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**New South Wales Auditor-General's Report**  
Financial Audit

**Volume Two 2014**  
Focusing on Universities

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## The role of the Auditor-General

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Public Finance and Audit Act 1983*.

Our major responsibility is to conduct financial or 'attest' audits of State public sector agencies' financial statements. We also audit the Total State Sector Accounts, a consolidation of all agencies' accounts.

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to agencies to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to agencies and reports periodically to parliament. In combination these reports give opinions on the truth and fairness of financial statements, and comment on agency compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These examine whether an agency is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or parts of an agency's operations, or consider particular issues across a number of agencies.

Performance audits are reported separately, with all other audits included in one of the regular volumes of the Auditor-General's Reports to Parliament – Financial Audits.

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Pursuant to the *Public Finance and Audit Act 1983*,  
I present Volume Two of my 2014 report.

A handwritten signature in black ink, appearing to read 'G Hehir'.

**Grant Hehir**  
Auditor-General  
27 May 2014

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# Section One

Minister for Education

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University Overview



# Executive Summary

## Introduction

This report sets out the results of the financial statement audits of the ten NSW universities and their controlled entities for the year ended 31 December 2013. Unqualified audit opinions were issued on all ten universities' 2013 financial statements. Four modified audit opinions were issued on the 2013 financial statements of controlled entities.

The report also provides Parliament and other users of university financial statements with an analysis of the universities' results and key observations in the following areas:

- Financial Sustainability
- Financial and Performance Reporting
- Financial Controls
- Governance
- Teaching and Research.

A snapshot of the ten NSW universities for the year ended 31 December 2013 is shown below.



An analysis of financial sustainability risk indicators suggest NSW universities are generally in a good financial position.

## Financial Sustainability

As with any well run business, universities must manage their finances so they can meet current and future spending commitments to provide high quality education, invest in future growth, adapt quickly to emerging threats and remain financially sustainable.

Generally NSW universities are in a good financial position with:

- their average combined operating margin improving from 4.9 per cent in 2012 to 6.6 per cent in 2013
- their combined adjusted current ratio remaining between 1.4 and 1.9 over the last five years
- their combined debt at 8.5 per cent of equity in 2013 (3.3 per cent of equity in 2009), and their adjusted operating result covering interest costs by 23 times at 31 December 2013.

NSW universities are negotiating with the Australian and NSW Governments funding arrangements for superannuation liabilities of \$4.0 billion

Southern Cross University has weaker financial sustainability indicators than the other universities. It has recorded a negative operating margin for the last two years. Both revenue and net assets fell in 2013 and it experienced a 24.4 per cent decline in the number of overseas students. The university advises that the fall in overseas students is partly due to the intentional severing of non-strategically aligned partnerships. Despite falling revenues, employee expenses increased 4.9 per cent following pay rises of 4.0 per cent, and one-off redundancy costs.

A letter of response from Southern Cross University is included at Appendix One of this Overview.

Liabilities for defined benefit superannuation schemes across all ten NSW universities totalled \$4.0 billion at 31 December 2013. Negotiations are continuing between the NSW Vice-Chancellors' Committee and the Australian and NSW Governments to formalise funding arrangements for these liabilities.

## Financial and Performance Reporting

Financial and performance reporting is an important dimension of good governance. Confidence in public sector decision making and transparency is enhanced when financial and performance reporting is accurate, timely and clear.

### Recommendation

**The Australian Government Department of Education should update its benchmarks for university financial performance.**

An analysis of the financial and performance reporting of NSW universities in 2013 indicates:

- universities' combined revenues increased by 5.8 per cent to \$8.0 billion with Australian Government grants remaining stable at \$3.2 billion
- the number of domestic students increased by 3.2 per cent with associated revenue growing by 12.7 per cent to \$1.8 billion
- the number of overseas students decreased by 0.3 per cent with associated revenue growing by 7.8 per cent to \$1.4 billion. The number of overseas students fell in five universities (seven universities in 2012)
- operating revenues, excluding capital grants, increased by 1.9 per cent more than operating expenditure with employee expenses increasing by an average of 4.5 per cent, and other expenses by 6.3 per cent
- operating expenditures grew at a faster pace than operating revenues, excluding capital grants, at five of the ten NSW universities
- nine universities met the Australian Government Department of Education's benchmark for the percentage of Australian Government operating grants to total operating revenue. Only Southern Cross University's operating grants comprised more than 50 per cent of operating revenue
- Southern Cross University was the only university not to achieve a surplus (when capital grants are included in revenue) in 2013.

The Australian Government Department of Education last published its benchmarks for university financial performance in 2000. Financial reporting has changed since then and NSW universities are taking on increasing levels of debt. It should update the benchmarks to reflect changes in regulatory and economic environments.

Operating expenditures grew at a faster pace than operating revenues at five of the ten NSW universities in 2013

## Financial Controls

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

### Recommendations

**Some universities need an increasing focus on information technology security to maintain data integrity and reduce opportunities for identity theft and fraud.**

**University procurement policies and processes need to be designed to minimise the risk of corrupt conduct.**

**Universities should periodically review compliance with indirect tax obligations including payroll tax.**

The financial statement audits for 2013 concluded that, generally, the universities' internal controls are appropriately designed and operating effectively to produce reliable and timely financial reports. The audits did, however, identify areas where internal controls could be improved and these were reported to management.

The audits identified information security issues, which if not addressed promptly, may expose universities to security attacks and result in data integrity issues, fraud and/or identity theft.

The audits also identified that the configuration of automated computer controls and surrounding processes within student administration systems need to be improved. Many of these issues were previously reported in 2012 and not addressed.

In the procurement area, the audits identified, in some universities, poor controls over purchase orders, weaknesses in managing supplier masterfiles, lax controls over credit card usage and electronic payments, and the need for improved management of contracts to mitigate risks and realise intended benefits.

We identified instances of non-compliance with aspects of the *Payroll Tax Act 2007* whereby the payroll tax threshold was incorrectly claimed by both universities and controlled entities.

## Governance

Governance refers to the framework of rules, relationships, systems and processes within, and by which, authority is exercised and controlled in universities. It includes the systems universities, and those charged with governance, use and are held to account by others.

### Recommendations

**Universities require a system to facilitate an integrated, consistent and transparent approach to risk and compliance management.**

**Complex business arrangements require rigorous assessment to ensure risks, rewards and accounting implications are fully understood and addressed.**

**Universities should seek clarification regarding their controlled entities' legal position and obligations under the *Charitable Fundraising Act 1991* and the *Charitable Fundraising Regulation 2008* from the Office of Liquor Gaming and Racing.**

The configuration of automated computer controls within student administration systems needs to improve



The 2013 financial statement audits assessed universities' risk management, focusing on:

- risk governance
- risk management systems and oversight
- risk ownership and culture.

The assessments indicate risk management frameworks are at different maturity levels and are applied inconsistently by university faculties, business units and controlled entities. Risk management roles below executive teams and responsibility for managing risks are not clearly defined.

Universities are entering into increasingly complex business arrangements with the private sector. The audits identified instances where some arrangements had not been clearly analysed by management, increasing the risk of unexpected accounting and financial consequences.

Some university controlled entities fundraise without the relevant authority and do not seek independent assurance regarding the design, implementation and operating effectiveness of controls. In these cases, universities should clarify their controlled entities' legal position and obligations under the *Charitable Fundraising Act 1991* and the Charitable Fundraising Regulation 2008 from the Office of Liquor Gaming and Racing.

## Teaching and Research

Teaching and research are core activities of universities. The quality of teaching is a key driver of growth and universities' ability to attract domestic and international students.

During 2013, the equivalent full-time student load in NSW universities increased by 6,010 (2.4 per cent) to 257,690 with overseas students representing 21.8 per cent of all enrolled students. The number of overseas students fell in 2013 in five universities (seven in 2012) with a declining trend in numbers evident at some universities over recent years.

The ratio of students to academic staff improved from 20.1 in New South Wales in 2011 to 19.9 in 2012 (2013 figures were not available at the time of preparing this report). The University of Western Sydney has the highest ratio of 35.1 and the University of New South Wales the lowest at 12.3. The average for all universities in Australia was 19.9.

In 2014, the Australian Government will provide research block grant funding of \$1.7 billion to all Australian universities. NSW universities expect to receive \$518 million or 30.1 per cent. Of this amount, The University of Sydney expects \$179 million and University of New South Wales \$156 million.

# Financial Sustainability

## Sustainability Indicators

As with any well run business, universities must manage their finances so they can meet current and future spending commitments to provide high quality education, invest in future growth, adapt quickly to emerging threats and remain financially sustainable. To achieve these goals, universities must generate sufficient operating surpluses so they can respond to changes in economic conditions, government policy, and international competition.

The table below summarises the performance of NSW universities against some commonly accepted sustainability indicators for the year ended 31 December 2013:

University	Sustainability Indicators at 31 December 2013			
	Current ratio > 1.5 <sup>a</sup>	Debt to equity percentage <sup>b</sup>	Interest coverage ratio > 2 <sup>c</sup>	Operating margin <sup>d</sup>
<b>Sydney Metropolitan</b>				
Macquarie	2.0	23.3	6.6	7.1
New South Wales	0.9	2.7	69.6	5.9
Sydney	2.1	8.1	39.7	12.9
Technology, Sydney	1.5	7.5	30.5	7.2
Western Sydney <sup>e</sup>	1.4	4.0	25.0	(0.7)
<b>Major Regional</b>				
Newcastle	2.1	7.5	21.7	5.4
Wollongong	2.5	16.8	11.6	2.0
<b>Country</b>				
Charles Sturt	1.9	3.5	77.0	8.9
New England	3.2	-- <sup>f</sup>	-- <sup>f</sup>	2.4
Southern Cross	1.1	10.3	9.0	(8.8)

a Australian Government Department of Education's (the Department) benchmark for university financial performance, 'Benchmarking: A Manual for Australian Universities' considers a ratio between 1.5 and three as good practice.

b The Department does not provide a debt to equity benchmark. Acceptable debt to equity percentages vary depending on the nature of the entity and industry.

c Australian Shareholders' Association publication 'The top 15 Financial Ratios'.

d The operating margin is the university's operating result as a proportion of income, after excluding capital grants.

e 2013 data for UWS includes a one-off adjustment due to the accounting treatment of transactions relating to Campus Living Villages taking over the management of student accommodation at UWS.

f The University of New England did not have any debt at 31 December 2013.

Note: A description for each of the above indicators is provided in Appendix Three.

The analysis of financial sustainability risk indicators above suggests Southern Cross University has the greatest exposure to financial risks, which is discussed later in this report. A letter of response from Southern Cross University is included as Appendix One to this Overview.

The University of New South Wales' current ratio is less than 1.5 but because it has access to highly liquid investments, classified in its financial statements as non-current financial assets, it does not have a liquidity risk exposure.

The University of Western Sydney's current ratio of 1.4 is only just below the Department's benchmark. The university recorded a negative operating margin in 2013 due to a one-off loss of \$39.0 million on the disposal of assets.

While Macquarie University had the highest debt to equity percentage of 23.3 per cent, its operating margin was positive and its interest cover ratio of 6.6 was well above the benchmark.

The University of Wollongong recorded a relatively high debt to equity percentage of 16.8 per cent, but maintained a high current ratio of 2.5:1 and produced an adjusted operating result 11.6 times greater than its interest expense for the year.

The University of Wollongong and Southern Cross University are the only NSW universities to carry their property, plant and equipment at cost. Other NSW universities carry their property, plant and equipment at fair value. The different treatment impacts the debt to equity percentage and operating margin indicators.

