Queensland Audit Office

Results of audit: Education sector entities 2013

Report 16 : 2013–14

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QUEENSLAND

Prepared under Part 3 Division 3 of the *Auditor-General Act 2009*

Front cover image is an edited photograph of Queensland Parliament, taken by QAO.

ISSN 1834-1128

Queensland Audit Office

Your ref:
Our ref: 10667

May 2014

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 audit: Education sector entities 2013.

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, prepared under section 60 of the *Auditor General Act 2009*, summarises the results of our 2013 financial audits of education sector entities, being universities and grammar schools and the entities they control.

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

Legislation requires annual reports to include audited financial statements. The accompanying audit opinion assures readers the financial statements are reliable.

We aim to issue an unmodified audit opinion. We work closely with each entity each year so it can submit high quality and timely draft statements for our audit. Our audit approach includes examining the internal controls each entity has implemented to reduce the risk of error and fraud and to produce accurate and reliable financial information.

Whether we qualify or otherwise modify our audit opinion depends on each entity's compliance with its financial reporting requirements. We must also have regard to its future financial state, as its financial statements are prepared assuming it will remain a 'going concern'. Issues of medium to longer term financial sustainability are therefore important audit considerations.

Conclusions

The sector continues to produce reliable and timely financial statements. Internal controls over most aspects of financial reporting are sound, however universities can strengthen controls over their financial delegations and procurement processes.

Universities and most grammar schools remain in a sound financial position.

Audit opinions issued

All our opinions issued for 2013 are unmodified: a good result.

Figure A shows we issued 44 (100 per cent) of the 44 audit opinions required, including for all eight grammar schools and for all seven universities.

The total number of audit opinions required has decreased in recent years because some small proprietary companies owned and controlled by universities have elected not to prepare financial statements. This is permitted under the *Corporations Act 2001* (Cth).

Figure A
Status of the financial statements

Entity type	Unfinished audits	Unmodified opinions issued	Unmodified but with an emphasis of matter	Total
Universities and controlled entities	—	17	10	27
Grammar schools	—	8	—	8
Other statutory bodies	—	1	—	1
Jointly controlled entities	—	3	1	4
Audited by arrangement	—	3	1	4
Total	**—**	**32**	**12**	**44**

Source: Queensland Audit Office

While not a modification, emphases of matters were included with 12 audit opinions. These emphases draw a reader's attention to the fact that they were special purpose financial statements, rather than general purpose; that the entity was being wound up; or that there were 'going concern' issues identified. In 2012, 11 emphases of matters were included.

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. The legislative requirement is for these entities to have the statements audited within two months of the financial year end: that is, by 28 February.

All universities and most grammar schools produced timely financial statements in 2013.

Seven universities and their 20 controlled entities met the legislated time frames for 2013 in the certification of their financial statements, as they did in 2012.

Seven grammar schools (88 per cent) met the legislated time frames for 2013, whereas six (75 per cent) met the requirement in 2012.

Ipswich Grammar School did not meet the two-month legislated time frame because we identified a number of significant accounting issues late in the financial statement audit verification process which took time for management to resolve.

Quality of draft financial statements

The number and quantum of any changes made to draft financial statements submitted for audit measures the quality of the statements. Changes can increase the cost and time of the audit.

The quality of all universities' financial statements improved in 2013, as demonstrated by fewer and smaller changes being required to their draft statements submitted for auditing.

While more grammar schools improved the quality of their draft financial statements in 2013 compared to 2012, this represented only half of all grammar schools producing financial statements of a satisfactory quality.

This year, universities reduced the total value of changes by 54 per cent, from $29.65 million to $13.55 million in various reported balances, as well as making fewer changes to note disclosures that aligned stated accounting policies with practice. This improvement indicates their quality assurance checking processes have become more effective.

While the volume and value of changes made to financial statements by grammar schools reduced in 2013, four grammar schools still need to improve the quality of their financial statements provided to audit.

Grammar schools reduced the total value of changes from $9.3 million across five grammar schools in 2012 to $5.1 million across four grammar schools in 2013. Some note disclosure changes were also made.

A long standing issue of disclosure of remuneration for key management personnel at grammar schools has been resolved. Grammar schools made full disclosures of remuneration for key management personnel in 2013.

Internal controls

We identified 42 internal control weaknesses across the university sector in 2013. This was an increase of 75 per cent from the 24 weaknesses identified in 2012. These control weaknesses, if not addressed as a matter of priority, increase the risk of material misstatements arising from error or fraud in future years.

The internal control breakdowns at universities related to non-compliance with their procurement and delegation policies and to information technology security and access to their key financial systems.

At three of the eight grammar schools, we identified 12 internal control weaknesses in 2013—five fewer than in 2012.

The grammar schools' internal control weaknesses arose from deficiencies in their risk management documentation and from weak quality assurance checking over the disclosure of financial statements information, including capitalisation thresholds, lease commitments and asset stocktakes.

Financial sustainability

Universities

We analysed each university's key financial ratios, some of which are used by the federal Department of Education to monitor university financial and business performance across Australia.

Figure B summarises the key ratios for 2013. It shows that, overall, the financial health of the university sector remains sound—all reported operating surpluses; the level of debt was manageable; and short term liquidity ratios showed sufficient funds on hand at year end to pay all short term debts and obligations as they fall due over the next 12 months.

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
The University of Queensland	6%	1.7	4%	7%	1.96	Low
Queensland University of Technology	6%	5.1	7%	11%	0.76	Low
Griffith University	9%	3.3	2%	6%	4.32	Low
University of Southern Queensland	10%	4.1	4%	5%	1.42	Low
James Cook University	4%	2.6	14%	20%	2.04	Low
Central Queensland University	8%	2.2	—	—	0.58	Low
University of the Sunshine Coast	12%	4.1	6%	8%	1.08	Low

Notes:
1. Higher percentage indicates a greater capacity to meet future operating and capital expenditure obligations.
2. Current ratio greater than 1 indicates short term debts and obligations can be paid over the next 12 months.
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 existing assets are more likely to be being replaced faster than their service potential is being consumed.

Source: Queensland Audit Office

Matters of note we identified in relation to the future financial sustainability of universities are:

- Central Queensland University recorded an operating surplus for the first time in four years ($23 million): it received extra, advanced government funding to merge with the Central Queensland TAFE and has implemented cost containment strategies in past years which are now taking effect.
- In our *Results of audit: Education sector entities 2012* (Report 11 : 2012–13), we identified massive open online courses (MOOCs) as a significant new learning model to supplement revenue streams in Australian universities. Universities are addressing the online learning mode of education and the financial risks and opportunities it offers in ways specific to each universities focus.
- The amended *Higher Education Support Act 2003*, which allows universities to decide the number of students to enrol in their undergraduate courses, saw an increase in domestic student numbers at all universities. This has led to increased competition for domestic student enrolments in Queensland.
- More domestic students are applying and being accepted into university, but a smaller percentage of these commencing students are passing units.
- While fewer international students are enrolling at university, they are paying increased fees, which offsets what would otherwise be lost revenue.
- Universities in Queensland may have government funding reduced from 2015 by $63 million as a result of efficiency dividends currently being considered by the Australian Government.

Grammar schools

We analysed each grammar school's key financial ratios, some of which are used by the Queensland Department of Education, Training and Employment. Most ratios indicate grammar schools in Queensland are in a sound financial position.

The financial performance of Ipswich Grammar School and Ipswich Girls Grammar School improved in 2013. This was reflected by our removal of an emphasis of matter in 2013 that we had included with our 2012 unmodified audit opinion of Ipswich Grammar School on material uncertainty regarding continuation as a going concern.

In our report to Parliament *Results of audits—Education sector entities 2012* (Report 11 : 2012–13), we recommended that Ipswich Grammar School and Ipswich Girls' Grammar School continue to review their revenue and expenditure policies. In response, both schools implemented various strategies to improve their financial performance and the reported figures for 2013 indicate improvement has been made.

Ipswich Grammar School recorded a reduced loss for 2013, but more work is required for this improvement to continue. It incurred a loss of $1.495 million for 2013, a reduction by $900 000 from the 2012 result. Noting this is its sixth consecutive year of operating losses, it needs to consider whether its financial policies and practices are sustainable. The Board believes the school can meet its debt obligations for 2014.

Agency comments

In accordance with section 64 of the *Auditor-General Act 2009*, a copy of this report was provided to the Premier, the Director-General of the Department of the Premier and Cabinet, the Minister for Education, Training and Employment and the Director-General of the Department of Education, Training and Employment as well as all universities and grammar schools named in this report with a request for comment.

The agencies' views have been considered and are represented to the extent relevant and warranted in preparing this report.

1 Context

The education sector includes 93 entities with a December year end, of which 44 prepare financial statements for audit certification. The sector is comprised mainly of universities and their controlled entities; and grammar schools.

Of the entities controlled by universities, 27 do not prepare financial statements, 14 were dormant in 2013 and eight were deregistered during 2013.

1.1 Financial reporting requirements

This section details the financial reporting requirements of the education entities in this report and describes our responsibilities under the *Auditor-General Act 2009*. We also provide a structure of the report detailing chapters and appendices.

1.1.1 Universities and grammar schools

Each of the seven universities has its 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 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 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 universities and grammar schools to provide draft financial statements 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 of the university or grammar school must consider the statements and the report. If the report contains comments, observations or suggestions about anything arising out of an audit, the governing body must also consider the comments, observations or suggestions.

The university or grammar school 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 that comply 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, assures readers of the reliability of the financial report, including compliance with legislative requirements. In accordance with Australian Auditing Standards, one or more audit opinion types may be issued:

- Unmodified 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 on the compliance of the financial statements with relevant accounting standards and legislative requirements.

An emphasis of matter 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 does not modify the audit opinion. An emphasis of matter 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.

That Act also requires the Auditor-General to prepare a report to Parliament on each audit conducted. The report must state if 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.

1.3 Report structure

The remainder of this 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.
- Appendices A and B contain the status of the 2013 financial statements of education and other entities with a 31 December balance date.
- Appendix C lists entities for which audit opinions will not be issued.
- Appendix D contains better practice for delegations.
- Appendix E contains supplier engagement better practice.
- Appendix F contains better practice for financial statement preparation.

2 Universities and controlled entities

In brief

Background

The seven Queensland public sector universities are located across Brisbane, Gold Coast, 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 20 entities which were also required to prepare financial statements in 2013.

Conclusions

- All universities are operating sustainably and managing their financial risks effectively.
- Internal control frameworks require improvement to reduce the risk of error or fraud arising from non-compliance with controls.

Key findings

- The financial statements of all universities and their controlled entities complied with their reporting requirements.
- The timeliness and quality of the financial statements was satisfactory.
- We issued unmodified audit opinions for all universities and their 20 controlled entities as in 2012, although our 2013 opinions of 10 controlled entities included an emphasis of matter.
- University management certified all financial statements within their legislated time frames, as occurred in 2012.
- We were satisfied with the quality and preparation processes of financial statements by all universities.
- We identified some control breakdowns and improvements required in procurement and delegation processes, as well as over network security and access.
- All universities made operating surpluses in 2013.
- Universities are preparing for potential reduced government funding from the proposed efficiency dividends being considered by government from 2015.
- Strategies are being implemented to accommodate the increased demand for online learning.

2.1 Background

Seven universities and their 20 controlled entities were required to prepare financial statements in 2013. In 2012, 24 controlled entities prepared financial statements. Appendix A includes further details.

During 2013, Queensland Treasury and Trade issued a policy relating to company financial reporting in the Queensland public sector. One of the requirements of this policy was that public sector companies which prepared financial statements were to present them to their relevant portfolio Minister for tabling in Parliament within three months after the end of the financial year. A number of universities were affected by this policy.

2.2 Conclusions

Financial sustainability ratios indicated that all universities have relatively strong balance sheets. Central Queensland University (CQU) has reported an operating surplus of $23 million which is an improved result, given its previous three years of losses.

We identified opportunities to improve the internal controls for the procurement and delegation processes as well as security and access system controls.

2.3 Results of audit

All seven universities and their controlled entities received unmodified audit opinions for 2013. The audit opinion issued for ten of their controlled entities included an emphasis of matter, identifying that their statements were special purpose in nature. In 2012, all universities and their controlled entities received unmodified opinions.

All universities are adopting strategies to address operating and financial risks arising from potential reduced government funding resulting from the efficiency dividends being considered from 2015 and from the increased use of online learning across the sector.

2.3.1 Significant financial transactions

Central Queensland University/Central Queensland Institute of TAFE merger

The merger of Central Queensland University (CQU) and Central Queensland Institute of TAFE (CQIT) will form a dual market university by combining the higher education and vocational education and training capabilities of these entities into one educational institution in the Central Queensland region.

Negotiations for the merger and transfer agreement have been finalised and the dual market university is scheduled to start on 1 July 2014. As part of this agreement, the Queensland Government will contribute $116 million in assets and approximately $40 million annually in revenue towards the dual market university.

On 3 May 2013, the Australian Government announced $73.8 million of funding from the Structural Adjustment Fund (SAF) and Education Investment Fund (EIF) to support the planned merger. The university has received $33.9 million in advance this year, reflected in the university’s operating result of a $23 million surplus (2012: $26 million deficit).

2.4 Timeliness and quality of reporting

2.4.1 Timeliness

The financial statements of all universities and their controlled entities were timely and of good quality. All entities met their legislated time frame in relation to management and audit certifying the financial statements.

This demonstrates good practice by the education sector as it shows accountability in the use of public monies to 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 financial statements are for informing stakeholders and for decision making.

All seven universities (100 per cent) met their two-month legislative time frame for finalising their financial statements, as in 2012. Appendix A provides the dates the financial statements were signed by management and the audit opinion was issued for universities and their controlled entities.

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

All 20 controlled entities (100 per cent) have finalised their financial statements. Eleven 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; these outperformed against this benchmark.

2.4.2 Quality and accuracy

The number and value of adjustments which management and QAO identified during 2013 decreased from 2012, indicating the quality assurance processes implemented by universities have been effective.

The process to prepare the financial statements for the universities was assessed against the better practice detailed in Appendix F.

The quality of financial statement preparation has been consistent with previous years across the university sector. All universities have utilised preparation plans, rigorous quality controls and assurance procedures over their annual financial reporting. Finance staff members in each university have adequate accounting knowledge and experience in a university environment and attended regular professional accounting training. Management undertook rigorous and objective analytical review during the financial report preparation process to improve report accuracy and understand the business operation better.

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 unmodified 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 audited, financial statements should be subject to appropriate internal quality assurance checks to establish that they are complete, materially accurate and compliant with reporting and disclosure requirements. Ideally, management should prepare only one set of financial statements with no adjustments required.

Figure 2A summarises the extent of changes made to the financial statements during the audit process.

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

Financial statement area	2011 $ m	2012 $ m	2013 $ m
Income	328.08	2.35	0.36
Expenses	42.91	10.50	3.56
Assets	51.23	3.40	7.69
Liabilities	142.27	10.50	1.94
Equity	62.17	2.90	0.00
Total	**626.66**	**29.65**	**13.55**
Number of universities that processed a change	6	3	3

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

Source: Queensland Audit Office

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

- property, plant and equipment
- fair value measurement
- contingent liabilities
- lease commitments
- reclassification of certain accounts
- comparative information adjustments.

2.5 Internal controls

For 2013, we reported 42 significant issues (2012: 24) across the university sector with 11 issues each being raised at The University of Queensland (UQ), University of Southern Queensland (USQ) and CQU.

The majority of these issues related to improvements required around the procurement and delegation processes as well as control deficiencies around information systems access and security. These issues are being addressed. Similar issues were also raised at other universities, but not to the same extent.

2.5.1 Background

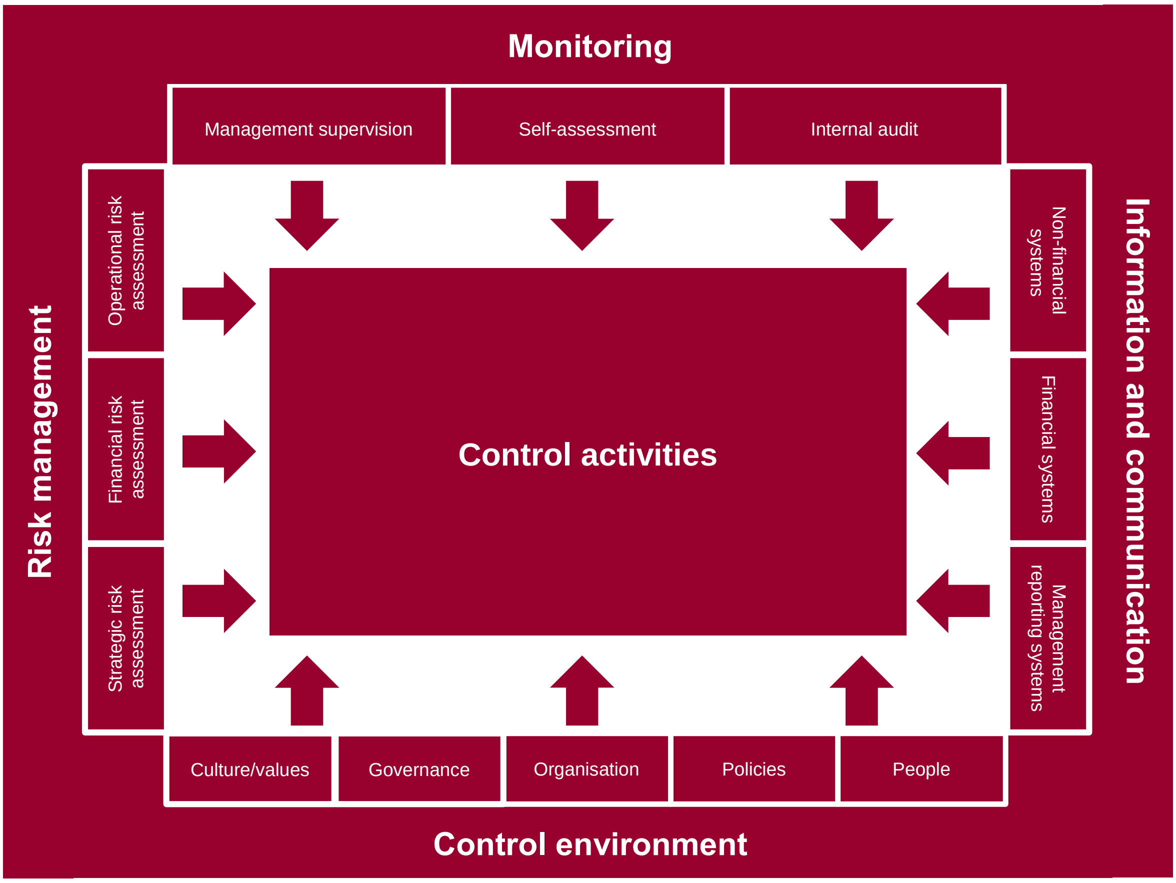
Each university is responsible for developing measures that manage risks to which their operations are exposed. These measures include maintaining an adequate system of internal control so financial records and other information are complete and accurate, assets are safeguarded and errors and other irregularities are prevented or detected.

