Fair Work Act 2009

s. 156 – 4 yearly review of modern awards

AM2014/47 – Annual Leave

SUBMISSION OF THE AUSTRALIAN HIGHER EDUCATION INDUSTRIAL ASSOCIATION

1. The Australian Higher Education Industrial Association ("AHEIA") is the employer body for the higher education industry. 31 of Australia's 39 public universities are members of AHEIA.

2. These submissions are concerned only with the question of whether the proposed model term should be included in *all* modern awards.

3. The principal awards in the higher education industry – the *Higher Education – Academic Staff – Award 2010* (MA00006) and the *Higher Education – General Staff – Award 2007* (MA00007) ("the higher education modern awards'') already contain provisions for the direction of taking excessive annual leave. As set out below, AHEIA submits that the existing clauses in the higher education modern awards should remain undisturbed.

4. AHEIA does not dispute the proposition set out at paragraphs [165] and [166] of the Full Bench decision that ordinarily it would be expected that there be more consistency among award terms that are ancillary or incidental to the operation of an entitlement under the NES than among terms that supplement the NES.

5. The proposition does not, however, exclude the possibility that some awards might contain industry-specific provisions consistent with the particular circumstances applying in an industry.

6. The proposed model clause represents a significant departure from the existing clauses in the higher education awards. Those clauses allow for direction to occur once leave accruals have reached 30 days, with two months' notice, with academic staff able to be directed to take their full accrual, and general staff to be directed to take up to twenty days of the accrual.

7. The provision enabling academic staff to be directed to reduce their leave balance to zero reflects the unique industrial history of annual leave for academic staff. Until the introduction of the Australian Fair Pay and Conditions Standard in 2006, annual leave for academics was not accrued or recorded. Consistent with the semi-autonomous nature of academic employment, annual leave was deemed to have been taken by the end of February of each year.

8. Since 2006, universities have had difficulty containing the growth of excessive leave liabilities, as evidenced by State government audits conducted in the years since (see below). It is crucial that industrial arrangements applying at universities provide the maximum opportunity for containing excessive liabilities.

9. Actual terms and conditions of employment for most staff at universities are set by enterprise agreements. Nevertheless a change in the provisions of the higher education modern awards would represent a change in the safety net and we respectfully submit that such a change ought not to be made unless it can be demonstrated that there are compelling reasons to do so. There is no evidence that the current provisions in the higher education modern awards do not provide a ''fair and relevant minimum safety net'' for the industry.

The modern awards principle

10. The proposed model clause, if inserted into the higher education modern awards, would alter the award safety net so as to reduce the flexibility of employers in the industry to direct staff to take annual leave. AHEIA submits that this reduction in flexibility would be contrary to the objective of s 134(1)(f) in that it is likely to have negative cost implications arising from further increases in leave balances.

11. State government audit reports highlight the continuing problem of excessive annual leave liabilities at Australian public universities. The attached extracts from the 2014 reports from Western Australia, Queensland and New South Wales (**Attachment 1**) summarise the cost and productivity issues associated with excessive leave liabilities, including:

    - increased financial liability, including adverse effect on the organisation's net assets
    - difficulty in raising sufficient cash to pay out balances in the future when staff resign or retire (and noting that universities have an ageing workforce)

- the growth of the liability due to salary increases
- workplace health and safety problems relating to workload.

12. We note that section 134(1)(g) requires the Commission to have regard to “the need to ensure a simple, easy to understand, stable and sustainable modern award system’’. While we acknowledge the remarks of the Full Bench at paragraphs [165] and [169] about the desirability of consistency among awards applying in different industries, we do not believe that it is necessary to replace the current provisions in the higher education awards with the proposed model clause in order to satisfy this principle. Academic staff, in particular, are highly unlikely to be actively mobile between different industries. The nature of academic careers is that academics remain within the industry of higher education, either within Australia or internationally.

Attachment 1

Management issues at universities and state training providers (Extract from Western Australian Auditor-General’s Report – Audit Results Report – Annual 2014 Financial Audits)

Financial Controls (Extract from NSW Auditor-General’s Report to Parliament, Volume Two, 2015)

Results of audit: Education sector entities 2014 – Summary (Extract from Report 15: 2104-15, Queensland Audit Office)

Australian Higher Education Industrial Association
13 July 2015

ATTACHMENT 1

Office of the Auditor General
Serving the Public Interest
(https://audit.wa.gov.au/)

Management issues at universities and state training providers

- **72 financial and management control weaknesses were reported to universities and state training providers, up from 66 last year.**
- **97 information system control issues were identified. Over half were unresolved issues from previous audits.**
- **Universities' annual and long service leave liabilities continue to grow and now sit at $255 million – a 22 per cent increase in three years.**
- **One university and three state training providers met our best practice standard for their good financial controls and reporting practices in 2014.**

Financial control and reporting issues

Every institution is responsible for developing and maintaining an internal control system and procedures to ensure legislative compliance and the accurate recording and reporting of financial information and KPIs. Internal controls can relate to governance processes, financial and human resource management and information system procedures. Where internal controls are weak, it is more likely that errors or fraud may occur and/or not be detected.

The AG Act requires the Auditor General to audit the accounts and to form an opinion on controls. In forming our opinion, we assess compliance with key aspects of legislation and the ability of internal control systems and procedures to record and report reliable financial information and KPIs.