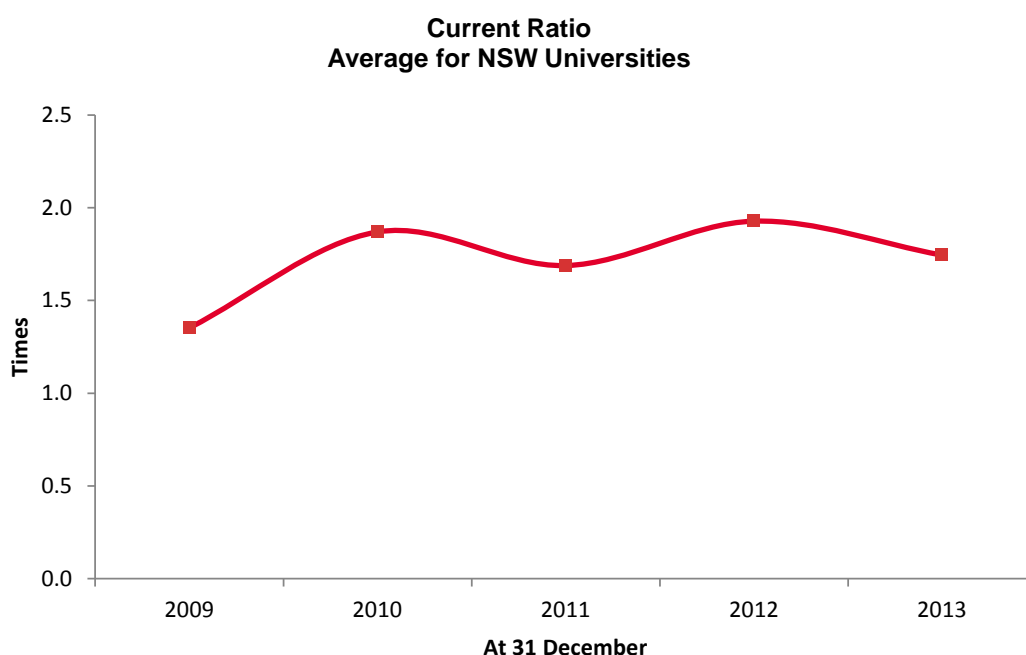
The University of Sydney early adopted AASB 9 'Financial Instruments' in 2012, which has resulted in unrealised gains/losses in the value of its investments being included in its result. It recorded the highest surplus in 2013 of \$248 million (\$137 million in 2012).

Each of the sustainability indicators is discussed further in the following sections.

## Current Ratio

The current ratio measures an entity's ability to repay short-term liabilities, such as accounts payable, using short-term assets, such as cash and receivables. The Department considers a ratio of between 1.5 and three as good practice. A ratio of less than one suggests sufficient resources may not be available to settle short-term debt obligations when they fall due. A ratio above three indicates surplus funds may be available to fund the university's activities or to invest longer-term to generate better returns.

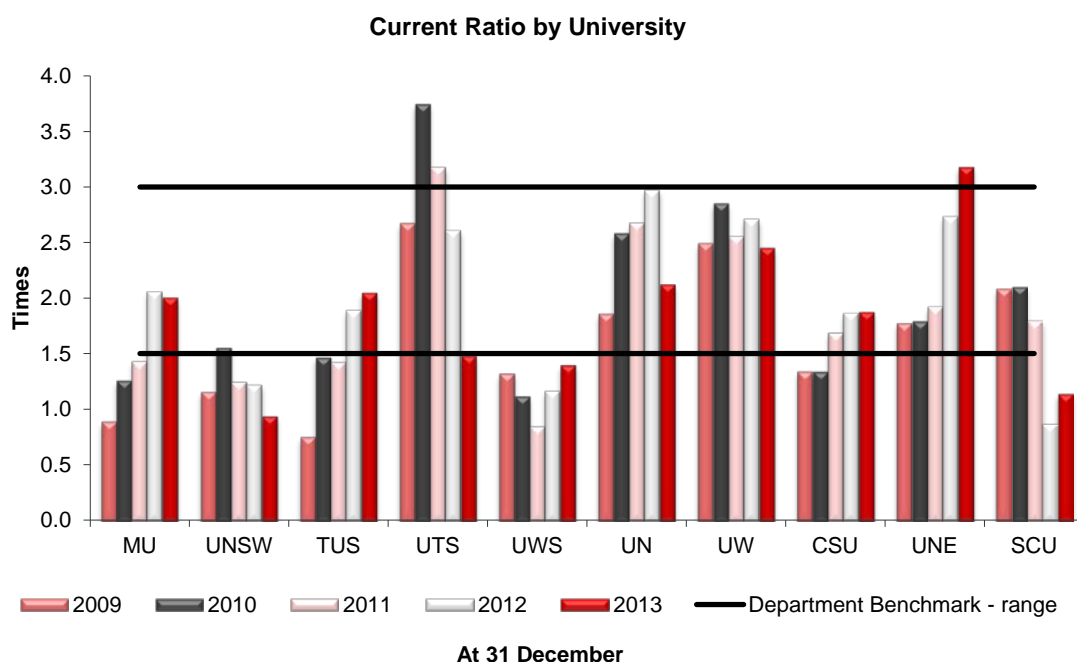
The average current ratio for all NSW universities over the last five years is shown below.



Source: University financial statements, as adjusted (audited).

The average current ratio for the ten NSW universities has remained between 1.4 and 1.9 over the last five years, which is generally in line with the Department's benchmark.

The current ratio for each NSW university over the last five years is shown below.



Source: University financial statements, as adjusted (audited).

At 31 December 2013, three universities (three at 31 December 2012) had current ratios of less than 1.5. As mentioned above, the University of New South Wales had the lowest ratio of 0.9 (1.2), but has access to over \$500 million of non-current investments, which can be converted to cash at short notice.

Southern Cross University had the second lowest ratio of 1.1 (0.9). While it does not have access to a pool of liquid non-current financial assets, it is yet to fully draw down its \$45.0 million loan facility.

The University of New England had the highest current ratio of 3.2 (3.0 for the University of Newcastle at 31 December 2012), which is just over the Department's upper benchmark of 3.0.

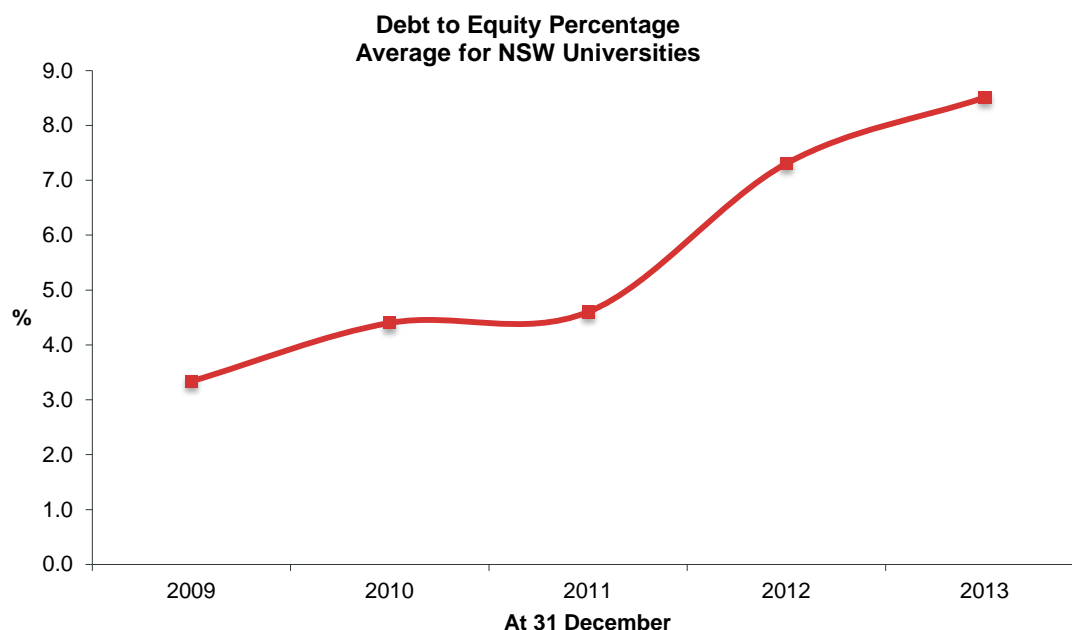
The Department's current ratio benchmark is based on current assets divided by current liabilities. Annual leave and long service leave liabilities expected to be settled more than 12 months after 31 December 2013, were excluded from current liabilities.

## Debt to Equity Percentage

The debt to equity percentage indicates whether a university is more reliant on borrowings (debt) or equity (reserves and retained earnings) to fund asset acquisitions and other activities. A higher percentage generally indicates a greater risk exposure to changes to interest rates and economic downturns.

The Department considers it essential that universities only take on debt if it can be used to generate revenue and/or can be repaid from identifiable revenue sources. The Department does not provide a debt to equity benchmark, which considers the nature of the university sector. Considering the increasing levels of debt at NSW universities, the Department should review the debt-related benchmarks in its Benchmarking Manual.

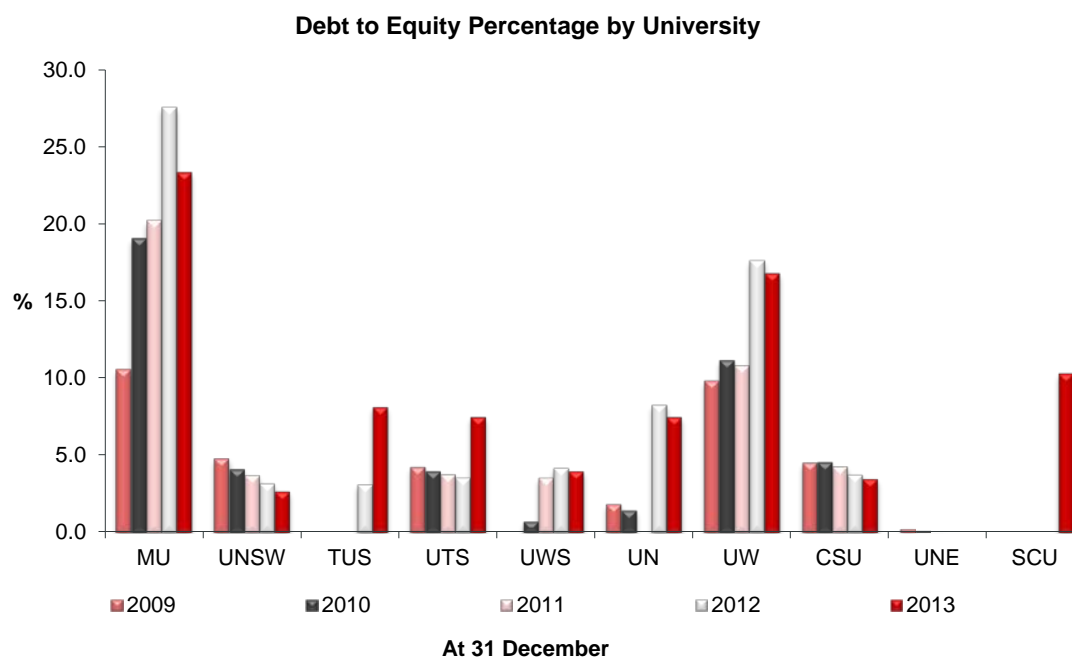
The average debt to equity percentage for all NSW universities over the last five years is shown below.



