, the Ministry's action in prematurely signing the certificates was questioned by audit. It was pointed out that **the issuing of certificates of completion in respect of incomplete units may result in the Ministry being responsible for corrective/maintenance work which would otherwise be the responsibility of the builder.**

Management response

The decision on whether a unit has reached the practical completion stage under the house construction contract is a judgement made by the Superintendent Contracts when the works are complete or reasonably capable of being used for the intended purpose except for minor omissions and minor defects. The handover notice is an internal Ministry notice to advise area staff that a unit may be made available for tenancy.

It is possible for a unit to meet the requirements of practical completion and be handed over, and yet not be tenanted because separable works such as landscaping have still to be completed.

The larger projects referred to by audit (involving the 237 units claimed to be incomplete) have been investigated. While it is clear that a number of units were not tenanted for a period after 30 June 1990, this was caused by reasons outside of the construction contracts. The builders' obligations under the various contracts were preserved in those contracts investigated. The other contracts will also be investigated by the Ministry.

Avoidance of government charges

3.11.26 Joint investigations by the Ministry and the Department of Labour have revealed that a number of contractors employed by the Ministry have avoided a range of legal obligations such as payroll and income tax, long service leave contributions and WorkCare levies.

3.11.27 The investigations which focused on contracts valued up to \$500 000, mainly involving minor works and maintenance contracts for public buildings, disclosed that some contractors had successfully tendered for works by producing lower quotes. Subsequent events disclosed that these quotes were based on the employment of casual labour, usually on a cash basis, thereby avoiding the payment of statutory charges associated with the employment of staff in accordance with industrial awards. As a consequence, statutory obligations for government charges were avoided and the tenderers concerned gained an unfair competitive advantage.

3.11.28 The Ministry has introduced new contractual conditions and procedures to overcome these practices including:

- ♦ a requirement for the successful tenderer to employ a direct labour force of at least 50 per cent of the total labour component for contracts between \$50 000 and \$500 000;
- ♦ tenders are to include details of company directors and business partners so as to enable the Ministry to evaluate their past business history; and
- ♦ expansion of the Ministry's Contracts Investigation Unit.

3.11.29 The new conditions do not apply to contracts over \$500 000 as the Ministry is of the opinion that the problem does not appear to be prevalent in this area.

3.11.30 The effectiveness of the new procedures introduced by the Ministry will be evaluated in the future.

Irregularities in maintenance programs

3.11.31 In the last 2 years the Ministry has been investigating allegations of widespread practices involving overcharging/overservicing by private contractors employed to perform maintenance on Ministry properties. The findings of these investigations revealed that the Ministry had lost an estimated amount of \$870 000.

3.11.32 Examples of fraud and overservicing were:

- ♦ a plumbing contractor made excessive claims on 2 contracts in 1987-88 and was subsequently ordered to repay \$312 000 plus legal costs to the Ministry;
- ♦ a vinyl sheet flooring contractor had overcharged the Ministry up to \$214 500 since July 1986;
- ♦ sewers were replaced unnecessarily in one region at a cost to the Ministry of \$36 650; and
- ♦ claims were submitted for painting of rooms that did not exist, unnecessary replacement of external lighting and falsely claiming for the replacement of parts.

3.11.33 The Ministry's investigations highlighted serious shortcomings in internal control systems, in that:

- ♦ there was inadequate supervision of claims which resulted in payments being made for work that was not performed;
- ♦ the Ministry failed to undertake regular independent physical inspections of completed works;
- ♦ records relating to physical descriptions of the properties and maintenance history were inadequate; and
- ♦ excessive claims were being made for work which was not in the Ministry's schedule of rates.

3.11.34 The Ministry has instigated legal proceedings in a number of cases. In addition, the following action has been taken against the offending parties:

- ♦ 10 contractors were banned from obtaining any future work from the Ministry and 4 have been requested to show cause why they should not also be banned;
- ♦ a further 10 contractors are still being investigated; and
- ♦ 3 Ministry supervisors have resigned and another 2 are under investigation.

3.11.35 The Ministry has in some cases been successful in recovering money either by withholding payments from contractors or by recouping overpayments from the contractors and the former Ministry supervisors. Recoveries to date amount to \$275 000.

3.11.36 Action taken by the Ministry to prevent overcharging/over servicing by maintenance contractors includes:

- ♦ the introduction of a computer system to monitor maintenance activity and to ensure work can only be done within defined procedures;
- ♦ the expansion of internal audit to include staff with a trade background to monitor claims in this area;
- ♦ specialist training for relevant supervisory staff to assist them in the discharge of their duties;
- ♦ the appointment of 6 new senior technical managers to more effectively co-ordinate the Ministry's maintenance supervisors;
- ♦ the revision of the Ministry's schedule of fixed rates for common type maintenance work; and
- ♦ the revision of the Ministry's Maintenance Contractors Registration Scheme to provide for the prior assessment of the suitability of the applicants seeking contract work for the first time.

3.11.37 Audit acknowledges the action taken by the Ministry to address the above problems, in particular the proposal to continuously monitor future maintenance programs.

MAJOR PROJECTS UNIT

Bayside project

3.11.38 The Port of Melbourne Bayside Development site was identified by the Government as one of the 5 action areas where the Government had extensive land holdings requiring comprehensive planning and development.

3.11.39 The 30 hectare site, which comprises former industrial land in Port Melbourne, was initially identified in 1984 as being suitable for development of commercial activities and tourism facilities. The development brief for the project, which was published in October 1986, provided that, among other things, the State and the Port of Melbourne Authority (PMA) would be seeking development submissions which would:

- ♦ provide a major tourist precinct having characteristics to ensure a continuing ability to attract tourists;
- ♦ provide a diversity of housing and employment opportunities, community services and leisure facilities;
- ♦ present a financially viable functional mixed used development which will offer to the State broad and sustained economic benefits; and
- ♦ offer an acceptable financial return to the PMA and the State.

3.11.40 An audit review was undertaken in relation to the site purchase for the Port of Melbourne Bayside Development. The Victorian Government Major Projects Unit (MPU) took over responsibility for the project in May 1987 from the PMA.

3.11.41 After extensive evaluation, Sandridge City Development Company Pty Ltd was appointed as Preferred Developer in May 1987. Their proposal was for a mixed use development comprising residential, commercial and tourism related activities and was projected to cost some \$600 million over a period of 7 years.

3.11.42 As part of the consolidation of the various land holdings within the site, a contract was entered into on 23 December 1986 between PMA and a major petroleum company for the purchase of a parcel of land that had been used for over 50 years for the storage and distribution of petroleum products. The contract, which was for \$3.8 million, was conditional on the company carrying out all work reasonably required to clean up any residual hydrocarbons on or beneath the land following demolition of storage tanks etc.

3.11.43 The petroleum company undertook a sampling and testing program and in mid-1987 advised the Environment Protection Authority (EPA) that there were areas of soil contamination but that excavation work could be carried out without risk.

3.11.44 In November 1987, after there was no action by the petroleum company to commence cleaning operations, the EPA issued an order pursuant to the *Environment Protection Act 1970* demanding that the company take measures to remove the contamination. This order was ignored by the company without any penalty action being taken to enforce the requirements. **In May 1988 the estimated clean-up cost was \$6.7 million.** Eventually in January 1989 after extensive negotiations the company agreed to contribute \$4.5 million towards cleaning the site. However, due to an industrial dispute cleaning operations have not yet commenced.

3.11.45 The clean-up cost has since escalated to the current projection of \$19 million which will be largely borne by the State. In view of this situation, it is considered essential that where major redevelopment projects are undertaken in the future, comprehensive environmental studies are conducted at the outset, with EPA requirements being rigorously enforced.

Management response

The need for comprehensive environmental studies to be undertaken at the outset of a major redevelopment project is agreed. The Environmental Effects Act 1978 requires detailed consideration of the potential impact of a project on all aspects of the environment and preparation of an Environmental Effects Statement as occurred at Bayside.

There has been little prior experience in Australia in the specific matter of clean-up of existing industrial pollutants as required at Bayside. As a result, the establishment of criteria and the development and testing of clean-up techniques has been an evolving process.

The current projected cost for Bayside clean-up is based on a particular process for which a contract has now been let. The cost also covers the whole of the Bayside site, investigation, all environmental monitoring and quality assurance testing, health and safety matters, associated on site costs and project management.

Schedule A. Status of matters raised in previous reports

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
Ministry of Housing and Construction		
✓ May 1983, p.22 <i>Ministerial Portfolios</i> , May 1989, p.140	Inadequate controls exist over custody of documents held as loan advances.	Position still unsatisfactory due to the lack of fire proofing facilities.
✓ <i>Second Report</i> , 1984-85, pp.76-7 and subsequent reports	Level of rental arrears has substantially increased over the previous years.	Level still unsatisfactory. For further comments, refer to paragraphs 3.11.1 to 3.11.22 of this report.
✓ <i>Second Report</i> , 1985-86, p.122	Absence of strategy to assess the viability of retention of 220 commercial properties.	Sales of a substantial number of commercial properties occurred in 1986-87. Sales of remaining properties continued with sales of \$2 million in 1988-89 for 6 properties. The value of the remaining 108 properties, at 30 June 1989, was \$31.4 million.
✓ <i>Second Report</i> , 1986-87, p.91	The integrity of the rental database was questioned due to the magnitude of credit balances of current and former public tenants which totalled \$26 million at 30 June 1987.	All credit balances over \$300 for current tenants were reviewed during 1987-88 and adjusted if necessary. A program is being developed to verify the vacating tenants in credit. The program was expected to be running by 30 June 1989 but is yet to be completed. The balance in credit at 30 June 1989 after write-backs of \$900 000 during 1988-89 was \$4.7 million.
• <i>Second Report</i> , 1986-87, p.91	Information produced regarding vacant properties was inaccurate as the central database was not updated in a timely manner.	Manual records are being maintained. Still awaiting first run of new computerised system. The system was to have been introduced in April 1989.
• <i>Second Report</i> , 1986-87, pp.92-3	Apparent irregularities relating to an electrical maintenance contractor were reported to the Police for investigation. The matter involved over-servicing of at least \$108 000.	Police investigations are still continuing.
✓ <i>Ministerial Portfolios</i> , May 1989, pp.136-7	There are no on-going reviews of dwelling eligibility or dwelling suitability in terms of current needs, at the same time the waiting list of tenants was 34 000.	While the waiting list at 30 June 1989 has increased to 36 600, a significant number of tenants who receive rebates and pay the lowest rental possible, occupy accommodation surplus to their needs. For example approximately 5 000 dwellings with 2, 3 and 4 bedrooms are occupied by single tenants.

Schedule A. Status of matters raised in previous reports - continued

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
✓ <i>Ministerial Portfolios, May 1989, pp.137-8</i>	Lengthy delays occurred in finalising and converting Urban Homesteading agreements to loans. The value of these loans approximated \$3.5 million with \$1 million owing in interest.	Position now satisfactory. Where renovations have been completed agreements have been converted to loans. New procedures ensure conversion begins 4 months prior to project completion.
<i>Ministerial Portfolios, May 1989, p.138</i>	Spot purchase properties were not tenanted until, on average, 14 weeks after settlement. The loss in rental income of approximately \$385 000.	The Ministry has made progress during the year in reducing time delays in occupancy.
✓ <i>Ministerial Portfolios, May 1989, pp.138-40</i>	Income levels for CAPIL loan recipients were not being reviewed periodically. Audit found 9.5 per cent of borrowers, in receipt of loans amounting to \$10 million, had made lump sum payments in excess of \$1 000, often on a regular basis.	Follow-up review indicates that many borrowers have continued to make lump sum repayments on a regular basis.
✓ <i>Ministerial Portfolios, May 1989, pp.140-1</i>	Need to consolidate financial statements of the Ministry and the former Public Works Department, and for separate financial statements to disclose public account transactions.	Consolidated financial statements prepared, however, separate financial statements not prepared to disclose Public Account transactions only.

Schedule B. Completed/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Ministry of Housing and Construction	30 June 1989	31 October(b) <i>Annual Reporting Act 1983.</i>	31 October 1989	31 October 1989(a)
Urban Land Authority	30 June 1989	30 November, <i>Urban Land Authority Act 1979, s.13.</i>	27 September 1989	26 October 1989
Victorian Government Major Projects Unit	30 June 1989	30 November, <i>Urban Land Authority Act 1979, s.13.</i>	7 September 1989	27 September 1989

(a) Qualified audit report issued.

(b) Treasurer approved an extension of time for preparation to Parliament from 30 September 1989 to 31 October 1989.

3.12

INDUSTRY, TECHNOLOGY AND RESOURCES

KEY FINDINGS

- ♦ The Department of Industry, Technology and Resources has improved its procedures for providing financial assistance to industry.

paras 3.12.1 to 3.12.4

- ♦ Inadequate management control by the Gas and Fuel Corporation over the acquisition, maintenance and utilisation of mobile plant and equipment.

paras 3.12.9 to 3.12.24

The Minister for Industry, Technology and Resources is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Department of Industry, Technology and Resources

Public bodies

Agriprojects Victoria Pty Ltd
Albury-Wodonga (Victoria) Corporation
Coal Corporation of Victoria
Emerald Tourist Railway Board
Exhibition Trustees
Gas and Fuel Corporation of Victoria
Gas and Fuel Corporation Superannuation Fund
Geelong Regional Commission
Latrobe Regional Commission
Overseas Projects Corporation of Victoria Ltd
SEC Superannuation Fund
Small Business Development Corporation
State Electricity Commission of Victoria
Swan Hill Pioneer Settlement Authority
Victorian Solar Energy Council

Comments on matters of significance arising from the audit of certain of the above entities are discussed below.

DEPARTMENT OF INDUSTRY, TECHNOLOGY AND RESOURCES

Financial assistance to industry

New arrangements for financial assistance

3.12.1 In the Auditor-General's *Special Report No. 11, Financial Assistance to Industry*, audit identified certain shortcomings in the Department's provision of assistance to industry and emphasised the need for improved performance criteria to monitor the effectiveness of financial assistance in achieving the Government's economic strategy.

3.12.2 In March 1989 the Premier issued a policy statement setting out new guidelines for government assistance to business. The Premier announced the withdrawal by the Department from the provision of venture capital and equity arrangements. Future assistance would be by way of grants and would focus on the financial status of the client and the firm's ability to make the project successful.

3.12.3 **It is pleasing to report that the Department has taken a number of steps to improve the monitoring and delivery of industry assistance under the new arrangements.** The initiatives include the development of detailed new procedures and a guidelines manual.

3.12.4 A preliminary review by audit indicates that the procedures implemented by the Department provide an improved basis for the assessment of applications for financial assistance and for the evaluation of benefits derived by the State from such assistance.

Status of loans

3.12.5 In line with the Premier's statement the Department retained responsibility for existing loans which at 30 June 1989 totalled \$33.5 million. The Department estimated at that date doubtful debts on the loan portfolio at \$3.7 million.

3.12.6 Given the deficiencies in the assessment and monitoring processes surrounding the loan portfolio identified in the *Special Report No. 11*, the ability of the Department to accurately identify doubtful debts was severely restricted.

3.12.7 The Department has engaged a firm of consultants to undertake a review of the loan portfolio. The review is designed to assist the Department in determining the most appropriate method of assessing the loan portfolio to ascertain viability, risk factors, provision for bad and doubtful debts and options for the disposal of the loans.

3.12.8 For the period 1 July 1989 to 28 February 1990 the Department had obtained the Treasurer's approval to write off \$700 000 of bad debts.

GAS AND FUEL CORPORATION

Mobile plant and equipment

3.12.9 Trucks and associated plant and equipment with a written-down value of \$26 million are utilised by the Corporation's country and suburban centres to maintain the gas distribution network.

3.12.10 During the year, audit reviewed the Corporation's management procedures and control systems applying to the acquisition, maintenance, utilisation and disposal of these assets.

Implementation of Fleetplan

3.12.11 The Corporation is currently implementing a computerised system, known as Fleetplan, to facilitate management of its mobile plant and equipment.

3.12.12 The audit review found that:

- ♦ inadequate procedures for the identification of equipment and insufficient training of staff responsible for collection and input of data had resulted in numerous errors and inconsistencies in data recorded on Fleetplan;
- ♦ certain Fleetplan information was duplicated in the Corporation's fixed asset register which is inefficient and results in added administrative costs; and
- ♦ inconsistencies existed between similar information recorded on Fleetplan and that recorded on the fixed asset register.

3.12.13 Audit has recommended that the Corporation take action to:

- ♦ **ensure the accuracy and completeness of data in Fleetplan; and**
- ♦ **eliminate unnecessary duplication between Fleetplan and the Corporation's fixed asset register.**

Management response

Fleetplan is in the early stages of implementation and problems identified with the data accuracy, inconsistency and duplication will be addressed and eliminated in the normal course of system development.

Is there a need for replacement plant and equipment?

3.12.14 Under present Corporation procedures the acquisition of plant and equipment additional to existing levels requires formal justification. However, there are no formal procedures for evaluating the continuing need for replacement plant and equipment.

3.12.15 The practice of routine replacement of plant and equipment may result in the purchase of items surplus to current requirements. **Therefore, audit recommended that the Corporation review its procedures and ensure there is full justification for all acquisitions of plant and equipment.**

Management response

The efficiency of use of plant and equipment, and future replacement needs, are regularly reviewed as part of the Total Quality Management program and the annual budgeting process.

Inadequate maintenance procedures

3.12.16 Maintenance of plant and equipment at suburban centres is generally undertaken within internal workshop facilities while at country centres, maintenance is performed by private contractors.

3.12.17 Audit found that in certain centres, maintenance had not been undertaken in accordance with pre-determined maintenance schedules. This practice increases the risk of the Corporation incurring extra costs associated with equipment breakdowns or premature servicing.

3.12.18 Furthermore, in country centres there was inadequate control over work performed by private contractors in that progressive costs were not monitored against original contracts and contractors' invoices did not always provide sufficient details of the cost and extent of work performed. Consequently, the country centres were unable to ensure that contractors had performed maintenance in accordance with contracts.

3.12.19 **There is a need for the Corporation to evaluate current procedures for the maintenance of plant and equipment.**

Management response

Pre-determined maintenance schedules have built-in tolerances around which maintenance may vary without deterioration of operational reliability. The soundness of this policy is evidenced by the Corporation's level of vehicle breakdown, which is low and has declined by 30 per cent since 1987. Adequate procedures exist for control of work performed by private contractors and compliance with such procedures is being closely monitored.

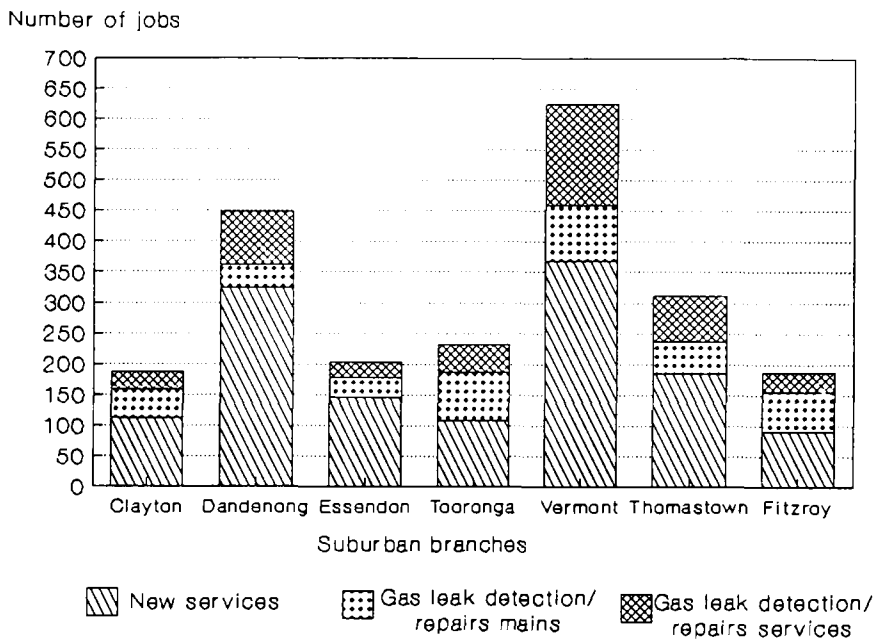
Inadequate monitoring of usage

3.12.20 The Corporation has 299 similarly equipped trucks located in suburban and country centres, each with a total value of approximately \$75 000.

3.12.21 The Corporation has not developed usage standards for the trucks or the associated individual items of plant and equipment, nor does it monitor usage levels.

3.12.22 Audit compared the utilisation level of trucks held at suburban centres by calculating the average number of jobs completed per truck for the year to 30 September 1989. Details are shown in Chart 3.12A.

CHART 3.12A.
AVERAGE NUMBER OF JOBS PER TRUCK FOR THE YEAR TO 30 SEPTEMBER 1989



3.12.23 During the review audit noted that:

- ♦ 8 fully-equipped trucks with a total value of over \$600 000, were used as spare trucks for up to 6 months to cover for breakdowns of other vehicles;
- ♦ air compressors permanently allocated to trucks were, in some cases, used on average for less than one hour per day; and
- ♦ there is very little sharing of plant and equipment between centres.

3.12.24 Given the variations in utilisation levels of trucks between centres and the low utilisation of other equipment, there may be scope for rationalisation of plant and equipment with significant cost savings for the Corporation. There is a need for the Corporation to:

- ♦ develop usage standards and monitoring systems to enable the Corporation to ensure that usage of trucks and plant and equipment is maximised;
- ♦ determine the cost-effectiveness of hiring certain items of plant and equipment rather than purchase; and
- ♦ consider sharing under-utilised assets between centres.

Management response

Utilisation levels of trucks and associated mechanical equipment has been examined in detail as part of the Total Quality Management program. This ongoing program has already resulted in substantial equipment reductions.

Variation in jobs per truck between work centres is primarily due to differences in the mix of tasks between different geographic areas, differing ground conditions, and the age and type of mains encountered.

Spare vehicles are not retained for breakdowns. The only spare vehicles are those awaiting recruitment of field crews.

Each truck is equipped with the full range of standard equipment likely to be needed on the job to avoid delays and interruptions to work and enable rapid response to emergency situations.

The Corporation has the view that sharing standard items of equipment diminishes the effectiveness of field crews with commensurate cost increases. However, specialised equipment is held centrally for use by all areas.

Hired equipment is used to cover breakdowns and meet short-term workloads.

Disposals

3.12.25 Excessive delays were noted between approval for retirement of equipment and the transfer of equipment to the central store responsible for disposals. In one instance, an asset approved for retirement in 1985 had not been received by the store.

3.12.26 The practice of delaying disposal may result in a loss of resale value to the Corporation.

Management response

The Corporation believes that generally, there are no excessive delays in the retirement and disposal of equipment. The effect of time delays upon resale values is not considered to be significant.

External hire arrangements

3.12.27 The Corporation hires contractors with mobile plant and equipment such as tip trucks and back-hoes on both a full-time and periodic basis. The audit review disclosed that certain contractors had been hired for a long-term and full-time basis without adequate evaluation of the cost-effectiveness of these arrangements.

3.12.28 Audit has recommended that the Corporation assess the cost-effectiveness of current external hire arrangements.

Management response

The cost-effectiveness of hiring full-time contractors is regularly evaluated and hiring arrangements are negotiated to ensure that competitive rates are obtained.

Delay in implementing the financial management system

3.12.29 In 1984, the Corporation approved the development of a new financial management system to replace the existing system introduced over 20 years ago. A contract was signed in June 1987 for the supply and implementation by November 1987 of the Financial Management System (FMS) at a fixed price of \$227 000. At the date of preparation of this report the system was still not operational.

3.12.30 The initial contract price has remained unchanged with payments to date totalling \$66 500. However, audit calculated that the salary costs of Corporation staff involved in the development of FMS exceeded \$300 000. These costs would be significantly higher if related overheads were included.

3.12.31 The following factors have contributed to the delay in implementing FMS:

- ♦ The Corporation decided to implement the system on existing computer hardware without evaluation of other options. Consequently, the range of software available was limited and required extensive modification;
- ♦ High turnover of key staff involved in the project;
- ♦ The time necessary to document the existing system to assist in adaptation of FMS software was significantly underestimated; and
- ♦ Lack of priority given to resolving implementation problems.

3.12.32 Due to the lapse of time since the signing of the purchase contract for FMS, audit is concerned that this system may no longer be suitable for the Corporation.

3.12.33 Audit recommended that the Corporation evaluate its experiences to date with the development of FMS and determine whether the system will meet the Corporation's future information requirements.

Management response

Although FMS has taken longer than anticipated to implement, it will become fully functional in 1990-91.

The capability of FMS has recently been reviewed and the Corporation is confident that the system will meet all current and foreseeable management accounting requirements.

Misappropriations, losses and other irregularities

3.12.34 The Corporation advised audit that, for the year ended 31 December 1989, misappropriations, equipment losses and other irregularities were as follows:

- ♦ An employee resigned following an admission of manipulating payments from customers. The Corporation received \$25 000 restitution from the employee.
- ♦ A director of a company was convicted and fined \$20 000 over the falsification of delivery dockets for goods supplied to the Corporation.
- ♦ Other losses and irregularities totalled \$47 900.

STATE ELECTRICITY COMMISSION OF VICTORIA

Accounting for gains and losses on debt restructuring

3.12.35 The Commission's debt management activities include the restructuring of debt by settlement, before maturity, of existing debt accompanied by the issue of new debt. Gains or losses arise from these transactions where there are differences between the original debt and the amount ultimately required to settle that debt.

3.12.36 Prior to 1988-89, the Commission accounted for any gains or losses arising from debt restructuring in its profit and loss statement in the period in which they occurred.

3.12.37 During 1988-89, the Commission reconsidered this accounting policy and, based on its view that the settlement and re-issue of debt constitute a single transaction, determined, as from that year, to spread gains and losses over the term of the new debt. In 1988-89 debt restructuring transactions to the value of \$2 254 million were settled by the Commission, resulting in a net gain of \$37.7 million.

3.12.38 In audit opinion, debt restructuring activities involve distinctly separate transactions. As such, the net gains earned by the Commission during 1988-89 should have been brought to account in accordance with Australian Accounting Standards in determining the Commission's result for the year. **As a consequence, a qualified audit opinion was issued on the Commission's 1988-89 financial statements on the ground that the reported net profit for the period of \$150.9 million was understated by \$37.7 million.**

Management response

The Commission is strongly of the view that the accounting treatment it has adopted is correct. The treatment, which is supported by a major international firm of chartered accountants and is followed by other large government authorities, accurately represents the economic substance of the Commission's debt management activities. Australian Ratings Pty Ltd, in its recently completed review of the Commission, stated that it "concurs with the SECV's accounting treatment believing the defer and amortise treatment reflects the economic substance of the decisions made". The Australian Ratings' report went on to state that, unless the Commission's treatment was adopted, "reported profits could be manipulated by selectively buying back those securities which produce the desired result".

Losses and thefts

3.12.39 The Commission has advised audit of losses and thefts of equipment totalling in excess of \$480 000 during the year to 31 December 1989.

Schedule A. Status of matters raised in previous reports

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
Department of Industry, Technology and Resources		
<i>Ministerial Portfolios</i> , May 1989, p.145	Delay in Department's review of royalty payments.	Position now satisfactory. Verification of royalty payments completed to 30 June 1989.
<i>Ministerial Portfolios</i> , May 1989, p.145	Need to expand the scope of the royalty verification program undertaken by the Department's Royalty Review Unit.	Position now satisfactory. Verification program expanded.
<i>Ministerial Portfolios</i> , May 1989, p.146	Inadequate recording and budgetary procedures over salinity control projects.	Responsibility for projects transferred to the Ministry of Water Resources in February 1988.
<i>Ministerial Portfolios</i> , May 1989, p.147	Need for improved procedures over the provision of assistance to industry.	Positive steps taken by the Department. For further comments, refer to paragraphs 3.12.1 to 3.12.4 of this report.
Albury-Wodonga (Victoria) Corporation		
<i>Ministerial Portfolios</i> , May 1989, p.147	Delay in arranging tenancies with subsequent loss of rental income.	Position now satisfactory. Tenancies arranged as from February 1989.
Coal Corporation of Victoria		
<i>Ministerial Portfolios</i> , May 1989, p.148	Eroding profit margin on briquette operations threatens future financial viability of Corporation.	The Corporation has taken steps to reduce cost. Prices charged to customers are subject to Government approval.
Exhibition Trustees		
<i>Ministerial Portfolios</i> , May 1989, p.151	Inadequate controls over collection of car parking revenue.	Similar deficiencies in controls existed during 1988-89. Automated parking control system installed in July 1989.
Gas and Fuel Corporation of Victoria		
<i>Ministerial Portfolios</i> , May 1989, p.154	Failure to bring to account revenue from unbilled gas consumption.	No change in Corporation's policy for 1988-89. Corporation to review policy before finalisation of 1989-90 accounts.

Schedule A. Status of matters raised in previous reports - continued

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<i>Ministerial Portfolios</i> , May 1989, p.156	Need for Corporation to review the financial viability of subsidiary companies and their capability to repay loans to the Corporation.	Corporation received \$0.6 million in repayment from Albury Gas Co. Ltd. No repayment by Gas and Fuel Exploration N.L.
<i>Ministerial Portfolios</i> , May 1989, p.157	Assets that form an integral part of gas distribution network written off in year of acquisition.	No change in Corporation's policy.
Gas and Fuel Corporation Superannuation Fund		
<i>Ministerial Portfolios</i> , May 1989, p.159	Concern expressed at the relatively high level of the Fund invested in real estate following the purchase of central business district property for proposed joint development.	Similarly high level of exposure to real estate in 1988-89. Fund has not arranged partners for the joint development proposal.
<i>Ministerial Portfolios</i> , May 1989, p.160	Failure to provide for diminution in value of shares.	Position now satisfactory. Losses accounted for in 1988-89.
<i>Ministerial Portfolios</i> , May 1989, p.160	Lack of formal investment policies and failure to maintain proper procedures.	Position unchanged.
State Electricity Commission of Victoria		
<i>Ministerial Portfolios</i> , May 1989, p.162	Need for changes to bulk supply arrangements with Municipal Electricity undertakings to improve efficiency and reduce costs.	Position now satisfactory. New agreements introduced in September 1989.
<i>Ministerial Portfolios</i> , May 1989, p.163	Continued losses raise doubts as to viability of briquetting operations.	Briquette operations to continue and Morwell briquette factory to be refurbished.
Swan Hill Pioneer Settlement Authority		
<i>Ministerial Portfolios</i> , May 1989, p.165	Action required to recover costs associated with unsuccessful fund raising program.	Authority is taking steps to recover costs.
<i>Ministerial Portfolios</i> , May 1989, p.166	Falling attendances cause deterioration in operating results.	Further fall in attendances and adverse operating results in 1988-89.

Schedule B. Completed/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor- General's report signed</i>
Completed audits				
Department of Industry, Technology and Resources	30 June 1989	31 October. <i>Annual Reporting Act</i> 1983, s.8.	29 September 1989	13 October 1989
Agriprojects Victoria Pty Ltd	30 June 1989	Companies (Victoria) Code.	11 September 1989	29 September 1989
Albury/Wodonga (Victoria) Corporation	30 June 1989	30 September. <i>Annual Reporting Act</i> 1983, s.9. Treasurer granted extension of time to 30 November 1989.	29 September 1989	31 October 1989
Coal Corporation of Victoria	30 June 1989	30 September. <i>Annual Reporting Act</i> , 2.9.	25 August 1989	1 September 1989
Emerald Tourist Railway Board	30 June 1989	31 October. <i>Annual Reporting Act</i> , s.9. Treasurer granted extension of time to 31 October 1989.	11 October 1989	15 November 1989
Exhibition Trustees	30 June 1989	31 October. <i>Annual Reporting Act</i> 1983, s.9. Treasurer granted extension of time to 31 October 1989.	26 October 1989	16 November 1989(a)
Gas and Fuel Corporation of Victoria	30 June 1989	30 September. <i>Annual Reporting Act</i> 1983, s.9.	29 September 1989	29 September 1989(a)
Gas and Fuel Corporation Super-annuation Fund	30 June 1989	30 September. <i>Annual Reporting Act</i> 1983, s.9. Treasurer granted extension of time to 31 January 1989.	26 January 1990	31 January 1990
Geelong Regional Commission	30 June 1989	30 September. <i>Annual Reporting Act</i> 1983, s.9.	22 September 1989	29 September 1989
Latrobe Regional Commission	30 June 1989	30 September. <i>Annual Reporting Act</i> 1983, s.9. Treasurer granted extension of time to 31 October 1989.	20 October 1989	24 October 1989

Schedule B. Completed/incomplete audits - continued

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor- General's report signed</i>
Overseas Projects Corporation of Victoria Ltd	30 June 1989	Companies (Victoria) Code.	11 September 1989	29 September 1989
SEC Superannuation Fund	30 June 1989	30 November. <i>Annual Reporting Act 1983, s.9.</i>	27 November 1989	30 November 1989
Small Business Development Corporation	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension of time to 31 October 1989.	22 August 1989	12 October 1989
State Electricity Commission of Victoria	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.9.</i>	25 September 1989	25 September 1989(a)
Swan Hill Pioneer Settlement Authority	30 June 1988	No date specified. <i>Swan Hill Pioneer Settlement Act 1974, s.25.</i>	28 February 1990	12 April 1990
" "	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.9.</i>	28 February 1990	12 April 1990
Victorian Solar Energy Council	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.9.</i>	31 August 1989	29 September 1989

(a) Qualified audit report issued.

3.13

LABOUR

KEY FINDINGS

- ♦ Deficient management practices at the Department of Labour
paras 3.13.1 to 3.13.3
- ♦ Contributors to the Construction Industry Long Service Leave Fund
have been charged substantially more than the Fund's requirements.
paras 3.13.7 to 3.13.12

The Minister for Labour is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Department of Labour

Public body

Construction Industry Long Service Leave Board
Industrial Relations Commission of Victoria

Comments on matters arising from the audit of certain of the above entities are discussed below.

DEPARTMENT OF LABOUR

Deficient management practices raised in previous reports

3.13.1 Past Auditor-General's reports to Parliament have highlighted areas where deficient financial management practices have existed within the Department.

3.13.2 While the Department has taken some positive action to address these areas, the following deficiencies still require attention:

- ♦ *Deficiencies in the management of grants to organisations.* Comments have been made regarding weaknesses in the monitoring of grants provided to organisations. The failure of the Department to obtain outstanding audit reports detailing grant expenditure delays the recovery of unspent funds.

At February 1990, audited financial statements in respect of grant funds totalling \$28.1 million, provided to 1 868 organisations since 1982, had not been subject to the Department's review. The majority of these organisations have not provided the Department with audited financial statements on whether moneys were expended as required under the terms of the grants.

- ♦ *Non-recovery of loans.* Audit has commented on the inadequate monitoring by the Department of the activities of co-operatives which received loans under the former Co-operative Development Program.

At 31 December 1989 the collection of the outstanding loan balances totalling \$517 000 was highly doubtful.

- ♦ *Inadequate follow-up of unpaid registration fees.* Audit has been critical of the absence of effective procedures within the Department for the identification and follow-up of uncollected revenue for boilers and pressure vessels.

At 31 December 1989 departmental records disclosed potential unpaid registration fees in excess of \$1 million. In addition, revenue has been forgone in respect of approximately 140 000 boilers and pressure vessels recorded on the Department's database as "location unknown", "out of use" or "for resale". This aspect also reflects upon the failure of the Department to properly administer the legislation relating to the registration of these vessels.

During 1989 the Department undertook a special review, at a cost of \$8 000, which identified 195 unregistered pressure vessels. The registration of these vessels alone is estimated to generate additional annual revenue of \$54 000.

- ♦ *Deficiencies in asset recording.* Despite previous adverse audit comment, the Department's systems of controlling and recording of assets still do not meet the basic requirements of Treasury (Asset) Regulations 1988 in that the register is incomplete and inaccurate and there is a lack of departmental policy and procedures over controlling and recording assets.

3.13.3 The failure of the Department to take action on the above issues reflects poorly upon its administration. Audit reiterates the need to satisfactorily resolve the above matters.

Management response

Audit is well aware of a range of activities the Department has initiated and has congratulated the Department on a number of them.

An internal audit review of grants to organisations has shown a major improvement in the administration of grants by the Department in the last 2 years. As audit has acknowledged in discussion with the Department, the Department's grant acquittance process has not been able to keep up with the growth in grants experienced by the Department in recent years. A full review of the activities of the Grant Acquittance Unit and the workload has been initiated in order to meet the concerns raised in the most effective manner.

As part of this review, the Department will be addressing further the issues raised by audit. However, it is important to stress that in relation to loans to co-operative business enterprises, the Department has taken some major steps in order to recover, restructure or write-off existing debts depending on the trading position of the enterprise. These steps have been acknowledged by audit in its more extensive analysis of the issues. The steps include new grant management procedures, higher accountability, streamlined approval processes with the Commonwealth, loan guarantee arrangements and restructuring of debts.

The Department does not accept the proposition about the level of outstanding boiler and pressure vessel fees as the current process requires self-assessment by the owner of a boiler and pressure vessel and fees are not payable where the vessel is permanently or temporarily out of use or no longer being used in a manner which requires registration.

It is erroneous to assert that a formerly registered vessel should attract a fee. A similar proposition in relation to registration of motor vehicles which suggested that the Roads Corporation physically identify on an annual basis whether each vehicle no longer registered was still in use would be unacceptable. It is an offence to operate an unregistered boiler and pressure vessel and Inspectors from the Department regularly identify and take appropriate action in relation to unauthorised operation and ensuring registration.

However, 4 additional staff have been transferred to the registration area to address the database problems.

The Department has an up-to-date register of assets in all its areas. Audit is referring to the lack of integration. This is being addressed at present.

New Enterprise Incentive Scheme loans

3.13.4 During 1988-89 the administration of the New Enterprise Incentive Scheme became the responsibility of the Department. Previously the Scheme, a joint Commonwealth/State employment program designed to help finance self-employment opportunities for unemployed persons, was administered by the Small Business Development Corporation.

3.13.5 Audit reports issued to the Corporation in past years have expressed concern at the high level of doubtful debts (23 per cent of loans advanced). At 31 December 1989 repayments of \$321 000 were in arrears.

Management response

NEIS Programs I, II and III are now closely monitored and program IV is the subject of a memorandum of arrangements with the State Bank of Victoria which maximises recovery.

CONSTRUCTION INDUSTRY LONG SERVICE LEAVE BOARD

3.13.6 The Construction Industry Long Service Leave Board administers the Construction Industry Long Service Leave Fund which is part of a scheme that covers more than 100 000 construction industry workers, providing them with 13 weeks paid leave after 15 years industry service and pro-rata benefits after 10 years. The Board collected \$22 million during 1988-89 (\$22.6 million, 1987-88) in contributions from employers within the construction industry.

Past contributions by the construction industry in excess of requirements

3.13.7 The legislation provides for an actuarial investigation of Fund sufficiency and industry contribution rates to be undertaken as and when the Board determines, but at least once every 3 years.

3.13.8 Past audit reports have included recommendations that the Board include in its financial statements the present value of future long service leave payments to construction industry workers in respect of workers' entitlements accrued at balance date. The Board's actuary at the time of his 1987 review requested a new computer software be designed to produce membership withdrawal statistics. The Board commissioned an early actuarial review as at 1989 to determine its liability for long service leave in respect of workers' past service to take into account these new statistics. As a result of the review the Board reported an additional \$100.6 million of long service leave entitlements in its 1988-89 financial statements and a surplus of assets over liabilities of \$66.7 million.

3.13.9 More importantly, however, the Board was able for the first time, after taking into account withdrawals from the industry, to determine its true financial position and to assess the adequacy of contributions which in past years had been levied on construction industry employers.

3.13.10 Following the actuarial review, the Board reduced contribution rates for the industry from 2.5 per cent and 2 per cent to 1 per cent. **This action has been estimated by the Board to reduce the construction industry's salary on-costs by \$12.5 million in 1990.**

3.13.11 After taking into account the reduced contribution rates, the surplus of assets over actuarially assessed liabilities totalling \$66.7 million indicates that past contributions were substantially more than the Fund's requirements.

3.13.12 **Audit is of the view that the Board needs to arrange more regular actuarial assessments of the Fund to ensure contribution rates are based on the financial position of the Fund.**

Management response

The levels of contribution rates have been responsibly set and appropriately reduced by the Board whenever prudent over several years on the basis of expert actuarial advice.

The achievement of the surplus in the Fund is a product of not only past contribution rates, but also the historically high investment returns earned, the market value of the Fund's assets, the level of claims on the Fund and the actuarial assessment of the Fund's liability for accrued entitlements.

Over the past 6 years, the Board has commissioned 3 actuarial reviews. As acknowledged in the auditor's 1989 report, the Board had earlier decided to continue this practice of more frequent actuarial reviews in order to ensure that the surplus is reduced to a prudent long-term level. The reduction of the contribution rate from 1 December 1989 is designed to accelerate this.