A total of 72 financial and management control weaknesses were reported to management at universities and state training providers in 2014. The majority (72 per cent) were control weaknesses of sufficient concern to warrant action being taken as soon as possible. If not addressed promptly, they may escalate to significant or high risk. Normally these matters require system or procedural improvements and may be low risk matters from previous audits that have not been satisfactorily resolved. Thirteen (18 per cent) were unresolved prior year issues at six of the institutions, a reduction on the previous year.

Figure 1 shows the types of control weaknesses identified from 2011 to 2014.

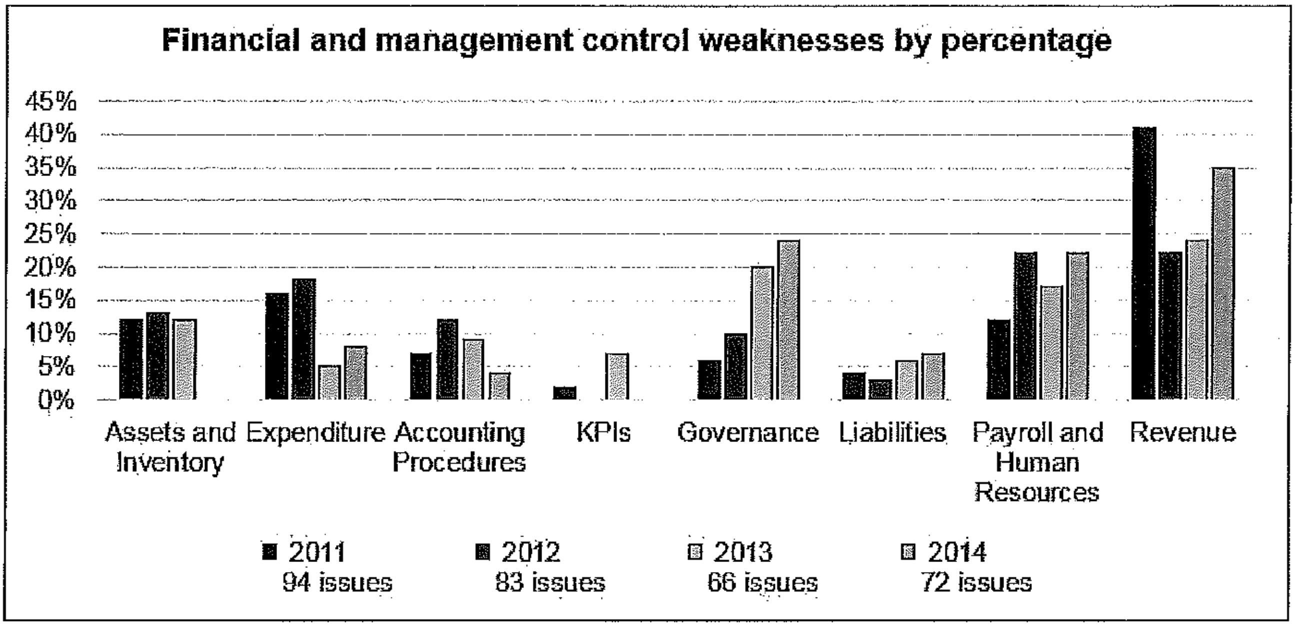


Figure 1: Financial and management control weaknesses for last four years

Revenue control weaknesses reported to management included:

- incorrect fees charged or concession eligibility on student fees not routinely checked or recorded
- student payment arrangements not recorded in a timely manner causing delays in invoicing and therefore delays in revenue collection
- student enrolment and debtor records amended and refunds processed without authorisation or review.

Governance weaknesses were reported to ten institutions and included:

- contracts not put in place for arrangements that require a legal contract. This renders the institution exposed to loss or litigation in the event of disagreement between the parties.
- policies and procedures not documented or updated to ensure consistent administration and accountability for the institution's operations.
- risk management policies and registers not prepared as required.

Payroll and human resource control weaknesses included:

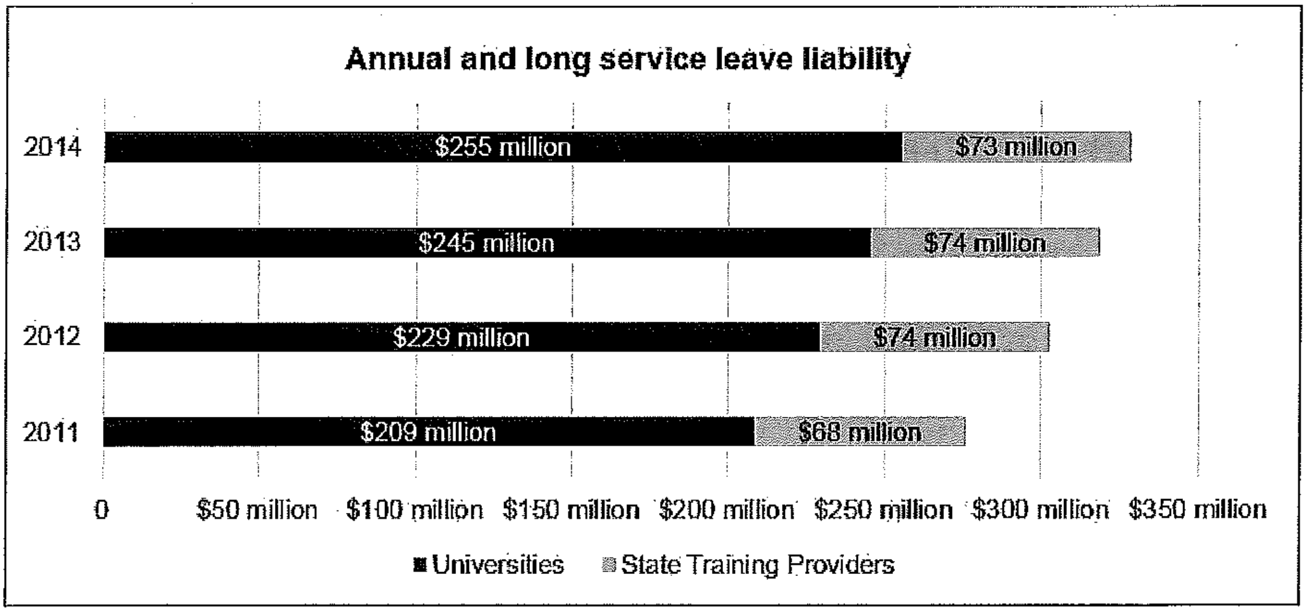
- Payroll certification reports not reviewed, signed and returned to the payroll unit by cost centre managers. In the tertiary education sector lecturing staff are often employed on a part-time or casual basis. Review of payroll certification reports by faculty or cost centre managers is an important control to provide assurance that staff are paid correctly for the hours they have worked. This review is also required to confirm there are no invalid 'ghost' persons being paid.
- Written voluntary separation notices to employees at some state training providers did not represent the required 'prescribed written notice'. This resulted in employees receiving

payouts in lieu of 20 weeks' notice rather than a lesser amount. I previously reported this issue in Report 18, November 2014.

Excessive leave liabilities

Universities and state training providers have significant leave liabilities which require proactive management. Figure 2 below indicates that overall, state training providers have responded to Treasury's advice of the need to actively manage their leave liabilities. The liabilities of state training providers has declined slightly since 2012.

However, the universities' leave liabilities have increased by 22 per cent over the past three years. We have recommended to universities that they do more to manage their leave liabilities, which increased by 4.1 per cent in 2014. This was greater than the average university salary increase of 3.6 per cent.



Source: Annual financial statements of universities and state training providers

Figure 2: Combined universities and combined state training providers' leave liabilities

Large leave liabilities have an adverse effect on an organisation's net assets position. These liabilities also need to be closely managed for a number of other reasons. Large balances can lead to difficulties in raising sufficient cash to pay out balances in the future as and when staff resign or retire, generally at a higher pay rate than when the entitlement was accrued. It is also important that staff take regular leave for their health and wellbeing and because fraud can be more easily concealed by staff who do not take leave.

Challenges that impact upon successful leave management include:

- service delivery pressures
- ad hoc management of leave, including lack of planning.

Factors that help to reduce leave liabilities include:

- close monitoring of leave plans to ensure that staff schedule and take their entitlement of annual leave each year and extinguish their long service leave within a few years of entitlement
- policies that encourage staff to take part of their leave as a cash payout or reduce their long service leave entitlement on a pro rata basis before they accrue their full entitlement.

Recommendations

- **Progress of leave liability plans should be reported regularly to the CEO and senate/council, preferably on a cost centre basis, so that problem areas can be readily identified.**
- **Management should facilitate effective succession planning and training so that back up staff are available when key staff take leave.**
- **All options to reduce accrued leave should be considered, including a cash payout if that capacity exists and meets the needs of staff.**

Information system control issues

Each year we audit the information system (IS) controls at selected universities and state training providers. The audit determines whether controls are designed, implemented and operating effectively to provide assurance about the reliable and secure processing of financial and key performance information. In 2014 we audited IS controls at the four universities, the four metropolitan state training providers and five of the regional training providers.

We identified 97 information system control weaknesses. Seventy-one per cent were rated as moderate weaknesses, meaning action should be taken as soon as possible. Another 29 per cent were identified as minor. None of the issues were rated as significant.

Of the issues raised, 55 (57 per cent) were carried over from previous audits. This is an increase from the previous year when 38 per cent were carried over. However, 2014 saw less new findings overall mainly because agencies are taking a more holistic and proactive approach to good practice. The capability maturity assessments completed as part of the audits have provided insight for this approach. Our annual Information Systems Audit Report for 2015, which is expected to be tabled in mid-2015, will provide more detail of our IS audit results.

Security findings accounted for 41 per cent of the findings which include weak passwords, unauthorised and inappropriate access and system vulnerabilities. Operations findings made up 42 per cent which include the processing and handling of information, monitoring and logging user activity, management and review of access privileges.

The distribution of findings are similar to those reported for 2013 with minimal changes across areas. If not addressed, IS control issues have the potential to compromise the confidentiality, integrity and availability of computer systems. The distribution of our findings can be seen in Figure 3.