When all of the components identified in Figure 2B are present in an integrated system of internal control and they operate together effectively, that system reduces the risk of failing to achieve business objectives.

Internal controls cannot eliminate risk. They provide assurance to management about:
- the effectiveness and efficiency of operations
- the reliability of internal and external financial reporting
- compliance by the entity with laws and regulations.

Figure 2B illustrates the five core elements of an integrated system for control:
- Control environment—management's actions, attitudes, policies and values that influence day to day operations. Control environment factors include management's integrity and operating style; organisational culture, values, structure and assignment and delegation of authority; and processes for sourcing and developing qualified and skilled employees.
- Risk management—management's processes to consider risks which may cause failure to achieve the organisation's objectives, forming a basis for how the risks should be managed.
- Control activities—the policies and procedures to follow to carry out management directives and take necessary actions to address identified risks. Control activities operate at all levels and in all functions. They include activities such as approvals, authorisations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of incompatible duties.
- Information and communication—the systems used to provide information in a form and time frame that allows employees to discharge their responsibilities; and the way that control responsibilities are communicated throughout the entity.
- Monitoring of controls—the methods management employs to oversee and assess the operating effectiveness of control activities in practice. This may be achieved through ongoing supervision, periodic self-assessments and separate evaluations.

Figure 2B
Components of an internal control framework



Source: Queensland Audit Office adapted from Internal Control: An Integrated Framework – Committee of Sponsoring Organisations of the Treadway Commission.

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

In this report, we included the control issues we rated high or medium risk that have significant implications for error and fraud, if not addressed as a matter of priority.

Appendices D and E provide better practice guides relating to delegations and supplier engagement which can assist in improving the control environment.

A summary of significant findings identified in 2013 for internal controls across the universities were:

- weaknesses in information system security and user access controls, including inadequate change management controls, which increased the risk of unauthorised or inappropriate access to core financial and payroll systems and data
- breakdowns in controls over corporate card processes, including those over review and authorisation of transactions incurred and non-compliance with internal council policies, which increased the risk of incurring inappropriate transactions
- out of date financial policies and procedures that do not reflect current practice
- insufficient supporting documentation to substantiate the authenticity of claims made, which increased the risk of invalid payments
- mathematical and other unexplained errors noted in system reports, making them unreliable for use by management
- non-compliance with certain disclosure requirements of the new AASB 13 *Fair Value Measurement* standard.

2.5.2 Financial delegations

Context

Under the *Financial Accountability Act 2009* (the Act), a statutory body is responsible for ensuring its operations are efficient, effective and economical. To achieve this, the statutory body may need to delegate certain functions or responsibilities to other statutory body staff. The Act does not provide a statutory body's power to delegate. The power of delegation results from each statutory body's enabling legislation. The enabling legislation of the seven universities provides them with the power to delegate.

A 'delegation' is regarded as a conferral, by a university council, of its power and authority to perform functions of the university by a member of staff or committee. Where a delegate exercises a delegation, it is as though the council performed that function.

Each year, we routinely test each university's compliance with its instrument of delegations. As part of our cyclic review of controls, this year we examined the design and application of financial delegations to determine whether they were well aligned with the university's organisational structures (including the universities' risk appetite) and that the lines of authority to spend money were clearly articulated and well understood.

Better practices

There are four stages in the process of designing and applying delegations:

- **assign duties—**establish organisation structure, articulate roles and responsibilities
- **delegate authority—**align with roles, transfer and accept
- **exercise authority—**take decisions and actions
- **monitor and review—**monitor proper exercise and review assigned authority for ongoing appropriateness.

Appendix D elaborates on acknowledged better practices in applying delegations at each of these four stages.

Conclusions

The assignment of authority through instruments of delegations is operating effectively and the university sector is complying with delegation policies and procedures.

All universities have appropriate controls in place to ensure transactions are approved by officers with appropriate financial delegation. Five universities use electronic purchasing systems with electronic inbuilt workflow controls, forcing compliance with the instrument of delegations, which would be considered to represent better practice.

Assign duties and delegate authority

All universities have a financial delegation policy and associated instrument of delegation in place which has been appropriately approved by a university council. A financial delegation policy, including the instrument of delegation, is an important tool to assist financial delegates in understanding their responsibilities and level of authority.

The instrument of delegation for each university captures information including:

- the delegation type
- list of positions holding each delegation type
- dollar or other thresholds for each delegation type
- any restrictions/limits (if applicable) placed on individual delegates or types of delegates.

It is important that the financial delegation policies, including the instrument of delegation, are kept up to date. Delegations should be regularly reviewed—at least annually and more frequently where there are significant changes to the university affecting financial delegations, such as organisational restructures.

Griffith University (GU), Queensland University of Technology (QUT), USQ, James Cook University (JCU), CQU, UQ and University of the Sunshine Coast (USC) review their instrument of delegation at least annually.

We noted both GU and UQ did not capture all position or role titles within the instrument of delegation and/or delegation policy at the time of our review; however management was reviewing and updating these.

Due to their large size and diverse range of operations, all seven universities have adopted a decentralised organisational structure. The instruments of financial delegations at all universities reflect this decentralised organisational structure and each aligns closely with its current organisational chart.

Figure 2C shows the number of delegated roles reduces as the dollar range increases, consistent with a decentralised organisational structure, providing low level authority to a large number of roles or employees.

Figure 2C
Financial delegations

$ range	UQ	QUT	GU	USQ	JCU	CQU	USC
Limited to budget allocations	—	1	5	—	3	1	1
1M +	10	10	5	2	9	—	—
750 000 -999 999	10	10	5	2	9	4	—
500 000 -749 999	10	13	5	2	15	4	—
250 000 - 499 999	10	13	6	4	15	5	2
100 000 - 249 999	26	14	8	7	32	11	4
50 000 - 99 999	31	14	12*	7	38	11	8
5 000 - 49 999	37	14	12*	15*	56	11	54
< 4 999	40	14	12*	15*	58*	12	59

Notes: the table is stratified by employee roles, grouped at the role levels reflected in the delegation policy and/or instrument of delegation and does not represent individual employees.

* One delegation band comprises a separate listing of specific 'other approved officers'.

Source: Queensland Audit Office

USC has articulated its university's risk appetite in its *Enterprise Risk Management and Resilience - Governing Policy* in which it has adopted a low risk profile. The low risk profile is demonstrated in Figure 2C where USC delegates authority for relatively low dollar value transactions to a wide range of staff; however, transactions of high dollar value and perceived higher risk are confined to one senior officer.

While the other universities have not formally articulated their risk appetites, the structure of their financial delegations is consistent with a lower risk appetite, where the number of roles with financial delegation significantly reduces as the value and perceived risk of the transaction increases. Figure 2C shows that, at the $250 000 range, most universities consider it necessary to restrict significantly the number of financial delegates, which is an indicator of each university's risk tolerance.

Figure 2D shows the financial delegation levels for key executive officers which exist at all universities. It shows the financial delegation limits are varied for each university to reflect the university's delegation portfolio.

Figure 2D
Financial delegations—key executives

Position	UQ	QUT	GU	USQ	JCU	CQU	USC
Vice-Chancellor	$25m	Within approved budget limits	Unlimited within approved budget limits	$5m	Unlimited within approved budget limits	Unlimited within approved budget limits	Unlimited within approved budget limits
Deputy Vice Chancellor	$5m	$2m	Unlimited within approved budget limits	$250k	$1m	$750k	$100k
Chief Financial Officer (equivalent)	$200k	$1m	Unlimited within approved budget limits	$100k	Unlimited upon prior approval from Council	$750k	$300k

Source: Queensland Audit Office

Exercise authority and monitor and review

All transactions we tested either contained or were supported by sufficient evidence of appropriate approval by the appropriate financial delegate.

Better practice requires formal training to be provided on appointment of a delegated role, supported by regular refresher training. All universities provide an induction to their financial delegates when they commence with the university, to help them understand their responsibilities before exercising their financial delegations.

From our testing across all universities, most officers understood their roles and responsibilities expected of them. GU, CQU and USC provide scheduled refresher training for financial delegates and QUT provides an online training calendar for its financial delegates.

At UQ, there is currently no formal refresher training provided to financial delegates covering the responsibilities and expectations of those with a financial delegation; however, a training and development framework is being developed to formalise the training process.

For purchase orders over $5 000, QUT, UQ, GU, USQ and USC use an electronic purchasing system. Benefits achieved through workflow automation include:

- increased consistency, efficiency, productivity
- reduced processing cycle times and errors.

These systems have inbuilt workflow controls in place, forcing compliance with the instrument of delegations. This is a very cost effective procurement control, considered better practice.

JCU and CQU use manual purchase order and approval processes. A manual process is typically more costly, due to the effort involved to ensure compliance with policies and procedures.

2.5.3 Procurement

Context

In 2013, universities collectively spent $1.38 billion on purchasing goods and services (representing 34 per cent of universities' total expenses) and $755.4 million on capital projects. The range of goods and services procured by universities can be wide ranging or specialist in nature, based on the courses offered and the research conducted.

The practices to acquire goods and services affects the universities' ability to deliver quality tertiary educational services that are efficient, effective and economical. This is relevant, considering the 2013–14 federal government budget identified that efficiency dividends of two per cent for 2014 and 1.25 per cent for 2015 will be required from the university sector.

Each year, we routinely test procurement transactional controls. As part of our approach to auditing controls, we also periodically examine individual elements of the procurement process in detail.

This year, we examined in detail the supplier engagement phase of the procurement process leading up to the procurement decision. This phase involves four steps:

- developing requirements
- going to market
- evaluation and selection
- awarding the contract.

We assessed these steps for compliance with the prescribed requirements, but also for efficiency and effectiveness.

The emphasis was on the procurement practices for non-capital purchases for the period 1 January 2013 to 30 June 2013. We covered procurement practices for capital purchases in our review of strategic asset management practices of universities which we reported in *Education sector financial statements for 2011* (Report No 3 : 2012).

State Procurement Policy

The Department of Housing and Public Works developed the Queensland Procurement Policy (QPP) with which all state public sector agencies must comply from 1 July 2013.

This policy replaces the previous State Procurement Policy (SPP), last updated in 2010, which detailed compliance requirements for public sector entities to satisfy three equal objectives:

- to advance the priorities of the government
- to achieve value for money
- to ensure probity and accountability for outcomes.

As the new QPP became effective during the financial year, our audit focused on compliance with the old SPP and on transactions processed during the first six months of the year.

Conclusions

Each university has appropriate procurement policies and procedures to help their procurement staff comply with requirements. Each university's policies and procedures are consistent with the requirements of the previous SPP.

In practice, however, we identified instances at most universities where procurement processes and decisions were not clearly documented, including:

- establishing procurement requirements supported by significant procurement plans
- engaging the market
- evaluating and selecting suppliers.

Where university policies and procedures are not followed, the risk of non-compliance with prescribed requirements increases.

We also identified opportunities for improvement across the sector for:

- increasing the use of corporate credit cards for low risk and low dollar value transactions
- increasing the use of effective preferred supplier arrangements for significant purchases
- publishing forward procurement plans and details for all awarded contracts and standing offer arrangements on the Procurement Centre of Excellence (PCO) website formerly Queensland Government Chief Procurement Office (QGCPO)
- monitoring the performance of suppliers
- enhancing procurement policies and procedures to address specifically the risk of vendor collusion by incorporating the guidance provided in the Australian Competition and Consumer Commission (ACCC) guide titled *Cartels – Deterrence and Detection.*

Developing requirements

All universities had appropriate policies and procedures to help set procurement requirements, consistent with the requirements of the SPP.

It is a requirement of the former SPP, and reflected in the current QPP, that significant procurement plans are prepared for all significant purchases. These plans must:

- establish procurement objectives and specify how the procurement supports the achievement of agency procurement objectives
- analyse internal demand for the procurement
- establish the status of the supply market and the likely effect of the procurement on the market
- evaluate potential buying strategies and identify the preferred strategy
- specify measures to evaluate the implementation of the supply strategy.

QUT's procurement documents are maintained centrally and reviewed by a central procurement team to comply with university policy and procedures before going to market.

With the exception of QUT, all universities had instances where significant procurement plans were not prepared for purchases of high value or high business risk, which stated clearly the functional and performance requirements of the goods or services to be procured.

As a result, procurement requirements were not clearly articulated within the procurement documentation. This was more prevalent in specialist-type expenditure with limited suppliers of the products/services.

Going to market

All universities have policies and procedures that outline preferred methods for procurement, based on the nature and value of the purchase. These policies and procedures devolve procurement responsibilities for low risk expenditure to the local level, allowing operational staff to procure required goods in a timely manner.

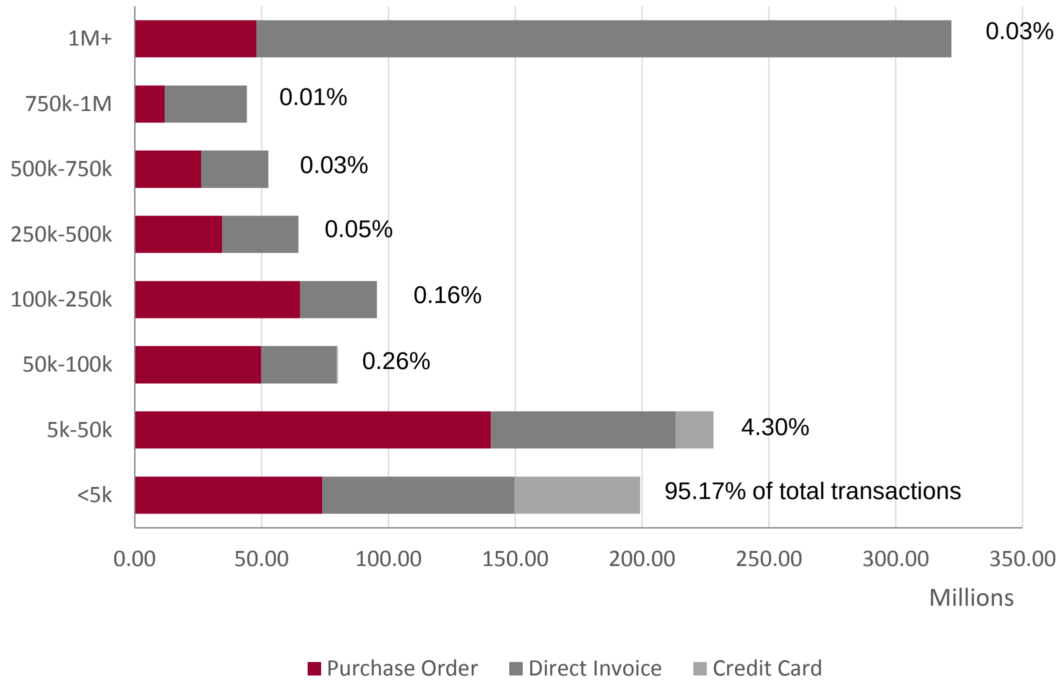
As a standard practice, QUT, GU, and USQ performed an analysis of their actual procurement patterns in determining the preferred procurement methods as outlined in their policies. UQ and JCU recently analysed their procurement patterns as part of their reviews of their procurement practices, which is well progressed.

Figures 2E, 2F and 2G show the procurement patterns of universities for the first six months of 2013. This analysis shows that the vast majority of transactions (95.17 per cent) are within the range up to $5 000 and, with the exception of JCU, the use of corporate credit cards for these low dollar value transactions could be increased as they account for 46.44 per cent of transactions within this range.

Corporate credit cards offer a low cost alternative to traditional purchase orders and provide increased accountability and security for transactions, compared to using direct invoices. Our analysis of processing charges for Queensland Government departments, which we reported in our *Results of audit: Internal control systems* (Report 6 : 2013–14), showed the processing costs for purchase to pay transactions ($19.85 per transaction) were significantly higher than processing corporate card transactions ($2.50 per transaction).

Figure 2E shows the use of direct invoices for transactions greater than $100 000 accounts for 0.14 per cent of total transactions and 37.03 per cent of total dollar spend. Our analysis indicates direct invoices have been used appropriately on recurrent expenditure, including PAYG tax, superannuation contributions and payroll tax.

Figure 2E
Procurement method patterns—stratified



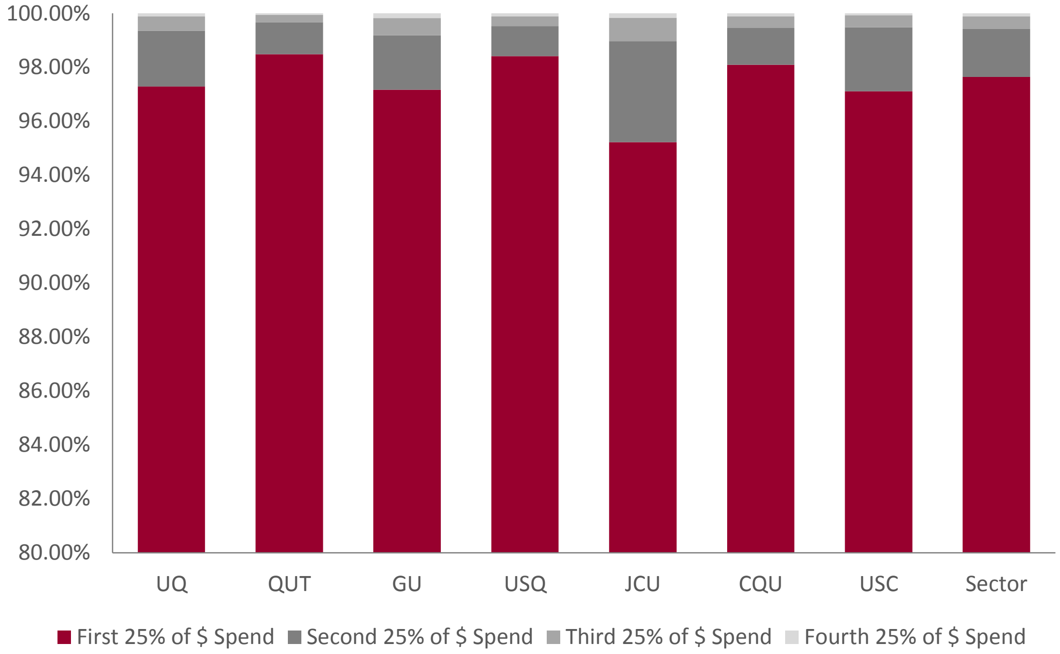
Source: Queensland Audit Office

The use of preferred supplier arrangements could be enhanced. QUT, GU, JCU and USC have developed policies and procedures, including developing preferred supplier lists, which encourage the use of the Queensland Government standing offer arrangements.

