

VICTORIA

Auditor General

Victoria

Review of major public cemeteries

Ordered to be printed

VICTORIAN GOVERNMENT
PRINTER
July 2006



AUDITOR GENERAL
VICTORIA

The Hon. Monica Gould MP
President
Legislative Council
Parliament House
Melbourne

The Hon. Judy Maddigan MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my audit report on *Review of major public cemeteries*.

Yours faithfully

JW CAMERON
Auditor-General

19 July 2006

Foreword

Cemetery services need to be delivered with dignity and respect. As public services they need to be provided at a fair price to the public and there is a community expectation that cemetery grounds will be adequately maintained. In providing these services, cemeteries need to comply with legislative requirements to ensure the health and safety of cemetery employees and the broader community.

The Department of Human Services requested that I review the operations of all of the State's major cemeteries. This request followed a 1994 report by my office of the operations of the Cheltenham Cemetery Trust.

This review of major cemeteries found that the cemetery industry has evolved with little direction or regulation by the state. The role of the Department of Human Services, as a central administrator for the industry, is not clearly defined and understood by all stakeholders and its effectiveness has been hampered by poor communication and the lack of effective governance arrangements.

We consider that the larger cemeteries, as medium sized businesses, need to have established appropriate governance arrangements and financial management policies and procedures to manage their operations. Our audit found that governance arrangements were inadequate and that cemeteries needed to improve their strategic planning, performance, investment and risk management policies and procedures.

Our review of cemetery expenditure, tendering arrangements and staff remuneration and entitlements revealed a number of issues of concern. For example, we identified instances of expenditure which was not appropriately authorised or supported, inadequate tendering procedures and practices, and lack of compliance with the government's executive remuneration policy.

This report provides not only a report card on the performance of cemeteries, but also guidance and direction on how their governance and financial management arrangements can be improved.

The report will also be of use to other statutory authorities by providing guidance on improvements to the efficiency and effectiveness of their operations.



JW CAMERON
Auditor-General

19 July 2006

Contents

Foreword.....	v
1. Executive summary	1
1.1 Introduction	3
1.2 Operation of major cemeteries	3
1.3 Departmental administration of the industry	15
2. Cemetery industry	17
2.1 Background.....	19
2.2 Objectives and scope	20
2.3 Audit method and report structure	21
3. Operations of major cemeteries.....	23
3.1 Corporate governance.....	25
3.2 Financial management	34
3.3 Performance of major cemeteries	45
3.4 Asset management	93
4. Departmental administration of the industry	97
4.1 Background.....	99
4.2 Strategic planning.....	99
4.3 Departmental oversight.....	101
4.4 Facilitating improvement and change.....	110



1. Executive summary



1.1 Introduction

In 2005, following the receipt of a number of complaints about the management of the Cheltenham Cemetery, we undertook a special investigation of the cemetery. The results of that investigation were reported to parliament in May 2005¹.

On completion of that investigation, I received a request from the Secretary of the Department of Human Services in May 2005 to undertake a similar review of the state's larger cemeteries. This report outlines the results of the audit of 13 major public cemeteries and an assessment of the department's role in overseeing the operation of the cemetery industry.

The audit identified a significant number of issues within the industry and scope for improvement in the manner in which major cemeteries operate. This report provides a number of recommendations which we believe will be of value to the department and cemeteries in improving the performance of the industry.

In undertaking the audit, we recognise that the department had not always been successful in addressing a number of the problems faced by the industry, due to limitations of the *Cemeteries Act 1958*. This situation was partly rectified with the passing of the *Cemeteries and Crematoria Act 2003* (effective July 2005). This audit is primarily concerned with industry performance to 30 June 2005, prior to the operation of the new Act from 1 July 2005.

1.2 Operation of major cemeteries

In undertaking the audit of 13 major cemeteries, our objectives were to determine whether these cemeteries:

- had established effective governance arrangements and financial management mechanisms
- were operating efficiently in compliance with government policy, the *Cemeteries and Crematoria Act 2003* and other legislative requirements
- achieved the financial objectives outlined in the legislation

¹ Victorian Auditor-General's Office 2005, *Results of special reviews and other investigations*, Cheltenham and Regional Cemeteries Trust – Review of expenditure and related matters, Victorian Government Printer, Melbourne.

- operated in accordance with best practice governance principles
- provided services at a fair price to its customers.

1.2.1 Governance frameworks

Cemetery trust members are appointed by the Governor in Council on the recommendation of the Minister for Health, and are responsible for overseeing cemetery operations.

In the larger cemeteries, trust members oversee large businesses and are ultimately responsible for the management of significant assets. We found that the oversight functions performed by trust members in these cemeteries were largely ineffective because:

- many trust members and members of cemetery committees lacked the appropriate knowledge, skills and experience to effectively undertake their function
- trust members, in most cemeteries reviewed, had not developed a clear strategic direction for the cemetery
- cemeteries had not clearly defined the roles and responsibilities of trust members
- most cemeteries had not established mechanisms to regularly review this function
- the quantity and quality of information available to them varied considerably.

Recommendations

That the department requests the State Services Authority or other relevant authority to review the appointment and tenure arrangements for trust members in the larger cemeteries. To attract the right people, these cemeteries may need to remunerate trust members.

That major cemeteries:

- **ensure that their trust members are provided with appropriate training and development activities to maintain their skills and knowledge**
- **ensure they have access to the appropriate skills and knowledge to manage technical issues facing the cemetery. For the more complex issues, cemeteries should consider the use of management committees.**
- **ensure that their boards' of trustees determine the cemeteries' overall vision and strategic direction**
- **establish a trust charter**

- **require trust members and senior management to complete annual pecuniary interest statements**
- **establish/review their procedures for the assessment of trust member performance**
- **hold trust meetings on a regular basis (in most instances this will be monthly)**
- **review the form and content of management reporting to the board of trustees, to ensure that the information provided is relevant, timely and meets the needs of trust members**
- **review the role and composition of audit committees. As far as possible, committee members should not have operational responsibilities, the majority of whom should be independent (external to the cemetery).**

1.2.2 Financial management

We found that the larger cemeteries have not always established adequate financial management arrangements. These arrangements would include accountability mechanisms to provide assurance to the chief executive officer and the board of trustees that:

- the cemetery's internal control systems and management processes are working effectively
- there are adequate financial and resource management structures to ensure the cemeteries resources are managed effectively, efficiently and ethically.

Our audit disclosed that most cemeteries reviewed had not established:

- sound business planning or risk management processes
- appropriate mechanisms to review organisational achievements against planned results
- effective information and reporting systems
- an effective internal audit function
- a code of practice
- effective systems, processes and controls, to minimise unethical behaviour, wastage and corruption.

Recommendations

That major cemeteries:

- **prepare corporate/strategic plans and annual business plans.** The department could facilitate this process by working with cemeteries to establish standard formats for these plans
- **establish formal mechanisms for boards of trustees to periodically review the progress made by the cemetery in achieving its key strategies and to regularly revise and update cemetery plans**
- **develop a risk management plan which identifies risks facing the cemetery, establishes strategies to manage these risks, designates responsibility for the implementation of strategies to specific staff and establishes time lines for the implementation of strategies**
- **consider providing tailored training for staff responsible for risk management**
- **review their performance assessment processes, with a view to developing a more comprehensive set of performance measures**
- **where not present, consider establishing internal audit functions and audit committees**
- **establish appropriate systems, processes and controls to minimise the scope for unethical practices, the potential for waste, fraud and corruption, and to protect public assets.**

The department could work with smaller cemeteries to:

- **establish concise strategic/business plans for their operations**
- **develop a risk management plan template.**

1.2.3 Performance of major cemeteries

Financial reporting

There are 14 cemetery trusts, which must comply with the *Financial Management Act 1994*². This Act requires them to produce annual financial statements and have them audited by this Office, under the *Audit Act 1994*.

² It is likely that all cemeteries meet the definition of a public body under the Act.

The other cemeteries not subject to this review (in excess of 500) do not prepare financial statements. Their revenues, expenses, assets and liabilities are also not included in the financial statements of the department or any other reporting entity. As a result, there is no financial accountability for these smaller cemeteries.

Our review found that the basis for the recognition and valuation of cemetery land for financial reporting purposes is inconsistent across the industry and, in some cases, inappropriate.

A working group comprising representatives from the Department of Human services, the Department of Treasury and Finance and this Office is currently being established to review the appropriate financial management and reporting requirements for cemeteries.

Recommendations

For those cemeteries where, due to their size and risk, the requirements of the *Financial Management Act 1994* are considered by the working group to be too onerous, the department should:

- **apply to the Minister for Finance for these cemeteries to be exempted from reporting under the Act**
- **review the current compliance and reporting requirements for these cemeteries.**

The remaining cemeteries should comply with the Act.

Cemeteries, in conjunction with the department, review the recognition and valuation of land holdings, with a view to adopting a consistent approach which can be adopted across the industry.

Short-term financial performance

Major public cemeteries vary from reasonably small to quite substantial businesses, a number of which make significant short-term profits and are responsible for managing considerable assets.

Fees are set by each cemetery. There has been no real review or regulatory oversight of the prices charged by cemeteries for their services.

Our review of the financial performance of cemeteries indicated that, on the whole, cemeteries are profitable and viable in the short-term. The environment in which cemeteries operate has enabled them to set fees to achieve this outcome.

We are concerned that the cost of cemetery services may not be priced appropriately, because:

- cemetery information systems are not capable of determining the current costs of cemetery services and there is no mechanism to compare cemetery costs across the industry
- there is no independent rigorous review of prices charged by cemeteries
- some cemetery operating costs are excessive. Examples of this include, high salaries for senior management, evidence of wastage, provision of benefits to staff and payment of their private expenditure, inappropriate use of cemetery assets and excessive and unnecessary payments to terminated staff
- it is likely that some cemetery services are cross-subsidised by other services.

We also found that, with the exception of the Necropolis, investment functions in cemeteries were poorly managed, with most not having:

- formal approved investment policies and long-term strategies
- information on their estimated future cash flow needs
- adequate oversight of their investment functions
- adequate internal skills and knowledge to manage a multi-million dollar pool of investments
- access to appropriate specialist investment advice.

Recommendations

That the department consider using an independent economic regulator to set prices for cemetery services.

If the department wishes to retain the price setting function within the department, then:

- **it will need to acquire the resources and expertise to enable it to determine appropriate prices for cemetery services**
- **cemeteries will need to establish accurate costing systems.**

That major cemeteries:

- **in consultation with the department, develop standards for the maintenance of cemetery property**
- **establish systems which enable them to determine the direct costs associated with providing their major services and maintaining cemetery property**
- **determine their short, medium and long-term cash flow needs**

- **consider using the Victorian Funds Management Corporation to manage their investment funds.**

If cemeteries continue to separately manage their investments, they should:

- **determine and document their investment policies and investment strategies**
- **establish an investment manager and oversight committee with adequate skills and knowledge to manage their investments**
- **ensure that they have access to specialist investment advice**
- **establish appropriate internal controls to protect and safeguard their investments.**

Sustainability

The *Cemeteries and Crematoria Act 2003* places a specific responsibility on boards of trustees to maintain their cemeteries in perpetuity. With the exception of Necropolis, cemeteries have not established mechanisms to ensure that this legislative objective is achieved.

Recommendations

That cemeteries, in consultation with the department, undertake a detailed assessment of the level of funds required to meet future maintenance obligations. In the smaller cemeteries, the department may need to assist cemeteries in assessing their future needs.

Once an assessment is complete, cemeteries develop strategies to ensure that adequate funds are set aside for future preservation needs.

Preservation reserves are represented by specific funds set aside as investments.

Controls be established so that investments set aside for perpetual maintenance cannot be used for other purposes unless expressly authorised by the cemetery trust.

Cemeteries, in consultation with the department, develop mechanisms to publicly report on their achievement of the perpetual maintenance objective.

Probity issues

We reviewed cemetery expenditure, tendering arrangements, and staff remuneration and entitlements.

Cemetery expenditure

Our review of cemetery expenditure disclosed that:

- cemetery moneys are spent on travel, accommodation and meals for the partners of trust members, which we consider to be an inappropriate use of cemetery funds
- cemeteries were paying allowances to staff to meet business expenses, instead of staff receiving reimbursement of reasonable costs incurred, which is inconsistent with the practice generally adopted in the public sector
- expenditures are not always appropriately authorised or supported
- one cemetery had established a philanthropic fund.

Recommendation

That cemeteries:

- **review their policies and practices to ensure that they only provide for reimbursement of reasonable, business-related expenditure, which is consistent with community expectations**
- **consider developing, in conjunction with the department, industry-wide expenditure policies and practices**
- **ensure that expenditure is appropriately supported and approved prior to payment**
- **should not establish philanthropic funds**
- **managed by councils, ensure that any arrangements for the reimbursement of costs incurred by the council, on behalf of the cemetery, are formally documented.**

Tendering arrangements

We found that the tendering procedures and practices used by a number of cemeteries to acquire goods and services were often inadequate. This situation is likely to lead to higher purchasing costs, unsuccessful tenderers challenging tender decisions and potential tenderers not tendering for future cemetery contracts.

Recommendations

That major cemeteries develop and document appropriate tendering policies and guidelines. Once developed, they should ensure that staff comply with them.

Where cemeteries outsource their tender functions, they should:

- **enter into a contractual arrangement with the provider of the tender service**
- **oversee the tender process.**

Staff remuneration and entitlements

Our review of staff remuneration and entitlements disclosed that:

- some cemeteries are not complying with government executive remuneration policy and some salary payments to executive staff were, in our opinion, above the level we would have expected
- not all benefits received by cemetery employees are included in their salaries for tax purposes
- formal and informal schemes to recognise and reward staff efforts are not based on performance, transparent or always in line with community expectations. The absence of effective staff performance management systems in cemeteries has contributed to this situation
- the level of overtime worked by staff in some cemeteries appears excessive and some payments are not adequately supported.

Recommendations

That cemeteries:

- **comply with government policy for executive staff remuneration**
- **ensure that all bonuses payments are performance-based and establish formal policies and procedures to support these payments**
- **establish staff performance management systems to assist them to identify and address learning and development needs, and to support pay increases, bonuses payments and staff promotions**
- **develop policies for private motor vehicle usage**
- **continue to monitor the need for staff to work overtime and ensure that all overtime worked is approved in advance and adequately supported.**

That the department, together with the Government Sector Executive Remuneration Panel (GSERP) monitor cemetery compliance with government remuneration policy and take action to address any non-compliance.

Corruption risks

In undertaking the audit we identified 3 main types of corruption risk in cemeteries:

Theft and misappropriation

We did not specifically undertake an investigation to identify theft and misappropriation. However, in conducting the review, we noted a number of cemetery activities which, due to their nature and/or the lack of adequate internal controls over these activities, put cemetery assets at risk.

We consider the cemetery activities to be at greatest risk are payroll, sales/cash receipts and investments.

During our audit a significant payroll fraud was uncovered at one cemetery and another cemetery is currently investigating some unusual transactions in its sales/cash receipting systems.

Recommendations

That cemeteries review their payroll functions to ensure that there is adequate segregation of services and internal controls.

That cemeteries:

- **explore ways to minimise the amount of cash received**
- **establish and document revenue receipting procedures.**

If cemeteries continue to receive cash over the counter, they should review their security procedures and internal controls over sales/cash receipts, particularly the reconciliations of sales to inventory.

Conflict between public duty and private interests and activities

Our review disclosed that some cemeteries had entered into arrangements for the purchase of goods and services with individuals and organisations which were related to trust members or senior management. Our concern is that:

- pecuniary interests associated with these arrangements were not always identified and appropriately managed
- these arrangements were often put in place without going through normal tendering and selection processes and not periodically reviewed.

Recommendation

That:

- **cemeteries develop policies and procedures to manage potential conflicts of interest**
- **the pecuniary interests of trust members and senior management are disclosed and appropriately managed. As a minimum, this is likely to involve the removal of any persons with a potential conflict of interest, from any decision-making process involving a person or company they are associated with**
- **expenditure involving related parties is subject to a contestable selection process to ensure value-for-money is obtained.**

Inappropriate practices

Our audit identified a number of acts and practices undertaken by cemeteries that we considered to be either potentially illegal, contrary to government policy, inappropriate or poor practice. These included:

- excessive payouts to terminated employees
- payment of commissions on the sale of cemetery services
- unsupported expense claims
- loans to staff
- cashing of staff personal cheques
- free burials, other than provided for in the Act
- inappropriate use of cemetery assets
- purchase of property for investment purposes and property lease arrangements
- extended payment arrangements
- donations to charities.

Recommendation

That cemeteries:

- include all private benefits provided to staff, as part of their remuneration package, and ensure that appropriate taxes are paid
- before making payments to terminated employees, in addition to their normal leave entitlements, seek appropriate legal advice
- not pay commissions on the sale of cemetery services, and seek clarification from the department prior to entering into future arrangements for the marketing of their products
- ensure that staff follow their procurement policies. Staff should also be made aware of their responsibilities for ensuring that expenditure claims are adequately supported before any payments are made
- not lend cemetery money to staff
- only provide free funeral services where there are grounds of extreme hardship or other special circumstances and they have consulted with the department
- ensure all arrangements regarding the lease of cemetery property is appropriately approved by the minister
- providing on-site facilities for refueling vehicles, ensure that appropriate controls are in place to prevent the unauthorised use of cemetery fuel
- not enter into arrangements which effectively provide customers the ability to pay for cemetery services over an extended time period. If in doubt, cemeteries should seek guidance from the department on the appropriateness of such arrangements.

1.3 Departmental administration of the industry

The legislation governing cemeteries, establishes cemetery trusts as the bodies responsible for managing cemeteries and providing cemetery services. These trusts are largely autonomous and self-regulate the majority of their activities.

While the Minister for Health has overall responsibility for administering the *Cemeteries and Crematoria Act 2003*, in practice the Department of Human Services undertakes this function.

We reviewed the department's role in:

- overseeing cemetery operations
- facilitating industry improvement and change.

We found that:

- the cemetery industry has evolved, with little or no strategic direction. As a result, the industry has been slow to respond to changing conditions, opportunities and risks
- the department's oversight function has not been effective, due in part to:
 - its role and responsibility within the industry not being clearly defined and understood by some cemeteries
 - the poor working relationship and lack of effective communication existing between the department and a number of the major cemeteries.

We consider that the department could do more to provide industry leadership, for example issuing guidelines on roles and responsibilities for cemetery managers, trust members and the department, similar to that released by the Department of Sustainability and Environment for its statutory authority board members.

Recommendation

That the department:

- **reviews its industry oversight function**
- **does more to facilitate the resolution of issues facing the industry and assists cemeteries to work together to improve their businesses.**

RESPONSE provided by Secretary, Department of Human Services

The department is not able to verify the facts you have provided in relation to the operations of the trusts. The invitation by me to the Auditor-General was an efficient method of compiling advice on the state of management of cemeteries to inform on action I might take, given the new powers of direction accorded to the secretary by parliament from July 2005.

The current legislative framework governing cemeteries and crematoria is consistent with the way successive governments have decided to regulate and monitor cemeteries and crematoria. It stems from the traditional public health interests regarding the hygiene of interment.

