VAGO

Victorian Auditor-General's Office

Results of 2021 Audits: Universities

July 2022

Independent assurance report to Parliament
2022–23: 2

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Independent assurance report to Parliament
Ordered to be published

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July 2022

PP no 339, Session 2018–22

The Hon Nazih Elasmar MLC
President
Legislative Council
Parliament House
Melbourne

The Hon Colin Brooks MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of the *Audit Act 1994*, I transmit my report *Results of 2021 Audits: Universities*.

Yours faithfully

[redacted]

Andrew Greaves
Auditor-General
8 July 2022

The Victorian Auditor-General's Office acknowledges the Wurundjeri Woi Wurrung People as the traditional custodians of the land on which our office is located.

We pay our respects to their Elders past and present.

1.

Audit outcomes

We provided clear audit opinions on financial reports across the university sector. Parliament and the community can use these reports with confidence.

Financial reports are reliable

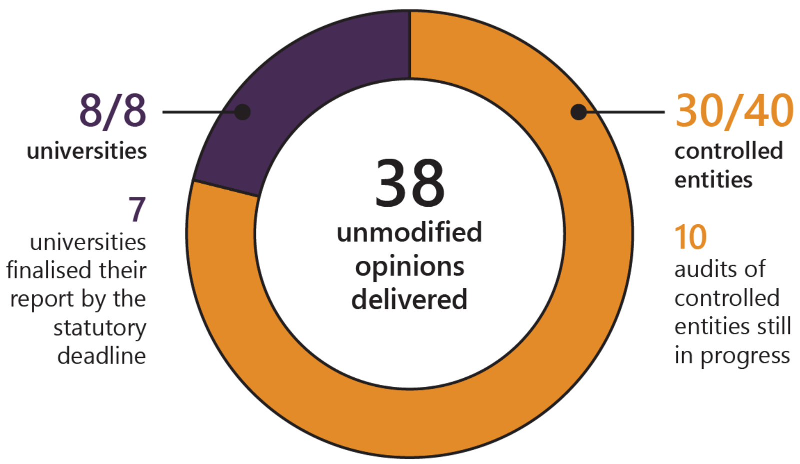
Number of clear audit opinions

A 'clear' or 'unmodified' audit opinion means that we have reviewed an entity's financial report and believe it is reliable, accurate and complies with relevant reporting requirements.

We provided 38 clear audit opinions on financial reports across the university sector, including for all 8 universities and 30 of the 40 controlled entities (listed in Appendix E).

Controlled entity
An entity over which another party has the power to govern decision making in relation to financial and operating policies.

FIGURE 1A: **Audit opinions delivered for the 2021 period**



Note: Audit opinions for 10 controlled entities are outstanding (see below).
Source: VAGO.

Audits still in progress

As at 30 June 2022, our audits of the following 10 controlled entities are still in progress:

#	Entity with audit in progress	#	Entity with audit in progress
1	Australian Music Examinations Board (Vic)	6	UM Commercialisation Pty Ltd
2	Goulburn Valley Equine Hospital Pty Ltd	7	UM Commercialisation Trust
3	La Trobe Ltd	8	UoM Commercial Ltd
4	Melbourne Teaching Health Clinics Ltd	9	UoM International Holdings Limited
5	Monash University Indonesia Limited	10	World Mosquito Program

Reporting timeliness: universities

Under the *Financial Management Act 1994*, universities need to provide certified financial reports to VAGO within 8 weeks of balance date. The *Audit Act 1994* then requires us to provide each university with an audit opinion within 4 weeks of receiving their certified financial report.

In 2021, 7 of the 8 universities met this statutory timeframe.

The University of Melbourne did not meet this statutory timeframe. This is because management needed more time to assess the financial impact of underpayments to casual academic and professional employees before providing this information for us to audit. We comment on this further in Part 3.

Reporting timeliness: controlled entities

Under the universities' respective enabling legislations, their controlled entities need to provide us with their certified financial reports within 12 weeks of balance date. The *Audit Act 1994* then requires us to provide each entity with an audit opinion within 4 weeks of receiving their certified financial report.

In 2021, 30 of the 40 controlled entities met this timeline. As at 30 June 2022, it has taken a median of 17 weeks to finalise the controlled entities' audited financial reports. This is up from 14.5 weeks last financial year.

In part, this longer time is because parent universities—and the relevant auditors—have had to divert resources to focus on complex issues arising from our audits.

Errors in financial reporting

The nature, number and size of errors in financial reports submitted for auditing are direct measures of their quality. Entities must correct material errors before we can issue a clear audit opinion.

This year we found 13 errors during the audit process, an increase from 10 in 2020.

Of these errors …	The affected universities/entities …
2 were material, relating to Federation University Australia's: • incorrect accounting of $43.7m for building revaluations, where accumulated depreciation was not written back • incorrect classification of $17.1m of revalued buildings	adjusted these errors before finalising the financial report and we issued a clear opinion. The net effect of these errors on the university's net result and net assets was nil.
11 were not material, with most errors relating to incomplete or inaccurate financial report disclosures for related parties, financial risk management, commitments and contingencies	voluntarily adjusted half of these errors before finalising their financial reports.

Material uncertainty highlighted

We highlighted a material uncertainty related to the going concern of RMIT University Indonesia Pty Ltd as at 31 December 2021.

While the entity's directors passed a resolution to deregister the company in 2021, there is uncertainty over how long it will take to complete the deregistration process in Indonesia and then in Australia.

As this uncertainty was adequately described in the financial report, we issued a clear opinion.

The term **material uncertainty** is used in the *Australian Accounting Standards* in discussing uncertainties related to events or conditions which may cast significant doubt on an entity's ability to continue as a going concern.

2. Financial analysis

Despite the ongoing impact of COVID-19 on the sector's financial performance in 2021, most universities recorded an improvement on 2020. Balance sheets remained relatively strong.

International student enrolment numbers continued to decline in 2021—a trend which began from the start of the pandemic. Longer-term financial risks will emerge should the trend not improve.

The sector's net result improved due to 3 factors: financial strategies implemented to maintain resilience, an increase in grants from the federal government, and gains made on financial investments.

Snapshot

In 2021 universities collectively generated a net surplus result of $1.2 billion, an increase of $0.9 billion on the $0.3 billion net surplus in 2020. This financial performance was the result of both increased revenue and decreased expenses.

The sector reported ...	Representing ...	From ...
$11.5b in revenue	a 7 per cent increase	$10.7b in 2020
$10.2b in expenses	a one per cent decrease	$10.4b in 2020.

The sector’s net result margin improved significantly

Overview

The university sector's net result margin improved significantly in 2021, increasing to 10.9 per cent, compared to 2.9 per cent in 2020.

