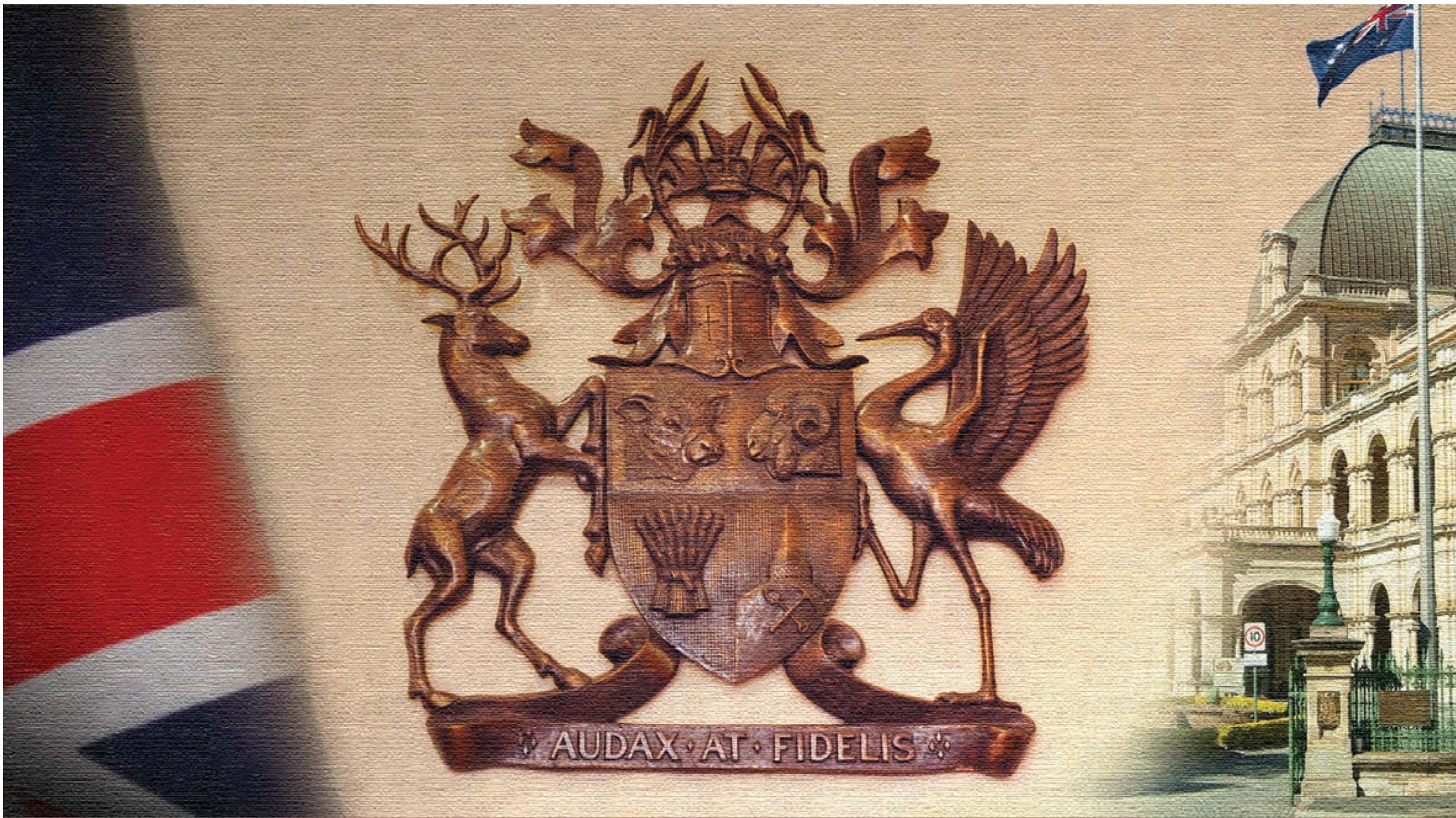
Auditor-General of Queensland



Report 3 : 2012 June 2012

Results of audits:

Education sector financial statements for 2011

QUEENSLAND AUDIT OFFICE

Enhancing public sector accountability

Auditor-General of Queensland

Results of audits:

Education sector financial statements for 2011

QUEENSLAND

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

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Auditor-General of Queensland

June 2012

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

Dear Madam Speaker

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*, and is titled *Results of audits: Education sector financial statements for 2011*.

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

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Summary

Introduction

This report to Parliament is prepared under section 60 of the *Auditor General Act 2009*. It summarises the results of our 2011 financial audits of universities and grammar schools, and the entities they control.

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

The annual report is required to include audited financial statements. In this context, the audit opinion accompanying them provides readers of the financial statements with added assurance that they are reliable.

The number and type of audit opinions issued; the timeliness and quality of financial reporting by the universities and grammar schools; and systemic issues with internal control identified during our financial audits are discussed. We have also added an analysis of the indicators of financial sustainability that universities can be assessed under.

Results of audits

For 2011, audit opinions have been issued for all 75 education entities, including for seven universities and eight grammar schools.

The majority of the opinions issued (89 per cent) were unmodified opinions, confirming that the financial statements were prepared according to the requirements of legislation and relevant accounting standards.

Qualified audit opinions are issued when part or all of the financial statements do not comply with relevant accounting standards and legislative requirements. For 2011, eight qualified opinions were issued compared to one qualified and five adverse audit opinions issued in 2010.

All eight grammar schools were issued a qualified audit opinion this year because they did not disclose the remuneration of all their key executive management personnel as required by the Treasurer in section 5 of the *Financial Reporting Requirements for Queensland Government Agencies*. This was a new requirement. Although the grammar schools did have an executive remuneration note within their financial statements, the Auditor-General did not agree with the grammar school's classification of key executive management personnel within the grammar schools. The grammar schools took the view that their principals or headmasters are not part of the key executive management of their organisations as defined in section 5 of the *Financial Reporting Requirements for Queensland Government Agencies*.

While not a qualification, 38 emphasis of matter paragraphs were included with the audit opinions of a number of university controlled and related entities relating to either special purpose financial statements, wind-ups or going concern issues.

Timeliness and quality of reporting

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

From this perspective, universities and their controlled entities met all legislative timeframes for 2011 in relation to the certification of their financial statements. The audit opinions for the seven universities were issued on or before 29 February 2012, which is within their statutory two month deadline for reporting.

The grammar schools' financial statements were certified later than this deadline because of the time taken to finalise the disclosure issue that led to the qualification of their statements. While this disclosure issue was initially raised by the grammar schools in the early stages of the audit, formal advice of their position was not provided to QAO until late February 2012.

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

Six of the seven universities made changes to their draft statements after submitting them for audit. Changes totalling $626.66 million were made to various accounts, and some note disclosures required amendment so that the stated accounting policies more accurately reflected what actually occurred at the universities.

The amount of changes indicates that the quality of financial statement preparation and checking by management needs to improve across the six universities.

Internal control

In four of the seven universities a total of 30 internal control weaknesses were identified during the audit which had potentially significant implications if not addressed as a matter of priority. One university had 13 control issues requiring attention.

At the eight grammar schools a total of 45 internal control weaknesses were identified during the audit which had potentially significant implications if not addressed. Two of the grammar schools had a total of 25 control weaknesses reported.

Of the 75 weaknesses identified, 56 related to control breakdowns in policies and procedures established to protect assets, ensure reliable accounting records, promote efficiency and encourage adherence to the organisation's policies. These areas have the greatest scope for improvement across most of the universities and grammar schools.

Financial sustainability of universities

We assessed each university's financial sustainability by analysing key financial ratios, some of which are used by the Commonwealth Department of Education, Employment and Workforce Relations to monitor universities' financial and business performance Australia wide.

