Queensland Audit Office

Results of audits: Education sector entities 2012

Report to Parliament 11 : 2012-13

Queensland Audit Office

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QUEENSLAND

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The Honourable F Simpson MP
Speaker of the Legislative Assembly
Parliament House
BRISBANE QLD 4000

Dear Madam Speaker

Report to Parliament

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*, and is titled Results of audits: Education sector entities 2012 (Report 11: 2012-13)

In accordance with s.67 of the Act, would you please arrange for the report to be tabled in the Legislative Assembly.

Yours sincerely

Andrew Greaves
Auditor-General

Contents

Summary

Background

This report is prepared under section 60 of the *Auditor General Act 2009*. It summarises the results of our 2012 financial audits of universities and grammar schools, and the entities they control.

The annual report of each university and grammar school is the primary accountability document reporting to their stakeholders, other funders and users of their services. It sets out the operational and financial performance and position.

Legislation requires an annual report to include audited financial statements. In this context, the audit opinion accompanying them provides readers of the financial statements with added assurance that financial statements are reliable.

We discuss the number and type of audit opinions issued; the timeliness and quality of financial reporting by the universities and grammar schools; and systemic issues with internal controls identified during our financial audits. We have also analysed the indicators of financial sustainability under which universities and grammar schools can be assessed and identified potential future financial risks and challenges across the sector.

Conclusions

The financial statements of universities and grammar schools were timely and of good quality, with a few exceptions.

The number of control weaknesses identified has decreased from the prior year but there is still scope for improvement in the performance and monitoring of internal controls.

Financially, universities and most grammar schools remain in a sound position, except Ipswich Grammar School and, to a lesser extent, Ipswich Girls' Grammar School. Ipswich Girls' Grammar School reviewed its revenue and expenditure policies during 2012 and this resulted in a small operating surplus and an improved financial performance. Both schools need to continue their efforts to improve future performance.

Audit opinions

As shown in Figure A, for 2012, audit opinions have been issued for 46 education entities (96 per cent), including for all seven universities and all eight grammar schools. This represents a significant reduction in the number of entities preparing audited financial statements, compared to 2011 when 75 opinions were issued. The decrease in 2012 is due mainly to a number of small proprietary companies owned and controlled by Universities electing not to prepare financial statements, as allowed under the *Corporations Act 2001.*

Figure A
Status of the financial statements

Entity type	Unfinished audits	Unqualified opinions issued	Unqualified but with an emphasis of matter	Total
Universities and controlled entities	0	23	8	**31**
Grammar schools and controlled entities	0	7	1	**8**
Other statutory bodies	0	1	0	**1**
Jointly controlled entities	1	1	2	**4**
Audited by arrangement	1	3	0	**4**
Total	**2**	**35**	**11**	**48**

Source: QAO

All opinions issued to date for 2012 were unqualified (100 per cent compared to 89 per cent in 2011), confirming that they were prepared according to the requirements of legislation and relevant accounting standards.

In 2011, eight qualified opinions (11 per cent) were issued. The decrease in qualified opinions from 2011 resulted from grammar schools increasing disclosure of their key management personnel.

While not a qualification, 11 emphasis of matter paragraphs (23 per cent) were included with the audit opinions. This was intended to draw the reader's attention to the fact that they were special purpose, rather than general purpose financial statements; or that they were being wound up; or that there were going concern issues. In 2011, 38 emphasis of matter paragraphs were included (51 per cent). This reduction was attributed to small proprietary companies preparing fewer special purpose statements.

Timeliness of financial statements

The relevance and usefulness of the annual report is enhanced, and accountability made more effective, where reports are available soon after the end of the financial year.

From this perspective, the seven universities and their 24 controlled entities met all legislative timeframes for 2012 in the certification of their financial statements, as they did in 2011. This is a good result.

Six of the eight grammar schools (75 per cent) met their financial statements legislative requirement, where none did in 2011. In 2011, additional time was taken by grammar schools to address the issue of the disclosure of remuneration of key management personnel. The two grammar schools that did not meet the two month deadline this year required amendments to their draft statements to correct prior period errors for one and to process asset revaluation adjustments for the other.

Quality of financial statements

A measure of the quality of the financial statements submitted for audit is the number and quantum of any subsequent changes required to be made to them. These changes may be identified by either audit or management and can lead to additional time and costs for the audit.

The quality of financial statement preparation and checking by management has improved across the university sector. Three of the seven universities (43 per cent) made material adjustments to their draft statements after submitting them for audit. Changes totalling $29.65 million were made to various accounts and some note disclosures required amendment so that the stated accounting policies reflected what occurred at the universities. Changes totalling $626.66 million were made in 2011 for six of the seven universities (86 per cent). This means the total value of adjustments decreased by 95 per cent from 2011 to 2012.

The quality of the financial statements was satisfactory for three grammar schools but five needed to improve internal quality assurance processes. Combined adjustments totalling $9.3 million were made to five grammar schools' financial statements before their audit opinions were issued for 2012.

Internal controls

We identified 24 internal control weaknesses and reported to management in four of the seven universities in 2012. There were no significant issues raised at the other universities. This was a decrease of 20 per cent from the 30 weaknesses identified in 2011. These weaknesses have significant implications if not addressed as a matter of priority.

At seven of the eight grammar schools, we identified and reported 17 internal control weaknesses in 2012, compared to 45 weaknesses in 2011—a decrease of 62 per cent.

The control breakdowns at universities related mainly to policies and procedures established to protect assets, ensure reliable accounting records, promote efficiency and encourage adherence to each organisation's accounting policies.

The grammar schools' weaknesses related mainly to the disclosure of financial information and control of assets.

Sustainability

Universities

We assess each university's financial sustainability by analysing key financial ratios, some of which are used by the federal Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education to monitor universities' financial and business performance across Australia.

Figure B summarises the key ratios for 2012. It shows that, overall, the financial health of the university sector remains sound—all but one made reasonable operating margins; the level of debt was low and manageable; and for all but one university, the stock of fixed assets in 2012 increased faster than the service potential of existing assets was consumed.

Figure B
University financial risk assessment

Universities	Operating ratio (Note 1)	Short term liquidity (Note 2)	Debt to equity (Note 3)	Debt to revenue (Note 4)	Capital replacement (Note 5)	Overall risk assessment
Central Queensland University	-10%	1.6	-	-	1.61	Low*
Griffith University	11%	2.8	3%	8%	6.66	Low
James Cook University	8%	2.4	7%	11%	2.96	Low
Queensland University of Technology	12%	2.8	6%	9%	3.23	Low
The University of Queensland	4%	1.9	4%	7%	2.15	Low
University of Southern Queensland	14%	3.4	4%	6%	7.64	Low
University of the Sunshine Coast	16%	5.6	7%	10%	0.85	Low

1. Higher ratio indicates a greater capacity to meet current operating and capital expenditure obligations.
2. Current ratio greater than 1 is considered low risk as it indicates debts over the next 12 months can be paid.
3. Low percentage indicates less reliance on debt to finance capital structure.
4. Low percentage indicates financial stability and solvency in that minimal revenue is required to settle liabilities.
5. Ratio greater than one indicates capital spend is greater than depreciation and thus assets are being replaced faster than they are consumed. To take into account new assets and asset expansion, this ratio should always be above 1.

* Central Queensland University incurred a loss for the third successive year but its balance sheet is debt free and ratios are adequate.

Source: QAO

A significant source of all universities' revenue is international student fees and it is an income stream that is affected by national reforms and by international factors outside the direct control of individual universities. Risks to this revenue stream need to be monitored closely.

International student numbers across the Queensland higher education sector declined for the second year in succession (2 290 or six per cent) and the revenue generated from international students across the sector declined by $2.6 million (0.3 per cent). The decline in student numbers was offset partly by increases in fee rates.

Central Queensland University (CQU) was most affected by this decline: international student revenue reduced by $12.7 million from 2011 and contributed to an operating loss after tax of $26 million—the third year in succession a loss was incurred. However, CQU has a strong balance sheet as it carries no debt.

Grammar schools

We assessed each grammar school's financial sustainability by analysing key financial ratios, some of which are used by the Queensland Department of Education, Training and Employment.

For most grammar schools, these ratios were positive. However, for two grammar schools—Ipswich Grammar School and Ipswich Girls' Grammar School—three or more ratios were of concern.

For Ipswich Grammar School (IGS), the ratios showed that IGS is at risk of not being able to meet short term obligations as they fall due and operating expenditure has been growing at a faster rate than operating revenue. The ratios for Ipswich Girls' Grammar School (IGGS) showed they are in the potential position of not having sufficient revenue to repay borrowings and loans and may not be able to meet short term obligations. It is acknowledged that IGGS had an improved operating result for 2012, generating a small surplus and, historically, they have met all financial obligations. An external review of the school's business model and cost structure was performed in 2012 and recommendations were implemented to improve future sustainability.

Prior year follow up

In Report 3 : 2012 Results of audits—Education sector financial statements for 2011, four key recommendations were made relating to:

- improving disclosure of remuneration of key management personnel at all the grammar schools
- improving the financial statement preparation process to reduce the amount of changes identified by external audit
- adhering to agreed financial statement timetables between management and external audit
- addressing internal control weaknesses identified across all entities.

In response to these recommendations:

- Grammar schools have provided increased key management personnel disclosures for 2012 and the qualification has been removed.
- The number and value of changes made to the financial statements for 2012 have reduced since 2011 with improvements noted in this area.
- 96 per cent of entities met the legislative timeline requirements in 2012 for financial statements certification, compared to 89 per cent in 2011. This is a good result.
- Most internal control weaknesses identified in 2011 have been addressed; however, five issues have been raised for the second year in succession.

Recommendations

It is recommended that:

1. **Ipswich Grammar School and Ipswich Girls' Grammar School continue to review their revenue and expenditure policies to improve future financial performance.**

Entity responses

In accordance with section 64 of the *Auditor-General Act 2009* relevant entities referenced in this report were given 21 days to provide comments on any significant matters discussed. The comments received, or a fair summary of them, must be published in the report.

This proposed report was provided to the accountable officers of all universities and grammar schools for their response.

Two responses, from Central Queensland University and the Ipswich Grammar School, are included in Appendix A of this report.

1 Context

1.1 Financial reporting requirements

1.1.1 Universities and grammar schools

The seven universities each have their own enabling legislation. For financial reporting purposes, their Acts provide that they are statutory bodies and are subject to the requirements of the *Financial Accountability Act 2009* and the *Statutory Bodies Financial Arrangements Act 1982.*

The universities prepare general purpose financial statements in accordance with the Australian Accounting Standards. The *Financial Accountability Act 2009* requires that audited financial statements are included in the annual report of each university and tabled in Parliament by the Minister for Education, Training and Employment. Additional disclosure requirements are prescribed by the federal Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education.

While historically associated with the public sector through the provisions of the *Grammar Schools Act 1975*, the grammar schools operate on a fully commercial basis with only limited financial assistance provided by the state. They are statutory bodies and are subject to the requirements of the *Financial Accountability Act 2009* and the *Statutory Bodies Financial Arrangements Act 1982*.

As statutory bodies, universities and grammar schools are required, when preparing their annual financial statements, to have regard to the minimum reporting requirements contained in the financial reporting requirements for Queensland Government agencies issued by Queensland Treasury and Trade.

The chairperson and the executive responsible for financial administration at each entity must certify compliance with legislative requirements for establishing and keeping accounts and that the financial statements present fairly the entity's transactions for the financial year and financial position.

The Financial and Performance Management Standard 2009 requires draft financial statements for universities and grammar schools to be provided for audit by an agreed date that allows sufficient time to conduct the audit and complete the audit opinion no later than two months after the end of the financial year to which the statements relate.

At the first meeting after it receives the audit report on the statements, the governing body must consider the statements and the report. If the report contains comments, observations or suggestions about anything arising out of an audit, the board must also consider the comments, observations or suggestions.

The statutory body must give the annual report to the Minister by a date which allows the report to be tabled in Parliament by the Minister within three months after the end of the financial year to which the report relates.

Universities and grammar schools are required by the *Financial Accountability Act 2009* to:

- ensure their operations are carried out efficiently, effectively and economically
- establish and keep funds and accounts in compliance with legislative requirements
- ensure annual financial statements are prepared, certified and tabled in Parliament in accordance with legislative requirements
- undertake planning and budgeting appropriate to their size
- establish and maintain appropriate systems of internal control and risk management.

1.1.2 Controlled entities

The majority of controlled entities of universities are public companies subject to the requirements of the *Corporations Act 2001*.

The *Corporations Act 2001* requires public companies to report to members, including providing the auditor's report on the financial statements, either by 21 days before the next annual general meeting after the end of the financial year, or four months after the end of the financial year—whichever is earlier. Entities with a 31 December year end must report by 30 April.

1.2 Audit responsibilities

Section 40 of the *Auditor-General Act 2009* requires the Auditor-General to audit the annual financial statements of all public sector entities, including those of statutory bodies, and to prepare an auditor's report about the financial statements.

The auditor's report, which includes the audit opinion, provides assurance about the reliability of the financial report, including compliance with legislative requirements. In accordance with Australian Auditing Standards, one or more of the following audit opinion types may be issued:

- Unqualified opinions are issued where the financial statements comply with relevant accounting standards and prescribed requirements.
- A qualification is issued when the financial statements as a whole comply with relevant accounting standards and legislative requirements, with the exceptions noted in the opinion.
- An adverse opinion is issued when the financial statements as a whole do not comply with relevant accounting standards and legislative requirements.
- A disclaimer of opinion is issued when the auditor is unable to express an opinion as to whether the financial statements comply with relevant accounting standards and legislative requirements.

An emphasis of matter paragraph may be included with the audit opinion to highlight an issue of which the auditor believes the users of the financial statements need to be aware. The inclusion of an emphasis of matter paragraph does not modify the audit opinion. An emphasis of matter paragraph will be included for all financial statements prepared on a special purpose basis. Special purpose financial statements are designed to meet the financial information needs of specific users while general purpose financial statements are intended to meet the information needs common to all users.

The *Auditor-General Act 2009* requires, after the audit opinion has been issued, that a copy of the certified statements and the auditor's report is provided to the chief executive officer of the entity as well as the appropriate Minister.

The Act also requires the Auditor-General to prepare a report to Parliament on each audit conducted. The report must state whether or not the audit has been finished and the financial statements have been audited. It must also include details of significant deficiencies where financial management functions were not performed adequately or properly and any actions taken to improve deficiencies reported in previous reports.

