

AUDITOR-GENERAL'S REPORT

FINANCIAL AUDITS

Volume Two 2010

focusing on Universities



The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

Pursuant to the *Public Finance and Audit Act 1983*, I present Volume Two of my 2010 Report.

A handwritten signature in black ink, reading 'Peter Achterstraat'.

Peter Achterstraat
Auditor-General

Sydney
June 2010

GUIDE TO USING THIS VOLUME

This volume summarises the results of a number of our financial audits.

We have attempted to adopt a ‘plain English’ style of writing. This is not always easy when describing technical issues, but we recognise the diversity of our readership and their needs.

This Volume has three sections.

Section One incorporates:

- a special review titled ‘Fraud Control Arrangements in Large Government Agencies and Universities (Ten Elements of Fraud Control)’
- Reporting of the State's Performance
- Governance Arrangements for the General Government and Total State Sector Accounts
- Agency Amalgamations, and
- Quality of Financial Reporting.

Section Two is the University Overview.

Section Three provides comments on financial audits of government agencies. It is divided into ministerial portfolios, each containing one or more government agencies.

Each agency's comment begins with a summary of our **Audit Opinion**. This is a key result of each audit. An ‘unqualified Independent Auditor's Report’ means we are satisfied that the agency has prepared its financial statements in accordance with Australian Accounting Standards (and other mandatory requirements). It also means we believe the financial statements have no material misstatements, and the scope of our audit has not been limited. If any of these aspects are not met we issue a ‘qualified Independent Auditor's Report’ and explain why we did this.

The next part of the comment outlines any **Key Issues** we identified during the audit. These are matters such as:

- recommendations to Parliament
- significant findings or outcomes of the audit
- any major developments impacting on the agency's role or activities
- key repeat findings.

The **Audit Opinion** and the **Key Issues** represent the more important findings. By targeting these, readers can quickly understand the major issues facing a particular agency, or glance through a number of Reports to assess the financial health of a portfolio.

Performance Information covers key financial and operational statistics we have identified that help understand how well the agency is performing. Wherever possible we include comparisons with similar agencies interstate.

The next two parts of the comment contain analysis of issues we identified during our audit. While many of these will include suggestions for improvement, these are not as significant as the issues outlined in the first two parts of the agency comment.

Other Information summarises any other matters noted during the audit of the agency that warrant inclusion in this Report.

Financial Information summarises the essential information from each agency's financial statements. While this is sufficient for a broad understanding of the agency's financial position, readers can access more detailed financial statements in the agency's annual report or website.

Agency Activities summarises the agency's purpose, services, structure, relevant legislation, and its web address.

While some ‘agency comments’ in this Volume will have all of the headings outlined here, this will vary depending on the size of the organisation and the findings of our audit.

The **Agency Response** appears where the head of an agency does not believe that the commentary in our Report adequately reflects the agency's position or actions taken. As we discuss our proposed comments with agency staff during the drafting process, few agencies ask for a formal response to be included.

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Significant Items

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Large New South Wales Government agencies and universities are better at investigating fraud rather than detecting and preventing it. Improvements are needed in fraud risk assessments, employee awareness programs, consumer and community awareness programs, and detection systems.	3
Agency Amalgamations	
Newly formed departments may not meet statutory reporting deadlines.	11
Universities Overview	
New South Wales universities recorded a combined operating surplus of \$494 million compared to a combined deficit of \$76.9 million last year, reflecting the improvement in global financial markets. Investment losses of \$405 million were recognised in 2008 compared to net gains of \$38.0 million in 2009.	16
The value of universities' investments increased by 6.3 per cent, from \$1.6 billion to \$1.7 billion as at 31 December 2009. This contrasts with a \$500 million decline in value in 2008.	16
Recent issues in Europe highlight the fragile nature of the recovery in global financial markets. Consequently, financial risks remain for universities, especially for those with overseas operations and those needing to fund capital works programs, estimated at \$2.0 billion for 2010 and 2011.	16
Universities are exposed to significant financial and reputational risks from the 216 business arrangements they have entered into, locally and overseas.	21
One quarter of academic staff employed in NSW universities are aged 55 years or over. Forty one per cent are 50 years or older. Universities face a potential loss of skills as academic staff retire.	24
The Australian Government has agreed to fund universities' superannuation liabilities of \$2.5 billion, but formal funding agreements are not in place.	27
Managing excessive annual leave balances remains a challenge for most universities. At 31 December 2009, 2,506 employees had accrued more than 40 days annual leave.	28
Only two universities met the four Australian benchmarks for university financial performance compared to six in 2008.	31
Universities have become increasingly reliant on revenue from overseas fee-paying students. Revenue from this source has increased to \$1.1 billion or 18.4 per cent of total revenue.	34
Southern Cross University had the highest increase in overseas student numbers.	35
Charles Sturt University	
The financial statements submitted for audit did not comply with many requirements of the Australian Accounting Standards.	49

Macquarie University

The University has 34 controlled entities and is currently reviewing its corporate structure to simplify it. The majority of these entities are associated with the University's development of a private hospital. The expected final cost of the hospital building is \$160 million plus \$48.0 million for equipment. At this time, the University is employing appropriately skilled staff to operate the hospital. 58

University of New England

The University's Council has undertaken a comprehensive review of governance and is taking action to address the shortcomings identified by the review. 83

University of New South Wales

The University is responsible for funding three defined benefits superannuation funds. At 31 December 2009, the combined liability for these three funds was \$29.8 million, 48.9 per cent lower than the liability at 31 December 2008. 93

The long service leave liability of the University has increased by 20.2 per cent over the past four years to \$98.9 million, presenting a further funding challenge for the University. 96

University of Newcastle

The University is planning to build a new campus in Newcastle city centre for an estimated cost of \$562 million. It has not sourced the funding or performed a cost benefit analysis of constructing the new campus versus upgrading its present Callaghan campus. 105

University of Wollongong

Last year, an employee of the University of Wollongong in Dubai, inappropriately used a bank account to transfer private funds. This year, the same employee used a corporate credit card for personal use in contravention of policy and received an inappropriate salary advance. 130

Recommendations

Fraud Control Arrangements in Large Government Agencies and Universities (Ten Elements of Fraud Control) Page

- I recommend that government agencies and universities focus on improving their fraud prevention and detection systems. Specifically, they need to improve their fraud risk assessments, employee and consumer awareness programs and detection systems. Useful detection systems include data mining and early warning systems to receive information from staff, contractors, suppliers and the public about potential frauds. 3

Reporting of the State's Performance

I recommend:

- the annual planning process for the NSW State Plan Annual Report allow for a November tabling date. 8
- the Government ensure that the systems generating the data used in the State Plan Annual Report can be relied on. 9
- the Government formally respond to the Public Accounts Committee's recommendations. 9

Quality of Financial Reporting

- I recommend The Treasury mandate that agencies perform hard close procedures at 31 December and 31 March each year. This should improve the quality, reliability and timeliness of financial reporting across the Public Sector and enhance the annual budget process. 12

Universities Overview

I recommend:

- the University of Newcastle and Charles Sturt University implement total asset management plans to ensure their assets are managed efficiently and effectively 19
- each university include asset management performance reporting in their annual reports 19
- each university review governance arrangements for controlled entities to ensure risk exposures are understood, monitored and managed 20
- each university eliminate unnecessary controlled entities to reduce governance risks and compliance and assurance costs. 20
- each university review funding arrangements with controlled entities to determine the need for 'letters of comfort', if any 22
- each university confirm existing 'letters of comfort' represent better practice 23
- each university review foreign currency exposures and ensure they have appropriate policies to mitigate the risks associated with such exposures 23
- each university develop and implement effective policies to address and manage the ageing academic workforce 24
- the Vice Chancellor of each university collaborate and approach the Australian Government to negotiate an agreement to fund staff superannuation obligations 26

▪ each university review the effectiveness of their policies for managing excessive annual leave balances	28
▪ each university create and maintain a single register of all contract employees	30
▪ each university periodically review the roles and responsibilities of all contract employees to ensure:	30
□ reliance on contractors is not excessive	
□ use of contract employees instead of permanent employees is appropriate	
□ contractors do not become de facto employees by virtue of being with the university for an extended period of time	
□ use of contract employees continues to represent value for money.	
▪ DEEWR review its financial performance indicators to confirm their continuing relevance and appropriateness.	31

Charles Sturt University

I recommend the University:

▪ implement robust financial reporting processes and improve the quality control procedures over the preparation of its financial statements and supporting documentation	49
▪ improve its recording and accounting procedures for non-current assets. Its property, plant and equipment register should be updated continuously throughout the year to ensure the accuracy and completeness of its asset records	49
▪ continue to review and strengthen corporate governance, accounting and internal control procedures for its overseas campus	50
▪ review the effectiveness of its policies in managing its ageing academic workforce	50
▪ establish individual staff plans to reduce excessive annual leave balances within an acceptable timeframe	52
▪ create and maintain a record of all contractors engaged by the University	52
▪ should also periodically review the roles and responsibilities of all its contractors to ensure:	52
□ its reliance on contractors is not excessive	
□ using a contractor instead of a permanent employee is appropriate	
□ contractors do not become de facto employees by virtue of being with the University for an extended period of time	
□ using a contractor continues to represent value for money.	

Macquarie University

I recommend the University:

▪ review its corporate strategy to help ensure its corporate structure aligns with that strategy.	58
▪ review its processes for the selection of business partners and the identification of project risks. This will help reduce risks in future projects.	58
▪ review the effectiveness of its policies in managing its ageing workforce.	59
▪ review the effectiveness of its existing policies for managing excessive annual leave balances.	61

Southern Cross University

I recommend the University:

- review the effectiveness of its policies in managing its aging workforce. 68
- continues to monitor and manage excessive annual leave balances. Strategies adopted to reduce the number of employees with excessive leave balances should continue during 2010. 70

The University of Sydney

I recommend the University:

- review the effectiveness of its policies in managing its ageing workforce 75
- create and maintain a single record of all contractors engaged by it 77
- periodically review the roles and responsibilities of all its contractors to ensure: 77
 - its reliance on contractors is not excessive
 - use of a contractor instead of a permanent employee is appropriate
 - contractors do not become de facto employees by virtue of being with the University for an extended period of time
 - use of a contractor continues to represent good value for money
- establish individual staff plans to reduce excessive leave balances within an acceptable timeframe 78
- review the financial arrangements it has with its controlled entities to satisfy itself that an appropriate financial structure is in place to support their ongoing operations. 81

University of New England

I recommend the University:

- review the effectiveness of its policies in managing its ageing workforce 84
- establish individual leave plans with employees to reduce leave balances within an acceptable timeframe. 86

University of New South Wales

I recommend:

- the University finalise a framework to identify and manage foreign exchange and interest rate exposures to minimise losses 91
- the University finalise its longer term cash flow forecast model to minimise the risk of not meeting operating and capital expenditure commitments and other liability obligations 92
- the University establish individual plans with employees to reduce excessive leave balances within an acceptable timeframe 94
- the University review the effectiveness of its policies in managing its ageing workforce 94

▪ the University maintains a central register for contractors not paid through the human resources systems to reduce the risk of non-compliance with taxation laws and regulations	96
▪ the University complete the liquidation of AGSM Limited and UNSW Asia School Limited during 2010	97
▪ UNSW Global Pty Limited establishes policies and procedures to review the group's overseas operations, including representative offices, to ensure compliance with local laws and regulations.	97

University of Newcastle

I recommend the University:

▪ conduct a comparative cost benefit analysis to the University of building a new city campus and relocating some of its operations versus upgrading its Callaghan campus	105
▪ review its ability to fund the proposed capital programs	105
▪ implement total asset management plans to ensure assets are planned and managed efficiently and effectively	105
▪ review the effectiveness of its policies in managing its ageing workforce	106
▪ create and maintain a single record of all contractors engaged by it	108
▪ periodically review the roles and responsibilities of all its contractors to ensure:	108
□ its reliance on contractors is not excessive	
□ use of a contractor instead of a permanent employee is appropriate	
□ contractors do not become de facto employees by virtue of being with the University for an extended period of time	
□ use of contractors continues to represent value for money	
▪ review its use of corporate credit cards and the internal control structure it uses to control and monitor spending on credit cards	108
▪ records any personal expenditure on credit cards as a debt owing to the University. This will ensure that the money is collected from the employee involved.	108
▪ raise a debt against the relevant employee for any spending not accounted for within two months of the credit card statement date. This will ensure all money is accounted for correctly or recovered from the relevant employee.	108

University of Technology, Sydney

I recommend the University:

▪ create and maintain a single record of all contractors engaged by it	117
▪ periodically review the roles and responsibilities of all its contractors to ensure:	117
□ its reliance on contractors is not excessive	
□ use of a contractor instead of a permanent employee is appropriate	
□ contractors do not become de facto employees by virtue of being with the University for an extended period of time	
□ use of a contractor continues to represent good value for money.	

University of Wollongong

I recommend:

- the University ensure that its subsidiary ITC Ltd improves oversight arrangements to ensure compliance with policies and procedures for its University of Wollongong in Dubai operations. 130
- the University review the effectiveness of its policies in managing excess annual leave. 132
- ITC Ltd implement a timetable to ensure financial statements are prepared and submitted, for each controlled entity, by the statutory deadline. Failure to submit financial statements within the specified timeframe is a breach of legislative requirements. 138

Section One

Special Review

Fraud Control Arrangements in Large Government Agencies and Universities (Ten Elements of Fraud Control)

Updates

Reporting of the State's Performance

Governance Arrangements for the General Government and Total State Sector Accounts

Agency Amalgamations

Quality of Financial Reporting

Fraud Control Arrangements in Large Government Agencies and Universities

(Ten Elements of Fraud Control)

My 2009 governance report highlighted fraud control as a key area of improvement for large government agencies and universities. Given this result, and the heightened fraud risks due to the recent global downturn and the newly created 13 super departments, I conducted a fraud control survey of large government agencies and universities in 2009.

The survey was sent to 54 large New South Wales Government agencies and all ten New South Wales universities. The survey is based on our 2006 Fraud Control Improvement Kit and the fraud standard AS 8001-2008. The survey measured the effectiveness of ten key fraud control measures.

I received 47 responses from agencies and responses from all ten universities. The findings in this report are based on those responses.

RECOMMENDATION

I recommend government agencies and universities focus on improving their fraud prevention and detection systems. Specifically, they need to improve their fraud risk assessments, employee and consumer awareness programs and detection systems. Useful detection systems include data mining and early warning systems to receive information from staff, contractors, suppliers and the public about potential frauds.

CONCLUSION

Fraud control measures in large New South Wales Government agencies and universities have improved since our 2004 review.

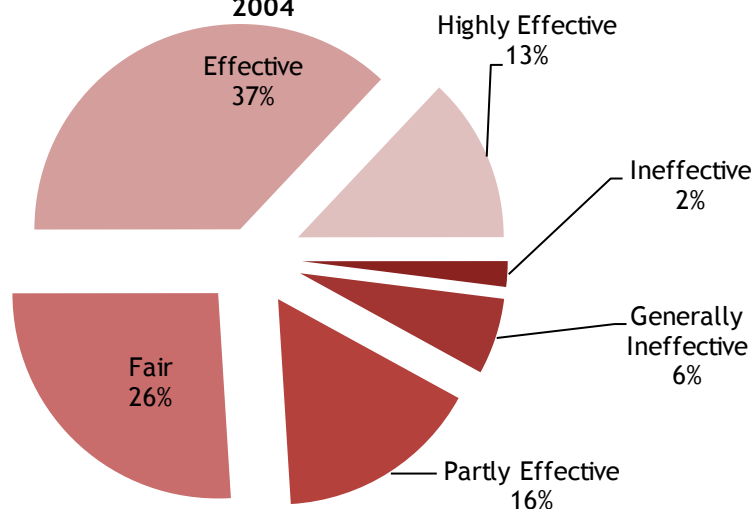
Large New South Wales Government agencies and universities are better at investigating fraud rather than detecting and preventing it. Improvements are needed in fraud risk assessments, employee awareness programs, consumer and community awareness programs, and detection systems.

Fraud controls in large agencies are generally better than universities.

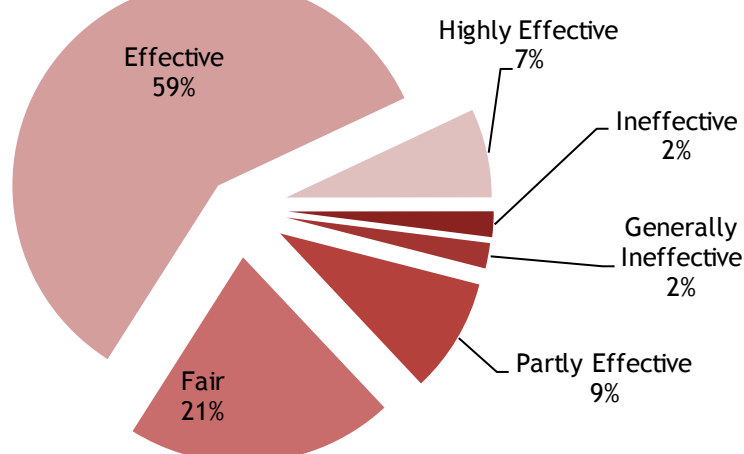
State-owned corporations were more likely to have effective fraud controls measures than general government agencies and universities.

KEY FINDINGS

**Fraud Control in large NSW Government Agencies and Universities
2004**



**Fraud Control in large NSW Government Agencies and Universities
2009**



Of the 57 large New South Wales Government agencies and universities who completed the survey:

- the majority had a fraud control policy, responsibility structures to effectively control fraud, and internal and external notification systems
- areas needing improvement:
 - 22 rated their fraud risk assessment processes and employee awareness programs as less than effective
 - 39 rated their consumer and community awareness programs as less than effective
 - 23 rated their detection systems as less than effective.

The most common types of frauds reported were:-

- theft, including cash, consumerables and intangible assets
- procurement fraud, such as false invoicing and credit card misuse
- payroll fraud
- fraudulent expenditure claims.

A detailed summary of the results follows in Detailed Findings.

FRAUD CONTROL RISKS IN THE NEW SOUTH WALES PUBLIC SECTOR

It is incumbent on the management of New South Wales public sector organisations to ensure they have adequate fraud controls in place.

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and with management.

It is important that management, with the oversight of those charged with governance, places a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place.

Auditing Standard ASA 240

Fraud control measures are particularly important during economic downturns as there is:

- greater incentive or pressure to commit fraud
- often more opportunity to commit fraud, particularly if controls in organisations are absent or have been weakened through rationalisation and consolidations
- greater propensity to rationalise fraudulent behaviour.

Fraud risks in the New South Wales public sector have been further heightened by the rationalisation of 'back office' activities. If not planned well, gaps in vital internal controls can occur. Key controls such as segregation of duties need to be maintained particularly in finance areas. The 'back office' is where many of the fraud controls need to be.

The recent amalgamation of agencies into super departments has further increased fraud risks due to the merging of organisations with different systems and cultures.

THE WAY AHEAD

In 2010, I intend to look more closely at internal audit and risk management in New South Wales Government agencies and universities. I will examine compliance with The Treasury Policy & Guidelines Paper 09-05, 'Internal Audit and Risk Management Policy' for the NSW Public Sector.

AREAS SURVEYED

The key elements I surveyed were:

1. Fraud Control Policy
2. Responsibility Structures
3. Fraud Risk Assessment
4. Employee Awareness
5. Consumer and Community Awareness
6. Notification Systems
7. Detection System
8. External Notification
9. Investigation Standards
10. Conduct and Disciplinary Standards.

The survey is based on the Audit Office of New South Wales Fraud Control Improvement Kit. The kit is a practical, flexible and assessable tool to assist agencies and universities develop effective processes to review and monitor their fraud control strategies.

Each element's effectiveness is rated on a scale from 1 to 6.

Rating	Description
1	Ineffective
2	Generally Ineffective
3	Partly Effective
4	Fair
5	Effective
6	Highly Effective

The fraud survey can be obtained from the Audit Office's website at http://www.audit.nsw.gov.au/info/in_progress/fraud_control.htm

The fraud improvement kit can also be obtained from the Office's website at http://www.audit.nsw.gov.au/publications/better_practice/2006/fraud_control_improvement_kit.pdf

DETAILED FINDINGS

Compliance with the Ten Elements of Fraud Control

Fraud Control Element	Universities (10 respondents)						Large Agencies - (47 respondents)					
	1	2	3	4	5	6	1	2	3	4	5	6
PREVENTION												
1 Fraud Control Policy	--	--	--	3	7	--	1	--	1	7	36	2
2 Responsibility Structures	--	--	1	1	8	--	--	--	2	6	35	4
3 Fraud Risk Assessment	1	1	--	5	3	--	1	--	2	12	30	2
4 Employee Awareness	--	1	3	3	3	--	--	2	4	9	32	--
5 Consumer & Community Awareness	--	1	4	4	1	--	3	4	6	17	17	--
DETECTION												
6 Notification Systems	--	--	--	2	8	--	--	--	2	5	37	3
7 Detection Systems	--	--	3	4	3	--	2	2	4	8	31	--
8 External Notification	--	--	1	1	7	1	--	--	2	3	36	6
INVESTIGATION												
9 Investigation Standards	--	--	--	2	7	1	--	--	1	7	33	6
10 Conduct & Disciplinary Standards	--	--	1	1	8	--	--	--	2	9	31	5

FRAUD AND CORPORATE GOVERNANCE

Fraud control must be a key component of an organisation's corporate governance. It should not be viewed in isolation, but in concert with other key governance components such as strategic planning, risk management, compliance with laws, ethical standards and government directions and codes of conduct. Governance should be enduring, not just something done from time to time.

Fraud control is very closely linked with the key governance principle of 'doing the right thing'. People must act with honesty, impartiality, integrity, trustworthiness, respect for the law and due process. A commitment to ethical values is fundamental.

These principles underpin the Audit Office's public sector governance model which is based on the ASX 'Corporate Governance Principles and Recommendations', the Audit Office of New South Wales 'On Board' and the Australian National Audit Office 'Public Sector Governance - Better Practice Guide'.

The Audit Office of New South Wales 17 components of public sector governance

For more information on my 2008 Governance Review see Volume Two 2009 report.

http://www.audit.nsw.gov.au/publications/reports/financial/2009/vol2/pdf/06_special_review_corporate_governance_arrangements_in_large_government_agencies.pdf

Foundations for management and oversight - (accountability and leadership)

1. Strategic and business plans exist and are provided to key stakeholders.
2. Regular reporting against plans to CEO, Board and Minister.
3. Executive performance evaluation based on achievement of these plans.

Structure the Board - only agencies with Boards - (accountability)

4. Chairperson and majority of members are independent of management.
5. Appropriate range of Board experience and competence.

Ethical and responsible decision-making - (integrity and stewardship)

6. Code of Conduct exists.
7. Fraud and corruption control program exists.
8. Compliance management (procedures are in place to ensure that the agency complies with all relevant laws and government directions).

Integrity in financial reporting - (stewardship)

9. Audit and Risk Committee exists.
10. Internal and external audit exists.
11. CEO and CFO sign-off of financial report.

Disclosure - (integrity and transparency/openness)

12. Annual Report published on time.
13. A continuous disclosure policy exists and is publicly available on the agency's website.

Key stakeholder management - (transparency/openness)

14. Key stakeholder communication plan exists.

Risk management - (accountability)

15. Risk management program in place.
16. CEO and management sign-off on adequacy of internal controls.

Remuneration - only agencies with Boards - (accountability)

17. Board remuneration committee exists.

Reporting of the State's Performance

THE STATE PLAN ANNUAL REPORT (Repeat Issue)

Last year, my Office was engaged by the Premier to verify the performance information relating to the Supporting Business and Jobs Chapter of the Annual Performance Report of the NSW State Plan. This was a significant reduction in the scope of work I performed in the previous year. The Government appointed other experts to review the performance information for the remaining chapters of the Report. They were: NSW Chief Scientist; Director of Bureau of Crime Statistics and Research; Chief Executive of the Bureau of Health Information; Chief Executive of the Natural Resources Commission; Director of the Institute for Sustainable futures; Assistant Director for NSW Office of the Australian Bureau of Statistics; Director Transport Data Centre.

My work was limited to agreeing:

- the infrastructure investment data for the years 2005-06 to 2012-13 to the equivalent details in the Treasury Budget Papers for 2009-10
- the private business investment data for the years 1998-09 to 2008-09 to the equivalent details in the Australian Bureau of Statistics, Australian National Accounts: National Income, Expenditure and Product (cat. no. 5206.0)
- the tourist visitor nights and expenditure data for the years 2003-04 to 2008-09 to the equivalent details in the National Visitor Survey and International Visitor Survey by Tourism Research Australia
- the total employed persons data and the unemployment rate data for the months July 2008 to June 2009 to the equivalent details in the Australian Bureau of Statistics, Labour Force Survey (cat. no. 6202.0.0)
- the dollar value of red tape reduction and reforms data for the year 2008-09 to the equivalent details in the Better Regulation Office Report
- the State's AAA credit rating data for 2008-09 with the credit rating agencies: Standard and Poor's; and Moody's
- the electricity reliability data for the years 2005-06 to 2008-09 to the equivalent details in the Country Energy, Energy Australia and Integral Energy Network Performance Reports.

My procedures did not include:

- evaluating the appropriateness of the performance measures used
- verifying the completeness or reliability of the data
- verifying the accuracy of charts, graphical representations, narrative information, or comparative information other than that highlighted as having been verified by me in the State Plan Annual Report.

I reported the results of my work in the 'Report of Factual Findings', which I issued to the Premier on 25 March 2010.

I recommend the annual planning process for the NSW State Plan Annual Report allow for a November tabling date.

In previous reports I recommended the State Plan Annual Report be finalised, approved by Cabinet and tabled in Parliament by the end of November each year.

In Volume Four 2009, I reported the NSW State Plan - Revision and Annual Report for 2009, had not been released by the Government. I also stated that as my Office had not yet been engaged to review the performance information included in the State Plan Annual Report, I may not be in a position to conduct and complete the review by the end of November, 2009.

In November 2009 I was advised that the Government had reviewed the NSW State Plan in consultation with the community, other stakeholders and independent experts. As a result of those consultations the priorities and targets were updated and released to the independent experts in October 2009.

The 2009 Annual Report was released on 26 March 2010, nine months after the financial year end. I understand the Report will be tabled in this session of Parliament.

Independent Verification of Performance Information in the Annual Performance Report of the NSW State Plan

I recommend the Government ensure that the systems generating the data used in the State Plan Annual Report can be relied on.

The Government should ensure, where necessary, that the scope of the work performed by my Office and the independent experts it appoints is widened to confirm the systems generating the data used in the Report, have been appropriately designed and implemented, and have operated effectively throughout the period.

PARLIAMENTARY ACCOUNTS COMMITTEE REVIEW (Repeat issue)

I recommend the Government formally respond to the Public Accounts Committee's recommendations.

In Volume Four 2009, I reported that in November 2008, the Public Accounts Committee tabled a report on the State Plan listing 15 recommendations. The Government advised me that a response to the Public Accounts Committee would be submitted by the end of May 2009.

At the date of this Report, the Government has yet to respond. I have been advised that a response to the recommendations is being finalised following the recent release of the 2010 State Plan and the 2010 Annual Performance Report.

For more information on the Plan, refer to www.nsw.gov.au/stateplan.

Governance Arrangements for the General Government and Total State Sector Accounts

Last year, I reported that the charter of the Office of Financial Management (OFM) Audit and Risk Committee was revised to remove the Committee's responsibilities relating to the Total State Sector Accounts. I also reported that The Treasury Executive had determined that these responsibilities should be assumed by management.

As a result, I recommended that the Treasurer establish an Audit and Risk Committee for the New South Wales General Government and Total State Sector as a matter of urgency.

Since my report, The Treasury Executive has reversed its decision and in April 2010, restored these governance responsibilities to the OFM Audit and Risk Committee. Next year, I intend to review whether the Committee is effectively fulfilling its responsibilities in relation to the General Government and Total State Sector and is complying with the requirements of The Treasury Policy & Guidelines Paper 09-05, 'Internal Audit and Risk Management Policy' for the NSW Public Sector.

Agency Amalgamations

Last year, I reported that there was some uncertainty across parts of the public sector about the practical impact of the reforms to the sector announced by the then Premier in June 2009. The reforms originally grouped 160 government agencies and offices under 13 strategically aligned clusters.

Since my report, guidance has been issued on the departmental restructures, schedules 2 and 3 of the *Public Finance and Audit Act 1983* have changed confirming the new departments, a further Administrative Order has been issued, and some agencies have been surveyed by The Treasury to determine what procedures they intend adopting to ensure more accurate and timely financial reporting at 30 June 2010.

It is still not clear to me that sufficient progress has been made by the newly formed departments and the central agencies to ensure the financial statements for all will be prepared and audited within the timeframes prescribed by the *Public Finance and Audit Act, 1983*.

I am concerned that:

- governance arrangements are not yet fully operational
- financial reporting requirements and related processes have not been finalised by some newly formed departments
- uncertainty exists as to whether further legislative changes will occur that will impact financial reporting at 30 June 2010.

Quality of Financial Reporting

I recommend The Treasury mandate that agencies perform hard close procedures at 31 December and 31 March each year. This should improve the quality, reliability and timeliness of financial reporting across the Public Sector and enhance the annual budget process.

Last year I reported that 12 of the 24 largest agencies' financial statements submitted for audit contained significant errors. This delayed and increased the costs of preparing and auditing these financial statements. It also means that agencies are not using accurate financial data to make decisions. I recommended that financial statements should be prepared periodically throughout the year (i.e. at 31 December and 31 March) using full accrual accounting.

In response to this recommendation, The Treasury requested that 15 agencies pilot hard close procedures for the 2009-10 financial year with a view to expanding hard close arrangements in 2010-11 following an evaluation of the 2009-10 pilots.

The Treasury also ensured its year end financial reporting requirements were released by 31 March 2010, much earlier than in previous years.

Section Two



Universities Overview

Universities Overview

Ten universities, established under State legislation, provide higher education in New South Wales:

- | | |
|-----------------------------------|--|
| ▪ Charles Sturt University (CSU) | ▪ University of New South Wales (UNSW) |
| ▪ Macquarie University (MU) | ▪ University of Newcastle (UN) |
| ▪ Southern Cross University (SCU) | ▪ University of Technology, Sydney (UTS) |
| ▪ The University of Sydney (TUS) | ▪ University of Western Sydney (UWS) |
| ▪ University of New England (UNE) | ▪ University of Wollongong (UW). |

AUDIT OPINION

The audits of all the universities' 2009 financial statements resulted in unqualified Independent Auditor's Reports, the same as in 2008.

KEY ISSUES

Universities face various financial and reputational challenges including:

- reducing reliance on Australian Government funding to about 50 per cent of annual revenues
- funding significant capital works and back log maintenance programs exceeding \$2.0 billion
- funding significant employee entitlement obligations including superannuation (\$2.8 billion), long service leave (\$436 million) and annual leave (\$220 million)
- increasing financial and other risks associated with an ageing workforce
- governance risks arising from the diversity and complexity of business operations and arrangements.

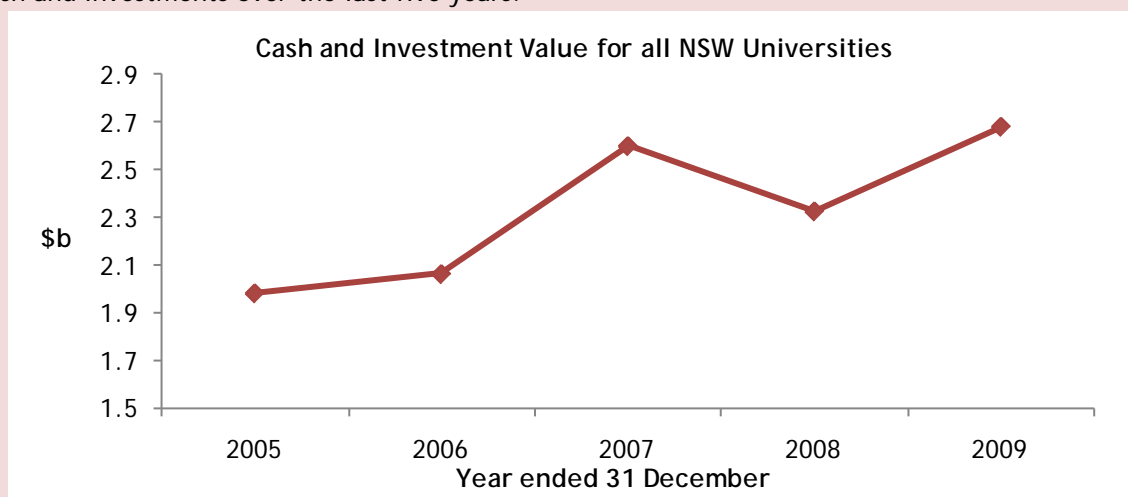
Against this backdrop, universities also have to contend with the impact of the global financial crisis.

This report focuses on these issues and records observations arising from my audits of universities' financial statements.

Global Financial Crisis

Movements in Cash and Investments

The following graph demonstrates the movement in the value of all New South Wales universities' cash and investments over the last five years.

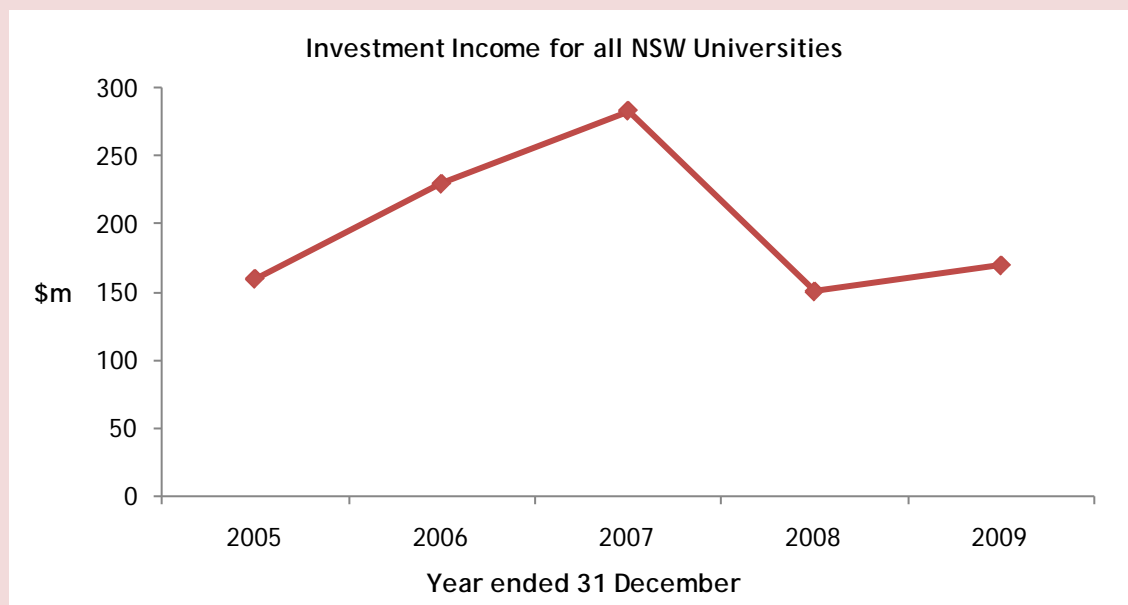


Source: University financial statements (Audited)

Total cash and investment values reported for all universities in 2009 were \$2.7 billion (\$2.3 billion in 2008). The University of Sydney and University of New South Wales account for more than half of this balance with a combined share of 56.3 per cent (54.4 per cent).

Investment Income

Investment income for the universities amounted to \$167 million in 2009, an increase of \$19.0 million. Despite the recent recovery in financial markets, investment earnings are yet to reach levels reported prior to the global financial crisis.



Source: University financial statements (audited)

Recent issues in Europe have highlighted the fragile nature of the recovery in global markets. Consequently, financial risks remain for universities, especially for those with overseas operations and those needing to fund backlog maintenance and capital works programs.

During the year, the value of universities' investments increased by 6.3 per cent, from \$1.6 billion to \$1.7 billion as at 31 December 2009. This contrasts with a significant decline of \$500 million in value in 2008.

The universities recorded a combined operating surplus of \$494 million in 2009 compared to a combined deficit of \$76.9 million in 2008. The improvement was largely a result of:

- net gains of \$38.0 million in 2009 compared to net realised losses and impairment of investments of \$405 million in 2008
- a 12.8 per cent increase in investment income to \$167 million (\$148 million).

Universities are limiting realised losses by holding investments until they mature.

Details for each university for 2009 and 2008 were:

Year ended 31 December 2009	CSU \$m	MU \$m	SCU \$m	TUS \$m	UNE \$m	UNSW \$m	UN \$m	UTS \$m	UWS \$m	UW \$m	TOTAL \$m
Unrealised gains/ (losses and impairment) of investments	--	(1)	--	(8)	--	39	--	--	(4)	(1)	25
Realised gains on sale of investments	--	--	--	--	1	--	1	4	--	7	13
Investment income	8	12	4	81	4	25	9	11	3	10	167
Surplus for the year	28	60	2	69	10	93	45	68	61	58	494
Value of cash and investments at year end	118	214	46	961	62	548	190	245	89	207	2,680

Year ended 31 December 2008	CSU \$m	MU \$m	SCU \$m	TUS \$m	UNE \$m	UNSW \$m	UN \$m	UTS \$m	UWS \$m	UW \$m	TOTAL \$m
Impairment losses of investments	(26)	(17)	--	(211)	(2)	(92)	(29)	--	(7)	(24)	(408)
Realised gains/(losses) on sale of investments	(1)	3	--	--	(2)	--	--	1	2	--	3
Investment income	12	21	5	32	4	43	10	13	3	5	148
Surplus/(deficit) for the year	34	24	13	(168)	7	(88)	--	58	37	6	(77)
Value of cash and investments at year end	138	231	67	884	49	381	131	176	89	180	2,326

Source: University financial statements (audited)

Capital Programs and Asset Management

To fund their capital works programs, universities use cash flows from operations, investments, grants and borrowings. Under current economic conditions, universities capital works programs may be at risk.

Capital Works

New South Wales universities continue to deliver significant capital works programs. Capital works spending in 2009 across all New South Wales universities totalled \$874 million (\$794 million). The table below shows the capital spend by each university for the last three years and the budgeted spend for 2010 and 2011.

University Year ended 31 December	Budget		Actual		
	2011 \$m	2010 \$m	2009 \$m	2008 \$m	2007 \$m
Charles Sturt	29.7	57.2	106.7	88.3	34.4
Macquarie	96.0	325.0	164.6	145.1	40.6
Southern Cross	41.1	35.1	33.4	11.9	3.7
Sydney	106.0	168.8	151.4	221.0	163.9
New England	26.0	26.0	12.7	20.4	17.7
New South Wales	199.6	131.9	138.8	87.4	105.7
Newcastle	^	89.9	35.0	31.3	36.2
Technology, Sydney	^	171.5	54.1	44.7	37.3
Western Sydney	72.5	119.3	108.6	74.8	75.4
Wollongong	72.8	172.4	68.5	69.4	57.3
Total	643.7	1,297.1	873.8	794.3	572.2

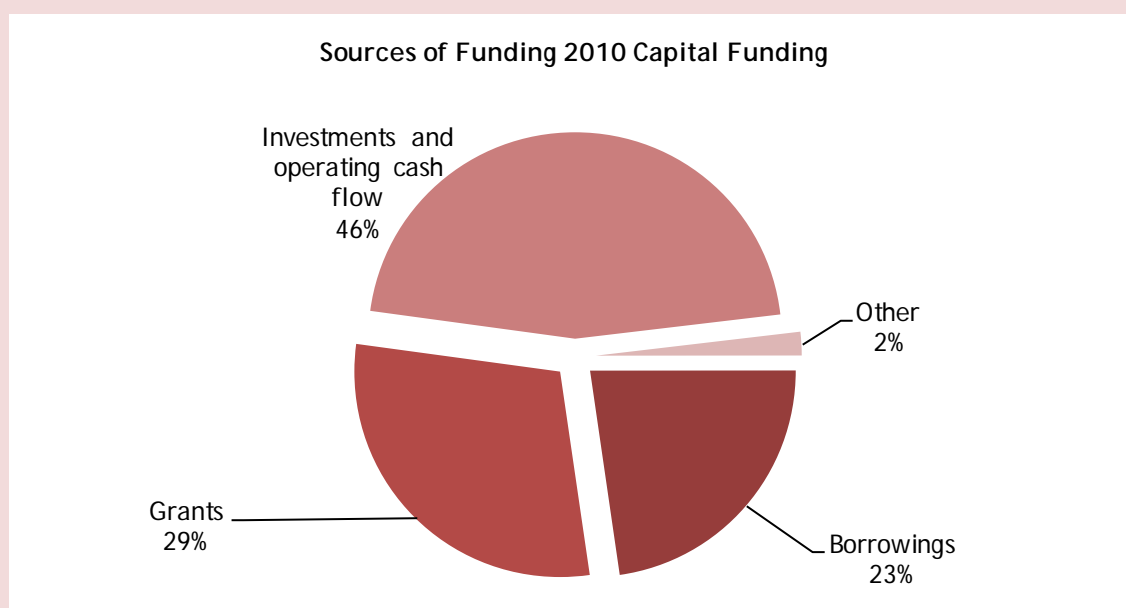
Source: Data provided by respective universities (audited). Budget figures (unaudited)

^ = data not available

The majority of universities have significant capital programs planned over the next two years, primarily designed to:

- improve infrastructure and address backlog maintenance
- provide suitable accommodation for students and staff
- replace outdated facilities with modern teaching and research facilities.

