

Review of Auditor-General's Report 3:2012
Results of audits: Education sector
financial statements for 2011

Report No. 5
Education and Innovation Committee
July 2012

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Chair's foreword

As part of the Committee's role to assess the integrity, economy, efficiency and effectiveness of financial management of public accounts within our area of responsibility, we have reviewed the Auditor-General's Report 3: 2012.

I am pleased to note that overall, universities, grammar schools and their controlled entities are meeting prescribed financial reporting requirements. For the issues of concern identified by the Auditor-General, we look forward to reviewing the report of 2012 audits to see that these matters, and other recommendations made, have been addressed.

I would like to thank all members of the Education and Innovation Committee for their continuing hard work and dedication to our portfolio areas.

I commend the report to the House.

A handwritten signature in black ink, reading "Rosemary Menkens". The signature is written in a cursive style with a large, stylized initial 'R'.

Mrs Rosemary Menkens MP
Chair

July, 2012

Recommendations

Recommendation 1

That the Minister for Education, Training and Employment advises the Parliament how the issues raised by the Auditor-General are being addressed.

1 Introduction

1.1 Role of the Committee

The Queensland Parliament's Education and Innovation Committee commenced on 18 May 2012. It consists of government and non-government members of Parliament, and it has responsibility for the portfolio areas of Education, Training, Employment, Science, Information Technology, Innovation and the Arts.¹

Amongst its range of functions, the Committee is required to consider the integrity, economy, efficiency and effectiveness of the government's financial management by examining government financial documents and considering the annual and other reports of the Auditor-General.²

1.2 Review process

The Auditor-General Report 3: 2012 Results of audits: Education sector financial statements for 2011 ('the Report') was tabled in the Legislative Assembly on 5 June 2012 and referred to the Committee by the Committee of the Legislative Assembly on 6 June 2012. The Committee has reviewed the report, including the responses published from some grammar schools.

2 Audit overview

The Auditor-General has audited the financial statements of universities, grammar schools and the entities they control, as required by section 40 of the *Auditor-General Act 2009*. A financial audit assesses whether financial statements have been prepared in accordance with Australian accounting standards and applicable legislation and whether the information is presented fairly.³

Universities⁴ and grammar schools' Boards of Trustees⁵ are statutory bodies established under the *Grammar School Act 1975* and the various Acts establishing and governing the seven Queensland universities, respectively. The Auditor-General audits the financial statements of all public sector entities, including those of statutory bodies, as required by the *Auditor-General Act 2009*.⁶ The *Grammar School Act 1975*⁷ also requires that the Auditor-General report to a board of trustees the results of audits carried out, and that recommendations are made where appropriate. A copy of this is to be provided to the Minister.

The majority of controlled entities of universities and grammar schools are public companies, which means they are also subject to the requirements of the *Corporations Act 2001*.⁸ Controlled entities include, for example, school building funds and commercial research companies affiliated with universities. The Auditor-General is appointed auditor of every company public sector entity, under the *Auditor-General Act 2009*.

¹ Standing Rules and Orders of the Legislative Assembly, Legislative Assembly of Queensland, Schedule 6

² *Parliament of Queensland Act 2001* section 94(1)(a)

³ Queensland Audit Office, Financial Audit Practice Statement, June 2012, site accessed 27 June 2012 www.gao.qld.gov.au/files/file/Additional%20Docs/FAPracticeStatementJune2012.pdf

⁴ Under each universities enabling legislation, for example *Queensland University of Technology Act* section 49

⁵ *Grammar Schools Act 1975* section 20

⁶ *Auditor-General Act 2009* s40

⁷ *Auditor-General Act 2009* s34

⁸ Auditor-General of Queensland, Report 3: 2012 *Results of Audits: Education sector financial statements for 2011*, June 2012, p6

2.1 Audit report

The Auditor-General is required to prepare a report to the Legislative Assembly on each annual audit of a public entity, which identifies:

- whether the audit has been finished;
- whether the annual financial statements of the public sector entity have been audited;
- whether the public sector entity has been granted an exemption, and the reasons why;
- any case in which the functions relating to the financial management of the public sector entity were not adequately and properly performed;
- the results of audits conducted and, if audits were not conducted, reasons why; and
- action taken to remedy significant deficiencies reported in previous reports on audits of the public sector entity.⁹

