

Report on the Western Australian Public **TERTIARY EDUCATION SECTOR**

Report No 6 – August 1998



AUDITOR GENERAL

Western Australia



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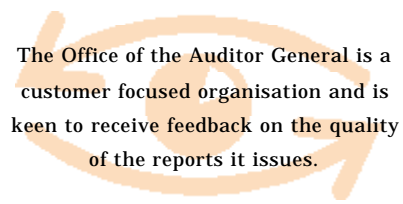
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**THE SPEAKER
LEGISLATIVE ASSEMBLY**

**THE PRESIDENT
LEGISLATIVE COUNCIL**

REPORT ON AGENCIES IN THE TERTIARY EDUCATION SECTOR

I submit to Parliament the Tertiary Education Sector Report for 1998 pursuant to section 95 of the *Financial Administration and Audit Act 1985*. This report covers the financial statements and performance indicators of Western Australian public universities and vocational education and training colleges under that Act, with a balance date of December 31, 1997.

I commend the dedication and commitment of my staff and contractors on the efficient and effective completion of their audit assignments thereby enabling me to present this Report to Parliament.

A handwritten signature in blue ink, appearing to read 'D D R Pearson'.

D D R PEARSON
AUDITOR GENERAL
August 12, 1998

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The Western Australian Public Tertiary Education Sector

In 1997 the public tertiary education sector in Western Australia comprised four universities (Curtin University of Technology; Edith Cowan University; Murdoch University and The University of Western Australia) and 14 colleges (six metropolitan and five country TAFE colleges and Karratha, Hedland and Pundulmurra Colleges).

Collectively they employed some 11 500 staff and provided an education to more than 170 000 students. Combined assets (including investments, land, buildings, plant and equipment) totalled some \$2.63 billion, with expenditure totalling \$1.06 billion on a non-Government revenue base of \$333 million.

The value of the assets and the size of the financial turnover, position this sector as a significant element of public sector finances.

Factors Impacting on the Sector in 1997

- Commonwealth funding, which represents the majority of universities' income, was relatively static between 1996 and 1997, while State funding rose only slightly. As future Commonwealth funding is anticipated to decline in real terms, WA universities have actively reassessed their cost structures and developed initiatives to increase their revenue base. Their effort has been especially directed to 'exporting' expertise and education to ASEAN nations and attracting more students from this 'traditional' region (last year it is estimated that overseas students added some \$429 million to WA's economy).

Indications are that in 1997 the current Asian economic recession did not significantly impact on the number of overseas students studying in Australia. However, there was a worrying decline in enrolment growth and a prolonged recession may affect universities' education export markets in the future.

- The *Vocational Education and Training Act 1996 (VET Act)* significantly restructured the Western Australian vocational education sector, repealing the *Colleges Act 1978*, *Industrial Training Act 1975*, *State Employment and Skills Development Authority Act 1990* and amending related legislation. The *VET Act*, effective from January 1, 1997, changed the reporting structures of 11 TAFE colleges which were previously part of the Western Australian Department of Training (WADOT), creating them as statutory authorities subject to the accountability provisions of the *Financial Administration and Audit Act 1985 (FAAA)*, and confirmed the independent status and current reporting requirements under that Act of Karratha, Hedland and Pundulmurra Colleges.

The *VET Act* also constituted the State Training Board of Western Australia (with responsibility for advising the Minister on the State's vocational education and training needs) and the Training Accreditation Council to manage the registration of training providers, and accreditation of courses, programs and training schemes.

This Report

This report details the results of the 1997 annual audit of the above universities' and colleges' financial statements and performance indicators and brings to the attention of Parliament certain operational and management issues that need to be addressed at these institutions.

Analysis of Audit Results

Universities

Overall, the four universities' accountability and performance indicators were found to be generally sound, offering a clear picture of their financial position, efficiency and effectiveness. Hence both their financial statements and performance indicators received a clear opinion from the Auditor General.

Colleges

As 1997 was the first time 11 of the colleges were required to separately report under the provisions of the *FAAA*, problems were anticipated and there is across-the-board scope for improvement. However, overall this represents a good start and with an ongoing commitment to improved financial reporting, it is expected that colleges will capitalise on the experience gained in 1997 and raise the quality of 1998 statements and performance indicators.