The source of funding for the 2010 combined capital program is shown in the chart below.



Source: Data provided by respective Universities (unaudited)

Asset maintenance

Last year, I reported that all universities confirmed they have computerised systems in place to manage their asset maintenance programs, including backlog maintenance. Despite this, the extent of backlog maintenance remains significant and is illustrated below.

Year ended 31 December	2009	2008	2007
Backlog maintenance (\$m)	832	894	^
Actual maintenance expenditure (\$m)	154	150	141
Total Property, Plant and Equipment values at 31 December (\$b)	8.6	8.6	8.1
Actual maintenance expenditure/PPE values (%)	1.8	1.7	1.7
Depreciation expense (\$m)	337	289	346

Source: All data except for backlog maintenance sourced from universities' financial statements (audited). Backlog maintenance was supplied by universities (unaudited).

^ = Data not available.

The backlog maintenance for all universities at 31 December 2009 was \$832 million, ranging from nil (nil) at Southern Cross University to an estimated \$411 million (\$500 million) at The University of Sydney.

The University of Sydney recorded the largest decrease of \$89.0 million in estimated backlog maintenance in 2009, while The University of Western Sydney recorded the largest increase of \$7.7 million, from \$10.8 million to \$18.5 million.

Total Asset Management Planning (Repeat Issue)

I recommend the University of Newcastle and Charles Sturt University implement total asset management plans to ensure their assets are managed efficiently and effectively.

In response to a survey we conducted on total asset management planning, eight universities indicated they have asset management plans in place. Charles Sturt University and the University of Newcastle are still developing asset management plans.

Total asset management planning helps ensure existing assets are managed in a way that supports service delivery objectives and results in effective and efficient use of the \$8.6 billion of infrastructure assets controlled by New South Wales universities. Planning also helps ensure future asset needs are properly identified, planned, funded, delivered and managed. The absence of effective planning may adversely impact operational and financial performance.

Reporting on Asset Management (Repeat Issue)

I recommend each university include asset management performance reporting in their annual reports.

I reviewed a sample of annual reports and found universities only disclose limited information on outcomes achieved from their asset management practices. I believe universities should report how effectively they are managing the \$8.6 billion worth of infrastructure assets they control.

Reporting should include how universities have performed against their capital investment, asset maintenance, asset disposal and office accommodation strategies. Most, if not all, universities participate in benchmarking exercises and therefore should report how they compare with industry benchmarks in the areas of: asset maintenance; backlog maintenance; operating costs; cleaning and waste management; recycling; and water and energy use.

University Governance

Governance Considerations (Repeat Issue)

I recommend each university review governance arrangements for controlled entities to ensure risk exposures are understood, monitored and managed.

Governance arrangements of universities over controlled entities vary significantly. For example, some universities have very little direct representation on the boards of controlled entities. The tabling and consideration of internal and external audit reports of controlled entities at university audit committees is similarly diverse in practice.

Universities have ultimate responsibility for their controlled entities and are therefore exposed to and responsible for the risks associated with the operations of those entities. These exposures may result in financial losses and reputational damage to universities. For example, universities may:

- become responsible for a controlled entity's liabilities should that entity experience financial difficulties
- suffer reputational damage if a controlled entity, operating overseas in the name of a university, is prosecuted for not complying with local taxation laws.

Risk exposures increase with the:

- complexity of universities' business arrangements
- location of business arrangements
- extent of transactions in foreign currency
- need for universities to guarantee debts of controlled entities
- quality of operational staff.

To effectively manage and mitigate these risk exposures, it is essential for universities to have effective corporate governance frameworks in place to oversight controlled entities. Universities need to be actively involved in monitoring their controlled entities by:

- having appropriate university Senate/Council representation on the governing boards of controlled entities
- requiring controlled entities to regularly report to the university on their operating results; financial performance; risk and fraud management; strategies and outcomes; and compliance with legislation. Copies of internal and external audit reports should be reviewed by the University's audit committee.

Complexity of Universities' Business Arrangements

I recommend each university eliminate unnecessary controlled entities to reduce governance risks and compliance and assurance costs.

The New South Wales university sector is very complex. At 31 December 2009, New South Wales universities conducted businesses in Australia and overseas through a total of 121 controlled entities, 24 joint ventures and 71 cooperative research centres (CRCs).

The resulting governance risks and compliance costs are significant and I have previously recommended that universities rationalise and, where possible, reduce the number of controlled entities. However, numbers have remained fairly constant.

The number of business arrangements entered into by each university at 31 December follow:

University	Total Number of Business Arrangements	Number of Controlled Entities	Number of Joint Ventures	Number of Cooperative Research Centres*
Charles Sturt	5	5	--	--
Macquarie	44	34	2	8
Southern Cross	26	3	13	10
Sydney	22	8	2	12
New England	15	8	1	6
New South Wales	39	25	2	12
Newcastle	14	7	--	7
Technology, Sydney	17	6	4	7
Western Sydney	14	13	--	1
Wollongong	20	12	--	8
Total	216	121	24	71

Source: Data obtained from respective Universities (unaudited)

Key: * includes CRCs where a university has core or supporting participant role

The *Public Finance & Audit Act, 1983* requires each controlled entity to prepare financial statements every year and have them audited, regardless of the size and nature of their operations. As a result, each entity is also required to implement and maintain an effective compliance framework to help ensure it complies with all legislative requirements that apply to its operations. The number of entities controlled by each university at 31 December were:

University	Incorporated in Australia					Incorporated Overseas				
At 31 December	Trend	2009	2008	2007	2006	Trend	2009	2008	2007	2006
Charles Sturt	↓	5	6	8	7	~	--	--	--	--
Macquarie	↑	34	30	29	7	~	--	--	--	--
Southern Cross	~	3	3	3	3	~	--	--	--	--
Sydney	↓	8	10	8	12	~	--	--	--	--
New England	↑	8	6	7	5	~	--	--	--	--
New South Wales	↓	15	21	21	17	↓	10	10	11	11
Newcastle	↓	6	8	8	5	~	1	1	1	1
Technology, Sydney	↓	3	3	4	4	↓	3	3	4	4
Western Sydney	~	13	14	12	12	~	--	--	--	--
Wollongong	↑	9	9	8	7	~	3	3	3	2
Total	~	104	110	108	79	↓	17	17	19	18

Source: Data obtained from respective Universities (unaudited)

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

Over the last three years, Macquarie University has created 27 new entities to facilitate the construction and operation of a private hospital and clinic and other activities. Conversely, the University of New South Wales has rationalised its corporate structure by liquidating six local companies and one overseas company.

New South Wales universities have incorporated controlled entities operating in Singapore, India, Thailand, the USA, Hong Kong and Malaysia.

Audit Opinions

I issued nine qualified Independent Auditor's Reports in 2009, the same number as I qualified in 2008. At the time of this report audits were incomplete for 10 entities' 2009 financial statements and five entities' 2008 financial statements. Details are:

University	Number of Controlled Entities		Number of Qualified Opinions		Number of Incomplete Audits	
	2009	2008	2009	2008	2009	2008
Charles Sturt	5	6	1	1	--	--
Macquarie	34	30	--	--	3	2
Southern Cross	3	3	--	--	--	--
Sydney	8	10	--	--	2	1
New England	8	6	1	1	--	--
New South Wales	25	31	3	3	1	--
Newcastle	7	9	1	1	--	--
Technology, Sydney	6	6	--	--	1	1
Western Sydney	13	14	2	2	--	--
Wollongong	12	12	1	1	3	1
Total	121	127	9	9	10	5

Letters of Comfort

I recommend each university:

- review funding arrangements with controlled entities to determine the need for 'letters of comfort'
- confirm existing 'letters of comfort' represent better practice.

Some controlled entities are not in a strong financial position and this is often due to the nature of their operations. For example, companies created to commercialise research outcomes often require the support of the university through the start-up phase of those operations and until any intellectual property has been successfully commercialised. Universities often achieve this by way of a 'letter of comfort' that guarantees the company will continue as a going concern for at least the next 12 months.

'Letters of comfort' are important because they give assurance to parties transacting with controlled entities that, in the event of default, the university will settle the controlled entity's debts. Therefore, it is important that 'letters of comfort' are legally enforceable and that the terms are understood and agreed.

In 2009, New South Wales universities had issued a total of 31 'letters of comfort' to approximately 25 per cent of their controlled entities.

We reviewed 'letters of comfort' and related processes against better practice criteria and found:

University At 31 December 2009	Controlled Entities		General Comments on Letters of Comfort		
	Number	Number of letters of comfort	Reviewed by Legal	Senate/ Council aware of Letters	Controlled Entities reviewed draft Letters
Charles Sturt	5	3	Yes	Yes	Yes
Macquarie	34	6	No	Yes	Yes
Southern Cross	3	3	No	Yes	Yes
Sydney	8	5	Yes	Yes	Yes
New England	8	0	--	--	--
New South Wales	25	10	Yes	Yes	Yes
Newcastle	7	--	na	na	na
Technology, Sydney	6	1*	No	No	No
Western Sydney	13	2	Yes	Yes	Yes
Wollongong	12	1	No	Yes	Yes
Total	121	31			

* The only payable is to the University.

All 'letters of comfort' should:

- be drafted or reviewed by a legal professional, who should confirm that the arrangements are clearly intended to be legally enforceable
- provide financial support for a period of at least 12 months beyond the date of signing of the financial statements
- clearly articulate any financial limits and performance obligations
- be signed under appropriate delegation from the Senate/Council and the signatories are still engaged by the university.

A better practice checklist for 'letters of comfort' is available on the Audit Office of New South Wales' website at www.audit.nsw.gov.au.

Foreign Currency transactions

I recommend each university review foreign currency exposures and ensure they have appropriate policies to mitigate the risks associated with such exposures.

All New South Wales universities had foreign currency transactions in 2009. At 31 December 2009, the approximate net foreign currency position at each university, in Australian dollars, ranged from a \$3.0 million net liability to a \$7.5 million net asset. Only two universities hedged the financial risks through the use of natural trading hedges and buying financial instruments. Neither university adopted hedge accounting.

Ageing of Academic Staff

I recommend each university develop and implement effective policies to address and manage the ageing academic workforce.

To ensure an adequate supply of academic staff in the future, universities should actively monitor their workforce age profile and ensure strategies are in place to develop, attract and retain staff whose skills are aligned with the strategic direction of the universities.

One quarter of academics employed in New South Wales universities at 31 December 2009 were aged 55 years or older. Forty one per cent of academic staff are 50 years or older. This represents a significant proportion of total academic staff who are likely to retire within the next 15 years, potentially resulting in a significant loss of academic skills.

In 2008, Professor Graeme Hugo released a paper *'The Demographic Outlook for Australian Universities Academic Staff'*. The issues raised in this paper were discussed at the 8th Annual Higher Education Summit held in April 2010, where university representatives agreed that the ageing academic workforce was an issue. To address the issue, the paper suggests universities concentrate their efforts on strategies to retain and recruit high quality academics, and promote the return of former skilled academic staff.

The summit highlighted that the internationalisation of the academic labour market together with increased demand has created challenges for attracting and retaining skilled academics. Funding also restricts universities' ability to offer competitive salaries, working conditions and research resources.

The age profile of academic staff for all New South Wales universities is shown below:

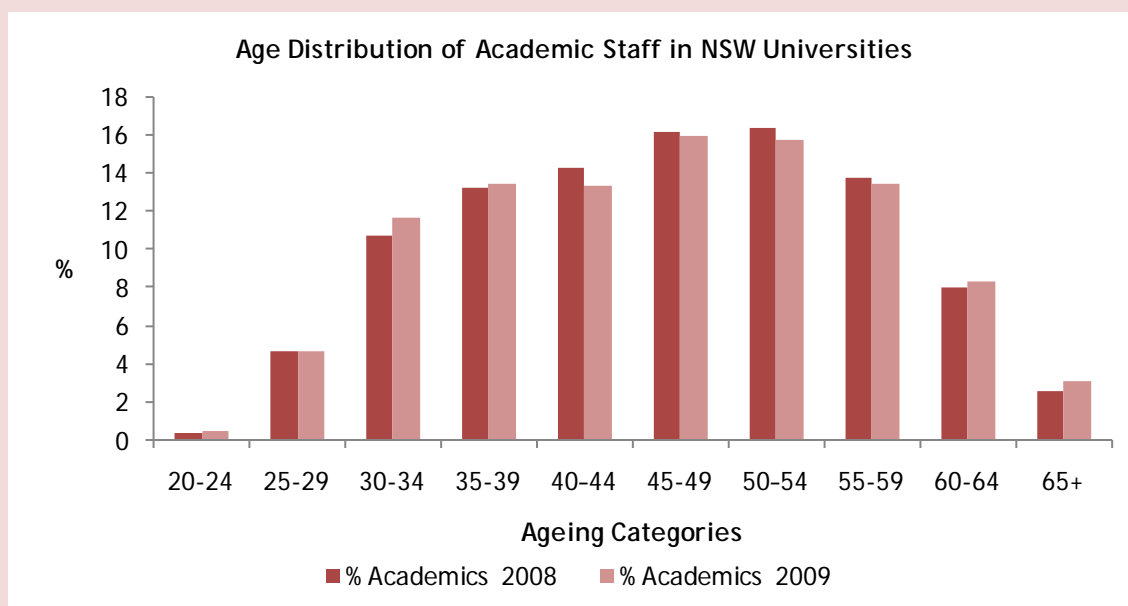
31 December Age Group	2009		2008	
	No. of Academics	%	No. of Academics	%
20 - 24	49	0.4	44	0.4
25 - 29	525	4.6	502	4.7
30 - 34	1,316	11.6	1,147	10.7
35 - 39	1,525	13.4	1,414	13.2
40 - 44	1,511	13.3	1,526	14.2
45 - 49	1,805	15.9	1,737	16.2
50 - 54	1,789	15.8	1,750	16.3
55 - 59	1,528	13.5	1,479	13.8
60 - 64	943	8.3	856	8.0
65+	352	3.1	280	2.6
Total	11,343	100	10,735	100

Source: Information provided by the respective NSW universities (unaudited)

The age profile of academic staff for each New South Wales university is shown below:

31 December 2009 Age Group	CSU %	MU %	SCU %	TUS %	UNE %	UNSW %	UN %	UTS %	UWS %	UW %
20 - 24	--	--	--	1	--	--	--	--	--	2
25 - 29	2	4	3	5	2	6	5	4	1	6
30 - 34	8	11	4	14	5	15	11	9	5	12
35 - 39	15	12	9	16	9	15	13	12	7	13
40 - 44	12	13	11	14	10	14	15	13	12	12
45 - 49	18	17	18	15	21	15	15	16	21	15
50 - 54	16	16	25	13	17	14	15	17	25	16
55 - 59	17	13	18	10	17	12	16	15	19	13
60 - 64	9	9	9	8	14	7	8	11	8	8
65+	3	5	3	4	5	2	2	3	2	3
Total	100	100	100	100	100	100	100	100	100	100

Source: Information provided by the respective NSW universities (unaudited)



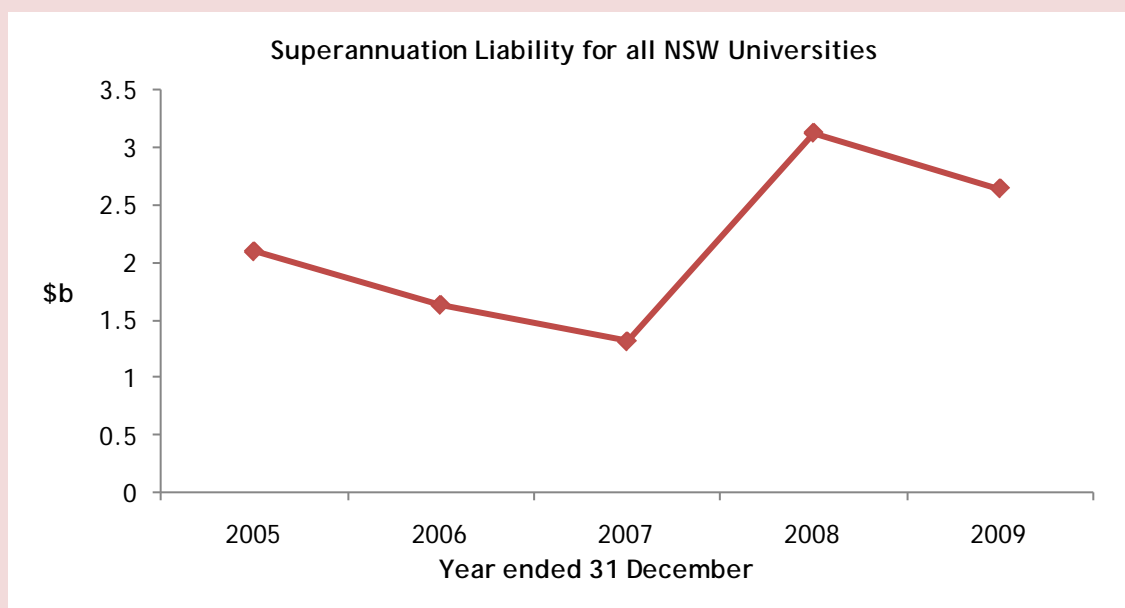
Source: Information provided by the respective NSW universities, including lecturers and tutors (unaudited)

Funding of Employee Entitlements

Superannuation Liabilities Funded by the Australian Government

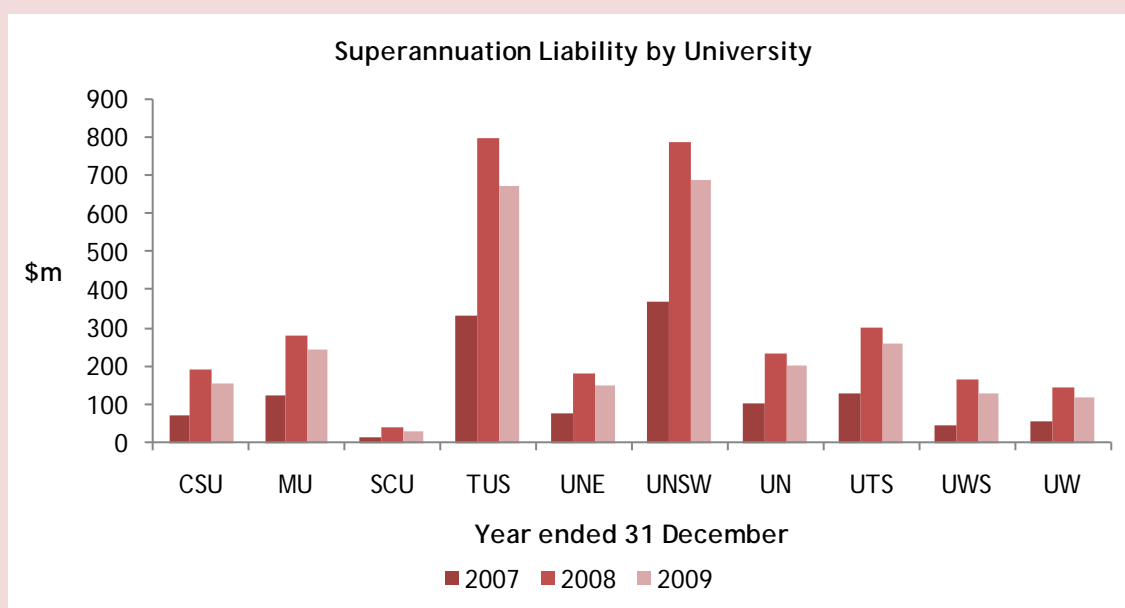
I recommend the Vice Chancellor of each university collaborate and approach the Australian Government to negotiate an agreement to fund staff superannuation obligations.

Last year the global financial crisis significantly impacted superannuation investment earnings and benefit valuations. As economic conditions improved in 2009, liabilities for defined benefit superannuation schemes across all universities decreased from \$3.1 billion to \$2.6 billion at 31 December 2009, a decrease of \$500 million (\$1.8 billion increase).



Source: University financial statements (Audited)

At 31 December 2009, 51.4 per cent (50.8 per cent) of superannuation liabilities was attributable to the University of New South Wales and The University of Sydney:



Source: University financial statements (audited)

Although there are no formal funding agreements in place, the Australian Government will fund the majority of these liabilities, which minimises the impact on universities' operating results. The ageing work force will require increasing superannuation retirement payments by the superannuation schemes. Consequently, universities require higher levels of funding from the Australian Government to meet their obligations to these schemes.

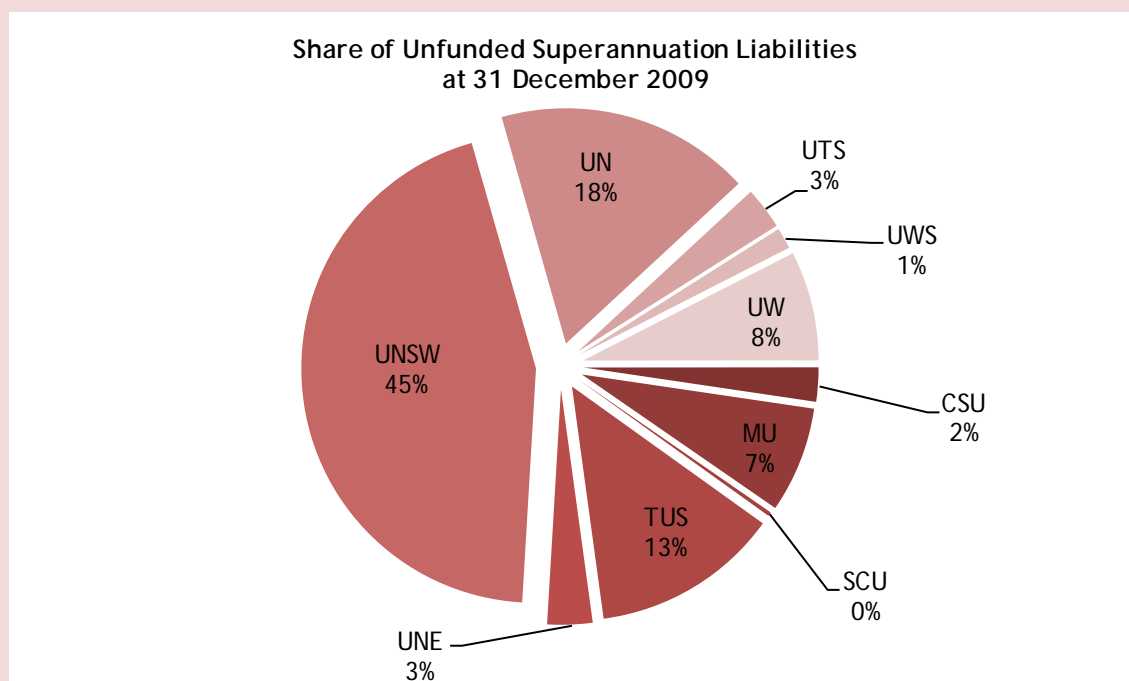
The Australian Government owes \$2.5 billion (\$2.9 billion) to New South Wales universities at 31 December 2009. The debt is equivalent to the total value of all grants the Government paid to these universities in 2009.

Due to the significance of the amount involved and the future impact for universities' cash flows, universities should negotiate funding agreements with the Australian Government. The agreements should ensure estimated cash flow requirements and timings are adequately considered so universities can build these into their future operating budgets.

Superannuation Liabilities Not Funded by the Australian Government

The total superannuation liability not funded by the Australian Government for all universities, at 31 December 2009, was \$155 million (\$198 million). All universities, particularly those with the greatest unfunded liabilities, will need to ensure they have the ability to generate sufficient future cash flows to meet these obligations as they fall due.

As shown below, 44.7 per cent (45.2 per cent) of these liabilities is attributable to the University of New South Wales and 17.5 per cent (13.7 per cent) is attributable to the University of Newcastle.



Source: University financial statements (audited)

Excessive Annual Leave (Repeat Issue)

I recommend each university review the effectiveness of their policies for managing excessive annual leave balances.

Managing excessive annual leave balances remains a challenge for most universities. At 31 December 2009, 2,506 employees (2,601) or 8.7 per cent (9.1 per cent) of all staff had accrued more than 40 days annual leave. Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave. The table below shows the number of staff with more than 40 days accrued annual leave at 31 December.

Number of staff with more than 40 days annual leave:

University Year	Academic			General				
	Trend	2009	2008	2007	Trend	2009	2008	2007
Charles Sturt	↑	86	77	37	↑	85	106	46
Macquarie	↑	177	186	149	↑	45	35 ^L	27 ^L
Southern Cross	↑	46	37	31	↓	44	64	61
Sydney	~	420	401	423 ^H	↓	265 ^H	275	358
New England	↑	62	48	12	↑	71	67	61
New South Wales	↑	507 ^H	414 ^H	281	↓	254	317 ^H	374 ^H
Newcastle	↓	22	31	44	↓	39 ^L	60	55
Technology, Sydney	~	105	118	105	↓	53	87	107
Western Sydney	↑	47	62	35	↓	61	88	108
Wollongong	↑	10 ^L	10 ^L	-- ^L	~	107	118	110
Total	↑	1,482	1,384	1,117	↓	1,024	1,217	1,307

Source: Information provided by respective universities (unaudited).

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

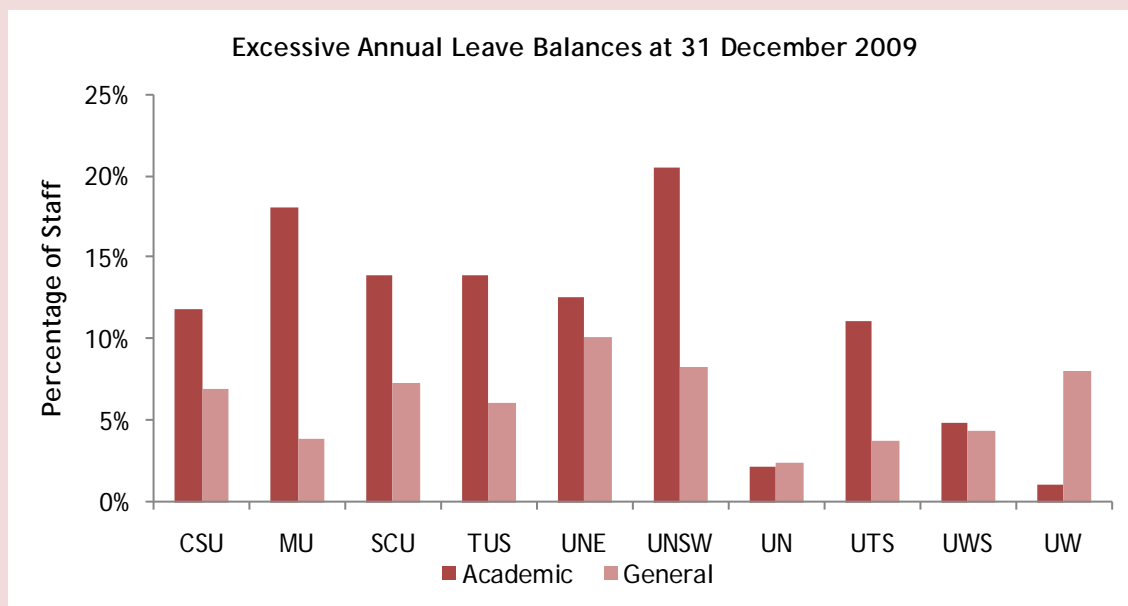
L Lowest balance in comparison to all NSW universities

H Highest balance in comparison to all NSW universities

Excessive annual leave balances for general staff in all universities are trending downwards, whilst those for academic staff are trending upwards. The number of total academic staff with excessive leave balances has increased from 1,384 to 1,482 staff at 31 December 2009. This represents 12.4 per cent (12.0 per cent) of all academic staff employed at that date.

At the University of New England, general staff accrue 25 days of annual leave per year and may not be directed to take leave unless they have accrued more than 50 days. If 50 days is used as the threshold, 33 (25) general staff at the University would have accrued excessive leave balances at 31 December 2009.

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

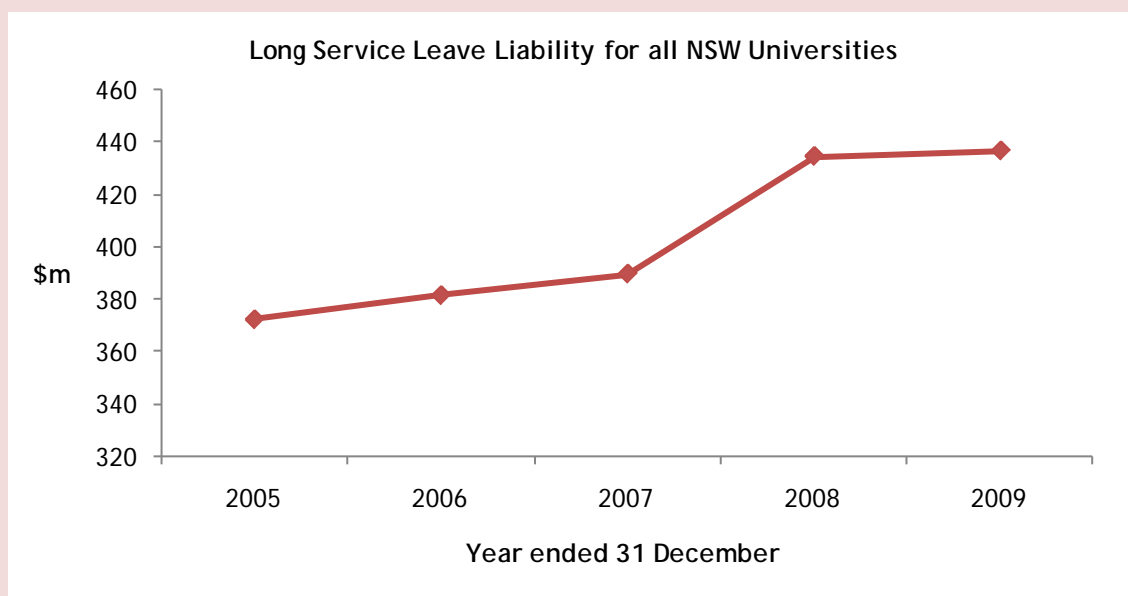


Source: Data provided by the respective universities (unaudited)

Long Service Leave Liability

Significant long service leave liabilities create further funding challenges for universities. The long service leave liability for New South Wales universities has increased by 17.3 per cent over the past five years to \$436 million in 2009. Although the universities have strong cash flows, they will need to ensure they have plans to fund these liabilities, which generally increase over time with increases in employee remuneration levels. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

The graph below depicts the trend in the total long service leave liability held by New South Wales universities over the past five years.



Source: University financial statements (audited)

The liability increased between 2007 and 2008 because entitlements grew and the Government bond rate used to discount the liability fell due to the global financial crisis.

The table below provides details of the long service leave liability of each New South Wales university over the past five years.

University	Trend	2009 \$m	2008 \$m	2007 \$m	2006 \$m	2005 \$m
Charles Sturt	↑	22.7	22.5	21.0	19.9	17.7
Macquarie	↑	35.8	36.3	32.3	34.3	31.4
Southern Cross	↑	12.3	11.5	9.4	9.0	9.6
Sydney	↑	92.4	89.3	82.2	86.3	85.5
New England	~	20.6	21.6	19.4	19.5	20.3
New South Wales	↑	98.9	104.6	90.7	83.7	82.3
Newcastle	↑	39.1	39.9	35.2	32.6	32.9
Technology, Sydney	↑	39.9	39.0	37.1	36.7	35.4
Western Sydney	↑	39.4	37.2	33.7	32.6	32.4
Wollongong	↑	35.3	32.6	28.6	26.8	24.7
Total	↑	436.4	434.5	389.6	381.4	372.2

Source: Universities financial statements (audited).

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

The University of Wollongong recorded an 8.3 per cent increase in long service leave liability, the greatest increase, while the University of New South Wales reported the largest liability of \$98.9 million (\$104.6 million). Over the past five years, long service liabilities have increased each year for the University of Wollongong, Charles Sturt University, the University of Technology, Sydney and the University of Western Sydney.

Employment of Contract Employees

I recommend each university:

- create and maintain a single register of all contract employees
- periodically review the roles and responsibilities of all contract employees to ensure:
 - reliance on contractors is not excessive
 - use of contract employees instead of permanent employees is appropriate
 - contractors do not become de facto employees by virtue of being with the university for an extended period of time
 - use of contract employees continues to represent value for money.

In response to a survey I conducted, all universities confirmed they engaged contract employees to provide services. However, only three universities maintain a single centralised record of all contract employees.

I understand that three other universities use a decentralised approach for managing contract employees. They do not maintain a central register.

Failure to maintain a central register for all contract employees increases the risk of universities not being able to determine, monitor and analyse:

- the total cost of contract employees
- the total number of contract employees
- the period of service for all contract employees.

Universities should review practices relating to contract employees to ensure they achieve the desired outcomes and comply with all applicable laws and regulations.

PERFORMANCE INFORMATION

Financial Performance

I recommend DEEWR review its financial performance indicators to confirm their continuing relevance and appropriateness.

The Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) has identified benchmark indicators for the financial performance of universities. A February 2000 publication *'Benchmarking: A Manual for Australian Universities'* details the benchmarks. These measures include liquidity, diversity of revenue, employee benefits and on-costs, and operating result. As the measures are now ten years old, a review of their current relevance and appropriateness would be beneficial.

Only two universities met the four Australian benchmarks for university financial performance compared to six in 2008.

The liquidity of five universities has fallen below the benchmark range compared to two in 2008. One (two) university relied on Australian Government funding for more than 50 per cent of its operating revenue. Nine universities achieved the benchmark for employee benefits and on-costs and all ten (seven) recorded operating surpluses in 2009.

The following table shows each university's performance against the benchmarks at 31 December 2009.

University	DEEWR Benchmark Achieved			
	Liquidity - current ratio between 1.5 and 3.0	Australian Government grants not more than 50% of total operating revenue	Employee benefits & on-costs between 50% - 70% of total operating revenue	Positive operating result as percentage of total operating revenue
Charles Sturt	No	Yes	Yes	Yes
Macquarie	No	Yes	Yes	Yes
Southern Cross	Yes	Yes	Yes	Yes
Sydney	No	Yes	Yes	Yes
New England	Yes	No	Yes	Yes
New South Wales	No	Yes	Yes	Yes
Newcastle	Yes	Yes	Yes	Yes
Technology, Sydney	No	Yes	Yes	Yes
Western Sydney	No	Yes	Yes	Yes
Wollongong	Yes	Yes	No	Yes

The benchmark criteria and calculations are presented in the aggregated tables on pages 41 to 43.

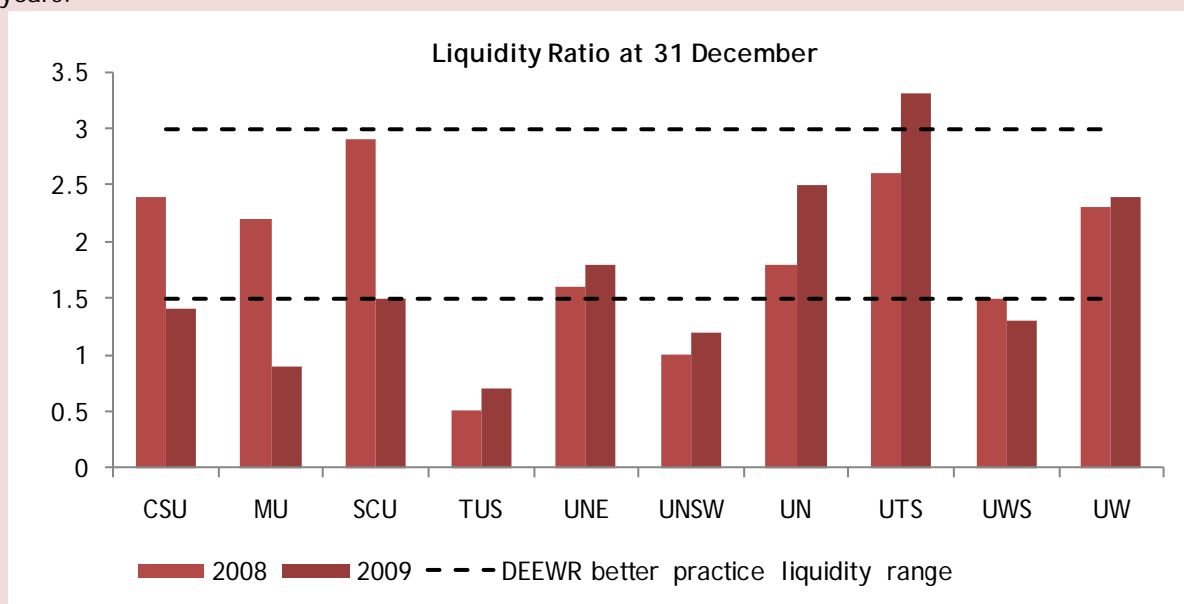
Liquidity

For 2009, six universities did not meet the DEEWR liquidity benchmark. DEEWR considers a liquidity ratio of less than 1.5 to be below its general better practice guideline. Although improved from the prior year, The University of Sydney continued to have the lowest current ratio of 0.7 in 2009. However, the University has non-current available for sale investments, a significant amount of which could be realised at short notice to fund obligations.

The University of Technology Sydney had the highest current ratio of 3.3, this exceeded DEEWR's upper benchmark limit of 3.0. The high ratio is due to the University investing in cash assets, such as fixed term deposits and deposits at call, as at 31 December 2009.

DEEWR's benchmark current ratio is based on the traditional formula of current assets divided by current liabilities. The definition of current liabilities has changed significantly under Australian Accounting Standards since DEEWR's publication in 2000. Certain liabilities are reported as current liabilities irrespective of when they are expected to be settled. As a result we have excluded long service leave liabilities expected to be settled after 12 months of the reporting date from current liabilities. The resulting ratio is more consistent with DEEWR's benchmark liquidity measure.

The graph below depicts all New South Wales universities' adjusted liquidity ratios for the last two years.



Source: University financial statements, as adjusted (audited)

Another DEEWR guideline, the Annual Institutional Assessment Framework, suggests a current ratio of more than one indicates a low risk of not being able to fund current obligations, between 0.75 and one indicates a medium risk, and less than or equal to 0.75 indicates a high risk. Using this benchmark, The University of Sydney's liquidity position would be considered high risk. However, as mentioned earlier, this University has significant non-current investments which can be realised at short notice to fund short term cashflow requirements.

