Queensland Audit Office

Results of audit: Education sector entities 2014

Report 15: 2014–15

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QUEENSLAND

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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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Contents

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.

1 Context

1.1 Entities that form part of the education sector

The education sector is made up of universities and their controlled entities (such as Uniquest P/L, which is controlled by the University of Queensland) and grammar schools. The majority of controlled entities are companies that carry out various activities to further each of the university's objectives.

Most entities in Australia have a 30 June financial year end. In contrast, entities within the education sector have a financial year end of 31 December in line with the calendar year. This report does not include the state Department of Education and Training, which is discussed in the Auditor-General's Report to Parliament on results of audit: state public sector entities with a 30 June year end.

The education sector includes 95 entities, of which 48 prepare financial statements for audit certification. This leaves 47 which do not prepare financial statements as they are not required to by law. Of these, 23 were dormant, that is, they did not operate in 2014. (Refer Appendices B and C.)

1.2 Financial reporting responsibilities of education sector entities

In this section, we detail the financial reporting requirements of the education entities in this report and describe our responsibilities under the *Auditor-General Act 2009*. We also provide a structure of the report detailing chapters and appendices.

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

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

1.2.1 Financial reporting requirements for universities and grammar schools

Each of the seven universities has its own legislation. For financial reporting purposes, their Acts provide that they are statutory bodies and are subject to the requirements of the Act and the *Statutory Bodies Financial Arrangements Act 1982.*

The universities prepare general purpose financial statements in accordance with the Australian accounting standards. The Act requires that audited financial statements are included in the annual report of each university and tabled in Parliament by the state Minister for Education. Additional disclosure requirements are required by the federal Department of Education.

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

As statutory bodies, universities and grammar schools are required, when preparing their annual financial statements, to have regard to the minimum reporting requirements contained in the financial reporting requirements for Queensland Government agencies. These are issued by Queensland Treasury and Trade.

The Chancellor/Chair and the executive responsible for financial administration at each entity must certify compliance with legislative requirements for establishing and keeping accounts. They must also certify that the financial statements present fairly the entity's transactions for the financial year and financial position.

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

1.2.2 Financial reporting requirements for controlled entities

The majority of controlled entities of universities are public companies subject to the requirements of the *Corporations Act 2001*.

The *Corporations Act 2001* requires public companies to report to members and provide the auditor's report on the financial statements. They must do this either by 21 days before the next annual general meeting after the end of the financial year, or four months after the end of the financial year—whichever is earlier. Entities with a 31 December year end must report by 30 April.

1.2.3 Financial reporting time frames

The Queensland Financial and Performance Management Standard 2009 requires universities and grammar schools to provide draft financial statements for audit by an agreed date. They must allow enough time to conduct the audit and complete the audit opinion by no later than two months after the end of the financial year to which the statements relate.

The university or grammar school must give the annual report to the Minister in time to allow the report to be tabled in Parliament within three months of the end of the financial year to which the report relates.

1.3 The Auditor-General's responsibilities

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

The auditor’s report, which includes the audit opinion, assures readers of the reliability of the financial report, including compliance with legislative requirements. In accordance with Australian auditing standards, one or more of the following audit opinion types may be issued:

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

An emphasis of matter may also be included with the 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 does not modify the audit opinion. An emphasis of matter will be included for all special purpose financial statements, which are designed to meet the financial information needs of specific users. General purpose financial statements, on the other hand, are intended to meet the information needs of all users.

The *Auditor-General Act 2009* requires, after the audit opinion has been issued, that a copy of the certified statements and the auditor’s report is provided to the chief executive officer of the entity as well as the appropriate Minister.

That Act also requires the Auditor-General to prepare a report to Parliament on each audit conducted. The report must state if the audit has been finished and the financial statements have been audited. It must also include:

- details of significant deficiencies where financial management functions were not performed adequately or properly
- any actions taken to improve deficiencies reported in previous reports.

This report satisfies these requirements.

1.4 Report structure and cost

The remainder of this report is structured as follows:

- Chapter 2 covers:
  - the results of university sector audits
  - significant financial reporting issues
  - timeliness and quality of the financial statements process
  - internal control issues
  - comments on the financial sustainability of universities, including the future financial risks and challenges
  - assessment of the internal management financial reporting process
  - the reporting of the 'underlying result'.
- Chapter 3 covers:
  - grammar school audit results
  - the quality and timeliness of financial statements
  - internal control issues
  - the sustainability of grammar schools.
- Appendix A contains a response from the Department of Education, Training and Employment.
- Appendix B contains the status of the 2014 financial statements.
- Appendix C lists entities for which audit opinions will not be issued.
- Appendix D provides details of the operating results of the universities and grammar schools for the past five years.
- Appendix E provides better practice for internal management financial reporting

The cost of the report was $130 000.

2 Universities

In brief

Background

The seven Queensland public sector universities are located across Brisbane, Gold Coast, Rockhampton, Sunshine Coast, Toowoomba and Townsville. Some have campuses across the state, interstate and overseas. The universities conduct undergraduate and postgraduate programs of study and research programs. These seven universities control 26 entities which were also required to prepare financial statements in 2014.

Conclusions

- All universities are operating sustainably and managing their financial risks effectively.
- Internal control frameworks are operating effectively, with some improvements recommended to reduce the risk of error or fraud arising from non-compliance with controls.
- The quality and timeliness of the financial statements are satisfactory.
- All financial statements have been prepared in accordance with the legal requirements.

Key findings

- We issued unmodified audit opinions for all universities and their 26 controlled entities, with 17 controlled entities receiving an emphasis of matter in relation to special purpose financial statements.
- University management and external audit certified all financial statements within the legislated time frame of two months.
- We were satisfied with the quality and preparation processes of financial statements by all universities, with some improvements recommended.
- We identified some control breakdowns, including network security and access and excessive leave. We have suggested improvements for internal audit monitoring processes, internal management financial reporting processes, and the reporting of underlying results.
- All universities made operating surpluses in 2014, as they did in 2013, and their key financial ratios are within acceptable levels.
- Universities were preparing for potential changes to fee structures and government funding. These related to proposed legislative changes which were recently defeated in the Senate.
- Strategies are being implemented to accommodate the increased demand for online learning.

2.1 Background

Seven universities and their 26 controlled entities were required to prepare financial statements in 2014. Appendix B includes further details. In 2013, 20 controlled entities prepared financial statements.

Queensland Treasury and Trade requires that these financial statements are presented to the relevant portfolio Minister for tabling in Parliament within three months of 31 December.

2.2 Conclusions

All universities are financially sound and all received unmodified audit opinions in 2014 and in 2013. The financial statements were prepared in accordance with the legal reporting requirements including the Australian accounting standards.

The quality and timeliness of the financial statements were satisfactory, with all universities meeting the two-month legislated requirement for audit to certify their financial statements. They recorded a similar value of adjustments to the draft financial statements in 2014 ($13.80 million) as they did in 2013 ($13.55 million).

The internal control environment was generally sound, with some weaknesses identified and improvements recommended at all universities. The total number of significant issues raised across all universities decreased to 34 in 2014 (from 42 in 2013). We have suggested improvements for:

- internal management financial reporting
- underlying results reporting
- the timely follow up of internal audit recommendations
- the financial statements preparation processes.

Central Queensland University (CQU) made a $149 million surplus in 2014. This was a significant improvement of $126 million on 2013. The increase was driven mainly by the acquisition of property, plant and equipment valued at $120.2 million at no cost to CQU. This transaction was part of the CQU merger with the Central Queensland Institute of TAFE (CQIT).

The financial performance and sustainability ratios across the sector indicate the universities are operating effectively and are able to meet their short term and long term financial obligations.

2.3 Significant financial reporting issues

A number of significant financial reporting issues were identified throughout the university sector during 2014, as detailed below. We were required to perform testing and confirm the accuracy and completeness of these transactions. We also ensured the accounting for these transactions was in accordance with relevant legislative requirements.

2.3.1 Central Queensland University/Central Queensland Institute of TAFE merger

The merger of CQU and CQIT occurred on 1 July 2014. This formed Queensland's first dual sector university, combining the higher education and vocational education and training (VET) capabilities of these entities into one educational institution.

As part of the Merger and Transfer Agreement (the Agreement), a Completion Statement was prepared to determine CQIT's financial position as at 30 June 2014. This formed the basis for the transfer of balances from CQIT to CQU.

On 1 July 2014, $120.2 million of property, plant and equipment, $7.3 million in employee entitlements and $0.9 million in other net assets were transferred to CQU. The $120.2 million of property, plant and equipment transferred was for no consideration and has been disclosed in CQU's financial statements as income. This has been the main factor responsible for an increase in the net result for CQU from $23.1 million in 2013 to $149.7 million in 2014.

As at 31 December 2014, CQU had received $58.1 million of the $73.8 million funding from the federal government's Structural Adjustment Fund and Education Investment Fund to support the merger.

Audit reviewed the terms of the Agreement and the balances as per the Completion Statement to ensure the correct accounting treatment in CQU's financial statements. Under the Agreement, CQU is required to prepare a set of audited financial statements for the VET operations within three months of the end of each calendar year for the next three years. This additional audit has been completed with satisfactory results.

2.3.2 Sale of University of Queensland Ipswich campus

The University of Queensland (UQ) Ipswich campus was approved for sale in July 2014, when a decision was made that the campus was surplus to UQ's requirements. The carrying amount of the assets involved in the sale was $78.7 million. The fair value less costs to sell was determined to be $20.6 million. The reduction in value of $58.1 million was debited to the asset revaluation reserve in the Statement of Comprehensive Income.

The University of Southern Queensland (USQ) was the buyer, and a contract price of $21.5 million was determined. The transfer of title took place on 7 January 2015 following the receipt of a first instalment of $4 million. The balance is to be paid in annual instalments over the next three years.

One of the main drivers behind USQ's decision to purchase the campus was the opportunity to offer diversified program choices. It meant that USQ could introduce a wider range of degree and tertiary preparatory offerings and pathways to meet the employment needs of local business, industry and the community.

UQ will continue to maintain a teaching presence at the Ipswich campus through to the end of 2016 to enable students to complete their UQ degrees.

We reviewed the sale details and the accounting treatment and valuation of the non-current assets classified as held for sale. This was to ensure they were reported in accordance with applicable accounting standards and appropriately disclosed in the notes to both universities' financial statements.

2.3.3 Valuation of property, plant and equipment

Each year, universities assess the value of property, plant and equipment. This is one of the more subjective and complex assessments undertaken, because of the assumptions and estimates applied throughout the process. Valuations vary depending on the complexity of the valuation methodologies used. This is the case whether the valuations are made by independent valuers, by in-house experts, or by the application of applicable indices. Management's overall assessment of these valuations is crucial to ensuring the values disclosed in the financial statements are materially correct.

We reviewed the independent valuations and application of indices undertaken during 2014 for the universities' assets. We assessed whether the assumptions and estimates relating to these valuations (including impairment and useful life assessments) and depreciation calculations were in accordance with applicable accounting standards.

For 2014, across the sector, there has been an overall net valuation increment of $152.6 million (in 2013 there was a net decrease of $20.9 million). This net increase mainly comprised buildings for $88.7 million and land for $61.3 million.

As at 31 December 2014, the net book value of property, plant and equipment for all universities was $7 701.8 million, an increase of $484.6 million (6.71 per cent) from the 31 December 2013 amount of $7 217.2 million. This increase is mainly attributable to buildings of $512.9 million and infrastructure assets of $53.7 million, offset by a decrease in work in progress of $208.6 million.

2.3.4 Smart State loan repayments

Since 2001, the state has provided $298.8 million in the form of interest-free loans towards the establishment of a number of science research institutes and facilities. Five Queensland-based universities received loans from the Smart State Research Facilities Fund and the Innovation Building Fund, and funding was also provided towards the UQ Brain Institute.

Loans were made over a 30 year term with repayments to begin generally in the eleventh year. Repayments are based on two-thirds of the loan amount with the remaining one-third forgiven at the end of the 30 year term as long as certain conditions were met.

During 2014, discussions began between the state and the universities and other research institutes and facilities regarding the early repayment of the above loans in order to direct these amounts to the Accelerate Queensland Science and Innovation Program. As an incentive for all parties to embrace the early repayment proposal, a 10 per cent discount was offered (as approved by the Cabinet Budget Review Committee) on the loan's fair value at 2 January 2015 as calculated by the Queensland Treasury Corporation (QTC).

A Deed of Termination of Loan Agreements (deed) was prepared for each university and other research institutes and facilities involved. Each deed was duly executed and invoices totalling $90.190 million (after application of the 10 per cent discount) were issued before the end of December 2014. All repayments were made by 2 January 2015.

For the five universities involved, we reviewed each deed to verify the amount to be repaid and noted the date that the actual repayment was made. From this information, we were then able to assess the accounting treatment applied to ensure the balances and disclosures within the financial statements complied with applicable accounting standards.

2.4 Timeliness and quality of the financial statements process

Improved practices by state public sector entities may assist them to produce complete, accurate and compliant financial statements within the legislative time frame. The process for universities to prepare timely and quality financial statements was assessed against the better practice guidelines detailed in Figure 2A below.

Based on this assessment, all of the universities are achieving most of the key areas of better practice.

Improvement opportunities were identified, specifically in relation to:

- the preparation of shell pro forma statements by 31 October, including notes for audit review
- the assessment of materiality thresholds in consultation with the audit committee
- the preparation of good quality documentation supporting the financial statements and notes.

The point of identifying materiality levels early is to make the financial statement preparation process as efficient as possible. The assessment assists in identifying key risk areas and potential errors in the financial report for both management and the audit committee.

The Commonwealth financial statement guidelines for universities are not available until November/December each year. As a result, consideration should be given to using the prior year statements as a starting point for shell pro forma statements. The universities can then adjust as needed when the formal guidelines are received.

Figure 2A
Better practice for preparation of financial statements

	Key area	Better practice
1	Financial report preparation plan	Establish a plan that outlines the processes, resources, milestones, oversight and quality assurance practices required in preparing the financial report.
2	Preparation of shell financial statements	Prepare a pro forma financial report before 31 October and provide it to the auditors to enable early identification of amendments, minimising the need for significant disclosure changes at year end.
3	Materiality assessment	Assess materiality, including quantitative and qualitative thresholds, at the planning phase. Do this in consultation with the audit committee. This assessment assists preparers in identifying potential errors in the financial report.
4	Monthly financial reporting	Adopt full accrual monthly reporting to assist in preparing the annual financial report. This allows for the year end process to be an extension of the month end process.
5	Rigorous quality control and assurance procedures	Require review of the supporting documentation, data and the financial report itself by an appropriately experienced and independent officer prior to providing to the auditors.
6	Supporting documentation	Prepare high standard documentation to support and validate the financial report and provide a management trail.
7	Rigorous analytical reviews	Undertake rigorous and objective analytical review during the financial report preparation process to help to improve the accuracy of the report.
8	Reviews of controls/ self-assessment	Establish sufficiently robust quality control and assurance processes to provide assurance to the audit committee on the accuracy and completeness of the financial report.
9	Competency of staff	Require that preparers of the financial report have a good understanding and experience in applying relevant accounting standards and legislation. Require them to have project management and interpersonal skills.
10	Financial compliance reviews	Undertake periodic compliance reviews to identify areas of non-compliance or changes to legislation that affect the financial report.
11	Adequate security	Protect and safeguard sensitive information throughout the process to prevent inappropriate public disclosure.

Source: Victorian Auditor-General's Office and Australian National Audit Office Better Practice Guide Preparation of Financial Statements, June 2009

At times, errors are identified in the draft financial statements and adjustments are made during the audit process. The frequency and size of these errors are direct measures of accuracy.

When errors are detected in the draft financial statements, these are raised with management. Material errors require correction so that an unmodified audit opinion can be issued. The entity itself may also change its draft financial statements after submitting them to audit, if their quality assurance procedures subsequently identify that reported information is incorrect or incomplete.

There are two types of adjustments:

- financial statements—changes to the amounts being reported
- disclosures—changes to the commentary or financial note disclosure within the financial statements.

Before being audited, financial statements should be subject to appropriate internal quality assurance checks to establish that they are complete, materially accurate and compliant with reporting and disclosure requirements. Ideally, management should prepare only one set of financial statements with no adjustments required.

There is no significant movement in the total value of adjustments which management and audit identified in 2014 compared to 2013. This indicates that the quality of financial statement preparation has been consistent with that of the previous year's across the university sector.

Figure 2B summarises the extent of changes made to the financial statements during the audit process.

Figure 2B
Changes to financial statements prior to audit certification*

Financial statement area	2011 $ m	2012 $ m	2013 $ m	2014 $ m
Income	328.08	2.35	0.36	–
Expenses	42.91	10.5	3.56	2.98
Assets	51.23	3.4	7.69	10.82
Liabilities	142.27	10.5	1.94	–
Equity	62.17	2.9	–	–
Total	626.66	29.65	13.55	13.80
Number of universities that made an adjustment	6	3	3	4

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

Source: Queensland Audit Office

Changes were also made in the notes to the financial statements, with some universities required to make additional note disclosures to comply with the Queensland Treasury and Trade requirements and the federal Department of Education guidelines. Some of the key changes led to enhanced disclosures around:

- property, plant and equipment and fair value measurement
- commitments and contingencies
- key management personnel
- reclassification of certain accounts
- comparative information adjustments.

2.5 Financial performance and sustainability

To be financially sustainable in the short term, universities must have the capacity to meet current and future obligations as they fall due. In the longer term, they should be able to absorb foreseeable financial risks without adjusting their current revenue and expenditure policies.