Schedule A. Status of matters raised in previous reports

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
Department of Labour		
<i>Second Report, 1985-86, p.137</i> <i>Second Report, 1986-87, pp.109-10</i> <i>Ministerial Portfolios, May 1989, pp.179-80</i>	<i>Inadequate follow-up of unpaid registration fees.</i>	<i>Position unchanged. For further comments, refer to paragraphs 3.13.1 to 3.13.3 of this report.</i>
<i>Second Report, 1986-87, p.107</i> <i>Ministerial Portfolios, May 1989, p.182</i>	<i>Failure of the Department to comply with centrally-approval processes for certain expenditure and the engagement of consultants.</i>	<i>Some improvement, however, departmental officers incurred expenditure totally \$72 000 prior to obtaining State Tender Board approval.</i>
<i>Second Report, 1986-87, p.107</i> <i>Ministerial Portfolios, May 1989, pp.180-1</i>	<i>Absence of benchmarks and adequate monitoring procedures for evaluation of the effectiveness of substantial outlays by the Department on market research and advertising.</i>	<i>Position has improved. Corrective action is being taken. Internal audit is currently undertaking a review in this area.</i>

Schedule A. Status of matters raised in previous reports - continued

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<i>Second Report, 1986-87, pp.108-9 Ministerial Portfolios, May 1989, p.182</i>	✓ Deficiencies in overall management procedures in place for the provision of grants to organisations.	Position not yet fully resolved. For further comments, refer to paragraphs 3.13.1 to 3.13.3 of this report.
<i>Second Report, 1986-87, p.109 Ministerial Portfolios, May 1989, p.183</i>	✓ Inadequate monitoring by the Department of activities of co-operatives which received loans under the former Co-operative Development Program.	Position unchanged. For further comments, refer to paragraphs 3.13.1 to 3.13.3 of this report.
<i>Second Report, 1986-87, p.110 First Report, 1987-88, p.36 Ministerial Portfolios, May 1989, p.183</i>	✓ The Department should reassess its decision to disband the Internal Review Branch.	An internal audit unit has been established, however, the Department has been unable to attract staff possessing appropriate EDP skills.
<i>Ministerial Portfolios, May 1989, pp.171-4</i>	✓ Deficiencies in motor fleet management, including substantial under-utilisation of vehicles.	Procedures have been issued to staff. However, a computerised information system designed to assist the Department to monitor motor vehicles use has not been fully implemented across the Department.
<i>Ministerial Portfolios, May 1989, pp.172-3</i>	Use of departmental vehicles for commuting purposes.	The Department has taken action to ensure departmental vehicles are not utilised for commuting purposes.
<i>Ministerial Portfolios, May 1989, p.174</i>	Excessive parking costs.	The Department has reviewed the level of parking facilities required and taken action to lower costs.
<i>Ministerial Portfolios, May 1989, p.181</i>	✓ Absence of complete and accurate record of assets.	Position unchanged.
<i>Ministerial Portfolios, May 1989, p.175</i>	✓ Instances where practices followed were not in accordance with personnel management guidelines issued by the Public Service Board, or where officers were in receipt of benefits not generally available within the Victorian Public Service.	Following an investigation by the Public Service Board audit was advised that the Department was taking steps to correct the deficiencies identified. The Board will also carefully monitor the Department's personnel management performance in the next 12 months and, where appropriate, provide advice on the reforms to be introduced.

Schedule B. Completed/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor- General's report signed</i>
Completed audits				
Department of Labour	30 June 1989	31 October. <i>Annual Reporting Act 1983, s.8.</i>	23 October 1989	31 October 1989
Construction Industry Long Service Leave Board	30 June 1989	31 March. <i>Construction Industry Long Service Leave Act 1983, s.8.</i>	31 October 1989	14 November 1989
Incomplete audit				
Industrial Relations Commission of Victoria	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.11.</i>	Application has been made by the Department of Labour for the legislative requirement for reporting to Parliament to be rescinded. Financial statements have not been prepared.	

3.14

LOCAL GOVERNMENT

The Minister for Local Government is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Local Government Department

Public bodies

City of Melbourne Superannuation Fund
Local Authorities Superannuation Board

The audit of the above entities proved satisfactory.

Schedule A. Status of matters raised in previous reports

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
Local Government Department		
<i>Second Report, 1984-85, p. 91</i>	Irregularities in payroll system.	The Department has recouped \$16 405 of the \$61 085 misappropriated by the former paymistress, who was imprisoned for a maximum of 18 months. Civil action was taken to recover the balance (\$44 680). The matter is still being monitored by the Department.

Schedule A. Status of matters raised in previous reports - continued

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<i>Second Report, 1986-87, p.112</i>	No consolidated financial reporting to Parliament of municipal councils' operations.	The Department's 1988-89 annual report details revenue and expenditure of each of the 210 Victorian municipalities. The Department anticipates over the next year undertaking "in the field" reviews of a number of municipalities which will be reported in its annual report.
<i>Second Report, 1986-87, pp.112-13</i>	Need for control over enterprises established by municipal councils.	Position now satisfactory. The Department carefully appraises each project before approval and monitors all major projects.

Schedule B. Completed/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits				
Local Government Department	30 June 1989	31 October. <i>Annual Reporting Act 1983, s.8.</i>	19 September 1989	9 October 1989
City of Melbourne Superannuation Fund	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension of time to 31 January 1989.	31 January 1990	31 January 1990
Local Authorities Superannuation Board	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension of time to 31 October 1989.	18 October 1989	31 October 1989

3.15

PLANNING AND ENVIRONMENT

KEY FINDINGS

- ♦ Need for the Ministry to monitor funding agreements with Aboriginal co-operatives to ensure adequate safeguards exist over moneys advanced for capital works.

paras 3.15.1 to 3.15.9

- ♦ Over \$375 000 not collected due to the failure to monitor reports detailing EPA licence holders.

paras 3.15.16 to 3.15.17

- ♦ Self-monitoring of waste discharge and stack emissions has potential for abuse by Environment Protection Authority licence holders.

paras 3.15.16 and 3.15.18

The Minister for Planning and Environment is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Ministry for Planning and Environment

Public bodies

Historic Buildings Council
Loddon-Campaspe Regional Planning Authority
Plumbers, Gasfitters and Drainers Registration Board
Upper Yarra Valley and Dandenong Ranges Authority
Victorian Conservation Trust

MINISTRY FOR PLANNING AND ENVIRONMENT

Capital works program for Aboriginal communities

3.15.1 The aim of the capital works program is to help Aboriginal communities achieve a greater degree of economic self-sufficiency and retain their Aboriginal cultural heritage through the provision of employment in crafts, the tourism industry and certain business ventures. Projects are generally initiated by the Aboriginal co-operatives and developed with the assistance of the Ministry and certain Commonwealth Government bodies which also provide funds for the projects.

3.15.2 During the years 1986-87 to 1988-89 the Ministry expended \$6.1 million under the capital works program and has been allocated a further \$3.5 million for 1989-90.

3.15.3 In 1988-89 audit carried out a review of the management systems used by the Ministry to administer the capital works program grants and monitor the application of funds by Aboriginal communities. Major findings are detailed below.

Assessment of submissions

3.15.4 Audit recognised inexperience in financial management as reflected in many poorly prepared and documented submissions from Aboriginal co-operatives seeking financial assistance for projects. A business consultant to the Ministry also pointed to inadequate financial management skills as a key factor in the failure of a housing construction business operated by one co-operative.

3.15.5 Audit expressed concern that insufficient attention was being given by the Ministry to the evaluation of the business history and management skills of co-operatives prior to ministerial approval of funding for business ventures.

Management response

The Ministry acknowledges that funding applications and management skills in some co-operatives lack sophistication. This is hardly surprising given the long-standing and severe under-privilege of Aboriginal communities that the program aims to redress. The Ministry has sought to remedy these skill disadvantages by funding independent advice for communities in the preparation of plans and the evaluation of proposals.

The suggestion by audit that procedures did not require evaluation of past business history is incorrect. The credentials of corporations are assessed and the Minister informed of any areas of concern before decisions are made to fund projects. The point must be made that in many instances corporations have had no business history at the time funding is considered. Indeed, the program aims to support the establishment of new enterprises.

Funding agreements

3.15.6 Audit also noted the following deficiencies in relation to funding agreements:

- ♦ Ministry officers did not have right of access to co-operative records to determine that grant moneys had been expended for the purposes agreed upon;
- ♦ A number of agreements did not require co-operatives to provide information in sufficient detail to enable the Ministry to properly evaluate the success or failure of the projects concerned;
- ♦ Agreements were worded vaguely and did not provide the necessary safeguards against moneys being expended for purposes other than for which they were provided; and
- ♦ No provision was made for the recall of grants and security over the assets in the event of failure of business ventures. Audit noted that the Ministry has no claim on assets valued at \$550 000 funded from grants to one co-operative and its associated building team, both of which are now in liquidation.

3.15.7 Audit has recommended to the Ministry that funding agreements should:

- ♦ state the conditions and responsibilities of each party in clear, concise and quantifiable terms;
- ♦ provide for the manner in which additional costs are to be met in the event of cost overruns;
- ♦ allow access by the Ministry to co-operative records relating to the funding; and
- ♦ contain conditions regarding the recall of grants and security over assets purchased with grant moneys.

Management response

The Ministry notes audit's views regarding past funding agreements, notwithstanding that the funding provided through this program has been expended on the purposes for which it was approved and there is no audit finding to suggest the contrary. The vast majority of grant expenditure has been for land and buildings, which assets are still in the ownership of Aboriginal co-operatives and are appreciating in value.

Following a request by the Minister in 1988 for assistance from the Auditor-General to review the program, the recommendations of that review have been progressively implemented. The Ministry has taken a number of steps to raise management standards in Aboriginal corporations including the appointment of a business adviser located in the Small Business Development Corporation. The Ministry considers it more appropriate to have feasibility studies done and business plans submitted in lieu of using historical information contained in a corporate profile, and has increased funding for these purposes.

The Ministry agrees with the audit recommendation regarding the content of funding agreements, which are consistent with joint Ministry/audit review recommendations of 1988, and the funding rules now in use cover all the items referred to by audit.

The Ministry has now incorporated into its funding agreements access to financial information and funded assets.

Certain agreements did have provision to recall grants. It is now standard practice for funding agreements to have provision for the recall of the unexpended portion of any grant money and money not utilised for the intended purpose. The Ministry has taken steps to protect assets purchased with grant funds but is seeking further legal advice concerning security over those assets. While assets purchased through funding provided to one co-operative are now subject to liquidation proceedings, they may not be lost to the co-operative. The overwhelming majority of assets acquired through the program remain in the ownership of the co-operatives funded.

Monitoring of program

3.15.8 The Ministry has not yet developed performance indicators to monitor the impact of providing funding for the various capital projects proposed by Aboriginal community organisations. Such indicators should address the extent to which grant moneys assist the Aboriginal community in creating a greater public awareness of their activities and providing additional employment in their craft and tourism industries.

3.15.9 The Ministry needs to develop performance indicators in respect of the capital works program.

Management response

The Ministry agrees in principle with the desirability of developing performance indicators but stresses the difficulty in identifying appropriate indicators for a program that has long-term social justice objectives. The Ministry has requested the assistance of audit to develop suitable indicators.

Infringement Notice System operated by the Environment Protection Authority

3.15.10 The Environment Protection Authority's (EPA) Infringement Notice System (INS) was introduced in 1987 to overcome lengthy court proceedings by issuing on-the-spot fines for offences relating to excessive motor vehicle noise. The system has since been extended to cover certain other minor breaches of the legislation including unlicensed discharge of waste. However, serious breaches of environmental standards will continue to be referred to the courts.

3.15.11 A review of the operations of the INS (revenue 1988-89, \$135 000), indicated that:

- ♦ Prosecution officers were able to withdraw infringement notices without such decisions being reviewed by superior officers;
- ♦ 65 infringement notices had not been processed through the system; and
- ♦ There were delays in issuing summonses for unpaid infringement notices, e.g. at the end of February 1990, 544 infringement notices totalling approximately \$74 000 remained unpaid after the expiration of the statutory limit of 28 days. Included in this amount were 10 infringement notices totalling \$920 for which no action could be taken due to the statutory enforcement limit of 12 months having expired.

3.15.12 The administration of the INS needs to be reviewed and shortcomings in revenue collection procedures need to be addressed urgently.

Management response

The Prosecution Officer can withdraw an infringement notice but must document the reasons why. Withdrawals are sighted by managers who will in future place relevant notations on the Prosecution Officer's documentation.

The masterfile of infringement notices will be monitored for accuracy of data.

Action will now be taken to seek the Minister's approval to write-off any revenue forgone. An internal working party was formed in February 1990 to quickly process through the courts long-standing instances of non-payment.

Guidelines have already been reviewed by an internal working party. The review encompassed the broadening of the Infringement Notice System. This review has been completed and its recommendations are currently being considered by senior management prior to implementation.

Changes to internal practices will result from amended procedures/guidelines.

Licensing system

3.15.13 The *Environment Protection Act* 1970 requires certain industries and persons engaged in potentially polluting activities to obtain approval prior to commencement of construction work or installation of plant and equipment in relation to any project that has an impact on the environment. The system is designed to ensure that proposals to discharge pollutants into the environment conform with legislative requirements.

3.15.14 When approval is granted, the EPA issues a licence prescribing the mode of operation, including type, volume and frequency of discharges, frequency of monitoring requirements and level of reporting. The scale of licence fees range from \$36 for an incinerator licence to \$16 000 for the disposal of industrial waste.

3.15.15 Despite an increase in fees and works approvals, revenue declined from \$2.8 million in 1987-88 to \$2.6 million in 1988-89.

3.15.16 An audit review of the licensing system disclosed the following:

- ♦ Renewal notices for over 500 licences with fees exceeding \$375 000 were not issued for 1988-89 and 1989-90, mainly due to a failure to monitor reports detailing licence holders.
- ♦ Due to numerous computer breakdowns the EPA found it necessary to regularly issue invoices on a manual basis;
- ♦ An increase in fees in 1988-89 was not reflected in all invoices issued, resulting in a loss of revenue of approximately \$3 400;
- ♦ Interest on overdue accounts was not charged in accordance with the legislation;
- ♦ The EPA in 1985 advised certain licensees that they were exempt from paying fees. This advice was subsequently found to be incorrect, thereby resulting in a loss of revenue. Due to poor documentation it was not possible to accurately quantify the total amount of revenue forgone;
- ♦ Licences for waste discharges and stack emissions provide for self monitoring. The licence holders are required to arrange for tests to be undertaken by suitably qualified persons in accordance with the licence conditions, with results being submitted to the EPA which assesses compliance with relevant conditions; and
- ♦ Licence fees are not set to recoup all of the administration costs of the EPA.

3.15.17 The existing accounting system for licence renewals is unreliable and inefficiently administered. It is essential that the shortcomings highlighted by audit are promptly addressed by the Ministry.

3.15.18 The self-monitoring of waste discharge and stack emissions has the potential of being manipulated by licence holders. In line with the Government's objective of improving the environment, consideration needs to be given to the EPA either extending its independent testing program to progressively cover all licence holders, or to be responsible for the licensing of all persons conducting discharge testing, with results being provided directly to the EPA.

Management response

The revenue collection associated with the licensing system has, among other things, been reliant upon the accuracy of the Government Computing Service (GCS) program. This program has failed to meet EPA's needs for the past 3 to 4 years and attempts to have the program/service improved by GCS have proven unsuccessful. For this reason, the EPA instigated a project to develop a suitable in-house program on existing computer equipment. This new program will commence in April 1990 (in parallel with GCS for a short time for testing) and be totally independent in May/June 1990.

This will have 2 benefits: first, an improved and more accurate licensing system, and second, an efficiency gain and reduction in administrative costs from not having to pay GCS service charges.

The new computerised licensing system will overcome previous inadequacies experienced.

Licences are renewed or cancelled each year as a result of premises becoming exempt or connected to sewer or ceasing operations or failing to pay renewal fees.

Fees are reviewed and increased annually in accordance with fee increase ceilings set by government, i.e. CPI. The EPA has recognised that its fees do not in all areas reflect full cost recovery for the services provided. The Authority obtained approval of the Government in the Spring Session of Parliament 1989, for an increase of 20 per cent for Works Approvals and licence fees together with increasing the ceilings for the maximum fees payable. Attempts to remove the maximum fee limits were unsuccessful in the last session of Parliament.

Premises exempted under the Environment Protection Act do not pay licence fees. Licences revoked because of exemption no longer exist and do not attract fees. With regard to any premises which may have been incorrectly exempted from licensing in the past, the Authority has no legal position to demand retrospective payments, even if the status of the premises now changes and a licence is granted from say 1990, fees can only be demanded from the commencement of the licence. There is no proof that a discharge took place during the period of exemption. This is no different from premises that have operated illegally without a licence.

Audit's comments show a lack of understanding. Self-monitoring is carried out in a number of ways including continuous in-stack instruments. These are the most effective means of monitoring air emissions. However, they are not appropriate for some circumstances and stack tests are used. These will normally only give an indication of emissions from a plant in normal or well controlled conditions because they can only be carried out with the co-operation of the licensee. The "independence" of the tester is not therefore a major issue.

Licensees are generally required to submit exception reports. EPA officers are not therefore required to continually collate and analyse monitoring results but to act on exception reports. Licensees cannot be prosecuted on the basis of self-monitoring results as this would amount to self-incrimination.

Schedule A. Status of matters raised in previous reports

There were no matters outstanding.

Schedule B. Completed/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor- General's report signed</i>
Completed audits				
Ministry for Planning and Environment	30 June 1989	31 October. <i>Annual Reporting Act</i> 1983, s.8.	30 October 1989	31 October 1989
Historic Buildings Council	30 June 1989	30 September. <i>Historic Buildings Act</i> 1981, s.62	27 September 1989	29 September 1989
Loddon-Campaspe Regional Planning Authority	30 September 1989	31 December. <i>Loddon-Campaspe Regional Planning Authority Act</i> 1987, s.30	21 December 1989	22 December 1989
Plumbers and Gasfitters Board	Period 1 July to 30 November 1988	No reporting requirement. Audit undertaken by arrangement.	11 August 1989	30 August 1989
Plumbers, Gasfitters and Drainers Registration Board	Period 1 December 1988 to 30 June 1989	30 September. <i>Annual Reporting Act</i> 1983, s.9.	27 September 1989	29 September 1989
Upper Yarra Valley and Dandenong Ranges Authority	30 September 1989	31 December. <i>Annual Reporting Act</i> 1983, s.9.	22 December 1989	22 December 1989
Victorian Conservation Trust	30 June 1989	30 September. <i>Victorian Conservation Trust Act</i> 1972, s.10.	29 September 1989	29 September 1989(a)

(a) Qualified audit report issued.

3.16

POLICE AND EMERGENCY SERVICES

KEY FINDINGS

- ♦ Deficiencies in the Ministry's tendering procedures.
paras 3.16.1 to 3.16.9
- ♦ Lack of control and follow-up of outstanding warrants valued at \$46 million held at the Police Information Bureau.
paras 3.16.10 to 3.16.12
- ♦ Scope for substantial reduction in the cost of providing meals to prisoners held in Police cells through the use of arrangements other than those presently made with Police social clubs.
paras 3.16.16 to 3.16.25
- ♦ Failure by the Force to comply with requirements of the Treasury Regulations concerning expenditure approval.
paras 3.16.31 to 3.16.35
- ♦ Potential for additional annual interest earnings of approximately \$465 000 on balances held in bank accounts maintained by the Force.
paras 3.16.42 to 3.16.45
- ♦ Audit estimates that the proportion of the Force's trade creditors paid by the due date could have been as low as 2.4 per cent compared with 85 per cent reported to the Treasurer.
paras 3.16.46 to 3.16.49
- ♦ Revenue of \$650 000 has been forgone during 1988-89 as a result of delays by the Force in processing parking and traffic infringement notices.
paras 3.16.50 to 3.16.52

The Minister for Police and Emergency Services is responsible for the following entities which are subject to audit by the Auditor-General:

Departments

Ministry for Police and Emergency Services
Office of the Chief Commissioner of Police

Public bodies

Country Fire Authority
Metropolitan Fire Brigades Board

Comments on matters of significance arising from the audit of certain of the above entities are discussed below.

MINISTRY FOR POLICE AND EMERGENCY SERVICES

Tendering for advertising campaigns

3.16.1 The Treasury Regulations 1981 require that, with certain exceptions, Tender Board approval be obtained for the purchase of all goods and services costing more than \$10 000 (\$50 000 from 2 October 1989). The purpose of the Regulations is both to ensure propriety in obtaining goods and services by requiring a range of quotations or public tendering, and also to ensure, through Tender Board review, that the purchases are necessary and that the best alternative is chosen.

3.16.2 During the year, 2 major advertising campaigns, "D24 Direct" and "Crime Stoppers", with an expenditure amounting to approximately \$1 million in total, were undertaken by the Ministry.

3.16.3 An audit review during the year of both advertising campaigns disclosed that an officer external to the Ministry was responsible for the calling of the tenders, preparation of submissions to the Minister and liaising with the tenderers in respect of the 2 contracts. Much of the documentation supporting the 2 campaigns was apparently held by that officer rather than the Ministry. The Ministry advised that it was aware of the involvement of this officer and accepts responsibility for the deficiencies, including the missing documentation, detailed below.

"D24 Direct" campaign

3.16.4 While certain documentation including ministerial approval for expenditure of \$502 000 requested by audit was eventually located, serious concern is expressed at the failure of the Ministry to produce the following information in relation to the "D24 Direct" campaign:

- ♦ invitations to tender for the contract; and
- ♦ ministerial approval for a variation totalling \$170 000 to the campaign.

3.16.5 Audit also established that:

- ♦ The accepted tender was the highest tender received, and at a cost of \$502 000 exceeded the maximum price acceptable in terms of the brief. This tender was marginally higher than the lowest tender. The Ministry was unable to provide documentation justifying the decision to accept the highest tender;
- ♦ Tender Board approval was not obtained prior to the commencement of the campaign. In addition, although the Minister had originally approved the expenditure of \$502 000, actual expenditure amounted to \$672 000. This resulted in an application to the Treasurer for retrospective approval of the total expenditure of \$672 000; and
- ♦ No approval was sought for a subsequent payment of approximately \$12 000 in excess of the amount approved retrospectively by the Treasurer.

"Crime Stoppers" campaign

3.16.6 Despite repeated requests, the Ministry failed to provide the following information on the "Crime Stoppers" campaign:

- ♦ invitations to tender for the contract;
- ♦ appraisal of submissions for the campaign and ministerial approval for the appointment of the successful tenderer; and
- ♦ ministerial approval for a variation of approximately \$61 300 in the "Crime Stoppers" contract prior to commencement of work.

3.16.7 Other unsatisfactory matters included:

- ♦ The accepted tender was not the lowest quote received. As the appraisal of submissions for the campaign was not provided by the Ministry, audit was unable to determine whether proper assessment had been undertaken to justify the acceptance of the tender; and
- ♦ Tender Board approval had not been obtained prior to advising the successful tenderer.

3.16.8 It is also disturbing to note that certain costs relating to the advertising campaigns were charged to the Youth Guarantee Program which is administered by the Department of Labour.

3.16.9 The Ministry needs to ensure that:

- ♦ **stringent procedures are adopted in the assessment of tenders;**
- ♦ **all necessary approvals are obtained before Ministry funds are committed;**
- ♦ **supporting tender documentation is retained; and**
- ♦ **only staff with the proper authority and knowledge can enter into contracts on behalf of the Ministry.**

Management response

It was necessary that the 2 media advertising campaigns be completed within a very short time which resulted in approvals being provided under Regulation 25A of the Treasury Regulations. As part of this process, the expenditure was approved by the Minister.

It is considered that the campaigns were completed efficiently and effectively and made a significant contribution towards the Government's initiatives to prevent crime and detect the perpetrators of criminal offences.

There are established procedures within the Ministry to ensure that contracts are let in compliance with Treasury and audit requirements.

OFFICE OF THE CHIEF COMMISSIONER OF POLICE

Outstanding warrants

3.16.10 The Attorney-General's Department has overall policy responsibility for fines imposed by the Courts and for reporting of outstanding fines in its financial statements, while the execution and follow-up of warrants issued for outstanding fines has been under the control of the Victoria Police Force (Force).

3.16.11 Comments have been raised in Auditor-General's reports to Parliament since 1985-86 concerning the failure of the Force to actively follow-up these outstanding fines. Audit examination of the matter in 1988-89 revealed the following:

- ♦ The Force advised that the value of outstanding warrants held by its Information Bureau (IBR) was \$46 million at 30 June 1989 (\$42.2 million at 30 June 1988). However, as in prior years, concern as to the reliability of this value resulted in the Attorney-General's Department including its own estimate of outstanding fines of \$26.8 million in the 1988-89 accounts (\$24.4 million in 1987-88 accounts).
- ♦ Audit considers that the lack of commitment by the Force to follow-up outstanding fines has adversely affected the revenue collections of the State. **During 1988-89 no active role was taken by the Force to pursue the enforcement of outstanding court fines filed at the IBR apart from routine checks of IBR records whenever persons were detained.**
- ♦ With the proclamation of the *Magistrates (Summary Proceedings) (Sheriff) Act* 1989 on 4 April 1989, the responsibility for execution of warrants of commitment for parking and traffic fines (PERIN system) was transferred from the Force to the Sheriff's Office within the Attorney-General's Department. However, the transfer of responsibility relates only to new warrants issued after 4 April 1989.

Those warrants currently held by the IBR will continue to be subject to the enforcement procedures of the Force and be progressively "written-off" following the proclamation of the *Magistrates' Court Act* 1989. This Act, which is awaiting proclamation, provides that warrants for fines which are outstanding for more than 5 years will become null and void.

3.16.12 Immediate action by the Force to pursue outstanding warrants is seen as crucial in order to minimise the potential loss of many millions of dollars to the State.

Management response

Considerable work has proceeded this financial year on identification of those people who are the subject of outstanding warrants and a task group has been assigned to work in the substantial reduction of unexecuted warrants on hand.

Tendering procedures

3.16.13 A review of 1988-89 expenditure relating to the procurement of goods and services highlighted serious weaknesses in tendering procedures adopted within the Force. Lack of documentation in relation to tenders received and the failure to obtain sufficient competitive quotations for the supply of certain goods and services raised doubts as to the effectiveness and integrity of the tendering processes.

3.16.14 The absence of appropriate tendering procedures has contributed to the Force incurring unnecessarily high costs for certain goods and services. Significant savings and improved operational efficiency could be achieved if more competitive tendering processes were adopted by the Force.

3.16.15 Specific deficiencies in relation to the provision of prisoners' meals, cleaning of Police vehicles and the cleaning of prisoners' laundry are detailed in the following paragraphs.

Prisoners' meals

3.16.16 The Force is required to provide up to 3 meals a day to prisoners held in Police cells. Table 3.16A indicates the specifications with which prisoners' meals are to comply.

TABLE 3.16A. PRISONERS' MEALS

<i>Meal</i>	<i>Quantity</i>
Breakfast -	
Cereal or oatmeal	60 grams
Milk	150 millilitres
Sugar	2 teaspoons
Egg	1 or meatballs or sausages
Bread	60 grams
Butter	10 grams
Tea or coffee	(with milk and sugar required)
Lunch (hot meal consisting of) -	
Meat	120 grams
Vegetables	90 grams of potato and 90 grams of one other variety
Bread	60 grams
Butter	10 grams
Tea or coffee	(with milk and sugar as required)
Evening meal -	
Soup	300 millilitres
Meat pie or pastie	not less than 180 grams
Bread	60 grams
Butter	10 grams
Tea or coffee	(with milk and sugar as required)

Excessive cost of meals

3.16.17 Expenditure amounting to almost \$1.2 million was incurred during 1988-89 for the provision of prisoners' meals. During that period, Police social clubs successfully tendered for 75 contracts for the supply of meals compared with 22 contracts awarded to private contractors.

3.16.18 Although all tenderers were required to provide standard meals, it was noted that the prices paid by the Force varied considerably with the daily cost of supplying 3 meals ranging from \$8.30 to \$26. The costs for meals provided by social clubs were, on average, 34 per cent higher than those charged by private contractors. Information provided to audit also disclosed that the costs incurred by the Force were significantly higher than those incurred by the Office of Corrections for meals provided to prisoners held in gaols. Table 3.16B sets out details of these average costs.

TABLE 3.16B. AVERAGE MEAL COSTS
(\\$)

<i>Supplier</i>	<i>Daily cost</i>
Police Force -	
Social clubs	(a) 11.00 - 26.00
Private contractors	8.30 - 19.50
Office of Corrections	(a) 3.84

(a) Excludes labour and overhead costs associated with providing meals.

3.16.19 The meals supplied by the social clubs are prepared by Police officers while on duty. In some cases this process consists of the acquisition and delivery of prepared meals from retail outlets while in other cases meals are prepared from raw ingredients. However, no charge is levied against the social clubs for salary costs, overheads or the use of equipment owned by the Force. The actual cost to the Force of these meals is therefore significantly higher than indicated above.

Undesirable consequences of existing arrangements

3.16.20 A number of matters relating to arrangements made with Police social clubs were also considered by audit to be unsatisfactory, namely:

- ♦ In some cases, social clubs have entered into sub-contracting arrangements which result in substantial profits to the clubs. Although a detailed examination was not undertaken to ascertain the extent of this practice, it was noted that at 2 Police stations a private contractor was awarded the contract for the provision of meals for 1989-90. However, the successful tenders were subsequently withdrawn and the relevant social club awarded the tender at a price which was over 50 per cent higher than the original tender. Audit investigations revealed that the private contractor who was initially awarded the contracts actually supplies the meals to the social clubs at the price originally tendered and under the same conditions. In turn the social club invoices the Force at the higher tender rate. **Audit estimates that these arrangements resulted in benefits of over \$70 000 accruing to the 2 social clubs during 1988-89;**
- ♦ The meals provided to prisoners by social clubs often consist of "fast foods" or other convenience foods such as meat pies, pasties and frozen dinners. The cost to the social clubs of these meals is substantially below the tender prices submitted to the Force. For example, audit was advised that it is standard practice for a certain fast food chain to provide meals to Police officers at a discount of at least 50 per cent with the average cost of a meal therefore amounting to around \$2. Similarly audit investigations revealed that the retail price of frozen dinners is approximately \$3.50. **Based on these costs, profits of up to \$8 a meal are made by the social clubs;** and

- ♦ **social clubs have gained an unfair competitive advantage in the tender process** as a major component of labour, overhead and equipment costs associated with the preparation of meals are provided to them free of charge by the Force.

3.16.21 Audit concluded that the prices charged by social clubs are excessive and that considerable scope exists for reducing meal costs through the use of alternative arrangements. For example, if all meals were to be provided at the prices charged by private contractors, **annual savings of at least \$300 000 could be achieved in addition to the salary and overhead costs** that are currently incurred by the Force in the preparation of meals on behalf of the social clubs, a cost which currently cannot be quantified by the Force. It is also debatable whether the use of Police officers for the preparation of meals is the most effective use of the Force's resources.

3.16.22 A number of the problems disclosed during the audit examination had previously been highlighted following a review of the provision of prisoners' meals undertaken by the Ombudsman in December 1985. The Ombudsman's review identified that:

- ♦ actual meals provided to prisoners did not conform with the scale of rations specified in the tender;
- ♦ evidence suggested that the cost of meals actually supplied was considerably below the contract price;
- ♦ in some cases meals recorded in watch house books as being provided to prisoners were not actually supplied; and
- ♦ there was a potential conflict of interest in social clubs tendering and supplying prisoners' meals.

3.16.23 However, over 4 years later these problems have not yet been satisfactorily resolved. In response to the views expressed by the Ombudsman, the Force conceded that there was potential for conflict of interest where the social clubs were successful in tendering for the supply of prisoners' meals and recommended that this practice cease.

3.16.24 The Ministry of Police and Emergency Services advised the Force in May 1987 that it was not desirable that social clubs be prevented from tendering for the supply of meals. However, every effort should be made to ensure that there was a genuine and vigorous testing of the market in each case to obtain alternative suppliers at competitive prices.

3.16.25 No evidence could be provided to audit that vigorous testing of the market had occurred. In addition, where social clubs were the only tenderer, the absence of maximum amounts for the supply of meals resulted in social clubs being awarded contracts at unrealistically high prices.

Cleaning of Police vehicles

3.16.26 Estimated expenditure for cleaning of Police vehicles during 1988-89 was \$193 000. Expenditure is expected to increase to \$300 000 during 1989-90 due to a change in policy to include internal cleaning as a condition of contracts for vehicle cleaning.

3.16.27 An examination of vehicle cleaning expenditure disclosed that:

- ♦ Substantial variations existed in the costs of services provided with charges ranging from \$2 to \$10 a vehicle;
- ♦ Several instances were noted where relatives had been awarded contracts without disclosure of the relationship as required by the Force's policy; and
- ♦ A number of vehicles were being washed more frequently than once a week as required in the conditions of contract.

3.16.28 Arrangements for the cleaning of Police vehicles need to be reviewed by the Force.

Prisoners' laundry expenses

3.16.29 During 1988-89 expenditure on cleaning blankets and towels supplied to prisoners held in Police cells amounted to \$80 000 with stocks of these items held by the Force valued at \$24 000. A review of cleaning costs disclosed major variations in the cost of cleaning prisoners' laundry including a wide variation in price for the same services provided to 2 stations by the one supplier.

3.16.30 The more extensive use of a laundry service such as the hospital linen service presently engaged by the City Watch House could result in significant savings in laundry costs. In addition to providing one of the most economic laundry services to the Force, the inclusion in the service of the supply of blankets and towels on a replacement basis would eliminate the cost of purchasing these items.

Retrospective expenditure approvals

3.16.31 Previous *Reports of the Auditor-General* commented on the continuing failure of departments to adhere to the requirements of the Treasury Regulations 1981 in relation to obtaining approval from the State Tender Board prior to incurring expenditure on items not covered under contract. Failure to obtain Tender Board approval necessitates applications to the Treasurer for retrospective expenditure approvals.

3.16.32 Audit examination revealed significant increases in the number and value of retrospective approvals sought by the Force through the Ministry for Police and Emergency Services over the past 3 years as detailed in Table 3.16C.

TABLE 3.16C. RETROSPECTIVE EXPENDITURE APPROVALS

<i>Item</i>	<i>1986-87</i>	<i>1987-88</i>	<i>1988-89</i>
Number of applications	1	3	14
Total value (\$)	53 850	66 731	579 531

3.16.33 While it is acknowledged that there may be rare circumstances where the necessary approval cannot be obtained before commitment, it is disturbing to note that the majority of approvals related to expenditure of a non-urgent nature.

3.16.34 Further, audit notes that a number of retrospective approvals sought related to ongoing service contracts, which were automatically renewed prior to Tender Board approvals being sought. The reason given by the Force for the failure to obtain Tender Board approvals was an "administrative oversight".

3.16.35 The substantial increase in the number of retrospective approvals obtained from the Treasurer in 1988-89 is indicative of the scant regard shown by many departments over a number of years for the procedures approved by the Treasurer and the Premier which not only provide safeguards over government expenditure but also guarantee the probity and integrity of the government contracting system.

Cash management

3.16.36 To maximise the returns on funds available for investment through the Victorian Development Fund (VDF), the Department of Management and Budget (DMB) has adopted cash management principles for the budget sector which centralise cash collections in the Public Account and fund outlays from the Public Account on a needs basis. Public sector agencies are therefore required to adopt practices which ensure that:

- ♦ moneys are banked promptly in the Public Account;
- ♦ cash is concentrated in the Public Account rather than allowing amounts to remain at decentralised locations;
- ♦ expenditure reimbursed from the Public Account is made only to the extent necessary to meet cheque presentation; and
- ♦ the timing of payments ensures that suppliers are paid immediately prior to the due date unless early settlement results in attractive discounts.

3.16.37 A review of procedures within the Force highlighted that certain practices adopted were not in line with sound cash management principles and as a result did not maximise returns to the State. Details of specific concerns follow.

Delays in banking

3.16.38 During 1988-89, \$38.7 million was paid to the Public Account by the Force with the majority of this amount received at the Penalties Payment Office. An examination of banking procedures at this Office disclosed that numerous delays occurred between the date amounts were received by the Office and the date they were paid to the Public Account.

3.16.39 In view of the average daily bankings of approximately \$160 000 at the Penalties Payment Office, audit estimates that these delays in actually banking moneys resulted in a loss of interest of at least \$30 000 in 1988-89.

3.16.40 Substantial delays have also occurred in banking amounts received at the various Police stations throughout the State. Amounts received at these stations are banked in a non interest bearing Trust Account on receipt and forwarded monthly through the relevant District Headquarters to the Head Office for banking in the Public Account. Consequently, in many cases amounts do not reach the Public Account for over 30 days after the date of receipt.

3.16.41 To maximise returns to the State, steps need to be taken to ensure that collections are paid to the Public Account on the day of receipt.

Loss of interest on account balances

3.16.42 A major review of cash management practices in the budget sector was undertaken by audit during 1983-84 and the results of that review were conveyed to Parliament in October 1984. An important recommendation arising from the review was that negotiations be entered into with the banks with a view to obtaining the best possible net return on the State's banking business.

3.16.43 Progress made by the Force and DMB in this regard has been slow with most Police Station Trust Accounts still not receiving any interest and the major collection account at the Penalties Payment Office returning only 6.5 per cent. In comparison with these rates, audit noted that the average rate for Public Account funds invested on a short-term basis with the Victorian Development Fund during 1988-89 was 14.8 per cent. At 31 December 1989 the rate had increased to 17.9 per cent.

3.16.44 Audit estimates there was potential for additional annual interest earnings of approximately \$465 000 and that interest forgone since the 1984 review on accounts maintained by the Force would be in the vicinity of \$2 million. Specific details follow:

- ♦ While an interest rate of 6.5 per cent on funds held in the Penalties Payment Office account had eventually been negotiated with the bank by DMB in March 1989, audit noted that no interest was actually received on the account during 1988-89. Based on the average daily balance in the account, audit estimates that interest of up to \$73 000 would have been earned on amounts held in the account if returns in line with Victorian Development Fund short-term rates had been received;
- ♦ Interest was generally not received on balances held in Trust Accounts maintained by Police stations. This factor, together with the previously highlighted delays in forwarding amounts to the Public Account, has resulted in a substantial loss of interest. Audit estimates that if the balances held in the accounts examined by audit were representative of all Trust Accounts within the State, excluding those maintained by one man stations, interest of up to \$360 000 could have been earned;

- ♦ Average balances held in the Force's Head Office accounts during 1988-89 amounted to approximately \$800 000. The maintenance of excessive balances in these accounts is contrary to the cash management principles advocated by DMB and, in particular, indicates that the Force has not adequately evaluated its advance accounts requirements. Although interest of \$93 000, representing 10.75 per cent on account balances, was earned on these accounts during 1988-89, an increased return of around \$32 000 would have been achieved if amounts had been available for investment with the Victorian Development Fund.

3.16.45 It is of concern to audit that no action had been taken by DMB in addressing deficiencies in the Force's cash management practices until June 1988, when they communicated with the Ministry for Police and Emergency Services outlining concerns in relation to the collection and banking of revenue and providing an offer of assistance in this regard. During recent discussions with DMB, audit was advised that there has been no response to this offer.

Late payment of accounts

3.16.46 During 1987, a number of surveys undertaken by DMB disclosed the need to improve account payment processes within the public sector including the more timely payment of trade creditors. As a result, policy guidelines were issued to agencies indicating that amounts should be paid immediately prior to the due date unless earlier payment results in attractive discounts.

3.16.47 Statistics forwarded to DMB disclosed that at 31 March 1989, 85 per cent of accounts received by the Force had been paid by the due date. However, audit investigations indicated that the statistics on the payment patterns of the Force were prepared using the date an invoice was received at Head Office as the basis for establishing a due date for payment rather than the date the invoice was initially received by the Force.

3.16.48 Consequently, information provided to management and to DMB on the performance of the Force in relation to account payments was substantially inaccurate. Audit estimates that the proportion of the Force's trade creditors paid by the due date could have been as low as 2.4 per cent compared with 85 per cent reported to the Treasurer. The delays in the payment of accounts are clearly outside the Government's policy guidelines and may have resulted in the loss of favourable discounts offered by creditors.

3.16.49 In discussions with the Chief Commissioner on these matters audit was advised that a new financial management system proposed to be implemented during 1990 will address the issue.

Revenue collection

3.16.50 A major portion of the Force's total receipts is collected at the Penalties Payment Office in the form of payments for parking and traffic infringements. During 1988-89, these receipts totalled \$27.3 million. In addition, the Penalty Payments Office was responsible for the collection of \$12.3 million during that period on behalf of the Transport Accident Commission.

3.16.51 Concern has been raised in previous reports to Parliament at delays in processing infringement notices received at the Penalties Payment Office. **As a result of these delays, approximately 5 000 notices became unenforceable during 1988-89 as they were over 12 months old prior to being recorded on the Penalties Payment Office system. Revenue forgone was estimated by audit to be in excess of \$650 000.**

3.16.52 Deficiencies were also noted in the computerised system used to record details of parking and traffic infringement notices and as a basis for initiating follow-up action on outstanding amounts. **The absence of appropriate systems controls, including controls to ensure the completeness and accuracy of data, creates the opportunity for erroneous or fraudulent entries to be processed without detection. Consequently, management has no assurance that amounts due to the State are accurately identified within the system or that timely action is taken to collect outstanding amounts.**

Stores operations

3.16.53 At 30 June 1989, stores valued in excess of \$4.9 million were held by the Force. In addition to the capital investment in these stocks, significant costs are incurred annually by the Force in connection with the storage and administration of stores.

3.16.54 A review of the stores operations within the Force was undertaken by audit during 1983-84. Findings arising from the review, together with recommendations aimed at addressing deficiencies, were subsequently reported to the Ministry and Parliament in October 1984. The major findings of the review were:

- ♦ significant levels of potentially surplus and obsolete items were held in the stores;
- ♦ purchasing functions were duplicated within the Force;
- ♦ a lack of forward planning for requirements eliminated savings which could be achieved through discounts from bulk purchasing;
- ♦ there was little overall monitoring of the value of stores used by individual Police stations; and
- ♦ performance measures had not been developed to assist management in monitoring the performance of stores operations.