Ratios including liquidity, debt-to-equity and capital replacement were calculated and the results indicate that all universities are presently in a sound financial position.

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

Recommendations

A number of recommendations have been made in this report and all universities, grammar schools and their controlled entities should assess those which are relevant to their operations and control environments and implement necessary corrective action accordingly.

1. **Grammar schools should disclose the remuneration of their key management personnel.**
2. **Those entities with significant adjustments to their draft financial statements should establish:**
   - **effective oversight of the financial statement process by senior management and the audit committee**
   - **detailed plans, with timeframes, budgets and clear accountabilities, for the year-end close processes that feed into financial statement preparation**
   - **accounting systems that produce financial statement information with minimal manual intervention.**
3. **Agreed financial statement timetables between management and audit need to be adhered to so that the quality, timeliness and cost of the audit is maintained at an acceptable level.**
4. **Internal control weaknesses identified across all entities in relation to management policies and procedures need to be addressed as a matter of priority.**

Submissions and comments received

In addition to progressive engagement during the course of the audit, in accordance with section 64 of the *Auditor-General Act 2009,* a copy of this report was provided to relevant entities with a request for submissions or comments. Entity views have been considered in reaching our audit conclusions and are represented to the extent relevant and warranted in preparing this report. The full comments received are included in Appendix A of this report.

1 Context

1.1 Education sector responsibilities

This report contains the results of the financial audits of those entities in the education sector with 31 December 2011 balance dates—namely universities and grammar schools, and their controlled entities.

1.1.1 Universities and Grammar schools

The seven universities each have their own enabling legislation. For financial reporting purposes their Acts provide that they are statutory bodies and as such 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 the 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 Commonwealth Department of Education, Employment and Workplace Relations.

The eight 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 number of primary school places. While historically associated with the public sector through the provisions of the *Grammar School Act 1975*, the schools operate on a fully commercial basis with only limited financial assistance provided by the State. They also 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 in preparing their annual financial statements are also required to have regard to the minimum reporting requirements contained in the *Financial Reporting Requirements for Queensland Government Agencies* issued by the Treasury Department.

The chairperson and the executive responsible for financial administration at each entity must certify that the legislative requirements for establishing and keeping of the accounts have been complied with in all material respects, and that the financial statements fairly present the entity's transactions for the financial year and financial position.

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

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

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

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

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

1.1.2 Controlled entities

The majority of controlled entities of universities and grammar schools 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 report, by the earlier of 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. For entities with a 31 December year end, that is by 30 April.

1.2 Audit responsibilities

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

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

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

An emphasis of matter paragraph may be included with the audit opinion to highlight an issue which the auditor believes the users of the financial statements need to be aware of. The inclusion of an emphasis of matter paragraph does not modify the audit opinion.

The *Auditor-General Act 2009* requires that after the audit opinion has been issued, a copy of the certified statements and the audit opinion be provided to the Chief Executive Officer of the statutory body as well as the appropriate Minister.

A report on the outcomes of the audit is also provided to management to highlight significant issues identified during the audit and recommendations for improvement. This report includes details of significant weaknesses to be reported to Parliament.

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

1.3 Structure of this report

The report is structured as follows:

- Section 2 provides the results of the audits of the education sector which were finalised at the time of this report.
- Section 3 identifies the quality and timeliness of university financial statements and financial management issues being raised at universities.
- Section 4 examines the financial sustainability of universities.
- Section 5 reports the results of the audits of grammar school financial statements.
- Appendix A contains entity responses.
- Appendix B contains the status of the 2011 financial statements of education and other entities with a 31 December balance date, and opinions issued on outstanding 2010 financial statements of education entities.

2 Results of audits of education sector financial statements

Summary

Background

This section contains the results of the 2011 audits completed for the 75 universities, grammar schools, controlled and other entities required to prepare financial statements.

Key findings

- Unmodified opinions were issued for seven universities and 60 controlled and other entities.
- Qualified audit opinions were issued for eight grammar schools. No qualified audit opinions were issued for universities and their controlled entities.
- Thirty-eight emphasis of matter paragraphs were included to highlight going concern issues, wind-ups and the use of special purpose financial statements.

Key recommendations

1. Grammar schools should disclose the remuneration of their key management personnel.

2.1 Audit opinions

For 2011, audit opinions have been issued for 75 universities, grammar schools and their controlled entities. Figure 2A shows these education entities by type and the overall status of their financial statements.

Figure 2A
Status of financial statements

Entity type	Total	Opinion issued		
		Unmodified	Unmodified with emphasis of matter	Qualified
Universities and controlled entities	57	21	36	0
Grammar schools and controlled entities	9	1	0	8
Other statutory bodies	1	1	0	0
Jointly controlled entities	3	2	1	0
Audited by arrangement	5	4	1	0
Total	75	29	38	8

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

2.1.1 Unmodified audit opinions

Sixty-seven unmodified opinions were issued on completed financial statements. An unmodified audit opinion confirms that the financial statements have been prepared according to the requirements of legislation and relevant accounting standards.

2.1.2 Qualifications

No qualified audit opinions were issued for the financial statements of universities and their controlled entities.

Qualified audit opinions were issued for the financial statements of eight grammar schools. The audit opinions of the eight grammar schools were qualified in relation to non-disclosure of key executive management personnel remuneration.

These opinions are discussed further in Section 5.2.

2.1.3 Emphasis of matter paragraphs

In certain circumstances it is appropriate to include a paragraph in the independent auditor's report drawing attention to or emphasising a matter in the financial statements without warranting qualification of the audit opinion.

Emphasis of matter paragraphs were included with 38 audit opinions, although in 24 of the 38, the emphasis of matter paragraph drew attention only to the use of Special Purpose Financial Statements. In this regard Australian Auditing Standard ASA 800 *Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks* requires an emphasis of matter paragraph to be included to highlight the basis of preparation where the financial statements are prepared using a special purpose framework.

Emphasis of matter paragraphs were included with the audit opinions of 11 controlled entities as these entities are reliant on their parent entities to fund their operations, creating uncertainty about their ability to continue as going concerns.

Where there is a going concern issue, the Australian Auditing Standards require the auditor either to provide a modified audit opinion, or to include an emphasis of matter relating to each company's ability to continue as a going concern. The type of audit opinion depends on the circumstances in each case.

While a number of emphasis of matter paragraphs were included with the audit opinion for these 11 controlled entities, strategies have been put in place to ensure the ongoing viability of these entities. Under their constituting legislation, universities can form or participate in ventures that further their educational objectives. These include forming companies for fundraising and for the commercialisation of technology. By their nature, these companies may generate losses for a period of time until the research and development activity results in commercial products that can be licensed or sold, or a decision is made to cease activities.

An emphasis of matter was also included with the audit opinion for three other companies as their financial statements were not prepared on a going concern basis as they were being wound up.

Recommendation

1. **Grammar schools should disclose the remuneration of their key management personnel.**

3 Effectiveness of university financial reporting controls

Summary

Background

As part of the financial audit the effectiveness of controls over financial reporting is assessed, and any weaknesses or control breakdowns identified are raised with management. Recommendations are made for improvements to controls.

Controls over strategic asset management and management of journals were emphasised as part of our rotation of emphasis across universities as part of the financial audit to identify systemic issues.

Key findings

- Our assessment of internal control structures found the systems and processes in place were adequate for financial reporting purposes.
- Of the 30 issues raised with universities which could have potentially significant implications, 25 issues were related to poor internal control due to inadequate or outdated policies and procedures across the universities.
- Controls over journals at universities are adequate.
- The quality of strategic asset management controls varied across the universities.