A university can maximise its buying power and reduce its administrative costs by implementing an effective preferred supplier process, including the development of a concentrated preferred supplier register. We acknowledge the complexity and broad range of procurement in the university sector may influence the feasibility of preferred suppliers for some categories of significant procurement (such as specialist research procurements).

Figure 2F shows that procurement at universities is concentrated to a small proportion of their total vendors, with the top 25 per cent of university vendors accounting for more than 95 per cent of universities' total spend. This indicates that universities *may* benefit from implementing preferred supplier arrangements.

Figure 2F
Vendor analysis by university

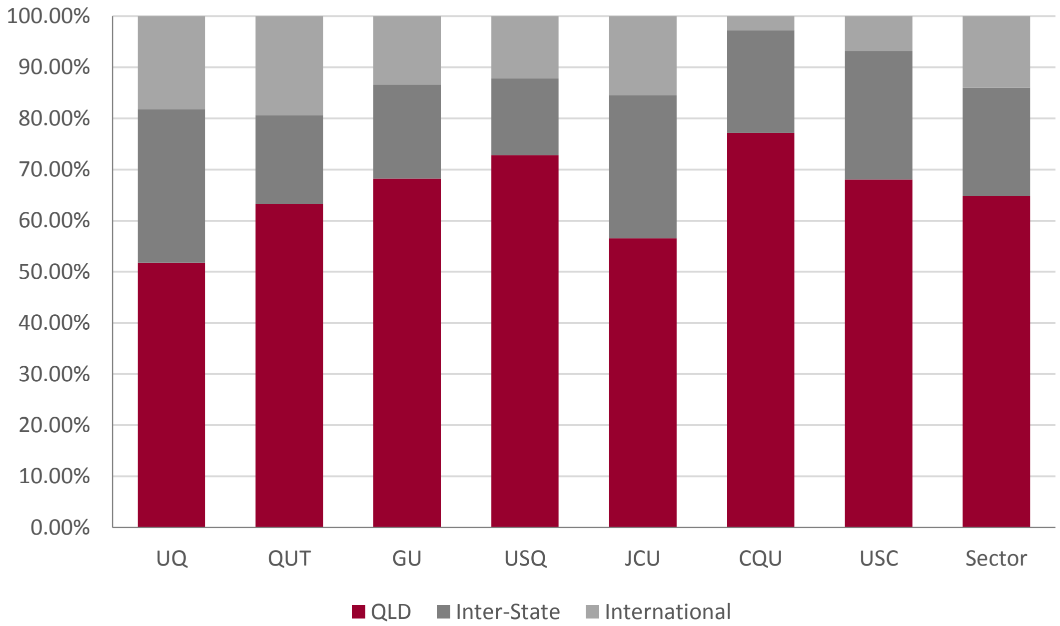


Source: Queensland Audit Office

All universities have policies and procedures to enable local suppliers to participate in the procurement process. Only QUT and USC could provide documentary evidence demonstrating their compliance with these policies and procedures.

Figure 2G shows the majority of suppliers used by universities operate in Queensland.

Figure 2G
Analysis of vendors by locality



Source: Queensland Audit Office

With the exception of QUT, we noted opportunities across universities to improve the documenting of procurement decisions, including complying with university policy on engaging the market and adopting the universities' preferred procurement methods.

Failure to follow university policies and procedures increases the risk of non-compliance with prescribed requirements and compromises value for money, probity and accountability.

Evaluation and selection

With the exception of QUT, we noted opportunities to improve documenting procurement decisions, including:

- recording actions of the selected supplier and associated procurement that satisfy the procurement requirements and objectives as specified in the significant procurement plans
- defining the assessment criteria and their relationship to the procurement requirement
- documenting the procurement/tender assessments and rationale for procurement decisions.

Failure to follow university policies and procedures increases the risk of non-compliance with prescribed requirements, compromising value for money, probity and accountability.

Most universities have a decentralised procurement function. This devolves procurement decision making to the operational level, but challenges compliance with requirements, such as documentation, across the university.

GU, QUT, USQ, JCU and USC each have dedicated procurement officers or teams, who are suitably experienced and skilled, involved in significant procurement activity. The other universities have implemented various training programs for all procurement staff across the university.

UQ and CQU have recently appointed a dedicated procurement officer to oversee compliance with university procurement policies and procedures as part of their reviews of their procurement practices.

All universities should address the risk of vendor collusion by incorporating the Australian Competition and Consumer Commission (ACCC) guide titled *Cartels – Deterrence and Detection* into their procurement policies and procedures.

Awarding the contract

The QPP and the former SPP require that a university has a process to capture and publish regularly, on the Procurement Centre of Excellence (formerly the QGCPO) website, details of all awarded contracts and standing offer arrangements greater than $500 000 (SPP used a threshold of $10 000).

With the exception of USC, we noted opportunities to improve reporting of awarded contracts on the Procurement Centre of Excellence website.

With the exception of GU and QUT, we noted opportunities to improve monitoring of supplier performance. In particular, procurement contracts need to include supplier key performance indicators and establish processes to monitor supplier performance effectively against the predetermined criteria.

We noted GU has processes to produce regular supplier performance reports that are reviewed by management; to hold regular meetings with key suppliers to discuss matters including identified performance issues; to clarify any complex or technical procurement requirements; and to identify opportunities to streamline the procurement process.

We assessed complaint management systems as satisfactory at all universities, providing systems and processes so suppliers can lodge a complaint regarding a procurement outcome.

We noted opportunities at USC to maintain a central register to monitor complaints, including procurement complaints. All other universities have processes in place to be able to identify procurement related complaints.

2.5.4 Internal audit

An effective internal audit function assures 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 determined internal audit units across the sector operated effectively during 2013, having considered their program focus, timing, quality of work and findings.

All universities have an internal audit unit but they vary in size and resourcing of the function. GU, QUT, USQ and JCU operate a co-sourced arrangement with the private sector; UQ and CQU perform most of the work with an in house team; and USC outsources the function. The internal audit functions of QUT and JCU also incorporate a risk management responsibility while some internal audit units perform specific investigations as requested. All universities have staff with appropriate qualifications performing the work.

The total cost of internal audit across all universities in 2013 was $3.72 million (2012: $3.66 million) which equates to 0.09 per cent (2012: 0.09 per cent) of total operating expenditure across the sector.

Benchmarking of internal audit resourcing

The cost of internal audit compared to total operating expenditure is one measure of the adequacy of internal audit resourcing. The optimal ratio varies, depending on size and scale of operations. It will also vary with complexity and risk, which are not necessarily reflected in total expenditure.

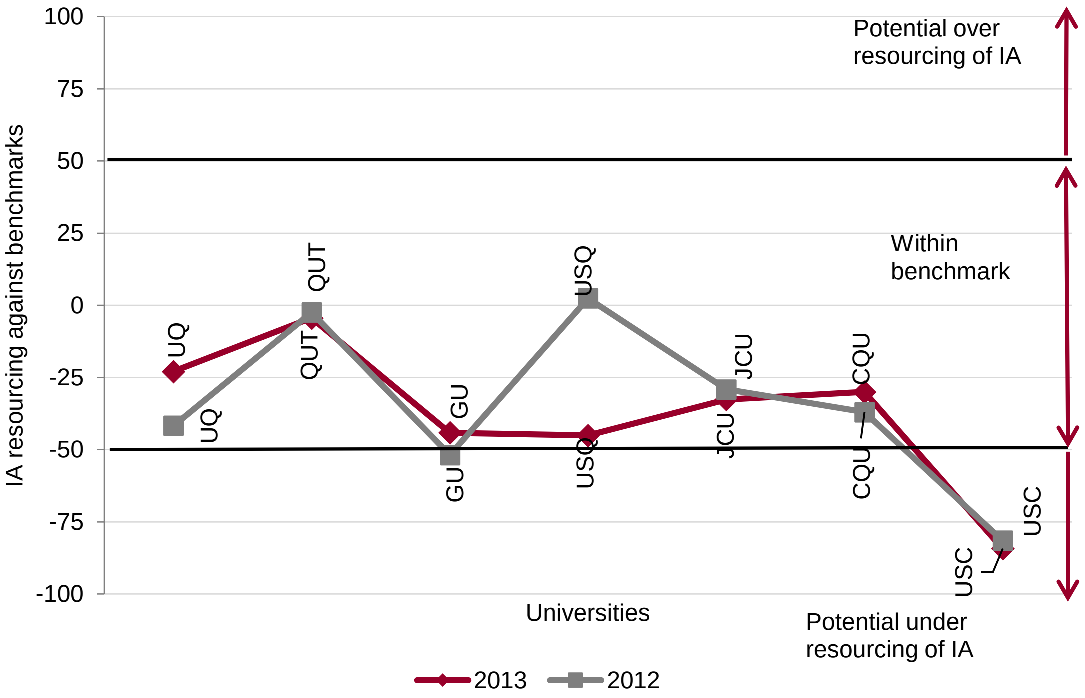
We compared the 2013 internal audit unit costs of each university against its 2013 total expenditure. We developed benchmarks from our analysis of internal audit units across the Queensland public sector, taking into consideration results from Global Audit Information Network (GAIN) benchmarking. We also considered similar analysis conducted by the Australian National Audit Office over Commonwealth agencies.

Our benchmarking model is calibrated so a university with higher total expenditure would have a lower benchmark percentage. This reflects factors such as the economies of scale that can be achieved in larger organisations, but which are not available to smaller agencies. Our indicative benchmark starts therefore at 0.35 per cent of total expenditure for small universities like USC and gradually scales down to 0.05 per cent for large universities like UQ.

Figure 2H shows the level of internal audit resourcing at the seven universities compared to our calibrated benchmarks for both 2013 and 2012. This analysis indicates most universities have adequate resourcing (if at the lower end of the range) of internal audit in 2013.

The benchmarks are indicative and need to be considered in the context of each university and its circumstances. Internal audit and audit committees should conduct their own external benchmarking to assess the adequacy of their internal audit resourcing.

Figure 2H
Level of internal audit resourcing against benchmarks



Source: Queensland Audit Office

With the exception of USQ, the internal audit costs as a proportion of total university operating expenses are relatively consistent between 2012 and 2013. The movement between the 2012 and 2013 benchmarks for USQ is due to a one-off investigation performed in 2012 which was not repeated in 2013.

2.5.5 Audit committees

An effective audit committee promotes 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 that meet from three to seven times each year and at other times as required. At UQ, the finance committee attends to all external audit issues and the financial statements approval process.

Committee structure

Audit committees need the right balance of skills and industry experience so members challenge management appropriately and provide impartial views. Audit committees should have members who can ask probing questions of management and auditors and who can add value to management so committee expectations are understood and actions requested are carried out.

Members need financial management and public sector governance experience, industry knowledge and competency to oversee:

- design and operation of internal controls
- financial statements and financial management
- risk management strategies and plans
- information systems and data security
- strategies to limit fraud and misappropriation
- compliance with legislation and key government policies.

Queensland Treasury and Trade guidelines suggest audit committees should have a minimum of three members and a maximum of six members. The guidelines also state it is desirable that two members are external to the agency to provide independent input from an ‘outside’ perspective.

All universities appointed an independent Chair to their respective committees. We assessed committee members across the sector as suitably qualified and experienced; and found committees operated effectively during 2013, given their involvement with the financial statement process and the timely action being taken on internal and external audit issues.

Figure 2I shows the total number of audit committee members and extent of external member representation. The number of members varies from four to seven, with all universities having more than two external members on their audit committees.

Figure 2I
Total number of audit committee members and extent of external membership

	UQ	QUT	GU	USQ	JCU	CQU	USC
Internal members	1	1	0	0	0	0	1
External members	5	4	5	5	7	4	4
Total members	**6**	**5**	**5**	**5**	**7**	**4**	**5**

Source Queensland Audit Office

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. Their systems must mitigate the risk of unacceptable costs or losses from their operations and manage risks that may affect their ability to continue to provide services.

2.6.2 Operating results

Universities’ financial performance is measured primarily by their operating results—the difference between money in and money out (revenue inflows and expenditure outflows). They need to generate enough extra funds from their operations to meet all their future financial obligations, including repaying any debt and funding asset replacement and acquisitions.

Figure 2J shows the operating result for each university and their five-year average.

Total operating revenues increased by $217 million (4.9 per cent) across all universities. All seven universities reported an operating surplus in 2013, but the operating surplus of five of the seven universities declined, compared to 2012.

CQU improved from a $26 million loss in 2012 to a surplus of $23 million and UQ's operating surplus increased from $58 million in 2012 to $110 million in 2013.

The main reasons for the $49 million improvement in the CQU result were the advance Australian Government funding of $33.9 million to merge CQU with CQIT and cost containment strategies over past years. CQU also increased the number of Higher Education Contribution Scheme (HECS) and Higher Education Loans Program (HELP) places by 613, resulting in an increase of $9.7 million in federal funding.

Australian Government grants to UQ increased by $56.6 million, a five per cent increase in funded student places. This was offset by a three per cent increase in employee expenses. The right to use laboratory space in the Translational Research Institute at no cost during 2013 was valued at $95 million and was recognised as other income.

All other universities' operating surpluses fell, with QUT having the largest reduction from $100.6 million in 2012 to $56.3 million in 2013. A small increase of 2.5 per cent in operating income was offset by a 7.9 per cent increase in operating expenses; in particular, employee expenses which increased by $28 million or seven per cent from 2012.

While QUT had the largest dollar decline in its operating result:

- JCU's operating result declined by 51 per cent
- USQ's operating result declined by 29 per cent
- GU's operating result declined by 16 per cent
- USC's operating result declined by 19 per cent.

While all achieved increases in their operating revenues, mainly from financial assistance grants and from their own fees and charges; they also increased their operating expenses, especially employee expenses, from employing more staff and from salary increases.

Figure 2J
Operating results*

Entity	2009 $ m	2010 $ m	2011 $ m	2012 $ m	2013 $ m	Five-year average $ m
UQ	125.58	139.21	192.78	58.18	110.05	125.16
QUT	110.29	46.93	63.84	100.66	56.32	75.61
GU	94.40	109.81	90.03	87.04	73.44	90.94
USQ	18.01	14.59	14.52	38.09	27.22	22.48
JCU	23.50	27.28	43.96	37.24	18.41	30.08
CQU	2.46	-4.93	-3.28	-26.08	23.09	-1.74
USC	17.50	15.88	8.59	25.36	20.45	17.55
Total	**391.74**	**348.77**	**410.44**	**320.49**	**328.98**	**360.08**

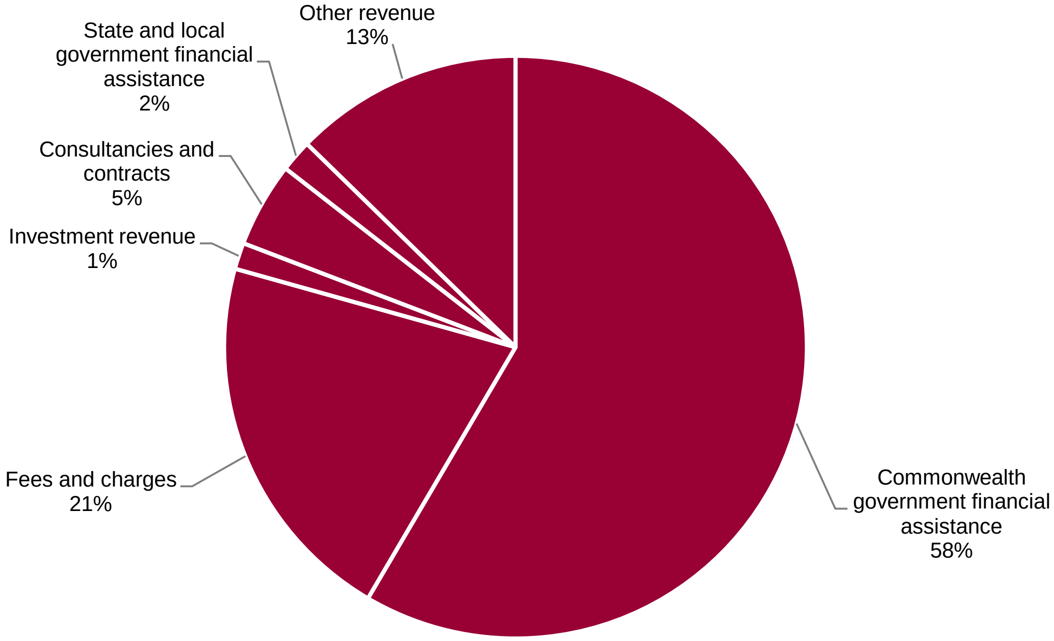
* 2012 comparatives may be adjusted due to changes identified in current year statements.

Source: QAO

Operating income

In 2013, the universities generated total operating income of $4.67 billion, an increase of $217 million (4.9 per cent) compared to 2012. Figure 2K shows the composition of total operating income.

Figure 2K
Operating income composition 2013



Source: Queensland Audit Office

Australian Government financial assistance

Australian government grants revenue for 2013 totalled $2.7 billion across all Queensland public universities, which represents 58 per cent of total revenue. This is an increase of $173 million (6.8 per cent) over 2012 and continues the recent trend of growth in this area.