This report satisfies these requirements.

The total cost of the report was $130,000.

1.3 Structure of the report

The report is structured as follows:

- Chapter 2 provides the results of university sector audits, quality and timeliness of financial statements, internal control issues, comments on the financial performance of universities, risks to their sustainability and future financial risks and challenges.
- Chapter 3 includes grammar school audit results, the quality and timeliness of financial statements, internal control issues, and the sustainability of grammar schools.
- Appendix A contains entity responses.
- Appendices B and C contains the status of the 2012 financial statements of education and other entities with a 31 December balance date.
- Appendix D contains entities for which audit opinions will not be issued.
- Appendix E contains better practice for short term liquidity management.
- Appendix F contains the location of the universities and grammar schools.

2 Universities and controlled entities

In brief

Background

The seven Queensland public sector universities are located across Brisbane, Rockhampton, Sunshine Coast, Toowoomba and Townsville. Some have campuses across the state, interstate and overseas. The universities conduct undergraduate and postgraduate programs of study and research programs. These seven universities control 24 entities which are also required to prepare financial statements in 2012.

Key findings

- Unqualified audit opinions were issued for all universities and 24 controlled entities.
- The number of controlled entities preparing financial statements for audit certification in 2012 reduced to 24 from 53 in 2011, which was mainly attributed to their acceptance of the exemption offered under the *Corporations Act 2001* which allows certain companies of a certain size not to prepare financial statements.
- All financial statements were certified within their legislated timeframe, as in 2011.
- Financial statement quality was satisfactory for all entities, with appropriate preparation processes.
- All universities except Central Queensland University made operating surpluses for 2012.
- International student numbers across the Queensland higher education sector declined for the second year in succession and the revenue generated from international students during 2012 declined by $2.6 million.

2.1 Background

Seven universities and 24 controlled entities of these universities were required to prepare financial statements in 2012.

In 2011, 53 controlled entities prepared financial statements but 21 small proprietary companies determined not to prepare financial statements for the 2012 financial year as allowed under the *Corporations Act 2001* and eight are no longer trading. This was a decrease of 55 per cent. Further details are included in Appendix D.

Currently the Parliamentary Finance and Administrative Committee is considering a number of issues related to the financial reporting and accountability of public sector companies and a final decision should clarify the future reporting requirements of all public sector companies, including companies controlled by universities.

2.2 Conclusions

The financial statements of all universities and their controlled entities were timely and of good quality. The number and value of errors which management and QAO identified during 2012 decreased significantly from 2011, indicating the quality assurance processes implemented by universities have been effective.

Financial sustainability ratios indicated all universities have relatively strong balance sheets. A decline in international student revenue at Central Queensland University (CQU) contributed to an operating loss after tax for the third year in succession. On present trends, CQU has a higher risk than the other universities of becoming unsustainable, even though it has a strong balance sheet.

2.3 Results of audit

We issued 31 unqualified opinions (100 per cent) on completed financial statements. We issued 57 unqualified opinions (100 per cent) in 2011. An unqualified audit opinion confirms that the financial statements have been prepared according to the requirements of legislation and relevant accounting standards.

Without qualifying the audit opinion, under certain circumstances it is appropriate to include an emphasis of matter paragraph with the audit opinion, drawing the reader's attention to a matter in the financial statements. Emphasis of matter paragraphs were included with the unqualified audit opinions of eight controlled entities (26 per cent), compared to 36 (63 per cent) in 2011.

For eight controlled entities, this was to draw attention to the fact that special purpose financial statements were prepared for:

- Gold Coast Innovation Centre Limited
- i.Lab Incubator Pty Ltd
- JCU Enterprises Pty Ltd
- Unicare (NQ) Limited
- UniQuest Asset Trust
- University of Queensland Foundation Trust
- UQ College Limited
- UQ Health Care Limited.

An additional emphasis of matter paragraph was included with the audit opinion of i.Lab Incubator Pty Ltd as their financial statements were not prepared on a going concern basis.

2.4 Timeliness and quality of financial statements

2.4.1 Timeliness

To enhance accountability for the use of public monies, entities should prepare and publish their financial information as soon as possible after the end of the financial year. The later the financial statements are produced and published after their balance date, the less useful they are for stakeholders and for informing decision-making.

All seven (100 per cent) universities met their two-month legislative timeframes for finalising their financial statements, as they did in 2011, which was a good result.

The dates the financial statements were signed by management and the audit opinion was issued for universities and their controlled entities are in Appendix B.

All universities met the timetable they agreed with us for providing the initial draft version of their financial statements, including their supporting working papers, which was a positive result.

All of the 24 controlled entities (100 per cent) finalised their financial statements by the date of this report. Thirteen of these entities are required by the *Corporations Act 2001* to finalise their financial statements within four months of the end of the financial year, and so have outperformed on this benchmark.

2.4.2 Quality and accuracy

The frequency and size of errors in the draft financial statements requiring adjustment are direct measures of accuracy. Ideally, there should be no errors or adjustments arising through the audit process.

When errors are detected in the draft financial statements, these are raised with management. Material errors require correction so that an unqualified audit opinion can be issued. The entity itself may also change its draft financial statements after submitting them to audit, if their quality assurance procedures subsequently identify that reported information is incorrect or incomplete.

Overall, there are two types of adjustments:

- financial statement adjustments—changes to the amounts being reported
- disclosure adjustments—changes to the commentary or financial note disclosure within the financial statements.

Before being given to audit, financial statements should be subject to appropriate internal quality assurance checks to establish that they are complete and materially accurate and comply with reporting and disclosure requirements. Ideally, only one set of financial statements should be prepared by management with no adjustments being required.

The number and value of adjustments made to the financial statements in 2012 were greatly reduced from adjustments recorded in 2011 of $626.66 million. Combined adjustments totalling $29.65 million were made to financial statements for 2012 before the audit opinion was issued.

This indicates that the quality assurance processes and the systems in place for financial statement preparation by the universities are operating effectively.

The extent of changes made to the financial statements during the audit process are summarised in Figure 2A.

Figure 2A
Changes to financial statements prior to audit certification*

Financial statement area	2011 $m	2012 $m
Income	328.08	2.35
Expenses	42.91	10.50
Assets	51.23	3.40
Liabilities	142.27	10.50
Equity	62.17	2.90
Total	**626.66**	**29.65**
Number of universities that processed a change	6	3

*The extent of changes made within each university's financial statements was considered, based on materiality to the financial statements.

Source: QAO

Changes were made also in the notes to the financial statements, with all universities required to make some additional note disclosures to comply with the Queensland Treasury and Trade requirements and with requirements of the federal Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education. Some of the key changes led to enhanced disclosures about:

- contingent liabilities
- post-balance date events
- prior period errors
- new accounting standards and interpretation
- reserves and retained earnings
- asset revaluation assumptions.

2.5 Internal controls

2.5.1 Background

Effective internal controls help entities to meet their objectives reliably and cost effectively. Reliable financial reporting controls are a prerequisite for the delivery of external and internal reports that are accurate and timely.

University governing bodies are responsible for developing and maintaining adequate systems of internal control to enable:

- preparation of accurate financial records and other information
- external and internal reporting that is timely and reliable
- appropriate safeguarding of assets
- prevention or detection of errors and other irregularities.

In our annual financial audits, we focus on the internal controls over financial reporting, and assess whether entities have managed the risk that their financial statements will not be 'true and fair'. Poor controls also diminish management's ability to comply with relevant legislation and increase the risk of fraud.

The control issues included in this report are those we identified which, if not addressed as a matter of priority, have significant implications for error and fraud.

In three of the seven universities, no significant control issues were identified, while 24 issues were raised across the other four universities. Of these issues, 17 related to The University of Queensland (UQ) and five of these issues were raised previously in 2011. UQ are implementing various changes to structure as a result of recommendations from an external review. Improvements across the control environment have been noted, with further improvements expected in 2013.

We also identified a number of improvement opportunities and advised on better practices for cash management and information system 'patch' management across all universities.

Other recommendations for improvement made to management included:

- better password management and logging of information system privileged user activity
- raising purchase orders to authorise expenditure before goods and services are procured
- the need to monitor adherence to entertainment and hospitality policies and to consider general public sector expectations at all times when incurring this expenditure
- more timely preparation and independent review of key account reconciliations and more considered application of Queensland Treasury and Trade's *Non-Current Asset Policies for the Queensland Public Sector,* including the documenting of key assumptions around asset valuations
- referring to Queensland Treasury and Trade *Investment Policy Guidelines for Statutory Bodies* released in October 2012 for better practice.

2.5.2 Audit focus on key control activities

Two areas of control examined this year as part of the financial audit across the seven universities were treasury management and software 'patch' management. While no significant control issues were identified, we reported a number of business improvement opportunities and better practice processes to all universities.

Treasury management

Queensland universities collectively hold more than $1 billion in cash and term deposits. We reviewed the short term cash flow liquidity management practices of the universities.

While the processes in place were satisfactory, the effectiveness of liquidity management varied across the universities with the following key findings:

- surplus funds are being used efficiently to earn market returns when compared to the cash rate available from the Queensland Treasury Corporation (QTC), although four universities needed to improve the documentation of their investment decisions
- four universities were not benchmarking and reporting on the performance of their cash investments; that is, comparing the return earned on the investment to an external benchmark such as the cash rate available from QTC
- various Excel™ spreadsheets used by each university for liquidity management did not incorporate better practice spreadsheet design and controls to minimise risks of arithmetical and computational logic errors
- opportunities were identified across all universities for improving the performance and compliance reporting of treasury functions to executive management and governance committees.

Appendix E summarises better practice for short term cash flow liquidity management in universities and statutory bodies generally.

Patch management

A software 'patch' is designed to address vulnerabilities or exposures that are found after the software is released. Patches also address software security or stability problems, including compatibility issues arising from new device types or communication protocols. A patch is also released to provide new features.

The Australian Government and the United States' National Security Agency both advocate the use of continuous vulnerability assessment and patch remediation as one of the top four mitigation strategies against cyber intrusions to computer systems.

A Queensland Government information security patch management guideline provides information on recommended best practices for patch management. While this guideline is not mandatory, the expectation is that all university software would be maintained to a level that is both supportable and maintainable to minimise the exposure to risks associated with flaws in software systems.

We examined whether the universities had formal patch management policies, patch risk assessment processes and effective controls established for patching financial systems.

Overall, patching of financial systems, associated operating systems and data bases was performed well by universities. This is due to good knowledge and skills of information technology staff, adequate support from software vendors and the availability of update tools from third parties. However, there was a general lack of patch management policy and tools required to capture decisions relating to risk assessment processes.

2.5.3 Monitoring and review of controls

Monitoring and review activities evaluate whether the components of the system of internal control are in place and operating effectively to detect and remediate any control deficiencies. An internal audit function and an audit committee are two key monitoring and review activities.

Internal audit

An effective internal audit function provides assurance to the governing body that appropriate internal controls exist and operate effectively; that risks are being managed; and that operations are being run efficiently, economically and effectively.

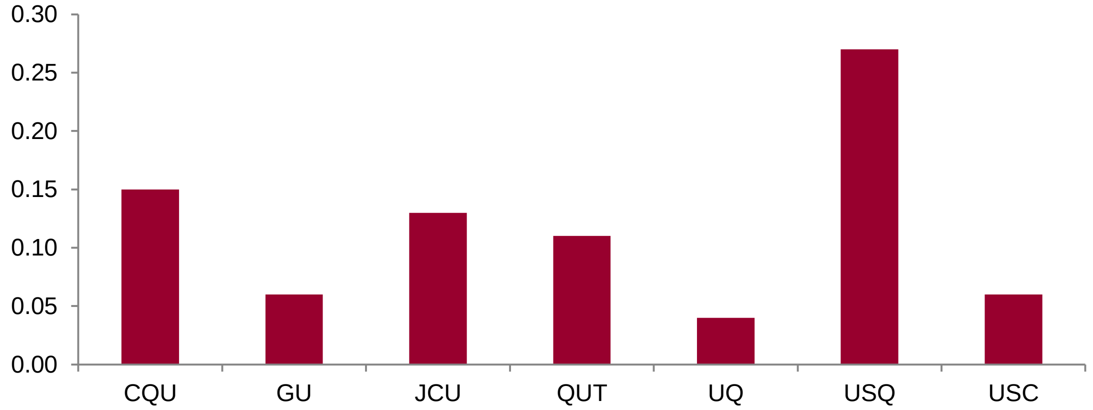
We assessed internal audit units across the sector as operating effectively during 2012, having considered their program focus, timing, quality of work and findings.

All universities had an internal audit unit but they vary in size and resourcing of the function. Three universities operated a co-sourced arrangement with the private sector; three performed most of the work with an in-house team and one university outsourced the function. All universities had staff with appropriate qualifications performing the work.

During 2012, 552 internal audit recommendations were made across all universities, with 284 yet to be implemented. Audit committees monitor implementation of these recommendations to resolve issues.

The total cost of internal audit across all universities was $3.66 million in 2012 which equates to 0.09 per cent of total operating expenditure across the sector. Figure 2B compares the cost of each internal audit unit to the total operating expenditure of their particular university.

Figure 2B
Internal audit unit costs as percentage of total operating expenditure



Source: QAO

Audit committees

An effective audit committee provides a forum to promote communication with internal and external audit; oversees internal audit activity; and ensures the integrity of financial reporting. Without an audit committee, there is no independent monitoring of remedies to internal audit issues.

All universities have audit committees operating which meet from three to seven times each year and at other times as required. The number of members varies from five to seven, with four or five external members on the audit committee at five universities. One university has no external members, which is contrary to better practice.

External members perform their duties at no cost to the universities and there are at least two members on each committee who have finance expertise.

At one university, QAO reports to the Finance Committee which currently attends to all external audit issues and the financial statements approval process. This is a different arrangement to other universities.

We assessed that audit committees across the sector operated effectively during 2012, having considered their involvement with the financial statement process and timely action of internal and external audit issues.

2.6 Financial performance and position

2.6.1 Managing financial risks

The Financial and Performance Management Standard 2009 requires that universities manage their strategic and operational risks, including financial risks, in accordance with their risk management system. This system must mitigate the risk to the university and the state of unacceptable costs or losses associated with their operations and manage risks that may affect their ability to continue to provide services.

