




Slide 1



This presentation provides an overview of the Victorian Auditor-General's report Results of 2018 Audits: Universities.

Overview

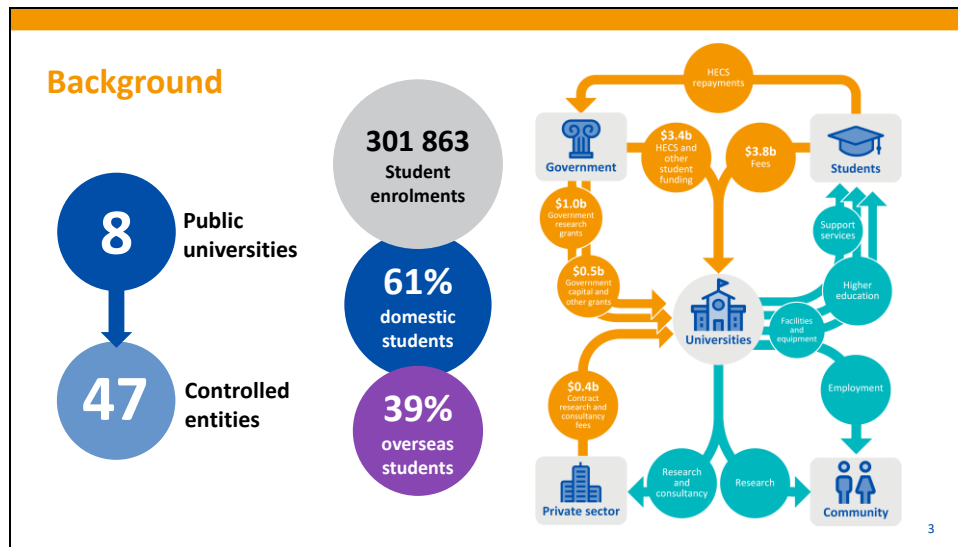
-  Results of, and our observations from, the financial audits of universities and their controlled entities for the year ended 31 December 2018
-  Review internal control framework
-  Analyse financial outcomes performance and sustainability
-  Upcoming changes to Australian Accounting Standards

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This report outlines the results of the financial audits of the Victorian public university sector for the year ended 31st December 2018.

We looked at the sector’s internal control frameworks and analysed its sustainability risks.

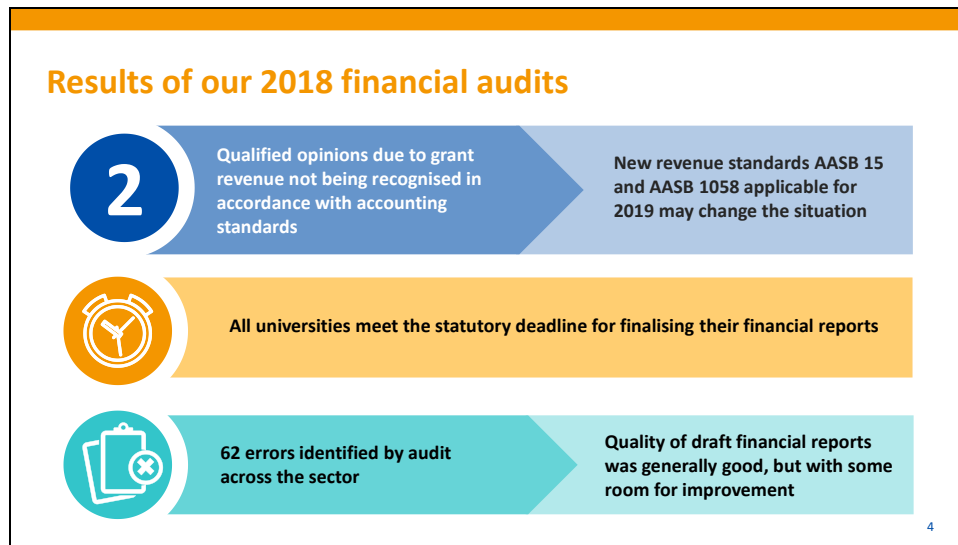
We also discuss the sector’s readiness for upcoming changes to Australian Accounting Standards.