Source: University financial statements (audited).

The trend over the last five years shows that, on average, the combined debt of the ten NSW universities has increased consistently from 3.3 per cent of equity in 2009 to 8.5 per cent in 2013. However, the overall average level of debt remains low relative to the financial sustainability of the universities (refer Interest Coverage Ratio comments below).

Universities' borrowings totalled \$1.2 billion at 31 December 2013, an increase of \$233 million from \$917 million at 31 December 2012. The graph below shows the percentage of debt to equity for each NSW university at 31 December over the last five years.



Source: University financial statements (audited).

Borrowings in 2013 increased by \$200 million at The University of Sydney, \$58.9 million at the University of Technology Sydney, and \$20.8 million at Southern Cross University.

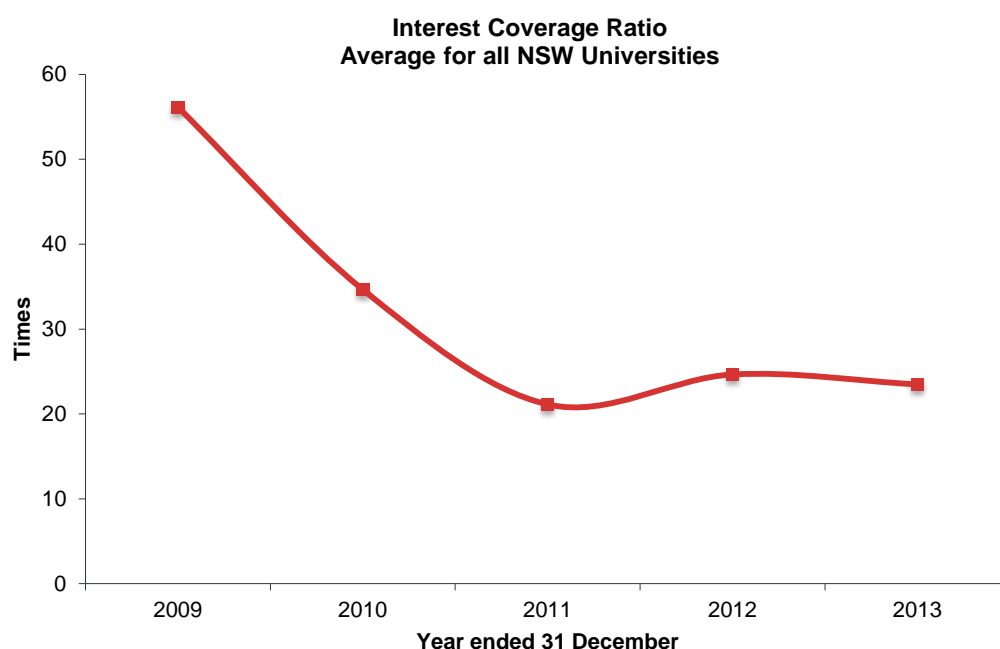
Macquarie University had the highest borrowings of \$357 million (\$398 million) at 31 December 2013. Macquarie University and the University of Wollongong had the highest debt to equity percentages of 23.3 per cent (27.6 per cent) and 16.8 per cent (17.7 per cent) respectively at 31 December 2013. The decrease in Macquarie University's debt to equity percentage reflects its repayment of \$41.0 million in net borrowings during the year.

The biggest increase in borrowings as a proportion of opening equity at 1 January 2013 was at Southern Cross University, which drew down \$20.8 million or 10.0 per cent of opening equity. The second highest increase was at The University of Sydney, which increased its borrowings by \$200 million or 5.7 per cent of opening equity.

## Interest Coverage Ratio

The interest coverage ratio measures the ability of an entity's operating result before interest, depreciation and amortisation, to meet its interest expense. A ratio greater than two is regarded as reasonable by the Australian Shareholders' Association because interest expense is covered twice by the entity's adjusted operating surplus.

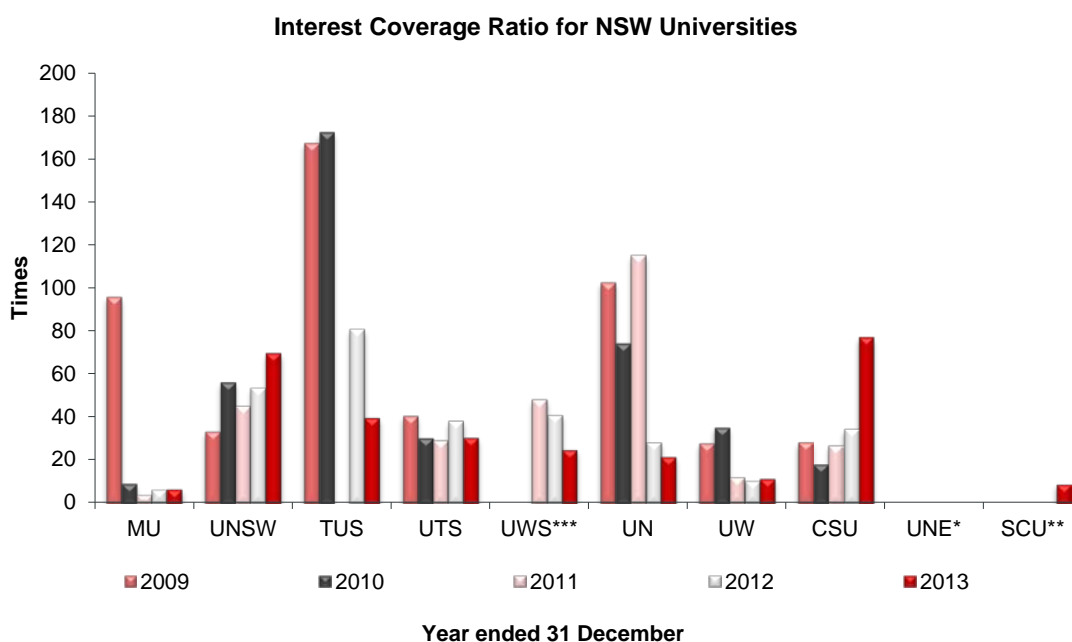
The average interest coverage ratio for all NSW universities over the last five years is shown below.



Source: University financial statements, as adjusted (audited).

Consistent with the general increase in debt levels over the last five years, the combined interest coverage ratio for all NSW universities decreased from 56 times in 2009 to 23 times in 2013. This ratio remains well above the benchmark and indicates the level of debt within the university sector, overall, is sustainable.

The interest coverage ratio for each NSW university over the last five years is shown below.



Source: University financial statements, as adjusted (audited).

\* UNE does not have any borrowings.

\*\* SCU did not have any borrowings until 2013.

\*\*\* 2013 data for UWS includes a one off adjustment due to the accounting treatment of transactions relating to Campus Living Villages taking over the management of student accommodation at UWS.

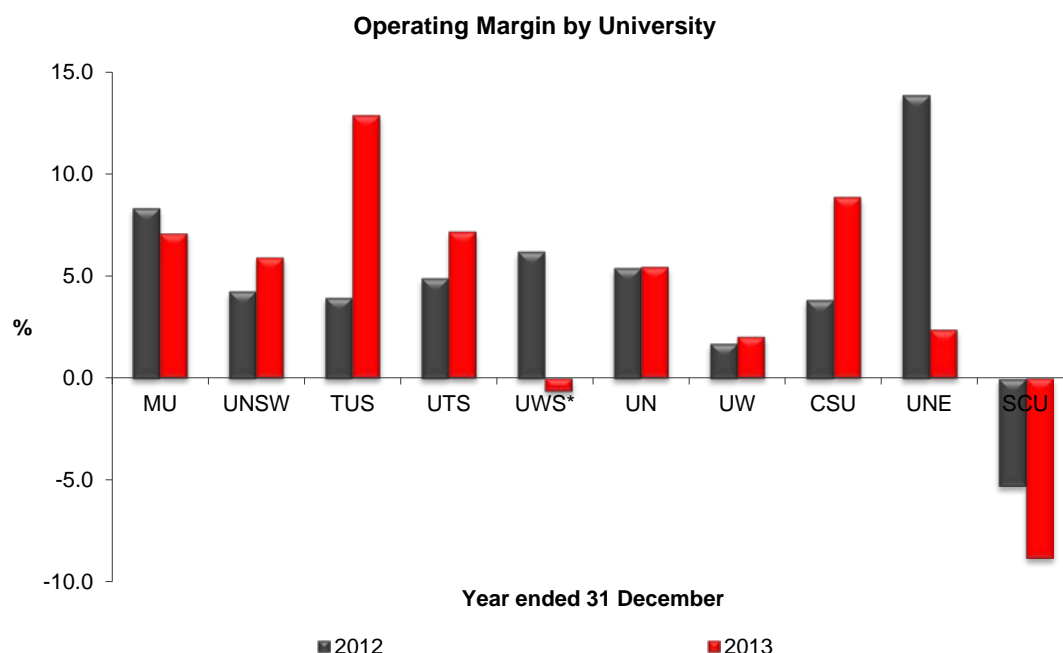
The University of New England did not have borrowings at 31 December 2013 and an interest coverage ratio was not applicable. Charles Sturt University and the University of New South Wales had the highest interest coverage ratios of 77.0 and 69.6 times respectively, reflecting their lower level of borrowings.

Macquarie University had the lowest interest coverage ratio of 6.6 times, reflecting its higher level of debt compared to other NSW universities. The second lowest interest cover ratio of 9.0 times was at Southern Cross University, who advise that they drew on their loan facility for the first time in 2013 to offset delays in the receipt of capital grants from the Australian Government. The grants were received in early 2014.

## Operating Margin

A university's operating margin is the ratio of operating result to total income, excluding capital grants. It represents the amount of each dollar of operating income that remains with the university after funding normal operations. A negative operating margin means a university's operating expenses are greater than its operating revenues.

The overall average operating margin of all ten NSW universities improved from 4.9 per cent in 2012 to 6.6 per cent in 2013. The 2013 operating margin for each NSW university is shown below.



Source: University financial statements, as adjusted (audited).

\* 2013 data for UWS includes a one off adjustment due to the accounting treatment of transactions relating to Campus Living Villages taking over the management of student accommodation at UWS.

The University of Sydney recorded the highest operating margin of 12.9 per cent (13.9 per cent for the University of New England in 2012) primarily due to high investment income in 2013.

Southern Cross University recorded the lowest operating margin, at negative 8.8 per cent (negative 5.3 per cent in 2012). The deterioration reflects a fall in Australian Government grants by \$2.4 million, a reduction in consultancy and contracts revenue of \$1.2 million, and additional employee related expenses of \$6.0 million. Employee related expenses increased by 4.9 per cent in 2013 following pay rises of 4.0 per cent and one-off redundancy expenditure.

The University of Western Sydney recorded a negative operating margin of 0.7 per cent in 2013 (positive 6.2 per cent in 2012) due to a one-off loss of \$39.0 million on the disposal of assets.