The financial statements ratios for operating, liquidity, debt-to-equity, debt-to-revenue and capital replacement indicated all universities had been effective in managing their financial risks—they were in a sound financial position with strong cash balances, minimal debt and adequate expenditure on asset replacement and renewal. However, CQU had adverse operating results for the past three years. If these trends were to continue, CQU would be at a higher risk of becoming financially unsustainable.

2.6.2 Operating results

Universities' financial performance is measured primarily by their operating results—the difference between revenue inflows and expenditure outflows. They need to generate sufficient surpluses from their operations to meet all their future financial obligations, including repaying debt and funding asset replacement and acquisitions.

Six of the seven universities made an operating surplus for 2012. CQU made an operating loss of $26 million for 2012, its third year of consecutive losses.

CQU and three other universities also experienced a decline in their operating results compared to last year, with CQU's operating losses increasing by $22.8 million. The main reason for the increased loss at CQU was a significant decrease in international student fees of $12.7 million, together with new redundancy payments of $6 million, as well as an increase in salaries and wages—pay rates being adjusted upwards twice by four per cent and two per cent during the year.

UQ recorded a 70 per cent decline in its operating result for 2012. This resulted from reduced financial assistance by the Australian Government—specifically capital grant funding (a decrease of $72 million)—and a $58 million increase in employee expenses (the combined effect of 4.2 per cent increase in staff numbers and a four per cent salary increment).

While Queensland University of Technology (QUT) recorded the largest dollar improvement in its operating result ($39 million), University of the Sunshine Coast (USC) had the largest increase percentage-wise (189 per cent). Together with University of Southern Queensland (USQ), these three universities increased their operating revenues by 14 per cent, mainly through increased financial assistance from the Australian Government (of $725 million in 2011 and $844 million in 2012).

Figure 2C shows the trend in individual and combined operating results over the past five years.

Figure 2C
Operating results*

Entity	2008 $m	2009 $m	2010 $m	2011 $m	2012 $m	Five-year average $m
Central Queensland University (CQU)	5.09	2.46	-4.93	-3.28	-26.08	-5.35
Griffith University (GU)	101.26	94.40	109.81	90.02	87.04	96.51
James Cook University (JCU)	51.44	23.50	27.28	43.96	36.54	36.54
Queensland University of Technology (QUT)	22.73	110.29	46.93	63.84	102.83	69.32
The University of Queensland (UQ)	51.19	125.58	139.21	192.78	58.18	113.39
University of Southern Queensland (USQ)	17.01	18.01	14.59	14.52	38.09	20.44
University of the Sunshine Coast (USC)	13.69	17.50	15.88	8.59	24.84	16.10
Total	**262.41**	**391.74**	**348.77**	**410.43**	**321.44**	**346.95**

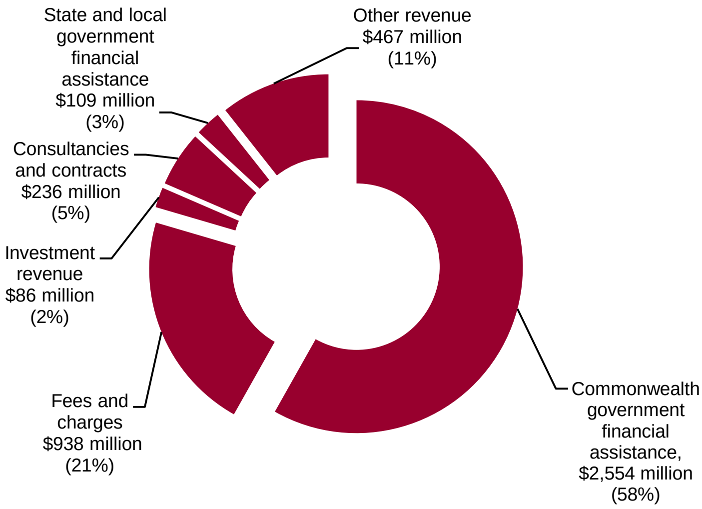
* Prior year comparatives may be adjusted due to changes identified in current year statements.

Source: QAO

Operating income

In 2012, the universities combined generated operating income of $4.46 billion, an increase of $160 million (four per cent) when compared to 2011. The composition is shown in Figure 2D.

Figure 2D
Operating income composition 2012



Source: QAO

Commonwealth government financial assistance

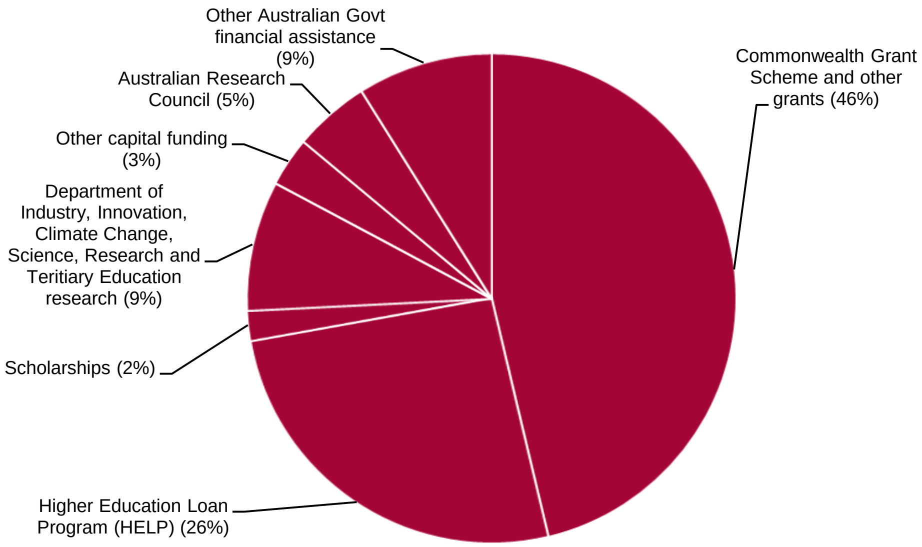
Australian government financial assistance for 2012 totalled $2.5 billion across all Queensland public universities, representing 58 per cent of total revenue. This is an increase of $150 million (6.3 per cent) over the 2011 figure and continues the trend of recent years of growth in this area.

The growth in government funding to the sector is due mainly to:

- increased base funding of $148 million for domestic non-fee paying students, reflecting load changes and indexation increases
- increased Higher Education Loan Program (HELP) payments by the Australian Government of $65 million with increases in student loan repayments
- decreases of $78 million in other Australian Government financial assistance.

All universities reported increased revenue from this stream in 2012, except UQ which received $64 million less than in 2011, due mainly to a decrease in capital grants. Figure 2E shows the breakdown of this financial assistance.

Figure 2E
Australian Government financial assistance 2012



Source: QAO

Recent Australian Government announcements on the tightening of research funding over the next three years is of concern and universities which perform significant research and rely on this revenue source will need to consider strategies to mitigate the risk of future funding reductions.

Not all universities are affected by this funding freeze due to their limited research focus, but the universities which are affected acknowledge the effect on future cash flows and the potential constraints on maintaining infrastructure and supporting strategic research.

The *Higher Education Support Amendment (Demand Driven Funding Systems and Other Measures) Bill 2011* was passed by the Senate on 14 September 2011, and provided for demand driven funding for undergraduate places at public universities from 1 January 2012.

The legislation affects the Commonwealth Grant Scheme—the major source of the Australian Government's contribution for Commonwealth funded students. It enables universities to decide the number of students to enrol in their undergraduate courses.

Previously, the number of Commonwealth supported undergraduate places was capped for each university and the funding for undergraduate student places was limited. Now, only the number of Commonwealth supported places in postgraduate courses, courses of study in medicine and sub degree places (diploma) will remain capped.

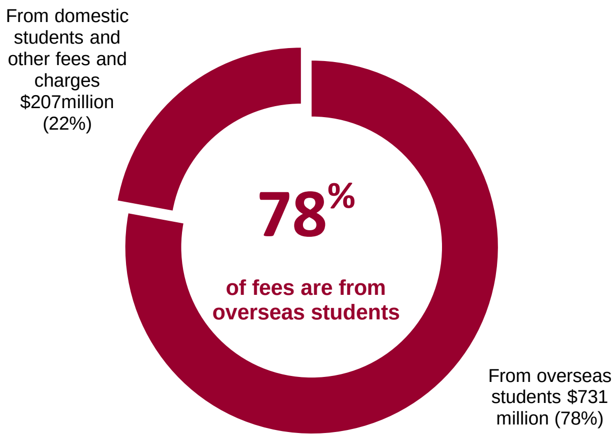
This legislation means the amount received from the Commonwealth Grant Scheme is now calculated on the student places that a university provides, rather than on the student places allocated by the federal Minister for Tertiary Education, Skills, Science and Research.

The effect of this legislation in 2012 varied across the universities. Most universities saw an increase in domestic student numbers while all universities acknowledge the model led to increased competition for domestic student places in Queensland. Across the sector, the domestic equivalent full time student numbers increased in 2012 by 4 667 (4.2 per cent) from 2011 which increased grant revenues.

Student fees and charges

Total student fee revenue increased by $23 million (2.5 per cent) from $915 million in 2011 to $938 million in 2012. However, within this result fee revenue from international students fell marginally, from $733 million (80 per cent) in 2011 to $731 million (78 per cent) in 2012.

Figure 2F
Student fee revenue composition 2012



Source: QAO

Fees and charges for eligible Commonwealth supported students are not included in these fees and charges.

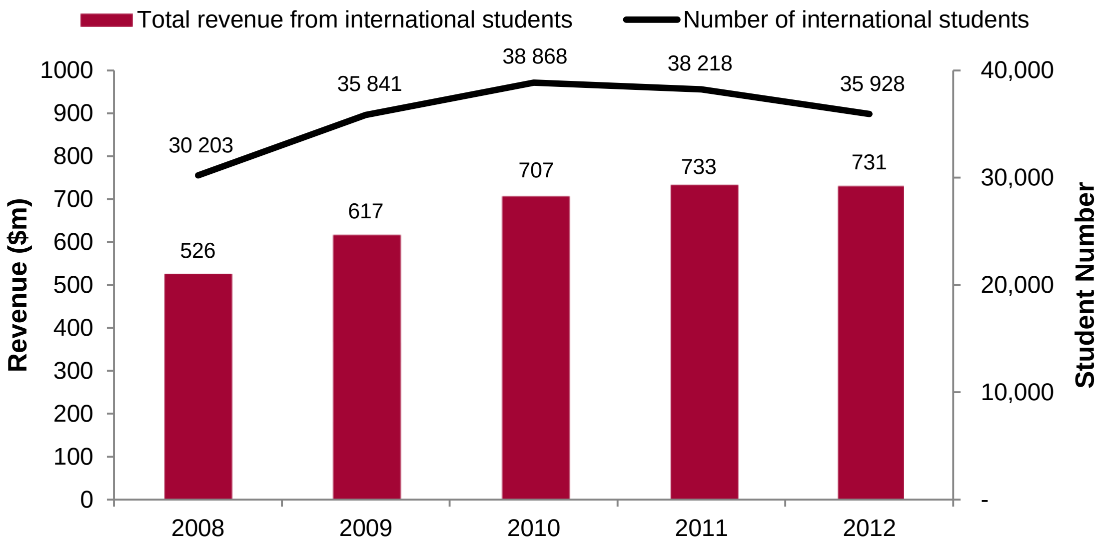
According to the Australian Bureau of Statistics, education was Queensland's fourth largest export behind coal, meat and tourism in 2010–11 and generated $2.5 billion. Education services include both tuition fees and living expenses of foreign students studying in Queensland. In 2009–10, education generated $2.8 billion and was Queensland’s third largest export. In 2011–12, education generated $2.3 billion in export income which confirms a downward trend over the past three years.

International student fee revenues paid to universities are subject to a range of risks that are outside universities' control: for example, government reforms, the volatility of the Australian dollar, legislative changes to student visa requirements and competition among Australian and foreign providers of higher education.

Over the past five years, international student fees have increased by $205 million (39 per cent), from $526 million in 2008 to $731 million in 2012.

Figure 2G shows the relationship between international student fee revenue and total numbers of international students over this period. While the total revenue from international students increased, international student numbers have declined by 7.6 per cent since 2010, reducing by 650 in 2011 and 2 290 in 2012. Total revenue has been maintained because the increases in average fees paid by international students in 2011 and 2012 have offset the reduced numbers.

Figure 2G
International student revenue and numbers 2008-2012



Source: QAO

The decrease in student numbers has been attributed by the universities to a number of factors including:

- changes to the student visa regulation such as requiring international students to demonstrate their financial resources
- changes to the general skilled migration program which made the transition from international student to permanent residency more difficult
- international media attention regarding the safety of international students
- the relatively high Australian dollar which directly affects cost of living in Australia, compared with alternative study destination
- increased competition from other countries—for example, the United States eased visa restrictions in recent times.

Figure 2H shows the relationship between international student fee revenue and total revenues over the past five years for each university. It shows that, as a share of total revenue, international student fees have fallen to 2008 levels.

Figure 2H
International student revenue against total operating revenue 2008-2012

University	2008		2009		2010		2011		2012	
	Fees paid by overseas students $m	% of total operating revenue*	Fees paid by overseas students $m	% of total operating revenue*	Fees paid by overseas students $m	% of total operating revenue*	Fees paid by overseas students $m	% of total operating revenue*	Fees paid by overseas students $m	% of total operating revenue*
CQU	81.8	35.6	87.4	37.2	95.4	40.6	86.1	35.5	73.4	29.2
GU	119.0	19.1	135.9	20.2	150.3	20.6	150.9	20.0	140.3	17.5
JCU	46.3	14.3	56.8	17.6	62.5	17.9	64.8	15.7	76.3	17.0
QUT	87.2	14.8	100.7	13.4	115.4	15.8	125.5	15.4	129.1	15.2
UQ	145.8	11.5	187.5	14.4	237.5	16.2	259.4	15.5	268.0	16.7
USQ	34.6	16.8	35.7	16.9	32.0	14.2	33.6	14.7	32.4	12.1
USC	11.3	9.3	13.4	12.3	13.5	11.1	13.2	10.4	11.4	7.2
Total	**526.0**	**15.6**	**617.4**	**17.1**	**706.6**	**18.3**	**733.5**	**17.3**	**730.9**	**16.4**

* Operating revenue excludes any one-off gains/losses on certain assets and shares in minority interests.

