Universities and grammar schools: 2016 results of financial audits

Report 18: 2016–17

Queensland Audit Office

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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

Your ref:
Our ref: 2016-RTP-ED

Queensland Audit Office
better public services

June 2017

The Honourable P Wellington MP
Speaker of the Legislative Assembly
Parliament House
BRISBANE QLD 4000

Dear Mr Speaker

Report to Parliament

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*, and is titled *Universities and grammar schools: 2016 results of financial audits* (Report 18: 2016–17).

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

Yours sincerely

Anthony Close
Auditor-General (acting)

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The Queensland Audit Office

The Queensland Auditor-General, supported by the Queensland Audit Office, is the external auditor of the Queensland public sector. We provide independent audit opinions about the reliability of financial statements produced by state and local government entities.

We provide independent assurance directly to parliament about the state of public sector finances and performance. We also help the public sector meet its accountability obligations and improve its performance. This is critical to the integrity of our system of government.

The auditor-general must prepare reports to parliament on each audit conducted. These reports must state whether the financial statements of a public sector entity have been audited. They may also draw attention to significant breakdowns in the financial management functions of a public sector entity.

This report satisfies these requirements.

The Queensland Audit Office has a unique view across the entire Queensland public sector of matters affecting financial and operational performance. We use this perspective to achieve our vision of better public services for all Queenslanders by sharing knowledge, providing comprehensive analysis, and making well-founded recommendations for improvement.

Contents

Summary

Introduction

Most public sector entities prepare annual financial statements, which the Queensland Auditor-General must audit. In doing so, the auditor-general provides parliament with independent assurance over the financial management of public sector entities.

This report summarises the results of our financial audits of the seven Queensland public universities and their controlled entities, the eight Queensland grammar schools, and a small number of other education-specific entities with a financial year end of 31 December 2016. It provides an overview of their finances at 31 December 2016 and of the financial accounting issues that arose during the audits.

This year we also report on cost management practices operating at the seven universities, and on important income and cost drivers across the university and grammar school sectors.

To enable comparison, we benchmarked universities' results both across the Queensland sector and against national data, broken down where possible between regional and metropolitan locations, and against the Group of Eight (Go8) universities. (The Go8 is a coalition of research-intensive universities, which includes the University of Queensland and some of the largest and oldest universities in Australia.)

Results of our audits

Universities, their controlled entities, and the grammar schools used sound financial reporting practices to produce timely and good quality financial statements for 2016.

We provided unmodified audit opinions on the financial statements of all universities and their controlled entities, and grammar schools. We provided these opinions within the statutory deadline. This means that the financial statements have been prepared according to requirements of legislation and Australian accounting standards, and can be relied upon.

Brisbane Grammar School (BGS) and Brisbane Girls Grammar School (BGGS) corrected material errors in their 2016 financial statements from a prior period. (Errors are material if information that is misstated or not disclosed could affect the decisions of users.) The errors were as a result of the schools not correctly valuing and depreciating their buildings in accordance with the requirements of Australian accounting standards. In relation to BGGS the correction had no net impact on the operating result or net asset figure.

While all entities received unmodified audit opinions, we included an emphasis of matter paragraph in our independent audit report for 12 entities. In most cases, this was to advise readers that the statements had been prepared for a special purpose, rather than as general purpose financial statements. This means that these entities are not required to comply with all accounting standards when preparing their financial reports.

The quality of draft financial statements presented for auditing was generally good, with limited changes required to amounts or disclosures.

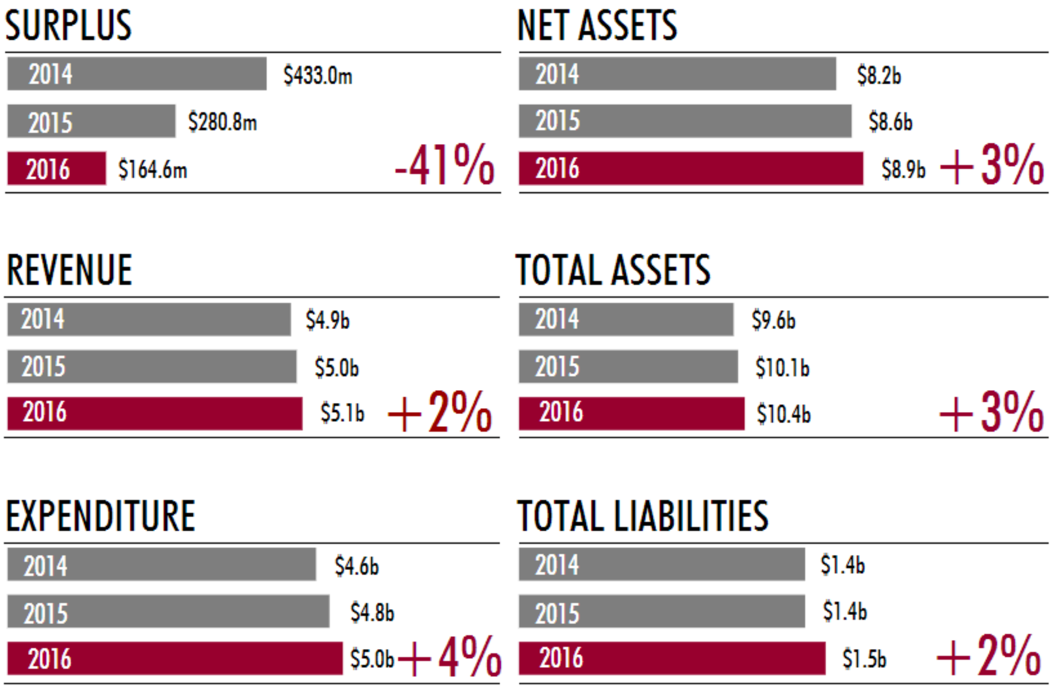
This year, most universities made progress to bring greater clarity to their financial statements by removing content that was not important to the readers of their statements. Five of seven universities reduced the number of explanatory notes in their financial statements from the prior year. James Cook University reduced its number of notes by 22 per cent and the University of Queensland by 16.7 per cent. Across the sector, the average percentage decrease was 8.2 per cent.

Of the eight grammar schools, Ipswich Grammar School reduced the number of notes in their financial statements in 2016 (3.9 per cent) which is a good result. Across the grammar schools, the average percentage increase in note numbers was 3.5 per cent. We will continue to work with the sector to simplify their financial statements to assist readers.

Financial performance, position and sustainability

Universities

Figure A
University sector 2016 financial snapshot



Note: This includes both parent and controlled entities. Percentages reflect the movement from 2015 to 2016.

Source: Queensland Audit Office.

The overall financial performance of all the universities remains sound. While the sector achieved an operating surplus again this year, the surplus is declining. Expenditure is growing faster than revenue, with increases in employee expenses of $117 million (4.2 per cent) and depreciation charges of $39 million (11.4 per cent). Expenditure is outpacing increases in Australian Government financial assistance of $105 million (3.5 per cent), and student fees and charges of $60 million (5.1 per cent).

Six of the seven universities achieved an operating surplus in 2016, with the University of Queensland being the exception. It recorded a deficit of $15 million, mainly due to significant increases in its annual depreciation charges. In 2015, management recorded their building assets at a more detailed component level. This has improved the accuracy of their asset valuations, but has resulted in shortened average useful asset lives and increased the depreciation charge. The approach adopted by the university continues to comply with Australian accounting standards.

Total assets for the university sector increased by $332 million this year, largely due to increases in the carrying value of property, plant and equipment at four universities—Queensland University of Technology, Griffith University, James Cook University, and the University of the Sunshine Coast. This was due mainly to increases in the valuation of their assets. Most universities also increased investment funds managed by the Queensland Investment Corporation on their behalf.

As at 31 December 2016, the universities held $453 million in debt (a 34 per cent increase over the past five years), with $430 million (94.8 per cent) attributed to four universities (University of Queensland, Queensland University of Technology, Griffith University and James Cook University).

All seven universities are financially sustainable and able to meet their current and future obligations as they fall due. They have generally met or exceeded important financial ratio targets, which are indicators of their current financial performance and position and their future sustainability. They are focusing on the risk that increasing expenditure beyond revenue growth poses a long-term, sector-wide risk to financial sustainability. There are, however, further opportunities for them to strengthen their cost management.

Cost management

In 2016, we conducted an in-depth review of cost management practices in Queensland universities.

While six of the seven universities have a cost management strategy, only four have an overarching cost management framework in place. This framework facilitates reporting and analysis to university councils and committees for decision-making. Those universities without a robust framework are encouraged to consider formalising one, which would enable better ongoing cost monitoring, review, and more informed decision-making.

All seven Queensland universities currently exceed the national benchmark in relation to the percentage of non-academic costs to total costs, and need to closely monitor these costs. It is acknowledged that some universities are currently implementing structural and operational changes to achieve efficiencies and improve effectiveness.

Reporting underlying results

All seven universities perform a calculation of an ‘underlying’ or ‘normalised’ result for their own internal management financial reporting purposes. These financial measures differ from the audited results in their published financial statements. Financial statements are prepared in accordance with Australian accounting standards and the *Financial Statement Guidelines for Australian Higher Education Providers* issued by the Commonwealth Department of Education and Training.

The main differences between financial statements and the underlying results are adjustments made for one-off or infrequent items, or some non-cash transactions.

In 2015, the Queensland universities collectively developed a framework to assist in delivering a more consistent calculation of their underlying results. They believe this better informs users seeking to benchmark the various universities’ results.

We assessed the three universities that report an underlying result in their annual report against the Queensland Audit Office's ten principles for better practice reporting on subjective financial measures (refer Appendix G). All three universities largely adopt our principles, but two can improve the transparency of their reporting by specifying that the underlying results are unaudited, and by disclosing prior year information.

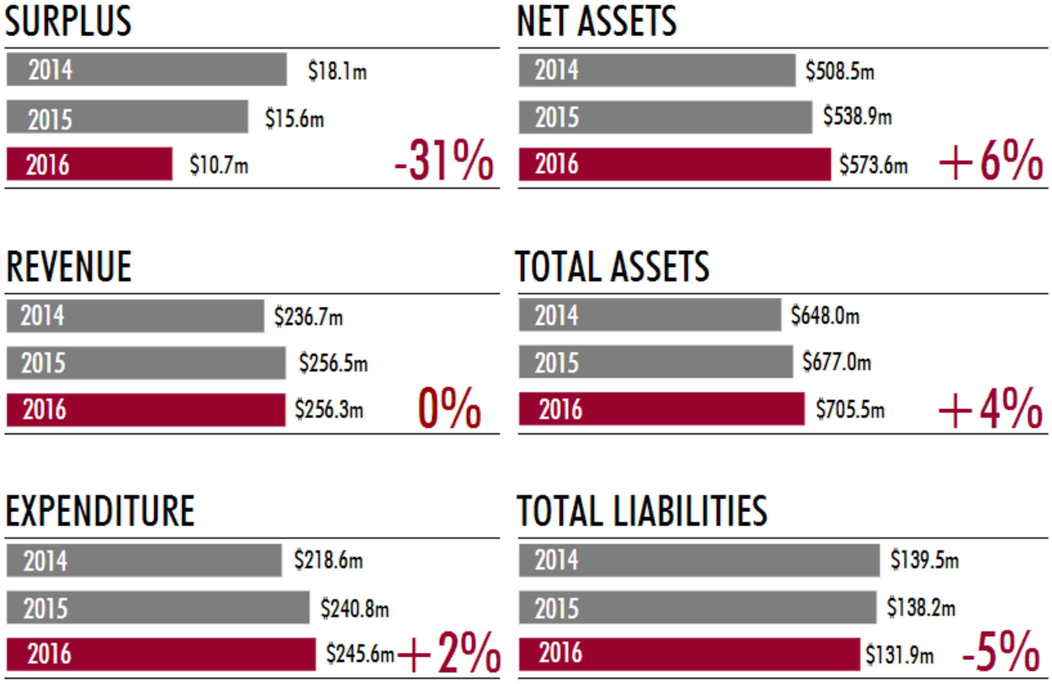
Emerging risks and future challenges

In 2017, the Australian Government proposed changes to the higher education funding model. These include annual efficiency dividends of 2.5 per cent (reduced funding) for 2018 and 2019, 7.5 per cent of commonwealth grant scheme funding being contingent upon meeting certain performance criteria and increased fees for some courses. The proposed changes will affect all universities' future revenue and expenditure strategies, as Australian Government financial assistance represents approximately 60 per cent of university sector revenue each year.

Attracting international students will continue to be challenging due to the volatility in recent years in the exchange rate and the increase in overseas competition, specifically in Asia. The total number of international students at Queensland universities has plateaued in recent years. The universities will need to closely monitor this situation and develop effective marketing strategies.

Grammar schools

Figure B
Grammar school sector 2016 financial snapshot



Note: Percentages reflect the movement from 2015 to 2016.

Source: Queensland Audit Office.

Overall, the grammar schools achieved a combined surplus this year, but these surpluses are declining. While revenue remained relatively constant, expenditure increased by two per cent. The primary driver of this was an increase in employee-related costs of $5.3 million (3.6 per cent), as a result of enterprise bargaining.

Six of the eight grammar schools achieved operating surpluses in 2016. Ipswich Grammar School (IGS) and Rockhampton Girls Grammar School (RGGS) incurred operating deficits in 2016, which is consistent with the prior year for RGGS, and the last nine years for IGS. These two schools continue to reassess their expenditure and revenue policies to ensure their future sustainability. They will need to move to operating surpluses as soon as possible. The overall financial performance of the remaining grammar schools is satisfactory.

Other expenditure across the grammar schools increased by $1.7 million (21.6 per cent) from the prior year, mainly because of Brisbane Grammar School making payments in settlement of claims made by past students (amounting to almost $3 million).

Assets across the eight grammar schools increased by $28 million in 2016 ($29 million in 2015), largely due to increases in the value of property, plant and equipment. Brisbane Grammar School and Brisbane Girls Grammar School experienced the largest increases in the value of land and buildings, while Townsville Grammar School reported increases in building values.

At 31 December 2016, the grammar schools held $94 million in debt, a reduction of $8.2 million (eight per cent) from the prior year. Most schools reduced the level of their debt in 2016, which in some cases reduces the amount of interest expense in future. This means they have more money available to meet other school needs.

Emerging risks and future challenges

Government grant funding is the second largest source of revenue for grammar schools. In 2017, the Australian Government proposed changes to their funding model. All schools are determining the impact and planning accordingly. Any reduction in government funding will require the schools to review both their cost structures and student tuition fees, and to seek other ways to generate revenue.

Internal controls

Good internal controls provide reasonable assurance that an entity is achieving its operational, reporting, and compliance objectives.

We categorise the financial controls that public sector entities use against the internal controls framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This framework is widely recognised as the benchmark for designing and evaluating internal controls. It uses the following five elements:

- control environment—actions, attitudes, and values that influence daily operations
- risk assessment—processes for identifying, assessing, and managing risk
- monitoring activities—oversight of internal controls for existence and effectiveness
- control activities—policies, procedures, and actions taken to prevent or detect errors
- information and communication—systems to inform staff about control responsibilities.

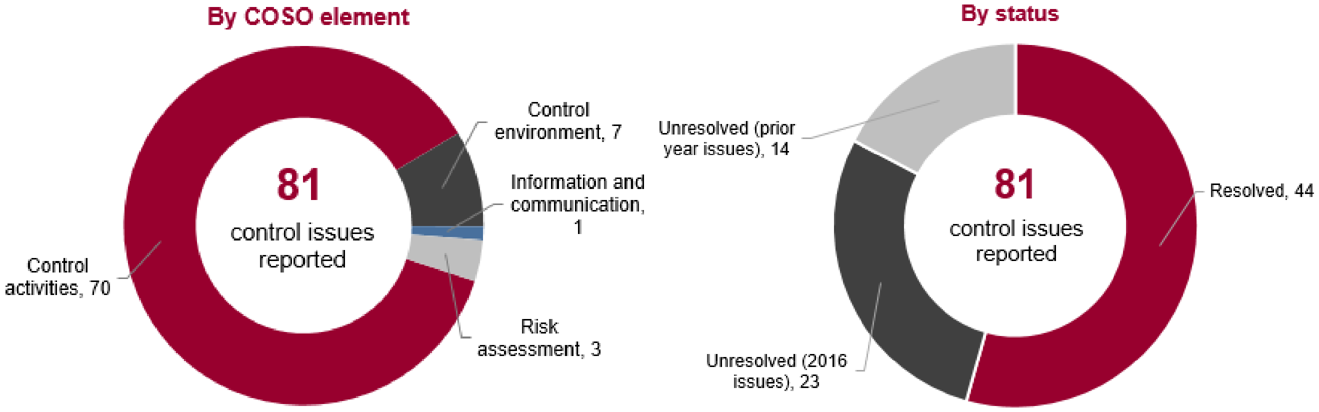
Universities

This year, there were no significant deficiencies (high risk matters) identified across the university sector.

We did identify 37 internal control deficiencies across six universities for both manual and information technology (IT) controls. These deficiencies relate to the control activity and control environment components of the COSO framework. The issues we raised this year were in addition to 44 internal control deficiencies we raised in prior years that had not been resolved at the start of 2016.

As part of our audit, we notify management of internal control deficiencies so they can be resolved. Figure C shows the status of the university sector in relation to all 81 issues as at 28 February 2017.

Figure C
Number and status of internal control issues as at 28 February 2017



Source: Queensland Audit Office.

Internal control over financial reporting is generally effective across the university sector, but greater management attention is required to improve IT controls, with 31 IT-related deficiencies identified across six universities in 2016. We raised 25 similar IT issues in prior years.

IT security and access controls are important to prevent external attacks on systems and to preserve the integrity of data and confidentiality.

Some universities can improve their timeliness in addressing unresolved audit issues, with 14 control deficiencies raised in prior years remaining unresolved at 28 February 2017. Of these, ten deficiencies had been outstanding for over 12 months. We have recommended that the relevant entities resolve these matters with some urgency. The weaknesses in controls we identified covered the use of purchase orders, physical security of assets, procurement processes, and financial delegations.

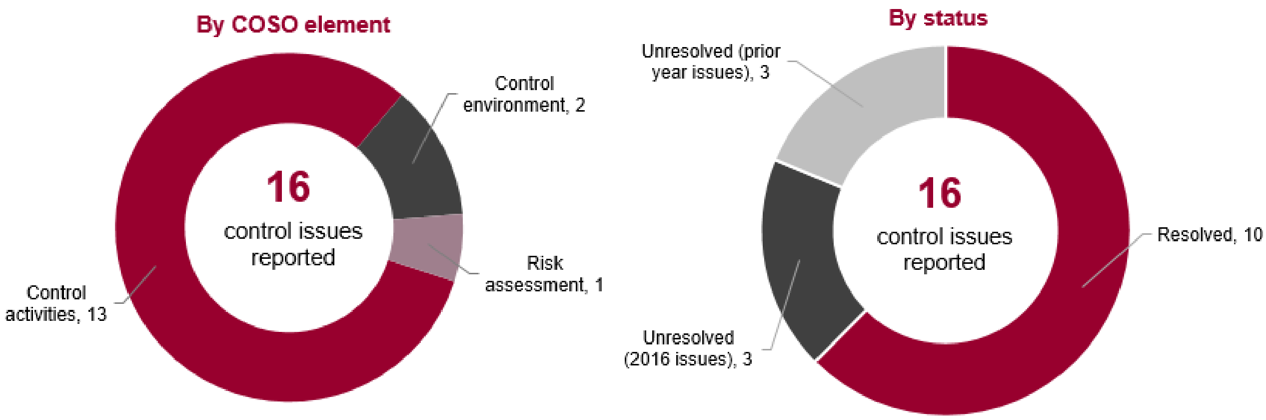
Grammar schools

We identified one significant deficiency and four deficiencies across three of the eight grammar schools this year. At Brisbane Girls Grammar School, we identified one significant deficiency where there was a lack of review over changes to supplier master file data (such as bank account details). This increases the risk of potential fraud or error through making supplier payments to invalid bank accounts. The school prioritised corrective action immediately upon the issue being brought to its attention and advised us that no incorrect payments were identified nor any continuing issues exist.

The deficiencies we raised across the sector in 2016 were in addition to 11 internal control deficiencies we identified in prior years that were not resolved at the start of 2016. They related to three COSO elements—control activities, control environment, and risk assessment. Prior year issues that remain unresolved include inadequate controls over changes to supplier master file data and the absence of risk management processes. We have recommended that affected schools prioritise corrective action on these.

Figure D shows the status of the grammar schools in relation to all 16 issues as at 28 February 2017.

Figure D
Number and status of internal control issues as at 28 February 2017



Source: Queensland Audit Office.

Recommendations

We recommend that Ipswich Grammar School and Rockhampton Girls Grammar School:

1. reassess their revenue and expenditure policies and implement strategies to achieve operating surpluses as soon as possible.

We recommend that the universities:

2. adopt or improve existing cost management frameworks to better support their individual cost management strategies.

   These should be able to report, for example, by

   - revenue and funding source
   - direct and indirect costs
   - activity
   - student and staff

3. closely manage non-academic expenditure and set relevant targets based on national benchmarks.

Reference to comments

In accordance with section 64 of the *Auditor-General Act 2009*, we provided a copy of this report to the Minister for Education; the Director-General, Department of Education and Training; and the seven universities and eight grammar schools for comment.

The response received from the Department of Education and Training is in Appendix A.

Report structure

Chapter	
Chapter 1	provides the background to the report and the context needed to understand the audit findings and conclusions.
Chapter 2	evaluates the audit opinion results, timeliness, and quality of reporting.
Chapter 3	analyses the financial performance, position, and sustainability of the entities.
Chapter 4	assesses the strength of the internal controls designed, implemented, and maintained by entities in the education sector.

Report cost

This audit report cost $140 000 to produce.

1. Context

Scope of report

This report covers seven universities and their controlled entities, eight grammar schools, and other education entities that have a financial year end of 31 December. (The majority of controlled entities are companies that carry out various activities to further each of the universities' objectives.) In this report, these are referred to collectively as 'the education sector'.

This report does not include the Queensland Department of Education and Training or Technical and Further Education (TAFE) Queensland. These have 30 June year ends.

This report covers 79 entities, of which 35 prepare financial statements for audit certification. The remaining entities do not prepare financial statements because they are not required to or have gained exemption under law. Of these, 15 were dormant, that is, they did not operate in 2016. The entities are listed in Appendix D and Appendix E.

In conducting this year's analysis, we have compared the Queensland university sector and individual universities with national averages calculated from statistics available on the Australian Government Department of Education and Training website.

The national average for the entire university sector has been further categorised for the Group of 8 (Go8), metropolitan (excluding Go8), and regional universities as shown in Figure 1A. Go8 refers to the eight most research-intensive universities in Australia and includes the University of Queensland.

Figure 1A
University classification

Metropolitan	Regional
University of Queensland* Queensland University of Technology Griffith University	James Cook University Central Queensland University University of Southern Queensland University of Sunshine Coast

* Member of the Go8

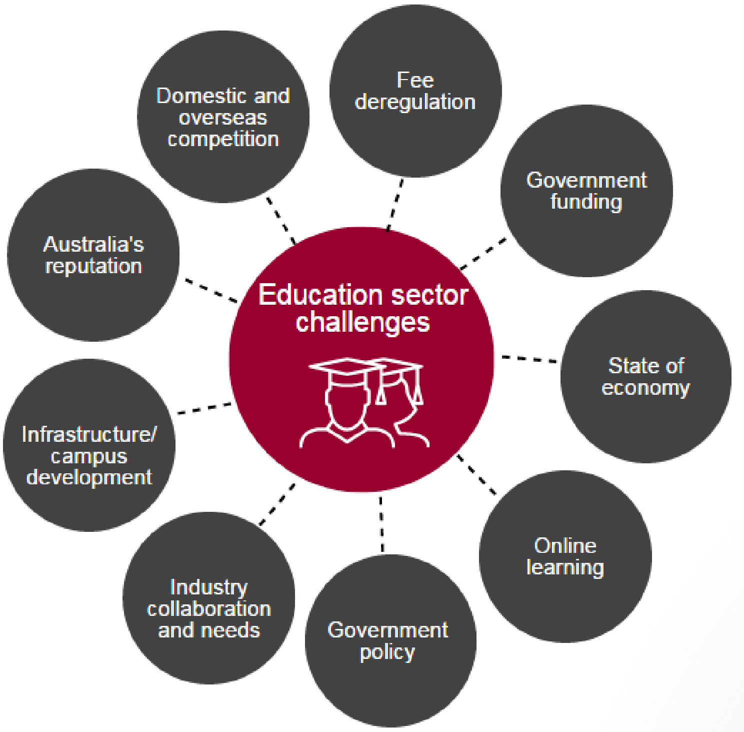
Source: Queensland Audit Office.

Influences shaping the education sector

Various stakeholders and industry groups influence the universities and grammar schools. They include commercial and joint venture partners, funding bodies, the local and wider community, state and federal governments, regulators, and overseas policy and competition. The universities and schools face a continual challenge to shape their business and position themselves to remain sustainable.

Figure 1B identifies some of the significant challenges the sector faces.

Figure 1B
Sector challenges



Source: Queensland Audit Office.