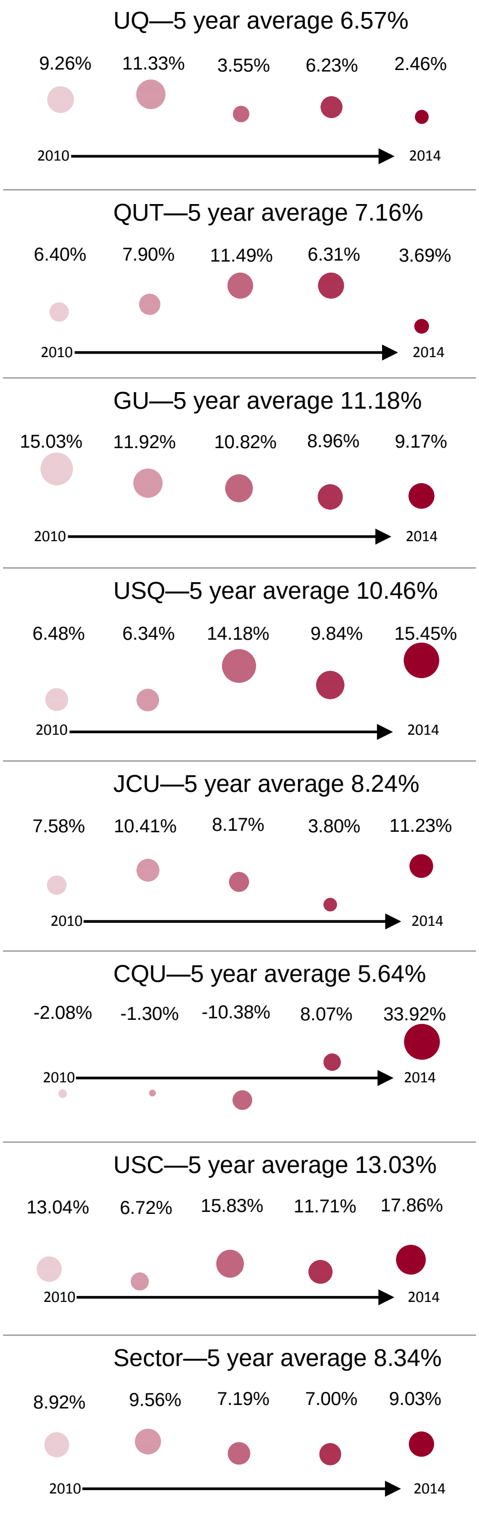
Analysts use financial ratios to help them to assess an entity's financial health. We selected financial ratios that are commonly used by analysts across Australian not-for-profit sectors to help us to understand the short and long term sustainability of the university sector.

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

Results of the analysis of ratios for universities were positive as all universities:

- had adequate liquidity to meet their short term liabilities as they fall due
- were not overly reliant on debt to finance their capital structure
- were able to meet employee expenses
- generated sufficient revenue to repay borrowings and loans.

Figure 2C
Operating ratio



Operating ratio:

This ratio measures the financial performance of universities and their ability to cover expenses with revenue. It does this by comparing the total operating result to total revenue.

Ratios above zero are deemed satisfactory, indicating the university has a greater capacity to meet current and future operating and capital expenditure obligations. A ratio of less than zero is considered unsatisfactory and indicates an operating deficit.

Volatility can occur from one year to the next, including negative ratios for individual years, and is an outcome of strategic choices made by the university. Reviewing this ratio over a five year trend helps us obtain a better understanding of the university's financial performance. Refer to Appendix D for each university's operating results over the past five years.

Figure 2C is representative of each university's operating ratio with the size of each bubble symbolising each ratio. Figure 2C shows all universities had satisfactory operating ratios in 2014, and have satisfactory five year averages. Notably, CQU has delivered a very strong result in 2014 and has turned around the negative operating results from 2010 to 2012. This was largely due to the acquisition of property, plant and equipment at no cost, recognised as income ($120.2 million) as part of the merger with the CQIT in 1 July 2014. Also, CQU increased its international student fee revenue in 2014.

JCU also experienced a significant increase in this ratio for 2014. The main driver is an increase of $56.3 million in Commonwealth Government financial assistance, in particular Australian Research Council (ARC) funding.

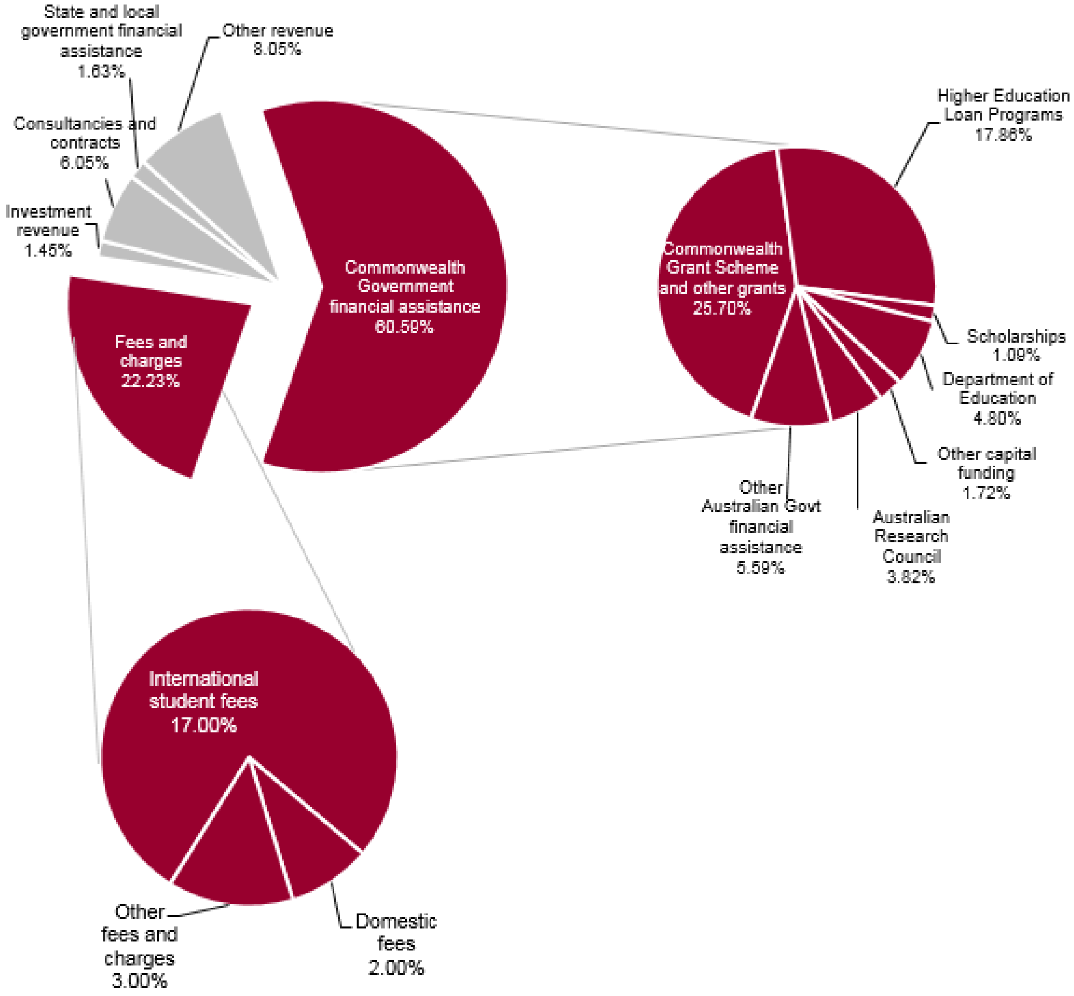
In 2014, the ARC provided funding of $36 million to JCU for the area of Special Research Initiatives. This contributed towards the construction and operation of new facilities in Cairns and Townsville for the Australian Institute of Tropical Health and Medicine (AITHM) and the Translational Research Facility (TRF). Of the funding, $26 million relates to the capital works ($18 million AITHM in Cairns and $8 million TRF in Townsville) and $10 million relates to operating funds.

USQ and the USC have both produced relatively high ratios for 2014. Both universities have proportionally larger increases in Commonwealth Government financial assistance, due to increases in capital funding and student numbers. UQ's 2013 result was significantly impacted by the initial recognition of income for the space being used at the Translational Research Institute building at no cost ($73 million).

2.5.1 Main drivers of the universities' operating income

In 2014, the universities generated total operating income of $5.01 billion, an increase of $341 million (7.3 per cent) compared to 2013. Figure 2D shows the breakdown of revenues from various sources, with a further breakdown of Commonwealth Government financial assistance and fees and charges.

Figure 2D
Breakdown of operating income



Source: Queensland Audit Office

Commonwealth Government financial assistance ($2.95 billion) makes up 60.6 per cent of total revenue for universities for 2014. This is an increase of 7.7 per cent ($217 million) from 2013, when it was $2.74 billion and 58.8 per cent of total revenue. This continues an upward trend of growth in this funding.

The increase has been boosted by general increases across all areas of funding, but has been predominately driven by:

- Higher Education Loan Programs ($71.8 million).
- Other capital funding ($29 million). This is from the Education Investment Fund which provides funds for the development and creation of strategic infrastructure, of which four universities have current funding agreements in 2014 (UQ, USQ, CQU, and USC).
- Australian Research Council funding ($48.2 million).
- Other Australian Government financial assistance ($48.1 million).

Student enrolments are the driver for the majority (67 per cent) of total university revenue comprising:

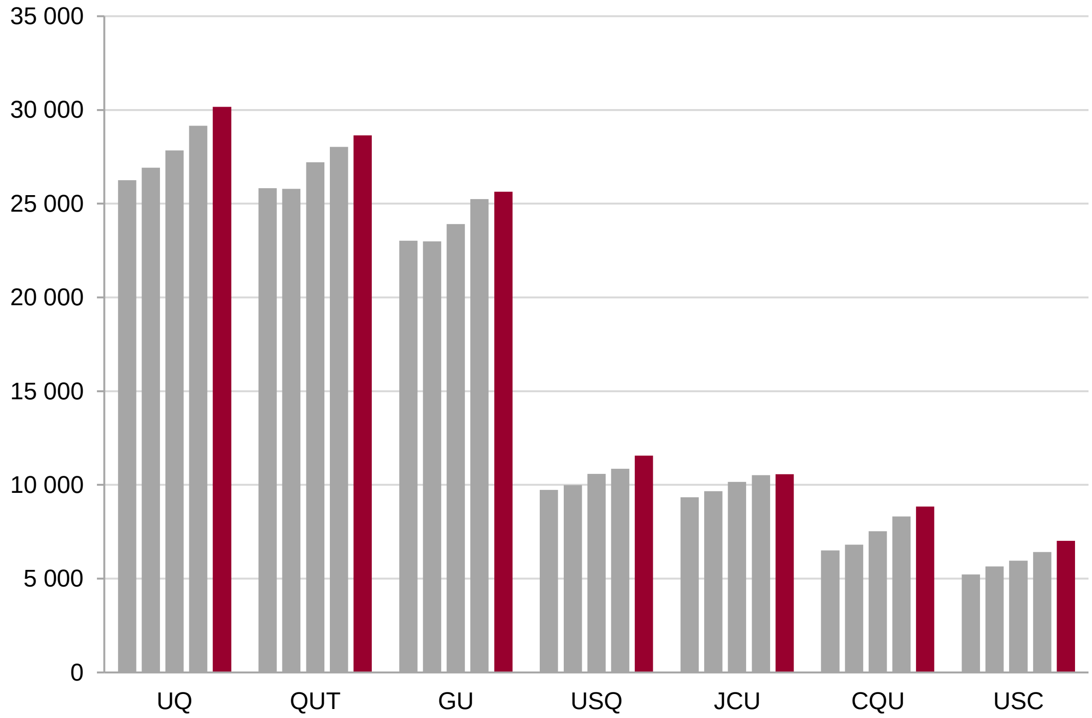
- the Commonwealth Grant Scheme and other grants (26 per cent) which provide funding for domestic students enrolled in bachelor degrees and other deemed courses as a subsidy for tuition costs
- fees and charges (22 per cent) including international student fees and those paid by domestic students who choose to pay their student contribution up front. International student fees account for 78 per cent of fees and charges
- revenue from Higher Education Loan Programs (18 per cent), through which the Australian Government pays the student contribution on behalf of those students who elect to defer payment through the HELP programs (HECS-HELP, FEE-HELP, OS-HELP, SA-HELP, and VET FEE-HELP)
- Commonwealth scholarships (1 per cent).

2.5.2 Student enrolment trends

Domestic students

Figure 2E demonstrates that university enrolments have been trending upwards with uniform growth across the sector since the capping of enrolments funded by the Australian Government was removed in January 2012. The domestic equivalent full time student numbers increased in 2014 by 3 893 (3.28 per cent). This followed an increase of 4 326 (3.82 per cent) in 2013.

Figure 2E
Five year trend of domestic student numbers 2010–2014



Source: Queensland Audit Office

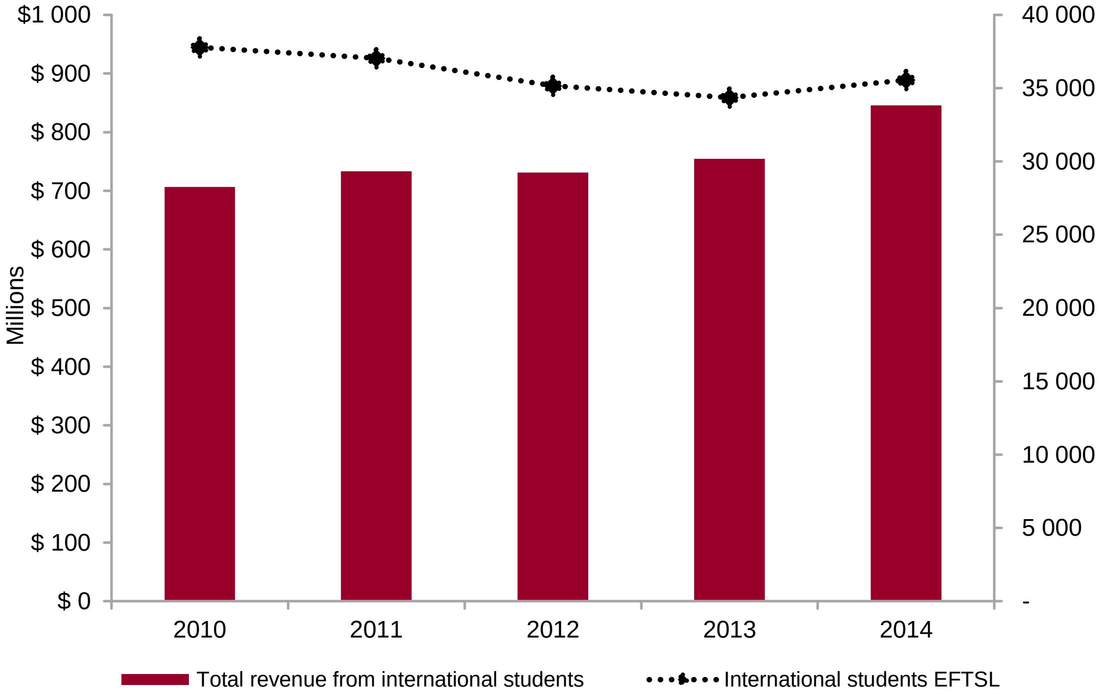
International students

Figure 2F shows the relationship between international student fee revenue and total EFTSL (equivalent full time student load) numbers of international students across the sector over the last five years. While the total revenue from international students increased, international student numbers have declined by 10.56 per cent since 2010, reducing by 650 in 2011, 2 290 in 2012 and 1 227 in 2013.

There has been an increase in 2014 of 1 774 international students (5.25 per cent). The increase has not been experienced at all universities, with Griffith University (GU) and USQ still experiencing a small decline in international student enrolments.

Total revenue has been maintained because the increases in average fees paid by international students in 2011, 2012 and 2013 have offset the reduced numbers. The increase in international fees coupled with an increase in international student numbers has led to an increase of $91 million (12 per cent) in fees from international students in 2014.

Figure 2F
International student revenue and numbers

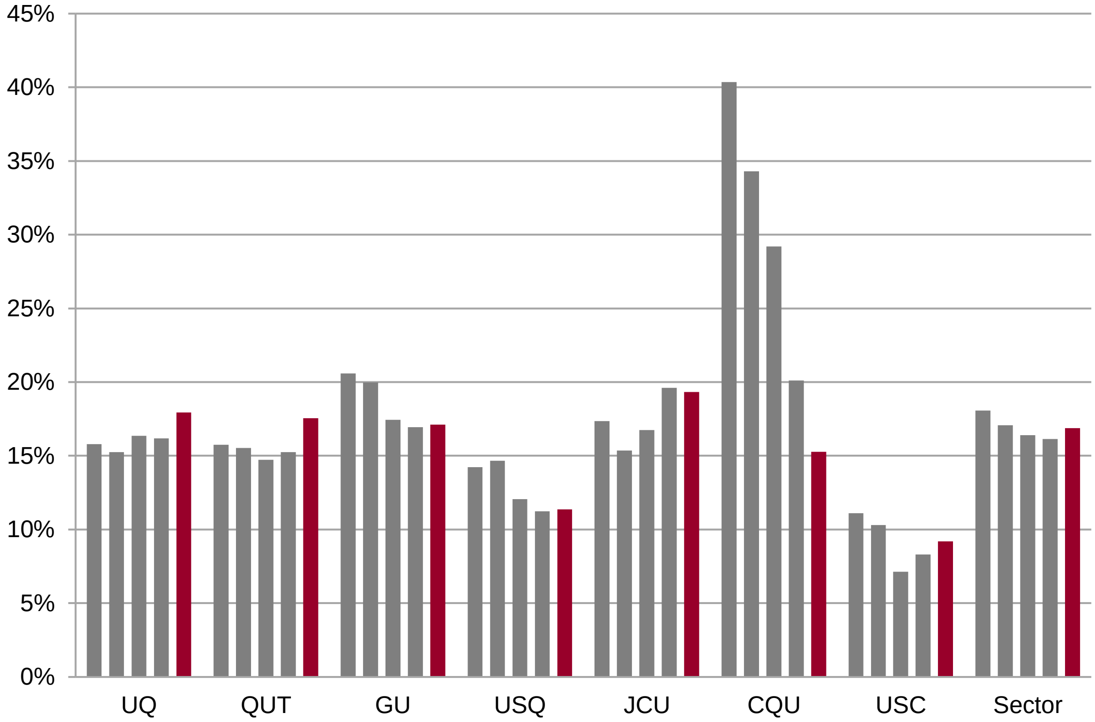


Source: Queensland Audit Office

Figure 2G shows the relationship between international student fee revenue and total revenue over the past five years for each university. As a portion of total revenue, international student fees had been steadily reducing since 2010 when it was 18.3 per cent (to 16.15 per cent in 2013).

Figure 2F shows that there has been an increase in total revenue from international students over the past five years. In contrast, figure 2G shows that the sector's reliance on international student revenue has decreased steadily from 2010 to 2013. There was a slight increase in 2014 up to 16.85 per cent of total operating revenue.

Figure 2G
International student revenue against total operating revenue 2010–2014



Source: Queensland Audit Office

Average student fee comparison—international vs domestic

Unlike domestic student fees, which are currently regulated by the Australian Government, international student fees are set in a deregulated environment. International student fees are subject to a range of risks and market forces outside the control of an individual university. These include government reforms, the volatility of the Australian dollar, legislative changes to student visa requirements and competition among Australian and foreign providers of higher education.