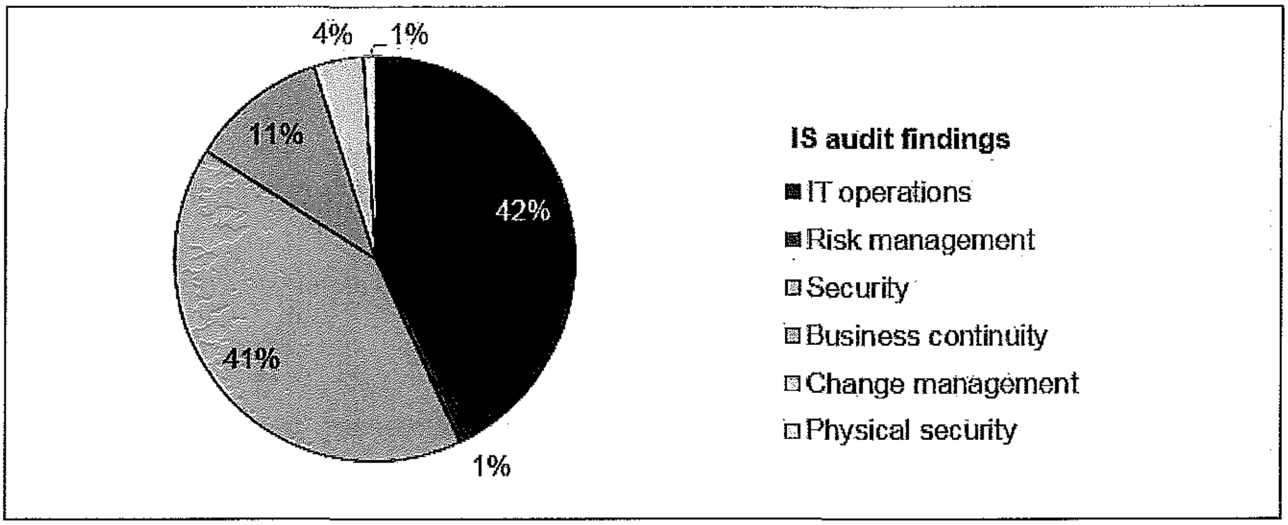


Figure 3: Information systems audit findings in 2014

Recommendation

Universities, state training providers and other agencies should ensure that financial management, KPI and information system control issues that are brought to their attention during their audit are addressed in a timely manner to ensure the continuing integrity of their financial control environment.

Timeliness and quality of financial reporting

Preparing financial statements and being ready for audit in a timely manner after year-end enables agencies to release resources for other important financial management tasks, thereby improving the overall efficiency and financial management of the sector. Nine institutions were audit ready earlier than in the previous year.

Our criteria for best practice in financial reporting (see below) consider this timeliness aspect as well as the quality of the financial statements prepared for audit. The financial statements prepared for audit were of similar quality to the previous year, with a similar number of errors.

Universities and state training providers use model financial statements[1] and guidelines in the preparation of their financial statements. This assists compliance with statutory requirements and helps minimise errors. Agencies can further reduce the number of errors through rigorous internal review that includes completeness, accuracy and quality of the draft financial statements and supporting working papers.

Best practice for annual financial reporting and controls

One university and three state training providers demonstrated best practice in their financial controls and reporting in 2014. Refer to Table 2.

Our criteria for achieving best practice status include:

- clear opinions on their financial statements, controls and KPIs
- audit ready early, ideally by 31 January
- good quality financial statements and KPIs, supported by reliable working papers and submitted for audit within the agreed timeframe
- management resolution of accounting standards and presentation issues (before the audit process begins)
- key staff available during the audit process
- assessment of the number and significance of control weaknesses identified by our audit.

Universities	State Training Providers
The University of Western Australia	Central Institute of Technology C Y O'Connor Institute Kimberley Training Institute Polytechnic West

Table 2: Best practice for financial controls and 2014 reporting

[1] Model financial statements are provided:

- for universities by the Australian Government Department of Education and Training
- for state training providers by the Western Australian Department of Training and Workforce Development.

Previous: Audit opinions for universities, state training providers and others (https://audit.wa.gov.au/reports-and-publications/reports/audit-results-report-annual-2014-financial-audits/audit-opinions-universities-state-training-providers-others/)

Page last updated: May 6, 2015

Next: Funding and student enrolments at state training providers and universities (https://audit.wa.gov.au/reports-and-publications/reports/audit-results-report-annual-2014-financial-audits/funding-student-enrolments-state-training-providers-universities/)

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Financial Controls

Appropriate financial controls help ensure the efficient and effective use of university resources and the implementation and administration of university policies. They are essential for quality and timely decision making to achieve desired outcomes.

Financial Controls

2014 Audit Observations

Internal Controls	• Opportunities exist to enhance internal controls across universities in the areas of information security, risk management and payroll. • Universities are exposed to security attacks, fraud and/or identity theft. • Over a quarter of our 2013 recommendations to improve IT controls have not been addressed.
Information Technology	• Disaster recovery planning can be made more effective by end to end testing to ensure financial processes and systems can be restored when needed.
Human Resources	• Some universities were able to reduce annual leave balances, but overall, there was little improvement. • Long service leave balances are increasing and funding will become more critical for universities with an older workforce approaching retirement.
Asset Management	• Increased capital works programs in 2015 were largely funded by investments and operating cash flows. • Some NSW Universities have poor information on backlog maintenance.