These challenges impact on the education sector's financial performance, sustainability, and current financial position. They can affect enrolment numbers, fee settings, the mode of learning, and the reputation of Australian universities and schools.

Legislative framework

Universities, their controlled entities, and grammar schools prepare their financial statements in accordance with the following legislative frameworks and reporting deadlines:

Entity type	Entity	Legislative framework	Financial audit certification deadline
Statutory bodies	Seven universities Eight grammar schools Queensland College of Teachers	▪ *Financial Accountability Act 2009* ▪ Financial and Performance Management Standard 2009 ▪ *Statutory Bodies Financial Arrangements Act 1982*	28 February 2017
Controlled and jointly-controlled entities	15 controlled entities of universities Four other education entities[1] *(refer to Appendix D for more detail)*	▪ *Corporations Act 2001* ▪ Corporations Regulations 2001	30 April 2017

[1] Queensland Cyber Infrastructure Foundation Ltd and Translational Research Institute Trust (financial audit certification deadline 31 March 2017); International WaterCentre Joint Venture and Queensland College of Wine Tourism (no legislative date).

Source: Queensland Audit Office.

Accountability and legislative requirements

The *Financial Accountability Act 2009* requires universities and grammar schools to:

- achieve reasonable value for money by ensuring their operations are carried out efficiently, effectively, and economically
- establish and maintain appropriate systems of internal control and risk management
- establish and keep funds and accounts that comply with the relevant legislation, including Australian accounting standards and various government 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.

Each of the seven universities is a not-for-profit entity and has its own legislation. Additional disclosure requirements are issued by the Australian Government's Department of Education and Training in accordance with the *Higher Education Support Act 2003*. These requirements are in the form of the *Financial Statement Guidelines for Australian Higher Education Providers for the 2016 Reporting Period*.

Historically, grammar schools are associated with the public sector through the provisions of the *Grammar Schools Act 1975*. They are not-for-profit entities and operate on a fully commercial basis, primarily sourcing revenue through student tuition fees and government grant funding.

Queensland state government financial statements

Each year, Queensland state public sector entities must table their audited financial statements in parliament.

These financial statements are used by a broad range of parties including parliamentarians, taxpayers, employees, and users of government services. For these statements to be useful, the information reported must be relevant and accurate.

The auditor-general's audit opinion on these entities' financial statements assures users that the statements are accurate and in accordance with relevant legislative requirements.

University and grammar school entities

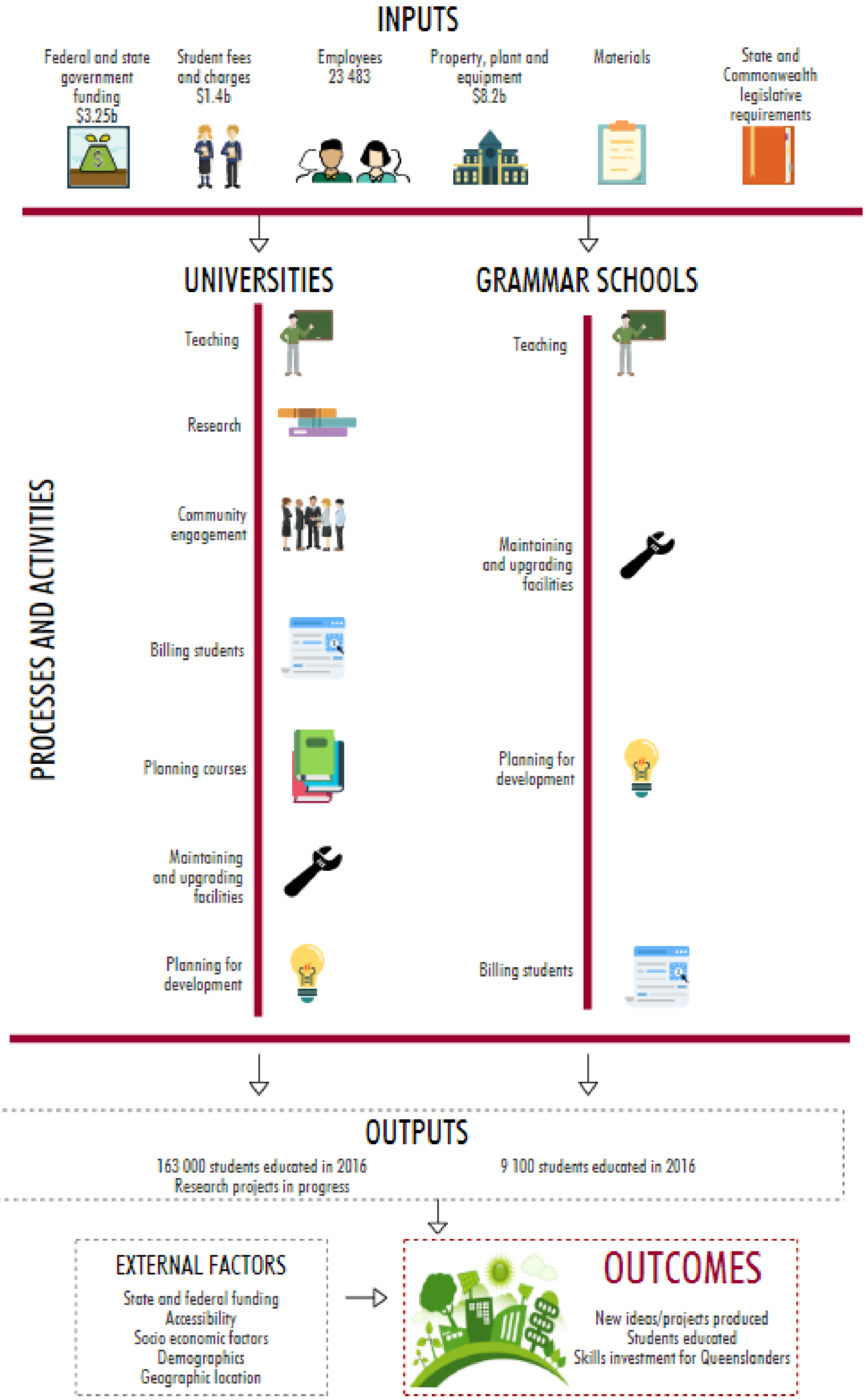
In Queensland, universities provide tertiary education including undergraduate and postgraduate studies. Universities and their subsidiaries carry out research and other activities in line with university objectives.

Most grammar schools provide schooling from year's seven to twelve, but some start at Prep.

The state Department of Education and Training provides direction and oversight of the education sector in Queensland.

Figure 1C details the major inputs, activities, processes, outputs, and outcomes that make up the education sector in 2016.

Figure 1C
Function level inputs, processes, activities, outputs and outcomes



Source: Queensland Audit Office.

The universities have 59 controlled entities. As shown in Appendix E, only 15 controlled entities prepared financial reports. All entities have a 31 December balance date.

University funding and regulation

Universities obtain funding mainly through government grants and student fees. Grants are based on student enrolments and the amount of research undertaken at each university. In Queensland, 85 per cent (2015: 83 per cent) of university funding comes from federal and state government grants and student fees and charges. Federal funding is mainly recurrent, with state government grants generally non-recurrent in nature.

The role of the Queensland Government, through its Department of Education and Training, is to deliver world class education and training services for Queenslanders.

The Australian Government's Tertiary Education Quality and Standards Agency (TEQSA) regulates all universities. It is responsible for regulating and assuring the quality of Australia's large, diverse, and complex higher education sector.

TEQSA conducts a review of universities every five years. This covers their administration, financial viability, quality of courses provided, and operational performance. TEQSA's focus is on the quality of services provided rather than on how funding has been spent.

The federal budget details how much funding is provided to universities per course.

Grammar school funding and regulation

Grammar schools obtain funding through Queensland and Australian government grants and tuition and boarding fees. In Queensland, 90 per cent (2015: 89 per cent) of grammar school funding comes from these sources.

The grammar schools are statutory bodies formed under the *Grammar Schools' Act 1975*. They operate as independent schools in Queensland.

2. Results of audit

Introduction

This chapter examines the reliability of the information reported by entities and subjected to audit.

In our audits, we express an *unmodified opinion* when the financial statements are prepared in accordance with the relevant legislative requirements and Australian accounting standards. We *modify* our audit opinion where financial statements do not comply with the relevant legislative requirements and Australian accounting standards, and are not accurate and reliable.

Sometimes we include an *emphasis of matter* in our audit reports to highlight an issue that will help users better understand the financial statements. This does not modify the audit opinion.

The purpose of our analysis is to increase accountability and transparency in financial reporting by scrutinising the quality and timeliness of reporting.

Conclusion

Entities in the education sector maintained their consistent record of timely and good quality financial reporting. All universities and grammar schools have sound financial year end close processes, allowing them to produce quality financial statements in a timely manner.

We issued unmodified audit opinions for each entity. This means readers can rely on the results in the audited financial statements of the universities, their controlled entities, and the grammar schools.

We also provided unmodified opinions on grant funding acquittals. These included Research Income Returns for 2015 for all seven universities. These were prepared in accordance with the 2016 Higher Education Research Data Collection (HERDC) Specifications for the collection of the 2015 data.

At both Brisbane Grammar School and Brisbane Girls Grammar School, we identified errors in asset valuations that required the adjustment of prior year balances. These adjustments were made in accordance with the accounting standards. For Brisbane Girls Grammar School, the error had no net impact on its operating result or net asset balance.

All audits were completed within their legislative deadlines.

Audit opinion results

Figure 2A lists the universities and grammar schools for which we issued audit opinions for the 2016 financial year.

Figure 2A
Audit opinions issued for the 2016 financial year

University/grammar school	Date audit opinion issued	Type of audit opinion issued
Central Queensland University	21.02.17	Unmodified
Griffith University	27.02.17	Unmodified
James Cook University	28.02.17	Unmodified
Queensland University of Technology	28.02.17	Unmodified
University of Queensland	28.02.17	Unmodified
University of Southern Queensland	21.02.17	Unmodified
University of the Sunshine Coast	23.02.17	Unmodified
Brisbane Girls Grammar School	23.02.17	Unmodified
Brisbane Grammar School	28.02.17	Unmodified
Ipswich Girls' Grammar School	28.02.17	Unmodified
Ipswich Grammar School	27.02.17	Unmodified
Rockhampton Girls Grammar School	27.02.17	Unmodified
Rockhampton Grammar School	27.02.17	Unmodified
Toowoomba Grammar School	28.02.17	Unmodified
Townsville Grammar School	23.02.17	Unmodified

Source: Queensland Audit Office.

All seven universities and eight grammar schools continued to meet their legislative deadline of 28 February (2015: 100 per cent).

We included an emphasis of matter in our audit reports on nine controlled entities of the universities and on two other entities to highlight that only certain accounting standards were used in the preparation of their reports, and that their reports were not intended for other users. We also included an emphasis of matter on one controlled entity (Health Train Education Services Pty Ltd) to highlight that the company intends to deregister during 2017.

Appendix D lists the type of audit opinion issued for all entities with a year end of 31 December 2016, including the controlled entities.

Financial statement preparation

Entities that adopt effective financial reporting practices throughout the year should be able to produce a set of high quality financial statements in a timely manner.

To assess the financial statement preparation process we considered:

- the year end close process—whether important outcomes were delivered by agreed dates
- timeliness—whether we received a complete draft financial report or financial reporting pack by an agreed date
- quality—the extent of adjustments made to total revenue, expenditure, and net assets in the complete draft financial statements during our audit.

The following sections of this report detail the improvements required in financial statement preparation. Appendix C provides our assessment criteria and detailed assessment by entity.

Year end close process

Based on better practice guidance issued by the Queensland Under Treasurer in January 2014, we identified five outcomes for universities to achieve before 31 December 2016. These were:

- finalising non-current asset valuations
- preparing complete pro forma financial statements
- resolving accounting issues
- completing hard or soft close processes
- concluding all asset stocktakes.

Early completion of these items means an entity has less risk of a financial report or financial reporting pack not being cleared in time for university council's signature. It also means that certification by audit is more likely to be achieved within the statutory deadline.

Universities

Six out of seven universities completed all five outcomes by the agreed dates. One university was unable to meet the date for completing the valuation of assets due to difficulties encountered by their external valuer in valuing land.

Timeliness of draft financial statements

An entity's ability to prepare timely and complete draft financial statements indicates the strength of the entity's financial management processes. Financial statements are timely when they provide information for decision-makers in time to influence their decisions. As timeliness diminishes, the statements are less relevant and useful to users of the financial statements.

Universities

All seven universities provided complete draft financial statements to audit by the dates agreed between audit and management at each university in 2016. For the 2017 financial year, we have agreed common dates with all universities for the end-of-year processes.

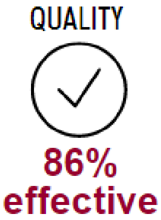
Grammar schools

We did not perform an assessment of the year end close process and timeliness of draft financial statements for the grammar schools for 2016. In recent times, the schools have performed the end of year process satisfactorily, and we will consider the need for this assessment in 2017.

Quality of draft financial statements

The extent of adjustments made to a draft financial report or financial reporting pack indicates the effectiveness of the entity's internal review process in identifying and correcting errors before providing financial reports to audit.

Universities



The quality of the draft financial statements and supporting working papers provided was satisfactory for most universities. However, some adjustments were made to the complete draft financial statements of one university. These adjustments related to receivables, payables, and tax-equivalent amounts and were agreed with us.

Grammar schools

At year end, six grammar schools made changes to their draft financial statements that affected their operating result or net assets. These changes were not significant to the financial statements. Figure 2B details the total value of adjustments made to the financial statements prior to audit certification. Overall, the financial statements process for the eight grammar schools was satisfactory and contributed to the schools meeting their statutory deadline for financial statement certification.

Figure 2B
Changes to financial statements before audit certification

Financial statement area	2012 $ mil.	2013 $ mil.	2014 $ mil.	2015 $ mil.	2016 $ mil.
Income	0.3	1.6	0.0	0.0	0.9
Expenses	4.0	1.5	0.9	0.3	1.4
Assets	2.3	1.4	1.7	4.4	1.2
Liabilities	1.4	0.6	2.2	0.4	1.3
Equity	1.3	0.0	0.3	4.0	1.1
Total	**9.3**	**5.1**	**5.1**	**9.1**	**5.9**
Number of schools that processed changes	5	4	7	3	6

Source: Queensland Audit Office.

Changes made in 2016 were mainly in relation to:

- the untimely recognition of revenue
- the valuation of property, plant and equipment
- the revaluation adjustments applied to land
- the appropriate componentisation of assets for the purposes of depreciation.

Where an asset is comprised of separate and significant components, the entity accounts for the components as separate assets and depreciates them over their individual estimated useful lives.

While the dollar value of changes is not significant, the sector should continue to focus on reducing the number of changes identified. Historically, the area most at risk of change has been property, plant and equipment valuations and the related depreciation expense. The sector needs to work closely with its valuers to ensure these amounts are complete, accurate, and reported in accordance with the accounting standards.

Simplification of financial statements

In 2016, most universities reduced the volume of explanatory notes and simplified disclosures for the benefit of users of their financial statements. Some universities have yet to fully adopt this and we encourage them to simplify their financial statements in 2017 by focusing on:

- including explanatory notes only where necessary to help users understand how material transactions and events are recorded in the financial statements
- disclosing only those transactions and activities that are most relevant to understanding the financial statements
- grouping together items that are measured similarly, rather than simply following the order of the income statement and statement of financial position
- removing notes that duplicate information or relate to immaterial financial statement balances.

Of the seven universities audited for 2016, five have reduced the number of notes in their certified financial statements. James Cook University reduced its number of notes by 22 per cent and the University of Queensland by 16.7 per cent. Across the sector, the average percentage decrease in note numbers was 8.2 per cent. The University of Southern Queensland and the University of the Sunshine Coast made significant reductions in prior years.

Of the eight grammar schools audited, Ipswich Grammar School reduced the number of notes in their certified financial statements in 2016 (3.9 per cent) which is a good result for this school. Two schools have maintained the same number of notes from 2015. For the remaining five grammar schools, the average percentage increase in note numbers was seven per cent. Simple financial note disclosures help decision-makers (such as parents and citizens) to understand financial statements. We commend Ipswich Grammar School for proactively improving its reporting transparency and usefulness and strongly encourage other grammar schools to simplify their financial statements in the future.

Prior period errors

When an entity is preparing financial statements, it may identify errors in its prior year accounts. We may also detect prior period errors during audit testing. If these errors are material to the financial statements, the accounting standards require the entity to correct them when using comparative figures from previous years. Errors are material if information that is misstated or not disclosed could affect the decisions of users.

Universities

No material prior period errors for universities were identified in 2016.

Grammar schools

Figure 2C lists the prior period errors corrected in 2016.

Figure 2C
Prior period errors and adjustments for grammar schools

Entity	Details
Brisbane Grammar School	Prior to 31 December 2016, the school last undertook a revaluation of its property at 31 December 2013. For longer life assets, the use of periodic revaluations supported by indexing an asset's value against recognised benchmarks is an appropriate approach to performing valuations. In 2016, we identified that the depreciation method used since 1 January 2014 was not applied in accordance with the Australian Accounting Standard AASB 116 *Property, Plant and Equipment.* All significant building components were being depreciated at a rate consistent with the building's main structure, instead of being depreciated over each component's expected individual life. This means that building components such as fittings, finishes, utility services, and air-conditioning were being depreciated over the same useful life as the building structure of 60 years. The building structure has a longer service potential than the individual components, so this method was not accurately reflecting the service potential of these components. Because of this prior period error, additional depreciation expenditure of \$770 360 and \$839 120 for the 2014 and 2015 financial years respectively needed to be recognised. Following the 2013 revaluation, the school undertook a further revaluation as at 31 December 2015 by applying an index that benchmarks changes in construction costs. A consequence of the depreciation understatements in 2014 and 2015 was that the revaluation by index at 31 December 2015 was overstated by \$115 883. These corrections resulted in a 20 per cent decrease in the operating result and a one per cent decrease in net assets to the 2015 comparative amounts. The school management has updated the depreciation rates it uses for each significant asset component, using appropriate benchmark indices.
Brisbane Girls Grammar School	In 2016, we identified that the valuation of buildings and improvements in the 2013 financial year was not recorded on a *gross basis* as required by Queensland Treasury's *Non-Current Asset Policies for the Queensland Public Sector*. Recording assets on a gross basis means that they are recorded as the sum of assets controlled by an entity, excluding any accumulated depreciation or impairment recorded against the assets. As a result, the gross replacement cost and accumulated depreciation recorded against buildings and improvements were understated by \$15.8 million. A further indexation revaluation adjustment of \$1.1 million was also required at 31 December 2015. These adjustments had no net impact on the operating result or net assets for 2015, as liabilities against these assets are separately recorded. The school's management has correctly applied the gross method in the school's financial statements for 2016.

Source: Queensland Audit Office.

These errors were restricted to the valuation of assets and occurred as a result of the schools misinterpreting the valuation reports provided by their external valuers. The errors were acknowledged by management and they have committed to remaining alert to these matters in future asset revaluations.

Audit reporting changes

The Australian Auditing and Assurance Standards Board has adopted the international standard *ISA 701 Communicating Key Audit Matters in the Independent Auditor's Report*.

The Queensland Audit Office will formally adopt this standard for a selection of significant public sector entities with a financial year end of 30 June 2017, and for subsequent periods.

Under the new form of audit reporting, we will disclose our audit response to the areas in the financial report that we consider require significant audit attention. This should make the reports even clearer and more useful.

The new look independent audit report will still include our audit opinion on the financial report. It will now also include a section on key audit matters—those areas that, in our professional judgement, pose a higher risk of material misstatement of the financial report. These matters will mostly relate to major events and transactions that occur during the period, and those areas requiring significant judgement and estimation by the entities concerned.

We will report on why we consider a key audit matter to be significant and give an overview of the main procedures we performed to address the matter.

We trialled the preparation of key audit matters this year for a selection of entities. They have been presented to the respective entities' accountable officers and audit committees for their feedback.

Potential key audit matters we identified across the universities in 2016, in preparation for introduction of this standard, related to:

- valuation of property, plant and equipment
- revenue recognition of student fees and charges, the Commonwealth Grant Scheme, the Higher Education Loan Program, and research and other income from grants and other funding bodies
- Finance and Student System Implementation Projects.

The sector has provided a positive response on the key audit matters, in preparation for its introduction.

Major certifications

Universities and grammar schools are required to acquit grant funding they receive from third parties including the Australian and Queensland governments. They do this by providing a detailed breakdown of revenue and expenditure and (in some cases) information on assets and liabilities back to these third parties. The Queensland Audit Office certifies that this information is accurate and complete.

We provided unmodified opinions on 24 grant funding acquittals in 2016. These included Research Income Returns for 2015 for all seven universities. They were prepared in accordance with the 2016 Higher Education Research Data Collection (HERDC) specifications for the collection of the 2015 data.

The HERDC specifications control the collection of higher education research data and are designed to ensure the Australian Government's research support and training grants are allocated in a fair and transparent way. The data collected is used to determine the annual allocation to universities for the research block grants, which are used to support research and research training. Appendix F details the grants certified by the Queensland Audit Office for 2016.

Entities not preparing financial statements

Not all Queensland public sector entities are required to produce financial statements.

For state public sector companies other than government owned corporations, the board of directors considers the requirements of the *Corporations Act 2001* to determine whether financial statements need to be prepared. The board must revisit this assessment every three years or whenever a significant change occurs.

When entities are part of a larger group, and are secured by a guarantee with other entities in that group to cover debts, Australian Securities and Investments Commission Class Order 98/1418 allows them to not prepare a financial report. In addition, small companies can choose not to prepare financial statements when they meet specific criteria under the *Corporations Act 2001*.

All Queensland public university and grammar school entities discharged their accountability requirements for this year irrespective of whether or not they were required to prepare financial statements. Appendix E lists the entities not preparing financial reports and the reasons for this.

3. Financial position, performance, and sustainability

Introduction

The information in an entity's financial statements describes its main transactions and events for the year. Over time, financial statements also help users to understand the sustainability of the entity and the industry.

Our analysis helps users understand and use the financial statements by clarifying the financial effects of important transactions and events in 2016. We also use measures such as ratios to highlight organisational performance issues.

Additionally, our analysis alerts users to future challenges, including existing and emerging risks the entities face.

In this chapter, we assess the position, performance, and sustainability of universities and their controlled entities, and grammar schools.

Conclusion

The financial performance and position of the universities, their controlled entities, and the grammar schools is generally sound. However, Ipswich Grammar School and Rockhampton Girls Grammar School reported continuing deficits. These schools need to continue to reassess their current revenue and expenditure policies to achieve operating surplus results as soon as possible.

Three universities do not have an overarching cost management framework in place to support their cost management strategies. The implementation of a framework would allow these universities to better understand and more proactively manage their costs.

All Queensland universities have a higher proportion of non-academic to academic employee costs than the operational benchmark set by the Australian Government. The universities should manage these costs and set relevant targets based on the national benchmark.

Universities

- Six of the seven universities achieved operating surpluses in 2016, with the University of Queensland being the exception. This university reported a deficit of $15 million in 2016. Overall, surpluses across the sector have decreased in recent years (41 per cent). This trend needs to be closely monitored.
- Revenue across the seven universities increased by $96 million (1.9 per cent) from 2015, with increases in Australian Government financial assistance and student fees and charges. Expenditure increased at a higher rate (by four per cent) due to increases in employee expenses and depreciation expenses.
- Across the universities, net assets increased by $298 million (3.5 per cent). This was due to an upward movement in asset valuations ($131 million), an increase of $250 million in investment funds managed by the Queensland Investment Corporation (QIC) on behalf of some universities, and an increase in term deposits.
- The universities are financially sustainable. They all have adequate liquidity to meet their short-term liabilities as and when they fall due, and they are generating sufficient revenue to service the borrowings they hold.

Grammar schools

- All eight grammar schools are currently financially sustainable, however, six of the eight grammar schools achieved operating surpluses in 2016. Ipswich Grammar School and Rockhampton Girls Grammar School continued to record operating deficits in 2016, of $482 000 and $269 000 respectively.
- Total surpluses across the sector have decreased in recent years (31 per cent from 2015). This trend needs to be closely monitored. It is due mainly to one-off significant transactions relating to natural disasters, regional economic downturns, and recent compensation claims. In addition, employee expenses increased. This was due to the impact of new enterprise bargaining agreements.
- Operating results across the eight grammar schools decreased by $4.9 million in 2016, with the main driver being the increase in employee-related costs of $5.3 million (3.6 per cent).
- Across the sector, net assets increased by $34.8 million (6.5 per cent). The reported values of property, plant and equipment increased by $33.8 million in 2016. This was mainly due to revaluation increases.
- All eight grammar schools reduced the level of debt they held in 2016.

Universities

Understanding financial performance

Overall, the seven universities achieved a combined operating result of $164.6 million—a decrease of 41 per cent from the prior year. While there were increases in Australian Government financial assistance ($105 million) and fees and charges ($60 million), these were offset by increases in employee expenses ($117 million), depreciation and amortisation costs ($39 million), and other costs ($45 million).