## Funding Superannuation Liabilities

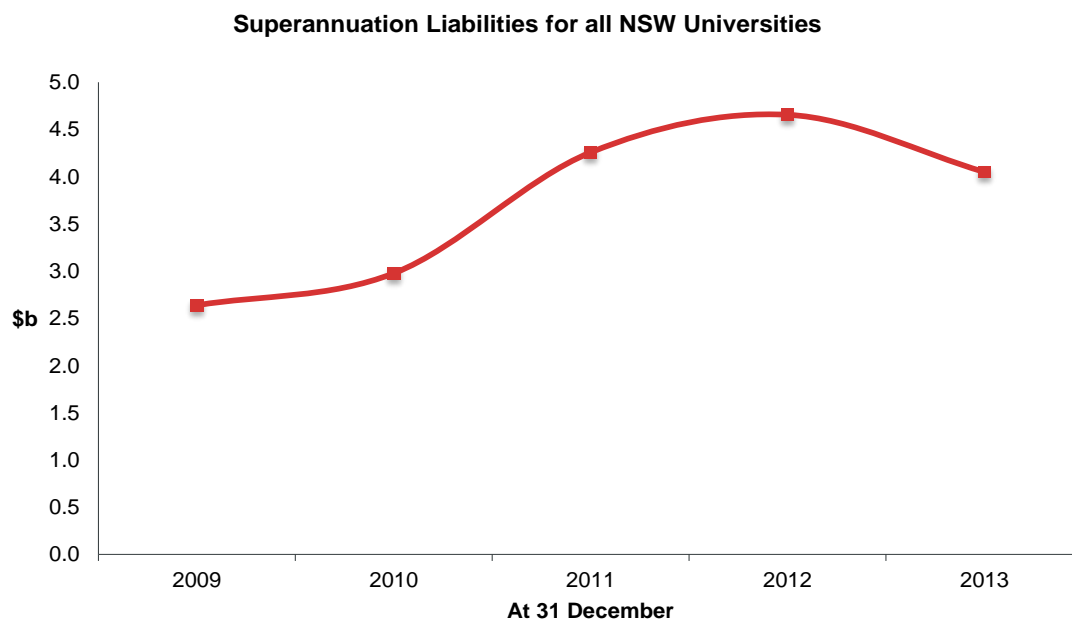
### Government Funding of Superannuation Liabilities

Last year, reserve balances held by the trustee for defined benefit superannuation funds were reported to have reached critically low levels for some NSW universities, and in some cases the trustee asked universities for a funding plan. It was also reported that NSW universities had not agreed terms of funding arrangements with the Australian Government for most university State employee defined benefit superannuation liabilities.

At the time of preparing this Overview, negotiations were continuing between the NSW Vice-Chancellors' Committee and the Australian and NSW Governments to formalise the funding arrangements.



The combined superannuation liability of all ten NSW universities at 31 December 2013 is shown below.

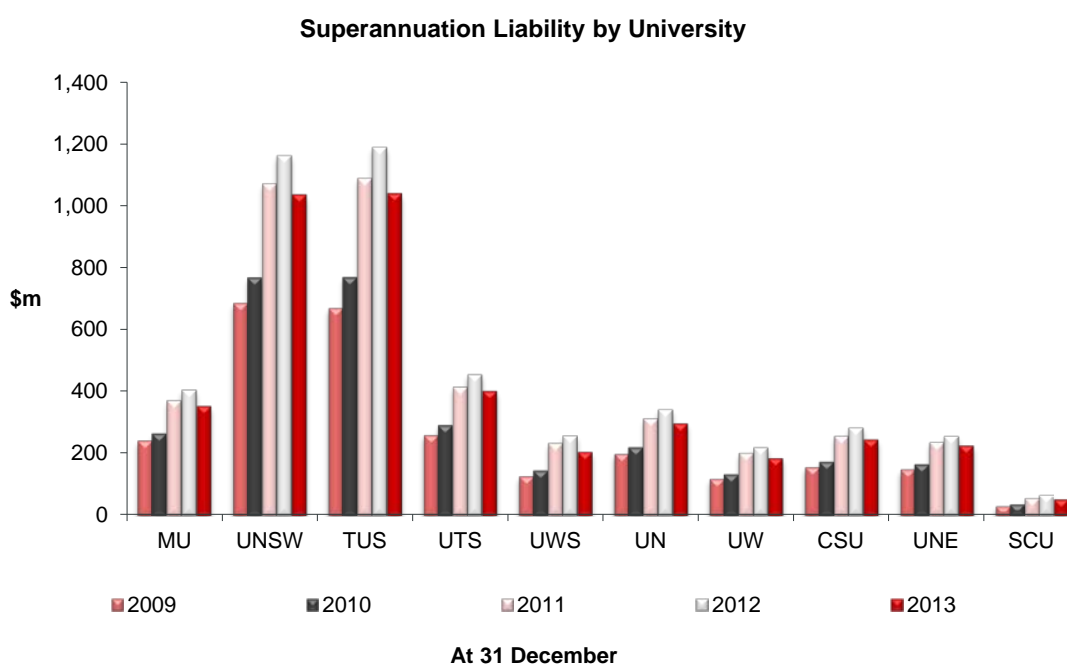


Source: University financial statements (audited).

Liabilities for defined benefit superannuation schemes across all ten NSW universities decreased from \$4.7 billion at 31 December 2012 to \$4.0 billion at 31 December 2013, a decrease of \$606 million (\$398 million increase in 2012). The decrease is mainly due to changes to the assumptions applied by the schemes' actuary regarding discount rates and expected salary increases.

Consequently, the receivable from the Australian Government to fund these liabilities decreased from \$4.4 billion to \$3.8 billion (\$404 million increase in 2012).

The superannuation liability of each NSW university at 31 December over the last five years is shown below.



Source: University financial statements (audited).

At 31 December 2013, \$2.1 billion or 51.3 per cent (\$2.4 billion or 50.6 per cent) of the total defined benefit superannuation liability was attributable to the University of New South Wales and The University of Sydney.

### **Superannuation Liabilities Funded by the Universities**

At 31 December 2013, the total defined benefit superannuation liability to be funded by the universities and not the Australian or NSW Governments was \$183 million (\$220 million at 31 December 2012). Each university will need to ensure it has sufficient future cash flows to meet these obligations as they fall due. At 31 December 2013, 46.8 per cent (48.5 per cent) of the liability was attributable to the University of New South Wales, 14.3 per cent (17.6 per cent) to The University of Sydney and 18.9 per cent (16.3 per cent) to the University of Newcastle.

### **Impact of the Australian Government Funding Decisions**

In April 2013, the former Australian Government announced plans to lower previously forecast funding to the Australian university sector by approximately \$2.3 billion to help fund reforms identified in the National School Improvement Plan. The lower funding included an efficiency dividend of 2.0 per cent in 2014 and 1.25 per cent in 2015.

New South Wales universities received Australian Government Grants of \$3.2 billion in 2013. The efficiency dividend would result in lower than previously forecast funding of approximately \$64.0 million in 2014 growing to \$103 million in 2015 across NSW universities, based on the 2013 grants. The actual funding impact will depend on future Government policy.

# Financial and Performance Reporting

Financial and performance reporting is an important dimension of good governance. Confidence in public sector decision making and transparency is enhanced when financial and performance reporting is accurate, timely and clear. The Australian and NSW Governments require accurate and timely financial and performance information from universities to enable effective decision-making in the allocation of resources.

The annual change in revenue and net assets provides a snapshot of the financial situation and worth of a university at a point in time. The table below shows the consolidated annual revenue and net asset position for NSW universities for the last two years.

University	Annual revenue* for year ended 31 December			Net assets at 31 December		
	2013 \$m	2012 \$m	Per cent increase/ (decrease)	2013 \$m	2012 \$m	Per cent increase/ (decrease)
<b>Sydney Metropolitan</b>						
Macquarie	870	815	6.7	1,532	1,444	6.1
New South Wales	1,620	1,548	4.7	2,130	1,908	11.6
Sydney	1,883	1,738	8.3	3,810	3,511	8.5
Technology, Sydney	720	683	5.4	1,407	1,309	7.5
Western Sydney	684	663	3.2	1,367	1,321	3.5
<b>Major Regional</b>						
Newcastle	700	657	6.5	1,133	1,026	10.4
Wollongong	576	546	5.5	785	752	4.4
<b>Country</b>						
Charles Sturt	492	446	10.3	808	744	8.6
New England	310	315	(1.6)	347	331	4.8
Southern Cross	193	196	(1.5)	202	208	(2.9)
<b>Total</b>	<b>8,048</b>	<b>7,607</b>	<b>5.8</b>	<b>13,521</b>	<b>12,554</b>	<b>7.7</b>

\* Annual revenue is consolidated total income from university audited financial statements, and includes capital grants

Charles Sturt University and The University of Sydney recorded the highest annual revenue growth for 2013 of 10.3 per cent and 8.3 per cent respectively. This was partly due to increased fees from international students of \$5.2 million (13.3 per cent increase) at Charles Sturt University, and \$50.3 million (17.7 per cent increase) at The University of Sydney. Increased Higher Education Loan Program (HELP) payments from the Australian Government of \$19.7 million (21.4 per cent increase) at Charles Sturt University, and \$26.2 million (19.9 per cent increase) at The University of Sydney also contributed.

Approximately 40 per cent of The University of Sydney's 2013 revenue growth resulted from improved investment returns. It is the only university to have early adopted AASB 9 'Financial Instruments', resulting in unrealised gains/losses in the value of its investments being recognised as revenue instead of directly in equity.

Annual revenue for the University of New England fell mainly due to a \$24.6 million decrease in special grants. The university received \$30.6 million grant funding in 2012 for a number of one-off projects, compared to \$6.0 million in 2013.

Southern Cross University's annual revenue reduction of \$2.9 million or 1.5 per cent was primarily due to falls in scholarship funding of \$2.3 million, consultancy and contracts revenue of \$1.2 million, and fees from overseas students of \$1.0 million.

The net asset position for the University of New South Wales and the University of Newcastle increased by 11.6 per cent and 10.4 per cent respectively compared to 2012 mainly due to positive investment returns on financial assets and favourable operating results.

Southern Cross University's net assets decreased by 2.9 per cent compared to 2012 due to a negative operating result for the year of \$6.7 million. The negative result was mainly due to the fall in revenue referred to above, and increased employee related expenses of \$6.0 million or 4.9 per cent following pay rises of 4.0 per cent and one-off redundancy expenditure.

The table below shows each university's performance against commonly used financial benchmarks for the year ended 31 December 2013.

University	Achievement of benchmark for year ended 31 December 2013			
	Australian Government operating grants not much more than 50 per cent of total operating revenue*	Operating result - positive*	Employee benefits and on-costs between 50% - 70% of total operating revenue*	Adjusted operating revenue** increased more than expenditure
<b>Sydney Metropolitan</b>				
Macquarie	Yes	Yes	Yes	No
New South Wales	Yes	Yes	Yes	Yes
Sydney	Yes	Yes	Yes	Yes
Technology, Sydney	Yes	Yes	Yes	Yes
Western Sydney***	Yes	Yes	Yes	No
<b>Major Regional</b>				
Newcastle	Yes	Yes	Yes	No
Wollongong	Yes	Yes	Yes	Yes
<b>Country</b>				
Charles Sturt	Yes	Yes	Yes	Yes
New England	Yes	Yes	Yes	No
Southern Cross	No	No	Yes	No

\* Australian Government Department of Education's benchmarks for university financial performance, 'Benchmarking: A Manual for Australian Universities'.

\*\* Total income per university financial statements, less capital grants.

\*\*\* 2013 data for UWS includes a one-off adjustment due to the accounting treatment of transactions relating to Campus Living Villages taking over the management of student accommodation at UWS.

Note: In the table above, references to operating revenue are exclusive of capital grants. The reference to operating result is inclusive of capital grants.

Nine universities met the benchmark for Australian Government operating grants not being much more than 50 per cent of total operating revenue. Southern Cross University is most dependent on Australian Government operating grant funding at 56.8 per cent of operating revenue (which excludes capital grants).