Key recommendations

2. Those entities with significant adjustments to their draft financial statements should establish effective oversight of the financial statement process by senior management and the audit committee; detailed plans, with timeframes, budgets and clear accountabilities, for the year-end close processes that feed into financial statement preparation; and accounting systems that produce financial statement information with minimal manual intervention.
3. Agreed financial statement timetables between management and audit need to be adhered to so that the quality, timeliness and cost of the audit is maintained at an acceptable level.
4. Internal control weaknesses identified across all entities in relation to management policies and procedures need to be addressed as a matter of priority.

3.1 Introduction

An effective financial management system will produce timely and reliable financial information for management, and allow management to report externally.

The usefulness of financial reports provided to the community by management is affected by the quality of the information contained in them and the time it takes to produce the reports. An efficient system will integrate internal and external reporting to the extent practicable.

3.2 Timeliness and quality of financial statements

The quality of an entity's financial reporting can be measured by the timeliness and accuracy of the preparation and finalisation of its financial statements. To achieve cost effective financial reporting, universities and their controlled entities need to have well planned and managed financial report preparation processes.

3.2.1 Timeliness of reporting

Recognising the importance of financial reports in providing accountability for the use of public monies, entities should prepare and publish their financial information on a timely basis. The later the reports are produced and published after year-end, the less useful they are for stakeholders and for informing decision-making.

The legislated time frame for universities reporting under the *Financial and Performance Management Standard 2009* to finalise their audited financial reports is within two months of the end of the financial year.

All universities' financial statements were certified by management and audit within the two month legislated timeframe which is a good result. Two universities however, did not meet their agreed timetable for providing the initial draft version of their financial statements to audit, including their supporting working papers. Failure to meet these agreed timeframes puts additional pressure on the audit process to meet the legislative timeframes, which impacts on audit costs.

3.2.2 Quality and accuracy

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

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

Combined adjustments totalling $626.66 million were required to university financial statements, with the financial statements for six of the seven universities requiring significant changes before an audit opinion could be issued.

The extent of changes made to the financial statements during the audit process are summarised in Figure 3A.

Figure 3A
Changes to financial statements prior to audit certification*

Financial statement area	Total changes $m
Income	328.08
Expenses	42.91
Assets	51.23
Liabilities	142.27
Equity	62.17
TOTAL	626.66
Number of universities that processed a change	6

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

Changes were made also in the notes to the financial statements with all universities required to make some additional note disclosures to ensure compliance with the State Treasury Department and Commonwealth Department of Education, Employment and Workplace Relations requirements. Some of the more common changes recommended and made related to:

- key management personnel
- key estimates and assumptions
- prior year changes resulting from accounting and other policy changes or errors
- financial instruments
- asset revaluations
- commitments
- reclassification of account balances.

The number and extent of changes required to financial statements prior to certification by audit indicates the need to improve internal quality assurance processes.

3.2.3 Better practice

Entities should aim for the better practice elements detailed in Figure 3B to assist them to produce complete, accurate and compliant financial statements within the legislative time frame.

Figure 3B
Selected better practice – financial report preparation

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 shell financial report before 31 December 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 that they also have project management and interpersonal skills.
Financial compliance reviews	Undertake periodic compliance reviews to identify areas of non compliance or changes to legislation that impact 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

3.3 Internal control framework

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

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

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

In our annual financial audits, we focus on the internal controls over financial reporting, and assess whether entities have managed the risk that their financial statements will not be complete and accurate. Poor controls diminish management's ability to comply with relevant legislation and increase the risk of fraud. Control issues which have potentially significant implications if not addressed as a matter of priority are included in this report.

Three of the seven universities did not have any significant control issues identified, while 30 issues were raised across the other four universities. Thirteen of these matters related to one university.

The majority of issues related to ineffective implementation of policies and procedures, and the weaknesses in, or the absence of, frameworks and plans linked to goals and strategies of universities, including security classification, business continuity management and strategic asset management frameworks and corporate plans.

Recommendations made to management for improvement included:

- formulating, documenting and regularly reviewing core business and financial frameworks, policies and procedures
- strengthening and improving information system security, including better password management and regular testing of business continuity plans
- ensuring that the entertainment and hospitality policies are adhered to and general public sector expectations are considered at all times when incurring this expenditure
- more timely preparation and independent review of key account reconciliations
- more considered application of Treasury Department's *Non-Current Asset Policies for the Queensland Public Sector* including the documenting of key assumptions around asset valuations
- improving segregation of duties to reduce the opportunity for fraud
- raising purchase orders before the invoice has been received and better follow up of long outstanding purchase orders
- more robust estimation of end of year accruals.

3.4 Audit focus on key control areas

The following two areas of control were emphasised this year across the seven universities during the financial audit:

- strategic asset management
- management of journals.

No systemic sector-wide issues were identified during the audits of these areas. Weaknesses identified at individual universities were reported directly to their management.

3.4.1 Strategic asset management

We examined whether the universities had appropriate strategic asset management plans, whether asset policy frameworks were in place and whether effective control was established for asset management.

Strategic asset plans are centred on an entity's service delivery objectives and address significant current and emerging gaps in their ability to provide future services. These plans prioritise asset investment proposals according to their ability to address these gaps.

A strategic asset management framework allows an entity's strategic goals to be integrated within the asset portfolio.

The specific prescribed requirements with respect to asset management are set out in Section 23 of the *Financial and Performance Management Standard 2009,* which includes that an asset management system must provide for:

- identifying, acquiring, managing, disposing of, valuing, recording and writing-off of assets
- if the University considers the cost of acquiring, maintaining or improving a physical asset is significant, conducting an evaluation before making the acquisition or carrying out the maintenance and improvement
- reviewing the performance of completed significant assets to ensure the objectives of the University in acquiring, maintaining or improving the assets were met
- regularly maintaining the assets.

The audit found that the quality of strategic asset management varied across the universities. Key audit findings were:

- Three of the seven universities did not have an approved strategic asset management plan in place. However, these universities have accepted the need for a strategic asset management plan as part of an overarching strategic asset management framework, and have commenced the process of developing a plan.
- Two of the seven universities did not have a strategic asset management framework with the University's strategic goals integrated with their asset portfolio.
- Four of the seven universities incorporated the asset plans into the strategic planning process to ensure that the asset portfolio would efficiently support their strategic goals.
- In four of the seven universities asset management did not reflect a life-cycle approach, including analysing costs over an asset's life and as a basis for making decisions relating to capital investment.
- In three of the seven universities, a formal process had not been established to review the performance of completed significant assets.
- In two of the seven universities, there was no evidence that risk management was fully integrated into all decision-making processes associated with asset management.

Recommendations for improvements flowing from the above analysis included:

- developing an overarching strategic asset management plan which is integrated into the strategic planning processes
- adopting a life-cycle approach that takes into account the whole of life cost implications of planning, acquiring, operating, maintaining and disposing of an asset
- setting performance standards to assess whether existing assets are properly used and maintained
- developing a risk management plan that integrates all aspects of the decision making process associated with asset management
- regularly reviewing strategic asset management plans to ensure they reflect current economic and environmental factors.

3.4.2 Management of journals

Different journals are processed at various stages throughout the reporting period:

- standing journal entries – system generated journals that are usually processed on a monthly basis
- adjusting journal entries – manual journals posted during the year generally to correct errors that may have occurred
- year end journal entries – posted at year end generally to effect changes to the financial statements.

We reviewed the nature and extent of journal entries processed within universities, to ensure adequate support existed for journals and to assess the appropriateness of controls over the approval and processing of such journals.