The department accepts the intent of the detailed recommendations and will:

- *review the response from trusts to this report*
- *consult with other government entities suggested for a future role in this area*
- *develop a plan of how the issues raised can be addressed.*

RESPONSES provided by Trustees of Cemetery Trusts

Comments attributed to cemeteries throughout this report represent a summarised version of the responses provided by these agencies. Cemeteries have generally welcomed the findings of this audit and have advised that they have introduced a number of initiatives to address the issues raised by us. For example, Trustees of the Fawkner Crematorium and Memorial Park advised that the cemetery has implemented all recommendations relevant to it and it has provided comments on the remaining recommendations to the Auditor-General's staff. Details of specific actions taken by Fawkner or by other cemeteries have not been included in the report or the agency responses.

At the date of this report, we have not reviewed actions advised by Fawkner and other cemeteries to assess whether the actions fully address the issues and recommendations raised in the report.



2. Cemetery industry



2.1 Background

Up until July 2005, cemeteries operated under the *Cemeteries Act 1958*, which effectively provided public cemeteries with the exclusive right to provide cremation, memorial and interment facilities to the community. The specific functions and powers of cemeteries are set out in the Act and associated regulations.

This Act was replaced by the *Cemeteries and Crematoria Act 2003* (came into effect July 2005) and incorporated more specific provisions for maintaining cemetery property and improvements into perpetuity.

In Victoria there are 567 cemeteries (9 with crematoria) administered by 528 cemetery trusts. All cemeteries, with the exception of 50 private religious cemeteries, and crematoria are publicly owned and operated. Four hundred and ninety (90 per cent) cemeteries operate in regional Victoria. Thirty (5 per cent) are no longer operating cemeteries.

Public cemeteries are independently managed public bodies that do not receive grants from government. They are funded by fees charged for their services and operate in competition with each other. The larger cemeteries operate substantial businesses, which make significant profits.

Cemeteries are managed by Boards of Trustees that are appointed by the Governor in Council on the recommendation of the Minister for Health.

The industry consists of:

- 2 very large cemetery trusts (Necropolis and Fawkner) in metropolitan Melbourne that have combined revenue in excess of \$40 million annually and combined assets in excess of \$270 million
- 12 mid-sized to large operational cemetery trusts in metropolitan Melbourne and regional centres
- 553 small operations, whose main activity is the maintenance of the cemetery facilities and grounds.

The 14 larger cemeteries, in aggregate, have annual revenues, expenditure and net assets of \$73 million, \$51 million and \$388 million respectively.

In this report we refer to “cemeteries” as the entity providing cemetery services and the “trust” or “board of trustees” as the responsible cemetery governing body.

2.2 Objectives and scope

In 2005, following the receipt of a number of allegations, including concerns from Department of Human Services' officers, about the management of the Cheltenham and Regional Cemetery Trust, we undertook a special investigation of that cemetery. The results of this investigation were included in our report to parliament in May 2005¹.

On completion of this investigation, we received a request from the secretary of the Department of Human Services in May 2005 to undertake a review of the state's larger cemeteries, similar to the Cheltenham review. This was to assess whether the trusts had established appropriate policies, procedures and arrangements for the operation and management of the cemetery trusts and whether there had been compliance with such. This part of the report outlines the results of our audit of 13 major public cemeteries.

Our review of these cemeteries identified a number of industry-wide issues and potential problems with the broader oversight of the cemetery industry. As a result, we broadened our assessment to include these industry-wide issues and the department's future role in overseeing the operation of the industry, given its new powers under the 2003 Act that applied from 1 July 2005.

Where statistics on the 13 cemeteries reviewed are included in the report, we have also included information on the Cheltenham and Regional Cemetery Trust.

The objectives of this audit were to whether the 13 cemeteries reviewed:

- were complying with government policy, the *Cemeteries and Crematoria Act 2003* and other legislative requirements
- were achieving the financial objectives outlined in the legislation
- were operating in accordance with best practice governance principles
- had established appropriate financial management arrangements to ensure they were operating economically, efficiently and effectively
- were operating efficiently and providing cemetery services at a fair price to their customers.

¹ Victorian Auditor-General's Office, 2005, *Results of special reviews and other investigations: Cheltenham and Regional Cemeteries Trust – Review of expenditure and related matters*, Victorian Government Printer, Melbourne.

In undertaking the audit, in addition to visits to each of the 13 cemeteries and the Department of Human Services, we also spoke to:

- Cemeteries and Crematoria Association of Victoria (CCAV)
- Government Sector Executive Remuneration Panel (GSERP)
- a number of interstate cemetery authorities
- Office of the Valuer-General
- Department of Treasury and Finance
- a private investment fund manager advising cemeteries.

2.3 Audit method and report structure

This report is broken into 2 major sections: Section 3 - review of the operation of major cemeteries and Section 4 - departmental oversight of the industry.

The major cemeteries reviewed in section 3 were:

- Altona Memorial Park
- Fawkner Crematorium and Memorial Park
- Keilor Cemetery Trust
- The Necropolis Springvale
- Anderson's Creek Cemetery Trust
- Ballarat General Cemeteries Trust
- Bendigo Cemeteries Trust
- Geelong Cemeteries Trust
- Lilydale Memorial Park and Cemeteries
- Mildura Cemetery Trust
- Preston Public Cemetery
- Templestowe Cemetery and Memorial Gardens
- Wyndham Cemetery Trust.

Our examination of the oversight of the cemetery industry looked at:

- planning for the industry
- departmental oversight of cemetery operations
- mechanisms to facilitate improvement and change.

Our report of the state's 13 major cemeteries² consists of 6 parts. The first 2 parts involve a review of corporate governance arrangements and other controls to ensure that cemeteries are complying with government policy and regulation, and are operating economically, efficiently and effectively.

The last 4 parts, involve an evaluation of the operational performance of each cemetery, their long-term sustainability, compliance with government policy and regulatory requirements, and the appropriateness of their actions and practices.

² These cemeteries were selected because, as a group they represent the vast majority of the cemetery business and manage most of the industry's liabilities and assets.



3. Operations of major cemeteries



3.1 Corporate governance

The *Financial Management Act 1994* requires public bodies to establish an effective governance framework. Such a framework in cemeteries would normally require:

- cemetery operations to be overseen by a board of trustees, with the appropriate knowledge, skills and experience, which is independent of management
- the establishment of committees, such as audit, finance, risk management, executive remuneration, and occupational health and safety committees
- the board of trustees working with cemetery management to develop a clear strategic direction for the cemetery
- clearly defined roles and responsibilities for the board of trustees
- mechanisms in place to regularly review the performance of the board of trustees and governance committees
- effective oversight by the board of trustees.

3.1.1 Board of trustees

As indicated earlier in this part of the report, trust members are appointed by the Governor in Council on the recommendation of the Minister for Health, and have responsibility for overseeing cemeteries operations. Trust members have a similar role to those of boards in private companies or other statutory bodies.

In certain cemeteries that are operated by local government, trust members can either be the appointed councillors or the council can be appointed as the trust. Where a council has been appointed as the trust, some councils have used the provisions of the *Local Government Act 1989* to appoint a board of trustees to look after the day-to-day operations of the cemetery.

In assessing the governance arrangements in the 13 cemeteries reviewed, we used the good governance principles outlined in the Australian Standard: *Good Governance Principles*¹. Application of these principles to the operations of cemeteries should ensure the appointment of objective and independent trust members who, in the larger cemeteries, would possess:

- a sound knowledge of the core operations of the cemetery and the environment in which it operates
- knowledge of legislative and other requirements impacting on cemeteries

¹ Standards Australia International Ltd. AS8000-2003, June 2003.

- a high level of understanding of “best practice” internal control, risk management and corporate governance
- suitable business acumen and management skills
- a high level of competency in financial and operational reporting and the ability to analyse complex financial reports
- a strong, demonstrated sense of probity and ethical conduct.

Although some cemetery trust members receive nominal fees and have some expenditure paid by the trust on their behalf, trust positions are effectively voluntary. While trust member tenure is now limited to 5 years², trust members appointed before 1 January 1995 (60 per cent of current trust members³) are entitled to continue in office until they retire, die or are removed by the Governor in Council .

In the non-council operated cemeteries reviewed, the average term of trust members was 16 years. The cemetery with the longest average period for serving trust members (26 years) was Fawkner.

Throughout our review, we acquired an appreciation of the significant contributions that trust members have made, over many years, to the operation of cemeteries. This is particularly true in the very small or closed cemeteries where, without the volunteer help of trust members, the cemeteries could not have been maintained.

However, we consider that, for the larger cemeteries, the current system has not always led to effective oversight. Specifically:

- with many trust members having retired from the work force and no formal training provided to trust members, they have struggled to keep abreast of changing legal, regulatory, financial and other requirements
- in the absence of limited tenure, cemeteries have not had the benefit of the new ideas and fresh approach provided by ongoing changes in trust membership
- the lack of commercial, legal, technical, financial and engineering expertise has limited the ability of the trust members to adequately review, evaluate and oversee cemetery operations.

Our review found that 2 of the cemeteries (Fawkner and Altona) with the greatest number of governance issues were also the ones where all trust members had life membership.

² *Cemeteries and Crematoria Act 2003.*

³ Excludes council operated cemeteries.

From audit investigation, it became clear that the management of some cemeteries was not effective. Examples included:

- a strong, outspoken CEO dominating trust members
- ongoing and unresolved conflict between a trust member and the CEO that adversely impacted on the effectiveness of the trust⁴.

We consider that the movement to a skill-based trust structure would be beneficial for these cemeteries.

In July 2005, the government requested that the State Services Authority undertake a review of remuneration for non-executive directors of public bodies. This review will also cover cemetery trust members.

Conclusion

In many of the larger cemeteries, where trust members oversee large businesses and are ultimately responsible for the management of significant assets, we consider the current oversight functions to be ineffective.

Our review found similar problems in the operation of both council and non-council operated cemeteries.

Recommendations

1. **That the department request the State Services Authority or other relevant authority to review the appointment and tenure arrangements for trust members in the larger cemeteries. To attract the right people, these cemeteries may need to remunerate trust members.**
2. **Cemeteries should ensure that trust members are provided with appropriate training and development activities to maintain their skills and knowledge.**

Summarised cemetery responses

All cemeteries agreed that their trust members needed appropriate skills and knowledge to carry out their function. Most thought that their current trust members were capable, as indicated in the following response:

***Geelong cemetery:** A further issue raised in the report is the lack of skills and knowledge of trust members (generalised) that requires a response. Trust members of this trust are very proactive in keeping up-to-date with current practices and regularly attend conferences, workshops and training programs run by the industry.*

⁴ The CEO has resigned from the cemetery effective from 3 July 2006.

Summarised cemetery responses - continued

A number of cemeteries such as Lilydale and Ballarat considered that remunerating trust members would not result in more competent trust members. However, The Necropolis considered that given the increasing demands on trust members, there was a need for them to be remunerated. Both The Necropolis and Lilydale considered that there was a need for improved training for trust members. The following specific response was provided by The Necropolis:

The Necropolis: There is a real need for the State Services Authority or other relevant authority to review the terms and conditions of appointment of trust members. To date, The Necropolis has been able to attract prospective trust members who exhibit a desire to provide voluntary service to the community coupled with strong business acumen and experience. Given the increasing pressures of corporate governance and the inherent responsibilities of a position on the trust of a medium sized government business entity, unless the issue of appropriate remuneration is addressed it will become increasingly difficult to attract suitable trust members.

It is unrealistic to expect individual cemetery trusts to take responsibility for all aspects of this function. If the standard of governance across the sector is to be enhanced, it is important to ensure that appropriate training and development activities are made available on an industry-wide basis, through an appropriate authority. The Necropolis and other trusts could then more easily access suitably focused programs.

3.1.2 Managing technical issues

In most cemeteries, trust members do not have the expertise or the time to deal with technical issues such as audit, operational risk, finances, staff remuneration, and occupational health and safety. To help resolve this issue a number of cemeteries have established management committees.

We found that, where these committees were established, they largely consisted of trust members who in many cases lacked the necessary technical skills and knowledge.

Recommendation

- 3. That the larger cemeteries ensure that they have access to the appropriate skills and knowledge to manage technical issues facing the cemetery. For the more complex issues, cemeteries should consider the use of management committees.**

3.1.3 Vision and strategic direction

The board of trustees has responsibility for, among other things, setting the strategic direction for the cemetery. This is normally achieved through the development of a corporate or long-term strategic plan.

We found that both management and trust members of most cemeteries were almost exclusively focused on the day-to-day operations and there was a lack of evidence of a sound commitment to strategic planning.

Trust members in some cemeteries had given thought to the longer-term strategic direction of their cemetery, however, only Bendigo, Preston and Wyndam had formally outlined and documented their vision in a strategic plan covering all cemetery operations.

Recommendation

4. **That, where not yet developed, boards of trustees in consultation with cemetery management determine and document the cemetery's overall vision and strategic direction.**

3.1.4 Trust member roles and responsibilities

Trust members have significant control over how cemeteries operate and can have potential conflicts between their role as a trust member and other roles or interests they may have.

In these circumstances, it is very important for cemeteries to:

- clearly define the role and responsibility of their trust members
- have established policies and guidelines to manage any potential conflicts of interest.

Roles and responsibilities are normally defined in a board charter. Such a charter would outline the ethical standards expected of trust members.

Pecuniary interest statements are an effective mechanism to disclose any interests or position a trust member or his family may have, which could potentially impact on that person's role as a cemetery trust member.

Of the 13 cemeteries reviewed, only 2 had established a charter for the operation of their trust members (as the board of management) and only 5 required staff and trust members to declare pecuniary interests.

Most cemeteries had not established policies and guidelines to manage conflicts of interest.

Conclusion

The absence of a trust member charter has contributed to the confusion surrounding the roles and responsibilities of trust members at some cemeteries.

The absence of annual pecuniary interest statements for trust members and senior staff at some cemeteries is likely to have led to the trust members being unaware of potential trust member and senior management conflicts of interest.

Recommendation

5. **That in the medium and larger cemeteries:**
 - **a charter for the operation of trust members be established**
 - **trust members and senior management complete annual pecuniary interest statements.**

3.1.5 Board of trustees performance

The performance of the trust and its members should be subject to review through an annual assessment. The *Financial Management Act 1994*, requires regular performance assessments of the governing boards of public bodies.

Only 3 cemeteries (Bendigo, Lilydale and Wyndham) reviewed the performance of their trust members as a group. We found Bendigo's trust member performance assessments to be reasonable. In respect to the other 2 cemeteries, we noted that:

- no assessments were made of individual trust members
- clear performance expectations had not been established
- where issues or deficiencies were noted, no development activities were identified and documented.

Conclusion

As a matter of standard practice, trust member performance in cemeteries is either not subject to review or the review process is generally informal and lacking in rigour.

Recommendation

6. **That the medium to large cemeteries establish/review their procedures for the assessment of trust member performance.**

3.1.6 Board of trustees oversight

Trust members have overall responsibility and accountability for the successful running of their cemetery. To effectively provide this oversight function, the board of trustees need to:

- meet regularly
- be provided with sufficient, relevant, reliable and timely information.

Board of trustees meetings

Generally, we found trust meetings to be conducted regularly each month, with the issues discussed and decisions made adequately documented and authorised with the exception that some council-operated cemeteries met bi-monthly, or in the case of Keilor, quarterly.

We consider that the size and activities of larger cemeteries warranted monthly meetings to ensure that issues were raised and resolved in a timely manner.

Reporting to the board of trustees

We reviewed the content, quality and timeliness of information provided to members at trust meetings.

We expected that information received by trust members would include the following strategic, operational and financial information:

- progress made by the cemetery in implementing the strategies included in its longer-term strategic plans and business plans, including an assessment of actual performance against established key performance indicators and strategies for addressing unfavourable trends
- risks facing the business and strategies employed to reduce these risks to acceptable levels
- both short-term (annual) and longer-term (3-5 year) financial reports, identifying and explaining material variances between the cemeteries' actual and budgeted results (for both operating and capital components)
- for the larger cemeteries, investment strategies and periodic assessments of the cemeteries' investment performance
- monthly reporting on the operations of the business, including profit and loss, balance sheet and cash flow statements, supported with detailed analysis
- status of capital works projects and explanations for any cost and time overruns
- expenditure reports (payments made during the period)
- marketing and statistics reports for burials, cremations, memorial sales etc, supported by analysis and explanations.

Operational performance

We found that the larger cemeteries reviewed by us were reasonably good at gathering information on their past operational performance. While the reporting on this information to trust members was of variable quality, on balance it was of a reasonable standard. This information included profit and loss statements, balance sheets, cash flow statements, reports on actual performance compared with budget, progress on capital projects and sales statistics.

However none of the cemeteries reviewed prepared projections of the cemetery's future operational results, cash flows or financial position, beyond 12 months. Most did not provide these projections for the next 12 months. Most developed 12 month budgeted income and expenditure statements but many did not develop forecast cash flows or statement of financial position.

In the smaller cemeteries reviewed, financial information was often inadequate and sometimes unreliable. For example:

- some cemeteries only provided selective financial information to trust members rather than full financial statements, such as operating statements, balance sheets and cash flow statements
- reports on actual performance compared with budget in some cemeteries did not have explanations for budget variances
- in a number of cemeteries, the budget information provided was not complete as it excluded items such as the cost of sales or depreciation expense.

Investment performance

All of the cemeteries reviewed provided basic information on their investment returns to the board of trustees. With the exception of The Necropolis, we consider this information was not adequate to enable them to make informed investment decisions. Many cemeteries had not developed:

- appropriate investment policies and strategies resulting in cemeteries not having benchmarks to assess their investment performance, and the
- skills and knowledge of staff and trustees in investment management was limited.

The Necropolis had the best arrangement: where an investment strategy had been established, investment performance is compared against established benchmarks, and 2 external fund managers provide quarterly reports and briefings to its audit committee⁵ on its share investments. Other specialists provide advice on other investments.

⁵ Four of the cemetery's 7 trust members sat on the audit committee.

Strategic planning

Of concern to us was the lack of strategic information provided to almost all the cemetery trust members in the cemeteries reviewed by us. This primarily resulted from either the absence of long-term strategic plans or, in cemeteries where they were developed, inadequacies in these plans.

As a result, trust members are not in a position to ensure cemetery operations are consistent with the long-term strategic direction of the business. The most obvious example of this is the failure of almost all cemeteries reviewed to adequately plan for the maintenance of their operations into perpetuity, as required by the Act.

Risk management

We found that with the exception of The Necropolis, cemetery trust members were not in a position to effectively manage the risks facing the cemetery. Most cemeteries had not identified and assessed the major risks facing their business and had not established strategies to deal with adverse events.

Marketing

We found that trust members were not receiving sufficient information to enable them to effectively manage the marketing of their services.

This situation was largely due to cemeteries (with the exception of The Necropolis) not having developed marketing plans to identify marketing objectives, strategies and achievements.

Conclusion

While there was generally sufficient information available to trust members to satisfy their short-term operational decision-making needs, we found that there was insufficient information provided to enable them to adequately discharge their longer-term responsibilities.

There were also wide variations in the quantity and quality of information provided to trust members and, hence, scope for significant improvement of this information.

We consider that the department could assist cemeteries to identify the information needed by trust members, to enable them to effectively discharge their duties.

Recommendations

7. **For the medium to large cemeteries, trust meetings should be held on a regular basis (in most instances this will be monthly).**
8. **That the form and content of management reporting to trust members be reviewed to ensure that the information provided to them is relevant, timely and meets their needs.**

3.2 Financial management

The *Financial Management Act 1994* and other authoritative literature⁶ indicate the need for appropriate internal management structures for sound corporate governance. These structures would include accountability mechanisms to provide assurance to the CEO and management that:

- the cemeteries' internal control systems and management processes are working effectively
- there are adequate financial and resource management structures to ensure the cemetery's resources are managed effectively, efficiently and ethically.