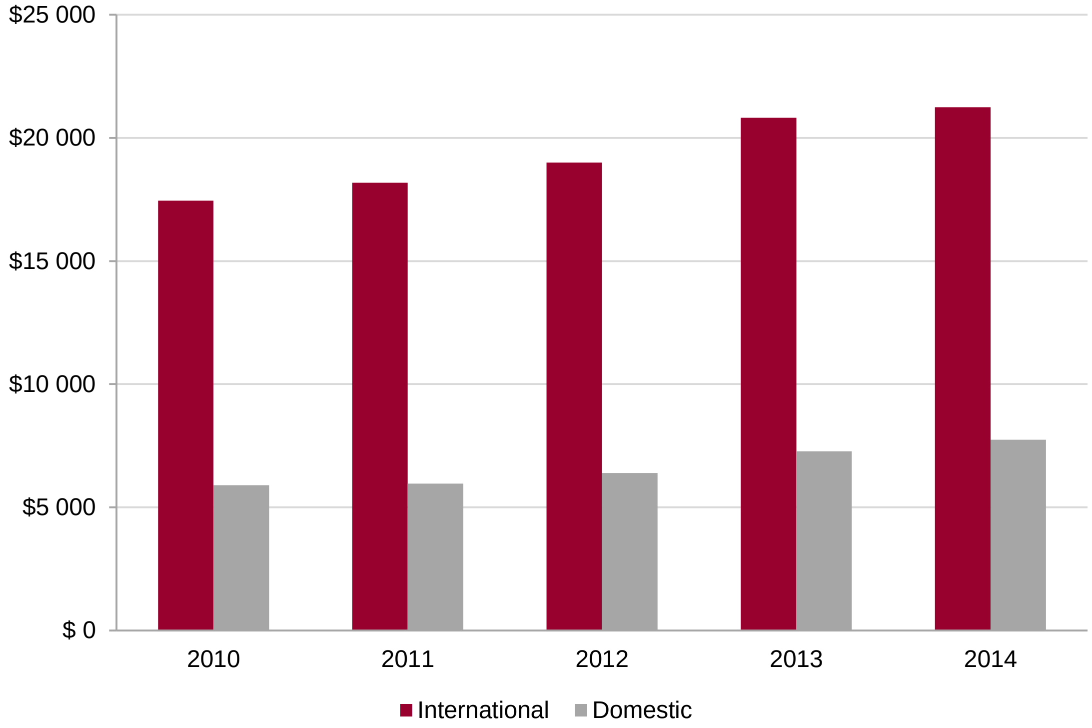
Figure 2H shows the difference between the average international fee and average domestic fee per student in the period form 2010–2014. For the purpose of this calculation, this represents the average fee a student will pay per year for a university course.

The international fees comprise the upfront fees and charges paid by international students. Domestic fees are made up of fees paid upfront by students along with HELP/HECs payments made by the Australian Government on behalf of domestic students choosing to obtain a government loan to cover the student contribution for their course.

For the period 2010–2014, the average international student fee for each university is significantly higher than the average domestic student fee.

Additionally, the analysis shows that fees have been steadily increasing for both domestic and international students over the five-year period. Domestic fees have increased by 24 per cent, and international fees have increased by 18 per cent. In 2010, the average student fee for domestic students was $5 899. In 2014, it was $7 738. International student fees increased from $17 444 in 2010 to $21 243 in 2014.

Figure 2H
Analysis of average student fees per student



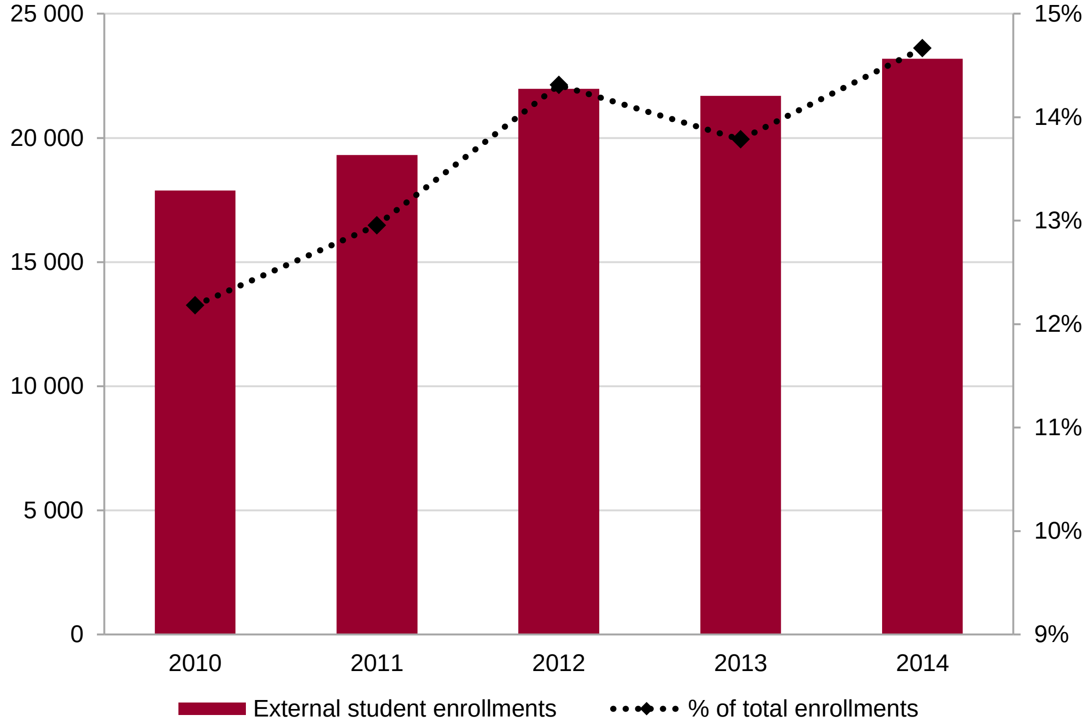
Source: Queensland Audit Office

External students and online learning

All universities offer the option of studying externally (distance learning). Students studying externally study the same curriculum and receive the same academic award as students on campus; however, external students primarily study off campus with course content delivered online. Few courses are offered exclusively online. Students are required to attend examinations or practical experience (where applicable) in person, either on campus or at regionally located examination centres.

Figure 2I shows the external student enrolment trends compared to total enrolments of universities offering an external student study mode. Demand for the external study mode provided online has increased slightly over the past five years, from 12.18 per cent to 14.67 per cent of total enrolments. This growth is not uniform across the sector.

Figure 2I
External student enrolments to total enrolments



Left vertical axis represents external student enrolments. Right vertical axis represents percentage of total enrolments.

Source: Queensland Audit Office

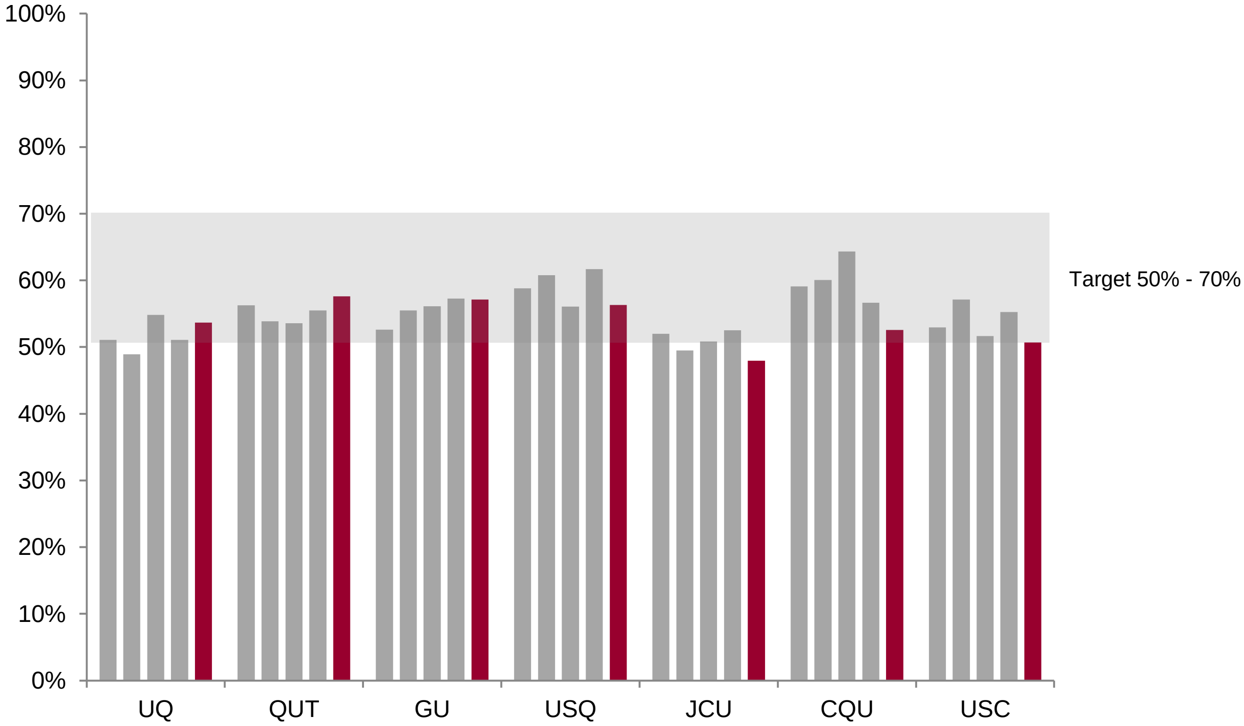
As we reported in our *Results of audit: Education sector entities 2013* (Report 16: 2013–14), there has been a growing international trend across the university sector in the delivery of open online courses or massive open online courses (MOOCs). MOOCs are courses aimed at large scale participation and open access via the internet. Currently, MOOCs are provided to students at no or little cost. MOOCs are operating overseas at institutes and universities in the United States and the United Kingdom. More recently, Australia has been engaging in this new learning delivery channel.

All Queensland universities have been monitoring the progress, development and delivery of MOOCs globally and within Australia. UQ, QUT, GU, USQ and CQU have offered or are intending to offer a small number of open online courses during 2015. JCU and USC are evaluating their options.

2.5.3 Operating expenditure

The federal Department of Education monitors the universities' ability to meet employee expenses by measuring employee benefits and on-costs as a percentage of total revenue. Good practice is considered to be 50 to 70 per cent. Figure 2J shows that all universities were at the lower to mid-range of the benchmark and are in a satisfactory position.

Figure 2J
Employee benefits and on costs as a percentage of total revenue 2010–2014



Source: Queensland Audit Office

2.6 Underlying results reporting

We certify each year that each university's operating result materially complies with the relevant legislated requirements, including the Australian accounting standards.

The universities also calculate another result which they use for the day to day running of their operations. This is commonly called the 'underlying' or 'normalised' operating result. The underlying operating result is basically the operating result in the financial statements adjusted for various one-off, infrequent or non-cash transactions. The universities believe that the underlying result is more reflective of their operating environment.

Universities include this underlying result in the internal management financial reports (IMFR) provided to their governing committee (called a 'Council' or a 'Senate'). Four universities also report the underlying result in their annual report alongside the financial statements operating result.

Disclosure of underlying results is not regulated under the Australian accounting standards. Guidance has been issued by the Australian Securities and Investments Commission (ASIC) in their Regulatory Guide (RG) 230 *Disclosing non-IFRS financial information* (IFRS refers to the International Financial Reporting Standards). This guide outlines how underlying or normalised result information should be reported.

Additionally, the Financial Markets Authority (FMA) of New Zealand issued guidance on disclosing Non-GAAP (Generally Accepted Accounting Principles) financial information which encompasses underlying or normalised information. These two sources of guidance are very similar. They each provide ten principles for better practice reporting about more subjective financial measures such as underlying profit or normalised earnings.

While the universities are not required to follow either of these guides, we consider that they represent current industry better practice. Where a university reported an underlying result in their 2013 annual report, we assessed the accompanying disclosures against ASIC's RG 230 and the FMA better practice principles (see Figure 2K for these principles).

Two of the four universities that did publish underlying results in their annual reports complied with eight of the ten principles for better practice. These two universities provided:

- a detailed and complete reconciliation of the adjustments between the operating result in the financial statements and the underlying result
- clearly explained the reason that they believe that the underlying result better reflects their operating result for the year and provided more useful information to a reader of the annual report
- appropriately described the underlying result so as to not confuse it with the operating result reported in the financial statements
- maintained a consistent approach to determining underlying results from year to year.

Only one of the four universities made appropriate reference to any items being non-recurring, or made a clear statement that underlying results had been taken from audited or reviewed financial statements.

Three of the seven universities did not externally publish underlying results. Two of these universities adjusted the financial statements operating result to calculate an underlying result within their IMFR. The third university prepared two sets of IMFR each quarter. Along with the standard income statement and balance sheet was a reconciliation of the performance of each category of university activity. The financial performance summary reconciled the movement from the prior year closing balance to the year to date cumulative surplus/(deficit).

We selected a sample of these IMFR and compared them against the principles in Figure 2K below. We acknowledge that some of these principles only relate to information reported externally and we have taken this into account in our assessment. One of these three universities complied with most of the principles for disclosing underlying financial results in their IMFR. The other two have room for improvement as there is no clear narrative explaining underlying results, no reconciliation, no explanation of adjustments made, and no disclosure of adjustments being 'one-off'.

Figure 2K
Better practice principles for disclosing underlying results in annual reports and internal management financial reports

Better practice principles	
1.	There should be a clear and understandable statement in the IMFR or annual report disclosing the reason that the Members 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 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 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 ASIC RG 230 Disclosing non-IFRS financial information

Adjustments

Figure 2L shows the difference between the operating result in the financial statements and underlying results reported by four universities in their 2013 annual reports. For UQ and USC, the underlying results were significantly lower than the operating result in the financial statements.

Figure 2L
2013 operating result in the financial statements vs underlying result

2013 profit	JCU Parent $ m	UQ Consolidated $ m	USC Consolidated $ m	QUT Parent $ m
Operating result	14 85	110.05	20.45	56.30
Underlying result	16.07	5.13	8.84	59.00
Difference	1.22	-104.92	-11.61	2.70

Source: Queensland Audit Office

We performed an analysis of the adjustments made by the four universities that reported externally to determine if the adjustments were consistent.

Adjustments that were consistently applied included:

- income tied to major capital projects (no related depreciation adjustment made)
- movements in unspent research and scholarship income (no related expenses, for example, salaries adjustment, made).

Adjustments that were not consistently applied included:

- fair value gain on investments
- fair value gain on Smart State loans
- interest expense on Smart State loans
- refund of credits to ATO.

The justification given by the universities for these adjustments was generally that the operating result in the financial statements did not reflect the operating result relevant to the general operations of the university, as the funds were not available for the general operating expenditure of the university. Two of the four universities that disclosed underlying financial results provided little detail of the adjustments made between the operating result in the financial statements and underlying results.

There is room for improvement in disclosing underlying financial results.

We suggest the following principles be considered when disclosing underlying financial results:

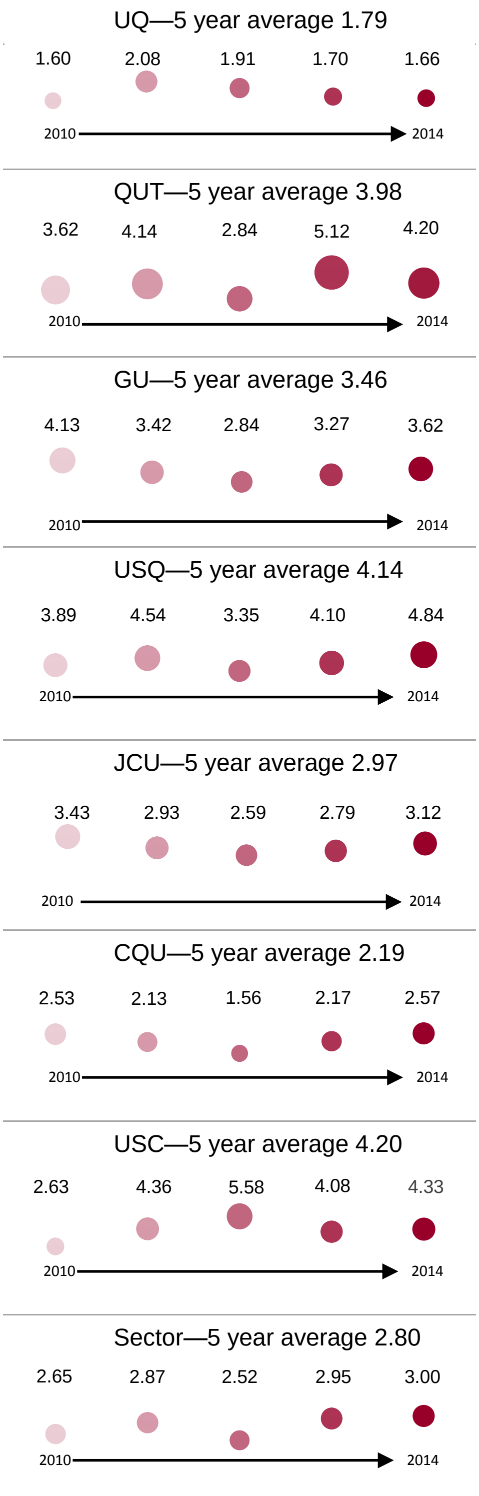
- a statement should be included in the annual report disclosing the reason the council of the university believe the underlying financial result provides useful information
- a clear narrative explaining how the underlying result was calculated should be provided
- a clear reconciliation showing the detail of the adjustments made between the operating result in the financial statements and the underlying result should be disclosed in the annual report
- where an adjustment to the operating result in the financial statements is considered to be 'one-off', this should be disclosed in the annual report.

We encourage all universities that prepare underlying result information to refer to the relevant guidance provided and apply the relevant principles for reporting purposes.

We also believe that the university sector should work toward producing a formal framework which supports the calculation of the underlying result. This would assist with consistency of calculation and provide a clearer understanding for the users of this information.

2.7 Liquidity

Figure 2M
Liquidity ratio



Liquidity ratio:

The liquidity (or current) ratio is the relationship between current assets and current liabilities. It is a measure widely used to analyse the short term financial position of an organisation.

The measure helps assess whether an organisation can satisfy its current financial obligations. It is calculated by dividing total current assets by total current liabilities. Total current liabilities include leave expected to be taken within the next twelve months. A ratio of greater than 1.5 is considered to be favourable.