3.16.55 A recent audit review indicated that little progress has been made within the Force in addressing these weaknesses. **As a result, potential savings identified at that time which would result from improved stores management practices have not been realised.**

Security of assets

3.16.56 The Force has set in place a requirement that all Police stations and other locations within the Force are to prepare an annual inventory listing of all assets held. Although the inventory listings provide a record of asset holdings at a particular time, asset registers have not been developed within the Force to facilitate the ongoing recording of all assets purchased including details of asset values and a record of the movement of assets between locations.

3.16.57 Audit investigations disclosed numerous assets including attractive items such as cassette recorders and cameras, which had not been recorded on annual inventory lists. In some instances Police stations were unable to produce items issued to them or provide an indication of where the items were held. These items included personal computers, typewriters and cassette decks.

3.16.58 Unless action is taken by the Force to establish an accurate and complete record of all material items acquired and to undertake periodic stocktakes, the management and control of assets is diminished and attractive items may be lost or stolen without detection.

Management response

The matters addressed in relation to "Tendering procedures", "Cash management", "Stores operations", "Security of assets" and "Retrospective expenditure approvals" have been discussed with the Chief Commissioner of Police. However, he has declined to provide a formal response to the issues raised.

Losses and thefts

3.16.59 The Force has notified my Office that losses and thefts of uniforms and equipment with a total value of \$48 100 occurred during the period January 1989 to December 1989.

3.16.60 In addition, a police officer was convicted in March 1990 with theft of 880 litres of petrol valued at \$527. The officer, who has been discharged, was ordered by the Court to repay the above amount.

COUNTRY FIRE AUTHORITY

Losses and thefts

3.16.61 The Authority has advised audit of losses and thefts of equipment and stores valued at approximately \$24 500 for the period January 1989 to December 1989.

Schedule A. Status of matters raised in previous reports

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
Ministry for Police and Emergency Services		
<i>First Report, 1980-81, p.172</i> <i>First Report, 1987-88, p.197</i> <i>Ministerial Portfolios, May 1989, p.197</i>	Internal audit arrangements not implemented in accordance with government policy.	The Ministry does not have its own internal audit section due to the size of the organisation, however, audit has been advised that the DMB's Bureau of Internal Audit is to provide consultancy services to the Ministry. ✓
Office of the Chief Commissioner of Police		
<i>First Report, 1980-81, p.172</i> <i>First Report, 1987-88, p.197</i> <i>Ministerial Portfolios, May 1989, p.197</i>	Internal audit arrangements not implemented in accordance with government policy.	Of 3 positions created at the Force 2 positions still remain vacant. Audit considers that a unit of this size is unsatisfactory. ✓
<i>Second Report, 1986-87, p.120</i>	Under-utilisation of the Police Hospital and substantial losses incurred in its operation should be addressed by management.	Utilisation of the Police Hospital has improved over the past year, however, increased occupancy has been hindered by uncertainty over the Hospital's future location and by the relocation of the Prince Henry's Hospital. ✓
<i>Second Report, 1986-87, p.121</i>	Leasing of Police premises not undertaken in an economic, efficient and effective manner resulting in additional costs being incurred.	Many matters remain unresolved. ✓
<i>Ministerial Portfolios, May 1989, pp.193-5</i>	Inefficient and ineffective management of the Force motor vehicle fleet. Non-compliance with government policy.	Tenders for a motor vehicle fleet management system are currently being reviewed. The Force envisages that this system will remedy most of the matters raised. ✓
<i>Ministerial Portfolios, May 1989, p.195</i>	Outstanding warrants at IBR estimated at \$42.2 million not being controlled effectively due to limitation of the recording system and lack of follow-up.	For further comments, refer to paragraph 3.16.10 to 3.16.12 of this report. ✓
<i>Ministerial Portfolios, May 1989, p.196</i>	Consolidated Fund was owed \$9.9 million due to significant deficiencies in the management, recording and follow-up of outstanding debts.	Slight improvement noted during 1988-89. Amount owed to Consolidated Fund reduced to \$8.1 million at 30 June 1989. Further improvements required. ✓

Schedule A. Status of matters raised in previous reports - continued

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<i>Ministerial Portfolios, May 1989, p.197</i>	Inadequate recording and stocktaking procedures at the Uniform Store.	Many matters remain unresolved. Inventory records still not adequate to enable effective control over stores. ✓
<i>Ministerial Portfolios, May 1989, pp.192-3</i>	Non-compliance with internal control systems and Treasury Regulations.	No further instances were noted during 1988-89. ✓
Country Fire Authority		
<i>Fourth Report, 1982-83, p.24</i>	Two practices adopted for depreciation of fixed assets are not consistent with Australian Accounting Standards.	Position now satisfactory. Depreciation policy is in accordance with Australian Accounting Standards. ✓
Metropolitan Fire Brigades Board		
<i>Ministerial Portfolios, May 1989, p.306-9</i>	Lack of an adequate disaster recovery plan covering the Board's EDP operations.	The Board is in the process of compiling a disaster recovery plan. ✓

Schedule B. Completed/incomplete audits

<i>Entity ended</i>	<i>Financial year</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits				
Ministry for Police and Emergency Services	30 June 1989	31 October. <i>Annual Reporting Act 1983, s.8.</i>	6 November 1989	15 November 1989(a)
Country Fire Authority	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.9.</i>	26 September 1989	29 September 1989(a)
Metropolitan Fire Brigades Board	30 June 1989	30 September. <i>Annual Reporting Act 1983 s.9.</i>	25 September 1989	26 September 1989(a)

(a) Qualified audit report issued.

3.17

PREMIER AND CABINET

The Premier is responsible for the following entities which are subject to audit by the Auditor-General:

Departments

Department of the Premier and Cabinet
Office of the Auditor-General
Office of the Public Service Board

Public body

Victorian Relief Committee

The audit of the 4 entities proved satisfactory, however, certain issues raised in previous reports remain unresolved.

Schedule A. Status of matters raised in previous reports

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
Department of the Premier and Cabinet		
<i>First Report, 1987-88, p.37</i>	Internal audit arrangements not implemented in accordance with government policy.	The Department is currently using the services of the Bureau of Internal Audit.
Office of the Public Service Board		
<i>First Report, 1987-88, p.37</i>	Internal audit arrangements not implemented in accordance with government policy.	The Office is currently using the services of the Bureau of Internal Audit.

Schedule B. Completed/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor- General's report signed</i>
Completed audits				
Department of the Premier and Cabinet	30 June 1989	31 October. <i>Annual Reporting Act 1983, s.8.</i>	18 October 1989	30 October 1989
Office of the Auditor-General(a)	30 June 1989	31 October. <i>Annual Reporting Act 1983, s.8.</i>	12 October 1989	12 October 1989
Office of the Public Service Board	30 June 1989	31 October. <i>Annual Reporting Act 1983, s.8.</i>	26 October 1989	30 October 1989
Victorian Relief Committee	30 June 1989	30 September. <i>Victorian Relief Committee Act 1958, s.7A.</i>	23 October 1989	26 October 1989

(a) The Office of the Auditor-General was independently audited by a firm of private auditors.

3.18

PROPERTY AND SERVICES

KEY FINDINGS

- ♦ Serious concern at the protracted development since 1983 of the major land information project known as "Landata".
paras 3.18.1 to 3.18.12
- ♦ The Department has incurred considerable additional annual costs because of extended delays in awarding of cleaning contracts.
paras 3.18.26 to 3.18.34
- ♦ The State is currently exposed to potential insurance liability in the event of negligence by cleaning contractors employed by the Department.
paras 3.18.35 to 3.18.37

The Minister for Property and Services is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Department of Property and Services
State Electoral Office

Public bodies

Government Employee Housing Authority
Surveyors Board
Victorian Public Offices Corporation

Comments on matters of significance arising from the audit of certain of the above entities are discussed below.

DEPARTMENT OF PROPERTY AND SERVICES

Development of Landata

What is Landata?

3.18.1 In July 1982, the Government approved, as a priority project, investigations into the development of an integrated computer-based land information system to incorporate details of the State's land holdings. It was envisaged that, at the completion of the project, a common database system would be available within the State to reduce the substantial duplications and incompatibilities between systems currently maintained by various public sector bodies. In addition, Landata would provide prompt access, from a single source, to all information on individual landholdings.

3.18.2 In December 1983, Cabinet approved a corporate plan for Landata which envisaged that development of 6 specific products would be substantially completed by December 1988 at a then estimated cost of \$10.6 million.

3.18.3 The Department of Property and Services assumed responsibility for Landata in 1985.

Management response

The corporate plan submitted to Cabinet in December 1983 was a broad plan because the necessary work for a detailed plan could not be carried out until about 6 months after Cabinet approval when the required resources became available. The detailed plan, which was endorsed by the Landata Executive Committee, included 7 products. Work on 4 out of the 7 products which form the core of Landata and have the potential for highest benefits, was commenced in May 1984. These core products are the acquisition of the computer equipment, Land and Owner System, Digital Mapping System and the Public Inquiry Service. In April 1984, there were machinery of government changes such that the responsibility for 2 out of the 7 products was moved from Landata to the ex-Department of Conservation, Forests and Lands. In terms of Landata's key objectives, these 2 products, namely Register of Government Owned Land (ROGOL), and Crown Land Administration System (CLAS) are of lower priority. Similarly, the 7th product, called "Directory of Natural Resources" is also a low priority.

Thus, in practical terms, Landata encompasses the 4 core products mentioned above.

Review summary

3.18.4 An audit review of progress achieved to date in the development of the Landata project found:

- ♦ Base systems for the 2 main products - a central system for recording of land ownership information and a computerised digital maps database, were in place by December 1988. These 2 products are now not expected to be operating in a manner which will fully achieve Landata's objectives until 1992 and 1995, respectively;
- ♦ The 4 other products referred to in the 1983 corporate plan (one of which is now being developed by the Department of Conservation, Forests and Lands) were in various stages of development at January 1990 and specific completion targets for these products had not been determined;
- ♦ The Department's latest estimate of Landata's costs and benefits to 1995 are \$29.7 million and \$33.1 million, respectively. At 30 June 1989, actual costs were \$15 million and assessed benefits (revenues and cost savings) were \$7.8 million;
- ♦ Deficiencies existed in procedures followed for the overall monitoring and control of Landata; and
- ♦ Cabinet was not formally advised of specific information on Landata's overall progress until 1990, over 6 years after the project commenced. The Cabinet submission, which includes an analysis of costs and benefits, indicates a potential return of 8.8 per cent from Landata in the period up to 1994-95.

Management response

With reference to each of the above paragraphs of the "Review summary":

- *Taking into account the machinery of government changes and other practical considerations, Landata's 1983 plan was changed in 1984 with the approval of the interdepartmental Executive Committee. The revised plan encompassed work on 4 core products mentioned in the explanation of what is Landata. The base systems for all of these products were in place by December 1988 as predicted in the 1983 plan. The present position is that except for the Land and Owner System, all the other products are operational as planned. The Land and Owner System is being redeveloped in the light of the experience with the Land Tax database. This redevelopment is scheduled for completion by mid-1992. The digital map database is scheduled for completion by 1995 as estimated in the 1983 corporate plan. Apart from some slippage in the acquisition of the computer equipment and problems with the Land and Owner System, progress has been achieved as planned in 1983.*
- *The changes in Landata's work plan have determined that Landata has had no responsibility for the CLAS and ROGOL systems since April 1984. The Natural Resources Directory was deferred in order to concentrate on the 4 core products.*
- *Unlike the 1983 cost estimates, the present estimates of \$29.7 million include the operating costs of the 4 core products from 1984 to June 1995. They also include a contribution of \$1.7 million to the Automated Land Titles System (ALTS). As explained later in this report, if the 1983 plan had proceeded without any changes, the costs to June 1995 would have been \$39.4 million, i.e. \$9.7 million more than the present estimates. In May 1986, revised estimates of costs and benefits of (\$26.8 million and \$36.4 million, respectively) were provided to Cabinet's Priorities, Planning and Strategy Committee on EDP (PPSC). The difference of \$2.9 million in the present and the 1986 estimates is due to the contribution of \$1.7 million to ALTS (which was not envisaged in 1986 advice to the PPSC) and the government decision to lease and then purchase the computer equipment instead of an outright purchase assumed in 1986.*

There have been no cost over-runs and the present estimates of benefits are higher than those advised to the PPSC in May 1986. The estimates of benefits are fairly firm because most of the products are operational now and their benefits are well known. The only exception is the Land and Owner product.

- *Landata is a multi-agency project and as such there are special problems in monitoring and controlling its activities. Nevertheless, the project's work plan has been continuously adjusted to ensure that there are no undue cost over-runs.*
- *An in-depth evaluation of Landata has been conducted by officers of the Department of the Premier and Cabinet, the ex-Department of Management and Budget and the Department of Property and Services. This evaluation has noted the changes in Landata plan and has concluded that satisfactory progress has been made. Also it has concluded that Landata is achieving a good financial performance of real rate of return of 8.8 per cent. The normal guidelines are for a 4 per cent return on investment.*

Progress in establishing a common land information database

3.18.5 As indicated above, Landata involves the development of 6 specific products. The project's 2 main products are a central system for recording land ownership data and a computerised digital maps database, with the remaining 4 products to be linked to these databases.

3.18.6 None of Landata's 6 products, which were expected under the 1983 corporate plan to be substantially developed by December 1988, were fully operational at January 1990. Base systems for the 2 main products were in place at that date. However, because of unforeseen problems, both products will not be operating in a manner which will fully achieve Landata objectives until 1992 and 1995, respectively.

Management response

For reasons mentioned before, Landata has concentrated on the 4 core products out of the 7 products identified in the 1983 corporate plan.

Following a review by Swedish Government officers in 1985, the Landata plan was changed such that Landata's linkages with the Land Titles Office's systems were advanced from stage 2 to stage 1. With the exception of the Land and Owner System, the 4 core products have been operational since December 1988 as planned. The major outstanding work is the redevelopment of the Land and Owner System for reasons explained later.

3.18.7 Table 3.18A shows initial and current completion dates for each product and a summary of progress achieved as at January 1990.

TABLE 3.18A. PROGRESS ON LANDATA

Product	Completion target		Development progress
	Initial	Current	
Land ownership system	1987	1992	Using data recorded at the State Taxation Office, a land ownership system relating to all freehold land has been created in line with the 1983 corporate plan. However, the Department has experienced problems concerning the accuracy and reliability of data held at the State Taxation Office. To overcome these weaknesses, action is in course to centralise land ownership data at the Land Titles Office rather than the State Taxation Office. The Department expects that full implementation of this important change will be achieved by June 1992. Completion of this product is also dependent upon achieving finalisation of automation of the Land Titles Office register. This process known as the Automated Land Titles System (ALTS) is not expected to be fully operational until 1995.
Digital maps database	1986 (base system)	1995 (fully operational)	This product is designed to minimise duplications which currently exist in the collection and maintenance of land maps. The task of developing maps relating to the Melbourne and metropolitan area is being undertaken by the Melbourne and Metropolitan Board of Works and the remainder of the State by the Department. To date, approximately 50 per cent of Melbourne land and 30 per cent of country land have been digitised on the database. Because of problems experienced with the physical condition of source maps and the tedious nature of tasks involved, completion of the database of land maps within the State is expected to be achieved by 1995.

TABLE 3.18A. PROGRESS ON LANDATA - *continued*

Product	Completion target		Development progress
	Initial	Current	
Register of Government-Owned Land	1986	(a)	The aim of this product was to update a basic Register of Government-Owned Land, initially established in 1984, for incorporation into the land ownership database. The product is currently being developed by the Property Division of the Department as part of a Government Land Management System.
Crown Land Management System	1987	(a)	This product involves the transfer to Landata of information on Crown land recently developed by the Department of Conservation, Forests and Lands within its Land Information Management System. No date has been specified for linking this information to Landata.
Natural Resources Directory	1984	(a)	Development of the natural resources directory has only recently commenced.
Inquiry Service	Limited inquiry service by 1988	April 1990 (when fees for use of inquiry service commence)	A limited public inquiry service, which enables users to access particular information within the land ownership database, has been established. Use of the facility has to date been free of charge. Fees for this service have been formally set to operate from 1 April 1990. Further expansion of the inquiry service will be dependent upon completion of information relating to other products.

(a) Current completion targets for these products have not been determined.

Management response

- *Land ownership system*

While ALTS is not essential for the Land and Owner System, it is an essential part of the future enhancement of Public Inquiry Service. The Land and Owner System is proposed to be redeveloped by June 1992. While ALTS will not be completed until 1995, the Public Inquiry Service will be progressively enhanced.

- *Digital maps database*

The compilation of the digital maps database is strictly tied to user needs. This database will be completed by 1995 as predicted in the 1983 plan. MMBW has recently conveyed its intention to complete the metropolitan maps by end 1990.

- *Register of Government-Owned Land*

This product is not a Landata activity. The Property Division of this Department acquired responsibility in 1986 and is developing this product as part of a Government Land Management System.

- *Crown Land Management System*

Due to machinery of government changes, Landata is not responsible for the development of this system. Linking with Landata will only be considered if it is cost effective.

- *Natural Resources Directory*

Work has recently started on this system as a pilot project.

- *Inquiry Service*

Expansion of this service is tied to ALTS and developments in other agencies. This expansion was always scheduled for post the 1983 plan.

3.18.8 The 1983 corporate plan estimated that Landata would be substantially developed by December 1988 at a cost of \$10.6 million (\$17.4 million, 1989 prices) and that expected savings (arising from reduced duplications in the collection and processing of land related data) for the 5 year period would amount to \$10.7 million (\$17.6 million, 1989 prices).

3.18.9 The Department's latest estimated cost of Landata is \$29.7 million. This estimate includes the costs of further development of products up to 1995 and recurrent costs for those products anticipated to be finalised and operational during that period. Projected savings up to 1995 have been calculated by the Department at \$33.1 million.

3.18.10 Some aspects of the project's development, e.g. the Natural Resources Directory, are likely to extend beyond 1995 which means on current estimates Landata, as a complete project, will not be in place until more than 12 years after the project commenced.

3.18.11 At 30 June 1989, actual costs of \$15 million had been incurred in the development of Landata and the Department has assessed that benefits in the form of revenues and cost savings of \$7.8 million had been realised at that date.

3.18.12 Serious concern is expressed at the protracted nature of Landata's development to date. Given the extensive investment of the State in the project, it will be important for the Department to ensure that the latest completion dates are met and anticipated benefits are fully realised.

*Management response**Comparison of Landata estimates of costs and benefits 1983-84 to 1994-95
(1989-90 dollar values)*

(i) Year of estimates	Costs (\$m)	Benefits (\$m)
a) 1983	39.462	56.85
b) 1986 submission to PPSC on EDP	26.839	36.42 (Includes benefits at VICOMP)
c) 1989-90 Landata evaluation report	29.7	33.1 (Does not include benefits at VICOMP)
d) 1989-90 Landata evaluation report plus VICOMP	29.7	42.2
(ii) Impact of government decision to lease the computer instead of purchasing it as assumed in the 1986 submission to the PPSC on EDP.		
In 1986 submission the equipment cost (1989-90 dollar values)		
= \$5.556 m		= \$6.848 m
The 1989-90, evaluation report shows the equipment cost		
= \$9.727 m		
i.e. the increase in costs		
= \$2.879 m		
Excluding this increase, the 1989-90 Landata costs estimates		
= (\$29.7 m - \$2.879 m)		= \$26.821 m
Thus, except for the increase in the costs of the computer equipment there has been no cost escalation since 1986 when Cabinet's PPSC on EDP was advised of the costs and benefits.		
(iii) In 1986, the project had proposed a smaller computer, saving \$1.494 million in computer equipment costs, i.e. \$1.841 million in 1989-90 dollar values.		
Touche Ross recommended the purchase of the larger and more expensive computer. But for this recommendation the costs would have been further reduced by \$1.841 million.		
(iv) With the inclusion of the savings in expenditure at VICOMP attributable to the acquisition of the Landata computer, the 1989-90 estimates of the benefits are higher than those of the 1986 estimates.		
(v) The costs and benefits to 30 June 1989 are \$15 million and \$7.8 million, respectively, <u>excluding</u> benefits in VICOMP. Those benefits are \$2.3 million making total benefit realised to date as \$10.1 million.		

Need for improved project management procedures

3.18.13 Up until 1985, when the Department of Property and Services assumed responsibility for Landata, 3 other government departments (Ministry for Planning and Environment, Attorney-General's Department and the former Department of Crown Lands and Survey) were, at various stages, responsible for the project's development. These changes in responsibility have not assisted the smooth management of the project.

3.18.14 A project of the dimension of Landata requires systematic monitoring of actual costs against budgeted outlays and periodic reviews of progress made in achievement of key targets. Audit examination of procedures followed within the Department for the overall management of Landata revealed:

- ♦ A forum of senior representatives from agencies involved in Landata was established to overview the project's development, including the activities of special working parties. However, there was no evidence to indicate that this forum adequately fulfilled a vital steering committee role for the project;
- ♦ Regular comparisons of actual against budgeted outlays for each Landata product were not compiled and the overall performance of Landata against planned objectives for each product was not systematically assessed;
- ♦ Monthly status reports prepared by the Department contained summary information on achievements only and gave no indication of problems experienced or aspects of the project's development which required corrective action; and
- ♦ Although the Department assumed responsibility for Landata in 1985, it was not until 1989 that it determined to prepare a comprehensive project evaluation report for subsequent submission to the Cabinet. This evaluation, which incorporated an analysis of aggregate costs and a re-assessment of projected outlays and anticipated benefits, was presented to the Cabinet in February 1990.

3.18.15 The Department has advised audit that there were a number of problems outside of its control which have impacted on the overall development of Landata to date. These problems included the absence of statutory recognition of Landata as the official authority to establish standards for development of the various systems comprising the project and the reluctance of participating government agencies to devolve control of their systems to Landata.

3.18.16 In summary, audit considers that the various activities pursued under Landata to date could have been more systematically co-ordinated and controlled.

3.18.17 The Department needs to ensure that more effective procedures are followed for the future strategic management of the project.

Management response

Management arrangements and Landata activities have been continuously monitored and adjusted. After the 1985 machinery of government changes, the key participating agencies of Land Titles Office, Valuer-General Office, and Survey and Mapping were placed together with Landata in the Department of Property and Services. As the major issues then became in-house, the interdepartmental committee was replaced with special working parties to address the inter-agency issues with officers from Treasury, MMBW, Land Tax Office, Stamps Office, Premier and Cabinet. These working parties have proven to be effective and beneficial for the present development. A new Executive Committee of Chief Executives is being convened to oversight future developments.

February 1990 submission to Cabinet

3.18.18 As indicated above, in February 1990 Cabinet considered a detailed project evaluation report presented by the Department.

3.18.19 The 1990 evaluation, which was prepared with assistance from the Departments of Management and Budget, and Premier and Cabinet, incorporated a cost-benefit analysis for the project up to 1994-95. The overall conclusion of the financial evaluation was that Landata was likely to generate a return of around 8.8 per cent up to 1994-95, based on aggregate estimated costs of \$29.7 million and expected benefits of \$33.1 million.

3.18.20 After consideration of the report, Cabinet formally noted Landata's satisfactory progress and financial performance.

3.18.21 Two earlier reviews of specific aspects of Landata were arranged by the Department. The first review in March 1985 involved a study by representatives of the Swedish Government of certain technical features of Landata. The second review, in May 1986, was in the form of a departmental submission to a Cabinet Sub-Committee for approval to acquire the project's main computer hardware. This latter review included revised estimates of Landata's costs and benefits as required by government guidelines for major acquisitions of EDP equipment.

3.18.22 Neither of the above reviews was designed to produce a comprehensive evaluation of Landata's overall progress and future direction. This type of strategic analysis did not occur until the February 1990 submission to Cabinet, over 6 years after commencement of the project.

3.18.23 In audit opinion, financial evaluations of projects of Landata's magnitude need to be regularly compiled so that strategic decisions on progressive performance and future directions are reliably based.

3.18.24 Audit has recommended that more regular evaluations of Landata's total progress be performed for the remainder of the project's development.

Management response

As mentioned before, officers from the Central agencies have been participating in working parties since the commencement of Landata. The issues have not been of sufficient importance to warrant Cabinet attention as Landata has been considered as achieving satisfactory progress.

Provision of cleaning services

3.18.25 The Department of Property and Services is responsible for the provision of cleaning services in government offices throughout the State. Approximately 540 cleaning contracts, involving some 155 contractors, are administered on behalf of client departments for daily cleaning services and ancillary functions such as industrial waste and sanitary disposal. Outlays by the Department on contract cleaning services in 1988-89 were in excess of \$6.2 million.

Cost implications of delays in the awarding of contracts

3.18.26 Cleaning contracts normally cover periods ranging from 1 to 3 years. The Department's procedures provide for the process relating to re-issue of new contracts to commence approximately 3 months before expiration of the existing contract. Where unforeseen factors preclude finalisation of new contracts within this 3 months period, the Department arranges for existing contractors to continue the provision of cleaning services until a new contract is issued.

3.18.27 An audit review of the Department's procedures for the awarding of new contracts found many instances where expired contracts had not been re-let and contractors had continued to provide cleaning services on a month-by-month basis. For each month in the period July to December 1989, around 290 cleaning contracts (or 54 per cent of all contracts) were in this category. In addition, the audit review revealed that the delays in the awarding of new contracts were often substantial. In some cases, new contracts had not been issued for up to 35 months after expiration of the previous contract.

3.18.28 It appeared from an examination of departmental records that the number of expired contracts which had not been re-issued was increasing over time.

3.18.29 For many high-value contracts re-let by the Department within the past 12 months, the contract sum which forms the basis for monthly payments to the contractor, is less than the contract sum applicable to the expired contract. The Department indicated to audit that this situation results from the impact of competitive influences, particularly with high-value contracts, which emerge when the tendering process for the re-letting of contracts commences.

3.18.30 This somewhat unusual cost pattern can be expected to remain until absolute minimum cost levels are reached for individual contracts, i.e. levels below which prospective tenderers would find it uneconomic to accept.

3.18.31 Audit examination of a sample selection of re-issued contracts, with an annual contract sum in excess of \$20 000, disclosed an overall annual net cost decrease to the Department, arising from lower contract rates in new contracts, of \$37 500 (or an average of \$2 900 per contract).

3.18.32 Approximately 68 per cent of annual outlays by the Department on contract cleaning services relate to contracts with a value in excess of \$20 000.

3.18.33 Audit estimates that if the results of the audit sample were representative of all contracts greater than \$20 000 still to be re-issued, the Department may be incurring considerable additional annual costs as a consequence of delays in awarding new contracts.

3.18.34 The Department should take immediate action to ensure that all new contracts are issued on a timely basis.

Management response

The Department disagrees with audit's assessment that the number of expired contracts is increasing. A major effort was initiated by the Department 12 months ago to reduce the number of expired contracts. As a result, 181 contracts have been re-let. At the same time, the Department invested substantial resources in developing new contract documentation to enable more efficient administration of contracts.

This has also contributed to significant cost savings on re-let contracts. The audit report makes no mention of this.

The percentage of expired contracts has reduced from 54 per cent in December, 1988 to 44 per cent in March 1990 at a time when the total number of contracts has increased.

The figures on expired contracts are set out below:

	Total contracts	Expired
December 1988	494	267 (54%)
March 1989	505	262 (52%)
March 1990	511	227 (44%)

The Department has set itself a target of re-letting all expired contracts by March 1991.

Exposure of the State to insurance liability

3.18.35 Under the Government's policy on public sector insurance, contractors are required to indemnify the Crown and relevant public sector entity against loss on account of public liability and property damage throughout the duration of a contract period. The Government's policy further provides for public liability and property damage insurance cover, arranged by contractors, to be not less than \$5 million and \$2 million, respectively.

3.18.36 An audit review of the extent of the Department's indemnity against liability arising from its contractual arrangements for cleaning services revealed:

- ♦ The Department does not periodically monitor the status of contractors' insurance cover to ensure that insurance policies remain current throughout the contract period;
- ♦ For contracts issued prior to April 1989 (at 31 December 1989, around 74 per cent of all contracts were in this category), contractors were only required to arrange for public liability and property damage insurance cover of \$100 000 for each policy. **Until these contracts are subsequently re-issued, the State is exposed to substantial liability in the event of claims arising from contractor negligence; and**

- ♦ Where delays occur in the re-issue of pre-April 1989 contracts (audit has identified in earlier paragraphs the existence of substantial delays in awarding of contracts), the continuation of cleaning services in respect of an expired contract is arranged verbally between the Department and the contractor. A formal agreement between the parties to extend the terms and conditions of the existing contract, until a new contract has been allocated by the Department, is not entered into. It is therefore doubtful that, in the event of a dispute, legally binding contractual arrangements exist between the parties. **This position also has the effect of exposing the State to potential liability in the event of contractor negligence.**

3.18.37 Audit has recommended that the Department initiate steps, as a matter of priority, to eliminate the current exposure of the State to insurance risk which stems from the above circumstances.

Management response

The Department requires that all contractors take out public liability insurance cover. This is checked for all new contracts. All new contracts now contain a requirement for \$5 million public liability and property damage cover.

Audit was made aware during its examination that the Department has already revised its public liability and property damage requirements and initiated the following:

- (1) revised General Conditions of Contract include the requirement of contractors to have a \$5 million coverage;*
- (2) for all new contracts, the contractor is required to provide evidence of appropriate insurance; and*
- (3) investigations are currently being made into the viability of Principal Controlled Insurance.*

Both (1) and (2) were implemented in April 1989.

The Department is reviewing alternative means to protect the State against possible liability for claims in respect of expired contracts, pending the completion of the reletting program.

VICTORIAN PUBLIC OFFICES CORPORATION

Wind-up of the Corporation

3.18.38 The *Report on Ministerial Portfolios, May 1989* commented on the status of the Government's action, announced in 1985, to wind-up the operations of the Corporation.

3.18.39 On 30 June 1989, the Government disbanded the operations of the Corporation by administrative means pending the introduction and passage of a Bill through Parliament to repeal the Corporation's enabling legislation, the *Victorian Public Offices Corporation Act 1974*.

3.18.40 Under the administrative procedures followed for disbanding the Corporation, borrowings of \$5.7 million were transferred to the Victorian Public Authorities Finance Agency, to be serviced by the Capital Works Authority, and all other assets and liabilities were transferred to the Department of Property and Services.

3.18.41 While the administrative action to disband the Corporation has now taken place, formal sanction of the Parliament to the dissolution of the Corporation is still to be obtained.

Management response

As part of the Minister for Property and Services' legislative bids for the 1990 Autumn sitting of Parliament, a proposal to repeal the Victorian Public Offices Corporation Act 1974 was submitted in order to formally wind-up the Corporation.

However, as a result of more pressing legislative priorities, the proposal has been postponed to the 1990 Spring sitting.

Schedule A. Status of matters raised in previous reports

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
Department of Property and Services		
<i>Supplementary Report, 1980-81, p.54</i>	Sundry debtors of Victorian Government Printing Office - government departments. Instruction of Department of Management and Budget concerning payment of accounts within 30 days not being complied with.	Matter substantially resolved. Action taken by the Printing Office has continued to reduce the overall level of sundry debtors.
<i>Second Report, 1982-83, pp.87-8 Ministerial Portfolios, May 1989, p.213</i>	A range of environmental control weaknesses exist at the VICOMP Centre (formerly the Government Computing Service). This Centre is located in the Treasury Reserve.	The Department has prioritised and costed all environmental risks and will seek funding for 1990-91 to eliminate risks.
<i>Third Report, 1983-84, p.44 Second Report, 1985-86, p.148</i>	The Department does not maintain a complete listing of all properties available for rental.	Position now satisfactory. An improved property information system has now been developed.
<i>Ministerial Portfolios, May 1989, pp.204-13</i>	The absence of a preventative maintenance program, together with a lack of adequate funding, has contributed significantly to the general "run-down" condition of government-owned buildings situated in the Treasury Reserve.	Options for the more effective utilisation of all Treasury Reserve buildings, including the costs of refurbishment to an acceptable level, are currently under consideration by the Government's Accommodation Task Force Committee.
Victorian Public Offices Corporation		
<i>December, 1982, p.101 Ministerial Portfolios, May 1989, p.219</i>	The financial viability of the Corporation requires urgent review.	On 30 June 1989, the Government disbanded the operations of the Corporation. For further comments, refer to paragraphs 3.18.38 to 3.18.41 of this report.
<i>Second Report, 1986-87, pp.126-7</i>	Due to delays in completing fit-out works, a 10 storey property owned by the Corporation had remained unoccupied since December 1986.	Matter substantially resolved. With the exception of one-half of one floor, the building is now fully occupied. A final decision on occupation of the remaining area has not been reached.

Schedule B. Completed/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor- General's report signed</i>
Completed audits				
Department of Property and Services	30 June 1989	31 October. <i>Annual Reporting Act 1983, s.8.</i>	30 October 1989	30 October 1989
State Electoral Office (a)	Period 1 January 1989 to 30 June 1989	31 October. <i>Annual Reporting Act 1983, s.8.</i>	6 October 1989	23 October 1989
Government Employee Housing Authority	30 June 1989	31 December. <i>Government Employee Housing Authority Act 1981, s.23.</i>	9 November 1989	9 November 1989
Surveyors Board	30 June 1989	Audit conducted under the authority of the Surveyors Act 1978, s.28.	25 October 1989	26 October 1989
Victorian Public Offices Corporation (b)	30 June 1989	31 October. <i>Victorian Public Offices Corporation Act 1974, s.17.</i>	31 October 1989	8 November 1989
Incomplete audit				
State Electoral Office	(c)	Electoral returning officers are required to submit financial returns within 6 months of an election. <i>Constitution Act Amendment Act 1958, s.161.</i>	Audit of financial returns relating to the October 1988 election is substantially completed.	

(a) Designated as an Administrative Unit under the *Annual Reporting Act 1983*, as from January 1989.

(b) Final audit, Corporation disbanded on 30 June 1989.

(c) Not applicable.

3.19

SPORT AND RECREATION

KEY FINDINGS

- ♦ Need for the Department to disclose to the Parliament the aggregate level of assistance provided by the State Government for the Olympic Games bid.
paras 3.19.6 to 3.19.10
- ♦ The Tennis Centre Trust's capacity to meet substantial future debt obligations needs to be promptly addressed by both the Trust and the Government.
paras 3.19.17 to 3.19.21
- ♦ It has been necessary for the Government to provide special financial assistance to the National Tennis Centre Trust because of the Trust's serious liquidity problems.
paras 3.19.22 to 3.19.27
- ♦ Significant problems have been encountered with the development of Tabaret, with substantial revenue and cost implications.
paras 3.19.28 to 3.19.60

The Minister for Sport and Recreation is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Department of Sport and Recreation

Public bodies

Greyhound Racing Control Board
Harness Racing Board
National Tennis Centre Trust
Totalizator Agency Board

Comments on matters of significance arising from the audit of certain of the above entities are discussed below.

DEPARTMENT OF SPORT AND RECREATION

1996 Olympic Games bid

Corporate structure

3.19.1 The Olympics for Melbourne Committee was established in mid-1988 by the City of Melbourne to co-ordinate the seeking of Melbourne's nomination as Australia's candidate city to bid for the 1996 Olympic Games. This phase was successfully concluded in November 1988 when Melbourne was selected by the Australian Olympic Federation as Australia's nominated city to the International Olympic Committee (IOC).

3.19.2 Following Melbourne's successful nomination, a contract was entered into between the Australian Olympic Federation, the Melbourne City Council and the State Government to establish a committee to be responsible for the preparation and promotion of Melbourne's bid. The IOC will decide and announce, in Tokyo in September 1990, the city to host the 1996 Games.

3.19.3 A corporate structure has been established to pursue Melbourne's bid for the Games. This structure comprises:

- ♦ Melbourne Olympic Committee Ltd - a company limited by guarantee to be responsible for the overall management and co-ordination of the bid; and
- ♦ Melbourne Olympic Fund Trust - a fund established by the company, to receive contributions to the bid and to meet all expenses.

3.19.4 Membership of the company comprises representatives from the State and Federal Governments, Australian Olympic Federation, Melbourne City Council, Trades Hall Council and the private sector. The State Government members are the Premier, the Treasurer, the Minister for Sport and Recreation and the Minister responsible for the Victorian Government Major Projects Unit. The affairs of the company are conducted by a Board of Directors. The Director-General of the Department of Sport and Recreation is the representative of the State Government on the Board.

3.19.5 The 2 organisations established to co-ordinate the bid phases for the Games are not subject to audit by the Auditor-General; their financial transactions are subject to audit by a firm of accountants.

State Government contributions to Melbourne's bid

3.19.6 The financial arrangements established for Melbourne's Olympic Games bid provide for direct contributions by the State Government of \$9.25 million. Details of these contributions and the estimated aggregate contributions and outlays for the bid are shown in Table 3.19A.

TABLE 3.19A. CONTRIBUTIONS AND OUTLAYS RELATING TO MELBOURNE'S BID (\$'000)

Phase	Contributions			Total	Total budgeted outlays
	State Government	Melbourne City Council	Private sector		
Nomination (a)	250	300	269	819	1 116
Bid	9 000	1 000	10 486	20 486	(b) 19 479
Total	9 250	1 300	10 755	21 305	20 595

(a) Actual figures.

(b) Net of goods and services provided free of charge by the private sector.

3.19.7 The Australian Olympic Federation requires a minimum of \$15 million be spent on the bid phase. As shown in the above table, the Melbourne Olympic Committee Ltd has budgeted for total expenditure of \$19.5 million, the major components of which consist of consultancies, salaries, international travel, asset acquisition, publishing, advertising and sponsorship.

3.19.8 Contributions are required to be paid over a 3 year period, as shown in Table 3.19B.

TABLE 3.19B. TIMING OF CONTRIBUTIONS (\$'000)

Year	Contributions			Total
	State Government	Melbourne City Council	Private sector	
1988-89	1 750	800	2 020	4 570
1989-90	5 000	500	7 835	13 335
1990-91	2 500	-	900	3 400
Total	9 250	1 300	10 755	21 305

Other assistance provided by State Government

3.19.9 In addition to the agreed direct contribution of \$9.25 million, further assistance has been provided by the State Government to the Games bid. Examples are given in Table 3.19C:

TABLE 3.19C. FURTHER STATE GOVERNMENT ASSISTANCE

<i>Form of assistance</i>	<i>Value of assistance</i>
	(\$'000)
Old Treasury Building-	
Vacation of building by Ministry for Police and Emergency Services involving move from rent-free to rental premises	830
Extensive refurbishment of building interior for use by company	840
Provision of rent-free accommodation within building to company	290
Sponsorship of sporting events and a school project with an Olympic theme by the Victorian Health Promotion Foundation	300
Total assistance	2 260

3.19.10 To date, details of the aggregate level of assistance provided by the State Government for the Olympic Games bid have not been provided to the Parliament. Audit has suggested that, from a public accountability viewpoint, such information be disclosed in the Department's next annual report.

Management response

The Department accepts audit's suggestion that the Department include in its next annual report information concerning the total level of assistance provided by the State Government to the Olympic Games bid. However, this will require the assistance of other State Government departments and agencies who will be requested to provide the Department with particulars of the identifiable costs which they have incurred on the bid at 30 June 1990.

Role of the Department of Sport and Recreation

3.19.11 The Department of Sport and Recreation has a significant role to play in the overall process for the 1996 Olympic Games bid. The direct State Government funding of \$9.25 million is channelled through the Department to the Melbourne Olympic Committee Ltd. In addition, the Department has been involved in a range of activities associated with the company including:

- ♦ Secondment of the Director-General for a period of 3 months as Interim Chief Executive Officer. In this role, he organised the establishment of the company and its management structure;
- ♦ Appointment of the Director-General as a director of the company;
- ♦ Secondment of staff to assist in various activities associated with the nomination and bid phases;
- ♦ Scrutiny of the company's budget submission;
- ♦ On-going comparison of projected cash flows with related budgets; and
- ♦ Periodic review of audited financial statements.

3.19.12 In the discharge of its overseeing role, the Department has applied the standard review and monitoring practices expected of public sector entities where grants have been provided to non-government organisations. Such practices focus mainly on analysis and interpretation of financial information.

3.19.13 Although the Department has implemented the abovementioned monitoring procedures, the Minister has sought clarification from the Treasurer on the Department's authority to monitor income and expenditure transactions of Melbourne Olympic Committee Ltd, given its status as a company under the Companies (Victoria) Code with independent management.

Management response

Advice is still not available as to the level and nature of authority, if any, which the Department has to monitor income and expenditure transactions of the Melbourne Olympic Committee Ltd. The Department will meanwhile continue to exercise the monitoring role described by audit.

NATIONAL TENNIS CENTRE TRUST

Summary of financing arrangements in place to fund construction of the Tennis Centre

3.19.14 The Auditor-General's *Report on Ministerial Portfolios, May 1989* referred to the financing arrangements entered into by the Trust and a partnership known as the Flinders Park Partnership in October 1988. This Partnership is owned 95 per cent by a subsidiary of the State Bank of Victoria and 5 per cent by a subsidiary established by the Trust. Under these financing arrangements the Trust borrowed a sum of \$110 million from the Partnership (which included \$5.5 million contributed by the Trust's subsidiary), the majority of which was used to settle its existing debt obligations which had been entered into in January 1988 to fund the costs of construction of the Tennis Centre.