The Act requires public bodies to have:

- a sound business planning process, involving preparation of strategic and business plans
- a sound risk management process
- appropriate mechanisms to review organisational achievements against planned results
- effective information and reporting systems
- an internal audit function
- a code of practice
- set boundaries of activity, authority and accountability
- a comprehensive policy and procedure manual.

⁶ Australian National Audit Office, July 2003, *Public Sector Governance Better Practice Guide*, IFAC, *Governance in the Public Sector: A governing Body Perspective*.

3.2.1 Business planning

Plans are the mechanism used by organisations to assist them to achieve their objectives. These plans normally come in 2 forms: the high level long-term plans commonly referred to as corporate or strategic plans and the more detailed shorter period plans known as annual business plans. The purpose of these plans is to:

- define the business. Plans provide information on the operations, major facilities and assets, information systems and management team and personnel
- determine where the organisation needs to go by identifying its goals and objectives, how it will get there by developing strategies to achieve organisational objectives, and who will ensure that these objectives are met by assigning responsibility for the delivery of strategies
- assist in the ongoing management of the business. The plans can be used to assist management to keep the business on track to reach its planned goals, allocate resources, handle unforeseen events and develop appropriate responses to them, identify key business opportunities and areas crucial to the success of the organisation and to make good business decisions
- provide information about the operations of the business and its goals to stakeholders such as government agencies, the community, customers, employees, suppliers and sales personnel
- assist in measuring performance. Plans establish key business performance indicators and standards, which enable the achievement of organisational goals to be assessed.

These plans need to be tailored to the size and complexity of the cemetery. For smaller cemeteries, we expected to see a single concise plan incorporating overall goals and objectives, a brief outline of the business, details of how the cemetery intends to achieve its objectives and who will be responsible, past and future operating results and targets which can be used to assess achievement of the strategies.

In the larger cemeteries, our expectations were for a more detailed and comprehensive planning process, incorporating the establishment of both a corporate plan and detailed annual plan.

Corporate/long-term strategic plans

We found that 4 cemeteries had long-term strategic plans. The plans developed by Bendigo (2005 to 2010), Preston (2004-2008) and Wyndham (2004 to 2006) essentially incorporated the elements of an effective strategic plan outlined above.

Altona's plan (2004 to 2007) included the cemetery's vision, mission, 8 goals and strategies to achieve each goal. However, the goals and strategies included in the plan were often too broad or set at a very low operational level. For example goals included development of the website, management of the Melton cemetery site and to facilitate the smooth conduct of funerals. Strategies included making sure the grave location was correct, being courteous and polite to the public and ensuring that no machinery was parked within 100 meters of the grave during a funeral.

While The Necropolis had not developed a strategic plan, some of the elements of a strategic plan, such as the cemetery's vision, mission, values and objectives were included in its annual business plan.

The objectives included in the business plan were more operational than strategic, and the 100 or so proposed actions were too numerous and set at too low a level for the plan to be useful as a strategic document. Significant strategic objectives such as the perpetual maintenance of the cemetery were also missing.

While Fawkner had developed 3-year plans for functions within the cemetery such as the infrastructure group and the landscape group, no strategic plan covering the operations of the entire cemetery had been established.

Annual plans

Of the 13 cemeteries reviewed, only 3⁷ had established annual plans for their business (Necropolis, Preston and Keilor). As indicated above, Altona's strategic plan was effectively an annual plan.

A review of these plans indicated that details of how the strategy was to be measured, what was to be achieved and who was responsible for achieving the objectives were not always identified. For example at Keilor, plans included maintaining strong links with the department, the cemeteries association, funeral directors and others. But there was no information on how the cemetery proposed to measure the achievement of this plan, what specific cemetery actions were envisaged and who would be responsible for managing these relationships.

Keilor's strategy was to maintain grounds, roads, paths etc. to an acceptable standard. But no information was provided on what that standard might be or who was responsible for achieving the strategy.

⁷ The strategic plans prepared by Bendigo and Wyndam are also likely to be sufficient for their business planning needs.

One or more of the cemeteries reviewed did not have:

- a financial plan
- information on capital works undertaken
- performance targets
- marketing strategy and plan
- people strategy.

We were concerned to find a number of cemeteries, which had virtually undertaken no annual business planning at all.

Conclusion

Planning in many of these medium to large sized cemeteries is rather rudimentary, with the planning undertaken having a short-term focus.

Very few of the cemeteries reviewed had an effective strategic planning process, and those that did were only recently developed. The shorter-term plans developed by cemeteries were also in need of considerable improvement.

In the absence of sound business planning, trust members and cemetery management have no way of ensuring that their vision and desired outcomes for the organisation are achieved.

Recommendations

9. **All cemeteries should review their planning processes. The department could facilitate this process by working with cemeteries to:**
 - establish standard formats for cemetery corporate plans and annual business plans, in the larger cemeteries
 - establish condensed plans for smaller cemeteries
 - ensure that they have access to training in strategic planning.
10. **The larger cemeteries should prepare corporate/strategic plans to underpin the future operations of their businesses. There should also be formal mechanisms for trust members to:**
 - periodically review the progress made by the cemetery in achieving its key strategies
 - revise and update the plan on an annual basis.

3.2.2 Risk management

Risk management, which covers strategic, operational and financial risks, is designed to minimise the impact of detrimental events on an organisation's business. In effective organisations development of a risk management framework is a key component of the organisation's corporate planning process. This framework would normally involve:

- establishing an organisation-wide process to identify events likely to have a detrimental impact on the business
- assessing the probability of each identified event occurring, and determining the consequences resulting from its occurrence
- developing strategies and actions to reduce the probability of certain identified events occurring and/or the consequences of these events should they occur.

Having a sound knowledge of the risks facing the organisation and a strategy to manage adverse events enables cemeteries to manage their risks. In particular, it enables the cemetery to systematically compare and trade-off the costs of an event occurring against the costs of reducing the risk. In this way, good risk management is a primary driver of efficiency in a cemetery.

The *Financial Management Act 1994* requires cemeteries to develop and implement a risk management strategy as an integral part of corporate governance arrangements.

Risks facing the industry include:

- short-term financial viability and long-term sustainability
- public liability
- occupational health and safety issues
- investment risk
- major capital projects
- corruption
- compliance with legislative requirements.

We found that The Necropolis was the only cemetery that had developed a comprehensive risk management policy covering its "whole-of-business" operations. Altona had developed an organisation-wide risk policy, approved by the trust in July 2005. However, the policy is very brief and represents the initial efforts by this cemetery to develop risk management within the organisation.

Eight cemeteries had undertaken an assessment of financial risks. These assessments were not exhaustive and the financial risks identified were not supported by detailed strategies and action plans to manage those risks.

Bendigo has not, as yet, undertaken a risk assessment of its business activities. However, risk management has been identified by the cemetery as a strategic issue to be addressed in 2006.

Where trusts have not identified, evaluated and prepared detailed strategies to manage their risks, they may not be as well prepared as they could be to deal with operational issues and problems which may arise.

As stated above, The Necropolis has developed a comprehensive risk management policy. The policy was formally adopted in July 2004. We reviewed the policy and the strategies developed by the cemetery to manage risk and noted the following as better practice within the industry:

- The policy covers risks associated with financial and commercial performance, human resource and facilities management, project management and other operational and administrative services.
- The policy and supporting guidelines are based on the Australian Standard AS/NZS 4360 *Risk Management* and includes requirements issued by the Department of Treasury and Finance under the *Financial Management Act 1994*, in respect of financial risk management.
- The guidelines include:
 - risk management methodology
 - risk identification, analysis and evaluation
 - treatment of risk
 - monitoring arrangements and audit procedures
 - corporate planning integration
 - risk management coordination
 - training and education.
- A risk register has been developed and provides:
 - description of risk
 - risk rating (high, medium, low)
 - the action required to mitigate the risk
 - officer assigned to manage the risk
 - dates to complete the particular risk action plan.
- The audit committee is responsible for oversight of the implementation of the risk management strategy. Every 6 months, the committee receives a risk register report summary outlining the status of the risk management strategy.

While The Necropolis had established a risk management framework, its management indicated that there was still a need for more formal training of staff in the areas of risk identification and the management of risk.

Recommendations

11. **Where cemeteries have not developed risk management plans, they need to examine all aspects of their operations, in order to identify their key risks. Once identified, these risks should be evaluated and appropriate strategies developed to manage them. For the smaller cemeteries, the department could facilitate this process by developing a risk management plan template.**
12. **To facilitate management and monitoring of key risks, the larger cemeteries should establish a risk register, which includes:**
 - explanation of the risk
 - strategy to manage the risk
 - designated officer/committee responsible to manage the risk
 - where practical, milestones and timelines to mitigate the risk.
13. **Risk management strategies should be approved by trust members and regularly monitored to ensure that key risks are adequately managed.**
14. **Cemeteries should also consider providing tailored training for staff responsible for risk management.**

3.2.3 Performance assessment

In order for management to ensure cemetery goals and objectives are achieved, they need information on the performance of the cemetery. To obtain this information, they need to:

- identify what is to be measured and set appropriate performance targets
- establish information systems to measure the cemetery's performance
- assess the performance of the cemetery against these targets
- explain any variances from targets and make any required changes to strategies.

We found that cemeteries had established some performance measures and systems to gather performance information. The performance of cemeteries was assessed using these indicators and the results reported to trust members.

However, the information provided to management was primarily of a financial and/or operational nature and included information such as cemetery sales, the cemetery's market share of cemetery products and performance against budgets.

Other performance information, which would be of use in assessing the performance of cemetery operations includes:

- efficiency measures such as the average direct cost of specific cemetery services like direct cost per burial or cremation, maintenance cost per hectare of used cemetery property and revenue generated per staff member
- effectiveness measures such as achievement of businesses strategies
- indicators related to service delivery
- planned versus actual maintenance expenditure
- financial performance measures such as return on assets and debt to equity ratios and working capital ratios
- measures of stakeholder satisfaction, including service-users, funeral directors, clergy, staff and visitors to the cemetery
- specific measure to assess the performance of the cemetery in providing adequate funds for future preservation of the cemetery.

Conclusion

The performance measures currently used by cemeteries are insufficient to adequately monitor their performance.

Recommendation

15. **That larger cemeteries review their performance assessment processes, with a view to developing a more comprehensive set of performance measures.**

3.2.4 Information and reporting systems

For management to make effective decisions it needs appropriate and timely information on the cemetery's operations and performance. The quality of cemetery recording and reporting systems is critical to the attainment of this information.

Monthly reporting

The *Financial Management Act 1994* requires public bodies to:

- prepare monthly reports on their actual and projected financial position, financial performance and cash flows
- prepare monthly budgets, which record actual revenue and expenses against budget and provide explanations for any variances
- provide project statements for major projects.

While all cemeteries prepare annual balance sheets, operating and cash flow statements, most were not preparing these statements on a monthly basis.

Having access to timely financial information, about revenues, expenses, cash flows and financial position is important for effective decision-making in most organisations.

Projected operating results and cash flows

Monthly reporting generally involves the preparation of information on past events. While this information is useful, what is of far greater value to management is the likely financial and cash position of the cemetery at year-end and the likely operating result for the current financial year.

Projections of the cemetery's future operating result, at set intervals during the year provide management with a mechanism to identify and correct poor performance or allow the management to adjust to external events impacting on the business, on a timely basis.

The audit found that projections of future operating results beyond the next 12 months and financial and cash flow positions under different circumstances were not undertaken by most cemeteries.

Reconciliations of internal reports to financial records

In order for management to make informed decisions they need accurate and reliable information. However, in some cemeteries, monthly reports on the operations of the business were prepared independently of the cemetery's general ledger and other financial records and not reconciled with these financial records.

The absence of a link between internal reports and a cemetery's financial records could result in management receiving incomplete or inaccurate information.

3.2.5 Internal audit and audit committees

Well governed organisations establish internal audit functions and audit committees to assist them in managing their business. In these organisations, audit committees use their internal audit functions to:

- review the effective operation of the organisation's systems and internal controls, and provide assurance to management
- identify risks facing the organisation and bring them to the attention of management
- assess specific operational functions and activities.

The importance of internal audit is reflected in the Standing Directions of the Minister for Finance, which requires cemeteries (reporting under the *Financial Management Act 1994*) to establish and maintain an adequately resourced independent internal audit function appropriate to their needs.

Our review disclosed that only 4 (Altona, The Necropolis, Preston and Geelong) of the 14 cemeteries (including Cheltenham) reviewed had established an internal audit function, and 7 had established an audit committee⁸. With many of the remaining 500 or so cemeteries not being subject to an external audit, these cemeteries do not have access to any audit services.

Where internal audit functions were established, their activities were often narrowly focused on internal financial compliance work.

Our review disclosed that most cemeteries had established audit and finance committees. Membership of these committees was predominately made up of trust members who did not have specific or current accounting, auditing, financial or risk management expertise.

These committees were assigned the potentially incompatible functions of undertaking the role of an audit committee as well as responsibility for financial decisions affecting the operation of the trust. This meant that a committee could potentially review its own decisions. Best practice indicates that audit committees should not have operational roles.

Conclusion

We consider that internal audit functions and audit committees are an extremely valuable internal control and early warning mechanisms which, at present, are not being utilised to their full potential in the larger cemeteries.

Recommendations

- 16. Those larger cemeteries without internal audit functions and audit committees consider establishing them.**
- 17. Where audit committees exist, their role and composition should be reviewed and as far as possible, committee members should not have operational responsibilities. Consideration should also be given to having some independent members (external to the cemetery) on the committee. The performance of these committees should be assessed each year.**

⁸ Templestowe, Ballarat and Anderson's Creek have received interim exemptions from the requirement (under the *Financial Management Act 1994*) to establish an internal audit function and audit committee.

Summarised cemetery responses

Cemeteries recognised the need for internal audit services and independent members on their audit committees. Some responses indicated that the size of some cemeteries made it difficult to establish internal audit functions and to have audit committees separate from finance committees.

3.2.6 Cemetery code of practice

The Standing Directions under the *Financial Management Act 1994* requires public sector agencies, such as cemeteries, to establish a financial code of practice on matters related to the probity of their financial management. This code of practice is to include a cohesive statement of the cemetery's internal processes and systems to minimise:

- scope for unethical practices, and protect public assets
- the potential for waste, fraud and corruption.

Matters to be included in the code of practice include:

- independence
- tendering
- conflicts of interest
- personal relationships with customers and suppliers
- integrity
- fair dealing.

Our audit disclosed that only 6 cemeteries reviewed had developed a code of practice.

Recommendation

- 18. That the larger cemeteries, in consultation with the department, develop a code of practice.**

3.2.7 Other requirements of sound internal management structures

In addition to the above mentioned functions and processes, cemetery internal management structures should include:

- boundaries of activity, authority and accountability, which are clearly established and communicated within the organisation to ensure cemetery operations are conducted in accordance with its requirements
- documented policies and procedures, including specific issues such as occupational health and safety

- systems and processes to minimise scope for unethical practices, and protect public assets
- controls to minimise the potential for waste, fraud and corruption
- stakeholder consultation/feedback processes.

Our review disclosed that:

- cemeteries had established financial and other delegations
- the policies and procedures in cemeteries were of varying quality
- stakeholder consultation/feedback processes were variable
- current cemetery systems, processes and controls, designed to minimise unethical behaviour, wastage and corruption were generally inadequate. The absence of these controls has contributed to many of the problems identified later in this part of the report.

Recommendation

19. That larger cemeteries establish appropriate systems, processes and controls to:

- **minimise the scope for unethical practices, potential for waste, fraud and corruption**
- **protect public assets.**

3.3 Performance of major cemeteries

We reviewed the performance of the 14 largest cemeteries to see how efficiently and effectively they were operating and what risks they faced. Our assessment covered the following areas:

- short-term financial performance
- sustainability
- probity issues
- internal control risks.

3.3.1 Short-term financial performance

The larger cemeteries were generally viable, generating profits in most years, with a number having accumulated significant surpluses and investment holdings.

Given the environment in which they operate, where competitive pressures are minimal and there is no regulatory oversight of pricing, the real risk is not that cemeteries will be unviable in the short-term, but that their operations are inefficient, resulting in the users of these services paying more than they should.

In 2002, the department engaged a consultant to evaluate the financial viability of the industry and develop fee models to assist the cemetery sector meet its long-term obligations. The consultant reported that:

- The industry is inherently profitable.
- At 31 December 2000, the industry held \$93 million in investments.
- The average return on the investments held by cemeteries in the sample was 5.55 per cent, considerably less than the 7.8 per cent earned on managed diversified capital stable funds over the same period.
- The cost of maintenance activities varied considerably from \$1 427 per hectare to \$65 027. Using information on the costs to maintain developed parkland, obtained from 16 local councils, the consultant determined that the costs of maintaining the cemetery land should range from \$1 916 per hectare a year (representing the minimum standard acceptable to the community) to \$18 707 (representing the cost of developing parkland to a very high standard).

The consultant determined that the standard of maintenance at a number of cemeteries was set at too high a level and/or that the prices paid for these services was excessive.

- The fees charged by cemeteries often resulted in cross-subsidisation between different cemetery services, contrary to the recommendations of a National Competition Policy review⁹. For example, cremation services often cross subsidised other cemetery services.

When fees, charged by cemeteries for their major services, were compared with fees determined using a model developed by the consultant, some or all of the prices charged by a number of cemeteries were found to be excessive.

While the department has reservations with the model used by the consultant, we consider that the report poses a number of issues for further consideration.

In order to assess the efficiency of cemetery operations, we looked at their operating results and accumulated surpluses, cemetery maintenance costs, product and service costs and returns on investments.

⁹ National Competition Policy review of the *Cemeteries Act 1958*, conducted in 1999.

Our review disclosed the following:

Operating results

For the 18-month period ended 30 June 2005, the 14¹⁰ cemeteries reviewed generated a combined net profit of \$33.1 million (\$21.9 million annualised) compared with \$13.2 million in 2003 (excluding asset revaluation decrement) and \$18.97 million in 2002. Individual results ranged from a \$130 000 loss at Mildura, to a profit of \$18.27 million at The Necropolis.

The revenue and expenditure recorded by cemeteries for the 18-month period ending 30 June 2005 and the assets and liabilities managed by them at 30 June 2005 are outlined in Figure 3A¹¹.

The combined accumulated surpluses for these cemeteries at 30 June 2005 amounted to \$299.2 million¹².

FIGURE 3A: CEMETERY REVENUE, EXPENDITURE, ASSETS AND LIABILITIES (\$MILLION)

Cemetery	Revenue	Expenditure	Assets	Liabilities
Trustees of The Necropolis, Springvale	43.1	24.8	229.8	12.1
Trustees of the Fawkner Crematorium and Memorial Park	25.4	19.9	50.2	7.6
Cheltenham & Regional Cemeteries Trust	7.3	7.1	27.6	2.8
Trustees of the Memorial Park (Altona)	6.9	5.3	29.0	2.6
Keilor Cemetery Trust	5.7	3.7	10.4	0.2
Preston Cemetery Trust	5.6	2.3	29.3	0.1
Lilydale Memorial Park and Cemetery	3.9	3.1	10.9	0.9
Geelong Cemeteries Trust	3.4	3.2	6.3	1.5
Ballarat General Cemeteries Trust	2.3	2.0	4.4	1.9
Bendigo Cemeteries Trust	1.7	1.7	2.9	1.0
Wyndham Cemeteries Trust	1.2	0.6	3.6	0.1
Templestowe Cemetery Trust	1.1	1.0	8.8	0.1
Anderson's Creek Cemetery Trust	0.9	0.7	4.3	0.1
Mildura Cemetery Trust	0.7	0.8	1.4	0.7
Total	109.2	76.2	418.9	31.7

¹⁰ Includes Cheltenham cemetery.

