

# Results of 2017 Audits: Universities

Tabled 23 May 2018

**VAGO**

This presentation provides an overview of the Victorian Auditor-General's report Results of 2017 Audits: Universities.

## Overview



Outlines the results of our financial audits of universities and their controlled entities for the year ended 31 December 2017



Reviews the internal control framework



Analyses financial results, financial sustainability and adequacy of asset maintenance

This report outlines the results of the financial audits of the Victorian public university sector for the year ended 31 December 2017.

We comment on findings of the internal control frameworks at the universities, and the financial sustainability of the sector.

We also discuss the adequacy of asset maintenance policies and practices in the sector.

## Background



8 Public universities

50 Controlled entities



State and Commonwealth legislation

Provide higher education and conduct research activities

There are eight public universities in Victoria, which collectively control 50 associated entities that we are required to audit. The universities are regulated under both state and Commonwealth legislation.


Their main activities are providing higher education to local and overseas students, and conducting research activities.

## Results of our 2017 financial audits

**9** Controlled entities' audits still in progress

**47** Clear opinions issued

**2** Qualified opinions for Deakin University and The University of Melbourne

 Victoria University did not meet the statutory deadline for finalising their financial report

As at the date of our report, the audits of nine controlled entities are still in progress. Of those completed, we have issued 47 clear opinions.

Consistent with prior years, we qualified two audit opinions for Deakin University and The University of Melbourne due to their revenue recognition practices.

Most of the universities finalised their reports in a timely manner. Only Victoria University did not meet the statutory deadline for finalising their financial report.

We commend the universities for streamlining their financial reports this year. We found the readability of the financial reports for the sector has improved as a result.

## New accounting standards



New accounting standards due to take effect from 1 January 2019

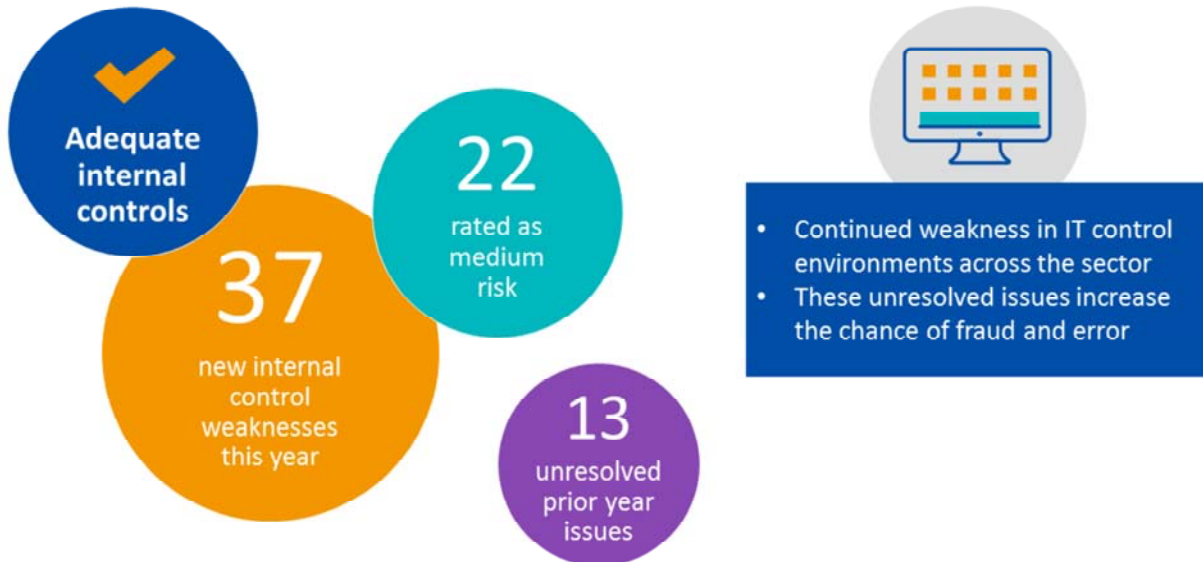


Universities are proactively preparing for change

Looking ahead, the sector will be required to implement changes to the accounting for their revenue streams (and in particular, the accounting for their research grants) as a result of new accounting standards which are due to take effect from 1 January 2019.