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

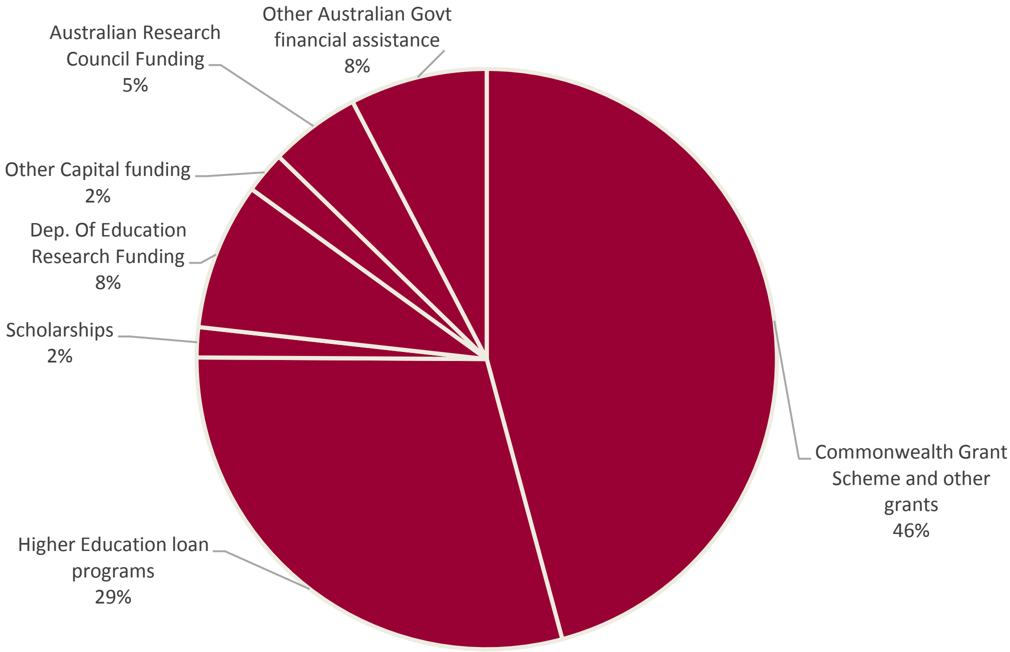
- an increase in base funding of $67 million for domestic non-fee paying students, reflecting load changes and indexation increases
- an increase in Australian Government HELP payments of $136 million with increases in student loan repayments
- an increase in Department of Education funding of $4.7 million
- an increase in the Australian Research Council (ARC) funding of $9.6 million.

These increases were offset with decreases of:

- $19 million in other Australian Government financial assistance
- $20 million in other capital funding.

All universities reported increased revenue from this stream in 2013. Figure 2L shows the breakdown of this financial assistance.

Figure 2L
Australian Government funding 2013



Source: Queensland Audit Office

The Australian Government's announcement of a tightening in research funding for three years from 2013 is of concern. Universities that perform significant research and rely on this revenue source need to consider strategies to mitigate the risk of future funding reductions.

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

The amended *Higher Education Support Act 2003* 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 allows universities to decide the number of students to enrol in their undergraduate courses.

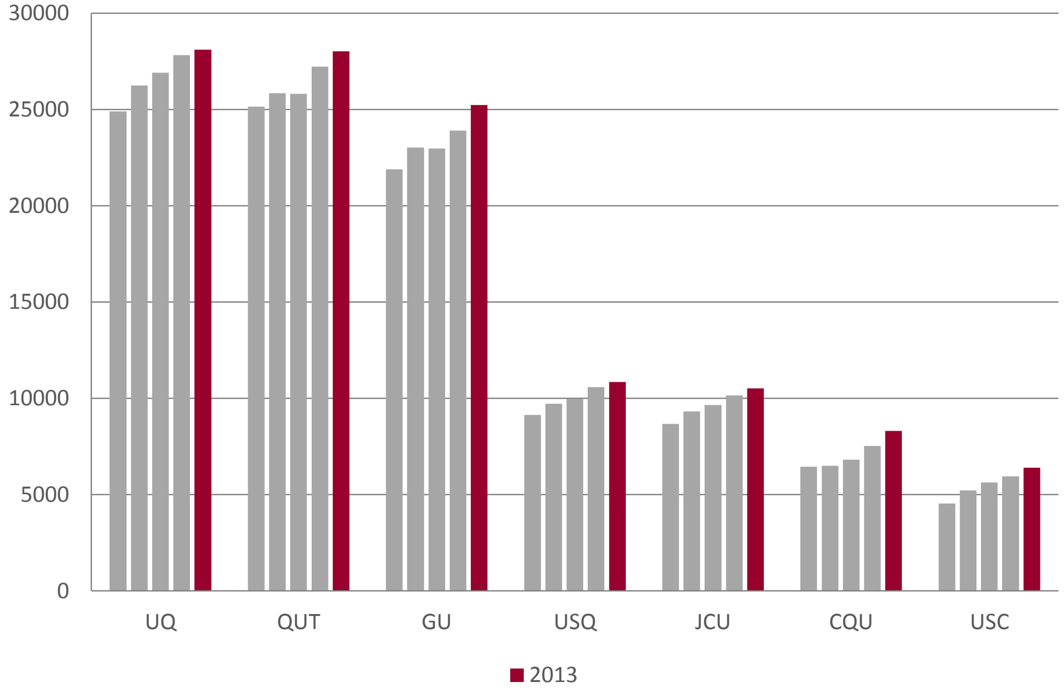
Previously, the number of Commonwealth supported undergraduate places was capped for each university and the funding for undergraduate student places was limited. Now, only the number of Commonwealth supported places in postgraduate courses, courses of study in medicine and sub degree (diploma) places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

All universities saw an increase in domestic student numbers and all acknowledge that the model led to increased competition for domestic student places in Queensland. Across the sector, the domestic equivalent full time student numbers increased in 2013 by 4 276 (3.78 percent), following on from the increase of 4 667 (4.2 per cent) in 2012.

Figure 2M shows that university enrolments have been trending upwards with uniform growth across the sector for the past five years.

Figure 2M
Domestic student numbers 2009–2013



Source: Queensland Audit Office

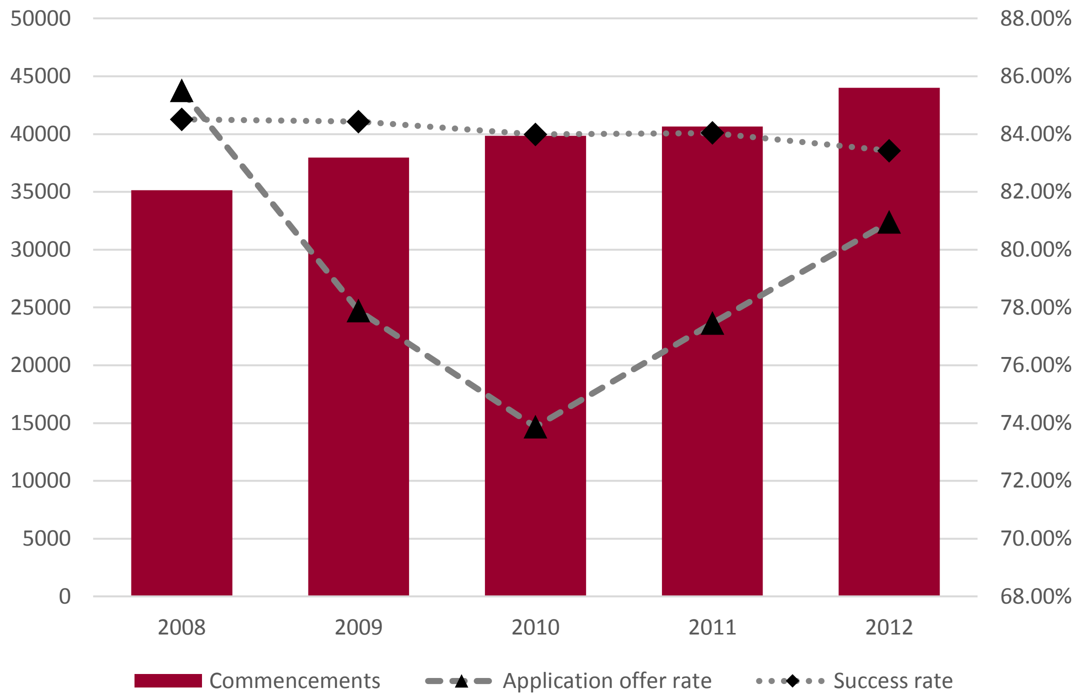
Figure 2N shows that the number of domestic students commencing university has increased by 25.19 per cent over the past five years.

The introduction of demand driven funding for undergraduate courses in 2012 has affected enrolment trends across the sector, with domestic student commencements increasing by 8.24 per cent compared to 6.97 per cent growth over the preceding two years.

Commencements and application offer rates are rising, while the success rate for these students has decreased marginally. The success rate is the equivalent full time student load (EFTSL) of units passed by commencing bachelor students as a percentage of the EFTSL of all units attempted by commencing bachelor students in the given year.

With universities accepting a greater proportion of applicants, but with a smaller proportion of first year students successfully completing their first year of studies, on this measure, the quality of academic standards of universities is not being compromised.

Figure 2N
Analysis of first year commencements across the sector



Source: Queensland Audit Office

Student fees and charges

Student fees and charges, including international students and domestic students who elect to pay up front, represent 21.3 per cent of total university revenue within the sector. Funding for eligible Commonwealth supported students is not included in these fees and charges and is reflected in Commonwealth financial assistance.

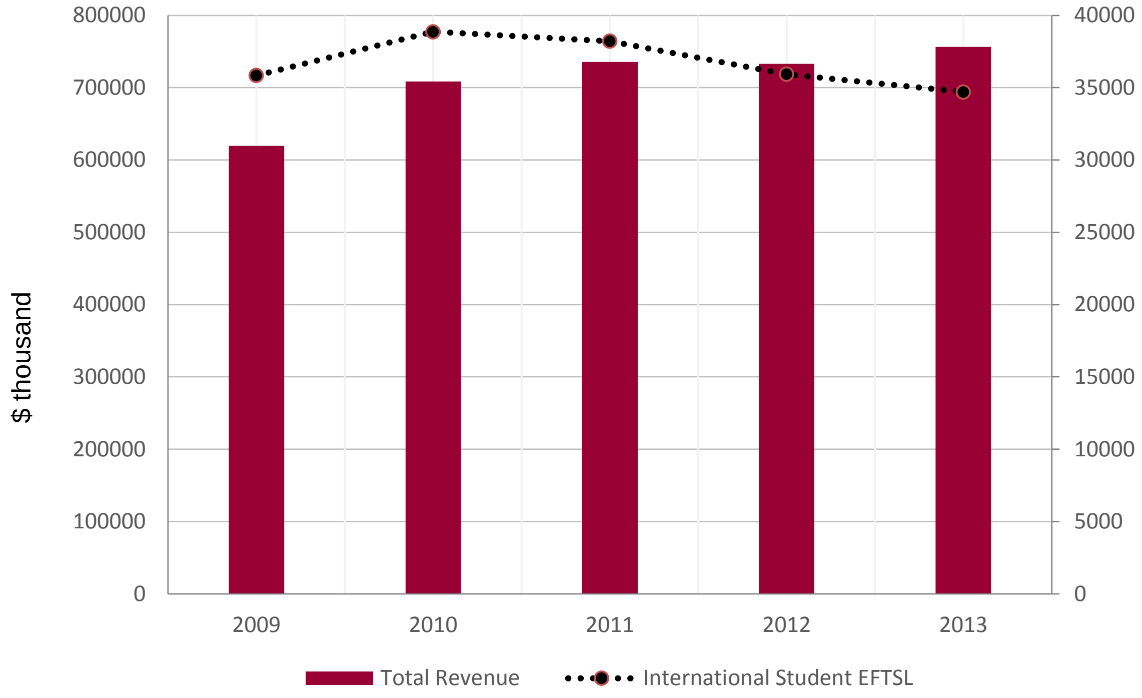
Over the past five years, international student fees increased by $137 million (22 per cent) from $617 million in 2009 to $754 million in 2013.

There have been no significant movements in the relative proportions of international student fees paid, compared to domestic student fees paid, over the past five years with the breakup being 16.5 per cent and 4.8 per cent respectively.

International student fee revenues are subject to a range of risks outside the control of an individual university; 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.

Figure 2O 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 10.72 per cent since 2010, reducing by 650 in 2011, 2 290 in 2012 and 1 227 in 2013. Total revenue has been maintained because the increases in average fees paid by international students in 2011, 2012 and 2013 have offset the reduced numbers.

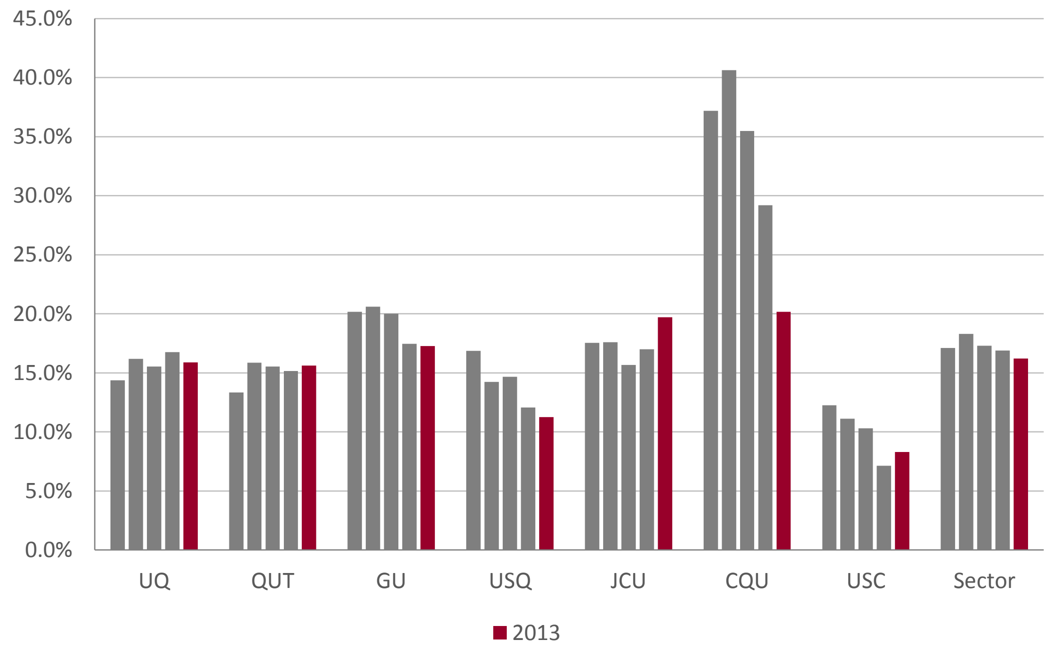
Figure 2O
International student revenue and numbers



Source: Queensland Audit Office

Figure 2P shows the relationship between international student fee revenue and total revenues over the past five years for each university. It shows, as a portion of total revenue, international student fees remained consistent at 16–17 per cent, peaking at 18.3 per cent in 2010. CQU reliance on international student revenue has reduced significantly since 2010.

Figure 2P
International student revenue against total operating revenue 2009–2013



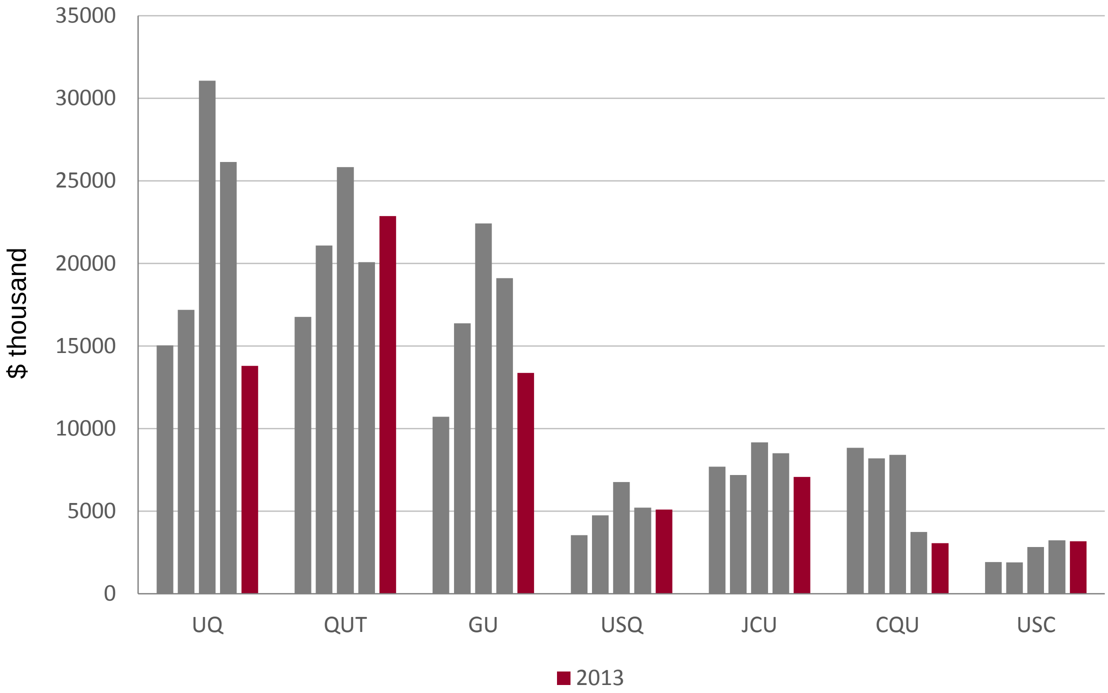
Source: Queensland Audit Office

Investment revenue

Total sector investment revenue has decreased by $18 million in 2013 compared to 2012 (20.9 per cent). Combined with the decrease in 2012, there has been a fall of $38 million (35.8 per cent) since the peak of $106 million in 2011. The major decreases have occurred at GU and UQ. The fall at GU in 2013 is the result of reduced investment fund distributions and the fall in interest rates. The decrease at UQ is primarily due to falls in investment returns from other entities in which UQ has an interest with a resultant fall in cash held, coupled with the fall in interest rates.

Investment revenue for the last five years for each university, excluding unrealised gain or losses on financial assets, is shown in Figure 2Q. This also shows that the three largest universities have been the principal contributors to the levels of investment in this sector over the last five years.