Overall, the controls over journals at universities are adequate. Universities have appropriate policies or procedures in place for the processing and approval of journals, with all journals tested supported by documentation to substantiate the accuracy of amounts and the validity of transactions.

Recommendations

2. **Those entities with significant adjustments to their draft financial statements should establish:**
   - **effective oversight of the financial statement process by senior management and the audit committee**
   - **detailed plans, with timeframes, budgets and clear accountabilities, for the year-end close processes that feed into financial statement preparation**
   - **accounting systems that produce financial statement information with minimal manual intervention.**
3. **Agreed financial statement timetables between management and audit need to be adhered to so that the quality, timeliness and cost of the audit is maintained at an acceptable level.**
4. **Internal control weaknesses identified across all entities in relation to management policies and procedures need to be addressed as a matter of priority.**

4 Financial sustainability of universities

Summary

Background

This section of the report presents an analysis of selected financial sustainability ratios, assessing the financial performance and position of universities over the past three to five years.

To be sustainable, universities need to have sufficient capacity to be able to manage future financial risks, infrastructure assets must be maintained and debts managed at an acceptable level to support future operations.

Key findings

- The result of analysis of financial ratios for universities was positive for 2011 and for the previous two years.
- While the total revenue received from overseas students has increased consistently since 2007, some universities have increased their other sources of revenue to reduce reliance on overseas students as a source of income.
- All but Central Queensland University have an operating surplus, which is due to the University making a significant investment in new programs and maintenance of infrastructure. The University retains a strong balance sheet position.

4.1 Managing financial risks

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

The financial objective for universities is to generate a sufficient surplus from operations to meet their financial obligations, and to fund asset replacement and new asset acquisitions. The ability of universities to achieve this depends largely on how well they manage their expenditure and whether they maximise revenue. Their financial performance is measured by the operating result—the difference between revenue inflows and expenditure outflows.

Six of the seven universities had a positive operating result for 2011. Central Queensland University made a small operating loss for 2011 but remains in a sound overall financial position with a relatively strong balance sheet.

An entity's financial position is generally measured by reference to its net assets—the difference between its total assets and total liabilities. While this measure is less relevant in the public sector, as most public sector entities are 'not for profit', they do hold infrastructure assets, which require funds to meet operating costs, repairs and maintenance, and replacement and renewal. Their objective should be to maintain the condition of their infrastructure assets, while reducing debt by using the proceeds from operations. The ability of universities to maintain their infrastructure assets depends on the adequacy of their asset and debt management policies as well as their ability to generate revenue and keep costs under control.

The liquidity, debt-to-equity and capital replacement ratios indicate that all universities are in a sound financial position with strong cash balances, minimal debt and adequate expenditure on asset replacement and renewal.

4.2 Operating results

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

Figure 4A provides a comparison of the combined operating results for the seven universities between 2011 and 2010. The results took into account income tax expenses and did not include results attributable to non-controlling interest or other comprehensive income.

Figure 4A
Combined operating results

Operating result ($m)		Movement	
2011	2010	($m)	(%)
410.96	348.76	62.20	18

Figure 4B shows the trend in individual operating results for the past three years.

Figure 4B
Individual operating results

University	2011 $m	2010 $m	2009 $m
Central Queensland University	(4.10)	(4.93)	2.46
Griffith University	90.02	109.81	94.39
James Cook University	45.70	27.48	23.50
Queensland University of Technology	63.84	46.93	110.29
The University of Queensland	192.78	139.20	125.91
University of Southern Queensland	14.52	14.59	18.01
University of the Sunshine Coast	8.19	15.88	17.50

Central Queensland University has made a slight improvement in its operating result by reducing its operating loss from 2010. The loss is a result of a fall in student revenue and increased capital expenditure. The university is adopting strategies to increase domestic student numbers by increasing advertising and expanding the number of courses it is offering. Central Queensland University continues to remain in a strong balance sheet position as shown by its liquidity and debt-to-equity ratios.

4.2.1 Operating income

In 2011, universities generated combined operating income of $4.28 billion, an increase of $370 million (10 per cent) when compared to 2010.

Commonwealth and State government funding accounted for 59 per cent of total revenue in 2011. Government funding grew by $232 million (10 per cent) from 2010 and the extra funds were used for the building of additional infrastructure.

Student fee revenue, the second largest source of revenue, accounted for 21 per cent of total revenue in 2011. Universities generated $914 million from student fees in 2011, an increase of $19 million (2 per cent) over 2010.

Investment revenue has increased by $35 million (46 per cent) from 2010. The increase was due to increased cash holdings in term deposits as well as increased investments in other financial assets.

Revenue from consultancies and contracts increased by $45 million (25 per cent) from 2010. The increase related to additional consulting and contracting undertaken by some universities on three large projects across both the private and public sector.

Students fees and charges

Student fees are a significant portion of revenue for universities, contributing 21 per cent to total operating revenues in 2011, and 23 per cent in 2010. Figure 4C shows the total student fees and charges earned by the universities, as well as the fees paid by overseas students for 2010 and 2011.

Figure 4C
Fees and charges

Total fees and charges ($m)		Revenue from overseas students ($m)	
2011	2010	2011	2010
914.37	894.99	733.49 (89%)	706.58 (84%)

Over the past four years, international student fees have increased by $208 million (39 per cent). This significant growth highlights the increasing contribution of revenue from international students to the universities.

International student fee revenue is subject to a range of risks that are 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 4D shows the relationship between international student fee revenue and total revenues over the past four years. While the total revenues from overseas students has increased since 2007, as a percentage of total operating revenue they fell in 2011 when compared to 2010.

Figure 4D
Revenue from overseas students

University	2011		2010		2009		2008	
	Fees paid by overseas students $m	*% of total operating revenue**	Fees paid by overseas students $m	*% of total operating revenue**	Fees paid by overseas students $m	*% of total operating revenue**	Fees paid by overseas students $m	*% of total operating revenue**
Central Queensland University	86.13	*35.48*	95.43	*40.64*	87.35	*37.20*	81.78	*35.59*
Griffith University	150.93	*20.00*	150.32	*20.60*	135.85	*20.18*	119.02	*19.14*
James Cook University	64.80	*15.68*	62.46	*17.88*	56.80	*17.55*	46.27	*14.27*
Queensland University of Technology	125.51	*15.43*	115.37	*15.75*	100.72	*13.35*	87.21	*14.76*
The University of Queensland	259.39	*15.50*	237.45	*16.20*	187.46	*14.36*	145.78	*11.47*
University of Southern Queensland	33.57	*14.66*	32.04	*14.24*	35.74	*16.87*	34.62	*16.83*
University of the Sunshine Coast	13.16	*10.35*	13.52	*11.12*	13.42	*12.25*	11.28	*9.28*
TOTAL	**733.49**	***17.26***	**706.59**	***18.31***	**617.34**	***17.09***	**525.96**	***15.63***

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

Central Queensland University relies much more heavily on overseas student fees than any other university and is closely monitoring any downturn in this revenue stream.

4.2.2 Operating expenditure

In 2011, universities reported combined operating expenses of $3.9 billion, an increase of $308 million (9 per cent) from 2010. The largest component of expenditure for 2011 was employee benefits, being 58 per cent of total expenditure. Employee related expenses grew by $171 million (8 per cent) over the prior year, due to the increase in number of full time equivalents employed as well as an increase in salary and wage rates.

Depreciation expense increased by $24 million (12 per cent) over 2010 reflecting increased investment in property, plant and equipment. Repairs and maintenance expense increased by $27 million (26 per cent) over 2010 due mainly to the damage caused by the floods in January 2011.