Internal Controls

Weaknesses in internal controls increase the risk of fraud and error. The 2014 financial statement audits concluded that, generally, NSW universities' internal controls are appropriately designed and operating effectively to produce reliable and timely financial reports. The audits did, however, identify areas where internal controls could be improved, and these have been reported to university management. Common observations included:

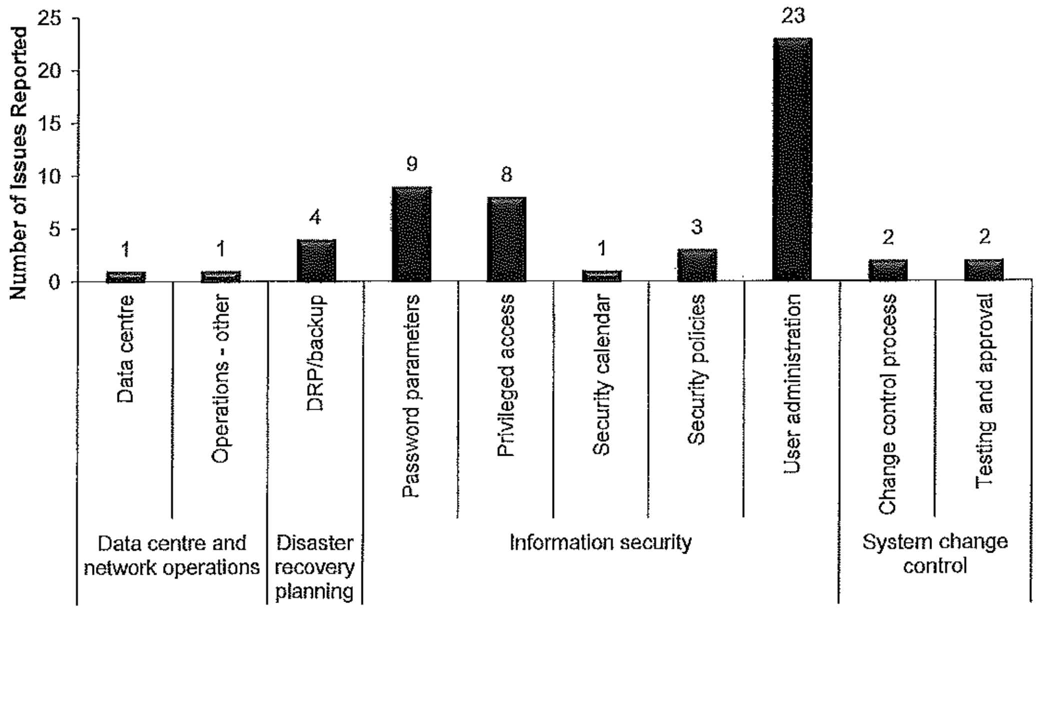
- risk management maturity is at a basic level for some universities
- issues around valuing investments in Education Australia Limited
- compliance frameworks not fully defined and operational across universities
- purchase orders raised after receipt of invoices and instances of unexplained gaps in the sequential numbering of purchase orders
- failure to assess investments for impairment and non-compliance with accounting standard AASB 139 Financial Instruments: Recognition and Measurement
- the absence of a gifts and benefits policy and/or register
- issues around segregation of duties with the processing of online timesheets
- weak controls over payroll processing and payroll exception reporting
- the *Government Information (Public Access) Act 2009* register of government contracts on the university's website not being regularly updated.

Information Technology

The 2014, information system audits performed on NSW universities and some associated entities, focused on information technology (IT) processes and controls supporting the integrity of the financial data used in preparing the financial statements.

These audits identified 54 IT specific issues which were reported to management. Twenty eight per cent of these issues had been reported in the prior year and most related to information security. Failing to address information security issues promptly exposes universities to security attacks, data integrity issues, fraud and/or identity theft.

IT Issues by Category for 31 December 2014 University Audits



Information security issues made up 81 per cent of IT issues identified during the 2014 university audits and many were repeat issues. The main area of concern is user administration, which accounted for 43 per cent of the information security issues. Most of these related to:

- the absence of, or weak, processes surrounding user access reviews
- untimely termination of user access to systems
- the configuration of password parameters for authenticating to financial systems
- poor management of privileged user accounts.

Disaster Recovery Planning

In 2014, NSW universities and some associated entities completed a self-assessment of their disaster recovery planning and testing capabilities. Testing of disaster recovery plans continues to be an area of concern. While all NSW universities and associated entities that completed the self-assessment reported they had a full or partial disaster recovery plan in place for key financial systems, most had not completed end-to-end testing of their disaster recovery capabilities. Without adequate testing, universities and associated entities have little comfort over the effectiveness of their disaster recovery plans to restore financial processes and systems in the event of a disaster.

Human Resources

Excess Annual Leave

Managing excess annual leave is a continual challenge for NSW universities. Our past reports to Parliament have recommended universities investigate the reasons for excess annual leave balances and address the underlying causes.

At 31 December 2014, 1,616 (1,643 in 2013) university employees or 5.1 per cent (5.3 per cent) of all staff had accrued more than 40 days annual leave. Liabilities for excess annual leave generally increase over time as salary rates increase, increasing costs and cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave. Employee fraud is also more likely to be detected when people are on leave.