The sector includes 55 entities: comprised of eight public universities, and 47 controlled entities we are also required to audit.

The sector provides higher education service to over 300 000 local and overseas students and conducts research.

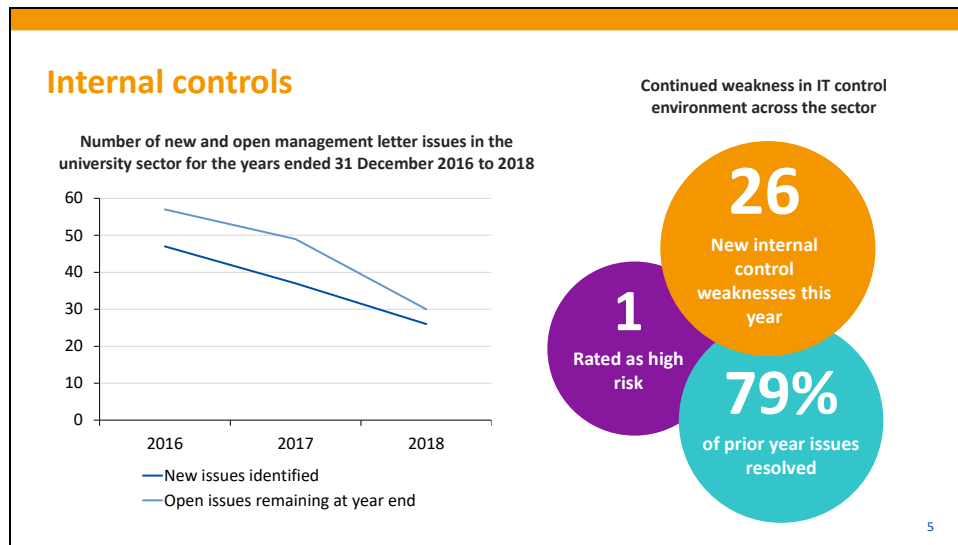
Most funding comes from student fees and grants from Federal and state governments.



We issued clear opinions to 47 of the 49 sector entities. Consistent with prior years, we issued qualified opinions for Deakin University and The University of Melbourne due to how they recognise research grant revenue. At the date of our report, the audits of six controlled entities are still in progress.

All eight universities issued their audited financial reports within the statutory deadline.

We found 62 errors during our 2018 audits. 34 of these were financial statement disclosure errors, which indicates the sector could improve its quality assurance procedures over draft accounts provided for audit.

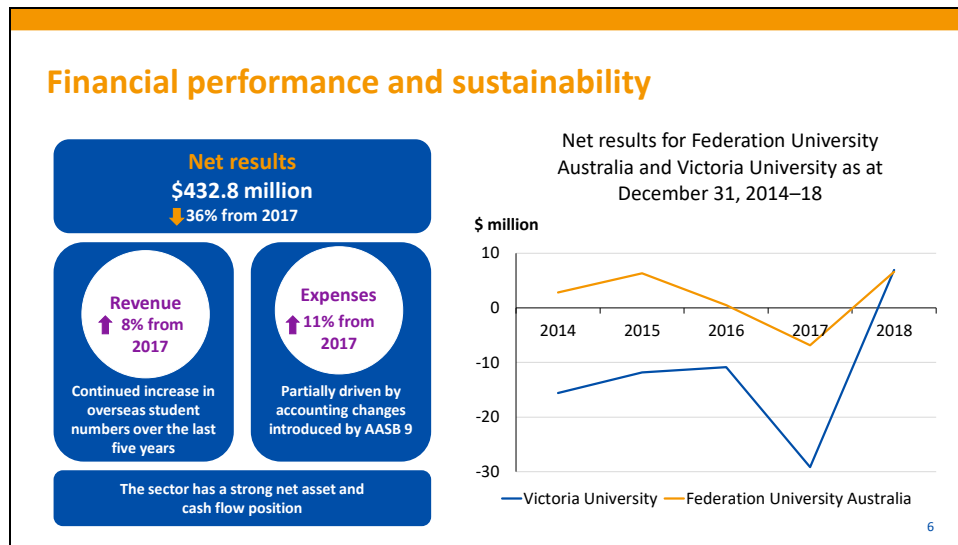


The sector overall had adequate internal controls in place to produce reliable financial reports.