Employee benefits and on-costs

The Commonwealth Department of Education, Employment and Workplace Relations 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 4E shows that all universities were at the lower to mid range of the benchmark and are in a favourable position.

Figure 4E
Employee benefits and on-costs as a percentage of total revenue

University	2011 %	2010 %	2009 %
Central Queensland University	60.35	59.12	53.90
Griffith University	55.48	52.64	52.40
James Cook University	49.39	52.88	50.67
Queensland University of Technology	53.52	55.89	49.28
The University of Queensland	48.86	50.95	51.40
University of Southern Queensland	61.07	58.81	55.28
University of the Sunshine Coast	57.53	52.95	50.65

4.2.3 Net assets

Figure 4F provides a comparison of the total combined net assets of the seven universities for 2011 and 2010. The total net assets of the universities showed an increase of $295 million over 2010 due to an increase of $334 million in total assets, offset by an increase of $39 million in total liabilities.

Figure 4F
Total combined net assets

Net assets ($m)		Movement	
2011	2010	($'000)	(%)
7,424.45	7,129.36	295.09	4.1

Changes in assets and liabilities are discussed in the following sections.

Assets

Total assets increased by $334 million (4 per cent) from 2010 to a total balance of $8.6 billion. This was due to an increase in property, plant and equipment which was the largest component of total assets making up 76 per cent in 2011 and 77 per cent in 2010. A net increase of $200 million over the prior year was recorded in the property, plant and equipment balance. Further analysis showed that this was primarily driven by the construction of new buildings and the purchase of more land. Cash and cash equivalents increased by $66 million while receivables increased by $48 million.

Liabilities

Total liabilities amounted to $1.2 billion, an increase of $39 million (3 per cent) from 2010. The main reason for the increase was an increase of $49 million in employee provisions reflecting the increase in staff employed and wages. There was also a fall in the 10 year Commonwealth Government bond rate, which is the reference rate used to discount provision balances back to present value. This fall resulted in an increased long service leave provision.

The increase of $15 million in combined borrowings was largely the result of $10 million borrowed by one university to acquire a non-controlling interest in one of the overseas companies it partially owns.

The composition of liabilities of universities has remained consistent over the past two years. For both years, provisions continue to be the largest liability making up 35 per cent of total liabilities in 2011 and 32 per cent in 2010. Borrowings represent the next largest liability balance and are consistent at 24 per cent of total liabilities in both years.

4.3 Financial sustainability

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

The Commonwealth Department of Education, Employment and Workplace Relations monitors the financial and business performance of universities across Australia and requires universities to provide certain data to allow this monitoring activity to occur. The Department's benchmarks include liquidity, diversity of revenue, employee benefits and on-costs, and operating result.

The Department's benchmarks have been analysed by audit as well as the additional benchmarks of debt-to-equity, fees paid by overseas students and capital replacement. All these benchmarks reflect each university's funding and expenditure policies and indicate whether current revenue and expenditure policies are sustainable.

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

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

- had adequate liquidity to meet their short term liabilities as they fall due
- were not reliant on debt to finance their capital structure
- were able to meet employee expenses
- had adequate spending on asset renewal.

All but Central Queensland University have an operating surplus, which is due to the University making a significant investment in new programs and maintenance of infrastructure. The University retains a strong balance sheet position. The ratios for each university are discussed in the following sections.

4.3.1 Liquidity

The liquidity or current ratio is the relationship between current assets and current liabilities. It is a measure of general liquidity and is most widely 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 as being favourable, but a ratio of more than one still indicates a low risk of not being able to fund current obligations.

Figure 4G shows the respective liquidity ratio of the universities. All universities have adequate liquidity to meet their short term liabilities as they fall due.

Figure 4G
Liquidity ratio

University	2011	2010	2009
Central Queensland University	2.11	2.44	2.74
Griffith University	3.06	3.64	3.32
James Cook University	3.17	3.43	3.49
Queensland University of Technology	3.81	3.45	4.31
The University of Queensland	1.97	1.54	1.45
University of Southern Queensland	4.54	3.89	3.75
University of the Sunshine Coast	3.02	2.63	1.86

Note: Long service leave liabilities expected to be settled after 12 months of the reporting date have been eliminated from current liabilities.

4.3.2 Debt–to–equity

The ratio of debt-to-equity is a longer term measure that compares all current and non-current borrowings to equity. It complements the liquidity ratio which is a short-term measure. A low ratio indicates less reliance on debt to finance the capital structure of an organisation. All universities had a low debt-to-equity ratio as shown in Figure 4H.

Figure 4H
Debt-to-equity ratio (%)

University	2011	2010
Central Queensland University	0%	0%
Griffith University	4%	5%
James Cook University	5%	4%
Queensland University of Technology	1%	1%
The University of Queensland	4%	5%
University of Southern Queensland	4%	1%
University of the Sunshine Coast	10%	11%

The University of Sunshine Coast has the highest debt-to-equity ratio as a result of a relatively lower equity (net assets) balance when compared to the other six universities. The main reason for this lower balance is the low level of property, plant and equipment. At 31 December 2011, the University of Sunshine Coast had a property, plant and equipment balance of $175 million which is $79 million less than the next lowest university. Being the newest university, it has a relatively small campus with the lowest number of full time students.

4.3.3 Capital replacement

This ratio compares the rate of spending on property, plant and equipment with its depreciation. It is a long-term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations, and borrowing is not an option. Cash outflows for infrastructure are taken from the cash flow statement. Depreciation is taken from the statement of comprehensive income . Ratios higher than 1:1 indicate that annual capital expenditure exceeds the annual amount of depreciation.

Figure 4I shows all universities have a ratio of more than one for the past two years which indicates that the aggregate capital spending on property, plant and equipment has consistently and significantly exceeded aggregate depreciation. However, it should be noted when interpreting these results, annual spending on assets includes new and expanded facilities, in addition to existing facilities.

Figure 4I
Capital replacement ratio

University	2011	2010
Central Queensland University	3.16	1.50
Griffith University	4.30	2.94
James Cook University	1.88	2.35
Queensland University of Technology	2.99	1.82
The University of Queensland	1.82	1.98
University of Southern Queensland	3.07	1.54
University of the Sunshine Coast	1.85	1.24

4.4 Issues affecting current and future sustainability

4.4.1 Effect of the global financial crisis

The reported figures for 2008 and 2009 for investment revenue indicate that the global financial crisis had an impact at most universities. Investment revenue, excluding unrealised gain or losses on financial assets, for each university for the last five years is shown in Figure 4J.

Figure 4J
Investment revenue

University	2011 $m	2010 $m	2009 $m	2008 $m	2007 $m
Central Queensland University	8.40	8.20	8.84	11.81	13.24
Griffith University	22.42	16.37	10.71	11.23	6.77
James Cook University	9.17	7.19	7.68	9.14	7.70
Queensland University of Technology	31.22	21.09	16.76	19.69	31.82
The University of Queensland	31.07	17.19	15.04	13.17	12.83
University of Southern Queensland	6.76	4.74	3.55	4.81	3.15
University of the Sunshine Coast	2.81	1.91	1.91	1.02	.59
TOTAL	111.85	76.69	64.49	70.87	76.1

While there have been fluctuations in this revenue stream, the results for 2011 show a marked improvement from the previous two years.

The increase in investment revenue was due to increased interest revenue from additional cash held in term deposits as well as some large dividend receipts from some successful commercial investments.

4.4.2 Impact of the floods and Cyclone Yasi

The natural disaster events that occurred across Queensland in early 2011 affected all of the universities to varying degrees. Issues experienced at the universities included damage to assets from high speed winds or flood water inundation, loss of power and short term closure of certain campuses.