3.19.15 The October 1988 financing arrangements were very carefully structured to take account of the interests of the parties involved. They are also quite complex but, reduced to their simplest elements, can be summarised as follows:

- ♦ The Tennis Centre is leased by the Trust to the Partnership for a period of 9 years with a further four 10 year options and is, in turn, managed by the Trust on behalf of the Partnership;
- ♦ The Trust receives rent and a management fee from the Partnership and, in return, the Trust is obliged to pass back an equivalent amount from operating funds, which places the Partnership in a continuing break-even position from the lease and management arrangements. An additional amount of \$4.4 million is payable to the Partnership at the end of the initial lease period to provide the Partnership with a guaranteed share of income from the Centre's operations;

- ♦ The amount of \$110 million borrowed by the Trust from the Partnership in October 1988 is repayable over the initial 9 years of the lease. At the end of the 9 years, a further amount of \$104.5 million becomes payable to the State Bank of Victoria if the Bank exercises its option to request the Trust to acquire the Bank's subsidiary and, in effect, settle the subsidiary's loan obligation to the Bank;
- ♦ The amount of \$104.5 million equates, in dollar terms, to an annual interest charge of 10.8 per cent over a 9 year period on the \$110 million. The interest charge is based on an assessed market interest rate of 14 per cent less a discount of 3.2 per cent provided for in the financing arrangements;
- ♦ If market interest rates increase above 14 per cent, the Trust is subject to additional charges which are payable in the period of increase. On the other hand, should market interest rates fall below 14 per cent, the Trust will obtain an immediate benefit in the period. As a result of the market conditions which have prevailed since early 1989, the Trust was required to pay additional interest of \$1.2 million for the year ended 30 June 1989 and a further \$2.1 million for the 6 months ended 31 December 1989; and
- ♦ Levels of repayment of the \$110 million are lower in the earlier years of the 9 year lease period to allow the Trust to benefit from an anticipated improvement in the operating performance of the Tennis Centre in later years.

3.19.16 In substance, the Trust's borrowing arrangements involve a loan of \$110 million at an interest rate of 10.8 per cent with the likelihood of interest of \$104.5 million payable at the end of the 9 year period. The only interest immediately payable during this period occurs if market interest rates move higher than 14 per cent.

Management response

Under current arrangements with the State Government, the National Tennis Centre Trust (NTCT) has an obligation to finance 100 per cent of the debt entered into for the construction of the National Tennis Centre. This obligation is unique for sporting and entertainment venues of similar size in Australia.

To assist the NTCT in reducing the effective cost of debt financing, a rental-based funding arrangement was entered into in October 1988. Based on reference rates of 14 per cent per year, the NTCT will pay approximately 3.2 per cent per year less in finance charges than had it borrowed the funds under a more traditional funding arrangement.

It is acknowledged that the current financing package incorporates a complex set of legal arrangements and it is difficult to summarise. It is also appreciated that the Auditor-General wishes to report on the substance of the arrangements rather than the legal form. However, in doing so a misrepresentation of the formal arrangement has been presented.

Financial viability of the Tennis Centre

1988-89 operating deficit

3.19.17 The *Report on Ministerial Portfolios, May 1989* also commented on the high debt position of the Trust and the substantial impact of finance charges on the profitability of the Tennis Centre.

3.19.18 In 1988-89, the first full year of the Trust's operations, the Trust recorded an operating deficit of \$11.4 million. The Trust's financial operations for 1988-89 year are summarised in Table 3.19D.

TABLE 3.19D. SUMMARY OF OPERATIONS, 1988-89
(\$'000)

<i>Item</i>	<i>Amount</i>
Revenue -	
Australian Open	10 638
Concert hire	3 600
Tennis courts hire	689
Other	808
Total revenue	15 735
Less Operating expenses -	
Operations	6 927
Marketing	606
Administration	2 860
	10 393
Operating surplus before depreciation and finance charges	5 342
Less -	
Depreciation	2 410
Finance charges	14 317
Operating (deficit) for year	(11 385)

3.19.19 The above table clearly illustrates the significant impact of finance charges on the 1988-89 operating performance of the Trust.

3.19.20 The major portion of the 1988-89 finance charges was an amount of \$8.7 million accrued in the Trust's accounts as the year's share of the total deferred interest likely to be payable at the end of the 9 year lease period. Similar charges will arise in the remaining 8 years, with a commensurate build-up of liability to \$104.5 million.

3.19.21 If the Trust's operating results in future years mirror the 1988-89 operating performance, the key issue to be addressed by the Trust, in terms of its financial position, will be its capacity to meet substantial future debt obligations.

Cash flow difficulties experienced by Trust

3.19.22 For some time, the Trust has been aware that it was likely to experience serious cash flow difficulties during 1989-90. As a consequence, the Trust has been involved in regular meetings with the Department of Management and Budget in an attempt to obtain approval for special government assistance.

3.19.23 The Trust's cash flow outlook has been influenced by such factors as:

- ♦ its requirement to pay additional interest of \$3.3 million up to December 1989 following the substantial upward movement in the level of market interest rates;
- ♦ the absence of a marked increase in cash flows arising from the operations of the Tennis Centre;
- ♦ a need to use part of the previous year's borrowings to overcome cash flow difficulties experienced by the Trust in that year, an avenue not available to the Trust in 1989-90; and
- ♦ the impact of a higher level of loan repayment in 1989-90.

3.19.24 After taking into account the above factors and in the absence of any special government financial assistance, the Trust projected a negative cash flow position of \$800 000 by January 1990 rising to an estimated cash flow shortfall of \$4.8 million in June 1990.

3.19.25 In January 1990, the Treasurer approved, as an interim measure, the provision of a grant of \$2 million to enable the Trust to overcome its immediate liquidity problems. The question of further financial assistance during the current financial year and longer-term considerations of the Trust's financial position are currently the subject of discussions between the Trust and the Department of Management and Budget.

3.19.26 Decisive action needs to be taken not only to overcome the Trust's present liquidity crisis, but also to ensure that similar problems do not arise in future years.

3.19.27 The question of the long-term viability of the Tennis Centre and the Trust's capacity to meet substantial debt obligations in the future involves wider strategic issues which need to be promptly resolved by both the Trust and the Government.

Management response

The audit report correctly points out that the cash flow currently being generated from the trading operations (excluding finance charges) does fall short of the need to meet commitments under the rental-based funding arrangements. These liquidity problems are currently being addressed in conjunction with the Department of Management and Budget.

The point not made clear in the audit report is that the NTCT has clearly shown in its early years of operation that it has the capacity to generate a significant positive cash flow from its trading operations. Table 3.19D shows that in the year 1988-89 the operating surplus before depreciation and finance charges was \$5.342 million. The NTCT projected surplus for this current year is approximately \$6 million.

TOTALIZATOR AGENCY BOARD

Development of Tabaret

What is Tabaret?

3.19.28 In June 1987, the Government announced the concept of Tabaret. This major initiative, to be established in Melbourne, was intended to greatly expand the Totalizator Agency Board's services, mainly through provision of direct large-screen telecasting of local and international sporting events with facilities for patrons to bet on these fixtures. Tabaret would also provide specially designed electronic video games developed by local computer suppliers and supported by state-of-the-art plastic card betting technology.

3.19.29 The development of the Melbourne Tabaret was expected to be the first of a number of such ventures to be set up as sports wagering and gaming facilities around the State. The aim was to supplement existing tourist attractions and to retain within the State much of the revenue currently accruing to interstate gambling centres.

Review summary

3.19.30 Commencing with the initial choice of location at the Regent Theatre, and the subsequent need to select an alternative site, significant problems have been encountered with the development of Tabaret. These problems have resulted in a delay of over 18 months in the commissioning of the project, with substantial revenue and cost implications to the Board.

3.19.31 Some of the difficulties experienced with the project were beyond the control of the Board. However, other problems which have impeded Tabaret's progress, such as under-estimation of refurbishment works at the project's new site, Menzies-at-Rialto, and uncertainty as to the project's legality, could have been avoided if more effective project management procedures had been followed by the Board.

3.19.32 **Audit has recommended that the Board undertakes a systematic appraisal of its experiences to date with Tabaret. This process will enable the Board to identify strategies necessary to ensure similar problems do not recur for any future major projects, including additional Tabaret initiatives.**

Problems experienced with Tabaret's development

3.19.33 The initial Government intention was to establish Tabaret at the Regent Theatre in Melbourne. Following objections by the Melbourne City Council and criticism from community groups concerning the proposed use of the Regent Theatre as a gambling centre, the Government found it necessary to seek an alternative location for Tabaret. In December 1987, the Government publicly announced the selection of the Menzies-at-Rialto Hotel as the new site for the project, with an estimated capital cost of \$14 million.

3.19.34 The difficulty arising from the initial choice of location for Tabaret was the first of a series of problems experienced in the project's development. These problems, some outside the Board's control, have contributed to a significant delay in the opening of Tabaret.

3.19.35 Although originally scheduled by the Government to open before the 1988 Spring Racing Carnival, Tabaret is not yet operational. The Board is yet to earmark a specific date for the project's opening, however, it is hopeful operations can commence about mid-1990.

3.19.36 The 4 principal factors which have contributed to the delay in finalisation of the project are summarised below.

Under-estimation of refurbishment works at Menzies-at-Rialto

3.19.37 During 1988, the Board found it necessary to revise its earlier estimate of the nature and magnitude of refurbishment works required at the hotel site. Also, during 1988, the Board introduced major changes to the interior design for the site.

3.19.38 As a consequence of the above variations to the Board's planning strategies for the project, the Board was not in a position to award the construction contract at Menzies-at-Rialto until May 1989, some 6 months after the initial opening target date.

3.19.39 It was evident to audit that the initial estimate of refurbishment works required at Menzies-at-Rialto was very much a preliminary assessment only of works necessary for a project of Tabaret's dimensions.

3.19.40 The Board's experiences with this facet of Tabaret's development have reinforced the importance of having available accurate and complete information to assist critical planning decisions for major projects.

Need for legislative amendments

3.19.41 During 1988, the project's development was interrupted for some 3 months until the passing of amendments to the *Racing Act* 1958. The delay was due to the need to resolve uncertainty as to whether the Board had legislative authority to operate on licensed premises and to conduct the type of betting competitions to be provided at Tabaret.

3.19.42 As early as June 1987, the Department of Sport and Recreation had questioned whether adequate legislative authority existed for the project. Notwithstanding the Department's concern in this area, the Government proceeded with its announcement concerning the initial Regent Theatre proposal for Tabaret and the later 1987 decision on the Menzies-at-Rialto development.

3.19.43 It was not until December 1988, with the passing of amending legislation, that the Board's authority to operate on licensed premises and to extend betting activities to the type envisaged for Tabaret was clarified.

Failure of major contractors to fulfil key contractual obligations

3.19.44 By its very nature, the Tabaret concept involves the introduction in Australia of state-of-the-art gambling technology, particularly with the use of plastic card facilities and electronic video games. As such, the project's hardware and software computer facilities require complex technical considerations.

3.19.45 The Board was conscious of the commercial risks involved in this area when finalising the computer contracts for the project.

3.19.46 Three major contractors engaged by the Board for delivery of critical computer hardware and software facilities were not able to fulfil their contractual obligations. In 2 cases, the Board found it necessary to terminate contracts on the ground of non-performance.

3.19.47 The Board has embarked on a range of corrective action to overcome the problems encountered with non-performing contractors. This action has included the re-issue of the hardware component of one contract and, in other cases, assignment of Board staff to oversee production of computer facilities.

3.19.48 The Board is confident all key computer hardware and software facilities will be in place for Tabaret's expected commissioning in mid-1990.

Impact of industrial work bans

3.19.49 Industrial work bans were placed on the Tabaret site in mid-1989 because of union opposition to WorkCare reforms proposed by the Government. As a result, the date of practical completion of the refurbishment program at Menzies-at-Rialto had to be extended from October 1989 to March 1990.

Management response

The Government announcements of June and December 1987 were not meant to establish a cost or timeframe for the Tabaret project, but only to enable the Board to commence development. Budgets and timetables were a matter for the Board to develop through the various project stages.

The Board considers that:

- *The project has been developed within the ministerially approved budgets. The overriding consideration has been to produce the most cost-effective Tabaret operation;*
- *The legal implications of the final Tabaret format were not confirmed until the operational configuration was designed and developed. The matter was therefore resolved as early as possible; and*
- *As often occurs with new technology, the contracting environment has not been stable, but the Board has received fair value for all contract payments.*

The Board will be examining the experience of the Tabaret project as part of the planning for any future Tabaret sites.

Cost implications of problems encountered

Capital costs

3.19.50 The latest estimated capital cost of Tabaret, as approved by the Minister for Sport and Recreation, is now \$19.7 million, compared with the original estimate announced in 1987 of \$14 million. A comparison of the initial and current capital cost projections for the project is presented in Table 3.19E.

TABLE 3.19E. TABARET'S CAPITAL COST ESTIMATES
(\$'000)

<i>Item</i>	<i>Initial projected capital outlay (December 1987)</i>	<i>Current capital cost estimate (January 1990)</i>
Plastic card wagering system	Not available	4 750
Design, manufacture and supply of player-activated terminals	" "	2 950
Host computer	" "	2 610
Self-service terminals	" "	520
Other	" "	210
	11 200	11 040
Refurbishment of Menzies-at-Rialto premises	2 800	8 700
Total	14 000	(a) 19 740

(a) Approved by Minister for Sport and Recreation in accordance with the *Racing Act 1958*.

3.19.51 Although the Government's December 1987 announcement specifically referred to expected capital outlays of \$14 million, the Board was not able to provide audit with a dissection of all items making up that estimate. The only information available related to the estimated cost (\$2.8 million) of refurbishment works required at the Menzies-at-Rialto premises.

3.19.52 Table 3.19E shows that the major factor contributing to the increase of \$5.7 million in total estimated capital costs between 1987 and 1990 was a rise of over 200 per cent in anticipated refurbishment costs at the project site.

Development costs (other than of a capital nature)

3.19.53 In addition to the capital costs mentioned in the preceding paragraph, there are a variety of other project development costs (e.g. rental of Menzies-at-Rialto premises, production of computer software facilities etc.) incurred by the Board. These outlays are directly related to the Tabaret project and need to be taken into account in determining aggregate expenditure incurred on the project and the total cost impact of delays during development.

3.19.54 After examination of relevant records and discussions with Board personnel, audit estimated that Tabaret's development costs, other than of a capital nature, will be around \$5.8 million. If this figure is added to the current capital cost estimate of \$19.7 million, the aggregate cost of establishing Tabaret by mid-1990 will be in the vicinity of \$25.5 million.

3.19.55 A summary of the estimated development costs of \$5.8 million is provided in Table 3.19F.

TABLE 3.19F. ESTIMATED DEVELOPMENT COSTS
(\$'000)

<i>Expenditure item (projected to mid-1990)</i>	<i>Cost</i>
Rental and related outgoings	2 000
Games software facilities	2 500
Provision of Board personnel and facilities	750
Project management	550
Total	5 800

Impact of delay on development costs

3.19.56 The main impact on development costs of the delay in opening of Tabaret relates to the rental of premises at Menzies-at-Rialto and non-performance of a contractor in the delivery of games software facilities.

3.19.57 Based on the Government's December 1987 announcement that Tabaret would be operational before November 1988, the delays experienced to date in finalising Tabaret have meant that rentals totalling \$850 000, which would otherwise have been avoidable, will have been paid by the Board by mid-1990.

3.19.58 In respect of the non-performance of the games software contract, the Board estimates it will incur additional costs (beyond the original contract sum) of around \$600 000 in completing the development of the software.

3.19.59 The factors which have impeded Tabaret's progress to date have therefore resulted in additional development costs (other than of a capital nature) to the Board of almost \$1.5 million.

3.19.60 When combined with the additional capital costs of \$5.7 million, the aggregate cost impact of delays in finalising Tabaret is more than \$7 million.

Management response

The Board has assessed that of the \$19.7 million capital outlays approved by the Minister, \$2.9 million relates to the cost of future Tabaret sites. In addition, the internal development costs of \$5.8 million identified by audit were not included in the original capital cost estimate of \$14 million and, therefore, should not be seen to be characterised as cost over-run on the project.

The Board also considers that:

- *The lease with the owners of the Menzies-at-Rialto was taken up at the latest possible time for gaining access to the site. Therefore, the rental payments incurred to date contain no element of "dead rent" due to the delays, except for the delays due to industrial bans; and*
- *It has received fair value for the computer contract payments. To date, the variations to original estimates were due to changes in scope of the system, not to non-performance by contractors. However, performance on all contracts will be kept under review.*

Need for a computer disaster recovery plan

3.19.61 Previous Auditor-General's reports have commented on the need for the Board to have in place a major disaster recovery plan for its computer centre. The *Report on Ministerial Portfolios, May 1989* indicated that the Board had made provision for a dual computer site at the Box Hill telephone betting centre. The Board advised, at that time, that finalisation of its disaster recovery plan was dependent on the introduction of new technology to replace the existing CRISP computer system. The latest advice provided by the Board is that the new technology will not be available for another 2-3 years.

3.19.62 The need for a disaster recovery plan was reinforced by the occurrence, in June 1988, of a malfunction in one of the Board's computers. The Board estimated that turnover of approximately \$1 million was lost because of this malfunction.

3.19.63 It is important that the Board has an effective disaster recovery plan in place as soon as possible.

Management response

The Board fully appreciates the need to finalise the disaster recovery plan as soon as practical, however, it should be emphasised that the Audit Committee of the Board is continually monitoring the operational performance of the CRISP system to ensure the existing excellent system availability standards are maintained, until future replacement by the new technology. The Board now has available for disaster recovery purposes an alternative site at its new Box Hill Telephone Betting Centre.

Extent of unauthorised credit betting by agents

3.19.64 The Auditor-General's *Report on Ministerial Portfolios, May 1989* indicated that the Board was in the process of reviewing its control procedures in an endeavour to eliminate credit betting by agents.

3.19.65 During 1989, 4 further instances of unauthorised credit betting, involving transactions with a value of more than \$364 000, were detected by the Board. The net loss to the Board totalled \$118 400 of which, at 31 December 1989, \$27 500 had been recovered, \$13 400 had been written-off and \$77 500 remained outstanding.

3.19.66 In view of the level of incidence of unauthorised credit betting by agents over recent years, the Board has strengthened the procedures relating to the recruitment and training of agents and central monitoring of betting transactions.

3.19.67 The above initiatives taken by the Board are welcomed. Audit has recommended that the Board closely monitor the effectiveness of the revised control procedures.

Theft of funds

3.19.68 A number of hold-ups and burglaries occurred at Board agencies during the year ended 31 December 1989. Amounts totalling \$32 100 were taken, of which \$14 900 has been recovered.

Schedule A. Status of matters raised in previous reports

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
Department of Sport and Recreation		
<i>Ministerial Portfolios, May 1989, p.223</i>	Regulations under the <i>Annual Reporting Act 1983</i> require amendment to provide for the disclosure of bad and doubtful debts in the annual financial statements of administrative units.	Position now satisfactory. The Annual Reporting (Administrative Units) Regulations 1985 were amended in 1988-89 to require the disclosure of such information.
<i>Ministerial Portfolios, May 1989, p.223</i>	No provision has been made for the possible non-recovery of loans made to the Australia Games Foundation and Ballarat YMCA.	Position unchanged. The Department considers that there is a strong probability that the loans will eventually be recovered.
National Tennis Centre Trust		
<i>Ministerial Portfolios, May 1989, p.225</i>	The Trust exposed itself to sales tax liability by entering into an arrangement to purchase assets free of sales tax on behalf of a private caterer.	The arrangement has been subject to Sales Tax Office review. The Trust is awaiting formal advice on the results of this review.
<i>Ministerial Portfolios, May 1989, pp.226-7</i>	Finance charges need to be reduced by the injection of government grants or funds. Without this action, the viability of the Trust is threatened.	Position has not improved. For further comments, refer to paragraphs 3.19.17 to 3.19.27 of this report.
Totalizator Agency Board		
<i>Second Report, 1984-85, p.109</i>	Need for a major disaster recovery plan at the Board's computer centre.	Position unchanged. For further comments, refer to paragraphs 3.19.61 to 3.19.63 of this report.
<i>Ministerial Portfolios, May 1989, p.227</i>	The services of a number of agents were terminated as a result of their involvement in unauthorised credit betting.	Further instances of unauthorised credit betting were detected by the Board in 1989. For further comments, refer to paragraphs 3.19.64 to 3.19.67 of this report.
<i>Ministerial Portfolios, May 1989, p.228</i>	Large unauthorised bets made against selected clients telephone betting accounts resulted in a loss to the Board of \$101 000.	At the trial, the Crown determined to proceed with charges of \$57 000 in unauthorised betting and convictions were subsequently recorded. An order for restitution for \$57 000 was made. At the date of preparation of this report, an amount of \$2 700 has been paid in accordance with the order.
<i>Ministerial Portfolios, May 1989, p.228</i>	Delays in receiving race close/sell messages from race venues created opportunities for punters to place winning bets after the race start.	With the implementation of certain additional controls by the Board, no further such occurrences have been detected.

Schedule B. Completed/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor- General's report signed</i>
Completed audits				
Department of Sport and Recreation	30 June 1989	31 October. <i>Annual Reporting Act 1983, s.8.</i>	4 October 1989	10 October 1989
Greyhound Racing Control Board	31 July 1989	31 October. <i>Annual Reporting Act 1983, s.9.</i>	26 October 1989	31 October 1989(a)
Harness Racing Board	31 July 1989	31 October. <i>Annual Reporting Act 1983, s.9.</i>	5 October 1989	31 October 1989(a)
National Tennis Centre Trust	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.9.</i>	27 September 1989	27 September 1989
Totalizator Agency Board	31 July 1989	31 October. <i>Annual Reporting Act 1983, s.9.</i>	26 September 1989	12 October 1989

(a) Qualified audit report issued.

3.20

TOURISM

KEY FINDINGS

- ♦ The success of the Victorian Tourism Commission (VTC) in meeting the Government's tourism strategy is questionable.
paras 3.20.10 to 3.20.13
- ♦ Projects managed by the VTC have, over a number of years, failed to provide a return on government contributions amounting to \$12 million.
paras 3.20.16 to 3.20.40
- ♦ Unauthorised and excessive expenditure relating to the operation of international offices.
paras 3.20.41 to 3.20.50
- ♦ Procedures approved by the Premier and the Treasurer, which provide safeguards over government expenditure, were not observed by the VTC in many instances.
paras 3.20.51 to 3.20.56

The Minister for Tourism is responsible for the following entities which are subject to audit by the Auditor-General:

Public bodies

Alpine Resorts Commission
Victorian Tourism Commission

Comments on matters of significance arising from the audit of the entities are discussed below.

ALPINE RESORTS COMMISSION

Failure to meet reporting requirements

3.20.1 The *Report on Ministerial Portfolios, May 1989*, indicated that the Commission was unable to meet the statutory reporting requirements in relation to its 1987-88 financial statements due to the lack of staff with appropriate financial experience. The Commission advised audit that key finance staff had been replaced and that the 1988-1989 financial statements would be prepared within the prescribed period.

3.20.2 At the date of preparation of this report, the Commission's 1988-89 financial statements had not been finalised. Audit was advised by the Commission that the delay was due to significant problems encountered with its financial management system.

3.20.3 **Audit again expresses concern at the Commission's continuing inability to provide timely financial statements and to comply with prescribed reporting requirements.**

VICTORIAN TOURISM COMMISSION

3.20.4 The Victorian Tourism Commission (VTC) has been designated as the principal agency responsible for the implementation of the Government's tourism strategy. As such the objectives of the VTC, as provided in the *Victorian Tourism Commission Act 1982*, are to:

- ♦ market Victoria as a tourist destination;
- ♦ increase the number of travellers to and within Victoria, their length of stay and their use of Victorian facilities;
- ♦ improve and develop tourist facilities in Victoria;
- ♦ support and co-ordinate the provision of tourist facilities; and
- ♦ provide for the more efficient and effective utilisation of investment in travel and tourism within Victoria.

3.20.5 The *Victorian Tourism Strategy*, released by the Government in 1984, was aimed at achieving these objectives by identifying and developing Victoria's tourism strengths. This strategy included substantial involvement by the VTC in the development and operation of tourist facilities with the aim of operating as a catalyst to private sector development.

3.20.6 The Government's tourism strategy was substantially redirected in 1987 with greater emphasis placed on the marketing and facilitative roles of the VTC and on attracting international and interstate tourists to Victoria. The direct involvement of the VTC in project development and management was phased down under this revised strategy and the VTC is now in the final stages of divesting the remaining facilities.

3.20.7 Although the VTC has been established to play a key role in the implementation of the Government's tourism strategy, audit is of the view that a number of factors have inhibited the effectiveness of its operations in recent years, not the least of which has been the absence of adequate measurement and monitoring of achievements. An audit review also highlighted serious shortcomings in the controls and practices relating to expenditure incurred by the VTC and disclosed deficiencies in the management of tourist facilities in which the VTC had direct ownership or management responsibility.

3.20.8 Senior management of the VTC have indicated that a number of significant control mechanisms have been implemented in recent months to rectify problems identified at the VTC in this and previous audit reports. An audit assessment of the impact of these changes on the accountability processes within the VTC will be undertaken as part of the 1989-90 audit cycle.

3.20.9 Specific examples of activities where the Government's tourism objectives have not been achieved or where doubts exist as to whether funds have been effectively used by the VTC are detailed in the following paragraphs.

Overall strategies and performance

Absence of performance measures

3.20.10 To enable the VTC to assess its efficiency and effectiveness in implementing the economic strategy, as it affects tourism, it is essential that the outcomes of specific activities undertaken are regularly measured and monitored. The establishment of relevant performance indicators is therefore a responsibility of VTC management and in fact the *Victorian Tourism Commission Act 1982* imposes a legislative requirement for the development of performance targets and indicators.

3.20.11 Although a range of national tourism statistics broken down on a State by State basis have been used by the VTC and the Government to indicate that tourism within Victoria has increased in line with the Government's broad aims, these quantitative measures do not provide assurance as to the success or otherwise of specific activities undertaken by the VTC.

3.20.12 In the absence of appropriate performance measures, it is difficult to establish:

- ♦ the extent to which increases in tourism have been attributable to the operations of the VTC;
- ♦ whether substantial funding provided by the Government has been efficiently used; and
- ♦ the impact of the VTC on the Government's economic objective of increasing tourism-related employment.

3.20.13 In recent months, a number of positive steps have been taken by the VTC which are aimed at establishing processes for the measurement and monitoring of achievements. These initiatives include the finalisation of goals, strategies and performance measures within the framework of a corporate plan and the development of a 3 year plan for the period 1990-91 to 1992-93.

Changes in key positions

3.20.14 The management and organisational structure of the VTC has been subject to numerous changes over recent years. Prior to the transfer of responsibility for the VTC to the Minister for Tourism in December 1987, the Minister for Industry, Technology and Resources was responsible for the operations and funding of the VTC. Changes have also been made to both the role and occupants of a number of senior management positions. For example, the occupant of the position of Chairman has changed 5 times since 1987.

3.20.15 In audit opinion, the constant changes in key positions and responsibilities have hindered the application of a consistent approach to implementing government objectives in relation to the Victorian tourism industry.

Management response

There is ample evidence that the management team in place in 1989 has achieved major progress in linking strategies to objectives, setting targets, and implementing focused performance measures. This will continue.

Project management

3.20.16 Over a number of years, the VTC has been directly involved in the development, ownership and management of major tourist facilities both in its own right and through subsidiary companies. (The Auditor-General is not responsible for the audit of these subsidiary companies.)

3.20.17 Following a government decision in 1987 to reduce the level of direct involvement in project management, the majority of properties have recently been divested by either sale to private enterprise or transfer to the control of other public sector agencies.

3.20.18 During the period in which the VTC has been directly responsible for the management of these enterprises, government funds totalling over \$12 million have been contributed to their operations. Despite this substantial injection of funds, all the projects have failed to provide a return on the funds invested. Audit considers that serious deficiencies in the management of the projects, a number of which have been highlighted in previous reports of the Auditor-General, have been a major reason for the operating losses associated with these facilities.

3.20.19 The Government's 1984 tourism strategy objective of taking a direct ownership and management position only where it could assist in developing commercially viable enterprises was clearly not achieved as none of the facilities developed or managed by the VTC returned a commercial profit.

Management response

As a result of an internal assessment in late 1988/early 1989 by the VTC it was recognised that facilities operated through its companies and agreements were not trading successfully. This concern was reinforced by auditor's and consultant's reports. As a result, the VTC undertook a program of divestment throughout 1989-90. This has led to the voluntary liquidation of Wine Victoria, the divestment of all properties managed by Victour Properties, the restructuring of the new Victorian Snow Resorts Pty Ltd, and the transfer of the Maldon low-cost accommodation facility so that it can be used for low-cost youth camps.

3.20.20 Specific comments on the major projects managed by the VTC follow.

Wine Victoria Pty Ltd

3.20.21 Wine Victoria Pty Ltd was established by the VTC in 1985 to develop and operate a centre located within the Flinders Street Banana Alley for the promotion of Victorian wine. Total construction and fit out costs of the centre, amounting to approximately \$700 000, substantially exceeded original budget estimates primarily due to additional costs associated with delays in construction of the centre. The centre eventually commenced operation in October 1988.

3.20.22 The capital and operating costs of the company were mainly financed by way of government contributions comprising over \$3 million in capital and operating grants. However, the company was not able to operate viably. Sales revenue during 1988-89 amounted to only \$365 000 compared with operating expenditure of \$1.2 million.

3.20.23 Due to financial difficulties, the company was placed in liquidation in May 1989 and the promotional centre subsequently ceased trading only 7 months after it commenced operation.

Victorian Snow Resorts Pty Ltd

3.20.24 Victorian Snow Resorts Pty Ltd (formerly Victour Properties Pty Ltd), commenced operations in 1984 as a wholly-owned subsidiary of the VTC. The major activities of the company have been the development and operation of tourist facilities including the Mt Buffalo Chalet, Rawson, Wallaby Creek and O'Shannassy Resorts and various properties located at Dartmouth.

3.20.25 Over the past 3 years, reports of the Auditor-General have expressed concern at significant operating losses and liquidity problems associated with this company. These problems have occurred despite VTC contributions to the company of \$1.3 million by way of operating grants, \$1.3 million in capital contributions in addition to a loan of \$2 million.

3.20.26 During 1987-88 the company was placed in voluntary liquidation to enable the progressive sale of its assets. A report prepared by an accounting firm regarding the disposal of the facilities noted a number of common problems in the management of the resorts. These included a lack of effective marketing, poor booking and accounting systems within the resorts and the absence of head office co-ordination, direction and feedback.

3.20.27 Following the sale of the majority of its tourist facilities, the company recommenced operations in May 1989 with its major remaining asset being the Mt Buffalo Chalet. Audit has been advised that the assets and liabilities of Victorian Snow Resorts Pty Ltd (VSR), including the Chalet, are in the process of being transferred to the Department of Conservation, Forests and Lands.

Mt Buffalo Chalet

3.20.28 The Mt Buffalo Chalet, a guest house built in the early 1900s has been operated by VSR on a 7 year lease commencing in 1985 from the Department of Conservation, Forests and Lands. Prior to being transferred to VSR, the Chalet was operated by the former Victorian Railways Board and State Transport Authority from 1928 to 1986. The Chalet comprises 103 guest rooms and provides a range of services and recreation facilities for guests and day visitors to the Mt Buffalo National Park.



Mt Buffalo Chalet.

3.20.29 At the time the Chalet was transferred to Victour Properties Pty Ltd in 1986, the former Minister for Industry, Technology and Resources noted in a letter to the Treasurer that while it had failed to produce an operating profit in the past, **the Government's expectation in transferring responsibility for the Chalet to Victour Properties Pty Ltd was that, effectively managed, it would produce a profit.**

3.20.30 The areas of concern identified at that time with respect to the operations of the Chalet were:

- ♦ staff numbers in relation to guests were unrealistically high;
- ♦ marketing plans were almost non-existent;
- ♦ refurbishment of guest accommodation and facilities had not been a high priority;
- ♦ work practices were outdated and inefficient; and
- ♦ many of the day-to-day decisions affecting purchasing and accounting were made in Melbourne, thereby imposing an unnecessary level of bureaucracy on the Chalet.

3.20.31 While action has subsequently been taken by management to address a number of these concerns, including the reduction of staff numbers at the Chalet from 75 to 55, the refurbishment of some public areas of the Chalet and the devolution of certain purchasing and accounting functions to Chalet management, **several of the deficiencies identified in 1986 continue to exist almost 4 years later. Consequently, the expected return to profitability has not eventuated.**

3.20.32 During 1986-87 and 1987-88, the Chalet recorded operating deficits of over \$400 000. Between April 1988 and May 1989 the Chalet was managed by a liquidator. Under the management of the liquidator, the operating deficit for the 1988-89 year was reduced to \$150 000.

3.20.33 An audit review of the Chalet's financial results and operational activities highlighted a number of matters which need to be addressed in order to improve the financial viability of the Chalet, namely:

- ♦ A practice has been adopted at the Chalet of charging tariff rates prevailing at the time a deposit is received, rather than the rate applicable at the time of occupancy. As deposits may be received up to 12 months in advance, the flow-on effect of tariff increases can therefore be significantly delayed. **Audit estimates that if 1988-89 takings had increased in line with tariff increases, additional revenue of approximately \$190 000 would have been received;**
- ♦ Over the past 8 years the Chalet has experienced a declining trend in occupancy with levels reducing from 70 per cent in 1981 to 46 per cent in 1989. The reduction in occupancy has substantially been due to the need for refurbishment of facilities and the absence of an appropriate marketing strategy for the Chalet;
- ♦ Audit estimates that more competitive stock purchasing arrangements could result in savings of over \$50 000 per year;
- ♦ The Chalet is in need of substantial repairs. While a number of improvements have been made during the past 4 years, including the construction of a new tennis court and replacement of soft furnishings in many public areas, **an audit inspection of the premises disclosed the need for substantial additional capital expenditure in order to increase the Chalet's revenue generating capacity.** A consultancy report prepared for the VTC in 1988 estimated that the cost of approximately \$2 million required to refurbish the majority of bedrooms in the Chalet could be recouped within 3 years by an increase in tariffs; and
- ♦ Information systems and the reporting framework are inadequate for an operation with an annual turnover of over \$2.8 million. Deficiencies include the absence of information on occupancy trends for various room types and a lack of financial results for individual areas of activity at the Chalet. It was also noted that only 2 meetings of directors of VSR had been held in the 9 months after the VTC resumed management of the company. Failure to regularly monitor many aspects of the Chalet's operations has contributed to its poor financial performance over many years. **Unless problems are promptly detected and appropriate corrective action taken, further deterioration in the Chalet's financial position will result irrespective of which agency has responsibility for its management.**

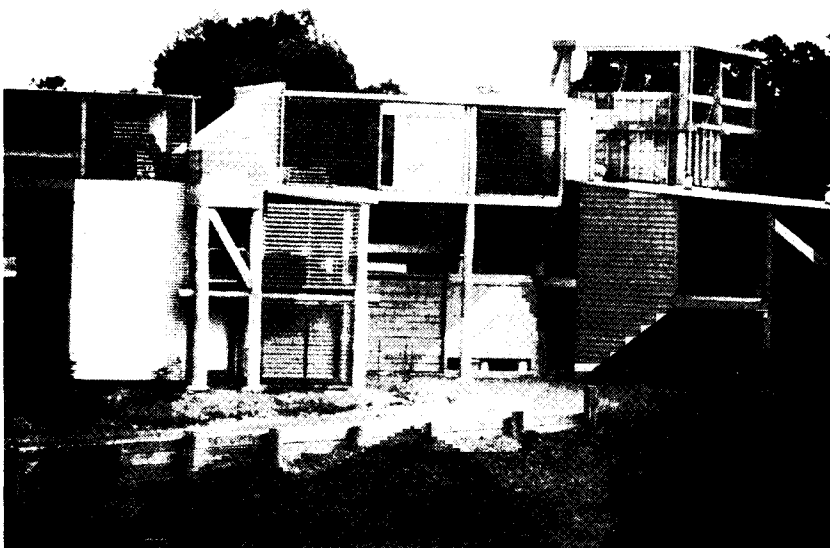
Management response

Until April 1989, Mt Buffalo Chalet was managed by liquidators, not the VTC. Since May 1989 when Victorian Snow Resorts re-commenced operations many improvements have been made. These include \$150 000 in refurbishment; regular advertising; promotion at trade shows; preparation of brochures; review of pricing and tariff policy; development of a new purchasing policy; and operating results for year-to-date January 1990 are showing a net profit.

Directors of the company hold regular discussions with the company accountant and other staff on performance, expenditure decisions and advertising programs. These activities have now led to the achievement of a positive trading result.

Maldon accommodation complex

3.20.34 The VTC constructed a complex at Maldon to provide low-cost accommodation and facilitate tourism activity in the area.



Low-cost accommodation complex at Maldon.

3.20.35 This project, which was announced in 1984, was estimated to cost \$750 000 and be completed by July 1986. However, due to inflationary effects, delays in commencement of construction and inadequacies in initial designs, construction was not completed until March 1988 at a total cost of approximately \$1.5 million.

3.20.36 The complex commenced operation in April 1988 under the control of private managers employed by agreement with the VTC. The Auditor-General's *Report on Ministerial Portfolios, May 1989*, expressed concern at significant deficiencies in this management agreement including inappropriate profit sharing arrangements and inadequate accountability arrangements.

3.20.37 The agreement was terminated by VTC management in January 1989 due to their concerns over low occupancy rates, higher than expected operating costs and inadequate financial accounting and reporting systems used by the private managers.

3.20.38 Following termination of the agreement, the complex was managed by VTC staff. However, to 30 June 1989, occupancy rates continued to be lower than expected with an average bed occupancy rate of only 19 per cent over the period January to May 1989 compared with average occupancy figures for the area of around 50 per cent. Earlier projections by the VTC estimated that an occupancy rate of at least 38 per cent was required for the complex to remain financially viable. It is of concern to audit that the financial results for the operation of the complex for 1988-89 could not be provided by the VTC.

3.20.39 Following a ministerial decision, responsibility for the management of the complex was transferred, at no cost, to the Ministry for Police and Emergency Services with effect from June 1989.

Management response

The VTC reviewed options for the future use of the Maldon low-cost facility. It was recommended to the Minister that it be used for youth camps given its design and the limited appeal to the general public.

3.20.40 While audit recognises that the responsibility for the Mt Buffalo Chalet and the Maldon Accommodation Complex no longer rests with the VTC, concern remains as to the future management of these facilities. Unless attention is given to addressing deficiencies in management practices, reversing declining occupancy levels and achieving cost reductions, it is unlikely that the transfer of these facilities to other agencies will improve their operating results.

International office operations

3.20.41 During 1986-87, the VTC began a 3 year international marketing program, concentrating on the United States and Japanese markets, with the aim of capitalising on a forecast rapid growth in the number of international tourists to Australia. Allocations of \$3 million per year were made to the VTC over 3 years for the marketing campaigns which were launched in association with the Australian Tourist Commission.

3.20.42 A number of international offices have also been operated by the VTC over the past 5 years to enhance the international marketing of Victoria. These offices are based in Tokyo, Los Angeles, London, Singapore and Auckland. Activities undertaken by the offices include attendance by VTC personnel at trade shows and conferences and the development and distribution of promotional material. Consultants are also employed by several of the offices to undertake media liaison and related activities.

3.20.43 The total cost associated with the international offices was \$4.8 million in 1988-89 comprising marketing expenditure of \$3.3 million and overheads of \$1.5 million. Budgeted expenditure for 1989-90 consists of marketing expenditure of \$1.5 million and overheads of \$1.4 million. The reduction in marketing expenditure has occurred following completion of the 3 year international marketing campaign.

3.20.44 Substantial funds have been expended annually in operating these offices. Audit believes that doubts exist as to their cost-effectiveness in meeting VTC objectives due to:

- ♦ the absence of qualitative and quantitative measures to assess the performance of each office;
- ♦ lack of forward planning and accountability in relation to the activities undertaken by the offices; and
- ♦ excessive and unauthorised expenditure by VTC staff located at the international offices.

3.20.45 Specific areas of concern follow.

Planning and accountability

3.20.46 Each international office has generally been responsible for planning and conducting its promotional role. However, overall strategies have not been developed to target activities of most benefit to the VTC's marketing aims and activities have not been centrally co-ordinated and monitored by the VTC.

3.20.47 Although monthly activity reports are provided to the VTC by managers of international offices, audit noted that these reports merely contained listings of events and activities undertaken without evaluation of their impact on the level of international tourism to Victoria. In some instances, the relevance of the activities undertaken to meeting tourism objectives was questionable. For example, attendance at trade fairs in the South Pacific and Korea, areas which have not been identified by the VTC as target markets and which provide only a small proportion of international tourists to Victoria.

Cost of operations

3.20.48 While expenditure associated with direct international marketing campaigns has reduced significantly in 1989-90, the overhead cost of operating international offices has remained high. This factor, together with serious deficiencies in expenditure control noted by audit, indicated that the cost-effectiveness of maintaining these offices needs to be carefully evaluated by the VTC. Weaknesses in the control and monitoring of expenditure was illustrated by the fact that certain expenditure of the overseas offices was found to be excessive or outside the roles and functions of the VTC, benefits provided to staff located at the overseas locations in some cases exceeded entitlements and the documentation to enable authorisation of expenditure made at international offices was not always available. Specific examples included:

- ♦ Insufficient supporting documentation to identify that expenditure on telephone calls was for VTC purposes, including expenditure at one location amounting to \$12 000 in local currency during 1988-89 on chargeable domestic and international calls;
- ♦ Absence of original invoices to support some reimbursement claims. Audit investigations in relation to one such claim for hotel accommodation revealed that the hotel had no record of the VTC officer staying in the hotel on the days for which reimbursement was claimed;

- ♦ While the VTC indicated that reimbursement of rental accommodation at one office was below the maximum rates allowable under the Commonwealth Government guidelines relating to overseas appointments, audit is of the opinion that the amounts involved were excessive. In this case annual rental charges, amounting to \$25 000 in local currency, were 90 per cent above the average market rental in the particular city; and
- ♦ Insufficient evidence to support the reasons for providing entertainment, including costs associated with regularly entertaining the same people and costs of a private nature associated with entertaining VTC employees.