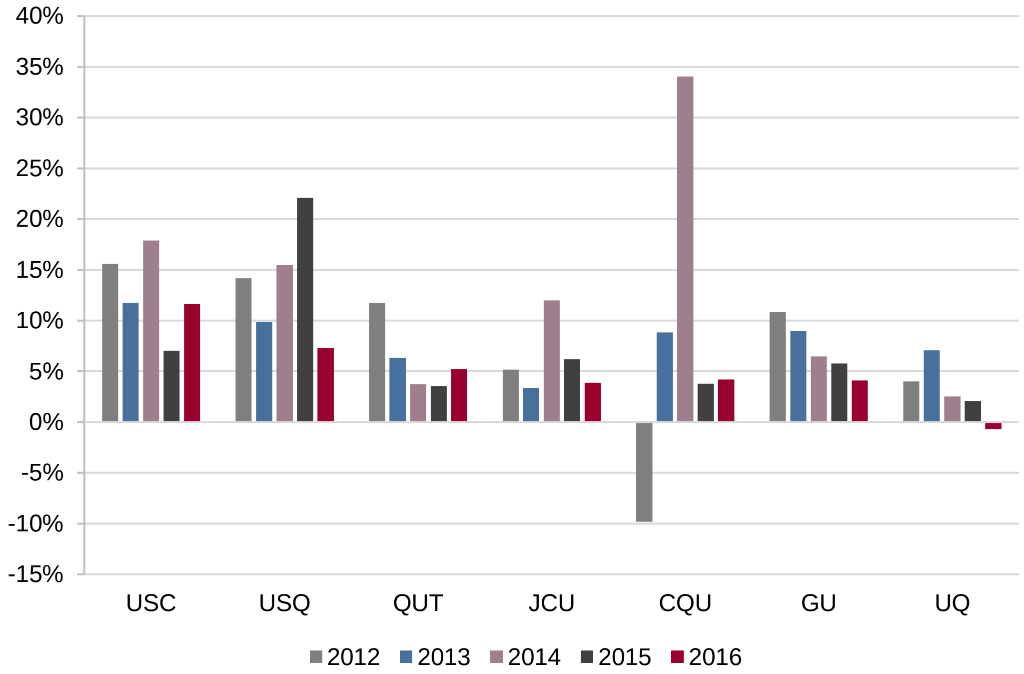
Six of the seven universities achieved operating surpluses in 2016, with the University of Queensland being the exception. This university's result largely reflects significant increases in annual depreciation charges incurred ($35 million), mainly because of a change in the useful life of building components in 2015.

Operating ratio

The *operating ratio* is the operating result before tax, and is expressed as a percentage of total revenue. It should be positive over the medium- to long-term if an entity is to remain financially sustainable. The existence of a negative or low ratio indicates that the entity needs to ensure sufficient revenue is generated to fund future operating and capital expenditure commitments.

Figure 3A shows the operating ratio of each university over the past five calendar years. It indicates the sector is in a sound position.

Figure 3A
Operating ratio for universities for 2012–2016



Notes: University of the Sunshine Coast (USC), University of Southern Queensland (USQ), Queensland University of Technology (QUT), James Cook University (JCU), Central Queensland University (CQU), Griffith University (GU), University of Queensland (UQ). Controlled entities are not included.

Source: Queensland Audit Office.

Underlying results reporting

All seven universities perform a calculation of an 'underlying' result for their own internal management financial reporting purposes. Three universities report an underlying result in their published annual reports. This is in addition to the operating result that they are required to provide under law—and that QAO audits. This underlying result is calculated by adjusting the audited statutory operating result for items that management considers abnormal or extraordinary, including non-cash items. These include losses and gains on the disposal of assets and one-off capital and research grants. As an internal financial measure, there is no Australian accounting standard regulating the disclosure of underlying results, and this disclosure is unaudited.

The Australian Securities and Investments Commission (ASIC) has released some guidance on how to disclose an underlying operating result in ASIC RG 230 *Disclosing non-international financial reporting standards (IFRS) financial information.* In 2015, we adapted this guide and provided ten principles for better practice reporting on more subjective financial measures such as the underlying operating result. (See Appendix G.)

Figure 3B
Underlying results

	UQ	QUT	JCU
2016 statutory operating result ($'000 consolidated)	-15 477	51 591	19 063
2016 underlying result ($'000 consolidated)	-31 433	38 185*	-4 908*

* Result of parent entity only (excludes controlled entities).

Source: Queensland Audit Office.

In 2016, where a university reported an underlying result in its annual report, we assessed this disclosure against our better practice principles. Two did not specify that the underlying result was unaudited and one did not disclose comparative information.

Revenue

Figure 3C
Major revenue for all universities by type in 2016

Note: Revenue from both parent and controlled entities is included.

Source: Queensland Audit Office.

Revenue received by the universities mainly consists of Australian Government financial assistance, state government grant funding, and student fees and charges—84 per cent of revenue in total for 2016.

The universities reported $5.2 billion of revenue in 2016—an increase of $96 million (1.9 per cent) from the prior year. This increase relates to a growth in student fees and Australian Government payments. It includes the refund by government (to universities) of the previously held efficiency dividend, and increases in Higher Education Loan Program (HELP) funding through increased student loads and student fee rates.

Events and transactions affecting revenue this year included the following:

- While there has been an overall increase in government payments in 2016, there was a loss of clinical training fund program income of $8.8 million for James Cook University, as the funding was discontinued.
- Central Queensland University recognised a one-off transaction gain of $4.7 million due to the early surrender of the lease for its Brisbane campus.
- In 2016, investment income increased at the Queensland University of Technology by $9 million due to the improved performance in managed investment funds in domestic and international equities markets.
- There was an increase of $33.2 million in higher education loan program payments in 2016. This was due to the increase in student load.
- The University of the Sunshine Coast recognised a gain of $12.6 million on property purchased from the University of Southern Queensland.

Future challenges and emerging risks

Central Queensland University—a dual sector university

In 2014, Central Queensland University became the only dual sector university in Queensland, because of a merger with the Central Queensland Institute of Technical and Further Education (TAFE).

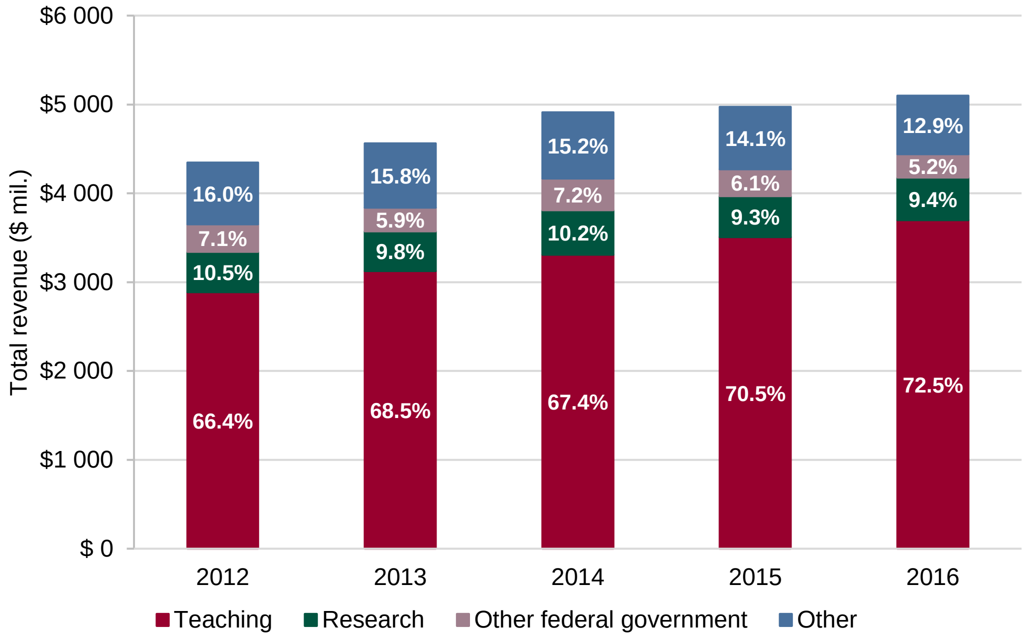
In 2016, Central Queensland University commenced full integration of vocational education and training (VET) and higher education. Recent changes in government VET FEE HELP (student loans) policy and economic challenges in the region continue to challenge the university, particularly in relation to VET student numbers.

Central Queensland University will need to continue to closely monitor its VET operations to ensure it will contribute positively to the university's financial performance in the future.

Composition of revenue

Figure 3D shows revenues across the Queensland university sector by revenue source.

Figure 3D
Operating income composition for 2012–2016



Note: Revenue from controlled entities is not included.

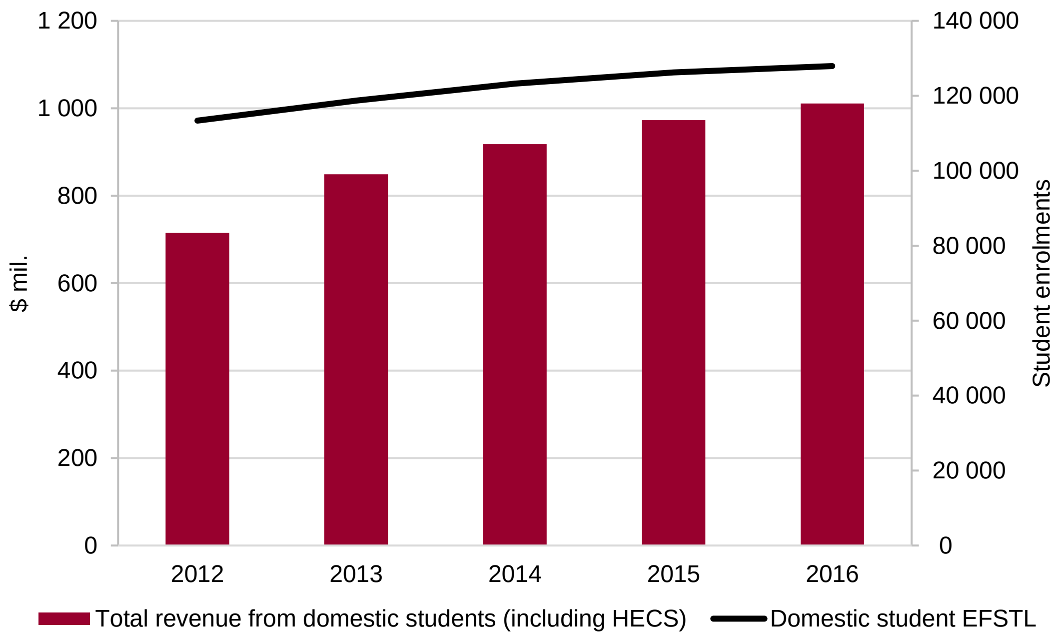
Source: Queensland Audit Office.

Teaching revenues have consistently grown over the past five years, increasing by 17.3 per cent between 2012 and 2016. Teaching revenues now represent approximately 72.5 per cent of total university revenues, which is consistent with the national trend.

International and domestic student numbers and student revenue

Figure 3E shows the number of Queensland domestic student enrolments and the annual revenue generated from domestic students.

Figure 3E
Domestic student enrolment trend 2012–2016—
equivalent full-time student load (EFTSL)



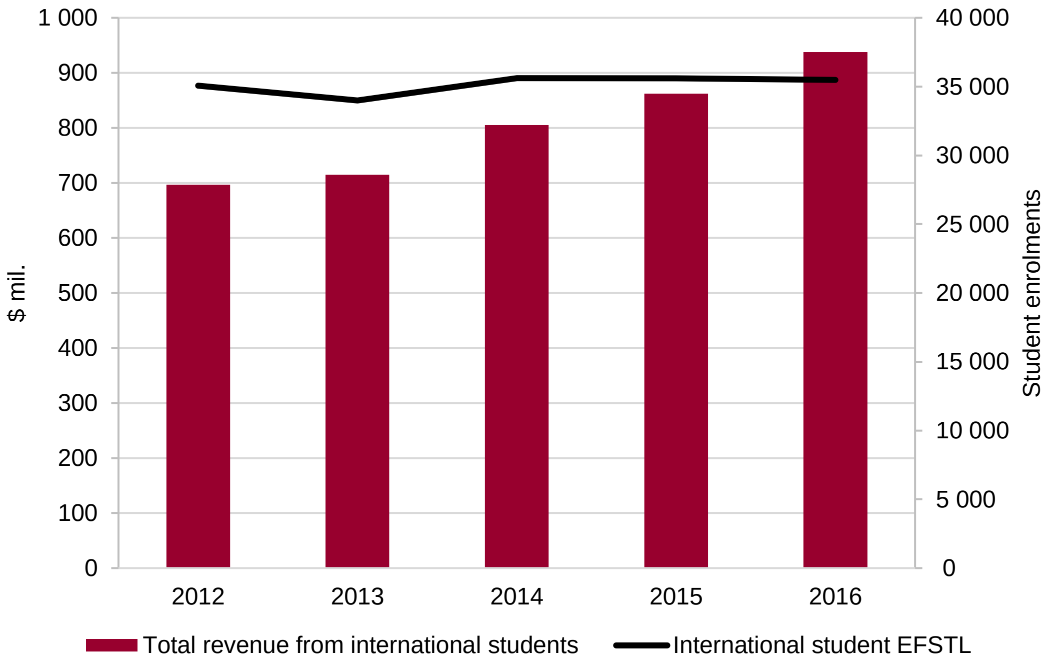
Note: EFTSL is a representation of the amount of the study load a student would have if studying full-time for one year. Revenue from controlled entities is not included.

Source: Queensland Audit Office.

Domestic student numbers have consistently increased over the 2012 to 2016 period, due to the introduction of demand-driven funding for undergraduate courses in 2012. The average domestic student fee for Queensland universities increased from $7 283 in 2012 to $8 869 in 2016, an increase of 21.8 per cent.

Figure 3F shows revenue generated from international students and the number of international students enrolled.

Figure 3F
International students—revenue and enrolments for 2012–2016



Note: Revenue from controlled entities is not included.

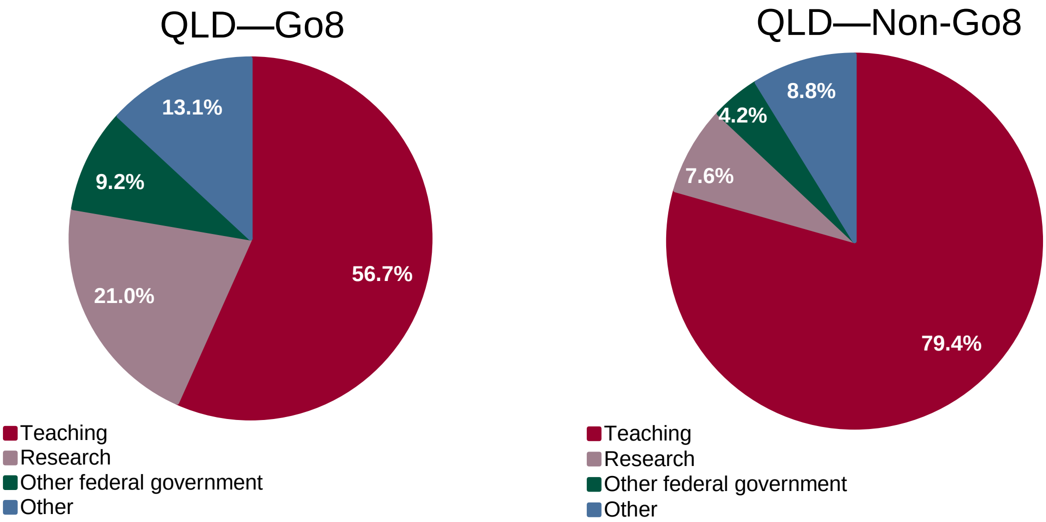
Source: Queensland Audit Office.

While enrolment numbers have remained stable over the past three years, international student revenue has consistently increased over the last five years. This is due to increases in the average international student fees, along with an increasing proportion of international students undertaking postgraduate courses that attract higher fees than undergraduate courses. The average international student fee for Queensland universities increased from $19 881 in 2012 to $26 422 in 2016, an increase of 32.9 per cent.

Some universities have a higher reliance on international student revenue now than they did five years ago. It is an important revenue source. Factors impacting international student numbers can include foreign exchange movements, international competition, and future changes to visa requirements. This risk is not as high for the Group of Eight (Go8) universities—a coalition of research universities, which includes the University of Queensland.

Figure 3G shows the differences between Go8 (University of Queensland) and non-Go8 universities in Queensland. Similar differences occur nationally.

Figure 3G
Revenue composition by Go8 and non-Go8 universities in 2016



Note: Revenue from controlled entities is not included.

Source: Queensland Audit Office.

Non-Go8 universities rely more heavily on teaching revenue, while Go8 universities generate a greater proportion of their revenue from research and other funding sources.

A downturn in the market for international students would have a negative impact on the operating result for Queensland universities. The international student market is currently strong in Queensland, based mainly on our reputation, brand and economic strength. However, exchange rate fluctuations and the growing competition from Asian universities—particularly China—will need to be closely monitored by Queensland universities.

Three universities in Queensland have been affected by decreasing international student numbers over the past five years. They are the University of Southern Queensland, Griffith University, and Central Queensland University. These universities have identified this as a business risk that they face, and have implemented strategies to address it. They have identified the need to attract and retain more students through educational offerings that are flexible, adaptable and responsive to their needs. These universities have marketing strategies in place for recruiting both domestic and international students.

Changes to Australian Government financial assistance

In 2017, the Australian Government proposed changes to the higher education funding model. Subject to enactment of legislation, the Australian Government will reduce funding by implementing efficiency dividends of 2.5 percent for the 2018 and 2019 financial years. The Australian Government also proposed 7.5 per cent of the commonwealth grant scheme funding will be contingent on meeting certain performance criteria. Given that Australian Government financial assistance represents approximately 60 per cent of university sector revenue each year, these proposed funding reductions will need to be factored into universities' future operational plans.

Fail to research, fail to grow?

A risk identified by some universities is the potential failure of their university to grow, particularly the need to develop an effective research capacity and maintain their reputation in terms of research.

The main driver of research revenue is research performance. A decline in research revenue and the resulting outcomes could impact on the reputation of some universities and have a flow-on effect to student numbers.

The consequence of introducing a prep year to universities

Universities are preparing for a potential reduction in revenue because of reduced domestic student loads in 2020. It is anticipated that there will be a reduced cohort of OP-eligible students in 2020. Because of the introduction of the preparatory (prep) year in 2007, some children who were due to go into Grade 1 went to Prep instead. This means that students who would have been choosing a university for 2020 will instead be completing year 12 as a result of the additional compulsory year of education.

AASB15 Revenue from Contracts with Customers

The revenue and income of universities will be affected by the new Australian Accounting Standards Board (AASB) 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities* from 1 January 2019. These standards are more complex and include more judgements than the current equivalent standards.

Universities have many sources of revenue and income. These include course fees (domestic and international), Commonwealth and other grants, Australian Research Council funding, consultancy fees, donations, fees and charges, and royalties.

Each of these sources will need to be analysed to determine what changes will be required. The most contentious area under current standards is accounting for grants and similar arrangements. This is likely to continue to be contentious under the new standards. While they include scope to defer the recognition of revenue to when expenses are incurred, the circumstances are restricted.

Universities may have a significant number of grants, depending on the amount of research they undertake. If the requirements for revenue recognition deferral are met, contracts may have to be accounted for on an individual basis, with consequent effects on accounting systems and resources.

The new standards include various transitional provisions to ease the burden on initial adoption. The main relief is for revenue from grants or arrangements that were previously accounted for up-front, and that will be deferred under the new standards.

Depending on the transitional provisions chosen, comparative amounts may need to be calculated from 1 January 2018, which is only about six months from the date of this report.

Given the variety of sources of revenue and income, the large number of contracts, and the complexity of the new standards, universities should not underestimate the effort required to prepare themselves.

New revenue streams

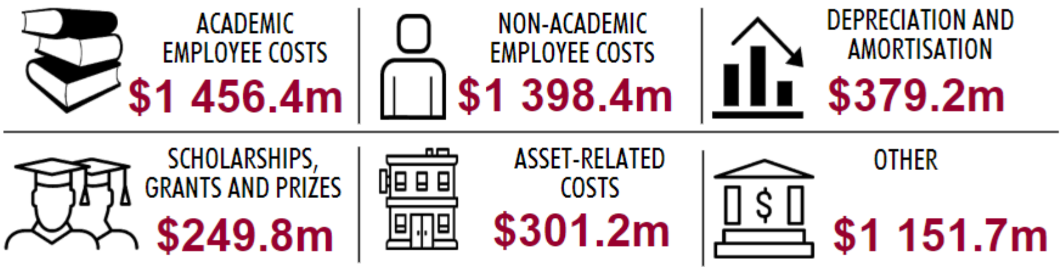
An emerging trend has seen some universities expanding into new markets. They have opened new campuses and additional study centres in remote locations across Australia—and overseas where there is a demonstrated need. Some universities are investing in infrastructure outside of their core location to expand their footprint and brand, to sell their products, and to generate new revenue streams. This marketing strategy is more commonly referred to as market development or market extension, where the university is selling its existing products to new markets.

This strategy assumes that the existing markets have been fully exploited, leading to the need to venture into new markets. There are various approaches to this strategy, including new geographical markets and new distribution channels. This strategy carries greater risk, as it is targeting a new market and the outcome is uncertain. These strategic moves need close monitoring to ensure risks are well managed and the planned benefits are realised.

As an example, one university entered into a lease in late 2016 to acquire a central business district-based building in Perth, the intent being to establish a campus with the capacity to deliver a range of undergraduate and postgraduate courses to domestic and international students. The university is also expanding into regional Western Australia to provide support for distance students. The implementation of such initiatives can involve an initial outlay of expenditure due to the introduction of new courses and the establishment of a new campus.

Expenditure

Figure 3H
Major expenditure for all universities by type in 2016



Note: Expenditure from controlled entities is not included.

Source: Queensland Audit Office.

Events and transactions affecting expenditure this year

The universities reported over $5 billion of expenditure in 2016, an increase of $212 million (4.4 per cent) from the prior year:

- Academic and non-academic employee expenses are the most significant expense types, collectively representing approximately $2.9 billion or 57.9 per cent of total university sector expenditure. Together, these expense types increased by $117 million in 2016 (4.3 per cent) from the prior year. This was due to increases in staff numbers at six of the universities (a 1.8 per cent increase across the seven universities covering both academic and non-academic staff). It was also because of the impact of enterprise bargaining agreements (approximately an average three per cent increase across the universities in 2016). The increasing employee costs will continue to be an important focus for universities.
- Depreciation expenses for the University of Queensland increased by $35 million (28.2 per cent) from the prior year, despite depreciation expenses generally being constant across the sector. The University of Queensland improved the way it 'componentises' its building assets in 2015, which enabled it to better reflect the useful lives of each asset. This increased the accuracy of its asset valuations and resulted in a higher annual depreciation expense for this university.
- Universities in metropolitan locations, (the University of Queensland, the Queensland University of Technology, and Griffith University) accounted for 72.2 per cent of the total expenditure by universities.

Future challenges and emerging risks

Proportion of non-academic staff

The ratio of client-facing employees to support employees (sometimes referred to as service delivery staff and support staff) is an important indicator of how efficiently entities provide services to clients.

For universities, this translates to academic employees (those that are employed in a teaching or research capacity) and non-academic employees (those providing support services such as finance, human resources, and information technology (IT)).

Figure 3I details the composition of academic and non-academic staff across the university sector in terms of full-time equivalent (FTE) positions. It also shows the comparison with the national average.

Figure 3I
Academic and non-academic FTE composition 2016

	QUEENSLAND	NATIONAL
ACADEMIC STAFF	44.4% (2015: 42.7%)	45.9% (2015: 43.6%)
NON-ACADEMIC STAFF	55.6% (2015: 57.3%)	54.1% (2015: 56.4%)

Source: Queensland Audit Office.

Some universities have identified, through benchmarking, that the proportion of non-academic to academic employees is high. This indicates that a higher level of operational efficiency can be achieved. These universities are taking steps to reduce non-academic employee costs. Any realised savings could be reinvested in additional front-line services such as academic, research, and capital expenditure.

The Australian Government Department of Education and Training's *Benchmarking: A Manual for Australian Universities* provides a series of operational benchmarks to ensure universities maintain sufficient flexibility to meet their various competing needs. These include the following good practice indicators for expenditure:

- total employee expenses as a percentage of total revenue should be between 50 and 70 per cent.
- a university's total administrative expenses should not exceed 20 per cent of total expenditure. This allows a greater proportion of the total annual budget to be spent on the core functions of teaching and research.

Figure 3J shows the benchmark measures for 2015 (the latest information available) relating to employee expenses as a percentage of revenue for each Queensland university.

Figure 3J
Employment expenditure in 2015 as a percentage of revenue

	Total employee expenses as % of revenue	
	2015 %	5-year average %
CQU	55.5	48.4
GU	57.1	56.4
JCU	49.7	50.3
QUT	57.2	55.1
UQ	54.6	52.3
USC	56.5	54.3
USQ	52.2	57.5
National benchmark	**50.0 to 70.0**	**50.0 to 70.0**
Qld sector	**55.0**	**53.4**
National	**54.0**	**53.8**
Regional (national)	**53.7**	**53.1**
Metro (excl. Go8) (national)	**56.2**	**55.9**
Go8 (national)	**52.1**	**52.3**

Note: Controlled entities are not included.