Figure 2Q
Investment revenue—five year trend



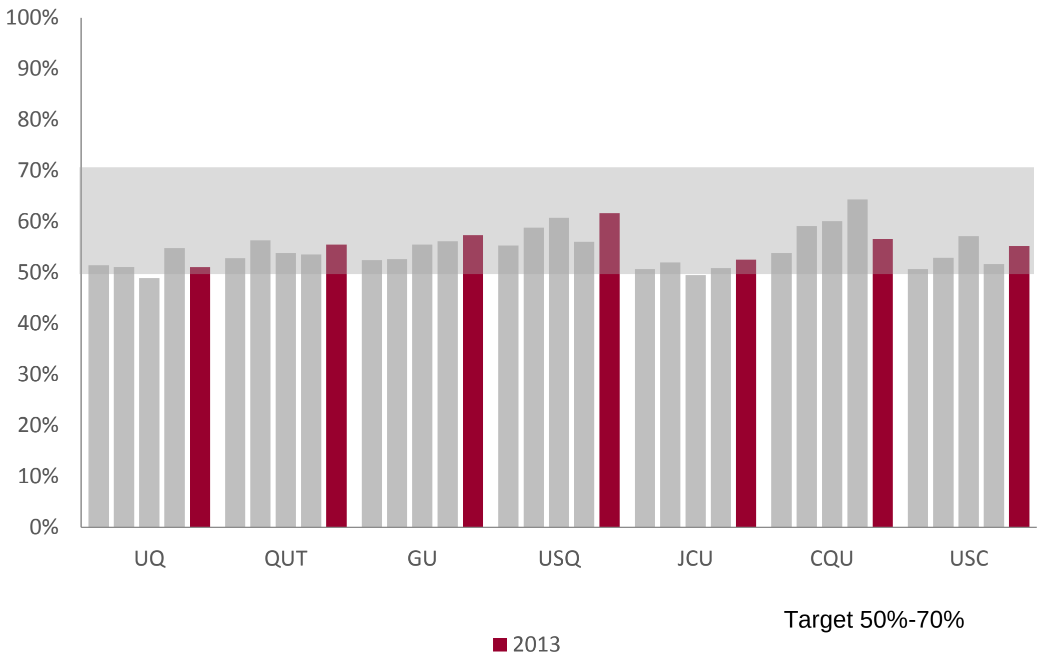
Note: Unrealised gains/losses have been excluded.

Source: Queensland Audit Office

2.6.3 Operating expenditure

The federal Department of 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 2R shows that all universities were at the lower to mid-range of the benchmark and are in a satisfactory position.

Figure 2R
Employee benefits and on costs as a percentage of total revenue 2009–2013



Source: Queensland Audit Office

2.6.4 Net assets

An entity's financial position is measured by reference to its net assets—the difference between what they own and what they owe (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 ensure their ability to repay any debt financing of assets. Figure 2S compares the total combined net assets of the seven universities for 2012 and 2013. The combined net assets of the universities increased by $313 million over 2012, due to an increase of $260 million in total assets and a decrease of $53 million in total liabilities.

Figure 2S
Total combined net assets

Net assets $ m		Movement	
2012	2013	$ m	%
7 742	8 057	313	4

Source: Queensland Audit Office

Assets

Total assets increased by $260 million (three per cent) from 2012 to a total balance of $9.3 billion. This was mainly due to a $314 million increase in property, plant and equipment and an increase of $214 million in other financial assets, offset by decreases in cash of $93 million, other non-financial assets of $54 million and receivables of $99 million.

Liabilities

Total liabilities decreased by $53 million (four per cent) from 2012 to a total of $1.29 billion. This was mainly due to a decrease in unearned revenue of $119 million offset by an increase in borrowings of $71 million.

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 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.

Results of the 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.

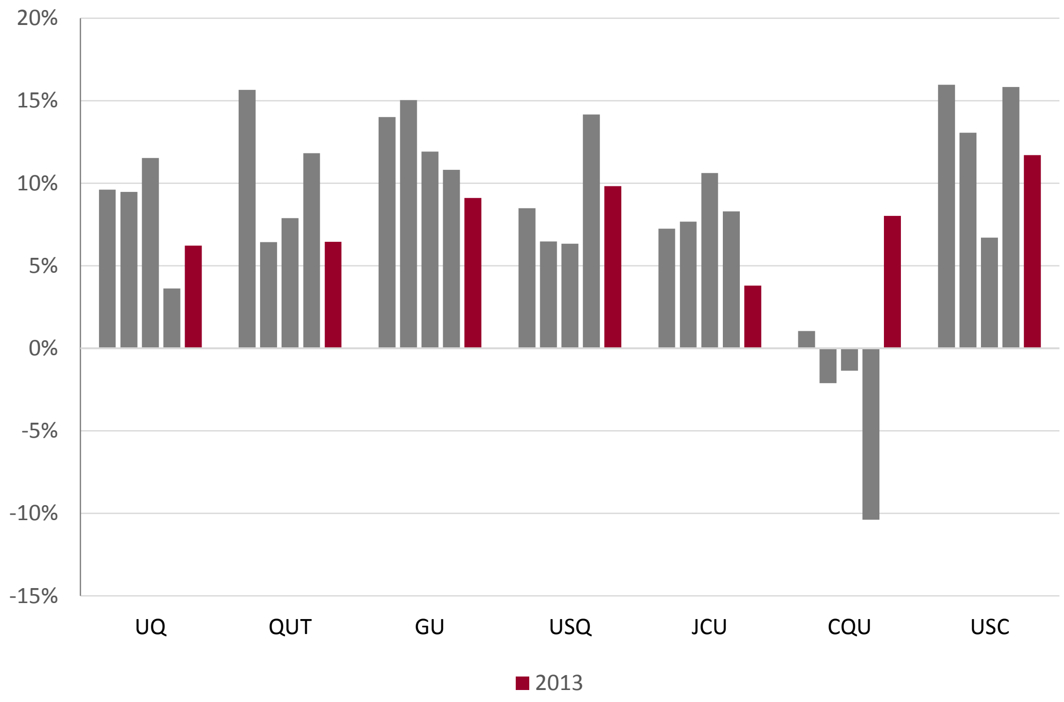
2.7.1 Ratios

Operating ratio

This ratio compares the operating result to total operating revenue. Figure 2T 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.

All seven universities had satisfactory operating ratios in 2013. Notably, CQU has produced a positive result in 2013 after three years of negative results. The results are consistent with the analysis of the operating results reported previously.

Figure 2T
Operating ratio 2009–2013



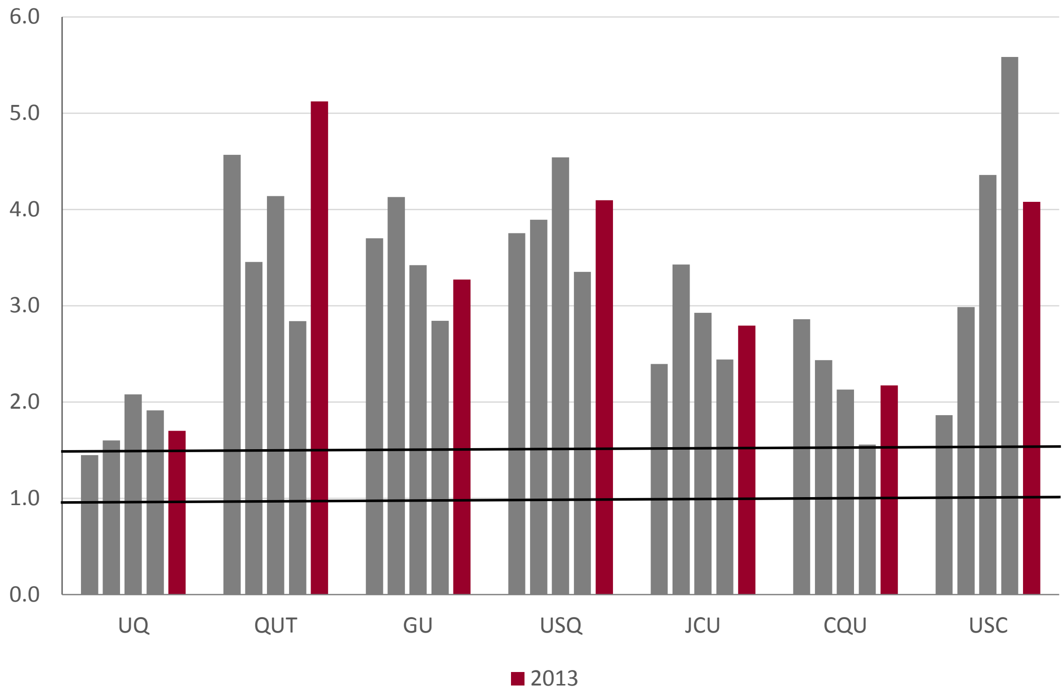
Source: Queensland Audit Office

Current ratio

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 2U shows that all universities have a ratio greater than one and adequate liquidity to meet their short term liabilities as they fall due which is a strong result.

Figure 2U
Current ratio 2009–2013



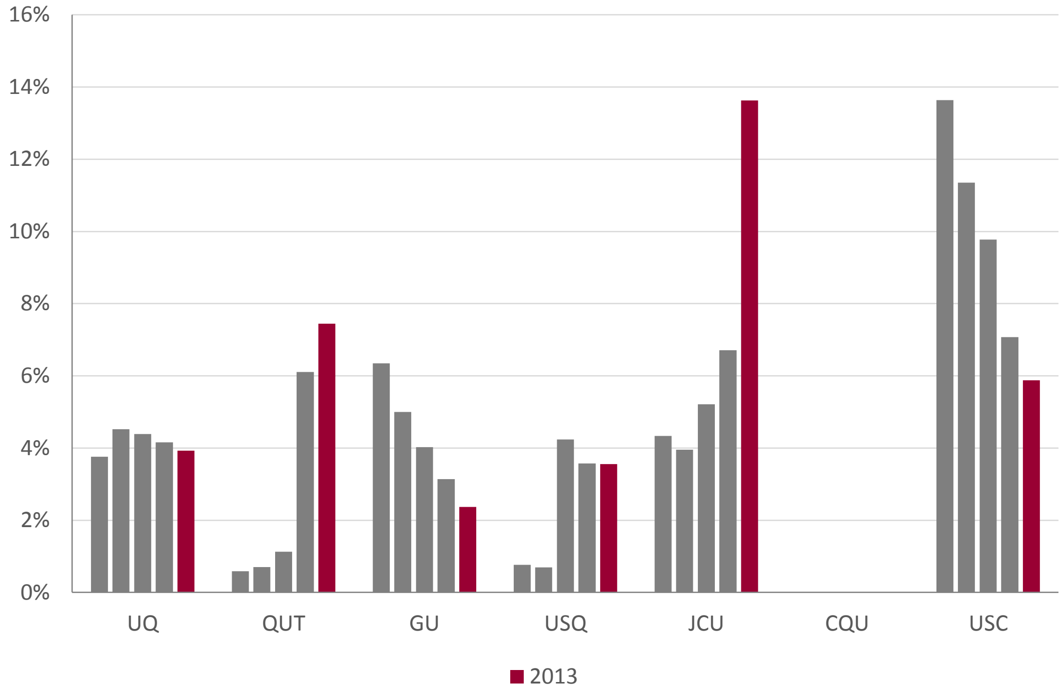
Source: Queensland Audit Office

Debt to equity ratio

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 and debt to revenue ratios which are a short term measure. A low ratio indicates less reliance on debt to finance the capital structure of an organisation. Figure 2V conveys the ratio trend for each university over the previous five years.

We noted JCU has doubled its ratio from 2012, due to increasing its debt in relation to various building projects over the past 12 months. We expect rental income from these buildings will assist in servicing this debt. All other universities have reasonably low ratios. CQU has no debt.

Figure 2V
Debt to equity ratio 2009–2013



Source: Queensland Audit Office

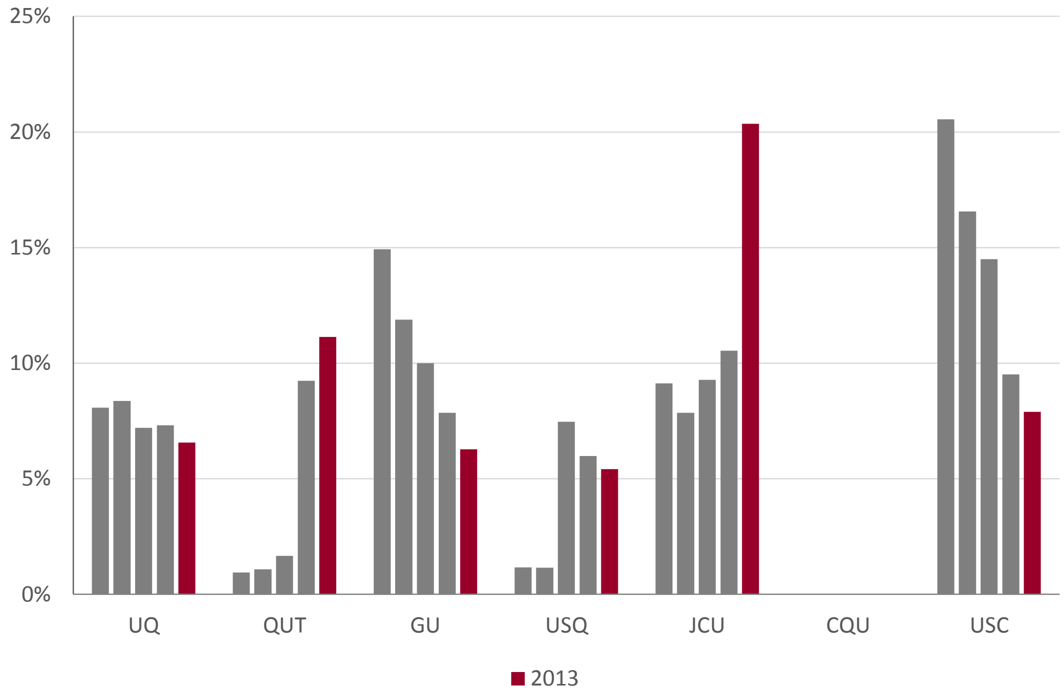
Debt to revenue ratio

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.

Many assets are acquired initially through capital grant co-contributions, but such funds are not available to maintain 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. The lower percentage indicates less revenue is required to service the debt.

Figure 2W illustrates the debt to revenue ratios for all universities. It reveals all had low debt to revenue ratios in 2013, except JCU which has increased its borrowings over the past 12 months. The servicing of this debt is not seen as a risk given its strong liquid position. CQU has no debt.

Figure 2W
Debt to revenue ratio 2009–2013



Source: Queensland Audit Office

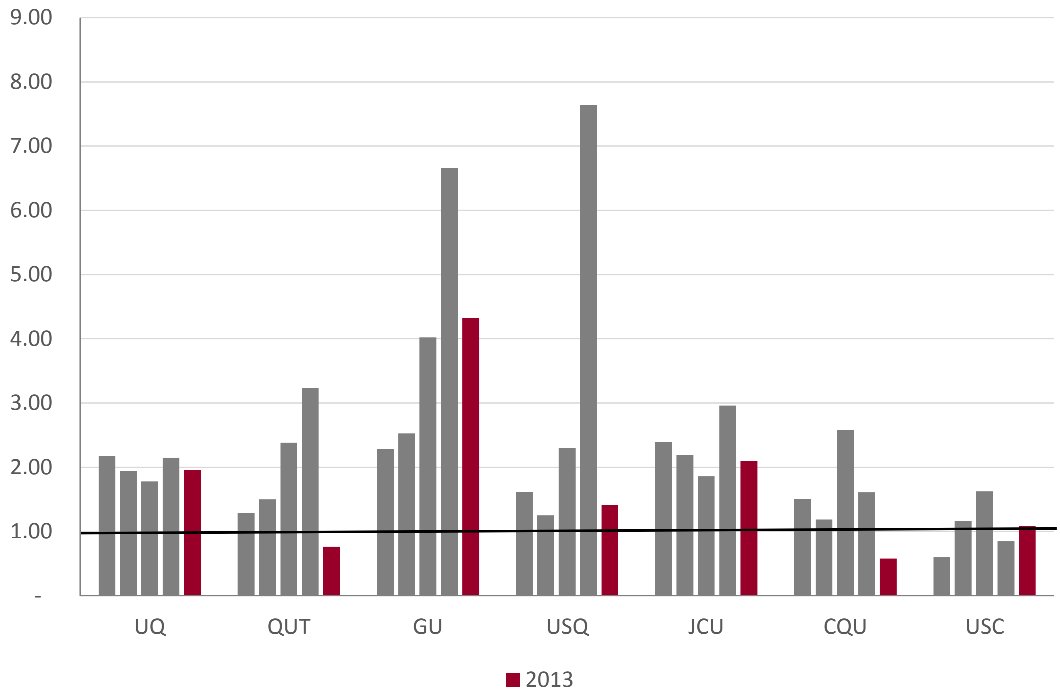
Capital replacement ratio

This ratio compares the rate of spending on property, plant and equipment (PPE) against the depreciation of existing assets. 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 PPE 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 2X shows most universities maintained a ratio of greater than one for the past five years with the exception of QUT and CQU which have fallen below one in 2013. QUT had no significant additions in 2013 while CQU has made a conscious effort to reduce capital spending.

This indicates that total spending on property, plant and equipment has exceeded total depreciation consistently. In particular, JCU and UQ have been able to produce a ratio of approximately 2.0, while GU has a ratio of 4.32, due mainly to the building of the Griffith Health Centre and projects to upgrade existing facilities.

Figure 2X
Capital replacement ratio 2009–2013



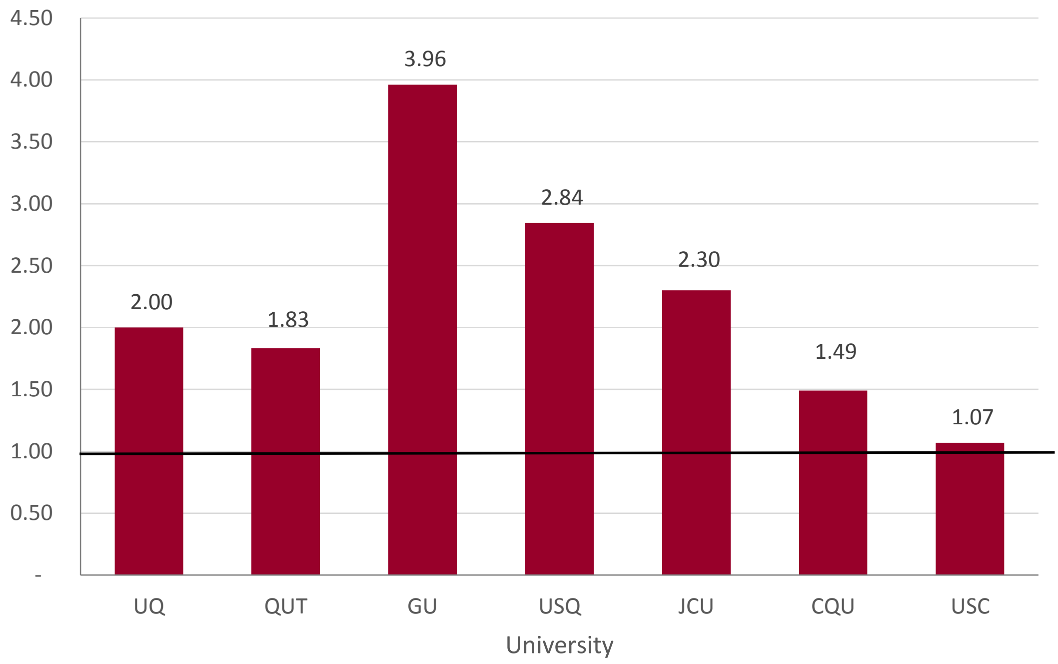
Source: Queensland Audit Office

Average capital replacement ratio

The average ratio shown in Figure 2Y for the last five years shows that, while all universities are maintaining a ratio over one, some are investing more in major upgrades and additions to facilities while some are only maintaining existing assets.