Of the 14 colleges, 13 audits for 1997 were completed at the time this report was prepared. Only one has had its financial controls qualified, and two their performance indicators.

Common Issues

Year 2000 Computer Date 'Bug'

The potential risks arising from this looming problem have been well documented and the threat to universities and colleges is not significantly different from that faced by any organisation with complex computer systems. One area of specific concern is, however, the possible impact of the 'bug' on the processing of college and university offers and admissions/enrolments in January–February 2000. There is a need for the institutions to continue to give the problem a high priority, identify those systems at greatest risk, rigorously test, instigate necessary remedial action and undertake contingency planning.

Fee Revenue and Debtors

Systems for managing student fee revenue and debtors require upgrading to facilitate reconciliation to the financial system and minimise the likelihood of fee revenue and debtors being misstated at year's end. At colleges, current systems do not always provide adequate information regarding training delivered, to support payments to contract training organisations.

Financial Management

The standard of financial management at most colleges and universities needs further tightening, particularly in relation to the key control areas of financial reconciliations and payroll management. Management needs to ensure that reconciliations are undertaken on a regular periodic basis and prior to the preparation of financial statements, and that payroll transaction reports are signed-off by relevant cost centre managers, to minimise payroll errors. The University of Western Australia was however notable for effective procedures and practices in this respect.

Universities

Background

In 1997 WA's four public universities (Curtin University of Technology; Edith Cowan University; Murdoch University and The University of Western Australia) had a combined expenditure of some \$778 million and held assets of almost \$2.2 billion across metropolitan and regional campuses.

Collectively they provided education to over 70 000 students, and employed 8 000 staff. University places grew by approximately 3 000 students in 1996 and by more than 5 000 students in 1997.

Federal Government funding, which represents the majority of universities' income, was relatively static between 1996 and 1997, while State funding rose marginally.

Key 1997 Financial Statistics

Item/Description	Curtin \$Million	Edith Cowan \$Million	Murdoch \$Million	UWA \$Million	TOTAL \$Million
ASSETS					
Cash/Investments	113	50	14	500	677
Land & Buildings	343	236	229	504	1 312
Other Non-Current Assets	33	23	27	82	165
LIABILITIES					
Employee Entitlements	101	56	8	45	210
EQUITY					
Accumulated Surplus/Reserves	353	236	252	1 024	1 865
EXPENDITURE					
Staffing costs	148	103	66	162	479
Depreciation	13	12	8	17	50
Other	91	39	30	89	249
REVENUE					
From Government	173	119	93	194	579
From Other Sources	95	39	26	111	271

Table 1: Universities' revenue, expenditure, assets, liabilities and equity

Financial Statements, Controls and Performance Indicators

Financial statements and performance indicators were generally well reported, with a limited number of amendments required during the audit process. In some instances explanatory notes required improvement to assist readers with limited knowledge of university operations.

Australian Accounting Standard AAS33 (Presentation and Disclosure of Financial Instruments) which requires a more detailed disclosure of cash, investments, debtors and creditors, was successfully applied by all universities for the first time.

Financial controls were also generally sound.

Consequently, all four universities and their subsidiary companies received a clear (unqualified) audit opinion.

University	Date Reports Received	Date Opinion Issued
Curtin	27/03/98	04/06/98
Edith Cowan	19/03/98	22/04/98
Murdoch	27/02/98	08/05/98
UWA	27/02/98	20/04/98

Table 2: Dates of submission of financial statements and performance indicators and issue of opinions

University Subsidiary	University	Date Opinion Issued
Curtin Consultancy Services Ltd	Curtin	12/05/98
The Brodie Hall Research Consultancy Centre Pty Ltd	Curtin	20/04/98
The University Company Pty Ltd	Murdoch	30/04/98
Uniservices Kalgoorlie Pty Ltd	Curtin	15/05/98
WANMTC Pty Ltd	Curtin/UWA	22/04/98

Table 3: Dates of issue of opinions – University Subsidiaries

University-specific Issues and Recommendations

Student admissions data

A number of weaknesses were identified in relation to controls over the security of databases of the Secondary Education Authority (now replaced by the Curriculum Council) and the Tertiary Institutions Service Centre, which hold Tertiary Entrance Examination (TEE) results and thus could affect the offering of university places. Remedial action in this area has already commenced.