All seven Queensland universities have maintained a favourable ratio above 1.5 for the last five years, and have been assessed as having a low liquidity risk. In other words, there is a low risk that a university won't be able to satisfy its current financial obligations.

Four universities had a five year average ratio above 3.0. This is mainly due to the need for universities to hold funds for various grant agreements and known commitments over the next 12 months.

Excessive annual leave liability management

Annual leave entitlements represent a significant portion of total current liabilities within the university sector. For the purpose of this analysis, excessive annual leave is generally considered to be any accumulated annual leave in excess of two years' worth of entitlement (generally 40 days).

However, this period differs slightly between universities. UQ, QUT, GU, USQ, and CQU have all determined a threshold policy of 40 days, while USC determined 30 days and JCU determined 50 days. As a result, it is important to note that USC may have higher than average excessive annual leave due to the lower threshold of 30 days. Also, JCU may have a lower average because of its higher threshold of 50 days.

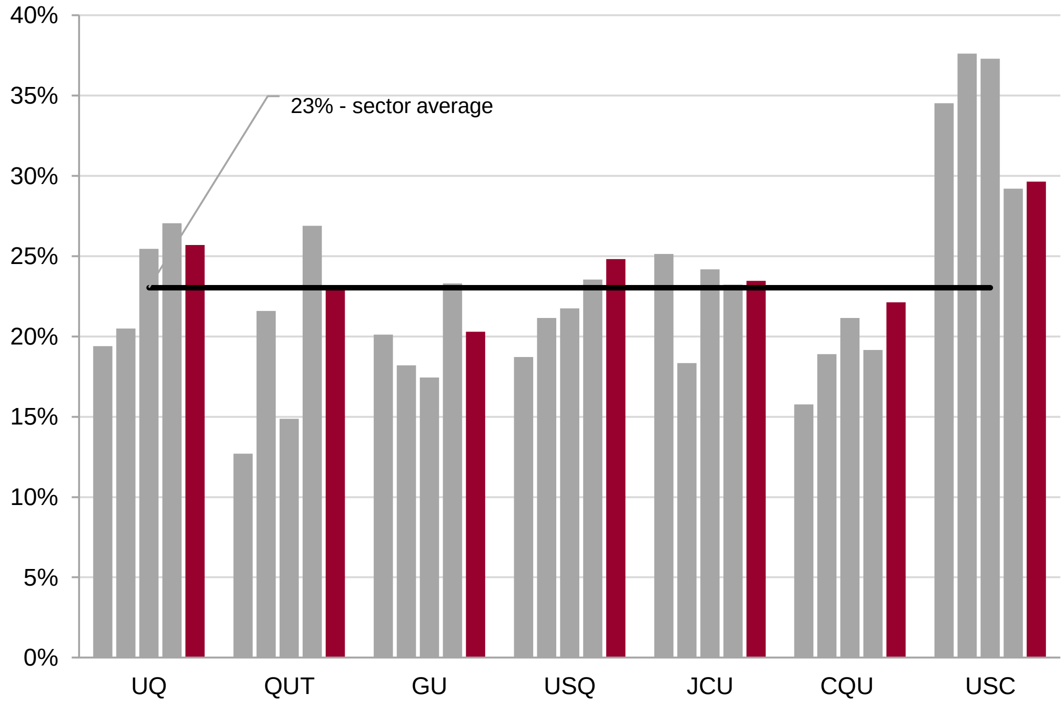
Excessive annual leave is an important risk to manage. This is because it is paid out at the employee's pay rate at the time of taking the leave, which is generally higher than the rate at which it was accrued. As a result, excessive annual leave becomes an extra cost for the entity. This will increase employee expenditure and liabilities.

In addition, the health and welfare of staff can be adversely affected if they do not take sufficient leave on a regular basis. All universities have established policies and procedures to monitor and manage excessive annual leave.

Figure 2N shows that over the past five years, total annual leave represents on average approximately 23 per cent of total current liabilities across the sector.

At individual universities, the percentage of current liabilities varies and was as high as 37 per cent at USC in 2011.

Figure 2N
Total annual leave as a percentage of current liabilities 2010–2014

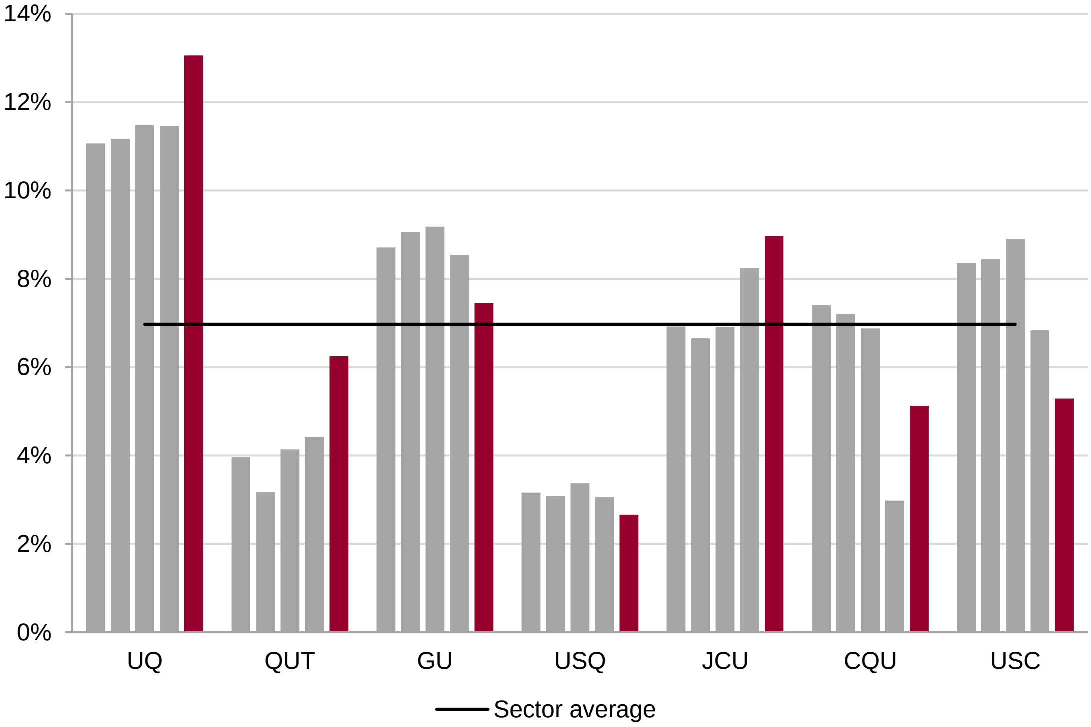


Source: Queensland Audit Office

Figure 2O shows that on average, 7 per cent of the staff of all universities had excessive annual leave balances in all five years from 31 December 2010 to 31 December 2014. This average is slightly more for academic staff (7.7 per cent) compared to non-academic staff (6.5 per cent).

Figure 2O also shows the amount of staff with excessive leave varies significantly between universities, with UQ having 13 per cent in 2014, compared to USQ with 3 per cent in 2014. The percentage of staff with excessive annual leave has increased for UQ, QUT, and JCU, but the percentage has been declining for GU, USQ, and USC.

Figure 2O
Percentage of staff with excessive annual leave 2010–2014

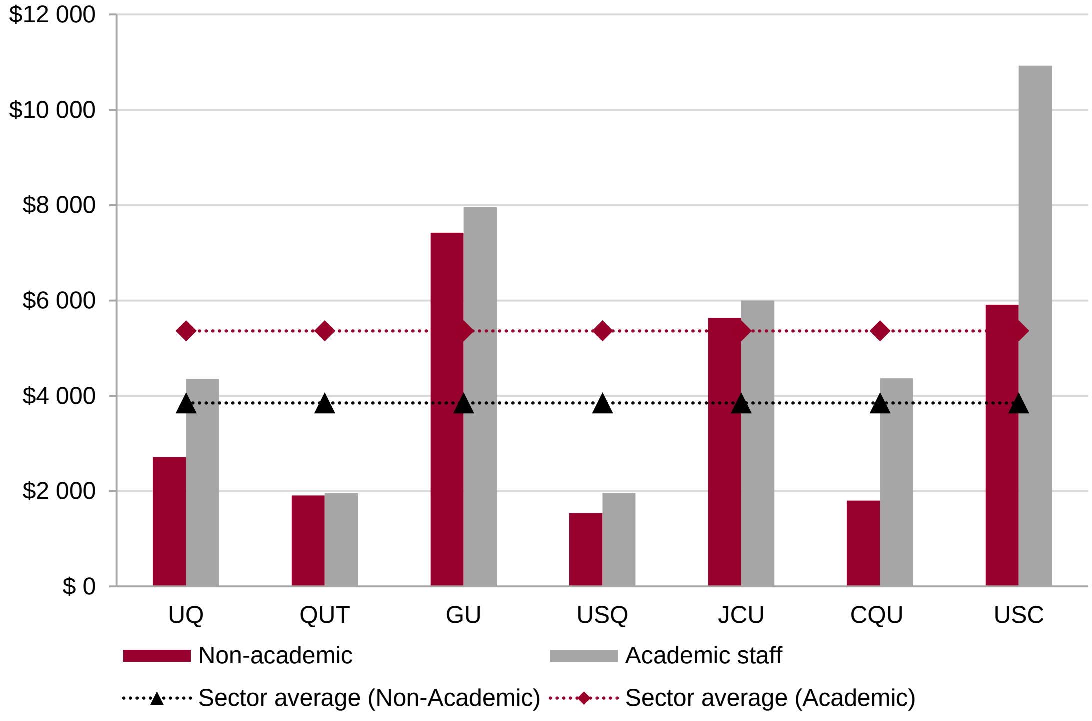


Source: Queensland Audit Office

Figure 2P shows the five year average cost of excessive annual leave as at 31 December per staff member with excessive leave per university. Average cost per staff member was used to ensure comparability across different sized entities in the sector.

The average cost of excessive annual leave was generally higher for academic staff ($5 362) than it was for non-academic staff ($3 848). Those universities with a higher than average cost of excessive annual leave per staff member were GU, JCU and USC. The other four universities had an overall lower than average cost.

Figure 2P
Average cost of excessive annual leave per staff member 2010–2014



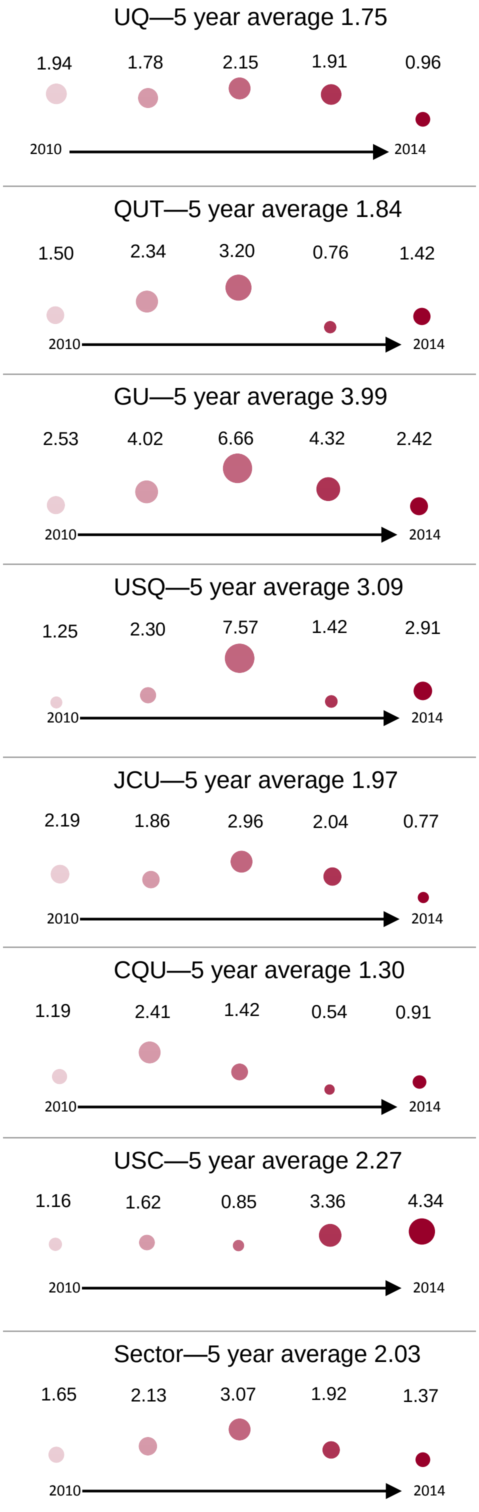
Source: Queensland Audit Office

Some universities are implementing the following controls on excessive leave on a consistent basis. We recommend that all universities do so, as good practice:

- Automated emails are sent to staff members who are approaching their annual leave limit.
- The university directs staff members to take a specified amount of annual leave once they accrue annual leave over a determined limit. This limit varies from 30 to 50 days between entities.
- Where the staff member does not take the specified period of annual leave before the date required, that amount of annual leave may be deducted from their annual leave balance.
- Supervisors and Human Resources staff generate reports that detail the steps taken to manage staff leave balances. These reports also detail the action taken to ensure the leave was taken.
- Where a university offers an employee the option to take a cash equivalent payment of annual leave, they must still take an equivalent period of annual leave (actual time off work).

2.8 Assets

Figure 2Q
Asset sustainability ratio



Asset sustainability ratio:

The asset sustainability ratio indicates whether universities are replacing their property, plant and equipment (PPE) assets as they reach the end of their useful lives. It is a medium term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations and borrowing is not an option.

This ratio compares the rate of spending on PPE through restoration, renewal or replacement against the depreciation of existing assets. Cash outflows for PPE are taken from the cash flow statement. Depreciation is taken from the comprehensive income statement.

Ratios higher than one indicate that annual capital expenditure exceeds the annual amount of depreciation, and the university is likely to be sufficiently maintaining, replacing or renewing existing PPE assets.

Ratios lower than 0.9 may indicate a reduction in the service levels and/or useful lives of these assets. It should be noted, when interpreting these results, that annual spending on assets includes new and expanded facilities as well as existing facilities and will vary depending on the stage of each university in its capital works cycle.

Figure 2Q shows all universities have maintained an average ratio of greater than one for the past five years. This indicates that total spending on property, plant and equipment has consistently exceeded total depreciation.

The overall sector has achieved a five year average ratio of greater than 2. This is largely driven by most universities investing in major upgrades and additions to facilities.

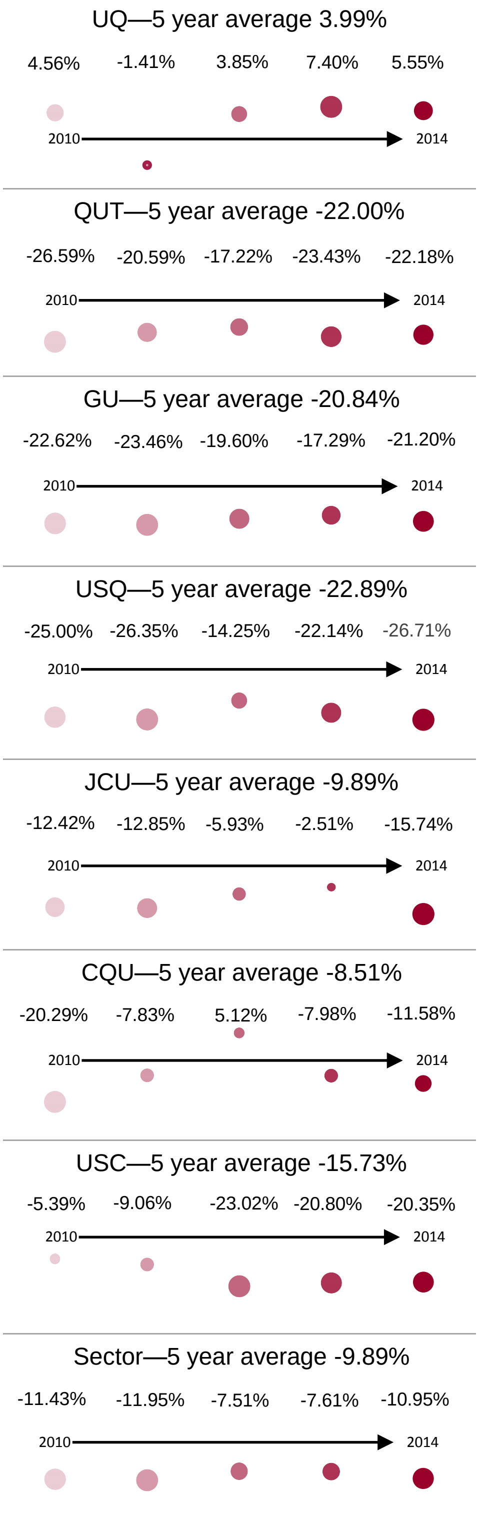
In particular, USQ, GU and USC all have a five year average ratio above 2 and have invested heavily in new buildings.

USQ spent $26 million on upgrading existing facilities and new building projects in 2012, while GU completed major new building projects including the Griffith Health Centre and upgrades of existing facilities in 2013.

USC is a relatively new university. To support its growth, after the construction of the $24 million Sippy Downs Learning Hub was finished in 2013, the construction of a $37 million Engineering Learning Hub began in 2014.