USQ spent $26 million on upgrading existing facilities and new building projects in 2012, JCU completed a number of new building projects with plans announced for more in the future and GU completed major new building projects and upgrades of existing facilities. USC has the lowest average of 1.07, indicating it is spending enough to maintain existing assets. USC is a relatively new university with a number of smaller campuses in south-east Queensland which require minimal maintenance at this point in their life cycle.

Figure 2Y
Average capital replacement ratio 2009–2013



Source: Queensland Audit Office

2.7.2 Emerging financial sustainability risks

Efficiency dividends

The 2013–14 federal budget announced that proposed efficiency dividends of two per cent for 2014 and 1.25 per cent for 2015 will be required from the university sector. This would potentially reduce federal funding to the Queensland university sector, estimated at $63 million over 2014 and 2015. This is still being considered by the federal government.

Universities are implementing strategies to respond to potential reduced federal government funding including:

- refining and implementing asset and cash flow management plans
- focusing on the support of specific learning, teaching and research
- restricting capital projects and stopping upgrades for facilities and technologies
- monitoring repair and renovation costs
- reducing future salary expenditure
- introducing and increasing charges on facilities and services.

Online learning

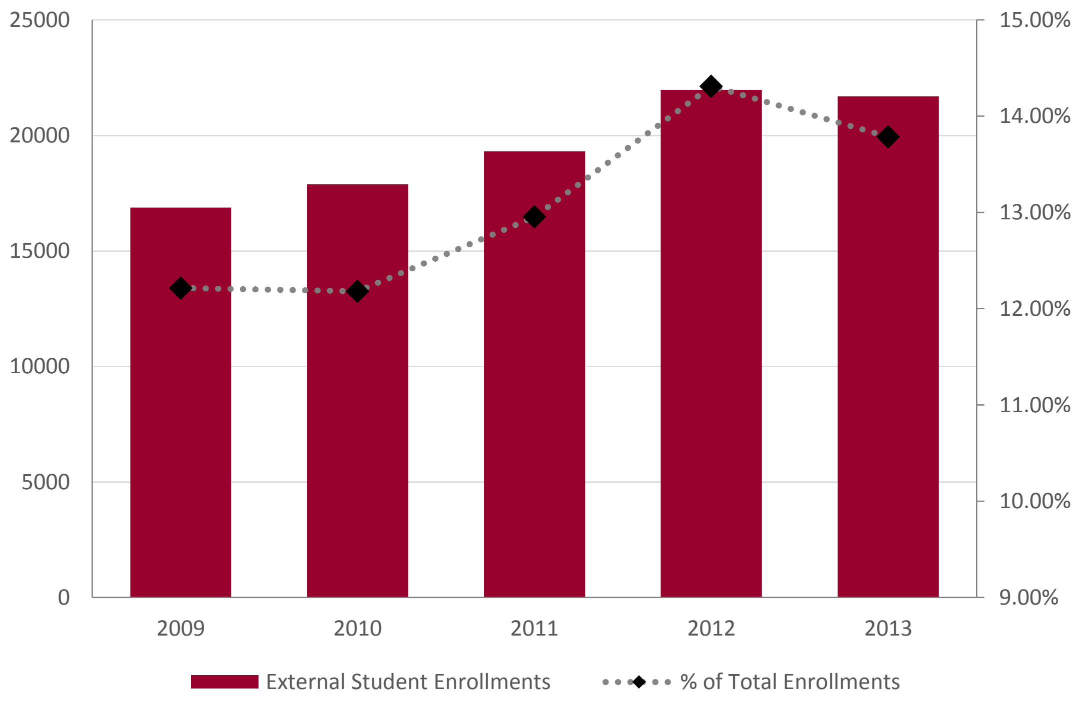
The use of online learning methods within the university sector has been evolving since the mid-1990s. All universities have incorporated blended online learning techniques to complement traditional teaching methods as part of the academic program, including recordings of lectures, access to lecture notes, recommended readings and online discussion forums.

All universities offer the option of studying externally (distance learning) which is mainly offered online. Students studying externally study the same curriculum and receive the same academic award as students on campus; however, external students primarily study off campus with course content delivered online. Few courses are offered exclusively online. Students are required to attend examinations in person, either on campus or at regionally located examination centres. Where course content requires practical experience, this is condensed and provided in a block over a number of full days.

The increased use of online teaching methods is more profound at USQ, CQU and GU. Students can attend and interact in online tutorials; academic consultation is occurring via webcam. Some universities also offer regional distant education study centres.

Figure 2Z shows the external student enrolment trends compared to total enrolments of universities offering an external student study mode. Demand for the external study mode provided online has increased slightly over the past five years, from 12 per cent to 14 per cent of total enrolments; however, this growth is not uniform across the sector.

Figure 2Z
External student enrolments proportionate to total enrolments



Source: Queensland Audit Office

As we reported in our *Results of audit: Education sector entities 2012* (Report 11 : 2012–13), there has been a growing international trend across the university sector in the delivery of open online courses or massive open online courses (MOOCs). MOOCs are courses aimed at large scale participation and open access via the internet. The current iteration of this delivery channel is provided to students at no or little cost. MOOCs are operating overseas; institutes and universities in the United States and the United Kingdom and more recently in Australia are engaging in this new learning delivery channel.

All Queensland universities have been monitoring the progress, development and delivery of MOOCs globally and within Australia. UQ, GU, USQ and CQU have announced they are offering or intending to offer a small number of open online courses during 2014. QUT has developed a MOOC while JCU and USC are evaluating their options.

At UQ, more than 70,000 people signed up for its first free online course, *Think101x: The Science of Everyday Thinking* which started on 3 March 2014. There are more students enrolled in this single course than the university's entire student base for 2014. For 200 enrolled students, they will experience the course online and will also attend the UQ campus-based course.

In the absence of projected revenue streams from the delivery of open online courses, the level of investment across the sector has not been significant to this point.

The perceived benefits to the universities in offering open online courses are:

- reputational and branding benefits of joining MOOC consortiums and being associated with other international universities, including prestigious universities such as Harvard, Stanford, MIT and Caltech
- obtaining data from open online subjects to assist in determining methods of learning that are more attentive to student needs
- engaging with students in different ways to facilitate better learning outcomes than traditional courses and subjects
- marketing opportunities for the university by students attracted to specific open online subjects to enrol in the full/traditional course through the university
- opportunities for academics to be recognised globally and to collaborate on research with other academics globally in similar or complementary fields of expertise
- increased blended learning opportunities to complement traditional learning methods to enhance the student learning experience.

As the development and delivery of MOOCs is relatively new, there are a range of platforms that have evolved for their delivery. The delivery platforms for MOOCs vary across the sector.

UQ has partnered with a global consortium of 30 universities, including Harvard, Stanford, MIT and Caltech. GU has continued with its partnership with Open Universities Australia and intend to offer MOOCs via that platform. USQ has partnered with a network of over 30 universities, polytechnics and community colleges from five continents, including University of Wollongong, University of Tasmania and Charles Sturt University. CQU provides its open online courses via its own website and these courses will be available through selected smart device applications. QUT has developed a MOOC and is in active discussion for the distribution through MOOC providers for delivery through the provider's platform.

The open online courses currently offered are not intended to represent the equivalent of a traditional university subject but cover a concept or components of a subject to complement traditional courses and subjects. These courses may involve completing various forms of assessment and result in some form of recognition of knowledge of course content such as a digital certificate. Completing a MOOC course does not result in an academic award such as an undergraduate or postgraduate degree but are seen as an opportunity to enhance the existing teaching methods and overall student experience.

At present, no Queensland university has provided an academic award or credit for the completion of a MOOC subject. USQ has announced that, through its chosen platform, students wishing to gain academic credit have the option to pay a $200 assessment fee to be formally assessed as part of the MOOC. The recognition of any academic credit for a USQ course for the completion of the MOOC subject will be subject to university policies and procedures for recognition of prior learning and experience.

All other universities have similar policies and procedures for recognition of prior learning and experience but have yet to announce if academic credit would be recognised for completion of a MOOC course.

If, in the future, universities recognise and provide academic credit for courses conducted via a free or heavily discounted MOOC delivery, this may pose risks to student revenue streams for universities in Australia as international and domestic students may pursue their tertiary qualifications via MOOC courses. This may impact the use of buildings and other infrastructure assets and their value. The ongoing evolution of MOOCs, both within Australia and globally, is a matter that could pose sustainability issues across the sector that will need to be monitored.

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

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

3 Grammar schools

In brief

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.

Conclusions

- The financial performance of most grammar schools is sound.
- Most schools are financially sustainable in the short and long term, however, Ipswich Grammar School and Ipswich Girls Grammar School need to continue to monitor their revenue and expenditure policies closely to protect their long term sustainability.
- Four grammar schools should improve the quality of their financial statements, as indicated by the number and nature of changes made.
- While the number of internal control weaknesses reduced in 2013, grammar schools should continue to monitor their control environments closely to prevent control breakdowns.
- Employee expenses are significant and growing, representing over 60 per cent of total costs. Four schools need to monitor their situation where employee benefits are increasing faster than revenue as this can constrain the revenue available to meet other commitments.

Key findings

- The financial statements of all grammar schools complied with legislative requirements.
- The quality of the financial statements provided to audit improved since 2012 with fewer adjustments required.
- The financial statements of seven of the eight grammar schools were prepared and certified within the two-month legislated time frame, an improvement on 2012.
- We issued unmodified audit opinions for all grammar schools.
- Ipswich Grammar School and Ipswich Grammar Girls School improved their financial performance in 2013.
- In 2012, we included an emphasis of matter paragraph with our audit opinion for Ipswich Grammar School relating to a going concern uncertainty. This was removed for 2013, due to an improved financial result.
- The number of internal control weaknesses decreased in 2013, from 17 issues across eight schools down to 12 issues across three grammar schools.
- Grammar schools made full and complete disclosure in 2013 of remuneration for key management personnel.
- Grammar schools generated less income in 2013, decreasing $5 million from 2012.
- Revenue from student fees increased six per cent in 2013 but student numbers barely grew.
- School assets increased in value by $23.3 million from 2012 to $626.4 million.
- Three grammar schools are spending less on capital replacement than the annual depreciation expense. This could lead to higher replacement or maintenance costs in the future.
- A long standing issue of disclosure of remuneration for key management personnel has been resolved.

3.1 Background

Eight grammar schools prepared financial statements in 2013. Grammar schools are statutory bodies under the *Financial Accountability Act 2009*.

3.2 Conclusions

Most schools are financially sound and all received unmodified opinions in 2013.

The quality and timeliness of the financial statements was generally satisfactory with one school not meeting the two-month legislated requirement.

The internal control environment was generally sound, with some weaknesses identified and improvements recommended at three schools. The number of issues raised across all schools reduced from 2012.

The 2013 operating result at Ipswich Grammar School (IGS) was a $1.495 million loss, an improvement of $0.9 million on 2012. IGS has net assets of $52.6 million. The school should continue its efforts to improve its financial performance.

3.3 Results of audit

We issued all eight grammar schools with unmodified audit opinions for 2013, the same as for 2012, which is a good result.

The long standing issue of disclosure of remuneration for key management personnel has been resolved through discussions with Queensland Treasury and Trade. Grammar schools made full and complete disclosure in 2013.

In 2013, we removed an emphasis of matter paragraph included with our 2012 unmodified audit opinion of IGS on material uncertainty regarding continuation as a going concern. Even though the school incurred a loss of $1.495 million, IGS demonstrated improved financial performance as part of our going concern assessment and the Board believes the school can meet its debt obligations for 2014.

3.4 Timeliness and quality of reporting

3.4.1 Timeliness

We were satisfied with the timeliness and quality of financial statements in 2013, with seven of the eight schools meeting the two-month legislative time frame. This was an improvement on 2012 when six of the eight schools met the time frame.

IGS did not meet the legislative time frame as significant accounting issues were identified late in the financial statement verification process which took time for management and audit to resolve.

Four grammar schools had not met their agreed timetable for providing the initial draft version of their financial statements to audit. While the delays were not significant, failure to meet these agreed time frames put additional pressure on the audit process to meet the legislative time frames, which affects audit costs.

Appendix A provides the dates that management signed financial statements and the audit opinion was issued for grammar schools.

3.4.2 Quality and accuracy

Four grammar schools made combined adjustments totalling $5.10 million to financial statements before the audit opinion was issued for 2013. This is an improvement on the 2012 result of $9.34 million for five schools.

The number and volume of changes made by management and audit to financial statements indicates the quality of the financial statement preparation process.

Overall, we were satisfied with the quality of financial statements for four grammar schools indicated by no material changes made in 2013. Some improvement is required at the other four schools where some material changes were made.

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	2013 $ m
Income	0.28	1.65
Expenses	4.03	1.52
Assets	2.31	1.35
Liabilities	1.43	0.58
Equity	1.29	0.00
Total	**9.34**	**5.10**
Number of grammar schools that processed a change	5	4

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

Source: Queensland Audit Office

Changes were made in the notes to the financial statements, with some grammar schools required to make some additional note disclosures to comply with Queensland Treasury and Trade requirements. Some of the key changes led to enhanced disclosures about:

- capitalisation thresholds for property, plant and equipment
- applications of new accounting standards
- reclassification of certain accounts
- comparative information adjustments.

3.5 Internal controls

Grammar schools must maintain good internal control processes to assure their boards of trustees of effective business and financial operations and reliable financial reporting.

In 2013, we raised twelve significant control issues across three grammar schools, compared to 17 issues across eight schools in 2012.

These issues required improvement in:

- asset capitalisation thresholds and fixed asset revaluation financial statement disclosures
- compliance of new accounting standards for fair value measurement and reduced disclosure requirements
- controls and monitoring over corporate card payments
- development of a risk management process and a risk register
- excessive annual leave balances and long service leave calculations
- financial statement disclosures for leases.

While the reduction in the number of significant control issues is an improvement from 2012, management at grammar schools need to continue to monitor their control environments closely 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 a grammar school and the state of unacceptable costs or losses associated with its operations and must manage risks that may affect its ability to provide services.

The financial objective for grammar schools is to generate enough money to meet their financial obligations and to fund asset replacement and new asset acquisitions. The ability of grammar schools to achieve this depends on their management of expenditure and revenue.

Their financial performance is measured by the operating result—the difference between money in and money out (revenue inflows and expenditure outflows). Their financial position is measured by net assets—the difference between what they own and what they owe (total assets and total liabilities).

The ratios of operating, liquidity, debt to revenue and capital replacement derived from financial statements indicate that six grammar schools are in a sound financial position with acceptable cash balances, minimal debt, adequate expenditure on asset replacement and renewal and an ability to pay their debts in the short term.

3.6.2 Operating results

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

Seven of the eight grammar schools had a positive operating result for 2013. Figure 3B compares the combined operating results for the eight grammar schools between 2012 and 2013. The results did not include amounts attributable to non-controlling interest or other comprehensive income.

Money earned by the grammar schools reduced by $10.17 million from 2012 to 2013. This was because the other income of Brisbane Grammar School (BGS) decreased from $18.2 million to $1.4 million in 2013. This school's other income in 2012 spiked, due to a one-off compensation received for land resumed by Brisbane City Council. The 2013 result is more in line with typical operating results for BGS.

The grammar schools' result improved by $6 million in 2013 if the total operating results were adjusted for this one-off revenue transaction.

Figure 3B
Combined operating results

Operating result $ m		Movement	
2012	2013	$m	%
21.38	11.21	(10.17)	(47.57)

Source: Queensland Audit Office

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

Figure 3C
Operating results surplus/(deficit)*

Grammar schools	2009 $ m	2010 $ m	2011 $ m	2012 $ m	2013 $ m	Five-year average $m
Brisbane Girls Grammar School (BGGS)	3.80	3.37	2.95	1.69	2.77	2.92
Brisbane Grammar School (BGS)	5.43	2.17	(0.04)	16.28	1.97	5.16
Ipswich Girls Grammar School (IGGS)	(2.82)	1.54	(1.55)	0.04	0.17	(0.52)
Ipswich Grammar School (IGS)	(2.78)	(1.82)	(2.21)	(2.40)	(1.49)	(2.14)
Rockhampton Girls Grammar School (RGGS)	1.05	0.79	0.34	0.80	0.65	0.73
Rockhampton Grammar School (RGS)	1.05	3.43	1.41	0.15	1.21	1.45
Toowoomba Grammar School (TWGS)	2.78	2.42	2.87	2.02	3.51	2.72
Townsville Grammar School (TVGS)	2.95	4.16	3.76	2.80	2.42	3.22

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

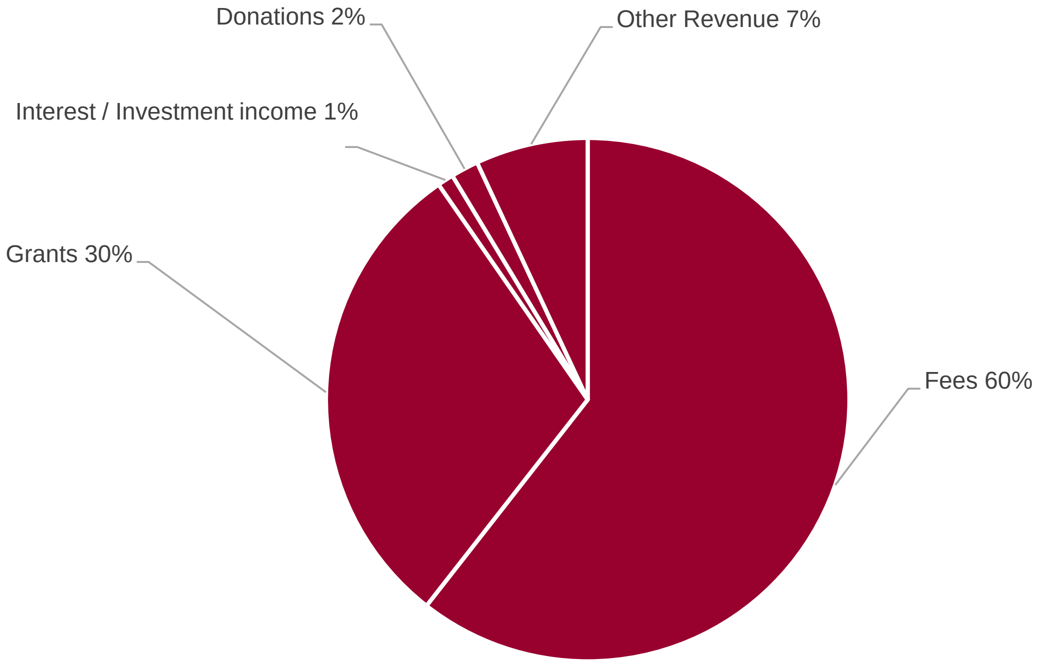
Source: Queensland Audit Office

Operating income

Grammar schools generated combined operating income in 2013 of $218 million, a decrease of $5 million (2.3 per cent) when compared to 2012. The composition is shown in Figure 3D.