Adequate insurance was held across the universities for the type of damage to assets and any business interruption that was experienced during these events. The immediate effect on the universities' academic programs was reported to be minimal with no material impact experienced on future student numbers.

4.4.3 Demand driven funding for undergraduate student places

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

The legislation makes major changes to the Commonwealth Grant Scheme to provide for demand driven funding of undergraduate student places. The Scheme provides the Commonwealth Government's contribution for Commonwealth funded students and these students also make a contribution to their education.

The legislation enables universities to decide the number of students they wish to enrol in their undergraduate courses. The Commonwealth Government will provide its funding contribution for every domestic student enrolled in an undergraduate course of study. Previously, only a specific number of Commonwealth supported undergraduate places was allocated to each provider and the funding for undergraduate student places was limited. Only the number of Commonwealth supported places in postgraduate courses and courses of study in medicine will be limited.

The implication of this legislation is that the amount of Commonwealth Grant Scheme grants will be calculated on the basis of the student places that a university provides, rather than on the basis of student places allocated by the Federal Education Minister.

An outcome of this legislation may be that all universities will need to reassess their physical capacity to address the potential increase in student numbers. This would link into the universities' asset management strategies in relation to managing future capacity needs.

An analysis of the effect on universities' funding and sustainability due to this change in funding will be provided in future reports to Parliament.

5 Grammar schools

Summary

Background

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

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

Key findings

- Qualified audit opinions were issued for the eight grammar schools. An emphasis of matter was included after the audit opinion of the Board of Trustees of the Ipswich Girls' Grammar School due to going concern issues.
- All grammar schools were certified by management and audit after the legislated timeframe due to the additional time taken to finalise the disclosure issue that led to the qualification of their statements.
- The majority of audit issues raised with grammar schools related to internal control breakdowns which could have potentially significant implications.

5.1 Scope

This section deals with the grammar schools and a controlled entity of a grammar school which have a balance date of 31 December 2011.

As statutory bodies, grammar schools must prepare annual financial statements for each financial year having regard to the minimum reporting requirements contained in the *Financial Reporting Requirements for Queensland Government Agencies* issued by Treasury Department.

The grammar schools prepare annual reports that include a copy of their audited financial statements. The annual reports are tabled in Parliament by the relevant Minister.

5.2 Audit opinions issued

Qualified audit opinions were issued for the financial statement of the eight grammar schools:

- Board of Trustees of the Brisbane Girls' Grammar School
- Board of Trustees of the Brisbane Grammar School
- Board of Trustees of the Ipswich Girls' Grammar School
- Board of Trustees of the Ipswich Grammar School
- Board of Trustees of the Rockhampton Girls' Grammar School
- Board of Trustees of the Rockhampton Grammar School
- Board of Trustees of the Toowoomba Grammar School
- Board of Trustees of the Townsville Grammar School.

An unmodified audit opinion was issued for the Board of Trustees of the Ipswich Boys' Grammar School Centenary Building Fund, the only grammar school controlled entity.

The audit opinions of the eight grammar schools were qualified in relation to non-disclosure of key executive management personnel remuneration.

Grammar schools are required by the Treasurer to disclose the details of key management personnel and their remuneration, as outlined in Section 5 of the *Financial Reporting Requirements for Queensland Government Agencies* (*Financial Reporting Requirements)*.

Section 5 of the Financial Reporting Requirements requires detailed disclosures for key executive management personnel being those persons having authority and responsibility for planning, directing and controlling the activities of the school.

In February 2012, The Grammar Schools Association of Queensland Inc. sought legal advice to clarify whether grammar school principals and other senior staff are considered key management personnel and should be included in this reporting requirement. This advice confirmed the need to comply with the detailed disclosure requirements. The Association also unsuccessfully sought exemption from the Treasurer from compliance with this reporting requirement.

However, each grammar school disclosed only the Members of their Board of Trustees as the key executive management personnel of the school. The Board of Trustees, acting on their legal advice, were of the view that Principals and Headmasters and other senior staff were not key executive management personnel in terms of Australian Accounting Standard *AASB 124 Related Party Disclosure*.

While the school adopted a strict legal interpretation for the purpose of identifying key executive management personnel, the application of the Financial Reporting Requirements requires a broader consideration of the substantive role of senior staff in the overall management of the school.

Principals and other senior staff are in substance, if not in legal form, key management personnel because they, in consultation with the Board, have "authority and responsibility for planning directing and controlling the activities of the entity, directly or indirectly", as defined in Australian Accounting Standard AASB 124 *Related Party Disclosures*.

Had these staff members been identified as key executive management personnel, the following additional disclosures would have been required:

- the remuneration of each person in relation to the following categories
  - short-term employee benefits including salaries and wages, annual leave, sick leave, allowances, performance bonuses paid and provided for and any non-monetary benefits received during the year
  - long term employee benefits including long service leave paid and provided for during the year
  - post employment benefits including employer superannuation contributions paid and provided for during the year
  - termination benefits.
- the basis for, and the aggregate amount of, performance bonuses paid or provided for during the year in relation to key executive management personnel.

The intent of the Financial Reporting Requirements is to enhance transparency and accountability of public sector entities and those public entities should view such requirements in terms of the policy intent, rather than adopt a narrower legalistic construction of the wording. Because this requirement was not complied with, a qualified audit opinion was issued for the financial statements of each of the eight grammar schools.

In addition to the qualified audit opinion issued for the Board of Trustees of the Ipswich Girls' Grammar School, an emphasis of matter was included after the audit opinion due to material uncertainty regarding the grammar schools ability to continue as a going concern. The grammar school incurred an operating loss for 2011 and their current liabilities exceeded their current assets.

5.3 Timeliness

Grammar schools have the same legislated time frame as for universities, which is within two months of the end of the financial year.

All grammar schools were certified by management and audit after the timeframe due to the additional time taken to finalise the disclosure issue that led to the qualification of their statements. While this disclosure issue was initially raised by the grammar schools in the early stages of the audit, formal advice of their position was not provided to QAO until late February 2012.

5.4 Effectiveness of financial management

Section 3.3 discussed the importance of internal controls and the need for entities to establish and maintain adequate systems of internal controls. During the audits of the grammar schools, control weaknesses were identified which had potentially significant implications if not addressed as a matter of priority.

A total of 45 issues were raised over the eight grammar schools for 2011, eight of which related to the qualification included in the audit opinion, and the remaining issues included the following areas for improvement:

- asset valuations and stock takes
- controls around employee benefits
- controls around expenditure contracts.

5.5 Financial performance

Figure 5A shows the collective financial performance of the eight grammar schools.

Figure 5A
Collective analysis of financial performance

Financial statement area	2011 $m	2010 $m	$ Variance $m	% Variance
Revenue	195.02	188.43	6.59	3%
Other comprehensive income	.31	37.73	(37.42)	-99%
Expenses	188.31	172.41	15.89	9%
Net result	7.03	53.75	(46.72)	-87%
Current assets	60.76	58.16	2.60	4%
Total assets	583.35	578.77	4.58	1%
Current liabilities	36.45	37.40	(.95)	-3%
Total liabilities	143.72	145.44	(1.72)	-1%
Equity	439.65	433.32	(6.33)	1%

A significant variance has been noted in relation to the comparison of the 2010 and 2011 reported figures for other comprehensive income. The reason for this variation is a result of:

- changes in the market value of units in unit trusts
- asset revaluation movements
- reversal of revaluation on disposal of available-for-sale financial assets.