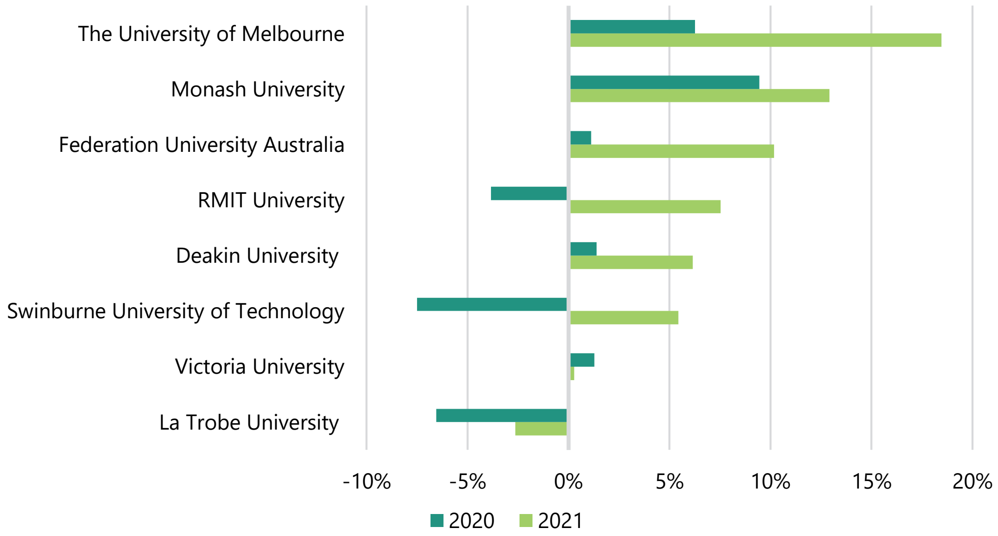
The **net result margin** measures an entity’s ability to generate a surplus from its ordinary course of business. A higher percentage indicates a stronger result.

Improvement on last year

As shown in Figure 2A in 2021 all but one university improved their net result margin to varying degrees.

Victoria University's net result margin remained positive but fell from 1.28 per cent to 0.28 per cent in 2021. This was because the savings it made by managing expenditure did not cover the revenue it lost from having fewer international students.

FIGURE 2A: **Net result margin indicators for 2020 and 2021**



Source: VAGO.

La Trobe, RMIT and Swinburne

In 2020, La Trobe University, RMIT University and Swinburne University of Technology produced negative net result margins, meaning they generated a net loss.

Although La Trobe University improved its net result margin in 2021, it is the only university that continued to make a loss.

In 2021, revenue generated by …	Including from …	While expenditure …	Meaning it made …
RMIT University increased by 7 per cent	• increased government grants • return on cash and financial investments • 28 per cent increase in revenue from consultancy and contracts • a $59m once-off gain from selling land and buildings in the CBD	decreased by 5 per cent	a $0.12b net profit
Swinburne University of Technology increased by one per cent	• increased government grants • return on cash and financial investments	decreased by 12 per cent	a $0.04b net profit
La Trobe University decreased by 6 per cent	• increased government grants • return on cash and financial investments*	decreased by 10 per cent	a $0.02b net loss.

*La Trobe University received a lower return on its cash and financial investments than the other 2 universities made on their investments.

Go8 universities

Victoria's Group of Eight (Go8) universities—Monash University and The University of Melbourne—generated a combined surplus of $994.6 million (compared with $445.4 million in 2020). This accounted for 80 per cent of the sector's net result in 2021.

Along with constrained expenditure growth in 2021, these 2 universities also benefitted from additional income due to their status as research-leading universities:

Australian government education research grants to …	And investment income …	Due to …
Monash University increased by $110.4m (62 per cent)	increased by $142.4m	• the scale of cash and financial investments that these 2 universities held (68 per cent of the sector's balance) • the extent of research activity undertaken by these universities.
The University of Melbourne increased by $118.2m (58 per cent)	increased by $255.4m	

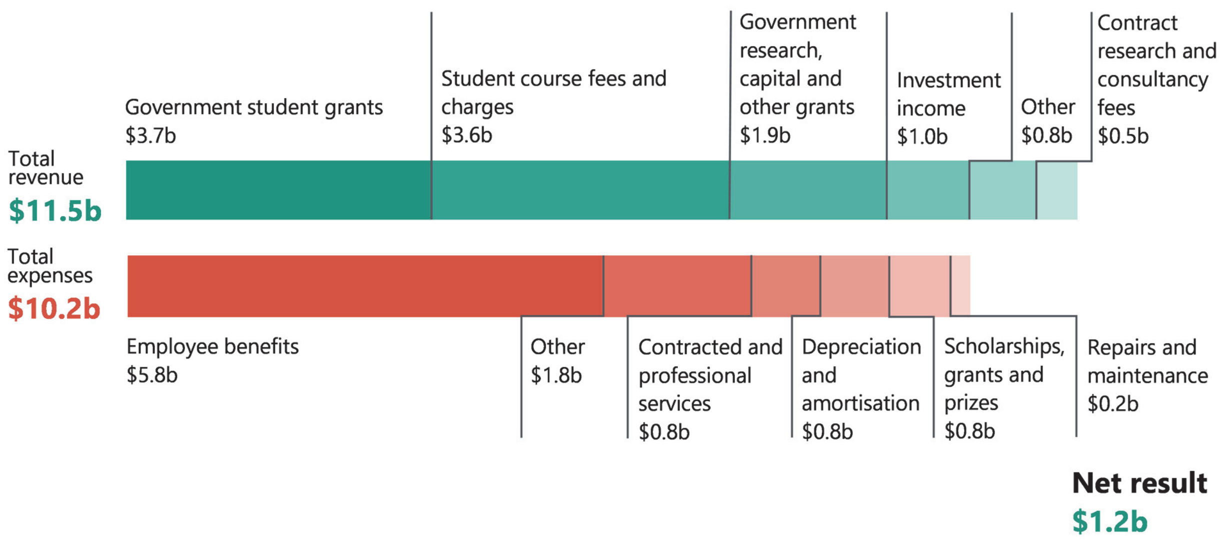
The **Group of Eight (Go8)** refers to Australia's leading research-intensive universities—the University of Melbourne, the Australian National University, the University of Sydney, the University of Queensland, the University of Western Australia, the University of Adelaide, Monash University and UNSW Sydney.

The Go8 is focussed on, and is a leader in, influencing the development and delivery of long-term sustainable national higher education and research policy, and in developing elite international alliances and research partnerships.

Revenue and expenses in 2021

Figure 2B shows that, in 2021, revenue exceeded expenses for the sector giving an overall net surplus of $1.2 billion.

FIGURE 2B: **Financial performance snapshot for 2021**



Source: VAGO.

Changes in revenue

Even though student course fees and charges continued to decline because of the pandemic, the universities' total revenue increased during 2021. This was due to increases in government funding and higher income from investments.

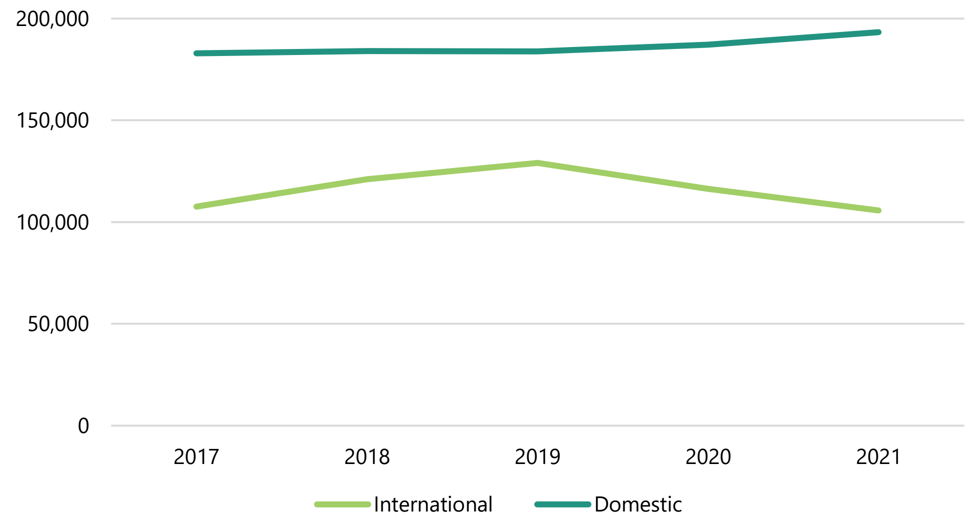
In 2021, revenue from …	Representing …	Due …
student course fees and charges totalled $3.6b	a decline of $0.4b from $4.0b in 2020	mainly to the continued drop in international student enrolments resulting from the border closures in place for most of 2021
government research, capital and other grants totalled $1.9b	an increase of $0.4b from $1.5b in 2020	mostly to additional Australian government grants including: • $0.3b for Australian Research Centre and Education research programs • $0.05b for the National Priorities and Industries Linkage Fund (new funding in 2021 as part of the Job-ready Graduates Package)
investment income totalled $1.0b	an increase of $0.6b from $0.3b in 2020	to global markets experiencing a strong rebound in 2021.