Student fee revenue, the largest source of revenue, accounted for 60 per cent of total revenue in 2013. Grammar schools generated $132.3 million from student fees in 2013, an increase of $7.3 million (six per cent) over 2012 and mainly due to increased fee rates. Most schools reported only a marginal increase or decrease in student numbers—overall, student numbers increased by less than one per cent for 2013, compared to 2012. It is also noted that other revenue decreased by $15 million from 2012, due mainly to the one-off land disposal BGS recorded in 2012.

Figure 3D
Operating income 2013



Source: Queensland Audit Office

Operating expenditure

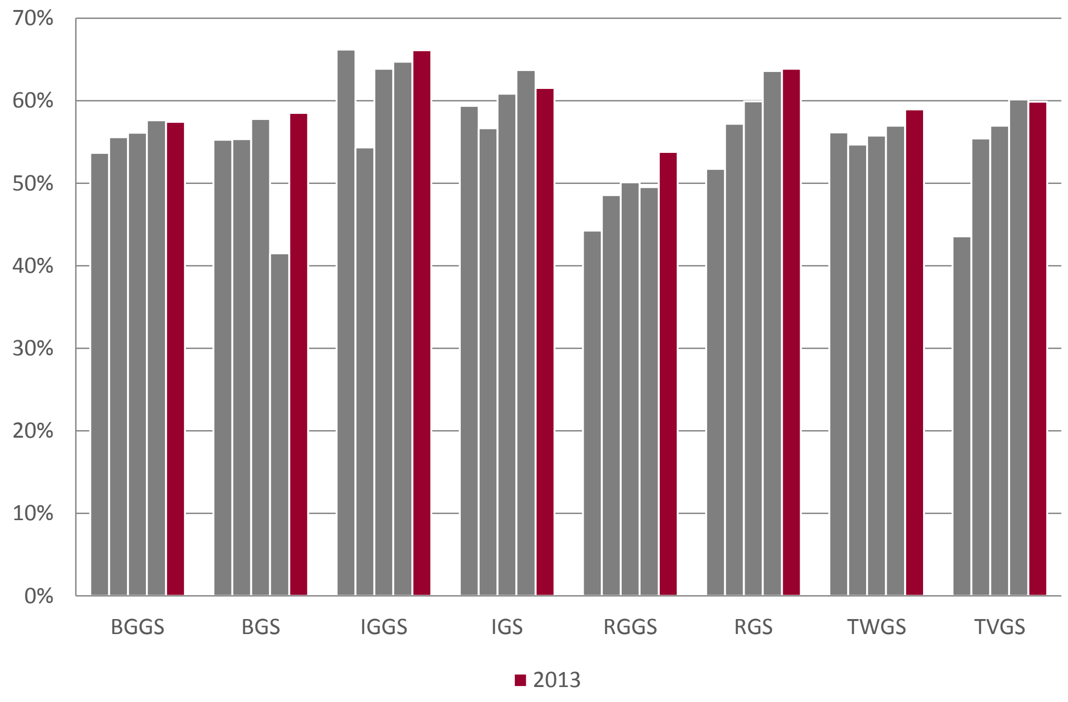
Grammar schools reported combined operating expenses in 2013 of $207.2 million, an increase of $5.2 million (2.6 per cent) from 2012. Employee related expenses grew by $7.5 million (six per cent) and represented 63.4 per cent of total expenditure. Overall, the full time equivalent staff numbers grew by 2.9 per cent and enterprise bargaining increases were between 2.4 per cent to five per cent.

Combined finance and borrowing costs decreased by $2.5 million (30.3 per cent), due to a significant reduction in borrowings at BGS of $2.3 million as a result of increased loan repayments

Figure 3E shows the percentage of employee benefits to the total revenue. A large percentage spent on employee benefits may indicate that the school has less revenue available to meet other obligations.

All eight grammar schools are in a satisfactory position. At four of the schools, the employee benefits are increasing at a faster rate than their revenue and this needs to be monitored.

Figure 3E
Employee benefits and on costs as a percentage of total revenue 2009–2013



Source: Queensland Audit Office

Net assets

Figure 3F compares the total combined net assets of the eight grammar schools for 2012 and 2013. The total net assets of the grammar schools in 2013 increased by $18.01 million from 2012, due to an increase of $23.26 million in total assets less an increase of $5.25 million in total liabilities.

Figure 3F
Total combined net assets

Net assets $ m		Movement	
2012	2013	$m	%
478.3	496.3	18.0	3.7

Source: Queensland Audit Office

Assets

Total assets have increased by $23.3 million (3.9 per cent) from 2012 to a total balance of $626.4 million.

Total current assets have increased by $8.5 million. The increase in total current assets at Rockhampton Grammar School (RGS) of $5 million was mainly due to an increase in its cash and cash equivalents. This was related to RGS borrowing $8 million in 2013.

Total non-current assets have increased by $14.7 million. The increase in non-current assets at Brisbane Girls Grammar School (BGGS) of $8.8 million was mainly due to asset additions of $7.2 million that included a land acquisition of $4.2 million.

RGS's non-current assets increased by $4.9 million. Building additions and buildings under construction of $6.0 million less depreciation expense of $1.3 million mainly contributed to this increase.

Liabilities

Total liabilities amounted to $130 million, an increase of $5.2 million (4.2 per cent) from 2012. Total liabilities at RGS increased by $8.6 million, due to new borrowings, while BGS's liabilities were reduced by $2.6 million as increased repayments were made.

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 to manage future financial risks.

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

We have 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 the sustainability of current revenue and expenditure policies, in the short term and the long term.

The ratios have been calculated from information contained in the audited financial statements. 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.

Results of the analysis of ratios for the eight grammar schools indicate:

- Six grammar schools had adequate liquidity to meet their short term liabilities as they fall due. IGS and IGGS need to continue to improve their financial positions, including increasing their revenue base, reducing expenditure or a combination of both to ensure sustainability in the long term.
- Seven grammar schools do not rely on debt to finance their capital structures; IGGS is marginally outside the desired position and has continued to improve over the last two years, including 2013.
- Six grammar schools had adequate revenue to meet expenditure. IGS and IGGS are at risk of not being able to meet short term obligations as they fall due. These schools need to continue to look closely at their future income and expenditure policies and implement strategies to ensure their short term sustainability.

Three grammar schools are spending less on capital replacement than the annual depreciation expense. This could lead to higher replacement or maintenance costs in the future.

3.7.1 Ratios

Operating ratio

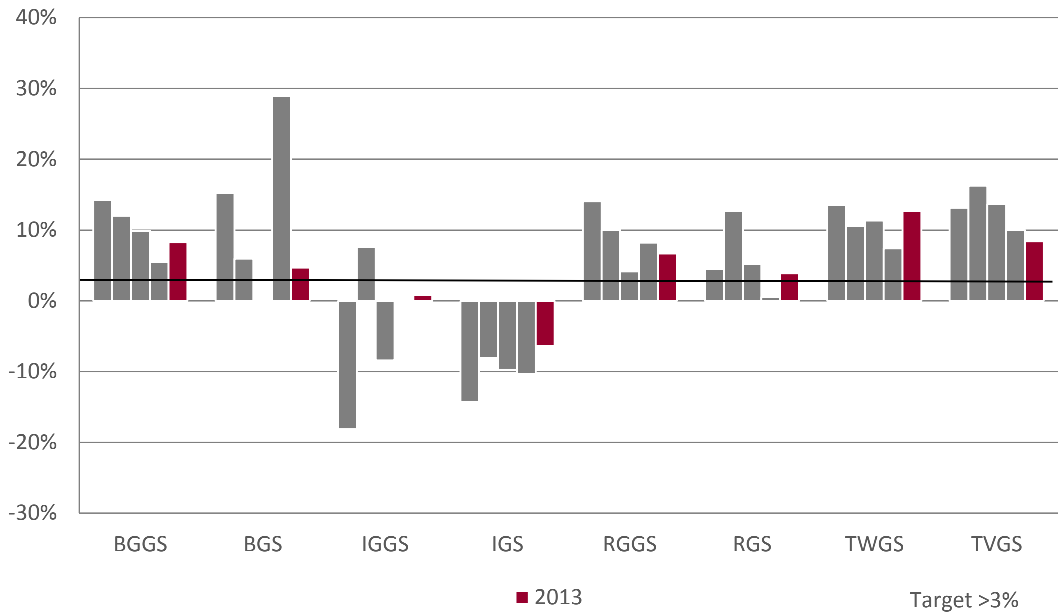
This ratio compares the operating result to the total operating revenue. It measures the capacity of the organisation to meet recurrent operating and capital expenditure from recurrent operating revenue.

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. Six of the eight schools have a favourable operating ratio, based on the departmental benchmark.

The operating ratios of IGS and IGGS indicate a risk that their operating revenues may not be able to meet their operating expenditures as they become due. IGS has reported negative operating ratios for the past five years.

In 2013, IGS has reduced its operating loss from $2.39 million in 2012 to $1.49 million while IGGS has reported positive operating ratios over the last two years. Both schools need to continue to address this issue, including increasing their revenue base, reducing expenditure or a combination of both to ensure long term sustainability.

Figure 3G
Operating ratio 2009–2013



Source: Queensland Audit Office

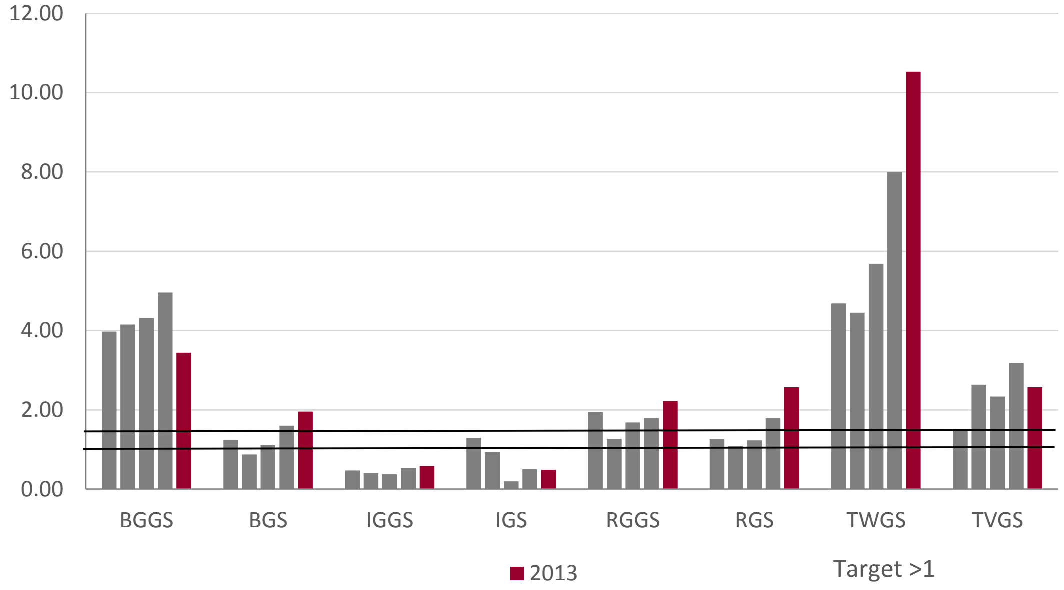
Liquidity

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 more than one still indicates a low risk of not being able to fund current obligations.

Figure 3H shows the respective liquidity ratio of the grammar schools.

Two schools show a less than favourable liquidity ratio. IGGS has marginally improved its liquidity ratio from 0.54 (2012) to 0.58 (2013). The ratios for IGS and IGGS indicate they are at a relatively higher risk of not being able to meet short term obligations as they fall due. Both schools have reported an improved financial performance in 2013, but both need to continue to carefully monitor their present income and expenditure policies and implement strategies to maintain their short term viability and longer term sustainability.

Figure 3H
Liquidity ratio 2009–2013



* Leave entitlements expected to be paid out over the next 12 months have been included in current liabilities for this calculation.

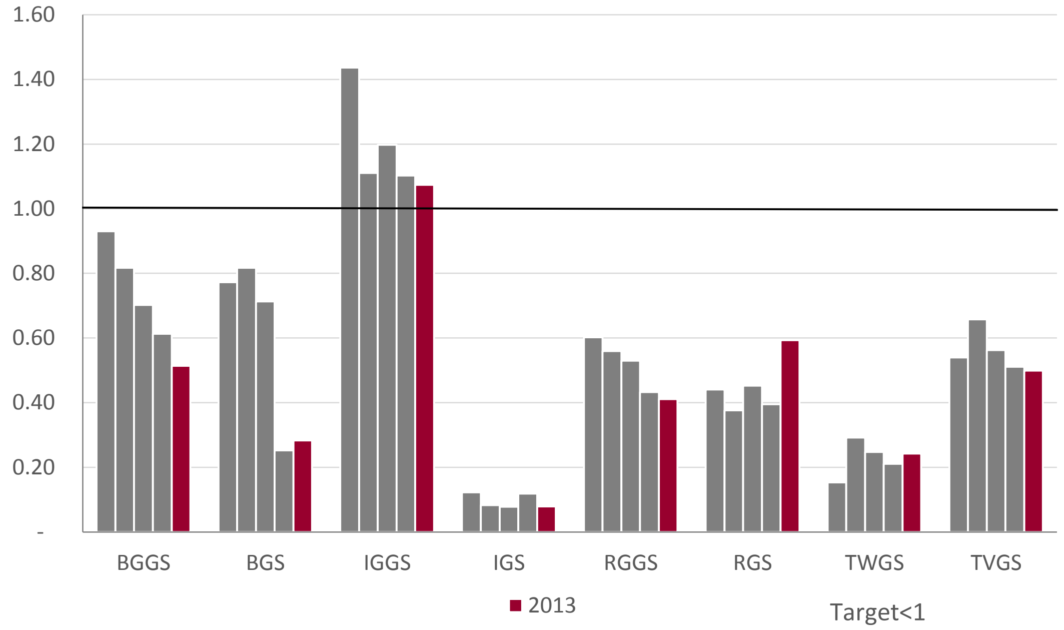
Source: Queensland Audit Office

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.

All grammar schools had a debt to revenue ratio of less than one except IGGS which has exceeded the ratio for the last five years. It is acknowledged that IGGS's debt to revenue ratio has improved in 2012 and 2013 and was only marginally above the target range. We note also that IGS has the lowest ratio.

Figure 3I
Debt to revenue ratio 2009–2013



Source: QAO

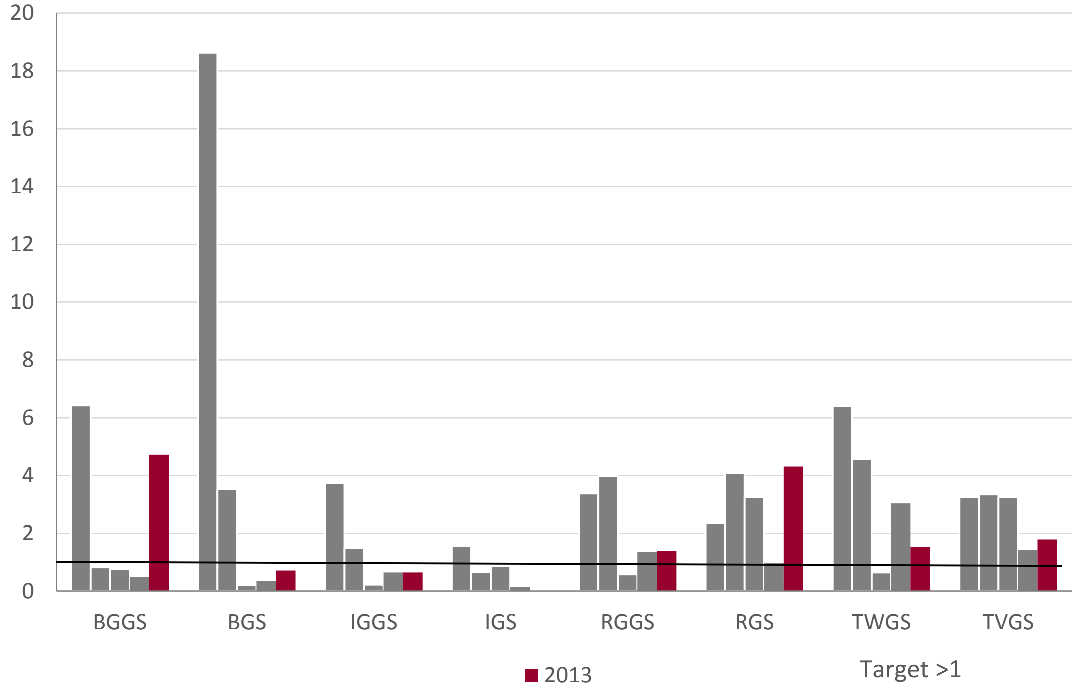
Capital replacement

This ratio compares the rate of spending on property, plant and equipment (PPE) 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 PPE 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 which indicates assets are being maintained appropriately.

Figure 3J illustrates that five grammar schools have a ratio of more than one in 2013, indicating that the aggregate capital spending on PPE has exceeded total depreciation. Annual spending on assets includes new and expanded facilities and existing facilities.

Three of the grammar schools spent less on capital than their annual depreciation in 2013 which could lead to higher replacement or maintenance costs in the future.