Recommendation

- **Management of the Tertiary Institutions Service Centre and the Curriculum Council continue to implement remedial measures to further enhance the integrity of student results and university entrance scores.**

Investments in shares

Edith Cowan University, in contributing to various educational projects, has on occasion received shares in companies. It is open to interpretation that the university had 'bought' these shares – contrary to its enabling legislation which does not allow share purchases. This situation contrasts with enabling legislation of the other three public universities.

Recommendation

- **Edith Cowan University seeks to have its Act amended to permit shareholdings in companies linked to its educational activities.**

Colleges

Background

In 1997 the 14 colleges had a combined expenditure of some \$279 million, with \$236 million of revenue coming from government. Combined assets totalled \$440 million.

Together they provided vocational training to more than 100 000 students and employed approximately 3 500 staff.

The vocational education and training needs were identified by the State Training Board in consultation with industry, training bodies and WADOT and quantified in Student Curriculum Hours, with the Commonwealth providing approximately 25 per cent of the required funding through the Australian National Training Authority (ANTA).

Subject to achieving the targets set by the State Training Board and WADOT, colleges were free to pursue commercial activities on a fee-for-service basis, provided such training activities complied with the *VET Act*.

As noted earlier, 1997 was the first time TAFE colleges were required to individually report under the provisions of the *FAAA*. Previously financial results had been incorporated into WADOT's financial statements. Although WADOT provided advice and a template for financial statements to the colleges, the new reporting requirements posed a number of administrative and managerial challenges, including:

- establishing Governing Councils and an internal audit function;
- establishing financial infrastructure and acquiring accounting expertise;
- fully complying with the *FAAA* and Treasurer's Instructions; and
- developing and reporting of performance indicators.

Key 1997 Financial Statistics

College	Cash/ Investments \$ million	Land & Buildings \$ million	Other Non- Current Assets \$ million	Employee Leave Entitlements \$ million	Other Liabilities \$ million
Advanced Manufacturing Technologies Centre	1.9	26.3	1.7	1.1	1.9
Central Metropolitan	6.3	77.0	5.4	6.9	4.6
Central West	0.1	17.3	2.3	0.9	0.6
C Y O'Connor	0.1	3.0	0.9	0.4	0.2
Great Southern Regional	1.3	12.1	1.2	0.7	0.4
Hedland	3.8	21.0	0.7	0.5	2.3
Karratha	2.8	10.7	1.1	0.6	0.9
Kimberley	0.7	3.2	0.7	0.3	0.1
Midland	5.1	27.2	2.0	1.9	1.2
North Metropolitan (now West Coast College)	5.1	42.7	3.5	4.4	2.4
Pundulmurra*	0.3	2.8	2.4	0.1	1.0
South East Metropolitan	7.1	37.2	2.0	4.1	1.3
South Metropolitan	4.2	46.9	5.2	4.9	2.1
South West Regional	<u>4.0</u>	<u>13.8</u>	<u>2.6</u>	<u>1.2</u>	<u>0.9</u>
TOTALS	42.8	341.2	31.7	28.0	19.9

Table 4: Key Balances – Assets and Liabilities

* Figures for Pundulmurra College are for 1996 and were qualified.