3.20.49 A major review of all international offices was commenced by the VTC in November 1989 to evaluate the most effective way of achieving their international marketing objectives. As part of the review process, the internal auditor of the VTC has also undertaken a review of the financial operational systems of international offices.

3.20.50 Audit concluded that there was an urgent need for the matters under review by the VTC in relation to international offices to be resolved. Due to the seriousness of the issues raised regarding unauthorised and excessive expenditure, consideration should also be given to undertaking a detailed review of the financial transactions of each international office.

Management response

International offices prepare annual plans which are submitted to head office for finalisation and approval. New management of the VTC have addressed the inadequacies of the system and have already implemented procedures and activities to improve upon them. These will continue to be refined and developed to suit changing international trends.

A complete transactional audit of the allowances paid to overseas officers is now taking place. Although the VTC disputes some of the examples detailed in the audit report, it will review previous allowances to determine if any could be considered excessive.

The VTC determines its overseas allowances and conditions in accordance with the Commonwealth Personnel Management Manual Vol. 19 (Overseas Conditions, Australian based staff). It is not the role of the VTC to conduct rent reviews or monitor average rent prices in overseas cities. To establish processes to conduct such reviews would not be an effective and efficient use of government resources and would divert staff from their key tasks. The Commonwealth has very sophisticated mechanisms in place to monitor the allowances, including rental allowance, paid to officers in overseas posts. For the State to duplicate these mechanisms would not be cost-effective. Furthermore, rent paid on all VTC leased properties overseas is below the Commonwealth ceiling.

The VTC Review of International Offices in 1989-90 addressed all the issues raised by audit. VTC management is confident that the actions arising from its internal review will result in activities and strategies being clearly tied to tourism objectives which can be seen to be an effective mechanism to attract greater tourist numbers to Victoria in a cost-effective manner.

Expenditure control

3.20.51 Expenditure by the VTC during 1988-89 amounted to \$28.9 million.

3.20.52 A review of payments made by the VTC disclosed many instances where the procedures approved by the Treasurer and the Premier, which provide safeguards over government expenditure, had not been observed.

3.20.53 In addition to problems associated with expenditure incurred by international offices, audit noted instances of expenditure that appeared excessive and were inadequately documented, in that supporting evidence was not provided to justify the expenditure as a proper charge against VTC funds.

3.20.54 As the required Tender Board approvals and competitive quotes were not obtained in certain cases, doubt also existed over the effectiveness of the tendering process.

3.20.55 Specific deficiencies included:

- ♦ In a number of instances public tenders had not been sought for expenditure exceeding \$10 000 and in many cases the required Tender Board approval was not obtained. For the year ended 30 June 1989, the Commission received Tender Board approval amounting to \$172 000. However, **payments in excess of \$10 000, totalling over \$1.7 million, were made without the approval of the Tender Board;**
- ♦ Computer equipment totalling \$120 000 had been requisitioned with 20 purchase orders. Audit was advised by the Tender Board that dividing required quantities in a way which circumvented approval requirements was not acceptable;
- ♦ Security over tenders, independent recording of the details of tenders received and the evaluation of tenders were inadequate. Consequently, **information was not available to management to indicate whether all tender submissions had been fairly treated and considered in the evaluation process;**
- ♦ In many cases less than the required number of quotations had been obtained by the VTC;
- ♦ Formal legal agreements to protect the rights of the Commission had not been entered into for consultancy arrangements including the Commission's major 1987-88 advertising campaign amounting to \$3 million; and
- ♦ In a number of instances the required approvals of the Effectiveness Review Committee for expenditure on consultancies was not obtained prior to expenditure being incurred.

3.20.56 The VTC needs to strengthen the procedures relating to the procurement of goods and services.

Management response

Audit's comments are noted and appropriate procedures are now in place. However, the VTC disputes the auditor's comments that Tender Board approval was required for the purchase of the computer equipment.

The \$1.7 million payments without Tender Board approval included \$1.3 million for a major advertising campaign. The new management team recognised that the proper procedures had not been followed and immediately sought section 25(A) approval which was subsequently endorsed by the Treasurer.

Cash management

3.20.57 Certain practices adopted by the VTC were not in line with sound cash management principles and as a result did not maximise returns to the State. For example, interest was not earned on the majority of VTC bank accounts and balances held by international offices were in excess of requirements.

3.20.58 Based on average balances held in the bank accounts, audit estimates that interest of approximately \$135 000 would have been earned on amounts held if returns in line with VDF short-term rates had been received during 1988-89.

3.20.59 A detailed review of June transactions also identified payments totalling \$1.2 million made in advance of the due dates, including:

- ♦ Payments totalling \$409 000, comprising 1989-90 first quarter funding made to regional tourism authorities;
- ♦ Purchase of a motor vehicle for the Sydney office at a net cost of \$7 300 prior to delivery;
- ♦ Purchase of computer equipment totalling \$120 000. This payment was made in advance of receipt of invoice;
- ♦ Purchase of furniture totalling \$23 000. While drawn on 1988-89 funds, cheques were withheld until the furniture was delivered in August/September 1989; and
- ♦ Payment of a capital grant of \$137 000 to a Shire in advance of requirements.

3.20.60 The practice of paying amounts in advance at year end to make use of available funds is not in line with the *Accounts Payable Policy Statement* issued by the Department of Management and Budget and represents poor cash management practice.

Management response

Audit's recommendations are noted and efforts will be made to investigate ways to maximise investment returns.

The VTC complies with the "Accounts Payable Policy Statement" issued by the Department of Management and Budget. The unusual circumstances surrounding some of the items raised by audit were:

- *There was a deliberate decision to make advance payments to the regional tourism bodies for the purposes of most expediently engaging liquidators to wind-up the affairs of the companies. Had the VTC not taken this action the process would have taken longer, been more costly, and resulted in less funding being available for the newly announced rural tourism initiative;*

- Computer equipment delivered and paid for in June. Funds from 1988-89 had been committed for this purpose in February but needed to await the further reassessment by new management in April and May; and
- Work commenced November 1988. The local shire council approached the VTC early in 1989 for assistance because they could not afford to continue the works. The council let a tender for works to commence in May and VTC then provided a grant to cover funding of works.

Schedule A. Status of matters raised in previous reports

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
Alpine Resorts Commission		
<i>Ministerial Portfolios, May 1989, p.148</i>	Failure to repay loans.	Matter outstanding. The 1988-89 audit not yet completed.
<i>Ministerial Portfolios, May 1989, p.149</i>	Significant rise in amounts owed to the Commission primarily due to delay in raising invoices and withholding of payments by siteholders.	Matter outstanding. The 1988-89 audit not yet completed.
<i>Ministerial Portfolios, May 1989, p.150</i>	Delay in finalising financial statements.	The Commission's 1988-89 financial statements have not been finalised. For further comments, refer to paragraphs 3.20.1 to 3.20.3 of this report.
Victorian Tourism Commission		
<i>Second Report, 1986-87, p.99</i>	Significant deficiencies in financial management practices and procedures including lack of performance targets and budgetary controls, inadequate procedures in relation to debt raising and collection and lack of control over fixed assets.	While improvements have been made in 1988-89 further action is required. For further comments, refer to paragraphs 3.20.4 to 3.20.13 of this report.
<i>Ministerial Portfolios, May 1989, p.231</i>	Deterioration in financial position of the subsidiary companies, Victorian Snow Resorts Pty Ltd and Wine Victoria Pty Ltd.	Many assets of Victorian Snow Resorts sold. Remaining assets and liabilities transferred to the Department of Conservation Forests and Lands. Wine Victoria Pty Ltd placed in liquidation in May 1989. For further comments relating to the subsidiary companies, refer paragraphs 3.20.21 to 3.20.27 of this report.

Schedule A. Status of matters raised in previous reports - continued

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<i>Ministerial Portfolios, May 1989, p.232</i>	Deficiencies in the management agreement relating to the operation of the Maldon Accommodation Complex including inappropriate profit sharing arrangements and inadequate accountability arrangements.	Management agreement terminated in January 1989. Responsibility for management of the complex has been transferred to the Ministry for Police and Emergency Services. For further comments, refer to paragraphs 3.20.34 to 3.20.40 of this report.

Schedule B. Completed/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor-General's report signed</i>
Completed audits				
Alpine Resorts Commission	31 October 1988	31 December. <i>Alpine Resorts Act</i> 1983, s.10	2 May 1989	23 May 1989(a)
Victorian Tourism Commission	30 June 1989	31 December. <i>Victorian Tourism Commission Act</i> 1982, s.27.	31 October 1989	31 October 1989
Incomplete audit				
Alpine Resorts Commission	31 October 1989	31 January. <i>Annual Reporting Act</i> 1983, s.9	Audit currently being finalised.	

(a) Qualified audit report issued.

3.21

TRANSPORT

KEY FINDINGS

- ♦ Annual financial statements of the transport authorities do not adequately disclose the costs and revenues associated with major services provided, e.g. passenger, freight etc.
paras 3.21.7 to 3.21.10
- ♦ Substantial financial implications to the Port of Melbourne Authority as a consequence of delays in the sale of the World Trade Centre.
paras 3.21.14 to 3.21.22
- ♦ Repairs to transport assets affected by vandalism and graffiti cost \$6 million in 1988-89. Preventative measures are expected to cost \$14.3 million in 1989-90. The cost of these measures is met by the general taxpayer.
paras 3.21.23 to 3.21.41
- ♦ MET buses cost 48 per cent more to operate on a cost per kilometre basis than contracted private bus services. In 1988-89, this cost differential equated to \$12.8 million.
paras 3.21.42 to 3.21.67
- ♦ Need for the Roads Corporation to examine whether retention for substantial periods of properties acquired for road development (valued at \$766 million) represents optimal resource management.
paras 3.21.79 to 3.21.86
- ♦ The Transport Accident Commission achieved its investment target in 1988-89 and was on course to meet its aim of having a fully-funded scheme by 1997.
paras 3.21.95 to 3.21.116

The Minister for Transport is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Ministry of Transport

Public bodies

Grain Elevators Board
Marine Board of Victoria
MTA Investments Pty Ltd
MTA Superannuation Fund
Port of Geelong Authority
Port of Geelong Authority Superannuation Fund
Port of Melbourne Authority
Port of Portland Authority
Public Transport Corporation (incorporating the former Metropolitan Transit Authority and State Transport Authority)
Roads Corporation (incorporating the former Road Construction Authority and Road Traffic Authority)
Transport Accident Commission

Matters of significance arising from the audit of certain of the above entities are summarised below.

PORTFOLIO COMMENTS**Amalgamation of transport authorities**

3.21.1 In 1983 the Parliament enacted legislation (the *Transport Act* 1983) to abolish 8 transport authorities, create 4 new authorities and strengthen the role and responsibilities assigned to the Ministry of Transport. Table 3.21A outlines the 1983 revisions to transport administration.

TABLE 3.21A.
REVISION OF TRANSPORT AUTHORITIES RESULTING FROM THE
TRANSPORT ACT 1983

<i>Old Authority</i>	<i>New Authority</i>
Victorian Railways Board (metropolitan functions only) Melbourne and Metropolitan Tramways Board Melbourne Underground Rail Loop Authority Railway Construction and Property Board (metropolitan functions only)	Metropolitan Transit Authority (MTA) (metropolitan rail division controlled by MTA for budgeting, marketing and other functions, yet reported to State Transport Authority (STA) for personnel matters, staffing and working conditions)
Country Roads Board (including WestGate Bridge Authority)	Road Construction Authority (RCA)

TABLE 3.21A.
REVISION OF TRANSPORT AUTHORITIES RESULTING FROM THE
TRANSPORT ACT 1983 - *continued*

<i>Old Authority</i>	<i>New Authority</i>
Road Safety and Traffic Authority Transport Regulation Board Motor Registration Branch	Road Traffic Authority (RTA)
Victorian Railways Board (country/interstate functions) Railway Construction and Property Board (country functions)	State Transport Authority (STA)

3.21.2 The Minister for Transport indicated that the major benefits perceived from revamping the transport administration were:

- ♦ to make management directly answerable to, and controlled by, representatives of the taxpayers, users and employees;
- ♦ to create an operating environment which would see the transport system carry vastly increased numbers of passengers and volumes of freight using modern technology and provide better employment for Victorians; and
- ♦ to apply co-ordinated management of the total transport task with better co-ordination and utilisation of resources.

3.21.3 The Ministry of Transport would provide:

- ♦ strategic transport planning and policy development;
- ♦ resource budgeting for the entire transport portfolio including dealings with the Department of Management and Budget; and
- ♦ organisational development.

3.21.4 In 1989 the Government undertook a further rationalisation of transport authorities as shown in Table 3.21B.

TABLE 3.21B.
TRANSPORT AUTHORITIES AT 1 JULY 1989

<i>Old Authorities</i>	<i>New Authorities</i>
Metropolitan Transit Authority State Transport Authority	Public Transport Corporation (retains trading names of MET and V/Line)
Road Construction Authority Road Traffic Authority	Roads Corporation (known as VICROADS)

3.21.5 The perceived benefits of this process were to:

- ♦ streamline management responsibility and accountability;
- ♦ reduce the costs of running public transport and managing Victorian roads;

- ♦ achieve efficiencies in the transport authorities so that services could be improved;
- ♦ aid in award restructuring; and
- ♦ integrate planning to make better use of land, infrastructure, rolling stock, maintenance and other facilities.

3.21.6 The Minister has projected that the latest restructuring will result in yearly savings of \$15 million for the Roads Corporation and \$24 million for the Public Transport Corporation.

Usefulness of published financial information

Disclosure of financial performance

3.21.7 In 1988-89, 57 per cent (\$1 107 million) of revenues of the main transport authorities were provided by way of government appropriations. These appropriations were based on program budget structures which are designed to facilitate decisions on resource allocation and reporting of management performance.

3.21.8 The program budget descriptions mirror the main operating segments of the authorities. For example, 1989-90 government contributions of \$493 million towards the Public Transport Corporation (PTC) operating costs are provided under the program descriptions shown in Table 3.21C:

TABLE 3.21C.
GOVERNMENT CONTRIBUTIONS TO PTC OPERATIONS
(\$million)

<i>Program</i>	<i>Appropriation</i>
Metropolitan passenger services	307
Country, regional and interstate corporate services	29
Country, regional and interstate passenger services	91
Freight services	66
Total	493

3.21.9 The annual financial statements of the transport authorities do not provide information in a format which reflects their service delivery or segments of business activity. If revenue and expenditure items were presented in a format consistent with the relevant service activities (e.g. passenger, freight etc.), both management and users of the financial statements would have an enhanced basis for reviewing and assessing organisational performance.

3.21.10 Audit has recommended that the annual financial statements of the transport authorities disclose financial transactions in a format which reflects services provided.

Management response

The concept of segment reporting receives ongoing consideration but it is not considered opportune to adopt this type of reporting at this stage given the recent establishment of the 2 new Transport Corporations and the need to allow for the amalgamation process (and associated annual reporting) to be properly put in place. It is a matter, however, which will be considered again at a suitable time. In the meanwhile, non-segmentation is not considered to be a major impairment to the annual financial statements.

Need for consolidated portfolio financial information

3.21.11 Currently, a consolidated set of financial statements for the whole transport portfolio is not published. If the Parliament wished to evaluate the financial performance and status of the transport portfolio, it would be necessary to review and assess the financial statements of each of the 11 transport organisations. As such, it is very difficult for the Parliament, Executive Government and the public to form meaningful assessments of the performance of the total transport portfolio.

3.21.12 The preparation of consolidated financial statements would assist the Parliament in its overview of the financial performance of the transport portfolio. Also, the Government and transport management would have an enhanced basis for decisions on the allocation and use of scarce resources within the portfolio.

3.21.13 Audit has suggested that the Ministry of Transport consider, as part of its overview responsibilities, the preparation of consolidated financial information for the transport portfolio.

Management response

This matter does receive ongoing consideration but at this stage the advantages of preparing such a consolidation are not apparent to an extent that would justify immediate adoption of this approach. It must also be recognised that new reporting formats are in the course of being introduced for the Public Transport Corporation and the Roads Corporation and it is desirable to have these formats operating properly before giving further consideration to the issue of a portfolio-wide consolidation.

In the meanwhile, a full consolidation of the portfolio's appropriation and revenue impacts on the State Budget is provided in the annual financial statements of the Ministry of Transport and this has proved to be useful disclosure over a number of years.

PORT OF MELBOURNE AUTHORITY**Implications of delays in sale of the World Trade Centre**

3.21.14 Audit has reported previously that the Port of Melbourne Authority (PMA) has incurred substantial losses from the operations of the World Trade Centre (WTC). These losses were due to the substantial finance charges associated with the foreign currency loans used to fund the Centre's construction.

3.21.15 In the 3 years to 30 June 1989, net losses (expressed in 1988-89 constant prices) in respect of the WTC totalled \$88.8 million. **Without the substantial impact of finance charges (\$109.2 million), the WTC would have contributed a profit of \$20.4 million to the PMA's operating result over this period.**

3.21.16 In 1987 the PMA initiated action to sell the WTC by undertaking a major campaign to attract prospective buyers. In May 1988 a sale contract was signed for \$158 million. This contract did not proceed and the PMA retained an amount of \$280 000 received from the other party.

3.21.17 The PMA continued to market the complex and signed a sale contract for \$162.5 million (including \$5 million deposit) in October 1988, with settlement to occur on 30 June 1989.

3.21.18 Settlement did not take place on the due date as the purchaser did not complete the contract on the technical point that the process used to obtain title to certain land was not in accordance with contractual conditions. The PMA had legal title to the relevant properties and would have been able to transfer title on settlement date. The Authority has retained the \$5 million deposit following the purchaser's failure to proceed with the contract.

3.21.19 In anticipation of settlement on 30 June 1989 the PMA proceeded to:

- ♦ repay some foreign currency loans using short-term temporary finance; and
- ♦ arranged for all remaining loans and the short-term finance to be repaid on 30 June 1989 from the expected proceeds of the sale.

3.21.20 As a consequence of the settlement not eventuating, the Authority found it necessary to maintain the existing short-term financing and to arrange additional short-term finance so that the repayments scheduled for 30 June 1989 could proceed. **From 1 July 1989 to 13 January 1990 the Authority had incurred \$12.4 million interest costs in maintaining these short-term financing facilities but had received net rentals of \$5.2 million resulting from the continued ownership of the WTC.**

3.21.21 The Authority is continuing in its efforts to sell the WTC and achieve an acceptable price.

3.21.22 Audit has recommended that the Authority explore the potential for legal action against the October 1988 defaulting purchaser to recoup any losses incurred as a consequence of the non-completion of the sale.

Management response

Pending disposal of the WTC, the Authority has taken positive steps to minimise the impact of the future interest costs of the WTC by restructuring foreign currency loans into domestic loans at 30 June 1989.

The WTC is continuing to be marketed for sale and, until such time as it is sold, will incur a shortfall after interest costs and net rentals are taken into account.

The Authority is investigating its options for legal action in relation to the sale contract signed in October 1988 which was not settled by the purchaser. Certain legal action relating to this matter has already been initiated.

PUBLIC TRANSPORT CORPORATION

Impact of vandalism and graffiti on the provision of Melbourne's train services

3.21.23 Vandalism and graffiti are problems which are having a detrimental impact on the security and protection of Melbourne's railway assets. Vandalism and graffiti also result in a general deterioration in the quality of passenger comfort and convey an impression of insecure travel.

3.21.24 The latest survey undertaken by the Public Transport Corporation (March 1989) indicated that 44 per cent of train users identified graffiti as a major concern. Also, 25 per cent of non-rail users were concerned about the poor appearance of train stations. The basis for these perceptions can be readily appreciated by the following photographs:



Graffiti damage on an unmanned station.



Graffiti damage inside a suburban rail carriage.

3.21.25 An adverse perception about the security and cleanliness of suburban trains can deter patronage and inhibit promotional activities designed to attract or retain rail users.

3.21.26 Audit undertook a review to determine the financial impact of vandalism and graffiti damage on the metropolitan train system and to evaluate the manner in which the Corporation is tackling the problem.

What is the financial cost of vandalism and graffiti?

3.21.27 In 1988-89 the Corporation expended in excess of \$6 million on the removal of graffiti and repairs to vandalised assets.

3.21.28 Budgeted expenditure for 1989-90, which includes an additional government allocation of \$9.5 million to counter vandalism and graffiti, is \$14.3 million and comprises:

- ♦ \$6.1 million for the removal of graffiti and repairs to rolling stock;
- ♦ \$7.5 million to acquire equipment to detect and prevent vandalism and graffiti; and
- ♦ \$0.7 million for repairs to stations and infrastructure.

3.21.29 Expenditure incurred by the Corporation at 13 January 1990 on the repair of vandalised and graffiti affected assets and the introduction of prevention measures totalled \$4 million.

3.21.30 The rising cost of vandalism to the Corporation was dramatically illustrated over the 1990 Moomba period when smashed train windows and graffiti resulted in a repair bill estimated to be \$680 000.

3.21.31 As mentioned earlier, vandalism and graffiti are likely to deter patronage and lead to lower revenues for the Corporation. In addition, the cost of their repair and removal places an extra strain on cost containment policies of the Corporation.

3.21.32 Through lower revenues and higher costs, vandalism and graffiti impose a greater demand on government funds allocated to finance the operations of the Corporation. Therefore any financial burden arising from vandalism and graffiti within the transport system is carried by the general taxpayer, i.e. the wider community bears the cost of this serious problem.

How is the Corporation addressing the problem?

3.21.33 Prior to 1988-89 the Corporation had not monitored the level and location of vandalism and graffiti damage.

3.21.34 During 1988-89 the Corporation considered that vandalism and graffiti were reaching such epidemic levels and occurring so frequently throughout the system that urgent remedial action was necessary.

3.21.35 As a consequence, the Corporation began implementation during 1989-90 of a series of initiatives designed to prevent and detect incidences of vandalism and graffiti. These initiatives include:

- ♦ fencing and lighting of train stabling yards;
- ♦ upgrading of station lighting;
- ♦ video surveillance of stations;
- ♦ cleaning and beautification of stations;
- ♦ video surveillance on trains; and
- ♦ introduction of a community awareness program.

3.21.36 Within the Corporation there are various sections which maintain records relating to vandalism and graffiti, e.g. Transit Police, Train Operations and Train Maintenance. The information compiled by the various sections is not systematically consolidated to assist decision-making in the management and control of the 2 problems. In particular, the Corporation has not yet developed formal monitoring and reporting mechanisms to enable it to evaluate the effectiveness of the recent major initiatives.

3.21.37 It is important that the Corporation develops suitable monitoring and reporting processes for vandalism and graffiti to enable it to assess the adequacy or otherwise of the recent initiatives.

Legislative action to deter graffiti activities

3.21.38 It is the Corporation's policy to initiate legal action against any persons detected committing acts of graffiti on public transport assets. However, the Corporation does not maintain data as to the success of prosecutions arising from its actions.

3.21.39 To assist the prosecution process, the Corporation (in conjunction with the Ministry of Transport) is presently considering seeking amendments to the Transport Act and the Summary Offences Act which, if approved by the Parliament, will allow graffiti offences resulting in damage up to a value of \$5 000 to be prosecuted without reference to the Crimes Act.

3.21.40 The Government has recently announced that it is considering the introduction into the Parliament of legislative changes which will enable the Corporation to recoup damages from the parents of children found guilty of committing acts of graffiti.

3.21.41 Audit has recommended that the Corporation introduce systems to monitor the adequacy of its detection and prosecution programs.

Management response

While the Auditor-General acknowledges that many steps are being taken by the Corporation to deal with the problems of graffiti and vandalism, there is disagreement with some aspects of the findings included in the report:

- *Contrary to the report, the Corporation had commenced initiatives to tackle these problems prior to 1989-90, e.g. a station lighting program was well underway in 1989-90, the Transit Police had been formed, 30 additional cleaners had been appointed to remove graffiti and the roving guard project had been initiated; and*
- *The Corporation does not agree that there is a lack of monitoring of the effectiveness of the major initiatives underway. Transit Police patrols are continually reviewed and are targeted, on advice from station operating staff and the public, to trains and locations which have known high incidences of graffiti. Constant evaluation for train cleaning initiatives is carried out as the cleanliness of all trains is now monitored on a daily basis by watchmen, station staff and cleaners. A new computerised cleaning information system, which is now being developed and will be operational in about one month, will provide enhanced monitoring of train cleaning.*

Graffiti and vandalism issues remain a high priority for the Corporation and already there are some signs of improvement compared with the position of 12 months ago.

Provision of metropolitan route bus services

3.21.42 The Corporation has a policy objective of providing effective transport services with maximum cost efficiency.

3.21.43 In 1988-89 the greater Melbourne metropolitan route bus network carried an estimated 93 million passengers (private buses, 67 million; MET buses, 26 million). Internally operated MET buses cover 57 routes while 53 private bus operators provide services on 242 routes under contracts with the Corporation.

3.21.44 The total cost of operating the metropolitan route bus network in 1988-89 was approximately \$140 million, comprising \$99 million for contracted private buses and \$41 million for MET buses.

3.21.45 The Corporation is in the process of pursuing a strategy designed to reduce the outlays for bus services provided by private bus contractors.

3.21.46 Audit undertook a review of procedures followed by the Corporation for the management of the metropolitan route bus network.

Cost comparisons between MET and private bus operators

3.21.47 A key process in achieving the Corporation's objective of providing metropolitan route bus services at the lowest cost is the monitoring and analysis of costs relating to MET and private bus operations.

3.21.48 The audit review found that management processes had not been established within the Corporation for the regular determination, analysis, reporting and review of the total costs of MET bus services.

3.21.49 Without comprehensive information regarding MET bus operating costs, the Corporation is not in a position to determine and monitor total MET costs and to compare these costs with those relating to contracted private bus services.

3.21.50 Audit carried out an analysis of the relative costs to the Corporation of providing the internal and contracted services in 1988-89. This analysis found that, **on a cost per kilometre basis, the comparable cost of operating MET bus services is 48 per cent higher than for contracted private bus services. Based on kilometres covered by MET operations in 1988-89, this differential equates to higher annual costs to the Corporation of approximately \$12.8 million.**

3.21.51 The audit analysis did show that the cost per kilometre of some private bus services was higher than the cost of some MET bus services. In such cases, the Corporation considers that opportunities exist for incremental expansion of MET bus services within existing cost structures.

3.21.52 In audit opinion, the major reasons for the significant cost differential between MET and private bus services include:

- ♦ MET buses provide a radial service (direct service to the Melbourne Central Business District) while private buses essentially provide intra-neighbourhood services and feeder services to other modes of public transport. MET buses are therefore generally more heavily patronised and operate on routes which experience greater traffic flows. These circumstances require the use of heavy buses which consume more fuel and incur greater maintenance costs. By comparison, private bus operations can be carried out using a mix of light and heavy buses;
- ♦ Internal MET services provide a greater number of late night and weekend services than do private operators, leading to higher crewing costs;
- ♦ The hourly rate of MET drivers is around 23 per cent higher than the rate paid to private bus drivers because of different industrial awards; and

- ♦ MET drivers cannot undertake alternate duties such as cleaning and maintenance when not required for driving duties. This restriction does not apply in respect of private bus drivers.

3.21.53 It can be seen that the above factors reflect important differences in the operational and industrial environment between internally provided MET bus services and private bus operations. As mentioned above, audit has found that these differences currently equate to higher annual operating costs for MET services of approximately \$12.8 million.

3.21.54 Because of the deficiencies in its information systems relating to bus services, the Corporation is not able to readily identify the cost impact of the above differences. In addition, the Corporation does not periodically analyse costs per kilometre for internal MET services and private bus services which substantially impairs its capacity to determine if resources allocated to bus services have been managed in the most efficient manner.

3.21.55 Without complete information to support its decision-making procedures, the Corporation is not in a position to adequately evaluate the cost-effectiveness of all available options relating to the provision of metropolitan route bus services, particularly the mix of services between MET and private operators.

Private bus operations

Flexibility in distribution of route services provided by private operators

3.21.56 The Corporation's ability to maximise the cost efficiency of route bus services provided by private operators is largely determined by the level of flexibility that can be exercised in terms of:

- ♦ the determination of routes to be operated;
- ♦ the level of service to be provided on each route; and
- ♦ the allocation of bus routes to individual operators.

3.21.57 This level of flexibility available to the Corporation is influenced by 3 principal factors, namely:

- ♦ a recent Supreme Court decision which requires that any tendering of route licences or contracts be free from bias and that existing holders of route bus licences be afforded natural justice in any proposed reallocation or cancellation of licences;
- ♦ the practice of operators tendering only for routes where they already provide services; and
- ♦ constraints arising from the location of operators' infrastructure assets such as garages, workshop facilities etc. which cannot be readily transferred.

3.21.58 The above factors have effectively restricted the Corporation's ability to introduce conventional competitive tendering procedures for services provided by private bus operators and to address duplications or other inefficiencies in existing bus routes.

3.21.59 By way of example, the Corporation has found it necessary to introduce inter-neighbourhood bus services (known as MET Link services) in one area to meet changing transport needs of the local community. The introduction of these services (which are provided by a private bus operator) has meant the duplication of bus services on particular sections of existing routes.

3.21.60 Audit has estimated that duplicated services and routes in need of rationalisation are currently being provided by the Corporation at a cost of around \$1.9 million per year.

Significant cost variations between individual bus operators

3.21.61 The Corporation maintains a management information system which records the current value of individual contracts with private bus operators.

3.21.62 Audit analysed the Corporation's records relating to private bus contracts and found that the contracted cost of bus services provided by individual private operators ranged from \$1.51 to \$3.84 per kilometre, with an average cost of \$2.16 per kilometre. It was also noted that 22 operators provided services at a cost per kilometre higher than the average of \$2.16 per kilometre, which equated to an annual above-the-average cost of \$3 million.

3.21.63 The Corporation compiles cost per kilometre information relating to individual operators on a regular basis. However, the Corporation does not periodically analyse factors contributing to variances in cost per kilometre between individual operators.

3.21.64 Audit has recommended that the Corporation regularly analyse cost variances between individual private bus operators with a view to identifying and acting on areas with potential for cost reduction.

Cost savings identified by the Corporation

3.21.65 The Corporation had budgeted for an annual reduction in payments to private bus operators by 15 per cent to take effect from February 1990. To assist in the implementation of this budget decision, the Corporation undertook a review of bus routes and identified possible cost savings amounting to \$12 million, representing 12 per cent of total contract payments in 1988-89. The proposed cost savings were to be achieved by the deletion of certain services considered surplus to user needs and the reduction of service frequencies where existing services were under-utilised; some off-setting increases in services were also envisaged.

3.21.66 It is understood that the Corporation has commenced negotiations with private bus operators to implement strategies aimed at achieving the potential cost savings. **However, it is unlikely that any cost savings will be achieved in 1989-90.**

3.21.67 The Corporation anticipates that the application of an efficient cost model, developed for it by independent consultants, will result in the progressive elimination of high cost contract operations.

Management response

The Auditor-General has acknowledged that the 48 per cent cost differential between the per kilometre cost of MET bus services compared with contracted services is not an "across the board" situation and that even on this measure some MET services are cheaper.

The infrastructure supporting the MET bus operations provides opportunities to expand MET services while incurring only marginal cost increases. This will have the effect of reducing per kilometre costs as services are expanded.

While the Auditor-General has acknowledged a number of factors which cause some MET services, by their nature, to be dearer than contracted services, such a comparison is not complete without taking into account patronage levels of both services. MET services generally carry considerably more passengers than contracted services and if comparisons include this factor, MET services, on average, are slightly cheaper than contracted services for each passenger carried.

The Corporation is taking steps to make both types of services more cost-effective in areas where costs are high. However, it needs to be recognised that benefits will not be achieved immediately and are more likely to be progressive over a number of years.

Substantial accumulation of employee leave liabilities

3.21.68 Previous Auditor-General's reports to Parliament have commented on the substantial accumulation of employee leave liabilities (relating to annual leave, leave granted as a result of the 38 hour week agreement and leave in lieu of public holidays) at the former Metropolitan Transit Authority and State Transport Authority.

3.21.69 Table 3.21D illustrates the magnitude of accumulated leave liabilities at the former transport authorities at 30 June 1989, just prior to their amalgamation into the Public Transport Corporation.

**TABLE 3.21D.
AVERAGE LEAVE LIABILITY PER EMPLOYEE**

<i>Organisational section</i>	<i>At 30 June 1989</i>		<i>At 30 June 1988</i>	
	<i>(\$)</i>	<i>Weeks (a)</i>	<i>(\$)</i>	<i>Weeks (a)</i>
V/Line (STA)	4 393	9.6	3 980	9.3
MTA Rail	6 053	13.7	5 646	13.1
MTA Tram/Bus	2 716	6.1	2 234	5.4

(a) Based on the value of accumulated leave per employee divided by average weekly wages.

3.21.70 As indicated above, employees of V/Line and MTA Rail had accumulated substantial leave liabilities at 30 June 1989.

3.21.71 The practice of allowing employees to accumulate substantial levels of leave will result in an eventual higher cost to the Corporation when the leave is taken due to subsequent wage increases and staff promotions. In the case of V/Line, the impact of promotions had increased the value of the entitlements. A similar comparison for the MTA was not available due to inadequate leave recording systems.

3.21.72 In addition to higher costs, the accumulation of leave denies employees an essential break from the workplace (which has internal control and occupational health and safety implications).

3.21.73 Audit has recommended that the Public Transport Corporation take action to reduce the extent of accumulated leave liabilities brought forward from the former transport authorities.

Management response

Management will ensure that staff are rostered to take their current annual leave as it falls due and, to the extent possible within the constraints of the Corporation's operations, leave accumulated from previous years.

Internal audit

3.21.74 Since the establishment of the Public Transport Corporation on 1 July 1989, the number of staff assigned to the internal audit group has fallen from 35 to 14.

3.21.75 As a result of this strategy, the internal audit group has a reduced capacity to undertake, on behalf of management, financial reviews, EDP audits and evaluations to ensure efficiency, effectiveness and economy of operations.

3.21.76 Audit is strongly of the view that by reducing internal audit numbers, management is depriving itself of a vital and effective management and control mechanism. Audit has recommended that the internal audit function at the Corporation be strengthened.

Management response

The significance of the staff reductions from 35 to 14 is not as large as suggested by the Auditor-General, having regard to the overhead savings of 3 administrative and 4 supervisory positions resulting from the amalgamation of the internal audit departments of the MTA and STA, and the reduction of 5 EDP auditor positions resulting from a duplicated function of the 2 staffs and the amalgamation of the computer organisations of the MTA and STA. Therefore, the effective audit strength has been reduced by 9 positions.

In respect of this reduction:

- *organisational amalgamations such as the centralisation of accounting and financial systems, materials management, building management and other similar rationalisations are intended to simplify the audit task;*
- *with increased emphasis being placed on management accountability by the Corporation, it is not accepted that the only capacity for review and evaluation should be that provided by the formal internal audit structure;*
- *organisational arrangements for internal audit do not preclude the use of contract audit staff for specific audit projects such as those which may be required for contingency purposes or until such time as the new Overhead Review and Action Plan proposals for the amalgamation of PTC functions have been implemented; and*
- *the PTC is satisfied that taking into account all the above factors, an adequate internal audit capacity will be retained within the new Corporation structure.*

MET Ticket system

3.21.77 In December 1989, an audit review of the implementation of the MET Ticket system was commenced. Due to the evolving nature of the system and problems associated with its initial introduction the review was suspended.

3.21.78 The Minister for Transport recently announced that a review of the MET Ticket system is to be undertaken. Audit proposes to monitor the continuing developments associated with MET Ticket.

ROADS CORPORATION

Property acquired for road development

3.21.79 The Roads Corporation acquires land and buildings for the purpose of constructing and/or expanding the State's declared road network.

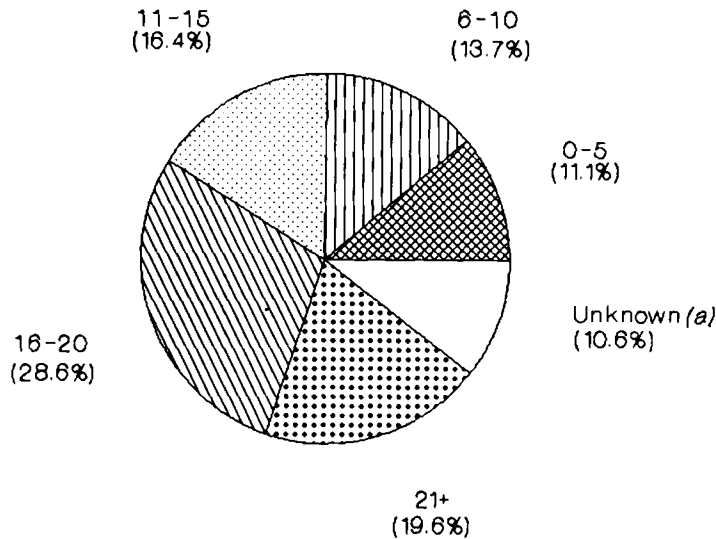
3.21.80 At 30 June 1989 the Corporation held a substantial number of properties acquired for road development which were valued at \$766 million (based on 1989 prices). These properties had been purchased either in response to requests from property owners to acquire properties included within designated road reservation or by compulsory acquisition.

3.21.81 An audit review of these properties disclosed that:

- ♦ properties valued at \$164 million were held for road projects identified as long-term, i.e. with construction not expected to commence prior to 1997;
- ♦ properties valued at \$131.9 million were held in respect of existing metropolitan road reservations which are not included in the METRAS strategy for future road development (the most recent government plan of Melbourne's metropolitan road priorities - Version M6); and
- ♦ around 48 per cent of properties had been held in excess of 15 years.

3.21.82 Chart 3.21E categorises properties acquired for road development based on years held by the Corporation.

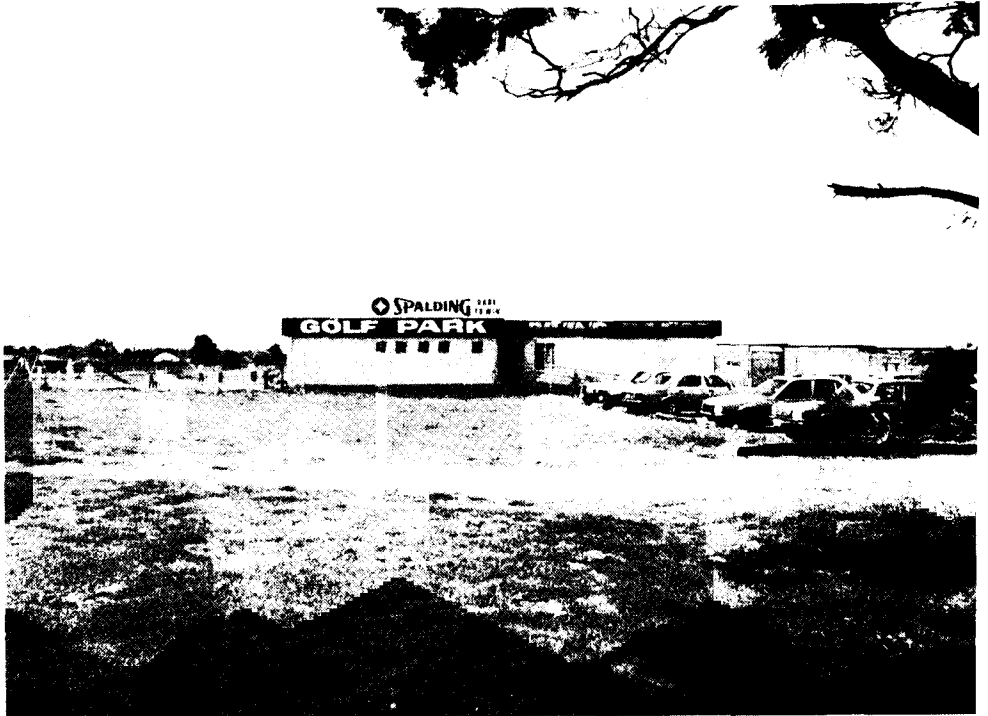
CHART 3.21E.
AGE OF PROPERTY HOLDINGS
(years held)



(a) Information not available from Corporation records.

3.21.83 Other factors relevant to the Corporation's property activities identified during the review were:

- ♦ the Corporation disposes of properties declared to be surplus at an average rate of 5 per cent a year (based on dollar value) including land relating to abandoned road reservations;
- ♦ the residue of proceeds received from the sale of properties, i.e. not required by the Corporation for operating purposes, must be paid to the Public Account and there is no requirement for any proceeds to be specifically returned to the Corporation;
- ♦ the Corporation derives income from rentals of the properties, however, the overall rate of return from vacant land (which represents approximately 70 per cent of these holdings) is minimal; and
- ♦ the Corporation has a policy of seeking alternate uses for vacant land, where practicable (as an example, the granting of a lease for vacant land to be used as a golf driving range as shown in the following photograph).



Golf driving range on property held for road development.