Student enrolment numbers continued to decline

Overview

In 2021, total student enrolment numbers at the universities continued to decline, recording a 1.5 per cent drop in equivalent full-time student load (EFTSL) for the year. As shown in Figure 2C, universities reported a total EFTSL of 298,949 in 2021 compared with 303,628 in 2020. Whilst domestic student enrolments grew from 187,174 EFTSL in 2020 to 193,307 EFTSL in 2021, this growth was outstripped by the overall decline in international student enrolments from 116,453 EFTSL in 2020 to 105,643 EFTSL in 2021.

FIGURE 2C: **Domestic and international equivalent full-time student load (EFTSL)**



Note: One equivalent full-time student load (EFTSL) is the equivalent of a student studying on a full-time basis for a year.
Source: VAGO.

Domestic enrolments

Domestic student enrolments grew 3 per cent in 2021. All universities increased their domestic enrolments except for Swinburne University of Technology, where enrolments fell by 0.6 per cent.

International enrolments

International student enrolments fell 9 per cent across the sector during 2021, a total decline of 19 per cent since the beginning of the pandemic in 2020. This was due mainly to continuing impacts of border closures for most of the year. Only 2 universities increased their international enrolments.

International enrolments at …	Increased by …	Primarily because in 2021 …
The University of Melbourne	2 per cent	students took on more subjects
RMIT University	0.5 per cent	more international students studied with RMIT from offshore locations.

Total expenditure for universities fell slightly

Movement in expenses

The university sector's total expenditure fell for the first time in 5 years—a 1.3 per cent decrease from $10.3 billion in 2020 to $10.2 billion in 2021.

Cost savings from staff reductions in 2020 were realised during the year, with employee expenses falling by $0.26 billion:

In 2021, the sector …	Compared to …	A decrease of …
spent $5.8b on total employee expenses	$6.0b in 2020	$0.263b
had an employee base of 36,319 full time equivalent (FTE) positions by year's end	36,817 FTE positions in 2020	498 FTE positions (compared to 2020's decrease of 4,036)
spent $0.091b on termination payments	$0.256b in 2020	$0.165b.

Other expenditure increased marginally by $0.06 billion (1.8 per cent) to $3.4 billion in 2021.

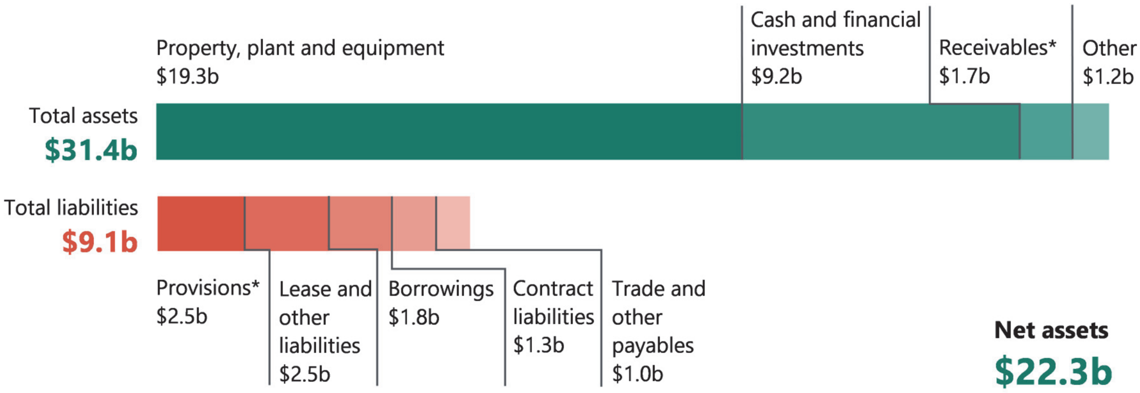
The sector's financial position remained strong in 2021, partly because the value of financial investments increased

Financial position snapshot

In 2021, the university sector's net assets increased to $22.3 billion, up from $20.2 billion in 2020. This was because:

- total assets increased by 7.9 per cent, from $29.1 billion to $31.4 billion
- total liabilities increased by 2.6 per cent, from $8.9 billion to $9.1 billion.

FIGURE 2D: **Sector financial position snapshot as of 31 December 2021**



Note: *Provisions include the sector's estimated deferred superannuation contributions of $1.15 billion ($1.25 billion in 2020). An identical amount is included in receivables as the Australian and Victorian governments have agreed to meet this liability.

Source: VAGO.

Increased asset values

In 2021, the value of total assets increased by $2.3 billion, driven mostly by a $1.8 billion growth in both cash and financial investments.

As mentioned earlier, the 2 Go8 institutions (University of Melbourne and Monash University) accounted for 68 per cent of the sector's cash and financial investments.

The value of all …	Grew by …	To …	Due to …
the universities' cash balances	20.9 per cent ($0.4b)	$2.4b by year end	increased Australian government grants
			decreased expenses resulting from cost saving measures
the universities' investment portfolios	25.7 per cent ($1.4b)	$6.8b by year end	the strong rebound of global markets during 2021 and the scale of the Go8 universities' investments, which contributed $1.1b of this growth.

Decreased reliance on debt

In 2020, some universities borrowed more money to manage short-term cash flow needs caused by the loss of international student revenue.

Despite the COVID-19 pandemic continuing in 2021, the sector's borrowings fell by 18.8 per cent ($0.4 billion). Universities were able to better self-manage short-term cash flow needs.