Appendices

Appendix A

Auditor-General Act 2009 (Section 64) – Submissions and comments received

Introduction

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

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

Submissions and comments received

Response provided by the Chairman of the Board of Trustees, Toowoomba Grammar School on 24 May 2012.

TOOWOOMBA GRAMMAR SCHOOL
A G.P.S. SCHOOL OF QUEENSLAND - ESTABLISHED 1875

Toowoomba Grammar School
FIDELIS IN OMNIBUS

FROM THE BOARD OF TRUSTEES

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RECEIVED
24 MAY 2012
QUEENSLAND AUDIT OFFICE

22 May 2012

Your ref: 10440
Mr John Welsh 3149 6126

Auditor-General of Queensland
PO Box 15396
CITY EAST QLD 4002

Dear Sir

2011 Education Sector Audits

I refer to your draft report to Parliament on the results of the 2011 Education Sector Audit.

In accordance with Section 64 of the *Auditor-General Act 2009*, I wish to make comment on behalf of the Board of Trustees of the Toowoomba Grammar School.

I understand that the draft report was sent to the Headmaster on or about 1 May 2012 but has not been forwarded to myself as Chairman.

My comments relate to the issue of disclosure of executive remuneration and, specifically, as that disclosure relates to the Board of Trustees of the Toowoomba Grammar School.

Initially, my comments relate to the finalization of audited Financial Statements for the Board. In that regard, I note that our Financial Statements were, in fact, signed within the requisite time-frame but that the other matters could not be finalized due to there not being a draft audit opinion from your office due to the broader issue of the method of dealing with the remuneration disclosure.

From our Board's point of view, our proposed disclosure was raised in December 2011 and that position remains. Consequently, for matters with our Board to be finalized, this was simply as a result of matters within your office's control not being finalized in the requisite time-frame.

Secondly, I take issue with the proposed recommendation in your report and being that contained in Part 2.1.3. Our Board, in particular, is of the opinion that it has disclosed the remuneration of all their personnel who occupy key management positions. Your determination that the Board has not disclosed is based on the differences of opinion in the way the standard is interpreted.

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Submissions and comments received

Response provided by the Chairman of the Board of Trustees, Toowoomba Grammar School on 24 May 2012.

Further, the interpretation which you have adopted relies upon the importation of additional words such as personnel who "substantively" occupy key management positions and as set out in the third paragraph of page 14 of your draft report, personnel who, "in consultation with the Board" have the requisite authority and responsibility.

It is our view that the issue is one of interpretation and not of disclosure per se. It may be more appropriate that your recommendation, in the current circumstances, should be to clarify the language of the standard rather than to reiterate what is already the fact and that is that the standard seeks disclosure.

It remains the view of our Board that disclosure has been made.

Yours faithfully

Glen McCracken
Chairman of the Board of Trustees

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Submissions and comments received

Response provided by the Chair of the Board of Trustees, Brisbane Girls Grammar School on 25 May 2012.

NIL SINE LABORE

BRISBANE GIRLS GRAMMAR SCHOOL

25 May 2012

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

Dear Mr Greaves

The Brisbane Girls Grammar Schools

We are writing to you on behalf of the Board of Trustees (the Board) of Brisbane Girls Grammar School (**the School**) in response to the Auditor-General's report to Parliament (**the QAO Report**) on the results of the 2011 education sector audits. As requested by Mr John Welsh of your office please find below our Management Comment we would like to have recorded within the final report to Parliament.

In view of the classification of matters as 'significant' being far more extensive than applied in previous years' audits (due to it now extending to all identified control matters whether classified as 'high' or 'moderate'), without a full appreciation of the risk classification system used by each separate contract auditor, a simple reading of the report on the face of it could be misleading. Moreover in many instances, after discussion between board, management and the auditors, the School is of the view that we can demonstrate that the matters identified as significant amounted to 'low' risk control breakdowns for the School.

The Board would appreciate the opportunity to fix any inaccuracies within the 2011 management report for Brisbane Girls Grammar School.

Yours faithfully

Elizabeth Jameson
Chair Board of Trustees

Gregory Terrace Brisbane 4000 Queensland Australia
Telephone 61 7 3332 1300 Facsimile 61 7 3832 6097
Email admin@bggs.qld.edu.au Website www.bggs.qld.edu.au
ABN 31 445 392 850

Page 1

Submissions and comments received

Response provided by the Chairman of the Board of Trustees, Ipswich Grammar School, Board of Trustees on 24 May 2012.

IPSWICH GRAMMAR
Prep – Year 12

Locked Mailbag 6000 North Ipswich Qld 4305 T: 07 3813 9600 F: 07 3280 1311 www.ipswichgrammar.com Cricos #00109A

24 May 2012

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

Dear Mr Greaves,

Ipswich Grammar School

I am writing to you on behalf of the Board of Trustees of Ipswich Grammar School (**the Board**) in response to the Auditor-General's report to Parliament on the results of the 2011 education sector audits dated 1 May 2012 (**the QAO Report**).

We are aware that the Grammar Schools of Queensland Association Inc. (**the GSA**) wrote to you on 27 April 2012 in relation to the previous draft of the QAO Report. We note that most of the issues raised by that letter have now been satisfactorily addressed in the updated QAO Report. The remaining issues of concern are set out below.

Executive Remuneration

The Board would like to clarify the final sentence on page one of the report. The sentence in your letter currently reads as follows:

"The grammar schools took the view that their principals or headmasters are not part of the key executive management of their organisation."

The sentence should be clarified by adding to the end of this sentence the phrase "as defined in section 5 of the *Financial Reporting Requirements for Queensland Government Agencies*."

This qualification is in fact referred to in paragraph 5.2 on page 13 of the QAO Report.

1863 150 Years 2013

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

Submissions and comments received

Response provided by the Chairman of the Board of Trustees, Ipswich Grammar School, Board of Trustees on 24 May 2012.

IPSWICH GRAMMAR
Prep – Year 12

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Significant Matters

In the section of the QAO Report at the bottom of page 3 entitled *"Entity Responses"*, the QAO Report invites comment on any *"significant matters discussed"*, however the QAO Report does not include a definition of what is included as a *"significant matter"* within the QAO Report. The QAO Report only notes that *"significant matters include matters which had potentially significant implications if not addressed or could potentially have significant implications"*.

The Bentleys report obtained by the Board refers only to low, moderate and high risk categories and does not refer to the expression "significant matters".

It is the Board's opinion that it is important to clearly state what is included by the expression *"significant matters"*.

If you wish to obtain any further clarification of the matters raised above or if you wish to discuss these matters with the Board or its representatives, please do not hesitate to do so.