Southern Cross University reported a negative operating result (including capital grants) for the year ended 31 December 2013 with a deficit of \$6.7 million (surplus of \$3.3 million in 2012). All ten universities achieved the benchmark for a positive operating result in 2012.

Expenditure for five universities increased at a higher rate than operating revenue in 2013, after adjusting for capital grants. This implies operating revenues may not be sufficient to fund normal operations and maintain existing assets. This is discussed in more detail in the following sections.

A February 2000 Department publication, 'Benchmarking: A Manual for Australian Universities', details the first three benchmarks, which are now over thirteen years old. An update of their current relevance and appropriateness would benefit stakeholders.

## Diversity of Revenue

Universities can reduce their exposure to financial risk by diversifying revenue sources. A university's ability to generate diverse revenue sources depends on factors such as location, size, perceived standing, facilities, and student and staff profiles.

The combined universities' revenue by source is shown below.

Year ended 31 December	Five year trend	2013 \$m	2012 \$m	2011 \$m	2010 \$m	2009 \$m
<b>Student course fees</b>						
Domestic students	↑	1,761	1,562	1,420	1,367	1,233
Overseas students	↑	1,445	1,340	1,348	1,291	1,108
<b>Total student course fees</b>	↑	<b>3,206</b>	<b>2,902</b>	<b>2,768</b>	<b>2,658</b>	<b>2,341</b>
Australian Government grants *	↑	3,199	3,222	2,853	2,657	2,518
Other	↑	1,642	1,483	1,458	1,316	1,156
<b>Total revenue</b>	↑	<b>8,047</b>	<b>7,607</b>	<b>7,079</b>	<b>6,631</b>	<b>6,015</b>

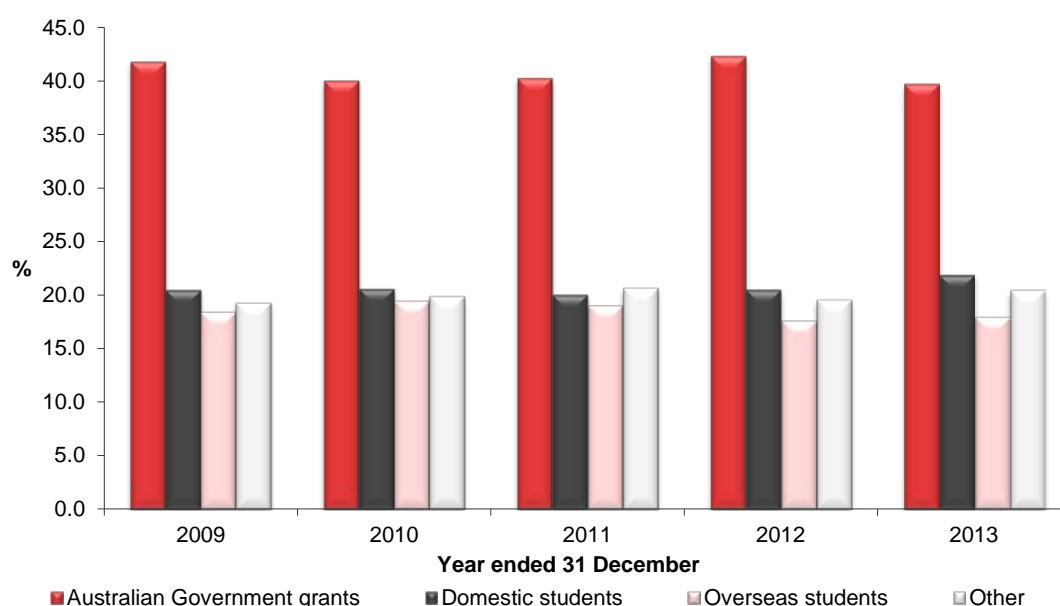
Source: University financial statements (audited).

\* Australian Government grants (operating and capital) do not include Higher Education Loan Programs, such as the Higher Education Contribution Scheme (HECS). These amounts are included in student course fees.

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

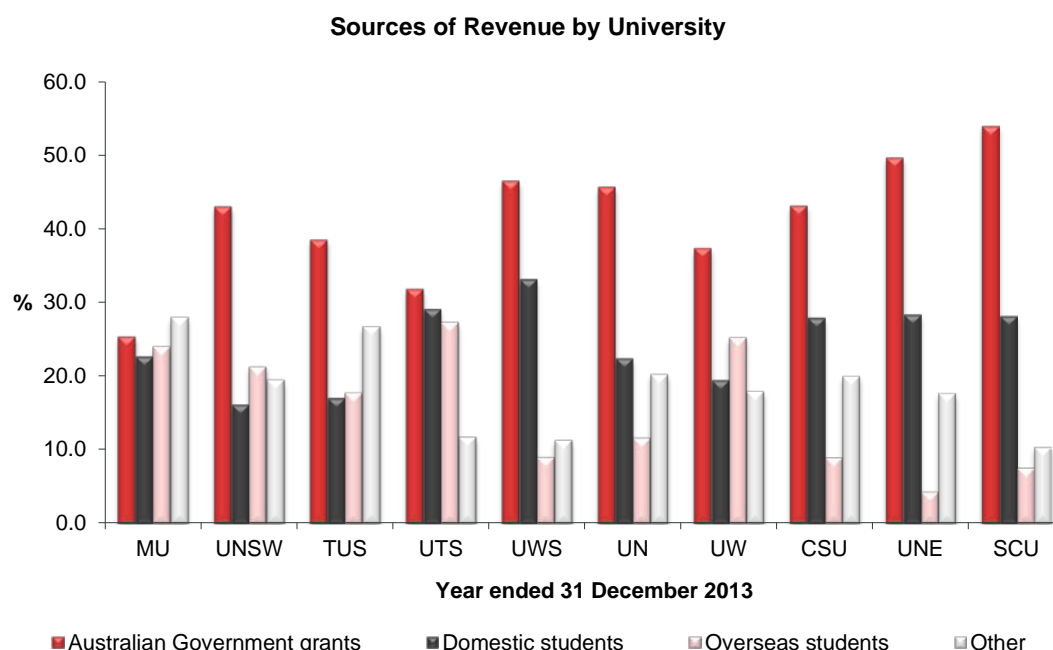
Combined university revenues increased by 33.8 per cent since 2009, with total student course fees increasing by \$865 million (37.0 per cent). Australian Government grants grew by 27.0 per cent over the same period, but decreased by \$23.1 million (0.7 per cent) in 2013 compared to 2012.

Sources of Revenue for all NSW Universities



Source: University financial statements (audited).

The source of revenue for each NSW university in 2013 is shown below.



Source: University financial statements (audited).

In general, major regional and country universities are more dependent on Australian Government grants compared to Sydney metropolitan universities. As funding pressures increase, universities will need to further supplement Australian Government grant income through other revenue streams, and constrain expenditure growth.

### Australian Government Grants

Australian Government grants (operating and capital) are a significant source of revenue for NSW universities accounting for 39.8 per cent (42.4 per cent) of total revenue in 2013. These grants decreased by \$23.1 million or 0.7 per cent in 2013 (increase of \$369 million in 2012), the first decrease in the last five years.

All universities, except Macquarie University, derived the largest proportion of their revenue from this source. Macquarie University received 25.4 per cent (25.1 per cent) of total revenue from Australian Government grants. Southern Cross University and University of New England and were most reliant on Australian Government grants in 2013 with these accounting for 54.0 per cent and 49.7 per cent of their total revenues respectively.

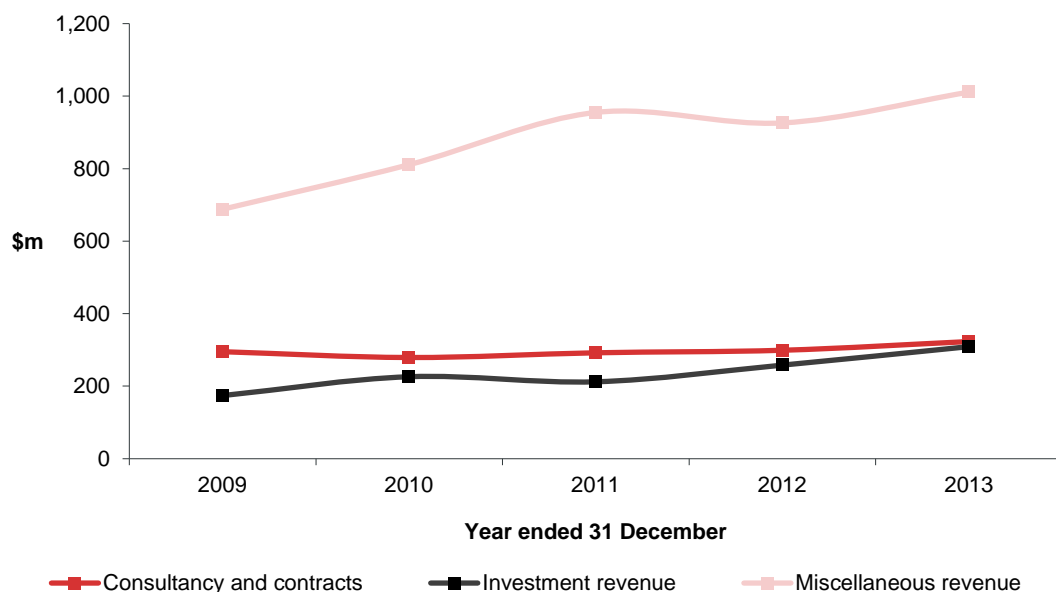
### Other Income

Other income of \$1.6 billion (\$1.5 billion in 2012) was earned by NSW universities in 2013, representing 20.4 per cent of total revenue. It comprised miscellaneous revenue of \$1.0 billion (\$926 million), consultancy and contracts fees of \$323 million (\$299 million), and investment earnings of \$309 million (\$258 million).

Other income in 2013 was most significant at Macquarie University and The University of Sydney, where it represented 28.0 per cent (\$243 million), and 26.7 per cent (\$503 million) of their total revenues. Other income reported by the University of Sydney mainly includes total investment income of \$178 million and Consultancy income of \$93.0 million.

Other income was least significant in 2013 at Southern Cross University and the University of Western Sydney, where it represented 10.4 per cent (\$20.0 million) and 11.3 per cent (\$77.5 million) of their total revenues.

### Other Income for NSW Universities



Miscellaneous revenue is the most significant component of other income. It includes income earned from controlled entities, donations, royalties, trademarks and licences. Across all NSW universities it increased by 9.1 per cent or \$84.4 million in 2013 and by 47.0 per cent or \$323 million since 2009. Miscellaneous revenue in 2013 was especially significant at Macquarie University, primarily due to earnings from the Macquarie University Hospital of \$90.0 million (\$68.3 million).

Investment revenue of \$309 million in 2013 (\$258 million) was earned by NSW universities, an increase of 77.9 per cent or \$135 million since 2009. The University of Sydney recognised the largest investment income of \$178 million in 2013 (\$116 million), representing 9.5 per cent (6.7 per cent) of total revenues.

NSW universities earned consultancy and contracts revenue of \$323 million in 2013 (\$299 million), which is an increase of 9.5 per cent since 2009 when they earned \$295 million.