The table below shows the number of staff with more than 40 days accrued annual leave at 31 December over the past three years.

University Year ended 31 December	Academic staff Three year trend	2014	2013	2012	General staff Three year trend	2014	2013	2012
Sydney Metropolitan								
Macquarie	↑	101	76	65	↑	57	46	48
New South Wales	↓	56	73	151	↓	13	16	39
Sydney	↓	329	413	392	↓	171	237	220
Technology, Sydney	~	98	106	92	↓	38	44	50
Western Sydney	↓	39	48	61	↓	21	22	33
Sydney Metro Total	↓	**623**	**716**	**761**	↓	**300**	**365**	**390**
Major Regional								
Newcastle	↑	36	18	15	↑	67	58	50
Wollongong	↑	186	108	11	↑	97	63	67
Major Regional Total	↑	**222**	**126**	**26**	↑	**164**	**121**	**117**
Country								
Charles Sturt	↓	47	63	48	↑	90	83	80
New England	↑	80	73	78	~	65	65	87
Southern Cross	↓	12	15	21	↓	13	16	16
Country Total	↓	**139**	**151**	**147**	~	**168**	**164**	**183**
Total	~	**984**	**993**	**934**	↓	**632**	**650**	**690**

Source: Information provided by universities (unaudited).

Note: Pre – 2013 data for excessive annual leave is for employees with 41 days or more of annual leave.

Key: ↑ Trend upwards, ↓ Trend downwards, ~ No trend.

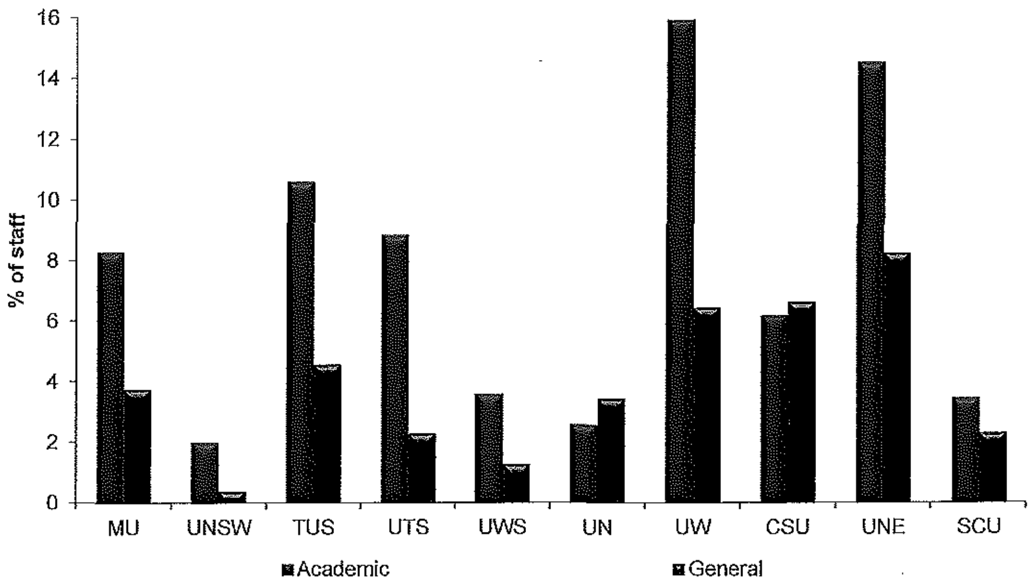
Overall, academic staff with excess annual leave balances decreased to 7.3 per cent of total academics at 31 December 2014 (7.5 per cent at 31 December 2013). For general staff the percentage decreased to 3.5 per cent (3.6 per cent).

The table shows some universities are reducing excess annual leave balances. The University of New South Wales has the lowest proportion of staff with excess annual leave balances.

Academic staff with excess annual leave at the University of Wollongong increased by 72.2 per cent in 2014, which the university attributes to a change in employee award conditions. Academic staff are no longer deemed to have taken their leave at year end.

The graph below shows the percentage of academic and general staff with annual leave balances exceeding 40 days at 31 December 2014 at each university.

Excessive Annual Leave Balances at 31 December 2014



Source: Data provided by the respective universities (unaudited).

The University of Newcastle and Charles Sturt University are the only universities where the excess annual leave of general staff exceeded that of academics.

Long Service Leave Liability

The long service leave liability for NSW universities has increased by $262 million (56.4 per cent) since 2010. This increase is largely due to the impact of lower discount rates used to calculate the present value of the liability.

NSW universities need to ensure they have plans to fund these liabilities, which generally increase over time as employee remuneration levels increase. This will be more critical for universities with an older workforce approaching retirement.

The table below shows the long service leave liability of each NSW university over the past five years.