Figure 3J
Capital replacement ratio 2009 - 2013



Source: QAO

Appendices

Appendix A—Status of financial statements

Figure A1
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	24.02.14	26.02.14	U	✓		
• Australian International Campuses Pty Ltd	24.02.14	27.02.14	U	✓		
• C Management Services Pty Ltd	24.02.14	27.02.14	U	✓		
• CQU Travel Centre Pty Ltd	25.02.14	27.02.14	U	✓		
• Health Train Education Services Pty Ltd	25.02.14	27.02.14	U	✓		
Griffith University	26.02.14	27.02.14	U	✓		
• Gold Coast Innovation Centre Limited	17.03.14	21.03.14	E		✓	
James Cook University	28.02.14	28.02.14	U	✓		
• JCU Enterprises Pty Ltd	12.02.14	19.02.14	E	✓		
Queensland University of Technology	24.02.14	27.02.14	U	✓		
• Creative Industries Precinct Pty Ltd	29.01.14	04.02.14	E	✓		
• QUT Enterprise Holdings Trust	18.02.14	27.02.14	E	✓		
• qutbluebox Pty Ltd	17.02.14	23.02.14	E	✓		
• qutbluebox Trust	17.02.14	27.02.14	E	✓		
The University of Queensland	27.02.14	28.02.14	U	✓		
• JKTech Pty Ltd	25.02.14	28.02.14	U	✓		
• UniQuest Pty Limited	18.02.14	24.02.14	U	✓		
• UniQuest Asset Trust	18.02.14	24.02.14	E	✓		

Audit	Date statements signed	Date opinion issued	Opinion	Timeliness (since 31 December)		
				<2 mths	2–3 mths	>3 mths
• University of Queensland Foundation Trust	18.02.14	21.02.14	E	✓		
• UQ College Limited	19.02.14	21.02.14	E	✓		
• UQ Health Care Limited	19.02.14	20.02.14	E	✓		
• UQ Holdings Pty Ltd	18.02.14	21.02.14	U	✓		
• UQ Investment Trust	19.02.14	21.02.14	U	✓		
• UQ Sport Ltd	30.01.14	03.02.14	U	✓		
University of Southern Queensland	25.02.14	26.02.14	U	✓		
University of the Sunshine Coast	21.02.14	24.02.14	U	✓		
• Innovation Centre Sunshine Coast Pty Ltd	21.02.14	24.02.14	U	✓		
Grammar schools						
Board of Trustees of the Brisbane Girls' Grammar School	17.02.14	26.02.14	U	✓		
Board of Trustees of the Brisbane Grammar School	26.02.14	26.02.14	U	✓		
Board of Trustees of the Ipswich Girls' Grammar School	28.02.14	28.02.14	U	✓		
Board of Trustees of the Ipswich Grammar School	07.03.14	10.03.14	U		✓	
Board of Trustees of the Rockhampton Girls' Grammar School	24.02.14	27.02.14	U	✓		
Board of Trustees of the Rockhampton Grammar School	21.02.14	26.02.14	U	✓		
Board of Trustees of the Toowoomba Grammar School	24.02.14	26.02.14	U	✓		
Board of Trustees of the Townsville Grammar School	25.02.14	26.02.14	U	✓		

Audit	Date statements signed	Date opinion issued	Opinion	Timeliness (since 31 December)		
				<2 mths	2–3 mths	>3 mths
Statutory body						
Queensland College of Teachers	14.02.14	21.02.14	U	✓		
Jointly controlled entities						
International WaterCentre Joint Venture	16.04.14	24.04.14	U			✓
Queensland College of Wine Tourism	19.02.14	27.02.14	E	✓		
Queensland Cyber Infrastructure Foundation Ltd	25.03.14	31.03.14	U		✓	
The Grammar Schools of Queensland Association Inc.	27.03.14	03.04.14	U			✓
Audited by arrangement						
Australian International Campuses Trust	24.02.14	27.02.14	U	✓		
Healthy Waterways Ltd	26.09.13	09.10.13	U	✓		
International WaterCentre Pty Ltd	11.04.14	16.04.14	U			✓
Translational Research Institute Trust	21.03.14	21.03.14	E		✓	

* 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: Queensland Audit Office

Appendix B—Other entities with 31 December balance date

Figure B1
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
Statutory body						
Queensland Theatre Company	25.02.14	25.02.14	U	✓		

Opinion key: U = unqualified Q = qualified A = adverse E = unqualified with emphasis of matter D = disclaimer

Source: Queensland Audit Office

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

Figure C1
Entities for which audit opinions will not be issued

Entity	Controlled by	Reason
Aussie Colour Pty Ltd	The University of Queensland	No separate financial statements
Ausonex Pty Ltd	The University of Queensland	No separate financial statements
Australian China BioEnergy Pty Ltd	The University of Queensland	No separate financial statements
Bilexys Pty Ltd	The University of Queensland	No separate financial statements
Bioherbicides Australia Pty Ltd	The University of Queensland	No separate financial statements
CCA Therapeutics Pty Ltd	The University of Queensland	Dormant
Ceramipore Pty Ltd	The University of Queensland	No separate financial statements
CILR Pty Ltd	The University of Queensland	Dormant
Cloevis Pty Ltd	The University of Queensland	No separate financial statements
Coridon Pty Ltd	The University of Queensland	No separate financial statements
Cyclagen Pty Ltd	The University of Queensland	Dormant
Dendright Pty Ltd	The University of Queensland	No separate financial statements
First Investor Pty Ltd	The University of Queensland	Dormant
Global Change Institute Pty Ltd	The University of Queensland	Dormant
GRW Industries Pty Ltd	James Cook University	No separate financial statements
IMBcom Asset Management Co Pty Ltd	The University of Queensland	Dormant
IMBcom Asset Trust	The University of Queensland	No separate financial statements

Entity	Controlled by	Reason
IMBcom Pty Ltd	The University of Queensland	No separate financial statements
Kalthera Pty Ltd	The University of Queensland	Dormant
Leximancer Pty Ltd	The University of Queensland	No separate financial statements
Lightanate Pty Ltd	The University of Queensland	No separate financial statements
Lucia Publishing Systems Pty Ltd	The University of Queensland	Dormant
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
Pepfactants Pty Ltd	The University of Queensland	No separate financial statements
Progel Pty Ltd	The University of Queensland	No separate financial statements
Rapisure Pty Ltd	The University of Queensland	No separate financial statements
Sarv Pty Ltd	The University of Queensland	No separate financial statements
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
UATC Pty Ltd	The University of Queensland	Dormant
Unicare (NQ) Limited	James Cook University	No separate financial statements
UniHealth (NQ) Limited	James Cook University	No separate financial statements
Univet Pty Ltd	James Cook University	No separate financial statements

Entity	Controlled by	Reason
UQH Finance Pty Ltd	The University of Queensland	Dormant
UQ Jakarta Office Pty Ltd	The University of Queensland	Dormant
UTASAT Pty Ltd	The University of Queensland	Dormant
UWAT Pty Ltd	The University of Queensland	Dormant
Vacquel Pty Ltd	The University of Queensland	Dormant

Source: Queensland Audit Office

Appendix D—Delegations: Better practice

Better practices

There are four stages in the process of designing and applying delegations:

- assign duties—establish organisation structure, articulate roles and responsibilities
- delegate authority—align with roles, transfer and accept
- exercise authority—take decisions and actions
- monitor and review—monitor proper exercise and review assigned authority for ongoing appropriateness.

Assign duties

The organisational structure of an entity should clearly outline the direct lines of authority that exist within the organisation from top to bottom. The assignment of delegations should align with the entity's organisational structure and staff responsibilities as outlined in respective role or job descriptions.

The organisational structure and the assigned delegations of authority should also be consistent with the entity's risk appetite for financial risk. Typically, the entity's risk appetite for financial risk is reflected in the entity's risk appetite/profile statement.

Transfer and accept authority

Generally, delegations are assigned to positions. Alternatively, delegations may be assigned to individual officers and can only be exercised by that officer. In this situation, the delegated power cannot be sub-delegated.

Where an accountable officer or statutory body delegates functions to an individual or position in another public sector agency, delegation parameters must be clearly and unambiguously stated and understood.

Delegation limits

Senior agency officers may be granted higher delegation limits, based on their position, skills and experience, than delegation limits granted to, for example, less senior agency officers.

Delegation limits may also differ, depending upon the delegation type. An officer may have a delegation of $200 000 to approve recurrent expenditure, but only $100 000 to approve the purchase of assets.

Records of delegations

Each agency should maintain a record of all currently approved delegations in an appropriate register which should be linked to the agency’s financial management practice manual.

Typically, delegation is done by written instrument, which records particulars about the delegation. The instrument of delegation in itself should be an entire record of the delegation.

It should clearly state:

- the delegation type
- who is the delegator of the power, duty or function
- who are the recipients—list of positions/officers holding each delegation type
- the exact nature of the powers, duties or functions being delegated
- dollar or other thresholds for each delegation type
- any other restrictions/limitations or conditions on the delegation–by individual or by type of delegation.

The record of delegations should be readily accessible to all officers within the agency. An agency may consider entering delegated agency staff specimen signatures in the register or retaining the specimen of signatures separately to the record of delegations, to enable relevant personnel to verify signatures on source documentation. If adopted, appropriate controls will need to be implemented to ensure there is no fraudulent or inappropriate use of the signatures.

Exercise authority

When a subordinate accepts a task and the authority is given, an obligation is created. The subordinate has to perform the assigned task by using the authority granted to him or her. A subordinate is also responsible/accountable for completing the assigned work.

Many allegations of corruption reported to the Independent Commission Against Corruption involved the misuse of delegated authority. Exercising authority improperly can constitute corrupt conduct as defined by the *Independent Commission Against Corruption Act 1988*.

Automated controls

Access controls establish and verify the identity of a system/program user. The user's profile can then be allocated/assigned powers commensurate with his or her delegated authority, including expenditure limits.

Exception reporting can highlight exercise of delegations above limits; inadequate separation of duties.

Monitor and review

Delegations should be regularly reviewed (at least annually, unless there have been significant changes to the agency, in which case it should be more frequently) to ensure they remain appropriate, and changed or withdrawn as required (for example, on the change in officers appointed to various positions, or in the event of an agency restructure).

Agencies should ensure processes are in place to withdraw or change delegations if individual officers change positions.

Any review should include an assessment of whether officers with a delegation actually need it for their normal roles and responsibilities. The more staff members with the ability to authorise expenditure, the greater the risk of inappropriate payments and the more difficult it is to maintain controls.

Appendix E—Supplier engagement: Better practice

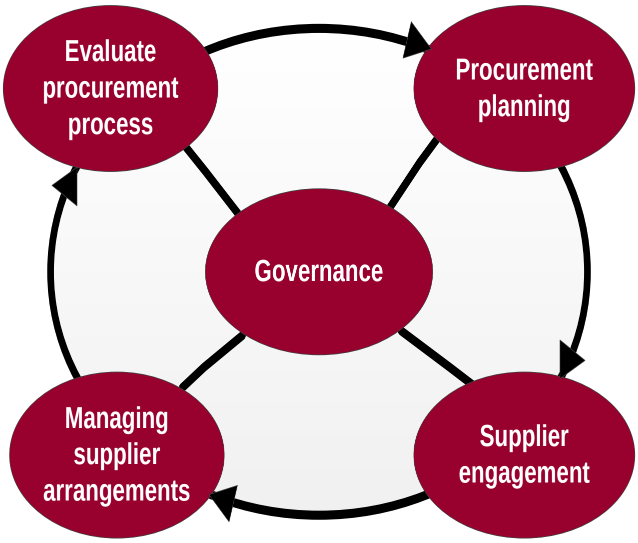
The procurement process

The procurement process can be broken into five elements:

- governance—the entity has developed an appropriate procurement structure, along with policies, procedures and internal controls to allow efficient and effective procurement decision making and achieve value for money, probity and accountability
- procurement planning—management has analysed the entity's procurement demands and developed strategies to allow an efficient and effective result to address the entity's procurement needs
- supplier engagement—the entity communicates procurement requirements to potential suppliers and establishes an arrangement for the supply of goods or services with the most suitable supplier
- supply management—the entity establishes procurement processes to create a seamless flow of goods or services and manage supply arrangements so suppliers meet agreed commitments
- evaluation—the entity uses knowledge gained during the procurement process to ascertain success in achieving procurement objectives and to identify opportunities to improve the procurement process.

The process starts when an entity identifies the need to purchase a good or service; seeks and evaluates alternative suppliers; awards a contract; manages and monitors the service delivery of the item procured; and reviews the procurement result post-delivery. This procurement process is structured around an appropriate procurement governance framework relevant to the organisation.

Figure E1
The procurement process



Source: Queensland Audit Office

Better practices in supplier engagement

There are four stages in supplier engagement:

- setting requirements—clearly articulate the goods/ services required
- going to market—ensure process achieve government procurement principals
- evaluation and selection—make decisions that are fair and equitable
- awarding the contract—ensure contract performance is adequately monitored.

Setting requirements

Significant procurements are well developed and documented procurement specifications are supported by approved significant procurement plan. These specifications should outline the functional and performance requirements of the goods or services to be procured and form the foundation of the selection criteria when selecting the successful supplier.

Going to market

Policies and procedures exist that identify the preferred procurement method for the various categories of purchases and communicate this to procurement staff. Chosen procurement methods take into consideration the business risks of the purchase and the associated processing costs with low risk and low dollar value transactions being devolved sufficiently.

Agencies have processes to review their procurement practices to identify and implement preferred supplier arrangements where possible and appropriate. Effective preferred supplier arrangements are a method of reducing the risk and administrative burden created by repeated approaches to the market. Preferred suppliers are selected after undertaking a prequalification process. Agencies should have regard to *Procurement guidelines — Prequalifying suppliers* issued by the Department of Housing and Public Works when considering this approach.

Evidence from the significant procurement plan documents how the agency has provided opportunity for local suppliers and where procurement decisions aim to give preference to small and medium enterprises in the context of various free trade agreements.

Independent probity auditors or advisors are engaged for significant procurement equal to or greater than $10 million for goods and services and $100 million for construction.

Forward procurement schedule have been developed outlining anticipated significant procurements over the upcoming financial year. Consideration has been given to the benefits to the agency or supply market in publishing its forward procurement plan on the Procurement Centre of Excellence's eTender website.

All open tenders are published on the Procurement Centre of Excellence's eTender website.

Evaluation and selection

Evaluation and selection processes are well documented and consider the nature, value and significance of the goods or services being procured. The overriding objective is to ensure that the best performance for the money spent is achieved.

Agencies procurement policies and procedures ensure that evaluation and selection practices at a minimum comply with the *Procurement guidance - Evaluating offers* available on the Department of Housing and Public Works website.

The agency ensures that procurement decisions are well documented and made by appropriately skilled and experienced officers while procurement decisions for routine purchases (low business risk and low dollar value) should be devolved to the lowest levels of the agency.

Agencies have considered the guidance provided in the Australian Competition and Consumer Commission (ACCC) guide titled *Cartels – Deterrence and Detection* when formulating their policies and procedures around evaluation and selection of significant procurement. The guide details four types of conduct that are defined as cartel behaviour. These are:

- bid rigging
- price fixing
- market sharing
- output restrictions.

Awarding the contract

The agency has policies and procedures in place to capture and publish awarded contracts regularly on the Queensland Government's eTender website in the format required by the Queensland Procurement Policy. This may include maintaining a central register of all significant contracts.

An adequate complaints management system is implemented and available to suppliers after the contract is awarded. Minimum detailed requirements of a complaints management system are detailed on the *Procurement guidance - Complaints management* available on the Department of Housing and Public Works website.

Agencies ensure that relevant and appropriate Key Performance Indicators (KPIs) are established before the final contract is signed. The performance indicators to be used should be:

- measurable
- achievable
- relevant
- controllable.

In developing these KPIs, agencies should consider the *Procurement guidance - Managing and monitoring suppliers' performance* available on the Department of Housing and Public Works website.

Appendix F—Better practice for preparation of financial statements

State public sector entities should aim for these better practice elements to assist them to produce complete, accurate and compliant financial statements within the legislative time frame.

Figure F1
Better practice for preparation of financial statements

Key area	Better practice
Financial report preparation plan	Establish a plan that outlines the processes, resources, milestones, oversight and quality assurance practices required in preparing the financial report
Preparation of shell financial statements	Prepare a pro forma financial report before 30 April and provide to the auditors to enable early identification of amendments, minimising the need for significant disclosure changes at year-end
Materiality assessment	Assess materiality, including quantitative and qualitative thresholds, at the planning phase in consultation with the audit committee; the assessment assists preparers in identifying potential errors in the financial report
Monthly financial reporting	Adopt full accrual monthly reporting to assist in preparing the annual financial report; this allows for the year end process to be an extension of the month end process
Rigorous quality control and assurance procedures	Require review of the supporting documentation, data and the financial report itself by an appropriately experienced and independent officer prior to providing to the auditors
Supporting documentation	Prepare high standard documentation to support and validate the financial report and provide a management trail
Rigorous analytical reviews	Undertake rigorous and objective analytical review during the financial report preparation process to help to improve the accuracy of the report
Reviews of controls/ self assessment	Establish sufficiently robust quality control and assurance processes to provide assurance to the audit committee on the accuracy and completeness of the financial report
Competency of staff	Require that preparers of the financial report have a good understanding and experience in applying relevant accounting standards and legislation Require they have project management and interpersonal skills
Financial compliance reviews	Undertake periodic compliance reviews to identify areas of non-compliance or changes to legislation that affect the financial report
Adequate security	Protect and safeguard sensitive information throughout the process to prevent inappropriate public disclosure

Source: Victorian Auditor-General's Office and Australian National Audit Office Better Practice Guide Preparation of Financial Statements, June 2009.

Auditor-General Reports to Parliament

Reports tabled in 2013–14

Number	Title	Date tabled in Legislative Assembly
1.	Right of private practice in Queensland public hospitals	July 2013
2.	Supply of specialist subject teachers in secondary schools	October 2013
3.	Follow up—Acquisition and public access to the Museum, Art Gallery and Library collections	October 2013
4.	Follow up—Management of offenders subject to supervision in the community	October 2013
5.	Traffic management systems	November 2013
6.	Results of audit: Internal control systems	November 2013
7.	Results of audit: Water sector entities 2012–13	November 2013
8.	Results of audit: Hospitals and Health Services entities 2012–13	November 2013
9.	Results of audit: Energy sector entities 2012–13	November 2013
10.	Contract management: renewal and transition	December 2013
11.	Results of audit: State public sector entities for 2012–13	December 2013
12.	Results of audit: Queensland state government financial statements 2012–13	December 2013
13.	Right of private practice: Senior medical officer conduct	February 2014
14.	Results of audit: Local government entities 2012–13	March 2014
15.	Environmental regulation of the resources and waste industries	April 2014
16.	Results of audit: Education sector entities 2013	May 2014

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