Source: QAO

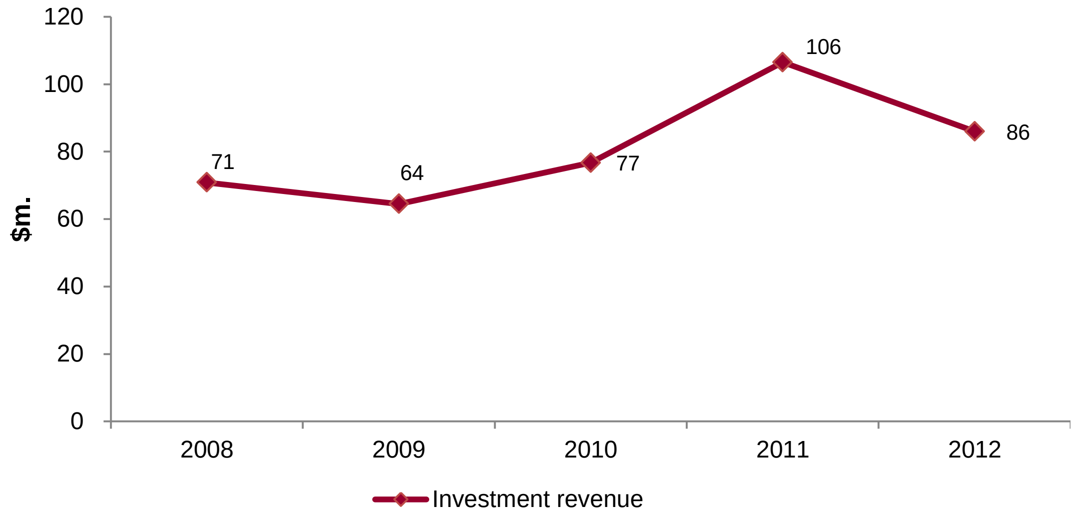
It shows also that CQU relies much more heavily on overseas student fees than any other university. Revenue from overseas students made up 29 per cent of CQU's total operating revenue in 2012, while the remaining six universities were less exposed as each had less than 20 per cent of their operating revenue contributed by overseas students.

The decline in overseas student numbers at CQU arose from the need to reduce its immigration risk ranking, causing it to impose very strict screening rules. The university has since appointed a new head of its international marketing area. Marketing strategies targeting both domestic and international students have been implemented and a strategic decision to close the Gold Coast campus for international students from 2014 was taken in an effort to reduce future impacts.

Investment revenue

Combined investment revenues decreased by $20 million (19 per cent) from 2011, primarily as a result of decreased cash holdings ($68 million), reduced investment fund distributions and lower interest rates. Unrealised investment gains, on the other hand, increased by a net $42 million. Figure 2I shows the trend in combined investment revenue over the past five years.

Figure 2I
Combined investment revenues - five year trend



Source: QAO

The decline in 2009 reflects the effect of the global financial crisis at most universities.

Investment revenue for the last five years for each university, excluding unrealised gain or losses on financial assets, is shown in Figure 2J.

Figure 2J
Investment revenue - five year trend

University	2008 $m	2009 $m	2010 $m	2011 $m	2012 $m	Five-year average $m
CQU	11.81	8.84	8.20	8.40	3.74	8.20
GU	11.23	10.71	16.37	22.42	19.10	15.97
JCU	9.14	7.68	7.19	9.17	8.50	8.34
QUT	19.69	16.76	21.09	25.83	20.07	20.69
UQ	13.17	15.04	17.19	31.07	26.14	20.52
USQ	4.81	3.55	4.74	6.76	5.21	5.01
USC	1.02	1.91	1.91	2.83	3.24	2.18
Total	**70.87**	**64.49**	**76.69**	**106.48**	**86.00**	**80.91**

Note: Unrealised gains/losses have been excluded.

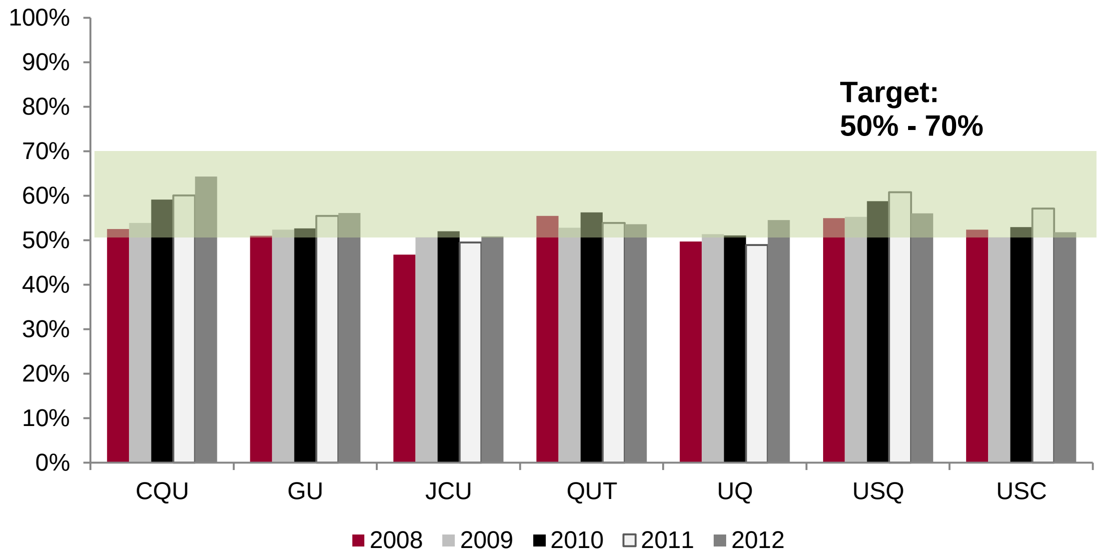
Source: QAO

2.6.3 Operating expenditure

In 2012, universities reported combined operating expenses of $4.1 billion, an increase of $249 million (six per cent) from 2011. The largest component of expenditure in 2012 was employee benefits, averaging 58 percent of total expenditures. Employee-related expenses grew by $172 million (eight per cent) from 2011 because more full time equivalents were employed and salary and wage rates were increased.

The federal Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education monitors the universities' ability to meet employee expenses by measuring employee benefits and on-costs as a percentage of total revenue. Good practice is considered to be 50 to 70 per cent. Figure 2K shows that all universities were at the lower to mid-range of the benchmark and are in a satisfactory position.

Figure 2K
Employee benefits and on-costs as a percentage of total revenue—five year trends



Source: QAO

2.6.4 Net assets

An entity's financial position is measured by reference to its net assets—the difference between its total assets and total liabilities. Universities hold significant infrastructure assets, which require funds to meet operating costs, repairs and maintenance and replacement and renewal.

Universities' dual objective is to maintain the condition of their infrastructure assets and their ability to repay any debt financing of assets. Figure 2L provides a comparison of the total combined net assets of the seven universities for 2011 and 2012. The combined net assets of the universities increased by $317 million over 2011, due to an increase of $492 million in total assets, offset by an increase of $175 million in total liabilities.

Figure 2L
Total combined net assets

Net assets ($m) 2011	2012	Movement ($m)	(%)
7 425	7 742	317	4

Source: QAO

Assets

Total assets increased by $492 million (six per cent) from 2011 to $9.1 billion. This was due to a $458 million increase in property, plant and equipment. This was the largest component of total assets, comprising 76 per cent in 2011 and 77 per cent in 2012. This was due to additional buildings, plant and equipment, infrastructure and work in progress as well as a net upward revaluation of assets. The increased investment in property, plant and equipment has been funded, in part, from cash reserves to the amount of $68 million.

Liabilities

Total liabilities amounted to $1.3 billion, an increase of $175 million (15 per cent) from 2011. The major factors in this increase were:

- borrowings increased by $54 million over 2011, mainly as a result of increased borrowings by QUT for the construction of the Science and Engineering Centre at Gardens Point Campus
- an increase in employee provisions of $46 million, reflecting increases in staff numbers and in salaries and wages across the sector
- improved cut off procedures and information gathering processes which led to the 2012 year end accruals figure increasing by $21 million from 2011.

The composition of liabilities of universities has remained consistent over the past two years. For both years, provisions continue to be the largest liability, making up 35 per cent of total liabilities. Borrowings represent the next largest liability balance at 25 per cent of total liabilities in 2012 compared to 24 per cent in 2011.

2.7 Financial sustainability

To be financially sustainable in the short term, universities must have the capacity to meet current and future obligations as they fall due. In the longer term, they should be able to absorb foreseeable financial risks without adjusting their current revenue and expenditure policies.

The federal Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education monitors the financial and business performance of universities across Australia and requires universities to provide data to allow this monitoring activity to occur. The department's benchmarks include liquidity, diversity of revenue, employee benefits and on costs and operating results.

We compared the department's benchmarks against the benchmarks of debt-to-equity, fees paid by overseas students and capital replacement as well as an additional debt-to-revenue ratio. All these benchmarks reflect each university's funding and expenditure policies and indicate whether current revenue and expenditure policies are sustainable.

The ratios have been calculated from information contained in the audited financial statements. Consolidated figures have been used for each university where applicable. The results of these ratios should not be considered in isolation, but in conjunction with other factors such as management standards, financial budgets, asset replacement strategies, cash and investment balances and capacity to generate revenue.

The results of analysis of ratios for universities were positive as all universities:

- had adequate liquidity to meet their short term liabilities as they fall due
- were not overly reliant on debt to finance their capital structure
- were able to meet employee expenses
- generated sufficient revenue to repay borrowings and loans.

All universities other than CQU recorded an operating surplus. The operating loss by CQU resulted from a significant decrease in international student fees, redundancy payments and higher salaries and wages as pay rates were adjusted upwards twice during the year. Nevertheless, CQU retained a strong balance sheet position.

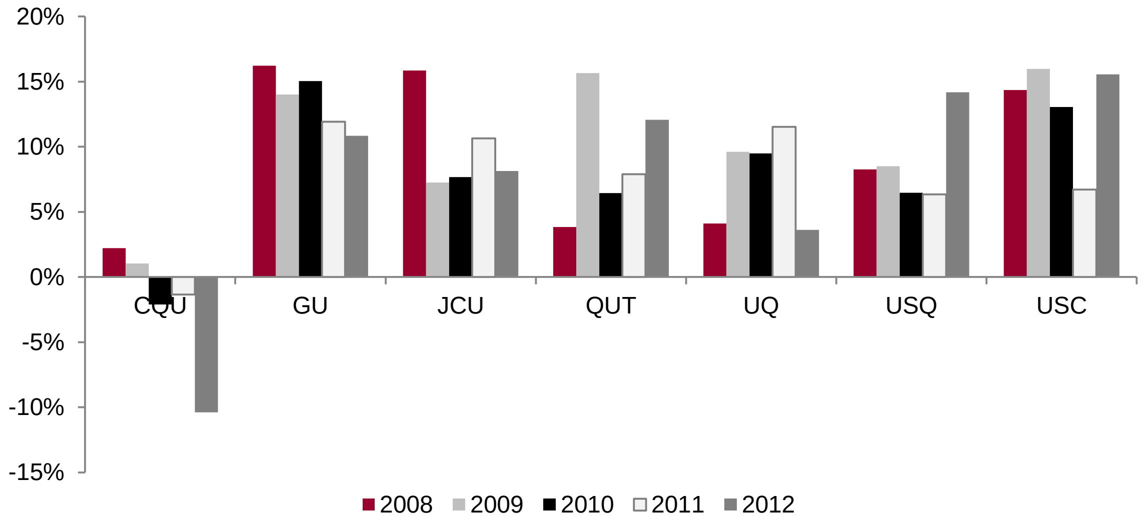
USC was the only university with depreciation and amortisation expenses greater than the cash outlay on property, plant and equipment in 2012.

2.7.1 Ratios

Operating ratio

This ratio compares the operating result to the total operating revenue. Figure 2M shows the respective operating ratios of the universities with a negative operating ratio considered as unsatisfactory. A higher ratio indicates the university has a greater capacity to meet current and future operating and capital expenditure obligations.

Figure 2M
Operating ratio



Source: QAO

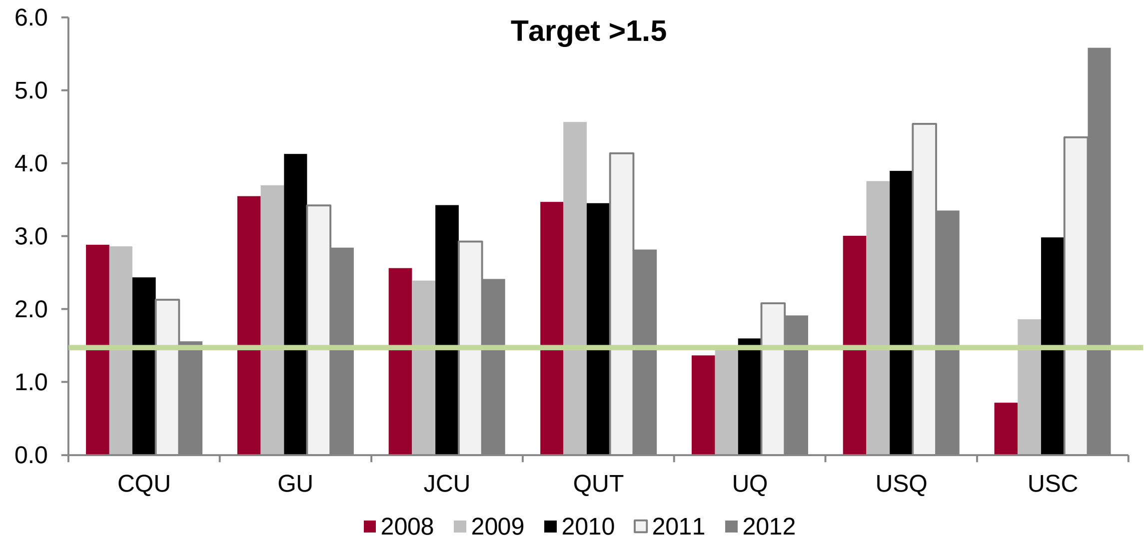
Six of the universities had satisfactory operating ratios, while CQU recorded negative operating ratios for the past three years. The five year trend for CQU was negative and not sustainable.