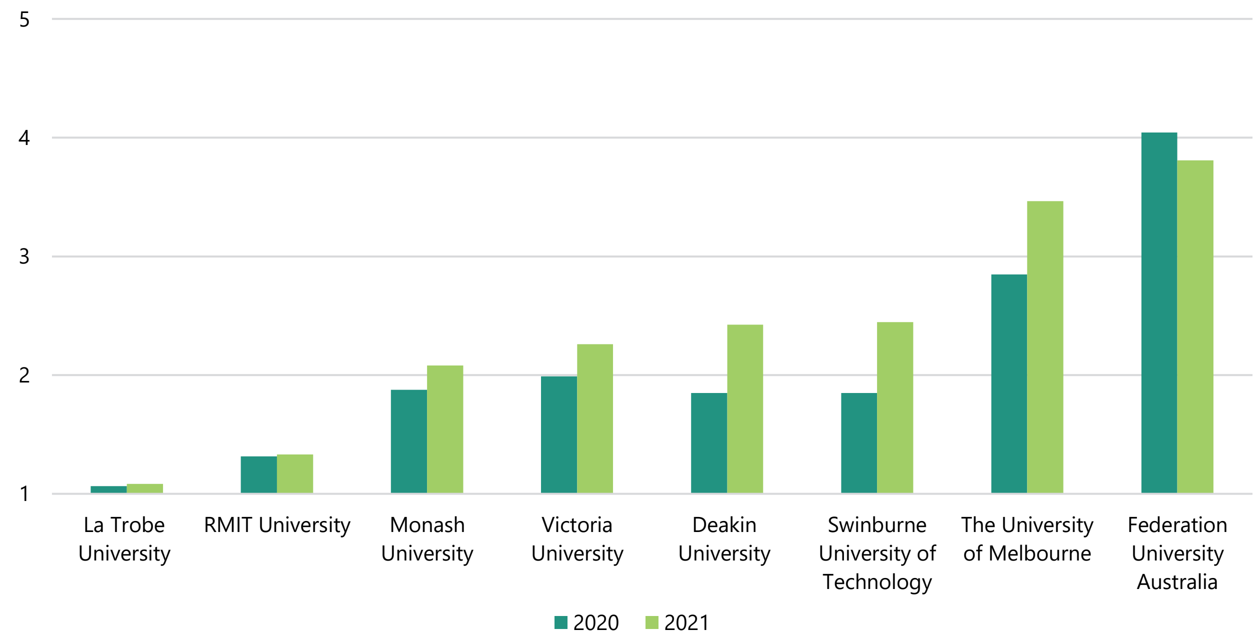
Adjusted liquidity ratio

When assessing the adjusted liquidity ratio for the university sector, we include non-current financial investments. This is because universities can convert these to cash or cash equivalents at short notice to pay debts if needed.

As shown in Figure 2E, at 31 December 2021 all universities had an adjusted liquidity ratio of above 1.0. This means they held enough liquid assets to meet their short-term liabilities.

> **Adjusted liquidity ratio** measures whether an entity is likely to be able to service its debt obligations in the immediate future using cash and liquid assets.

FIGURE 2E: **Adjusted liquidity ratio by university (2020 and 2021)**



Source: VAGO.

Risks to the sector's financial sustainability continue but there are also opportunities

Emerging challenges

The pandemic continued to negatively affect revenue from international students in 2021.

International enrolment numbers will be slow to rebuild, and there is a risk they may never return to pre-pandemic levels. Visa delays and increasing competition from other countries offering attractive course delivery models create challenges for the sector in securing and retaining student enrolments.

Despite the financial outcomes improving, universities continue to rely on federal government funding and financial investment returns to support operational expenditure. Longer-term financial risks will emerge should this trend be prolonged.

Emerging opportunities

Australia's skill shortage, worsened by the pandemic, has been an area of continued focus for the Australian government and the education sector. This presents an opportunity for the sector to consider how it can contribute to addressing Australia's existing skills gap and future workforce participation. Further to this, there are also opportunities for universities to increase their revenue via the commercialisation of their research outcomes and discoveries.

3.

Internal controls

Universities' internal controls are adequate to prepare reliable financial reports, but their information technology controls require improvement.

Snapshot

The *Financial Management Act 1994* requires universities to develop effective internal control systems to maintain proper accounts and records. We assess if these internal controls, which include people, systems and processes, are adequate for preparing reliable financial reports.

We report significant internal control issues to the entity's management and its audit committee, as required under the Australian Auditing Standards.

Overall, universities' internal controls remain adequate for reliable financial reporting. However, as in prior years, there are areas for improvement.

Raising internal control issues

As required by the Australian Auditing Standards, when we find any internal control issue while auditing a university and/or controlled entity, we advise its management and audit committee. This advice includes:

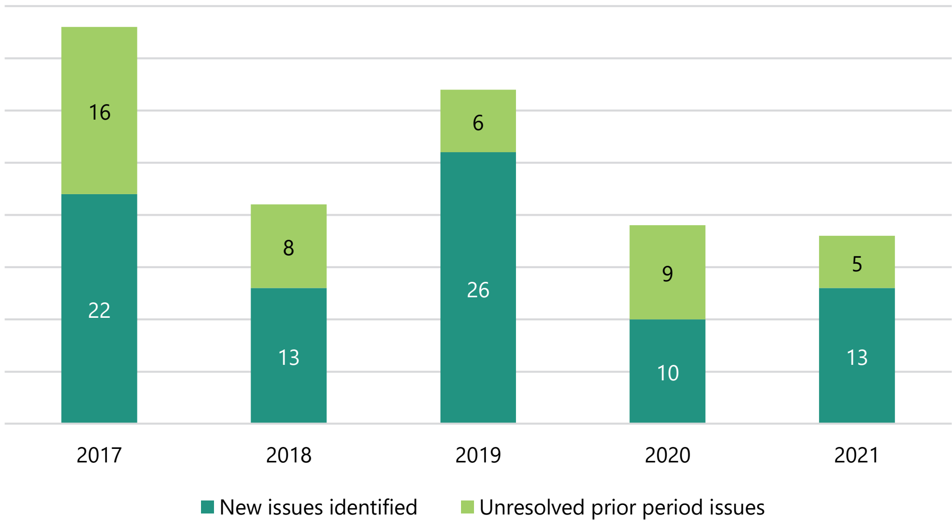
- raising new issues
- giving updates on issues we raised in a prior period that remain unresolved.

We found more internal control issues across the sector in 2021

Trends in control issues

As shown in Figure 3A, we found more new issues in 2021 than in the prior period while the number of unresolved issues has fluctuated over the last 5 years.

FIGURE 3A: **Number of internal control issues (new and unresolved from prior period)**



Note: We have excluded low-risk issues as these are considered minor issues or opportunities to improve.
Source: VAGO.

Issues found in 2021

As in prior years, common issues we found across the sector relate to IT control weaknesses.

In 2021, we identified …	Which we …	Recommending …
13 new issues, with: • 12 relating to control weaknesses in IT • 1 relating to control weaknesses in payroll	rated as **medium risk**	prioritising and addressing internal control issues we raise more promptly their audit committees monitor the timely resolution of these issues.
5 prior-period IT-related issues that we first reported in 2020	rated as **medium risk**	

Universities can strengthen their internal control environments and financial reporting by promptly resolving these issues.

IT controls are a key area of improvement for the sector

Increased reliance on IT controls

The pandemic has made universities even more reliant on IT controls to ensure the security of their systems. This is largely because some manual processing cannot be done remotely.