Source: Queensland Audit Office.

The results show that the Queensland universities have achieved good practice (50–70 per cent) in relation to comparing total employee expenses to revenue. For 2015, the Queensland university sector was above the national benchmark in most categories, with James Cook University having the lowest ratio.

With respect to the five-year average, Central Queensland University has the lowest ratio and the Queensland university sector is more in line with the national benchmark. The Central Queensland University five-year ratio was affected by a significant increase in revenue in 2014. This was because of the merger with the Central Queensland Institute of TAFE.

Percentage of administrative expenditure to total expenditure

We calculated this benchmark using non-academic employee expenses as a percentage of total expenditure. Non-academic employees are those not employed in a teaching or research capacity, and non-academic costs are the highest portion of administrative expenses. These costs also include staff employed on various government-funded projects.

Figure 3K shows the benchmark measures for 2015 (the latest information available) relating to non-academic employee expenses as a percentage of total expenditure.

Figure 3K
Non-academic employee expenditure in 2015 as a percentage of total expenditure

	Non-academic employee expenditure as % of total expenditure	
	2015 %	**5-year average %**
CQU	26.8	25.6
GU	29.7	30.1
JCU	25.2	26.3
QUT	30.5	30.8
UQ	26.0	25.7
USC	31.4	32.1
USQ	35.6	35.4
National benchmark *(less than)*	**20.0**	**20.0**
Qld sector	**28.3**	**28.3**
National	**27.2**	**27.3**
Regional (national)	**28.3**	**28.3**
Metro (excl. Go8) (national)	**28.2**	**28.3**
Go8 (national)	**25.8**	**26.2**

Notes: The Commonwealth Department of Education and Training manual defines *overall administrative expenses* as including central administration, the costs of outsourced functions (for example, payroll), and any administrative costs within units with devolved responsibilities. Expenditure from controlled entities is not included.

Source: Queensland Audit Office.

Figure 3K shows that all Queensland universities had higher non-academic costs than the Australian Government operational benchmark of 20 per cent in 2015 and over the five-year average. Benchmark aside, we note there is a 10 per cent variance between the highest and lowest Queensland universities' results for 2015 and over the five-year average. Queensland universities have an opportunity to improve their efficiency of service delivery.

Given the significance of non-academic employee expenses, all universities need to consider this as an area of improvement. For 2015, four universities exceeded both the state and national averages. James Cook University had the lowest ratio across the Queensland universities, while Central Queensland University had the lowest five-year average. Several Queensland universities are currently performing structural and operational reviews, which may impact on costs in the future.

Cost management frameworks

Cost management is an important focus for all universities to support their long-term financial sustainability.

Factors that influence the cost of academic courses
The composition of student enrolment is an important driver of the cost of course delivery. Factors that impact these costs include the following: ▪ Postgraduate courses generally cost more to teach than undergraduate courses, due to smaller class sizes and the use of more senior academic staff. Postgraduate students who undertake research also require supervision by senior academic staff. ▪ International students cost more to enrol and teach due to agent fees incurred in recruiting these students, increased regulatory costs (including student visa processing costs), and increased student support services to assist students in adjusting to living in a new country. ▪ On-campus students in general have greater need for on-campus infrastructure such as lecture theatres, tutorial rooms, parking, and social infrastructure. As a result, the cost to finance and maintain these assets is likely to be higher for on-campus students than for students who study off-campus. ▪ Off-campus and external students require additional IT infrastructure costs to access various technology platforms. ▪ Courses that require smaller class sizes, more senior academic staff to deliver the courses, more practical experience requirements (including external practical placements), and the use of specialist equipment cost more than other courses.

Source: Queensland Audit Office.

All universities prepare regular management reports comparing actual costs to the most recent forecasts. These are generally reported against their organisational hierarchy, down to a departmental level.

Six of the seven universities have a cost management strategy in place. This provides goals, actions and measures of success to optimise expenditure for the types of costs that a university incurs. These may include:

- production costs—course material development, and research
- delivery costs—IT systems for external student access; research, development and commercialisation; acquisition and use of equipment and facilities
- administration costs—non-academic staff, human resource management, repairs and maintenance (information and communications technology and buildings)
- marketing and selling costs—advertising, marketing and promotions; events.

To be effective, a cost management strategy should be supported by a cost management framework. This provides a reporting system of how a university spends its money on each of these above activities.

Elements of a good cost management framework

A cost management framework helps management to understand and proactively manage service cost drivers and activities to maintain sound financial control. Identifying the costs associated with delivering a course or subject enables a greater depth of financial analysis. It also facilitates more robust operational and strategic decision-making.

The existence of a robust framework provides schools and faculties with greater oversight and understanding of the costs that they control, because, for example:

- costs are captured across all faculties and consolidated into an organisational view
- there is a fully transparent and visible process of cost allocation
- cost drivers are widely understood
- strategic and operational decisions are well supported by high quality analysis and an understanding of course/program costing.

Why is this important?

- A resource-constrained environment demands informed decision-making.
- It helps inform pricing decisions.
- It positions the universities for emerging risks and future challenges, particularly resulting from higher education reforms.
- It complements decision-making. Financial outcomes are not the sole driver for making decisions.

Source: Queensland Audit Office.

Central to a cost management framework is how costs are allocated from the chart of accounts within their finance systems to support the required management information. For example, the chart of accounts may have a cost centre for building maintenance. The cost management framework may then have a way of allocating the actual costs put to this cost centre by course, such as the apportioning by student numbers that use the facilities for each course.

We found that only four universities have an overarching cost management framework in place to support their strategy. Of these four universities, only two can monitor teaching services costs at an individual student level or by student cohorts. We acknowledge that one other university is in the process of developing a methodology to provide increased oversight of the costs incurred.

Only three of the seven universities can monitor both direct and indirect costs. They allocate the cost of teaching delivery times, full-time equivalents, space usage, revenue, and other cost drivers to the services they deliver. For the remaining universities, the use of cost drivers for teaching various student cohorts is limited.

Universities are encouraged to consider adopting or improving their cost management frameworks so they can understand and proactively manage their costs, not only by organisational hierarchy, but also by:

- revenue and funding source
- direct and indirect costs
- activity
- students and staff.

It is better practice for universities to ensure that the resources at their disposal are fully targeted at the activities that deliver the most value in achieving their objectives. Earlier in this report, at Figure 1C, we outlined the major inputs, activities, processes, outputs, and outcomes that made up the education sector in 2016. This is commonly referred to as the 'service logic approach'. A lack of data on the cost of service outputs is the main barrier to measuring and monitoring the efficiency and effectiveness of the services provided by the universities. It is also a barrier to creating more transparency, ownership, and accountability for performance of each activity.

Universities should consider making their cost management frameworks subject to regular review and monitoring. Establishing formal policies and procedures would ensure that the requirements of the cost management framework are adhered to.

An advantage of this approach is that it will assist university management to assess whether the economic benefits outlined in the business case for each course or subject are being realised. It will also help them to determine objectively which courses or subjects are operating efficiently and are viable.

Identifying and reporting the full cost of outputs would allow universities to make informed decisions about allocating resources to various functions (for example, teaching and research), activities (student enrolment, student visa processing, and asset management), and student cohort groups (by course enrolled and mode of study). Given the recent government proposals regarding efficiency dividends, improved cost management is a key challenge for the sector in future. It needs to be addressed as a matter of priority.

Understanding financial position

Financial position is measured by a university's net assets—the difference between total assets and total liabilities. Over time, the financial position can indicate whether a university's financial health is improving or deteriorating. A growing net asset position indicates the university has greater capacity to meet an increase in future service demands.

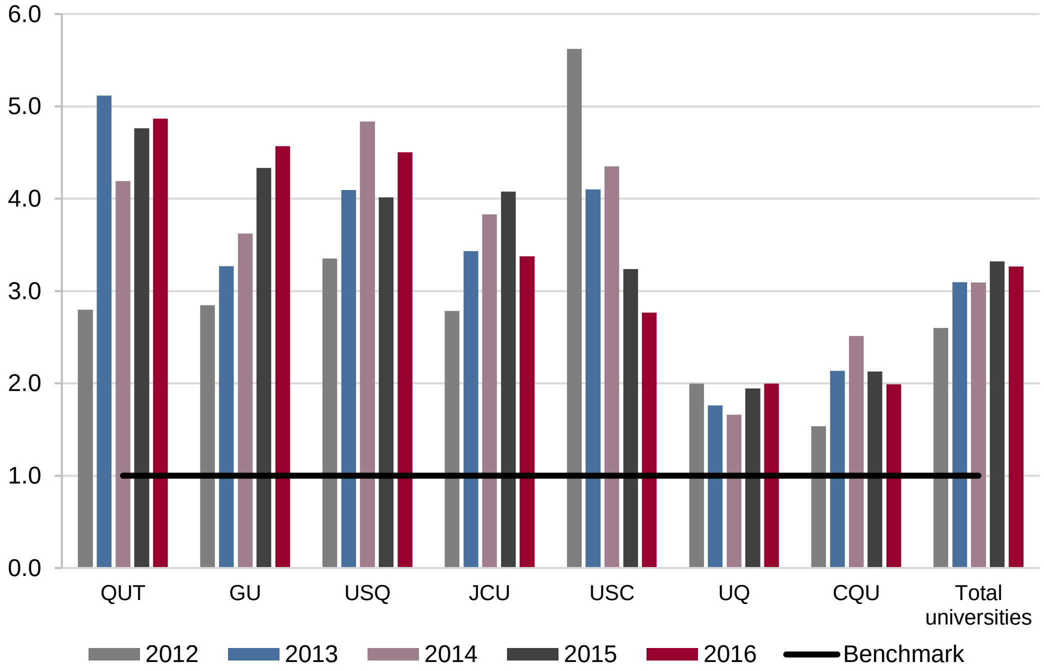
The financial position of all seven universities remains sound, with combined net assets of $8.9 billion at 31 December 2016. The value of total net assets increased by $298 million (3.5 per cent) in 2016 across the seven universities, due mainly to the recognition of a $138 million upward movement in asset valuations, together with an increase of $250 million in investment funds managed by the Queensland Investment Corporation (QIC), and an increase in term deposits.

At 31 December 2016, the universities held cash balances of $924 million and other financial assets of $1.4 billion—predominantly investment funds managed by the QIC on their behalf—and term deposits.

Current ratio

The *current ratio* is a liquidity ratio that measures an entity's ability to pay short-term obligations as and when they fall due. A ratio of greater than one is acceptable. This ratio includes short-term obligations and provisions expected to be settled within the next 12 months. Figure 3L shows the current ratio over the past five years for each university.

Figure 3L
Current ratio by university for 2012–2016



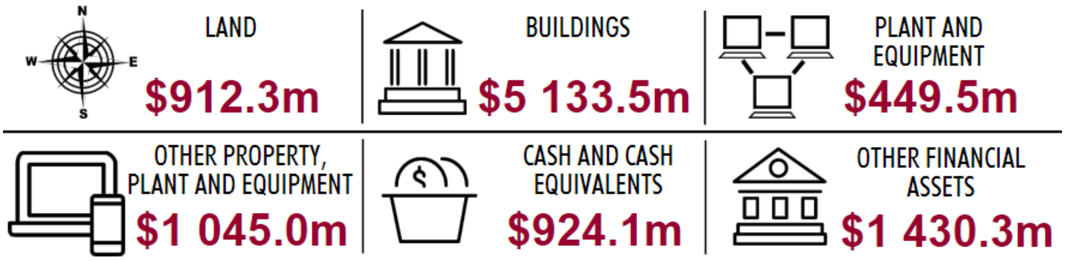
Note: Controlled entities are not included.

Source: Queensland Audit Office.

The results show that all universities have adequate liquidity to meet their short-term liabilities as they fall due. Given their strong liquidity position, the universities should always be alert to the effective use of their cash. It is acknowledged that most universities use QIC for investing purposes, which delivers competitive rates.

Assets

Figure 3M
Major assets for all universities by type at 31 December 2016



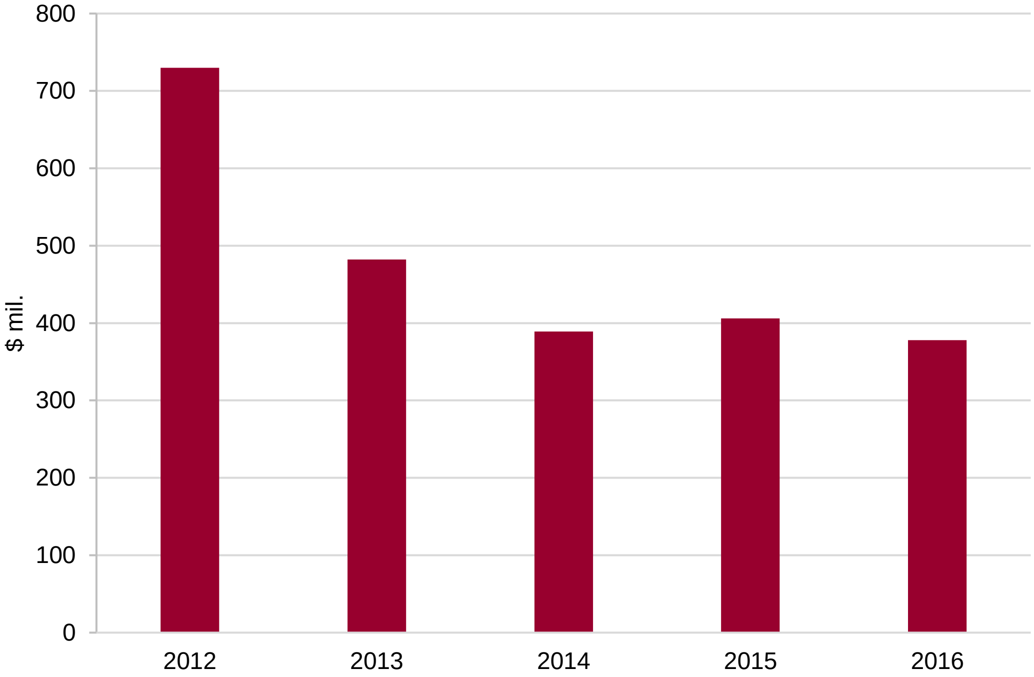
Note: Assets from both parent and controlled entities are included.

Source: Queensland Audit Office.

The universities reported $10.4 billion of assets at 31 December 2016, consisting primarily of property, plant and equipment (72.5 per cent), cash and cash equivalents, (8.9 per cent), and other financial assets (13.7 per cent).

Figure 3N shows payments made by the universities for property, plant and equipment over the last five years.

Figure 3N
Payments for property, plant and equipment for 2012–2016



Note: Controlled entities are not included.

Source: Queensland Audit Office.

Capital expenditure across the sector has decreased by 48 per cent over the past five years, restricted mainly to the University of Queensland (56 per cent), the Queensland University of Technology (52 per cent), Griffith University (69 per cent) and the University of Southern Queensland (82 per cent). Capital expenditure is impacted directly by reduced government capital funding and the timing of an individual university's building program.

Measuring the value of assets

Universities must ensure that the carrying value of their assets (the value at acquisition less accumulated depreciation and accumulated impairment losses) as reported in their financial statements is reflective of their *fair value*. Fair value is what a buyer would be willing to pay for them or in some instances current replacement cost, less any restrictions imposed through government regulation.

Land, buildings, infrastructure assets, heritage and cultural assets, and library and art collections are recorded at fair value, whereas plant and equipment and leasehold improvements are reported at cost.

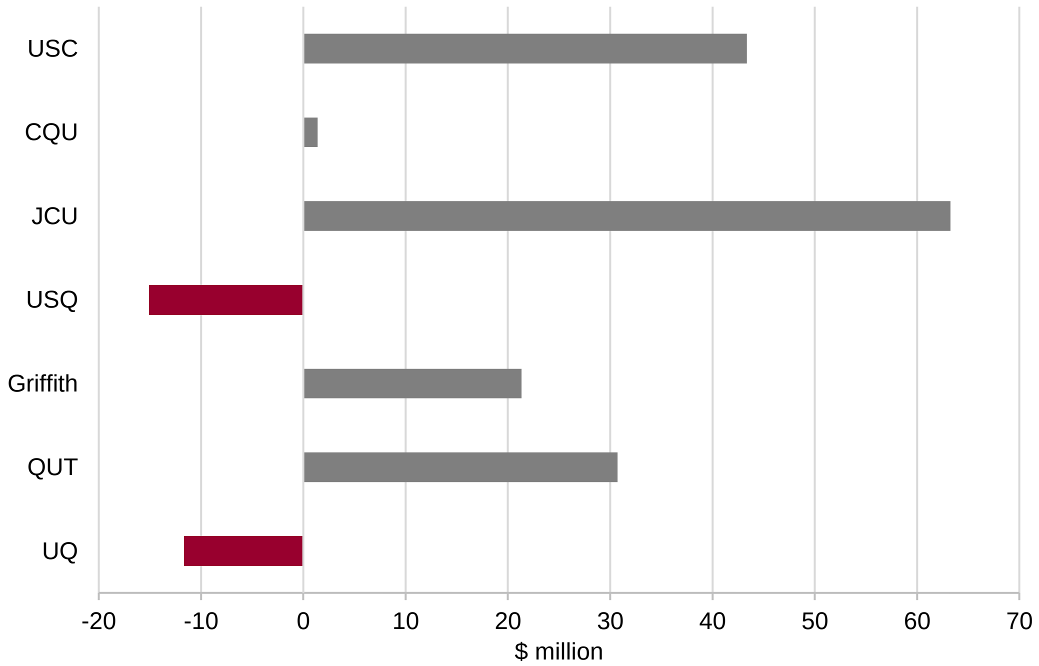
This is required under the Australian accounting standards and recommended by government policy.

When universities report their assets at fair value, they revisit the amounts recorded each year to ensure they continue to be accurately reported.

Events and transactions affecting assets this year

The universities reported $7.5 billion in property, plant and equipment (PPE) at 31 December 2016. Total PPE increased by $131 million (1.8 per cent) from the prior year. This result continues the trend of increases over previous years. Figure 3O shows a breakdown of this movement by university.

Figure 3O
Movements in PPE by university in 2016



Note: Controlled entities are not included.

Source: Queensland Audit Office.

The increase was mainly due to the recognition of an upward movement in asset valuations ($137.9 million) and acquisitions ($392.1 million), offset by depreciation charges ($364.4 million) across the seven universities.

The University of Queensland's PPE reduced by $11.35 million in 2016 due to an increase in annual depreciation charges and the disposal of its buildings. These factors were offset by an upward movement in the valuation of its remaining buildings. A management decision in 2015 to break buildings down to more detailed components has shortened the average useful life of the buildings and increased the depreciation charge. The approach adopted by the university continues to comply with Australian accounting standards.

In 2016, the University of Queensland continued its capital program on sporting fields, a new car park, and the refurbishment of a building for a new law school. The university is planning to expand its capital program over the next three years to align with its strategic initiatives and plans.

The University of Southern Queensland's PPE value reduced in 2016 due to:

- downward valuation movements in its freehold land and buildings and infrastructure assets. With respect to freehold land, the decrease was attributed to the consolidation of small allotments in the Springfield area and a decrease in comparable land values in the Toowoomba region
- the sale of its Fraser Coast campus
- an increase in annual depreciation charges.

James Cook University reported PPE additions and transfers from work in progress of $97 million for the year ended 31 December 2016. Of this amount, $55.4 million was due to progress payments made for a science building currently under construction in Townsville. This is due for completion in 2017.

On 30 October 2015, the University of the Sunshine Coast entered into a contract to purchase the University of Southern Queensland's Fraser Coast campus for around $7 million, to be payable in two equal instalments over two years. The transfer of title took place on 1 February 2016. The fair value of the assets acquired by the University of the Sunshine Coast was around $19 million. The final instalment was paid in February 2017.

We are satisfied that the acquisition has been accounted for appropriately in terms of the recognition and valuation of assets. In 2016, the University of the Sunshine Coast has reported a gain of $12.6 million, in accordance with the accounting standards.

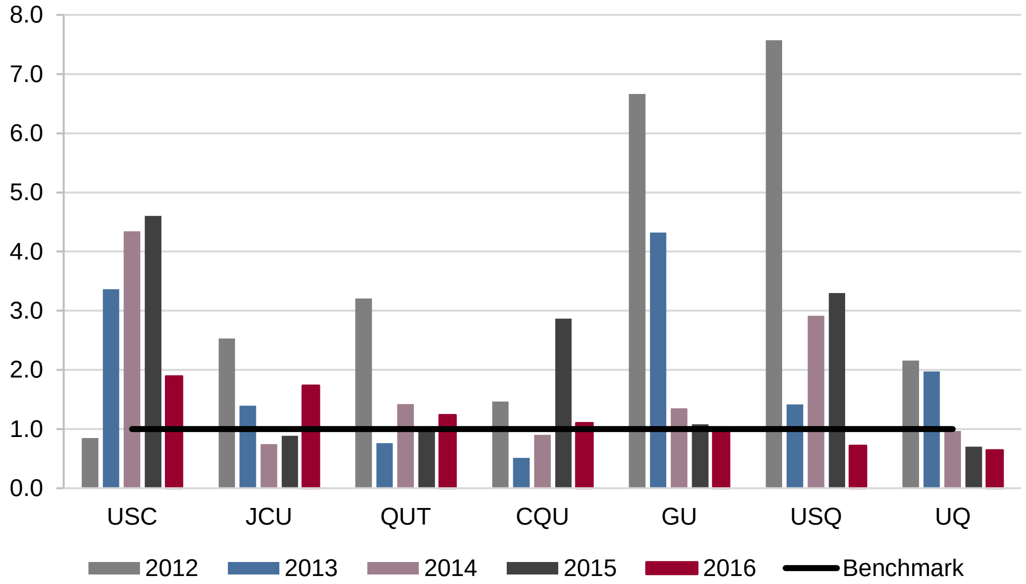
Queensland University of Technology's PPE increased by $30.7 million in 2016, mainly attributed to continuing work on the Kelvin Grove sports field car park and the Creative Industries Precinct.

Capital replenishment

The capital replenishment ratio estimates the extent to which an entity is replacing its assets as they reach the end of their useful lives. The ratio compares the annual net expenditure on non-current assets (such as property, plant and equipment) to annual depreciation. An average ratio below one, over time, indicates that assets are not being built or replaced at least at the same rate as existing assets are being depreciated. This, in turn, may result in a university’s reduced ability to deliver services in the future.

Figure 3P shows the capital replenishment ratio for each university and the sector in total over the past five years.

Figure 3P
Capital replenishment ratio for 2012–2016



Note: Controlled entities are not included.

Source: Queensland Audit Office.

The University of Queensland and Griffith University capital replenishment ratios have both been trending down in recent years. These both result from specific valuation issues. The depreciation expense at the University of Queensland has increased due to reductions in useful lives of some building asset components. The depreciation expense at Griffith University has increased due to changes in the residual values of certain assets. Continuation of these trends will require increased investment in future years by these universities to maintain service potential. This ratio is impacted by the timing of each university's building program, as new buildings directly impact depreciation expense and payments for property plant and equipment.

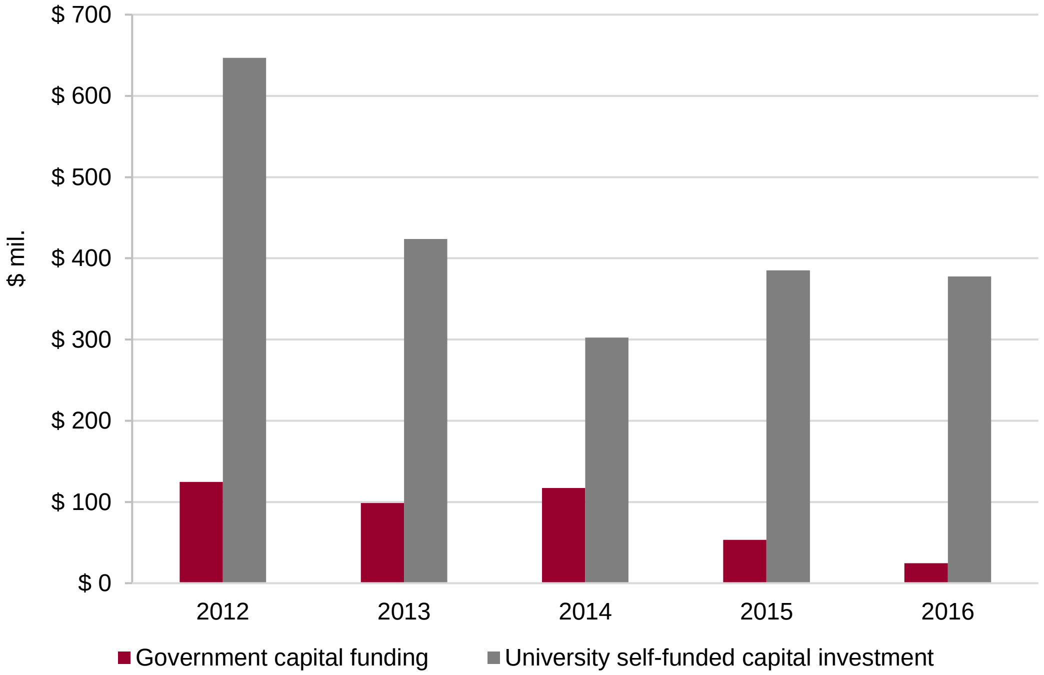
Future challenges and emerging risks

Governments' capital investment

Universities and other education entities must ensure they efficiently manage their capital resources to meet the needs of students. This includes investment in infrastructure and campus development, and in infrastructure maintenance.