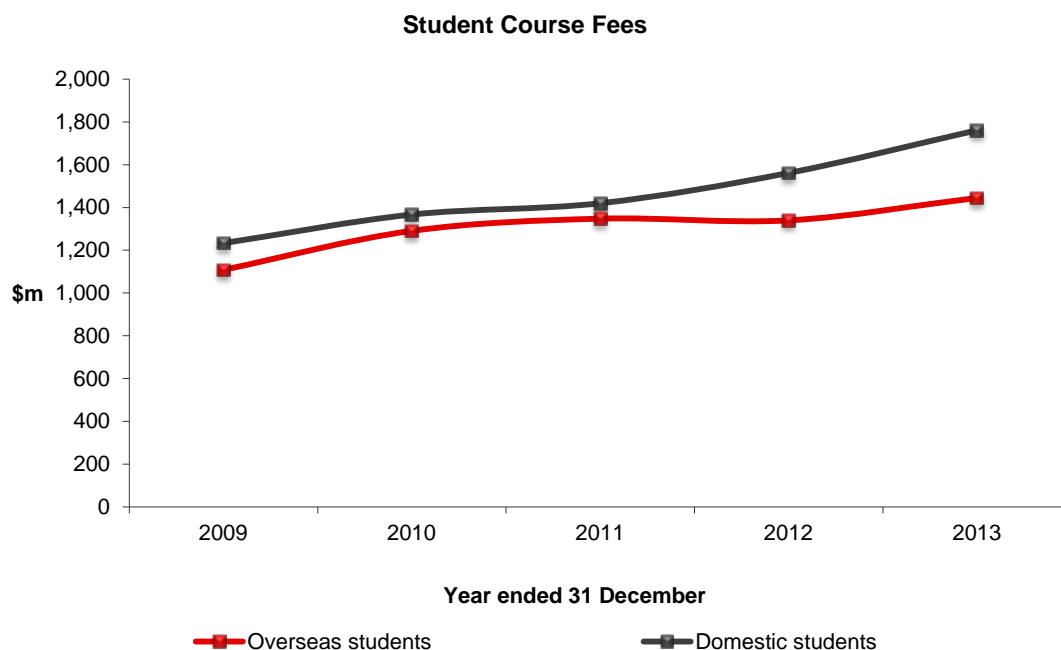
### Student Course Fees

Student course fees were another significant source of revenue in 2013 representing 39.8 per cent (38.1 per cent in 2012) of total revenue for all NSW universities. Total student course fees increased by 37.0 per cent since 2009.

The University of Technology Sydney and Macquarie University had the largest proportion of total revenue from student course fees at 56.4 per cent (53.7 per cent) and 46.6 per cent (47.9 per cent) respectively in 2013. The University of New England had the lowest percentage of revenue from student course fees in 2013 at 32.6 per cent (28.9 per cent).

Student course fees are received directly from students or through Higher Education Loan Programs, such as the Higher Education Contribution Scheme (HECS).

Total student course fees for all NSW universities over the period 2009 to 2013 are shown below.



Source: University financial statements, as adjusted (audited).

In 2013, total revenue from domestic students increased by \$199 million (12.7 per cent) compared to 2012 and by \$528 million (42.8 per cent) since 2009. In 2013, domestic student course fees represented 21.9 per cent of total university revenues, which is relatively consistent with the last four years.

Revenue from overseas fee-paying students increased by \$105 million (7.8 per cent) in 2013 compared to a decrease in 2012. It continued to be a significant revenue stream for universities, representing 18.0 per cent (17.6 per cent in 2012) of total revenue. Revenue from overseas students increased by 30.4 per cent since 2009 and, in 2013, represented 45.1 per cent (46.2 per cent) of total student course fees.

Fees from overseas students as a percentage of total revenue ranged from 4.3 per cent (4.5 per cent in 2012) for the University of New England to 27.3 per cent (26.4 per cent) for University of Technology Sydney.

### Fees Received per Student

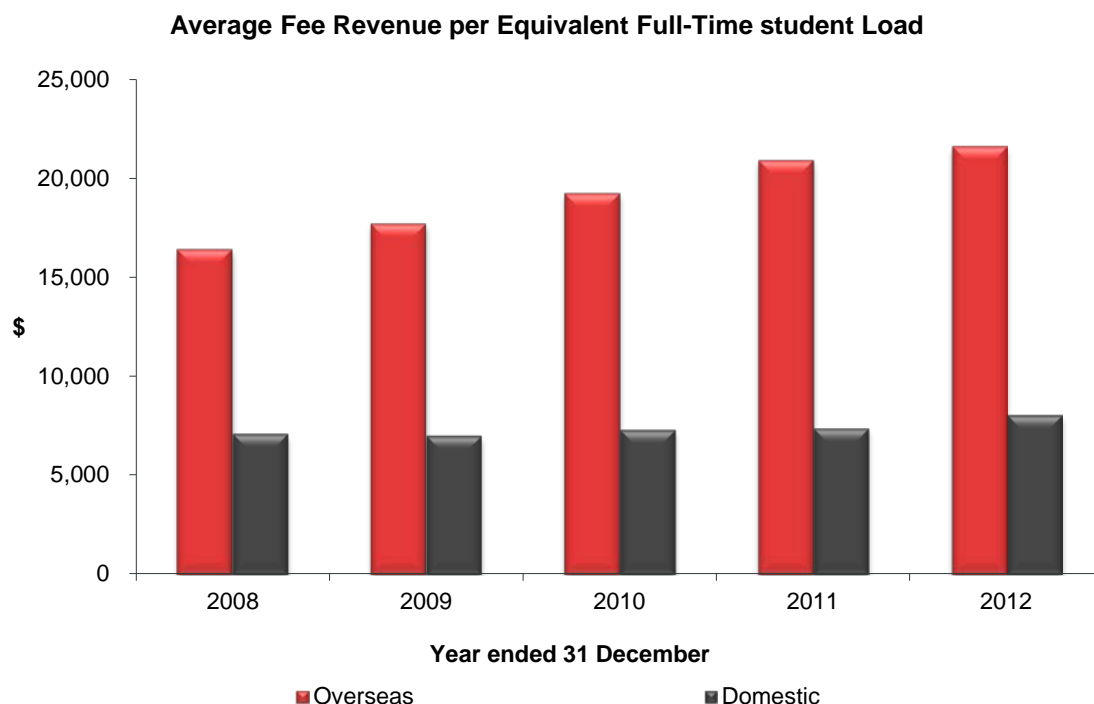
In 2012, universities, excluding their controlled entities, received average fees of \$21,637 for each overseas student and \$8,010 for each domestic student. Student numbers from the Department for 2013 were unavailable at the time of preparing this report.

Fees received per student, calculated for university parent entities only, were as follows:

- fees per overseas student – overseas student fees divided by equivalent full-time overseas student load
- fees per domestic student – total revenue from undergraduate, postgraduate and non-award domestic student fees, continuing education, Higher Education Student Loan Programs (such as the Higher Education Contribution Scheme) divided by equivalent full-time domestic student load.



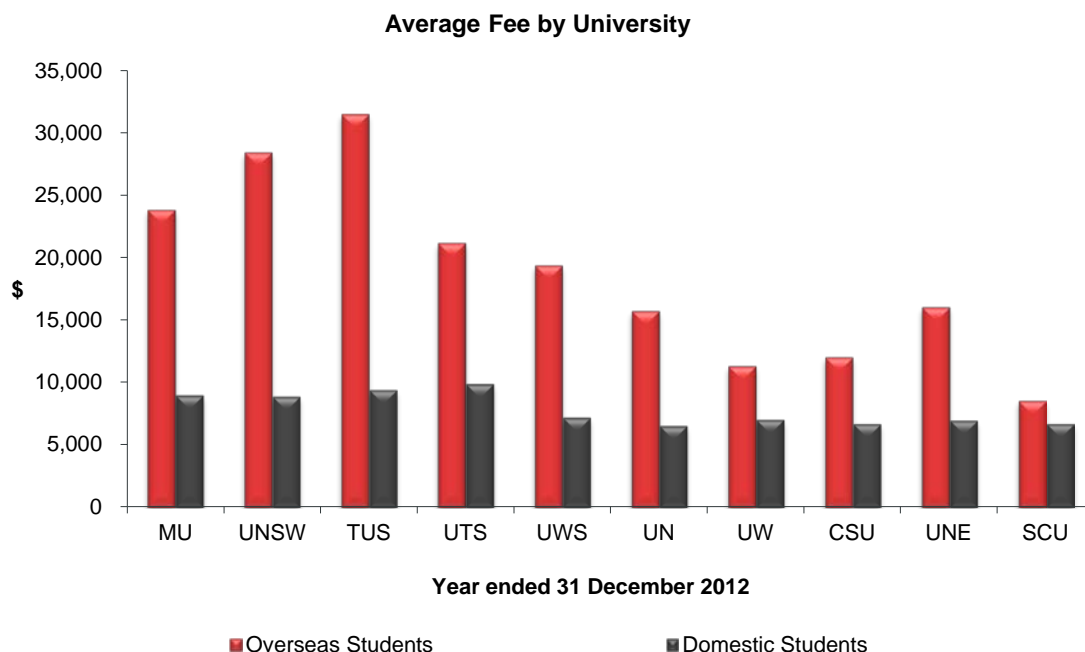
The average fee revenue received per student from 2008 to 2012 for NSW universities is shown below.



Source: Fee information obtained from universities' audited financial statements. Student numbers obtained from Department publications.

The average fee revenue received per overseas student increased 31.6 per cent from 2008 to 2012. Fees received per domestic student increased by 13.1 per cent over the same period. Domestic student fees are significantly subsidised by the Australian Government.

The average fee received per student for each NSW university in 2012 is shown below.

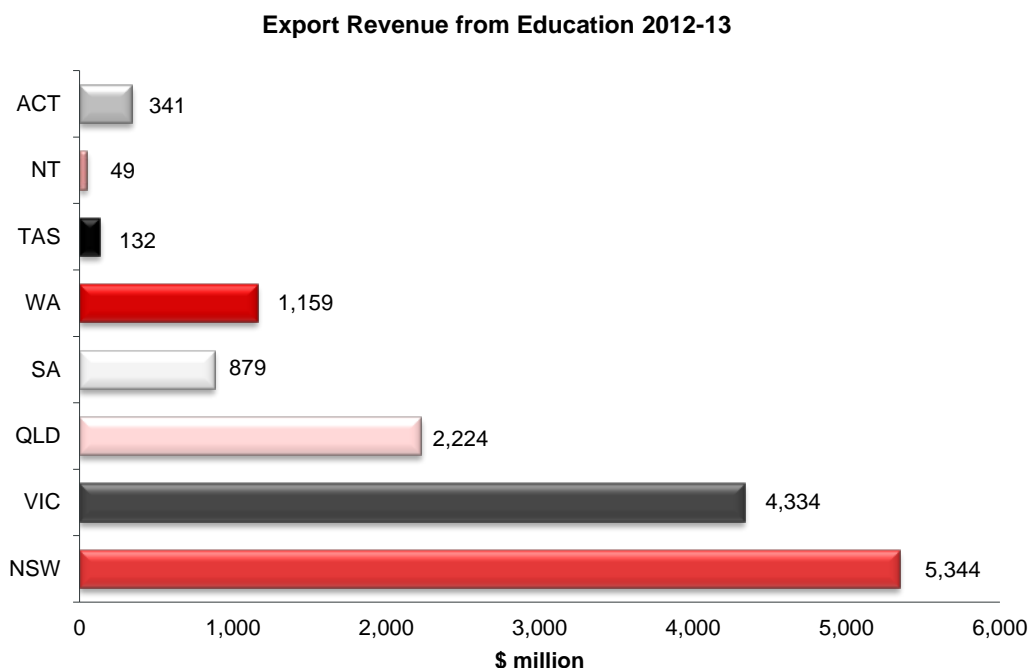


Source: Fees information obtained from universities' audited financial statements. Student numbers obtained from Department publications.