2.9 Debt

Figure 2R
Net financial liabilities ratio

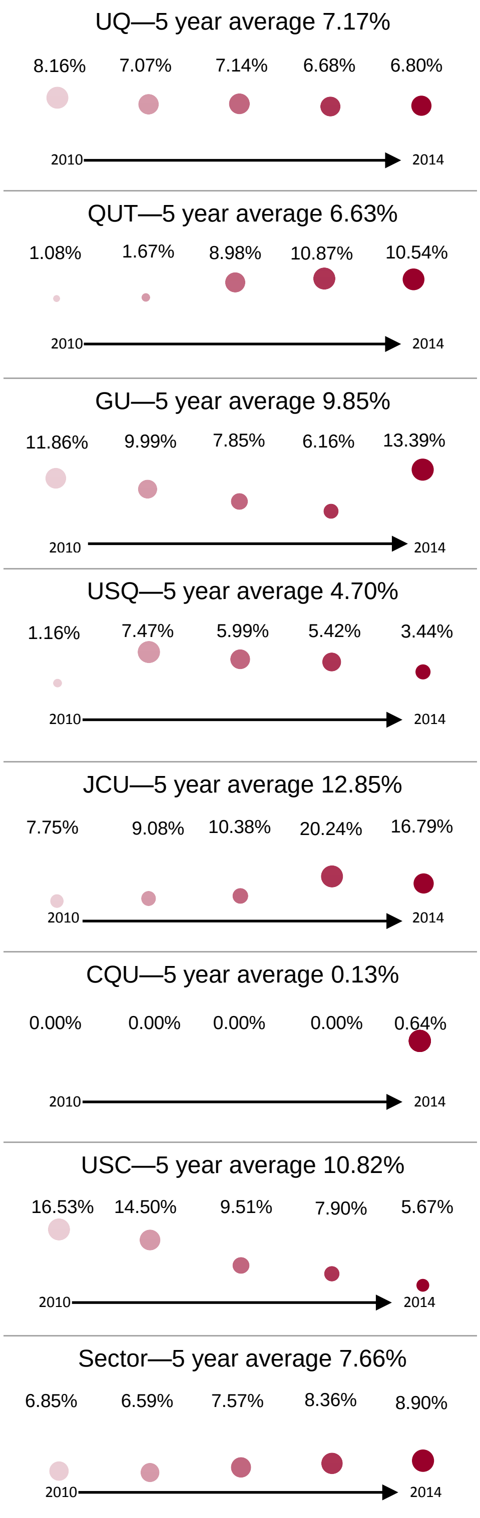


Net financial liabilities ratio:

The net financial liabilities ratio is used to compare the total liabilities less current assets to revenue. This ratio gives an indication of whether the university is potentially carrying too high a level of debt. A percentage under 60 per cent is considered a reasonable benchmark by the Queensland Treasury Corporation (QTC) for some Queensland public sector entities.

The universities all have a percentage of under 5 per cent. This indicates that they are each in a strong financial position. This demonstrates that universities generally avoid debt as a mechanism for managing their business. There is no risk identified from this analysis that requires attention.

Figure 2S
Debt to revenue ratio



Debt to revenue ratio:

Universities have large asset bases with specialised buildings and equipment for which there is no active market. This large asset base creates the impression of a healthy balance sheet producing inherently low gearing levels, typified by the debt to revenue measure which, in turn, implies significant scope for greater leverage through debt financing.

Many assets are acquired initially through capital grant co-contributions, but such funds are not available to maintain assets or to replace or upgrade them. The capacity for universities to borrow needs to be measured in terms of their ability to repay debt and interest.

In this regard, the ratio of debt to revenue—comparing all current and non-current borrowings to total operating revenue and income—provides a better indicator of the affordability and sustainability of debt levels. A lower percentage indicates less revenue is required to service the debt.

Figure 2S illustrates the debt to revenue ratios for all universities. It reveals all have maintained low debt to revenue ratios over the past five years. Movements in this ratio for individual universities over the past five years is attributed to increased borrowings to fund capital infrastructure additions or upgrades that are subsequently paid off over time.

GU has experienced a noticeable increase in this ratio over the past 12 months. In 2014, GU borrowed $65 million from the QTC for the Capital Management Plan Stage II.

CQU has taken a three year QTC loan worth $3 million for operational capital as part of the Merger and Transfer Agreement with CQ TAFE.

In all instances across the sector, the servicing of debt is not seen as a risk, given each university's strong liquidity position.

2.10 Controls over financial reporting

2.10.1 Background

Each university is responsible for developing measures that manage the risks to which their operations are exposed.

These measures include maintaining an adequate system of internal control so financial records (and other information) are complete and accurate, assets are safeguarded and errors and other irregularities are prevented or detected.

The five core elements of an integrated system for controls are:

- **The control environment—**management's actions, attitudes, policies and values that influence day to day operations. Control environment factors include management's integrity and operating style; organisational culture and values; structure and assignment and delegation of authority; and processes for sourcing and developing qualified and skilled employees.
- **Risk assessment—**management's processes for considering risks to the achievement of their organisation's objectives. These processes form the basis for how the risks should be managed.
- **Control activities—**the policies and procedures implemented to help ensure management directives are carried out and that necessary actions are taken to address identified risks. Control activities operate at all levels and in all functions. They include activities such as approvals, authorisations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of incompatible duties.
- **Information and communication—**the financial reporting systems and related business used to provide information in a form and time frame that allow employees to discharge their responsibilities; and the way that control responsibilities are communicated throughout the entity.
- **Monitoring of controls—**the methods management employs to oversee and assess the operating effectiveness of control activities in practice. This may be achieved through ongoing supervision, periodic self-assessments and separate evaluations.

When all of the components are present in an integrated system of internal control and they operate together effectively, that system reduces the risk of failing to achieve business objectives.

While internal controls cannot eliminate risk, they do provide assurance to management about:

- the effectiveness and efficiency of operations
- the reliability of internal and external financial reporting
- compliance by the entity with laws and regulations.

As part of the financial audit, we assessed key internal controls over the reliability of financial reporting. We did this because poor controls diminish management's ability to comply with relevant legislation and increase the risk of fraud. Any identified weaknesses were raised with management for corrective action.

2.10.2 Control activities

For 2014, we reported 34 significant issues across the university sector (there were 42 in 2013). Three issues are rated as high risk and the remaining 31 issues are rated as medium risk.

The decrease of the number of issues from the prior year is mainly due to a number of issues raised from the areas of control focus audit in the prior year. A number of business improvement opportunities were provided to universities as part of the 2014 area of control focus audit (refer section 2.11).

In this report, we included the control issues we rated as high or medium risks. These have significant implications for error and fraud, if not addressed as a matter of priority.

Eighty per cent of significant control issues in 2014 relate to weaknesses in control activities (27 issues). Of the 27 issues raised, 21 are information system security control issues, compared to 16 information system issues raised in 2013.

The main types of security weaknesses identified were:

- Inadequate review of user roles and activities. This may result in not being able to detect on a timely basis those staff members who have inappropriate system access.
- Poor management of user accounts with broad access to all system transactions, including not maintaining strict access to these accounts and not monitoring account activity. This increases the risk of these users having inappropriate access and performing unauthorised and potentially fraudulent transactions.

2.11 Internal management financial reporting

2.11.1 Context

Internal management financial reporting (IMFR) is a critical component of the internal control framework. From the university's perspective, good information ensures that users at each level are able to track performance and make informed decisions to achieve objectives in a timely manner. This in turn drives the university's achievement of its strategic and operational objectives, and meets its obligations under the *Financial Accountability Act 2009* to deliver efficient, effective and economical operations.

From an audit perspective, a strong IMFR environment impacts on our assessment of the material correctness of transactions and balances presented in the financial statements. We consider that better practice IMFR is grounded in getting the right information to the right people at the right time.

Figure 2T
Key criteria for better practice IMFR

Key criteria
Right people
All key stakeholders need financial information to support the decisions they need to make.
Right information
The quality of reporting information covers both what information is in reports as well as how the information is presented. Good management reports contain relevant and reliable information that is comparable and understandable.
Right time
Good management reports need to be underpinned by streamlined and responsive reporting processes to make reports easily accessible and get information to decision makers as quickly and efficiently as possible.

Source: Queensland Audit Office

We then considered how these criteria may apply in practice, and looked at IMFR practices across three tiers of each university. The three tiers reflect the fact that users at different levels have different information needs due to the different types of decisions they make. Figure 2U summarises the responsibilities and information needs for the three tiers of users.

Figure 2U
Three tiers of users

Tier	Responsible for	Information needs	Examples
Tier 1—Those Charged with Governance (TCWG) (Senate/Council including Vice-Chancellor and Chancellor)	Setting strategic direction, including products and service lines. TCWG have fiduciary accountability	Is the university doing the right things, doing them well and achieving its objectives? What strategic challenges may the university face in the future?	Whole of university financial position and performance Performance by division/service line
Tier 2—Executive Managers (CFO, Deputy or Pro-Vice Chancellor, Head of Faculty, Director)	Delivering services and functions	Are services and functions being delivered efficiently, effectively and economically in accordance with the objectives of the university?	Service summary information Breakdown by project/activity
Tier 3—Operational Managers (Head/Dean of School, Manager)	Implementing projects and activities	Are projects and activities meeting budgets and targets?	Budget to actual information on projects and activities

Source: Queensland Audit Office

We measured the maturity of each element of the three criteria for good IMFR (listed above) against an established matrix. This maturity matrix (Figure 2V) was developed by us and incorporates core principles from a range of sources. In particular, it reflects better practice guides developed by the UK National Audit Office, the Victorian Auditor-Generals Office, and Queensland Treasury and Trade.

Figure 2V
Maturity matrix IMFR

Maturity matrix
5—Optimised
The university has in place internal financial reporting practices that are leading edge. These allow it to anticipate both changing user needs and key opportunities in order to optimise performance.
4—Integrated
The university has in place professional internal financial reporting practices which enable it to effectively respond to changing user needs and identify some opportunities to improve performance.
3—Established
The university has in place internal financial reporting practices that meet day to day requirements, and enable it to respond adequately to changing user needs.
2—Developing
The university has in place internal financial reporting practices that are adequate to meet the day to day requirements of the business under stable circumstances and enable it to develop. They will not be sufficient in challenging times.
1—Basic
The university has in place internal financial reporting practices that are basic and allow it to function on a day to day basis. They do not support development.

Source: Queensland Audit Office, developed in reference to: 'Financial Management Maturity Model', National Audit Office, January 2010, United Kingdom; and the Portfolio, Programme, and Project Management Maturity Model (P3M3) 'P3M3 Maturity Models' (www.axelos.com)

2.11.2 Conclusions

The IMFR frameworks of the seven universities are well established. Each university demonstrates better practice against different elements of each of the three criteria. Examples of better practice are provided at Appendix E.

In forming our assessments of maturity against each element, we rated each university on the description that 'best fit' the practices as we observed them, in comparison to the other universities in the sector, and against our maturity matrix.

The universities were assessed as demonstrating a range of maturities for the elements within each criterion ranging from Developing (2) to Integrated (4).

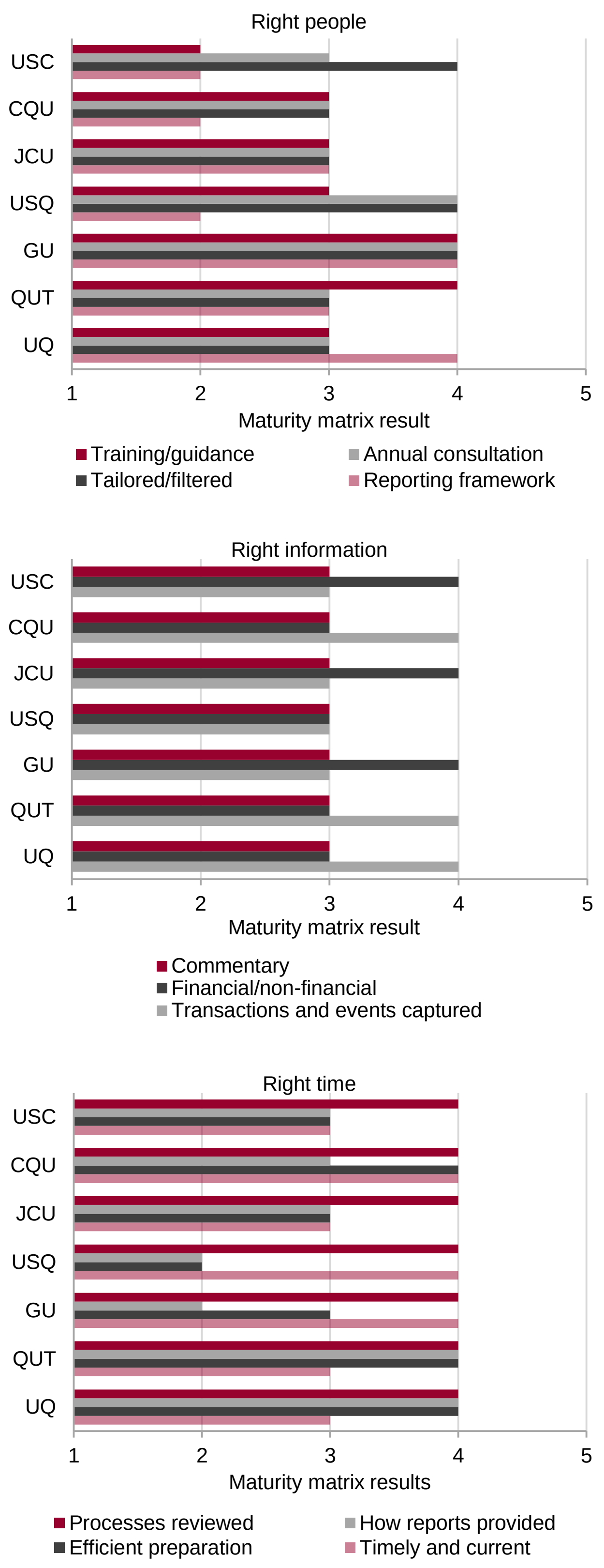
We identified a number of elements that were done well across the sector. Of particular note is that all universities were progressing a range of initiatives towards continuous improvement of the IMFR processes (Right time) as outlined in Figure 2T in 2.11.1. The majority of users we interviewed said that they were satisfied with the service provided by preparers, and that the reports provided met their needs.

In terms of opportunity for continuous improvement, the two main elements identified were:

- in documenting the IMFR framework to clearly define and articulate users' responsibilities (right people)
- in how information is provided to users (right time).

2.11.3 Observations

Figure 2W
Maturity matrix results



Source: Queensland Audit Office

The university sector has established IMFR functions that overall meet its day to day requirements and respond to changing needs. Universities are on a journey towards better practice and are investing in their people, processes and systems. This is demonstrated by the results of the area of control focus illustrated in Figure 2W.

Each of the universities demonstrates better practices in various elements of right people, right information, and right time. We provided each university with a number of suggestions towards continuous improvement. Each university should consider the cost and benefits of progressing towards an Optimised (5) environment within the context of their own operations.

Doing this will help them to cultivate an awareness of current practices and should lead to informed choices as to the optimal placement on the maturity continuum.

Right people

The structure of IMFR functions tended to vary depending on the size and complexity of the university. Most universities had a decentralised structure with a central finance team responsible for preparation of tier 1 reports, and preparers dedicated to executive and operational (tier 2 and 3) teams. Tier 2 and 3 preparers are for the most part located at the same location as the users. Some universities had tier 2 and 3 preparers centrally located to facilitate information sharing.

Information provided to tier 1 was generally summarised at the university level. Some universities had tier 2 representatives also on tier 1 committees or university councils. Where this was the case, tier 2 users also received reports specific to their areas of responsibility (for example, faculty/division).

In interviewing users and preparers of reports, we found that they were clear about financial management roles and responsibilities. We also found that the organisational structure supports IMFR objectives. The three universities with a Developing (2) maturity rating did not have a documented framework for IMFR. Only one of these universities had a manual/workflow documented to compensate.

Users at five of the seven universities are consulted on whether management reports are meeting their needs on an informal, ad-hoc basis. Most users felt their feedback was actioned, with improvements noted in the format and content of management reports year on year.

All universities provided some scheduled training and support to tier 1 users. Three of the seven universities offered this training primarily as part of the induction process. Users at tiers 2 and 3 received training and support on the use of management reports from report preparers on an as-needed basis at six of the seven universities.

Better practice across the sector included:

- comprehensive policy frameworks
- strong working relationships between preparers and users
- tailored reports to support time-critical decisions
- active consultation to meet user needs
- annual user training.

Right information

Six of the seven universities provide tier 1 users with an income statement, balance sheet and cash flow statement, consistent with the statutory report format. The seventh university prepares a rolling ‘fund’ reconciliation in place of a statutory cash flow statement format. Most universities provide tier 2 and 3 users with information of an income and expenditure nature.

Only three of the seven universities perform an accrual process at the end of each month. One university is moving to full accrual and statutory-format reporting at all tiers by 2016.

The four universities that currently do not accrue on a monthly basis perform some of the following compensating processes, or provide some of the following types of information to users. They:

- manually adjust or provide commentary for significant items not accrued in the financial system
- provide commitment ledger information for purchase orders and salaries
- recognise depreciation expense
- reconcile the original budget to forecasted results.

The IMF reports we sampled demonstrated that all universities provide sufficient financial and non-financial information and commentary to guide users and assist decision making. It was noted that for most universities there was some variability in terms of the format, level of detail and depth of analysis of reports provided to tier 2 and 3 users. Where reports did not contain much commentary, the users interviewed indicated that there is a reliance on verbal discussion with the preparer of the report.

It was noted that some reports, in particular tier 1 reports, may be longer than considered generally optimal. Cumulatively, the tier 1 reports we sampled ranged from 15 to 42 pages. Some of these reports comprised a number of related reports, the average length of which was 6 to 34 pages.

Better practice across the sector included:

- internal management financial reports that are consistent with the format and accounting concepts used in annual statutory financial statements
- measures of staff and students, efficiency and effectiveness that integrated financial and non-financial information
- financial and non-financial benchmarking both within the university and externally against the sector and industry
- targeted presentation of information by using tools such as executive summaries, dashboards, graphs, traffic light reporting and highlighting of key information
- strong perspective commentary to allow users to understand the actions taken on important matters
- prospective analysis to provide users with different views of future results.

Right time

Most users at each university were satisfied with the timeliness of reports provided for their use. All universities provided reports on a monthly basis to tier 2 and 3 users, and less frequently (usually quarterly) to tier 1 users.

At three of the seven universities, the tier 1 meeting dates do not take into account the time frames for report preparation. As a result, at some points during the year users are not receiving current information. At two of the seven universities we noted that there is a ‘gap’ in the beginning of the financial year as tier 1 users continued to receive December year end results up to and including at the April meeting.

Preparation times for tier 1 reports range from five days to thirty days. Preparation times for tier 2 and 3 reports range from three days to two weeks after period end. The turnaround time to provide a complete report to a user after period end is a factor of automation and efficiency of processes, depth of analysis over the results, and the quality review processes in place.

Universities that received lower maturity ratings on the reporting process received these ratings for a range of reasons. Commonly, the processes were not fully automated and drew information from a number of systems, with few reporting tools used.

There are significant variations in the tiers 2 and 3 preparation processes. We identified some instances where tier 3 users were maintaining spreadsheets in-house to obtain the information they needed or to validate the information extracted from the financial systems. It is noted that these universities have initiatives in place that should address these observations.

Similarly, universities that received lower maturity ratings as to how reports were provided were often limited by the functionality of their existing systems in terms of how information can be tailored and provided to users. Sometimes the systems had the functionality, but reports were provided in hard copy at the time of the meeting rather than in advance, or users indicated that they do not use the available online tools and reports.