The Australian and Queensland governments have traditionally provided capital funding support for the construction of new infrastructure. Figure 3Q shows the level of capital grant funding from government over the last five years.

Figure 3Q
Funding split for capital investment 2012–2016



Note: Controlled entities are not included.

Source: Queensland Audit Office.

In 2012, government capital funding was 16.2 per cent of total university capital investment. In 2016 this funding has reduced to 6.2 per cent. This represents a significant loss of funding for the universities over this period.

It reinforces the need for universities to maintain a strong focus on financial sustainability, supported by proactive management of their costs.

AASB 16 *Leases*

Under existing accounting standards, leases are classified between finance leases and operating leases. Each classification has different accounting. If the lease is classified as a finance lease, the lease is accounted for like a borrowing and a purchase—even though the asset may not be legally acquired at the end of the lease term. If the lease is classified as an operating lease, the lease is accounted for like a rental. Figure 3R shows the main differences between lease types.

Figure 3R
Accounting for different types of leases

Characteristic	Finance lease	Operating lease
Classification test	Substantially all the risks and rewards of ownership are transferred from the lessor to the lessee.	Substantially all the risks and rewards of ownership are retained by the lessor.
Accounting treatment—asset and liability	An initial amount for the discounted future lease payments is recognised as a lease asset and corresponding lease liability in the statement of financial position.	No lease asset or lease liability is initially recognised in the statement of financial position.
Accounting treatment—net result	Depreciation of the lease asset and finance charge on the lease liability are recognised as expenses in net result.	Lease rentals are recognised as an expense in net result. Sometimes adjustments are made to 'straight-line' lease expenses for leases with rentals that have fixed increases.

Source: Queensland Audit Office.

The introduction of the new accounting standard AASB 16 *Leases,* for reporting periods beginning on or after 1 January 2019, will introduce a single lease accounting model for lessees. There will no longer be a distinction between a finance lease and an operating lease. All leases, except those with a term of less than twelve months, or of a low value (less than approximately $7 500), will be affected.

The accounting is similar to that for existing finance leases:

- a right-of-use asset (representing the right to use the underlying leased asset), and
- a liability (representing the obligation to make lease payments), will be recognised in the statement of financial position.

Similarly, depreciation on the right-to-use asset and finance charge on the lease liability will be recognised as expenses in net income.

The main consequence of the new standard is that the obligations for operating lease rentals will be recognised as on-balance sheet liabilities, with a corresponding right-to-use asset. The right-to-use asset will often not represent the value of the whole of underlying asset, just the right to use that asset (for example, three floors of a building for 10 years).

While the accounting appears similar to finance leases, there are complex calculations involved for rental adjustments, such as consumer price index (CPI) adjustments and market reviews.

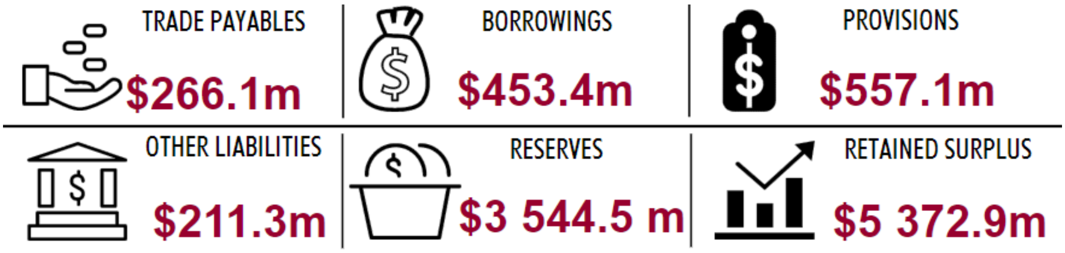
Similar to when accounting for finance leases, the combined depreciation and finance charge recognised will not be the same as the rental expense. This will affect the operating result. When compared to current operating lease accounting, the new standard will result in reduced surpluses in the initial years of a lease (because of the higher finance charge on the higher lease liability), and increased surpluses in the later years (when there is a lower finance charge on the lower lease liability). Therefore, operating results will be affected by this new standard through the passage of time, rather than changes in underlying operations. This is what is referred to as the financing effect.

In 2016, the seven universities collectively reported operating lease expenditure of approximately $360 million in their financial statement notes. These included leases over campus buildings, office space, research facilities, and plant and equipment. Each university may need to include higher commitments in the lease liability, depending on whether the university is ‘reasonably certain’ to exercise any options including to renew the lease.

Universities are most likely to be impacted by the financing effect on their operating result, by the increased liabilities, and by the complexity of calculations, rather than by the effect on their balance sheet with higher assets.

Liabilities and equity

Figure 3S
Components of liabilities and equity for all universities at 31 December 2016



Note: Liabilities and equity from both parent and controlled entities are included.

Source: Queensland Audit Office.

Debt and equity at a glance

University debt is sourced through borrowings from the Queensland Treasury Corporation (QTC). QTC offers competitive borrowing rates when compared to the market.

At 31 December 2016, the universities held $453 million in debt, with 94.8 per cent attributed to four universities (University of Queensland, Queensland University of Technology, Griffith University and James Cook University).

Equity for the universities includes asset valuation reserves, available for sale financial assets, and retained earnings.

Borrowings across the seven universities increased by $9.5 million (2.1 per cent) in 2016.

Events and transactions affecting debt and equity this year

Queensland University of Technology Kelvin Grove car park

In 2016, the Queensland University of Technology established an additional loan of $34 million to construct the Kelvin Grove sports field car park.

Paying down debt

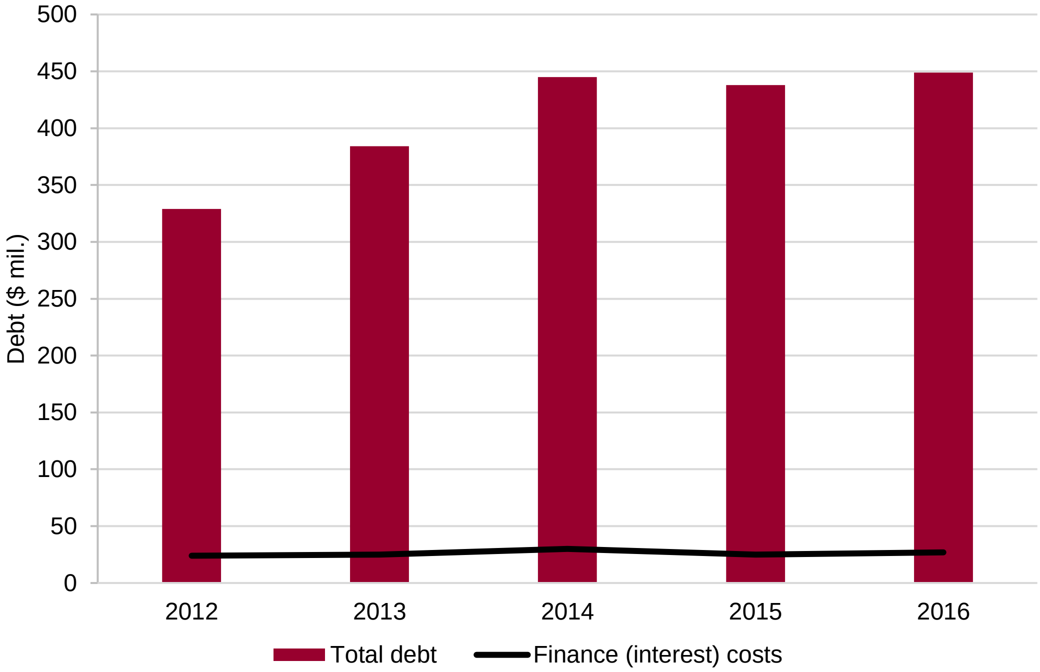
Over the past three years, five of the seven universities repaid debt. James Cook University and the University of the Sunshine Coast reduced debt over the past three years by $21 million (21 per cent) and $5 million (35 per cent) respectively. The reduction of debt releases funds for other purposes.

In 2016, this trend continued with Griffith University and James Cook University reducing their borrowings by $18 million and $7.5 million respectively.

Future challenges and emerging risks

Funding future expansion through debt
Figure 3T shows the level of debt and borrowing costs incurred over the past five years across the university sector.

Figure 3T
Universities—debt versus finance (interest) costs for 2012–2016



Note: Controlled entities are not included.

Source: Queensland Audit Office.

While the costs have remained stable over the period, the level of debt held by the seven universities has significantly increased over the same period ($120 million or 36.5 per cent increase).

In 2016, the University of Southern Queensland obtained approval for a loan of $4.0 million under the 2016–17 State Borrowing Program for a sustainable energy solutions project. James Cook University received approval for loans of $40 million for the Cairns student accommodation project and $5 million for other projects.

The University of the Sunshine Coast is planning to build a campus in the Moreton Bay region. In the recent federal government budget, a concessional loan was offered to the university to finance construction of the campus. This will enable it to begin foundation work for the campus, which is due to open in 2020. The amount is being negotiated.

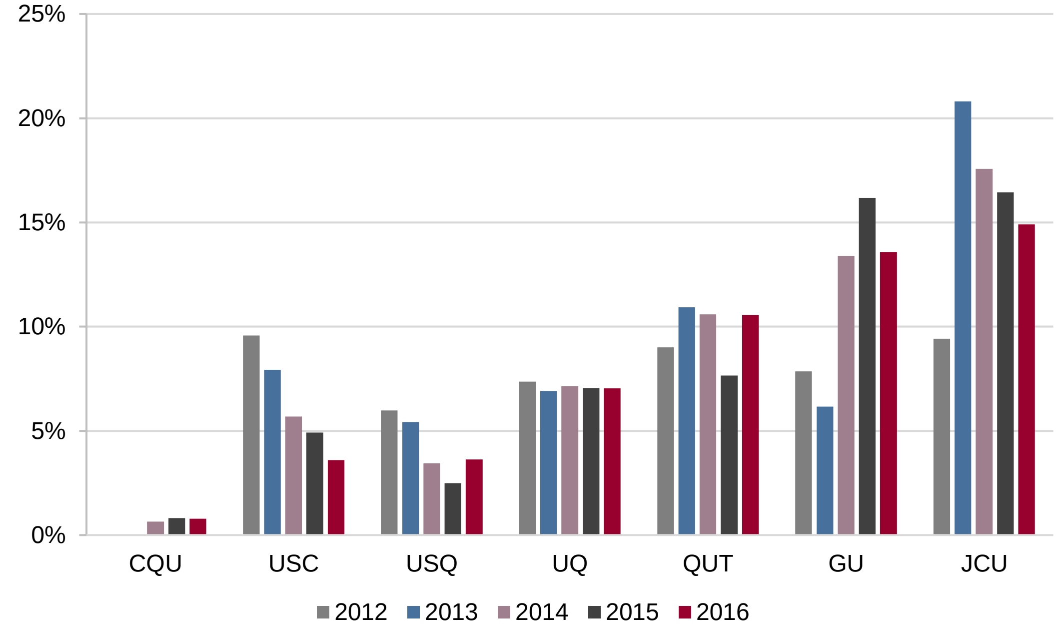
The sector's ability to fund expansion through debt facilities is a future challenge.

Debt to revenue ratio

The *debt to revenue ratio* assesses an entity's ability to pay the principal and interest on borrowing, as and when they fall due, from the funds the entity generates. This provides an indicator of the affordability and sustainability of debt levels. A lower percentage indicates an entity has a greater ability to repay debt.

Figure 3U shows the debt to revenue ratio for each of the universities over the past five years.

Figure 3U
Debt to revenue ratio for 2012–2016



Note: Controlled entities are not included.

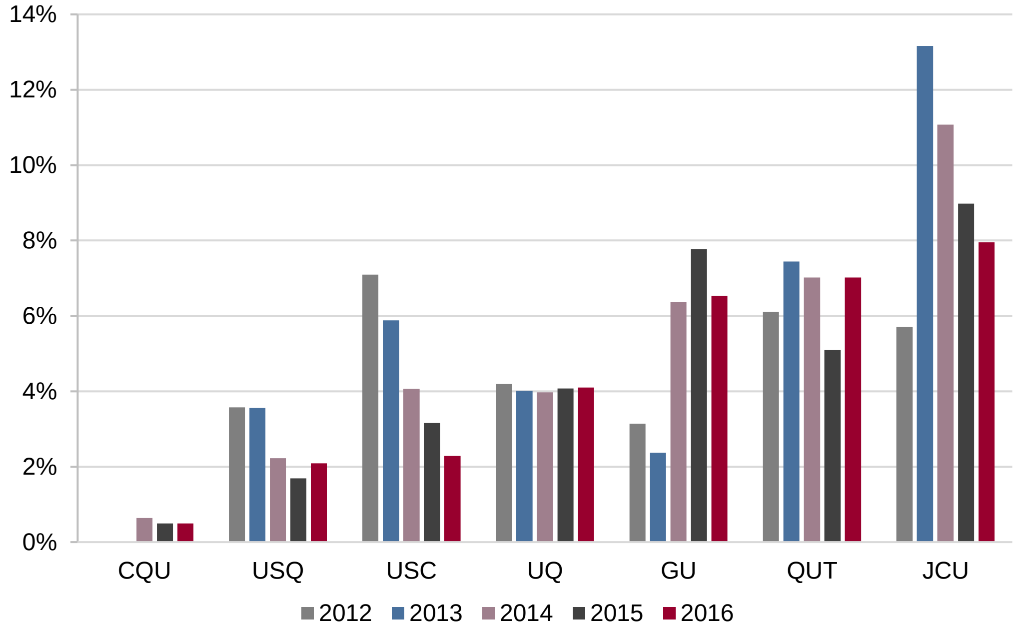
Source: Queensland Audit Office.

While the level of debt has increased over the past five years, all seven universities continue to have a low debt to revenue ratio, which indicates they are able to fund future debt obligations and remain financially sustainable.

Debt to equity ratio

The *debt to equity ratio* represents the proportion of debt and equity used to finance an entity's assets. Entities with a higher debt to equity ratio are considered more of a risk to creditors than entities with a lower ratio. Figure 3V shows the debt to equity ratio over the past five years for each university.

Figure 3V
Debt to equity ratio for 2012–2016



Note: Controlled entities are not included.

Source: Queensland Audit Office.

The universities held $453 million in debt at 31 December 2016 and $8.9 billion in equity, a 5.1 per cent debt to equity ratio. This indicates that they have taken on relatively little debt and hence are lower risk. We acknowledge that while James Cook University has had the highest ratio for the past four years, it has been reducing its ratio consistently over that period.

Grammar schools

Understanding financial performance

In 2016, the eight grammar schools achieved a combined operating result of $10.74 million, a decrease of 31.3 per cent from the prior year.

While total revenue across the schools remained constant, there has been an increase in employee-related expenses of four per cent this year.

Six of the eight grammar schools achieved operating surpluses in 2016. Ipswich Grammar School and Rockhampton Girls Grammar School recorded deficits of $482 000 and $269 000 respectively. These deficits were caused by lower revenue, relating mainly to reductions in tuition and boarding fees, state government funding, and donations for capital purposes.

Although Brisbane Grammar School recorded an operating surplus in 2016, supported by increases in tuition fees and grant funding, other revenue has significantly reduced. In 2015, it received other revenue of $4.2 million relating to insurance claims due to storm damage. This was not repeated in 2016.

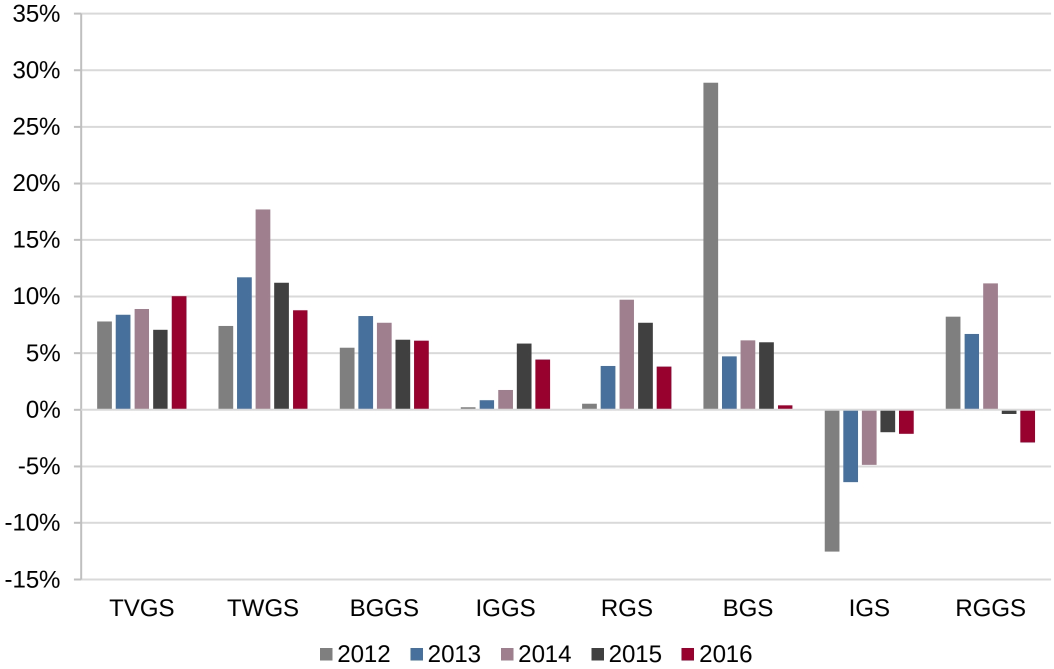
Rockhampton Grammar School recorded a significant drop in its operating surplus from the prior year (50.6 per cent decrease). While its total revenue remained consistent with the prior year, it recorded an increase in employee-related expenses of 4.9 per cent.

The financial performance of Brisbane Girls Grammar School, Townsville Grammar School and Toowoomba Grammar School continue to be sound.

Operating ratio

The operating ratio is the operating result before tax expressed as a percentage of total revenue. It should be positive over the medium- to long-term if an entity is to remain financially sustainable. It is affected by both operating costs and revenue. Figure 3W shows the operating ratio of each grammar school over the past five years.

Figure 3W
Operating ratio for grammar schools for 2012–2016



Note: Townsville Grammar School (TVGS), Toowoomba Grammar School (TWGS), Brisbane Girls Grammar School (BGGS), Ipswich Girls' Grammar School (IGGS), Rockhampton Grammar School (RGS), Brisbane Grammar School (BGS), Ipswich Grammar School (IGS), Rockhampton Girls Grammar School (RGGS).

Source: Queensland Audit Office.

The negative operating ratios for Ipswich Grammar School and Rockhampton Girls Grammar School indicate that insufficient revenue is being generated to fund operating and capital expenditure commitments.

Brisbane Grammar School also experienced a significant decline in its operating ratio in 2016. This was mainly due to the settlement of claims made by past students amounting to almost $3 million. A low or negative operating ratio in one year is not cause for concern; however, it should be monitored to ensure that this trend is not sustained.

Revenue for grammar schools is driven by student numbers and the tuition fees charged. Student numbers have been decreasing at both Ipswich Grammar Schools and Rockhampton Girls Grammar School over the period 2012 to 2016. These schools have developed strategies to increase enrolments to a sustainable level and maintain academic standards to compete effectively with other local schools.

If this trend continues, these schools will need to identify other revenue streams and reduce costs to maintain financial sustainability. Ensuring that their costs are aligned to student numbers as much as possible is one way of achieving financial sustainability—if enrolments fall, they should be able to reduce operating expenditure accordingly.

Revenue

Figure 3X
Major revenue for all grammar schools in 2016

Source: Queensland Audit Office.

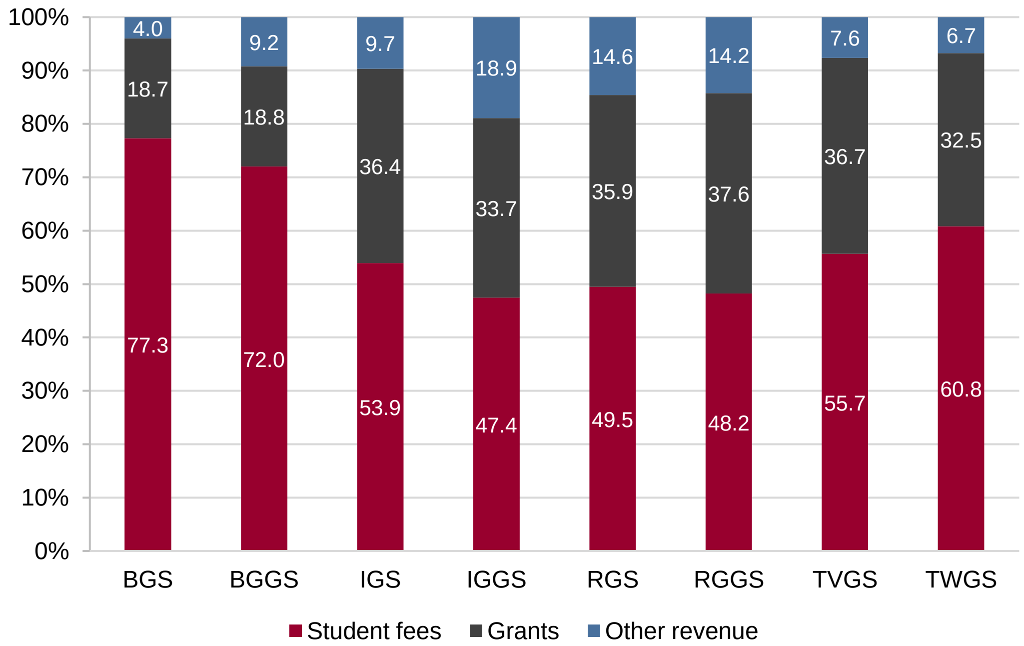
Events and transactions affecting revenue this year

Revenue received by the eight grammar schools is predominantly from student fees (such as tuition and boarding), and from state and federal government grant funding—90.3 per cent in total for 2016. Student fee income is driven primarily by student numbers and the fee rates charged.

The grammar schools reported $256 million revenue in 2016, consistent with the prior year. However, student fee income for the sector increased by $3.4 million (2.2 per cent) in 2016. Brisbane Grammar School ($2.02 million) and Brisbane Girls Grammar School ($1.25 million) represented 96 per cent of the net increase in student fee income. Whilst overall student numbers for grammar schools decreased by 108 (2016 compared with 2015), these two schools had both an increase in student numbers in 2016 of 21 and six respectively. Additionally, they both increased student fee rates by 3.5 per cent and 3.8 per cent respectively in 2016 (other schools ranged from nil to three per cent).

Figure 3Y shows the proportion of revenue components by grammar school in 2016.

Figure 3Y
Revenue composition for grammar schools 2016



Source: Queensland Audit Office.

Figure 3Y shows Brisbane Grammar School and Brisbane Girls Grammar School are the best placed to absorb reductions in grant funding. Grant funding made up 18.7 and 18.8 per cent of their total revenue in 2016. The remaining six grammar schools are significantly more susceptible to the effects of a potential funding cut, with grant revenue comprising between 32.5 and 37.6 per cent of their total revenue.

Future challenges and emerging risks

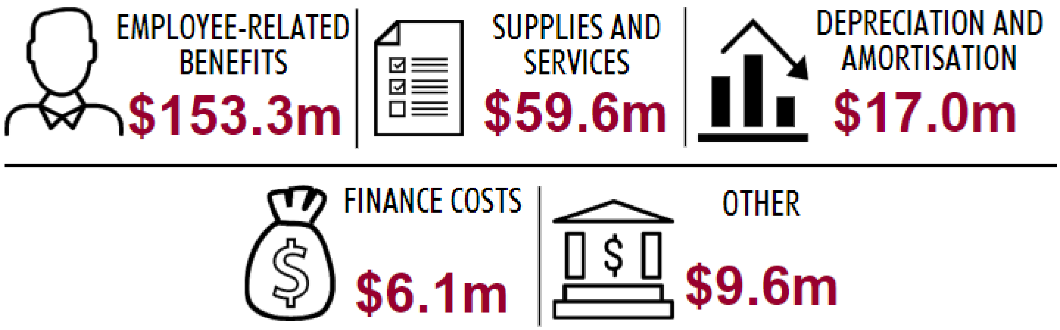
Greater reliance on own-revenue sources

The grammar schools will be increasingly challenged by reductions in government funding. Their ability to attract and retain students will become increasingly important, as well as their ability to generate other sources of revenue.

State and federal grants are the second largest source of revenue for grammar schools. The Australian Government has recently proposed changes to the funding model for schools. Each school will closely assess the impact of this proposal. Any reduction in government funding will require the schools to review their cost structures and student tuition fee rates, or to seek ways to generate other forms of revenue. This may have flow-on effects to enrolment numbers and the quality of the product provided by the schools.