¹¹ Information generated from cemetery financial statements.

¹² We determined the accumulated surplus of each cemetery as its net assets less its asset revaluation reserve.

Conclusion

Our review of the financial performance of cemeteries indicated that, on the whole, larger cemeteries are profitable and viable in the short-term.

Cemetery efficiency

Service costs

Cemeteries have 7 basic services: burials; cremations; sale of vaults, crypts and memorials; provision of space for cremated remains; and servicing community needs in relation to historic records.

We expected to find that cemetery costing systems would be capable of identifying the costs incurred by the cemetery in providing these services.

The cemeteries informed us that they could not extract accurate direct costs for these services from their systems.

In recognition of the deficiencies in cemetery costing systems, the department recently engaged a consultant to assist it in developing a standard chart of accounts to be used by all cemeteries. Once in place this chart of accounts should provide better and more consistent information to cemeteries to enable them to better manage their businesses.

Maintenance costs

As with service costs, we intended to benchmark the costs per hectare of maintaining used cemetery land across cemeteries, to assess how efficiently these costs were being managed.

We expected that:

- cemeteries would have established standards for the maintenance of cemetery properties
- the larger cemeteries would be able to identify the direct costs associated with maintaining cemetery grounds.

We found that standards had not been established and accurate cost information was not available.

Conclusion

Cemeteries maintained that their operations were efficient. However, in the absence of accurate costing information, maintenance standards and a mechanism to allow a comparison of costs across the industry, cemeteries are not in a position to determine whether they were efficient or not.

With fees effectively set by cemeteries, there has been no real review or regulatory oversight of the prices charged by cemeteries for their services.



The Necropolis – headstone garden.
(Photo courtesy of The Necropolis Springvale.)

Recommendation

20. That large cemeteries:

- in consultation with the department, develop standards for the maintenance of cemetery property
- establish systems and procedures, which enable them to determine the direct costs associated with providing their major services and maintaining cemetery property.

Summarised cemetery responses

Despite not having adequate costing systems, most cemeteries saw their organisations as operating efficiently, referring to the profits their businesses generate and investments they hold to support this contention. They also generally questioned the reliability of consultants' reports which raised questions regarding their efficiency. The following specific response was provided by The Necropolis:

The Necropolis: It is difficult to comment on the findings of reports to the department, referred to in this section, as their findings are yet to be released. The Necropolis agrees with the need to accurately appraise costs and to preserve funds for perpetual maintenance. Regrettably, our Springvale Botanical Cemetery client families do need to contribute towards financing a cross-subsidy of the 2 closed cemeteries entrusted to our care, because no alternative funding is provided by government.

Investments

The cemetery industry has about \$143 million in investments, almost all of which is held by the 14 large cemeteries. These investments currently generate around \$18 million (9.6 per cent) a year or \$23 million, including unrealised gains (12.6 per cent). Details of their investments and returns are outlined in Figure 3B.

FIGURE 3B: CEMETERY INVESTMENTS AND INCOME

		Fixed interest (a)		Managed funds		Total	
		(\$m)	%	(\$m)	%	(\$m)	%
Necropolis	Investments	42.1		24.1		66.2	
	Interest and dividends	3.6	6.0	6.2	23.1	9.8	11.2
	Total income (b)			10.2	38.0	13.8	15.8
Fawkner	Investments	13.2		17.2		30.4	
	Interest and dividends	1.2	6.3	3.3	16.2	4.5	11.5
	Total income (b)			4.7	23.5	5.9	15.3
Altona	Investments	9.2				9.2	
	Interest	0.7	5.4			0.7	5.4
Preston	Investments	13.0				13.0	
	Interest	1.1	6.0			1.1	6.0
Keilor	Investments	3.6				3.6	
	Interest	0.2	5.0			0.2	5.0
Lilydale	Investments	2.1				2.1	
	Interest	0.2	7.4			0.2	7.4
Anderson's Creek	Investments	2.5				2.5	
	Interest	0.2	5.7			0.2	5.7
Templestowe	Investments	4.6				4.6	
	Interest	0.4	5.9			0.4	5.9
Other (c)	Investments	5.9				5.9	
	Interest	0.4	5.9			0.4	5.9
Total	Investments	96.2		41.3		137.5	
	Income	8.0	5.9	9.5	20.1	17.5	9.6
	Total income (b)			14.9	31.8	23.0	12.6

(a) Includes at-call funds, fixed interest, indexed bonds, bank bills and cash-enhanced funds.

(b) Total income includes interest, dividends, and realised and unrealised capital gains.

(c) Includes Bendigo, Wyndam, Mildura, Geelong and Ballarat.

Note: Percentage return on investments is annualised, based on the average investment held at the beginning and end of the 18-month financial reporting period ended 30 June 2005.

We found that most cemeteries reviewed did not have:

- formal approved investment policies and long-term strategies
- information on their estimated future cash flow needs
- adequate oversight of their investment functions
- adequate internal skills and knowledge to manage a multi-million dollar pool of investments
- access to appropriate specialist investment advice
- adequate internal controls to protect and safeguard investments.

Investment strategy

With the investments of cemeteries largely in short-term (less than 5 years) fixed interest securities, their investment strategy, whether specifically stated or not, is predominately to invest in low to medium-risk investments providing low-risk returns.

Effective investment strategies attempt to match the needs of the organisation with the returns generated from the investment portfolio. Unlike most other businesses, cemeteries have little or no short-term need for the earnings or proceeds from the sale of their investments. Cemeteries generate sufficient cash flows from their businesses to meet these needs.

Cemetery investments are required to meet long-term cemetery needs. Therefore, cemetery investment strategies should require the purchase of predominately long-term rather than short-term assets.

By changing their investment profiles, cemeteries could improve investment returns, without greatly increasing their risk.

Although some cemeteries are making a concerted effort to obtain specific information on their cash flow needs in the short, medium and long-term; most do not have this information. Without it, the development of effective investment strategies is not possible.

Conclusion

Of all the activities managed by the cemetery, effective investment management has by far the greatest potential to improve the profitability and long-term sustainability of cemeteries.

We consider that:

- Ineffective investment planning over many years has resulted in lower returns being achieved than might otherwise be the case.
- In the absence of appropriate internal controls and the capability to manage their investments, there is a risk that cemeteries will not maximise the returns from their investments and their investments might be put at risk.
- With cemeteries predominantly investing in short-term fixed interest securities, time and costs are incurred by them in the continually turning over of these investments. Investment management has also diverted the attention of cemetery management away from the core business of operating the cemetery.

To maximise earnings on investments, cemeteries could consider the use of external fund managers, such as the Victorian Funds Management Corporation (VFMC), to assist in investment management.

Recommendations

21. **That cemeteries:**
 - **determine their short, medium and long-term cash flow needs**
 - **consider using the VFMC to manage their investment funds.**
22. **That, if cemeteries continue to separately manage their investments, they should:**
 - **determine and document their investment policies and investment strategies**
 - **establish an investment manager and oversight committee with adequate skills and knowledge to manage their investments**
 - **engage specialist investment advisors to provide the cemetery with ongoing investment advice**
 - **establish appropriate internal controls to protect and safeguard their investments.**

Summarised cemetery responses

All cemeteries with investments agreed that sound investment management, as outlined in our report, was needed. Most cemeteries considered that they had adopted a low risk investment strategy and also believed that their investments were well managed.

Cemeteries were also fearful of the department or the government taking over their investments. As a result, very few cemeteries supported our recommendation for consideration to be given to including cemetery investments in a common fund such as the VFMC. Cemeteries views on investment management are as follows:

Geelong cemetery: Long-term investment strategies need to be evaluated on a trust-by trust-basis. Longer-term investments for the smaller trusts are generally a source of working capital and need to be maintained in a reasonably accessible format – such as short-term investments with banking institutions. The use of an external fund manager (such as VFMC) appears to be of little benefit as rates offered in a recent flyer from DHS were similar to those able to be achieved with the trust’s current bankers, yet the funds would still be available when required.

Preston cemetery: We do not believe the cemetery’s investment function is poorly managed, but rather provides the trust with appropriate specialist investment advice suitable to the cemetery’s circumstances.

Summarised cemetery responses - continued

***Fawkner cemetery:** Fawkner has demonstrated its ability to effectively manage its investments while achieving high returns. During the 2005-2006 financial year, the trust received returns of 48.7 per cent from Broker 1; 28.5 per cent from its Broker 2; and 5+ per cent on its cash at hand. The trust, through its Finance and Remuneration Committee, manages its investment portfolio's extremely well as demonstrated within the VAGO report. As such, it is concerned that the performance of its investments may decline under the Auditor-General's proposal. A decline in investment performance will have a negative impact on the financial performance of the trust.*

***The Necropolis:** From an ethical perspective, The Necropolis considers it imperative that funds accumulated for current and long-term preservation purposes within a particular cemetery are not pooled for access by other authorities. As part of recent strategic planning, it confirmed the need to quarantine such funds from use for purposes other than maintenance and preservation within its cemeteries.*

The Necropolis has publicly promoted awareness of its commitment to preservation of the 3 cemeteries entrusted to its care. In turn, our trust members are acutely aware of their prudent governance responsibilities. Client families have entrusted money to The Necropolis for the care of a specific cemetery. There would be considerable community concern if there was any suggestion of pooling of funds.

3.3.2 Sustainability

In order for cemeteries to achieve the legislative requirement of maintaining the cemetery into perpetuity, there needs to be:

- an assessment of the revenues likely to be earned and expenses incurred by each cemetery over the longer-term
- effective price setting mechanisms
- effective long-term management of investments
- effective management of major cemetery assets, including acquisitions and expansions.

Our review of the cemetery operations disclosed the following.

Perpetual maintenance

The *Cemeteries and Crematoria Act 2003* places a specific responsibility on cemetery management to maintain their cemeteries in perpetuity.

The 2002 consultant's report into the financial viability of Victoria's cemeteries, referred to earlier in this report, examined the perpetual maintenance obligations of the cemetery sector in Victoria. The consultant's report concluded that:

- the aggregate perpetual maintenance obligation of the cemeteries in the consultant's sample was \$408.6 million, or \$516.9 million if extrapolated across the entire industry.
- at 31 December 2000, there was a shortfall in funds available to meet this obligation of \$423.9 million.
- some cemeteries will be unable to redress their perpetual maintenance obligations (through on-going trading and prudent investment practices). Accordingly, these cemeteries need to look at increasing operating surpluses through increased fees and/or reduced costs and/or other sources of revenue and/or funding to avoid insolvency.

Our review examined whether cemeteries had quantified their future maintenance needs and were setting aside sufficient funds to maintain their burial and memorial sites and amenities in perpetuity.

We found that:

- cemeteries, with the exception of The Necropolis and Fawkner, had not quantified their future maintenance requirements and developed detailed strategies to maintain their cemeteries over the long-term¹³
- only 2 cemeteries (The Necropolis and Fawkner) undertake a periodic analysis to estimate future maintenance needs
- 6 cemeteries (Altona, Cheltenham, Geelong, Templestowe, The Necropolis and Fawkner) have established preservation/endowment reserves to provide for their future maintenance needs.

Adequacy of future maintenance reserves

For those cemeteries that had established reserves for future maintenance, we looked at the adequacy of these reserves to meet future cemetery needs. We also found some cemeteries that had not established maintenance reserve were setting aside funds for perpetual maintenance. We noted the following:

- *The Necropolis* - maintains a preservation reserve. At 30 June 2005, the balance in the reserve was \$83.2 million.

¹³ In its 2002 business case for the construction of stage 3 of its mausoleum complex, the cemetery considered the expenditure needed to maintain the cemetery into perpetuity.

An independent actuary has reviewed the adequacy of this reserve every 3 years since 1999. The last completed review (August 2005) estimated the cemetery's perpetual maintenance liabilities at 31 December 2004 were \$49.9 million. At that date, the cemetery had \$62.7 million in the reserve to meet these future commitments.

- **Fawkner** - maintains an endowment care fund reserve. At 30 June 2005, the balance in the reserve was \$14.9 million. At that date, the cemetery held \$22.7 million in investments that could be used to meet its maintenance obligations. We were advised that these investments will also be used to finance future mausoleum construction costs.

Independent consultants have reviewed the adequacy of the reserve to meet future maintenance obligations, every 3 years since the reserve was established in 1994. The last review in November 2004 determined the cemetery's potential perpetual maintenance obligations when the cemetery was closed for burials (in 2 133), but not its current perpetual maintenance obligations. The consultant's report concluded that under the cemetery's endowment care fund policy (in operation at that time), the cemetery was not setting aside enough funds to meet its future obligations. It would be required to draw funds from the reserve as early as 2012 to meet its operational requirements.

On receiving the consultant's report, the cemetery increased its contribution to the endowment fund. Following this action, the cemetery now considers that it has set aside sufficient funds to maintain the cemetery in perpetuity.

- **Altona** - maintains a perpetual maintenance reserve but applies it only to the future maintenance needs of the mausoleum complex. The amount held in the reserve at 30 June 2005 was \$1.2 million. While the cemetery has sufficient investments to support this reserve, it does not have a reserve or sufficient investments to meet its other future maintenance needs such as its grave-sites, gardens, roads, paths and memorial areas.
- **Cheltenham** - maintains reserves for future maintenance of its wall of remembrance, lawn and monumental graves, mausoleum crypts, shrubs and gardens totalling \$4.77 million. Amounts are transferred from the operating surplus to the reserves on the basis of the number of units sold during the year. The cemetery does not have sufficient investments to fund its future maintenance needs. At 30 June 2005, the cemetery had interest-bearing deposits amounting to \$1.22 million.
- **Geelong** - has a future maintenance of cemeteries reserve with a balance of \$300 000 at 30 June 2005. The amount allocated to the reserve each year is determined having regard to the requirement to finance the future maintenance of the cemetery. At 30 June 2005, the cemetery had interest bearing and term deposits totalling \$1.24 million.

- **Templestowe** - maintains 2 reserves to meet future obligations. The combined balance in these reserves at 30 June 2005 was \$4.16 million. The cemetery has not formally documented its strategies or action plans in respect to the use or the adequacy of the reserves, although it indicated that the reserves were sufficient to meet the obligations in perpetuity.
- **Keilor** - while not having established a specific reserve in its balance sheet for future maintenance, the trust has set aside a percentage of income each year for future maintenance. At 30 June 2005, an amount of \$815 000 had been set aside for future maintenance. This amount was represented by a bank term deposit. While the cemetery's intention was to use these funds for maintenance, there were no controls in place to ensure that they were used for that purpose.
- **Preston** - maintains a general reserve, which at 30 June 2005 had a balance of \$13.2 million. This reserve is used to provide funds for the ongoing maintenance and administration of the cemetery and mausoleum, and also provides funds for capital works to be undertaken in the future. The trust had managed funds of \$13 million at 30 June 2005.

While a number of these cemeteries have established reserves for future maintenance, only The Necropolis and Fawkner have determined their future maintenance needs in perpetuity. In the absence of this information, cemeteries are not in a position to know whether the amounts currently set aside in these reserves will be sufficient to meet their future maintenance needs.

None of the cemeteries reviewed had developed detailed policy guidelines governing the use of funds set aside for future maintenance. This meant that there are no restrictions on the trust using amounts set aside in the reserve for other purposes.



The Necropolis Springvale – Smith Pools Memorials. The Cemeteries and Crematoria Act 2003 places a specific responsibility on cemetery management to maintain their cemeteries in perpetuity.
(Photo courtesy of The Necropolis Springvale.)

The Necropolis and Fawkner have recently entered into a conjoint arrangement with a private consulting firm to create an industry financial preservation model designed to reliably estimate the future maintenance needs of both cemeteries in perpetuity. We were advised that once the model is established it will be accessible to other cemeteries. At the date of preparation of this report, work was continuing on the model. The department has not, as yet, reviewed and endorsed the model.

Reporting

Given the requirement in the Act for cemeteries to be maintained into perpetuity, we expected that in addition to determining whether or not this objective was being met, the cemetery would report publicly on its performance in this area.

Currently, there is no public reporting on the achievement of the maintenance objective in the Act.

Conclusion

Only The Necropolis and Fawkner had estimated the value of their future maintenance obligations and have sufficient resources to meet those obligations. All other cemeteries have not determined the value of their future maintenance obligations and, therefore, are not in a position to assess whether or not they are achieving their objective of perpetual maintenance.

Recommendation

23. That:

- **cemeteries, in consultation with the department, undertake a detailed assessment of the level of funds required to meet future maintenance obligations**
- **priority be given to the development of an industry financial model to assist cemeteries in determining future preservation obligations**
- **once an assessment is complete, cemeteries develop strategies to ensure that adequate funds are set aside for future preservation needs**
- **cemeteries maintain investments to support the preservation reserves**
- **controls are established so that investments set aside for perpetual maintenance cannot be used for other purposes unless expressly authorised by the cemetery trust**

- **cemeteries, in consultation with the department, develop mechanisms to publicly report on their achievement of the perpetual maintenance objective.**

Summarised cemetery responses

Most cemeteries agreed that their cemeteries had a legislative obligation to manage their business, so that they generated sufficient net cash flows while operating to provide them with sufficient funds to maintain the cemetery into perpetuity. In The Necropolis response below, the cemetery raises the issue of maintenance funding for closed cemeteries and the need to retain sufficient resources to meet pre-need commitments.

Within an industry-wide strategic planning process, consideration needs to be given to whether the government has an ethical or social responsibility to allocate budget funds towards the preservation of cemeteries which are already closed. In the absence of such funding, it will be most difficult for The Necropolis or other cemeteries to independently ensure the adequacy of preservation. In effect, client families will need to continue retrospectively cross-subsidising cemeteries which are already closed and cemetery fees and charges will be higher.

For many years, The Necropolis has proactively preserved and invested funds as part of its demonstrated commitment to long-term cemetery preservation. More recently, its research has highlighted the attributes of an approach to preservation funding implemented in the Province of Ontario, Canada. A statutory requirement has been enacted. It does not require either government funds management or ongoing budget funding. It established the specific preservation funding levels required for a variety of cemetery goods and services.

That legislation mandates acceptable investment management structures and applies just as easily within small or large cemeteries. In the light of earlier commentary in relation to the level of demonstrated investment expertise within the sector, the Ontario model is worthy of further investigation.

For the avoidance of misunderstanding, when considering the relative levels of The Necropolis preservation reserve and its realisable investment backing, it is important to also consider the value of existing pre-need liabilities. Trusts need to accumulate sufficient funds to cover both future maintenance and the realisation of pre-need liabilities. The Necropolis has consistently applied an actuarial approach to the assessment of preservation funding requirements. Its existing Trowbridge Deloitte model is available for consideration by the department and use within other cemeteries."

Summarised cemetery responses - continued

Altona cemetery indicated in its response that it was waiting for development of a model by the Department of Human Services to be used for determining a perpetual maintenance reserve for future maintenance.

Price setting

For almost all essential goods and services, where natural monopolies exist, such as in the electricity, gas and water industries, product pricing is set independently of the provider.