Better practice across the sector included:

- investment in integrated systems or data warehouses that automate the creation of reports combining financial and non-financial information
- automated reports that minimize manual intervention
- an attitude of continuous improvement demonstrated by long-term initiatives for better practice IMFR.

2.11.4 Improvement opportunities

Each university received a scorecard outlining our observations against each key element of the three criteria. Flowing from this, we provided tailored recommendations towards continuous improvement. Common themes of the recommendations provided were as follows.

Figure 2X
Improvement opportunities

Criteria
Right people
Documented policies and procedures provide clarity as to the expectations of preparers and users of reports. It is suggested that universities do the following: • Adopt a reporting framework (through policy and procedural manuals) that provides guidance on the preparation of financial management reports across all tiers of management. This may include clear communication of preparers' and users' responsibilities, and the expected timeliness and quality of IMFR. • Schedule annual feedback from users and track agreed changes and implementation dates. • Provide training at all tiers to ensure a clear understanding of responsibilities and the tools available for use. This will involve assessing user and preparer training needs at each tier and implementing an annual training plan. It should also involve identifying opportunities for preparers to workshop/share ideas and expertise.
Right information
We suggest that each university do the following: • Prepare tier 1 reports following accounting policies and concepts that are materially consistent with the annual statutory financial statements (e.g. on an accruals basis). • Consult tier 2 and 3 users to identify whether additional information may be useful in managing the business. • Consider if there are opportunities to integrate financial and non-financial information in the reports provided to each tier of users, in particular to tier 2 and 3 users. • Assess the content of reports and consider whether there are opportunities to reduce report length to make the information easier to absorb. They should also provide more targeted analysis, prospective commentary, and tools to present information, in particular in reports provided to tier 2 and 3 users.
Right time
We suggest that tier 1 receive the most up to date information. This is a move towards continuous better practice and could be practically achieved by lining up meeting days with period end, automating preparation processes, streamlining quality review, and providing reports in the early part of the financial year. The Optimised (level 5) better practice is to make financial data available in real time for all tiers, with drill down functions and/or dashboards and information accessible to users at all times. Universities should: • invest in integrated data warehouse systems to allow integrated and consistent reporting of financial, student and staff information • develop tools to provide information that is tailored to address specific business decision-making needs and provide more options for all tiers to access and analyse the data online • improve training to allow users to be able to generate reports as they need them directly from the system.

Source: Queensland Audit Office

2.12 Internal audit

An effective internal audit function assures those responsible for governance that:

- appropriate internal controls exist and operate effectively
- risks are being managed
- operations are being run efficiently, economically and effectively.

There should be a high degree of acceptance of internal audit recommendations by management as well as an understanding they will be implemented within the recommended time frames. However, the acceptance of recommendations should not come unilaterally and there should be an exploration of the willingness of management to:

- assume the risk identified after consensus is reached with internal audit that a level of risk is acceptable
- propose an alternate solution which should be mutually agreed with internal audit.

The benefits of an internal audit report, regardless of quality, diminish over time where risks remain untreated. The time taken to act on internal audit recommendations can also be an indicator of the attitude of management to internal audit and their perceived value to the organisation.

Across the university sector, we have identified 94 outstanding high and moderate rated recommendations made by internal audit. Of these, 27 recommendations have been rated as high risk, with nine of these outstanding for longer than 12 months.

The audit committee and the internal audit unit should work closely together to monitor and action internal audit issues in a timely manner. We have identified the following better practices all universities should consider:

- robust reporting to monitor the status of recommendations
- direct reporting and involvement of the Vice-Chancellor
- an ongoing assessment and consideration by both audit committees and management over the continued relevance of outstanding recommendations.

3 Grammar schools

In brief

Background

The eight Queensland public grammar schools are located in Brisbane, Ipswich, Toowoomba, Rockhampton and Townsville. The eight grammar schools are Brisbane Grammar School (BGS), Brisbane Girls Grammar School (BGGS), Ipswich Grammar School (IGS), Ipswich Girls' Grammar School (IGGS), Rockhampton Grammar School (RGS), Rockhampton Girls Grammar School (RGGS), Townsville Grammar School (TVGS) and Toowoomba Grammar School (TWGS). Each grammar school provides facilities at secondary school level, and except for BGGS, all provide a limited number of primary school places.

Conclusions

- All financial statements were materially correct and complied with the relevant accounting standards.
- Schools met the two-month legislative time frames for certification of the financial statements.
- The control environment across the schools appears to be improving with a lesser number of significant issues identified than in 2013.
- The quality of the draft financial statements provided to audit has improved.
- Financial performance of all grammar schools is sound or is improving; however, IGS should still monitor their revenue and expenditure policies to ensure long term sustainability.
- Employee expenses are stable when compared to the total revenue across the schools.

Key findings

- All eight grammar schools received unmodified audit opinions in 2014. This result is consistent with 2013.
- All financial statements were signed within the two-month legislated time frame. This is an improvement from 2013 where one grammar school did not meet the legislative time frame.
- The number of significant control weaknesses reduced from 2013 (12) to 2014 (9).
- Fewer adjustments were required over the past two years to the draft financial statements provided by the grammar schools. Changes totalling $4.99 million were made to seven grammar school draft financial statements submitted to audit (there were $5.10 million of adjustments in 2013).
- IGS improved its financial performance in 2014 when compared to 2013, but it still recorded an operating deficit of $1.1 million for 2014 ($1.5 million deficit for 2013).
- While employee expenses still represent over 60 per cent of total costs in most schools, the employee expense as a percentage of operating revenue has decreased.

3.1 Background

Eight grammar schools prepared financial statements in 2014. Grammar schools are statutory bodies under the *Financial Accountability Act 2009*. All have a 31 December balance date.

3.2 Conclusions

Most schools are financially sound and all received unmodified opinions in 2014, as they did in 2013. The financial statements were prepared in accordance with the legal reporting requirements, including the Australian accounting standards.

The quality and timeliness of the financial statements was satisfactory, with all schools meeting the two-month legislated requirement for audit to certify their financial statements. They recorded a reduced number of adjustments to the draft financial statements provided to audit compared to 2013.

The internal control environment was generally sound, with some weaknesses identified and improvements recommended at four schools. The total number of significant issues raised across all schools reduced to nine in 2014 (from 12 in 2013).

The 2014 operating result at Ipswich Grammar School (IGS) was a $1.1 million deficit, an improvement of $0.35 million on 2013. IGS has net assets of $51.6 million. The school should continue its efforts to improve its financial performance with close monitoring of revenue and expense policies.

Reduced capital spending by IGS and Ipswich Girls' Grammar School (IGGS) as identified by the asset sustainability ratio may lead to increased capital expenditure required in the future.

Employee expenses appear to have stabilised for most schools over the past year when considered as a percentage of total revenue.

3.3 Timeliness of financial reporting

Refer to Figure 2A for better practice guidelines provided to assist grammar schools in preparing timely and quality financial statements. All schools were assessed against these guidelines. For the most part, they were achieving better practice, with some improvement opportunities identified. It is suggested that grammar schools prepare:

- Shell pro forma statements by 31 October, including notes for audit review. Grammar schools are able to access the Queensland State Treasury and Trade guidelines around April and consideration should be given to preparing pro forma statements and seeking feedback from auditors early.
- Good quality documentation supporting the financial statements and the notes.

From a timing perspective, good results were achieved with all eight schools meeting the two-month legislative time frame. This was an improvement on 2013 when seven of the eight schools met the time frame. All grammar schools provided the first draft of financial statements to audit on the agreed dates.

Appendix B provides the dates that management signed financial statements and the audit opinion was issued for grammar schools.

3.4 Quality of financial statements

The number and volume of changes made by management and audit to financial statements indicates the quality of the financial statement preparation process.

Seven grammar schools made combined adjustments totalling $4.99 million to financial statements before the audit opinion was issued for 2014. This is a marginal improvement on the 2013 result of $5.1 million adjustments made at four schools.

Despite the decrease in the total adjustment dollars and the number of adjustments, we have observed an increase in the number of grammar schools who have made material quantitative changes to their financial statements prior to audit certification. Various errors were made, including incorrect assumptions in measuring long term employee benefits and the non-recognition of trade liabilities.

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

In addition to quantitative changes, adjustments were made to disclosure notes for five schools. Common changes related to the accounting policies and asset fair value disclosures.

Figure 3A
Changes to financial statements before audit certification*

Financial statement area	2012 $ m	2013 $ m	2014 $ m
Income	0.28	1.65	0.01
Expenses	4.03	1.52	0.88
Assets	2.31	1.35	1.69
Liabilities	1.43	0.58	2.15
Equity	1.29	0.00	0.26
Total	**9.34**	**5.10**	**4.99**
Number of grammar schools that processed a change	5	4	7

*The extent of changes made within financial statements for each grammar school was considered based on materiality to the financial statements.

Source: Queensland Audit Office

3.5 Internal controls

Grammar schools must maintain good internal control processes to assure their boards of trustees of effective business and financial operations and reliable financial reporting.

In 2014, we raised nine significant control issues across four grammar schools, compared to 12 issues across three schools in 2013 and 17 issues across eight schools in 2012. This indicates the application of internal controls at the grammar schools is improving.

Some of the key control weaknesses identified related to:

- access to and control over master file data and electronic payment files
- segregation of duties in the information technology environment
- development of policy for entertainment and hospitality expenses
- independent checks over general ledger journals
- development of contract registers to record the nature and liability of contractual obligations for financial reporting purposes
- componentisation of building assets for accurate calculation of depreciation expenses.

While the reduction in the number of significant control issues is pleasing, management at grammar schools need to continue to monitor their control environments closely to prevent control breakdowns.

3.6 Financial performance and sustainability

The financial objective for grammar schools is to generate sufficient revenue to meet their financial obligations and to fund asset replacement and new asset acquisitions. The ability of grammar schools to achieve this depends on their management of expenditure and revenue.

Their financial performance is measured by the operating result—the difference between the revenue inflows and expenditure outflows. Their financial position is measured by net assets—the difference between what they own (total assets) and what they owe (total liabilities).

The Queensland Department of Education and Training monitors the financial and business performance of grammar schools across Queensland.

We have referred to the department's benchmarks as well as additional benchmarks to determine the sustainability of the grammar schools. These benchmarks reflect each grammar school's funding and expenditure policies and indicate the sustainability of current revenue and expenditure policies in the short term and the long term.

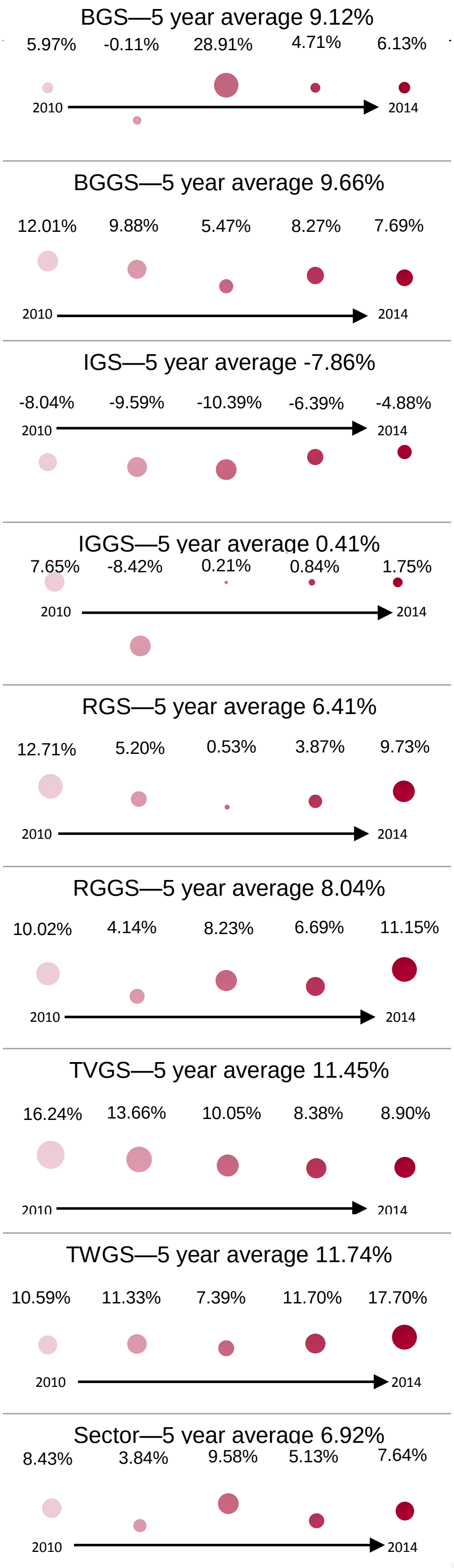
The ratios have been calculated from information contained in the audited financial statements. The results of these ratios should not be considered in isolation, but in conjunction with other factors such as management standards, financial budgets, asset replacement strategies, cash and investment balances,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

Results of the analysis of ratios for the eight grammar schools indicate the following:

- Based on a comparison of each school's current assets to current liabilities, six grammar schools have adequate liquidity to meet their short term liabilities as they fall due. IGS and IGGS have both improved their liquidity position when compared to 2013, but need to continue monitoring their present income and expenditure policies to ensure short term viability and longer term sustainability.
- We compared the total borrowings at year end to the revenue generated and assessed that all schools have adequate capacity to service their debts. This is an improvement from 2013, and it is acknowledged that IGGS has improved its ratio result but will need to continue to manage its debt closely.
- We compared the total liabilities less current assets to total revenue to determine whether the schools are carrying excess debt levels and noted that IGGS is above the benchmark. IGGS has met its debt obligations to date.
- Seven grammar schools have adequate revenue to meet expenditure. IGS needs to continue to monitor its future income and expenditure policies and implement strategies to ensure their long term sustainability.
- IGS and IGGS are spending less on capital replacement than the annual depreciation expense. This could lead to higher replacement or maintenance costs in the future.

3.7 Financial performance

Figure 3B
Operating ratio



Operating ratio:

This ratio compares the operating result (see Appendix D) to the total operating income. It measures the capacity of the organisation to meet recurrent operating and capital expenditure from recurrent operating income.

Grammar schools are not for profit organisations; but the operating result is a useful measure of financial performance. Grammar schools should aim to achieve an operating surplus.

Figure 3B shows the respective operating ratios of the grammar schools, with the size of each bubble symbolising each ratio. Benchmarking by the Queensland Department of Education and Training suggests that a ratio above three per cent could be considered as a low risk for grammar schools.

Six of the eight schools have a favourable operating ratio based on the departmental benchmark. All schools showed an improvement in the ratio except for Brisbane Girls Grammar School (BGGS) which reduced slightly but is still in a healthy position.

The operating ratio of IGS indicates a risk that its operating income may not be sufficient for the school to meet its operating expenditures as they become due. IGS has reported negative operating ratios for the past five years. The operating ratio shows an improvement when compared with 2013.

In 2014, IGS has reduced its operating loss from $1.49 million in 2013 to $1.15 million. The school needs to continue to address this issue, including increasing its revenue base or reducing expenditure—or a combination of both—to ensure long term sustainability.

IGGS has achieved a positive ratio for the past three years with a trend upwards but further improvement is desired to achieve the departmental benchmark.

Operating results for the sector

Seven of the eight grammar schools had a positive operating result for 2014. In total, the grammar schools achieved an operating result in 2014 of $18.1 million (in 2013 it was $11.2 million), which represented a 62 per cent increase.

This overall improved result was driven mainly by three schools, Brisbane Grammar School (BGS), Rockhampton Grammar School (RGS) and Toowoomba Grammar School (TWGS).

Overall, the fee revenue of these schools increased by $6.6 million. This increase was driven mainly by an increase in student numbers (on average 5 per cent) and by fee increases across the board.

These schools also recorded increased levels of grant revenue. These increases amounted to $6.2 million. The increased student numbers in these schools resulted in them securing additional government grants. In addition, two schools also received one-off government grants for capital expenditure amounting to $2.6 million.

These increases were partly offset by increases in expenditure. The employee expenses have increased by $5.6 million in total across all three schools. All three schools have increased staff numbers.

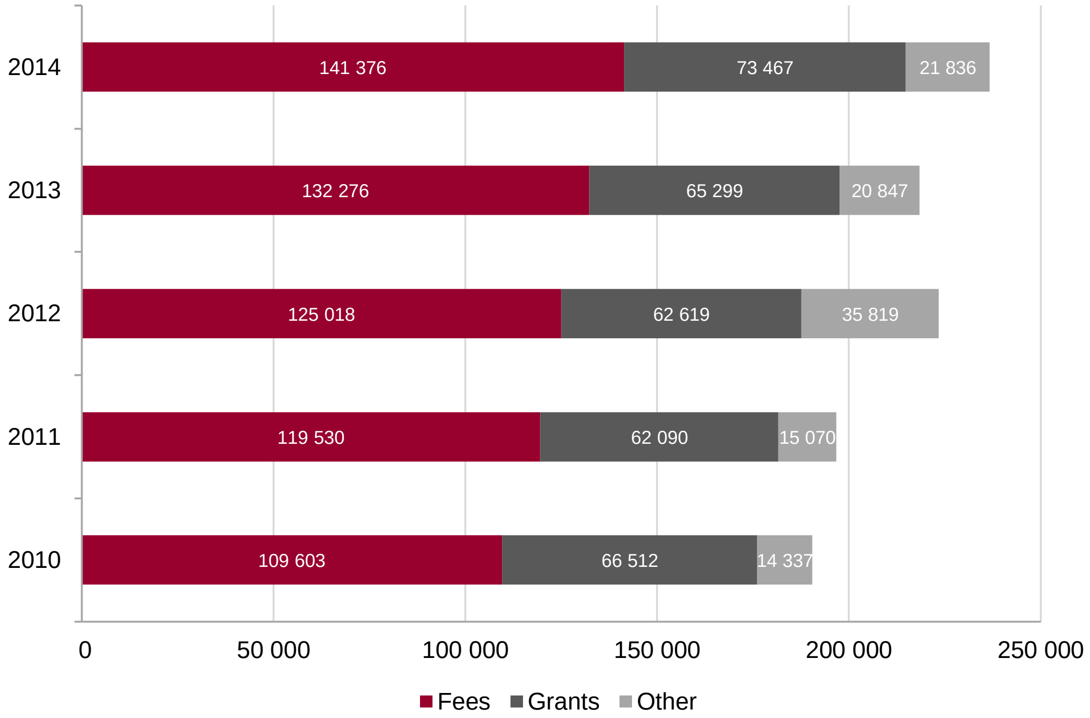
Operating income

Total operating income recognised by all grammar schools increased by $18.3 million (8.4 per cent) from 2013. Figure 3C shows the trend and composition of operating income for the past five years.