Expenditure

Figure 3Z
Major expenditure for all grammar schools in 2016



Source: Queensland Audit Office.

Events and transactions affecting expenditure this year

The grammar schools reported $246 million of total expenditure in 2016, an increase of $4.7 million (two per cent) from the prior year:

- Employee-related costs are the most significant expense (62.4 per cent of total expenditure) for the grammar schools. These costs have increased by $5.3 million (3.6 per cent) from the prior year, mainly due to the implementation of new enterprise bargaining agreements for employee salaries and wages.
- Supplies and services make up 24.3 per cent of total expenditure. These include costs for tuition and boarding, repairs and maintenance, motor vehicles, materials and consumables, administration costs, and consultants and contractors. Supplies and services expenses decreased by $1.7 million in 2016, but it should be noted that in 2015, Brisbane Grammar School incurred additional costs for repairs due to storm damage ($4 million).
- Other expenditure across the grammar schools increased by $1.7 million (21.6 per cent) from the prior year. During 2016, Brisbane Grammar School made payments to settle claims by past students amounting to almost $3 million (2015: $498 000).

Understanding financial position

The financial position of all eight grammar schools continues to be sound, with combined net assets of $574 million at 31 December 2016. The value of total net assets increased by $34.8 million (6.5 per cent) in 2016, due mainly to the recognition of a $33.8 million upward movement in PPE valuations. There was also an $8.2 million decrease in the level of debt held by the grammar schools.

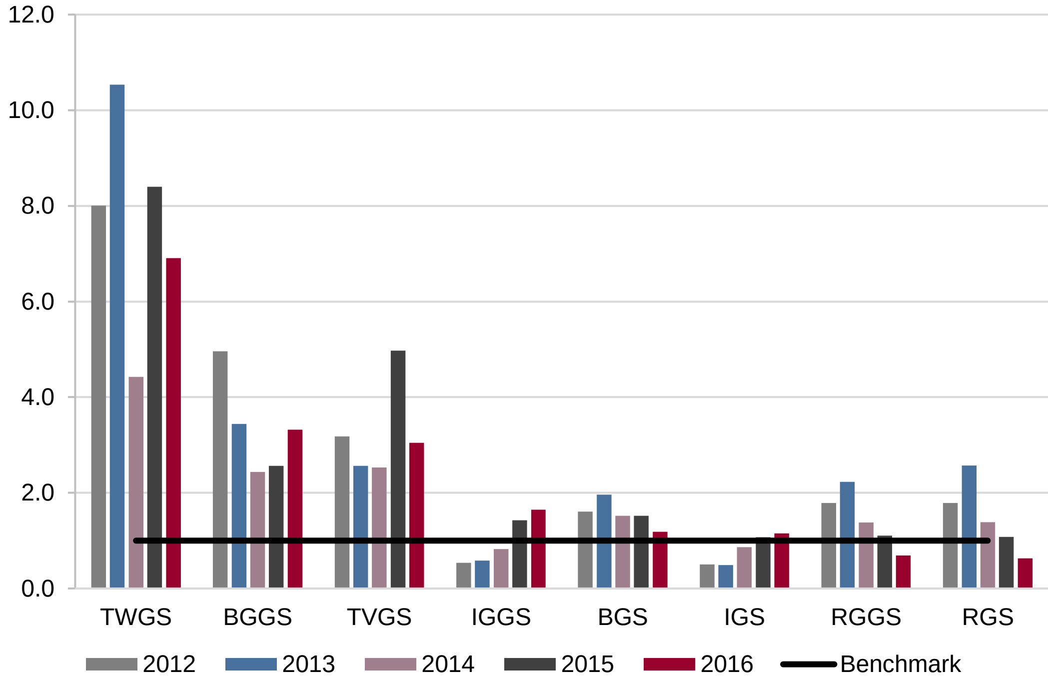
The grammar schools reported $629 million in PPE, $47.1 million in cash, and debt of $94.3 million at 31 December 2016.

Current ratio

The current ratio is a liquidity ratio that measures an entity's ability to pay short-term obligations as and when they fall due. Short-term obligations within this ratio include provisions expected to be settled within the next 12 months. A ratio of greater than one is acceptable.

Figure 3AA shows the current ratio over the past five years for each grammar school and for the sector.

Figure 3AA
Current ratio by grammar school for 2012–2016



Source: Queensland Audit Office.

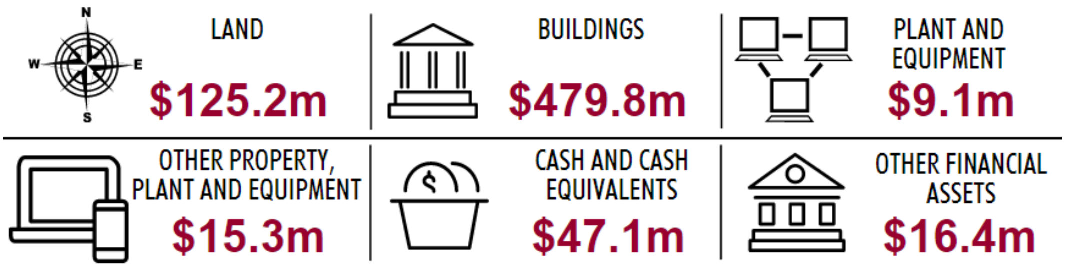
The current ratio shows that six grammar schools have adequate liquidity to meet their short-term liabilities as they fall due. However, Rockhampton Grammar School and Rockhampton Girls Grammar School have underperformed against this financial sustainability measure in 2016.

It is acknowledged that the schools' management teams have identified the need to reduce costs—and are reviewing their operating expenditure to maintain an adequate level of liquidity.

They need to continue to closely monitor their liquidity position and revise their revenue and expenditure policies. Both Ipswich Grammar School and Ipswich Girls' Grammar School have shown improvement over the past four years.

Assets

Figure 3BB
Major assets for grammar schools at 31 December 2016



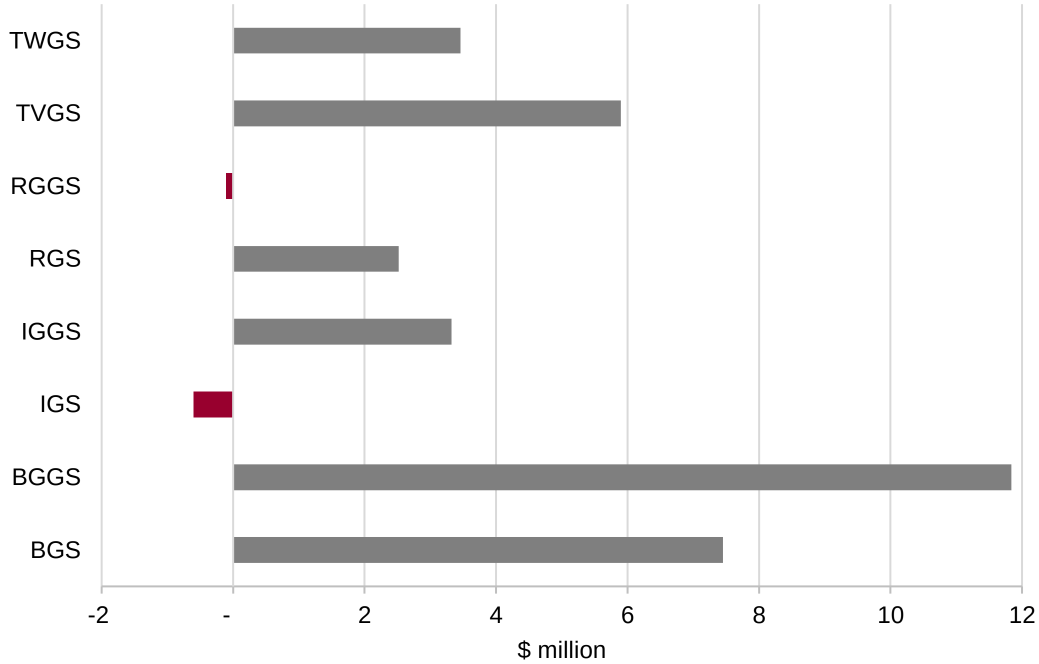
Source: Queensland Audit Office.

The grammar schools reported $705 million of assets at 31 December 2016, consisting primarily of PPE ($629.4 million or 89.2 per cent).

Events and transactions affecting assets this year

Total PPE increased by $33.8 million (5.7 per cent) from the prior year. Figure 3CC shows a breakdown of this movement by grammar school.

Figure 3CC
Movements in PPE by grammar school in 2016



Source: Queensland Audit Office.

The increase was mainly due to recognition of an upward movement in asset valuations ($25.2 million) and asset acquisitions ($27 million), offset by annual depreciation charges ($16.8 million) across the eight grammar schools.

The upward movement in PPE for Brisbane Girls Grammar School was due to increases in building and improvements of $11.4 million. Since the previous valuation, several of the school's buildings have been subject to renovations and re-fittings, which resulted in improved asset condition ratings.

Key transactions and events that occurred across the sector in 2016 included the following:

- Approximately $3.5 million was spent on a new tennis centre at Brisbane Grammar School. As part of the school's strategy to increase capacity for expansion, additional properties adjoining the school's sporting facility were acquired during 2016.
- Major expenditure of $1.3 million incurred by the Ipswich Girls' Grammar School was driven by the expansion of an early education centre and ongoing refurbishment of the school's buildings.
- Toowoomba Grammar School incurred costs of $3.2 million to re-purpose and renovate two previous boarding houses as teaching facilities.
- Townsville Grammar School undertook a major capital project to construct and develop the North Shore Junior Campus, with costs amounting to over $8.1 million.

Measuring the value of assets

Land, buildings and improvements, infrastructure assets, and heritage and cultural assets are reported at their fair value, whereas plant and equipment, leased assets, and works in progress are reported at cost in the financial statements of the schools.

Where grammar schools report their assets at fair value, they assess the amounts recorded in their asset registers each year to ensure that asset valuations remain materially accurate. Asset valuations rely on expert opinion, using assumptions and estimates throughout the process including relevant indices. Management assessment and acceptance of asset valuations is crucial to ensuring that the values disclosed in the financial statements are materially correct.

We reviewed the independent valuations and application of indices undertaken during 2016 for the schools' assets. We assessed and were satisfied that the methodology adopted for the valuations, including the assumptions applied, was in accordance with the requirements of the *Non-Current Asset Policies for the Queensland Public Sector* issued by Queensland Treasury and the Australian accounting standards.

Future challenges and emerging risks

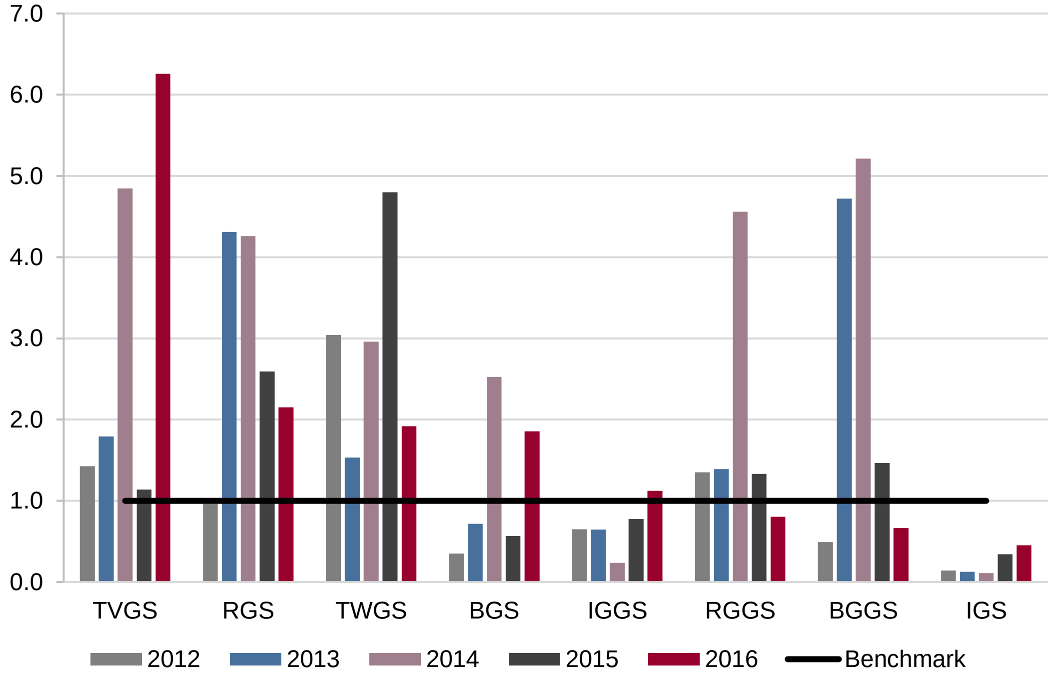
Maintaining facilities to meet future demand

Grammar schools continue to focus on providing facilities to meet the demands of students and the expectations of the parents who invest significantly in their children's education. This includes the need to continue to fund the upgrade and replacement of existing assets. The availability of land for ongoing expansion of student numbers and facilities is an ongoing challenge for the schools.

Capital replenishment

The capital replenishment ratio compares the annual net expenditure on non-current assets to annual depreciation. An average ratio below one indicates that assets are not being built or replaced at least at the same rate as existing assets are depreciated. Figure 3DD shows the capital replenishment ratio for each of the grammar schools over the past five years.

Figure 3DD
Capital replenishment ratio for 2012–2016



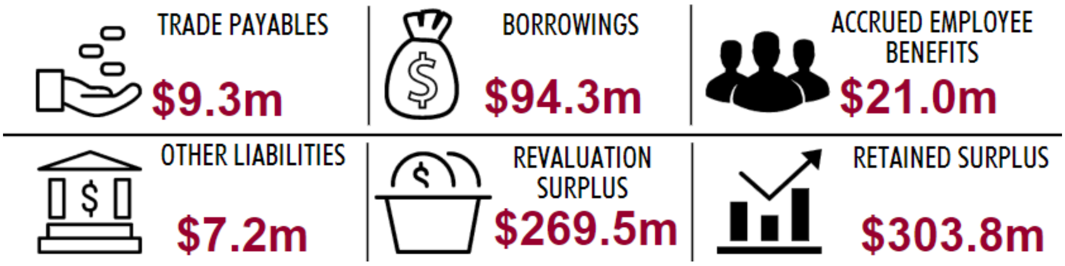
Source: Queensland Audit Office.

Ipswich Grammar School has consistently trended below the benchmark. Their consistently low ratios increase the risk of a backlog in planned renewals and of higher maintenance costs, with a potential impact on the service level or capacity of the school's assets.

We note that Ipswich Girls' Grammar School has exceeded the benchmark in 2016 for the first time in five years. This was attributed to increased expenditure on capital projects in 2016, namely the refurbishment of the middle school and the boarding house, in addition to the construction of modular classrooms and set-up costs.

Liabilities and equity

Figure 3EE
Components of liabilities and equity for grammar schools at 31 December 2016



Source: Queensland Audit Office.

Debt and equity at a glance

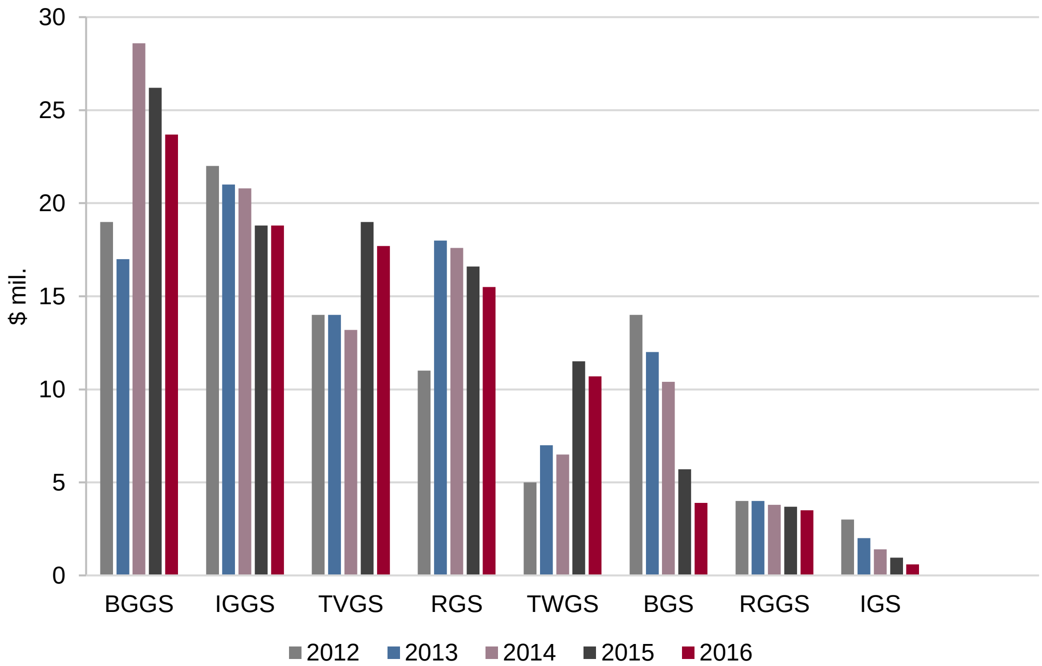
Debt in the grammar schools consists entirely of borrowings from QTC.

Liabilities include security deposits on fees and enrolment fees received in advance.

Equity includes asset revaluation surpluses for land, buildings, and heritage assets, and retained surplus.

At 31 December 2016, the grammar schools held $94.3 million in debt, with 91.6 per cent of the total debt attributed to five of the eight grammar schools. Figure 3FF shows a breakdown of the total debt held by grammar schools at 31 December over the past five years.

Figure 3FF
Debt held by the grammar schools at 31 December for 2012–2016



Source: Queensland Audit Office.

Events and transactions affecting debt and equity this year

The borrowings across the eight grammar schools decreased by $8.2 million (eight per cent) in 2016, with resulting decreases in associated borrowing costs (interest) of $574 303 (8.7 per cent).

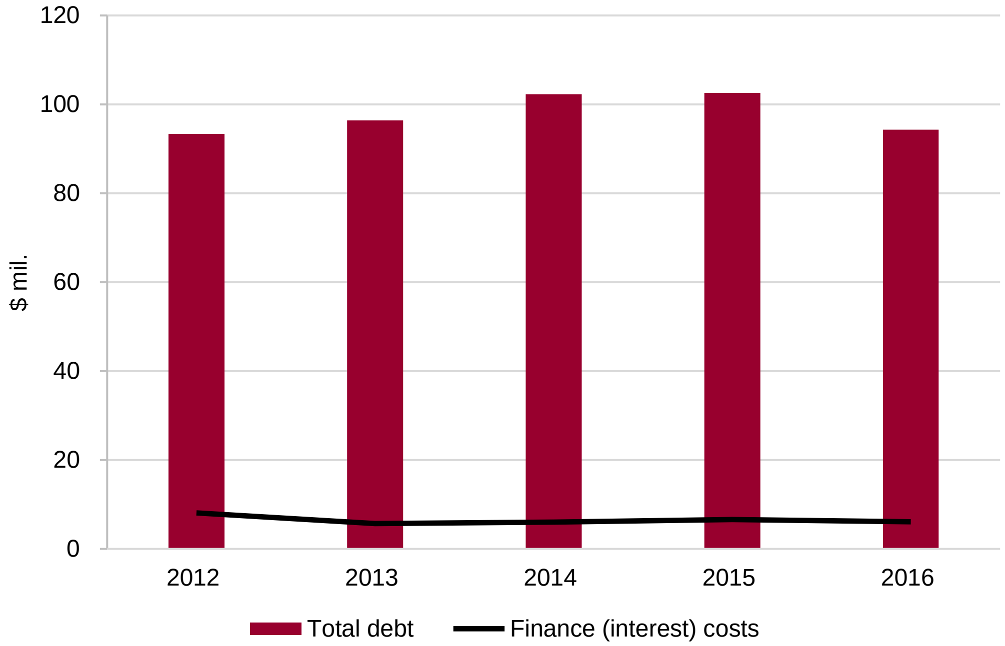
In 2016, most schools reduced their level of debt, with Brisbane Grammar School and Ipswich Grammar School reducing their debt by 32.3 per cent and 41.3 per cent respectively. The reduction of debt reduces interest payments and allows for the use of money for other purposes.

The debt held by Ipswich Girls' Grammar School has remained stable from the prior year. The school's borrowings are interest-only repayments until 2018, at which point it will start making principal repayments. The school will need to ensure that it maintains sufficient funding to meet these repayments in the future.

Whilst Brisbane Girls Grammar School continues to hold the most debt, this has reduced significantly over the past two years due to strong operating results and a strong net asset position. The school has allocated more revenue to debt repayments, resulting in reduced interest costs, demonstrating its ability to service this debt. Continuation of this financial strategy will enable greater savings in interest costs to be redirected towards school services.

Figure 3GG shows the total finance costs and debt held by the eight grammar schools over the past five years.

Figure 3GG
Total debt held by the grammar schools for 2012–2016



Source: Queensland Audit Office.

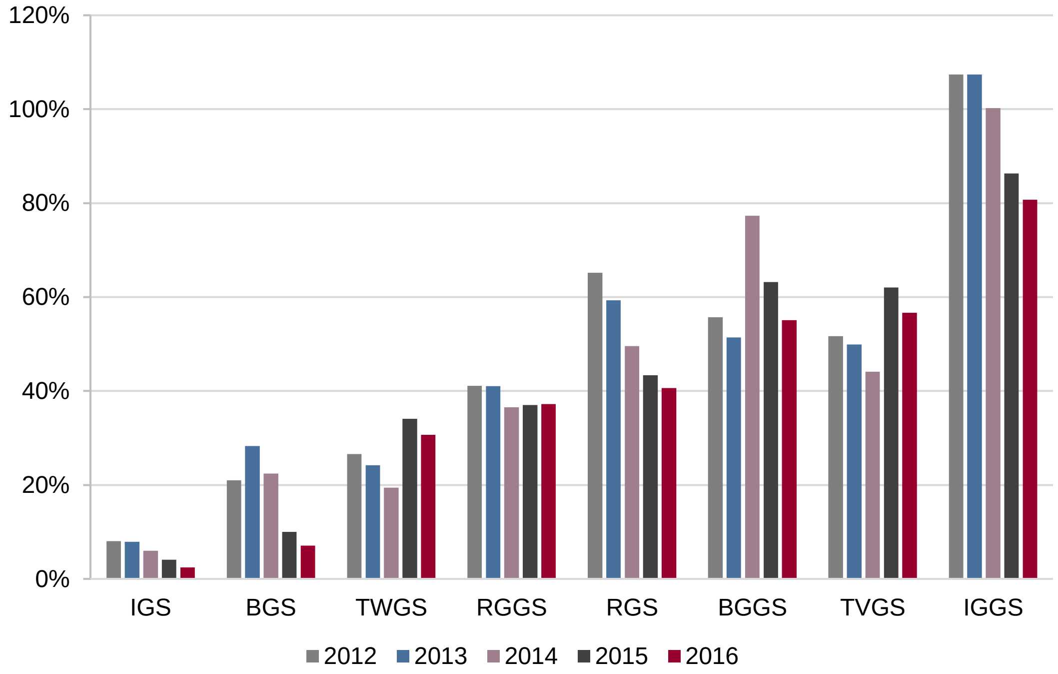
Debt to revenue ratio

When forming an audit opinion on an entity's financial statements, we assess its ability to continue as a going concern, that is, its ability to pay its debts in the short term. The debt to revenue ratio is calculated by comparing total borrowings at 31 December with the revenue generated during the year.

The schools need to ensure that they generate sufficient revenue to service their debt, expenditure, and investment obligations. A low ratio is an indication that schools have the capacity to meet these obligations as and when they fall due.

Figure 3HH shows the ratio of the level of debt to operating revenue for the past five years by grammar school.

Figure 3HH
Debt to revenue ratio for 2012–2016



Source: Queensland Audit Office.

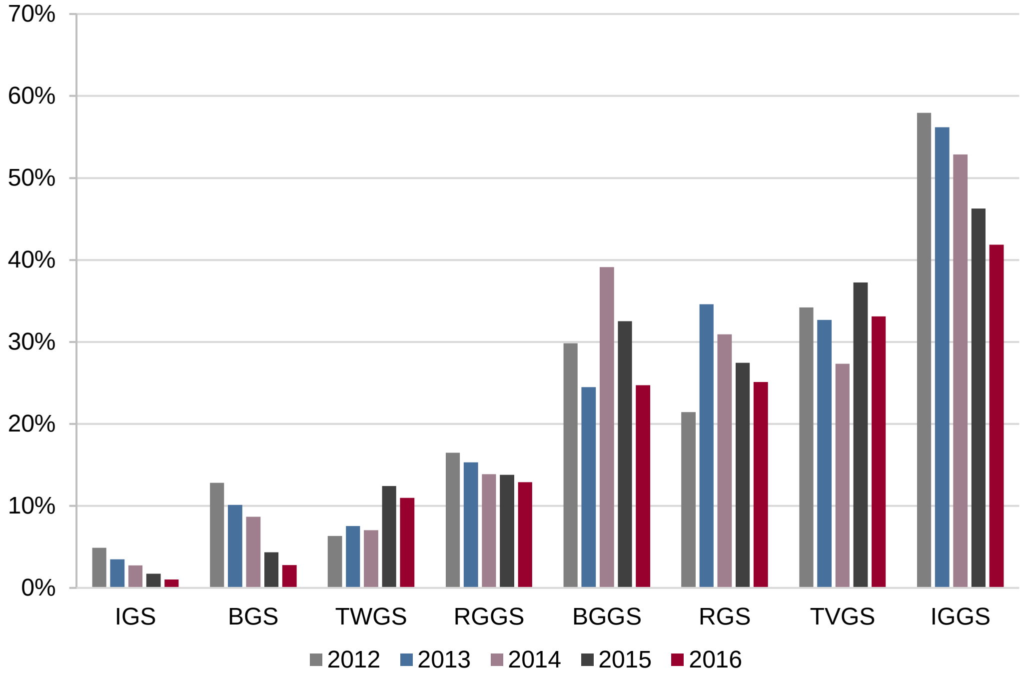
Ipswich Girls' Grammar School continues to have a higher debt to revenue ratio than all other grammar schools and will need to continue to closely assess its revenue and expenditure policies. It is acknowledged that the level of debt held by Ipswich Girls' Grammar School has decreased over the past five years (by $3.3 million or 15 per cent).