Diversity of Revenue

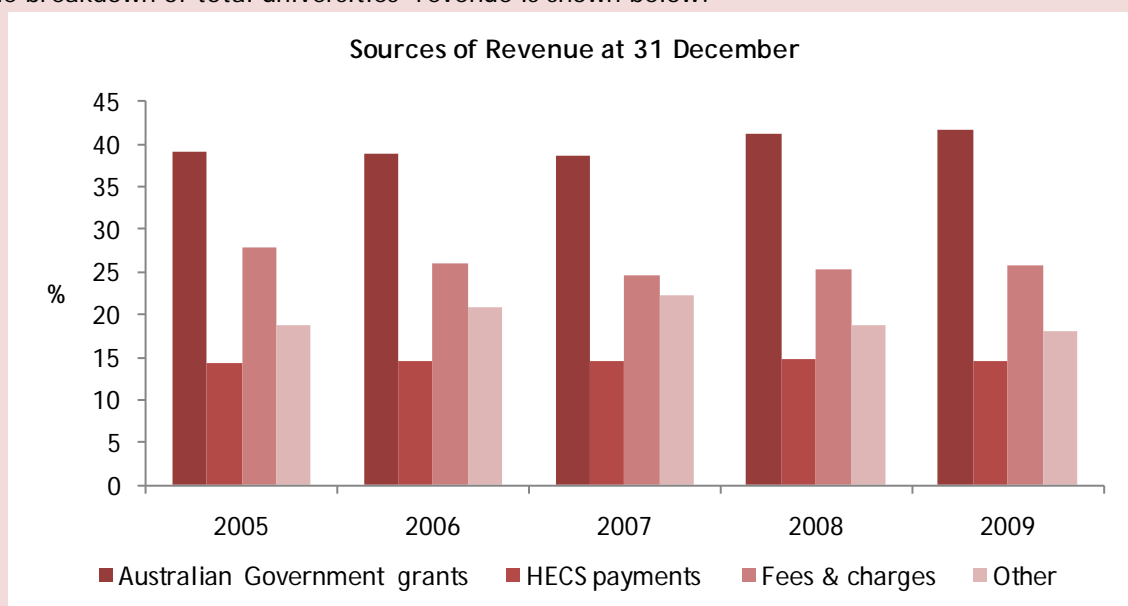
One way universities reduce financial risks is by diversifying revenue sources. Each university's capacity to generate revenue depends on factors such as location, size, perceived standing and student profiles.

Year	2009 \$m	2008 \$m	2007 \$m	2006 \$m	2005 \$m
Australian Government grants	2,518	2,303	1,957	1,823	1,669
Higher Education Contribution Scheme	875	829	738	679	615
Fees and charges					
- Student fees - Domestic	172	199	187	177	172
- Student fees - Overseas	1,112	928	794	728	715
- Consultancy and contracts	281	282	267	260	230
Total fees and charges	1,565	1,409	1,248	1,165	1,117
Other income					
- Investment income*	174	150	283	230	159
- Other*	918	894	856	805	728
Total other income	1,092	1,044	1,139	1,035	887
Total operating revenue	6,050	5,585	5,082	4,702	4,288

Source: University financial statements (audited)

* Gain/(loss) on sale of investments is included in 'Other'.

The breakdown of total universities' revenue is shown below:



Source: University financial statements (audited)

Australian Government grants continued to be the main source of revenue for all universities accounting for 41.6 per cent (41.2 per cent) of total operating revenue in 2009. Government grants have continued to grow at a steady rate over the past five years.

The University of New England continues to be the most reliant on Australian Government grants at 50.9 per cent (51.5 per cent) of its total operating revenue whilst Macquarie University remains the least reliant at 25.5 per cent (26.4 per cent).

The ratio of HECS receipts to total operating revenue has remained fairly constant over the last five years at 14.5 per cent (14.8 per cent). The University of Sydney and the University of New South Wales continue to have the lowest ratios at 10.1 per cent (10.9 per cent). The highest ratio of 25.4 per cent (26.7 per cent) was again achieved by the University of Western Sydney.

Fees and charges are the second most significant source of revenue for universities. Fees and charges have increased by 40.1 per cent over the last five years. Macquarie University's largest source of revenue is again from fees and charges at 44.9 per cent (45.3 per cent) of its total operating revenue. This is the highest percentage of all universities and is due to an increase in revenue from overseas students. The University of Western Sydney has the lowest percentage of revenue from fees and charges at 14.5 per cent (12.2 per cent by Charles Sturt University).

Revenue from fee-paying overseas students for all universities has increased by 55.5 per cent over the last five years. Overseas students provide significantly higher financial returns to universities than domestic students. Revenue from overseas students represents 18.4 per cent of total operating revenue (16.6 per cent). For individual universities, revenue from fee-paying overseas students as a percentage of total operating revenue ranged from 4.8 per cent for the University of New England to 29.6 per cent for Macquarie University.

Total operating revenue has increased by 41.1 per cent over the last five years. This is primarily due to the growth in Australian Government grants, which has increased by 50.9 per cent since 2005. DEEWR expects Australian Government grants to be not much more than 50 per cent of operating revenue. All universities, except for the University of New England, continued to achieve this expectation.

Since 2005, there has been a 22.1 per cent increase in consultancy and contracts revenue. In the same period, other income increased by 26.0 per cent and investment income increased by 9.4 per cent.

Student numbers

During 2008, full time equivalent (FTE) students in New South Wales universities increased by 6,686 (or 3.2 per cent) to 212,876. FTE overseas students increased by 3,409 (or 7.5 per cent) to 48,781 in 2008. At 31 December 2008 overseas students now represented 22.9 per cent (22.0 per cent) of all enrolled students.

The dissection of students by university is shown in the table below.

University	Overseas Students				Domestic Students			
	Trend	2008 FTE	2007 FTE	2006 FTE	Trend	2008 FTE	2007 FTE	2006 FTE
Charles Sturt	↓	2,585	2,724	3,376	↓	15,169	15,673	15,783
Macquarie	↑	8,422	7,828	7,455	↑	14,058	13,579	13,333
Southern Cross	↑	2,521	2,103	2,404	↑	6,872	6,902	6,466
Sydney	↑	8,579	7,733	7,329	↑	28,586	28,399	28,253
New England	↓	587	635	810	↓	8,298	8,305	8,364
New South Wales	↑	7,955	7,042	6,522	↑	24,374	23,362	20,767
Newcastle	↑	3,441	3,059	2,880	↑	16,616	15,720	14,924
Technology, Sydney	↓	5,484	5,953	6,634	↑	17,404	16,848	16,456
Western Sydney	~	2,753	2,520	2,884	↑	21,764	21,454	21,064
Wollongong	↑	6,454	5,775	5,688	↑	10,954	10,576	10,171
Total	~	48,781	45,372	45,982	↑	164,095	160,818	155,581

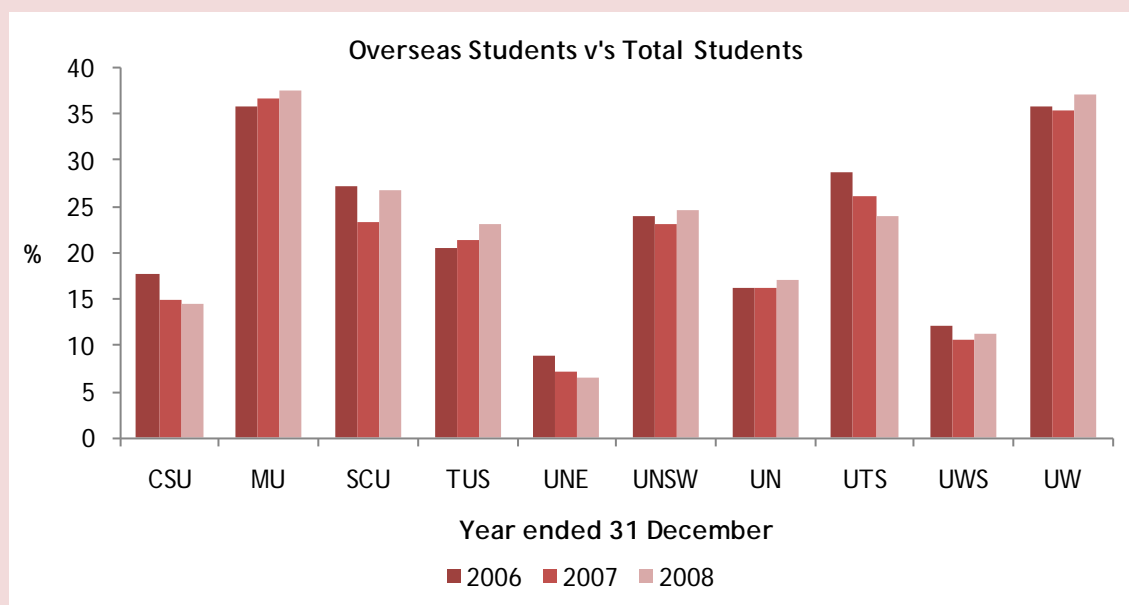
Source: 2009 Australian Government Department of Education, Employment and Workplace Relations published statistics for 2006-2008.

Key: ↑ Trending upwards, ↓ Trending downwards, ~ No trend

Southern Cross University recorded the highest growth in overseas student enrolments in 2008, increasing by 19.9 per cent.

The University of Technology, Sydney recorded the largest decline in overseas students between 2007 and 2008, falling by 8 per cent or 469 students. The university advised that the overseas student numbers increased to 5,929 in 2009.

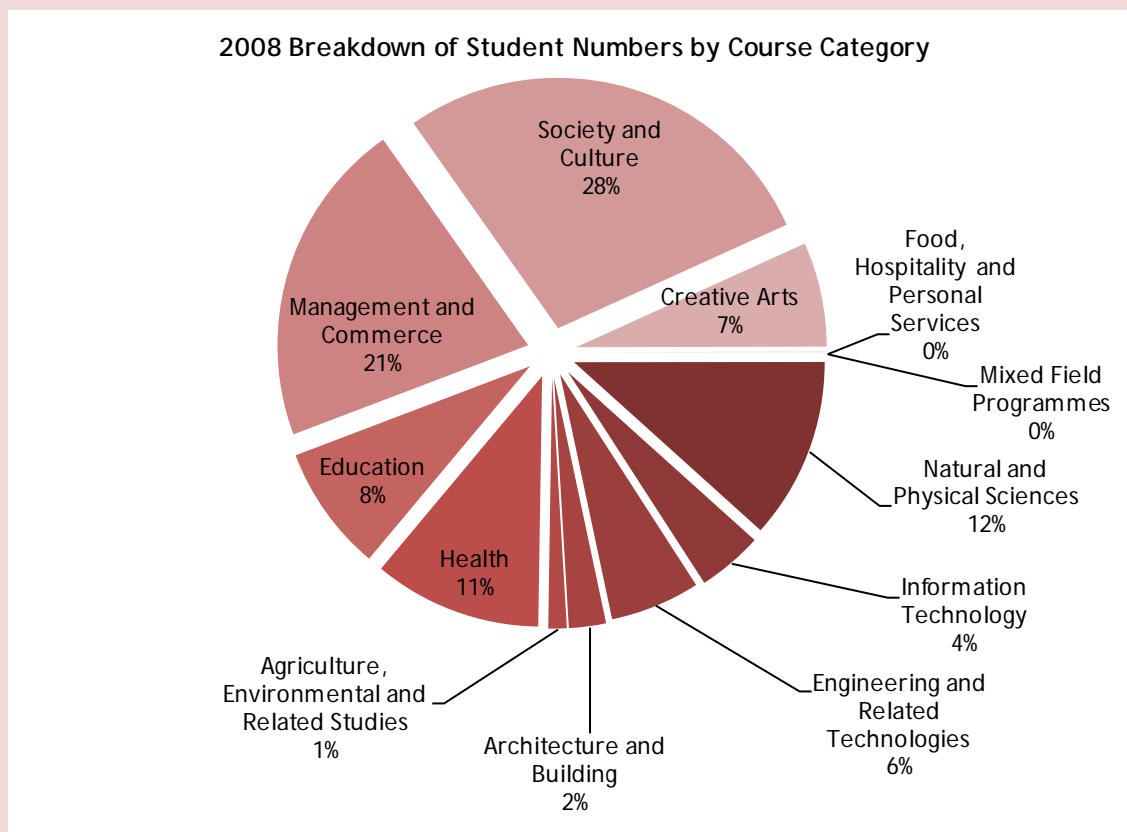
The percentage of overseas students in universities over the last three years is shown in the graph below.



Source: Department of Education, Employment and Workplace Relations: Publications - Higher Education Statistics Collection

Over the past three years Macquarie University has had the highest percentage of overseas students. In 2008, 37.5 per cent of its total students were from overseas (36.6 per cent). The University of New England continued to have the lowest percentage at 6.6 per cent (7.1 per cent).

The chart below shows the breakdown of the total number of students enrolled in New South Wales universities split by course category for 2008.



Source: Department of Education, Employment and Workplace Relations: Publications - Higher Education Statistics Collection

Society and Culture (28 per cent), Management and Commerce (21.0 per cent) and Natural and Physical Sciences (11.7 per cent) account for the highest proportion of all enrolled students. Over the past three years total students enrolled in New South Wales universities has increased, however, the percentage of students enrolled for each course category has remained steady.

Employee Benefits and On-Costs

DEEWR monitors the ability of universities to meet employee expenses by measuring employee benefits and on-costs as a percentage of total revenue. All universities, except the University of Wollongong, had employee benefits and on-costs within DEEWR's good practice benchmark of 50 per cent to 70 per cent. Universities ranged between 49.4 per cent for the University of Wollongong and 59.3 per cent for Charles Sturt University.

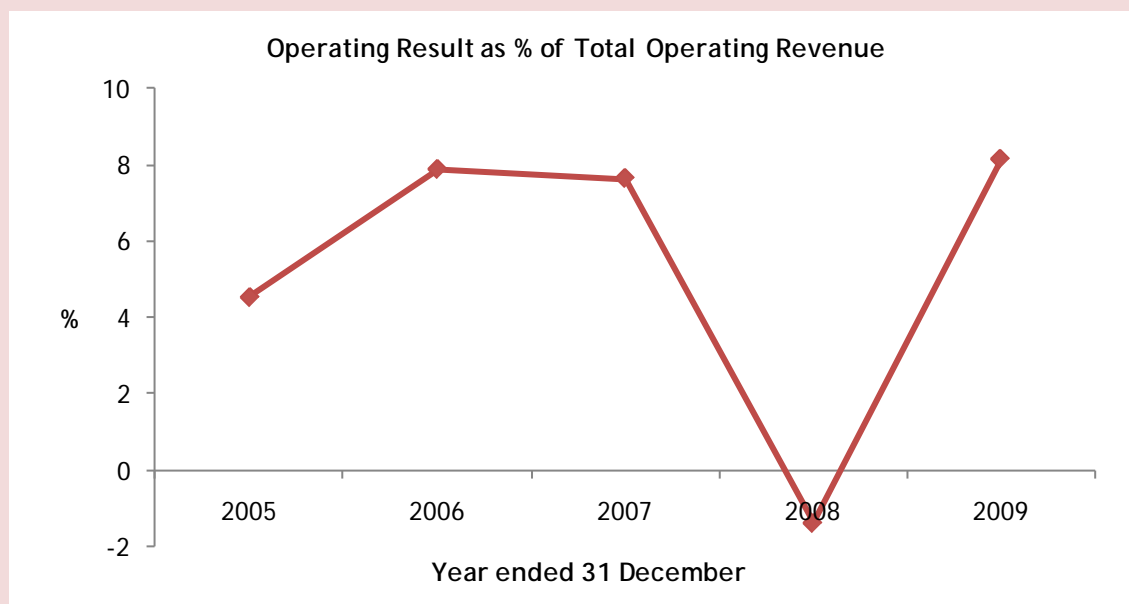
Operating Result

Although universities are not-for-profit organisations, DEEWR considers the operating result a useful measure of financial performance. Apart from exceptional years, DEEWR believes universities should achieve an operating surplus, which provides a reasonable safety margin. 2008 could be considered an exceptional year due to the global financial crisis.

In 2009, New South Wales universities recorded a combined surplus of \$494 million, compared to a combined deficit of \$76.9 million in 2008. The University of New South Wales recorded the highest operating surplus of \$93.0 million in 2009. In 2008, the University of Technology, Sydney had the highest operating surplus of \$57.6 million. Southern Cross University recorded the lowest operating result in 2009, a surplus of \$2.4 million. The University of Sydney had the highest deficit of \$167 million in 2008.

All ten (seven) universities reported operating surpluses in 2009. All universities, except Southern Cross University and Charles Sturt University, reported a better result than last year. The University of Sydney reported the biggest improvement of \$237 million. This was primarily due to a significant decline in the impairment of its investments from \$211 million to \$8.4 million.

The graph below illustrates the trend in the combined operating result for all universities as a percentage of total operating revenues over the past five years.



Source: University financial statements (audited).

Operating result as a percentage of total revenue for individual universities ranged from 1.4 per cent positive for Southern Cross University (negative 13.0 per cent for The University of Sydney) to 12.0 per cent positive for the University of Technology, Sydney and the University of Wollongong (11.1 per cent positive for the University of Technology, Sydney).

Student to Academic Ratio

At the date of preparing this Report, DEEWR statistics for 2009 were not available. The latest available statistics are for 2008 and show that the New South Wales universities' student to academic ratio of 27.0 in 2008 was the third highest of any jurisdiction in Australia (26.1 and fourth highest in 2007). Individual university ratios ranged from 20.4 for the University of New South Wales to 38.0 for Southern Cross University. Some universities are concerned that this ratio is misleading as it includes students enrolled with partner organisations, but excludes the teaching staff of those organisations. The information in this report should be considered in this context.

The ratio of students to academics (excluding staff not involved in teaching) is one indicator of education quality. From a student perspective, the lower the ratio the better. However, from a financial viewpoint, a lower ratio generally translates into higher total salaries and related costs and adversely impacts financial performance benchmarks.

Statistics for 2008 show the ratio increased from 2007 for five of the eight jurisdictions.

Jurisdiction	Number of Universities	EFT Students	FTE Academics	Trend	Student : Academic Ratio		
		2008	2008		2008	2007	2006
Australian Capital Territory	2	19,615	943	↑	20.8	20.5	20.3
New South Wales	10	212,876	7,874	~	27.0	26.1	26.7
Northern Territory	1	3,587	238	↓	15.1	22.4	17.8
Queensland	7	126,998	4,725	~	26.9	26.5	27.6
South Australia	3	52,877	2,104	~	25.1	25.1	24.7
Tasmania	1	14,462	744	↓	19.4	24.5	24.7
Victoria	8	200,180	6,897	↑	29.0	28.3	26.8
Western Australia	4	72,121	2,618	↑	27.5	26.8	26.0

Source: Australian Government Department of Education, Employment and Workplace Relations.

Key: ↑ Trending upwards, ↓ Trending downwards, ~ No trend

Aggregated Results of Operations, Financial Positions and Performance Indicators

The aggregated tables on pages 41 to 43 give the consolidated results of operations, financial positions and performance indicators for the universities.

As in previous years we have eliminated deferred income and deferred expenses for superannuation from the tables.

A new line item called 'Other Comprehensive Income' ('OCI') has been included in the Abridged Statement of Comprehensive Income for all universities. This is a new disclosure requirement of Australian Accounting Standard *AASB 101 Presentation of Financial Statements*. Other comprehensive income reported by universities includes revaluation movements for property and intangible assets, gains or losses on the re-measurement of available for sale financial assets and gains or losses arising from translating the financial statements of foreign controlled entities.

As mentioned previously, Australian Accounting Standards require entities to report certain liabilities as current liabilities irrespective of when they are expected to be settled. As a result we have excluded long service leave liabilities expected to be settled after 12 months of the reporting date for the purposes of calculating current ratios.

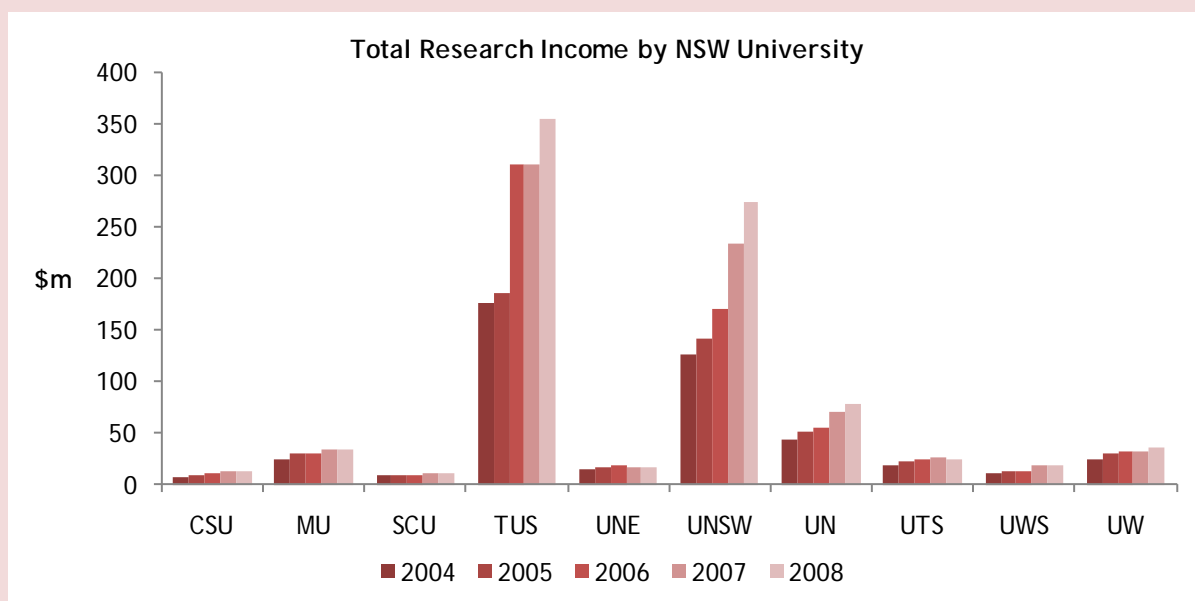
OTHER INFORMATION

Our audits highlighted opportunities for universities to improve internal controls. These opportunities have either been or will shortly be communicated to university management. The more significant items are included in individual university comments appearing later.

Research Income

Each year New South Wales universities provide the Department of Innovation, Industry, Science and Research with research income data. The data is used in assessing university research performance. Research performance drives the allocation of Australian Government Research Block Grants. These grants reward the success of universities in obtaining non-government grants and support further research.

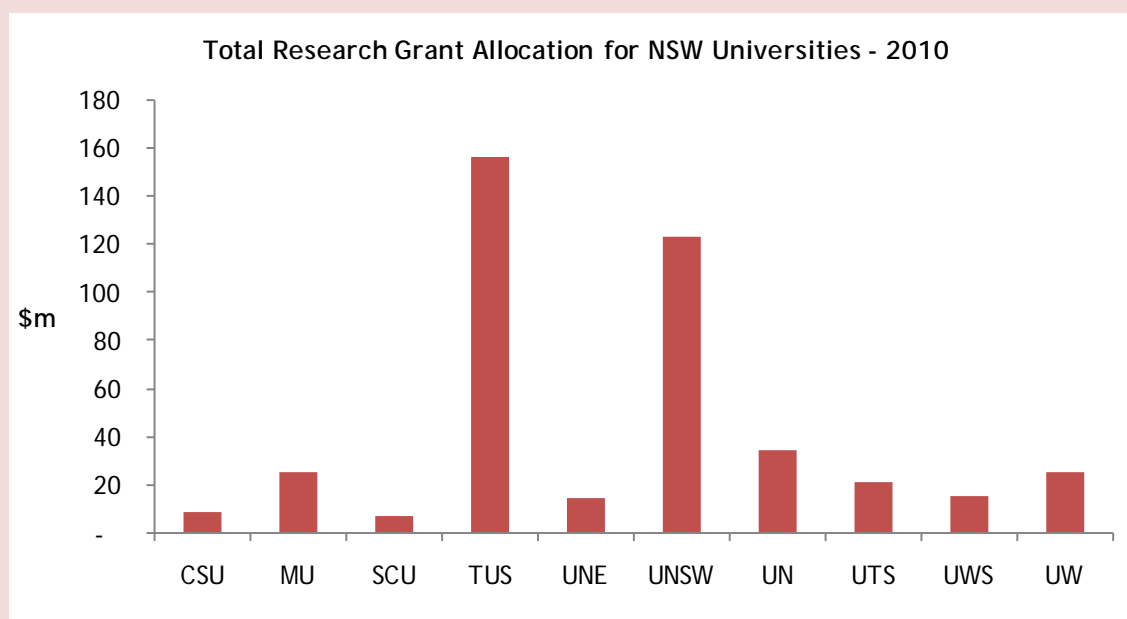
The graph below illustrates the total research income received by New South Wales universities over the past five years. Research income data for 2009 is unavailable.



Source: Department of Innovation, Industry, Science & Research publications

Research income received by New South Wales universities has increased by 90.5 per cent over the past five years to \$854 million in 2008, an increase of \$91.4 million over the previous year. Despite the increase, the proportion of total research income allocated to New South Wales universities is consistent with previous years. The University of Sydney and the University of New South Wales continue to be the top two recipients, receiving 41.4 per cent and 32 per cent of total research grants respectively. Most of this income came from Australian competitive grants and industry and other funding for research.

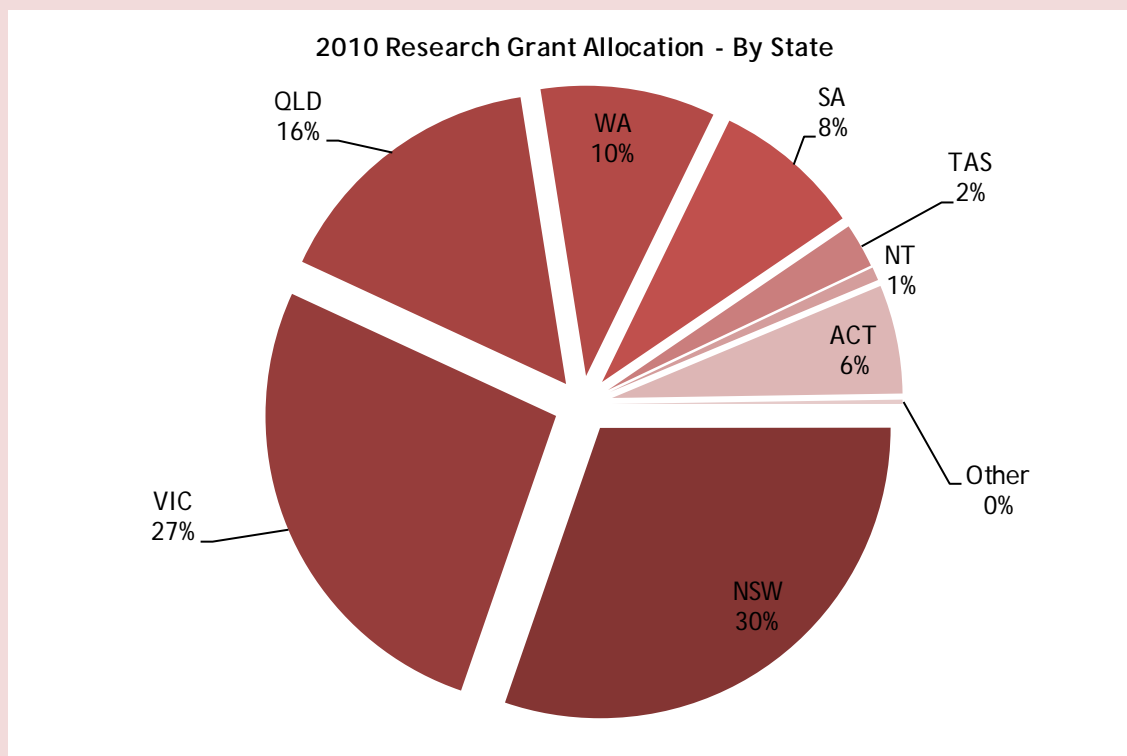
In 2010, \$1.4 billion will be provided to eligible Australian higher education providers in the form of block grants. The graph below illustrates the total research grant allocated to each New South Wales university.



Source: Department of Innovation, Industry, Science & Research publications

The University of Sydney and the University of New South Wales expect to receive \$156 million and \$123 million respectively in 2010.

The graph below illustrates total research grants allocated to the universities in each state within Australia. New South Wales receives the highest allocation of 30.3 per cent, while Victoria receives the second highest allocation of 26.6 per cent.



Source: Department of Innovation, Industry, Science & Research publications.

UNIVERSITY INFORMATION

University	Charles Sturt		Macquarie		Southern Cross		Sydney	
Year	2009 \$m	2008 \$m	2009 \$m	2008 \$m	2009 \$m	2008 \$m	2009 \$m	2008 \$m
Abridged Statement of Comprehensive Income (year ended 31 December)								
Total revenue	333.0	364.9	583.2	532.2	164.1	155.2	1,395.1	1,290.9
Total expenses	305.5	330.9	522.7	508.6	161.7	142.4	1,325.5	1,458.6
Outside equity interest/other	--	--	--	--	--	--	(0.4)	0.3
Surplus/(deficit)	27.5	34.0	60.5	23.6	2.4	12.8	69.2	(167.4)
Other Comprehensive Income ***	44.5	14.7	48.1	(4.6)	--	--	62.3	52.2
Total Comprehensive Income	72.0	48.7	108.6	19.0	2.4	12.8	131.5	(115.2)

Abridged Statement of Financial Position (at 31 December)

Total assets	910.9	874.3	1,751.3	1,627.2	269.5	272.3	4,277.6	4,215.0
Total liabilities	246.8	282.2	511.0	485.5	71.3	76.4	1,047.8	1,116.6
Net assets	664.1	592.1	1,240.3	1,141.7	198.2	195.9	3,229.8	3,098.4

Performance Indicators (at 31 December)

Current ratio (a)	1.4*	2.4	0.9*	2.2	1.5	2.9	0.7 ^L *	0.5*
Australian Government grants as a % of total revenue (b)	46.7	50.1	25.5 ^L	26.4 ^L	44.5	45.4	43.7	43.7
HECS as a % of total revenue (b)	19.3	18.6	13.7	12.0	22.4	20.2	10.1 ^L	10.9 ^L
Fees and charges as a % of total revenue (b)	15.3	12.2 ^L	44.9 ^H	45.3 ^H	15.6	15.7	23.1	22.6
Employee Benefits and on-costs as a % of total revenue (c)	59.3 ^H	51.1 ^L	50.0	53.9	55.9	54.8	57.2	59.0 ^H
Operating result as a % of total revenue (d)	8.3	9.3	10.4	4.4	1.4 ^L	8.3	5.0	(13.0) ^L
Student numbers FTE **	na	17,754	na	22,480	na	9,393	na	37,165
Students per academic**	na	29.8	na	31.8	na	38.0	na	22.5

Key: All data except 'Student numbers' and 'Students per academic' are based on financial statements (audited).

Performance indicators as per DEEWR's manual for Australian Universities' are:

(a) Current Ratio - an indicator of liquidity. Good practice is a ratio of more than 1.5 to less than three.

(b) Diversity of Revenue - Universities should have three or four major income sources with none below five per cent and preferably all above 15 per cent. Reliance on Australian Government funding should be decreasing, preferably to not much more than 50 per cent.

(c) Employee Benefits and on-costs as a percentage of Total Revenue - Good practice is between 50 and 70 per cent.

(d) Operating Result as a percentage of Total Operating Revenue - Should be positive with a safety margin.

L Lowest performance by a NSW university.

H Highest performance by a NSW university.

* Represents performance outside benchmark.

** DEEWR publications Higher Education Statistics Collection. Academics are 'Teaching' and 'Teaching and Research'.

***Other Comprehensive Income excludes deferred superannuation actuarial gains/losses. For consistency in reporting of University results, actuarial gains/losses have been reflected on a net basis in employee related expenses. This rolls up into the Total Expenses line item. Revenue and Expenses excludes the impact of Deferred Government Superannuation.

na Not available.

University	New England		New South Wales		Newcastle		Technology, Sydney	
Year	2009 \$m	2008 \$m	2009 \$m	2008 \$m	2009 \$m	2008 \$m	2009 \$m	2008 \$m

Abridged Statement of Comprehensive Income (year ended 31 December)

Total revenue	218.5	214.2	1,251.9	1,154.6	522.6	474.2	563.9	515.1
Total expenses	208.7	206.9	1,158.8	1,241.8	477.2	474.5	496.9	453.5
Outside equity interest/other	--	--	(0.1)	(0.1)	(0.1)	--	--	--
Surplus/(deficit)	9.8	7.3	93.0	(87.3)	45.3	(0.3)	67.0	61.6
Other Comprehensive Income ***	(1.0)	(5.9)	70.4	20.1	78.6	2.0	30.1	(25.3)
Total Comprehensive Income	8.8	1.4	163.4	(67.2)	123.9	1.7	97.1	36.3

Abridged Statement of Financial Position (at 31 December)

Total assets	453.4	472.6	2,618.3	2,537.3	1,189.8	1,101.6	1,514.4	1,451.7
Total liabilities	206.8	238.4	1,122.2	1,204.6	313.8	348.6	423.8	458.3
Net assets	246.6	234.2	1,496.1	1,332.7	876.0	753.0	1,090.6	993.4

Performance Indicators (at 31 December)

Current ratio (a)	1.8	1.6	1.2*	1.0*	2.5	1.8	3.3*	2.6
Australian Government grants as a % of total revenue (b)	50.9 ^H	51.5 ^H	44.0	40.8	44.9	44.7	35.0	33.6
HECS as a % of total revenue (b)	19.3	19.0	10.1 ^L	10.9 ^L	17.0	17.1	17.0	17.4
Fees and charges as a % of total revenue (b)	15.6	19.1	32.0	30.1	18.4	17.3	33.0	31.7
Employee Benefits and on-costs as a % of total revenue (c)	57.8	58.1	50.4	56.6	52.0	53.8	52.7	53.6
Operating result as % of total revenue (d)	4.5	3.4	7.4	(7.6)	8.7	(0.1)	12.0 ^H	11.1 ^H
Student numbers FTE **	na	8,885	na	32,329	na	20,058	na	22,887
Students per academic**	na	23.6	na	20.4	na	29.7	na	31.2

Key: All data except 'Student numbers' and 'Students per academic' are based on financial statements (audited).

Performance indicators as per DEEWR's manual for Australian Universities' are:

(a) Current Ratio - an indicator of liquidity. Good practice is a ratio of more than 1.5 to less than three.

(b) Diversity of Revenue - Universities should have three or four major income sources with none below five per cent and preferably all above 15 per cent. Reliance on Australian Government funding should be decreasing, preferably to not much more than 50 per cent.

(c) Employee Benefits and on-costs as a percentage of Total Revenue - Good practice is between 50 and 70 per cent.

(d) Operating Result as a percentage of Total Operating Revenue - Should be positive with a safety margin.

L Lowest performance by a NSW university.

H Highest performance by a NSW university.

* Represents performance outside benchmark.

** DEEWR publications Higher Education Statistics Collection. Academics are 'Teaching' and 'Teaching and Research'.

***Other Comprehensive Income excludes deferred superannuation actuarial gains/losses. For consistency in reporting of University results, actuarial gains/losses have been reflected on a net basis in employee related expenses. This rolls up into the Total Expenses line item. Revenue and Expenses excludes the impact of Deferred Government Superannuation.

na Not available.

University	Western Sydney		Wollongong		Total	
Year	2009 \$m	2008 \$m	2009 \$m	2008 \$m	2009 \$m	2008 \$m

Abridged Statement of Comprehensive Income (year ended 31 December)

Total revenue	535.1	468.5	481.3	415.5	6,048.7	5,588.2
Total expenses	474.3	431.3	422.4	409.3	5,552.8	5,664.7
Outside equity interest/other	--	--	(1.1)	(0.6)	(1.7)	(0.4)
Surplus/(deficit)	60.8	37.2	57.8	5.6	494.2	(76.9)
Other Comprehensive Income***	5.6	(19.5)	7.1	(1.9)	344.9	35.9
Total Comprehensive Income	66.4	17.7	64.9	3.7	839.1	(41.0)

Abridged Statement of Financial Position (at 31 December)

Total assets	1,208.4	1,154.5	899.8	854.8	15,093.4	14,561.3
Total liabilities	257.4	269.9	301.1	321.0	4,502.0	4,801.5
Net assets	951.0	884.6	598.7	533.8	10,591.4	9,759.8

Performance Indicators (at 31 December)

Current ratio (a)	1.3*	1.5	2.4	2.3	1.4*	1.5
Australian Government grants as a % of total revenue (b)	47.5	46.2	37.9	38.5	41.6	41.2
HECS as a % of total revenue (b)	25.4 ^H	26.7 ^H	13.3	14.6	14.5	14.8
Fees and charges as a % of total revenue (b)	14.5 ^L	14.7	34.5	33.8	26.8	25.9
Employee Benefits and on-costs as a % of total revenue (c)	53.9	57.9	49.4 ^L	53.5	53.4	55.9
Operating result as a % of total revenue (d)	11.4	7.9	12.0 ^H	1.4	8.1	(1.4)
Student numbers FTE**	na	24,517	na	17,408	na	212,876
Students per academic**	na	36.6	na	27.4	na	27.0

Key: All data except 'Student numbers' and 'Students per academic' are based on financial statements (audited). Performance indicators as per DEEWR's manual for Australian Universities' are:

(a) Current Ratio - an indicator of liquidity. Good practice is a ratio of more than 1.5 to less than three.

(b) Diversity of Revenue - Universities should have three or four major income sources with none below five per cent and preferably all above 15 per cent. Reliance on Australian Government funding should be decreasing, preferably to not much more than 50 per cent.

(c) Employee Benefits and on-costs as a percentage of Total Revenue - Good practice is between 50 and 70 per cent.

(d) Operating Result as a percentage of Total Operating Revenue - Should be positive with a safety margin.

L Lowest performance by a NSW university.

H Highest performance by a NSW university.

* Represents performance outside benchmark.

** DEEWR publications Higher Education Statistics Collection. Academics are 'Teaching' and 'Teaching and Research'.

***Other Comprehensive Income excludes deferred superannuation actuarial gains/losses. For consistency in reporting of University results, actuarial gains/losses have been reflected on a net basis in employee related expenses. This rolls up into the Total Expenses line item. Revenue and Expenses excludes the impact of Deferred Government Superannuation.
na Not available.

Section Three



Commentary on Government Agencies

Minister Education and Training

Charles Sturt University

Macquarie University

Southern Cross University

The University of Sydney

University of New England

University of New South Wales

University of Newcastle

University of Technology, Sydney

University of Western Sydney

University of Wollongong

Refer to Appendix 1 for:

NSW Board of Vocational Education and Training

Technical Education Trust Funds

UNILINC Limited

Charles Sturt University

AUDIT OPINION

The audits of the University and its controlled entities' financial statements (other than Charles Sturt Foundation Trust) for the year ended 31 December 2009 resulted in unqualified Independent Auditor's Reports.

The audit of the Charles Sturt Foundation Trust resulted in a qualified Independent Auditor's Report as I was not able to express an opinion as to whether all donations received by the Trust were recorded in its financial records. As is common for entities that have donations and fundraising as sources of revenue, it is impracticable for the Trust to maintain an effective system of internal control over donated and fundraising revenues they receive until their initial entry in the financial records.

Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Impact of the global financial crisis

There was significant improvement in the value of the University's investments and defined benefits superannuation plans as financial markets improved during 2009. This year, the University incurred a \$25,000 impairment loss on the value of its investments compared to a loss of \$26.2 million in 2008. During 2009, the University recognised a \$14.9 million increase in the fair value of investments in its Asset Revaluation Reserve.

Liabilities for superannuation decreased to \$156 million during 2009 (\$190 million at 31 December 2008). The Australian Government funds the majority of these liabilities, which has minimised the impact on the operating result.

Financial Statements

I recommend the University implement robust financial reporting processes and improve the quality control procedures over the preparation of its financial statements and supporting documentation.

The financial statements submitted for audit required significant adjustments to ensure they complied with the requirements of the Australian Accounting Standards. The University corrected the misstatements and disclosure deficiencies identified during the course of the audit. As a result, the audit was not completed within the statutory reporting timeframes.

Property, Plant and Equipment Register

I recommend the University improve its recording and accounting procedures for non-current assets. Its property, plant and equipment register should be updated continuously throughout the year to ensure the accuracy and completeness of its asset records.

The University initially records asset acquisitions as expenses in its general ledger. At year end, it analyses the general ledger expenses to identify non-current assets that should have been capitalised and recorded in the property, plant and equipment (PP&E) register. Once identified, the University corrects the general ledger and updates the PP&E register by way of journal entries. This process is time consuming, significantly increases the risk of errors and means these transactions are not being processed in an accurate and timely manner. As a result we identified a number of discrepancies with the PP&E register.