The increase in fees in 2014 is due to an overall increase of full- time equivalent students by 1.5 per cent. Strong increases at BGS and RGS were offset by reductions at IGS and Townsville Grammar School (TVGS). The average fee increase of around 5.4 per cent also contributed to increased fee revenue.

Overall, the components of operating income have not significantly shifted over the past five years, as no significant change has impacted the sector. Student fees continue to contribute approximately 60 per cent of operating income as well approximately 30 per cent through government grants.

Figure 3C
Operating income comparison ($'000) 2010–2014



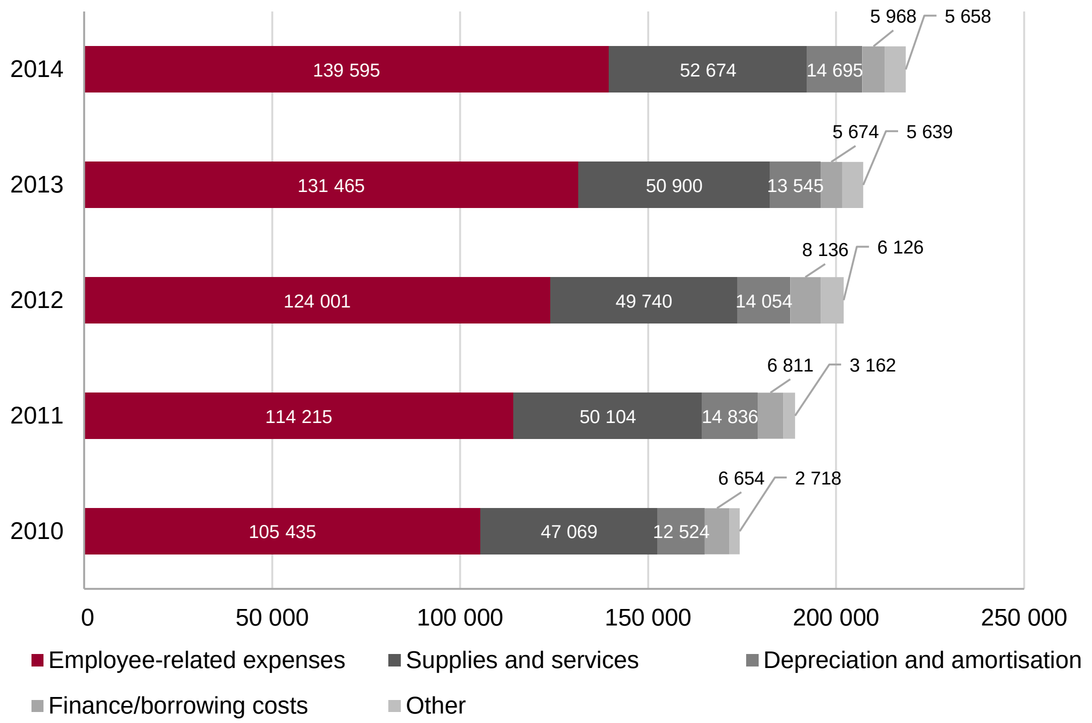
Source: Queensland Audit Office

Operating expenditure

Grammar schools reported combined operating expenses in 2014 of $218.6 million—an increase of 5.5 per cent since 2013, when it was $207.2 million. Figure 3D shows the trend and composition of operating expenditure for the past five years.

The most significant expense incurred by the grammar schools has consistently been employee expenses. This makes up 63.9 per cent of the total expenditure for 2014. Employee expenses for 2014 increased by 6.2 per cent to $139.6 million (in 2013 it was $131.5 million), driven mainly by a 2.9 per cent increase in full-time equivalent employees and agreed salary increases across the sector ranging from 2.7 to 4.1 per cent.

Figure 3D
Operating expenditure comparison ($'000) 2010–2014

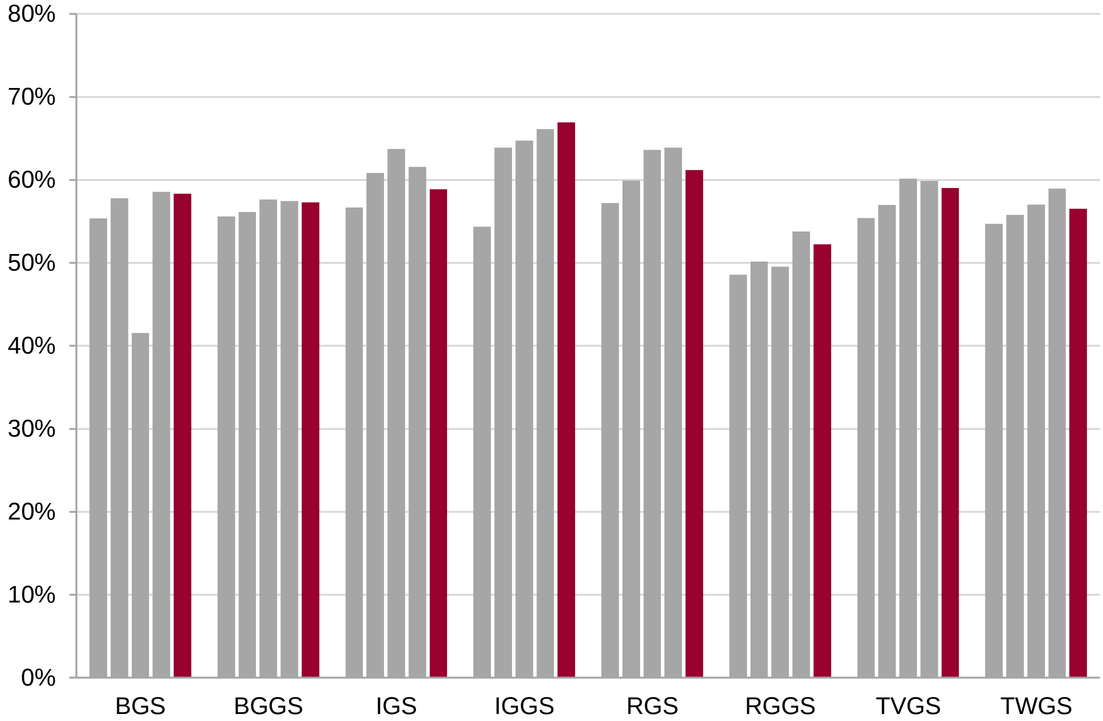


Source: Queensland Audit Office

Figure 3E shows employee expenses as a percentage of the total revenue. A large percentage spent on employee expenses may indicate that the school has less revenue available to meet other obligations.

Seven schools have improved (decreased) the percentage when compared with 2013 and IGGS has only marginally increased the percentage from 2013. For comparison, the university sector considers a benchmark of between 50 and 70 per cent to be acceptable.

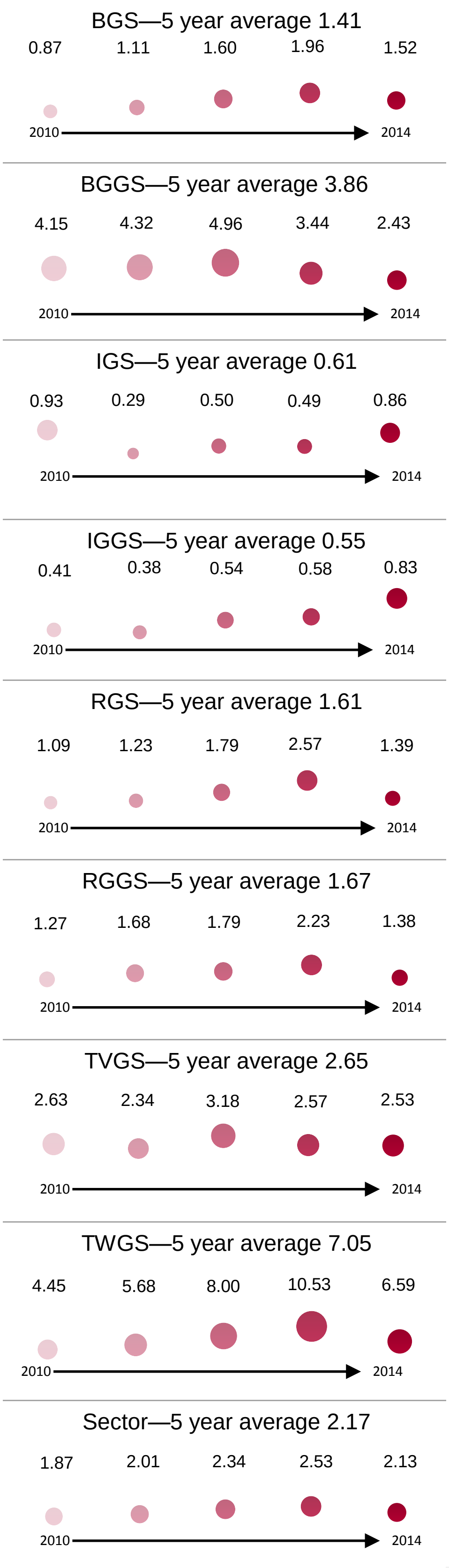
Figure 3E
Employee expenses and on-costs as a percentage of total revenue 2010–2014



Source: Queensland Audit Office

3.8 Liquidity

Figure 3F
Liquidity ratio



Liquidity ratio:

The liquidity (or current ratio) is the relationship between current assets and current liabilities. It is a measure of general liquidity and is used to analyse the short term financial position or liquidity of an organisation. It is calculated by dividing total current assets by total current liabilities.

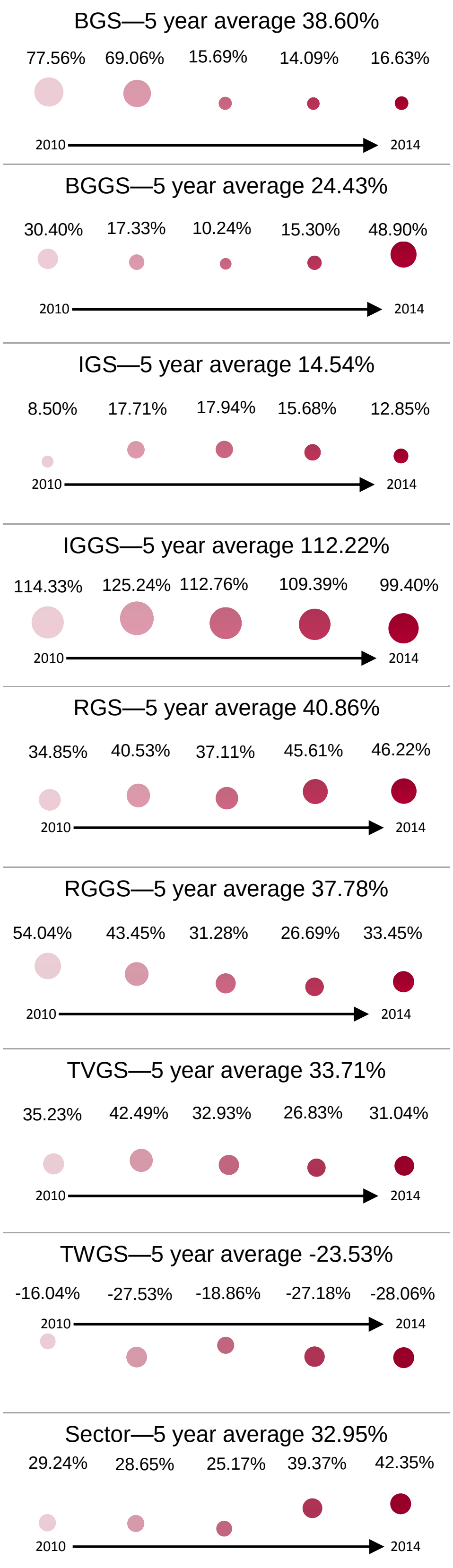
A ratio of greater than 1.5 is considered favourable, while a ratio of more than one still indicates a low risk of not being able to fund current obligations.

Figure 3F shows the respective liquidity ratio of the grammar schools.

Two schools show a less than acceptable liquidity ratio over the last five years. The ratios for both schools have improved and have trended upwards in recent years. Both need to continue to carefully monitor their present income and expenditure policies and implement strategies to maintain their short term viability and longer term sustainability.

3.9 Debt

Figure 3G
Net financial liabilities ratio



Net financial liabilities ratio:

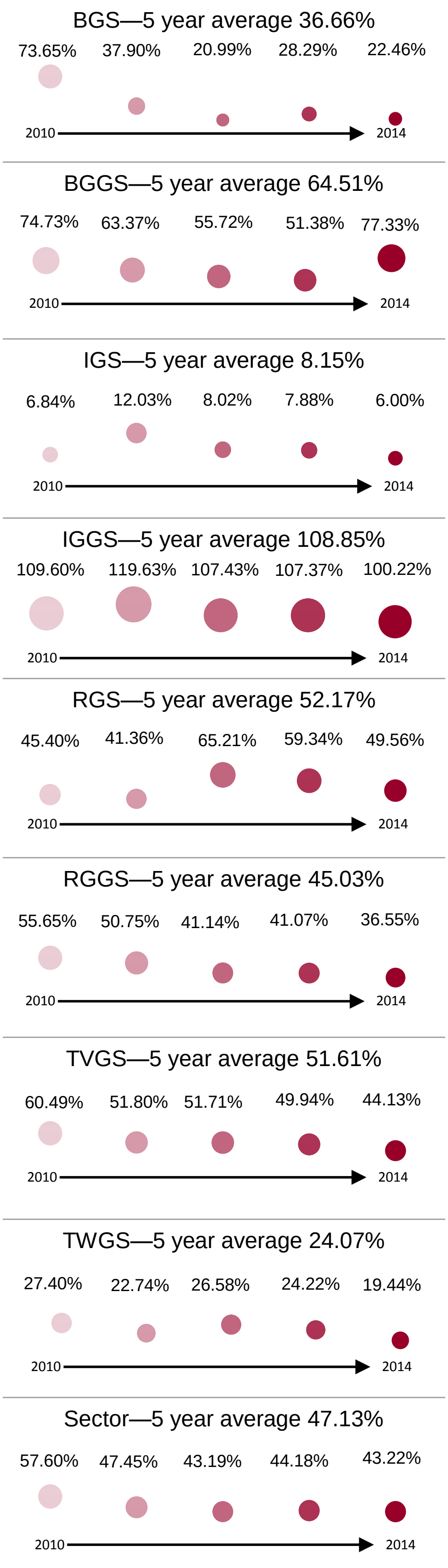
The net financial liabilities ratio compares the total liabilities less current assets to revenue. This ratio gives an indication if the school is potentially carrying too high a level of debt. A percentage under 60 per cent is considered a reasonable benchmark by the Queensland Treasury Corporation for some Queensland public sector entities.

The percentage for IGGS is above 60 per cent for each of the last five years; however, it is noted that the net financial liabilities ratio for the IGGS has improved over the last five years and IGGS has continued to meet its debt obligations.

Additionally, the school has generated a cash inflow of $3 million from its operating activities for 2014. While the ratio draws attention to the school's borrowing levels, other information suggests that the school is managing its obligations in a timely manner. The school needs to continue managing its debts closely.

TWGS shows a negative percentage as the school's current assets total exceeds its total liabilities which indicates a strong position in relation to debt management.

Figure 3H
Debt to revenue ratio



Debt to revenue

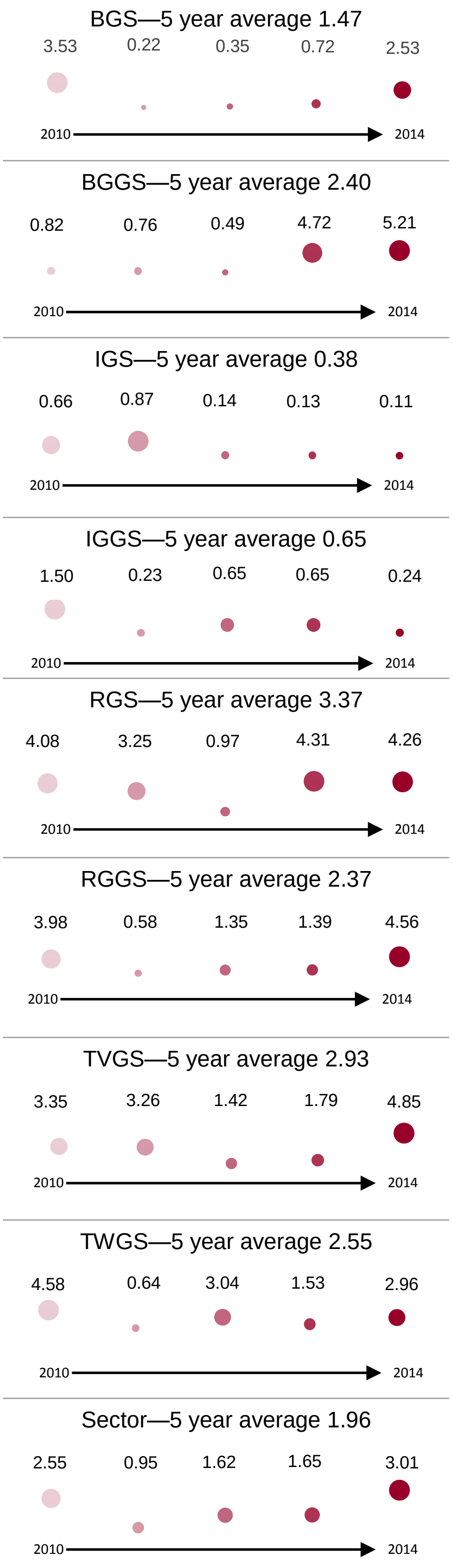
The ratio of debt to revenue compares all current and non-current borrowings to revenue. It measures the capacity of the organisation to repay debt and interest. A low ratio indicates financial stability and solvency, whereas a ratio of greater than one indicates that the organisation may have difficulties servicing its debt.

All grammar schools had a debt to revenue ratio of less than one except IGGS. It has a debt to revenue ratio of exactly one.

It is acknowledged that IGGS's debt to revenue ratio has improved from 2011 to 2014, but the school needs to monitor debt levels closely.

3.10 Assets

Figure 3I
Asset sustainability ratio



Asset sustainability ratio

This ratio compares the rate of spending on property, plant and equipment (PPE) with its depreciation. It is a long term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations and borrowing is not an option.

