



Education: 2016–17 results of financial audits—Summary

Report 15: 2017–18

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Summary

Introduction

This report summarises the results of our financial audits of the education sector entities that sit within the portfolio of responsibility for the:

- Minister of Education and Minister for Industrial Relations
- Minister for Employment and Small Business and Minister for Training and Skills Development.

These include:

- the Department of Education
- TAFE Queensland
- the seven Queensland public universities and the entities they control
- the eight Queensland grammar schools
- other statutory bodies and controlled entities that provide specific and specialised education services.

Appendix C lists the Queensland public education sector entities and their responsibilities.

Our report focuses on the audit results of these entities at the end of each of their reporting periods (their balance dates). For the Department of Education, TAFE Queensland and some statutory bodies this was 30 June 2017, while for universities, grammar schools and some other statutory bodies this was 31 December 2017.

Results of our audits

In the education sector, we issued unmodified opinions for all 35 reporting entities by their statutory deadlines. We were satisfied that entities prepared financial statements in accordance with the relevant legislative requirements and standards, and that readers can rely on the results in the financial statements.

Education entities generally use good financial reporting practices and produce their financial statements in a timely manner. However, there were some delays in the provision of draft financial statements.

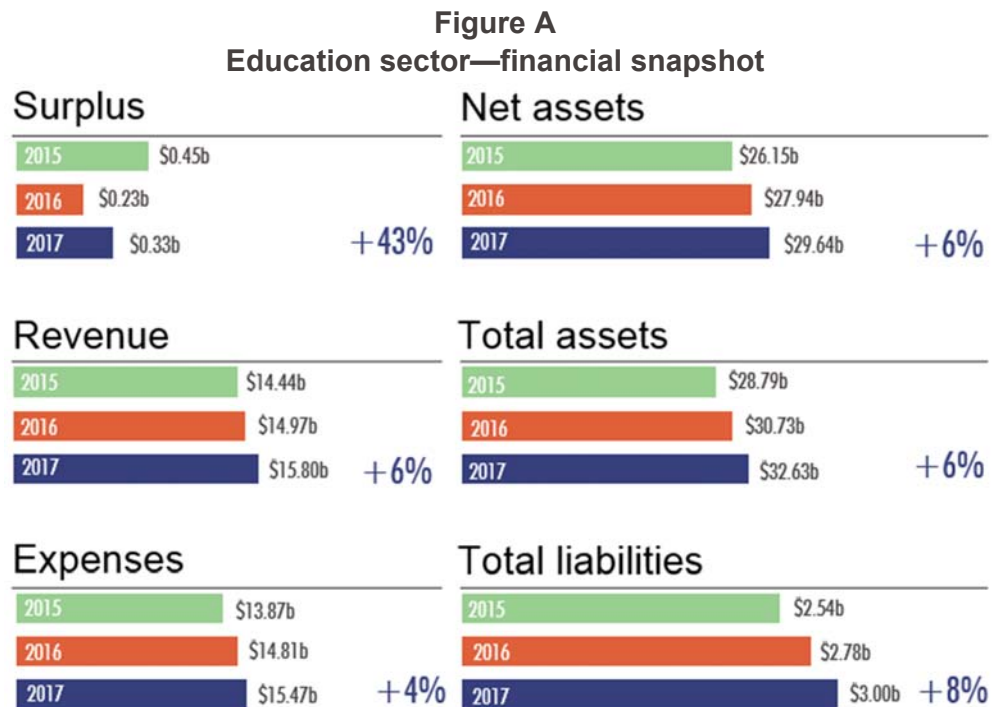
The quality of the financial statements varied across the sector, with some adjustments being made in relation to the valuation of property, plant and equipment, and the capitalisation of expenses. This indicates there is room for some entities to improve their quality assurance processes over the review of their financial statements.

We express an *unmodified opinion* when the financial statements are prepared in accordance with the relevant legislative requirements and Australian accounting standards.

We express a *modified opinion* when financial statements do not comply with the relevant legislative requirements and Australian accounting standards, and they are not accurate and reliable.



Financial performance, position, and sustainability



Note: Figure A represents year end balances for all entities in the education sector, at their respective balance dates.

Source: Queensland Audit Office.

Understanding financial performance

Collectively, the financial performance of education entities has improved from last year. Apart from two universities, all entities reported a surplus. The combined net surplus for the sector was \$325.5 million. This has increased by \$98.3 million since last year.

Most entities in the sector continue to rely heavily on Australian and Queensland government funding. While this funding has increased since last year, entities need to be aware of risks that may potentially reduce their major sources of revenue. For example, the Australian Government recently introduced a two-year freeze on Commonwealth grants scheme funding. This restriction will limit the funding available to universities and may influence the number and types of courses offered by universities. For students, this could potentially limit their course options and reduce the number of places available in each course.

Most entities in the sector have managed to contain their total expenses to a level that is lower than their revenue; however, any increases in revenue have been partly offset by an increase in expenses. The most significant expense for each entity continues to be employee expenses due to the service nature of the entities.

New accounting standards for revenue (AASB15 *Revenue from Contracts with Customers* and AASB1058 *Income of Not-for-Profit Entities*) will see substantial changes in how entities recognise grants and account for contracts. Given the variety of revenue sources in the education sector, entities need to take action now to understand the accounting requirements and determine the financial impact to ensure revenue is treated correctly.

Understanding financial position

The net asset position across the sector continues to be positive, totalling \$29 billion at the respective balance dates of each entity. The sector remains capable of meeting its short-term debt.

Capital expenditure across the sector continues to decrease for most entities. It has been limited by reduced capital funding from government grants. This restricts each entity's capacity to fund capital projects and building programs.

The new accounting standard AASB16 *Leases* is likely to have an impact on most entities' net financial position. Under the new standard, most leases previously not reported as assets and liabilities will be reported on the balance sheet in future. The timing of expense recognition will also change.

Internal controls

This year, we identified two significant deficiencies in control activities at the Queensland University of Technology. Both related to the university not following established procedures for making changes to the vendor masterfile (the collection of all records relating to vendors) and for managing user access. Management is addressing these significant deficiencies and implementing processes to strengthen related controls.

Otherwise, we observed that internal control environments across the remaining entities were generally effective. This means that we were able to rely on the internal control systems used to produce financial statements.

Most entities have resolved or are on track to resolve issues we have identified within the agreed timeframes. However, we have identified some long-outstanding issues that entities need to address. Some of these deficiencies date back to 2013. It is critical that the affected entities address these deficiencies immediately, as they can increase the risk of fraud and error.

In April 2018, a fraud was successfully perpetrated at an education sector entity. It involved a fraudulent request to change an existing supplier's bank account details and divert payments to the illegitimate bank account. We recommend management reinforce the need to verify bank account changes independent of the change request. For example, this can be done through a phone call to the supplier using a contact number obtained from an independent source, such as the supplier's website or the phone directory.



Recommendations

We recommend that all education entities:

1. continue to manage their ongoing costs, including by developing strategies and cost-saving initiatives, to counteract the risks associated with changes in government funding arrangements and external market factors
2. take prompt action to address internal control deficiencies, particularly focusing on those that remain outstanding from prior years, to mitigate the risk of fraud or error
3. reinforce the need to verify bank account changes independent of change requests.



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