Overseas Operations

I recommend the University continue to review and strengthen corporate governance, accounting and internal control procedures for its overseas campus.

The Ontario campus, established in 2005, reported revenue of \$4.4 million for the year ended 31 December 2009 (\$1.8 million in 2008). With the growth in operations, the University implemented a self governing business unit with financial and reporting structures in September 2009. The corporate governance, accounting, tax and other compliance procedures are evolving.

Ageing of Academic Staff

I recommend that the University review the effectiveness of its policies in managing its ageing academic workforce.

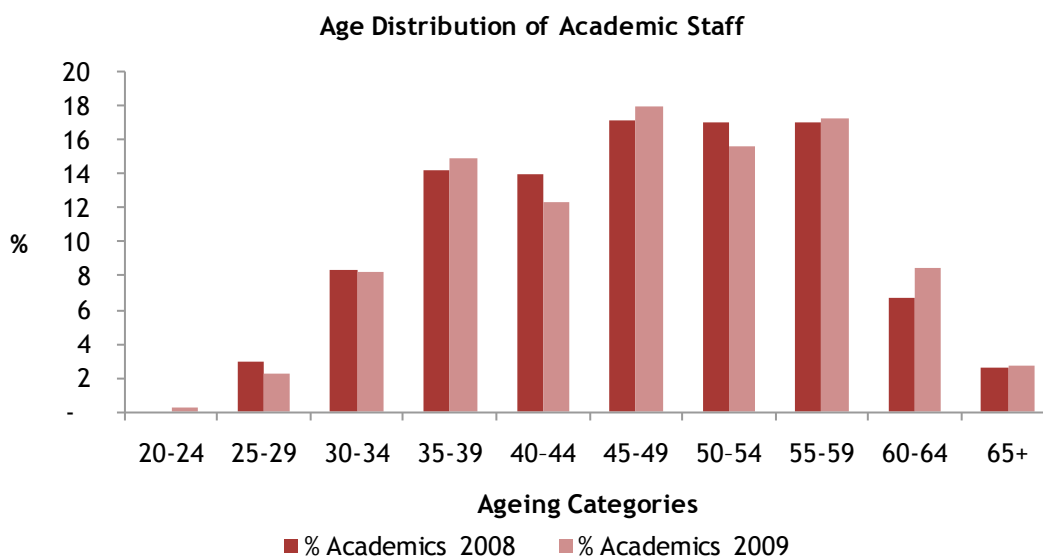
The University is facing challenges from the potential loss of a large number of retiring academic staff as supported by the following University statistics:

- 28.4 per cent are aged 55 years and over
- 44 per cent are aged 50 years and over

As at 31 December Age Group	2009		2008	
	No. of Academics (FTE)*	%	No. of Academics (FTE)*	%
20 - 49	384	56.0	390	56.7
50 - 54	107	15.6	118	17.1
55 - 59	118	17.2	117	17.0
60 - 64	58	8.4	46	6.7
65+	19	2.8	18	2.5
Total	686	100.0	689	100.0

* Full time Equivalent (FTE) includes lecturers and Tutors
Source: Charles Sturt University (unaudited)

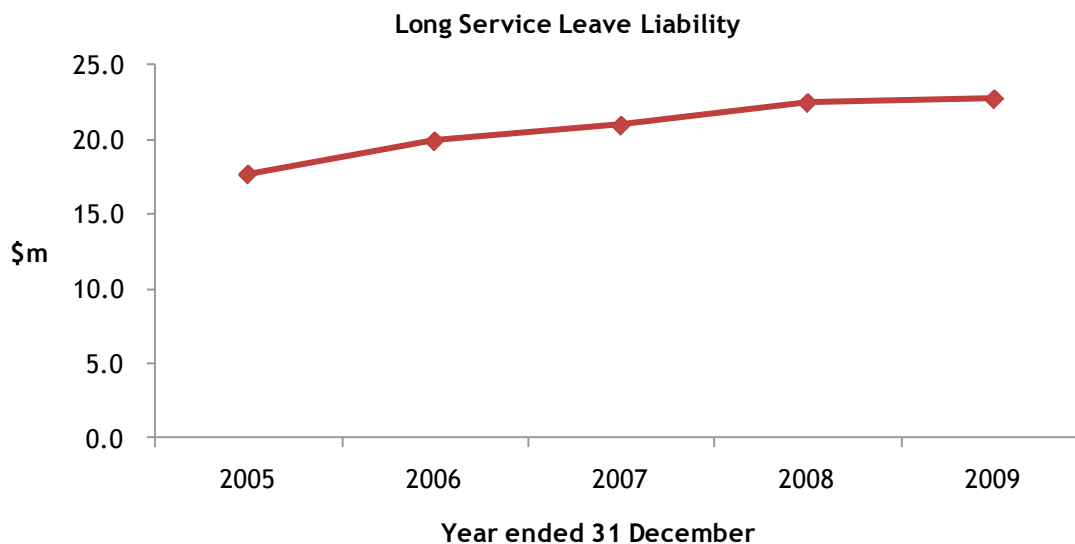
The graph below further demonstrates the age structure of academic staff.



To ensure sufficient availability of academic staff in the future, the University should actively monitor its workforce age profile and develop and implement appropriate strategies to attract and retain academic staff whose skills are aligned with the strategic direction of the University.

Long Service Leave Liability

Increasing long service leave liabilities create funding challenges for the University. Long service leave liabilities increased by 8.5 per cent over the past three years to \$22.7 million in 2009 (\$22.5 million).



The increase in the liability from 2007 to 2008 resulted from a growth in entitlements plus the impact of a reduced Government bond rate used to discount the liability to present value. The reduced Government bond rate resulted from the global financial crisis.

Although the University has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities as they fall due. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

Excessive Annual Leave Balances

I recommend the University establish individual staff plans to reduce excessive annual leave balances within an acceptable timeframe.

Out of its total workforce of 1,960 people, 171 people or 8.7 per cent had annual leave balances in excess of the maximum allowed thresholds under the University's leave policy. This breach of policy, results in additional expense as the liability generally increases as staff remuneration levels increase over time. It may also lead to workforce health declining as employees are not taking sufficient breaks from work.

While the total number of staff with annual leave balances exceeding 40 days decreased by 12 employees this year, academic staff with excess leave balances increased by nine to 86 employees.

The University should continue to apply the measures it has implemented to reduce leave balances focussing on staff at the high end of the excessive leave range (i.e. >60 days).

Employment of Contractors

I recommend the University create and maintain a record of all contractors engaged by the University.

The University should also periodically review the roles and responsibilities of all its contractors to ensure:

- its reliance on contractors is not excessive
- using a contractor instead of a permanent employee is appropriate
- contractors do not become de facto employees by virtue of being with the University for an extended period of time
- using a contractor continues to represent value for money.

Although the University was able to advise that it had 315 contract staff paid through the payroll system at 31 December 2009, it was unable to provide the number of contractors engaged through employment agencies.

The retention of contract employees for extended periods may result in additional costs to the University. The University needs to review its practices relating to contract employees to ensure the desired outcomes are achieved and it is complying with employment related legislation.

PERFORMANCE INFORMATION

(Comparative performance data on all universities appears in the 'Universities Overview' section earlier in this Volume. The information shown below is based on consolidated financial statements).

The University's current ratio (a measure of its financial liquidity) was 1.4 at 31 December 2009, down from the previous year's ratio of 2.4. At this level, it is equal to the State average of 1.4 (1.5) and below the Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) 'good practice' parameter of 1.5 to 3.0.

Australian Government grants, as a percentage of operating revenue, decreased from 50.1 per cent in 2008 to 46.7 per cent in 2009. This is still significantly higher than the State average of 41.6 per cent (41.2 per cent), but within DEEWR's 'good practice' parameter of no more than 50 per cent.

Employee benefits and on-costs, as a percentage of operating revenue, increased from 51.1 per cent in 2008 to 59.3 per cent in 2009. This is higher than the State average of 53.4 per cent (55.9 per cent) and within the DEEWR 'good practice' parameter of 50 per cent to 70 per cent. It also represents the highest percentage of all universities.

Fees and charges, as a percentage of operating revenue, increased from 12.2 per cent in 2008 to 15.3 per cent in 2009. This is significantly less than the State average of 26.8 per cent (25.9 per cent).

The University's operating surplus for the year was \$27.5 million or 8.3 per cent of total revenue (9.3 per cent). This return is above the State average of 8.1 per cent (negative 1.4 per cent).

OTHER INFORMATION

We identified opportunities for improvement to accounting and internal control procedures and will report them to management.

System Generated Balances

In previous years, I reported that the University's general ledger did not provide sufficient details for certain system generated control account balances. The accumulated balance of these accounts at 31 December 2008 was \$3.9 million.

During 2009, the University reset its finance system to clear these balances and adjusted the past transactions through a number of general ledger accounts. These adjustments did not always include clear audit trails and authorisation. This contributed to additional audit analysis and rework.

Capital Expenditure Program

The University is mid-way through a \$270 million, five-year capital development plan, funded through operating surpluses, borrowings and investments. Capital expenditure in 2009 totalled \$106 million with \$57.2 million planned for 2010.

During 2009, the University opened new school of dentistry buildings and student accommodation facilities (600 units) at various campuses at a cost of \$99.9 million.

Despite maintenance expenditure of \$4.3 million in 2009 (\$9.9 million), backlog maintenance at 31 December 2009 increased to \$1.7 million from \$339,000.

Proposed National University

As part of its response to the Bradley report on Higher Education in March 2009, the Australian Government funded a \$2.0 million feasibility study for the creation of a new national university. The proposal is that the new university will include Charles Sturt University and Southern Cross University as foundation partners with possible inclusion of a third interstate university.

The feasibility study was considered by the Councils of Charles Sturt University and Southern Cross University on 3 July 2009. Southern Cross University subsequently announced that they did not wish to participate in the proposed national university. The University plans to seek further guidance from the Australian Government on the proposal.

FINANCIAL INFORMATION

The consolidated financial information includes the financial statements of the University and its controlled entities.

Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Australian Government grants	155,502	182,957	155,502	182,957
Higher Education Contribution Scheme	64,210	67,961	64,210	67,961
Fees and charges	50,905	44,652	50,905	44,652
Other	62,429	69,367	59,563	66,848
Deferred income - superannuation	(33,579)	119,185	(33,579)	119,185
TOTAL REVENUE	299,467	484,122	296,601	481,603
Employee benefits and on-costs	194,618	186,481	193,762	185,597
Depreciation	23,370	21,272	23,370	21,272
Other	87,545	123,099	87,376	120,230
Deferred expense - superannuation	(33,579)	119,185	(33,579)	119,185
TOTAL EXPENSES	271,954	450,037	270,929	446,284
SURPLUS	27,513	34,085	25,672	35,319
OTHER COMPREHENSIVE INCOME				
Gain on revaluation of land and buildings	29,731	17,529	29,731	17,529
Fair value gains/(losses) on available for sale financial assets	14,867	(2,871)	13,563	(1,522)
Exchange losses on translation of foreign operations	(115)	--	(115)	--
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	44,483	14,658	43,179	16,007
TOTAL COMPREHENSIVE INCOME	71,996	48,743	68,851	51,326

The decrease in Australian Government grants is largely due to the receipt of \$36.0 million in 2008 for the establishment of the dental school facilities.

The increase in fees and charges reflects a \$5.0 million rise in fees from overseas fee paying students and \$4.3 million in student accommodation charges. This was due to increases in the number of overseas students and fee rates. The increase was offset by a \$3.0 million reduction in fee paying domestic students.

A one-off contribution of Student Association assets of \$7.3 million in 2008 increased the other revenue in that year.

Deferred income and deferred expense reflect movements in the actuarially assessed employee superannuation liability for employees who are members of the State Government's defined benefit superannuation plans.

Employee benefits and on costs increased due to an additional 30 non-academic employees and a general 3.5 per cent increase in the award rates of pay.

The decrease in other expenses of \$35.5 million was due to:

- lower investment losses of \$25,000 (\$26.2 million)
- reduction in maintenance expense of \$5.6 million
- a drop in administrative expense of \$3.7 million through cost savings

Abridged Statements of Financial Position

At 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	54,509	98,008	52,275	96,135
Non-current assets	856,352	776,308	850,016	772,273
TOTAL ASSETS	910,861	874,316	902,291	868,408
Current liabilities	56,424	59,382	56,960	59,377
Non-current liabilities	190,357	222,849	190,081	222,632
TOTAL LIABILITIES	246,781	282,231	247,041	282,009
NET ASSETS	664,080	592,085	655,250	586,399

The decrease in current assets is mainly due to cash used on the capital works programs.

As discussed earlier, the increase in non-current assets reflects additions to property, plant and equipment from the capital works programs and increases the in the fair value of assets.

Non-current liabilities decreased following an actuarial valuation of superannuation liabilities, which reflects improvements in financial markets.

UNIVERSITY ACTIVITIES

The University is constituted under the *Charles Sturt University Act 1989*. It mainly:

- provides educational and research facilities of university standard
- disseminates and increases knowledge and promotes scholarship
- provides distance education for students within New South Wales and elsewhere
- confers degrees of Bachelor, Master and Doctor and awards diplomas and other certificates
- develops governance, admission policies, financial arrangements and quality assurance processes that are significant to ensure the integrity of the University's academic programs
- exercises commercial functions for the University's benefit.

For further information on the University, refer to www.csu.edu.au.

CONTROLLED ENTITIES

Charles Sturt University Foundation Trust

The Foundation is the main fundraising arm of the University.

Year ended 31 December	2009 \$'000	2008 \$'000
Revenue	1,707	1,297
Expenses	1,066	2,434
Profit/(loss)	641	(1,137)
Net assets (at 31 December)	7,174	5,287

The operating result was impacted by:

- increases in investment income of \$230,000 and fundraising by \$164,000, and
- a decrease in the impairment losses on investments of \$1.3 million

The following controlled entities have not been reported on separately as they are not considered material by their size or the nature of their operations to the consolidated entity.

Entity Name	Website
Charles Sturt Foundation Limited	www.csu.edu.au/special/foundation
Charles Sturt Services Limited	*
Charles Sturt Campus Services Limited	*
Rivservices Limited	*
Western Research Institute Limited	www.wri.org.au

* This entity does not have a website.

Macquarie University

AUDIT OPINION

The audits of the University and 31 of its controlled entities' financial statements for the year ended 31 December 2009 resulted in unqualified Independent Auditor's Reports.

The audits of three controlled entities are incomplete. Further details on the University's controlled entities appear later in this comment.

Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Controlled entities (Repeat Issue)

I recommend the University review its corporate strategy to help ensure its corporate structure aligns with that strategy

The University had 34 controlled entities at 31 December 2009 (30 at 31 December 2008). The University is currently reviewing its structure, which may result in fewer controlled entities, lower compliance costs and reduced governance risks. Even though some of these entities are dormant, the *Public Finance and Audit Act 1983* requires them to prepare audited financial statements. Each entity must also implement and maintain an effective compliance framework to help ensure it complies with legislative requirements applicable to its operations.

Capital Funding

The University estimates it will require approximately \$350 million over the next two years to fund the cost of its capital works program.

In March 2010, the University received an Aa2 credit rating from Moody's Investors Service (Moody's). Moody's believe this reflects the University's sound performance, positive liquidity level and strong market position. Moody's analysis also incorporated a large but manageable increase in the University's debt to re-finance existing borrowings and partially fund its capital works program.

Private Hospital and Clinic

I recommend the University review its processes for the selection of business partners and the identification of project risks. This will help reduce risks in future projects.

Over the past two years, Macquarie University has been developing a private hospital and clinic on its Ryde campus. The development initially included Dalcross Holdings Pty Limited as an equity partner. During the year, the University acquired Dalcross Holdings' 38 per cent interest in the project. The University will manage the hospital activities directly and admit its first patient in mid 2010. The University's core business activities relate to the delivery of education services and not the delivery of hospital services. The University is currently employing appropriately skilled staff to conduct the hospital business.

The estimated final building cost is \$160 million. The original budget was \$112 million. The original budget excluded the planned Dalcross Holdings' contribution, the construction of an additional level to the hospital and other scope changes. The University estimates it will cost a further \$48.0 million for equipment purchases. At 31 December 2009, borrowings for the hospital project were approximately \$118 million. Because final construction costs are higher than planned interest costs on the borrowings will also increase above original budgeted amounts. The University is looking at funding sources to reduce interest rate risks. Higher than planned interest rates may adversely impact the profitability of the project.

The capacity of the hospital is 208 beds (including day only beds and intensive care beds) with a separate clinic building. The hospital's objectives are to deliver training, medical research and quality patient care in select specialty areas. It will also accommodate the Australian School of Advanced Medicine. The medical school will deliver postgraduate programs in specialty and sub-specialty fields and work in partnership with the Royal Australasian College of Surgeons.

Impact of the global financial crisis

There was significant improvement in the valuation of the University's investments and defined benefits superannuation plans as financial markets improved. This year, the University incurred a \$299,000 impairment loss on the value of its investments compared with a loss of \$16.9 million in 2008. During 2009, the University recognised an unrealised gain of \$27.2 million in the value of its investments in the Asset Revaluation Reserve.

Liabilities for superannuation decreased to \$240 million during 2009 (\$282 million at 30 June 2008). The Australian Government funds the majority of these liabilities, which has minimised the impact on the operating result.

Ageing of Academic Staff

I recommend the University review the effectiveness of its policies in managing its ageing workforce.

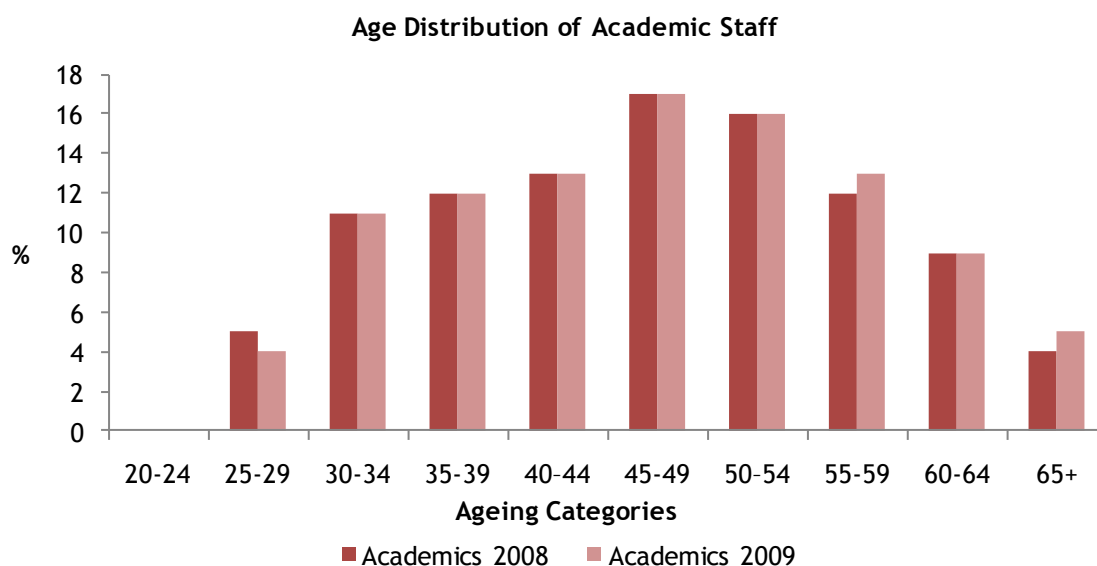
The University faces challenges from the potential loss of a large number of retiring academic staff as supported by the following University statistics:

- 25.7 per cent are aged 55 years and over
- 42.1 per cent are aged 50 years and over.

At 31 December Age Group	2009		2008	
	No. of Academics	%	No. of Academics	%
20 - 49	570	57.9	571	59.5
50 - 54	161	16.4	157	16.3
55 - 59	124	12.6	111	11.6
60 - 64	84	8.5	86	9.0
65+	45	4.6	35	3.6
Total	984	100.0	960	100.0

Source: Macquarie University (unaudited).

The graph below further demonstrates the age structure of academics:

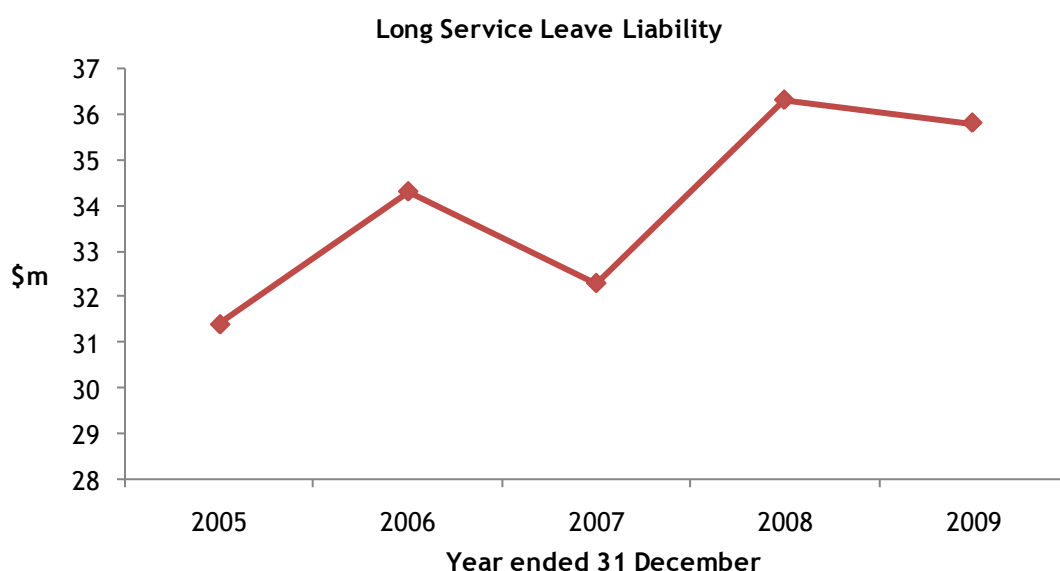


Source: Macquarie University (unaudited).

To help ensure an adequate supply of academic staff in the future, the University should actively monitor its workforce age profile and have strategies in place to develop, attract and retain staff whose skills are aligned with the strategic direction of the University.

Long Service Leave

Increasing long service leave liabilities create funding challenges for the University. Long service leave liabilities have increased by 14 per cent over the past five years to \$35.8 million in 2009 (\$31.4 million in 2005).



Source: Macquarie University (unaudited).

The increase in the liability from 2007 to 2008 resulted from a growth in entitlements plus the impact of a reduced Government bond rate used as the discount factor in calculating the present value of the liability. The reduced Government bond rate resulted from the global financial crisis.

Although the University has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

Excessive Annual Leave balances (Repeat issue)

I recommend the University review the effectiveness of its existing policies for managing excessive annual leave balances

At 31 December 2009, 222 University employees had accrued more than 40 days of annual leave entitlements (186 employees at 31 December 2008). This represents 11 per cent of all employees (ten per cent). The accumulation of excessive annual leave entitlements results in increased financial costs to the University because these entitlements will be paid out at higher salary rates in the future and may have occupational health and safety implications.

PERFORMANCE INFORMATION

(Comparative performance data on universities appears in the 'Universities Overview' section earlier in this Volume. The information shown below is based on consolidated financial statements.)

The University's current ratio (a measure of its financial liquidity) was 0.9 at 31 December 2009, a decrease on the previous year's ratio of 2.2. At this level it is below the State average of 1.4 (1.5 at 31 December 2008) and below the Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) 'good practice' parameter 1.5 to 3.0. The University's low current ratio is due to loans of \$118 million maturing in October 2010, which will be refinanced during 2010.

Australian Government grants as a percentage of operating revenue remained steady at 25.5 per cent in 2009. This is lower than the State average of 41.6 per cent (41.2 per cent in 2008), and better than the DEEWR 'good practice' parameter of no more than 50 per cent.

Employee Benefits and on-costs as a percentage of operating revenue decreased from 53.9 per cent in 2008 to 50.0 per cent in 2009. This is below the State average of 53.4 per cent (55.9 per cent), but within the DEEWR 'good practice' parameter of 50 to 70 per cent.

Higher Education Contributions, as a percentage of total revenue, increased from 12 per cent in 2008 to 13.7 per cent in 2009. This is below the State average of 14.5 per cent (14.8 per cent).

The University's operating surplus for the year was \$60.5 million, or 10.4 per cent of total revenue (4.4 per cent). This is higher the State average of 8.1 per cent (negative 1.4 per cent).

OTHER INFORMATION

We identified opportunities for improvement to accounting and internal control procedures and will report them to management.

Other Major Projects

The University is building a new Learning and Research Centre which will represent a new generation of library design, creating a centre full of dynamic, collaborative and open spaces of learning. The estimated project cost is \$90.8 million. The value of remaining work at year-end is \$58.9 million, which is expected to be completed by the end of 2010.

Cochlear Limited, a global leader in implantable hearing solutions, will move its headquarters and principal manufacturing facilities into accommodation on the University campus during 2010. Construction risks reside with Cochlear. Under the agreement between the University and Cochlear, the University will purchase the building on completion for an estimated cost of \$129 million and lease it to Cochlear.

Backlog maintenance

The University estimates its backlog maintenance program will cost \$21.1 million at 31 December 2009. The University's backlog maintenance has decreased slightly over the past three years, as demonstrated in the table below. The University advised that it has continued to review its program to reduce the backlog.

Year ended 31 December	Estimate		
	2009 \$'000	2008 \$'000	2007 \$'000
Backlog maintenance	21,117	22,031	24,480

Source: Macquarie University (unaudited).

FINANCIAL INFORMATION

The consolidated financial information includes the financial statements of the University and its controlled entities.

Abridged Statement of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Australian Government grants	148,997	140,581	148,944	140,523
Higher Education Contribution Scheme	79,913	63,966	79,913	63,966
Fees and charges	261,933	241,126	233,199	210,110
Other	92,332	86,565	71,821	60,994
Deferred income - superannuation	(35,825)	145,841	(35,825)	145,841
TOTAL REVENUE	547,350	678,079	498,052	621,434
Employee benefits and on-costs	291,660	287,015	254,578	245,206
Depreciation	30,080	29,184	28,162	27,492
Other	200,912	192,433	191,804	186,494
Deferred expense - superannuation	(35,825)	145,841	(35,825)	145,841
TOTAL EXPENSES	486,827	654,473	438,719	605,033
SURPLUS	60,523	23,606	59,333	16,401
OTHER COMPREHENSIVE INCOME				
Revaluation of available for sale financial assets	27,151	(37,980)	27,151	(37,980)
Gain on revaluation of property, plant and equipment	21,171	33,413	21,171	33,413
Other losses	(250)	(41)	(250)	--
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	48,072	(4,608)	48,072	(4,567)
TOTAL COMPREHENSIVE INCOME	108,595	18,998	107,405	11,834

Higher Education Contribution Scheme income increased due to a higher student load in Commonwealth Supporting Places and enrolments for domestic fee-paying students. The increase in fees and charges of \$20.8 million was mainly due to higher enrolments of fee paying overseas students.

Higher salary increments awarded to staff and the appointment of additional staff resulted in an increase in employee benefits and on-costs.

Deferred income and deferred expense reflect movements in the actuarially assessed liability for employees who are members of the State Government's defined benefit superannuation plans. Because the Australian Government funds these movements, they do not impact the operating result.

Abridged Statements of Financial Position

At 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	195,718	228,753	168,205	191,735
Non-current assets	1,555,547	1,398,444	1,424,555	1,328,697
TOTAL ASSETS	1,751,265	1,627,197	1,592,760	1,520,432
Current liabilities	247,602	125,331	109,640	104,083
Non-current liabilities	263,384	360,182	274,196	314,830
TOTAL LIABILITIES	510,986	485,513	383,836	418,913
NET ASSETS	1,240,279	1,141,684	1,208,924	1,101,519

Construction of the private hospital and clinic and the new Learning and Research Centre increased non-current assets but decreased current assets.

A loan for construction of the private hospital and clinic of \$118 million is repayable in October 2010 and is included in current liabilities at year end.

The significant decline in the valuation of defined benefit superannuation scheme liabilities, mentioned earlier, contributed to the decrease in non-current liabilities.

UNIVERSITY ACTIVITIES

The University is constituted under the *Macquarie University Act 1989*. It mainly:

- provides educational facilities at university standard
- establishes facilities to provide courses of study, gives instruction to and examines external students and provides courses of study or instruction at such levels of attainment as the University's Council considers appropriate to meet the special requirements of industry, commerce, or any other section of the community
- disseminates knowledge and promotes scholarship
- confers degrees of Bachelor, Master and Doctor and awards diplomas and other certificates.

For further information on the University, refer to www.mq.edu.au.

CONTROLLED ENTITIES

Controlled Entities Late Submission of Financial Statements

Four of Macquarie University's controlled entities did not submit financial statements within the statutory requirement of six weeks after year-end. This is required by the *Public Finance and Audit Act 1983*.

Entity	Date Due	Date submitted
Macquarie University Medical Research Trust	11 February 2010	9 April 2010
Macquarie University Medical Research Foundation Limited	11 February 2010	9 April 2010
MUH Operations Pty Limited	11 February 2010	8 March 2010
MUH Operations No.2 Limited	11 February 2010	8 March 2010

Macquarie Graduate School of Management Pty Limited

Year ended 31 December	2009 \$'000	2008 \$'000
Revenue	26,537	29,490
Expenses	23,395	24,614
Profit	3,142	4,876
Net assets (at 31 December)	12,157	9,014

The decrease in revenue and profit was largely due to a fall in executive education programmes and income from hotel/facilities. Although the School added to revenue in 2009 by increasing its course fees, it was more than offset by declining revenues attributable to the global financial crisis. MGSM provides business education to middle to senior executives, either through the MBA course and other postgraduate programs or corporate executive education programs. For further information on the company refer www.mgsm.edu.au.

U@MQ Limited

Year ended 31 December	2009 \$'000	2008 \$'000
Revenue	26,402	23,858
Expenses	26,640	23,833
(Loss)/Profit	(238)	25
Net assets (at 31 December)	14,539	14,777

The increase in revenue was largely due to higher sales of retail goods and services (\$832,000), food and beverages (\$886,000) and membership fees (\$973,000). The company contributed approximately \$800,000 to the construction of a new irrigation system controlled by the University. This contribution was treated as an expense in the current financial year and is the main reason why the company incurred a loss. For further information on the company, refer to www.campuslife.mq.edu.au.

Macquarie University Property Investment Trust

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Revenue	2,902	2,555	1,698	1,338
Expenses	2,384	1,933	910	710
Profit	518	622	788	638
Net assets (at 31 December)	26,174	26,444	16,500	16,500

Revenue increased largely due to the Trust contracting for the construction of works of approximately \$1.0 million (\$988,000) on behalf of other parties and management fees of \$1.6 million (\$1.2 million) associated with the construction of the private hospital and clinic and an increase in property rentals. Expenses increased due to construction costs of approximately \$998,000 and management costs associated with the construction of the private hospital and clinic.

The following controlled entities have not been reported on separately as they are not considered material by their size or the nature of their operations to the consolidated entity.

Entity Name	Website
Access Macquarie Limited	www.accessmq.com.au
Australian Proteome Analysis Facility Limited	www.proteome.org.au
CMBF Limited	*
COH Property Trust	*
LAMS Foundation Limited	*
LAMS International Pty Limited	www.lamsinternational.com
Macquarie University Medical Research Foundation Limited	*
Macquarie University Medical Research Trust	*
Macquarie University Private Hospital Trust	*
Macquarie University Property Investment Company No. 2 Pty Limited	*
Macquarie University Property Investment Company No. 3 Pty Limited	*
Macquarie University Property Investment Company Pty Limited	*
MU Hospital Pty Limited	*
MUH Operations Pty Limited	*
MUH Operations No.2 Limited	*
MUPIT Sub-Trust No. 1	*
MUPIT Sub-Trust No. 2	*
MUPIT Sub-Trust No. 3	*
MUPIT Sub-Trust No. 4	*
MUPH Clinic Pty Limited	*
MUPH Clinic Sub-Trust	*
MUPH Hospital Pty Limited	*
MUPH Hospital Sub-Trust	*
MUPI Holding Trust No. 1	*
MUPI Holding Trust No. 2	*

Entity Name	Website
MUPI Holding Trust No. 3	*
MUPI Holding Trust No. 4	*
MUPI Holding Trust No. 5	*
MUPI Holding Trust No. 6	*
Risk Frontiers Flood (Australia) Pty Limited	www.riskfrontiers.com
Risk Frontiers Group Pty Limited	www.riskfrontiers.com

* This entity does not have a website.

OTHER BODIES ASSOCIATED WITH THE UNIVERSITY

The following bodies associated with the University have not been reported on separately as they are not considered material by their size or the nature of their operations.

Entity Name
Macquarie University Professorial Superannuation Scheme
Sydney Educational Broadcasting Limited

Southern Cross University

AUDIT OPINION

The audits of the University and its controlled entities' financial statements for the year ended 31 December 2009 resulted in unqualified Independent Auditor's Reports.

Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Impact of the global financial crisis

The impact of the global financial crisis on the University's investments was minimal as all investments were in term deposits.

Liabilities for superannuation decreased to \$30.7 million (\$40.2 million at 31 December 2008). The Australian Government funds the majority of these liabilities, which has minimised the impact on the operating result.

Aging of academic staff

I recommend that the University review the effectiveness of its policies in managing its aging workforce.

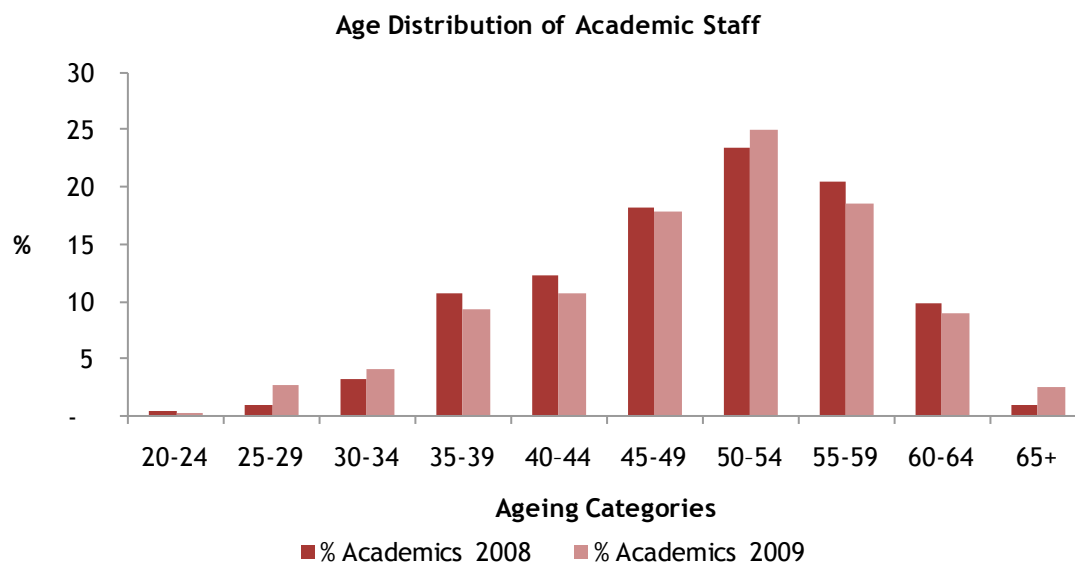
The University is facing challenges from the potential loss of a large number of retiring academic staff as supported by the following University statistics:

- 30 per cent are over aged 55 years and over
- 55 per cent are over aged 50 years and over.

Ageing profile

As at 31 December Age Group	2009		2008	
	Academics FTE	%	Academics FTE	%
Up to 49	142.6	45	351.9	69
50-54	79.4	25	80.1	16
55-59	58.5	18	62.4	12
60-64	28.2	9	12.9	2
65+	8.3	3	4.0	1
Total	317.0	100	511.3	100

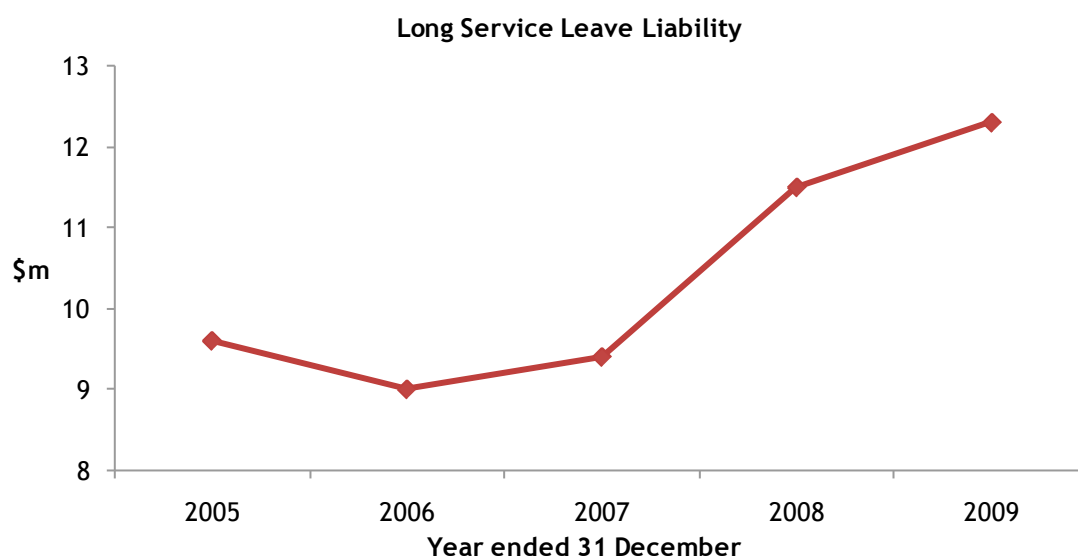
Source: Southern Cross University (unaudited)
FTE: Full time equivalents



To ensure there is an adequate supply of academic staff in the future the University advised that it actively monitors its workforce, including the age of its staff, and has implemented various strategic workforce planning initiatives, which it believes will address the ageing workforce risks.

Long Service Leave Liability

Increasing long service leave liabilities raises funding challenges for the University. Long service leave liabilities have increased by 30.9 per cent over the past three years to \$12.3 million in 2009 (\$11.5 million in 2008).



The increase in the liability from 2007 to 2008 resulted from a growth in entitlements plus the impact of a reduced Government bond rate used as the discount factor in calculating the present value of the liability. The reduced Government bond rate resulted from the global financial crisis.

Although the University has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities as they fall due. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the aging workforce. The University has advised that it holds adequate cash reserves to fully cover long service leave liabilities. In addition it also has a new 'direction to take leave' provision in the proposed Enterprise Bargaining Agreement, which will facilitate more effective management of long service leave.

Excessive annual leave balances

I recommend that the University continues to monitor and manage excessive annual leave balances. Strategies adopted to reduce the number of employees with excessive leave balances should continue during 2010.

Employees with annual leave balances in excess of 40 days remains high with 87 employees at 31 December 2009 compared to 101 employees at 31 December 2008.

The accumulation of excessive annual leave entitlements results in increased financial cost to the University because these entitlements are paid out at higher salary rates in the future and may have occupational health and safety implications. The University has advised that it is developing a new system generated report, supplemented by quarterly advice, to staff and supervisors highlighting the excess annual leave balances. It also has a new 'direction to take leave' provision in the proposed Enterprise Bargaining Agreement, which the University considers will facilitate more effective management of annual leave balances.

PERFORMANCE INFORMATION

(Comparative performance data on all universities appears in the 'Universities Overview' section earlier in this Volume. The information shown below is based on consolidated financial statements.)

The University's current ratio (a measure of its financial liquidity) was 1.5 at 31 December 2009, down from the previous year's ratio of 2.9. At this level, it is higher than the State average of 1.4 (1.5 at 31 December 2008). It is also within the Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) 'good practice' parameter of 1.5 to 3.0.

Australian Government grants, as a percentage of operating revenue decreased from 45.4 per cent in 2008 to 44.5 per cent in 2009. This is still higher than the State average of 41.6 per cent (41.2 per cent in 2008), but still below the DEEWR 'good practice' parameter of no more than 50 per cent.