Cash outflows for PPE are taken from the cash flow statement. Depreciation is taken from the comprehensive income statement. Ratios higher than one indicate that annual capital expenditure exceeds the annual amount of depreciation, which indicates assets are being maintained appropriately.

Figure 3I illustrates that six grammar schools have a ratio of more than one in 2014, indicating that the aggregate capital spending on PPE has exceeded total depreciation. Annual spending on assets includes new and expanded facilities and existing facilities.

Two of the grammar schools spent less on capital than their annual depreciation in 2014, which could lead to higher replacement or maintenance costs in the future.

Appendices

Appendix A—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.

Comments received from Director-General, Department of Education and Training

RECEIVED
01 MAY 2015
QUEENSLAND AUDIT OFFICE

QUEENSLAND GOVERNMENT

Department of
Education, Training and Employment

30 APR 2015

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

Dear Mr Greaves

Thank you for your letter dated 8 April 2015 providing a draft report on the results of the 2014 education sector audits.

The Department of Education and Training appreciated the opportunity to review the Report. It is pleasing to note the improved result for timeliness and quality with no audit issues.

Should you wish to discuss this matter further, I invite you to contact Mr Adam Black, Assistant Director-General and Chief Financial Officer, Department of Education and Training on telephone 3513 6601.

Yours sincerely

DR JIM WATTERSTON
Director-General

Ref: 15/146352
Your ref: 10674

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Appendix B—Status of financial statements

Figure B1
Status of financial statements

Entity type	Unfinished audits	Unmodified opinions issued	Unmodified but with an emphasis of matter	Total
Universities and controlled entities	—	16	17	33
Grammar schools	—	8	—	8
Other statutory bodies	—	1	—	1
Jointly controlled entities	1	3	1	5
Audited by arrangement	—	—	1	1
Total	**1**	**28**	**19**	**48**

Source: Queensland Audit Office

Figure B2
Status of financial statements

Audit	Date statements signed	Date opinion issued	Opinion	Timeliness (since 31 December)		
				<2 mths	2–3 mths	>3 mths
Universities and their controlled entities						
Central Queensland University	23.02.15	24.02.15	U	✓		
• Australian International Campuses Pty Ltd	23.02.15	24.02.15	U	✓		
• Australian International Campuses Trust	23.02.15	24.02.15	U	✓		
• C Management Services Pty Ltd	23.02.15	23.02.15	U	✓		
• CQU Travel Centre Pty Ltd	23.02.15	24.02.15	U	✓		
• Health Train Education Services Pty Ltd	23.02.15	23.02.15	U	✓		
Griffith University	25.02.15	26.02.15	U	✓		
• Gold Coast Innovation Centre Limited	04.03.15	06.03.15	E		✓	

Audit	Date statements signed	Date opinion issued	Opinion	Timeliness (since 31 December) <2 mths	2–3 mths	>3 mths
James Cook University	27.02.15	28.02.15	U	✓		
• JCU Early Learning Centres Pty Ltd	13.02.15	25.02.15	E	✓		
• JCU Enterprises Pty Ltd	12.02.15	25.02.15	E	✓		
• JCU Health Pty Ltd	11.02.15	25.02.15	E	✓		
• JCU Univet Pty Ltd	12.02.15	25.02.15	E	✓		
• Tropical Queensland Centre for Oral Health Pty Ltd	18.02.15	25.02.15	E	✓		
Queensland University of Technology	26.02.15	26.02.15	U	✓		
• Creative Industries Precinct Pty Ltd	06.02.15	17.02.15	E	✓		
• QUT Enterprise Holdings Trust	17.02.15	18.02.15	E	✓		
• qutbluebox Pty Ltd	16.02.15	17.02.15	E	✓		
• qutbluebox Trust	16.02.15	17.02.15	E	✓		
The University of Queensland	26.02.15	27.02.15	U	✓		
• JKTech Pty Ltd	17.02.15	18.02.15	U	✓		
• UniQuest Pty Limited	17.02.15	23.02.15	U	✓		
• UniQuest Asset Trust	17.02.15	23.02.15	E	✓		
• University of Queensland Foundation Trust	23.02.15	25.02.15	E	✓		
• UQ College Limited	18.02.15	19.02.15	E	✓		
• UQ Health Care Limited	13.02.15	13.02.15	E	✓		
• UQH Finance Pty Ltd	25.02.15	26.02.15	E	✓		
• UQ Holdings Pty Ltd	20.02.15	27.02.15	U	✓		
• UQ Investment Trust	23.02.15	25.02.15	E	✓		

Audit	Date statements signed	Date opinion issued	Opinion	Timeliness (since 31 December)		
				<2 mths	2–3 mths	>3 mths
• UQ Sport Ltd	05.02.15	09.02.15	E	✓		
University of Southern Queensland	23.02.15	25.02.15	U	✓		
University of the Sunshine Coast	20.02.15	24.02.15	U	✓		
• Innovation Centre Sunshine Coast Pty Ltd	20.02.15	24.02.15	U	✓		
Grammar schools						
Board of Trustees of the Brisbane Girls Grammar School	23.02.15	25.02.15	U	✓		
Board of Trustees of the Brisbane Grammar School	12.02.15	19.02.15	U	✓		
Board of Trustees of the Ipswich Girls' Grammar School	24.02.15	26.02.15	U	✓		
Board of Trustees of the Ipswich Grammar School	24.02.15	26.02.15	U	✓		
Board of Trustees of the Rockhampton Girls' Grammar School	26.02.15	28.02.15	U	✓		
Board of Trustees of the Rockhampton Grammar School	13.02.15	28.02.15	U	✓		
Board of Trustees of the Toowoomba Grammar School	25.02.15	25.02.15	U	✓		
Board of Trustees of the Townsville Grammar School	13.02.15	20.02.15	U	✓		
Statutory body						
Queensland College of Teachers	13.02.15	25.02.15	U	✓		
Jointly controlled entities						
International WaterCentre Joint Venture	13.03.15	17.03.15	U		✓	
International WaterCentre Pty Ltd	13.03.15	17.03.15	U		✓	
Queensland College of Wine Tourism	23.03.15	20.04.15	E			✓

Audit	Date statements signed	Date opinion issued	Opinion	Timeliness (since 31 December)		
				<2 mths	2–3 mths	>3 mths
Queensland Cyber Infrastructure Foundation Ltd	27.03.15	29.03.15	U		✓	
The Grammar Schools of Queensland Association Inc.						
Audited by arrangement						
Translational Research Institute Trust	20.03.15	23.03.15	E		✓	

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

Opinion key: U = unqualified Q = qualified A = adverse E = unqualified with emphasis of matter D = disclaimer

Source: Queensland Audit Office

Appendix C—Entities for which audit opinions will not be issued

Figure C1
Entities for which audit opinions will not be issued

Entity	Controlled by	Reason
Applied Resource Economics Pty Ltd	The University of Queensland	Dormant
Ausonex Pty Ltd	The University of Queensland	No separate financial statements
Australian China BioEnergy Pty Ltd (deregistered 3 December 2014)	The University of Queensland	No separate financial statements
Bilexys Pty Ltd (deregistered 7 January 2015)	The University of Queensland	No separate financial statements
Brisbane Business School Pty Ltd	Queensland University of Technology	Dormant
CCA Therapeutics Pty Ltd	The University of Queensland	Dormant
Ceramipore Pty Ltd (Deregistered 14 January 2015)	The University of Queensland	No separate financial statements
CQU Institute of Higher Learning Pte Ltd	Central Queensland University	Dormant
CILR Pty Ltd (deregistered 31 March 2014)	The University of Queensland	Dormant
Cloevis Pty Ltd	The University of Queensland	No separate financial statements
Cyclagen Pty Ltd	The University of Queensland	Dormant
Dendright Pty Ltd	The University of Queensland	No separate financial statements
DuraCyc Power Pty Ltd (deregistered 8 January 2014)	The University of Queensland	Dormant
First Investor Pty Ltd (deregistered 16 July 2014)	The University of Queensland	Dormant
GeneCo Pty Ltd	Queensland University of Technology	Dormant
Global Change Institute Pty Ltd	The University of Queensland	Dormant
GRW Industries Pty Ltd	James Cook University	No separate financial statements

Entity	Controlled by	Reason
IMBcom Asset Management Pty Ltd	The University of Queensland	Dormant
IMBcom Asset Trust	The University of Queensland	No separate financial statements
IMBcom Pty Ltd	The University of Queensland	No separate financial statements
James Cook Holdings Pty Ltd	James Cook University	Exempt audit
James Cook Australia Institute of Higher Learning Pty Ltd	James Cook University	Exempt audit
JCU CPB Pty Ltd	James Cook University	Dormant
JK Africa Mining Solutions Pty Ltd	The University of Queensland	No separate financial statements
JKTech South America Spa	The University of Queensland	No separate financial statements
Kalthera Pty Ltd	The University of Queensland	Dormant
Leximancer Pty Ltd	The University of Queensland	No separate financial statements
Lucia Publishing Systems Pty Ltd	The University of Queensland	Dormant
Mask-Ed International Pty Ltd	Central Queensland University	Dormant
Metallotek Pty Ltd	The University of Queensland	No separate financial statements
Millipede Forming Pty Ltd (loss of control on 18 February 2014)	The University of Queensland	No separate financial statements
Neo-Rehab Pty Ltd	The University of Queensland	No separate financial statements
North Queensland Commercialisation Company Pty Ltd	James Cook University	Dormant
Pepfactants Pty Ltd	The University of Queensland	No separate financial statements
QUT Enterprise Holdings Pty Ltd	Queensland University of Technology	Non-reporting entity
Rapisure Pty Ltd	The University of Queensland	No separate financial statements
Sarv Pty Ltd	The University of Queensland	No separate financial statements
Snoresounds Pty Ltd (deregistered 14 January 2015)	The University of Queensland	No separate financial statements

Entity	Controlled by	Reason
SUSOP Pty Ltd	The University of Queensland	No separate financial statements
Symbiosis Pty Ltd	The University of Queensland	No separate financial statements
UATC Pty Ltd	The University of Queensland	Dormant
UQ Jakarta Office Pty Ltd	The University of Queensland	Dormant
University of Southern QLD (South Africa) Pty	University of Southern Queensland	Dormant
UTASAT Pty Ltd	The University of Queensland	Dormant
UTSAT Pty Ltd	The University of Queensland	Dormant
UWAT Pty Ltd	The University of Queensland	Dormant
Vacquel Pty Ltd	The University of Queensland	Dormant

Source: Queensland Audit Office

Appendix D—Operating results

Figure D1
Universities—Operating results*

Universities	2010 $ m	2011 $ m	2012 $ m	2013 $ m	2014 $ m	Five-year average $ m
University of Queensland	139.21	192.78	58.18	108.11	42.77	108.21
Queensland University of Technology	46.93	63.84	100.66	56.32	33.58	60.27
Griffith	109.81	90.03	87.04	73.44	77.49	87.56
Southern Queensland	14.59	14.52	38.09	27.22	47.53	28.39
James Cook	27.28	43.96	37.24	18.45	62.18	37.82
Central Queensland	-4.93	-3.28	-26.08	23.28	149.71	27.74
Sunshine Coast	15.88	8.59	25.36	20.45	38.58	21.77

* Prior year amounts may have been adjusted due to changes identified in individual university financial statements.

Source: Queensland Audit Office

Figure D2
Grammar schools—Operating results*

Grammar schools	2010 $ m	2011 $ m	2012 $ m	2013 $ m	2014 $ m	Five-year average $m
Brisbane Girls Grammar School	3.37	2.95	1.69	2.77	2.85	2.73
Brisbane Grammar School	2.17	(0.04)	16.28	1.97	2.83	4.64
Ipswich Girls' Grammar School	1.54	(1.55)	0.04	0.17	0.36	0.11
Ipswich Grammar School	(1.82)	(2.18)	(2.40)	(1.49)	(1.15)	(1.81)
Rockhampton Girls Grammar School	0.79	0.34	0.80	0.65	1.16	0.75
Rockhampton Grammar School	3.43	1.41	0.15	1.21	3.45	1.93
Toowoomba Grammar School	2.42	2.87	2.02	3.51	5.92	3.35
Townsville Grammar School	4.16	3.76	2.80	2.42	2.66	3.16

* Prior year amounts may have been adjusted due to changes identified in individual grammar school financial statements.

Source: Queensland Audit Office

Appendix E—Internal management financial reporting better practice

Figure E1
Right people—continuous improvement opportunities

Better practice
Policy and procedure framework
Integrated policy frameworks have comprehensive policies that: • describe the purpose of management reporting for all tiers • identify responsibility for designing systems for effective reporting • identify the objective of continuous improvement • allocate the responsibility for day to day management of budgets and the regular monitoring process to key members of the executive.
Reports are tailored
Entities with a higher maturity rating demonstrate a strong working relationship between preparers and users. Regardless of whether they were based centrally or on site with users, preparers are clearly part of the management team and attend key management meetings to add value and gain understanding of operations. Reports are tailored to user needs to facilitate discussion at meetings, e.g. through PowerPoint presentations. Reports provide financial and non-financial analysis towards specific time-critical business decisions such as course enrolment break-even points.
Annual consultation
In a better practice environment, users are regularly consulted about the information they want to receive and how it is presented. Two universities demonstrated better practice by actively seeking feedback annually, e.g. as part of the annual independent survey. One university indicated that it tracks feedback and has key performance indicators (KPIs) in place around turnaround on the responses.
Training and guidance
A better practice environment offers a robust training and continuous professional development program for users and preparers based on an assessment of needs at each tier of the university. Universities demonstrated better practice by providing annual/six month refresher training to tier 1 users on interpreting the internal financial management reports, either in house or through a professional trainer. Tier 3 users at one university said that they receive annual financial management training. A number of universities have plans in place to deliver extensive training programs over the next 12 to 24 months as part of the implementation of new internal management reporting processes or systems, or as part of corporate 'financial awareness' initiatives.

Source: Queensland Audit Office

Figure E2
Right information—continuous improvement opportunities

Better practice
Reports capture transactions and events
Internal financial management reports need to meet user needs while providing complete and reliable information. It is suggested that this is best achieved by preparing tier 1 reports that use the same accounting policies and concepts as those that are used to prepare the annual statutory financial statements. An example of this would be preparing IMFR on an accrual accounting basis. It is suggested that tier 2 and 3 users be consulted to identify whether additional information may be useful in managing the business.
Reports provide information needed to understand the business
Better IMFR incorporates a comprehensive set of both operational performance and financial metrics, aligning each segment of the business to the university's strategic plan. Examples of better practice we noted were integrated financial and non-financial information in measurements of staff and students, efficiency and effectiveness. Examples were: student costs vs revenue; staff to student ratios; and research income to staff ratios. We noted benchmarking of financial and non-financial KPIs internally and externally against other universities and the sector; and to industry investment and borrowing rates.
Commentary is clear and concise
Better practice reports have a clear, simple layout. A good report draws a reader's attention to the most important information and clearly explains what is important and why. The report highlights exceptions and provides relevant information as well as analysis, commentary and variance explanation. Examples of presentation done well in internal management financial reports provided to each tier included: targeted executive summaries; dashboards; graphs; traffic light reporting; and highlighting of key information. The commentary in most reports was perspective with some good examples of perspective and prospective analysis noted. (Perspective analysis allows a user to understand the action taken on matters of significance. Prospective analysis provides a reader with different views of future results.) Better practice suggests shorter report lengths increase readability and action. As a guide, a report length of five to ten pages is optimal.

Source: Queensland Audit Office

Figure E3
Right time—continuous improvement opportunities

Better practice
Time frame for reporting is sufficient, and information is up to date
Queensland Treasury and Trade's *Financial Accountability Handbook* suggests management reports be prepared and actioned on a monthly basis. These reports should provide management with the information required for daily activities. Better practice is for reports (including analysis) to be available to users as soon as possible after month end. Better practice companies are able to produce consolidated reports within five business days (Source: Certified Practising Accountants Australia; MC6: Streamlining month-end reporting, budgeting and forecasting processes. Brenden Russell, Calumo Group. Thursday 19 June 2014).
How reports are prepared
Better practice is for report preparation to be automated with manual adjustments limited to insertion of analysis and commentary. The universities with higher maturity ratings demonstrated some of the following characteristics: • integrated systems or data warehouses allowed reports with both financial and non-financial information to be readily generated with little or no manual intervention • automated reporting templates (including, for example, ExcelOne) allowed consistent information to be produced quickly, freeing time for analysis and quality review.
How reports are provided
Better practice is for data and reports to be produced in real time for decision makers as and when needed. Universities that performed well demonstrated some of the following tools and practices. They: • Provided electronic reports in advance of meetings to all tiers of users through email or online portals. Longer reports were bookmarked for easier navigation. • Offered functionality to drill down tailored reports in real time as needed, and access to some business intelligence tools. There was evidence that this functionality was routinely accessed. One university demonstrated that they produced tailored reports for tier 2 and 3 users to make ad hoc business decisions.
Regular review of processes and action taken to improve them
All universities have initiatives underway aimed at continuous improvement. Some of the better initiatives include: • implementing data warehouse and business intelligence tools to allow integrated financial and non-financial reports to be accessed in real time • implementing new budget and reporting systems to improve the quality of information available for management reporting • standardisation of automated tier 2 and 3 reports to improve efficiency, reliability and comparability • initiatives to create a university-wide 'customer focused' organisation alongside training around financial awareness, 'plain English' rationalisation, and the revamp of the policy and procedure framework • initiatives to improve the accuracy of forecasts.

Source: Queensland Audit Office

Auditor-General Reports to Parliament

Reports tabled in 2014–15

Number	Title	Date tabled in Legislative Assembly
1.	Results of audit: Internal control systems 2013–14	11 July 2014
2.	Hospital infrastructure projects	October 2014
3.	Emergency department performance reporting	October 2014
4.	Results of audit: State public sector entities for 2013–14	November 2014
5.	Results of audit: Hospital and Health Service entities 2013–14	November 2014
6.	Results of audit: Public non-financial corporations	November 2014
7.	Results of audit: Queensland state government financial statements 2013–14	December 2014
8.	Traveltrain renewal: Sunlander 14	December 2014
9.	2018 Commonwealth Games progress	December 2014
10.	Bushfire prevention and preparedness	December 2014
11.	Maintenance of public schools	March 2015
12.	Oversight of recurrent grants to non-state schools	March 2015
13.	Procurement of youth boot camps	April 2015
14.	Follow up audit: Tourism industry growth and development	May 2015
15.	Results of audit: Education sector entities 2014	May 2015