Debt to equity ratio

The debt to equity ratio represents the proportion of debt and equity used to finance an entity's assets. Entities with a higher debt to equity ratio are considered more of a risk to creditors than entities with a lower ratio.

Figure 3II shows the debt to equity for the past five years by grammar school.

Figure 3II
Debt to equity ratio by grammar school for 2012–2016



Source: Queensland Audit Office.

The grammar schools had $94.3 million in debt at 31 December 2016 and $573.3 million in equity—a 16.4 per cent debt to equity ratio. This indicates they have taken on relatively low debt and hence are a lower going concern risk.

It is acknowledged that while Ipswich Girls' Grammar School has had the highest ratio for the past five years, it has been reducing consistently over that period.

4. Internal controls

Introduction

This chapter evaluates the effectiveness of internal controls as they relate to our audit.

Internal controls are designed, implemented, and maintained by entities to mitigate risks that may prevent them from achieving reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations.

In undertaking our audit, we are required under the Australian auditing standards to obtain an understanding of an entity's internal controls relevant to the preparation of the financial report.

We assess the design and implementation of internal controls to ensure they are suitably designed to prevent, or detect and correct material misstatements in the financial report. Where we identify controls that we intend to rely on, we test how effectively these controls are operating to ensure they are functioning as designed.

We are required to communicate deficiencies in internal controls to management. We identify deficiencies when we assess that internal controls will not prevent, or detect and correct, misstatements in the financial report. These deficiencies arise when internal controls are not well designed, not operating as intended, or missing. We also assess the impact of deficiencies on our audit approach.

Our audit procedures are designed to address the risk of material misstatement, so we can express an opinion on the financial report. We do not express an opinion on the effectiveness of internal controls.

By reporting on our analysis, we aim to promote stronger internal control frameworks. In doing so, we seek to mitigate financial losses and damage to public sector reputation by initiating effective responses to identified control weaknesses.

We provide a summary of our control assessments in Appendix C.

Conclusion

The universities and grammar schools have made improvements to their internal control systems this year. However, a number of prior year deficiencies in their internal controls remain unresolved. These relate to information technology general controls and procurement policy. This increases the potential risk of fraud and should be addressed as a matter of priority. Some issues have been outstanding for more than 12 months, and audit committees should work closely with internal audit to resolve these issues in a timely manner.

Internal control framework

We categorise internal controls using the Committee of the Sponsoring Organizations of the Treadway Commission (COSO) internal controls framework, which is widely recognised as a benchmark for designing and evaluating internal controls.

The framework identifies five components for a successful internal control system. These are the control activities, control environment, risk assessment, monitoring activities, and information and communication.

All components need to be present and operating together as an integrated system of internal control. When this is not the case, entities increase the risk of not achieving their objectives.

Selecting internal controls to test

We assess the design and implementation of each entity's controls to help us determine the nature, timing, and extent of testing we must perform.

Where we believe the design and implementation of controls is effective, we select the controls we intend to test further by considering a balance of factors including:

- significance of the related risks
- characteristics of balances, transactions, or disclosures (volume, value, and complexity)
- nature and complexity of the entity's information systems
- whether the design of the controls facilitates an efficient audit.

Our rating of internal control deficiencies

Deficiency: occurs when internal controls are missing or are assessed as being ineffective.

Significant deficiency (high risk matters): is a deficiency that either alone or in combination with multiple deficiencies may lead to a material misstatement. Significant deficiencies also include other deficiencies that are of sufficient importance to merit the immediate attention of those charged with governance.

We assess all internal control issues based on their potential to cause a material misstatement in the financial statements—either alone or as part of an environment that does not support effective record keeping.

Our ratings allow management to gauge relative importance and prioritise remedial actions.

We increase the rating from a deficiency to a significant deficiency based on the risk of material misstatement in financial statements, or the potential to cause financial losses, or the risk of an event causing major business interruptions.

Where we identify deficiencies in internal controls, we determine the impact on our audit approach, considering whether additional audit procedures are necessary to address the risk of material misstatement in the financial statements.

The following sections of this chapter detail the control deficiencies identified by COSO component. We also consider the appropriateness and timeliness of remedial action undertaken to resolve any audit matters we identified.

Status of internal control deficiencies

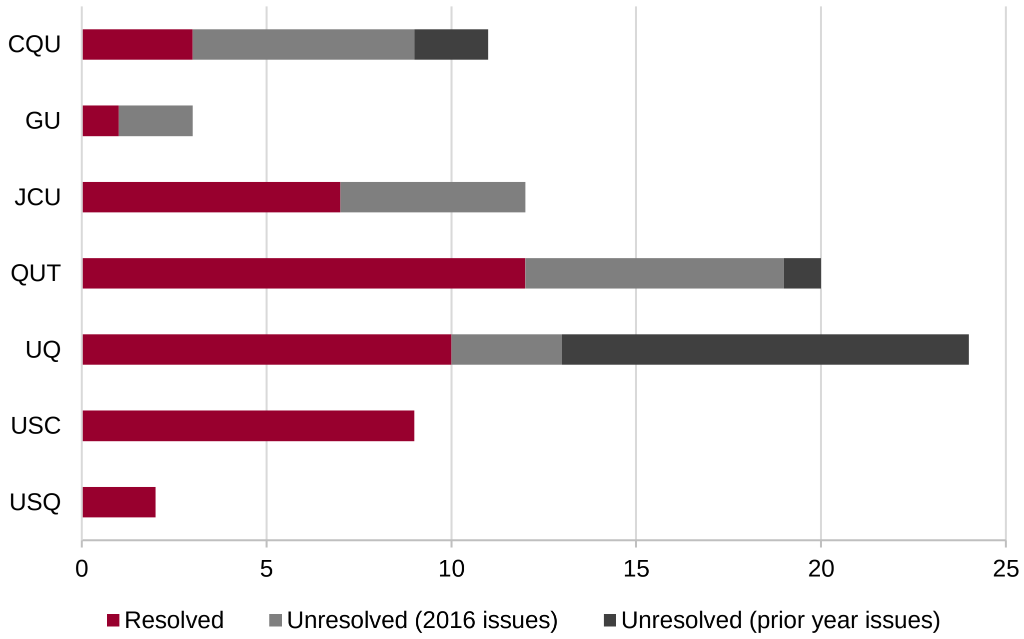
While we identified a significant deficiency at Brisbane Girls Grammar School in 2016, we are satisfied that management has taken corrective action to address the issue. The school prioritised corrective action immediately upon the issue being brought to its attention and advised us that no incorrect payments were identified nor any continuing issues exist.

In 2016, we identified 37 internal control deficiencies across six universities. These issues were in addition to 44 internal control deficiencies raised in prior years that had not been resolved at the start of 2016.

Figures 4A and 4B show the status of these issues by university and grammar school (respectively) as at 28 February 2017.

Figure 4A
Status and number of internal control issues at 28 February 2017

Universities



Note: Central Queensland University (CQU), Griffith University (GU), James Cook University (JCU), Queensland University of Technology (QUT), University of Queensland (UQ), University of Sunshine Coast (USC), University of Southern Queensland (USQ).

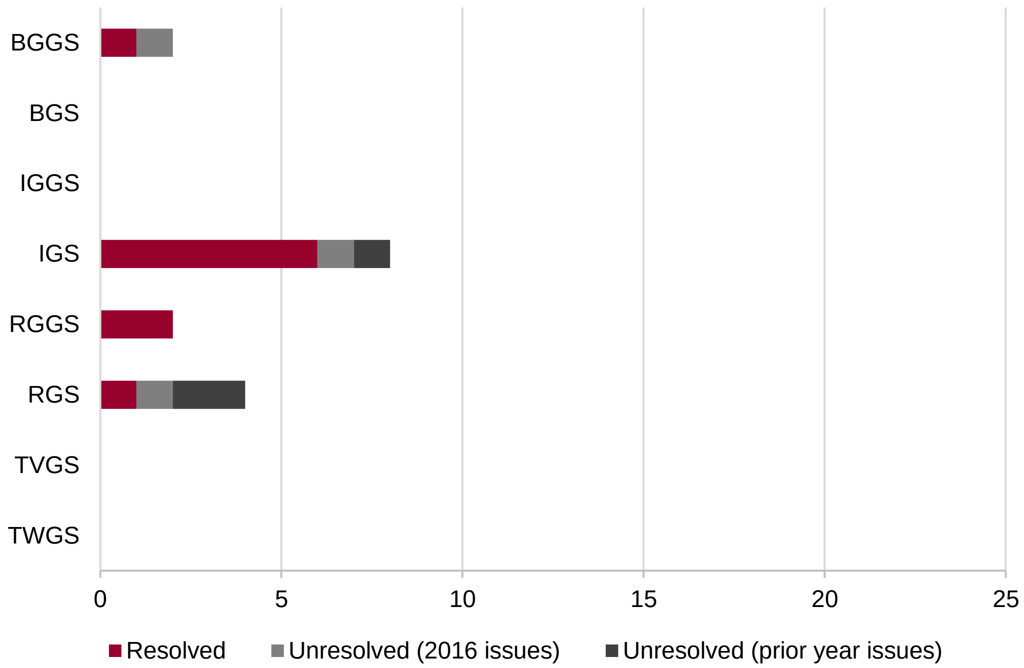
Source: Queensland Audit Office.

Of the 81 deficiencies identified at the universities, there are 23 issues (28.4 per cent) raised by audit in 2016 and 14 issues (17.3 per cent) from prior years on which management are taking corrective action. They have resolved 44 issues (54.3 per cent).

The deficiencies mainly relate to information technology (IT) general controls including system access, security, and change management as well as procurement process controls.

Grammar schools

Figure 4B
Status and number of internal control issues at 28 February 2017



Note: Townsville Grammar School (TVGS), Toowoomba Grammar School (TWGS), Brisbane Girls Grammar School (BGGS), Ipswich Girls' Grammar School (IGGS), Rockhampton Grammar School (RGS), Brisbane Grammar School (BGS), Ipswich Grammar School (IGS), Rockhampton Girls Grammar School (RGGS).

Source: Queensland Audit Office.

Of the 16 deficiencies identified at the grammar schools, there are three issues (18.8 per cent) from 2016 and three issues (18.8 per cent) from prior years where management are taking corrective action to address the audit recommendations made. Of these, 10 issues (62.5 per cent) have been resolved.

Control activities

- Manual controls
- Automated controls

Control activities are policies and procedures that help ensure management directives are carried out and necessary actions are taken to address identified risks. These activities operate at all levels and in all functions, and can be designed to prevent or detect errors entering financial systems.

The mix of control activities can be categorised into manual control activities and IT system controls.

Manual control activities

Manual controls contain a human element, which can provide the opportunity to assess the reasonableness and appropriateness of transactions. However, these controls may be less reliable than automated elements as they can be more easily bypassed or overridden. They include activities such as approvals, authorisations, verifications, reconciliations, reviews of operating performance, and segregation of incompatible duties. Manual controls may be performed with the aid of IT systems.

Universities

We did not identify any significant deficiencies relating to control activities at the seven universities in 2016.

We noted deficiencies relating to the:

- absence of documentation to evidence monitoring of payroll exception reports
- large number of fully depreciated assets still in use
- inappropriate use of purchase orders and incorrect pricing information, which resulted in overpayments by students.

Universities continue to resolve several deficiencies raised in prior years. The outstanding issues identified in prior years relate mainly to the University of Queensland and include:

- not maintaining appropriate documentation to support decisions as required under policies and procedures
- needing to strengthen procurement processes to
  - develop and monitor important performance indicators for significant procurement
  - make sure contracts use standard terms and conditions
- needing to make improvement to procurement and financial delegations training
- needing to consider three-way match thresholds (that is, purchase order, invoice, and goods receipt notes) for high value purchases.

We acknowledge that some actions are progressing to resolve outstanding deficiencies. Priority needs to be given to resolving all outstanding issues in a timely manner, as some have been outstanding for over 12 months.

Grammar schools

In 2016, we identified a significant deficiency in control activities at Brisbane Girls Grammar School. We observed there were no formal processes in place to review changes to supplier master file data such as bank account details. This increases the risk that supplier payments will not be made to valid bank accounts. However, we are satisfied that management has undertaken corrective action to address the issue raised and mitigate the associated risks. No incorrect payments were identified by us from the transactions we tested. The school prioritised corrective action immediately upon the issue being brought to its attention and advised that no incorrect payments were identified nor any continuing issues exist.

At three grammar schools, we noted deficiencies in 2016 relating to the absence of a credit card policy and to the receipting of goods. These are being addressed.

Control deficiencies we identified last year relating to procurement processes have not yet been resolved at two grammar schools. These included the need for grammar schools to maintain appropriate documentation to evidence the evaluation of tender documents submitted. These issues should be resolved as a matter of priority.

Information technology (IT) system controls

IT system controls are control activities that relate to the maintenance and operational capability of IT systems. These systems can improve timeliness, availability, and accuracy of information by consistently applying predefined business rules. They also enable entities to perform complex calculations in processing large volumes of transactions, and improve the effectiveness of financial delegations and segregation of duties.

Effective controls over IT systems can reduce the risk that controls will be circumvented. This maintains information integrity and data security.

Conversely, poorly managed IT system controls can increase the risk of unauthorised access, which may result in the destruction of data or recording of inappropriate or unauthorised transactions.

Universities

We identified the following deficiencies in IT system controls at six universities in 2016:

- inconsistent monitoring of users' access to IT systems, including in relation to the monitoring of activities of privileged users and the removal of access for terminated employees
- weak password settings not in compliance with university password guidelines or best practice
- inadequate segregation of duties over important business processes, for example, staff with IT role functions and operational (accounting-related) roles, and staff with access to development, testing, and migrating of changes to the production environment of systems. The failure to maintain adequate segregation of duties when making changes to production environments increases the risk of unauthorised changes or inadequately tested changes to systems
- an absence of documented, approved change management and security policies and procedures for IT systems. At one university, we observed that there are no formal processes in place to document and authorise changes to system user profiles
- duplicate and generic user accounts being used for various IT systems.

Many of these IT issues were raised across the sector in prior years and we recommend all impacted universities address these as a matter of priority.

There were no IT systems controls audit issues raised at the grammar schools in 2016.

Control environment

- Cultures & values
- Governance
- Organisational structure
- Policies
- Qualified & skilled people
- Management's integrity & operating style

The control environment is defined as management's actions, attitudes, and values that influence day-to-day operations. As the control environment is closely linked to an entity's overarching governance and culture, it is important that the control environment provides a strong foundation for the other components of internal control.

In assessing the design and implementation of the control environment we consider whether:

- those charged with governance are independent, appropriately qualified, experienced, and active in challenging management, ensuring they receive the right information at the right time to enable informed decision-making
- policies and procedures are established and communicated so that people with the right qualifications and experiences are recruited, they understand their role in the organisation, and they also understand management's expectations regarding internal controls, financial reporting, and misconduct, including fraud.

Universities

There were no significant deficiencies identified in 2016 relating to the control environment. However, deficiencies were raised at two universities in relation to:

- an absence of data encryption at all levels
- the fact that a comprehensive review had not been performed over delegation limits applied on implementation of a new finance system (compared to previously authorised limits).

Two deficiencies raised in prior years are still being resolved. They include the requirement for one university to review its financial delegations policies and procedures, and for another university to review and update its overall policies and procedures.

Grammar schools

There were no significant deficiencies identified in 2016 in relation to the control environment.

Deficiencies were identified at one grammar school in 2015 in relation to data retention and security and the absence of a formal process to assess scholarship and bursary applications. We are satisfied that management has implemented our recommendations during 2016 and that these matters have been resolved.

In 2016, we made an assessment as to how senior management at the grammar schools obtain assurance over the effectiveness of the internal controls in place. We noted:

- Those charged with governance and management of the schools demonstrate a good attitude towards and actively participate in the establishment of internal controls.
- The Boards of Trustees, with the assistance of finance committees, generally meet on a monthly basis to discuss emerging risks impacting on their school, consider variances between budgeted and actual results, and undertake a high-level review of the school's strategic direction.
- While the grammar schools do not have internal audit functions in place, a finance and audit committee has been established at a number of the schools to review all aspects of financial and operational performance. These committees report their findings directly to the Board of Trustees.

Risk assessment

- Strategic risk assessment
- Financial risk assessment
- Operational risk assessment

Risk assessment relates to management's processes for considering risks that may prevent an entity from achieving its objectives, and how management agrees risks should be identified, assessed, and managed.

To achieve appropriate management of business risks, management can either accept the risk, if it is minor, or mitigate the risk to an acceptable level by implementing appropriately designed controls. Risks can also be eliminated entirely by choosing to exit from a risky business venture.

Universities

We did not identify any new deficiencies relating to risk assessment during the year. This indicates that senior management groups at each of the universities have identified the main business risks that their universities face, and are appropriately managing and addressing them.

Deficiencies were identified at one university in the prior year in relation to:

- the identification and response to fraud risks, including the documentation of management's response to identified risks and the development of risk treatment plans
- the need to update risk management procedures and policies.

We are satisfied that management has implemented all our recommendations during 2016 and that these prior year issues have been resolved.

Grammar schools

We did not identify any new deficiencies in risk assessment processes at the grammar schools in 2016.

A deficiency was identified in a prior year at one grammar school in relation to the absence of a formal risk assessment process and risk register. We are satisfied that this issue has been resolved.

Monitoring activities

- Management supervision
- Self-assessment
- Internal audit

Monitoring activities are the methods management uses to oversee and assess whether internal controls are present and operating effectively. This may be achieved through ongoing supervision, periodic self-assessments, and separate evaluations.

They also concern the evaluation and communication of control deficiencies in a timely manner to effect corrective action.

Typically, the internal audit function and an independent audit and risk committee are responsible for implementing controls and resolving control deficiencies. These two functions work together to ensure that internal control deficiencies are identified and then resolved in a timely manner.

Universities and grammar schools

We did not identify any deficiencies in monitoring activities within universities and grammar schools this year. This indicates that each entity is appropriately and effectively monitoring its internal control environment. However, the timeliness of resolving control deficiencies across the sector could improve and should be driven by the audit committee and internal audit.

Information and communication

- Non-financial systems
- Financial systems
- Reporting systems

Information and communication controls are the systems used to provide information to employees, and the ways that control how responsibilities are communicated.

This aspect of internal control also considers how management generates financial reports, and how they are communicated to internal and external parties to support the functioning of internal controls.

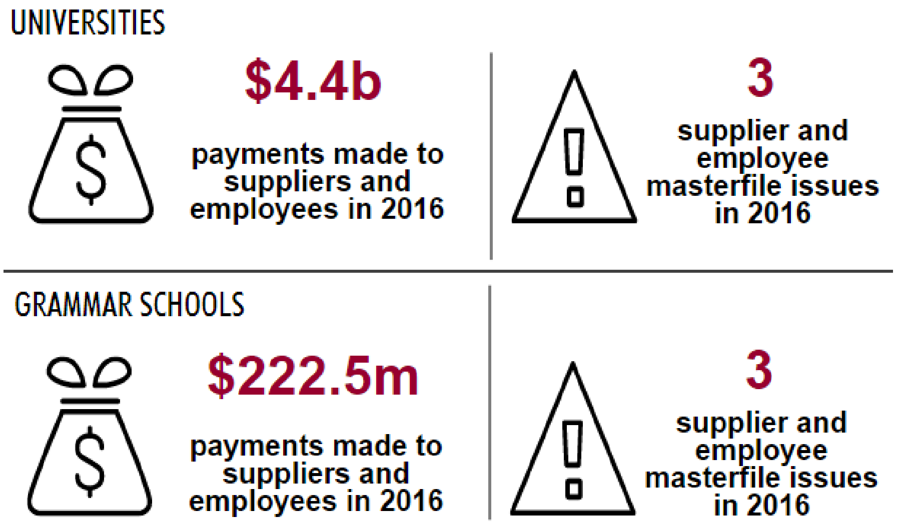
Universities

We did not identify any deficiencies in 2016 across the universities relating to information and communication. We identified a deficiency in the prior year in relation to the untimely recognition of the costs on completed projects included within the value of the assets. We are satisfied that management implemented our recommendations during 2016 and that the above matter has been resolved.

Grammar schools

We did not identify any deficiencies in 2016 relating to information and communication controls across the grammar schools.

Fraud awareness



Source: Queensland Audit Office.

Management is responsible for the systems of internal control designed to prevent and detect fraud within its entity.

Suppliers often change bank account details. The subsequent payments to these suppliers may be significant. Annually, we report on any weaknesses we identify in the controls that are meant to be operating over the integrity of this data.

The scam

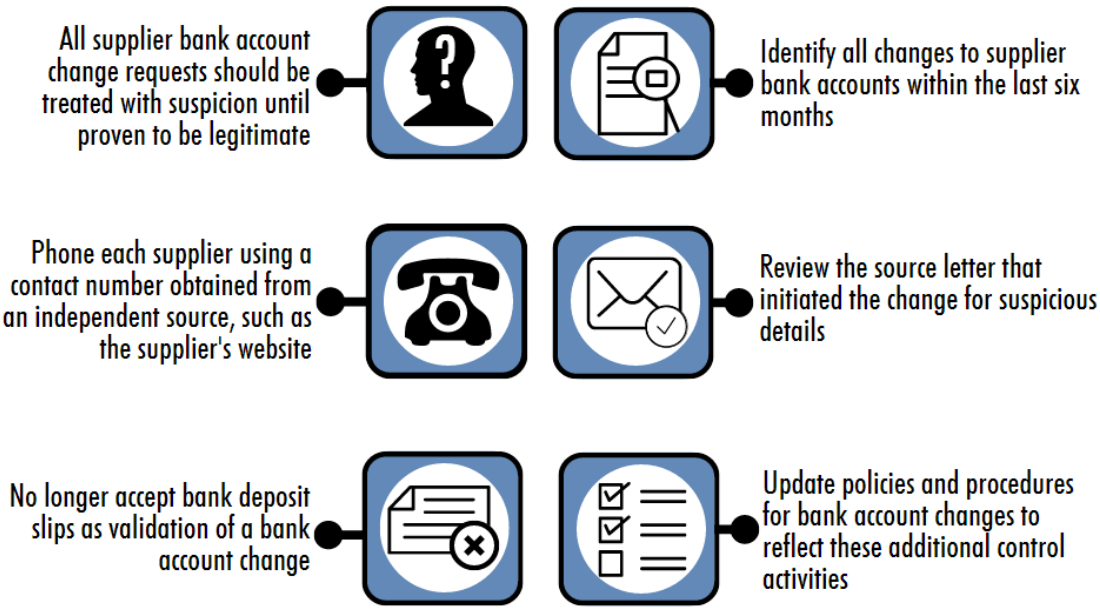
During the past year, a malicious fraud scheme targeted public and private sector entities. The scammers used fraudulent documents to change an existing supplier's bank account details and divert payments to illegitimate bank accounts.

Our responsibilities

During an audit, we assess the risk of material misstatement due to fraud, and respond by developing specific audit procedures to address the risks identified.

Our response

In response to the identified fraud scheme this year, we asked all major entities' chief financial officers to independently verify their supplier bank account details. We recommended entities exercise increased vigilance over new requests to change supplier bank account details.



We also performed targeted procedures over controls for suppliers' bank account changes at all major entities. We used computer-assisted audit techniques to target higher-risk bank account changes.

Our testing of internal controls in the education sector found, in general, that controls in this area were operating effectively, and that appropriate supporting documentation was maintained. Where we challenged the authenticity of a document, no frauds were detected. However, we did identify a significant deficiency at one grammar school relating to control weaknesses over changes to vendor master file data. As noted previously, we are satisfied that management has undertaken corrective action to address the issue raised.

Although no fraudulent payments have been detected, entities need to remain on high alert to this and other fraudulent schemes, and allocate sufficient resources to their support staff to ensure proper interrogation of documents requesting changes to bank account details.

Appendices

Appendix A—Full responses from entities

As mandated in section 64 of the *Auditor-General Act 2009*, the Queensland Audit Office gave a copy of this report with a request for comments to the Director-General, Department of Education and Training.