Employee benefits and on-costs, as a percentage of operating revenue, increased from 54.8 per cent in 2008 to 55.9 per cent in 2009. This is higher than the State average of 53.4 per cent (55.9 per cent) and within the DEEWR 'good practice' parameter of 50 per cent to 70 per cent.

The University's operating result for the year was 1.4 per cent of total revenue (8.3 per cent). This was the lowest return on total revenue of all universities and well below the State average of 8.1 per cent (negative 1.4 per cent).

OTHER INFORMATION

Capital works

Construction of the new Gold Coast campus commenced in 2008. The foundation building, costing \$19.7 million, was opened in February 2010 and represents the first phase of the campus master plan. The construction costs were supported by a \$7.7 million contribution from the Australian Government. The major development plan for a second building on the site (for the provision of additional teaching spaces and student facilities) was approved in November 2009. At 31 December 2009, \$2.4 million had been spent on initial planning for this second building.

Proposed National University

As part of its response to the Bradley report on Higher Education in March 2009, the Australian Government funded a \$2.0 million feasibility study for the creation of a new national university. The proposal is that the new university will include Southern Cross University and Charles Sturt University as foundation partners with a possible inclusion of a third interstate university.

The draft Needs Analysis under this study was considered by the Councils of Charles Sturt University and Southern Cross University on 3 July 2009. Southern Cross University subsequently announced that they did not wish to participate in the proposed national university. The University further advised that, of the \$2.0 million allocated, approximately \$579,000 was spent on the feasibility study with the remainder having been returned to the Government.

Improvement Opportunities

We identified potential opportunities for the University to improve existing procedures. We will discuss these with University staff and where appropriate report them to management. The more significant areas related to the classification of leases, quality control over preparation of the financial statements, legislative compliance, accuracy of long service leave records, accumulation of annual leave, and some aspects impacting the University's general computer control environment.

FINANCIAL INFORMATION

The consolidated financial information includes the financial statements of the University and its controlled entities.

Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Australian government grants	72,962	70,445	72,962	70,445
Higher Education Contribution Scheme	36,764	31,302	36,764	31,302
Fees and charges	25,622	24,351	25,419	24,168
Other	28,716	29,120	28,441	28,353
TOTAL REVENUE	164,064	155,218	163,586	154,268
Employee benefits and on-costs	91,938	83,866	91,198	83,180
Depreciation and amortisation	6,090	5,687	6,083	5,676
Other	63,972	51,591	63,315	51,078
TOTAL EXPENSES	162,000	141,144	160,596	139,934
SURPLUS	2,064	14,074	2,990	14,334
OTHER COMPREHENSIVE INCOME				
Net actuarial gains/(losses) recognised in respect of defined benefit superannuation plans	260	(1,252)	260	(1,252)
TOTAL COMPREHENSIVE INCOME	2,324	12,822	3,250	13,082

Funding received from the Australian Government, Higher Education Contribution Scheme and Fees and Charges rose due to an increased number of students in 2009. The equivalent full-time student load increased from 5,781 for 2008 to 6,541 for 2009.

Employee benefits and on-costs rose because of increases in staff numbers, award rates and employee leave entitlements.

The increase in student and staff numbers primarily resulted from the expected opening of the Gold Coast campus. Enrolments for the campus were taken in 2009. Students were initially admitted to the Tweed Heads campus with the intention of transferring them to the new Gold Coast campus on completion of the foundation building.

Enhancements to student facilities across the campuses resulted in increases in other expenses, such as non-capital equipment purchases, operating lease rental expenses, property facility costs and repairs and maintenance.

Abridged Statement of Financial Position

At 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	58,225	75,925	57,946	75,295
Non-current assets	211,314	196,423	204,928	189,522
TOTAL ASSETS	269,539	272,348	262,874	264,817
Current liabilities	38,484	34,100	38,295	33,958
Non-current liabilities	32,798	42,315	32,785	42,315
TOTAL LIABILITIES	71,282	76,415	71,080	76,273
NET ASSETS	198,257	195,933	191,794	188,544

The construction of the new Gold Coast campus reduced current asset cash reserves, increased current liabilities for capital accruals and resulted in an increase in non-current assets.

Non-current liabilities decreased following an actuarial valuation of superannuation liabilities.

UNIVERSITY ACTIVITIES

The University is constituted under the *Southern Cross University Act 1993*. It mainly:

- provides educational facilities of university standard having particular regard to the needs of the north coast region of the State
- preserves, extends and disseminates knowledge through scholarship, research, creative works consultancy and internal and external teaching.

For further information on the University, refer to www.scu.edu.au.

CONTROLLED ENTITIES

The following controlled entities have not been reported separately as they are not considered material by their size or the nature of their operations to the consolidated entity.

Entity Name	Website
Australian Plant DNA Bank Limited	www.dnabank.com.au
Biobank Pty Limited	www.biobank.com
Norsearch Limited	www.norsearch.scu.edu.au

The University of Sydney

AUDIT OPINION

The completed audits of the University and its continuing controlled entities' financial statements, for the year ended 31 December 2009 resulted in unqualified Independent Auditor's Reports.

The audits of two controlled entities are incomplete. Further details on the University's controlled entities appear later in this comment.

Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Impact of the global financial crisis

Last year, the global financial crisis and volatility in financial markets significantly impacted the University's investment values. This year, the financial markets improved and the value of investments increased by six per cent (\$50.0 million), from \$877 million to \$927 million at 31 December 2009.

The University recorded an operating surplus of \$69.1 million in 2009, compared to an operating loss of \$167 million in 2008. The major contributor to the loss was an impairment expense of \$211 million, representing the decline in the value of equity investments. This year, the impairment expense is \$8.5 million, which is primarily due to the value of some equity investments remaining below cost for a prolonged period.

Last year the global financial crisis also significantly impacted superannuation investment earnings and benefit valuations. As the economic conditions improved in 2009, superannuation liabilities decreased from \$797 million in 2008 to \$680 million in 2009.

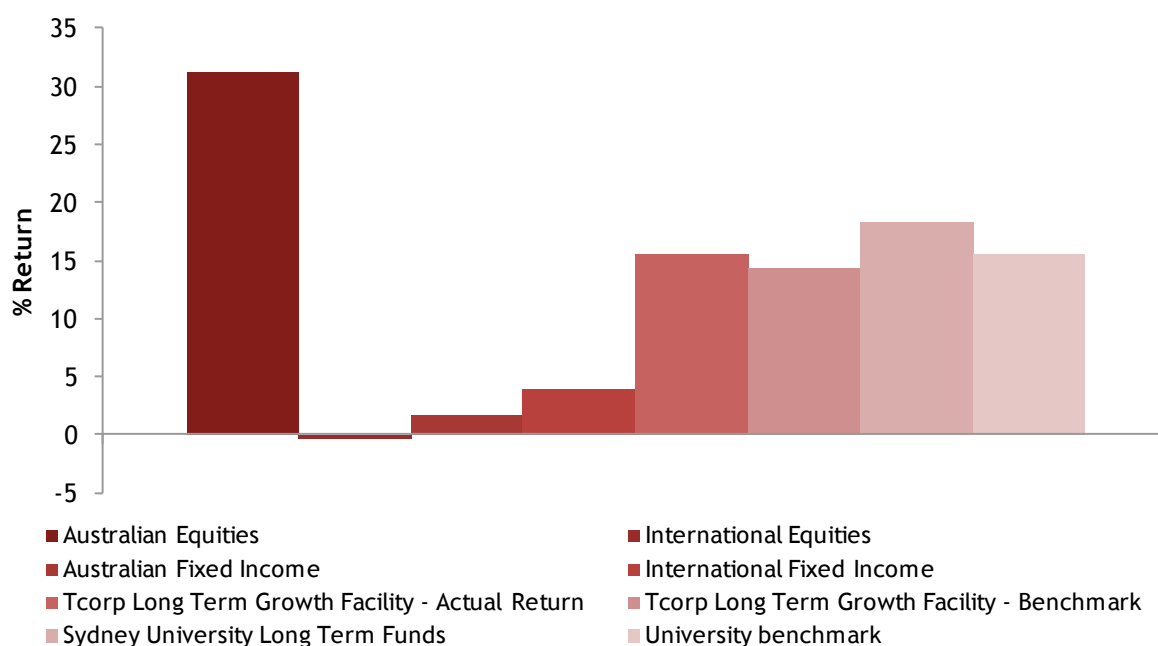
Investment Performance

The University's long term investment portfolio performed 2.7 per cent better than its performance benchmark. Equity returns improved significantly, while fixed income investments provided smaller returns than last year. Better portfolio returns were achieved in 2009 by tilting the portfolio asset allocation towards traditional growth assets (equity) and away from defensive assets (fixed income).

The University's investment funds are divided into short term and long term portfolios. As at 31 December 2009, \$830 million of a total \$927 million in financial assets (excluding receivables) were in long term funds. The long term funds have an investment time horizon of more than seven years and comprise mainly bequest and endowment funds. Short term funds mainly comprise operational working capital and capital development funds and have a time horizon of less than one year.

The graph below contrasts the University's long term investment portfolio performance against key asset sector movements and the University's performance benchmark.

Asset Sector and Portfolio Performance - 2009



Capital Expenditure Program

Capital expenditure in 2009 totalled \$151 million. During the year, the University completed its major capital project, Campus 2010, at a total cost of \$270 million. Significant works for the future include the development of the Centre of Obesity, Diabetes and Cardiovascular Disease (\$385 million), the Centre for Sustainable Land Futures at Camden and the Clinical Education Centre at Concord Clinical School.

The University's capital works program for 2010 totals \$169 million and is designed to:

- improve its infrastructure and address backlog maintenance
- provide suitable accommodation for students and staff
- replace outdated facilities with modern teaching and research facilities
- develop a proactive asset development program.

The University is seeking to fund this program through government grants, operating surpluses and borrowings.

Maintenance expenditure in 2009 was \$53.6 million (\$50.4 million in 2008), an increase of 6.3 per cent. This has contributed to a decline in backlog maintenance from \$500 million in 2008 to \$411 million in the current year.

Ageing of Academic Staff

I recommend the University review the effectiveness of its policies in managing its ageing workforce.

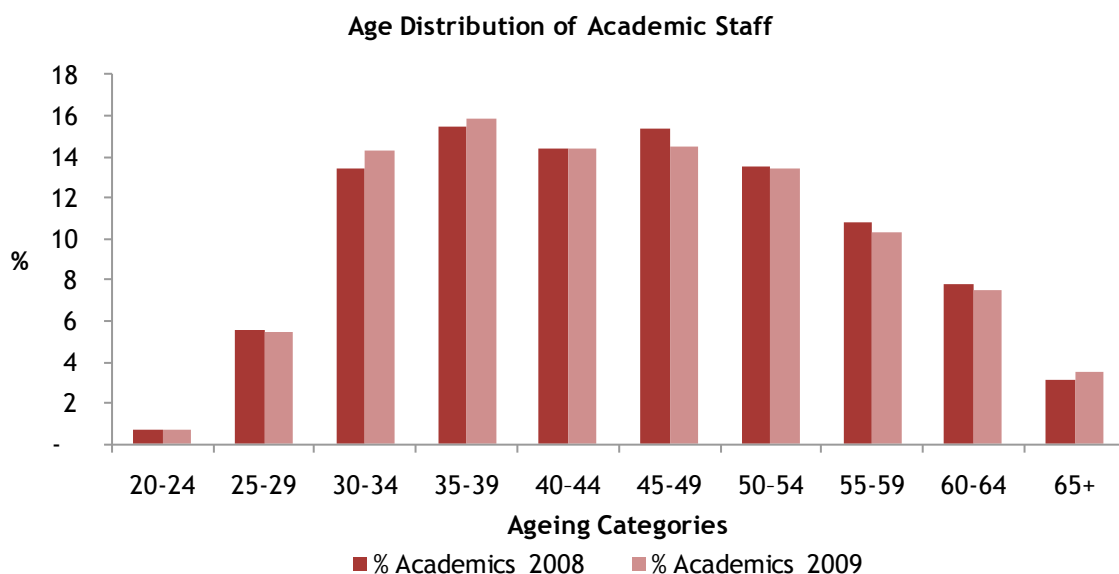
The University faces challenges from the potential loss of a large number of retiring academic staff as supported by the following University statistics:

- 22 per cent are aged 55 years and over
- 35 per cent are aged 50 years and over.

As at 31 December Age Group	2009		2008	
	No. of Academics	%	No. of Academics	%
20 - 49	1,965	65	1,857	65
50 - 54	406	13	386	13
55 - 59	311	10	310	11
60 - 64	227	8	222	8
65+	107	4	89	3
Total	3,016	100	2,864	100

Source: Information provided by Sydney University (Unaudited)

The graph below further demonstrates the age structure of academics.

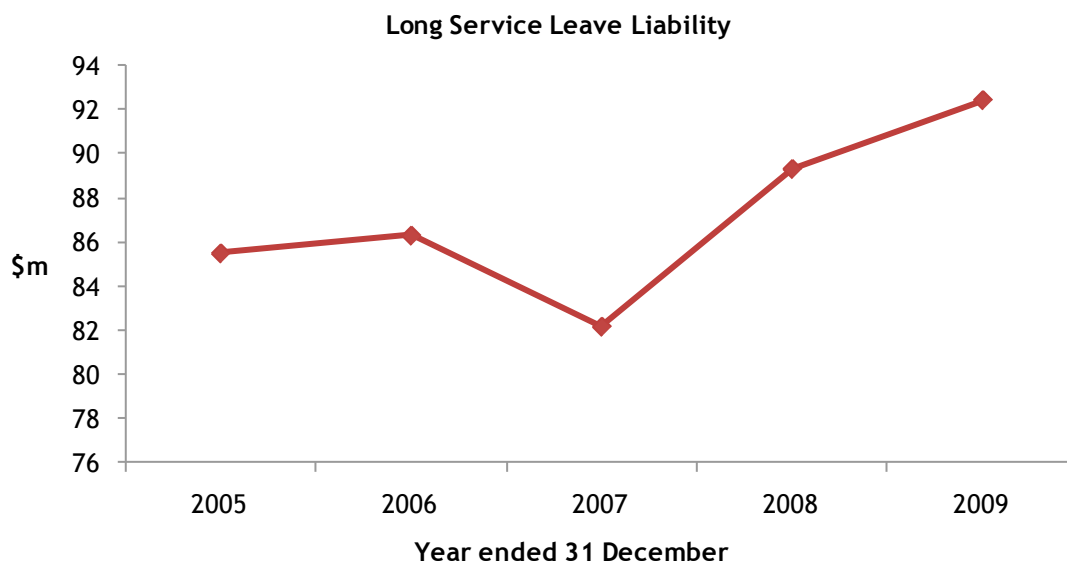


Source: Information provided by Sydney University (Unaudited)

To ensure an adequate supply of academic staff in the future, the University should actively monitor its workforce age profile and have strategies in place to develop, attract and retain staff whose skills are aligned with the strategic direction of the University.

Long Service Leave Liability

Increasing long service leave liabilities create funding challenges for the University. Long service leave liabilities have increased by 8.1 per cent over the past five years to \$92.4 million in 2009 (\$85.5 million in 2005).



Source: University of Sydney Audited Financial Statements

The increase in the liability from 2007 to 2008 resulted from a growth in entitlements plus the impact of a reduced Government bond rate used as the discount factor in calculating the present value of the liability. The reduced Government bond rate resulted from the global financial crisis.

Although the University has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities. This will be compounded as other liabilities arise from the pending retirement of a significant portion of its ageing workforce.

Employment of Contractors

I recommend the University create and maintain a single record of all contractors engaged by it.

The University should also periodically review the roles and responsibilities of all its contractors to ensure:

- its reliance on contractors is not excessive
- use of a contractor instead of a permanent employee is appropriate
- contractors do not become de facto employees by virtue of being with the University for an extended period of time
- use of a contractor continues to represent good value for money.

The University does not maintain a single, complete and detailed listing of all contractors it has engaged during the year. It uses a decentralised approach to engage and record contractors.

The University was unable to provide the following information as at 31 December 2009:

- the cost of contractors engaged
- the number of contractors engaged
- the period of service of contractors engaged.

The retention of contract employees for extended periods may result in additional costs to the University. The University should review its practices relating to contract employees to ensure they are appropriate to achieve desired outcomes and comply with employment related legislation.

The University has advised that it centralised the recruitment of contractors in early 2010 and that other planned initiatives will further centralise contractor management.

Excessive Annual Leave Balances (Repeat Issue)

I recommend the University establish individual staff plans to reduce excessive leave balances within an acceptable timeframe.

Out of its total workforce of 7,077 people, 1,575 people (22 per cent) had annual leave balances in excess of the maximum thresholds allowed under the University's leave policy. This breach of policy results in additional costs as remuneration levels increase over time and can lead to workforce health declining because staff are not taking sufficient breaks from work.

While the overall number of staff with annual leave balances in excess of the maximum threshold reduced this year by 21, the number of academic staff with leave balances in excess of 60 days has increased by 20 to 199. The University's leave policy for academic staff allows a maximum balance of 20 days annual leave.

The current measures to reduce leave balances, particularly those at the high end of the excessive leave range (i.e. >60 days), need to continue. Leave plans that reduce balances to acceptable levels within policy limits and agreed timeframes should be implemented.

University Superannuation

In 2006, the University identified an underpayment of past employer superannuation contributions for some current and past employees. The University has determined the full financial impact of the underpayments and identified the individuals affected. The initial estimate of the underpayment to the UniSuper scheme of \$7.5 million has been provided for in previous financial statements.

The liability as at 31 December 2009 has reduced to \$3.6 million and the University has advised that the issue has been resolved in March 2010.

Valuation of Heritage Assets

Last year I recommended the University undertake a comprehensive valuation of its Macleay Museum collection assets, as the last comprehensive valuation was performed over ten years ago. Accounting standards require non-current assets to be valued as frequently as required to ensure the assets are disclosed at fair value. This matter has been resolved, with the University on schedule with its plan to comprehensively value the Macleay museum over two years.

PERFORMANCE INFORMATION

(Comparative performance data on universities appears in the 'Universities Overview' section earlier in this Volume. The information shown below is based on consolidated financial statements.)

The University's current ratio (a measure of its financial liquidity) was 0.7 at 31 December 2009, an increase on the previous year's ratio of 0.5. At this level, it is still below the State average of 1.4 (1.5 at 31 December 2008) and below the Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) 'good practice' parameter 1.5 to 3.0. However, the University has non-current available for sale investments, a significant amount of which could be realised at short notice.

Australian Government grants, as a percentage of operating revenue, remained steady at 43.7 per cent in 2009. It is now higher than the State average of 41.6 per cent (41.2 per cent in 2008) but still within the DEEWR 'good practice' parameter of no more than 50 per cent.

Employee Benefits and on-costs, as a percentage of operating revenue, decreased from 59.0 per cent in 2008 to 57.2 per cent in 2009. This is above the State average of 53.4 per cent (55.9 per cent) but within the DEEWR 'good practice' parameter of 50 per cent to 70 per cent.

Higher education contributions, as a percentage of total revenue, decreased from 10.9 per cent in 2008 to 10.1 per cent in 2009. This represents the equal lowest contributions of all universities and is significantly below the State average of 14.5 per cent (14.8 per cent).

The University's operating surplus for the year was \$69.1 million, or 5.0 per cent of total revenue (negative 13.0 per cent). This is well below the State average of 8.1 per cent (negative 1.4 per cent).

FINANCIAL INFORMATION

The consolidated financial information includes the financial statements of the University and its controlled entities.

Abridged Statement of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Australian Government grants	609,854	564,514	609,854	564,514
Higher Education Contribution Scheme	140,856	141,339	140,856	141,339
Fees and charges	321,901	291,480	321,861	291,480
Other	322,443	293,531	319,712	293,411
TOTAL REVENUE	1,395,054	1,290,864	1,392,283	1,290,744
Employee benefits and on-costs	797,378	761,926	793,908	760,609
Depreciation and amortisation	62,631	52,465	62,468	52,453
Other	457,448	433,346	456,577	432,615
Impairment of available-for-sale assets	8,448	210,520	8,448	210,520
TOTAL EXPENSES	1,325,905	1,458,257	1,321,401	1,456,197
SURPLUS/(DEFICIT)	69,149	(167,393)	70,882	(165,453)
OTHER COMPREHENSIVE INCOME:				
Change in fair value of available for sale financial assets	60,478	18,638	60,478	18,638
Gain on revaluation of land and buildings	8,618	26,357	8,618	26,357
Other gains/(losses)	(6,771)	7,189	(6,775)	7,070
TOTAL OTHER COMPREHENSIVE INCOME	62,325	52,184	62,321	52,065
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	131,474	(115,209)	133,203	(113,388)

Australian Government Grants increased by 8 per cent in line with the increase in student numbers. Fees and charges increased by \$30.4 million primarily due to an increase in fee paying overseas students.

Employee benefits and on-cost expenses increased by 5 per cent due to increased staff numbers, salary increases, and increased costs associated with University funded superannuation benefits.

The impairment expense of \$8.4 million is significantly lower than the prior year expense of \$211 million. This is primarily due to the recovery in the value of equity investments mentioned earlier.

Abridged Statement of Financial Position

At 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	211,692	131,189	216,375	133,192
Non-current assets	4,065,918	4,083,766	4,051,908	4,070,798
TOTAL ASSETS	4,277,610	4,214,955	4,268,283	4,203,990
Current liabilities	347,793	301,852	347,677	301,795
Non-current liabilities	699,988	814,749	699,952	814,745
TOTAL LIABILITIES	1,047,781	1,116,601	1,047,629	1,116,540
NET ASSETS	3,229,829	3,098,354	3,220,654	3,087,450

Current assets increased by \$80.5 million primarily due to increases in cash and investments.

The increase of \$45.9 million in current liabilities primarily relates to the University entering into a new financing arrangement. The liability for this short term loan as at 31 December 2009 was \$71.2 million (\$31.3 million).

Non-current liabilities decreased by \$115 million mainly due to a decrease in superannuation liabilities resulting from improved financial markets.

Prior to 2009 the University recognised a receivable from the Commonwealth for unfunded deferred liabilities relating to the SASS, SSS and SANCS superannuation schemes (\$773 million as at 31 December 2008). In February 2010, it was identified that the \$23.0 million liability for the SANCS scheme was not covered by the Superannuation Supplementation Scheme registered by the Commonwealth. As a result the related receivable of \$23.0 million has been reversed as at 1 January 2008.

UNIVERSITY ACTIVITIES

The University of Sydney is established by the *University of Sydney Act 1989*. The University creates, preserves, transmits and applies knowledge through teaching, research, creative work and other forms of scholarship.

For further information on the University, refer to sydney.edu.au.

CONTROLLED ENTITIES

The following controlled entities have not been reported on separately as they are not considered material by their size or the nature of their operations to the consolidated entity.

Entity Name
Bandwidth Foundry International Pty Ltd*
Institute for Magnetic Resonance Research
Sport Knowledge Australia Pty Limited^
Sydney Talent Pty Limited
SydneyLearning Pty Limited
The Bosch Institute
The Sydney Institutes of Health and Medical Research
The Warren Centre for Advanced Engineering Limited
Ucom Sixteen Pty Limited
Wayahead Pty Limited
Wentworth Annexe Limited

* Controlled entity was purchased during 2009.

^ The University acquired the remaining shares in Sport Knowledge Australia Pty Ltd on 11 June 2008. Previously this entity was an associate of the University. The previous audit of Sport Knowledge Australia Pty Limited for the year ended 30 June 2008, conducted by a private sector auditor, is incomplete. Our audit for the period to 31 December 2008 and 2009 cannot progress until the prior year audit is complete.

Two companies controlled by the University were deregistered during the year. They comprised Ucom Sixteen Pty Limited (deregistered 21 January 2009) and Institute for Magnetic Resonance Research (deregistered 14 November 2009). The Sydney Institutes of Health and Medical Research became an associate on 18 May 2009.

Audit opinions on the financial statements for Sport Knowledge Australia Pty Limited and Bandwidth Foundry International Pty Ltd have not yet been issued. The Bandwidth Foundry International Pty Ltd audit has been delayed pending the resolution of a number of issues.

Investment in Subsidiaries

I recommend that the University review the financial arrangements it has with its controlled entities to satisfy itself that an appropriate financial structure is in place to support their ongoing operations.

The following controlled entities reported net operating losses for the financial year ended 31 December 2009 (31 December 2008):

- The Warren Centre for the Advanced Engineering Limited - loss \$675,944 (surplus \$109,167)
- Sydney Learning Pty Limited - loss \$40,389 (nil)
- Sydney Talent Pty Limited - loss \$3.0 million (loss \$936,978)
- Bandwidth Foundry International Pty Ltd - unaudited loss \$88,449 (not available).

The University has provided financial guarantees to Sydney Learning Pty Limited, Sydney Talent Pty Limited, Sports Knowledge Australia Pty Limited, Bandwidth Foundry International Pty Ltd and The Warren Centre for Advanced Engineering Limited.

Write-Off of Loans to Sport Knowledge Australia Pty Ltd

Sport Knowledge Australia Pty Ltd (SKA) was established as an International Centre of Excellence in Sport, Science and Technology by way of an \$8.0 million grant from the DEEWR. It commenced operations at Sydney Olympic Park in January 2005.

SKA was initially jointly owned by the University of Sydney, the University of Technology Sydney and the Sydney Olympic Park Authority. The University of Sydney acquired 100 per cent ownership of SKA in June 2008.

SKA has consistently made losses and has been unable to generate forecast revenues. As a result the University has had to fund its operations since August 2008 by way of loans to the company.

On 26 October 2009, the SKA Board approved to wind the company up and cease operations immediately. The University approved the write off of \$1.8 million in loans to SKA.

OTHER BODIES ASSOCIATED WITH THE UNIVERSITY

The following bodies associated with the University, and audited by the Auditor-General, have not been reported on separately as they are not considered material by their size or the nature of their operations.

For further financial and other information on these entities we have listed the entities' websites.

Entity Name	Website
United States Studies Centre Limited	ussc.edu.au
University of Sydney Professorial Superannuation System	*

* This entity does not have a website

University of New England

AUDIT OPINIONS

The audits of the University and the following controlled entities' financial statements for the year ended 31 December 2009 resulted in unqualified Independent Auditor's Reports.

- Agricultural Business Research Institute
- National Marine Science Centre Pty Ltd (Joint Venture)
- Services UNE Ltd
- UNE Partnerships Pty Limited
- International Livestock Resources and Information Centre Ltd
- University of New England Sports Association
- Sport UNE Limited.

In 2009, the University recognised the UNE Foundation and its trustee, UNE Foundation Ltd, in its consolidated financial statements for the first time. The audit of the Foundation's financial statements resulted in a qualified Independent Auditor's Report as it was impractical for the Foundation to maintain an effective system of internal controls over donations it receives until their initial entry into the financial records. Accordingly, we were unable to express an opinion as to whether all donation revenues received by the Foundation were recorded.

Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Corporate Governance

Last year, I reported that there were some governance issues affecting the University that included disagreement between the Chancellor and Vice-Chancellor over their respective roles. These disagreements led to serious divisions within the University. Subsequently, on 17 April 2009, the then Vice-Chancellor announced his retirement. A new Vice-Chancellor was appointed on 3 February 2010.

To improve the University's corporate governance, during 2009 a new Directorate was introduced into the Vice-Chancellor's Unit, the University Secretary and Legal Counsel, which oversees the Council Services Unit, the Legal Office, the Government relations Unit, Records Management and Audit and Risk; and provides advice to the Chancellor, Vice-Chancellor, members of the senior executive and senior management on governance and legal matters.

In mid 2009, the University Council undertook a comprehensive review of governance arrangements resulting in a series of recommendations. The major outcomes from that review are:

- a skills audit of current Council members has been undertaken to identify strengths and gaps in skill sets, to identify skills based training needs, and to guide Council in the recruitment and training of suitable members of the governing body
- an application was made to the New South Wales Minister for Education to amend the University's legislation to provide for the removal from office of the Chancellor or Vice-Chancellor if the Council decides on such action by a majority of two thirds at two consecutive Council meetings
- the Council is considering amending Council policies to nominate the Vice-Chancellor as the 'Principal Officer' rather than the Chancellor
- the Terms of Reference for the Finance Committee have been amended to allow it to consider defined strategic issues. The Terms of Reference have not been finalised because they are being considered further to possibly incorporate functions of the Investment Committee

- improvements are being made to the performance evaluation process of the Council and the Chancellor. This will include self review, external evaluation of performance and a peer review process
- the principle that the boards of controlled entities must include a University Council member will operate in the case of future appointments
- a review of the policies of controlled entities is in progress to assess compliance with the broader governance framework of the University and to ensure the consistency of financial reporting
- controlled entities will no longer be established without the approval of Council
- a review of the Entrepreneurial Policy is underway to ensure Council is informed of issues related to the establishment and operation of commercial activities that may affect the University's reputation.

Ageing of Academic Staff

I recommend the University review the effectiveness of its policies in managing its ageing workforce.

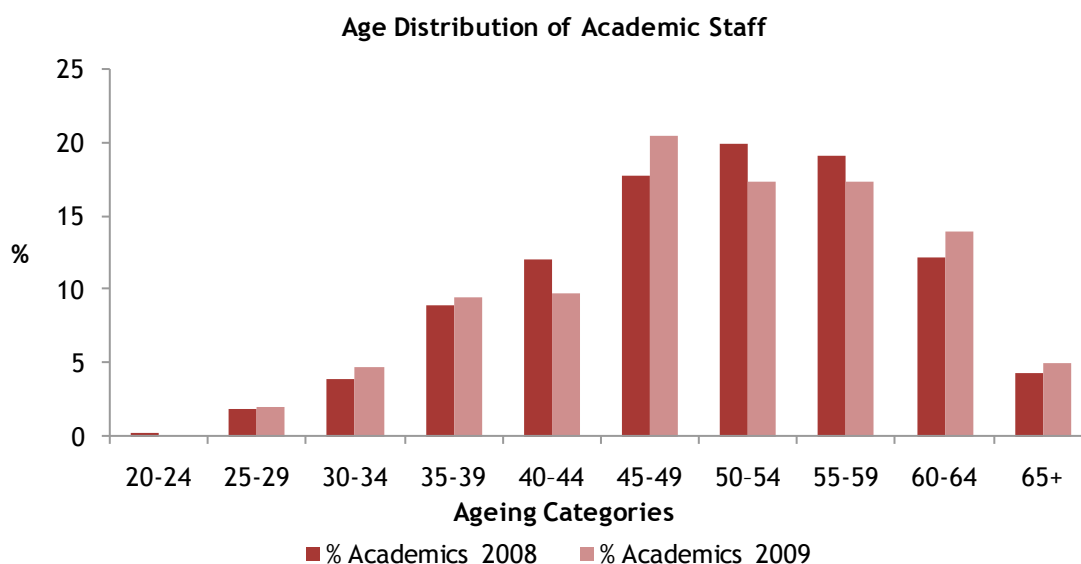
The University is facing challenges from the potential loss of a large number of retiring academic staff. University statistics below show that for academic staff:

- 36.3 per cent are aged 55 years and over
- 53.6 per cent are aged 50 years and over.

At 31 December Age Group	2009		2008	
	No. Of Academics	%	No. Of Academics	%
20-49	206	46.4	186	44.5
50-54	77	17.3	83	19.9
55-59	77	17.3	80	19.1
60-64	62	14.0	51	12.2
65+	22	5.0	18	4.3
Total	444	100	418	100

Source: University of New England (unaudited).

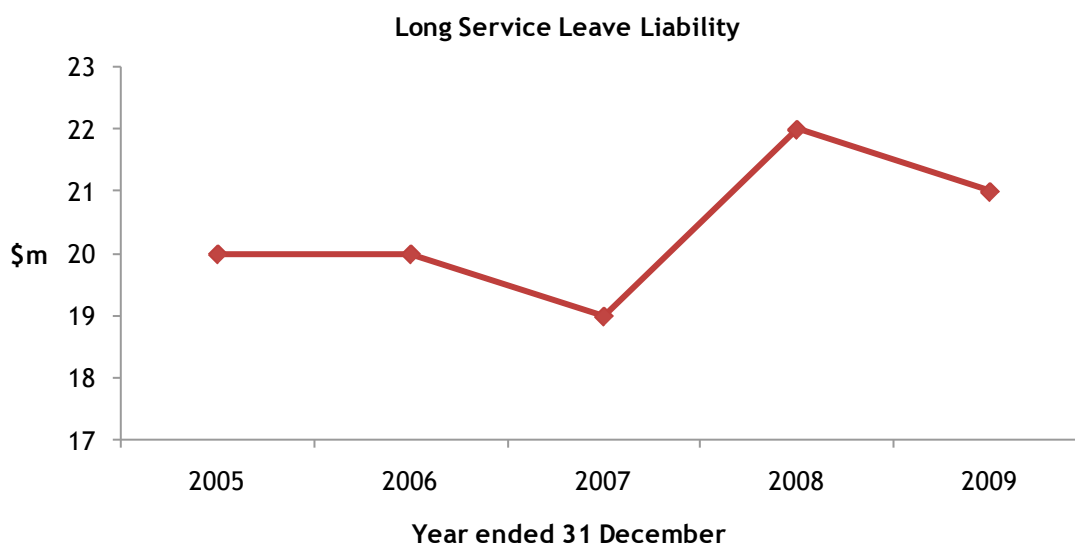
The graph below further demonstrates the age structure of academics.



To ensure an adequate supply of academic staff in the future, the University should actively monitor its workforce age profile and have strategies in place to develop, attract and retain staff whose skills are aligned with the strategic direction of the University. The University is currently considering its strategic and operational approach to workforce planning. Work is already underway in various areas across campus, but an overarching strategy needs to be developed.

Long Service Leave Liability

Long service leave liabilities were \$20.6 million in 2009 (\$21.6 million in 2008).



The liability increased between 2007 and 2008 because entitlements grew and the Government bond rate used to discount the liability fell because of the global financial crisis.

Although the University has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

Contract Employees

The University has employed a number of contractors for longer than one year. Some contract employees have been engaged for over 20 years and in one case 36 years.

The number of contract employees and the duration since their start date is shown below:

Year end 30 June 2009	Number of contract employees		
	Academics	Non Academics	Total
Duration since contract start date			
Over 6 years	22	51	73
5 - 6 years	4	8	12
4 - 5 years	14	16	30
3 - 4 years	10	7	17
2 - 3 years	26	26	52
1 - 2 years	39	50	89
less than 1 year	29	69	98
Total	144	227	371

Source: University of New England (unaudited).

The University employs a number of staff on a contract basis to match staffing requirements to meet research and special purpose grant funding conditions, which typically have time and funding constraints. These staff are employed on a contract basis while funding is available. As new grant funding becomes available or is rolled over, contracted staff move to fulfil the requirements of new grant conditions.

The retention of contract employees for extended periods may result in additional costs to the University. This practice may also give rise to industrial relation issues. The University needs to review its practices relating to contract employees to ensure the desired outcomes are achieved and it is complying with employment related legislation.

Excessive Annual Leave Balances (Repeat Issue)

I recommend the University establish individual leave plans with employees to reduce leave balances within an acceptable timeframe.

Academic staff accrue 20 days annual leave per 12 month period and general staff accrue 25 days. The number of academic staff with annual leave balances in excess of 40 days has increased from two in 2006 to 62 in 2009. The number of general staff with leave balances in excess of 50 days has increased from nine in 2006 to 33 in 2009. The University has not implemented measures to address the increasing number of excessive annual leave balances. The University's employee agreements allow the University to direct staff to take annual leave where they have more than two years of accrued leave. Senior management of the University are yet to formulate a longer term strategy to address this issue.

PERFORMANCE INFORMATION

(Comparative performance data on universities appears in the 'Universities Overview' section earlier in this Volume. The information shown below is based on consolidated financial statements.)

The University's current ratio (a measure of its financial liquidity) was 1.8 at 31 December 2009, up from the previous year's ratio of 1.6. At this level it is above the State average of 1.4 per cent (1.5 per cent at 31 December 2008) and within the Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) 'good practice' parameter of 1.5 to 3.0.

Australian Government grants, as a percentage of operating revenue, decreased from 51.5 per cent in 2008 to 50.9 per cent in 2009. The University continues to have the highest level of reliance on Australian Government grants of all universities. Its reliance on these grants is significantly higher than the State average of 41.6 per cent (41.2 per cent in 2008) and it still exceeds the DEEWR 'good practice' parameter of no more than 50 per cent. Measures adopted by the University aimed at improving the ratio include actively restructuring course offerings to attract additional full fee paying students and offering University programs in conjunction with new partnership providers.

Employee benefits and on-costs, as a percentage of operating revenue, decreased from 58.1 per cent in 2008 to 57.8 per cent in 2009. This is higher than the State average of 53.4 per cent (55.9 per cent), but within the DEEWR 'good practice' parameter of 50 per cent to 70 per cent.

Higher education contributions as a percentage of total revenue increased from 19 per cent in 2008 to 19.3 per cent in 2009. This is above the State average of 14.5 per cent (14.8 per cent).

The University's operating surplus for the year was \$9.8 million or 4.5 per cent of total revenue (3.4 per cent). This return is below the State average of 8.1 per cent (negative 1.4 per cent).

OTHER INFORMATION

We identified opportunities for improvement in internal controls and have reported them to management.

Capital Expenditure Program

Capital expenditure in 2009 totalled \$12.7 million (\$20.4 million). During 2009, three original blocks of the Mary Wright College continued to undergo extensive refurbishment at a cost of approximately \$5.0 million. Expressions of interest are currently open for the design of the Wright Village upgrade.

The University's capital works program for the period 2010 to 2014 exceeds \$138 million. The University is seeking to fund this program through government grants and operating surpluses. The University's primary focus is to invest in areas that will support an increase in student numbers, to maximise space utilisation, to manage the demolition of unsuitable buildings and to manage the environment appropriately.

The University estimates its total deferred maintenance at \$75.8 million (\$73.4 million). Much of the deferred maintenance lies within the University's residential colleges and longer term strategies are currently being investigated to address the deferred maintenance issues in this area. In other areas, a systematic upgrading of infrastructure is planned over the coming years from a focussed effort to improve operating margins.

Voluntary Student Unionism

The University contributed \$775,000 (\$722,000) to controlled entities to fund services previously funded by student organisations prior to the introduction of Voluntary Student Unionism.

FINANCIAL INFORMATION

The consolidated financial information includes the financial statements of the University and its controlled entities.

Abridged Statement of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Australian Government grants	111,114	110,275	111,114	110,275
Higher Education Contribution Scheme	42,216	40,752	42,216	40,752
Fees and charges	34,127	40,877	34,127	31,764
Other	31,003	22,268	15,790	16,754
TOTAL REVENUE	218,460	214,172	203,247	199,545
Employee benefits and on-costs	123,472	124,407	114,519	115,430
Depreciation and amortisation	13,216	13,141	12,345	12,182
Other	69,164	69,384	65,452	64,042
Deferred expense - superannuation	2,845	--	2,845	--
TOTAL EXPENSES	208,697	206,932	195,161	199,654
SURPLUS	9,763	7,240	8,086	7,891
OTHER COMPREHENSIVE INCOME				
Loss on revaluation of land and buildings	(156)	(5,619)	(138)	(7,410)
Other comprehensive income/(expense)	(840)	(300)	291	(282)
TOTAL COMPREHENSIVE INCOME	8,767	1,321	8,239	199

The \$4.3 million increase in total revenue largely reflects an increase in the number of full time student enrolments from 8,885 in 2008 to 9,060 in 2009. In 2009, the University reported the revenue of its controlled entities as 'Other' revenue whereas this revenue was partly reported in 'Fees and charges' in 2008. The University believes this change in classification more accurately reflects the nature of the transactions.

Abridged Statement of Financial Position

At 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	73,442	62,701	56,668	52,918
Non-current assets	379,961	409,897	365,631	393,282
TOTAL ASSETS	453,403	472,598	422,299	446,200
Current liabilities	54,678	53,434	49,990	49,975
Non-current liabilities	152,085	185,001	151,896	184,051
TOTAL LIABILITIES	206,763	238,435	201,886	234,026
NET ASSETS	246,640	234,163	220,413	212,174

The increase in current assets was largely due to the University consolidating UNE Foundation as a controlled entity for the first time in 2009. The Foundation had cash assets of \$5.2 million.