University Year ended 31 December	Five year trend	2014 $m	2013 $m	2012 $m	2011 $m	2010 $m
Sydney Metropolitan						
Macquarie	↑	47	43	49	42	35
New South Wales	↑	178	165	161	144	106
Sydney	↑	158	139	121	115	99
Technology, Sydney	↑	79	65	70	64	45
Western Sydney	↑	59	49	51	46	41
Sydney Metro Total	↑	**521**	**461**	**452**	**411**	**326**
Major Regional						
Newcastle	↑	74	70	66	53	43
Wollongong	↑	61	58	52	45	40
Major Regional Total	↑	**135**	**128**	**118**	**98**	**83**
Country						
Charles Sturt	↑	30	28	28	27	23
New England	↑	24	20	22	20	21
Southern Cross	~	16	16	17	14	13
Country Total	↑	**70**	**64**	**67**	**61**	**57**
Total	↑	**726**	**653**	**637**	**570**	**466**

Source: Universities financial statements (audited).

Key: ↑Trend upwards, ~ No trend.

Four NSW universities have had continuous growth in the long service leave liability since 2010. In 2014, the University of Western Sydney had the greatest annual percentage increase of 21.9 per cent (15.3 per cent for the University of Sydney in 2013).

Asset Management

Capital Programs and Asset Management

Universities fund capital works programs through investments, borrowings, grants and in some cases operating cash flows.

Capital Works

Capital expenditure across all ten universities totalled $1.3 billion in 2014 ($1.4 billion in 2013) and $1.4 billion is budgeted for 2015. The University of Sydney incurred the largest spend in 2014 of $355 million and has the largest budget for 2015 of $413 million to fund its capital improvement program.

The introduction of the Student Demand Driven System, which allows universities to increase student numbers to levels they can support, increases pressure on university resources and infrastructure.

Queensland Audit Office

Results of audit: Education sector entities 2014

Report 15: 2014–15

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QUEENSLAND

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QAO
Queensland Audit Office

May 2015

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 *Results of audit: Education sector entities 2014.*.

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

Yours sincerely

Andrew Greaves
Auditor-General

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Summary

This report provides the results of our audits of the following 95 entities:

- the seven public universities and 26 university controlled entities for which an opinion is provided on their financial statements
- the 47 university controlled entities that do not prepare financial statements
- the eight grammar schools
- seven other education entities.

This report also summarises key issues we raised with the entities relating to their financial management and control.

Audit opinions

At the date of this report we issued 47 unmodified audit opinions with one remaining opinion expected to be issued within legislative time frames. This means that all financial statements in the education sector comply with the relevant Commonwealth and State legislative requirements and Australian accounting standards.

We included an 'emphasis of matter' in the audit reports of 17 of the university-controlled entities. Emphases of matter do not change the audit opinion—they highlight matters to help users better understand the financial report. In all cases, we drew attention to the fact that the statements have been prepared for a special purpose for specific users rather than a general purpose for many users.

Timeliness and quality

All entities, which were required to have financial statements audited within two months of the financial year end met this legislative timeframe. This is a better result than last year, where one entity was certified outside the legislative time frame.

The universities and grammar schools are required to have their financial statements certified by us within two months of the end of the financial year.

Most of their controlled and related entities have certification dates beyond two months because of their different legal status and the specific requirements of their legislation. However, most of these need to be certified also within two months because their results are consolidated into their parent entity's financial statements.

The quality of draft financial statements continues to be high, with only minor changes to balances and disclosures required after their submission for audit.

Nevertheless we identified three areas where the year-end financial reporting process can be further improved:

- earlier preparation and sign-off on pro-forma or 'shell' financial statements before balance date, preferably before 31 October each year
- earlier agreement with the audit committee on materiality thresholds to help simplify or eliminate unnecessary disclosures and better evaluate the need for adjustments
- better quality lead and supplementary schedules and working papers to support financial statement line items and disclosures.

Financial management

Universities

The financial health of the university sector remains sound. All universities reported operating surpluses and their levels of debt remained manageable. They all had sufficient funds on hand at year end to meet all short term debt and obligations as they fall due over the next 12 months.

Figure A
Financial performance and sustainability—universities

University	Operating (Note 1)	Liquidity (Note 2)	Asset sustainability (Note 3)	Net financial liabilities (Note 4)	Debt to revenue (Note 5)	Overall financial risk
University of Queensland	2.46%	1.66	0.96	4.67%	6.80%	Low
Queensland University of Technology	3.69%	4.20	1.42	-22.33%	10.54%	Low
Griffith	9.17%	3.62	2.42	-21.22%	13.39%	Low
Southern Queensland	15.45%	4.84	2.91	-26.71%	3.44%	Low
James Cook	11.23%	3.12	0.77	-15.74%	16.79%	Low
Central Queensland	33.92%	2.57	0.91	-15.92%	0.64%	Low
Sunshine Coast	17.86%	4.33	4.34	-20.35%	5.67%	Low

Notes:
1. A higher percentage indicates a greater capacity to meet future operating and capital expenditure obligations.
2. A ratio greater than one indicates short term debts and obligations can be paid over the next 12 months.
3. A ratio greater than one indicates capital spend is greater than depreciation and assets are being maintained at a reasonable level.
4. Less than 60 per cent indicates the level of debt is manageable.
5. A low percentage indicates financial stability and solvency. Minimal revenue is required to settle liabilities.

Source: Queensland Audit Office based on published financial statements

The Central Queensland University (CQU) operating surplus for 2014 improved significantly to $149.7 million from $23.3 million in 2013. This was mainly because it recognised revenue of $120 million for the fixed assets it acquired at no cost as part of the merger agreement with the Central Queensland Institute of TAFE.