Generally, greater differences between overseas and domestic student fees occurred in Sydney metropolitan universities. This is partly due to the higher costs associated with Sydney based campuses, and the types of degrees offered by Sydney metropolitan universities compared to universities in other areas. In 2012, The University of Sydney had the highest difference between average fees received from an overseas student compared to a domestic student of \$22,141 (237 per cent). Southern Cross University had the lowest difference of just \$1,902 (28.6 per cent).

## Financial Impact of Overseas Students

The graph below shows the importance of overseas students to universities and the overall Australian economy.



Source: Australian Bureau of Statistics publication, ABS 5368.0.55.003.

According to the Australian Bureau of Statistics, the Australian economy benefited from student course fees; the money students spent on goods and services in Australia; and money spent overseas that was channelled back to Australia. These revenues totalled \$14.5 billion in 2012-13, with \$5.3 billion attributed to New South Wales.

## Rate of Increase in Operating Revenue Compared to Operating Expenditure

The earnings gap benchmark compares the growth in revenue after excluding capital grants (i.e. operating revenue) to the growth in operating expenses. A negative earnings gap implies a university's operating revenue may not be sufficient to fund normal operations and maintain existing assets over the medium to longer term.

The following table shows the combined operating revenues of NSW universities increased by 1.9 per cent more than expenditure in 2013. Total operating revenue increased by 7.1 per cent or \$527 million, mainly due to student fees increasing by 10.5 per cent or \$304 million and other income by 10.7 per cent or \$159 million. Operating expenses increased by 5.2 per cent or \$366 million primarily due to employee benefit expenses increasing by an average of 4.5 per cent, and other expenses, which includes depreciation and amortisation, by 6.3 per cent.

University Year ended 31 December	Operating revenues*			Operating expenses			Earnings gap
	2013 \$m	2012 \$m	Revenue growth rate	2013 \$m	2012 \$m	Expenses growth rate	Positive /(negative)
<b>Sydney Metropolitan</b>							
Macquarie	869	813	6.9	807	745	8.3	(1.4)
New South Wales	1,610	1,522	5.8	1,515	1,457	4.0	1.8
Sydney	1,877	1,667	12.6	1,636	1,601	2.2	10.4
Technology, Sydney	703	654	7.5	653	622	5.0	2.5
Western Sydney**	671	642	4.5	675	602	12.1	(7.6)
<b>Major Regional</b>							
Newcastle	672	638	5.3	635	602	5.5	(0.2)
Wollongong	569	538	5.8	556	529	5.1	0.7
<b>Country</b>							
Charles Sturt	477	440	8.4	435	423	2.8	5.6
New England	304	312	(2.6)	297	269	10.4	(13.0)
Southern Cross	184	183	0.5	200	193	3.6	(3.1)
<b>Total</b>	<b>7,936</b>	<b>7,409</b>	<b>7.1</b>	<b>7,409</b>	<b>7,043</b>	<b>5.2</b>	<b>1.9</b>

\* Operating Revenue is total revenue less capital grants.

\*\* 2013 data for UWS includes a one-off adjustment due to the accounting treatment of transactions relating to Campus Living Villages taking over the management of student accommodation at UWS.

The University of Sydney and Charles Sturt University had the highest gap between operating revenues and expenses of 10.4 per cent and 5.6 per cent respectively.

The University of Sydney's operating revenue growth is largely explained by investment returns of \$178 million (\$116 million) and fees from overseas students increasing by \$50.3 million. At the same time, its employee benefit expenses increased by 1.7 per cent, significantly less than the average increase for NSW universities of 4.5 per cent.

Charles Sturt University's revenue increased by 8.4 per cent mainly due to increased Australian Government Grants of \$15.5 million and Higher Education Loan Program income of \$19.7 million. Over the same period, its expenses increased by 2.8 per cent.

The rate of increase in operating expenses exceeded the rate of increase in operating revenues by more than five per cent at the University of New England (13.0 per cent) and the University of Western Sydney (7.6 per cent).

The University of New England's employee related expenses increased by 6.2 per cent in 2013, while other expenses increased by 16.3 per cent. Over the same period, the university's operating revenue decreased by 2.6 per cent largely due to a one-off structural grant of \$30.6 million received at the end of 2012. Other expenses increased as a result of structural funding expenditure of \$17.6 million, additional computer licensing costs of \$9.3 million, and advertising marketing and promotional expenses of \$3.1 million.

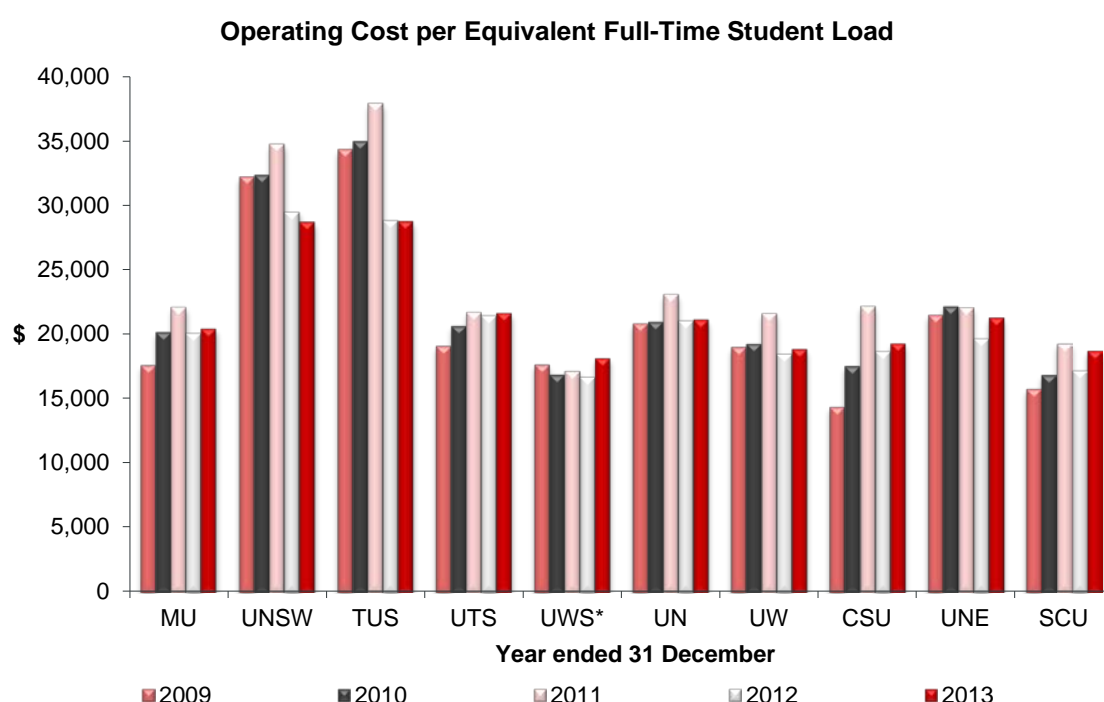
The University of Western Sydney's other expenses increased by 19.6 per cent during the year, mainly due to a significant one-off loss on disposal of assets of \$39.0 million. During the same period, employee related expenses increased by 7.4 per cent and operating revenue increased by 4.5 per cent.

Southern Cross University's employee related expenses increased by 4.9 per cent in 2013, while other expenses increased by 1.9 per cent. Operating revenues increased by 0.5 per cent over the same period.

## Operating Cost per Student

In 2013, based on university parent entity figures only, universities incurred average operating expenses (excluding research expenditure) of \$21,719 (\$21,198 in 2012) for every equivalent full-time student.

The graph below compares the operating cost per student for each NSW university.



Source: Universities' audited financial statements; data provided by the respective universities (unaudited) and student numbers from Department publications.

Note: 2009, 2010, 2011 expenditure has not been adjusted for research expenditure when calculating the operating cost.

\* 2013 data for UWS includes a one-off adjustment due to the accounting treatment of transactions relating to Campus Living Villages taking over the management of student accommodation at UWS.

The University of Sydney and the University of New South Wales had the highest operating expenses per student at \$28,775 and \$28,734 respectively in 2013. The University of Western Sydney had the lowest operating expenses per student at \$18,165.

# Financial Controls

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

## Internal Controls

Weaknesses in internal controls increase the risk of fraud or error. My financial statement audits for 2013 concluded that, generally, the universities' internal controls are appropriately designed and operating effectively to produce reliable and timely financial reports. My audits did, however, identify areas where internal controls could be improved, and these were reported to university management. Common observations included:

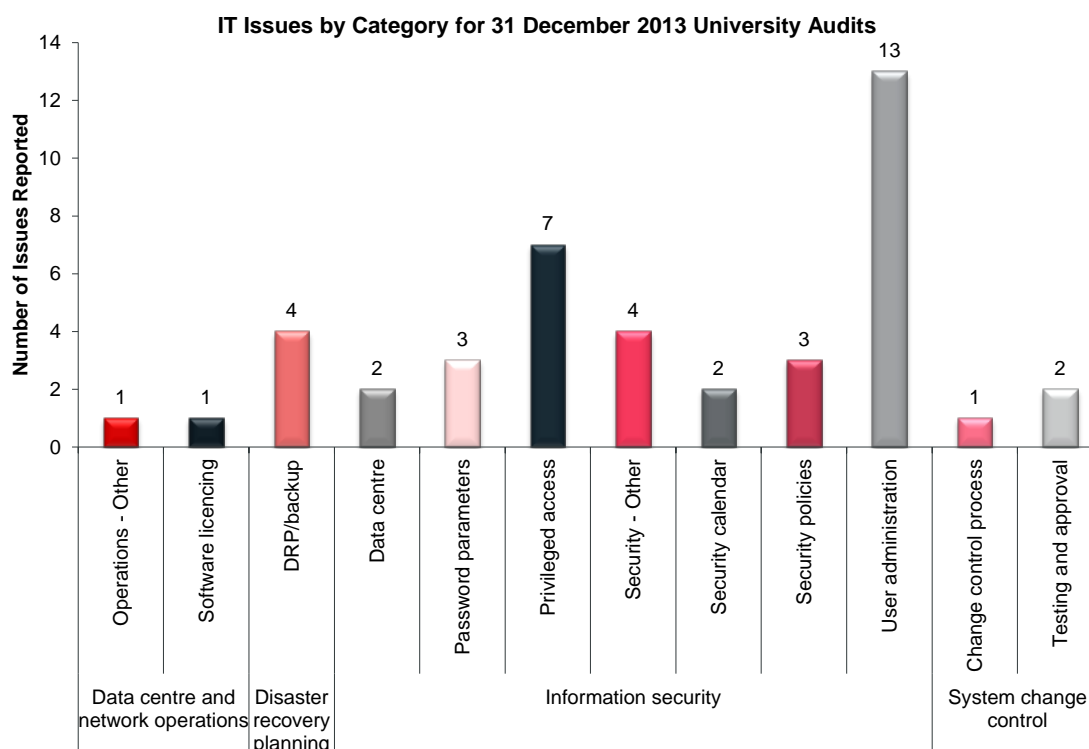
- supplier/creditor master files with insufficient access restrictions, duplicate and inactive master file accounts, and no evidence of review of master file changes
- purchase orders raised after receipt of invoice and instances of unexplained gaps in the sequential numbering of purchase orders
- approved delegation limits not being correctly applied in automated purchasing systems
- no evidence of review of payroll master files, monthly payroll reports by faculty heads, or new employee checklists
- inadequate controls over Electronic Funds Transfer (EFT) payment files with accounts payable and payroll payment files accessible by unauthorised users
- poor controls over credit card approval procedures and usage
- non-compliance with aspects of the *Payroll Tax Act 2007*. Instances were identified where the payroll tax threshold was incorrectly claimed by both universities and controlled entities
- absence of a formal process to identify, monitor and report on compliance with key legislative obligations
- lack of a university-wide contract register listing contracts and key obligations of those contracts; and a process to ensure conditions are being met.