The decrease in non-current assets and non-current liabilities largely reflects a reduction in superannuation liabilities resulting from improvements in financial markets. In 2009, the net defined benefit superannuation liability decreased by \$26.2 million.

UNIVERSITY ACTIVITIES

The University is constituted under the *University of New England Act 1993*. It:

- provides facilities for education and research at university standard
- disseminates and increases knowledge
- provides courses of study across a range of fields, and carries out research to meet community needs
- participates in public discourse
- confers degrees of Bachelor, Master and Doctor and awards diplomas and other certificates
- provides teaching and learning that engage with advanced knowledge and inquiry, and
- develops and provides cultural, sporting, professional, technical and vocational services to the community.

For further information on the University, refer to www.une.edu.au.

CONTROLLED ENTITIES

The following controlled entities have not been reported on separately as they are not considered material by their size or the nature of their operations to the consolidated entity.

Entity Name	Website
Agricultural Business Research Institute	www.abri.com.au
International Livestock Resources and Information Centre Ltd	www.ilric.com
Services UNE Ltd	www.servicesune.com.au
UNE Partnerships Pty Limited	www.unepartnerships.edu.au
UNE Foundation Ltd	*
UNE Foundation	*
University of New England Sports Association	www.une.edu.au/sportune
Sport UNE Limited	www.une.edu.au/sportune

* This entity does not have a website.

OTHER BODIES ASSOCIATED WITH THE UNIVERSITY

The following bodies associated with the University have not been reported on separately as they are not considered material by their size or the nature of their operations.

Entity Name	Website
National Marine Science Centre Pty Ltd	www.nmsc.edu.au
University of New England Professorial Superannuation Fund	*

* This entity does not have a website.

During 2009, the University Council agreed to transfer UNE's 50 per cent share of National Marine Science Centre Pty Ltd to the other joint venture partner, Southern Cross University, to allow UNE to redirect its strategic focus to its core strengths in regional and rural sciences. The sale is expected to be completed during 2010.

University of New South Wales

AUDIT OPINIONS

The audits of the University and its controlled entities' financial statements for the year ended 31 December 2009 resulted in unqualified Independent Auditor's Reports for 22 entities (including the parent) and a qualified Independent Auditor's Report for three entities.

I issued qualified Independent Auditor's Reports for UNSW Hong Kong Foundation Limited, UNSW & Study Abroad - Friends and U.S. Alumni, Inc and UNSW Foundation Trust. As is common for organisations of this type, it is impractical for these entities to maintain effective systems of internal control over donation revenues they receive until initial entry in the financial records. I was therefore unable to express an opinion as to whether all donations have been recorded in the respective financial records. The Independent Auditor's Reports for the year ended 31 December 2008 were similarly qualified for all three entities.

At the time of finalising this report, the audit of only one entity in the group was incomplete. This is a significant improvement over prior years. My audit of UNSW Hong Kong Limited is ongoing due to uncertainty over the accounting treatment for taxation and cost recoveries. Management engaged experts and are considering a report on the matters.

	2009	2008	2007	2006
Incomplete audits	1	3	8	20

Unless otherwise stated, the following commentary relates to the consolidated entity (the Group).

KEY ISSUES

Singapore Campus - UNSW Asia (Repeat Issue)

I recommend the University finalise a framework to identify and manage foreign exchange and interest rate exposures to minimise losses.

Last year, I recommended that the University develop a framework to identify and manage foreign exchange and interest rate exposures to minimise losses. The University has now hedged the outstanding Singapore Economic Development Board (EDB) grant balance of SGD8.9 million (AUD\$7.2 million), which is the University's most significant financial liability exposed to foreign exchange risk.

Following the closure of UNSW Asia, the University signed a settlement agreement in December 2007 with EDB, the Government of the Republic of Singapore, the JTC Corporation and UNSW Asia. This resulted in the University assuming UNSW Asia's liabilities and closure costs, including an ANZ Bank loan, an EDB loan and a grant repayable to the EDB. UNSW Asia was liquidated on 19 October 2009 and dissolved on 22 January 2010.

The University has advised that a comprehensive analysis of foreign exchange exposures has recently been completed and a new approach to foreign exchange risk management is currently being implemented. The implementation process involves identifying, recording and managing all material foreign exchange exposures in accordance with a Treasury risk management policy. The policy and related processes and procedures are being drafted.

A framework for monitoring, benchmarking and reporting interest rate risk has been developed and implemented. Further work is being completed to enhance interest rate risk management through budgeting and reporting of interest income. A policy is being drafted which will detail interest rate risk management practices.

Impact of the Global Financial Crisis

I recommend the University finalise its longer term cash flow forecast model to minimise the risk of not meeting operating and capital expenditure commitments and other liability obligations.

Last year, I recommended the University continue to closely monitor its cash flow requirements to ensure it is able to fund its operating and capital expenditure commitments and meet other liability obligations.

The University advised it has completed the review to improve the monitoring and reporting of cash flow requirements. A three month cash flow forecast has been developed and implemented. A longer term cash flow forecast is being developed, which will further advance the University's cash flow management.

The fair value of investments declined significantly during 2008, predominantly due to the global financial crisis. Declines of \$68.1 million and \$91.0 million for the University and the Group, respectively, were recognised as impairment expenses in the Income Statement. In 2009, the fair value of the University's investments recovered by \$35.5 million and the Group's recovered by \$43.4 million. However, some investments were further impaired by \$4.1 million for the University and \$4.6 million for the Group.

The University's long-term investment fund has recovered and performed well during the year but the short-term working fund still continued to underperform against its benchmark:

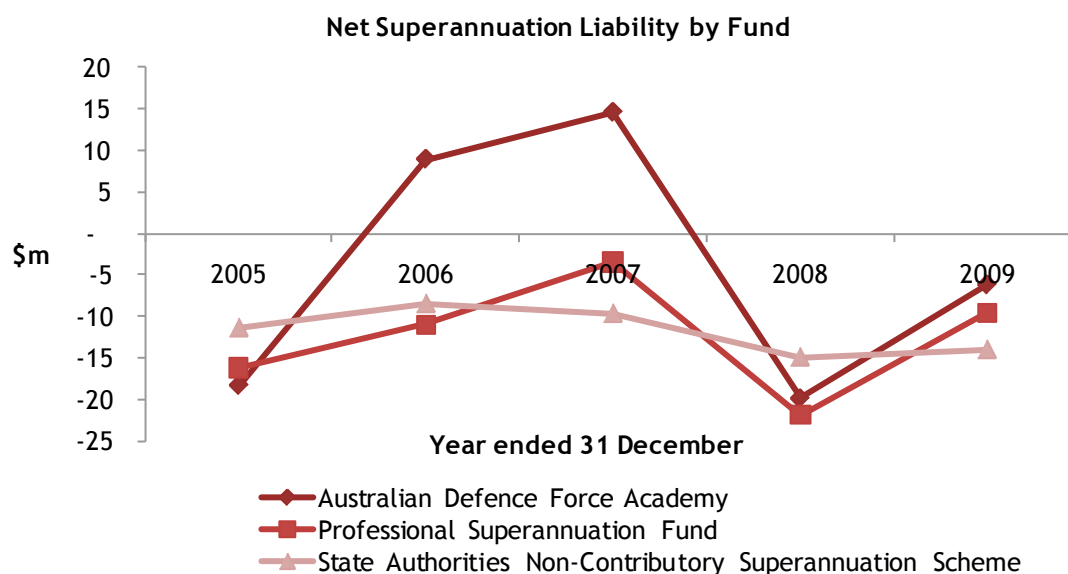
Fund	2009		2008		2007	
	University Return	Benchmark Facility Return	University Return	Benchmark Facility Return	University Return	Benchmark Facility Return
	%	%	%	%	%	%
Long-term	20.26	13.74	(17.06)	(15.75)	7.08	5.06
Short-term	3.46	3.79	4.27	7.62	5.90	6.55

Source: University of New South Wales (unaudited).

Superannuation Liabilities

Another significant impact of the global financial crisis was on superannuation investment earnings and benefit valuations.

Defined benefit superannuation liabilities decreased from \$789 million in 2008 to \$687 million in 2009. This represents a partial recovery from the \$419 million increase in superannuation liabilities in 2008. The Australian Government will fund the majority of these liabilities, which has minimised the impact on the University's operating result. However, the University is responsible for funding three defined benefit superannuation funds and, as at 31 December 2009, the combined liability for these three funds was \$29.8 million (\$58.3 million). The trend for these liabilities over the last five years has been:



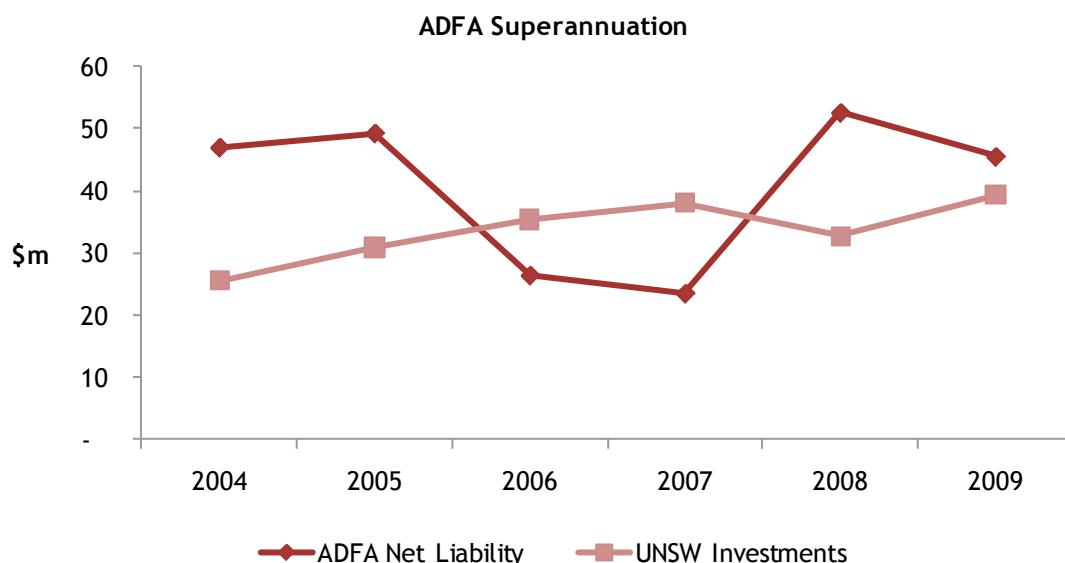
Source: University of New South Wales financial statements (audited).

Australian Defence Force Academy (ADFA) Superannuation

In 2006, I reported that the University planned to transfer investments it was holding to fund superannuation liabilities of ADFA employees to the State Superannuation Scheme (SSS Fund). The University has now considered this and resolved to retain the funds. In January 2010, the University and the Australian Government signed a new Transition Out agreement for funding the net ADFA defined benefit superannuation liability.

In 2004, the University reached agreement with the Australian Government for funding superannuation liabilities of ADFA employees transferred to the University when ADFA became a University college. In December 2004, the Australian Government paid the University \$25.5 million for those liabilities. Since then it has been the University's obligation to fund current and future liabilities.

As shown below, investments to fund the ADFA superannuation liabilities had grown by \$13.8 million in 2004 to \$39.3 million at 31 December 2009. These funds are externally managed as part of the University's pool of general investments. The ADFA superannuation liability at 31 December 2009 was \$45.5 million (\$52.6 million), leaving a net liability at 31 December 2009 of \$6.2 million (\$19.9 million).



Source: University of New South Wales financial statements (audited).

Excessive Annual Leave Balances (Repeat Issue)

I recommend the University establish individual plans with employees to reduce excessive leave balances within an acceptable timeframe.

Out of a total of 5,206 employees, 710 (13.6 per cent) at 31 December 2009 (683 and 13.5 per cent), held annual leave balances in excess of the maximum thresholds allowed under the University's leave policy. While the total number of employees with excess annual leave balances only increased by 27 in 2009, academic staff with excess annual leave balances increased by 89 (281 increase in 2008), from 412 to 501. This results in additional expense to the University as employee remuneration levels increase over time, and can lead to workplace health declining as employees are not taking sufficient breaks from work.

The University's management advised that changes to the industrial relations legislation, that took effect from 1 January 2010, will give the University greater flexibility in directing employees to take their annual leave. Management has also approved a new approach to managing employees with high leave balances.

Ageing of Academic Staff

I recommend the University review the effectiveness of its policies in managing its ageing workforce.

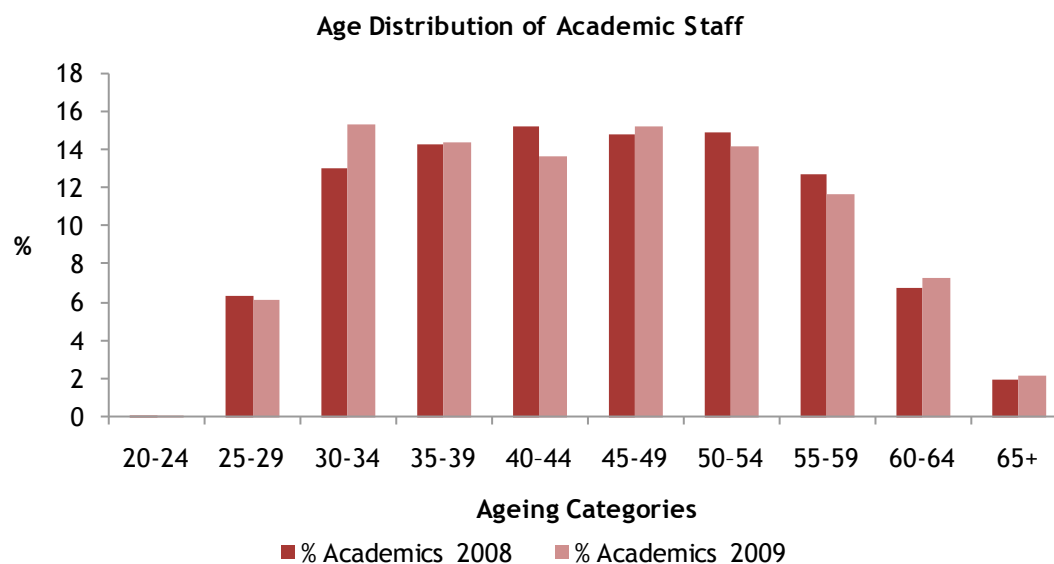
The University is facing challenges from the potential loss of a large number of retiring academic staff. University statistics below show that for academic staff:

- 21.1 per cent are aged 55 years and over
- 35.2 per cent are aged 50 years and over.

As at 31 December Age Group	2009		2008	
	No. of Academics	%	No. of Academics	%
20 - 49	1,393	64.8	1,278	63.7
50 - 54	304	14.1	298	14.9
55 - 59	249	11.6	255	12.7
60 - 64	157	7.3	136	6.8
65+	47	2.2	39	1.9
Total	2,150	100.0	2,006	100.0

Source: University of New South Wales (unaudited)

A significant proportion of academic staff are likely to retire within the next 15 years, which may result in a significant net loss of academic skills in the near future. The graph below demonstrates the age structure of academic staff in the University (parent only).

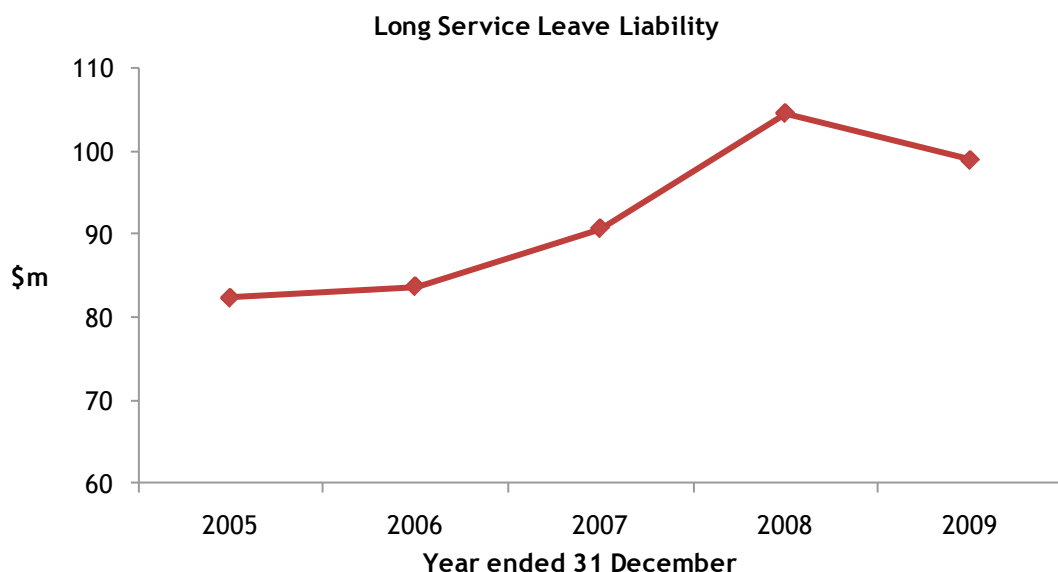


Source: University of New South Wales (unaudited)

To ensure there are sufficient academic staff in the future, the University should actively monitor its workforce age profile and ensure strategies are in place to develop, attract and retain staff whose skills are aligned with the strategic direction of the University.

Long Service Leave Liability

The long service leave liability of the University has increased by 20.2 per cent over the past four years to \$98.9 million in 2009. This liability presents a further funding challenge for the University.



Source: University of New South Wales financial statements (audited)

The increase in the liability from 2007 to 2008 resulted from a growth in entitlements plus the impact of a reduced Government bond rate used as the discount factor in calculating the present value of the liability. The reduced Government bond rate resulted from the global financial crisis. In 2009, a higher discount rate was used resulting in a lower liability.

Although the University has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities, which generally increase over time with increases in employee remuneration levels. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

Employment of Contractors

I recommend the University maintains a central register for contractors not paid through the human resources systems to reduce the risk of non-compliance with taxation laws and regulations.

The University has implemented changes to policies, practices and procedures to better manage taxation compliance risks associated with contractors. However, the University does not maintain a central register for contractors if they are not paid through human resources systems. This increases the risk of non-compliance with taxation and other employment laws and regulations.

The University was unable to provide information relating to the following as at 31 December 2009:

- the total number and cost of contractors hired
- the period of service for each contractor.

Retention of contract employees for extended periods may result in additional costs to the University. The University should consider implementing a central register of all contractors not paid through human resources systems to help ensure it is achieving the desired outcomes from using contractors and is complying with employment laws and regulations.

Complexity of the Universities' Business Arrangements

I recommend:

- the University complete the liquidation of AGSM Limited and UNSW Asia School Limited during 2010
- UNSW Global Pty Limited establishes policies and procedures to review the group's overseas operations, including representative offices, to ensure compliance with local laws and regulations.

At 31 December 2009, the University had one of the most complex business arrangements of all ten New South Wales' universities, with 25 controlled entities, two joint ventures and involvement as a core or supporting participant in 12 Cooperative Research Centres.

In 2007, I reported that management had identified the following areas for improvement:

- communication across the Group
- centralising compliance control activities in the University.

The University has continued to review and rationalise the Group structure to improve these areas. Five controlled entities were deregistered in November 2009 and another two in January 2010. Controlled entities have been reduced to 25 as at 31 December 2009 (31 at 31 December 2008). Two more controlled entities, AGSM Limited and UNSW Asia School Limited, are being liquidated. However, the process for UNSW Asia School Limited has been underway for nearly two years. Management has advised this is a complex matter and hopes the process will be completed by August 2010.

While some of the entities are dormant, each controlled entity must:

- prepare an audited financial report
- implement and maintain an effective compliance framework to ensure it complies with legislative requirements which apply to its operations.

Compliance Risk

The high number of business arrangements in the group significantly increases governance risks and compliance costs. During my audits of controlled entities, errors were identified as a result of non-compliance with local laws and regulations. These errors included:

- UNSW (Thailand) Limited - the VAT input of health insurance expenses for two employees could not be claimed because there was no supporting documents. Additionally, the company had not accrued VAT output for service fees billed to UNSW Global Pty Limited, resulting in a tax penalty for non-compliance
- UNSW Hong Kong Limited - the company may be exposed to transfer pricing issues under the Hong Kong tax regime. Expert taxation advice has now been obtained and is being considered by management.

PERFORMANCE INFORMATION

(Comparative performance data on all universities appears in the 'Universities Overview' section earlier in this Volume. The information shown below is based on consolidated financial statements.)

The University's current ratio (a measure of its financial liquidity) was 1.2 at 31 December 2009, an increase from the previous year's ratio of 1.0. At this level, it is still below the State average of 1.4 (1.5 at 31 December 2008) and below the Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) 'good practice' parameter of 1.5 to 3.0. However, another DEEWR guideline, the Annual Institutional Assessment Framework, suggests a current ratio of more than one is low risk, between 0.75 and one is medium risk, and less than or equal to 0.75 is high risk. Using this benchmark, the University's current ratio would be considered of low risk.

Australian Government grants, as a percentage of total revenue, increased from 40.8 per cent in 2008 to 44.0 per cent in 2009. This is higher than the State average of 41.6 per cent (41.2 per cent in 2008) and still below the DEEWR 'good practice' parameter of no more than 50.0 per cent.

Employee benefits and on-costs, as a percentage of total revenue, decreased from 56.6 per cent in 2008 to 50.4 per cent in 2009. This is below the State average of 53.4 per cent (55.9 per cent) and within DEEWR's 'good practice' parameter of 50.0 per cent to 70.0 per cent.

Higher education contributions, as a percentage of total revenue, decreased from 10.9 per cent in 2008 to 10.1 per cent in 2009. This is equal lowest of all universities and is significantly below the State average of 14.5 per cent (14.8 per cent).

The University's operating surplus for the year was \$93.0 million or 7.4 per cent of total revenue (negative 7.6 per cent). This return is below the State average of 8.1 per cent (negative 1.4 per cent). For benchmarking with DEEWR's performance parameters the operating surplus includes \$19.8 million in actuarial gains on defined benefit superannuation plans, but not other items of Other Comprehensive Income.

OTHER INFORMATION

Internal Controls

We identified opportunities for improvement to accounting and internal control procedures and have reported them to management.

Capital Expenditure Program

Capital expenditure in 2009 was \$139 million, an increase of \$51.4 million on 2008. Major projects included:

- completion of the cancer research centre building (Lowy Building) in November 2009 at a cost of \$93.6 million
- completion of the 1,021-bed UNSW Village, which welcomed its first students on 1 January 2010 and reached 100 per cent occupancy before the start of semester one. Approximately 640 of the occupants are international students. This \$127 million development is a private public partnership and was designed and is managed by Campus Living Villages.

The University's capital expenditure program is designed to address the following major challenges:

- to meet infrastructure needs and address backlog maintenance, which was estimated at \$223 million at 31 December 2009 (\$236 million), for the parent only
- to replace outdated facilities with modern teaching and research facilities.

In 2009, the University received funds for capital works from the following sources:

- a Teaching and Learning Capital Fund grant from DEEWR totalling \$22.2 million as part of the \$4.7 billion nation-building infrastructure package to support Australia's economy
- \$32.9 million under the Education Investment Fund mainly earmarked for the Gateway@COFA (College of Fine Arts) redevelopment and the Energy Technologies Building. The COFA project will build state-of-the-art teaching, learning and studio/laboratory facilities, and a large installation gallery with a technical capacity to present world-class digital art and design works. These projects are in progress and total amount spent as at 31 December 2009 was \$2.7 million for COFA redevelopment and \$1.8 million for the Energy Technologies Building
- a \$2.0 million grant from the Department of Resources, Energy and Tourism for the Australian Solar Institute Foundation Project to research and develop solar energy technologies
- in 2008, the University received \$20.0 million from the South Eastern and Illawarra Area Health Service to fund the Virology Institute Building to be constructed on land owned by St. Vincent's Hospital, Sydney. The Australian Government and the University entered into a funding deed on 14 January 2010 for \$20.0 million to be paid to the University upon meeting milestones. The building is to facilitate the National Centre in HIV Epidemiology and Clinical Research's activities. The project is still in its early stages and total amount spent as at 31 December 2009 was \$1.0 million.

Student Debtors and other Reconciliations

In 2006, I reported that the University's management identified the need to complete a review of credit balances in student debtors' accounts. This review was satisfactorily completed with \$1.6 million being refunded to students and \$468,000 being paid to the Office of State Revenue.

FINANCIAL INFORMATION

The consolidated financial information includes the financial reports of the University and its controlled entities.

Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Australian Government grants	551,021	470,867	550,666	470,586
Higher Education Contribution Scheme	126,155	126,243	126,155	126,243
Fees and charges	400,361	347,634	315,369	276,914
Other	174,359	209,732	179,262	189,791
TOTAL REVENUE	1,251,896	1,154,476	1,171,452	1,063,534
Employee benefits and on-costs	649,175	605,121	605,846	563,657
Depreciation and amortisation	88,354	85,217	86,634	83,557
Impairment of available-for-sale assets	4,586	90,969	4,061	68,115
Other	436,457	403,927	395,032	370,986
TOTAL EXPENSES	1,178,572	1,185,234	1,091,573	1,086,315
Outside equity interest and income tax expense	(90)	(69)	--	--
SURPLUS/(DEFICIT)	73,234	(30,827)	79,879	(22,781)
OTHER COMPREHENSIVE INCOME				
Gain on revaluation of property, plant and equipment	27,840	20,296	27,840	20,296
Gain/(loss) on revaluation of available-for-sale financial assets	43,352	(960)	35,482	(7,270)
Exchange gains/(losses) on translation of foreign operations	(833)	767	--	--
Actuarial gains/(losses) on defined benefit superannuation plans	19,759	(56,512)	19,295	(55,102)
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	90,118	(36,409)	82,617	(42,076)
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	163,352	(67,236)	162,496	(64,857)

Australian Government grants increased by \$80.2 million. An amount of \$32.9 million came from the Education Investment Fund, \$22.2 million from the Teaching and Learning Capital Fund, \$15.0 million from National Health and Medical Research Council (mainly in relation to a National Drug and Alcohol Research Centre project) \$8.0 million for an increase in enrolment entitlements and another \$2.0 million for the Australian Solar Institute Foundation Project.

The \$52.7 million increase in fees and charges mainly came from a 13.0 per cent increase in overseas students (from 7,042 to 7,955) and 4.3 per cent increase in domestic students (from 23,362 to 24,374).

Other revenue decreased by \$35.4 million due to an \$18.0 million decrease in dividends from investments, a \$10.5 million decrease in gains on the disposal of assets and a \$7.8 million decrease in consultancy and contracts revenue.

The increase in employee benefits and on-cost expenses of \$44.1 million was mainly due to a four per cent annual salary increase.

Impairment of available-for-sale assets decreased by \$86.4 million as a result of improving financial markets.

During the year, the University changed its accounting policy to recognise defined benefit superannuation actuarial gains and losses in the Statement of Comprehensive Income. Previously, these gains and losses were recognised in the Income Statement. The change in policy was recommended by DEEWR and was adopted on the basis that recognition outside the Income Statement provides reliable and more relevant information. This is because actuarial gains/losses are re-measurements, based on assumptions that do not necessarily reflect the ultimate cost of providing superannuation. The change in accounting policy decreased the 2009 operating surplus of \$93.0 million to \$73.2 million and the 2008 operating loss from \$87.3 million to \$30.8 million.

Abridged Statements of Financial Position

At 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	285,500	243,346	225,505	202,259
Non-current assets	2,332,782	2,293,975	2,256,945	2,224,085
TOTAL ASSETS	2,618,282	2,537,321	2,482,450	2,426,344
Current liabilities	312,627	316,613	275,328	301,357
Non-current liabilities	809,547	887,952	807,502	887,863
TOTAL LIABILITIES	1,122,174	1,204,565	1,082,830	1,189,220
NET ASSETS	1,496,108	1,332,756	1,399,620	1,237,124

The increase in the University's total assets is predominantly due to revaluation increments in available-for-sale financial assets and property, plant and equipment of \$43.4 million and \$27.8 million, respectively.

The \$82.4 million decrease in total liabilities was mainly due to \$103 million decrease in superannuation liabilities offset partially by an increase in rentals in advance from the Children's Cancer Institute of Australia (CCIA) of \$34.5 million.

CCIA paid \$35.0 million upfront for the use of the Lowy Cancer Research Building. The University recognised \$533,000 as income in 2009, with the balance being deferred for recognition over a nine year period determined by management at the inception of the lease.

UNIVERSITY ACTIVITIES

The University is constituted under the *University of New South Wales Act 1989*. It mainly:

- provides education and research facilities of university standard
- aids, by research and other suitable means, the advancement, development and practical application of science to industry and commerce
- provides instruction and carries out research in humane studies and medicine and other disciplines as the Council may determine.

For further information on the University, refer to www.unsw.edu.au.

CONTROLLED ENTITIES

UNSW Global Pty Limited (Global)

Global controls and operates companies in Singapore, Hong Kong, India and Thailand to support the University programs in those countries. The companies provide undergraduate preparation courses and various language programs and services, conduct educational testing, provide consulting services, manage study abroad programs and facilitate technical assistance and training activities.

Abridged Statement of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Revenue	95,772	84,045	93,955	82,281
Expenses	82,649	74,455	82,014	72,914
Income tax expense	91	(08)	--	--
Operating results from discontinued operations	--	72	--	--
Operating profit after tax and minority interest	13,032	9,554	11,941	9,367
Other comprehensive income/(expense)	(342)	(734)	465	(1,411)
Total Comprehensive income	12,690	8,820	12,406	7,956
Net assets (at 31 December)	15,880	20,190	13,387	17,981

Consolidated Global revenue increased by \$11.7 million primarily due to an increase in course fees and charges, which were attributable to a combination of growth in the number of overseas enrolments, from 4,686 to 6,560, and increases in course fees.

Consolidated Global expenses increased by \$8.2 million mainly due to an increase of \$4.3 million in employee related expenses. The number of casual teaching staff increased to accommodate higher enrolments and average annual salaries increased by four per cent. Other expenses increased by \$3.8 million, particularly agent commissions as a result of higher student enrolments.

Consolidated Global net assets decreased by \$4.3 million primarily due to the distribution of \$17.0 million to the parent entity in 2009, which was offset by a decrease of \$1.5 million in trade receivables and an increase of \$13.8 million in cash from revenue growth.

For further information on Global, refer to www.nsg.unsw.edu.au.

NewSouth Innovations Pty Limited (NS Innovations)

On 22 November 2009, Audio Nomad Pty Ltd and HepatoCell Therapeutics Pty Limited were deregistered as there were no economic prospectus for the intellectual property held by each of these companies. Similarly, NewSouth Four Pty Ltd was deregistered on 6 January 2010, and the 2009 financial statements were prepared on liquidation basis.

On 8 December 2009, the University signed a loan agreement of \$603,000 with NS Innovations at an annual interest rate of 4.15 per cent. In January 2010, NS Innovations repaid the principal and interest amounting to \$605,000 to the University.

For further information on NS Innovations, refer to www.nsinnovations.com.au.

The following controlled entities have not been reported on separately as they are not considered material by their size or the nature of their operations to the consolidated entity.

Entity Name	Website
ACN 125 694 546 Pty Ltd	*
AGSM Limited **	www.agsm.edu.au
Audio Nomad Pty Ltd ¹	*
Australian Education Consultancy Limited	www.aecl.com.hk
Cystemix Pty Limited	*
HepatoCell Therapeutics Pty Limited ¹	*
John Lewis and Pamela Lightfoot Trust	*
NewSouth Eight Pty Ltd ¹	*
NewSouth Five Pty Ltd	*
NewSouth Four Pty Ltd ²	*
NewSouth Global (Thailand) Limited	*
NewSouth Innovations Pty Ltd	www.nsinnovations.com.au
NewSouth One Pty Ltd ¹	*
NewSouth Seven Pty Ltd	*
NewSouth Six Pty Ltd ¹	*
Qucor Pty Ltd	www.qucor.com.au
The New South Wales Minerals Industry/University of New South Wales Education Trust	*
University of New South Wales Foundation Trust	*
University of New South Wales Foundation Limited	*
University of New South Wales International House Limited	www.ihunsw.edu.au
University of New South Wales Press Limited	www.unswpress.com.au
UNSW & Study Abroad - Friends and U.S. Alumni, Inc	*
UNSW (Thailand) Limited	www.unswthailandoffice.com
UNSW Asia ³	*
UNSW Asia School Limited **	*
UNSW Global (Singapore) Pte Limited	www.singapore.unsw.edu.au
UNSW Global India Private Limited	www.unswindiaoffice.com
UNSW Global (Thailand) Limited	*
UNSW Hong Kong Foundation Limited	*
UNSW Hong Kong Limited	www.hongkong.unsw.edu.au

* These entities do not have websites.

** These entities are being liquidated.

1 These entities were deregistered in November 2009.

2 This entity was deregistered on 6 January 2010.

3 This entity was liquidated on 19 October 2009 and deemed dissolved on 22 January 2010.

University of Newcastle

AUDIT OPINION

The audits of the University and its controlled entities' financial statements for the year ended 31 December 2009 resulted in unqualified Independent Auditor's Reports, except for the UON Foundation Trust.

I issued a qualified Independent Auditor's Report for UON Foundation Trust. As is common for organisations of this type, it is impractical for the Trust to maintain an effective system of internal controls over donation revenue received until initial entry in the financial records. I was therefore unable to express an opinion as to whether all donations have been recorded in the Trust's financial records. The independent Auditor's Report for the year ended 31 December 2008 was similarly qualified.

Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

New Campus

I recommend that the University conduct a comparative cost benefit analysis to the University of building a new city campus and relocating some of its operations versus upgrading its Callaghan campus.

The University should also review its ability to fund the proposed capital programs.

The University is planning to build a new campus in Newcastle city centre for an estimated cost of \$562 million. This plan is supported in principle by the New South Wales Government. Funding for the project has not been sourced, other than the contribution of a parcel of land worth approximately \$4.0 million. The University estimates that it is only able to contribute \$30.0 million to the project at this stage.

The advantages and disadvantages for the University of relocating some of its schools to the city centre have not been fully explored. The University has a very large site at Callaghan with good infrastructure, which may be capable of accommodating any anticipated increases in students. Issues associated with student accommodation and car parking at a city centre campus would also need to be resolved.

Capital Works

I recommend that the University implement total asset management plans to ensure assets are planned and managed efficiently and effectively.

In addition to the proposed city centre campus, the University is planning capital expenditure of \$89.3 million in 2010, \$33.7 million of which will be funded by grants. The major components of the planned capital expenditure are: \$70.3 million for buildings, \$5.0 million on IT projects, \$13.8 million on plant and equipment and \$11.0 million on the purchase of a site adjacent to the Callaghan campus.

The University is also considering building additional student accommodation for 750 students on its Callaghan campus. The cost of the accommodation is estimated at \$85.0 million and will be funded through debt. The University expects the income from the additional accommodation to be more than sufficient to fund this project over its life.

During 2009, the University spent \$35.0 million on capital expenditure. \$4.9 million of this was funded through grants, while the remaining \$30.1 million was funded through operational cash flows. The University estimates that its backlog maintenance is \$62.3 million.

Last year I recommended that the University implement a total asset management plan to ensure assets are planned and managed efficiently and effectively. The University is in the process of developing a total asset management plan.

Impact of the Global Financial Crisis

The fair values of the University's investments declined significantly during 2008 due to the global financial crisis. In 2009, the value of the investments increased to \$87.1 million at year end (\$76.1 million in 2008) reflecting improvements in financial markets.

The University recorded an operating surplus of \$45.4 million in 2009, compared to an operating loss of \$366,000 in 2008. The major contributor to the loss was an impairment expense of \$29.2 million, representing the decline in the value of equity investments.

Last year the global financial crisis also significantly impacted superannuation investment earnings and benefit valuations. As the economic conditions improved in 2009, superannuation liabilities decreased from \$234 million in 2008 to \$199 million in 2009.

Age profile of Academic Staff

I recommend the University review the effectiveness of its policies in managing its ageing workforce.

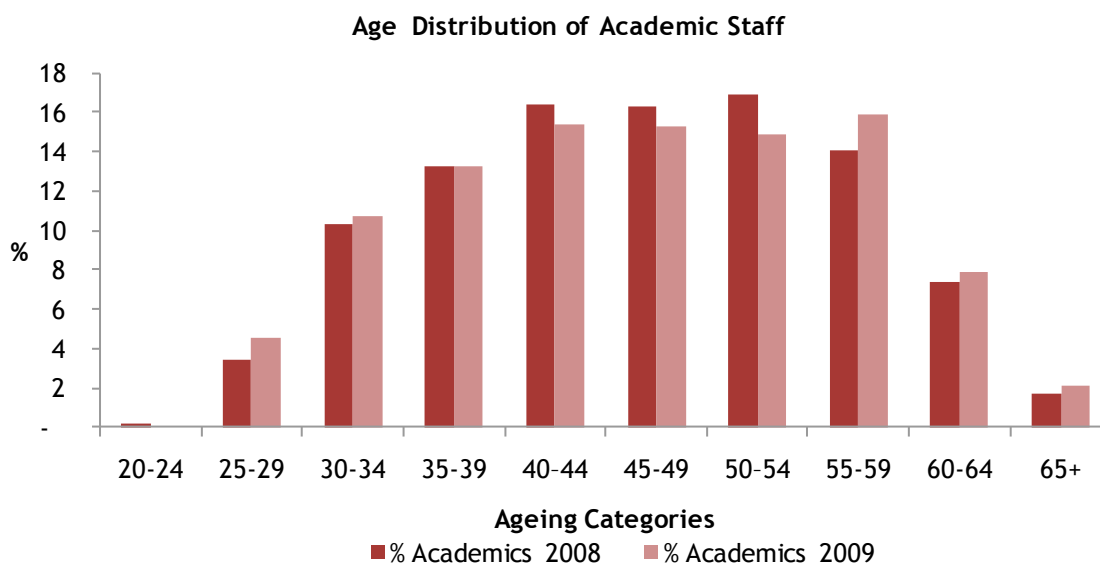
The University faces challenges from the potential loss of a large number of retiring academic staff as supported by the following University statistics:

- 26 per cent are aged 55 years and over
- 41 per cent are aged 50 years and over.

As at 31 December	2009		2008	
Age Group	No. Of Academics	%	No. Of Academics	%
Up to 49	620	59	595	60
50-54	156	15	168	17
55-59	166	16	140	14
60-64	82	8	73	7
65+	22	2	17	2
Total	1,046	100	993	100

Source: Information provided by University of Newcastle (Unaudited)

The graph below further demonstrates the age structure of academics.



Source: Information provided by University of Newcastle (Unaudited)

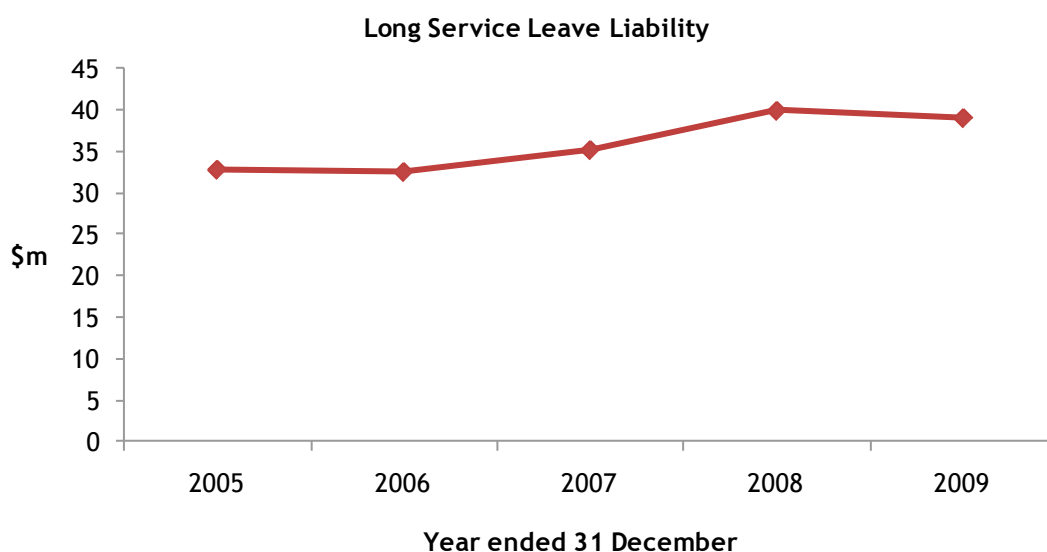
Annual Leave Balances

Out of its total workforce of 2,672 people, 61 people (two per cent) had annual leave balances in excess of the maximum thresholds allowed under the University's leave policy.