These prices are generally calculated to ensure prices charged to consumers are fair and to enable the providers to meet:

- their operating cost of the business
- maintain and replace assets when needed
- generate a return for the owners of the business
- maintain the business over the longer-term.

Cemeteries provide an essential public good which, due to government restrictions to industry access, operate in a monopoly situation. However, pricing in this industry is effectively set by the service providers, the cemeteries.

Periodically, the cemeteries review the prices of their services and make a submission to the minister to approve any amendment. These submissions are reviewed by the Cemeteries and Crematoria Program within the department and a recommendation made to the minister. In most cases, the amended prices sought by the cemeteries are accepted by the department and the minister.

Our review of this process found that:

- as cemetery systems were not capable of producing accurate costing information, submissions for price increases were based on factors such as consumer price index movements or prices charged by other cemeteries, rather than on the costs of producing the services and to maintain the cemeteries into perpetuity
- the absence of costing information (including estimates of the costs of maintaining cemetery properties into perpetuity) and limited resources available to the department meant that it was not in a position to undertake a rigorous review of the proposed price changes.

Without effective cost recording systems and price setting mechanisms, it is not possible to determine whether or not prices charged by cemeteries are appropriate.

Conclusion

In the absence of effective price setting mechanisms, the conclusion in the 2002 consultant's report that some cemeteries are overcharging for their services and some services are cross-subsidising others is, in our opinion, likely to be correct.

There is a need for the department to establish robust price setting mechanisms which are independent of the cemeteries.

Recommendations

24. **That the department consider using an independent regulator to set prices for cemetery services.**
25. **If the department wishes to retain the price setting function within the department then:**
 - **it will need to acquire the resources and expertise to enable it to determine appropriate prices for cemetery services**
 - **cemeteries will need to establish accurate costing systems.**

Summarised cemetery responses

Opinion was divided regarding the need for an independent body to set the prices for cemetery services. The Necropolis agreed with our recommendation that the pricing of the core essential services provided by cemeteries might best be dealt with by an independent regulatory body and made the following observation.

Regardless of whether it is the department or an independent cemetery authority looking at price setting, more than the cost accountants' calculator is needed to fulfil the requirement. Cemetery services might be similar by name but they are not homogenous by nature. Market forces impact on prices. So does cemetery ambience and the public's perception of The Necropolis commitment to long-term cemetery preservation.

Most other cemeteries responding to our recommendation for an independent body to set prices for cemetery services indicated that they believed responsibility for setting prices should remain with the cemeteries.

Fawkner cemetery: Fawkner sets prices based on the needs of its local community and its ability to pay. As such, the services and standards applied within its cemeteries are different to those applied elsewhere due to local needs. Each cemetery will have individual needs based on its local community's demographics and ability to pay. The associated costs of varying labour market rates, land costs and expectations will individually affect the cost of cemetery services. Cemeteries have a role to identify local community needs based on more than economic rationale.

Summarised cemetery responses - continued

Ballarat cemetery: *The trust has major concerns against an independent regulator to set cemetery prices in that different cemeteries have different local issues that impinge on the cost of operating their cemetery and, therefore, cemetery trusts should be charged with the responsibility of determining the cost structure to meet their needs.*

In respect of cross-subsidisation of cemetery services, the following responses were provided.

Geelong cemetery: *The issue of cross-subsidising of services is a reality but the extent of this will not be clear until well into the coming financial year. Costs and service charges will then be reviewed to better reflect the cost of each service provided.*

Lilydale cemetery: *Cross-subsidy is a comment that frequently raises eyebrows from people outside the cemetery service; this opinion is unjustifiable. There is only one alternative and that is for government to take up the slack. The case of cross-subsidy needs to be put to rest for good. Public expectation has increased to a level that requires constant upgrading and beautification of cemetery grounds, it is essential for the maintenance of cemeteries and the industry as a whole to continue to cross-subsidise. This in turn will reduce the likelihood of governments being left to fund defunct operations.*

Major cemetery acquisitions and expansions

Under the former *Cemeteries Act 1958*, decisions on major cemetery acquisitions or expansions (such as the construction of mausoleums) were made by cemeteries, largely based on how the proposal was likely to impact on the cemetery. The department generally had little involvement in the decision and little consideration was given to how the proposal would impact on the broader industry.

In these circumstances, it is not surprising to find that the 2002 consultant's review found a significant oversupply of crematorium facilities within Victoria and warned that the current boom in mausoleum construction may result in an oversupply of mausoleum crypts, which may take years to sell.

A recent consultant's report (November 2004) indicated that the 21 cremator units operating in Victoria are currently operating at about 50 per cent capacity and, if cremators were to operate around the clock, the state would only require 3 cremators.

Since the new legislation came into effect in 2005, the department has assumed a more prominent role in overseeing major acquisitions and expansions. This will help ensure that such decisions take a broader view, by looking at the effect of the proposal on the industry. An independent review of any proposals by the department is also likely to reduce the risk of cemeteries making a poor decision which will impact on its business.



Preston – Mausoleum.
(Photo courtesy of Preston Public Cemetery.)

Conclusion

Based on our review of the findings of one of the consultants and our own review, we consider that a number of cemeteries are not being managed in a manner which will ensure that they can achieve their legislative responsibility of maintaining the cemetery into perpetuity.

The lack of oversight over cemetery operations in the past has led to the situation where cemeteries have undertaken significant investments in cremators and mausoleums, which may create financial difficulties for them in later years.

The passing of the *Cemeteries and Crematoria Act 2003*, which now requires any new cremators or mausoleums to be approved by the department, should reduce the risk of any future over investment in aspects of cemetery service delivery.

Summarised cemetery responses

Lilydale cemetery: Another area where it is considered the report is deficient is in respect to major cemetery acquisitions and expansions. It talks about a recent unnamed consultant's report, 2004, saying that the Victorian cremators operate at about 50 per cent of the capacity and that the state could get by with 3 cremators. To operate this type of facility would be undignified, disrespectful and generate uncertainty in the community; it would also raise innuendo and speculation surrounding the handling of caskets and cremated remains. A report containing comments of this nature deems the report to be irrelevant and treats the disposal of the dead akin to disposal of waste.

Lilydale crematorium was established at the behest of the department after consultation with local funeral directors to overcome the travelling time from Lilydale to Springvale (approximately 2 hours return) which was considered unacceptable to mourners. The general public should have the opportunity to farewell their family members in or close to their local area. An increasing requirement of families is to be at the site of the cremation when it takes place, for the cremation to take place as soon as is possible after the service and on many occasions for the family to witness the charge of the coffin into the cremator. To suggest that 3 cremators would be enough to service the state shows the report in a manner that is presented without any worthwhile investigation.

A matter that should be considered is the death rate, currently running at approximately 5 deaths per 1 000 head of population per year. This will double to 10 deaths per 1 000 in the near future. Coupled with the increase in population sees the cremation industry well placed to handle the increase for the future during the hours of operation that people prefer to attend cremation services.

3.3.3 Probity issues

In this section we review:

- cemetery expenditure
- tendering arrangements
- staff entitlements and remuneration.

Cemetery expenditure

We reviewed whether expenditure by cemeteries was appropriate, reasonable and had been incurred in line with trusts' policies and procedures. We also selectively examined payments for:

- travel costs
- entertainment expenses

- reimbursement of personal expenses to staff, chief executive officer/general manager and trust members
- payments to related parties (such as family members).

In determining the appropriateness of cemetery expenditure we assessed whether this expenditure was incurred in order to meet a “business need” as required by the *Financial Management Act 1994*. We took this to mean expenditure incurred by a trust member or cemetery employee, which could reasonably be associated with the conduct of that person’s official duties.

Expenditure that benefited the individual without meeting a business need was considered inappropriate, unless included as part of an employee’s salary package.

Policies and procedures

The directions under the *Financial Management Act 1994* require that policies be specifically developed for the above mentioned expenditures.

As outer budget sector agencies, cemeteries may develop their own purchasing policies or, as advised by the department, adopt as a minimum, the Victorian Government Purchasing Board guidelines.

Over the past 12 months, some cemeteries have reviewed their expenditure policies and made amendments where required. Notwithstanding these reviews, our audit highlighted the need to improve expenditure policies and procedures in all cemeteries. Such improvements would help ensure transparency and probity in purchasing decisions as well as provide guidance to staff involved in purchasing goods and services.

Our audit disclosed that:

- Four cemeteries did not have documented procurement policies/procedures (Andersons Creek, Geelong, Mildura¹⁴ and Templestowe).
- Policies and procedures designed to ensure value-for-money was achieved by cemeteries in their purchasing decisions were not established in some cemeteries (Altona, Keilor). Where cemetery policy required that quotations be obtained at varying dollar values, in practice this was rarely adhered to. Instead, cemeteries relied heavily on known or past suppliers without periodically assessing their price competitiveness (all cemeteries).

¹⁴ The cemetery operates under the local council’s procurement/purchasing policies. Policies specific to the cemetery have not been developed.

- Policies in most cemeteries did not cover all expenditures incurred by cemeteries. The most common areas where no policy guidance existed included staff travel, hospitality and entertainment, employee gifts and informal recognition, conference attendance, trust member remuneration and expense reimbursement, employee advances, related party transactions, and advertising and sponsorship.
- Policies in some cemeteries allowed for:
 - the provision of gifts (both monetary and physical) to staff for 5, 10 and 15 years service and for achieving academic qualifications; free burial services to staff, trust members and their immediate families; and retirement functions up to a cost of \$300 (Fawkner)
 - conference attendance by trust members, staff and their partners. All costs - travel, conference registration, meals etc. were met by the cemetery (Necropolis, Altona, Lilydale and Bendigo).

Appropriateness and reasonableness of expenditure

Our review of cemetery payments disclosed expenditures on items that in some instances delivered, in our view, private benefits to trust members and staff. Such expenditures included payments/gifts to staff (in recognition of service, birthdays, farewell and retirement functions etc.); home phone rental and call costs; expenditure allowances for private use; and funding of trust member partners attending conferences.

The expenditures in question result from longstanding practices in the cemetery industry. The payments made to trust members have, in part, been made in recognition of their voluntary status and the considerable time and effort they devote to cemetery management.

We also found it difficult to understand why some expenditures continued to be incurred given the poor financial position of some cemeteries. For example:

- Bendigo cemetery authorised trust members, the CEO and partners to attend local and interstate conferences at the cemetery's expense.
- Templestowe cemetery approved 4 trust members, the executive secretary, their spouses and 2 children to attend a 5-day conference in Western Australia in October 2004 at the cemetery's expense. One of the trust members subsequently reimbursed the cemetery for the cost of the airfares in December 2004. The cemetery incurred expenses of around \$22 000.

Further concerns noted regarding appropriateness of cemetery expenditure include:

- A cemetery established a philanthropic fund in 2004. Donations totalling \$10 000 were made from the fund to 3 local charities. Donations from the fund are to occur on an annual basis (Altona).

- Invoices for hospitality and other expenditures did not always indicate the purpose of the expenditure (some cemeteries).
- Expense reimbursements to senior managers and the general manager were generally not supported by adequate documentation. Payments were often not approved or were “self-approved” (Fawkner).
- Payments to some suppliers were not appropriately authorised (Ballarat, Bendigo) or supported (Ballarat).
- Where the cemetery is managed by a council, arrangements between the council and the cemetery for payment to the council of administration costs and reimbursement of costs incurred by the council on behalf of the cemetery, was not formally documented (Mildura, Wyndham).

Conclusion

We consider that:

- expenditure by cemeteries on travel, accommodation and meals for the partners of trust members was questionable
- paying allowances to staff to meet business expenses, instead of staff receiving reasonable reimbursement of costs incurred is no longer accepted public sector practice
- payments and gifts to staff, not specifically linked to staff performance, represents a questionable use of cemetery funds
- expenditures are not always appropriately authorised or supported.

By making the above payments, cemeteries are exposing themselves to ongoing allegations of impropriety.

Recommendations

- 26. That cemeteries:**
 - **review their policies and practices to ensure that they only provide for reasonable, business-related expenditure, which is consistent with community expectations for such expenditure. Consideration should be given to the development, in conjunction with the department, of industry-wide policies and practices**
 - **ensure that expenditure is appropriately supported and approved prior to payment.**
- 27. Altona Cemetery seek clarification from the department as to the appropriateness of establishing its philanthropic fund.**
- 28. Council-managed cemeteries ensure that management arrangements, including costs to be paid and reimbursed to the council, are formally documented.**

Summarised cemetery responses

Cemeteries indicated that where there was unauthorised expenditure, it was generally minor in nature. In relation to conference attendance, cemeteries indicated that such expenditure was in accordance with cemetery policy in the past.

The Necropolis supported our recommendation that the industry develop policies for cemetery expenditure such as entertainment, gifts and conference attendance.

“We see merit in the State Services Authority or the department or an independent cemetery authority developing policy principles, tailored to appropriately meet the operating needs of non-budget sector agencies. There is considerable scope for this approach to involve the assistance of the Cemeteries and Crematoria Association of Victoria as a stakeholder representative, rather than repeatedly consulting over similar questions with a multitude of cemeteries.

In respect of our findings on employee benefits and donations to charities, cemeteries made the following comments.

Altona cemetery: *These types of benefits are not normally referred to in employment agreements. Furthermore, mobile phones and home internet services are not provided as benefits but as work tools for effective operational purposes.*

The Financial Management Compliance Framework does not exclude public sector organisations from making discretionary financial benefits available, provided appropriate policies and procedures governing its administration are in place.

Keilor cemetery: *In line with Australian Taxation Office ruling MT2024, and in line with council operations, the Keilor Cemetery Trust Supervisor is entitled to “commuter use” of a vehicle. This includes driving to and from work, and all use in connection with work.*

While this may not be consistent with state government policy, ATO ruling MT2024 permits the use of the vehicle by the supervisor.

Tendering arrangements

For cemeteries to get the best value for the goods and services they acquire by tender, they need to attract a broad range of suppliers to submit tenders. In order to achieve this objective, they need to demonstrate to the market that their processes are fair, equitable and transparent.

Classified as “outer-government” sector agencies, cemeteries are expected to follow the Victorian Government Purchasing Board’s (VGPB) contracting and purchasing guidelines.

For contract tendering, the VGPB guidelines require:

- public tenders are to be used for purchases over \$100 000
- tender information, both paper and electronic, is to be secure at all times
- exemption from open tendering and selective tendering should only be considered in exceptional circumstances and cannot be used for the purpose of avoiding competition
- at least 2 designated officers, independent of the tender evaluation process, are to be appointed to jointly receive, open and record tenders received
- the public body to provide a secure tender box or tender receipt area for hardcopy delivery in an accessible location which is clearly marked
- officers of public bodies should not accept or redirect incorrectly delivered tenders whether hardcopy or electronic
- tenders received after the time allowed for the delivery of tenders are deemed ineligible for consideration. A late tender can only be accepted if it can be clearly demonstrated that the public body’s receiving arrangements were at fault
- all tenders, quotations and related documents are to be treated as confidential and appropriate action is to be taken to maintain security
- probity of the tendering and contracting process is the responsibility of all members of tender teams and it is their duty to ensure that the process is open and fair.

We examined whether cemeteries had developed tendering policies and procedures, based on the VGPB guidelines. We also assessed the adequacy of the tendering arrangements used by the larger cemeteries to award major contracts during the past 24 months.

Findings

The Necropolis had a formal policy and documented procedures that conformed to the VGPB guidelines. Our review of this information identified a number of good practices such as:

- a requirement that all tenderers be treated fairly and equally to ensure probity and accountability
- procedures to ensure security over the tender box and tender documentation

- a requirement that at least 2 authorised persons must be present to simultaneously open and register tenders
- the maintenance of a tender register, certified by a responsible staff member, which records details of the tender opening process.

None of the other cemeteries had established specific tendering policies and procedures. Without them, cemetery staff had no formal guidance on how to conduct a tender process and the cemetery could not ensure good practice was followed.

While these cemeteries did not have a formal policy for tendering, some included certain tender requirements in their procurement policies. In addition, at a few cemeteries some guidance on tendering is contained in the tender forms provided to prospective tenderers.

We also noted that the larger cemeteries require that public tenders be called for in certain circumstances. For example, at Altona, the cemetery requires any contract for capital works exceeding \$50 000, to go to public tender.

We reviewed the tendering arrangements used for a selection of contracts awarded at 5 cemeteries (The Necropolis, Fawkner, Altona, Keilor and Preston).

The cemetery we had the most concern with was Preston. In 2002, the cemetery decided to construct a new mausoleum, which was to be built between 2003 to 2005 and cost \$18 million.

The cemetery decided to project manage the construction of the mausoleum itself and enter into separate contracts for the supply of concrete works, granite supply, electrical works, and plumbing and drainage.

The selection panel comprised the construction manager (previous cemetery manager), consultant engineer and a member of the Darebin City Council's purchasing team.

Our review of the 4 tender contracts disclosed that:

- the decision to project manage the construction meant that the construction risk was transferred to the cemetery
- few tender submissions were received, with only one tender for the concrete works
- the decision to complete the first stage of the construction (footings stage) before tendering for the remaining 3 supply contracts, limited the market for applicants for these contracts
- a significant proportion of the successful tenderers had prior associations with the cemetery

- tender specifications were not sufficiently detailed to enable the cemetery to enforce delivery of the proposed works without the need for additional payments to the contractors
- tender documentation was deficient in that it did not:
 - include a formal evaluation report
 - include a copy of the tender advertisement and a record of discussions with prospective tenderers
 - document the tender processes and procedures
 - require pecuniary interest and conflict of interest statements for members of the selection panel
- selection criteria and weightings were established after tenders were opened
- there were significant cost variations of \$720 000 (footings), \$650 000 (concrete works and drainage)
- at the date of our review, the project was approximately 3 months behind schedule.

Our review also disclosed the following deficiencies at the other cemeteries reviewed.

- lack of security over tender submissions (Altona and Fawkner)
- no documented procedures for opening and registering tenders (Altona, Fawkner and Keilor)
- late tenders were accepted for assessment (The Necropolis, Altona and Fawkner)
- one tenderer was allowed to change their tender and resubmit it after the closing date (Fawkner)
- the tender closing date was extended to allow a tenderer more time to prepare a submission. The other tenderers were not asked whether they agreed with the extension (Fawkner)
- faxed copies of tender submissions were accepted, despite tender documents issued to prospective tenderers stating that faxed copies would not be accepted (Fawkner).

These deficiencies could leave cemeteries open to allegations of inappropriate or inequitable treatment of contract suppliers.

We also noted 2 instances where cemeteries, which had outsourced responsibility for the management of a tender process to a third party (Keilor and Altona), had not maintained adequate oversight over the process. At Keilor, a formal agreement was not used to engage the third party.

As a result, these cemeteries could not ensure that the tendering process was transparent and fair or that value-for-money was achieved.

Conclusion

The larger cemeteries routinely enter contractual arrangements for the provision of goods and services to meet their operational needs or for capital projects such as grounds development or construction works.

We found that tendering procedures and practices used by most cemeteries to acquire these goods and services contained a number of serious deficiencies. This could lead to unsuccessful tenderers challenging tender decisions or potential tenderers not tendering for future contracts.