The Report provides to the Legislative Assembly the results of financial audits completed by the Auditor-General for education sector entities; that is, universities, grammar schools and their controlled entities, which have balance dates of 31 December 2011.¹⁰ Audited financial statements are also required to be included in the annual report of each university and grammar school. The Auditor-General advises that “[I]n this context, the audit opinion accompanying them provides readers of the financial statements with added assurance that they are reliable.”¹¹

⁹ *Auditor-General Act 2009*, s60

¹⁰ Auditor-General of Queensland, Report 3: 2012 *Results of Audits: Education sector financial statements for 2011*, June 2012, p5

¹¹ *Ibid* p1

3 Examination of the Report

Of the 75 education entities audited in 2011, the Auditor-General provided 67 (89%) unmodified¹² opinions and eight (11%) qualified¹³ opinions.¹⁴ The entities audited included eight grammar schools, seven universities and 60 controlled entities. In 2010, unqualified audit opinions were issued for all universities and grammar schools audited.¹⁵

Grammar schools

A requirement from 2011 is that government agencies are required to provide details of key executive management personnel and their remuneration in their audited financial statements.¹⁶ However, the grammar schools did not consider that their principals were included in the definition, and so did not provide this. The Auditor-General took a different view and as a result, concluded that the remuneration of all key executive management personnel had not been disclosed as was required.¹⁷ Qualified audit opinions were provided to all eight grammar schools as a result, and the Auditor-General recommended that grammar schools disclose the remuneration of their key management personnel according to the definition provided in the Financial Reporting Requirements for Queensland Government Agencies.^{18, 19}

The Auditor-General provided the draft audit report to relevant entities, such as schools, in accordance with section 64 of the Act. Three schools responded to the issues raised in the report. These responses were published in the Report and are outlined below.

In addition to the qualified opinion described above, one grammar school received an emphasis of matter²⁰, "... due to material uncertainty regarding the school's ability to continue as a going concern." Current liabilities exceed assets and the school incurred an operating loss for 2011.²¹

Grammar school responses

Toowoomba Grammar School Board of Trustees believes that the qualified opinion provided by the Auditor-General is one of interpretation rather than disclosure. It also stated that with regard to the timeliness of the school's responses, any delays were a result of the Auditor-General not providing a draft audit opinion on broader issues in a timely fashion.²²

¹² Financial statements comply with relevant accounting standards and prescribed requirements.

¹³ Financial statements as a whole comply with relevant accounting standards and legislative requirements, with noted exceptions.

¹⁴ Auditor-General of Queensland, Report 3: 2012 *Results of Audits: Education sector financial statements for 2011*, June 2012, p1

¹⁵ Queensland Audit Office, Auditor-General Report to Parliament No. 5 for 2011, Results of Audits, p11

¹⁶ Queensland Treasury, Financial Reporting Requirements for Queensland Government Agencies, section 5

¹⁷ Queensland Audit Office, Auditor-General Report to Parliament No. 5 for 2011, Results of Audits p32

¹⁸ "Key Executive Management Personnel are to be identified according to the definition of 'key management personnel' in AASB 124 Related Party Disclosure: "those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly..." That is, for the purposes of this policy the concept of key management personnel as used in the private sector has been adapted for public sector concepts" (Financial Reporting Requirements for Queensland Government Agencies, section 5)

¹⁹ Ibid p11

²⁰ An emphasis of matter paragraph is included to draw attention to an issue, when a qualification of audit opinion is not warranted. Auditors are required to provide a modified audit opinion or include an emphasis of matter for each entity's ability to operate as a going concern.

²¹ Auditor-General of Queensland, Report 3: 2012 *Results of Audits: Education sector financial statements for 2011*, June 2012, p33

²² Ibid p38

The Brisbane Girls Grammar School Board of Trustees stated that the school believes the matters identified through the audit are only low risk control breakdowns for the school, rather than 'significant' breakdowns.²³

The Ipswich Grammar School Board of Trustees recommended that the Report should include clarification of what was meant by 'significant matters'.²⁴

Financial sustainability of universities

The Auditor-General found that all universities are presently in a sound financial position.²⁵ International student fees have increased by 39% over the past four years and accounted for 89% of student revenue in 2011.²⁶

The Auditor-General recommended that this significant income stream be monitored closely as it is subject to risks that are outside the control of universities, such as the volatility of the Australian dollar and Commonwealth Government legislative changes to student visa requirements.