Universities are proactively addressing internal control deficiencies found in current and prior year audits. 79 per cent of prior year issues were resolved by the end of our 2018 audits. New and open issues have declined over the last three years.

University IT systems and controls continues to be a significant area needing improvement. These ongoing gaps increase the risk of fraud or errors going undetected.

The only new high-risk issue relates to weak payroll controls at Victoria University.



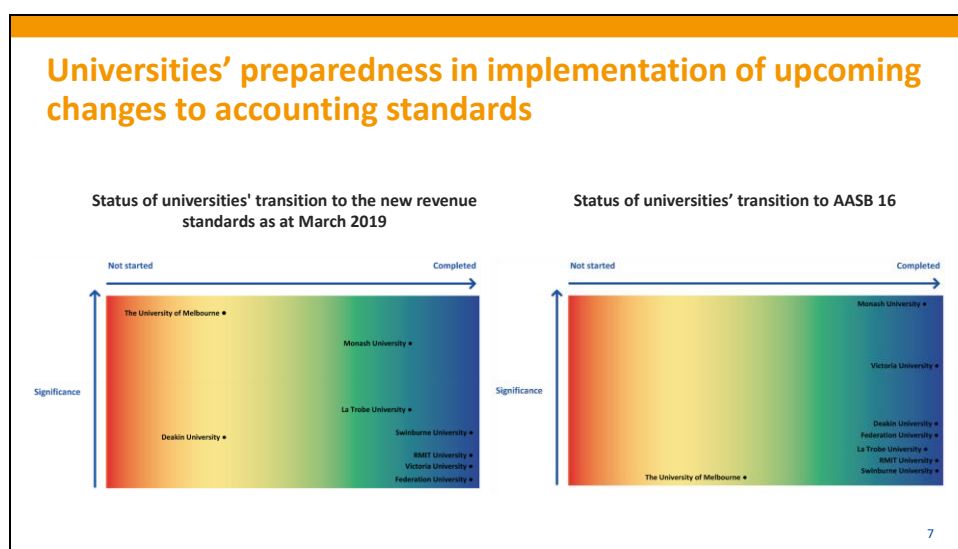
The sector generated a net surplus of \$432.8 million for the year, a \$245.8 million or 36% decrease from the prior year.

Net results declined due to higher expenditure in 2018, due to changes in standards requiring new methods of accounting for financial instruments, including: investment losses accumulated in prior years recognised as expenditure in 2018; and unlisted equities recognised at fair value (previously at cost), which in many cases resulted in their carrying values being written down to nil.

Excluding these one-off impacts, the sector’s net results slightly improved over 2017.

Revenue growth increased consistently with higher student numbers, reflecting strong demand for university-level higher education. Increases in overseas students is driving most of this growth.

In our 2017 sector report, we noted indications of unsustainable operations at Federation University Australia and Victoria University. Since then, both universities have streamlined their operations by reducing unnecessary expenditure and making their employee base more efficient. As a result, both universities posted positive 2018 net results.



From 1 January 2019, new accounting standards will apply to the treatment of revenue recognition and leases.

AASB 15 Revenue from Contracts with Customers, along with AASB 1058 Income for Not-for-profit Entities, will impact how contract revenue, including research grants, are recognised in financial statements. Preparing for these standards has been controversial.

By March 2019, most universities had made suitable progress in their preparations for the new revenue standards, including actively engaging with VAGO throughout their processes.

In contrast, the University of Melbourne and Deakin University had not yet analysed their research grant agreements in detail and had limited engagement with us. As significant system changes may be needed to comply with the new standards, these universities are at risk of not being ready for their 31 December 2019 financial reports.

AASB 16 Leases will now require universities to recognise assets they lease from others on their balance sheets. Although we have not yet completed our assessment of universities' AASB 16 progress, we have observed that the sector appears well prepared.