Liquidity

The liquidity or current ratio is the relationship between current assets and current liabilities. It is a measure of general liquidity and is used most widely to analyse the short term financial position or liquidity of an organisation. It is calculated by dividing total current assets by total current liabilities. A ratio of greater than 1.5 is considered as being favourable, but a ratio of more than one still indicates a low risk of not being able to fund current obligations.

Figure 2N shows that all universities have adequate liquidity to meet their short term liabilities as they fall due.

Figure 2N
Liquidity ratio



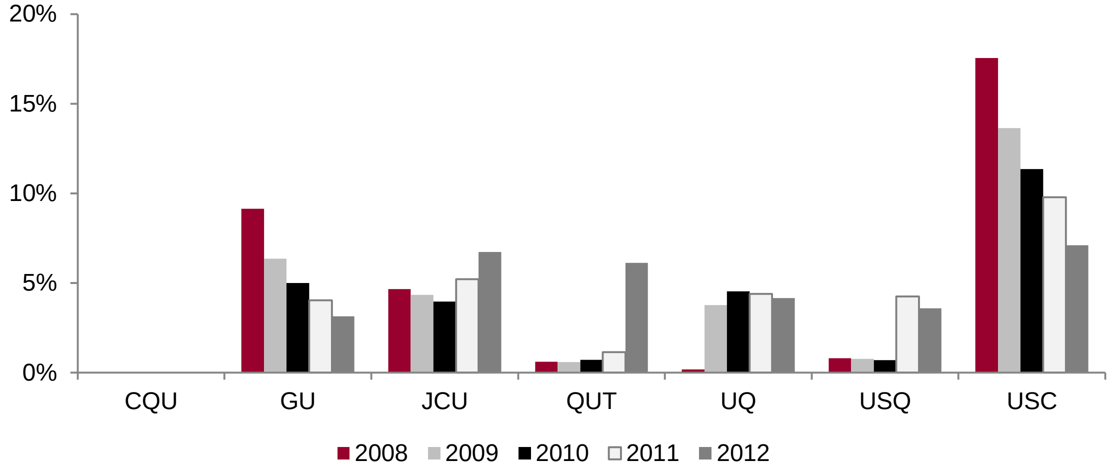
Source: QAO

Debt–to–equity

The ratio of debt-to-equity is a longer term measure that compares all current and non-current borrowings to equity. It complements the liquidity ratio which is a short term measure. A low ratio indicates less reliance on debt to finance the capital structure of an organisation.

Other than CQU which had no borrowings or loans, all other universities had a low debt-to-equity ratio as shown in Figure 2O.

Figure 2O
Debt-to-equity ratio (%)



Source: QAO

USC has reduced its debt-to-equity ratio from 10 per cent in 2011 to seven per cent in 2012 by paying off loans and increasing its investment in property, plant and equipment through increased financial assistance by the Australian Government.

QUT increased its debt-to-equity ratio of one per cent from 2011 to six per cent in 2012. The university increased its total borrowings by $66 million to invest in the construction of the Science and Engineering Centre at Gardens Point Campus.

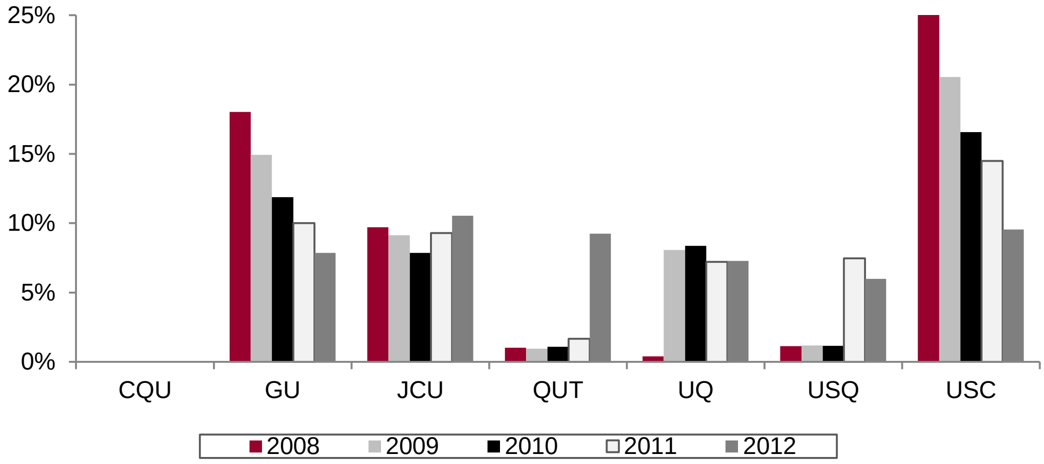
Debt–to–revenue

Universities have large infrastructure asset bases with specialised buildings and equipment for which there is no active market. This large asset base creates the impression of a healthy balance sheet producing inherently low gearing levels, typified by the debt-to-equity measure, which in turn implies significant scope for greater leverage through debt financing.

However, many assets are acquired initially through capital grant co-contributions, but such funds are not available to maintain their assets or to replace or upgrade them. The capacity for universities to borrow needs to be measured in terms of their ability to repay debt and interest. In this regard, the ratio of debt-to-revenue—comparing all current and non-current borrowings to total operating revenue—provides a better indicator of the affordability and sustainability of debt levels.

Other than CQU which had no borrowings or loans, all universities had low debt to-revenue ratios as shown in Figure 2P.

Figure 2P
Debt-to-revenue ratio (%)



Source: QAO

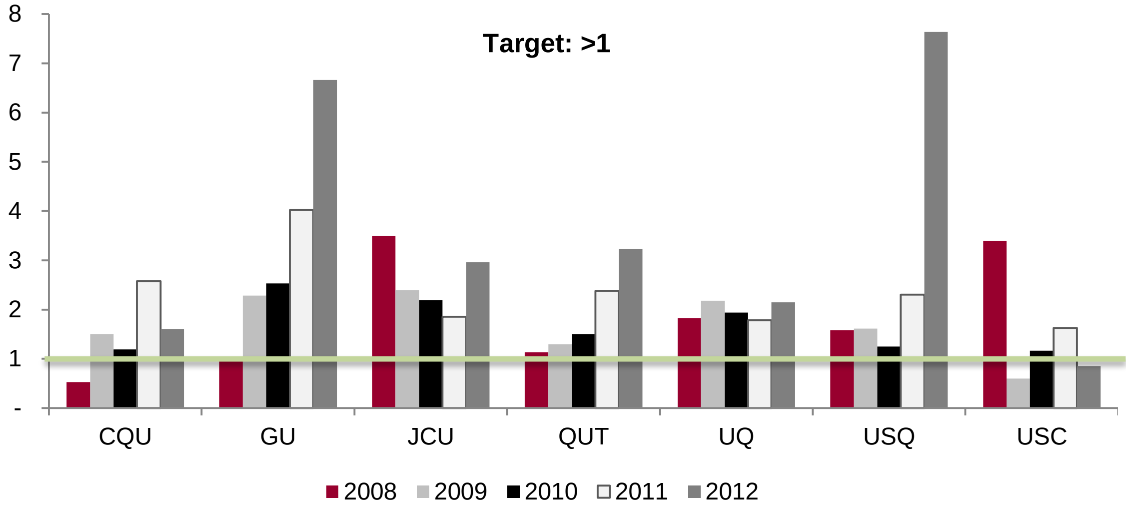
QUT's debt-to-revenue ratio has increased ninefold in two years as a result of a significant increase in borrowings, but remains within prudential limits.

Capital replacement

This ratio compares the rate of spending on property, plant and equipment with its depreciation. It is a long term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations and borrowing is not an option. Cash outflows for infrastructure are taken from the cash flow statement. Depreciation is taken from the comprehensive income statement. Ratios higher than one indicate that annual capital expenditure exceeds the annual amount of depreciation. It should be noted, when interpreting these results, annual spending on assets includes new and expanded facilities as well as existing facilities.

Figure 2Q shows most universities have a ratio of more than one for the past five years which indicates that the aggregate capital spending on property, plant and equipment has exceeded aggregate depreciation consistently and significantly.

Figure 2Q
Capital replacement ratio



Source: QAO

USC has been investing less in property, plant and equipment than in previous years, resulting in the depreciation expense exceeding its capital outlay in 2012. Both GU and USQ have increased their capital investment significantly in 2012, resulting in a large increase in their capital replacement ratio. This has been reflected in their respective property, plant and equipment balances which have increased by nine per cent and 21 per cent in 2012.

2.7.2 Emerging financial sustainability risks

Development of massive open online courses

Massive open online courses (MOOCs) are courses aimed at large scale participation and open access via the internet. Students could complete courses online at no or little cost. MOOCs are operating overseas, with a number of institutes and universities in the United States and the United Kingdom engaging this new learning tool currently.

The advent of MOOCs has the potential to affect future revenue streams. It also has implications for asset investment decisions with regard to information technology—as more students study online, demands on universities' information technology infrastructure will increase—and the built environment as the potential arises for under-use of buildings and other physical infrastructure which may become surplus.

The university sector is aware of the potential challenges this modern form of learning provides and is adopting various strategies to mitigate the potential future risks including:

- offering MOOC-like subjects currently
- developing a strategic roadmap for information technology services and infrastructure to accommodate an online demand
- realigning structures and processes to embed online learning
- exploring partnerships with other Australian and overseas institutions to take advantage of any further developments in this space
- considering the legal implications of the use of intellectual property.

3 Grammar schools

Summary

Background

The eight Queensland public grammar schools are located in Brisbane, Ipswich, Toowoomba, Rockhampton and Townsville. Each grammar school provides facilities at secondary school level, and all schools outside Brisbane provide a limited number of primary school places.

Key findings

- Unqualified audit opinions were issued for all grammar schools.
- Financial statements were certified for six of the eight grammar schools within their legislated timeframes.
- The quality of the financial statements was satisfactory for three grammar schools while five needed to improve internal quality assurance processes.
- The number of significant control issues raised across the eight grammar schools decreased from 45 issues in 2011 to 17 issues in 2012.
- All grammar schools except for Ipswich Grammar School had a positive operating result for 2012.

Recommendation

It is recommended that:

1. **Ipswich Grammar School and Ipswich Girls' Grammar School continue to review their revenue and expenditure policies to improve future financial performance.**

3.1 Background

Eight grammar schools prepared financial statements in 2012. In terms of the *Financial Accountability Act 2009*, grammar schools are regarded as statutory bodies.

On 13 July 2012, the Queensland Government published the six month action plan for July to December 2012. A commitment under this plan included a review of the *Grammar Schools Act 1975*, comprising an analysis of the legislation, regulation and operations of grammar schools. This review includes consideration of whether grammar schools remain as statutory bodies under the *Financial Accountability Act 2009* and the *Auditor-General Act 2009*.

3.2 Conclusions

There was an overall improvement in the reliability and transparency of disclosures in the financial statements of grammar schools, including better disclosure of key management personnel remuneration, which resulted in the removal of the qualification applied in 2011.

The timeliness and quality of draft and final financial statements in 2012 improved from 2011. Most schools are financially sound except for Ipswich Grammar School and, to a lesser extent Ipswich Girls' Grammar School. Ipswich Girls' Grammar School reviewed its revenue and expenditure policies during 2012 and this resulted in a small operating surplus and an improved financial performance. Both schools need to continue their efforts to improve future performance.

3.3 Results of audit

All eight grammar schools were issued with unqualified audit opinions for 2012. All eight grammar schools were issued with qualified audit opinions in 2011. An unqualified audit opinion confirms that the financial statements are presented fairly in accordance with the requirements of legislation and relevant accounting standards

The eight grammar schools were issued with qualified opinions in 2011 due to a disagreement between management and QAO about the definition of key management personnel and the related disclosure of information pertaining to each key management person. The issue has been partly resolved, with increased disclosure provided and is expected to be addressed fully once the current review of the *Grammar Schools Act 1975* is finalised.

An emphasis of matter paragraph was included with the 2011 qualified audit opinion of the Board of Trustees of the Ipswich Girls' Grammar School (IGGS), drawing attention to material uncertainty regarding continuation as a going concern. The emphasis of matter paragraph was withdrawn for 2012, based on an improved financial performance through increased student numbers, that resulted in an increase in student fees and related federal and state funding; by cost containment measures; and by a reassessment of the useful life of buildings by an independent, qualified valuer that primarily resulted in lower depreciation charges of $0.51 million compared to 2011. The grammar school has generated positive cash flows for the year ended 31 December 2012 of $0.979 million (compared to net cash outflows in 2011 of $0.18 million) and has a cash balance of $1.8 million at 31 December 2012 (compared to cash balance in 2011 of $0.844 million). The grammar school reported an operating profit of $0.042 million for 2012 compared to an operating loss of $1.6 million for 2011.

An emphasis of matter paragraph was included after the 2012 audit opinion of the Board of Trustees of the Ipswich Grammar School (IGS), due to material uncertainty regarding the grammar school's ability to continue as a going concern. The grammar school incurred an operating loss of $2.40 million for 2012 (compared to a loss of $2.21 million in 2011) and their current liabilities exceeded their current assets by $3.70 million as at 31 December 2012.

As statutory bodies, grammar schools are required to have regard to the minimum financial statements reporting requirements contained in the *Financial Reporting Requirements for Queensland Government Agencies* issued by Queensland Treasury and Trade. Under these requirements, certain expenses are to be classified by their nature and presented by their nature as separate line items on the face of the statement of comprehensive income. Five grammar schools have not complied with this prescribed disclosure requirement in 2012 and have classified and presented expenses by their function.

3.4 Timeliness and quality of reporting

3.4.1 Timeliness

Management and audit certified 2012 financial statements for six of the eight grammar schools within the two-month legislated timeframe. This result improves on 2011 when none met the timeframe, due to the additional time taken to finalise the disclosure issue that led to qualification of financial statements. In future, all grammar schools should meet this legislated timeframe as a matter of course.

The primary reasons behind two grammar schools not meeting the legislative timeframe included delays in finalising non-current asset revaluations for one school and prior period accounting adjustments for the other school. Flooding hardships also contributed to the delay in completing financial statements for one of the grammar schools.

Five grammar schools did not meet their agreed timetable for providing the initial draft version of their financial statements to audit. Failure to meet these agreed timeframes puts additional pressure on the audit process to meet the legislative timeframes, which affects audit costs.

The dates the financial statements were signed by management and the audit opinion was issued for grammar schools can be found in Appendix B.

3.4.2 Quality and accuracy

The number of subsequent changes made to the financial statements submitted for audit indicates the quality of the financial statement preparation process.