Recommendations

29. **That all cemeteries develop and document appropriate tendering policies and guidelines, consistent with the VGPB guidelines. Once developed, they should ensure that staff comply with them.**
30. **Where cemeteries outsource their tender functions, they should:**
 - **enter into a contractual arrangement with the provider of the tender service**
 - **oversee the tender process.**

Summarised cemetery responses

In response to our comments on the tendering processes at the Preston Cemetery, the following response was provided by the cemetery:

We acknowledge the cost variation to the project and that it is currently behind schedule. The reasons for the variations and delay are due to a number of external factors, including a discrepancy with the soil investigation report, industrial action and inclement weather. It also noted that concrete and plumbing items were specifically excluded from original scope of works as their requirements were unknown at the time. The construction schedule continues to be amended in an effort to bring forward certain works in order to minimise the delay in the project.

Staff remuneration and entitlements

Around 400 staff are engaged by the 13 cemeteries we reviewed. Some cemeteries managed by local councils did not directly employ their own staff but utilised council staff and reimbursed council for the employment costs (Wyndham, Preston and Mildura).

We selectively reviewed remuneration arrangements of cemeteries to assess whether employment terms and conditions were documented and appropriate (compliant with government remuneration policies and sound business practice).

Cemeteries are required to comply with the Government Sector Executive Remuneration Panel (GSERP¹⁵) requirements.

Documentation of employment terms and conditions

We expected to find well-documented employment arrangements for all staff. Government executive remuneration policy requires executive arrangements to be formalised.

We found that for almost all cemeteries, employment terms and conditions of indoor staff, including executive staff, were outlined in individual employment contracts or agreements. Outdoor staff were engaged under collective enterprise bargaining agreements.

The only exception was at Fawkner Cemetery where employment conditions and remuneration arrangements for the former general manager (employed for 23 years) and 2 other senior managers (employed for 15 and 8 years) had not been formalised.

The general manager advised us that the terms of his employment were “partly verbal, partly implied” and that, “it was not the policy [of the cemetery] to enter into formal deeds of arrangement with senior staff as conditions change from time to time and we expect our management to adapt to these changes without the necessity to re-negotiate agreements”.

We noted that senior managers had arrangements with the cemetery for the provision of mobile phones, outdoor staff employment entitlements, reimbursement of home phone rental, subsidised rentals and use of cemetery motor vehicles, none of which were documented. In the absence of these agreements, the cemetery may find it difficult to manage disputes with staff over pay and conditions.

Employment agreements had been prepared for recent manager appointments.

Appropriateness of payments

In order to determine whether salaries and wages paid to staff were appropriate, we assessed whether:

- cemeteries were complying with GSERP requirements in relation to executive remuneration
- all benefits provided to staff, such as use of a cemetery motor vehicle, were appropriately included in remuneration packages

¹⁵ GSERP monitors adherence to government policy on executive remuneration by statutory authorities like cemetery trusts to ensure remuneration is not excessive and that where increases are appropriate, they are broadly in line with wage movements in the general community and in particular, with public sector levels.

- bonuses paid to staff were based on staff performance assessments, the process to determine bonuses was transparent and the payments adequately supported
- cemeteries adequately managed staff overtime.

Compliance with GSERP and government remuneration policy

Since May 2000, non-council-operated cemeteries have been required to comply with GSERP¹⁶ requirements. At the date of audit, these requirements applied to employees whose total remuneration was in excess of \$110 000. This was later updated to \$116 000 in 2005.

In August 2004, the department wrote to cemeteries reminding them of their obligation to comply with government policy, administered by GSERP, in all matters relating to executive remuneration.

Council-managed cemeteries¹⁷ are exempt from GSERP requirements as the “trust” is not considered a public authority under the *Public Administration Act 2004*.

Cemeteries were advised by the department that they “have no authority to unilaterally determine remuneration packages for their executive officers”.

At the date of the audit, trust members of non-council-operated cemeteries, as the governing body of these cemeteries, were required to ensure that:

- senior management earning in excess of \$110 000 a year are approved by GSERP
- staff are engaged under contracts of employment (for periods of up to 5 years)
- remuneration packages are to include the employee’s salary and the cost of all other employment benefits provided by the cemetery to the employee
- there is to be no compensation for termination of a contract unless the relevant minister has obtained GSERP approval.

GSERP has established “guideline remuneration rates” for each of the various cemeteries based on organisational size and complexity, the ease or difficulty in recruitment and retention, and the position relative to other similar organisations. Government policy requires GSERP approval for any increase in executive remuneration beyond that rate.

¹⁶ GSERP is a government body set up to review executive remuneration in the public sector and ensure agencies comply with government policy.

¹⁷ Council-managed cemeteries reviewed by us were Keilor, Wyndham, Preston and Mildura.

In order for GSERP to monitor compliance with the government's executive remuneration policy, cemeteries are required to provide an annual return to GSERP.

Our review disclosed that the executive arrangements for the CEO/general manager of 2 cemeteries we reviewed were in place prior to the establishment of the remuneration policy in 2000. In these cases, the staff involved were, and continue to be, paid well in excess of the guideline rate. Any increase to these salary levels, requires GSERP approval.

We found that cemeteries were generally unsure of their responsibilities in this area and some cemeteries (not council-managed) indicated to us that they considered the GSERP requirements did not apply to them. As a result, we noted a high level of non-compliance with the government policy as follows:

- GSERP approval was not obtained for increases over several years to the remuneration of the chief executive officer/general manager of 2 cemeteries, who were paid well above the guideline rate of \$135 553 established by GSERP (Necropolis remuneration package \$175 948; Fawkner remuneration package \$237 071).

Furthermore, a submission by The Necropolis in 2002 to increase the remuneration of its CEO by \$7 700 was disallowed by GSERP on the basis that this would place his remuneration "at around 50 per cent higher than the average salary for a role of similar size in the Victorian public sector". Three months later, the cemetery paid the increased amount to the CEO.

- Some benefits received by cemetery managers such as provision of a mobile phone or home internet services were not included in their agreements.
- Some cemeteries had not established a remuneration subcommittee to determine their policies and procedures for executive remuneration, as required by GSERP guidelines.
- Executive officers received annual bonus payments, despite the absence of a written performance plan, assessment criteria and a documented performance assessment (Fawkner, Templestowe and Lilydale).
- Where performance criteria did exist, it did not adequately address the strategic aspects of the cemeteries' business (Geelong, Ballarat and Altona)
- Fawkner Cemetery engaged a new general manager on a salary higher than that recommended by GSERP for the cemetery, without obtaining the appropriate GSERP approval.

- We further noted that the employment contract for Keilor's cemetery manager provides for a payment equivalent to 6 months of his remuneration package, should his contract be terminated. While Keilor is not subject to GSERP, we note that the practice is inconsistent with that recommended for non-council-operated cemeteries.

Staff performance and rewards

We expected cemeteries to have established performance management systems (PMS) for staff. These systems would normally involve:

- development of performance plans for each member of staff, which include relevant criteria to assess the person's performance
- an assessment of staff performance against the criteria and feedback of the results to staff
- mechanisms to pay staff a bonus if a predetermined standard is met
- development of staff development plans to address any staff deficiencies noted.

We found that some cemeteries had recently started to introduce such a system. However, at the time of our review, staff assessments were still either not performed or were undertaken on an ad hoc basis¹⁸.

Several cemeteries had introduced bonus schemes to formally recognise the contribution made by their staff. The schemes in operation at Altona and The Necropolis were performance-based, whereas others were not. Examples of non-performance-based bonuses are outlined below.

Christmas bonuses

A Christmas bonus of \$150 and \$200 is paid by both Ballarat and Bendigo cemeteries to all staff (including the CEO/general manager and, a pro rata amount to staff who had been employed for less than a year). The total amounts paid in 2005 were \$2 305 and \$2 585, respectively.

We were advised that this was a long standing practice of the cemeteries and in the case of Ballarat, had been the practice for 30 years or more. There was no formal policy in place to guide the payment of these bonuses.

The appropriateness of the payment of staff bonuses by Bendigo Cemetery is particularly difficult to understand in view of its poor financial result for 2004-05 (operating deficit of \$24 529) and estimated deficit of \$22 018 for 2005-06.

¹⁸ We note that Fawkner has a performance assessment process for non-executive staff.

Necropolis

At The Necropolis, staff receive once-off bonuses for undertaking specific tasks considered to be over and above their normal duties. During 2004-05 (18-months), 14 staff, including executive officers, received bonus payments amounting to \$26 300. There is no formal policy to guide these payments and, in a number of cases, aside from the payment advice, there was no documentation to support the assessment of staff performance.

Some staff at The Necropolis receive commissions for achieving sales targets (above normal performance). During 2004-05, staff received commissions of around \$79 000. These payments were made during a period when the cemetery's share of the burials market had improved slightly and its share of the cremations market was in decline.

Altona

The Altona cemetery has operated a bonus scheme since 2000. Under this scheme, all staff (except the general manager) are rewarded equally for achieving memorialisation sales targets (sliding scale rewards based on sales of \$600 000 to \$1.35 million). The 2005 bonus pool amounted to \$102 500 and around \$52,000 was paid to staff in the 2004 calendar year. Over recent years, sales targets have not been achieved and only around 53 per cent of the bonus pool has been paid out.

Management of overtime worked

Cemetery staff are required to work overtime due to weekend burials (to prepare site and supervise staff), the need to provide reception services on the weekend, to supervise late cremation and burial services, and to undertake maintenance projects within the grounds.

The total overtime paid by the 13 cemeteries in the 18-month period to June 2005 was around \$600 000.

We expected that cemeteries would have established systems and procedures to:

- ensure overtime was only worked when necessary
- all overtime is appropriately approved before the work commences
- all overtime worked is adequately supported.

We found that:

- with the exception of 2 cemeteries, all cemeteries reviewed paid staff to work overtime. While both indoor and outdoor staff work overtime, overtime is mainly paid to outdoor staff
- employment agreements provide for overtime to be worked. The larger cemeteries manage their overtime requirements by a staff roster system. In smaller cemeteries, overtime duties are allocated among the staff

- overtime worked is either pre-approved or approved prior to payment.
- in mid-2004, Keilor cemetery paid 2 staff around \$34 000 for overtime worked over a period of 6 years. The cemetery had no documentation to support the payments made. Greater controls have now been put in place by the cemetery
- over the past 18 months, Fawkner Cemetery incurred overtime costs of around \$290 000 (\$2 900 per employee) while The Necropolis incurred costs of \$165 000 (\$1 100 per employee). While the 2 cemeteries provide a different mix of services, with interments being more labour intensive, Fawkner's overtime costs still appear high¹⁹.

Conclusion

We consider that:

- Cemeteries are not complying with government executive remuneration policy and some salary payments to executive staff were excessive.
- Not all benefits received by cemetery employees are included in their salaries for tax purposes.
- Formal and informal schemes to recognise and reward staff efforts are not based on performance, transparent, or in line with community expectations. The absence of effective staff performance management systems in cemeteries has contributed to this situation.
- The level of overtime worked by staff in some cemeteries may be excessive and is not adequately supported.

Recommendations

31. Cemeteries should:

- **comply with government policy in respect to executive staff remuneration**
- **ensure that all bonuses payments are performance-based and establish formal policies and procedures to support these payments**
- **establish staff performance management systems to assist them to identify and address learning and development needs, and to support pay increases, bonuses payments and staff promotions**

¹⁹ For the 18 months ended June 2005, The Necropolis had 3 200 interments and 8 700 cremations, and Fawkner had 3 000 interments and 4 400 cremations.

- **develop policies for use of cemetery motor vehicles. Access to cemetery vehicles and petrol should be limited to business use, unless included in an employee's salary as a fringe benefit**
- **continue to monitor the need for staff to work overtime and ensure that all overtime worked is approved in advance and adequately supported.**

32. The department, together with the GSERP, should monitor cemetery compliance with government remuneration policy and take action to address any non-compliance.

Summarised cemetery responses

In response to our comments on the amount of overtime worked at Fawkner cemetery, the following response was provided by the cemetery:

Fawkner utilises its own staff to undertake construction and capital improvement works where it is more efficient than engaging contractors. Fawkner has also found it to be cheaper to pay overtime during high peak periods than to engage permanent staff or contractors.

3.3.4 Internal control risks

We consider that in cemeteries there are 4 main types of control risk:

- *Theft and misappropriation.*
- *Conflict between public duty and private interests and activities* - It is not unusual for trust members and senior management to have private interests outside of their work for the cemetery. Having these interests is not of itself a problem, however, it is of concern if these interests are not managed effectively, or improperly influence cemetery purchasing decisions.
- *Misuse of resources* - Resources that are likely to be misused include motor vehicles, fuel, computers and other equipment.
- *Inappropriate practices* - For example, excessive payouts to terminated employees, payment of commissions, loans to staff and cashing personal cheques.

Theft and misappropriation

On advising 13 cemeteries of our review, we requested details of any misappropriations for the 2004-05 financial year. In response, the only items disclosed were:

- The Necropolis - \$505 loss of cash
- Keilor - theft of 2 computers and 2 computer screens (separate incidents) and \$500 loss of cash.

In reviewing cemetery operations we did not specifically undertake an investigation to identify theft and misappropriation. However, in conducting the review we noted a number of cemetery activities, which due to their nature and/or the lack of adequate internal controls over these activities, put cemetery assets at risk. We consider the cemetery activities to be at greatest risk are:

- payroll
- sales/cash receipting
- investments
- creditors/suppliers.

Payroll

Our review found that the lack of segregation of duties and insufficient oversight of the payroll function in many cemeteries make payroll a high risk area for these cemeteries.

Payroll fraud at Fawkner Cemetery

In July 2005, we requested that the cemetery provide us with specific payroll information to assist our review of its payroll function.

In responding to our request, the payroll officer expressed concerns about the "sensitivity" of the information requested, particularly in relation to employee bank account details. We were also told that the cemetery was experiencing difficulty in obtaining the information requested.

Following further requests, the information was finally provided to us in August 2005. Within days of us receiving the information, the general manager advised that the payroll officer had admitted to stealing money from the cemetery.

An external consultant engaged by the cemetery to investigate the matter found that:

- 113 salary payments, with a total gross value of \$98 371 had been unlawfully diverted to one of 4 bank accounts (made out in the name of the payroll officer) in the period 1 September 2003 to 30 June 2005
- the payroll system recorded these salary payments as relating to current employees. At the time, these employees were on leave and had received a leave payment in advance.

The consultant also indicated that, due to a change in the payroll system by the cemetery's service provider, relevant payroll data for the period prior to September 2003 could not be provided without considerable data conversion and cost to the cemetery. As a result, the cemetery decided that it was not economical to quantify the full extent of the loss incurred.

The cemetery has referred this matter to the police for further investigation and has recovered from its insurers about \$78 000 of the funds stolen.

Recommendation

- 33. That cemeteries review their payroll function to ensure that there is adequate segregation of services and internal controls.**

Sales/cash receipting

Our review disclosed that:

- Cemeteries receive significant amounts of cash over the counter. For example, The Necropolis received \$700 000 in cash for the 18-month period ended 30 June 2005.
- Cash receipting procedures have not been established for many cemeteries, despite being a requirement of the Standing Directions of the Minister for Finance under the *Financial Management Act 1994*.
- Security measures in place at a number of cemeteries were inadequate.
- Pre-need sales, where cash is received on purchase but the grave, vault or crypt is not used until many years later, make it difficult to account for all sales and cash receipts.
- The main control relied on by cemeteries to ensure that all sales money is received and banked is an inventory reconciliation. However, in at least one cemetery we reviewed, the movement in the inventory was not reconciled to cemetery sales. Even where these reconciliations are performed they are undertaken at year-end, so that any unaccounted for sales would not be identified in a timely manner.

Of particular concern to us were Fawkner and Altona cemeteries.

At Fawkner, the cemetery has received amounts of up to \$20 000 in cash on a given day. However, the cemetery:

- does not have a formal procedure for cash collection and handling
- has not undertaken a reconciliation of its sales and inventory on hand for at least the past 5 years.

Without strong internal controls over cash receipts and sales, it is possible for cemetery services to be sold and sales recorded, but the money paid for these services not to be received by the cemetery.

At Altona, the cemetery did not perform a reconciliation of its opening and closing inventory balances to its sales for the 18-month period ended 30 June 2005.

During the 2004-05 audit of the cemetery's financial statements, the cemetery identified that the cost of constructing 62 vaults (\$370 000) had been incorrectly recorded as fixed assets, instead of inventory.

Given the absence of the abovementioned reconciliation, we were concerned about the control risk that this error presented. A subsequent review of this issue by an independent accounting firm, appointed by the cemetery to investigate this matter, found no evidence that sales receipts had not been received and banked by the cemetery.

Conclusion

Due to the current practices (receiving large amounts of sales revenue in cash over the counter and receiving cash for pre-need sales in advance of providing the funeral services) and inadequate internal controls, the sales/cash receipting area in cemeteries is an area of considerable concern to us.

Regular reconciliations of sales to inventory records are a fundamental control in any sales environment. That it is not a standard feature of the control system at every cemetery is a very real concern to us. A failure to maintain rigour in this area exposes organisations to the risk of fraud and error.

Recommendation

34. That cemeteries:

- **explore ways to minimise the amount of cash received**
- **establish and document revenue receipting procedures**
- **if they continue to receive cash over the counter, review their security procedures and internal controls over sales/cash receipts, particularly the reconciliations of sales to inventory.**

Summarised cemetery responses

Cemeteries generally wanted to continue receiving cash at the cemetery for cemetery services. Andersons Creek, Templestowe and Fawkner also indicated that as cash was legal tender, they could not refuse to accept it. The Necropolis also made the following comment.

The Necropolis has already considered the possibility of discontinuing acceptance of “cash over the counter”. To do so would seriously disadvantage a significant section of the community it serves. The Necropolis accepts cash, credit cards, B Pay, direct debits, cheques and also provides monthly accounts for client funeral directors. It is agreed that appropriately recording and receipting all transactions is necessary.

Investments

Cemeteries currently hold over \$140 million of investments. These significant assets are largely managed by individuals who do not have training or experience in developing investment strategies, dealing with investment advisors, establishing and maintaining strong internal controls and making investment decisions.

In these circumstances, we consider investment management to be a major risk area for cemeteries.

Creditors/suppliers

The major cemeteries spend significant amounts on the purchase of goods and services (around \$51 million annually). Our audit found the internal controls in cemetery purchasing/payments systems to be of variable quality. Due to the materiality of the expenditure and inadequate controls in some cemeteries, we consider this to be another major risk area for cemeteries.

As indicated earlier, we also have a number of concerns regarding the management of tendering processes at some cemeteries.

Conflict between public duty, and private interests and activities

A basic principle of good management is that organisations should have mechanisms in place to identify and manage any potential conflicts between a person’s responsibility for the administration of public assets and their private interests and activities.

Where these potential conflicts are not properly managed, decisions may benefit an individual to the detriment of the organisation. Our reviews identified the following potential conflicts of interest:

- Since 1997, The Necropolis has used the one organisation for its travel arrangements. A relative of the cemetery's chairman is an employee of the travel agent. We were advised that the employee does not receive commissions from the cemetery's business. This arrangement has not been subject to a competitive selection process. For the 18-month period ended June 2005, around \$33 000 had been paid to the travel business.
- Our review of Ballarat Cemetery disclosed that \$600 521 (46 per cent) of its investments at 30 June 2005, were invested in Dolilta Investments Limited short-term deposits. The CEO of the cemetery is related to the directors of the investment firm. This fact was not disclosed as a potential related party interest at the cemetery trust member meetings. This investment was in contravention of the cemetery's investment policy, which prevented an investment of more than \$500 000 in one short-term investment. While there were general discussions between trust members regarding the investment, there was no detailed assessment of the suitability of the investment, prior to it being made. This fact was not disclosed as a potential related party interest at the cemetery trust member meetings.
- The Ballarat Cemetery purchases hardware supplies from a company of which the cemetery chairman is a director. Goods to the value of \$18 731 were purchased over the 18-month period ended 30 June 2005.