College	EXPENDITURE			REVENUE	
	Salaries	Depreciation	Other	Government	From Other Sources
	\$ million	\$ million	\$ million	\$ million	\$ million
Advanced Manufacturing					
Technologies Centre	5.5	1.1	4.4	9.7	2.3
Central Metropolitan	32.1	3.3	17.8	42.0	10.4
Central West	6.7	0.7	4.3	11.9	2.1
C Y O'Connor	4.3	0.3	2.8	6.9	0.6
Great Southern Regional	5.7	0.6	3.1	8.7	1.3
Hedland	3.7	1.0	5.2	8.0	1.9
Karratha	4.3	0.9	3.9	7.1	2.5
Kimberley	3.0	0.2	3.2	6.8	0.3
Midland	11.0	1.1	5.3	15.6	3.1
North Metropolitan					
(now West Coast College)	25.3	2.0	14.5	31.9	15.4
Pundulmurra*	2.8	0.2	4.3	5.4	2.1
South East Metropolitan	21.3	2.7	12.2	29.5	8.4
South Metropolitan	26.5	2.0	13.8	38.4	9.3
South West Regional	<u>9.7</u>	<u>0.9</u>	<u>5.3</u>	<u>14.5</u>	<u>2.4</u>
TOTALS	161.9	17.0	100.1	236.4	62.1

Table 5: Key Revenue and Expenditure items

* Figures for Pundulmurra College are for 1996 and were qualified.

Financial Statements, Controls and Performance Indicators with details of Qualifications

Overall, the colleges made a good start in this new phase of financial and performance reporting.

With financial statements there was, understandably, across-the-board scope for improvement, with a number containing significant errors (which at some colleges were numerous) and explanatory notes lacking clarity.

Most colleges reported satisfactory performance indicators and these should provide a sound platform on which to undertake comparative performance assessment in the future.

This commendable start is evidenced in the fact that of the 13 college audits completed for 1997, only one has had its financial controls qualified, and two their performance indicators.

The above success was in part due to the early identification of potential problem areas and then considerable effort by WADOT, the colleges and this Office, to reliably establish correct opening balances, thereby enabling audit verification. In particular, much work was done in relation to non-current assets which were transferred from WADOT and came under the control of colleges in 1997.

Given the commitment and progress so far it is anticipated that colleges will capitalise on the experience gained in 1997 and work diligently to produce higher quality financial statements and performance indicators next year.

College	Financial Statements and Controls	Performance Indicators	Date Results Received	Date Opinion Issued
Advanced Manufacturing Technologies Centre	✓	✓	03/03/98	27/05/98
Central Metropolitan	✓	✓	03/03/98	08/05/98
Central West	✓	✓	30/04/98	17/07/98
C Y O'Connor	✗	✗	06/03/98	05/08/98
Great Southern Regional	✓	✓	27/02/98	12/05/98
Hedland	✓	✓	30/04/98	10/07/98
Karratha	✓	✓	24/02/98	29/05/98
Kimberley	✓	✗	09/03/98	25/05/98
Midland	✓	✓	28/04/98	08/06/98
North Metropolitan (now West Coast College)	✓	✓	30/04/98	23/06/98
Pundulmurra	+	+	27/07/98	+
South East Metropolitan	✓	✓	30/04/98	17/07/98
South Metropolitan	✓	✓	27/02/98	20/05/98
South West Regional	✓	✓	01/05/98	16/07/98

Table 6: Dates and types of opinions for colleges

✓ *Unqualified opinion* ✗ *Qualified opinion* + *Audit in progress*

Qualifications

Pundulmurra College

The financial statements for 1996 were not submitted for audit until September 5, 1997 and the performance indicators on September 30, 1997. The audit was completed and opinions issued on December 5, 1997.

An opinion could not be formed on the Operating Statement and the Statement of Cash Flows because internal controls exercised by the College over its expenditure, revenue and assets were not adequate to support the reported transactions. The opinion on the College's financial statements was also qualified as there were inadequate records to support assets and employee entitlements in the Statement of Financial Position.

A qualified opinion was issued in relation to internal controls, as they did not comply with legislative requirements and inadequate records had been maintained.

The 1997 financial statements and performance indicators were received in July 1998 and consequently the audit is still in progress.

Kimberley College and C Y O'Connor College

The opinion on both Colleges' performance indicators was qualified as the number of responses to a survey of graduates forming the basis of the Colleges' effectiveness indicators was not large enough to provide reliable measures of performance.

The financial controls of C Y O'Connor College were also qualified as:

- the College did not comply with the *State Supply Commission Act 1991*, as quotations and public tenders were not always obtained for the provision of services and the sale of assets;
- controls over the checking and authorisation of expenditure were inadequate as a number of payments were made for services that were not provided to the College; and
- controls over revenue collection were inadequate to ensure that all student enrolment fees collected on behalf of the College were remitted to the College.