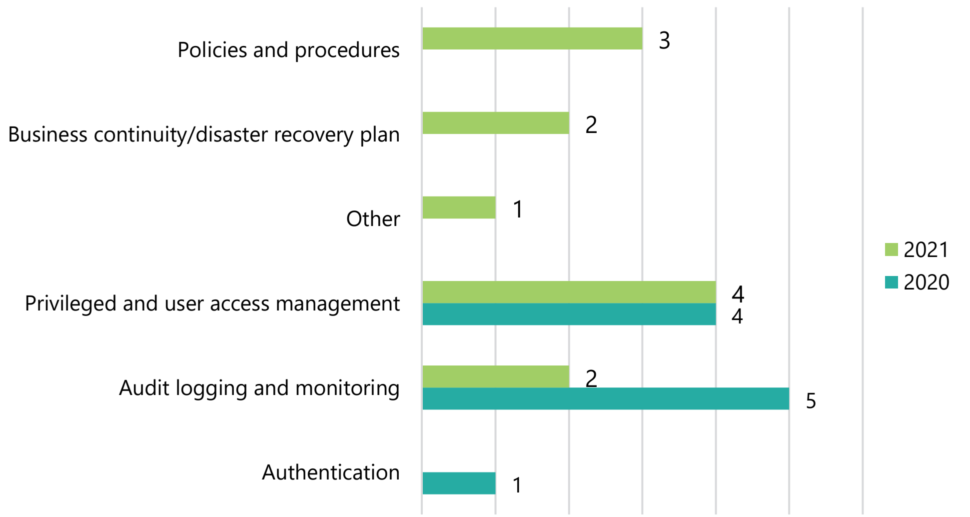
This reliance has also grown with the move to remote course delivery, a trend we expect will continue as universities revisit their delivery models to increase market reach.

Effective IT controls are important because they reduce the risk of unauthorised access and changes to systems, including cyber-attacks. They are essential for the smooth day-to-day operations of entities and reliable financial reporting.

Increase in IT control weaknesses

As shown in Figure 3B, this year, we found an increase in both the **number** and the **types** of IT control weakness across the universities, with 12 new issues compared to 10 in 2020.

FIGURE 3B: **Number of IT control weaknesses by type**



Source: VAGO.

Policy and procedure weaknesses

For an entity's internal controls system to work effectively, it needs comprehensive, up-to-date policies and procedures that document the supporting control activities. Entities also need to review their IT policies regularly to ensure they remain relevant.

We found policies and procedures that were not well established, relating to third party service providers, logs of access to administration/privileged user accounts, business continuity, and disaster recovery.

An entity is more at risk of unauthorised access to systems, cyber security attacks, and manipulation or loss of data if it has inadequate policies and procedures, as its employees may be uncertain about what procedures they should be following to process transactions or make changes to data, or what levels of access should be restricted for key systems.

Planning weaknesses

Effective business continuity planning—or disaster recovery planning—helps an entity respond quickly to a crisis and minimise disruption to their operations. We found that 2 universities need to enhance their testing of business continuity and disaster recovery plans, in order to be able to respond or adapt to unexpected disruptive events and minimise negative impacts.

User access weaknesses

Proper controls over privileged and user access management reduce the risk of unauthorised access to systems and underlying data. Unauthorised access can increase the risk of cyber security attacks and the loss of essential and confidential data (student or employee data). This in turn puts a university at increased risk of financial loss and may lead to time lost on restoring key systems/data.

Consistent with the prior year, we continue to find a high number of deficiencies in this area.

Logging/monitoring weaknesses

Audit logging and monitoring controls record who is accessing and making changes in IT systems. Coupled with effective user-access management and authentication controls, they reduce the risk of fraud, errors and data loss.

We are encouraged to see fewer weaknesses relating to audit logging and monitoring. This indicates that universities have proper processes in place to identify unauthorised changes and investigate them in a timely manner.

Of the 5 prior-year issues in this category, 4 are now either partly or fully resolved.

Underpayment of casual wages and impact on timeliness of financial statements

Overview

In late 2020 the university sector across Australia uncovered issues with wage underpayments, mainly in relation to casual academic and professional staff.

During 2021, most Victorian universities assessed whether underpayments had occurred and began making back payments to affected staff, in some cases dating back 7 years.

This issue significantly affected the timing of the University of Melbourne's financial report preparation and subsequent audit. During 2021, university management undertook an extensive exercise with the assistance of external specialists to assess the extent of the issue.

As a result of this exercise, the university became aware it had wage underpayments caused by a misinterpretation of conditions in their Enterprise Agreements. This meant casual academic and professional staff had been preparing and lodging timesheets for hours less than their minimum entitlement hours.

At the time of our audit, university management had undertaken work to estimate a provision for the underpayments to affected staff. When we assessed the completeness and accuracy of this estimated provision, sufficient records to support the estimate for our audit assessment were not immediately available. The collation of evidence by management was a significant process and contributed to significant additional time to prepare and finalise the 2021 financial report, and for us to audit this information.

There will be further work undertaken by the university in 2022 to finalise the calculation of specific amounts owed to individual staff, and for payments to be made.

Recommendation

To all universities

We recommend that all universities, prioritise and respond more promptly to address the internal control issues we raise with them and that their audit committees monitor the timely resolution of these issues.

APPENDIX A
Submissions and comments

We have consulted with the Department of Education and Training and the 8 public universities in Victoria, and we considered their views when reaching our audit conclusions. As required by the *Audit Act 1994*, we gave a draft copy of this report, or relevant extracts, to those agencies and asked for their submissions and comments.

Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

Responses were received as follows:

Response provided by the Secretary, Department of Education and Training

Department of
Education and Training

Office of the Secretary

2 Treasury Place
East Melbourne Victoria 3002
Telephone: 03 9637 2000
DX210083

COR22103381

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31, 35 Collins Street
MELBOURNE VIC 3000

Dear Auditor-General

Thank you for your letter of 17 June 2021 inviting the Department of Education and Training (the Department) to provide submissions or comments on the proposed audit report Results of 2021 Audits: Universities (the Report).

The Department welcomes the Report and its findings. I note your conclusion that the financial reports of the universities and their controlled entities are reliable. I support the recommendation made, and also note that your recommendation is similar to that made in the audit report *Results of 2020 Audits: Universities.*

The eight university Acts contain no general Ministerial power of direction over universities. The legislative responsibilities of the Minister for Training and Skills and Minister for Higher Education under the Acts are limited to making some Council appointments, approving the acquisition, disposal and leasing of some land, approving certain commercial activities, and approving the amendment of university statutes.

I am therefore supporting, rather than formally accepting, the recommendation in the Report.

I recognise the work from VAGO and the universities that has led to the audit opinions for all Victorian universities this year, especially given the impact of the COVID-19 pandemic in 2021. If your team would like to discuss this issue further, you may contact Ms Jane Ward, Executive Director, Higher Education and Workforce, Department of Education and Training, on (03) 9059 5233 or by email: [redacted]

Yours sincerely

[redacted]

Jenny Atta
Secretary
27 / 6 / 2022

VICTORIA State Government

Response provided by the Chief Financial Officer, University of Melbourne

24 June 2022

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31, 35 Collins Street
Melbourne VIC 3000
By email: [redacted]

Dear Mr Greaves,

RE: Proposed Report on the Results of 2021 Audits: Universities

I am writing in response to the invitation to comment on the Proposed Report on the Results of 2021 Audits: Universities specifically in relation to the reasoning for the delay in finalising the University of Melbourne audit.

The University of Melbourne has responded to references relating to the reasons for the delay and recommend that the report reflect a more balanced explanation attributing the responsibility for the delay to all involved.

Outlined below is the suggested revised wording reflecting a more balanced and accurate representation of the reason for the delay.

1. **Underpayment of casual wages and impact on timeliness of financial statements**
   We do not agree with the summary provided on the timeliness of reporting for underpayment of casual wages on page 4 and 18 of the report. The draft text explains that the delay was due solely to the time taken by University management to assess the financial impacts and provide information for audit. Both the University of Melbourne and VAGO/EY needed time to assess as such the summary should be updated to reflect what had occurred. We suggest the updated text below is reflected in the report:

   Page 4 – Reporting timeliness: universities
   The University of Melbourne did not receive an audit opinion within the statutory timeframe because more information and time was needed to assess the estimated financial impact of the underpayments to casual academic and professional employees.