We also provided a copy of this report to the following entities and gave them the option of providing a response:

- Central Queensland University
- Griffith University
- James Cook University
- Queensland University of Technology
- University of Queensland
- University of Southern Queensland
- University of the Sunshine Coast
- 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.

We provided a copy of this report to the Premier, the Minister for Education, and the Director-General of the Department of the Premier and Cabinet for their information.

We have considered all views provided to us in reaching our conclusions, and these are represented to the extent relevant and warranted in preparing this report.

The heads of these entities are responsible for the accuracy, fairness, and balance of their comments.

This appendix contains their detailed responses to our audit recommendations.

Comments received from Minister for Education and Minister for Tourism, Major Events and the Commonwealth Games

Queensland Government

Minister for Education and
Minister for Tourism, Major Events
and the Commonwealth Games

1WS
1 William Street Brisbane 4000
PO Box 15033 City East
Queensland 4002 Australia
Telephone +61 7 3719 7530
Email: education@ministerial.qld.gov.au

15 JUN 2017

Mr Anthony Close
Acting Auditor-General
Queensland Audit Office
PO Box 15396
CITY EAST QLD 4002

Anthony

Dear Mr Close

Thank you for your letter providing a draft of your report to Parliament titled 'Universities and grammar schools' (the Report) in relation to the results of financial audits for the year ended 31 December 2016.

I appreciate the opportunity to review the Report and thank you and your team, led by Mr John Welsh, for the collaborative approach.

Should your officers wish to discuss any of the matters in the Report further, I invite them to contact Mr Adam Black, Assistant Director-General and Chief Financial Officer, Department of Education and Training, on telephone or by email at

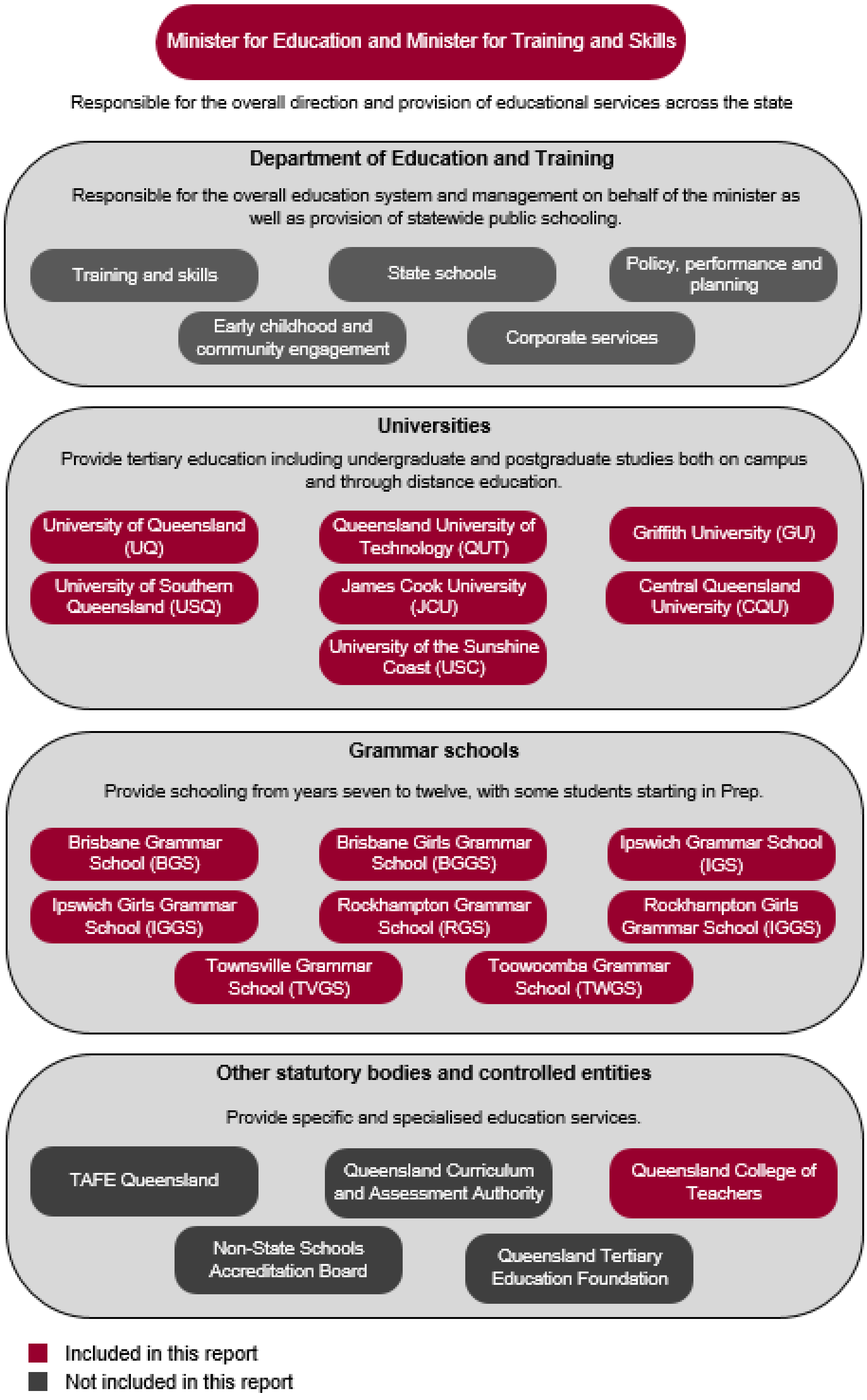
Yours sincerely

KATE JONES MP
Minister for Education and
Minister for Tourism, Major Events
and the Commonwealth Games

Ref: 17/278575

Your Ref: 11669

Appendix B—Education sector entities



Source: Queensland Audit Office.

Appendix C—Our assessment of financial governance

Auditing internal controls

In conducting an audit, we assess the design and implementation of internal controls to ensure they are suitably designed to prevent, detect, and correct material misstatements. Where the audit strategy requires it, we also test the operating effectiveness to ensure the internal controls are functioning as designed.

Internal controls

Our assessment of internal control effectiveness is based on the number of deficiencies and significant deficiencies identified during the audit.

We assess the financial controls that public sector entities use against the five elements of internal control of the internationally recognised Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. These elements are:

- control environment—management's actions, attitudes, and values that influence day-to-day operations
- risk assessment—management's processes for considering risks that may prevent an entity from achieving its objectives, and for forming a basis as to how the risks should be identified, assessed, and managed
- information and communication controls—the systems used to provide information to employees and the ways that control responsibilities are communicated
- control activities—policies and procedures that help ensure management directives are carried out and that necessary actions are taken to address identified risks
- monitoring activities—the methods management employs to oversee and assess whether internal controls are present and operating effectively.

A deficiency occurs when internal controls are unable to prevent, detect, or correct errors in the financial statements, or where internal controls are missing.

A significant deficiency is a deficiency that either alone or in combination with multiple deficiencies may lead to a material misstatement in the financial statements. It requires immediate management action.

The following table outlines the ratings we use to assess internal controls:

Rating	Internal controls assessment
● Effective	No deficiencies identified in internal controls.
● Generally effective	Deficiencies identified in internal controls.
● Ineffective	Significant deficiencies identified in internal controls.

The deficiencies detailed in this report were identified during the audit and may have been subsequently resolved by the entity. They are reported here because they impacted on the overall system of control during 2016.

Financial statement preparation

Year end close process

State public sector entities should have a robust year end close process to enhance the quality and timeliness of the financial reporting processes. In January 2014, the Queensland Under Treasurer recommended that entities complete five important processes before balance date (which is 31 December in the case of universities and grammar schools) each year to enable a timely audit clearance of the financial statements at year end:

- finalising non-current asset valuations
- preparing complete pro forma financial statements
- resolving accounting issues
- completing hard or soft close processes
- concluding all asset stocktakes.

The extent of these processes and the actual planned dates to perform these processes can vary depending on the needs of each entity. Entities should document the target date for completing these processes in a financial report preparation plan.

To be effective, year end processes need to be performed in accordance with the financial report preparation plan, and supporting documents should be made available for audit in a timely manner.

Rating	Year end close process assessment
● Effective	All five processes were completed by the planned date.
● Generally effective	Three of the five processes were completed within two weeks of the planned date.
● Ineffective	Less than three of the five processes were completed within two weeks of the planned date.

Timeliness of draft financial statements

To assess the timeliness of draft financial statements, we have compared the financial reporting preparation plan's target date (for preparing the first draft financial statements) against the actual date the auditor received acceptable complete draft financial statements.

Rating	Timeliness of draft financial statement assessment
● Effective	Acceptable draft financial statements were received on or prior to the planned date.
● Generally effective	Acceptable draft financial statements were received within two days after the planned date.
● Ineffective	Acceptable draft financial statements were received more than two days after the planned date.

Quality of draft financial statements

We calculated the difference between the first complete draft financial statements submitted to audit and the final audited financial statements for the components of total revenue, total expenditure, and net assets. Our quality assessment is based on the percentage of adjustments across each of these components.

Rating	Quality of draft financial statements assessment
🟢 Effective	No adjustments were required.
🟡 Generally effective	Adjustments for any of the three financial statement components were less than five per cent.
🔴 Ineffective	Adjustments for any of the three financial statement components were greater than five per cent.

Result summary

This table summarises our assessment of internal controls and the financial statement preparation processes across the seven universities.

Entity	Internal controls					Financial statement preparation		
	CE	RA	CA	IC	MA	YE	T	Q
Universities								
Central Queensland University	🟡	🟢	🟡	🟢	🟢	🟢	🟢	🟢
Griffith University	🟢	🟢	🟡	🟢	🟢	🟢	🟢	🟢
James Cook University	🟡	🟢	🟡	🟢	🟢	🟡	🟢	🟢
Queensland University of Technology	🟢	🟢	🟡	🟢	🟢	🟢	🟢	🟢
University of Queensland	🟢	🟢	🟡	🟢	🟢	🟢	🟢	🟡
University of Southern Queensland	🟢	🟢	🟢	🟢	🟢	🟢	🟢	🟢
University of the Sunshine Coast	🟢	🟢	🟡	🟢	🟢	🟢	🟢	🟢

Note: CE = Control environment; RA = Risk assessment; CA = Control activities; IC = Information and communication; MC = Monitoring activities; YE = Year end close processes; T = Timeliness; Q = Quality.

Source: Queensland Audit Office.

Appendix D—Entities preparing financial reports

The table below details the types of audit opinion issued in accordance with Australian auditing standards for the 2016 financial year.

Entity	Date audit opinion issued	Type of audit opinion issued
Universities and their controlled entities		
Central Queensland University	21.02.17	Unmodified
▪ Australian International Campuses Pty Ltd	21.02.17	Unmodified
▪ Australian International Campuses Trust	21.02.17	Unmodified
▪ C Management Services Pty Ltd	21.02.17	Unmodified
▪ CQU Travel Centre Pty Ltd	21.02.17	Unmodified
▪ Health Train Education Services Pty Ltd	21.02.17	Unmodified—EOM
Griffith University	27.02.17	Unmodified
▪ Gold Coast Innovation Centre Limited	22.02.17	Unmodified—EOM
James Cook University	28.02.17	Unmodified
Queensland University of Technology	28.02.17	Unmodified
▪ Creative Industries Precinct Pty Ltd	24.02.17	Unmodified—EOM
▪ QUT Enterprise Holdings Trust	24.02.17	Unmodified—EOM
▪ qutbluebox Pty Ltd	24.02.17	Unmodified—EOM
▪ qutbluebox Trust	24.02.17	Unmodified—EOM
University of Queensland	28.02.17	Unmodified
▪ University of Queensland Foundation Trust	28.02.17	Unmodified—EOM
▪ UQ Holdings Pty Ltd	28.02.17	Unmodified
▪ UQ Investment Trust	28.02.17	Unmodified—EOM
▪ UQH Finance Pty Ltd	28.02.17	Unmodified—EOM
University of Southern Queensland	21.02.17	Unmodified
University of the Sunshine Coast	23.02.17	Unmodified
▪ Innovation Centre Sunshine Coast Pty Ltd	14.02.17	Unmodified—EOM

Entity	Date audit opinion issued	Type of audit opinion issued
Grammar schools		
Board of Trustees of the Brisbane Girls Grammar School	23.02.17	Unmodified
Board of Trustees of the Brisbane Grammar School	28.02.17	Unmodified
Board of Trustees of the Ipswich Girls' Grammar School	28.02.17	Unmodified
Board of Trustees of the Ipswich Grammar School	27.02.17	Unmodified
Board of Trustees of the Rockhampton Girls Grammar School	27.02.17	Unmodified
Board of Trustees of the Rockhampton Grammar School	27.02.17	Unmodified
Board of Trustees of the Toowoomba Grammar School	28.02.17	Unmodified
Board of Trustees of the Townsville Grammar School	23.02.17	Unmodified
Statutory body		
Queensland College of Teachers	21.02.17	Unmodified
Jointly controlled entities		
International WaterCentre Joint Venture	04.04.17	Unmodified
Queensland College of Wine Tourism	24.02.17	Unmodified—EOM
Queensland Cyber Infrastructure Foundation Ltd	31.03.17	Unmodified
Audited by arrangement		
Translational Research Institute Trust	29.03.17	Unmodified—EOM

Note: EOM = Emphasis of matter.

Source: Queensland Audit Office.

Appendix E—Entities not preparing financial reports

The auditor-general will not issue audit opinions for the following controlled public sector entities for the 2016 financial year, as they have not produced a financial report.

Public sector entity	Reason for not preparing financial statements
Universities	
Controlled entities of the University of Queensland	
CCA Therapeutics Pty Ltd (deregistered 8 November 2016)	Dormant
Cloevis Pty Ltd	Non-reporting
Cyclagen Pty Ltd	Dormant
Dendright Pty Ltd	Non-reporting
Global Change Institute Pty Ltd	Dormant
IMBcom Asset Management Co Pty Ltd	Dormant
IMBcom Asset Trust	Non-reporting
IMBcom Pty Ltd	Non-reporting
JK Africa Mining Solutions Pty Ltd	Non-reporting
JKTech Pty Ltd	Non-reporting
JKTech South America Spa	Non-reporting
Kalthera Pty Ltd	Dormant
Leximancer Pty Ltd	Non-reporting
Lucia Publishing Systems Pty Ltd	Dormant
Metallotek Pty Ltd	Non-reporting
Neo-Rehab Pty Ltd	Non-reporting
Pepfactants Pty Ltd (deregistered 15 June 2016)	Non-reporting
SUSOP Pty Ltd	Non-reporting
Symbiosis Group Pty Ltd	Non-reporting
UniQuest Pty Limited	Non-reporting
UQ College Limited	Non-reporting
UQ Health Care Limited	Non-reporting

Public sector entity	Reason for not preparing financial statements
UQ Jakarta Office Pty Ltd	Dormant
UQ Sport Ltd	Non-reporting
UWAT Pty Ltd	Dormant
Controlled entities of James Cook University	
James Cook Holdings Pte Ltd	Exempt audit
JCU CPB Pty Ltd	Dormant
JCU Early Learnings Centres Pty Ltd	Non-reporting
JCU Enterprises Pty Ltd	Non-reporting
JCU Health Pty Ltd	Non-reporting
JCU Univet Pty Ltd	Non-reporting
JCU College Pty Ltd (formerly JCU Pathways Pty Ltd)	Non-reporting
North Queensland Commercialisation Company Pty Ltd	Dormant
Tropical Queensland Centre for Oral Health Pty Ltd	Non-reporting
The JCU Asset Trust	Non-reporting
The CPB Trust	Non-reporting
James Cook University Pte Ltd	Exempt audit
Controlled entities of the Queensland University of Technology	
Brisbane Business School Pty Ltd	Dormant
GeneCo Pty Ltd (deregistered 13 January 2016)	Dormant
QUT Enterprise Holdings Pty Ltd	Non-reporting
Controlled entities of the University of Southern Queensland	
University of Southern QLD (South Africa) (Pty) Ltd	Dormant
Controlled entities of the Central Queensland University	
Mask-Ed International Pty Ltd	Dormant
Controlled entities of the University of Queensland and Griffith University	
International WaterCentre Pty Ltd	Dormant
Controlled entities of the University of the Sunshine Coast	
USC Capital and Commercial Pty Ltd	Non-reporting

Source: Queensland Audit Office

Appendix F—Grants certified by QAO in 2016

Entity	Grant title	Opinion	Period when acquittals certified by QAO
University of Queensland	Demand-led plant variety design for merging markets in Africa fund	Unmodified—EOM	March 2016
	Nippon Foundation—Queensland Program for Japanese Education	Unmodified—EOM	March 2016
	Implementation the GG Phase IV, Component 3—Agricultural Extension Service. Provide practicable knowledge for the herders	Unmodified—EOM	March 2016
	Consolidated report for the rural pharmacy student placement allowance and administrative support to pharmacy school scheme	Unmodified—EOM	May 2016
	Higher Education Research Data Collection	Unmodified—EOM	June 2016
	Rural Clinical School (RCS) Program	Unmodified—EOM	June 2016
	Dental Training—Expanding Placements Program—Commonwealth of Australia funding awarded to the UQ School of Dentistry to develop and support the establishment of clinical placements of dental students in approved rural locations	Unmodified—EOM	June 2016
	Capturing Coral Reef and Related Ecosystem Services (CCRES) Project	Unmodified—EOM	November 2016
	MAIC QBI Senior Research Fellowship	Unmodified—EOM	December 2016
	Recover Injury Research Centre core funding (four projects)	Unmodified—EOM	December 2016

Entity	Grant title	Opinion	Period when acquittals certified by QAO
Queensland University of Technology	Bachelor of Media and Communication Award Program (Hong Kong)	Unmodified—EOM	February 2016
	Higher Education Research Data Collection	Unmodified—EOM	June 2016
Griffith University	Higher Education Research Data Collection	Unmodified—EOM	June 2016
University of Southern Queensland	Higher Education Research Data Collection	Unmodified—EOM	June 2016
	CRN: Digital Futures Project Grant	Unmodified—EOM	November 2016
James Cook University	Higher Education Research Data Collection	Unmodified—EOM	June 2016
Central Queensland University	Higher Education Research Data Collection	Unmodified—EOM	June 2016
University of the Sunshine Coast	Higher Education Research Data Collection	Unmodified—EOM	June 2016
Rockhampton Grammar School	Independent Schools' Queensland (ISQ) acquittal	Unmodified	April 2016
	Department of Education and Training Financial Accountability Acquittal	Unmodified—EOM	June 2016
Rockhampton Girls Grammar School	Independent Schools' Queensland (ISQ) acquittal	Unmodified	March 2016
	Department of Education and Training Financial Accountability Acquittal	Unmodified—EOM	June 2016
Ipswich Grammar School	Department of Education and Training Financial Accountability Acquittal	Unmodified—EOM	June 2016
Ipswich Girls' Grammar School	Queensland Independent Schools Block Grant Authority	Unmodified	August 2016

Note: EOM = Emphasis of matter.

Source: Queensland Audit Office.

Appendix G—Better practice principles for disclosing underlying results

Better practice principles
1. There should be a clear and understandable statement in the annual report disclosing the reason that the university councils believe the alternative profit measures provide useful information.
2. The operating result in the financial statements should be disclosed more prominently than the underlying result.
3. The underlying result should be clearly labelled in a way that distinguishes it from the operating result in the financial statements. Any term or label used to describe the underlying result must not cause confusion with the operating result in the financial statements.
4. There should be a clear narrative explanation as to how the underlying result is calculated.
5. There should be a reconciliation explaining the calculation of the underlying result and how it relates to the operating result in the financial statements.
6. The approach used to determine the underlying result should be consistent with the prior period. If there has been a change in approach, there should be an explanation about the nature of the change, reasons for the change, and the financial impact of the change.
7. For each adjustment made to the operating result in the financial statements, corresponding items should be adjusted in any comparative information.
8. Underlying results should be unbiased and not be used to avoid presenting ‘bad news' to the market.
9. Items that have occurred in the past or are likely to occur in a future period should not be described as ‘one-off’ or ‘non-recurring’.
10. A clear statement should be made about whether the underlying result has been audited or reviewed in accordance with Australian auditing standards.

Source: Queensland Audit Office, adapted from Deloitte financial reporting survey June 2014, and Australian Securities and Investments Commission RG 230 Disclosing non-international financial reporting standards financial information.

Appendix H—Glossary

Term	Definition
Accountability	Responsibility of public sector entities to achieve their objectives in terms of reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws, and reporting to interested parties.
Amortisation	The systematic allocation of the depreciable amount of an intangible asset over its useful life.
Auditor-General Act 2009	An act of the State of Queensland that establishes the responsibilities of the Queensland Auditor-General, the operation of the Queensland Audit Office, the nature and scope of audits to be conducted, and the relationship of the auditor-general with parliament.
Australian accounting standards	The rules by which financial statements are prepared in Australia. These standards ensure consistency in measuring and reporting on similar transactions.
Australian Accounting Standards Board (AASB)	An Australian Government agency that develops and maintains accounting standards applicable to entities in the private and public sectors of the Australian economy.
Capital expenditure	Amount capitalised to the balance sheet for contributions by an entity to major assets owned by the entity, including expenditure on: ▪ capital renewal of existing assets that returns the service potential or the life of the asset to that which it had originally ▪ capital expansion, which extends an existing asset at the same standard to a new group of users.
Carrying value	The amount at which an asset is recognised in the financial statements after deducting any accumulated depreciation and accumulated impairment losses.
Componentisation	Where an asset is comprised of separate and significant components, the entity accounts for the components as separate assets and depreciates them over their individual estimated useful lives.
Deficiency	This is where we have assessed that a control is designed or implemented in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis, or where that control is missing.
Depreciation	The systematic allocation of a fixed asset's capital value as an expense over its expected useful life to take account of normal usage, obsolescence, or the passage of time.
Emphasis of matter	A paragraph included with an audit opinion to highlight an issue of which the auditor believes the users of the financial statements need to be aware. The inclusion of an emphasis of matter paragraph does not modify the audit opinion.
Equivalent full-time student load	This is a measure of the study load, for a year, of a student undertaking a course of study on a full-time basis, where that student undertakes a standard program of studies.

Term	Definition
Financial sustainability	An entity's ability to repay its liabilities as and when they fall due during the next financial year.
Going concern	This means an entity is expected to be able to pay its debts as and when they fall due, and to continue to operate without any intention or necessity to liquidate or wind up its operations.
Impairment	This is when an asset's carrying amount exceeds the amount that can be recovered through use or sale of the asset.
Materiality	This relates to the size or nature of the item or error judged in the particular circumstances of its omission or misstatement. Information is material if its omission or misstatement could influence the economic decisions of users, taken on the basis of the financial statements.
Material misstatement	A difference between the amount, classification, presentation, or disclosure of a reported financial report item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.
Modified opinion	A modified opinion is issued if the auditor concludes that, based on the audit evidence obtained, the financial report as a whole is not free from material misstatement, or is unable to obtain sufficient appropriate audit evidence to conclude that the financial report as a whole is free from material misstatement.
Net assets	Total assets less total liabilities.
Net debt	Total Queensland Treasury Corporation borrowings less cash.
Non-current assets	An entity's long-term investments, where the full value will not be realised within the financial year. These assets are capitalised rather than expensed, meaning that the cost of the asset can be allocated over the number of years for which the asset will be in use, instead of allocating the entire cost to the financial year in which the asset was purchased.
Prior period error	Omissions from, and misstatements in, an entity's financial statements caused by not using or misusing information that was available or could have been obtained and taken into account in preparing the financial statements.
Significant deficiency	This is a deficiency in internal control, or combination of deficiencies in internal control that, in our professional judgement, may lead to a material misstatement in the financial statements. Significant deficiencies require immediate management action and are always of sufficient importance to merit the attention of those charged with governance.
Unmodified opinion	An unmodified opinion is issued when the financial statements comply with relevant accounting standards and legal requirements.
Useful life	The number of years the entity expects to use an asset (not the maximum period possible for the asset to exist).

Source: Queensland Audit Office.

Auditor-General Reports to Parliament

Reports tabled in 2016–17

Number	Title	Date tabled in Legislative Assembly
1.	Strategic procurement	September 2016
2.	Forecasting long-term sustainability of local government	October 2016
3.	Follow-up: Monitoring and reporting performance	November 2016
4.	Criminal justice system—prison sentences	November 2016
5.	Energy: 2015–16 results of financial audits	November 2016
6.	Rail and ports: 2015–16 results of financial audits	November 2016
7.	Water: 2015–16 results of financial audits	December 2016
8.	Queensland state government: 2015–16 results of financial audits	December 2016
9.	Hospital and Health Services: 2015–16 results of financial audits	January 2017
10.	Efficient and effective use of high value medical equipment	February 2017
11.	Audit of Aurukun school partnership arrangement	February 2017
12.	Biosecurity Queensland's management of agricultural pests and diseases	March 2017
13.	Local government entities: 2015–16 results of financial audits	April 2017
14.	Criminal justice system—reliability and integration of data	April 2017
15.	Managing performance of teachers in Queensland state schools	April 2017
16.	Government advertising	May 2017
17.	Organisational structure and accountability	May 2017
18.	Universities and grammar schools: 2016 results of financial audits	June 2017

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