Overall, the number and extent of material changes required to financial statements before certification by audit indicated that the quality of the financial statements was satisfactory for three grammar schools while five needed to improve internal quality assurance processes.

Combined adjustments totalling $9.3 million were made to financial statements for five grammar schools before the audit opinion was issued for 2012. The extent of changes made to the financial statements during the audit process are summarised in Figure 3A.

Figure 3A
Changes to financial statements before audit certification*

Financial statement area	2012 ($m)
Income	0.28
Expenses	4.03
Assets	2.31
Liabilities	1.43
Equity	1.29
Total	**9.34**
Number of grammar schools that processed a change	5

*The extent of changes made within financial statements for each grammar school was considered based on materiality to the financial statements

Source: QAO

3.5 Internal controls

It is important that grammar schools maintain good internal control processes to provide reasonable assurance to their boards of trustees around the effectiveness of business and financial operations and the reliability of financial reporting.

For 2012, 17 significant control issues were raised across the eight grammar schools, compared to 45 issues in 2011. These issues included the following areas requiring improvement:

- asset stocktakes
- payroll controls
- financial statement disclosures in expenses and reserve funds.

While this reduced number of significant control issues is an improvement from 2011, management needs to continue to monitor their control environments more closely in an effort to prevent control breakdowns.

3.6 Financial performance and position

3.6.1 Managing financial risks

The Financial and Performance Management Standard 2009 requires grammar schools to manage their strategic and operational risks, including financial risks, in accordance with their risk management system. This system must mitigate the risk to the grammar school and the state from unacceptable costs or losses associated with their operations and manage risks that may affect their ability to provide services.

The financial objective for grammar schools is to generate a sufficient surplus from operations to meet their financial obligations and to fund asset replacement and new asset acquisitions. The ability of grammar schools to achieve this depends on how well they manage their expenditure and whether they maximise revenue.

Their financial performance is measured by the operating result—the difference between revenue inflows and expenditure outflows. Their financial position is measured by reference to their net assets—the difference between their total assets and total liabilities.

The ratios of operating, liquidity, debt-to-revenue and capital replacement, derived from the information in their financial statements, indicate that six grammar schools are in a reasonable financial position with acceptable cash balances, minimal debt and adequate expenditure on asset replacement and renewal.

3.6.2 Operating results

Grammar schools are not for profit organisations; however, the operating result is considered to be a useful measure of financial performance. In general, grammar schools should aim to achieve an operating surplus.

Seven of the eight grammar schools had a positive operating result for 2012. Figure 3B provides a comparison of the combined operating results for the eight grammar schools between 2011 and 2012. The results did not include results attributable to non-controlling interest or other comprehensive income.

Figure 3B
Combined operating results

Operating result ($m)		Movement	
2011	2012	($m)	(%)
7.6	20.5	12.9	171.2

Source: QAO

Figure 3C shows the trend in individual operating results for the past five years.

Figure 3C
Operating results surplus/ (deficit)*

Grammar schools	2008 $m	2009 $m	2010 $m	2011 $m	2012 $m	Five-year avg $m
Brisbane Girls Grammar School (BGGS)	4.93	3.80	3.37	2.95	1.69	3.35
Brisbane Grammar School (BGS)	0.03	5.43	2.17	(0.04)	15.40	4.60
Ipswich Girls' Grammar School (IGGS)	2.26	(2.82)	1.54	(1.55)	0.04	(0.11)
Ipswich Grammar School (IGS)	(0.44)	(2.78)	(1.82)	(2.21)	(2.40)	(1.93)
Rockhampton Girls Grammar School (RGGS)	1.31	1.05	0.79	0.34	0.80	0.86
Rockhampton Grammar School (RGS)	0.69	1.05	3.43	1.41	0.15	1.35
Toowoomba Grammar School (TWGS)	1.86	2.78	2.42	2.87	2.02	2.39
Townsville Grammar School (TVGS)	1.53	2.95	4.16	3.76	2.80	3.04

* Comparatives may have been adjusted due to changes identified in individual statements.

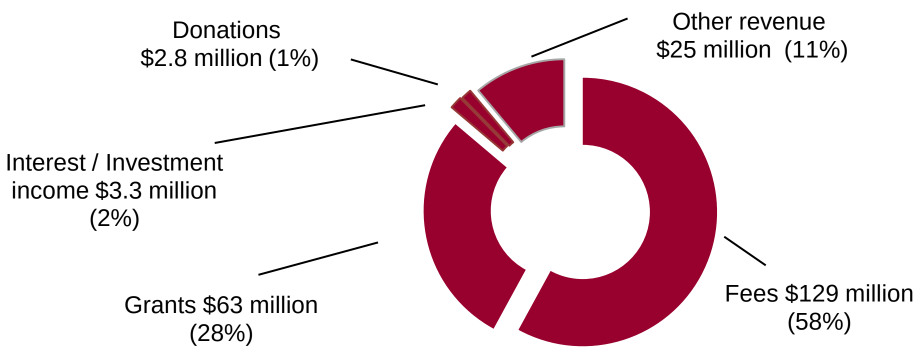
Source: QAO

Five schools are showing a decline in operating results when compared with 2011, with IGS's operating loss increasing each year for the last two years. BGS recorded a significant increase in its operating result in 2012 mainly due to compensation received for land resumed by Brisbane City Council. This was a significant one-off transaction which would not be expected to occur in the normal course of operations.

Operating income

Grammar schools generated combined operating income in 2012 of $223 million, an increase of $26 million (13 per cent) when compared to 2011. The composition is shown in Figure 3D.

Figure 3D
Operating income



Source: QAO

Student fee revenue, the largest source of revenue, accounted for 58 per cent of total revenue in 2012. Grammar schools generated $129 million from student fees in 2012, an increase of $9 million (7.8 per cent) over 2011 and mainly due to increased fee rates. Average fee increases, compared to 2011, were around seven per cent. Most schools reported only a marginal increase in student numbers—overall, student numbers increased by one per cent.

Investment revenue decreased by $0.222 million (6.2 per cent) from 2011, due to declining interest rates. Other revenue increased significantly by $17 million (258.7 per cent), due almost entirely to compensation received by BGS for land resumed by Brisbane City Council.

3.6.3 Operating expenditure

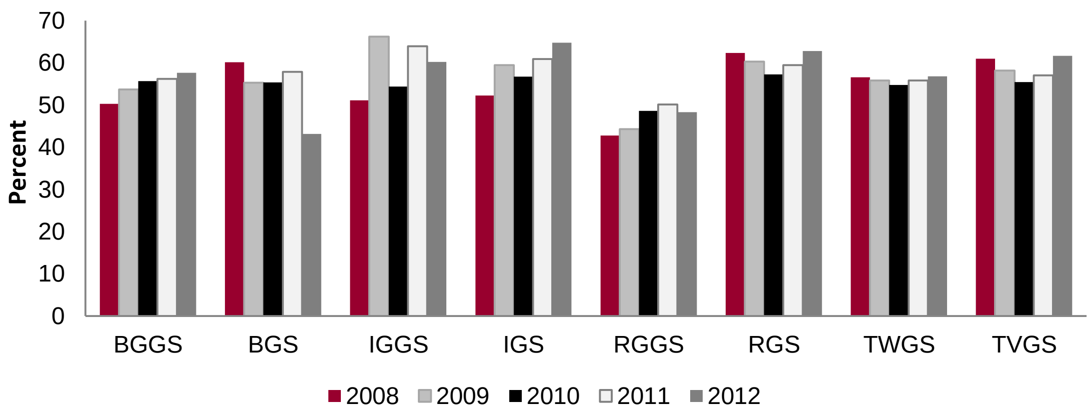
Grammar schools reported combined operating expenses in 2012 of $201.8 million, an increase of $12.7 million (6.7 per cent) from 2011. The largest component of expenditure for 2012 was employee benefits, representing 61 per cent of total expenditure. Employee related expenses grew by $9.2 million (8.1 per cent) over the prior year, due to an increase in salary and wage rates of between four to five per cent.

Depreciation expenses decreased by $0.561 million (3.8 per cent) compared to 2011, as a result of a lower property, plant and equipment balance due to valuation decrements and asset disposals.

The employee benefits and on-costs ratio shows the percentage of employee benefits to the total revenue. A large percentage spend on employee benefits may indicate that the school has less revenue available to meet other obligations.

Figure 3E shows that all eight grammar schools are in a satisfactory position. For five of the schools, the employee benefits are increasing at a faster rate than their revenue which needs to be monitored. BGS's reduced rate is mainly due to a one-off increase in other revenue described in section 3.6.2. If this abnormal one-off transaction is excluded, the underlying percentage would be approximately 60 per cent.

Figure 3E
Employee benefits and on-costs as a percentage of total revenue



Source: QAO

3.6.4 Net assets

Figure 3F provides a comparison of the total combined net assets of the eight grammar schools for 2011 and 2012. The total net assets of the grammar schools in 2012 showed an increase of $14.4 million from 2011 due to an increase of $1.3 million in total assets and a decrease of $13.1 million in total liabilities.

Figure 3F
Total combined net assets

Net assets ($m)		Movement	
2011	2012	($m)	(%)
463.6	478.0	14.4	3.1

Source: QAO

Assets

Total assets increased by $1.3 million (0.2 per cent) from 2011 to a total balance of $602.3 million. While the total assets have not moved significantly, the total current assets have increased by $8 million and the total non-current assets have decreased by $6.7 million. The current assets of BGS have increased by $6.8 million, due mainly to the increase in the cash balance of $5.7 million from the land compensation receipt. RGGS's non-current assets have decreased as the value of land and buildings of the school were reduced by $6.5 million when assets were revalued in 2012.

Liabilities

Total liabilities amounted to $124.3 million, a decrease of $13.1 million (9.6 per cent) from 2011. The main reason for the decrease was a reduction in borrowings of $18 million. In 2012, BGS was able to repay $13 million in Queensland Treasury Corporation loans as a result of the significant amount of compensation received for their land resumption.

3.7 Financial sustainability

To be financially sustainable, grammar schools must have the capacity to meet current and future expenditure as it falls due and manage future financial risks.

The state Department of Education, Training and Employment monitors the financial and business performance of grammar schools across Queensland.

Audit has referred to the department’s benchmarks as well as additional benchmarks to determine the sustainability of the grammar schools. These benchmarks reflect each grammar school’s funding and expenditure policies and indicate whether current revenue and expenditure policies are sustainable, both in the short term and the long term.

The ratios have been calculated from information contained in the audited financial statements. Consolidated figures have been used for each grammar school where applicable. The results of these ratios should not be considered in isolation, but in conjunction with other factors such as management standards, financial budgets, asset replacement strategies, cash and investment balances and capacity to generate revenue.

The results of analysis of ratios for the eight grammar schools were positive, as:

- six had adequate liquidity to meet their short term liabilities as they fall due
- seven were not overly reliant on debt to finance their capital structure
- five had adequate revenue to meet expenditure.

It is of concern that the rate of spending to depreciation by five grammar schools on property, plant and equipment is lower this year than in 2011 and has been declining over the past five years.

It should be noted that the one-off land compensation transaction had a favourable impact on the BGS short term financial results but would be less relevant for long term sustainability analysis; although it is acknowledged that some Queensland Treasury Corporation debt has been repaid by BGS from this one-off transaction.

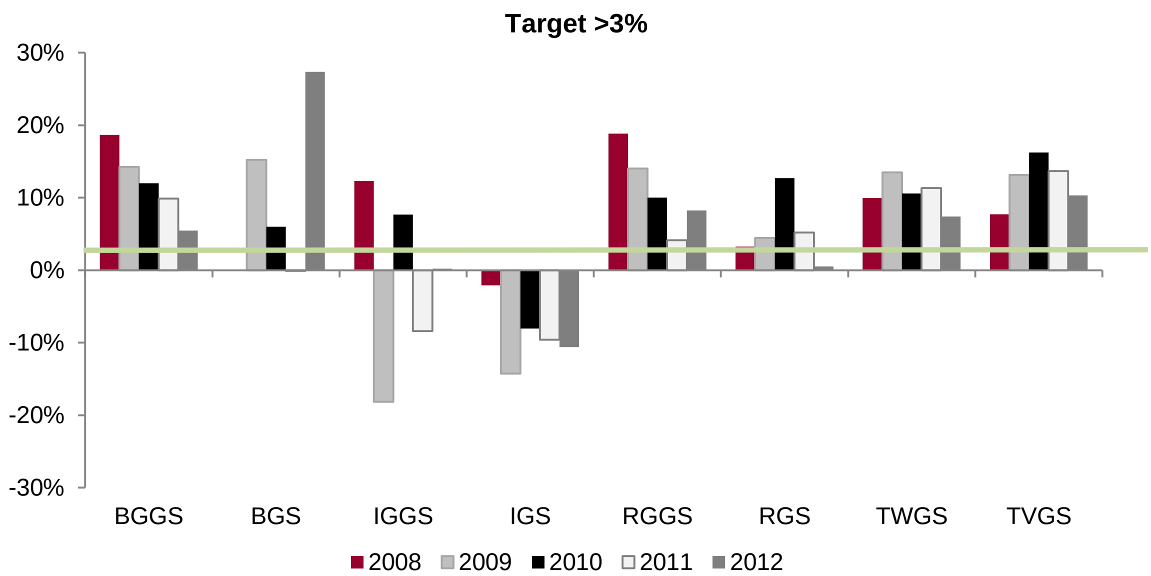
3.7.1 Ratios

Operating ratio

This ratio compares the operating result to the total operating revenue. It measures the capacity of the organisation to meet recurrent operating and capital expenditure from recurrent operating revenue.

Figure 3G shows the respective operating ratios of the grammar schools. Benchmarking by the Department of Education, Training and Employment suggests that a ratio above three per cent could be considered as a low risk for grammar schools. Five of the eight schools have a favourable operating ratio.