   Page 18 – Underpayment of casual wages and impact on timeliness of financial statements
   In late 2020 the university sector across Australia uncovered issues with wage underpayments, mainly in relation to casual academic and professional staff.

   During 2021, most Victorian universities assessed whether underpayments had occurred and began making back payments to affected staff, in some cases dating back 7 years.

   This issue significantly affected the timing of the University of Melbourne's financial report preparation and subsequent audit. During 2021, University management commenced an extensive review, with the assistance of external specialists, of payment practices across the institution and employee entitlements under the

Postal address:
University of Melbourne
Parkville, Victoria 3010, Australia

Phone: [redacted]
Email: [redacted]

University of Melbourne's Enterprise Agreements to assess the extent of the issue. As a result of this exercise, the University has identified situations where staff may not have been paid appropriately for work performed in accordance with the Enterprise Agreements.

At the time of the audit, University management had undertaken work to estimate a provision for the underpayments to affected staff. As part of the auditor's assessment of the completeness and accuracy of the estimated provision, the auditors required further information to support the estimate for the audit assessment. The collation of that further evidence by management and also review undertaken by the auditors was a significant process that meant significant additional time was required to finalise the audit of the 2021 financial report.

There will be further work undertaken by the University in 2022 to finalise the calculation of specific amounts owed to individual staff, and for payments to be made.

2. Audits of controlled entities still in progress

On page 4 of the report, it was reported that Melbourne Business School Limited audit is still in progress as at 6 June 2022. We note that the audit report was delivered on 6 June 2022 and as such should be reflected as a completed audit.

We also write on behalf of the following controlled entities of the University of Melbourne. With exception to the below, there are no further comments on the content of the report.

- Australian Music Examinations Board (VIC) Ltd
- Goulburn Valley Equine Hospital Pty Ltd
- Melbourne Business School Limited
- Melbourne Teaching Health Clinic Ltd
- Melbourne University Publishing Ltd
- Mt Eliza Graduate School of Business and Government Ltd
- Nossal Institute Limited
- UM Commercialisation Pty Ltd
- UM commercialisation Trust
- UoM Commercial Ltd
- UoM International Holdings Limited

The delay in completing the University of Melbourne controlled entity audits shown on page 4 of the report was largely caused by the casual wages matter. Both management of the controlled entities and VAGO/EY needed time to assess whether the matter applied to each entity. At the time of this letter, our analysis has concluded that the matter is not applicable, with two entities, the Goulburn Valley Equine Hospital Pty Ltd and UM Commercialisation Pty Ltd still being assessed.

Yours sincerely,

[redacted]

Katerina Kapobassis
Chief Financial Officer

APPENDIX B

Sector context

The sector at a glance

Victoria’s public university sector is made up of 8 universities and the 40 entities they control. Together, they deliver higher education and conduct research from a range of campuses across the state.

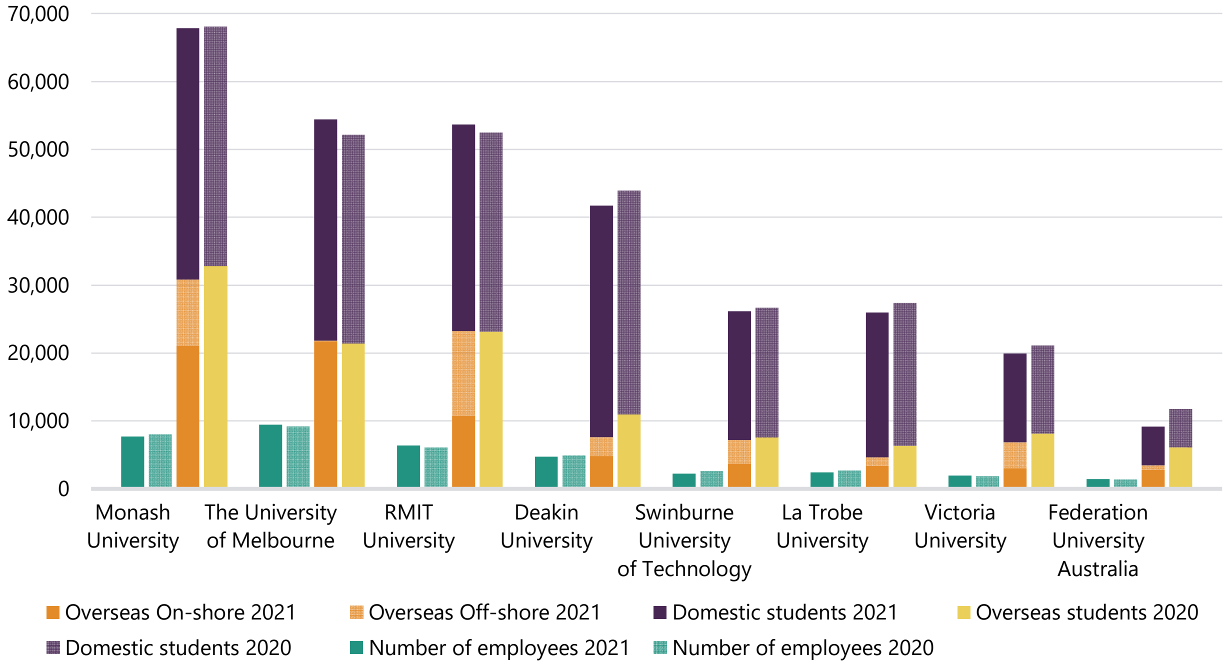
Victoria’s 2 largest universities—Monash University and The University of Melbourne—are members of the Group of 8, a body of Australia's leading research-focused universities.

Private universities (such as the Australian Catholic University, the University of Divinity, the Australian National University and Torrens University), and other universities that are controlled by the Commonwealth and other states are excluded from this report.

Universities by size (student numbers)

Student numbers are measured by equivalent full-time loads (EFTSL). One EFTSL represents an individual student studying full-time for a full year.

FIGURE B1: **Universities by full-time equivalent student and staff numbers (year ending 31 December 2021)**