3.21.84 The review also revealed deficiencies in the Corporation's property management information system particularly for the recording and monitoring of rentals. The Corporation is currently developing a new management information system for properties.

3.21.85 The principal findings from the audit review were:

- ♦ properties acquired for road development represent a significant resource of the Corporation;
- ♦ many properties have been held for substantial periods pending commencement of roadworks or revocation of the road reservation;
- ♦ approximately 21 per cent of properties relate to projects not expected to be commenced for at least 10 years and a further 17 per cent of properties are not included in present planning strategies (i.e. METRAS); and
- ♦ the requirement that net surplus proceeds from the sale of properties be paid to the Public Account reduces the incentive for the Corporation to rationalise its property holdings.

3.21.86 There is a need for the Corporation to examine whether the above features of its property activities are conducive to optimal resource management.

Management response

The Roads Corporation is fully aware that properties acquired for future road making purposes are substantial. The holdings, valued at \$766 million (which includes properties worth \$178.3 million transferred from the MMBW last year at no cost to the Corporation) are not considered excessive in the light of:

- the long-term future requirements of the Melbourne General Planning Scheme;*
- the Corporation's obligations to acquire properties on grounds of hardship or compensation;*
- the Corporation's own program of future roadworks (METRAS) which is linked with the General Planning Scheme; and*
- community intervention which often delays commencement of works.*

In these circumstances, it is inevitable that properties will be acquired well in advance of projects commencing, but every effort is made to purchase as closely as possible to the commencement of the projects, bearing in mind market conditions prevailing at the time. It is stressed that until the properties are either incorporated into the projects for which they were intended or are sold off (if not required any longer), every opportunity is taken to earn rental or lease income from the properties, thereby minimising the financial cost of holding properties.

In addition, the Corporation has for some years been actively selling off properties identified as being surplus to requirements, thereby providing the Government with substantial revenue. Presently, these proceeds are paid into the Consolidated Fund, but the issue of retention of the funds by the Corporation is generally supported by the Ministry and will be taken up with the Government.

Condition of the State's declared road network

3.21.87 Prior to 1987, the Corporation did not have procedures in place to centrally aggregate and analyse information on road surface conditions and to determine related appropriate road funding.

3.21.88 In 1987 the Corporation developed a road surface management system (known as the pavement management information system - PMIS) as a management tool to assist decision-making on road pavement priorities, including periodic maintenance and road reconstruction requirements for the State's declared road network.

3.21.89 The system, which became operational in January/February 1989, incorporates the 9 000 kilometres of the State's declared roads which fall within the responsibility of the Corporation.

Actual road surface condition

3.21.90 The PMIS has been used by various regional managers of the Corporation to determine priorities and budget forecasts for regional periodic maintenance and road surface reconstruction. As part of this process, regional managers periodically assess the surface condition of the declared road network. The results of the Corporation's latest assessment of road surface conditions, conducted over the period October and November 1988, have been summarised and recorded in the PMIS. The assessment criteria and gradings used by the Corporation are set out in Table 3.21F.

**TABLE 3.21F.
PAVEMENT CONDITION ASSESSMENT RANKINGS**

<i>Criteria</i>	<i>Levels of assessment</i>		
Surface texture loss	Nil or isolated	Frequent or general	-
Rutting	Nil or isolated	Frequent	General
Cracking	Insignificant or isolated	Frequent or general	-
Roughness (counts per km)	Less than 70	Between 70 and 110	Greater than 110

3.21.91 Audit analysis of this assessment data indicated that 34 per cent of the Corporation's declared road network had been assigned the lowest ranking, in terms of quality and condition, for one or more of the 4 assessment criteria (i.e. had been categorised by the Corporation as having the least desirable condition).

3.21.92 The Corporation has informally indicated that the significant number of road surfaces assessed as having one or more of the least desirable features is of concern. During 1989-90 the Corporation has allocated 17 per cent of its total road program funds (1987-1988, 16 per cent) to road preservation activities such as periodic maintenance and reconstruction activities.

3.21.93 In developing the PMIS, the Corporation incorporated a facility to record the desirable, or minimum operating standard, for various types of roads. However, the Corporation has not yet developed desirable standards for particular categories of roads and, as such, is not able to accurately determine the nature and extent of unsatisfactory roads. Until these standards are recorded within the PMIS, the Corporation will not have available all information necessary for strategic planning of road maintenance and reconstruction activities.

3.21.94 Audit has recommended that the Corporation develop and incorporate within the PMIS a series of standards for roads as an essential aid to managing the road network.

Management response

The Corporation's Pavement Management Information System (PMIS) is in its early stages of use and needs further refinement and expansion to include the main roads network. The Corporation sees this System as ultimately developing into a key decision-making aid for assessing rehabilitation options to achieve pre-defined road condition standards.

However, until the relevant standards are developed within the System, it is inaccurate to infer that the lowest ranking in one or more assessment criteria indicates an overall unsatisfactory standard of road condition.

Future expenditure on road surface conditions will be at a level considered appropriate within the Corporation's overall priorities and assessment of needs in this area.

TRANSPORT ACCIDENT COMMISSION

Investment management practices

Background

3.21.95 The Transport Accident Commission commenced operations on 1 January 1987 as the sole Victorian provider of compensation to victims of transport accidents.

3.21.96 A key target of the Commission is to ensure that by 1 January 1997 all outstanding claim liabilities are fully funded by assets held. An important factor in achieving this fully funded status is the prudent management and investment of funds.

3.21.97 The Commission follows a conservative long-term investment strategy with the overall aim of achieving a short-term return on investment of 4.3 percentage points above the inflation rate and a long-term return of 3.5 percentage points above the inflation rate. In addition, the Commission determines an overall yearly benchmark of desirable investment performance. In pursuit of these targets, the Commission utilises both internal and external fund management services.

3.21.98 Audit carried out a review of the Commission's investment management practices. The overall audit conclusion from the review was that **the Commission had achieved its investment target in 1988-89 and was on course to meet its key strategic aim of having a fully funded scheme by 1 January 1997.**

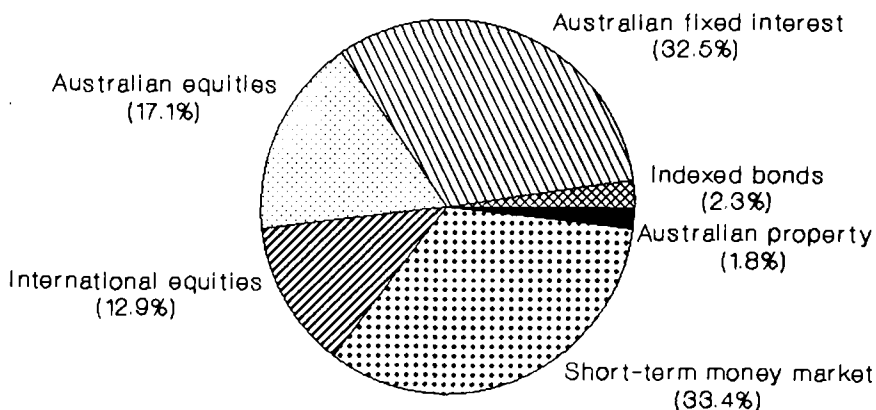
Size and nature of the investment portfolio

3.21.99 At 30 June 1989, the Commission's investment portfolio totalled \$1 964 million, of which \$1 833 million (93.3 per cent) was managed by external fund managers with the balance, \$131 million (6.7 per cent), managed internally by the Commission.

3.21.100 By 31 December 1989, the portfolio had grown to \$2 285 million, with \$2 116 million (92.6 per cent) managed on behalf of the Commission by external fund managers and \$169 million (7.4 per cent) managed internally by the Commission. Over the 6 month period July to December 1989, the investment portfolio had increased by \$316 million (16.1 per cent) including additional funds allocated to the portfolio of \$106 million.

3.21.101 Investments held at 31 December 1989 are shown in Chart 3.21G.

**CHART 3.21G.
INVESTMENTS HELD**



Quality of investment performance

3.21.102 The Commission's conservative long-term investment strategy emphasises the allocation of funds to particular categories of investment, e.g. fixed interest securities, equities etc. and the use of specialist fund managers to manage individual investment categories of the portfolio. The overall strategic investment target is to achieve a rate of return which exceeds the inflation rate by 4.3 percentage points in the short-term and by 3.5 percentage points in the long-term and to achieve a pre-determined benchmark for each year.

3.21.103 For the year ended 30 June 1989, the Commission's overall return on investment was 11.1 per cent, which was 4.3 percentage points above Melbourne's inflation rate of 6.8 per cent (as reported by the Australian Bureau of Statistics), however, it was 1 percentage point below the benchmark performance for the year (12.1 per cent).

3.21.104 The positive performance of the Commission's investment management was recognised in the results of a survey of investment performance undertaken by the Commission's external investment adviser. This survey ranked the Commission as tenth out of 32 public and private sector balanced pooled funds for the year ended 30 June 1989.

3.21.105 At 30 June 1989, the Commission was significantly on target to reach its key objective of being fully funded by 1 January 1997. The level of funding had improved from 73 per cent in 1987-88 to 84 per cent in 1988-89. This improvement was supported by actuarial observations at 30 June 1989.

Experience with external fund managers

3.21.106 In June 1987 the Commission announced the appointment of 9 external fund managers to manage a significant component of the Commission's financial assets.

3.21.107 The Commission's rationale for using external fund managers included:

- ♦ the ability to draw upon expertise relating to specific types and categories of investments;
- ♦ a facility to use the best available skills to achieve a high return on financial assets; and
- ♦ lower costs.

3.21.108 External fund managers are responsible for the management of international equities, domestic equities, short-term money market holdings and fixed interest securities (the Commission also manages certain fixed interest securities).

3.21.109 Allocations of funds to particular fund managers specialising in specific types of investments is in accordance with the Commission's overall allocation targets which were, at 31 December 1989, heavily weighted towards fixed interest securities.

3.21.110 The Commission monitors the performance of external fund managers by use of benchmarks for specific investment categories, e.g. the benchmark for Australian fixed interest securities managers is the Commonwealth Bank's All Series All Maturities Index plus 2 per cent.

3.21.111 The performance of external fund managers during 1988-89 is shown in Table 3.21H.

TABLE 3.21H.
PERFORMANCE OF EXTERNAL FUND MANAGERS, 1988-89
(per cent)

<i>Asset segment</i>	<i>Benchmark</i>	<i>Actual</i>
Short-term money market	15.6	15.8
Fixed interest securities	7.3	7.8
Australian equities	3.5	2.7
International equities	19.0	15.1
Total (a)	12.1	11.1

(a) Based on a weighted average of the individual components.

3.21.112 Although the external fund managers had not achieved the desired performance benchmarks in the investment of equities, the Commission met its strategic target rate of return for the year.

3.21.113 The Commission regularly assesses the performance of external fund managers. In 1988-89, the appointment of 3 managers was terminated because of one or more of the following factors:

- ◆ consistent poor performance;
- ◆ breaches of prudential guidelines; and
- ◆ changes in investment philosophy.

Improvement after October 1987 sharemarket crash

3.21.114 The Auditor-General's *Second Report for the year 1986-87* outlined the results of a review of the impact of the October 1987 sharemarket crash on investments of particular public sector authorities.

3.21.115 The review revealed that the Commission's investment portfolio experienced a decline of \$184.2 million between the period 30 September 1987 to 31 October 1987 resulting from the decline in the sharemarket over that period.

3.21.116 The Commission has assessed that, since the October 1987 downturn in the sharemarket, its investment portfolio has increased by \$440 million (excluding further investment of funds since October 1987) to 28 February 1990.

Management response

The Commission notes the Auditor-General's acknowledgement that it has achieved its investment targets in 1988-89 and is on course to meeting the Government's key strategic aim of having the Commission's claims liabilities fully-funded by 1 January 1997.

QUALIFIED AUDIT REPORTS

3.21.117 In 1988-89, it was necessary to issue qualified audit reports on the financial statements of several transport authorities. The reasons for the qualified audit reports are discussed below.

Non-depreciation of track and related infrastructure assets

3.21.118 The annual financial statements of the STA were qualified as track and related infrastructure assets valued at \$315.6 million were not subject to depreciation. This matter has been raised as a qualification to the Authority's financial statements since 1987. The STA does not depreciate these assets as they are deemed to have an unlimited life, i.e. any loss in benefit through use, technical obsolescence, damage etc. is restored through annual repairs and maintenance activities. The Authority has not been able to substantiate that this class of asset is maintained in a pristine or "as new" condition. Therefore, these assets must be assumed to have a limited economic life which justifies the need for recognition of depreciation of these assets. The MTA operates similar assets which are subject to annual depreciation charges.

3.21.119 Depreciation, which is an allocation of the cost of an asset over its economic life, is a significant operating cost which should be recognised in the STA's financial statements to avoid understating the deficit for the year and overstating the value of these assets.

Management response

This matter is the subject of world-wide diversity of opinion. The STA adopted this approach because, as it maintains the track in good condition, the asset does not wear out and therefore there is no basis for a depreciation allowance. The MTA on the other hand adopted the depreciation approach for track. A uniform depreciation policy will be adopted by the PTC for 1989-90.

Non-disclosure of Crown land

3.21.120 The annual financial statements of the PMA, MTA and STA disclose land which is directly owned by the respective Authorities. However, these Authorities have the exclusive use of designated areas of Crown land which is not recorded as an asset of the Authorities.

3.21.121 As these Authorities accept substantially all the risks and benefits incidental to ownership of the land it should be valued and recorded as an asset of each Authority.

Management response

The PTC is taking steps to identify and properly value all such land with a view to having it included as part of its reported assets in future years.

The Port Authorities propose to bring these assets to account in the 1989-90 financial statements if arrangements are finalised in time with the Department of Conservation, Forests and Lands.

Non-disclosure of segment financial information

3.21.122 The annual financial statements of the PMA were also qualified as they did not disclose segment financial information in relation to the PMA's property operations and port activities as required by Australian Accounting Standards and the Annual Reporting Act. This matter has been raised since 1987. The PMA has consistently indicated that the issue will be resolved once the World Trade Centre is sold. Such a sale is yet to be completed.

3.21.123 Users of the PMA's financial statements will find their ability to assess the Authority's overall performance enhanced by the disclosure of segment financial information.

Management response

The Minister for Transport was granted an exemption by the Treasurer from compliance with the Annual Reporting Act because steps were being taken at the time to sell the World Trade Centre (which was the main property operation), and also to allow consistency with the previous year.

Valuation of assets

3.21.124 The annual financial statements of the Road Construction Authority were qualified as land and buildings acquired for roadworks (also referred to as Properties Acquired for Road Development) were revalued by \$374 million based on 1989 prices. It is normal practice that assets be valued on the basis of their historical cost or the net value that could be expected to be raised from their orderly sale. However, as these assets were acquired for future road construction and were not expected to realise their revalued amount through continued use, they were not being valued in a manner which was appropriate with generally accepted accounting standards. Therefore, the value of land and buildings acquired for roadworks and the asset revaluation reserve were both overstated by \$374 million.

Management response

The Road Construction Authority owns properties which are:

- required for future roadworks; and*
- surplus to requirements and awaiting disposal.*

Wherever possible, these properties are rented or leased until required for roadworks or sale after being deemed surplus to requirements.

Audit's opinion that such assets should be treated in the nature of "stock" is inappropriate as the Authority is not in the business of trading in land/property as are property development companies. The revaluation approach adopted by the Authority is considered appropriate.

3.21.125 The annual financial statements of the Road Traffic Authority were qualified as the Authority could not substantiate that the value assigned to equipment (\$11.7 million) was a reasonable estimate of their value.

Management response

The extent of the likely variation to the valuation placed on this equipment by the Road Traffic Authority is immaterial in a fixed asset base of some \$65 million.

Schedule A. Status of matters raised in previous reports

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
Transport portfolio		
<i>Ministerial Portfolios, May 1989, p.236</i>	The adequacy and quality of disclosure within the financial reports of the transport authorities is inadequate because financing costs related to centralised debt are not included.	Position unchanged.
<i>Ministerial Portfolios, May 1989, p.238</i>	Internal management reporting and oversight by central agencies of inner budget agencies (MTA, STA, RCA, RTA) are based on cash data whereas year end external reporting is based on accrual accounting principles.	Position unchanged. Monitoring of cash appropriated by the budget process is still regarded as an essential aspect of internal management control over funds available to inner budget agencies and is treated separately to accrual accounting procedures.
Ministry of Transport		
<i>Second Report, 1986-87, p.137</i>	Land and land-based assets not transferred to Port Authorities.	Position satisfactory. Assets transferred from 20 December 1988. For further comments, refer to paragraphs 3.21.122 to 3.21.123 of this report regarding qualification of the PMA accounts. Port Authorities propose to include transferred assets in 1989-90 financial statements.
Port of Geelong Authority		
<i>Second Report, 1986-87, p.141</i>	Bay City Marina Geelong Pty Ltd should be subject to audit.	Position unchanged. However, formal contracts for the sale of PGA's interest in this company are now being prepared.
Port of Geelong Authority Superannuation Fund		
<i>Second Report, 1986-87, p.142</i>	No legislative requirement for audited financial statements to be presented to fund members and to Parliament.	Position unchanged. Audited financial statements of the Fund are voluntarily included in PGA's annual report to Parliament.

Schedule A. Status of matters raised in previous reports - continued

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
Port of Melbourne Authority		
<i>Second Report, 1984-85, p.115</i>	In December 1983, the Government requested the PMA to prepare detailed plans for a State Convention Centre. In addition, the Treasurer gave an undertaking that the development costs would be reimbursed. At 30 June 1987, DMB had advanced \$1.3 million to meet project development costs.	Position satisfactory. At 30 June 1989, \$449 000 was spent by the PMA and \$851 000 refunded to DMB.
<i>Second Report, 1986-87, p.142</i>	Finance charges associated with offshore loans used to construct the World Trade Centre have made the Centre an unprofitable venture.	All offshore loans were repaid in 1988-89. For further comments, refer to paragraphs 3.21.14 to 3.21.22 of this report for a financial analysis of World Trade Centre operations and actions taken to sell the Centre.
<i>Second Report, 1986-87, p.144</i>	Reported rate of return on assets is not accurate due to asset valuation and recording problems.	Position satisfactory. Asset valuation and recording procedures were revised and improved during 1988-89.
<i>Ministerial Portfolios, May 1989, p.248</i>	No regular reporting and monitoring of the financial performance of crane operations.	Position satisfactory. New financial reporting system implemented to facilitate reporting and monitoring of these facilities. The withdrawal of unprofitable electrical cranes is under consideration. The pricing structure for container cranes is to change to improve financial returns.
<i>Ministerial Portfolios, May 1989, p.249</i>	Financial arrangements and organisational responsibilities for rail sidings on PMA land not resolved with STA. Projected benefits of Webb Dock rail link not yet achieved.	Position unchanged. PMA, PTC, port terminal operators and the Roads Corporation are finalising a port container transport strategy based on South Dynon as the primary rail container terminal with a standard gauge rail link to Webb Dock, including road connections between PMA docks and the South Dynon terminal.
Public Transport Corporation		
<i>Former Metropolitan Transit Authority</i>		
<i>Second Report, 1985-86, p.160</i> <i>Second Report, 1986-87, p.137</i>	Analysis of the financial operations of the MTA indicated a decrease in overall cost recovery rate.	Accrual-based cost recovery rates decreased slightly from 37 per cent in 1987-88 to 35 per cent in 1988-89.

Schedule A. Status of matters raised in previous reports - continued

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<i>Second Report, 1985-86, p.163</i>	Lack of disclosure of operating expenses by mode of transport does not enable proper analysis of performance.	Position unchanged. For further comments, refer to paragraphs 3.21.7 to 3.21.10 of this report.
<i>Second Report, 1985-86, p.166</i>	Employees in key areas had in excess of 40 days recreation leave credits.	Position unchanged. For further comments, refer to paragraphs 3.21.68 to 3.21.73 of this report.
<i>Second Report, 1986-87, p.138</i> <i>Ministerial Portfolios, May 1989, p.244</i>	Hong Kong joint venture expected to achieve a reduced profit.	At 30 June 1989 the MTA's share of profits from the Hong Kong joint venture totalled \$1.9 million.
<i>Ministerial Portfolios, May 1989, p.241</i>	Poor management practices led to delays in lease finalisation and rental collections associated with Banana Alley vaults.	Position unchanged. PTC is negotiating new head lease agreement. At 28 February 1990, 7 vaults were vacant and outstanding rentals totalled \$89 000. Court action to recover outstanding rentals is proceeding.
<i>Ministerial Portfolios, May 1989, p.245</i>	Need to establish a property register which reflects current holdings and valuations.	Position improved. By February 1990, 82 per cent of leased properties had been valued. Property register still under development.
<i>Ministerial Portfolios, May 1989, p.246</i>	Inaccuracies in tenancy recording system.	Position improved. New debtors system introduced from 1 July 1989. Tenancy documentation currently being validated will be completed by 30 June 1990.
<i>Former State Transport Authority</i>		
<i>Fourth Report, 1983-84, p.95</i>	Track and related infrastructure - in audit opinion the present accounting policies in relation to depreciation, maintenance and deferred maintenance require review.	Position unchanged. For further comments, refer to paragraphs 3.21.118 to 3.21.119 of this report regarding qualification of STA accounts.
<i>Second Report, 1985-86, p.178</i> <i>Ministerial Portfolios, May 1989, p.256</i>	Excessive accumulation of employee leave credits.	Position improved. For further comments, refer to paragraphs 3.21.68 to 3.21.73 of this report.
<i>Second Report, 1985-86, p.172</i> <i>Second Report, 1986-87, p.146</i>	Analysis of the financial operation of the STA indicated a decrease in overall cost recovery rate.	Accrual-based cost recovery rates remained relatively constant with prior year.

Schedule A. Status of matters raised in previous reports - continued

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<i>Second Report, 1986-87, p.146</i> <i>Ministerial Portfolios, May 1989, p.255</i>	Transfer Redeployment and Redundancy (TRR) appropriation not expended on TRR activities.	Position unchanged. In 1988-89 the STA received \$16.9 million (1987-88, \$21.7 million) for TRR purposes and expended \$12.7 million (1987-88, \$15.9 million). Therefore, in both years TRR appropriations were not fully expended on TRR activities. In 1988-89 TRR funds totalling \$7.6 million were used to meet superannuation payments made to TRR recipients.
<i>Second Report, 1986-87, p.147</i> <i>Ministerial Portfolios, May 1989, p.256</i>	Post construction audits have not been performed.	Position improved. By June 1989, 20 post-construction audits had been completed from a total of 30 identified projects (1987-88, 5 out of 20 projects completed).
Roads Corporation		
<i>Former Road Construction Authority</i>		
<i>Second Report, 1986-87, p.144</i>	Post construction audits were not undertaken.	Post construction reviews have been implemented at Ministry level.
<i>Ministerial Portfolios, May 1989, p.251</i>	Declared roads should be valued and recorded as an asset of the Authority.	Position unchanged. Roads Corporation to address this matter in 1989-90.
<i>Ministerial Portfolios, May 1989, p.252</i>	Introduction of business computer system may not be an efficient or effective aid to the introduction of accrual accounting principles.	The business computer system has been introduced to all regions. Reconciliation problems still exist. Since October 1989, the business computer system has been linked to the central general ledger. By 1991 a fully integrated financial system is expected to be operational.
<i>Former Road Traffic Authority</i>		
<i>Second Report, 1985-86, p.170</i>	Appropriateness of the Authority raising a charge to recoup administrative costs from the Road Construction Authority.	Position unchanged. Matter resolved by the amalgamation of the activities of the RCA and RTA into the Roads Corporation.
<i>Second Report, 1986-87, p.145</i>	Outstanding liabilities for School Crossing Supervisors Scheme are increasing as a percentage of available appropriation.	In 1988-89 the accrued expense represented 51 per cent of the 1989-90 appropriation (1987-88, 56 per cent). Measures introduced from 1 July 1988 to reduce outstanding liabilities have improved the situation.

Schedule A. Status of matters raised in previous reports - continued

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
<i>Ministerial Portfolios, May 1989, p.253</i>	Vehicles registered for combined private and business purposes could benefit from the abolition of private only vehicle (PA) registration renewal fees.	Position improved. Roads Corporation has taken action to review situation and notify owners of correct registration category.
<i>Ministerial Portfolios, May 1989, p.254</i>	Fitout costs associated with cancelled sub-lease at 222 Exhibition Street, Melbourne, may not be recovered from new tenant.	Position unchanged and costs are unlikely to be recouped.
Transport Accident Commission		
<i>Ministerial Portfolios, May 1989, p.257</i>	Changes to actuarial assumptions have a significant impact on the Commission's reported result therefore the reasons for changes in actuarial assumptions and bases should be fully documented in the financial statements.	Position improved. Financial statements disclose changes in actuarial assumptions.
<i>Ministerial Portfolios, May 1989, p.258</i>	System of raising the transport accident charge is subject to abuse.	Position unchanged. Commission has undertaken surveys to substantiate the extent of the abuse.
<i>Ministerial Portfolios, May 1989, p.259</i>	Excessive use of temporary staff.	Positions improved. Significant reduction in number of temporary staff engaged by the Commission.
<i>Ministerial Portfolios, May 1989, p.260</i>	Potential for dead rent associated with Commission's previous accommodation.	Position unchanged. Floor space at 35 Spring Street, Melbourne, remains unoccupied. Lease expires in June 1990.

Schedule B. Completed/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor- General's report signed</i>
Completed audits				
Ministry of Transport	30 June 1989	31 October. <i>Annual Reporting Act 1983, s.8.</i>	28 October 1989	31 October 1989
Grain Elevators Board	30 Sept. 1989	31 December. <i>Annual Reporting Act 1983, s.9.</i>	21 December 1989	30 December 1989
Marine Board of Victoria	30 June 1989	30 September. <i>Marine Act 1988, s.80.</i>	8 November 1989	9 November 1989
Metropolitan Transit Authority	30 June 1989	1 December. <i>Transport Act 1983, s.234.</i>	31 October 1989	31 October 1989(a)
MTA Investments Pty Ltd	30 June 1989	No reporting requirements. Audit conducted at request of Treasurer and under Companies (Victoria) Code.	21 September 1989	16 November 1989
MTA Superannuation Fund	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.9.</i>	21 September 1989	16 November 1989
Port of Geelong Authority	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension of time to 31 October 1989.	31 October 1989	31 October 1989
Port of Geelong Authority Superannuation Fund	30 June 1989	No reporting requirements. Section 4 of the Port of Geelong Authority (Superannuation) Regulations 1972 requires the Superannuation Fund to be audited by the Auditor-General.	31 October 1989	31 October 1989
Port of Melbourne Authority	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension of time to 31 October 1989.	25 October 1989	26 October 1989(a)
Port of Portland Authority	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.9.</i> Treasurer granted extension of time to 31 October 1989.	26 October 1989	27 October 1989

Schedule B. Completed/incomplete audits - continued

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor- General's report signed</i>
Road Construction Authority	30 June 1989	1 December. <i>Transport Act 1983, s.234.</i>	6 November 1989	14 November 1989(a)
Road Traffic Authority	30 June 1989	1 December. <i>Transport Act 1983, s.234.</i>	6 November 1989	14 November 1989(a)
State Transport Authority	30 June 1989	1 December. <i>Transport Act 1983, s.234.</i>	31 October 1989	31 October 1989(a)
Transport Accident Commission	30 June 1989	30 September. <i>Transport Accident Act 1986, s.31.</i>	29 September 1989	29 September 1989

(a) Qualified audit report issued.

3.22

TREASURER

KEY FINDINGS

- ♦ Pending legislative enactment, secrecy provisions in the Taxation legislation currently preclude the Auditor-General from auditing substantial segments of State revenue.
paras 3.22.1 to 3.22.5
- ♦ Government initiatives in the administration of public sector insurance policies have achieved cost savings in excess of \$4 million.
paras 3.22.6 to 3.22.9
- ♦ Funds available at 30 June 1989 represented 16.2 per cent of funds required to meet outstanding WorkCare claims, compared with a projected level of 79.8 per cent.
paras 3.22.10 to 3.22.17
- ♦ Until actuarial estimates are available, meaningful financial reports cannot be prepared by the Accident Compensation Commission and audit is not in a position to report on WorkCare's financial viability and the outcome of the recent reforms.
paras 3.22.10 to 3.22.17
- ♦ Audit considers that the Accident Compensation Commission may have unnecessarily incurred costs of around \$10 million between 1986 and 1988 as a result of shortcomings in the acquisition of computer facilities.
paras 3.22.23 to 3.22.26
- ♦ At 30 June 1989 the total of former VEDC loans that had been written-off or considered doubtful was \$130 million.
paras 3.22.27 to 3.22.30

The Treasurer is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Department of Management and Budget

Public bodies

Accident Compensation Commission
Accident Compensation Tribunal
Bioplantech Limited
Capital Works Authority
Coal Mine Workers' Pensions Tribunal
Emergency Services Superannuation Board
Hospitals Superannuation Board
Metropolitan Fire Brigades Superannuation Board
Parliamentary Contributory Superannuation Fund
Rural Finance Corporation
SIO Services Pty Limited
SIO Superannuation Pty Limited
State Employees Retirement Benefits Board
State Insurance Office
State Superannuation Board administering:

- Holmesglen Constructions Superannuation Plan
- Lump Sum Fund
- Pensions Supplementation Fund
- Superannuation Fund

Tattersall Sweep Consultation
Transport Superannuation Board
Victorian Accident Rehabilitation Council
Victorian Building Societies Council
Victorian Development Fund
Victorian Economic Development Corporation
Victorian Public Authorities Finance Agency

Comments on matters of significance arising from the audit of certain of the above entities are discussed below.

DEPARTMENT OF MANAGEMENT AND BUDGET

Denial of access to departmental records

3.22.1 As reported in my *Report on the Treasurer's Statement, 1988-89* access to information supplied by taxpayers, which was required by audit for the purpose of substantiating the accuracy and completeness of taxation collections, was denied by the Comptroller of Stamps and Commissioner of Taxation under the secrecy provisions of their enabling legislation.

3.22.2 To facilitate the completion of the audit of the Department's 1988-89 accounts, interim arrangements were made for the internal auditors of both Offices to undertake work on my behalf. Those arrangements were made on the basis that there was not sufficient time to amend the relevant legislation to enable access prior to the statutory reporting date.

3.22.3 A Bill to amend the Audit Act which will enable access by my officers to all public records for the purpose of effectively auditing the accounts of the State was introduced into Parliament in the Spring Session of 1989. However, at the date of preparation of this report the amendments to the Act had not passed through the Parliament.

3.22.4 The compromise arrangements entered into last year for the verification of taxation collections were able to be entered into in view of the fact that my own staff had performed a reasonable amount of detailed auditing of the 2 agencies' records before access was denied. Therefore, I was able to report on the accounts of the Department of Management and Budget and on the Treasurer's Statement for the year ended 30 June 1989.

3.22.5 I draw to the attention of Parliament that pending the passing of the Audit (Amendment) Bill, I have not commenced the 1989-90 audit of taxation revenue. The legislation as it stands at the moment effectively precludes me from auditing substantial segments of the 1989-90 Treasurer's Statement, in particular the revenue of \$4 000 million which flows from State taxation collections to the Consolidated Fund.

Insurance

3.22.6 The Auditor-General's *First Report for 1986-87* included the following recommendations which arose from an audit review of the State's catastrophe insurance policies (public liability and property) centrally-managed by the Department of Management and Budget (DMB):

- ♦ implementation of a strategic approach to risk management, including central guidance on matters relating to the management of insurance portfolios, be regarded as a priority issue;
- ♦ early action be taken to address the important deficiencies identified in the administration of the State's centrally-managed catastrophe policies; and
- ♦ a definitive assessment of the purpose and ambit of coverage of the central policies be undertaken and decisions arising from such assessment be communicated to all public sector entities.

3.22.7 It is pleasing to note that subsequent to the audit review, DMB has pursued a range of strategies aimed at achieving improved administration of public sector insurance. **The Department has indicated that as a result of its initiatives recurrent cost savings in excess of \$4 million through rationalisation of insurance policies have been achieved to date.**

3.22.8 In conjunction with the Government's insurance brokers, DMB, have also:

- ♦ implemented a risk management program within the public sector in April 1988; and
- ♦ provided all entities with guidelines in 1988 reflecting the Government's policy with respect to the State's centrally-managed catastrophe policies.

3.22.9 A recent review by audit of a number of public sector bodies disclosed that most were complying with the Government's guidelines dealing with the catastrophe policies. However, **some entities were still maintaining dual insurance cover thereby adversely affecting cost saving strategies. DMB is in the process of taking action to ensure government policy is adhered to by all bodies.**

ACCIDENT COMPENSATION COMMISSION

Financial viability of the WorkCare scheme

3.22.10 Previous Auditor-General's Reports to Parliament have drawn attention to the fact that as actual claims were substantially exceeding original WorkCare costings and existing funding arrangements were unlikely to meet projected future liabilities, the key objective to have the scheme fully funded by 1995 was unlikely to be achieved.

3.22.11 For 1988-89 the Commission incurred a loss of \$2 092 million (1988; \$450 million) and at 30 June 1989 had accumulated operating losses of \$4 249 million (1988; \$2 156 million).

3.21.12 A key financial objective of WorkCare was that sufficient levy and investment income would be generated over the first 10 years of the scheme to cover the costs of all claims and expenses paid over that period. Levy rates were increased from 1 September 1987 which raised the average levy rate from 2.2 per cent to 2.4 per cent of wages. At the time, the Government indicated that this rate would be maintained at least until 1990.

3.21.13 The operation of the scheme, since its inception on 1 September 1985 to 30 June 1989, disclosed a dramatic variation in actual claims incurred compared with the original WorkCare costings. **Whereas the original WorkCare costings envisaged that funding would achieve a level of 79.8 per cent by 30 June 1989 the actual funding level was 16.2 per cent.**

3.21.14 Table 3.21A provides a comparison of actual and projected WorkCare funding levels.

TABLE 3.21A.
COMPARISON OF ACTUAL AND PROJECTED WORKCARE FUNDING LEVELS
(\$million)

Factor	1985-86		1986-87		1987-88		1988-89	
	Actual (10 mths)	Projected (12 mths)	Actual	Projected	Actual	Projected	Actual	Projected
Funds available (total assets - current liabilities)	428	432	754	859	774	1 291	820	1 762
Funds required to meet outstanding claims)	717	763	2 460	1 266	2 930	1 742	5 069	2 208
Funding level(%)	59.7	56.6	30.7	67.8	26.4	74.1	16.2	79.8

3.22.15 The current funding level takes into account the projected recovery of an amount, estimated to be \$300 million, from prior insurers, as a result of an amendment in May 1988 to the *Accident Compensation Act 1985*. The effect of the amendment was that prior insurers would be required to contribute to benefits paid to workers for injuries for which contributing factors existed prior to the introduction of WorkCare. However at the date of preparation of this report only \$13.6 million had been collected.

3.22.16 As a result of the continued operating losses and worsening of the Commission's financial position, the Government introduced, by way of amending legislation, its second set of major reforms to the WorkCare scheme in late 1989. These reforms have been designed to ensure the financial viability of the scheme and include:

- ♦ an increase in the average levy rate from 2.4 per cent to 3.3 per cent;
- ♦ a reduction of 20 per cent in some long-term benefit payments;
- ♦ significant changes in the procedures for resolving disputes;
- ♦ preparation of quarterly financial statements; and
- ♦ other changes designed to remove anomalies from the legislation.

3.22.17 At the date of preparation of this report, the impact of the reforms on the Commission's financial position was being projected by an actuary engaged by the Commission. Until these projections are available, I will not be in a position to form an opinion on the future financial viability of the Commission and the success or otherwise of the other reforms.

Failure to submit quarterly financial statement for audit

3.22.18 The Commission did not submit for audit the first of the quarterly financial statements for the quarter ended 31 December 1989 required under the amendments to the Act. The reason given was that it could not prepare a balance sheet that was complete and therefore the financial statements did not sufficiently explain the financial position of the Commission at that date. This inability was due to the absence of an actuarial estimate of the liability for outstanding claims.

3.22.19 In order to prepare financial statements which accord with the provisions of the Act, an actuarial estimate of the liability for outstanding claims is first required. Although the Act provides actuarial estimates to be undertaken at 31 December and 30 June, the actuary has up to 3 months after the relevant date to submit the estimate to the Minister.

3.22.20 There is an apparent inconsistency in the Act between the period for presentation to the Minister of the financial statements, i.e. one month, and the presentation to the Minister of actuarial information essential to the production of meaningful financial statements, i.e. 3 months. While this inconsistency remains, the Commission is likely to continue to have difficulty in presenting timely and meaningful quarterly financial information.

Usefulness of published financial information

3.22.21 The Commission included unaudited financial statements in its report to the Minister for information purposes only and indicated that apart from the non-inclusion of the movement in the provision for outstanding claims, the financial statements presented fairly the operating result of the quarter and the 6 months ended 31 December 1989.

3.22.22 The unaudited financial statements included in the report disclosed a surplus for the quarter of \$115 million. However, the true operating result for the quarter can only be determined after taking into account the movement in the liability for outstanding claims. The omission of such material information has in my opinion, resulted in the presentation of financial statements which are incomplete and could mislead Parliament and users of the statements when making evaluations or decisions.

Management response

The quarterly report which was tabled in Parliament, states quite clearly in its introduction and in the statement by the Chairperson, Director and Principal Accounting Officer the circumstances and implications of incomplete financial statements. The Commission finds it difficult to accept the statements could "mislead" parliament.

Review of computer facilities

3.22.23 The Commission, in 1986, revised its information technology strategy and moved from a decentralised to a centralised integrated database and operational system. To implement this strategy the Commission acquired a mainframe computer at a cost of \$4.5 million.

3.22.24 Although it was expected that the mainframe computer would meet the Commission's requirements into the 1990s, problems associated with capacity led to its premature replacement in June 1988, only 18 months after installation, with another computer.

3.22.25 Audit review of the procedures followed by the Commission in the acquisition and replacement of these computers disclosed that:

- ♦ In determining capacity requirements of the first computer, the Commission had not made adequate allowance for information retrieval, the addition of new systems and the integration of systems of associated WorkCare organisations;
- ♦ Although it was realised within 12 months of installation that the capacity requirements of the system had been substantially underestimated, the first computer did not have a capacity upgrading capability;
- ♦ The replacement of the first computer during 1988 resulted in the Commission incurring a loss on disposal which, together with associated costs, amounted to approximately \$2.3 million;
- ♦ The Commission understated replacement costs by \$5 million. Audit considered that if all costs had been accurately determined the total cost of the successful tender would have been \$7.7 million higher than another feasible alternative; and
- ♦ Subsequent to the closing of tenders, the successful tenderer offered, and the Commission accepted, further price inducements and value-added services. However, there was no evidence that the other tenderers had been given the same opportunity to submit amendments to their proposals.

3.22.26 Audit considers that the Commission may have unnecessarily incurred costs of around \$10 million between 1986 and 1988 as a result of the shortcomings in the procedures it followed in the replacement and acquisition of computer facilities.

RURAL FINANCE CORPORATION

Lending policies

3.22.27 Following the Treasurer's directive of November 1988, the Victorian Economic Development Corporation's (VEDC) operations were merged with those of the Rural Finance Corporation (RFC) from 1 December 1988. As a consequence, former VEDC assets (\$196.2 million) and liabilities (\$255.6 million) including a provision for doubtful accounts of \$96.4 million, were transferred to the Corporation. A provision of \$15.3 million relating to Wallace International Ltd was retained by the VEDC.

3.22.28 In the Treasurer's Statement to the Parliament on 21 December 1988 it was stated that ". . . as a consequence, I have received advice from the Department of Management and Budget that, with best practice management the loss may be able to be curtailed to a minimum figure of approximately \$70 million. In providing this figure of a \$70 million loss as an appropriate management target for the actual write down, the Department has stressed the difficulty of making any such assessment, the inherent uncertainty in the figure and the fact that, at least to some degree, the outcome will be beyond the control of management, however effective".

3.22.29 At 30 June 1989, \$45.4 million of the doubtful accounts transferred were written-off as non-collectable by the RFC. Furthermore the collection of an additional \$18.3 million of former VEDC loans were considered doubtful and the provision for doubtful accounts was increased accordingly. **At 30 June 1989 the total amount of former VEDC loans that had been written-off or considered doubtful was \$130 million.** Details of these transaction are disclosed in Table 3.22B.

TABLE 3.22B.
LOANS WRITTEN-OFF OR CONSIDERED DOUBTFUL
AT 30 JUNE 1989
(\$million)

<i>Item</i>	<i>Amount</i>
Provision at 1 December 1988 transferred to RFC	96.4
Wallace International Ltd retained by VEDC	15.3
Additional provision at 30 June 1989	18.3
Total amount considered doubtful	130.0
Less	
Amounts written-off as non-collectable	45.4
Wallace International Ltd	15.3
RFC provision for doubtful accounts 30 June 1989	69.3

3.22.30 While the provisions for doubtful accounts have been continuously monitored by the RFC, an overall review of the provision has yet to be undertaken by the Corporation for reporting purposes. However, in the 6 months to 31 December 1989 the following developments have taken place:

- ♦ A further \$6.4 million has been advanced to organisations in receipt of loans taken over from the VEDC. This includes \$2.3 million advanced to insolvency administrators in order to maximise returns to the Corporation;
- ♦ An additional 20 non-performing loans have been placed under insolvency administration. The Corporation's exposure in respect of these accounts was \$21.4 million at 31 December 1989, with respective provisions of \$16.4 million having been raised at 30 June 1989;
- ♦ No new development finance loans have been made by the Corporation;
- ♦ Professional fees of approximately \$1.8 million have been incurred by the Corporation in obtaining legal and financial accounting advice and organisation restructuring services. This is in addition to fees of approximately \$2.7 million paid in the 7 months to 30 June 1989;
- ♦ Significant progress has been made by the Corporation in that recoveries of \$7.3 million have been made in respect of accounts previously provided for as doubtful or which had been written-off; and
- ♦ Redundancy entitlements amounting to \$150 000 have been paid to former VEDC employees whose positions had been made redundant.