The implementation of these changes will require a great deal of work for the sector overall, but we do commend the universities for the proactive action that they have taken to date in preparing for this change.

## Internal control framework



We also found that, during 2017, universities overall had adequate internal controls in place to ensure the production of reliable financial reports.

However, we identified 37 new medium- and low-risk internal control issues during the year. The sector also has 13 issues unresolved from prior audits.

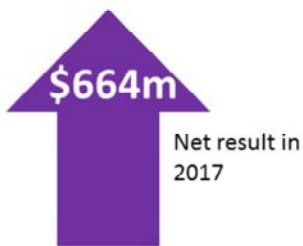
The most significant area for improvement relates to IT control environments. Weaknesses in these control environments increase the risk of fraud or errors going undetected.

## Financial performance and sustainability

Strong net result for the sector largely driven by growth in student enrolments

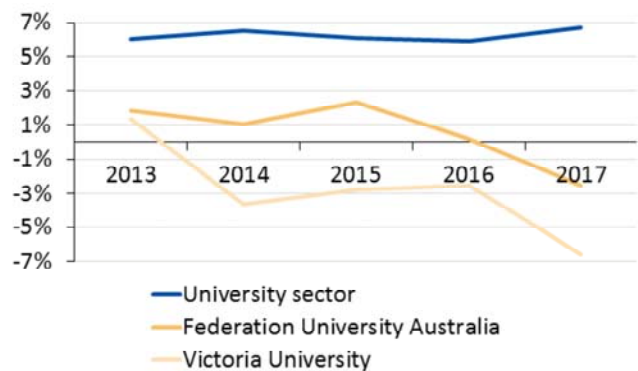
Two universities may face financial sustainability issues in the long-term:

- fall in student numbers
- net deficits



**17%**  
Student enrolment  
growth over last five  
years

Net result margin



The sector continues to be financially sustainable, posting a strong net result in 2017 supported by growing student numbers.

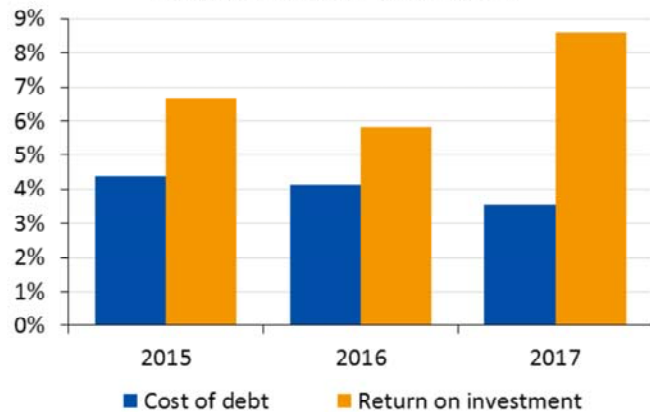
Government grants still make up almost half of the sector's revenue base, but in comparison to the national average, Victorian universities are beginning to rely less on Commonwealth funding and more on fees from international students to sustain their operations.

We found that Victoria University and Federation University Australia are starting to show indications of financial sustainability risks.

## Financial performance and sustainability

- Universities generally have enough financial assets and are able to self-fund capital projects
- Sector reliance on debt is increasing but is below the projected national equivalent
- By leveraging debt and managing investments to increase its surplus, the sector is further reducing its dependence on government funding