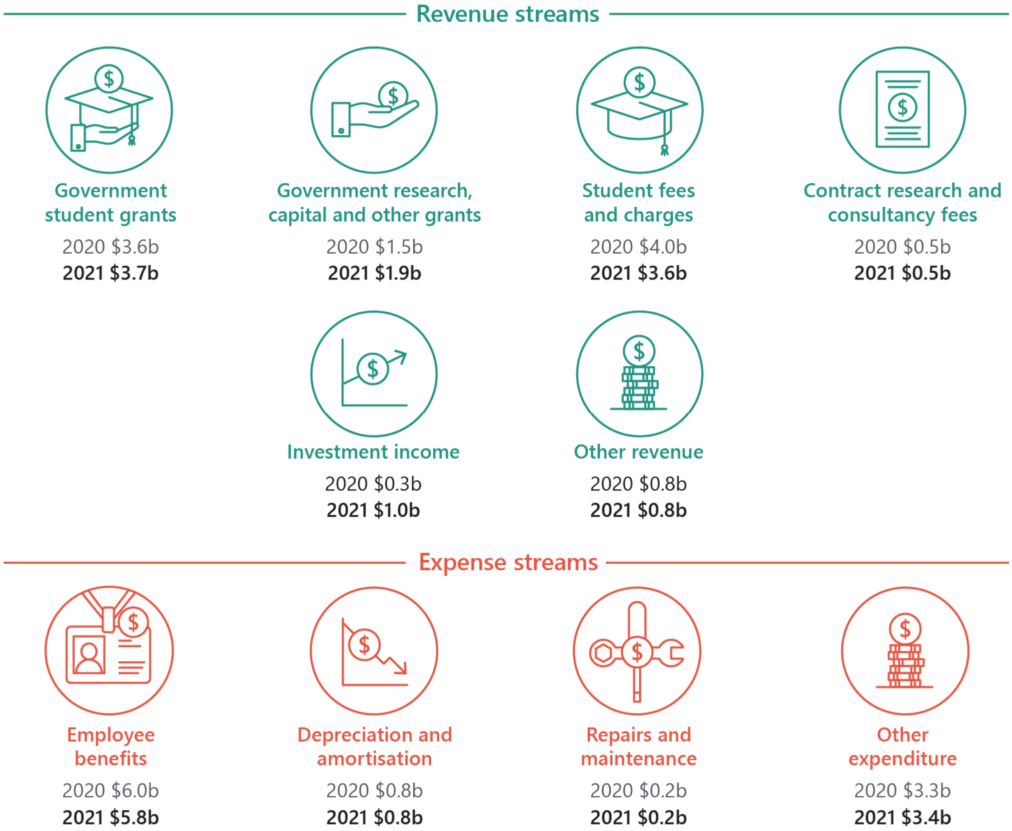
Note: Overseas students for 2020 includes both onshore and offshore student loads. Where relevant, EFTSL excludes vocational education student loads. Number of employees includes Full time, part time and casual academic and non academic staff.

Source: VAGO.

The university sector's financial model

Revenue and expense streams

FIGURE B2: **Key revenue and expense streams showing 2020 and 2021**



Source: VAGO.

Sector revenue streams

The university sector's revenue comes from:

- Australian Government student funding (based on student numbers)
- student fees and charges
- other grants (government and private), including research and capital
- fees for contract research and consultancy
- investment income from its significant cash and financial investments
- other revenue.

Most of the sector's assets are the property, plant and equipment it needs to deliver its services.

Sector expenditure streams

The sector’s expenses come from:

- employee salaries, wages and benefits
- depreciation and amortisation
- repairs and maintenance
- other expenditure.

Legislative and financial reporting framework

Applicable Victorian Acts

In Victoria, public universities are established by their own respective enabling legislations. The *Financial Management Act 1994* (FMA) therefore defines them as public bodies, and they must comply with its requirements for preparing financial reports.

However, since the State of Victoria does not control the universities, the state's annual financial report does not include their financial results.

Commonwealth Acts

Universities are registered with the Tertiary Education Quality and Standards Agency and therefore regulated by the *Tertiary Education Quality and Standards Agency Act 2011* (TEQSA Act).

Universities receive most of their grant funding from the Australian Government and fall within the scope of any legislation associated with this funding, including the *Higher Education Support Act 2003* (HESA Act).

The TEQSA and HESA Acts, and many of their funding agreements that underpin the money universities receive for research and other purposes, also impose financial reporting requirements on universities in addition to the requirements of the state-legislated FMA.

The *Financial Statement Guidelines for Australian Higher Education Providers*, which all universities follow, outline the requirements these 2 Acts prescribe.

The Commonwealth instructs universities to include some of these reporting requirements in their financial reports. This means universities' financial reports contain disclosures that are not usually found in general-purpose financial reports.

Universities with charity status

Many universities and their controlled entities are also registered charities with the Australian Charities and Not-for-profits Commission. This means they have further reporting obligations under the *Australian Charities and Not-for-profits Commission Act 2012*.

Controlled entities

Entities universities control do not automatically fall within the scope of the FMA, but their parent entity's enabling legislation may require them to produce financial reports in a form the Assistant Treasurer administering Part 7 of the FMA approves.

APPENDIX C

Our audit approach

Our method

We conduct our financial audits of the university sector in accordance with the *Audit Act 1994* and the Australian Auditing Standards. As part of an audit, we:

- identify and assess the financial report’s risks of material misstatement (whether due to error or fraud)
- design and perform audit procedures to respond to those risks
- obtain sufficient and appropriate audit evidence to provide a basis for an opinion.

We also:

- investigate internal controls relevant to the audit so we can design appropriate audit procedures for the circumstances
- evaluate whether the entity's accounting policies are appropriate
- evaluate whether the accounting estimates and related disclosures in the entity's financial report are reasonable
- decide if it is appropriate to use the **going concern** basis of accounting
- evaluate the overall presentation, structure and content of the financial report, including its disclosures
- assess whether the financial report represents the underlying transactions and events in a way that achieves fair presentation.

Going concern means that an entity is expected to be able to pay its debts when they fall due and continue to operate without any intention or need to liquidate or otherwise wind up its operations.

Our independence

The Auditor-General is:

- an independent officer of the Parliament of Victoria
- appointed under legislation to examine, on behalf of Parliament and taxpayers, how the public sector manages resources
- not subject to control or direction of either Parliament or the government.

Our ethical obligations

The Auditor-General and staff of VAGO must meet the ethical requirements of:

- the Australian Auditing Standards
- the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants*
- the Code of Conduct for Victorian Public Sector Employees of Special Bodies
- the *Public Administration Act 2004*.

Our costs

This report and its supporting dashboard cost $130,000 and were funded by parliamentary appropriation.

APPENDIX D
Acronyms and abbreviations

Acronyms

AASB 101	AASB 101 *Presentation of Financial Statements*
EFTSL	equivalent full-time student load
FMA	*Financial Management Act 1994*
FTE	full-time equivalent
Go8	Group of 8
HESA Act	*Higher Education Support Act 2003*
TEQSA Act	*Tertiary Education Quality and Standards Agency Act 2011*
VAGO	Victorian Auditor-General's Office

Abbreviations

COVID-19	The coronavirus disease 2019 pandemic

APPENDIX E

Audit opinions

Figure E1 lists the entities included in this report. It details the type of audit opinion for their 2021 financial reports, and the date it was issued to each entity.

FIGURE E1: **Audit opinions issued for the university sector (year ending 31 December 2021)**

Entity	Clear audit opinion issued	Audit opinion signed date
Deakin University	✓	31 March 2022
Deakin Residential Services Pty Ltd	✓	28 March 2022
Unilink Limited	✓	28 March 2022
Universal Motion Simulator Pty Ltd	✓	28 March 2022
Federation University Australia	✓	13 March 2022
Brisbane Education Services Pty Ltd	✓	13 March 2022
The School of Mines and Industries Ballarat Limited	✓	13 March 2022
La Trobe University	✓	31 March 2022
La Trobe Ltd	N/A	N/A
Monash University	✓	29 March 2022
Monash Accommodation Services Pty Ltd	✓	23 May 2022
Monash College Pty Ltd	✓	16 March 2022
Monash Commercial Pty Ltd	✓	12 April 2022
Monash Investment Holdings Pty Ltd	✓	12 April 2022
Monash Investment Trust	✓	5 April 2022
Monash University Foundation Pty Ltd	✓	13 April 2022
Monash University Foundation	✓	27 April 2022
Monash University Indonesia Limited	N/A	N/A
World Mosquito Program Ltd	N/A	N/A
Royal Melbourne Institute of Technology	✓	11 March 2022
RMIT Holdings Pty Ltd	✓	11 March 2022
RMIT Online Pty Ltd	✓	3 March 2022
RMIT Spain SL	✓	3 March 2022
RMIT Training Pty Ltd	✓	3 March 2022