Yours faithfully,

Jon Kent
Chairman
Board of Trustees

1863 150 Years 2013

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

Appendix B

Status of financial statements

Universities, grammar schools and their controlled entities with 31 December 2011 balance date

Opinion key: U=Unmodified Q=Qualified A=Adverse E=Emphasis of matter D=Disclaimer

Audit	Financial statements signed	Audit opinion issued	Audit opinion	Timeliness		
				<2 mths	2-3 mths	>3 mths
Universities and their controlled entities						
Central Queensland University	23.02.2012	24.02.2012	U	✓		
Australian International Campuses Pty Ltd	23.02.2012	24.02.2012	U	✓		
C Management Services Pty Ltd	20.02.2012	20.02.2012	U	✓		
CQU Travel Centre Pty Ltd	23.02.2012	24.02.2012	U	✓		
Griffith University	29.02.2012	29.02.2012	U	✓		
Gold Coast Innovation Centre Limited	19.04.2012	26.04.2012	**E***			✓
James Cook University	28.02.2012	29.02.2012	U	✓		
GRW Industries Pty Ltd	21.03.2012	27.03.2012	**E***		✓	
JCU Enterprises Pty Ltd	22.03.2012	27.03.2012	**E***		✓	
JCU UniVet Pty Ltd	14.03.2012	20.03.2012	**E***		✓	
The JCU Asset Trust	27.03.2012	04.04.2012	**E***			✓
Unicare (NQ) Limited	22.03.2012	28.03.2012	**E***		✓	
UniHealth (NQ) Limited	26.03.2012	29.03.2012	**E***		✓	
Queensland University of Technology	22.02.2012	27.02.2012	U	✓		
Creative Industries Precinct Pty Ltd	30.01.2012	06.02.2012	U	✓		
QUT Enterprise Holdings Trust	21.02.2012	21.02.2012	U	✓		
qutbluebox Pty Ltd	13.02.2012	16.02.2012	U	✓		
qutbluebox Trust	13.02.2012	17.02.2012	U	✓		
The University of Queensland	23.02.2012	29.02.2012	U	✓		
Ausonex Pty Ltd	08.03.2012	08.03.2012	**E**		✓	

Audit	Financial statements signed	Audit opinion issued	Audit opinion	Timeliness		
				<2 mths	2-3 mths	>3 mths
Aussie Colours Pty Ltd	21.02.2012	27.02.2012	E*	✓		
Bilexys Pty Ltd	01.03.2012	06.03.2012	E		✓	
BioHerbicides Australia Pty Ltd	23.02.2012	27.02.2012	E*	✓		
Ceramipore Pty Ltd	02.03.2012	06.03.2012	E		✓	
Cloevis Pty Ltd	21.02.2012	27.02.2012	E*	✓		
Coridon Pty Ltd	08.03.2012	08.03.2012	E*		✓	
Corpison Pty Ltd	02.03.2012	06.03.2012	E		✓	
Dendright Pty Ltd	21.02.2012	28.02.2012	E*	✓		
Dendrimed Pty Ltd	01.03.2012	06.03.2012	E		✓	
i.Lab Incubator Pty Ltd	22.02.2012	29.02.2012	E	✓		
IMBcom Asset Trust	21.02.2012	22.02.2012	E*	✓		
IMBcom Pty Ltd	21.02.2012	22.02.2012	U	✓		
JKTech Pty Ltd	14.02.2012	22.02.2012	U	✓		
LanguageMap Pty Ltd	03.03.2012	08.03.2012	E		✓	
Leximancer Pty Ltd	23.02.2012	28.02.2012	E*	✓		
Lightanate Pty Ltd	05.03.2012	08.03.2012	E*		✓	
Metallotek Pty Ltd	05.03.2012	08.03.2012	E		✓	
Millipede Forming Pty Ltd	28.02.2012	06.03.2012	E		✓	
Neo-Rehab Pty Ltd	05.03.2012	06.03.2012	E*		✓	
Neurotide Pty Ltd	05.03.2012	06.03.2012	E		✓	
Pepfactants Pty Ltd	05.03.2012	08.03.2012	E		✓	
Primed Pty Ltd	23.02.2012	29.02.2012	E	✓		
Progel Pty Ltd	05.03.2012	08.03.2012	E*		✓	
Sarv Pty Ltd	20.02.2012	29.02.2012	U	✓		
Snoresounds Pty Ltd	01.03.2012	06.03.2012	E		✓	
Symbiosis Group Pty Ltd	21.02.2012	27.02.2012	E*	✓		
Tenasitech Pty Ltd	05.03.2012	08.03.2012	E		✓	
UniQuest Asset Trust	23.02.2012	27.02.2012	E*	✓		
UniQuest Pty Limited	23.02.2012	27.02.2012	U	✓		
University of Queensland Foundation Trust	24.02.2012	29.02.2012	E*	✓		
UQ College Limited	20.02.2012	27.02.2012	E*	✓		
UQ Health Care Pty Ltd	22.02.2012	29.02.2012	E*	✓		
UQ Holdings Pty Ltd	24.02.2012	29.02.2012	U	✓		
UQ Investment Trust	24.02.2012	29.02.2012	U	✓		
UQ Sport Ltd	27.02.2012	05.03.2012	U		✓	

Audit	Financial statements signed	Audit opinion issued	Audit opinion	Timeliness		
				<2 mths	2-3 mths	>3 mths
University of Southern Queensland	21.02.2012	24.02.2012	U	✓		
University of the Sunshine Coast	24.02.2012	27.02.2012	U	✓		
Grammar schools and their controlled entities						
Board of Trustees of the Brisbane Girls' Grammar School	12.03.2012	11.04.2012	**Q**			✓
Board of Trustees of the Brisbane Grammar School	11.04.2012	19.04.2012	**Q**			✓
Board of Trustees of the Ipswich Girls' Grammar School	11.05.2012	22.05.2012	**Q E**			✓
Board of Trustees of the Ipswich Grammar School	20.03.2012	13.04.2012	**Q**			✓
Board of Trustees of the Ipswich Boys' Grammar School Centenary Building Fund	20.03.2012	18.04.2012	U			✓
Board of Trustees of the Rockhampton Girls' Grammar School	27.03.2012	19.04.2012	**Q**			✓
Board of Trustees of the Rockhampton Grammar School	26.03.2012	13.04.2012	**Q**			✓
Board of Trustees of the Toowoomba Grammar School	29.02.2012	05.04.2012	**Q**			✓
Board of Trustees of the Townsville Grammar School	09.03.2012	11.04.2012	**Q**			✓
Other statutory bodies						
Queensland College of Teachers	17.02.2012	24.02.2012	U	✓		
Jointly controlled entities						
Queensland College of Wine Tourism^	24.02.2012	12.03.2012	**E***		✓	
Queensland Cyber Infrastructure Foundation Ltd	27.03.2012	27.03.2012	U		✓	
The Grammar Schools of Queensland Association Inc.	02.05.2012	02.05.2012	U			✓
Audited by arrangement						
Australian International Campuses Trust	23.02.2012	24.02.2012	U	✓		
International WaterCentre Joint Venture	21.05.2012	21.05.2012	U			✓

Audit	Financial statements signed	Audit opinion issued	Audit opinion	Timeliness		
				<2 mths	2-3 mths	>3 mths
International WaterCentre Pty Ltd	27.03.2012	27.03.2012	U		✓	
Healthy Waterways Ltd	23.03.2012	23.03.2012	U		✓	
Translational Research Institute Trust	22.03.2012	27.03.2012	**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

^ The financial year of the Queensland College of Wine Tourism was 1 July 2011 to 31 December 2011

Other entities with 31 December 2011 balance date

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Audit	Financial statements signed	Opinion issued	Opinion	Timeliness		
				<2 mths	2-3 mths	>3 mths
Jointly controlled entity						
Major Brisbane Festivals Ltd	02.05.2012	04.05.2012	U			✓
Statutory body						
Queensland Theatre Company	28.02.2012	29.02.2012	U	✓		

Financial statements finalised with 31 December 2010 balance date

Opinion key: U=Unmodified Q=Qualified A=Adverse E=Emphasis of matter D=Disclaimer

Audit	Financial statements signed	Opinion issued	Opinion
JCU UniVet Pty Ltd (Controlled entity of James Cook University)	25.10.2011	02.11.2011	**E***
The Grammar Schools of Queensland Association Inc.	10.09.2011	10.09.2011	U

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

Auditor-General Reports to Parliament

Tabled in 2012

Report No.	Title	Date tabled in Legislative Assembly
1	Improving student attendance	May 2012
2	Results of audits: Local government financial statements for 2010-11	June 2012
3	Results of audits: Education sector financial statements for 2011	June 2012

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