Recommendations

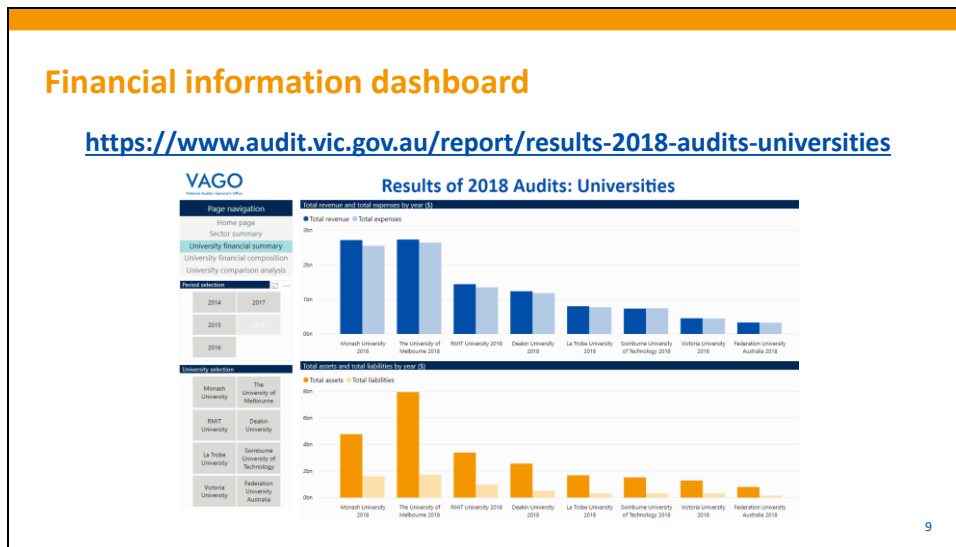
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recommendation
for the University of
Melbourne and
Deakin University

Ensure that they are ready for transition to the new revenue standards by:

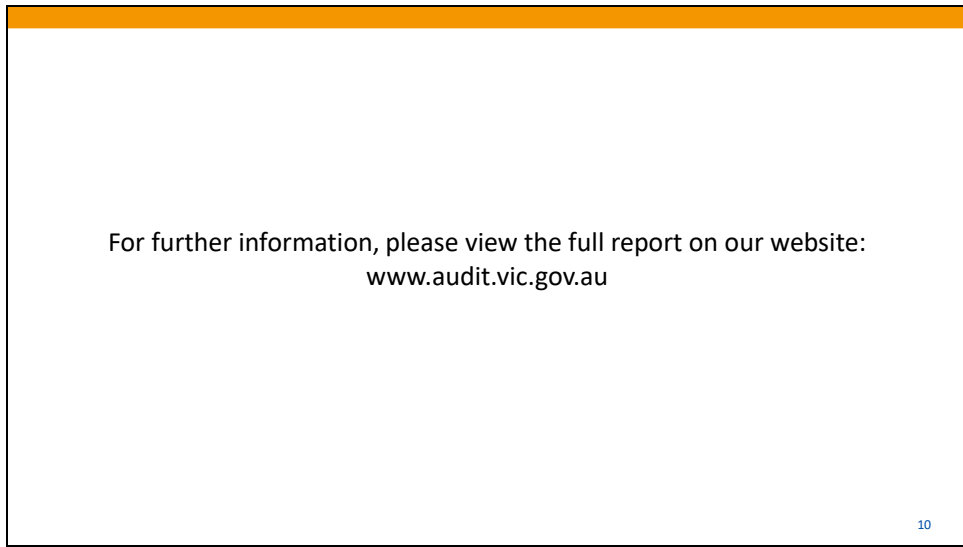
- prioritising their assessment of the accounting treatment for their research grants
- actively engaging with VAGO, the Australian Accounting Standards Board and the rest of the sector around the assessment and implementation.

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We recommended that the University of Melbourne and Deakin University be ready for transition to the new revenue standards.



This year we have created a University sector public data dashboard. This interactive visualisation tool summarises and allows comparisons of the financial statement data for all Victorian public 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