Management response

The Corporation concurs with the above comments.

Schedule A. Status of matters raised in previous reports

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
Department of Management and Budget		
<i>Third Report, 1983-84, pp.38-9</i> <i>Second Report, 1985-86, p.192</i>	Unclaimed moneys. Audit recommended that action be taken to review the operations of the Registrar to ensure that the provisions of the <i>Unclaimed Moneys Act 1962</i> are complied with. Audit also recommended that a review of the provisions of the Act be undertaken.	Position unchanged. A review of the Unclaimed Moneys Act was deferred as the Department has placed a low priority on this task.
<i>Second Report, 1986-87, p.156</i>	Total government liability for superannuation benefits should be disclosed in the accounts of the Treasurer.	The government liability has been included in the State Superannuation Boards' financial statements. It is anticipated that the liability will be disclosed in the Treasurer's Statement.
<i>Second Report, 1987-88, p.305</i>	The State Taxation Office did not have a formal disaster recovery plan for its computer operations.	Due to the Commissioner of Taxation denying audit access to taxation records audit was unable to ascertain the current position.
Accident Compensation Commission		
<i>Second Report, 1986-87, p.153</i>	Ability of the WorkCare scheme to become fully funded unlikely under existing funding arrangements.	The Government introduced substantial reforms that have been designed to make the WorkCare scheme financially viable. For further comments, refer to paragraphs 3.22.10 to 3.22.17 of this report.
Emergency Services Superannuation Scheme		
<i>Second Report, 1986-87, p.154</i>	Agreement with State Superannuation Board for transfer of members' funds not finalised.	Matter substantially finalised. However, agreement has not been reached on the amount of interest payable by the State Superannuation Board in respect to these moneys.
State Insurance Office		
<i>Second Report, 1987-88, p.273</i>	Producers relating to the disposal of written-off vehicles were not documented.	Position now satisfactory.
Victorian Accident Rehabilitation Council		
<i>Second Report, 1985-86, pp.189-90</i>	Extensive delays in the processing of accounts received from private rehabilitators.	Position now satisfactory. From 1 July 1988 payment of all rehabilitation claims handled by one agent.

Schedule B. Completed/incomplete audits

Entity	Financial year ended	Reporting to Parliament	Financial statements signed by entity	Auditor- General's report signed
Completed audits				
Department of Management and Budget	30 June 1989	31 October. <i>Annual Reporting Act 1983, s.8.</i>	31 October 1989	31 October 1989(a)
Accident Compensation Commission	30 June 1989	30 September. <i>Accident Compensation Act 1985, s.38.</i>	29 September 1989	29 September 1989(a)
Accident Compensation Tribunal	30 June 1989	30 September. <i>Accident Compensation Act 1985, s.79.</i>	13 September 1989	27 September 1989
Capital Works Authority	30 June 1988	31 October. <i>Annual Reporting Act 1983, s.8.</i>	28 February 1989	14 April 1989
" "	30 June 1989	" "	13 November 1989	13 November 1989
Coal Mine Workers' Pensions Tribunal	30 June 1989	No date specified. <i>Coal Mines Act 1958, s.128.</i>	13 February 1990	14 February 1990
" "	30 June 1989	" "	13 November 1989	13 November 1989
Emergency Services Superannuation Board	30 June 1988	30 September. <i>Annual Reporting Act 1983, s.8.</i> Treasurer granted extension of time to 31 December.	30 November 1988	31 May 1989
Rural Finance Corporation	30 June 1989	30 September. <i>Rural Finance Act 1988, s.28.</i>	13 September 1989	13 September 1989
SIO Services Pty Ltd	30 June 1989	No reporting requirements. Audit conducted at request of Treasurer and under Companies (Victoria) Code.	22 September 1989	29 September 1989
SIO Superannuation Pty Ltd	30 June 1989	" "	22 September 1989	29 September 1989
State Employees Retirement Benefits Board	30 June 1989	30 September. <i>Annual Reporting Act 1983, s.8.</i> Treasurer granted extension of time to 31 December.	18 December 1989	29 December 1989

Schedule B. Completed/incomplete audits - continued

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor- General's report signed</i>
State Insurance Office	30 June 1989	30 September. <i>State Insurance Office Act</i> 1984, s.24.	25 September 1989	29 September 1989(a)
Superannuation Fund	30 June 1989	30 September. <i>Annual Reporting Act</i> 1983, s.8. Treasurer granted extension of time to 31 January.	31 January 1990	21 February 1990
Tattersall Sweep Consultation	30 June 1989	No reporting requirements. <i>Tattersall Consultations Act</i> 1958, s.8A.	13 December 1989	21 December 1989
Transport Superannuation Board	30 June 1989	31 October. <i>Annual Reporting Act</i> 1983. Treasurer granted extension of time to 31 December.	14 December 1989	18 December 1989
Victorian Accident Rehabilitation Council	30 June 1989	30 September. <i>Accident Compensation Act</i> 1985, s.177.	21 September 1989	29 September 1988
Victorian Building Societies Council	30 June 1989	30 September. <i>Building Societies Act</i> 1986, s.24.	29 September 1989	29 September 1989
Victorian Development Fund	30 June 1989	30 September. <i>Public Account Act</i> 1958, s.7G.	5 October 1989	13 October 1989
Victorian Economic Development Corporation	30 June 1989	31 December. <i>Victorian Economic Development Corporation Act</i> 1981, s.43.	13 September 1989	13 September 1989
Victorian Public Authorities Finance Agency	30 June 1989	30 September. <i>Victorian Public Authorities Finance</i>	29 September 1989	17 October 1989
Incomplete audits				
Bioplantech Limited	30 June 1989	No reporting requirements. Audit conducted at request of Treasurer and under Companies (Victoria) Code.	Financial statements have not been presented for audit.	

Schedule B. Completed/incomplete audits - continued

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor- General's report signed</i>
Emergency Services Superannuation Board	30 June 1989	30 September. <i>Annual Reporting Act</i> 1983, s.8. Treasurer granted extension of time to 31 January 1990.	Financial statements originally presented were deemed incomplete and were returned to Board. Board has resubmitted statements unchanged and audit is in progress.	
Holmesglen Constructions Superannuation Plan	30 June 1989	No reporting requirements. Audit conducted at request of Treasurer.	Financial statements have not been presented to audit.	
Hospitals Superannuation Board	30 June 1989	30 September. <i>Annual Reporting Act</i> 1983, s.8. Treasurer granted extension of time to 31 January.	Financial statements have not been presented to audit.	
Lump Sum Fund	30 June 1989	No reporting requirements. Audit conducted under <i>Superannuation (Lump Sum Benefits) Act</i> 1981, s.17.	Financial statements have not been presented to audit.	
Metropolitan Fire Brigades Superannuation Board	30 June 1989	30 September. <i>Annual Reporting Act</i> 1983, s.8. Treasurer granted extension of time to 31 January 1990.	Financial statements originally presented were deemed incomplete and were returned to Board. Board has resubmitted statements unchanged and audit is in progress.	
Parliamentary Contributory Superannuation Fund	30 June 1989	30 September. <i>Annual Reporting Act</i> 1983, s.8. Treasurer granted extension of time to 31 January.	Financial statements have not been presented to audit.	
Pensions Supplementation Fund	30 June 1989	No reporting requirement. Audit conducted at request of Treasurer.	Financial statements have not been presented to audit.	

(a) Qualified audit report issued.

3.23

WATER RESOURCES

KEY FINDINGS

- ♦ Shortcomings in the method of assessing the entitlement of non-metropolitan water authorities to government financial assistance.
paras 3.23.21 to 3.23.26
- ♦ Serious doubts exist as to the financial viability of many water authorities.
paras 3.23.27 to 3.23.34
- ♦ Due to industrial action, publicly-funded fluoridation assets to the value of \$3.3 million remain idle at certain water authorities.
paras 3.23.35 to 3.23.39
- ♦ Inadequate asset management practices by water authorities.
paras 3.23.40 to 3.23.44
- ♦ Failure by water authorities to submit annual reports of their operations to the Minister.
paras 3.23.49 to 3.23.52

The Minister for Water Resources is responsible for the following entities which are subject to audit by the Auditor-General:

Department

Department of Water Resources

Public bodies

Dandenong Valley Authority
Edithvale-Seaford Wetlands Environmental Area Committee of Management
Latrobe Valley Water and Sewerage Board
Melbourne and Metropolitan Board of Works
Melbourne and Metropolitan Board of Works Employees' Superannuation Fund
Non-metropolitan water authorities (169)
Patterson River Recreational Area Management Committee
Rural Water Commission of Victoria
Tirhatuan Park Recreational Area Management Committee

Comments on matters arising from the audit of certain of the above entities are discussed below.

MELBOURNE AND METROPOLITAN BOARD OF WORKS

Change in accounting for gains and losses on debt restructuring

3.23.1 The Board's debt management activities include the restructuring of debt by settlement, before maturity, of existing debt accompanied by the issue of new debt. Gains or losses arise from these transactions where there are differences between the original debt and the amount ultimately required to settle that debt.

3.23.2 Prior to 1988-89, the Board accounted for any gains or losses arising from debt restructuring in its Profit and Loss Statement in the period in which the transactions occurred.

3.23.3 During 1988-89, the Board reconsidered this accounting policy and, based on its view that the settlement and re-issue of debt constitute a single transaction, determined, as from that year, to spread gains and losses over the term of the new debt. In 1988-89, debt restructuring transactions to the value of \$1 000 million were settled by the Board, resulting in a net gain of \$21.1 million.

3.23.4 In audit opinion, debt restructuring activities involve distinctly separate transactions. As such, the net gains earned by the Board during 1988-89 should have been brought to account in accordance with Australian Accounting Standards in determining the Board's result for the year. As a consequence, a qualified audit opinion was issued on the Board's 1988-89 financial statements on the ground that the reported net profit for the period of \$133.5 million was understated by \$21.1 million.

3.23.5 Given the above circumstances, audit particularly welcomes the Australian Accounting Research Foundation's recent proposal to issue guidance on the need for gains or losses on debt restructuring to be accounted for in a manner consistent with Australian Accounting Standards.

3.23.6 Audit has recommended that the Board's policy for debt restructuring be in accordance with Australian Accounting Standards.

Management response

Prior to the Board changing its accounting treatment for gains and losses arising from debt restructuring activities in 1988-89, it sought expert advice from a prominent chartered accounting firm which supported the Board's revised accounting treatment. The Board also discussed the issue with the Comptroller-General, Department of Management and Budget and the Australian Accounting Research Foundation. The Foundation issued a proposed Accounting Guidance Release on Debt Restructuring but the Board considered that this did not address the types of activities which the Board is engaged in and responded to this Release accordingly. The Board discussed the changed treatment in detail and at length with staff from the Auditor-General's Office.

The Board believes the change in accounting treatment in 1988-89 reflects the true economic substance of its debt restructuring activities and is not in breach of any accounting standards.

Forgiveness of government debt

3.23.7 As part of a package designed to improve the financial performance of the Board, the Treasurer, during 1988-89, approved the forgiveness of a further \$50 million of the Board's debt. This action brought the total amount of debt forgiven for 1987-88 and 1988-89 to \$110.5 million.

3.23.8 While such action has led to an improvement in the Board's financial position, the Treasurer has indicated that any interest forgone to the State will eventually be replaced by higher dividend payments from the Board to the Consolidated Fund.

3.23.9 In 1987-88 the Board was required to appropriate \$85 million for the payment of dividends to the Consolidated Fund and the Victorian Equity Trust. The Board's net profit for the year was \$103.7 million after accounting for the forgiveness of \$60.5 million as an extraordinary gain. As such, the Board would not have had sufficient profit to fully provide for the dividends for the year without the forgiveness of debt.

3.23.10 A similar position occurred in 1988-89. However, the Board's profit for the year prior to taking to account the gain from the forgiveness of the further \$50 million of debt was \$83.5 million, which meant that the Board was substantially better placed to provide for dividends payable of \$92 million for 1988-89.

Management response

The comments regarding the significance of extraordinary gains arising from debt forgiveness in relation to the Public Authority Dividend are noted. However, the Board believes that these gains correctly form part of the profits for the years in question and as such are available to provide for the Public Authority Dividend.

Transfer of properties to Roads Corporation

3.23.11 The *Town and Country Planning (Transfer of Functions) Act 1985* provided for the transfer of responsibility for metropolitan planning from the Board to the Ministry for Planning and Environment from 1 July 1985. The Act also included provisions for certain determinations to be made by the responsible Ministers in respect of lands acquired by the Board from funds raised through the levying of a metropolitan improvement rate.

3.23.12 The legislation passed in 1985 did not alter the process under which the Board's billing procedures are used to levy the metropolitan improvement rate, even though part of the rate was to be applied for metropolitan planning functions no longer the direct responsibility of the Board.

3.23.13 Following negotiations between the Board, the Department of Management and Budget, the Ministry for Planning and Environment and the Roads Corporation, the responsible Ministers determined, on 27 June 1989, that 625 properties (previously acquired for road construction) be transferred by the Board to the Roads Corporation. Although the actual transfer took place in June 1989, the Treasurer did not formally determine until September 1989 that the transfer be at no cost.

3.23.14 The transferred properties were originally acquired by the Board at a cost of \$16.5 million and had a market value, assessed by the Roads Corporation, of \$178 million at the time of transfer.

3.23.15 In addition to the transfer of properties, the Board was required to pay to the Consolidated Fund late in June 1989 an amount of \$3.5 million. This amount equated to net rentals received by the Board since 1985 from these properties.

3.23.16 Negotiations are currently in progress for the transfer of a further 219 properties from the Board to the Corporation.

3.23.17 As the Roads Corporation is essentially funded from the Consolidated Fund, an impact of the change in legislation is that if any of the transferred properties were ultimately sold, the Consolidated Fund would most likely be the beneficiary, rather than the Board's Metropolitan Improvement Fund.

Management response

The collation of information relating to the 625 properties transferred required significant effort as properties had to be identified and their purpose determined. This took some time to complete. The Board retained properties not required for transport purposes.

Despite the formal determination of the Treasurer not being available until September 1989, there was a clear agreement in principle to transfer properties as a result of the transfer of the Planning function. The properties were transferred at no cost under direction from the Treasurer.

Charging of interest on overdue accounts

3.23.18 Previous Auditor-General's reports have commented that the Board's enabling legislation does not confer on the Board the authority to charge interest on arrears of rates and charges. In contrast, the enabling legislation of other public sector agencies provides for the levying of interest on overdue amounts.

3.23.19 The position on this issue has remained unchanged since 1986-87 when first raised by audit. The latest advice provided by the Board to audit is that it intends to seek an appropriate amendment to its legislation at the time of the next major revision.

NON-METROPOLITAN WATER AUTHORITIES

3.23.20 The oversight of the State's 169 non-metropolitan water authorities (comprising 142 water and sewerage bodies and 27 river management bodies) is the responsibility of the Department of Water Resources. The audit of the authorities is conducted by the Auditor-General through the engagement of private auditors on a contractual basis.

Financial assistance to water authorities

3.23.21 Over the years, non-metropolitan water and sewerage authorities have received substantial levels of government assistance in the form of grants and subsidies. The main purpose of the assistance is to ensure that water and sewerage services are provided throughout the State at reasonable cost to users.

3.23.22 The Department has estimated that the cost to government of all forms of assistance to non-metropolitan water authorities between 1943 and 1980 was approximately \$1 350 million at 1985-86 prices. Audit has estimated that, since 1981, further assistance totalling \$230 million (at 1989 prices) has been provided.

3.23.23 The main form of financial assistance in recent years has been the revenue subsidy scheme. This scheme, which was introduced in 1983-84 and is to be phased out by 1992-93, is designed to ensure services are available to ratepayers in high cost districts (a district being a separate rateable area of an authority) at reasonable cost.

3.23.24 Previous reviews conducted by the Department found that this scheme had led to some unintended consequences in that it enabled some authorities to receive subsidies for high cost districts regardless of their overall financial position.

3.23.25 An audit analysis during the year confirmed that several authorities which reported sizeable operating profits for 1988-89 were in receipt of substantial levels of revenue subsidies. Table 3.23A provides some examples.

**TABLE 3.23A.
AUTHORITIES WHICH REPORTED OPERATING PROFITS AND
RECEIVED REVENUE SUBSIDIES**

<i>Water Authority</i>	<i>Financial year ended</i>	<i>Revenue subsidy received</i>	<i>Reported operating profit</i>
		(\$'000)	(\$'000)
Ballarat	30 June 1989	367	4 205
Sunraysia	" "	122	2 524
Mitchell	" "	317	1 310
Macalister	" "	725	850
Emerald	" "	259	465
Sunbury	" "	252	171

3.23.26 The Department is aware of the shortcomings of the method used for assessing an authority's entitlement to assistance, under the revenue subsidy scheme, without consideration of the entity's overall financial position. As indicated above, the scheme will not operate beyond 1992-93. It is understood that assistance to be provided in future will be in the form of capital grants targeted towards the provision or improvement of basic water and sewerage services for small towns.

Management response

The Department agrees that the revenue subsidy scheme had the unintended consequence that audit points out.

Revenue subsidies were introduced firstly to avoid the extremely high bills that some districts would have experienced upon the withdrawal of interest subsidies and later, to limit yearly increases in bills. However, the revenue subsidy scheme came to be an indirect subsidy to capital works which was not its intended purpose. As a result of these problems, it was resolved that the revenue subsidy scheme would be phased out. As audit identifies, the Department is now preparing to introduce a revised capital grants program which will address the issue of capital works assistance directly.

Financial viability of certain authorities

3.23.27 Although substantial levels of financial assistance have been provided by government to water authorities over the years, many audit reports to managing boards of individual authorities and to the Department have expressed concern as to the overall financial viability of their organisations.

3.23.28 In an attempt to assess the extent of authorities experiencing financial difficulties audit analysed the latest financial statements submitted by over 60 authorities, the majority of which have received government assistance for several years. The analysis involved the application of selected financial ratios to the financial statements. Table 3.23B summarises the results of the audit analysis.

TABLE 3.23B.
RATIOS APPLIED TO 62 SELECTED WATER AUTHORITIES
 (Based on latest financial statements of authorities)

<i>Ratio</i>	<i>Formula</i>	<i>What the ratio indicates</i>	<i>Suggested prudent benchmark (as determined by audit)</i>	<i>Number not meeting the benchmark</i>	<i>Potential problems for Authorities</i>
Interest expense to total revenue	Interest expense/ total revenue	The percentage of revenue absorbed by interest expense	Interest expenses not greater than 33 per cent of total revenue	39 (63%)	The results illustrate that for many authorities financing costs absorb a substantial level of revenue. In 17 cases interest expense was more than 50 per cent of revenue.
Working capital	Current assets/ current liabilities	The ability to pay short-term debts	Each \$1 of current liabilities matched by \$2 of current assets	34 (55%)	Authorities not meeting the benchmark may experience short-term liquidity problems. In 19 per cent of cases the more serious position of current liabilities exceeding current assets existed.
Quick asset	Current assets net of inventory/ current liabilities	An immediate ability to pay short-term debts	Each \$1 of current liabilities held matched by \$1 of current assets, net of inventory	19 (31%)	This ratio is of particular relevance to water authorities as inventory is generally held for repairs and maintenance rather than generation of sales revenue.
Debt to equity	Total liabilities/ total equity	A measure of the level of debt relative to equity	For each \$1 of liabilities there is at least \$2 of equity	16 (26%)	The level of debt of these authorities appears high compared with equity. Debt servicing costs are likely to give rise to long-term financial difficulties.
Government subsidy to total revenue	Government subsidy/ total revenue	The proportion of total revenue contributed by government	For each \$1 of subsidy at least \$2 of other revenue is earned	13 (21%)	Authorities not meeting this benchmark are substantially dependent on financial assistance from government.

3.23.29 The results of the audit analysis indicate that a substantial number of these authorities are likely to experience short and long-term financial viability problems. For those authorities currently in receipt of government financial assistance under the revenue subsidy scheme, the problems are likely to become more acute after the scheme ceases in 1992-93.

Management response

The Department agrees that there are many authorities which are unlikely to be financially viable in the short or long-term. This is particularly true of some authorities currently in receipt of revenue subsidy.

The viability of all water authorities is closely monitored by the Department, largely through the business plans which authorities must prepare. In addition, authorities that receive revenue subsidies have been required to submit additional information to identify the effect of subsidy withdrawal. Individual discussions have also occurred with each of these authorities to negotiate the method of subsidy withdrawal.

While the Department will continue to closely monitor the financial viability of all authorities. However, as largely autonomous entities, the authorities themselves must take urgent action to address the viability of their operations to best serve their ratepayers at least cost.

3.23.30 Factors which audit considers have led to authorities exhibiting signs of short and long-term financial problems include:

- ♦ substantial borrowings to fund major capital works with escalating debt servicing costs;
- ♦ deficiencies in the management of major capital projects resulting, in some cases, in extensive delays and serious cost overruns;
- ♦ serious doubts as to the economic viability of 30 small authorities;
- ♦ inadequate financial management expertise in some authorities; and
- ♦ higher operational costs experienced in authorities administered by or jointly run with municipalities.

3.23.31 The Department has taken certain initiatives in recent years to address the financial viability issue within the water industry. These measures have included introduction of long-term business planning for authorities, formulation of pricing policies to promote the efficient use of resources, a move towards greater internal funding of capital works and encouragement for smaller bodies to consider amalgamation with larger more viable entities.

3.23.32 Audit considers that, in addition to the departmental measures, there is scope for wider use within the industry of initiatives already implemented by some authorities to improve their financial viability. These initiatives include:

- ♦ greater sharing of resources and expertise between authorities;
- ♦ expansion of services provided to the community on a fee-for-service basis; and
- ♦ an identification of new income-generating activities, e.g. the re-use or sale of wastewater for industrial and agricultural purposes.

3.23.33 Audit further considers that many of the financial problems experienced by authorities have been due to a lack of initiative on their part to identify the sources of problems and take appropriate action. There has been a tendency for many authorities to simply rely on continued government financial assistance.

3.23.34 Audit has recommended that the Department encourage management within authorities to explore avenues available to achieve greater operational efficiencies and avoid financial viability problems.

Management response

The Department agrees with audit's opinion that many of the financial problems in the Victorian water sector are a consequence of inadequate planning and expertise within individual authorities. The Department also concurs with the additional initiatives recommended by audit to improve financial viability. In fact, steps are being taken to implement many of these and include:

- *facilitating greater sharing of resources through regional studies;*
- *establishing a technology transfer project team to pool and distribute technical knowledge within the industry; and*
- *initiating the trial of pay-for-use pricing structures within the industry.*

These steps are all targeted towards assisting and encouraging authorities to improve their own viability.

Extent of idle or incomplete fluoridation systems

3.23.35 The *Health (Fluoridation) Act 1973* empowers the Health Department Victoria to direct water supply authorities to fluoridate the public water supplies under their control. The Act also allows authorities to add fluoride to their water supplies, at their own initiative, subject to the approval of the Department.

3.23.36 By December 1989, 16 water supply authorities had been directed to add fluoride to their water supplies. In 8 of these authorities, fluoridation plants were operational at a capital cost of \$1.5 million. Of the remaining 8 authorities some have substantially completed installation of fluoridation plants some years ago at a cost of \$3.3 million, but because of industrial work bans the plants are not yet operational.

3.23.37 The industrial action by unions was largely in response to public opposition, in particular areas, to the fluoridation of water supplies. Audit understands that Health Department Victoria has been involved in discussions with the interested parties with a view to achieving resolution of the problem.

3.23.38 Table 3.23C shows the substantially completed fluoridation systems within water authorities.

TABLE 3.23C. SUBSTANTIALLY COMPLETED FLUORIDATION SYSTEMS

<i>Community</i>	<i>Water Authority</i>	<i>Cost of project</i>	<i>Status of works</i>
		(\$m)	
Geelong	Geelong and District Water Board	1.8	Almost complete (a). Industrial work bans imposed July 1986.
Bendigo	Rural Water Commission - Coliban System	1.1	Almost complete. Industrial work bans imposed April 1985.
Ballarat	Ballarat Water Board	0.3	Almost complete. Industrial work bans imposed October 1978.

(a) Fluoridation system consists of 3 separate plants: 2 have been completed and one is almost complete, but none are operational.

3.23.39 Until resolution of this matter is reached, publicly-funded fluoridation assets held by water authorities to the value of \$3.3 million cannot be utilised.

Management response

The costs associated with the construction and running of fluoridation plants has been fully-funded by direct parliamentary appropriation. Consequently, the \$3.3 million invested in the incomplete or idle fluoridation plants has been borne by Victorian taxpayers, for which there has not yet been any benefit.

The industrial relations branches of both the Department of Labour and the Health Department Victoria have periodically held discussions with the relevant unions, but no resolution has yet been reached.

The Department of Water Resources proposes to remain in contact with Health Department Victoria officers on the issues of fluoridation of water supplies and the current union work bans.

Inadequate asset management by water authorities

3.23.40 Previous Auditor-General's reports have commented on inadequacies in the recording and reporting of assets by water authorities. The *Report on Ministerial Portfolios, May 1989* indicated that the Department of Water Resources had undertaken a review of fixed assets management within the water industry and that it expected a report to be issued in June 1989.

3.23.41 The departmental review, which was finalised in October 1989, found that most authorities had established asset registers. However, 11 authorities did not respond to a departmental survey on asset control, which reflected poorly on the asset management ability of those authorities. In addition, some authorities had been unable to provide the Department with details of some of their asset holdings, namely, reticulation systems and pipelines.

3.23.42 There were many instances during 1989 where reports issued by this Office on audits of water authorities drew attention to deficiencies in the way in which assets have been managed by authorities.

3.23.43 The Department has estimated that, at June 1987, the gross replacement cost of assets managed by non-metropolitan water authorities was \$3 800 million. This level of investment reinforces the need for a sound asset management strategy within the industry.

3.23.44 Audit has recommended that the Department continue with its efforts to establish a complete and accurate inventory of all capital assets in the non-metropolitan water sector and to encourage all authorities to establish and maintain adequate asset registers.

Management response

The "Inventory of Water Sector Assets, 1986-87" was a major documentation and description of the value and condition of assets in the water sector. The document's purpose was to open the issue of asset recording and reporting in the water sector.

The compilation of data for this inventory was the first time that most non-metropolitan water authorities had prepared a comprehensive listing of their assets. As would be expected in such a pioneering effort, the accuracy of data from individual authorities could be improved. The responsibility for improving the information lies with individual authorities who are obliged to provide an acceptable standard of service to consumers at least cost. Asset management is an important part of achieving this.

Consequently, the Department will continue to encourage authorities to establish and maintain adequate registers of their assets. However, the "Inventory of Water Sector Assets 1986-87" is not expected to be continually updated.

Timeliness of reporting by authorities

Financial reporting

3.23.45 Previous reports of the Auditor-General to Parliament have commented on the failure by several authorities to prepare and submit for audit financial statements within their statutory reporting deadlines.

3.23.46 The timeliness of financial reporting by authorities during the period March 1989 to March 1990 has improved considerably. At March 1990, 33 authorities had not submitted financial statements compared with 59 in March 1989, with the number of outstanding financial statements (including arrears) falling from 93 to 56.

3.23.47 Table 3.23D provides details of those authorities which had not submitted financial statements for audit for reporting periods ended 31 December 1988 or earlier.

TABLE 3.23D.
WATER AUTHORITIES WHICH HAD NOT SUBMITTED FINANCIAL STATEMENTS
FOR AUDIT FOR PERIODS ENDED 31 DECEMBER 1988 OR EARLIER

<i>Authority</i>	<i>Periods ended</i>
Water and sewerage authorities -	
Bridgewater Water Board	30.6.88
Deakin Water Board	30.6.85, 30.6.86, 30.6.87, 30.6.88
King Valley Water Board	30.6.88
Lang Lang Water Board	30.6.88
Pakenham Water Board	30.9.88
Shire of Korong (Water Component)	30.9.87, 30.9.88
Shire of Myrtleford (Water and Sewerage Components)	30.9.86, 30.9.87, 30.9.88
River management authorities -	
Avon-Macalister Rivers Management Board	31.12.87, 31.12.88
Fifteen Mile Creek Improvement Trust (a)	31.12.86, 31.12.87, 31.12.88
King Parrot Creek Improvement Trust (a)	4. 6.85
Lough Calvert Drainage Trust	31.12.87, 31.12.88
Mid-Goulburn Rivers Management Board	31.12.85, 31.12.86, 31.12.87, 31.12.88
Mitchell River Management Board	31.12.88
Seymour Shire River Improvement Trust (a)	4. 6.85
Shire of Alberton River Improvement Trust	31.12.87, 31.12.88
Shire of Korumburra River Improvement Trust	31.12.87, 31.12.88
Shire of Yea River Improvement Trust	31.12.88

(a) Ceased to exist as a result of amalgamations within the water industry; responsibility for preparation of accounts now rests with successor body.

3.23.48 The improvement in financial reporting by authorities was mainly due to a decision by the Department in 1987 to impose sanctions on those authorities that had failed to prepare financial statements on a timely basis. These sanctions included the withholding of subsidies or grants due to authorities and more recently the deferral of approvals to borrow funds for capital works until financial statements have been received.

Preparation of annual reports

3.23.49 Although the improvement by authorities in the timely preparation of financial statements is pleasing, there currently exists a large number of water and sewerage bodies which do not comply with the statutory requirement to provide an annual report, containing both a report of operations and the audited financial statements, to the Minister.

3.23.50 Records maintained by the Department revealed that, at 31 January 1990, 43 per cent of authorities had failed to produce any annual reports since the legislative requirement to do so was introduced in June 1983.

3.23.51 This position means that:

- ♦ there is an inadequate level of accountability by these authorities to both ratepayers and the Minister; and
- ♦ the Department does not have access to timely information to assist its overview of the efficiency and effectiveness of the authorities.

3.23.52 Audit has recommended that the Department take action to improve the timing of submission of annual reports by authorities.

Management response

Management shares audit's concern about the lack of accountability and timeliness of many authorities in their submission of financial statements and annual reports. In response to this, the Department intends to continue to withhold financial assistance, loan and other approvals from authorities failing to submit their financial statements in a timely manner.

The situation with regard to non-submission of annual reports is even more widespread than that of financial statements. Non, or late submission, of annual reports is a serious breach of an authority's legislative responsibility. In order to address this, the Department will also be withholding financial assistance and approvals from those authorities who fail to submit annual reports for the 1989-90 year onwards.

THEFTS AND LOSSES

3.23.53 During the period 1 January 1989 to 31 December 1989, numerous losses of stores, plant and equipment occurred within the various entities in the Water Resources Portfolio. Details are summarised in Table 3.23E.

TABLE 3.23E.
THEFTS AND LOSSES OF STORES, PLANT AND EQUIPMENT
(\$)

<i>Entity</i>	<i>Value of losses of stores, plant and equipment</i>
Melbourne and Metropolitan Board of Works	63 828
Non-metropolitan water authorities	34 922
Rural Water Commission of Victoria	21 011
Dandenong Valley Authority	10 050
Total	129 811

Schedule A. Status of matters raised in previous reports

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
Department of Water Resources		
<i>Second Report,</i> 1986-87, p.161 <i>Ministerial</i> <i>Portfolios,</i> May 1989, p.282	Regulations under the <i>Annual Reporting Act</i> 1983 require amendment to ensure that all transactions of the Public Account falling within the policy responsibility of Ministers are included within their departmental financial statements.	Position now satisfactory. The Department included the Public Account transactions of the Rural Water Commission of Victoria in its financial statements for 1988-89.
<i>First Report,</i> 1987-88, pp.36-7	Internal audit arrangements not implemented in accordance with government policy.	The Department requested the Bureau of Internal Audit to undertake its internal audit function. During 1989 the Bureau conducted the review of 2 functions of the Department.
Melbourne and Metropolitan Board of Works		
<i>Second Report,</i> 1986-87, pp.164-5	The review of the Board's systems and procedures for revenue billing and collections disclosed that the Board's enabling legislation does not confer on the Board the authority to charge interest on arrears of rates and charges. In contrast, the enabling legislation of other public sector agencies provides for the levying of interest on overdue amounts.	Position unchanged. For further comments, refer to paragraphs 3.23.18 to 3.23.19 of this report.

Schedule A. Status of matters raised in previous reports - continued

Report	Subject	Status at date of preparation of this report
<i>Ministerial Portfolios, May 1989, pp.285-92</i>	Major concerns in respect of management practices, procedures and controls in operation at the Board's Werribee Farm, including: <ul style="list-style-type: none"> <li data-bbox="350 443 764 522">▪ breaching of environmental standards established by the Environment Protection Authority; <li data-bbox="350 588 804 687">▪ need for use of lagoon process in treatment of sewerage and resolution of associated environmental problems; <li data-bbox="350 827 800 850">▪ absence of a long-term strategy plan; <li data-bbox="350 890 781 970">▪ retention of extensive land holdings to support livestock operations: warrants review; and <li data-bbox="350 1009 755 1059">▪ lack of justification for and under-utilisation of conference facilities. 	<p>Effluent standards are being improved by a major ongoing program costing \$10 million per year of upgrading and constructing new treatment facilities at Werribee.</p> <p>A major new lagoon is currently under construction and 2 further lagoons are in the planning stage. The main environmental problem associated with the lagoon process is odour and this is being addressed by the installation of electric aerators.</p> <p>Finalisation of long-term plan is in course.</p> <p>The Board has indicated that this matter will be reviewed on completion of the Development Strategy for Werribee Farm.</p> <p>Position has improved. Use of conference facility by the Board and private organisations is increasing.</p>
<i>Ministerial Portfolios, May 1989, p.292</i>	Need for the Board and the Mornington Peninsula and District Water Board to resolve the varying interpretations as to the accounting treatment in relation to an agreement for the supply of water.	Position now satisfactory. Matter has been resolved by the 2 Boards.

Schedule A. Status of matters raised in previous reports - continued

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
Non-metropolitan water authorities		
<i>Second Report, 1984-85, p.141</i>	Misappropriation of funds amounting to \$187 000 at the Geelong and District Water Board.	<p>A former employee of the Board was committed for trial of theft and false accounting as a servant of the Board concerning an amount of \$112 139.</p> <p>The Crown at the trial proceeded in respect to charges of \$21 162 and a conviction was recorded. The former employee was ordered to undertake 200 hours of community service. In addition, an order for restitution for \$21 162 was made, however, at the date of preparation of this report no restitution had been made.</p> <p>The Board has recovered \$100 000 from its insurers in relation to this loss.</p>
<i>Second Report, 1985-86, p.197</i>	Several authorities continued to maintain separate accounting records for each water and sewerage function as if the former bodies continued to exist.	The situation has substantially improved over recent years. A few authorities continue to maintain such separate records and these have indicated that they will cease the practice in the near future.
<i>Second Report, 1985-86, p.197</i>	Inadequacies in the recording of fixed assets by water authorities.	Position unchanged. For further comments, refer to paragraphs 3.23.40 to 3.23.44 of this report.
<i>Second Report, 1985-86, pp.196-7</i> <i>Second Report, 1986-87, pp.161-3</i> <i>Ministerial Portfolios, May 1989, pp. 282-4</i>	Failure by authorities to provide financial statements in a timely manner.	During 1988-89 a substantial number of authorities brought their financial reporting up-to-date. However, a number of authorities still failed to provide financial statements in a timely manner. For further comments, refer to paragraphs 3.23.45 to 3.23.52 of this report.
<i>Ministerial Portfolios, May 1989, pp. 282-4</i>	Financial statements of Woodend Water Board for 1985-86 disclaimed on the basis that material uncertainty existed as to the Board's liability for claims for damages arising from bush fires on 1 February 1983.	Position unchanged. The financial statements of the Board for 1986-87 and 1987-88 have also been disclaimed on this issue.

Schedule A. Status of matters raised in previous reports - continued

<i>Report</i>	<i>Subject</i>	<i>Status at date of preparation of this report</i>
Rural Water Commission of Victoria		
<i>Second Report, 1984-85, pp.139-40</i> <i>Second report, 1986-87 pp.165-6</i> <i>Ministerial Portfolios, May 1989, p.293</i>	Accounting treatment for moneys paid into the Public Account by the Commission requires review in consultation with the Department of Management and Budget.	The accounting treatment by the Commission for moneys paid into the Public Account has been satisfactorily resolved.
<i>Ministerial Portfolios, May 1989, pp.292-3</i>	Need to provide the Department of Management and Budget with a detailed list of overpayments totalling approximately \$463 000 made to water bailiffs during the period 1983 to 1986. Such a listing was required to support a request for the write-off of the above amount under the Treasury Regulations.	The Treasurer approved the write-off of overpayments to water bailiffs totalling \$463 436 together with days granted in lieu of overtime to the value of \$173 835. The Treasurer's approval was granted subject to confirmation by the Commission that appropriate steps have been taken to prevent such a recurrence. The Commission's internal auditor is currently reviewing related internal control procedures.
<i>Ministerial Portfolios, May 1989, p.294</i>	Failure by the Commission to submit audited financial statements to the Minister for Water Resources by the statutory reporting date of 30 September.	Position now satisfactory following designation of the Commission under the Annual Reporting Act in 1988-89.
<i>Ministerial Portfolios, May 1989, p.294</i>	Inadequate internal audit function.	Position has improved. Since mid-1989 the Commission has taken certain initiatives to revamp the internal audit function and widen its scope.

Schedule B. Completed/incomplete audits

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor- General's report signed</i>
Completed audits				
Department of Water Resources	30 June 1989	31 October. <i>Annual Reporting Act 1983</i> , s.8.	20 October 1989	26 October 1989
Dandenong Valley Authority	30 September 1988	31 March. <i>Dandenong Valley Authority Act 1963</i> , s.40.	10 March 1989	28 April 1989
Edithvale-Seafood Wetlands Environmental Area Committee of Management	30 June 1988	No reporting requirements. <i>Dandenong Valley Authority Act 1963</i> , s.31A provides for the audit of the accounts.	11 April 1989	21 June 1989
Latrobe Valley Water and Sewerage Board	30 June 1989	31 December. <i>Latrobe Valley Act 1958</i> , s.53.	1 September 1989	18 September 1989
Melbourne and Metropolitan Board of Works	30 June 1989	30 September. <i>Annual Reporting Act 1983</i> , s.9.	20 September 1989	25 September 1989(a)
Melbourne and Metropolitan Board of Works Employees' Superannuation Fund	30 June 1989	30 September. <i>Annual Reporting Act 1983</i> , s.9. Treasurer granted extension of time to 31 December 1989.	18 December 1989	21 December 1989
Patterson River Recreational Area Management Committee	30 June 1988	No reporting requirements. <i>Dandenong Valley Authority Act 1963</i> , s.31A provides for the audit of the accounts.	11 April 1989	21 June 1989(a)
Rural Water Commission of Victoria	30 June 1989	30 September. <i>Annual Reporting Act 1983</i> , s.9. Treasurer granted extension of time to 31 October 1989.	18 October 1989	27 October 1989
Tirhatuan Park Recreational Area Management Committee	30 September 1988	No reporting requirements. <i>Dandenong Valley Authority Act 1963</i> , s.31A provides for the audit of the accounts.	11 April 1989	21 June 1989(a)

Schedule B. Completed/incomplete audits - continued

<i>Entity</i>	<i>Financial year ended</i>	<i>Reporting to Parliament</i>	<i>Financial statements signed by entity</i>	<i>Auditor- General's report signed</i>
Incomplete audits				
Dandenong Valley Authority	30 September 1989	31 March. <i>Dandenong Valley Authority Act 1963, s.40.</i>	Audit substantially completed.	
Edithvale-Seaford Wetlands Environmental Area Committee of Management	30 June 1989	No reporting requirements. <i>Dandenong Valley Authority Act 1963, s.31A</i> provides for the audit of the accounts.	Audit substantially completed.	
Non-metropolitan water authorities	For further comments, refer to paragraphs 3.23.45 to 3.23.48 of this report.			
Patterson River Recreational Area Management Committee	30 June 1989	No reporting requirements. <i>Dandenong Valley Authority Act 1963, s.31A</i> provides for the audit of the accounts.	Audit substantially completed.	
Tirhatuan Park Recreational Area Management Committee	30 September 1989	No reporting requirements. <i>Dandenong Valley Authority Act 1963, s.31A</i> provides for the audit of the accounts.	Audit substantially completed.	

(a) Qualified audit report issued.

PART 4

BROAD SCOPE ISSUES

4.1

FINANCIAL POSITION OF THE CONSOLIDATED FUND

KEY FINDING

- ♦ At 28 February 1990, the Consolidated Fund had an overall deficit of \$1 356 million of which \$599 million was a deficit on recurrent operations.

paras 4.1.12 to 4.1.17

OVERVIEW

4.1.1 A government's expenditure, borrowing and financial position are topics that have always aroused widespread interest, even more so in Victoria having regard to recent events relating to the State Bank Victoria and actions taken by the Government to overcome the financial difficulties of one of the Bank's subsidiaries. Inquiries made to my Office indicate that there is much conjecture as to the impact of these events on the financial position of the Consolidated Fund, both currently and in the future. It therefore appears to me that it is in the public interest for me to comment on the balance of the Consolidated Fund prior to 30 June 1990.