Entity	Clear audit opinion issued	Audit opinion signed date
RMIT University Indonesia Pty Ltd	✓ highlighting a material uncertainty related to going concern	11 March 2022
Swinburne University of Technology	✓	31 March 2022
Capsular Technologies Pty Ltd	✓	17 May 2022
National Institute of Circus Arts Limited	✓	17 May 2022
Swinburne College Pty Ltd	✓	1 April 2022
Swinburne Intellectual Property Trust	✓	23 May 2022
Swinburne International (Holdings) Pty Ltd	✓	12 May 2022
Swinburne Student Amenities Association Ltd	✓	12 April 2022
Swinburne Ventures Ltd	✓	2 May 2022
The University of Melbourne	✓	2 June 2022
Australian Music Examinations Board (Vic) Limited	N/A	N/A
Goulburn Valley Equine Hospital Pty Ltd	N/A	N/A
Melbourne Business School Limited	✓	6 June 2022
Melbourne Teaching Health Clinics Ltd	N/A	N/A
Melbourne University Publishing Limited	✓	6 June 2022
Mt Eliza Graduate School of Business and Government Limited	✓	21 June 2022
Nossal Institute Limited	✓	29 June 2022
UOM Commercial Ltd	N/A	N/A
UOM International Holdings Limited	N/A	N/A
UM Commercialisation Pty Ltd	N/A	N/A
UM Commercialisation Trust	N/A	N/A
Victoria University	✓	30 March 2022
Victoria University Enterprises Pty Ltd	✓	30 March 2022
VU Online Pty Ltd	✓	30 March 2022

Note: N/A = not applicable.
Source: VAGO.

APPENDIX F
Control issues risk ratings

Figure F1 shows the risk ratings applied to issues raised in management letters. It also details what they represent and the expected timeline for the issue to be resolved.

FIGURE F1: **Risk definitions applied to issues reported in audit management letters**

Rating	Definition	Management action required
High	**The issue represents:** a material **misstatement** in the financial report that has occurred, or an issue that could potentially result in a modified audit opinion if not addressed as a matter of urgency by the entity, or a control weakness which could cause or is causing a **major** disruption of the process or the entity's ability to achieve process objectives in relation to financial reporting and comply with relevant legislation.	Requires executive management to correct the misstatement in the financial report, or address the issue, as a matter of urgency to avoid a modified audit opinion. Requires immediate management intervention with a detailed action plan to be implemented within one month.
Medium	**The issue represents:** a misstatement in the financial report that is not material and has occurred, or that may occur, the impact of which has the possibility to be material, or a control weakness that could have or is having a **moderate** adverse effect on the ability to achieve process objectives and comply with relevant legislation.	Requires management intervention with a detailed action plan implemented within 3 to 6 months.
Low	**The issue represents:** a misstatement in the financial report that is likely to occur but is not expected to be material, or a **minor** control weakness with minimal but reportable impact on the ability to achieve process objectives and comply with relevant legislation, or an opportunity to improve an existing process or internal control.	Requires management intervention with a detailed action plan implemented within 6 to 12 months.

Source: VAGO.

APPENDIX G
Financial and non-financial sustainability indicators

Figure G1 shows the financial and non-financial indicators used to assess the financial sustainability risks of universities. These indicators should be considered collectively and are more useful when assessed over time as part of a trend analysis.

Our analysis of financial sustainability risk in this report reflects on the position of each university and its controlled entities (each consolidated university).

We have published the underlying raw data and each universities' results for each indicator from 2017 to 2021 as part of our interactive data dashboard on our website (www.audit.vic.gov.au/report/results-2020-audits-universities).

FIGURE G1: **Financial and non-financial sustainability indicators, formulas and descriptions**

Indicator	Formula	Description
Net result margin (%)	Net result/ total revenue	A positive result indicates a surplus, and the larger the percentage, the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long term. The net result and total revenue are obtained from the comprehensive operating statement. The adjusted net result margin is the net result margin adjusted for the one-off accounting changes introduced by AASB 9 *Financial Instruments* in 2018.
Liquidity (ratio)	Current assets/current liabilities	This measures the ability to pay existing liabilities in the next 12 months. A ratio of one or more means that there are more cash and liquid assets than short-term liabilities.
Adjusted liquidity (ratio)	(Current assets + non-current financial investments)/current liabilities	Liquidity ratio adjusted to include non-current financial investments, since most of these can be converted to cash or cash equivalents at short notice and are available to the universities to meet any liabilities if required. The ratio should ideally be above one, indicating that there are sufficient liquid assets to meet short-term liabilities.
Capital replacement (ratio)	Cash outflows for property, plant and equipment/depreciation	This compares the rate of spending on property, plant and equipment with its depreciation. Ratios higher than 1:1 indicate that spending is faster than the depreciating rate. This is a long-term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations and borrowings is not an option. Cash outflows for property, plant and equipment are taken from the cashflow statement. Depreciation is taken from the comprehensive operating statement.

Indicator	Formula	Description
Internal financing (%)	Net operating cashflow/net capital expenditure	This measures the ability of an entity to finance capital works from generated cashflow. The higher the percentage, the greater the ability for the entity to finance capital works from its own funds. Net operating cashflows and net capital expenditure are obtained from the cashflow statement. Note: The internal financing ratio cannot be less than zero. Where a calculation has produced a negative result, this has been rounded up to zero per cent.
Debt to equity (%)	Total borrowings/equity	This measures the reliance on debt as a source of funding. A higher ratio indicates greater reliance on debt and an increased the risk of insolvency.
Cost of debt (%)	Finance costs/total borrowings	This measures the effective rate of interest and other costs paid on borrowings.
Employee benefits ratio (%)	Employee expenses/total revenue	This measures of how efficiently each university uses its staff to deliver revenue-generating services. Generally, a smaller ratio indicates a more efficient and sustainable workforce.
Repairs and maintenance to depreciation (%)	Repairs and maintenance expense/depreciation	This compares the rate of spending on repairing and maintaining existing assets with depreciation.
Effective Full-Time Student Load (EFTSL) to Employee Full-Time Equivalent (FTE) (ratio)	Total EFTSL/total employee FTE	This measures the adequacy of available resources per student load.
Employee expenses per EFTSL (ratio)	Employee expenses/total EFTSL	This measures the cost of employees per student. Generally, a smaller ratio indicates greater cost efficiency.
Operating expenses per EFTSL (ratio)	Operating expenses/Total EFTSL	This measures the operational cost per student. Generally, a smaller ratio indicates greater cost efficiency.

Source: VAGO.

Auditor-General's reports tabled during 2022–23

Report title	
Results of 2021 Audits: Technical and Further Education Institutes (2022–23: 1)	July 2022
Results of 2021 Audits: Universities (2022–23: 2)	July 2022

All reports are available for download in PDF and HTML format on our website www.audit.vic.gov.au

Auditor-General’s responsibilities

Our fact sheets provide you with more information about our role and our audit services:

- About VAGO
  Information about the Auditor-General and VAGO's work
- Our assurance services
  Information about the nature and levels of assurance that we provide to Parliament and public sector agencies through our work program

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