Conclusion

Our review disclosed that some cemeteries had entered into arrangements for the purchase of goods and services with organisations which had relationships with trust members or senior management. Our concern is that:

- pecuniary interests associated with these arrangements are not always identified and transparently managed
- these arrangements were often put in place without going through normal tendering and selection processes, and were not periodically reviewed.

Recommendation

35. That:

- **Cemeteries develop policies and procedures to manage potential conflicts of interest.**
- **Pecuniary interests of trust members and senior management are disclosed and appropriately managed. As a minimum, this is likely to involve the removal of the person with the potential conflict of interest from any decision making process involving a person or company they are associated with.**
- **Expenditure involving related parties is subject to a contestable selection processes to ensure value-for-money is obtained.**

Summarised cemetery responses

A number of cemeteries indicated that the conflicts of interest issues raised in this report did not involve transactions of significant value and the potential conflicts were adequately managed.

Unauthorised/inappropriate use of cemetery assets

As noted earlier, staff at a number of cemeteries had use of cemetery vehicles and access to fuel for private use. Access to these vehicles and fuel was not provided for in the employment contracts of the staff involved. We consider the use of cemetery assets for private purposes to be inappropriate.

The *Whole-of-Government Standard Motor Vehicle Policy*²⁰ provides best practice guidance in the use of government vehicles. It states that government vehicles may only be used in the performance of authorised government business and that employees have responsibility for arranging transportation to and from their normal place of employment.

We noted in 3 cemeteries (Altona, Keilor and The Necropolis), motor vehicles are provided to designated staff for limited private use such as travel to and from home. These vehicles are fully maintained at the trusts' expense (maintenance and fuel included), however, they are not included as a staff fringe benefit for tax purposes. In most cases, these practices have been in place for long periods of time.

²⁰ *Whole-of-Government Standard Motor Vehicle Policy*, February 2004, VicFleet, Melbourne.

Keilor has a facility for refueling its vehicles. In May 2005, a register to record fuel usage was introduced (previously, there was no accounting for fuel used). The register is periodically checked to account for fuel used. Checks have uncovered discrepancies between actual usage and usage recorded in the register.

At Altona, an employee has had commuter use of a trust vehicle since 2001. Under the arrangement, this person is required to reimburse the trust for the cost of fuel should the vehicle be used for private purposes. We were advised that he has never reimbursed the trust for any fuel costs. The vehicle is not part of his remuneration package.

Recommendation

36. That:

- **all private benefits provided to staff be included as part of their remuneration package and appropriate taxes paid**
- **cemeteries which maintain on-site facilities for refueling, vehicles, ensure that appropriate controls and monitoring of fuel usage are in place to ensure that only authorised use of fuel**
- **Altona seek reimbursement for fuel costs owed by an employee.**

Inappropriate practices

Our review identified a number of practices undertaken by cemeteries that we considered to be inappropriate at worst, or poor practice at best. These included:

- excessive payouts to terminated employees
- payment of commissions
- unsupported expense claims
- loans to staff
- cashing personal cheques
- free burials
- donations to charitable institutions
- purchase of property
- extended payment arrangements.

Excessive payments to terminated employees

During 2005, 2 senior managers left Fawkner Cemetery: one resigned and the other was terminated. The cemetery negotiated commercial termination payouts with both staff members. The details are as follows:

- Following an investigation by the cemetery and the police²¹ into the alleged inappropriate behavior of one of its senior executives, he resigned. The senior executive received a gross payment of \$98 000 (excluding entitlements) which equated to one month's pay for every year of service with the cemetery (15 years). In addition, he was given a cemetery motor vehicle, which had a written-down value of \$35 000.
- A senior managers employment was terminated following the cemetery making an advance payment to a tradesman for work on the manager's private residence²². He was paid a termination payout equating to 3 months' gross salary (\$27 000) and allowed to purchase from the cemetery, a notebook computer for \$200 (written-down value \$nil), a camera for \$250 (written-down value \$670) and an electronic organiser for \$250 (not capitalised).

Government executive remuneration policy stipulates that on termination, staff should not receive termination payments unless the relevant minister has obtained GSERP approval. The cemetery did not obtain this approval.

While these employees were engaged prior to the commencement of GSERP, we consider that it would have been prudent to obtain the minister's approval prior to making any payments.

In view of the reasons for these individuals discontinuing their employment with the cemetery, we consider that the only payments that should have been made were each employee's accrued entitlements such as unpaid leave.

In both of the above cases, the employees did not have formal employment contracts which outlined the terms and conditions of their employment (including payments on resignation or termination). The cemetery policy on executive termination is that staff are given 4 weeks notice.

We understand that the cemetery did not seek specialist advice to assist it in making these decisions.

Conclusion

We consider that the payments to employees, who left subsequent to a cemetery investigation into their behavior, were excessive and represented an unnecessary use of public funds.

²¹ No charges were laid following the police investigation.

²² The tradesman notified the cemetery of the arrangement and subsequently repaid the money.

The absence of appropriate employment agreements and Fawkner's failure to obtain GSERP approval and other advice before making the payments were likely to have contributed to this outcome.

Recommendation

- 37. Before making decisions on payments to terminated employees, cemeteries should be fully informed and, if necessary, seek specialist advice in matters concerning staff remuneration.**

Payment of commissions

Cemetery legislation and regulations outlaw the practice of paying commissions/incentives to funeral directors and other external parties. In August 2001, the department, via a newsletter, further advised cemeteries that such commissions were prohibited.

Our review identified the following.

- Altona Cemetery paid commissions to a consultant (also a funeral director) to sell and market the sale of crypts at the Williamstown Cemetery. A sales and marketing agreement (dated October 2002) entered into by the cemetery with the consultant, provided for a 5 per cent commission on all gross sales revenue to be paid to the consultant. The cemetery paid commissions totaling \$19 495 to the consultant over the period October 2002 to December 2003.

The cemetery ceased this practice following advice from the department in June 2003. This arrangement was prohibited under the cemeteries' legislation and regulations.

- In October 2001, Cheltenham Cemetery entered into an agreement with a private business (that was not a funeral director) to become the cemetery's agent and to promote its services. In return, the business received a 10 per cent commission on sales of graves and memorial packages.

In the past 3 years, the cemetery paid a total of around \$40 000 to funeral directors and others to promote and refer business (such as burials, cremations and purchases of monuments and memorials), contrary to the requirements of the Act.

Recommendation

- 38. That cemeteries do not pay commissions and they seek clarification from the department prior to entering into future arrangements for the marketing of their products.**

Unsupported expense claims

The quarterly expense claims submitted by the former general manager of the Fawkner Cemetery were approved by the cemetery's chairman. Our review of these claims disclosed payments to the general manager of \$1 812 (2004) and \$2 417 (2005), which were not substantiated. We were advised by the former general manager that this amount reflected an "expense of office allowance" received by senior executive officers.

Our investigation of the "expense of office allowance" indicated that as this payment was an allowance, rather than a reimbursement of expenditure incurred, it did not need to be supported. However, authority for this allowance was discontinued some 7 years ago, following amendments to the public sector senior executive structure.

The former general manager had continued to claim this amount from the cemetery, after the allowance was discontinued, as he considered that he was still entitled to it.

Due to the absence of supporting documentation, we were unable to determine whether or not this expenditure was business-related.

The cemetery is taking legal action to recover these payments.

Conclusion

As the expense of office allowance has not been available to executive staff for some time, we consider the amounts claimed by the general manager were inappropriate.

Recommendation

- 39. That cemeteries ensure that staff follow their procurement policies. All staff should also be made aware of their responsibilities for ensuring expenditure claims are adequately supported before any payment is made.**

Personal loans

Personal loans were provided by Fawkner Cemetery interest-free. A \$3 000 loan was granted to a staff member in financial difficulty. A further \$5 000 loan was provided to a staff member to enable his father to purchase a truck. Both loans have been repaid.

There was no formal agreement between the staff member and the cemetery for the \$5 000 loan, and both loans were approved by a senior manager, without the knowledge of the general manager.

Conclusion

While the amounts involved are not significant and the number of loans identified by audit are small, we consider that this practice is an inappropriate use of the cemetery's resources and could expose the trust to losses should the loans be disputed or not repaid.

Recommendation

40. Cemeteries should not lend public money to staff.

Cashing of personal cheques

In the period February 2004 to June 2005, Fawkner Cemetery electronically transferred cemetery funds to an employee and to members of another employee's family in exchange for their personal cheques.

We noted 24 separate instances where cheques were cashed by the cemetery, totaling \$26 947. On 18 occasions, the cemetery paid out the proceeds of these cheques, prior to depositing them into its bank account.

The general manager was unaware of this practice. We were advised that the cemetery ceased this practice in June 2005.

Conclusion

We consider this practice to be an inappropriate use of the cemetery's bank account and could expose it to the risk of fraud. We are also concerned that a cemetery employee was able to cash the personal cheques of staff without delegated authority, or the approval and knowledge of the general manager.

Free burials

In the past, a number of cemeteries have provided free funerals to their trust members and staff. With the exception of Fawkner Cemetery, this practice has now largely been discontinued.

One of Fawkner's policies is to recognise the service and academic achievement of its trust members and employees. This policy provides for free cremation or burial services on the death of any trust member, current employee or their spouses or dependent children.

A standard grave or memorial is also provided to both current and former employees who have at least 10 years continuous service. Those employees who have left the cemetery after meeting the service requirement, are given a certificate of entitlement for cremation or burial.

Since January 2000, 10 services (with a total value of \$3 649) have been provided by the cemetery to staff, trust members and their families at no cost. In addition:

- three services (total cost \$2 483) had been provided free of charge and no explanation recorded
- one service (cost \$842) had been provided to a funeral director on the basis that he had actively promoted Fawkner Cemetery to his friends and relatives.

The cemetery trust manual provides that trust members are “not to derive any direct or indirect profit or benefit from their office, whether for themselves or for a third person”. It also indicates that the cemetery must charge the fee that appears in the government gazette (and that trusts do not have the power to charge more or less than that gazetted). “Any cemetery charging a ‘discounted fee’ is not committing an offence, but is acting contrary to an order of the Governor in Council, and contrary to government expectations”²³.

In its April 2005 newsletter to cemetery trust members, the department advised that cemeteries do not have the power under the Act to waive gazetted fees for trust members and staff, and that the practice was to be discontinued immediately. Despite this, a further free service was provided to an employee’s family member in April 2005.

We were advised by the cemetery that the practice of providing free funeral services was discontinued in April 2005, following advice from the department. The subsequent free service was as a result of particular circumstances that in the opinion of the trust members warranted consideration on the grounds of special circumstances.

The former *Cemeteries Act 1958* only provided for the burial of poor persons free of charge where a magistrate has issued an order for the cemetery to do so. Under the current legislation (*Cemeteries and Crematoria Act 2003*), the waiving of fees can only occur where there are grounds of extreme hardship or other special circumstances.

Conclusion

We acknowledge that the provision of free cremation and burial service to trust members, staff members and their immediate family has been a longstanding practice within the cemetery industry. For trust members this has often been seen by cemeteries as a reward for their many years of unpaid service to the cemetery.

²³ Department of Human Services, 2004, *Cemetery Trust Manual*, Melbourne, p. 7 and p. 51.

However, this practice is in contravention of departmental policy as outlined in the cemetery trust manual and is contrary to the spirit of the cemetery legislation, if not the legislation itself.

Recommendation

- 41. That cemeteries only provide free cremation and burial services where there are grounds of extreme hardship or other special circumstances, and they have consulted with the department.**

Extended payment arrangements

In February 2003, the Altona Cemetery entered into an agreement with the family of a deceased person. The agreement provided for the costs of the burial (\$32 100) to be paid to the cemetery on the following terms and conditions:

- burial costs and the cemeteries legal costs were to be paid no later than August 2003
- interest to be paid to the cemetery at 7.5 per cent from February 2003 till date of payment
- the cemetery lodging an interest on the title of the deceased's property until payment of the debt was made.

The burial and associated costs were paid to the cemetery in June 2003. The cemetery was subsequently advised by the department that based on legal advice received by the department, exclusive payment terms given to select families for mausoleum places did not conform to the spirit and intention of the legislation and regulations.

Conclusion

Based on the legal advice, the arrangements outlined above are contrary to cemetery legislation.

Recommendation

- 42. Cemeteries should seek guidance from the department, before entering into arrangements, which effectively provide customers the ability to pay for cemetery services over an extended time period.**

Purchase of investment property

In December 2004, The Necropolis purchased an investment property at Dromana (2 blocks) for \$1.9 million. The cemetery considered the investment as a means to further diversify its investment portfolio.

Purchasing land as an investment (and not for cemetery purposes) was permitted under the former *Cemeteries Act 1958*²⁴. However, under the *Cemeteries and Crematoria Act 2003*, the purchase of land for any purpose other than for cemetery use is prohibited (section 30(2)).

While the cemetery was aware of the new legislative requirements relating to investments, at the time it approved the purchase of the investment property, it did not consult with the department on the proposed purchase.

Conclusion

The *Cemeteries and Crematoria Act 2003* specifically prevents the purchase of land for any other purpose than cemetery use. While the Act had not been enacted at the time of the purchase, in drafting the Act, government policy in respect of such purchases had been established.

Given both the significance of the investment and the clear intention of the draft legislation, we consider it would have been prudent for the cemetery to have at least discussed the proposed purchase with the department.

Donations to charitable institutions

Our investigation noted that Altona Cemetery established a philanthropic fund in 2004. Donations totalling \$10 000 were made from the fund to 3 local charities.

We do not consider that cemeteries should make payments to charities.

²⁴ The *Cemeteries Act 1958* provides that the trust may invest funds "... in any manner for the time being permitted by law for the Investment of trust funds and in relation to the making of any such investment and to any such investment when made the Trustees shall have the same power, duties and immunities and be subject to the same restrictions as if they were trustees within the meaning of the *Trustee Act 1958* (Vic)".

3.4 Asset management

3.4.1 Recognition and valuation of land

Cemetery land is largely recognised by cemeteries as a fixed asset. However, depending on its state, it could be more appropriately classified as a liability or inventory.

Each cemetery has effectively 3 types of land:

- *used* - includes graves, land used to house ashes, gardens and land surrounding graves
- *unused* - vacant land available for cemetery use
- *administration* - land used for administration and operational purposes such as land under the cemeteries' administration building, its storage and maintenance buildings, and its cremator.

Our review found that cemeteries primarily treated their land as a single asset and determined its value based on the value of properties adjacent to the cemetery, adjusted by a discount rate. The discount rate is applied on the basis that it has a limited market value, due to the land only being restricted to cemetery use. Valuations were largely undertaken by the Valuer-General or one of his agents.

We identified a significant variance between the discount rates applied by cemeteries, with rates ranging from 50 to 95 per cent.

One cemetery, Fawkner, does not value its land holdings. This failure to recognise a material asset in its financial statements has resulted in the qualification of these statements by our Office.

While used land (with its associated maintenance obligations)²⁵ is more like a liability than an asset, using adjacent site values substantially discounted, represents a reasonable estimate of its value.

In respect of unused land, again, adjacent site value is a reasonable estimate of its market value. The transfer of unused cemetery land at Fawkner to Victoria Police for \$700 000 in 2004, demonstrates that the cemetery can dispose of unused land and this land has a value.

²⁵ The Act requires cemetery land to be maintained into perpetuity.



*Aerial view of Fawkner Crematorium and Memorial Park, and Northern Memorial Park.
(Photo courtesy of Fawkner Crematorium and Memorial Park.)*

When a grave site is purchased, the person acquiring the site has exclusive use of it usually into perpetuity. At present, the costs associated with the sale do not include the cost to the cemetery of acquiring the land.

It could be argued that by not including the cost of this land as a cost of providing the grave, understates the cemetery's expenditure and overstates its profit and the value of its land holdings.

When a new area is opened for burials, a more appropriate approach may be to transfer, say, 90 per cent of the value of that area of land to inventory. This inventory value could then be divided by the number of grave sites to determine a more accurate cost of sales.

If this treatment of unused land were to be adopted, this land would need to be held at cost or deemed cost rather than periodically revalued.

For land used for administration purposes and capable of being disposed of at some time in the future, its value could be based on the values of similar commercial properties in the area.

Conclusion

The basis for the recognition and valuation of cemetery land is inconsistent across the industry and, in some cases, inappropriate.

Recommendation

- 43. That cemeteries, in conjunction with the department, review the recognition and valuation of land holdings with a view to adopting a consistent approach which can be adopted across the industry.**

3.4.2 Leased property

Under the *Cemeteries and Crematoria Act 2003*, the minister is required to approve any lease of cemetery property. The *Crown Lands (Reserves) Act 1978* also requires ministerial approval prior to leasing property for a purpose other than for cemetery purposes.

Our review disclosed the following 3 arrangements, involving cemetery land and residences:

- Fawkner owns 2 residences, both of which are situated in the cemetery grounds. The residences are occupied by a senior manager and an employee of the cemetery in an informal arrangement, where the employee receives subsidised rentals (given that they may be required to respond to after hours security matters).

Ministerial approval for these arrangements has not been obtained or sought by the cemetery.

- Altona also has 2 residences, situated in the grounds of the Altona Memorial Park Cemetery and the Williamstown Cemetery. Both premises are let to private persons under a longstanding arrangement (not documented). The premises are occupied and are rent-free, with the cemetery paying for phone calls, rates and property expenses such as a new oven and plumbing costs. The general manager advised that the occupants perform the role of caretakers, opening and closing the cemetery gates and contacting relevant staff after hours should the need arise.

- Over a number of years, The Necropolis has leased out the following cemetery land and residences:

- two residences, which are situated in the cemetery grounds
- cemetery land for purposes of a café, florist and function rooms
- land (“south-west park”) in excess of cemetery requirements.

Ministerial approval has not been sought for the above property arrangements.

We further noted that the lease for the “south-west park” land, which commenced in February 2003 for a term of 9 years and 4 months, was still in the name of the former owner, Greater Dandenong City Council.

Conclusion

Some cemeteries have entered into arrangements for their residential properties, which we consider should have been approved by the minister. This approval has not been sought and should have been.

Recommendation

44. That:

- **Fawkner Cemetery seeks clarification from the department as to whether its informal arrangements constitute a property lease, and whether retrospective approval of the minister is required.**
- **Altona Cemetery reviews the arrangements for its 2 residential properties and takes action to formalise them with the respective parties. If the arrangements are in substance leases, the cemetery should seek appropriate ministerial approval.**
- **The Necropolis seeks retrospective approval from the relevant minister for the lease of cemetery property and has the lease for the south-west land amended to record the cemetery as the landlord.**

Summarised cemetery responses

Most cemeteries agreed that the current methods used to value and recognise cemetery land needed review. However, both Anderson's Creek and Templestowe could see no public benefit from revaluing their land holdings and considered that used cemetery land had no value.

Fawkner, Altona and The Necropolis advised that they have acted to ensure all leases are appropriately approved and, where applicable, supported by formal agreements.



4. Departmental administration of the industry



4.1 Background

This section discusses the department's administration of the industry and the overall performance of the industry.