4.1.2 As stated in the *Foreword* to this report, I am not the auditor of the State Bank Victoria or of any of its subsidiaries. However, in regard to the recent events concerning the Bank and its subsidiary Tricontinental Corporation Limited, I am aware that the Treasurer has entered into an agreement with Tricontinental and its subsidiaries to meet their bad debts up to an amount not exceeding \$795 million.

4.1.3 At this stage, I am not aware of the procedures to be used in actually providing the necessary funds to Tricontinental and, consequently, the impact of the arrangement on the Consolidated Fund. I would expect that these matters will be identified and fully explained by the Treasurer in the Treasurer's Statement for 1989-90.

4.1.4 Further analysis will be provided in my *Report on the Treasurer's Statement, 1989-90*.

GOVERNMENT DEFICITS

4.1.5 Before discussing the financial position of the Consolidated Fund, it is appropriate to define what in audit's view constitutes a "deficit" in government financial terms and how those deficits are funded.

4.1.6 In regard to the Consolidated Fund, a deficit arises when payments made in a period, including the cost of capital assets purchased, exceeds the funds available from taxes and charges collected, grants from the Commonwealth, rent and royalties, property income and receipts from the sale of assets excluding sale and lease-back arrangements.

4.1.7 The *Public Account Act* 1958 defines the scope of the Consolidated Fund. The Act requires that payments made from the Fund cannot exceed the amounts credited to it in the year. This does not preclude the Government running a deficit in any particular year as borrowings can be used to ensure sufficient moneys are standing to the credit of the Fund. In this context, in the previous year 1988-89, the Government applied borrowings of \$1 102 million to balance the Fund.

4.1.8 However, the use of borrowings is not a last resort funding decision, as the Government in framing its budget makes a conscious decision on what proportion of its proposed payments will be funded from borrowings. It has been the established practice of governments to apply borrowings towards the purchase of (capital) assets with long economic lives.

4.1.9 Such forward planning is necessary as the Government's ability to borrow is restricted by the "global limit" and by its total debt and debt management strategies. The "global limit" is determined annually by the Commonwealth in conjunction with the States, and constrains the amount which each participant can borrow for public sector purposes. Part of the "global limit" allocation for Victoria includes the amount of borrowings to be applied to the Consolidated Fund.

4.1.10 During a financial year the expenditures of the Consolidated Fund often temporarily exceed its revenues, as patterns of revenue collection do not always match with those of payments. To overcome these temporary shortfalls, it has been the Government's practice for the Consolidated Fund to borrow, on a short-term basis, from moneys held in the Public Account (the Government's bank account) on behalf of Trust Funds and/or from the Cash Management Account (CMA) of the Victorian Development Fund. The CMA which operates in the short-term financial market can receive deposits from and advances moneys to the Consolidated Fund.

4.1.11 Following a recent review of the financial position of the Consolidated Fund, the Treasurer approved, pursuant to the Public Account Act, the establishment of a short-term funding facility in order to obtain, on a more competitive basis, temporary advances necessary to meet appropriations from the Consolidated Fund. These temporary advances which have been received from the Victorian Public Authorities Finance Agency are to be repaid, with interest, during the current financial year.

CONSOLIDATED FUND POSITION (28 FEBRUARY 1990)

4.1.12 Based on figures contained in the Department of Management and Budget's ledger, at 28 February 1990, the Consolidated Fund had an overall deficit of \$1 356 million. Of this amount, \$599 million was a deficit on recurrent operations which in normal circumstances would eventually be funded by sources other than borrowings.

4.1.13 It was not possible to compare the deficit of \$1 356 million with the projected deficit at 28 February 1990 as cash flow projections were not made available to audit.

4.1.14 The method used by audit to calculate the deficit differs from that used by the Treasurer in preparing the monthly Statement of Financial Transactions of the Consolidated Fund in the following areas:

- ♦ Borrowings have not been included as revenue of the Fund in order to disclose the actual deficit of the Fund; and
- ♦ The Treasurer has included as revenue \$52 million received as a result of the sale of light rail vehicles and buses. The assets sold are being leased back by the Public Transport Corporation. Audit has therefore excluded the amount on the grounds that finance obtained under sale and lease back arrangements represents borrowings.

4.1.15 Details of the balances of the Consolidated Fund are set out in Table 4.1A.

TABLE 4.1A. BALANCES OF THE CONSOLIDATED FUND
(\$million)

<i>Item</i>	<i>Actual at 28 February</i>		<i>Budget 1989-90</i>
	<i>1989</i>	<i>1990</i>	
Recurrent -			
Balance forward	30	55	55
Receipts	6 458	6 852	10 828
Payments	6 920	7 506	10 883
Recurrent deficit	(432)	(599)	-
Works and Services			
Receipts	512	437	1 201
Payments	1 124	1 194	2 008
Works and Services deficit	(612)	(757)	(807)
Consolidated Fund deficit (excluding borrowings)	(1 044)	(1 356)	(807)

4.1.16 Details of how the Consolidated Fund deficit has been funded are disclosed in Table 4.2B.

TABLE 4.2B. FUNDING THE DEFICIT, AT 28 FEBRUARY
(\$ million)

<i>Funding facility</i>	<i>1989</i>	<i>1990</i>
Short-term borrowings -		
CMA (a)	-	56
Short-term funding facility (b)	-	400
Trust Funds	432	141
Other borrowings	-	2
Total short-term borrowings	432	599
Works and Services borrowings		
Capital Works Authority	522	560
Victorian Development Fund (c)	90	145
Leasing arrangements	-	52
Total Works and Services borrowings	612	757
Total borrowings	1 044	1 356

(a) Advances to the Consolidated Fund for period not exceeding 12 months.

(b) Facility must be repaid before 30 June 1990.

(c) Advances from State Development Account for periods greater than 12 months.

4.1.17 As stated earlier, this is a preliminary report and further analysis will be provided in my *Report on the Treasurer's Statement, 1989-90*, to be made to Parliament later this year.

Management response

The Department of the Treasury notes that the stated context of this special audit is the "actions taken by the Government to overcome the financial difficulties of the (State) Bank's subsidiaries" and that the Government's actions in this regard have had no impact on the Consolidated Fund at the date of the audit.

Treasury notes also that, while it is appropriate to show the extent to which borrowings have been used to cover an excess of outlays over revenue, borrowings paid into the Works and Services Account are receipts to that Account and should be shown as such. Audit adopted this approach on page 18 of its Report on the Treasurer's 1988-89 Finance Statement.

Treasury disagrees with the view of audit that the sale of light rail vehicles and buses represents borrowings. Following independent accounting advice, Treasury believes that it has quite properly treated the sale and lease-back arrangements as an asset sale and lease on an operating lease basis. Ownership has passed to a third party and the operating lease payments will be made by the Public Transport Corporation from appropriated funds.

Treasury agrees that there have been Consolidated Fund cash flow weaknesses during 1989-90 and notes that these have been mainly due to the timing of receipts as against payments. It points out that there were similar difficulties in 1988-89 which were, in the main, overcome by higher receipts later in the year. In this regard, the cash position of the Consolidated Fund at any time during the financial year needs to be distinguished clearly from the budgeted position for 30 June of a financial year and the actual outcome for that year. The position of the Consolidated Fund will continue to be reported publicly by the Department of the Treasury on a monthly basis and the actual outcome will be presented in the Treasurer's 1989-90 Finance Statement.

4.2

MICROCOMPUTERS IN THE PUBLIC SECTOR

KEY FINDINGS

- ♦ Lack of policies and procedures relating to microcomputers.
paras 4.2.13 - 4.2.16
- ♦ Deficiencies in security over microcomputers.
paras 4.2.22 - 4.2.29
- ♦ Inadequate measures to protect against viruses.
paras 4.2.30 - 4.2.36
- ♦ Inadequate management information systems on microcomputers.
paras 4.2.41 - 4.2.45
- ♦ Microcomputers with an estimated value of \$2.7 million unaccounted for during stocktake at State Electricity Commission of Victoria.
para. 4.2.44

INTRODUCTION

4.2.1 In the Auditor-General's *Report on Ministerial Portfolios, May 1989* audit addressed aspects of the strategic planning for the introduction and use of information technology within the Health Department Victoria and commented on the disaster recovery practices within the Victorian public sector.

4.2.2 As part of ongoing reviews of information technology within the public sector audit examined various aspects of the use of microcomputers during 1989.

4.2.3 For the purpose of this review, microcomputers are defined as any personal computer with an independent operating system, either stand-alone or linked into a local area network (LAN). Microcomputers linked to a corporate network and used only for mainframe processing were not examined as part of the review.



Microcomputer in use.

BACKGROUND

4.2.4 Substantial funds continue to be expended annually on acquiring microcomputers within the Victorian public sector. Microcomputers provide ongoing benefits to various organisations and the efficient and effective utilisation of these assets is an important factor in the ability of organisations to achieve their objectives.

4.2.5 Responsibility for the management and control of microcomputer hardware and software, including the acquisition, maintenance and disposal processes, is vested in the various organisations and is not centrally co-ordinated.

4.2.6 During 1989 audit undertook a review of 4 organisations in order to form an opinion on present management practices. The organisations selected for review are considered to be representative of public sector organisations that have embarked on the installation and utilisation of microcomputers. The organisations were:

- ♦ Office of the Chief Commissioner of Police;
- ♦ Public Transport Authority;
- ♦ State Electricity Commission of Victoria; and
- ♦ University of Melbourne.

4.2.7 Table 4.2A shows the total investment by the 4 organisations in microcomputers as at 31 December 1989.

TABLE 4.2A. INVESTMENT IN MICROCOMPUTERS

<i>Organisation</i>	<i>\$million</i>	<i>Number of computers</i>
Office of the Chief Commissioner of Police	3.0	600
Public Transport Corporation	9.0	1 200
State Electricity Commission of Victoria	27.0	2 000
University of Melbourne	17.3	4 200
Total investment	52.3	7 400

OVERALL CONCLUSION

4.2.8 In summary, the review found that while public sector bodies had invested substantial funds in microcomputers they failed to achieve maximum utilisation and benefits of the processing capabilities of the microcomputers, preferring to use them for such activities as general word processing and spreadsheets.

4.2.9 Further, audit is of the view that an urgent need exists for a reassessment of the policies and procedures relating to acquisition, security, virus protection and prevention, maintenance and information systems on microcomputers to ensure the effective utilisation of microcomputers within public sector agencies.

OBJECTIVES OF THE REVIEW

4.2.10 The objective of the audit review was to evaluate the adequacy of management procedures and practices in place in the organisations, and to ensure:

- ♦ there was efficient and effective planning for the acquisition and installation of microcomputer equipment as well as the purchase, development and implementation of related applications;
- ♦ the existence of appropriate policies and procedures to assist users of microcomputers;
- ♦ effective use is made of available resources in relation to microcomputing requirements; and
- ♦ the adequacy of security over microcomputers.

4.2.11 All 4 organisations had set in place, or had already developed, a draft Information Technology (IT) Strategy which addressed the nature and type of EDP equipment to be utilised. However, the strategies adopted by the organisations failed to properly address the fundamental aspects of policies and procedures, utilisation, management information systems, maintenance and security.

4.2.12 Detailed findings relating to these areas are set out in the sections below.

POLICIES AND PROCEDURES FOR MICROCOMPUTERS

4.2.13 An organisation's EDP policies and procedures provide the overall framework for the planning, direction and control of its operations. In developing policies and procedures appropriate consideration should be given to:

- ♦ the form and nature of the organisation's structure;
- ♦ management functions and reporting relationships;
- ♦ the assignment of authority and levels of responsibility within the organisation;
- ♦ adoption of the most cost-effective utilisation of resources; and
- ♦ inclusion of all relevant issues and procedures in a document which can provide the necessary guidance and direction to all staff.

4.2.14 Audit found that, with the exception of the State Electricity Commission of Victoria, the organisations did not have adequate policies and procedures in respect of procurement, maintenance, backup and recovery, security, and software licensing and development.

4.2.15 The failure to implement adequate policies in these areas impacts upon the effectiveness of the microcomputers in contributing to the operations of the organisations.

4.2.16 Specific comments in relation to current strategies of each organisation are set out in Table 4.2B.

TABLE 4.2B. POLICIES RELATING TO MICROCOMPUTERS

<i>Organisation</i>	<i>Current strategies</i>
Office of the Chief Commissioner of Police	There were no policies or procedures in place which address microcomputers. The Police Force is in the process of developing draft policies and procedures.
Public Transport Corporation	Due to the recent amalgamation of operations of the former Metropolitan Transit Authority and State Transport Authority policies and procedures have not as yet been formalised. However, draft policies have been developed.
State Electricity Commission of Victoria	The Commission has developed and issued policies and procedures. While security, software licensing and development of software have not been included in the policies, the Commission has issued instructions providing guidance to users on these issues.
University of Melbourne	With the exception of a direction on the use of illegal software and the ramifications for copyright purposes, policies and procedures have not been developed by the University.

- *Management response by State Electricity Commission of Victoria*

Existing policies and procedures will be reviewed and extended as appropriate to more specifically cover any special aspects associated with microcomputers.

- *Management response by University of Melbourne*

The University does provide guidelines/policies to assist microcomputer users.

ACQUISITION

4.2.17 Budget sector agencies are required to seek Tender Board approval prior to acquisition of items of equipment costing more than \$50 000. For organisations from the non budget sector there is no requirement to seek Tender Board approval to purchase microcomputer equipment.

4.2.18 During 1989 the Police Force, being a budget sector agency, sought Tender Board approval for the purchase of microcomputers with a value of \$2.25 million. In addition, a number of microcomputers with a value of less than \$50 000 were purchased at various times during the year. In these instances 3 quotes were obtained prior to the acquisition of the microcomputers.

4.2.19 The State Electricity Commission of Victoria and the Public Transport Corporation have established tendering procedures and annual contracts are entered into for the supply for microcomputers. By contrast, Melbourne University does not arrange for annual contracts due to the University's failure to determine its future microcomputer requirements. Further, as the microcomputers generally cost less than \$20 000, the limit above which approval is required from the University's tender board, there is no requirement to seek approval from the tender board prior to acquisition. By not utilising a tendering process it is not possible for the University to demonstrate that it has acquired the microcomputers at the most economical cost.

4.2.20 As the responsibility for ensuring that the most cost-effective equipment is purchased rests with the individual organisation it is imperative that the non budget sector organisations have sound policies and procedures relating to the acquisition of microcomputers.

4.2.21 **Audit is of the view that economies and efficiencies can be achieved through users of microcomputers evaluating their requirements, funding constraints and equipment preferences on an annual basis and then entering into tendering processes for the supply of microcomputers.**

Management response by University of Melbourne

Formal cost/benefit considerations are of limited use in an education and research environment. Peer review, contract providers review and a general shortage of resources guarantees the existence of a competitive environment consistent with the experimentation in, forward evaluation of, and base service provision of information technology services.

SECURITY

4.2.22 The proliferation of microcomputers within the workplace has generally resulted in persons having unrestricted access to most microcomputer systems. The value of microcomputers together with the ease of access to these items increases the potential for:

- ♦ the loss or corruption of data as a result of error or deliberate sabotage;
- ♦ the loss of data processing facilities;
- ♦ the fraudulent manipulation of data; and
- ♦ the public disclosure of sensitive and confidential data.

4.2.23 Management is also responsible for implementing security measures which are not only efficient, but also cost-effective. The extent of security required should depend on a realistic and informed appraisal of the likelihood of a loss occurring and the cost to the organisation if it did occur, compared with the cost of preventative measures.

4.2.24 **Audit is of the view that both the physical security of microcomputers and the integrity of both software and data need to be incorporated in the organisation's overall EDP policies.**

4.2.25 In the *Report on Ministerial Portfolios, May 1989* audit commented on the lack of policies and procedures relating to the security of data and programs and the slow progress by organisations in the implementation of disaster recovery plans.

4.2.26 The current review, which encompassed both the physical and logical security in addition to disaster recovery plans of microcomputers within the 4 organisations, found that there was a general lack of management policy and procedures relating to the security of data and programs including the establishment of a disaster recovery plan. Further, they lacked satisfactory safeguards to prevent unauthorised access to their data files and computer programs, thus making them susceptible to data corruption and fraud.

4.2.27 In the event of a disaster, reconstruction of a computerised system is dependent on agencies having backup copies of appropriate data files and computer programs. In this regard backup copies of files were generally produced by users, but were not stored at an off-site location.

4.2.28 Audit views with concern the lack of action taken by organisations to set in place disaster recovery plans and the resultant vulnerability of organisations to adequately cope with a serious disruption to services.

4.2.29 In order to minimise the effect and associated costs incurred resulting from a breach of security, critical programs and data files need to be backed-up and stored at an off-site location. Further, backup files should be periodically updated to ensure they are current.

- *Management response by Public Transport Corporation*

The Corporation has assessed the risks involved and is satisfied that all steps have been taken to make users aware of the importance of this issue. Inevitably, however, there is always room for improvement in any system.

- *Management response by State Electricity Commission of Victoria*

User training course content is being reviewed and updated, with corporate standard software and hardware security facilities to be given a higher profile. Formal advice is to be promulgated to users reinforcing previous advice on the physical security of local systems, software and data, and the importance of periodic backup and off-site storage.

- *Management response by University of Melbourne*

The major systems do have a disaster recovery plan and the risks of loss of these systems have been assessed. The information stored in microcomputer laboratories has a lower level of requirement for protection, usually one half-day being necessary in the case of a system rebuild. Departments are encouraged by the Information Technology Section to perform regular back-up and most of the major laboratories do this. There is a need though to reassess the situation from time to time. The security of departments depends on the mode of operation by department. Where there is full-time supervision, operations supervisors and locked doors are generally sufficient.

VIRUSES

4.2.30 A recent phenomenon within the computer industry and in particular microcomputers has been the proliferation of viruses. A virus is a computer program that attaches itself to a legitimate program and spreads from one system to another, eventually performing the illicit function for which it was designed. In some cases these viruses are capable of destroying programs and data.

4.2.31 In the microcomputer arena, the overwhelming majority of "virus infections" occur because of program or data sharing through infected diskettes. Some symptoms which may indicate the presence of a virus are:

- ◆ degradation in response times;
- ◆ loss of files;
- ◆ machine ceases to function without reason;
- ◆ unusual error messages occur with regularity;
- ◆ decrease in the size of available memory;
- ◆ change in size of program; and
- ◆ existence of unexplained hidden files.

4.2.32 Audit found that this aspect of security has not been given adequate consideration by the 4 organisations. **All organisations suffered significant virus outbreaks on microcomputer systems during 1989.**

4.2.33 It was disturbing to note that none of the 4 organisations had instituted formal policies on computer viruses to identify precautionary measures to be taken and the responsibility of users for virus detection and eradication.

4.2.34 However, both the State Electricity Commission of Victoria and the Public Transport Corporation have taken some remedial action by issuing memorandums to users on viruses.

4.2.35 Measures taken by the organisations to address the virus infections are set out in Table 4.2C.

TABLE 4.2C. VIRUS DETECTION AND ERRADICATION STRATEGIES

<i>Organisation</i>	<i>Current strategies</i>
Office of the Chief Commissioner of Police	Virus detection software has not been acquired by the Force and until recently users had not been advised of practices required to minimise the risk of viruses. In the absence of such precautionary measures, the confidentiality and integrity of data stored is not assured. The Force is in the process of developing a package aimed at reducing the risk of virus infection.
Public Transport Corporation	The Corporation has entered into a licence agreement for the use of a virus detection software. Users have been advised of precautionary measures required to limit exposure to viruses.
State Electricity Commission of Victoria	The Commission has taken immediate action to test all systems for viruses following an initial outbreak in 1989. The Commission has also entered into a licence agreement for the use of virus detection software and informed users of precautionary measures to be undertaken to reduce incidence of viruses and limit the consequences of virus infection.
University of Melbourne	The University has entered into a licence agreement for the use of virus detection software. Users have been advised in University newsletters of precautionary measures required to reduce the incidence of viruses and limit the consequences of virus infections.

4.2.36 In view of the potential for serious damage to public sector information systems all organisations need to develop a comprehensive data security program for educating users and encouraging individual awareness and responsibility for security. Further, all organisations need to urgently purchase virus detection devices, the cost of which is minuscule in comparison to their investment in computers.

- *Management response by Public Transport Corporation*

Viruses have been found in 25 systems among the Corporation's 1200 microcomputers and these viruses are not of a dangerous type capable of destroying data or system files.

- *Management response by State Electricity Commission of Victoria*

A new central mainframe-based PC software down-load facility is planned to be implemented in April 1990 to supply up-to-date virus scanning software among other items to users.

- *Management response by University of Melbourne*

The University has addressed this in several ways. First, through the Information Technology Section in terms of newsletters, electronic and internal mail, and general advice to departments and individuals. Second, in establishing laboratories where the major servers cannot be corrupted by the use of read-only disks and prudent management practices. Virus protection software is being increasingly used on campus.

MAINTENANCE

4.2.37 Maintenance of an organisation's microcomputer configurations ensures both the continuing satisfactory operation of equipment and that faulty equipment is returned to good working order with minimum disruption and cost to the organisation.

4.2.38 Maintenance may be carried out either internally or by an external maintenance service provider. External service contracts can provide:

- ♦ full on-site maintenance on a fixed price per unit;
- ♦ a price-per-call basis (in addition to the cost of parts); and
- ♦ off-site maintenance.

4.2.39 Audit found that the issue of microcomputer maintenance within the 4 organisations has only been superficially addressed. Detailed comment on the maintenance measures adopted by organisations are set out in Table 4.2D.

TABLE 4.2D. MICROCOMPUTER MAINTENANCE

<i>Organisation</i>	<i>Current strategies</i>
Office of the Chief Commissioner of Police	Cost-benefit analysis was not conducted to determine the best maintenance alternative. The majority of microcomputers have been purchased within the last 12-18 months and are still covered under warranty by the manufacturer. The maintenance on those microcomputers not under warranty had been contracted to the supplier at a cost of \$10 000 for 1989.
Public Transport Corporation	All microcomputer maintenance is provided in-house. A cost-benefit analysis was not performed to justify this decision. The financial records maintained do not provide details of the equipment repaired or the costs incurred.
State Electricity Commission of Victoria	Cost-benefit analysis conducted prior to making a decision to enter into a fixed price contract for all microcomputer maintenance covering the period 1988-89. A preventative maintenance clause is incorporated in the contract, however, the Commission does not monitor the contractor's compliance with this provision of the contract. Preventative maintenance was not performed on all Commission microcomputers as specified in the above contract.
University of Melbourne	A formal maintenance policy is not in place. Users have the latitude to choose between internal and various forms of external maintenance. A cost-benefit analysis was not performed to determine the most cost-effective maintenance policy (i.e. internal versus external). Centralised records of equipment repaired and costs incurred are not maintained.

4.2.40 All maintenance options need to be evaluated thereby ensuring that the most cost-effective alternative is chosen.

- *Management response by Public Transport Corporation*

The Corporation employs only 4 full-time staff on this activity and it is unlikely that this could be done cheaper or better by outside contractors.

- *Management response by State Electricity Commission of Victoria*

The need for preventative maintenance is no longer clear and there are indications that such activity could be counter-productive. The Commission is closely monitoring trends in the area of preventative maintenance but no immediate action is proposed.

- *Management response by University of Melbourne*

The question of maintenance of systems has been the subject of continual review. It is currently more cost-effective for the University to furnish microcomputer laboratories with a spare machine and use internal repair staff on a time and materials basis. The use of short-term rent/loan machines also provides protection against loss of use.

EXECUTIVE INFORMATION SYSTEMS

4.2.41 To assist management in decision-making, it is important that information systems are in place to generate accurate, complete and timely information on utilisation including details on idle time and private use and the operating costs of microcomputers. The information can assist in monitoring utilisation and return on investment in microcomputers, and identifying surplus or obsolete microcomputers.

4.2.42 Audit found that none of the 4 organisations had developed appropriate information systems relating to microcomputers. As a result, management within the 4 organisations was not in a position to determine whether:

- ♦ microcomputers were being under-utilised;
- ♦ excessive costs were being incurred; and
- ♦ microcomputers were being retained past their useful lives.

4.2.43 It is important that complete and accurate fixed asset registers be established to facilitate effective periodic physical verification of microcomputer equipment. In the absence of a complete register of all items accompanied by annual stocktakes the preservation and monitoring of microcomputers within organisations may be impaired.

4.2.44 A stocktake at the State Electricity Commission of Victoria during 1989 could not account for 200 of the 2 000 microcomputers which purchase records indicated had been installed. Based on the average cost of \$13 500 for a microcomputer system within the Commission, audit estimates that approximately \$2.7 million worth of microcomputer equipment has not been accounted for by the Commission. Audit views with concern these discrepancies and the fact that the Commission has yet to investigate the reasons for the variances.

4.2.45 Appropriate information systems pertaining to microcomputers need to be implemented and monitored by senior management to ensure both efficient and effective use of microcomputer resources and reduce the potential for valuable microcomputers to be lost or stolen without detection.

- *Management response by State Electricity Commission of Victoria*

The Commission's experience indicates that setting up systems to monitor utilisation of microcomputers is neither economically viable or technically feasible. Nevertheless, this matter is receiving attention in our current review using external consultants, of the management of information systems activities.

Further, following initial validation of data, it was evident the coverage of the stocktake was incomplete and all departments were asked to reconcile the stocktake data against equipment under their control. Revised stocktake information is now being submitted and compared against purchase data, and explanations are being sought from departments where real discrepancies between physical holdings and purchase records are identified.

- *Management response by University of Melbourne*

The report, in its general tenor and direction, appears more appropriate to a rigid hierarchical management structure with well defined tasks and objectives allocated and enforced in a top-down fashion. A University does not follow this model. The primary aim of the University is that of achieving excellence in research and teaching, and this is met through individual departments and researchers. The role of the administration is to provide management infrastructure and support for the academic activities in a combination of line management and collegiate environments. Furthermore, management of the assets is the responsibility of the departments.

Management response by Office of the Chief Commissioner of Police

The matters addressed in the report have been discussed with the Chief Commissioner of Police who has elected not to provide a formal response.

4.3

ENTERTAINMENT EXPENDITURE

KEY FINDING
<ul style="list-style-type: none">◆ Guidelines required for entertainment expenditure within the public sector. <p><i>paras 4.3.1 to 4.3.5</i></p>

IS THE LEVEL OF ENTERTAINMENT EXPENDITURE EXCESSIVE?

4.3.1 Over the past 2 years, audit has been reviewing the expenditure for entertainment purposes in public sector organisations such as government departments and statutory bodies. The review disclosed that many public sector organisations incurred significant expenditure which is perceived by management as a legitimate part of their day-to-day operations. Such expenditure included restaurant accounts, associated costs of holding conferences including accommodation, gifts for delegates, food and beverages for board meetings and in-house committee meetings. In addition, instances were noted where organisations also reimburse costs which are perceived by audit to be of a private nature such as staff functions, retirement dinners and Christmas parties.

4.3.2 Apart from a circular issued to Chief Administrators in January 1986 by the Remuneration Review Committee, little if any guidance has been provided to agencies on this matter. The circular indicated it was appropriate for non-discretionary employment-related entertainment expenditure to be re-imbursed to senior officers provided it was within budgetary limits established for each executive and did not exceed the level of the executive's annual expense of office allowance without the Minister's approval.

4.3.3 No guidelines are provided by central agencies such as the Department of the Premier and Cabinet or the Public Service Board to management on the nature and level of entertainment expenditure the Government considers prudent in a public sector environment. It is therefore left entirely to management of public sector organisations to evaluate the appropriateness of such expenditure. The absence of guidelines provides scope for substantial variances of opinion in terms of what is an acceptable level of expenditure.

4.3.4 The audit examination noted many instances where entertainment expenditure incurred by a number of agencies has, **in audit opinion**, been excessive. Also, a number of claims paid have involved expenditure of a private nature and others have not been supported by adequate documentation justifying the claim as being reasonable and relevant to agency programs. Examples noted were:

- ♦ Expenditure for a conference, originally budgeted at \$35 000, actually exceeded \$70 000. The budget overrun included:
 - \$16 000 for accommodation compared with the initial estimate of \$7 000; and
 - \$25 000 in respect of food, beverages and gifts compared with a budget of \$10 600 for catering and conference expenses;
- ♦ Restaurant costs being met for farewell functions for staff members;
- ♦ Reimbursement of accommodation, meals and airline fares being paid for spouses when accompanying officers on work-related trips and conferences;
- ♦ Hotel accommodation costs being met for delegates attending conferences held in their home towns;

- ♦ Membership fees of clubs and organisations being paid for certain officers;
- ♦ Gifts to the value of approximately \$7 500 including items such as photo albums, pottery sets, ties, ceramic figures, wallets and calculators being presented to conference delegates and their partners. On average, in excess of \$450 was spent on gifts for each delegate to the conference;
- ♦ The cost of staff Christmas parties being met by agencies;
- ♦ Expenditure being incurred in respect of a dinner for 10 people at a restaurant to assess its suitability for use by participants at a forthcoming conference;
- ♦ Food and beverages being supplied for in-house committee meetings, and board and council meetings;
- ♦ Staff and student parties; and
- ♦ Barbecues for staff.

4.3.5 In most cases when the above instances have been raised by audit, the response of management has generally been that expenditure was seen as a justifiable charge against public funds, was consistent with practices in the private sector and was not regarded as excessive. In the absence of specific guidelines on what is an appropriate charge against public funds, there is continuing scope for disputation between my office and government agencies. I have therefore written to the Department of the Premier and Cabinet seeking clarification on this contentious issue.

Management response by Department of Premier and Cabinet

It is expected that agencies give serious consideration whether entertainment should be provided from public funds. Where such entertainment is considered to be warranted, the agencies are expected to use proper judgement on the level of expenditure to be incurred. Because of the range of reasons why entertainment expenditure might be warranted and the variety of entertainment that might be offered, the Department considers that it would be difficult to provide guidelines that would be sufficiently definitive and helpful. It is appropriate that senior officers exercise proper judgement of what is reasonable and be accountable for the quality of that judgement in the light of the particular circumstances. The Department shall endeavour to develop guidelines to assist officers in applying proper standards.

4.4

QUALIFIED AUDIT OPINIONS, 1988-89

KEY FINDING
<ul style="list-style-type: none">◆ Need for parliamentary action to address the high incidence of qualified audit opinions in the Victorian public sector. <i>paras 4.4.16 to 4.4.18</i>

ROLE OF EXTERNAL AUDIT IN THE FINANCIAL REPORTING PROCESS

4.4.1 Financial reporting involves the communication of information concerning the operating results and financial position of an entity to those users who may be interested in evaluating the entity's financial performance.

4.4.2 The role of external audit in the financial reporting process, through the expression of an audit opinion, is to add credibility to financial statements so that accurate and reliable information is available to users.

4.4.3 External audit functions performed by the Auditor-General in the public sector are designed to assist the Parliament in its overview of the financial activities of public bodies and in assessing how well organisations have met their responsibilities for accurate and reliable reporting of financial affairs.

4.4.4 An unqualified or clear audit opinion expressed on financial statements is a message to users that reliance may be placed on the reported information.

4.4.5 In reaching an opinion on financial information, the Auditor-General uses 2 yardsticks, namely:

- ♦ fair presentation in accordance with the requirements of Australian Accounting Standards issued by the accounting profession; and,
- ♦ compliance with financial reporting regulations prescribed by legislation, such as the Annual Reporting Act in Victoria.

Management response

Both yardsticks listed in paragraph 4.4.5 for reaching an opinion on financial information are included in the Regulations made under the Annual Reporting Act 1983. That Act was amended in 1986 to allow for incorporation of accounting standards by reference in the Regulations. The process of incorporation was completed in 1988 for all public bodies under the Act.

WHY ARE QUALIFIED AUDIT OPINIONS ISSUED?

4.4.6 The issuing of a qualified audit opinion on an organisation's financial statements represents a "user beware" message of serious concern by audit over the accuracy, completeness or method of presentation of financial information included in the financial statements. It reflects audit's assessment that the necessary standards of financial reporting expected of such organisations, have to some material degree not been met.

4.4.7 It should be noted that auditors have a professional obligation to ensure that the expression of a qualified audit opinion is a "last resort" action after every effort possible has been made (either through the seeking of further audit evidence or convincing management of a need for a change in content or presentation) to enable a clear or unqualified opinion to be given.

DEVELOPMENTS OVER THE LAST YEAR

Overview

4.4.8 The *Report on Ministerial Portfolios, May 1989* provided an overview of qualified audit opinions issued during the period covered by the report.

4.4.9 Table 4.4A indicates that in 1988-89 the number of entities which received audit qualifications in respect of their financial statements, increased significantly when compared to the previous year.

TABLE 4.4A.
QUALIFICATIONS OVER THE LAST 2 YEARS

Entity	1987-88	1988-89
Public hospitals and State nursing homes	(a)	136
Water boards	6	16
Other public bodies	40	68
	46	220

(a) Not subject to audit by the Auditor-General.

4.4.10 The marked increase shown in the above table is principally due to a large number of reservations expressed by audit in relation to the financial statements of public hospitals and State nursing homes which became subject to statutory audit by the Auditor-General from 1 July 1988. (Further comment on public hospitals and State nursing homes is provided in section 3.10 of this report.)

4.4.11 Of the 84 bodies other than public hospitals and State nursing homes which were qualified in 1988-89, 53 bodies were not qualified in the previous year.

4.4.12 An analysis of the more significant issues which led to the qualifications is provided in Appendix A to this section of the report.

Management response by Department of Management and Budget

Major reforms in Victoria such as the recording and reporting of valuations of hospitals' land and buildings are generally introduced over 2 or 3 financial years so as to avoid major re-allocation of resources within one financial year. This is generally in line with change practices adopted elsewhere in Australia. Transitional provisions have been included in the Annual Reporting (Contributed Income Sector) Regulations 1988 for this purpose. The effect of these provisions is to modify the accounting standards for 2 years while a group of public bodies obtain substantial amounts of new information and develop their systems for recording and reporting.

The Auditor-General's report on public hospitals (and some other public bodies) has not acknowledged the 2-year transitional period embodied in the Regulations for valuation of properties and depreciation of buildings. This process is required to be completed for those bodies' 1990 financial statements.

Recognition of the importance of the transitional period referred to above would have removed the need for approximately 140 qualified opinions, mainly in relation to public hospitals.

Actions to eliminate audit qualifications

4.4.13 In 1989 the Auditor-General wrote to the chief executive officers of the **46** public bodies issued with qualified audit opinions over the previous year in an attempt to curtail the recurrence of matters which had led to audit qualifications. At the time, the Auditor-General reaffirmed the view that audit qualifications raise reservations on the credibility and accuracy of management representations and that when qualifications do arise, all parties involved (management, Department of Management and Budget, and audit) should ensure that issues are quickly resolved.

4.4.14 This action followed an earlier communication by the Auditor-General to the Director-General of the Department of Management and Budget in November 1988, which expressed concern regarding the matters which had necessitated the issue of audit qualifications in 1987-88.

4.4.15 It was pleasing to find that following this process, unqualified audit opinions had been given in respect of **15** bodies in 1988-89 whose financial statements had previously been qualified. However, these positive developments have been offset by the fact that qualified audit opinions were issued in 1988-89 on **84** public bodies (53 new and 31 continued from the previous year), other than public hospitals and State nursing homes.

CAN THE NUMBER OF QUALIFIED AUDIT OPINIONS BE REDUCED ?

4.4.16 The majority of audit qualifications can be avoided if management simply ensured that financial statements were prepared in accordance with Australian Accounting Standards and relevant annual reporting legislation. The fact that the number of qualifications has increased substantially over 1988-89 suggests that there is an urgent need to ensure that all matters raised by audit are given appropriate and timely attention by management, and that efforts are made to avoid the likelihood of any potential audit qualification of an entity's financial statements in future years.

4.4.17 The continued prevalence of circumstances which have led to an increasing trend in the number of audit qualifications over recent years should be addressed without delay. The Department of Management and Budget has an important role to play in encouraging management to avoid audit qualifications. In this regard, audit considers that there is scope for the Department to assume a greater role in assisting management to eliminate the causes of audit qualifications.

4.4.18 Parliament's attention is drawn to the desirability of ensuring that immediate improvement is achieved in reducing the number of audit qualifications.

Management response by Department of Management and Budget

During 1988-89 the list of bodies to which the Annual Reporting Regulations (incorporating Australian accounting standards) applied grew by a multiple approaching 6. Leaving aside the transitional arrangements which gave rise to a large number of audit qualifications and the question of heritage asset valuation which is unresolved around the world, the performance of public bodies in providing relevant and reliable financial information to Parliament in a timely manner has improved substantially.

Parliament's attention is drawn to the need for careful consideration of a range of circumstances in order to comply with Australian accounting standards. Those standards are beginning to recognise unique public sector needs but the process of reform is far from complete. In the meantime, the Auditor-General's co-operation is sought so that the process can proceed prudently and without undue re-allocation of scarce resources.

APPENDIX A

SIGNIFICANT ISSUES

Vested assets

A major issue which has attracted audit attention in 1988-89 was the decision by many organisations to adequately value and disclose *vested assets* in their financial statements. Audit is of the view that significant *vested assets* such as Crown land and various State heritage collections, should be fully accounted for in the financial statements, given that these assets form an integral and substantial component of the resources controlled by management.

The reporting regulations under the *Annual Reporting Act 1983* require that various entities value *vested assets* and appropriately record these in the balance sheet. The rationale behind this requirement has been outlined by the Department of Management and Budget in its draft *Accounting Policy Statement on Asset Recording and Reporting*. Audit supports this stance as it is conducive to both relevant and informative financial reporting that all assets under management's control be completely accounted for in an organisation's balance sheet.

In the year under review, the financial statements of **76** entities were issued with qualified audit opinions for inappropriate disclosure of *vested assets*.

Management response by Department of Management and Budget

The Auditor-General has taken the view that Crown land should be recorded and reported by the statutory authority most directly concerned with service delivery on that land. This view is based on the definition of an "asset" and "control" of that asset proposed during 1987-88 by the Australian Accounting Research Foundation as part of a draft concepts statement.

This Department supports the adoption of those definitions but is not persuaded that "control" of Crown land rested with a body other than the Minister having statutory control over dealings in the land or an authority in which the land has been vested by law. Had the Department of the Treasury's view been accepted by the Auditor-General, a large number of audit reports would not have referred to this issue. Clarification of the principles on which this question is to be resolved will be issued by this Department in the near future.

Research and consultation is proceeding to develop ways to comply with the proposals for recording and accounting for State's heritage collections of paintings, sculptures, library items, films and museum pieces. However, while the Department of the Treasury has initiated this reform, it is not practised elsewhere in the world. It is surprising that such a controversial issue could form the basis for audit qualifications before the Government has formulated its requirements.

The final version of an accounting policy statement on asset recording and reporting will allow more time to consider the question of heritage assets. Many of these items are not vested assets but are acquired by other means. When the Comptroller-General in the Department of the Treasury issues the proposed accounting policy statement, further consultation will be arranged with the Auditor-General's staff, but it is not expected that the issue of valuing heritage collections will be resolved quickly. No other Australian jurisdiction values these assets except in one case, where a nominal amount of \$1 per item is to be used.

Recognition of revenue and expenditure

In 1988-89, there were **19** cases where the inappropriate recognition of revenue and expenditure items led to the audit qualification of financial statements.

Some examples of inappropriate revenue and expenditure recognition were:

- ♦ the Accident Compensation Commission not being able to reliably support its provision for outstanding claims of \$2 145 million at 30 June 1989, until an actuarial assessment of impending claims is completed later in 1990;
- ♦ the Legal Aid Commission being unable to provide documentary evidence of its approval for legal aid granted and disclosed as an expense of \$35.5 million and verification of client contributions received which were reported as \$15.1 million in 1988-89;
- ♦ the Harness Racing Board and the Greyhound Racing Board treating capital contributions as revenue over time, rather than increases in equity capital when received, thus resulting in an overstatement of reported revenues; and
- ♦ the State Trust Corporation of Victoria not being able to substantiate income receivable from capital commissions at 30 June 1989.

Matters affecting major public bodies

It is disturbing to report that the State's 3 major public business undertakings, namely the Gas and Fuel Corporation, the Melbourne and Metropolitan Board of Works (MMBW) and the State Electricity Commission of Victoria (SECV) have all had qualified audit opinions rendered in respect of their financial statements during 1988-89.

Inappropriate expensing of assets

The qualified audit opinion issued for the Gas and Fuel Corporation continued to highlight reservations which were reported in 1987-88. Audit once again indicated concern that certain assets with a written-down value of \$162 million at 30 June 1989 were expensed in the previous financial year and not reflected in the Corporation's balance sheet. Audit is of the view that the assets in question should have been capitalised and expensed progressively across future periods over which the assets are to be utilised.

Debt restructuring

The qualifications issued in respect of the MMBW and the SECV reflected audit's concern over significant understatements of gains generated from debt restructuring transactions. During 1988-89, both the MMBW and the SECV earned gains which amounted to \$21.1 million and \$37.1 million, respectively, arising from the redemption of inscribed stock liabilities.

In 1989 both organisations revised their accounting policies in relation to debt restructuring, such that gains from the redemption of inscribed stock were to be deferred and amortised over the term of reissued stock, rather than be recognised immediately as forming part of the periodic operating result. As this treatment constitutes a significant departure from Australian Accounting Standards, the audit reports of both organisations were qualified in 1988-89 on this matter.

More detailed comment on this issue is provided in sections 3.12 and 3.23 of this report dealing with the SECV and MMBW, respectively.