College-specific Issues and Recommendations

Performance Indicators

It is anticipated that in light of this year's experience, colleges will further develop and enhance their performance indicators, particularly in regard to commercial activity. Scope for improvement has been identified in four areas:

Comparative Reporting

Comparative figures showing performance against previous years was not available for all indicators this year, but the progressive introduction of such comparisons will facilitate an increasingly detailed analysis of the colleges' performance.

Inter-College Comparisons

Comparison of efficiency between colleges, using existing performance indicators such as Student Curriculum Hours, presents problems as there are significant cost variations between individual courses and wide variations in the student mix among government-funded and commercial courses.

Government-funded Courses

A more comprehensive picture of the effectiveness of such courses could be obtained through developing additional qualitative performance indicators, including employer satisfaction and student results, to complement existing surveys.

Commercial Activities

At most colleges there is scope for improved reporting of performance in regard to commercial or fee-for-service training activities.

Recommendations

- A system for weighting groups of courses according to mutually agreed criteria be developed for the Cost per Student Curriculum Hour efficiency indicator, to facilitate a more meaningful comparison between colleges.
- Key employer groups be surveyed to assess external perceptions of the quality and relevance of training provided by colleges.
- Student academic results be summarised.
- Consideration be given to developing separate efficiency indicators for commercial courses, including those where outputs are not measured in Student Curriculum Hours.
- The effectiveness of commercial activities be measured by surveying relevant student and employer groups.

Accounting for Commercial Operations

Through a competitive tendering process colleges bid against private sector providers for approximately ten per cent of the State's annual training requirement. They are required to prepare bids on a fully commercial basis, excluding the benefits of government subsidies, and with the proviso that any training provided on a commercial basis does not affect or diminish the training stipulated and funded under Delivery and Performance Agreements with WADOT.

Colleges are required to reflect the true cost of training provided on a commercial basis by separately accounting for commercial and government-funded operations. They are to deposit government and commercially generated revenue into a single college trust fund consisting of two accounts:

- A General Account for government funds for training activities under Delivery and Performance Agreements; and
- A Commercial Account for funds generated by fee-for-service training, bookshops, catering outlets, adult community education and other activities.

To ensure that government funding is not diverted to commercial activities (cross-subsidisation) and to assure reliable reporting of performance, the income and expenditure for these two separate areas should be transparently and consistently apportioned.

Whilst no material anomalies were identified, existing systems require development and improvement to achieve a greater degree of precision and consistency in the allocation of expenses between government-funded and commercial activities.

Recommendation

Colleges develop their costing systems to more demonstrably avoid cross-subsidisation and to establish a consistent, economical sector-wide approach to apportioning college expenses between government-funded and commercial activities.

Control Issues

A disparate range of control issues across colleges was identified during audit. Though no discernible trend was seen, such minor 'housekeeping' issues, if not readily addressed, have the potential to individually or collectively expose or weaken an entire system.

Problems identified included:

- Inadequate control over various aspects of payroll administration thus exposing colleges to potential for undisclosed errors and unauthorised payments.
- Inadequate procedures to ensure that changes to payroll data (including pay rates) were authorised.
- Underdeveloped asset systems that simply recorded non-current assets, rather than enabling their efficient management.
- Disposal of assets without adequate approval.
- Lack of assurance that all money received was credited to college bank accounts.
- Non-compliance with government procurement policies and best practice in purchasing.
- Inadequate internal audit functions.
- Lack of approved minutes for meetings of senior management or Governing Councils.

Recommendations for improvement have been made to those colleges where these risks or errors were identified, and management has either taken remedial action or is in the process of addressing the problems.

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Public Sector Performance Report 1997	November 13, 1997
Private Care for Public Patients – The Joondalup Health Campus	November 25, 1997

1998

Report on Ministerial Portfolios	April 8, 1998
Selecting the Right Gear – The Funding Facility for the Western Australian Government's Light Vehicle Fleet	May 20, 1998
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