The overall number of staff with annual leave balances in excess of the maximum threshold decreased by 30 people during the year. The University's leave policy for academic staff allows a maximum balance of 40 days annual leave.

Long Service Leave Liability

Long service leave liabilities create funding challenges for the University. Long service leave liabilities have increased by 10.9 per cent over the past three years to \$39.1 million in 2009 (\$39.9 million in 2008).



Source: University of Newcastle Audited Financial Statements

The increase in the liability from 2007 to 2008 resulted from a growth in entitlements plus the impact of a reduced Government bond rate used as the discount factor in calculating the present value of the liability. The reduced Government bond rate resulted from the global financial crisis.

Although the University has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities, which generally increase over time with increases in employee remuneration levels. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

Employment of Contractors

I recommend the University create and maintain a single record of all contractors engaged by it.

The University should also periodically review the roles and responsibilities of all its contractors to ensure:

- its reliance on contractors is not excessive
- use of a contractor instead of a permanent employee is appropriate
- contractors do not become de facto employees by virtue of being with the University for an extended period of time
- use of contractors continues to represent value for money.

The University does not maintain a single, complete and detailed listing of all contractors it has engaged during the year. It uses a decentralised approach to engage and record contractors.

The University was unable to provide the following information as at 31 December 2009:

- the cost of contractors engaged
- the number of contractors engaged
- the period of service of contractors engaged.

The retention of contract employees for extended periods may result in additional costs to the University. The University should review its practices relating to contractors to ensure they are appropriate to achieve desired outcomes and comply with employment related legislation.

Credit Cards

I recommend the University review its use of corporate credit cards and the internal control structure it uses to control and monitor spending on credit cards.

I recommend the University records any personal expenditure on credit cards as a debt owing to the University. This will ensure that the money is collected from the employee involved.

I recommend the University raise a debt against the relevant employee for any spending not accounted for within two months of the credit card statement date. This will ensure all money is accounted for correctly or recovered from the relevant employee.

Credit cards can expose an organisation to a higher risk of fraud as the person with the card has the ability to incur the expense and pay for it at the one time. These two operations are usually separated in an accounts payable system to ensure appropriate segregation of duties. To offset the higher risk of fraud there needs to be a high level of monitoring of credit card expenditure.

The University advised that total credit card expenditure in 2009 was \$22.1 million, and 1,100 employees have credit cards.

The University noted that during the year 135 employees used their credit cards for personal expenditure totalling \$24,337. The purchase card policy classifies personal expenditure as a fraudulent transaction and a breach of policy unless it is used for emergency purposes only and reimbursed within 14 days. The University does not record personal expenditure as a debtor in its financial records but instead writes it off to an expenditure account. As a result personal expenditure may not be recovered from the employee.

The University's debtors system should be used to record any personal expenditure and monies not accounted for, as it will then be subject to the University's standard collection and recovery procedures. The extent of personal expenditure will also be more transparent and this will allow easier monitoring by management.

During the year the University introduced procedures to cancel or suspend credit cards if University policies were not complied with. We see this as a positive step in enforcing compliance with University policies. The University advised us that 55 people had their credit cards suspended and 22 were cancelled in 2009 for not following policy requirements.

At the beginning of March 2010 there were 127 credit card statements from 108 individuals who had not submitted documentation for expenditure incurred up to 31 December 2009. This does not include those individuals whose cards were already suspended or cancelled, which may have been for failing to submit documentation for review and approval.

Controlled Entities

Last year, I recommended the University review its group structure to ensure it meets its objectives effectively and efficiently. Eliminating unnecessary controlled entities could result in savings in compliance and assurance costs. During 2009, the University removed three entities from the consolidated group. The University has now advised that the current structure is appropriate.

PERFORMANCE INFORMATION

(Comparative performance data on all universities appears in the 'Universities Overview' section earlier in this Volume. The information shown below is based on consolidated financial statements.)

The University's current ratio (a measure of its financial liquidity) was 2.5 at 31 December 2009 (1.8 at 31 December 2008). This ratio is now higher than the State average of 1.4 (1.5 at 31 December 2008) but within the Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) 'good practice' parameter of 1.5 to 3.0.

Australian Government grants, as a percentage of operating revenue, increased from 44.7 per cent in 2008 to 44.9 per cent in 2009. This is higher than the State average of 41.6 per cent (41.2 per cent in 2008), but still meets the DEEWR 'good practice' parameter of less than 50 per cent.

Employee benefits and oncosts, as a percentage of operating revenue, decreased from 53.8 per cent in 2008 to 52 per cent in 2009. This is lower than the State average of 53.4 per cent (55.9 per cent) and within DEEWR 'good practice' parameter of 50 per cent to 70 per cent.

Higher education contributions, as a percentage of total revenue, remained steady at 17 per cent in 2009 (17.1 per cent). This is above the State average of 14.5 per cent (14.8 per cent).

The university's operating surplus for the year was \$45.4 million or 8.7 per cent of total revenue (negative 0.1 per cent). This return is above the state average of 8.1 per cent (negative 1.4 per cent).

OTHER INFORMATION

I identified some opportunities to improve accounting and internal control procedures at the University and its controlled entities and have reported them to management.

The University has advised that it is taking action on the issues we have raised.

FINANCIAL INFORMATION

The consolidated financial information includes the financial reports of the University and its controlled entities.

Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Australian Government grants	245,030	221,542	245,030	221,542
Higher Education Contribution Scheme	89,072	81,294	89,073	81,294
Fees and charges	95,970	82,054	77,642	59,939
Other	92,553	89,272	86,121	88,463
Deferred (expense)/income - superannuation	(34,781)	132,404	(34,781)	132,404
TOTAL REVENUE	487,844	606,566	463,085	583,642
Employee benefits and on-costs	271,698	255,224	258,948	241,633
Depreciation and Amortisation	38,997	36,899	38,306	36,133
Impairment of available for sale assets	66	29,181	--	29,181
Other	166,478	153,224	160,316	145,658
Deferred (income)/expense - superannuation	(34,781)	132,404	(34,781)	132,404
TOTAL EXPENSES	442,458	606,932	422,789	585,009
SURPLUS/(DEFICIT)	45,386	(366)	40,296	(1,367)
OTHER COMPREHENSIVE INCOME				
Gain on revaluation of land and buildings	68,173	--	68,173	--
Gain on value of available for sale financial assets	10,580	1,692	10,472	1,696
Other (expense)/income	(111)	302	--	168
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	78,642	1,994	78,645	1,864
TOTAL COMPREHENSIVE INCOME	124,028	1,628	118,941	497

Revenue received from the Australian Government, the Higher Education Contribution Scheme and Fees and Charges increased due to an increase in the number of students (20,014 students in 2008, increasing to 21,913 students in 2009) and an increase in fees of approximately five per cent.

Employee benefits rose due to an increase in the number of staff, salary increments and a pay increase of four per cent during the year. Other expenses decreased due to a \$29.1 million impairment of investments in the prior year which occurred as part of the global financial crisis.

The Deferred Government Superannuation Contributions declined due to reduced superannuation liabilities resulting from improvements in financial markets.

Abridged Statement of Financial Position

At 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	167,264	107,481	155,046	100,604
Non-current assets	1,022,497	994,074	1,019,746	991,318
TOTAL ASSETS	1,189,761	1,101,555	1,174,792	1,091,922
Current liabilities	94,044	89,374	93,362	89,828
Non-current liabilities	219,789	259,250	219,384	258,989
TOTAL LIABILITIES	313,833	348,624	312,746	348,817
NET ASSETS	875,928	752,931	862,046	743,105

Current assets increased due to an increase in cash resulting from the large operating surplus in 2009. Non-current assets increased due to a revaluation of property, plant and equipment, which increased the asset values by \$68.2 million.

Non-current liabilities decreased due a reduction in superannuation liabilities as a result of the improvement in financial markets during the year.

UNIVERSITY ACTIVITIES

The University is constituted under the *University of Newcastle Act 1989*. It mainly:

- provides educational and research facilities, having particular regard to the needs of the Hunter Region, the Central Coast and surrounding areas
- encourages the dissemination, advancement, development and application of knowledge
- provides courses of study and carries out research to meet the needs of the community
- confers degrees, including Bachelor, Master and Doctor, and awards diplomas and certificates.

For further information on the University, refer to www.newcastle.edu.au.

CONTROLLED ENTITIES

Hunter Uni-Clinics Pty Ltd, a subsidiary company of the University, has been deregistered. This company operated as trustee for the Cessnock Uni-Clinic Trust. A new trustee, independent of the University was appointed for the Trust during the year. As part of the deed of agreement for the new trustee, the new trustee will provide a scholarship to the University for the purposes of health research starting in 2010 and lasting five years.

Probiotic Health Pty Limited, a subsidiary of Newcastle Innovation Limited, is also in the process of being wound up. The company obtained an exemption from The Treasury from preparing a financial report as at 31 December 2010.

The following controlled entities have not been reported on separately as they are not considered material by their size or the nature of their operations to the consolidated entity.

Entity Name	Website
GraduateSchool.com Pty Limited	www.gradschool.com.au
Newcastle Innovation Limited	www.newcastleinnovation.com.au
UON Foundation Ltd	www.newcastle.edu.au/foundation
- UON Foundation Trust	*
UON Services Limited	www.uonservices.org.au
UON, Singapore Pte Ltd	www.newcastle.edu.au/location/singapore

* This entity does not have a website.

University of Technology, Sydney

AUDIT OPINION

The completed audits of the University and its controlled entities' financial statements for the year ended 31 December 2009 resulted in unqualified Independent Auditor's Reports.

The audit of a controlled entity, UTSM Services (Malaysia) Sbn Bhd, remains incomplete.

Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Impact of the Global Financial Crisis

Whilst the global financial crisis did not have a significant impact on the University in 2008 or 2009, risks still exist. Current issues in Europe have highlighted the fragile nature of the recovery in some global markets. Consequently, there remains a funding risk for the University as it enters a rapid expansion program with its campus development plan.

The recovery of the local and global markets in 2009 resulted in defined benefit superannuation liabilities decreasing from \$301 million in 2008 to \$260 million in 2009.

Campus Master Plan

The UTS Council approved the City Campus Master Plan in August 2008. Construction of the master plan projects started in December 2009 and will take approximately six years to complete at a total cost of approximately \$900 million.

Actual capital expenditure in 2009 of \$54.0 million was lower than budgeted expenditure of \$81.4 million because of delays in starting the projects. The capital expenditure budget for 2010 is expected to be \$171.5 million, which will be funded from internal resources.

Major construction projects that started in 2009 included a student housing tower and a multipurpose sports hall.

Major construction projects that will start in 2010 include:

- Thomas Street building - a five storey laboratory building
- Great Hall renovation
- Alumni Green central open space - the new 'green heart of the campus'.

Ku-ring-gai Campus

The New South Wales Minister for Education and Training approved the sale of a portion of the Ku-ring-gai Campus by the University in December 2009. Specific areas of the Campus will be excluded from the current sale for environmental and potentially, educational purposes.

The University will use all proceeds from the sale to fund part of the City campus master plan to improve educational facilities on the City campus.

The University endorsed a strategy in July 2003 to review its options for the long term use of the Ku-ring-gai Campus. In June 2008, the New South Wales Minister for planning approved the rezoning application and concept plan for the Campus.

Ageing profile of Academic Staff

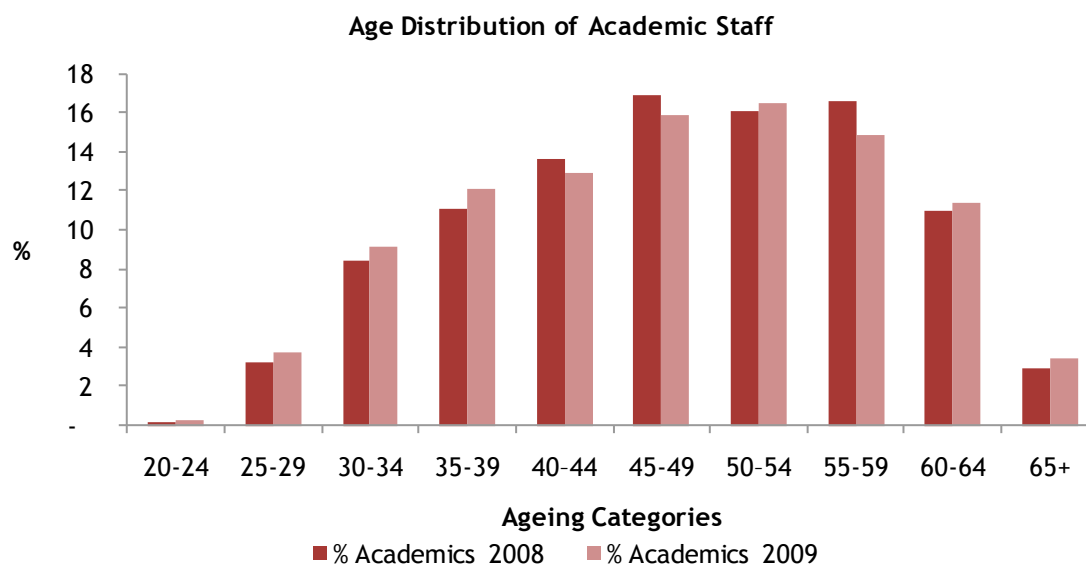
The University faces challenges from the potential loss of a large number of retiring academic staff as supported by the following University statistics:

- 29 per cent are aged 55 years and over
- 46 per cent are aged 50 years and over.

As at 31 December	2009		2008	
Age Group	No. of Academics	%	No. of Academics	%
20 - 49	503.4	54	476.2	53
50 - 54	154.2	17	143.3	16
55 - 59	138.3	15	148.1	17
60 - 64	106.0	11	98.1	11
65+	32.2	3	26.2	3
Total	934.1	100	891.9	100

Source: Information provided by University of Technology, Sydney (Unaudited)

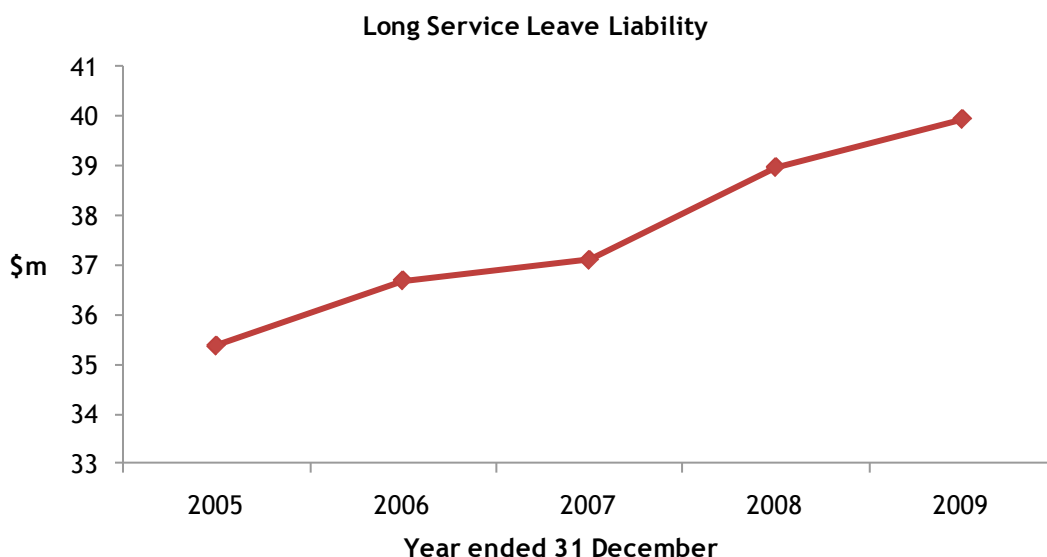
The graph below further demonstrates the age structure of academics.



The University has identified the challenge to ensure it has sufficient qualified academic staff to support current and future teaching and research objectives. The University has advised that it is implementing a number of attraction and retention strategies.

Long Service Leave Liability

Increasing long service leave liabilities create funding challenges for the University. Long service leave liabilities have increased by 7.5 per cent over the last three years to \$39.9 million in 2009.



Source: University of Technology, Sydney Audited Financial Statements

The liability increased between 2007 to 2008 because entitlements grew and the Government bond rate used as the discount the liability fell as a result of the global financial crisis.

Although the University has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

Excessive Annual Leave

Year ended 31 December Annual Leave Entitlement (Days)	2009		2008	
	Academic	Non-Academic	Academic	Non-Academic
41 - 60	83	40	101	72
61 - 90	19	12	17	14
91 - 120	3	1	--	1
120 +	--	--	--	--
Total	105	53	118	87

The highest employee leave balance as at 31 December 2009 was an academic with 100 days and a non-academic employee with 105 days.

Excess annual leave balances may increase costs as the associated liability generally increases over time with increases in salary levels. Allowing excessive annual leave balances means that staff performing key control functions may not be rotated regularly, which is a preventive control against fraud. There may also be occupational, health and safety implications.

Although the University has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

We encourage management to continue monitoring and managing the excessive leave balances on a periodic basis.

Contractors

I recommend the University create and maintain a single record of all contractors engaged by it.

The University should also periodically review the roles and responsibilities of all its contractors to ensure:

- its reliance on contractors is not excessive
- use of a contractor instead of a permanent employee is appropriate
- contractors do not become de facto employees by virtue of being with the University for an extended period of time
- use of a contractor continues to represent good value for money.

The University did not maintain a register of hired contractors to enable it provide information regarding the number of contractors at a given time or the duration of their employment as contractors.

PERFORMANCE INFORMATION

(Comparative performance data on all universities appears in the 'Universities Overview' section earlier in this Volume. The information shown below is based on consolidated financial statements)

The University's current ratio (a measure of its financial liquidity excluding long service leave classified as current) was 3.3 at 31 December 2009, an increase from the previous year's ratio of 2.6. This ratio is significantly higher than the state average of 1.4 (1.5 at 31 December 2008) and is above the upper range of the Australian Government's Department of Education, Education, Employment and Workplace Relations (DEEWR) 'good practice' parameters of 1.5 to 3.

Australian Government grants, as a percentage of total revenue, increased from 33.6 per cent in 2008 to 35 per cent in 2009. It remains lower than the State average of 41.6 per cent (41.2 per cent in 2009), and well within the DEEWR 'good practice' parameter of no more than 50 per cent.

Fees and charges, as a percentage of operating revenue, increased from 31.7 per cent in 2008 to 33.0 per cent in 2009. This is higher than the State average of 26.8 per cent (25.9 per cent).

The University's operating result for the year was \$67.9 million or 12 per cent of total revenue (12.0 per cent in 2008). This was the equal highest return on total revenue of all universities and well above the State average of 8.1 per cent (negative 1.4 per cent in 2008). For benchmarking with DEEWR's performance parameters, the operating surplus includes \$19.8 million in actuarial gains on defined benefit superannuation plans, but not other items of Other Comprehensive Income.

Employee benefits and on costs as a percentage of operating revenue decreased from 53.6 per cent in 2008 to 52.7 per cent in 2009 as shown in the table below. This is lower than the State average of 53.4 per cent (55.9 per cent in 2008) and within the DEEWR 'good practice' parameters of 50 per cent to 70 per cent.

OTHER INFORMATION

We identified some opportunities for improvement in accounting and internal control procedures and have reported them to management.

Backlog Maintenance

The University's backlog maintenance program requirement increased by 4.7 per cent, from \$12.3 million in 2008 to \$12.9 million in 2009. The University's backlog maintenance process is properly monitored to avoid any significant maintenance problems.

Year ended 31 December	Actual			
	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000
Backlog maintenance program requirement	12,880	12,298	12,700	19,800

FINANCIAL INFORMATION

The consolidated financial information includes the financial statements of the University and its controlled entities.

Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Australian Government grants	197,118	174,289	197,118	174,289
Higher Education Contribution Scheme	95,983	90,229	95,983	90,229
Fees and charges	220,354	192,600	173,689	153,717
Other	50,427	58,025	49,691	56,874
TOTAL REVENUE	563,882	515,143	516,481	475,109
Employee benefits and on-costs	297,756	273,504	277,526	256,689
Depreciation and Amortisation	53,314	50,610	51,551	29,210
Other	145,384	129,051	128,386	116,368
Deferred expense - superannuation	400	350	400	350
TOTAL EXPENSES	496,854	453,515	457,863	422,617
SURPLUS	67,028	61,628	58,618	52,492
OTHER COMPREHENSIVE INCOME:				
Gain/(loss) on revaluation of land and buildings	31,845	(19,311)	31,845	(19,311)
Other gains/(losses)	(1,769)	(6,023)	793	(7,274)
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	30,076	(25,334)	32,638	(26,585)
TOTAL COMPREHENSIVE INCOME	97,104	36,294	91,256	25,907

Australian Government grants increased mainly due to 'Teaching and Learning Capital Funding' of \$16.0 million and a DEEWR Commonwealth Grants Scheme of \$11.0 million resulting from an increase in student load and indexation.

Higher Education Contribution Scheme income increased by 6.4 per cent due to higher student enrolments which increased by 3.6 per cent.

The increase in employee benefits and on-costs was due to an increase in academic and support staff numbers. Other expenses increased due to consultancy costs and an increase in energy costs of up to 30 per cent.

Other comprehensive income increased due to a revaluation of land and buildings by \$31.8 million.

Abridged Balance Sheets

At 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	279,017	207,249	237,867	172,367
Non-current assets	1,235,362	1,244,468	1,219,788	1,228,031
TOTAL ASSETS	1,514,379	1,451,717	1,457,655	1,400,398
Current liabilities	111,855	106,223	94,748	88,471
Non-current liabilities	311,974	352,048	310,147	350,423
TOTAL LIABILITIES	423,829	458,271	404,895	438,894
NET ASSETS	1,090,550	993,446	1,052,760	961,504

Current assets increased by \$71.8 million mainly due to additional cash inflows from operating surpluses.

Non-current assets decreased by \$9.1 million mainly due to a decline of \$39.7 million in superannuation liabilities recoupable from the Australian Government offset by a \$31.4 million increase in the value of land and buildings resulting from a revaluation.

Non-current liabilities decreased by \$40.1 million, due to reduced superannuation liabilities resulting from improved financial markets.

UNIVERSITY ACTIVITIES

The University is constituted under the *University of Technology, Sydney Act 1989*. It mainly provides and is responsible for:

- educational facilities at university standard
- courses of study or instruction across a range of fields and carrying out of research to meet the needs of the community
- the encouragement of the dissemination, advancement, development and application of knowledge informed by free inquiry, and
- the conferring of degrees, including those of Bachelor, Master and Doctor, and the awarding of diplomas, certificates and other awards.

For further information on the University, refer to www.uts.edu.au.

CONTROLLED ENTITIES**UTSM Services (Malaysia) Sdn Bhd**

The University Council approved the winding up of UTS Malaysia on 25 February 2009 and the winding-up process commenced subsequently under Malaysian laws and regulations. This process requires a tax clearance to be issued by the Malaysian Inland Revenue Board. The Liquidator estimates the winding-up process will be completed in the second half of 2010.

The audit of UTS Malaysia was not completed at the time of this report. The company has not submitted financial statements for audit for 2008 and 2009. Failure to submit financial statements within the specified timeframe is a breach of legislation. The financial implications of the wind up is estimated to be less than \$100,000.

Insearch Limited

Insearch Limited operates controlled entities in China and a charitable foundation in the United Kingdom. Insearch disposed of its controlling interest in Australia Centre [Thailand] Limited on 30 November 2009. It also has two joint ventures in China and Vietnam. Insearch has about 425 agency agreements worldwide to enrol students from various countries.

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Revenue	51,692	47,592	51,580	44,215
Expenses	44,362	38,750	43,470	38,940
Profit	7,330	8,842	8,110	5,275
Net assets (at 31 December)	33,449	27,442	28,305	19,973

The increase in revenue was due to:

- increased numbers of new international and domestic students
- successful joint venture operations in China and Vietnam.

The decrease in profit in 2009 was due to the previous year's result including a one-off profit from sale of the company's United Kingdom branch operations.

The increase in net assets was due to higher cash balances generated from operations.

The company donated \$3.0 million to the University as a contribution towards the University's operations.

Insearch Limited is a company limited by guarantee. It provides education courses in English language, business, information technology and other disciplines to Australian and international students. Insearch Limited also provides approximately 1,000 full fee paying students to the University annually. It is accredited as a higher education institution.

The following controlled entities have not been reported on separately as they are not considered material by their size or the nature of their operations to the consolidated entity.

Entity Name	Website
accessUTS Pty Limited	www.accessuts.uts.edu.au
UTSM Services (Malaysia) Sdn Bhd	*

* This entity does not have a website

OTHER BODY ASSOCIATED WITH THE UNIVERSITY

Austlii Foundation Limited

The University acquired an interest in Austlii Foundation Limited, which is a public company limited by guarantee with charitable objectives. This is a joint venture between the University of New South Wales and The University of Technology, Sydney to provide an online free-access public library of Australian legal materials.

The following body associated with the University has not been reported on separately as it is not considered material by its size or the nature of its operations.

Entity Name	Website
Sydney Educational Broadcasting Limited	www.2ser.uts.edu.au

University of Western Sydney

AUDIT OPINION

The audits of the University and 11 of its controlled entities' financial statements for the year ended 31 December 2009 resulted in unqualified Independent Auditor's Reports. The audits of the following entities resulted in qualified Independent Auditor's Reports:

- University of Western Sydney Foundation Trust
- Whitlam Institute within the University of Western Sydney Trust.

As is common for entities that have donations and fundraising as sources of revenue, it is impracticable for the Trusts to maintain effective systems of internal control over donation and fundraising revenues they receive until their initial entry in the financial records. I was therefore unable to express an opinion as to whether all donations have been recorded in the Trusts' financial records. My audit reports for 2008 were similarly qualified.

Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Impact of the Global Financial Crisis

Last year the global financial crisis had a negative impact on the value of the University's investments, reducing the value from \$93.9 million at the start of the year to \$56.6 million at 31 December 2008.

This year, however, there has been an improvement in the value of these investments and in the funding position of defined benefits superannuation plans. Investments increased in value by a net \$1.1 million (\$11.1 million increase in value less redemptions of \$10.0 million). The overall return on investments was 19 per cent, while superannuation liabilities decreased from \$164 million in 2008 to \$127 million in 2009.

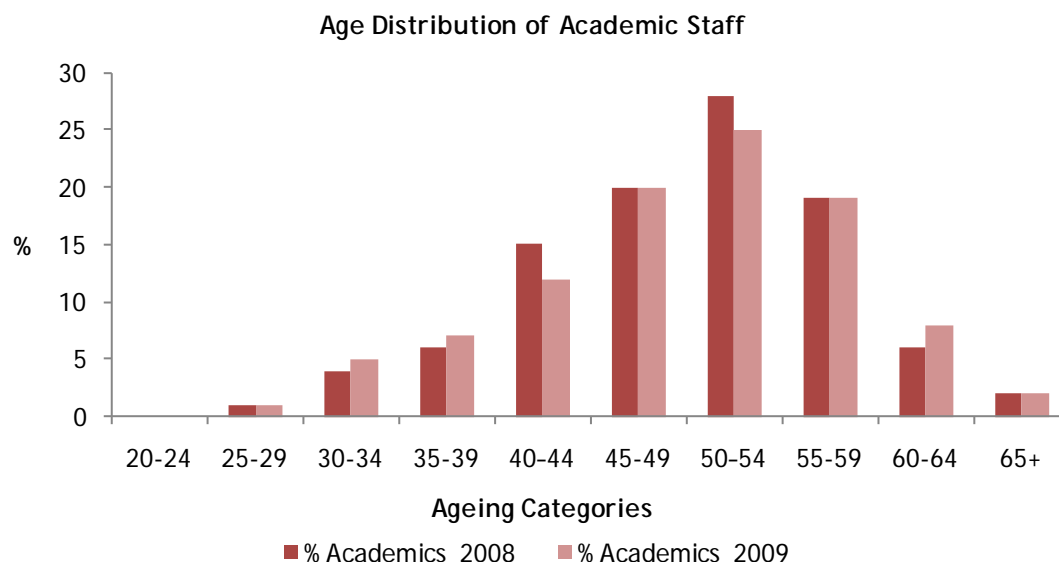
Ageing Profile of Academic Staff

The University is facing challenges from the potential loss of a large number of retiring academic staff. University statistics below show that for academic staff 29 per cent are aged 55 years and over while 54 per cent are aged 50 years and over.

As at 31 December Age Group	2009		2008	
	No. of Academics	%	No. of Academics	%
Up to 49	302	46	275	46
50 - 54	166	25	165	28
55 - 59	124	19	112	19
60 - 64	51	8	34	6
65+	15	2	10	2
Total	658	100	596	100

Source: Information provided by the University (Unaudited).

The table below details the age profile of academic staff for the University (parent only) as at 31 December 2009:

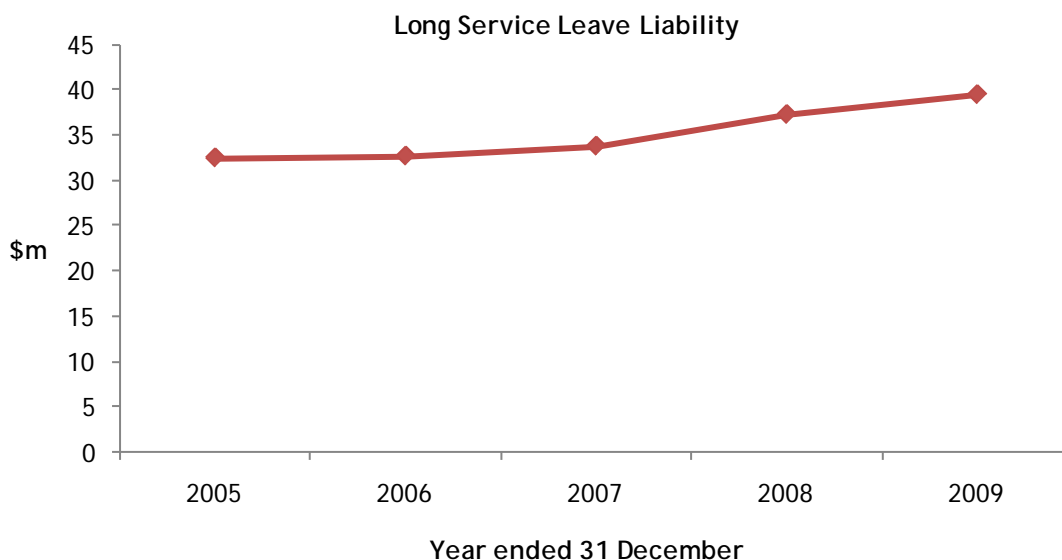


To ensure there is an adequate supply of academic staff in the future the University advised that the ageing profile of academics is being addressed by the implementation of a staffing strategy, 'Our People 2015'. The goals of the strategy, which include aligning the staff profile with workforce needs are being addressed through a number of projects and supported by a Workplace Productivity grant from DEEWR for \$2.9 million over three years. Initiatives currently in place to address attraction and retention of high quality academic staff include:

- establishment of research lectureships, targeting outstanding early career researchers
- staff surveys to identify good practice and areas for improvement
- development of late career transition options, including post and pre-retirement options
- establishment of ongoing relationships with retiring staff
- knowledge management and a structured mentoring program.

Long Service Leave Liability

Increasing long service leave liabilities create funding challenges for the University. Long service leave liabilities have increased by 22 per cent over the past five years to \$39.4 million in 2009 (\$37.2 million in 2008).



Source: University of Western Sydney Audited Financial Statements.

The University will need to ensure it has an adequate plan to fund these liabilities. This may be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

PERFORMANCE INFORMATION

(Comparative performance data on universities appears in the 'Universities Overview' section earlier in this Volume. The information shown below is based on consolidated financial statements.)

The University's current ratio (a measure of its financial liquidity) was 1.3 at 31 December 2009, down from the previous year's ratio of 1.5. At this level it is less than the State average of 1.4 (1.5 at 31 December 2008) and outside the Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) 'good practice' parameter of 1.5 to 3.0.

Australian Government grants as a percentage of operating revenue increased from 46.2 per cent in 2008 to 47.5 per cent in 2009. Although higher than the State average of 41.6 per cent (41.2 per cent in 2008), it is still below the DEEWR 'good practice' parameter of no more than 50 per cent.

Employee benefits and on-costs as a percentage of operating revenue decreased from 57.9 per cent in 2008 to 53.9 per cent in 2009. Although it is still above the State average of 53.4 per cent (55.9 per cent), it is within the DEEWR 'good practice' parameter of 50 per cent to 70 per cent.

Higher education contributions as a percentage of total revenue decreased from 26.7 per cent in 2008 to 25.4 per cent in 2009. This represents the highest contribution of all universities and is significantly above the State average of 14.5 per cent (14.8 per cent). The University has advised that this results from having a high percentage of Commonwealth Government Supported students combined with a low percentage of revenue from non-Government sources.

The University's operating surplus for the year was \$60.8 million or 11.4 per cent of total revenue (7.9 per cent). This return is above the State average of 8.1 per cent (negative 1.4 per cent).

OTHER INFORMATION

Capital Expenditure Program

Capital expenditure in 2009 was \$108 million, an increase of \$33.4 million on 2008. Major expenditures were:

- \$15.9 million for construction of the Parramatta South Campus multi-purpose building, which was completed in June 2009, at a cost of \$32.0 million
- \$19.5 million for additional student accommodation at Penrith, which is expected to be completed by the end of 2010, at a total budgeted cost of \$20.6 million.

In 2009, the University received funding for capital works of \$37.9 million. This represented 35 per cent of total capital expenditure, with the remainder being funded by operating cashflows.

Future Capital Works

The University plans to spend in excess of \$230 million over the next three years on capital works. It will fund this program from a combination of internal funds, grants from the Australian Government and borrowings.

The capital expenditure program is designed to address the challenges facing the University, including meeting its infrastructure needs and addressing backlog maintenance. Backlog maintenance at 31 December 2009 was estimated to be \$18.5 million, an increase of 72 per cent from the previous year. The University advised the increase relates to a restructure of their capital plan to realign asset management and up front planning. This change is expected to ensure better and more consistent standards of teaching facilities and improved economies of scale.

Excessive Annual leave

The University's initiatives to reduce employee excess leave balances have been successful as shown in the following table. The table shows the number of staff with leave in excess of 40 days.

Annual Leave Entitlement (Days)	2009		2008	
	No. of Academic Staff	No. of Non-Academic Staff	No. of Academic Staff	No. of Non-Academic Staff
41-60	41	55	55	74
61-90	6	6	7	14
91-120	--	--	--	--
120 +	--	--	--	--
Total	47	61	62	88

Initiatives implemented included regular reporting and monitoring of leave balances. Also changes to excess annual leave implemented through the new General Staff Agreement 2009 - 2012, include 30 days excess leave management and an option for staff to elect a 'cash out' of leave under certain conditions.

Excessive annual leave balances may result in increasing liabilities and costs for the University as employee remuneration levels increase over time and may also have cash flow implications. The overall health of the workforce may also decline if staff are not taking sufficient breaks from work.

Other

We identified opportunities for improvement to accounting and internal control procedures and have reported them to management.

FINANCIAL INFORMATION

The consolidated financial information includes the financial statements of the University and its controlled entities.

Abridged Statement of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Australian Government grants	254,162	216,596	254,031	216,596
Higher Education Contribution Scheme	135,905	125,322	135,905	125,322
Fees and charges	77,418	68,852	59,977	54,865
Other	67,607	57,777	51,851	46,305
Deferred income - superannuation	--	--	--	--
TOTAL REVENUE	535,092	468,547	501,764	443,088
Employee benefits and on-costs	286,098	271,291	265,707	255,535
Depreciation	27,821	26,117	27,319	25,597
Other	158,074	133,904	155,616	129,877
Deferred expense - superannuation	2,270	--	2,270	--
TOTAL EXPENSES	474,263	431,312	450,912	411,009
SURPLUS	60,829	37,235	50,852	32,079
OTHER COMPREHENSIVE INCOME				
Change in fair value of available for sale financial assets	5,603	(14,980)	5,603	(14,980)
Gain in revaluation of land and buildings	--	4660	--	4660
Transfer of disposal of available for sale financial assets	--	(9,261)	--	(9,261)
Other gains/(losses)	1	72	1	73
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	5,604	(19,508)	5,604	(19,508)
TOTAL COMPREHENSIVE INCOME	66,433	17,727	56,456	12,571

Australian Government grants reflect additional funding of \$20.9 million and increased operating grants \$14.7 million.

Fees and charges rose mainly due to higher revenue from fee-paying overseas students and the increased activity in the adult migrant english program within a controlled entity of the University, UWS College Pty Limited.

The increase in other revenue was due predominantly to increased book sales of \$9.1 million from uwsconnect Ltd, a controlled entity of the University. It was the first full year of running bookshops on campuses.

An increase of \$26.4 million in other expenses was primarily due to a \$7.0 million impairment loss on an asset held for sale due to increased selling costs; a rise in consumables and supplies of approximately \$9.0 million that related to uwsconnect Ltd's costs of goods sold and the return of unspent DEEWR scholarship funding, \$5.3 million.

Abridged Statements of Financial Position

At 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	118,843	107,982	79,231	75,148
Non-current assets	1,089,600	1,046,488	1,087,420	1,044,529
TOTAL ASSETS	1,208,443	1,154,470	1,166,651	1,119,677
Current liabilities	119,989	97,374	114,181	89,227
Non-current liabilities	137,451	172,527	136,768	171,204
TOTAL LIABILITIES	257,440	269,901	250,949	260,431
NET ASSETS	951,003	884,569	915,702	859,246

The increase in current assets was due primarily to an increase in receivables of \$20.9 million relating to Australian Government Financial Assistance.

The rise in current liabilities includes a \$16.0 million increase in accrued payables for capital works and \$5.3 million accrual for the repayment of unawarded scholarship funds to DEEWR.

Although current liabilities exceed current assets in the parent, the University does not consider they have a liquidity risk as:

- current liabilities include \$30 million of leave provisions not expected to be paid in the next 12 months
- the University has access to an undrawn \$28.0 million loan facility.

Non-current liabilities have decreased by approximately \$35.0 million due mainly to a decrease in superannuation liabilities resulting from improved financial markets.

UNIVERSITY ACTIVITIES

The University is constituted under the *University of Western Sydney Act 1997*. It mainly:

- provides educational facilities of a university standard, having particular regard to the needs and aspirations of the residents of Greater Western Sydney
- achieves excellence through a commitment to scholarship, teaching, learning and research and provides educational services in the regional, national and international community beginning in the community of Greater Western Sydney
- disseminates and increases knowledge, undertakes and promotes research and scholarship and contributes to the intellectual life of Greater Western Sydney
- develops consultancy and entrepreneurial activities, including research and development initiatives, that will contribute to the development of Greater Western Sydney
- awards diplomas and degrees of Bachelor, Master and Doctor and other certificates and awards.

For further information on the University, refer to www.uws.edu.au.

CONTROLLED ENTITIES

The following controlled entities have not been reported on separately as they are not considered material by their size or the nature of their operations to the consolidated entity.

The University has provided support in the form of loans/advances to three of its controlled entities, with the most significant being a \$4.0 million loan to Television Sydney (TVS) Limited, of which \$1.0 million was provided in 2009 as not collectable. The University has fully impaired the receivable as it is doubtful that Television Sydney (TVS) Limited will be able to repay the loan.

The University has provided financial guarantees to CADRE Design Pty Limited and Television Sydney (TVS) Limited to meet going concern considerations.

Entity Name	Website
CADRE Design Pty Limited and CADRE Design Unit Trust	www.cadre.com.au
Education Training Community Television (ETC TV) Limited	*
- Television Sydney (TVS) Limited	www.tvs.org.au
- Television Sydney Foundation Limited	
SGSM Limited	*
University of Western Sydney Foundation Limited and University of Western Sydney Foundation Trust	*
UWS College Pty Limited	www.uwscollge.edu.au
UWS Conference and Residential Colleges Limited	*
uwsconnect Limited	www.uwsconnect.com.au
Whitlam Institute within the University of Western Sydney Limited and Whitlam Institute within the University of Western Sydney Trust	www.whitlam.org

* This entity does not have a website.