Under the *Cemeteries and Crematoria Act 2003*, the Minister for Health has administrative responsibility for the industry. In practice, it is the Department of Human Services (the department) which undertakes this function.

As cemetery trusts are responsible for managing cemeteries and providing cemetery services, we did not expect the department's role to be overly prescriptive or for it to engage in a detailed monitoring and checking of cemetery compliance with legislative requirements and government policy.

We did, however, consider that the effective administration of the industry would involve the department:

- undertaking strategic planning for the industry
- providing broad oversight of cemetery operations
- facilitating industry improvement and change.

The department's oversight function is funded entirely from its public health budget, with no industry contribution.

4.2 Strategic planning

In a well-managed industry, we would expect to see an established and well-documented vision for the future which responded quickly to changing commercial and community needs.

In the cemetery industry, we found an industry which had changed little over many years. Where there was change, it was primarily at the individual cemetery level and driven by necessity, such as putting a closed cemetery under the responsibility of an operating cemetery¹.

When new services were introduced, such as the construction of a cremator or mausoleum, the decision to proceed was made on the basis of how the new facility would benefit an individual cemetery, without consideration of its impact on the industry as a whole.

¹ An example of this was when the management of Melbourne General cemetery and St Kilda cemetery was transferred to The Necropolis Springvale in 1980 and 1968, respectively.

All cemeteries are responsible for the maintenance of cemetery grounds. However, most of the state's smaller cemeteries generate limited revenue, have little or no cash and investments and are generally reliant on volunteers for their operation. The risk facing these cemeteries is that they may not be capable of maintaining cemetery grounds particularly over the longer-term. These industry risks have not been assessed and strategies have not been developed to address them.

The department has taken steps to gather information that could be used in the strategic planning for the industry, such as engaging consultants to:

- evaluate the financial viability of the industry and develop fee models to assist the cemetery sector meet its long-term obligations (2002)
- review the financial viability of crematoria in Victoria
- develop a chart of accounts for the industry, which will enable cemeteries to identify and better understand their specific costs. This information can be used by the industry to assist in the development of strategies for the perpetual maintenance of cemeteries (2005).

The department has also prepared a draft tender document for the engagement of a consultant to prepare a strategic plan for the industry.

Despite the actions taken by the department to date, the industry is still a long way from formally establishing its vision, objectives and strategies.

Conclusion

The industry has evolved, with little or no strategic direction.

In the absence of an effective industry-wide strategic planning function, the industry has been slow to respond to changing conditions, opportunities and risks. In this environment, there is considerable scope to introduce efficiencies through improved industry-wide strategic planning.

While most cemeteries are very small in size, potential exists to significantly reduce industry costs and improve the viability of cemetery operations by rationalising the number of cemeteries.

Recommendations

- 45. That the department, in consultation with cemeteries, develops a strategic plan for the industry.**
- 46. In developing the plan, the department should consider whether the current industry structure is appropriate.**

Summarised cemetery responses

There is general agreement from the 13 cemeteries reviewed that there is a need for a strategic plan for the industry and that the plan and any changes to the industry structure should be subject to a comprehensive community and industry consultation process. This view is outlined in the following response to the report by The Necropolis:

This report on major public cemeteries quite correctly and fairly highlights the need for the development of an appropriate long-term strategic plan for the industry. It also identifies the need for enhanced governance of the cemetery sector.

The Necropolis supports the recommendation for a review of the industry structure. Such a review should also address the issue of whether, in the long-term community interest, the industry is best managed by a government department or an independent statutory authority. Such an authority (not unlike the Reserve Bank) could be independent of short-term political constraints. Its creation with appropriate powers would address many of the issues raised in this report, including matters to do with price regulation, long-term strategic planning and matters of governance.

An alternative view was provided by Fawkner:

Fawkner believes that Victorian cemetery trusts respond to the direct needs of their communities and, therefore, are driven by the “grass roots” needs to provide services that accommodate those local communities.

As such, it would be difficult for DHS to develop a “strategic plan” that accommodated the varying needs of trusts, given the size and community differentials. It is suggested that DHS could provide guidance on government direction for the industry.

4.3 Departmental oversight

For the cemetery industry to operate effectively there needs to be independent oversight of its activities. An effective oversight function would ensure that cemeteries have established appropriate governance arrangements, policies and procedures to ensure that:

- boards of trustees have the required skills and knowledge to manage their businesses
- their operations are soundly managed to ensure their short-term viability and long-term sustainability

- they are complying with legislative and other requirements and government policy
- their actions, activities and projects do not put funds at risk or embarrass the government.

These objectives would normally be achieved by the department through a variety of means, including clearly establishing roles and responsibilities within the industry, establishing an effective working relationship with cemeteries, providing guidance, broadly reviewing cemetery operations and performance, providing appropriate approvals and taking action to ensure compliance with the Act.

4.3.1 Roles and responsibilities

Our review identified that there was no broad agreement within the cemetery industry regarding the roles and responsibilities of the department.

Cemeteries largely saw themselves as self-funding autonomous bodies that are independent of government. The framework within which they operated was set by legislative requirements and government policy and compliance with these requirements was based on them self-regulating their operations. Many cemeteries did not consider that the department had a role in overseeing their operations.

The department considered that the roles and responsibilities of individuals, groups and entities within the industry to be as follows:

- cemetery - primary responsibility for the selection of trust members, which are appointed by the Governor in Council on the recommendation of the Minister for Health
- board of trustees - responsibility for establishing appropriate governance arrangements for the cemetery, overseeing the cemeteries' operations and appointing the chief executive officer
- the chief executive officer - primary responsibility for managing the business, ensuring compliance with legislative and other requirements, safeguarding cemetery assets and maintaining the cemetery into perpetuity
- the department - responsible for providing broad guidance to the industry, approving certain cemetery actions required by the Act and administration of the Act.

The major difference of opinion between many of the major cemeteries and the department is the department's role in overseeing the industry. These cemeteries see little or no role for the department.

The department does not advocate a more prescriptive regulatory role for itself or consider that it has the legislative authority to undertake such a role. It does, though, believe it should have a general oversight function.

Misunderstandings regarding the roles and responsibilities of those within the industry are likely to have contributed to many of the problems identified in this report.

DHS should consider issuing a document to the cemetery industry similar to that issued by the Department of Sustainability and Environment titled “Governance Guidelines for DSE Statutory Authority Board Members”, to clarify roles and responsibilities.

4.3.2 Working relationship

In the absence of a strong regulatory model for the operation of cemeteries, there needs to be an effective working relationship between cemeteries and the department. Such a relationship would include:

- clear communication between cemeteries and the department
- cemeteries consulting with the department before making major or sensitive business decisions
- a collaborative approach to dealing with issues facing the industry.

A number of major cemeteries considered that the department had provided limited assistance to them, unnecessarily interfered with their business and provided little value. However, some considered this situation had improved in recent years.

The department had a number of concerns with the operation of cemeteries, including:

- some trust members not having an understanding of sound governance arrangements in a number of cemeteries
- increases in cemetery operating costs in recent years
- the ability of cemeteries to meet their perpetual maintenance obligations
- investment management in some cemeteries
- the practice in some large cemeteries of trust member referring all departmental communications to their CEO for consideration and response
- activities and actions taken by some cemeteries
- some cemeteries ignoring departmental advice
- cemeteries’ non-compliance with legislative and other requirements, in some cases, even despite specific advice from the department.

Despite the department raising these concerns with cemeteries, they remained largely unaddressed.

Based on our work, we consider that the relationship between the department and the larger cemeteries is poor.

4.3.3 Guidance

Our review disclosed that the department used a number of mechanisms to provide guidance to cemeteries. These mechanisms included:

- attendance and presentation at industry forums
- development of a manual to assist cemeteries to understand and meet their legislative obligations
- face-to-face consultation sessions with cemetery staff in relation to the development of the new regulatory framework
- provision of information via a quarterly newsletter, written advice on specific issues and the departmental website
- responses to specific issues raised by cemeteries
- training on the recently introduced legislative framework.

While cemeteries acknowledged that the department had provided broad guidance on a number of topics, some considered that the advice given was too general and set at too high a level, often incorrect, not timely, verbal and not in writing. The department disagrees with these comments.

4.3.4 Monitoring cemetery operations

We consider that, to be effective, the department's monitoring role should have involved:

- ensuring that cemeteries have established policies, strategies, procedures and other arrangements to ensure appropriate outcomes were achieved
- establishing mechanisms to broadly monitor cemetery operations and performance.

Our audit identified that to date the department had no processes in place to provide it with assurance that the policies, strategies, procedures and other arrangements referred to above had been established by cemeteries.

Mechanisms used by the department to monitor the operations of cemeteries include reviews of cemetery annual reports and external audit reports, complaints received from the public and the department's direct contact with cemeteries. These mechanisms may not be sufficient in future to identify and rectify most of the problems identified by this audit in a timely manner. These need to be developed using powers under the new Act as much as possible.

Based on the above, we consider the current monitoring role undertaken by the department is not effective.

While the department has acknowledged the need for a more active monitoring regime, it questions whether it has the legislative authority or resources to provide such a role.

4.3.5 Corrective action

We identified a number of examples where the department had become aware that cemeteries had not complied with legislative or other requirements or had acted in a manner considered by them to be inappropriate, including:

- engagement of family members to provide services without contestable selection processes (Cheltenham)
- payment of commissions to agents to sell crypts (Cheltenham and Altona) and promote the services of the cemetery (Cheltenham)
- continuing to construct a mausoleum, which had the capacity to include a crematorium, when the department had indicated that it did not support the cemetery's proposal to include a crematorium in the facility (Preston)²
- payment for cemetery staff and trust member's partners to attend industry functions, including interstate conferences (affects about one-third of the industry cemeteries).

While the department had indicated to the cemeteries involved that these practices were inappropriate, some cemeteries continued to engage in them.

Under the former *Cemeteries Act 1958*, the department had no specific power to direct cemeteries to take certain actions or to comply with legislative and other requirements.

The department considered that, in the absence of specific powers under the Act, it could not compel cemeteries to comply with legislative requirements and government policy.

The *Cemeteries and Crematoria Act 2003* (effective from 1 July 2005), provides the department with greater power to direct cemeteries to undertake certain actions.

² In February 2003, the department advised the cemetery that it did not support the proposed construction of the cremator. In October that year, the cemetery started construction of the mausoleum which has capacity for a cremator to be installed. Following a request from the department in September 2004 to defer construction of the cremator, the cemetery has agreed to delay the decision to install the cremator until the outcome of the department's review of the viability of the cremation industry in Victoria.

4.3.6 Conclusion

The effectiveness of the department's oversight function has been impacted by:

- the absence of clearly defined and understood roles and responsibilities
- the poor working relationship and lack of effective communication existing between the department and the cemeteries
- insufficient detailed guidance provided by the department in some cases
- ineffective governance arrangements and other policies, procedures, strategies and arrangements established within cemeteries to manage their operations. The establishment of effective governance arrangements has been affected by the trust members in many cemeteries having life membership
- the mechanisms relied on to date under the 1958 Act by the department to monitor cemetery operations and performance not being effective.

Recommendation

47. That:

- **the department obtains legal advice, in order to clarify its legislative authority to require cemeteries to comply with departmental direction**
- **the department reviews its oversight function to address the weaknesses identified above**
- **consideration is given to the development of a code of practice covering the relationship between the department and cemeteries**
- **consideration is given to requiring major cemeteries to prepare statements of corporate intent, which are approved by the minister**
- **consideration is given to releasing a document clarifying roles and responsibilities cemetery Trustees, management and the Department, similar to that issued by the Department of Sustainability and Environment.**

Summarised cemetery responses

There was general agreement in the responses received that the departmental oversight could be improved. Some cemeteries questioned whether the department had a clear understanding of its oversight role, as outlined in the following response by Lilydale cemetery:

In reading the report, the impression is gained that by asking the Auditor-General to investigate cemeteries, the department was in fact asking for direction as to how they it best participate in the cemetery service. At this point, the department seems to have been at a loss as to how best participate and, as a result, seems to be of little service to the process. In reality, the department needs to lead, follow or get out of the way. Currently, it appears that it is unable to make a decision as to which tack it should take.

In a bygone era, the department used authority, possibly that it did not have but they wielded that authority very effectively. Currently, the department could do that, however, it is unwilling to do so for it is not backed up by legislation. The comments made to date should not be construed as being overly critical of the people involved, that is department or trust people or, for that matter, the management. It is an indication that everybody is walking on egg shells for fear of upsetting stakeholders in the industry.

The report spells out very clearly where the cemetery service is currently and what needs to be done to put it onto a more sensible footing. The department and the cemeteries certainly are not operating together. With willing cooperation from the department, this relationship will improve.

The cemeteries were also concerned that the department had engaged external consultants to undertake a number of reviews of the industry, without directly involving the cemeteries in this process. This point is outlined in the following responses:

Lilydale cemetery: *It is interesting to note that the department has taken steps to evaluate the financial viability of the industry and review the viability of crematoria in Victoria. It is believed that there is no cemetery that is aware of the result of these reviews. It would appear the department has kept the response to itself. The department has engaged a consultant to draft a strategic plan for the industry and the chart of accounts currently being developed has the potential of being useful to cemeteries, albeit with no reference to the cemetery sector itself.*

Summarised cemetery responses - continued

In respect of its mausoleum, Preston cemetery provided the following comment:

The trust considers that it had obtained appropriate approval from the department regarding the construction of the mausoleum and had advised the department on a number of occasions that, in accordance with its request, it would delay its commitment to the crematorium until the release of the report. Accordingly, it had not been in breach of section 68 of the Cemeteries Act 1958.

Wyndham cemetery indicated that additional funding is likely to be needed to implement the recommendations outlined in this report.

The review highlights inadequacies of past government oversight and industry financial planning. To overcome this may require additional external funding.

The government in its consideration of the Auditor-General's recommendations should look at the provision of funding and consider the appropriate size and structure of cemetery entities to ensure their long term sustainability.

4.3.7 Financial management and reporting

There are 14 cemetery trusts currently complying with the requirements of the *Financial Management Act 1994*³ (FMA Act) which, among other things, requires them to produce general purpose annual financial statements. These statements are audited by our Office, under the *Audit Act 1994*.

We were unable to confirm on what basis these cemeteries were included under the *Financial Management Act 1994*, while others were not, although it was suggested to us that it was based on these cemeteries having annual revenues exceeding \$1 million.

The only financial reporting undertaken by the remaining 500 or so cemetery trusts is a brief annual report submitted to the department, outlining their cash flows and significant activities for the year. For cemetery trusts earning more than \$25 000 a year or managing investments worth more than \$25 000, these reports are audited, but not by our Office.

³ It is likely that all cemeteries meet the definition of a public body under the Act.

Following discussions between our Office and the Department of Treasury and Finance on cemetery financial reporting, the department obtained legal advice. This advice indicates that under the *Cemeteries and Crematoria Act 2003*, all cemetery trusts meet the definition of a “public body” and as such, both the *Financial Management Act 1994* and the *Audit Act 1994* apply to these organisations.

A working group, comprising representatives from the Department of Human Services, the Department of Treasury and Finance and our Office is being established to review the appropriate financial management and reporting and auditing requirements for cemeteries.

Conclusion

A large number of cemeteries are not preparing separate financial statements, which include a balance sheet, operating statement and cash flow statement. Furthermore, their assets and liabilities are not included in any other reporting entity.

While the combined value of these assets and liabilities is not significant in comparison to the state’s total assets and liabilities, there still needs to be public accountability for them.

The financial reporting and compliance requirements applicable to cemeteries should reflect the materiality of their operations and the risks associated with their businesses. We consider that the current cemetery reporting and compliance requirements are not appropriately aligned with each cemetery’s size and risk.

Recommendations

48. **For those cemeteries where, due to their size and risk, the requirements of the *Financial Management Act 1994* are considered by the working group to be too onerous, the department should:**
 - **apply to the Minister for Finance for these cemeteries to be exempted from reporting under the Act**
 - **review the current compliance and reporting requirements for these cemeteries.**
49. **The remaining cemeteries should comply with the Act.**

4.4 Facilitating improvement and change

There is considerable scope for cemeteries to work collaboratively to resolve common issues and reduce their operating costs and for the department to facilitate the resolution of industry-wide issues.

Cemeteries have acted as independent autonomous bodies; a number of which consider that they are in competition with each other. This competitive culture may have benefited individual cemeteries at the expense of others, but has prevented cemeteries from taking advantage of their unique position to work together to improve the efficiency and effectiveness of the industry.

Over the last few years, a number of issues have arisen, which have had a significant impact on cemetery businesses. These issues include perpetual maintenance of the cemeteries, availability of land for burials, the potential oversupply of cemetery services, lack of availability of volunteers to maintain small cemeteries, land valuation, accounting treatment of prepaid funeral fees, and competition with private sector providers of memorialisation products and services.

These issues have been considered:

- at annual industry conferences, which are attended by about a third of trust members and CEOs
- by the cemetery industry group
- at industry forums, which have been run for the last 2 years.

In assisting the industry to deal with these problems, the department has:

- attended industry conferences and presented papers on issues impacting on the industry
- engaged consultants to provide advice to the department on specific issues facing the industry
- reviewed the former cemetery legislation and assisted in the development of the *Cemeteries and Crematoria Act 2003*.

Despite these departmental initiatives and some initiatives undertaken by individual cemeteries, we consider that the industry as a whole could make greater use of its resources to resolve issues facing it.

Our review found little evidence of cemeteries:

- sharing assets, such as the common use of information systems
- use of industry purchasing power to reduce cemetery costs
- working together to develop policies and procedures.

Conclusion

Public cemeteries all have the same owner and largely provide the same services. This means that they are in the unique position of being able to collaborate to resolve issues facing their industry. They can also introduce efficiencies by pooling their purchasing power, using common systems, sharing assets and collectively developing policies and procedures.

We do not consider that this unique position has been adequately utilised to achieve efficiencies across the industry.

Recommendation

- 50. That cemeteries and the department take action to ensure that they work more collaboratively for the benefit of the industry and the community.**

Summarised cemetery responses

A number of cemeteries considered that through industry organisations they had worked collaboratively to resolve issues common to the industry. The following responses outline the industry view:

***Geelong cemetery:** The final and perhaps most important point to note here is the misconception in the report that the industry does not collaborate to resolve issues facing the industry. There are a number of peak bodies supporting the industry – Cemeteries and Crematoria Association of Victoria (CCAV), Australasian Cemeteries & Crematoria Association (ACCA) and the Finance and Compliance Focus Group (FCFG) are just 3 bodies working for the benefit of the industry. Industry issues are raised with the relevant peak body and discussed at workshops/seminars/working groups, and then disseminated to cemetery trusts. An example of this is the recent workshop held in relation to the possibility of a bird flu pandemic and the options available to manage such a situation. A further issue currently in the hands of a working party is KPIs and performance measures for the industry.*

***The Necropolis:** From the perspective of The Necropolis, the Cemeteries and Crematoria Association of Victoria has promoted a cooperative approach towards participation within consultative processes associated with the development and implementation of the Cemeteries Act and related regulations. More recently, collaborative work has focused on a variety of accounting issues. The expertise available within the sector is being increasingly made available and “shared”.*

Summarised cemetery responses - continued

Altona cemetery: There has been an increasing trend among the cemeteries to work collaboratively to resolve common issues over the past 3 years, particularly through the efforts of the CCAV.

Some resources and information system have been shared in the more recent years. It is not always effective to share assets, therefore, there is a need to define what share arrangements are effective.

Auditor-General's reports

2005-06

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