Figure 3G
Operating ratio



Source: QAO

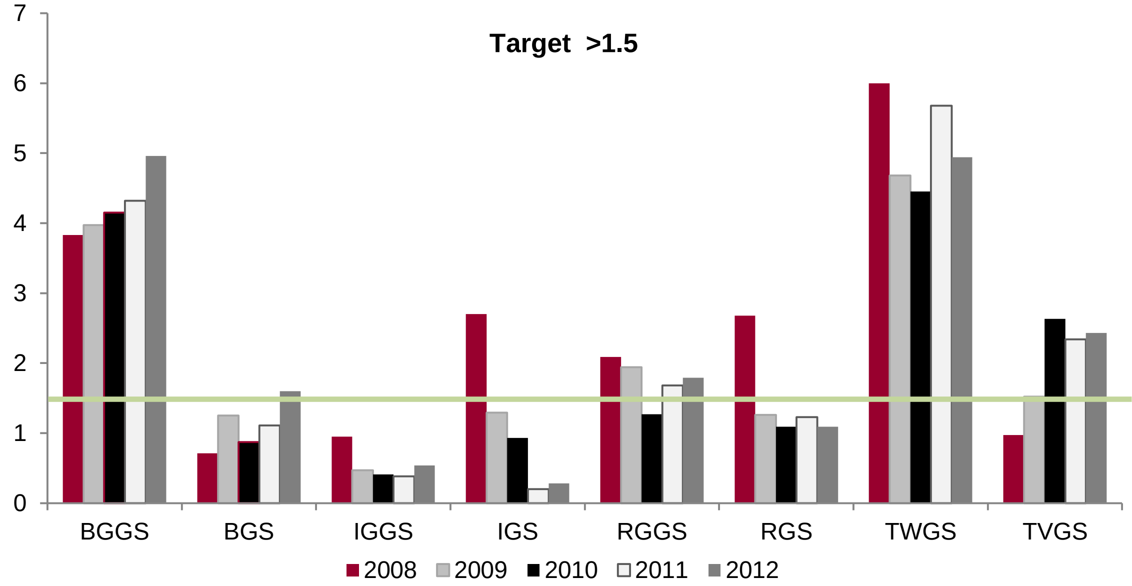
The operating ratios of IGGS, IGS and RGS indicate a risk of their operating revenues not being able to meet their operating and current expenditures as they become due. IGS recorded negative operating ratios for the past five years and the trend indicates that operating expenditure was growing at a faster rate than operating revenue. The schools need to have strategies in place to address this issue, including increasing their revenue base, reducing expenditure or a combination of both to ensure their long term sustainability.

Liquidity

The liquidity or current ratio is the relationship between current assets and current liabilities. It is a measure of general liquidity and is used to analyse the short term financial position or liquidity of an organisation. It is calculated by dividing total current assets by total current liabilities. A ratio of greater than 1.5 is considered favourable while a ratio of less than one indicates a risk of not being able to fund current obligations.

Figure 3H shows the respective liquidity ratio of the grammar schools. Six of the eight grammar schools have adequate liquidity (that is a ratio > 1) to meet their short term liabilities as they fall due.

Figure 3H
Liquidity ratio



* All legal leave entitlements are included in current liabilities as required by the Australian Accounting Standards but may not be paid out during the next 12 months.

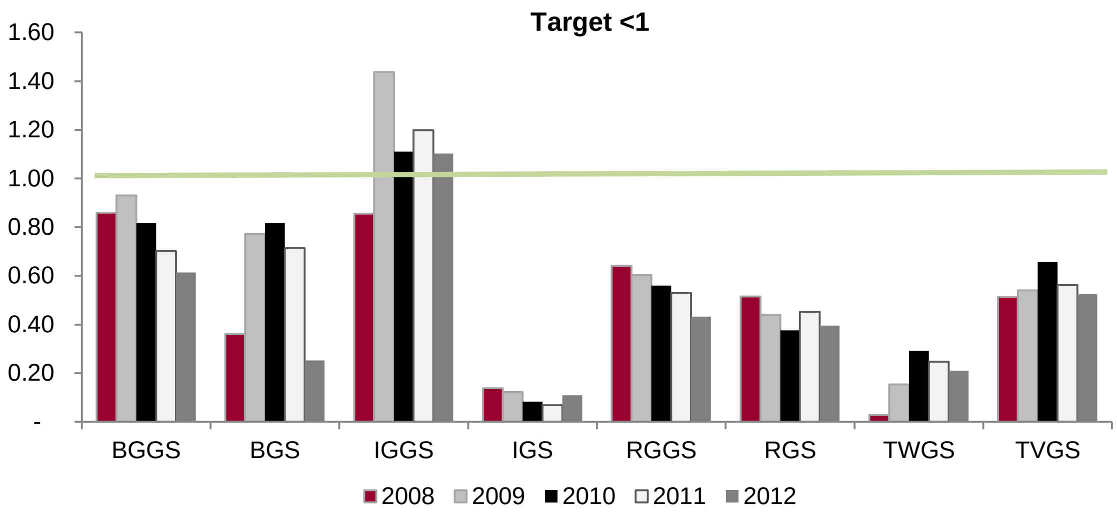
Source: QAO

These ratios indicate that IGS and IGGS are at risk of not being able to meet short term obligations as they fall due. These schools need to look closely at their future income and expenditure policies and implement strategies to ensure both their short term and long term sustainability. IGGS's business model and cost structure was reviewed by an external consultant in 2012 and implementation of recommendations is ongoing.

Debt–to–revenue

The ratio of debt-to-revenue compares all current and non-current borrowings to revenue. It measures the capacity of the organisation to repay debt and interest. A low ratio indicates financial stability and solvency whereas a ratio of one and above indicates that the organisation may have difficulties servicing its debt.

Figure 3I
Debt-to-revenue ratio



Source: QAO

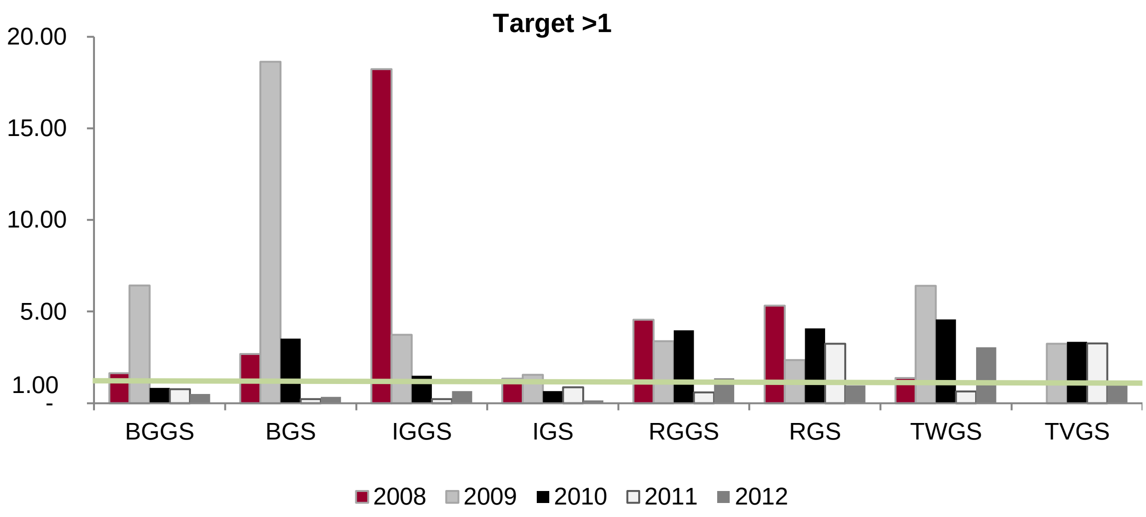
All the grammar schools had a debt-to-revenue ratio of less than one except for IGGS which had exceeded this ratio for the last four years. This situation is being closely monitored and strategies are being put in place to ensure future debt obligations can be met from its future revenue base. IGGS is working closely with the Department of Education, Training and Employment and Queensland Treasury Corporation to improve the debt position. It is acknowledged that IGS has a favourable ratio and is in a good position to service its debt in future if reliable revenue streams are sustained.

Capital replacement

This ratio compares the rate of spending on property, plant and equipment with its depreciation. It is a long term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations and borrowing is not an option. Cash outflows for infrastructure are taken from the cash flow statement. Depreciation is taken from the comprehensive income statement. Ratios higher than one indicate that annual capital expenditure exceeds the annual amount of depreciation.

Figure 3J shows that three grammar schools have a ratio of more than one in 2012 which indicates that the aggregate capital spending on property, plant and equipment has exceeded aggregate depreciation. It should be noted when interpreting these results, annual spending on assets includes new and expanded facilities, in addition to existing facilities.

Figure 3J
Capital replacement ratio



Source: QAO

Five of the grammar schools spent less on capital outlay than their annual depreciation in 2012. When compared to 2008 and 2009, the ratios were much lower, indicating the schools were spending less on capital assets in 2012 than in 2008 and 2009. IGS shows a lower than one ratio for the last three years and this has the potential to affect its ability to maintain or replace assets in the future.

Appendices

Appendix A—Comments

Auditor-General Act 2009 (Section 64) – Comments received

Introduction

In accordance with section 64 of the *Auditor-General Act 2009* a copy of this report was provided to the relevant entities with a request for comment.

Responsibility for the accuracy, fairness and balance of the comments rests with the head of these entities.

Comments received

Response provided by the Vice Chancellor and President, Central Queensland University on 16 April 2013.

CQUniversity AUSTRALIA

Professor Scott Bowman
Vice-Chancellor & President
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Email: vc-cquniversity@cqu.edu.au

BE WHAT YOU WANT TO BE

16 April 2013

Mr Andrew Greaves BEc FCA FCPA
Auditor-General
Queensland Audit Office
PO Box 15396
City East Qld 4002

Dear Sir,

Results of Audit: Education sector financial statements 2012

Thank you for your letter of 26 March 2013 regarding Results of audit: Education sector financial statements for 2012.

In accordance with S64 of the *Auditor-General Act 2009* I provide a formal response on the proposed report that will be provided to Parliament.

CQUniversity's 2012 budget was always designed to run at an operating loss, with a spend-down in cash reserves intended to drive an investment in capital works, research outputs and new degree programs across all of the campuses. These investments were always seen as a strategic and necessary move to have CQUniversity placed in the strongest possible position moving into the future, and the results are already being seen in areas such as student numbers and research rankings. Of the funds drawn upon from reserves, more than half is due to direct investments in new programs, infrastructure and research capabilities. CQUniversity's researchers, for instance, have recorded higher than anticipated levels of productivity over the past 12 months. While this has seen a greater than expected demand on reserved funding, it has also resulted in a dramatic promotion of CQUniversity in the Commonwealth's Excellence in Research for Australia (ERA) rankings from 28th position on the league table to 21st position. Only one other Australian University experienced a more remarkable jump in ERA rankings over the same period.

The most significant contribution to the University's operational loss however is the International student business. The University has changed its recruitment practices in accordance with the requirements of the Streamlined Visa Processing introduced in 2012. This contributed to a significant drop in new students throughout the year and reduced the University's net revenue by $12.193M in 2012. In response to this situation, the University undertook a significant (and expensive) voluntary separation round in 2012 and the University paid over $4.5M in redundancies. Much of this expenditure has been aimed at reducing costs in areas that are no longer financially sustainable, and improving revenue by investing in new, more attractive programs and facilities. These investments will pay sound dividends in the long term, but have had a significant impact on our budget forecast in 2012. The University's International Student business arm, C Management Services (CMS), was also the focus of a sudden, expensive and major downsizing and restructure in 2012. This was performed at very short notice due to the pace of deterioration in the international market, and in rapid response to a negative International Student risk rating being applied to the University. This one-off expense will yield significant cost savings and benefits moving forward; in particular it has resulted in CQUniversity moving from having one of the highest risk ratings in the international student sector to achieving one of the lowest, which will be a tremendous competitive advantage moving forward.

CRICOS Provider Codes: QLD-00219C, NSW-01315F, VIC-01624D

Comments received

Response provided by the Vice Chancellor and President, Central Queensland University on 16 April 2013.

In addition to the CMS restructure in 2012, and to further reduce costs, the University Council and management team have recently made the decision to mainstream the operations of CMS into the University. Under this 'one university' model, all of our academic staff will report into a single, unified faculty, and approximately 50 professional staff will transfer across into the University's main structure. Not all CMS staff will be required as part of the transitional activity and a number of key roles will be made redundant, reducing staff salaries by around 100 positions.

CQUniversity is well on its way to repositioning its international operations, and to lead this process, the University has appointed a new Pro Vice-Chancellor (International) with an excepitional background in this field and several other highly experienced experts in international student marketing and recruitment.

And finally, the University was financially exposed to the ongoing delays of finalising the merger with CQ TAFE. As was our understanding, CQUniversity had budgeted for the first allocation of the $73.8M commitment of SAF/EIF funding to be delivered in 2012, while outlaying more than $2M of the University's own reserves in preparation of the merger and associated Commonwealth funding. It is fair to say that the ongoing delay of receipt of the $73.8M SAF/EIF commitment, and the more recent doubts surrounding the merger, took the University by surprise and impacted on the Univerity's budget forecasts significantly.

The latest domestic enrolment figures for Term 1 2013 show another year of growth (on the back of three years of 10%+ growth), and the university remains one of the fastest growing in the country. The University's cash reserves remain at healthy levels of more than $40M, and it retains a quarter of a billion dollars worth of assets.

The University continues to experience strong growth on the back of significant investments from cash reserves, and our detailed analysis confirms that the revised budget forecast will have no impact whatsover on the strength of the business case surrounding the dual secter merger with CQ TAFE. The domestic student operation of CQUniversity's business model is highly sustainable and continues to experience remarkable growth.

The University's 2012 Annual Report and Financial Statements were tabled in the Queensland Parliament on Thursday 28 March 2013 and were made available online to University staff, students and stakeholders on 11 April 2013 upon receipt of tabled confirmation from the Department of Education, Training and Employment's Corporate Strategy and Performance Unit on 2 April 2013.

If you have any further queries regarding this matter, please do not hesitate to contact me.

Yours sincerely

Professor Scott Bowman
Vice-Chancellor & President

2 of 2

Comments received

Joint response provided by the Chairman and the Headmaster/CEO, Ipswich Grammar School on 24 April 2013.

150 Years

Ipswich Grammar School 1863 - 2013

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Mr Robert Henderson B.Com., Dip.Ed., M.Ed., MRE. **Headmaster/CEO**

24 April 2013

RECEIVED
26 APR 2013
QUEENSLAND AUDIT OFFICE

Mr Andrew Greaves
Auditor-General
Queensland Audit Office
PO Box 15396
CITY EAST QLD 4002

Dear Mr Greaves,

We acknowledge the QAO Report to Parliament under cover of your letter of 26 March 2013 and the comments made in the draft report which relate specifically to Ipswich Grammar School.