Nevertheless CQU has recorded consecutive operating surpluses after three years of deficits. Their revised revenue and expenditure policies, which include structural changes implemented over the past two years, are having a positive impact.

Grammar schools

Most grammar schools are in a sound financial position. All schools recorded an operating surplus for 2014, except for Ipswich Grammar School (IGS) which recorded an operating deficit of $1.15 million (2013: $1.49 million deficit.)

The IGS has made operating losses for the past seven years. Changes to their revenue and expenditure policies have seen these deficits reduce over the past two years. While this is positive, IGS will need to continue its efforts to ensure they can operate sustainably.

Financial control

The 'control environment' is an integral component of each entity's governance framework. Management's operating philosophy, attitude and demonstrated commitment to sound financial control in turn strongly influences the effectiveness of their system of controls.

Significant financial control issues we reported to management

Internal control over financial reporting is generally sound, but more management attention is required on improving information technology-based controls.

We identified and reported fewer significant control issues this year than last year (34 compared to 42). Of the 34 issues, 21 relate to IT security and access control breakdowns at three universities (up from 16 in 2013). IT security and access controls are important to preserve data integrity and confidentiality.

This trend concerns us, given we have raised a number of IT issues for two years in a row at some universities.

For grammar schools we also identified and reported fewer significant control issues this year than last. Again, the sector needs to closely monitor IT security and access, as well implement better segregation of incompatible duties.

Controls over excessive annual leave liabilities

All universities can improve the management of their annual leave liabilities. All have staff who have annual leave balances in excess of policy limits.

The implementation of policies to address this issue varies across the sector. A number of risks result from the accumulation of excess annual leave, including:

- workplace health and safety problems relating to workload
- susceptibility to fraudulent activity remaining undetected where a duty is performed by an individual continuously for a length of time
- the financial liability of the university increases with wage increases.

Some of the more effective controls that have been implemented are:

- automated emails are sent to remind staff who are approaching their limit
- staff are directed to take a specified amount of leave once a predetermined limit is reached and where they fail to, their leave can be automatically deducted
- reports are provided to executive management detailing steps taken to manage excessive leave and to monitor the leave taken.

Internal audit

In general, university internal audit units and audit committees are operating effectively, although improvement is required in relation to the follow up of unresolved issues. At the time of audit, across the sector, there were 94 high and moderate risk internal audit issues unresolved. Of these, there were nine high risk issues which had been outstanding for over 12 months. The number of outstanding internal audit issues raised and the length of time they have been outstanding needs to be closely monitored. These issues need to be actioned in a timely manner by both the internal audit unit and the audit committee.

Internal management financial reporting

Internal management financial reporting (IMFR), when done well, is a key element of creating sound financial control. The objective of IMFR is to make sure the right people are getting the right information at the right time so they can make better decisions.

Our assessment is that while all universities have a sound IMFR framework and are producing the basic information required by all tiers of management, opportunities remain to improve both the process of compiling, and the content of, their reports.

Common improvement opportunities we identified were:

Right people	• clarify the roles of the preparers and users of the report • schedule and obtain annual feedback from report users • assess user and preparer training needs and implement an annual training plan to share ideas and expertise.
Right information	• prepare reports on an accrual basis for council/board members and executive management, and better tailor reports to match users' needs • integrate financial and non-financial information where relevant • include prospective (future-focused) commentary and targeted analysis • make reports clearer and more concise
Right time	• ensure the most up to date information is provided to users in a timely fashion • reduce the amount of manual input and invest in data warehouse systems to allow integrated and consistent reporting of information and enable real time access to reports • develop tools to allow users to access and analyse the data on line, in real time.

Reporting underlying results

For their internal management financial reporting all the universities perform a calculation of an 'underlying' or 'normalised' result. This differs from the audited statutory result in their published financial statements, which they prepare in accordance with various legal requirements, including Australian accounting standards.

The main difference between the two results are adjustments for one-off or infrequent items or certain non-cash transactions. The most common adjustment relates to research and capital grants received by the universities, which under the Australian accounting standards are generally required to be brought to account as income upon receipt. These grants are generally removed from revenue for underlying result purposes.

The Australian Securities and Investment Commission issued a regulatory guide (RG 230) for all entities that prepare and disclose financial information not in accordance with the International Financial Reporting Standards (IFRS). This includes the underlying or normalised result currently prepared by the universities.

While the university sector is 'not for profit' and is not required to comply with IFRS, this guidance is a relevant benchmark for the sector to consider, so we assessed each university's underlying result calculation against it.

We identified a number of improvement opportunities across the sector, including that they should:

- if publicly reported, disclose why the university council believes the alternative results provide useful information
- provide clearer explanations of how the underlying result is calculated
- reconcile the difference between underlying result and statutory result
- consider whether it is appropriate to adjust for one-off, non-recurring items or non-cash transactions.

We also note there were inconsistencies across the sector in terms of what adjustments were made. Not all universities adjusted for the same transaction type. These inconsistencies reduce the ability of users of this figure to usefully compare their underlying results across the sector.

We encourage the sector to develop a common framework around the calculation of this underlying result. This will make their annual reports and internal management financial reports more helpful to their users.

Reference to comments

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

Their views have been considered in reaching our audit conclusions and are represented to the extent relevant and warranted in preparing this report.