University of Wollongong

AUDIT OPINION

The completed audits of the University and its controlled entities' financial statements for the year ended 31 December 2009 resulted in unqualified Independent Auditor's Reports, other than for the International Film School Sydney Pty Ltd (previously Sydney International Film School Pty Ltd). Reasons for the qualification are contained in the comment on Illawarra Technology Corporation Limited (ITC Ltd) later in this section.

At the date of finalising this report the audit of two controlled entities had not been completed. These entities are not material to the University's consolidated financial statements. They are referred to under the ITC Ltd comment.

Unless otherwise stated, the following commentary relates to the consolidated entity.

KEY ISSUES

Impact of the global financial crisis

Last year, the global financial crisis had a negative impact on the value of the University's investments, reducing them from \$115 million at the start of the year to \$89.2 million as at 31 December 2008. The University believed the decrease in value would not impact its operations or capital works program going forward. This has proven to be the case for 2009.

This year there was a significant improvement in the value of the University's investments (and in the funding of the defined benefits superannuation plans) as economic conditions improved. The University's investments increased in value by \$16.4 million, while the superannuation liability decreased from \$146 million in 2008 to \$119 million in 2009.

Issues Relating to Offshore Operations

I recommend the University ensure that its subsidiary ITC Ltd improves oversight arrangements to ensure compliance with policies and procedures for its University of Wollongong in Dubai operations.

Some issues have been identified with respect to ITC Ltd's offshore campus, the University of Wollongong in Dubai (UOWD). Last year I reported that ITC Ltd's bank account was used inappropriately to transfer private funds for an employee. This year, a corporate credit card was used for personal use by the same employee in contravention of ITC Ltd's policy. An inappropriate salary advance was also made to that employee. More detailed comment on these issues appears under the ITC Ltd section later in this report.

The issues raise concerns over some aspects of oversight arrangements for the UOWD operations.

During 2009 a review of the governance structure of UOWD was undertaken by ITC Ltd. Subsequently the ITC Ltd Board established the UOWD Committee in December 2009, which met for the first time in February 2010. The Committee was established as a committee of ITC Ltd Board. Its primary purpose is to assist and advise the Board in fulfilling its corporate governance and oversight responsibilities in relation to the operations of UOWD.

As the University is ultimately responsible for UOWD it needs to ensure a good level of oversight is operating in order to protect the University's reputation and to reduce financial risks.

Ageing of Academic Staff

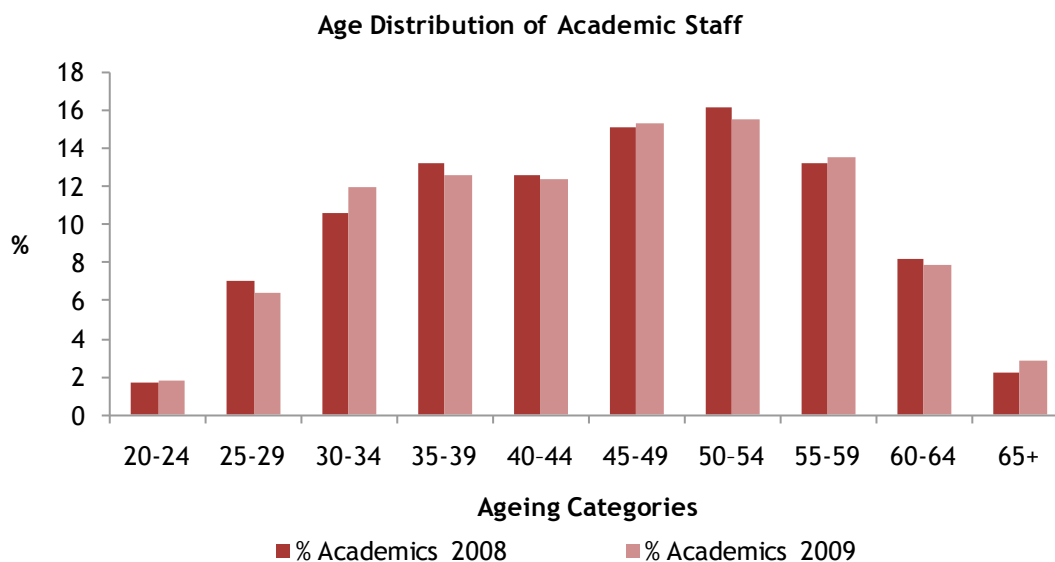
The University is facing challenges from the potential loss of a large number of retiring academic staff. University statistics show that for academic staff:

- 24.2 per cent are aged 55 years and over
- 39.8 per cent are aged 50 years and over.

As at 31 December Age Group	2009		2008	
	Academics FTE	%	Academics FTE	%
20-49	596	60.2	570	60.2
50-54	154	15.6	153	16.2
55-59	134	13.5	125	13.2
60-64	78	7.9	77	8.2
65+	28	2.8	21	2.2
Total	990	100.0	946	100.0

Source: University of Wollongong (unaudited)
FTE: Full time equivalents.

The graph below further demonstrates the age structure of academics:

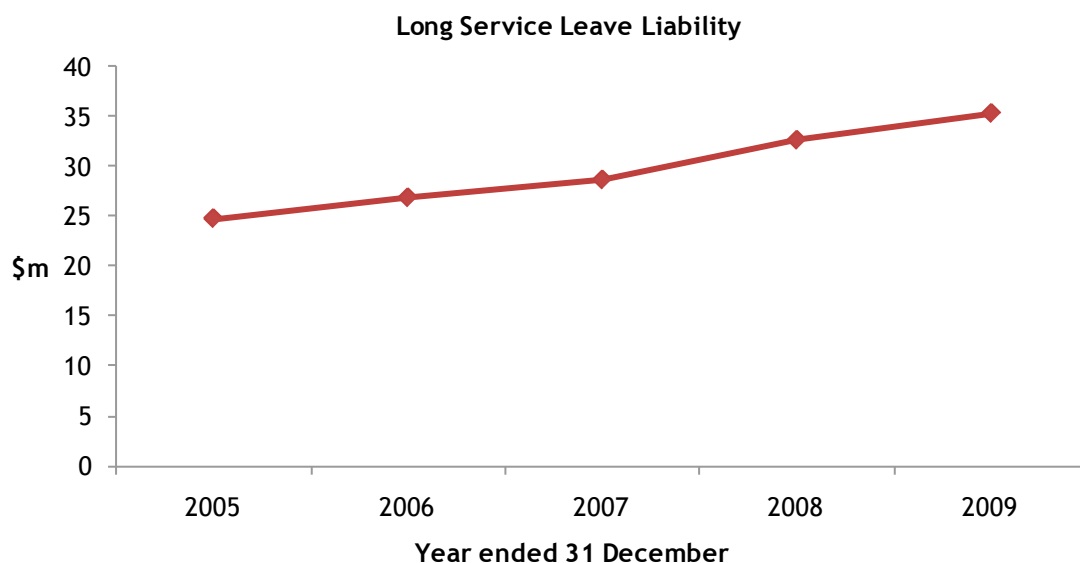


Source: University of Wollongong (unaudited).

To ensure there is an adequate supply of academic staff in the future the University advised that it actively monitors its workforce age profile and has strategies in place to develop, attract and retain staff whose skills are aligned with the strategic direction of the University. Initiatives include developmental programs for early career researchers, Ph D scholarship initiatives, identification of staff with potential for development through the annual strategic retention planning process, recruitment initiatives and transition to retirement initiatives.

Long Service Leave Liability

Increasing long service leave liabilities create funding challenges for the University. Long service leave liabilities have increased by 23.4 per cent over the past three years to \$35.3 million in 2009 (\$32.6 million in 2008).



Source: University of Wollongong Audited Financial Statements

The increase in the liability from 2007 to 2008 resulted from a growth in entitlements plus the impact of a reduced Government bond rate used as the discount factor in calculating the present value of the liability. The reduced Government bond rate resulted from the global financial crisis. The increase between 2008 and 2009 was primarily due to the actuarial assessment of the liability during the year.

Although the University has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

Excess Annual Leave

I recommend that the University review the effectiveness of its policies in managing excess annual leave.

The following table shows the number of staff with leave in excess of 40 days.

Annual Leave Entitlement (Days)	2009		2008	
	No. of Academic Staff	No. of Non-Academic Staff	No. of Academic Staff	No. of Non-Academic Staff
41-60	4	94	4	103
61-90	4	11	6	12
91-120	2	1	--	2
120 +		1	--	1
Total	10	107	10	118

Source: University of Wollongong (unaudited).

There has been little improvement in managing excess leave with 117 staff having leave balances in excess of 40 days at 31 December 2009. The highest annual leave balance was 175.6 days, with the next highest being 105.1 days.

Excess leave balances can adversely affect an organisation. The impacts include a growing leave financial liability due to salary increases, which can impact the organisation's cash flow. Excessive leave balances also may lead to fatigued staff, possibly leading to workplace health and safety issues.

The University has advised it has active procedures in place for managing annual leave accruals for all staff. This involves regular reporting and monitoring of leave balances and a series of escalating actions for the reduction of balances. Staff that have balances which are at or exceed 40 days are required to have in place leave plans to keep their balances within the prescribed limits. Staff that exceed or are approaching a balance of 50 days are required to book leave or have leave forfeited.

PERFORMANCE INFORMATION

(Comparative performance data on universities appears in the 'Universities Overview' section earlier in this Volume. The information shown below is based on consolidated financial statements.)

The University's current ratio (a measure of its financial liquidity) increased from 2.3 in 2008 to 2.4 at 31 December 2009. At this level it is still significantly higher than the State average of 1.4 (1.5 at 31 December 2008) and well within the Australian Government's Department of Education, Employment and Workplace Relations (DEEWR) 'good practice' parameter of 1.5 to 3.0.

Australian Government grants as a percentage of operating revenue decreased from 38.5 per cent in 2008 to 37.9 per cent in 2009. It is lower than the State average of 41.6 per cent (41.2 per cent in 2008) and continues to be below the DEEWR 'good practice' parameter of no more than 50 per cent.

Employee benefits and on-costs as a percentage of operating revenue have decreased from 53.5 per cent in 2008 to 49.4 per cent in 2009. At this level it is now below the State average of 53.4 per cent (55.9 per cent) and is marginally outside the DEEWR 'good practice' parameter of 50 per cent to 70 per cent.

Higher education contributions as a percentage of total revenue decreased from 14.6 per cent in 2008 to 13.3 per cent in 2009. This is below the State average of 14.5 per cent (14.8 per cent).

The University's operating surplus for the year was \$57.7 million or 12 per cent of total revenue (1.4 per cent). This return is the highest of all Universities and is well above the State average of 8.1 per cent (negative 1.4 per cent).

OTHER INFORMATION

Internal Controls

We identified opportunities for improvement to accounting and internal control procedures and have reported them to management.

Innovation Campus

In previous years I reported that the University was developing and constructing the Innovation Campus via an arrangement with a private sector firm. The first stage of the Campus opened in June 2008. To date five buildings costing \$88.0 million have been completed and are operational.

The first building, iC Central, opened in mid-2008, followed by the Australian Institute for Innovative Materials (AIIM) and the Institute for Transnational and Maritime Security (ITAMS) in 2009. The Sydney Business School and the Digital Media Centre opened in 2010. The Innovation Campus site also contains an 'Out of School Hours' care centre.

The site continues to expand with a second, Commonwealth funded, AIM - Processing and Devices building currently under construction. This building is expected to cost \$43.8 million on completion. In addition, the first fully commercial building (iC Enterprise 1) is also currently under construction and is due to be completed in 2011.

The success of the Innovation Campus will depend on the ability of the University to continue to attract investors and tenants. The University advised all completed buildings were fully occupied during 2009 with the exception of the Sydney Business School and Digital Media Centre, which only opened in recent months.

Future Capital Works

Last year I also reported that the University had commenced a significant capital works program. It plans to spend in excess of \$320 million over the next few years on capital works on the University campus, as well as on buildings at the Innovation Campus. It will fund this program from a combination of internal funds, grants from the Australian Government and borrowings.

Major projects in the next two years include:

- \$40.0 million for a SMART Infrastructure building, due for completion in late 2010
- \$30.0 million for the Illawarra Health and Medical Research Institute building, due for completion mid 2010
- \$71.0 million on the Innovation Campus site.

FINANCIAL INFORMATION

The consolidated financial information comprises the financial statements of the University and its controlled entities.

Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Australian Government grants	182,472	159,906	182,472	159,906
Higher Education Contribution Scheme	66,819	64,087	66,819	64,087
Fees and charges	166,242	140,273	113,033	92,601
Other	65,763	50,974	59,534	36,886
Deferred income - superannuation	(25,283)	86,907	(25,283)	86,907
TOTAL REVENUE	456,013	502,147	396,575	440,387
Employee benefits and on-costs	237,570	222,178	199,275	187,573
Depreciation and amortisation	25,458	25,446	22,310	22,564
Impairment of investment assets	1,665	23,694	1,265	23,694
Other	157,649	138,018	140,480	120,855
Deferred expense - superannuation	(25,283)	86,907	(25,283)	86,907
TOTAL EXPENSES	397,059	496,243	338,047	441,593
Income tax expense	(1,509)	(434)	--	--
Operating (loss)/profit from discontinued operations	(101)	274	--	--
Operating profit/(loss) attributable to minority interest	400	(116)	--	--
SURPLUS/(DEFICIT)	57,744	5,628	58,528	(1,206)
OTHER COMPREHENSIVE INCOME				
Gain/(loss) in value of available for sale financial assets	6,609	(33,462)	6,072	(34,108)
Transfer of realised losses to retained earnings	--	34,373	--	34,373
Other income/(expense)	637	(2,769)	--	--
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	7,246	(1,858)	6,072	265
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	64,990	3,770	64,600	(941)

The increase in Australian Government grants was mainly due to an increase in Commonwealth Grants Support funding, which reflected the increase in Commonwealth supported students from 9,642 in 2008 to 10,805 in 2009, and a total of \$24.0 million received for two projects under the Education Investment Fund and Teaching and Learning Fund.

A major reason for the increase in fees and charges was course fees from an increase in international student numbers, as a result of the University's marketing initiatives and an increase in course fees. International student numbers increased by 638 compared to 2008.

Employee benefits and on-costs increased primarily because of salary increases and growth in staff numbers for both teaching and research activities.

The reduction in impairment of investment assets was due to improved financial markets. Other expenses increased by \$16.6 million to \$127 million in 2009 largely due to a \$4.1 million increase in rental and leasing fees, mainly due to the University now leasing its computer equipment; a \$3.0 million increase in scholarships and grants; and a \$1.9 million increase in consultancy fees, which the University advised relates mainly to information technology and capital works projects.

The decrease in the deferred superannuation expense was mainly due to a decrease in the University's defined benefit superannuation liability following the improvement in financial markets. The Australian Government funds the majority of these liabilities which has minimised the impact on the operating result.

Abridged Balance Sheets

At 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current assets	197,196	177,067	172,342	147,814
Non-current assets	702,558	677,771	691,575	665,344
TOTAL ASSETS	899,754	854,838	863,917	813,158
Current liabilities	106,749	98,581	89,609	74,946
Non-current liabilities	194,316	222,379	200,353	228,857
TOTAL LIABILITIES	301,065	320,960	289,962	303,803
NET ASSETS	598,689	533,878	573,955	509,355

The increase in current assets was mainly due to an increase in cash and investment balances.

Non-current assets increased because of an increase in property, plant and equipment due to the construction of new buildings mentioned earlier.

The decrease in non-current liabilities was mainly due to a decrease in the University's defined benefit superannuation liability.

UNIVERSITY ACTIVITIES

The University is constituted under the *University of Wollongong Act 1989*. It mainly:

- provides educational and research facilities of university standard, having particular regard to the needs of the Illawarra region
- provides courses of study across a range of fields and carries out research to meet community needs
- disseminates and increases knowledge, and
- confers degrees of Bachelor, Master and Doctor and awards diplomas and other certificates.

For further information on the University, refer to www.uow.edu.au.

CONTROLLED ENTITIES

Illawarra Technology Corporation Limited (ITC Ltd)

ITC Ltd was established to support and add value to the strategic goals and objectives of the University. Its activities include marketing and recruiting for the University and delivering offshore and pre-university education.

ITC Ltd is a company limited by shares. To grow its business ITC Ltd pursues opportunities in Australia and overseas. It owns ITC Education Ltd, ITC (New Zealand) Limited, ITC (Middle East) Ltd, ITC Emirates Limited, and has majority ownership interest in the International Film School Sydney Pty Ltd and the International School of European Aviation Pty Ltd (previously Australian School of European Aviation (JAA) Pty Ltd).

ITC (Middle East) Ltd and ITC Emirates Limited are currently dormant companies.

I expressed unmodified opinions on the financial reports of ITC Ltd, ITC Education Ltd, ITC (New Zealand) Limited and ITC (Middle East) Ltd. The audit of ITC Emirates Limited has been finalised, and I will be issuing an unqualified Independent Auditor's Report for it. The delay has been due to difficulties encountered in obtaining original signed financial statements. At the time of writing we were awaiting further information from management regarding the International School of European Aviation Pty Ltd in order to finalise the audits for the years ended 31 December 2008 and 31 December 2009.

I issued a qualified opinion on the financial statements of the International Film School Sydney Pty Ltd. This was because the 2008 financial report was the first the Film School had prepared and I did not become auditor until 28 February 2008. Consequently, I had not audited the prior period operations. I was unable to obtain sufficient appropriate audit evidence to form an opinion on the opening balances as at 1 January 2008. As these balances affected the determination of the results of operations and cash flows for the year ended 31 December 2008, I was unable to form an opinion on these results and cash flows, which are included in the 31 December 2009 financial statements for comparative purposes.

KEY ISSUES

Issues Relating to Offshore Operations

I summarised these issues earlier under the University comment. Details of the issues are as follows:

Payment of salary advances

ITC Ltd advised us that the President of UOWD approved and paid a salary advance of approximately \$7,800 (UAE 23,496 dirhams) to the Vice President Administration on 29 July 2009. This was repaid in the following pay run of 31 August 2009. Salary advances are not permitted to be paid to staff. ITC Ltd advised that the President has been counselled regarding the inappropriateness of this approval, and formally advised that no salary advances are to be provided to any staff in the future.

Inappropriate use of credit cards

ITC also advised the Vice President Administration at UOWD used his corporate credit card for personal transactions in July 2009 (\$4,300) and September 2009 (\$900). These amounts were reimbursed in August 2009 and November 2009 respectively. A review of internal controls by ITC Ltd highlighted a weakness in that the Vice President Administration was approving the summary of credit card expenditure for all credit card users, including his own.

ITC Ltd's Policies and Procedures Manual stipulates that corporate credit cards should only be used for work related expenditure, and that use for personal expenditure is not permitted. Should personal expenditure be incurred, authorisation is required by the CEO of ITC Ltd and an explanation of the exceptional circumstances which led to the transaction. The CEO's authorisation was not obtained in the above mentioned instance. Staff are required to reimburse such expenditure within seven days.

ITC Ltd has subsequently amended its procedures in relation to review of credit card expenditure at UOWD. Executive staff are now required to sign off on their direct reports and all UOWD executive expenditures are to be authorised by the UOWD President. The President's expenditures are to be authorised by the CEO of ITC Ltd.

Late Submission of Controlled Entities' Financial Statements

I recommend ITC Ltd implement a timetable to ensure financial statements are prepared and submitted, for each controlled entity, by the statutory deadline. Failure to submit financial statements within the specified timeframe is a breach of legislative requirements.

Four of ITC Ltd's controlled entities did not submit financial statements within the statutory deadline of six weeks after the year-end. As required by the *Public Finance and Audit Act 1983* I wrote to the Minister advising of the non-compliance by the following entities:

Entity	Date Due	Date submitted
International School of European Aviation Pty Ltd	11 February 2010	10 March 2010
ITC (New Zealand) Limited	11 February 2010	15 March 2010
ITC Emirates Limited (dormant)	11 February 2010	8 March 2010
ITC (Middle East) Ltd (dormant)	11 February 2010	8 March 2010

Business Developments

The following developments in ITC Ltd's operations occurred in 2009:

- introduction of Fee-Help at the International Film School Sydney Pty Ltd resulted in the largest student intake in the history of the school
- ITC (Europe) Ltd was deregistered in January 2009
- trading at ITC (New Zealand) Limited ceased as its operating leases expired in July 2009
- operations at the International School of European Aviation Pty Ltd were suspended during the year as the school was unable to attract sufficient students. The School had been marketed to European students. ITC Ltd's investment of \$400,000 in the School was fully impaired.
- ITC Ltd paid a deposit of \$100,000 for the potential acquisition of an aviation school which specialises in the delivery of an Australian pilot training course for domestic students.

FINANCIAL INFORMATION

ITC Ltd's summarised consolidated financial information is:

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Revenue	70,541	66,927	51,084	52,068
Expenses	64,222	56,786	47,066	42,103
Income tax expense (benefit)	1,552	403	(722)	1,061
Profit from continuing operations	4,767	9,738	4,740	8,904
Profit/(loss) from discontinued operations	(101)	273	(126)	38
Profit	4,666	10,011	4,614	8,942
Other comprehensive income/(expense)	1,259	(2,122)	1,159	(2,452)
Total comprehensive income	5,925	7,889	5,773	6,490
Net assets (at 31 December)	12,069	10,948	8,985	8,112

Profit has decreased from \$10.0 million to \$4.7 million. This was mainly due to the sale of an investment last year for \$3.2 million.

Expenses rose proportionately more than the increase in revenue as ITC Ltd invested in improving the quality and capacity of its operations, which included implementation of a new remuneration system in both Dubai and Australia; creation of new teaching support and marketing positions; and the development of three new undergraduate courses and doctoral programs in UOWD.

Revenue increased as the ITC Ltd group experienced strong student demand from its operations in both Wollongong and Dubai, and was able to generate significant international student income.

The impact of the global financial crisis did not impact ITC Ltd's operations.

Wollongong UniCentre Limited (UniCentre)

UniCentre, which is limited by guarantee, aims to complement the academic activities of the University of Wollongong by providing relevant products, services and facilities to meet the diverse social and cultural needs of the University population. In November 2004, the board of the company established a wholly owned subsidiary, UniCentre Conferences and Functions Pty Limited, to provide conference and functions services.

UniCentre's summarised consolidated financial information is:

Year ended 31 December	Consolidated		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Revenue	17,289	16,066	16,395	14,766
Expenses	17,252	15,912	16,135	14,685
Income tax expense (benefit)	(43)	31	--	--
Profit after income tax	80	123	260	81
Total comprehensive income	80	123	260	81
Net assets (at 31 December)	9,031	8,950	9,139	8,878

Revenue increased mainly because of increases in income from book sales, childcare and food services.

Expenses increased predominantly because of higher employee related expenses for additional staff and wage rises.

The subsidiary incurred an operating loss of \$97,000 (\$86,000 profit in 2008). The loss, combined with negative net assets and an unfavourable liquidity ratio raises concerns over the subsidiary's ability to operate as a going concern. UniCentre will provide financial support to assist the subsidiary if required.

University of Wollongong Recreation and Aquatic Centre Limited

This company, limited by guarantee, principally provides aquatic and recreational facilities to the University community and the general public.

Year ended 31 December	2009 \$'000	2008 \$'000
Revenue	2,668	2,304
Expenses	3,693	3,087
Income tax expense	--	--
Loss	1,025	783
Net assets (at 31 December)	3,636	4,662

Mainly as a result of the change to voluntary student unionism introduced by the Australian Government in 2006, revenue from student membership has fallen for the last three years. The company incurred an operating loss of \$1.0 million for the year (\$783,000 loss in 2008). The loss, together with an unfavourable liquidity ratio and projected losses for the next couple of years, raises concerns over the company's ability to continue as a going concern. The University is committed to supporting the company's ongoing development and if required, will provide financial support.

The following controlled entity has not been reported on separately as it is not considered material by its size or the nature of its operations to the consolidated entity.

Entity Name
The Sydney Business School Pty Limited

Minister for Lands

Refer to Appendix 1 for:

Wild Dog Destruction Board

Minister for Primary Industries

Refer to Appendix 1 for:

Trustees of the Farrer Memorial Research Scholarship Fund

Wine Grapes Marketing Board

Minister for Sport and Recreation

Refer to Appendix 1 for:

Boxing Authority of New South Wales

Parramatta Stadium Trust

Minister for Water

Gosford Water Supply Authority

Wyong Water Supply Authority

Gosford Water Supply Authority

AUDIT OPINION

The audit of the Authority for the year ended 30 June 2009 resulted in a qualified Independent Auditor's Report. I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the fair value and recoverability of the Authority's investment portfolio of \$46.5 million.

During the year ended 30 June 2009, global financial markets experienced a period of high volatility, which impacted the value, recoverability, liquidity, cash flows and rates of return of many financial assets. This market volatility impacted the Authority's investment portfolio. Many of its investments did not have market values that were independently quoted and were not widely traded.

The audit report for 2007-08 was similarly qualified.

KEY ISSUE

Dividend

The Authority paid a dividend of \$1.7 million (\$1.8 million in 2007-08) to Gosford City Council. Local government water and sewerage supply businesses are permitted to pay annual dividends to Councils from operating surpluses.

PERFORMANCE INFORMATION

Operational Performance Indicators

Year ended 30 June	2009	2008	2007	2006
Average volume of water consumed (kilolitres) per residential property	140	135	147	179
Water quality complaints per 1,000 properties	25.3	94.3	56.4	57.1
Average frequency of unplanned water supply interruptions per 1,000 properties	203.4	181.0	280.0	293.0
Water main breaks per 100 km of water main	27.1	28.9	36.4	43.0
Water losses (kilolitres/water main kilometre/day)	1.8	1.4	na	na
Total connection sewer main breaks and chokes per 100 kilometres of sewer main	29.7	35.4	43.9	44.0
Percentage of sewage treated to a secondary level (%)	98.1	99.0	99.0	100.0

Source: National Water Commission 'National Performance Report 2007-08: urban water utilities', March 2009 and Gosford City Council.
na not available.

The Authority advised:

- the average volume of water consumed (kilolitres) per residential property increased slightly due to an easing in water restrictions during 2008-09
- water quality complaints decreased as a result of works undertaken by the Authority under its \$9.0 million Water Quality 2010 initiative. The project comprised capital works, maintenance activities, system management and operational enhancements, monitoring and analysis programs, and a communications strategy. The project was supported by a \$4.5 million grant from the Federal Government.
- water main breaks reduced over time as a result of the Authority's expanded water main renewal program
- total connection sewer main breaks and chokes per 100 kilometres of sewer main decreased over time due to a proactive sewerage maintenance strategy.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2009 \$'000	2008 \$'000
Service charges	33,261	32,280
Usage charges	21,005	16,765
Other	9,234	6,811
TOTAL REVENUE	63,500	55,856
TOTAL EXPENSES	58,345	52,216
SURPLUS	5,155	3,640

The increase in service and usage charges was due to an easing of water restrictions, which resulted in a higher sales volume. Other revenue increased due to additional grant income of \$1.3 million and higher interest income of \$254,000.

Expenses increased due to higher borrowing costs of \$1.0 million associated with additional borrowings, higher depreciation of \$1.9 million due to an increase in assets, higher employee costs of \$1.8 million due to higher wages rates and a loss on the sale of water assets of \$349,000 (nil in 2008).

Abridged Balance Sheet

At 30 June	2009 \$'000	2008 \$'000
Current assets	54,639	48,226
Non-current assets	852,944	835,439
TOTAL ASSETS	907,583	883,665
Current liabilities	12,492	10,392
Non-current liabilities	56,601	38,266
TOTAL LIABILITIES	69,093	48,658
NET ASSETS	838,490	835,007

Current assets increased by \$6.4 million mainly due to the investment of temporary cash balances.

Non-current assets increased with the construction of infrastructure assets under the Gosford/Wyong Joint Water Scheme. This included components of the Mardi to Mangrove Transfer System and the Mardi Suite of Works. The Authority funded the construction costs by increased borrowings of \$20.0 million.

AUTHORITY ACTIVITIES

Gosford Water Supply Authority is part of Gosford City Council and provides water, sewerage and related services.

For further information on Gosford City Council, refer to www.gosford.nsw.gov.au.

Wyong Water Supply Authority

AUDIT OPINION

The audit of the Authority for the year ended 30 June 2009 resulted in an unqualified Independent Auditor's Report.

PERFORMANCE INFORMATION

Operational Performance Indicators

Year ended 30 June	2009	2008	2007	2006
Average volume of water consumed (kilolitres) per residential property	141	146	139	163
Water quality complaints per 1,000 properties	4.9	3.4	7.2	9.0
Average frequency of unplanned water supply interruptions per 1,000 properties	58.8	39.0	33.0	--
Water main breaks per 100 km of water main	8.6	4.0	4.0	5.0
Water losses (kilolitres/water main kilometre/day)	1.5	1.5	1.4	1.7
Total connection sewer main breaks and chokes per 100 kilometres of sewer main	47.7	46.6	38.0	48.7
Percentage of sewage treated to a secondary level	91.0	92.0	91.0	92.0
Percentage of sewage treated to a tertiary level	9.0	8.0	10.0	8.0

Source: National Water Commission 'National Performance Report 2007-08: urban water utilities', March 2009 and Wyong Shire Council. The Indicators for the year 2009 are the Authority's best estimate.

The Authority experienced a higher than normal number of water main breaks in 2008-09, for example with some of the trunk mains. This has also impacted the indicator for unplanned water supply interruptions.

Although water main breaks per 100 kilometres has doubled since 2008, the Authority recorded the lowest water main breaks in Australia for the fourth consecutive year. Water main breaks are expected to occur, and this number water main breaks does not appear to indicate an underlying maintenance problem.

Other measures have remained fairly constant.

FINANCIAL INFORMATION

Abridged Income Statement

Year ended 30 June	2009 \$'000	2008 \$'000
Service charges	30,672	29,445
Usage charges	20,358	16,196
Other	7,872	10,776
TOTAL REVENUE	58,902	55,810
TOTAL EXPENSES	81,192	79,767
DEFICIT	22,920	23,957

The increase in usage charges was mainly due to higher water supply charges and increased sales volumes. The Authority eased water restrictions during 2008-09 and this translated to higher water sales.

The decrease in other revenue was mainly due to a reduction in investment earnings of \$1.7 million. This included unrealised and realised capital losses on managed funds investments of \$1.4 million. The Authority anticipates that most of the unrealised losses will be recovered in 2009-10.

Abridged Balance Sheet

At 30 June	2009 \$'000	2008 \$'000
Current assets	56,517	62,135
Non-current assets	1,024,102	997,209
TOTAL ASSETS	1,080,619	1,059,344
Current liabilities	40,452	20,809
Non-current liabilities	105,270	112,046
TOTAL LIABILITIES	145,722	132,855
NET ASSETS	934,897	926,489

The decline in current assets is due to a lower level of investments at year end. The Authority used the funds to meet loan repayments and the costs of operating activities.

Non-current assets increased with the construction of infrastructure assets under the Gosford/Wyong Joint Water Scheme. The Authority funded the construction costs by increased borrowings of \$20.0 million. The borrowings are in the form of an advance from Wyong Shire Council and are disclosed as a current liability.

AUTHORITY ACTIVITIES

Wyong Water Supply Authority is part of Wyong Shire Council and provides water, sewerage and related services.

For further information on Wyong Shire Council, refer to www.wyong.nsw.gov.au.

Premier

Refer to Appendix 1 for:

Trustees of the ANZAC Memorial Building

Appendices

Appendix 1
Agencies not reported elsewhere in this Volume

Appendix 2
Financial Statements Not Received by Statutory Date
(as at 2 June 2010)

Appendix 3
Financial Statements Received but Audit Incomplete by Statutory Date
(as at 2 June 2010)

Appendix 1 - Agencies not reported elsewhere in this Volume

The following audits resulted in unqualified independent auditor's reports and did not identify any significant issues or risks.

Entity Name	Website	Period/Year Ended
Boxing Authority of New South Wales	*	30 September 2009
NSW Board of Vocational Education and Training	*	30 June 2009
Parramatta Stadium Trust	www.parramattastadium.com.au	31 December 2009
Technical Education Trust Funds	*	31 December 2009
Trustees of the ANZAC Memorial Building	www.rslnsw.com.au	31 December 2009
Trustees of the Farrer Memorial Research Scholarship Fund	http://www.dpi.nsw.gov.au/agriculture/field-crops/farrer-memorial-trust	31 December 2009
UNILINC Limited	www.unilinc.edu.au	31 December 2009
Wild Dog Destruction Board	*	31 December 2009
Wild Dog Destruction Board Division	*	31 December 2009
Wine Grapes Marketing Board	www.wgmb.net.au	31 December 2009

* This entity does not have a website.

Appendix 2 - Financial Statements Not Received by Statutory Date (as at 2 June 2010)

Entity Name	Period/Year Ended	Due Date	Date Financial Statements Received
Boxing Authority of New South Wales	30 September 2009	12 November 2009	19 March 2010
International School of European Aviation Pty Ltd	31-December 2009	11 February 2010	10 March 2010
ITC (Middle East) Ltd	31-December 2009	11 February 2010	8 March 2010
ITC (New Zealand) Limited	31-December 2009	11 February 2010	15 March 2010
ITC Emirates Limited	31-December 2009	11 February 2010	8 March 2010
Macquarie University Medical Research Foundation	31-December 2009	11 February 2010	6 April 2010
Macquarie University Medical Research Foundation Limited	31-December 2009	11 February 2010	6 April 2010
MUH Operations No. 2 Limited	31-December 2009	11 February 2010	8 March 2010
MU Operations Pty Ltd	31-December 2009	11 February 2010	8 March 2010
Riverina Citrus	30 April 2010	11 June 2010	Not yet received
Sydney Cricket and Sports Ground Trust	28 February 2010	12 April 2010	Not yet received
Sydney Cricket and Sports Ground Trust Division	28 February 2010	12 April 2010	Not yet received
Trustees of the Farrer Memorial Research Scholarship Fund	31-December 2009	11 February 2010	15 February 2010
UTSM Services (Malaysia) Sdn Bhd	31 December 2009	11 February 2010	Not yet received

Appendix 3 - Financial Statements Received but Audit Incomplete by Statutory Date (as at 2 June 2010)

The *Public Finance and Audit Act 1983* requires that we issue an audit opinion within ten weeks of receiving an agency's financial statement. The Act also states that we cannot issue our opinion until the agency has signed its financial statement.

Access Macquarie Limited

Completion of the audit has been delayed pending the resolution of a number of issues.

Bandwidth Foundry International Pty Limited

Completion of the Bandwidth Foundry audit has been delayed pending the resolution of a number of issues.

Charles Sturt University

The audit was completed on 5 May 2010.

International School of European Aviation Pty Ltd

We are awaiting further information from management in order to finalise the audits for the years ended 31 December 2008 and 31 December 2009.

ITC Emirates Limited

The delay has been due to difficulties encountered in obtaining original signed financial statements.

Macquarie University Property Investment Company No. 2 Pty Limited

The audit was completed on 27 May 2010

Macquarie University Property Investment Company Pty Limited

The audit was completed on 27 May 2010

Macquarie University Property Investment Trust

The audit was completed on 27 May 2010

MUPI Holding Trust No. 1

The audit was completed on 27 May 2010

MUPI Holding Trust No. 2

The audit was completed on 27 May 2010

MUPI Holding Trust No. 3

The audit was completed on 27 May 2010

MUPI Holding Trust No. 4

The audit was completed on 27 May 2010

MUPI Holding Trust No. 5

The audit was completed on 27 May 2010

MUPI Holding Trust No. 6

The audit was completed on 27 May 2010

MUPIT Sub-Trust No. 1

The audit was completed on 27 May 2010

MUPIT Sub-Trust No. 2

The audit was completed on 27 May 2010

MUPIT Sub-Trust No. 3

The audit was completed on 27 May 2010

MUPIT Sub-Trust No. 4

The audit was completed on 27 May 2010

Risk Frontiers Flood (Australia) Pty Limited

The audit was completed on 6 May 2010

Risk Frontiers Group Pty Limited

The audit was completed on 6 May 2010

Sport Knowledge Australia Pty Limited

The previous audit of Sport Knowledge Australia Pty Limited for the year ended 30 June 2008, conducted by a private sector auditor, is incomplete. Our audit for the period to 31 December 2008 and 2009 cannot progress until the prior year audit is complete.

U@MQ Limited

The audit was completed on 31 May 2010

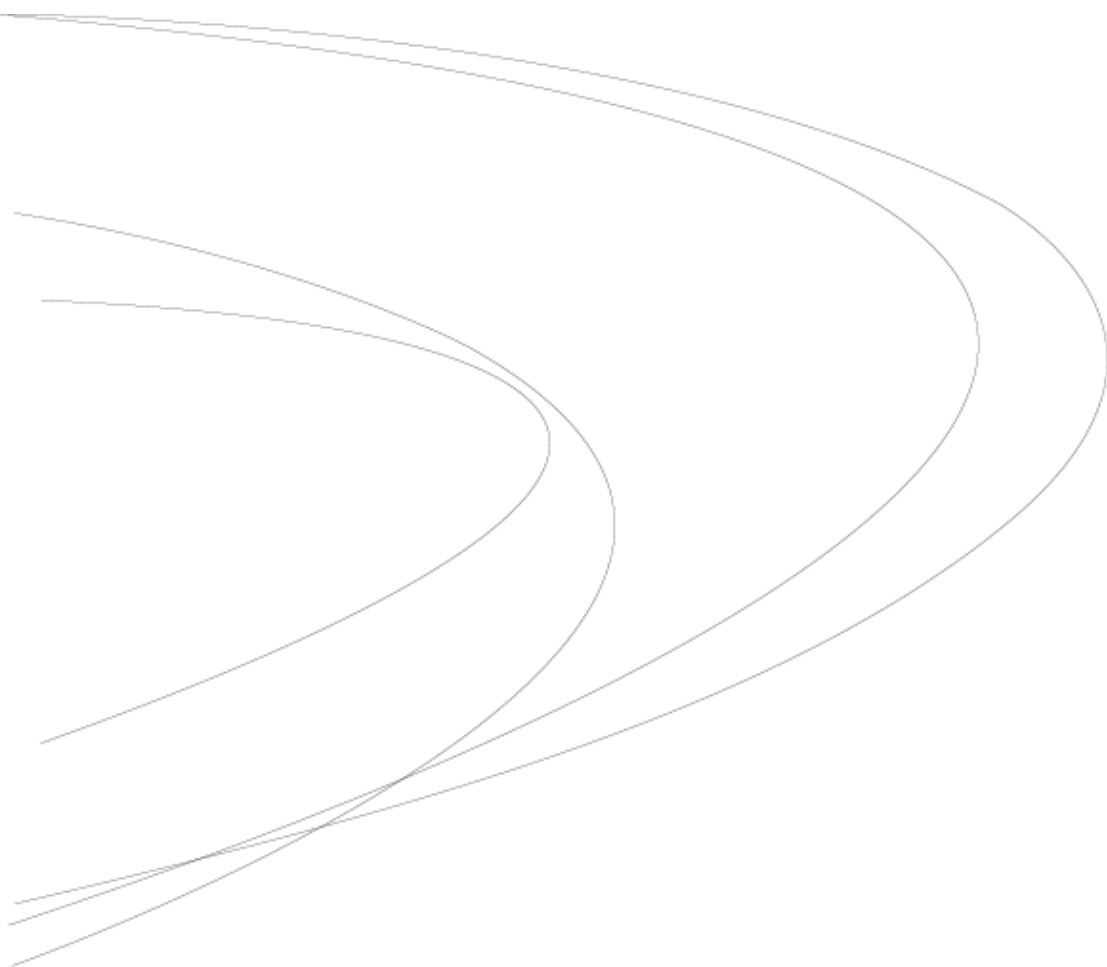
UNSW Global Pty Limited

The audit was completed on 10 May 2010

UNSW Hong Kong Limited

Completion of the audit has been delayed pending taxation advice.

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