Internal controls

The *Financial and Performance Management Standard 2009* requires that departments and statutory bodies establish cost-effective internal control structures. Internal controls are processes established, operated and monitored by management to provide assurance about achievement of an entity's objectives. They enable, for example, preparation of financial records, compliance with law and regulations and delivery of reliable reports.²⁷

During the 2011 audit, 30 internal control weaknesses were identified in four universities. The weaknesses relate to ineffective implementation of policies and procedures and weakness in, or absence of, frameworks and plans linked to goals and strategies.²⁸

Of the 45 control weaknesses identified in grammar schools, eight related to the qualification of the audit opinion, while the remainder were about asset valuation and stock takes, controls around employee benefits and controls around expenditure contracts. The Auditor-General recommended that internal control weaknesses in relation to management policies and procedures be addressed as a matter of priority.

Grammar schools are required under their legislation to give due consideration to Auditor-General reports and recommendations.²⁹

Timeliness and quality of reporting

Universities and schools are required to have financial statements certified by management and audited within two months of the end of a financial year. All universities met this timeframe, however, the grammar schools did not due to the time taken to finalise the issue of disclosure of remuneration of key executive management staff.³⁰

²³ Ibid p40

²⁴ Ibid p42

²⁵ Ibid p2

²⁶ Ibid p24

²⁷ Queensland Audit Office, Report 5: 2012, Results of audits: Internal control systems, June 2012, p5

²⁸ Ibid p17 and 34

²⁹ *Grammar Schools Act 1975* s34(5)

³⁰ Ibid p14 and 34

The Auditor-General noted that two universities did not meet the agreed timetable for providing the initial draft version of their financial statements to be audited, which affects audit costs and the audit process through increasing pressure to meet legislated timeframes.³¹ However, this was not quantified.

Impact of GFC and natural disasters on universities

The Report identified that while the global financial crisis (GFC) had an impact on the investment revenue of most universities, investment revenue for 2011 was significantly higher than the previous four years.³² Cyclone Yasi and the 2011 floods also affected universities. The Auditor-General reported that adequate insurance was held by universities and there was minimal impact on academic programs.

Committee comment

The Committee considers that the audit reporting requirements provided in section 60 of the *Auditor-General Act 2009* have been met. The Committee is reporting to Parliament to inform the Parliament's consideration of the Report. The issues identified by the Auditor-General during the 2011 audit of financial statement of universities, grammar schools and their controlled entities are noted by the Committee.

With regard to the eight qualified opinions provided for each of the grammar schools, the views of both the Auditor-General and those grammar schools that responded to the report have been considered. The Auditor-General's report identifies that principals and other senior staff of grammar schools are considered key management personnel, and that as such, their details and remuneration are required to be disclosed in annual financial statements. The Committee will monitor whether this requirement has been complied with or otherwise resolved in the 2012 audit of grammar schools, and at that time will consider whether it recommends any further action.

The number of internal control weaknesses identified at grammar schools is of concern to the Committee. The Committee notes the view of the Brisbane Girls Grammar School Board of Trustees that the matters identified by the Auditor-General are low risk control breakdowns, rather than significant risks. It is not the Committee's role to comment on the accuracy of the level of risk of the control breakdowns. The 2012 audit report will be reviewed by the Committee to determine whether the identified control issues have been addressed, and hence whether further action is required.

Uncertainty regarding one grammar school's ability to continue as a going concern is of concern to the Committee, and advice from the Minister is sought to assure the Committee that this matter is being adequately addressed.

The Committee notes that all universities were found to be in a sound financial position. The increasing dependence on international student fees in the context of a volatile policy and economic environment is of concern to the Committee, but given limited state government policy levers in respect of university funding, no recommendations are made on this matter. However, the Committee will look with interest to the Auditor-General's 2012 audit in respect of any changes to this risk level.

³¹ Ibid p14

³² Ibid p29

The Committee supports the four recommendations made by the Auditor-General and looks forward to reviewing the 2012 financial audit report to see whether the matters raised in the current report have been resolved.

Recommendation 1

That the Minister for Education, Training and Employment advises the Parliament how the issues raised by the Auditor-General are being addressed.