In accordance with section 64 of the *Auditor-General Act 2009* we provide a formal response for inclusion in the Report.

During the last two years there have been substantial changes in the management of Ipswich Grammar School commencing with the appointment of Robert Henderson as Head in 2011, the appointment of Jon Kent as Chair of the Board of Trustees in mid-2011, the appointment of Vilma Gallinaro as Business Manager in mid-2012 and the appointment of four new board members in December 2012 and January 2013.

Ipswich Grammar School is in a strong financial position as measured by the net assets definition provided in the QAO Report. Similarly its debt to revenue ratio is the best of all the Grammar Schools which is a favourable indicator of the school's long term viability. The Board of Trustees is committed to addressing 'financial performance' concerns and we have already implemented strategic plans in 2012 (continuing in 2013/2014) to ensure the School remains a going concern.

As indicated in the Annual Report, the following are important matters of relevance in response to the QAO Report:

- The financial position of the School is strong at a net assets value of $55.585m.
- All debts have been paid as and when they have become due and payable.
- Despite a loss of $2.396m in 2012, an amount of $2.656m was allocated to depreciation hence the School generated positive cash flow of $260k from operating activities.
- The School's 2013 cash forecast shows an improvement on this position as a result of the implementation of strategic plans, ratified by the Board of Trustees, in areas of minimising expenditure, review of teaching and learning programs and redefining the School's organisational and management structure.

Queensland's FIRST Secondary School

Comments received

Joint response provided by the Chairman and the Headmaster/CEO, Ipswich Grammar School on 24 April 2013.

-2-

24 April 2013

- To maximise enrolments, Ipswich Grammar School has made a commitment to keep future fee increases to a minimum.
- The Debt-to-Revenue low ratio of 0.11 confirms that Ipswich Grammar School has a strong and positive future of financial stability and solvency. All long term loans will be fully repaid by early 2014.
- The Liquidity Ratio of 0.28 is primarily due to two material balances included in the current liabilities total being:

  (a) QTC overdraft of $1.723m; and
  (b) $1.597m annual and long service leave entitlements.

  The overdraft balance was reduced to nil as at 17 January 2013.

  The long service leave entitlements have been classified as current under the accounting standards as there is a present entitlement to the leave by the School's employees. However, historical records indicate that only 15% of these entitlements are paid in any one given year.

- Depreciation, which is a non-cash item, has impacted greatly on the performance figures of Ipswich Grammar School over the last five years. The school has had $12.7m in depreciation deducted from its operating results over the above period. Removal of the $12.7m depreciation cost results in a cash surplus of $3.1m over the same period.

Ipswich Grammar School is Queensland's oldest secondary school and is celebrating its 150th anniversary in 2013. It has an excellent reputation within the community and is backed by a strong asset base. Its accounting reports have been prepared on the basis of being a going concern.

Yours faithfully,

Jon Kent
Chairman of the Board of Trustees

Robert Henderson
Headmaster/CEO

Appendix B—Status of financial statements

Figure B1
Status of financial statements

Audit	Date statements signed	Date opinion issued	Opinion	Timeliness (since 31 December) <2 mths	2-3 mths	>3 mths
Universities and their controlled entities						
Central Queensland University	26.02.2013	28.02.2013	U	✓		
• Australian International Campuses Pty Ltd	25.02.2013	28.02.2013	U	✓		
• C Management Services Pty Ltd	22.02.2013	28.02.2013	U	✓		
• CQU Travel Centre Pty Ltd	26.02.2013	28.02.2013	U	✓		
• Health Train Education Services Pty Ltd	25.02.2013	28.02.2013	U	✓		
Griffith University	27.02.2013	28.02.2013	U	✓		
• Gold Coast Innovation Centre Limited	25.02.2013	04.03.2013	E*		✓	
James Cook University	28.02.2013	28.02.2013	U	✓		
• JCU Enterprises Pty Ltd	18.02.2013	25.02.2013	E*	✓		
• Unicare (NQ) Limited	08.02.2013	14.02.2013	E*	✓		
• UniHealth (NQ) Limited	11.02.2013	18.02.2013	U	✓		
Queensland University of Technology	21.02.2013	27.02.2013	U	✓		
• Creative Industries Precinct Pty Ltd	30.01.2013	06.02.2013	U	✓		
• QUT Enterprise Holdings Trust	18.02.2013	21.02.2013	U	✓		
• qutbluebox Pty Ltd	11.02.2013	15.02.2013	U	✓		
• qutbluebox Trust	11.02.2013	15.02.2013	U	✓		
The University of Queensland	21.02.2013	28.02.2013	U	✓		
• i.Lab Incubator Pty Ltd	29.01.2013	04.02.2013	E	✓		

Audit	Date statements signed	Date opinion issued	Opinion	Timeliness (since 31 December)		
				<2 mths	2-3 mths	>3 mths
• JKTech Pty Ltd	07.02.2013	28.02.2013	U	✓		
• Sarv Pty Ltd	08.02.2013	14.02.2013	U	✓		
• UniQuest Pty Limited	08.04.2013	10.04.2013	U			✓
• UniQuest Asset Trust	23.04.2013	24.04.2013	E*			✓
• University of Queensland Foundation Trust	19.02.2013	26.02.2013	E*	✓		
• UQ College Limited	22.02.2013	22.02.2013	E*	✓		
• UQ Health Care Limited	18.02.2013	22.02.2013	E*	✓		
• UQ Holdings Pty Ltd	28.02.2013	14.03.2013	U		✓	
• UQ Investment Trust	19.02.2013	26.02.2013	U	✓		
• UQ Sport Ltd	31.01.2013	22.02.2013	U	✓		
University of Southern Queensland	26.02.2013	28.02.2013	U	✓		
University of the Sunshine Coast	26.02.2013	28.02.2013	U	✓		
• Innovation Centre Sunshine Coast Pty Ltd	28.02.2013	28.02.2013	U	✓		
Grammar schools and their controlled entities						
Board of Trustees of the Brisbane Girls' Grammar School	18.02.2013	21.02.2013	U	✓		
Board of Trustees of the Brisbane Grammar School	19.02.2013	22.02.2013	U	✓		
Board of Trustees of the Ipswich Girls' Grammar School	26.02.2013	28.02.2013	U	✓		
Board of Trustees of the Ipswich Grammar School	24.04.2013	24.04.2013	E			✓
Board of Trustees of the Rockhampton Girls' Grammar School	08.03.2013	11.03.2013	U		✓	
Board of Trustees of the Rockhampton Grammar School	28.02.2013	28.02.2013	U	✓		

Audit	Date statements signed	Date opinion issued	Opinion	Timeliness (since 31 December)		
				<2 mths	2-3 mths	>3 mths
Board of Trustees of the Toowoomba Grammar School	21.02.2013	27.02.2013	U	✓		
Board of Trustees of the Townsville Grammar School	26.02.2013	28.02.2013	U	✓		
Statutory body						
Queensland College of Teachers	08.02.2013	11.02.2013	U	✓		
Jointly controlled entities						
International WaterCentre Joint Venture	27.03.2013	22.04.2013	E			✓
Queensland College of Wine Tourism	18.02.2013	28.02.2013	E*	✓		
Queensland Cyber Infrastructure Foundation Ltd	26.03.2013	27.03.2013	U		✓	
The Grammar Schools of Queensland Association Inc.	Not completed	Not completed				
Audited by arrangement						
Australian International Campuses Trust	25.02.2013	28.02.2013	U	✓		
Healthy Waterways Ltd	27.03.2013	03.04.2013	U			✓
International WaterCentre Pty Ltd	Not completed	Not completed				
Translational Research Institute Trust	15.03.2013	20.03.2013	U		✓	

* An emphasis of matter was issued to alert users of the financial statements to the fact that special purpose financial statements had been prepared.

Opinion key:

U = unqualified

Q = qualified

A = adverse

E = unqualified with emphasis of matter

D = disclaimer

Source: QAO

Appendix C—Other entities with 31 December balance date

Figure C1
Other entities with 31 December balance date

Audit	Date statements signed	Date opinion issued	Opinion	Timeliness (since 31 December)		
				<2 mths	2-3 mths	>3 mths
Jointly controlled entity						
Major Brisbane Festivals Ltd	Not completed	Not completed				
Statutory body						
Queensland Theatre Company	26.02.2013	28.02.2013	U	✓		

Opinion key:

U = unqualified

Q = qualified

A = adverse

E = unqualified with emphasis of matter

D = disclaimer

Source: QAO

Appendix D—Entities for which audit opinions will not be issued

Figure D1
Entities for which audit opinions will not be issued

Entity	Controlled by	Reason
Activetorque Pty Ltd	The University of Queensland	Deregistered
Aussie Colour Pty Ltd	The University of Queensland	No separate financial statements
Australian Tropical Forest Institute Pty Ltd	James Cook University	Deregistered
Bilexys Pty Ltd	The University of Queensland	No separate financial statements
Bireme Pty Ltd	The University of Queensland	Deregistered
Bioherbicides Australia Pty Ltd	The University of Queensland	No separate financial statements
Ceramipore Pty Ltd	The University of Queensland	No separate financial statements
Cloevis Pty Ltd	The University of Queensland	No separate financial statements
Coridon Pty Ltd	The University of Queensland	No separate financial statements
Corpison Pty Ltd	The University of Queensland	Deregistered
Dendright Pty Ltd	The University of Queensland	No separate financial statements
Dendrimed Pty Ltd	The University of Queensland	Deregistered
GRW Industries Pty Ltd	James Cook University	Did not trade
IMBcom Asset Trust	The University of Queensland	No separate financial statements
IMBcom Pty Ltd	The University of Queensland	No separate financial statements
Univet Pty Ltd	James Cook University	Did not trade
Languagemap Pty Ltd	The University of Queensland	Deregistered
Leximancer Pty Ltd	The University of Queensland	No separate financial statements
Lightanate Pty Ltd	The University of Queensland	No separate financial statements
Metallotek Pty Ltd	The University of Queensland	No separate financial statements
Millipede Forming Pty Ltd	The University of Queensland	No separate financial statements
Neo-Rehab Pty Ltd	The University of Queensland	No separate financial statements
Neurotide Pty Ltd	The University of Queensland	No separate financial statements
Pepfactants Pty Ltd	The University of Queensland	No separate financial statements
PrimEd Pty Ltd	The University of Queensland	No separate financial statements
Progel Pty Ltd	The University of Queensland	No separate financial statements

Entity	Controlled by	Reason
Snoresounds Pty Ltd	The University of Queensland	No separate financial statements
Symbiosis Group Pty Ltd	The University of Queensland	No separate financial statements
Tenasitech Pty Ltd	The University of Queensland	No separate financial statements

Source: QAO

Appendix E—Better practice for short term liquidity management

Figure E1
Better practice for short term cash flow liquidity management in universities

Better practice

• Review and update the university's investment and treasury policies against the guidance in Queensland Treasury's Investment Policy Guidelines for Statutory Bodies (re-issued October 2012).
• Ensure investment and treasury policies are reviewed and re-approved annually to reassess the risks associated with changes in the market and the university.
• Ensure that any Excel™ spreadsheets used by universities for liquidity management comply with better practice aspects of spreadsheet design and control, including matters such as documentation of instructions for use (with references to related policies and procedures), referencing the information sources used, formatting input and calculation cells, formulae and result error checking (including internal reconciliations), workbook and cell protection and periodic validation.
• Ensure that investment counter-party ratings are checked with sufficient regularity—at least quarterly and before placing or rolling each investment.
• Document investment decisions formally, including comparison of returns and terms available and why the particular investment was selected, demonstrating that the best available interest rate was selected within set risk parameters.
• Define and justify formally the minimum cash at call balances to be held as liquidity 'buffers' as opposed to aiming for informal, undocumented targets.
• Review the accuracy of cash flow forecasts periodically (and the extent of use of overdraft facilities) to refine future forecasts and assess the adequacy of liquidity 'buffers' held.
• Where the size of the university's finance section does not allow for separation of duties between the 'front office' response function and a 'middle office' compliance monitoring function, the university should ensure that compliance with the university's investment and treasury policies is checked regularly by personnel independent of the treasury function (e.g. internal audit) and reported to governance committees.
• Enhance the quality of investment performance and compliance reporting to executive management and governance committees, by:
  – reporting on the position of the investment portfolio against policy limits (e.g. minimum credit ratings and maximum permitted exposure per counterparty)
  – summarising cash investments by their maturity date bands (for example: at call, maturing in 0–7 days, 8–30 days, 31–60 days, etc.) rather than providing a long list of open term deposits and accounts for the reader to interpret
  – reporting the current cash position against commitments and restrictions (e.g. cash received that must be used for specific purposes) and the set liquidity 'buffer'
  – benchmarking investment performance (including returns on cash held at call) relative to external sources such as QTC's cash fund return or the cash rate of the Reserve Bank of Australia.

Source: QAO

Appendix F—Locations

Figure F1
Location of Queensland universities and grammar schools

Brisbane	Ipswich	Rockhampton	Sunshine Coast	Toowoomba	Townsville
Universities					
Griffith University (5 major campuses)		Central Queensland University (10 campuses)	University of the Sunshine Coast (1 campus)	University of Southern Queensland (3 major campuses)	James Cook University (3 major campuses)
Queensland University of Technology (3 major campuses)					
The University of Queensland (4 major campuses)					
Grammar schools					
Brisbane Grammar School	Ipswich Grammar School	Rockhampton Grammar School		Toowoomba Grammar School	Townsville Grammar School
Brisbane Girls Grammar School	Ipswich Girls Grammar School	Rockhampton Girls Grammar School			

Source: QAO

Auditor-General Reports to Parliament

Tabled in 2012–13

Report number	Title of report	Date tabled in Legislative Assembly
1	Racing Queensland Limited: Audit by arrangement	July 2012
2	Follow- up of 2010 audit recommendations	October 2012
3	Tourism industry growth and development	November 2012
4	Queensland Health - eHealth	November 2012
5	Results of audits: State entities 2011–12	November 2012
6	Implementing the National Partnership Agreement on Homelessness in Queensland	February 2013
7	Results of audit: Queensland state government financial statements 2011-12	March 2013
8	Online service delivery	March 2013
9	Fraud risk management	March 2013
10	Results of audits: Local government entities 2011–12	April 2013
11	Results of audits: Education sector entities 2012	April 2013

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