Cost of debt compared to return on investments for the sector

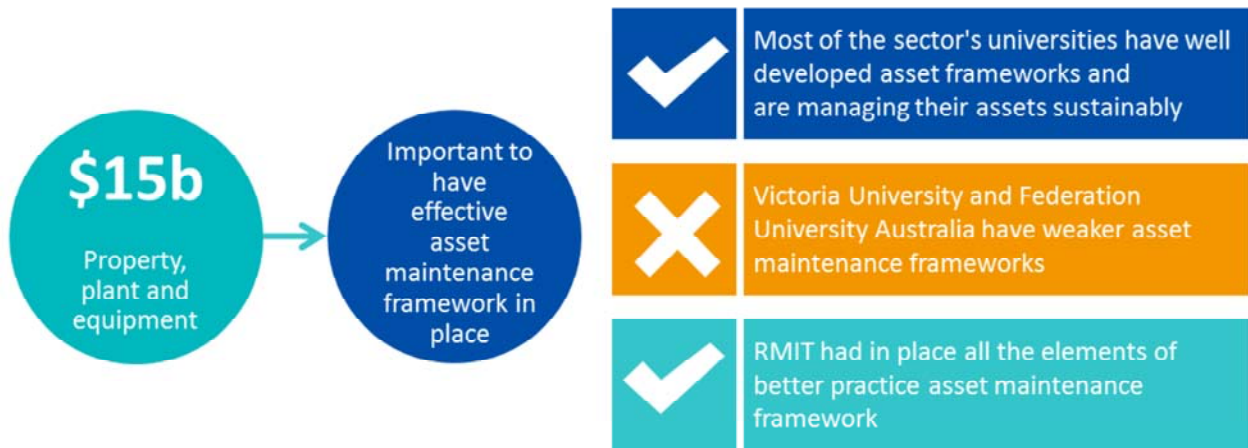


The universities generally have large reserves of cash and other financial assets, and are able to self-fund their capital projects. However, by leveraging cheap debt and actively managing its investments to get higher returns, the sector has been able to bolster its surplus, further reducing its dependence on government funding.

Despite this, the sector does not rely heavily on debt funding when compared with the national average.



## Asset management framework



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The university sector held \$15 billion of property, plant and equipment at the end of 2017.

These assets are critical to the delivery of the universities' operations. It is important that universities have an effective asset maintenance framework in place to keep these assets in a condition that allows them to operate safely and effectively.

We found that most universities had developed an asset maintenance framework with most of the better practice elements we expected to see. However two universities—Victoria University and Federation University Australia—had weaker frameworks.

We found that one university, RMIT, had a better practice framework in place, and the report provides a closer look at how they implemented their asset management strategy.

## Recommendations

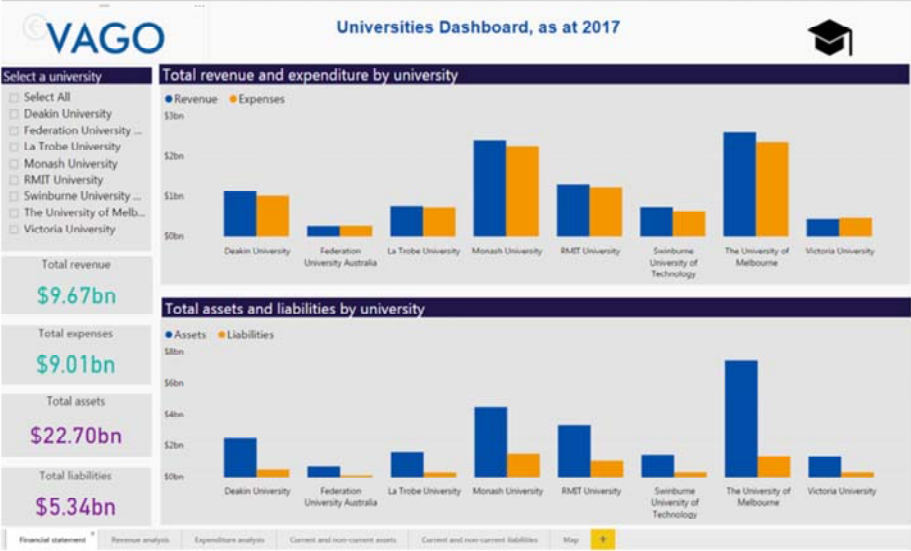
### 1 recommendation for universities

Strengthen their asset maintenance frameworks by, where necessary:

- having a centrally documented and current asset maintenance policy to give effect to their asset maintenance strategies and plans
- including in their asset maintenance policies funding requirements for maintenance
- consider using life cycle modelling as a basis for managing their asset portfolios.

We made one recommendation to the university sector to strengthen their asset maintenance frameworks.

# Universities – financial information dashboard



We have created a data dashboard, an interactive visualisation tool summarising the financial statement data for all Victorian universities. You can find the dashboard on our website.

For further information, please view the full report on our website:  
[www.audit.vic.gov.au](http://www.audit.vic.gov.au)

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