An instance was identified where recommendations by the Independent Commission Against Corruption (ICAC) to improve procurement processes were not addressed within the agreed timetable. Some of these recommendations remain outstanding at the date of this report. Until these recommendations are fully addressed, there is an increased risk of fraud and error.

## Information Technology

The 2013 information system audits performed on universities and some associated entities focused on information technology (IT) processes and controls supporting the integrity of the financial data used in the preparation of the financial statements. These audits identified and reported a total of 43 IT specific issues to management.

Thirty seven per cent of these issues were previously reported in 2012 and most related to information security. Information security issues that are not addressed promptly may expose universities to security attacks and result in data integrity issues, fraud and/or identity theft.



Information security issues made up 79 per cent of IT issues identified during the 2013 university audits and many were repeat issues.

Two particular areas of concern are:

- user administration accounted for 30 per cent of the 2013 information systems issues and most related to the absence of or weak processes surrounding user access reviews and timely termination of user access to systems
- privileged access accounted for 16 per cent of the 2013 information systems issues and most related to a lack of accountability through the sharing of high-privileged administrator accounts, conflicts in segregation of duties, and absent or weak administrator access review processes.

## Effectiveness of Automated Controls in Student Administration

Appropriate configuration of automated controls provides financial accountability, transaction validity and data integrity. Our assessment of university student administration processes identified the following areas where the implementation of automated controls and surrounding processes could be improved:

- business requirements were not met due to flaws in the design of the system and system generated reports. For example, exception reports generated from systems were not always complete and accurate
- user access within student administration systems was not set up to adequately support segregation of duties. For example, changes to student details in the student administration system were able to be processed and approved by the same person
- monitoring controls supporting the appropriate implementation of automated controls had not been established, such as reviews to detect changes to system security configuration, and reviews of cases where automated controls are bypassed.

Ensuring appropriate automated controls are in place is a continuous process. Automated controls should be reviewed by management regularly to ensure they are configured in line with business requirements. Universities need to be aware of the functionality and operation of automated controls, particularly during system upgrades and periods of business change.

## Human Resources

### Excess Annual Leave

Managing excess annual leave is a continual challenge for universities. Past Reports to Parliament have recommended universities investigate the reasons for excess annual leave balances and address the underlying causes.

At 31 December 2013, 1,643 (1,624 in 2012) university employees or 5.3 per cent (5.4 per cent) of all staff had accrued more than 40 days annual leave. Liabilities for excess annual leave generally increase over time as salary rates increase, increasing costs and cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave. Further, employee fraud is more likely to be detected when people are on leave.

The table below shows the number of staff with more than 40 days accrued annual leave at 31 December at each university.

University Year ended 31 December	Academic staff				General staff			
	Three year trend	2013	2012	2011	Three year trend	2013	2012	2011
<b>Sydney Metropolitan</b>								
Macquarie	↓	76	65	156	↑	46	48	42
New South Wales	↓	73	151	225	↓	16	39	62
Sydney	↑	413	392	288	↑	237	220	84
Technology, Sydney	↓	106	92	111	↓	44	50	71
Western Sydney	↓	48	61	59	↓	22	33	48
<b>Sydney Metro Total</b>	↓	<b>716</b>	<b>761</b>	<b>839</b>	↑	<b>365</b>	<b>390</b>	<b>307</b>
<b>Major Regional</b>								
Newcastle	↑	18	15	16	↑	58	50	54
Wollongong	↑	108	11	11	↓	63	67	68
<b>Major Regional Total</b>	↑	<b>126</b>	<b>26</b>	<b>27</b>	~	<b>121</b>	<b>117</b>	<b>122</b>
<b>Country</b>								
Charles Sturt	~	63	48	64	↓	83	80	87
New England	~	73	78	76	↓	65	87	81
Southern Cross	↓	15	21	32	↑	16	16	12
<b>Country Total</b>	↓	<b>151</b>	<b>147</b>	<b>172</b>	↓	<b>164</b>	<b>183</b>	<b>180</b>
<b>Total</b>	↓	<b>993</b>	<b>934</b>	<b>1,038</b>	↑	<b>650</b>	<b>690</b>	<b>609</b>

Source: Information provided by respective universities (unaudited).

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

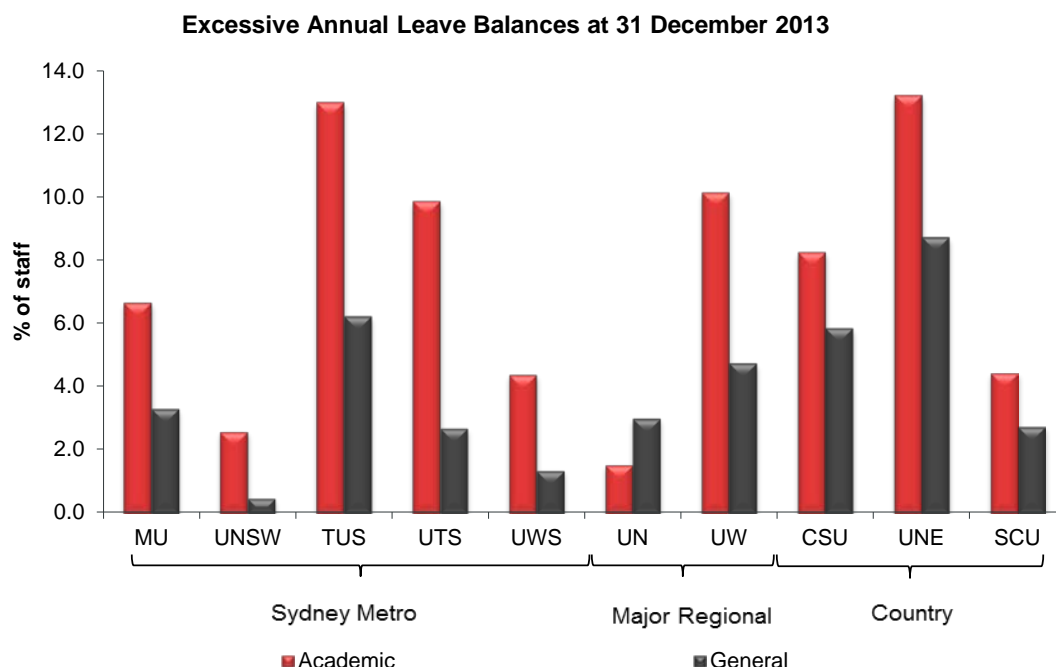
Key: ↑ Trend upwards, ↓ Trend downwards, ~ No trend.

Overall, academic staff with excess annual leave balances increased to 7.5 per cent of total academics at 31 December 2013 (7.3 per cent at 31 December 2012). For general staff the percentage with excess leave balances decreased to 3.6 per cent (3.9 per cent).

The table shows that some universities have made progress in reducing excess annual leave. The University of New South Wales has the lowest proportion of staff with excess annual leave balances.

The number of academic staff with excess annual leave at the University of Wollongong increased from 11 to 108 in 2013. The university attributes the increase to a change in employee award conditions. Academic staff are no longer deemed to have taken their leave at year end.

The graph below shows the percentage of academic and general staff with annual leave balances exceeding 40 days at 31 December 2013 at each university.



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

The University of Newcastle is the only university where the excess annual leave of general staff exceeded that of academics.

## Long Service Leave Liability

The long service leave liability for NSW universities has increased by \$216 million (49.4 per cent) since 2009. This increase is largely due to the impact of lower discount rates used to calculate the present value of the liability.

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



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

University Year ended 31 December	Five year trend	2013 \$m	2012 \$m	2011 \$m	2010 \$m	2009 \$m
<b>Sydney Metropolitan</b>						
Macquarie	↑	43	49	42	35	36
New South Wales	↑	165	161	144	106	99
Sydney	↑	139	121	115	99	92
Technology, Sydney	↑	65	70	64	45	40
Western Sydney	↑	49	51	46	41	39
<b>Sydney Metro Total</b>	<b>↑</b>	<b>461</b>	<b>452</b>	<b>411</b>	<b>326</b>	<b>306</b>
<b>Major Regional</b>						
Newcastle	↑	70	66	53	43	39
Wollongong	↑	58	52	45	40	36
<b>Major Regional Total</b>	<b>↑</b>	<b>128</b>	<b>118</b>	<b>98</b>	<b>83</b>	<b>75</b>
<b>Country</b>						
Charles Sturt	↑	28	28	27	23	23
New England	~	20	22	20	21	21
Southern Cross	↑	16	17	14	13	12
<b>Country Total</b>	<b>↑</b>	<b>64</b>	<b>67</b>	<b>61</b>	<b>57</b>	<b>56</b>
<b>Total</b>	<b>↑</b>	<b>653</b>	<b>637</b>	<b>570</b>	<b>466</b>	<b>437</b>

Source: Universities financial statements (audited).

Key: ↑ Trend upwards, ~ No trend.

Four NSW universities have had continuous growth in the long service leave liability since 2009. In 2013, the University of Sydney had the greatest annual percentage increase of 15.3 per cent (25.7 per cent for the University of Newcastle in 2012).

## Asset Management

### Capital Programs and Asset Management

Universities fund their capital works programs through investments, borrowings, grants and operational cash flows.

#### Capital Works

Capital expenditure across all ten universities totalled \$1.4 billion in 2013 (\$1.2 billion in 2012) and \$1.6 billion is budgeted for 2014. The University of Sydney incurred the largest spend in 2013 of \$398 million and has the largest budget for 2014 of \$453 million.

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

The table below shows the capital expenditure of each university over the last three years and the budget for 2014 and 2015.

University Year ended 31 December	Capital expenditure budget			Capital expenditure actual		
	2015 \$m	2014 \$m	3 year trend	2013 \$m	2012 \$m	2011 \$m
<b>Sydney Metropolitan</b>						
Macquarie	57	56	↓	53	198	95
New South Wales	220	308	~	223	242	225
Sydney	238	453	↑	398	237	198
Technology, Sydney	102	298	↑	294	165	154
Western Sydney	131	137	↓	106	115	115
<b>Sydney Metro Total</b>	<b>748</b>	<b>1,252</b>	<b>↑</b>	<b>1,074</b>	<b>957</b>	<b>787</b>
<b>Major Regional</b>						
Newcastle	105	135	↑	98	36	53
Wollongong	22	93	~	81	65	78
<b>Major Regional Total</b>	<b>127</b>	<b>228</b>	<b>↑</b>	<b>179</b>	<b>101</b>	<b>131</b>
<b>Country</b>						
Charles Sturt	44	62	↓	68	50	77
New England	50	57	↑	28	24	21
Southern Cross	18	44	↓	17	38	25
<b>Country Total</b>	<b>112</b>	<b>163</b>	<b>↓</b>	<b>113</b>	<b>112</b>	<b>123</b>
<b>Total</b>	<b>987</b>	<b>1,643</b>	<b>↑</b>	<b>1,366</b>	<b>1,170</b>	<b>1,041</b>

Source: Data provided by respective universities. Actual figures (audited), budget figures (unaudited). Trend is based on 2011 – 2013 data.

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

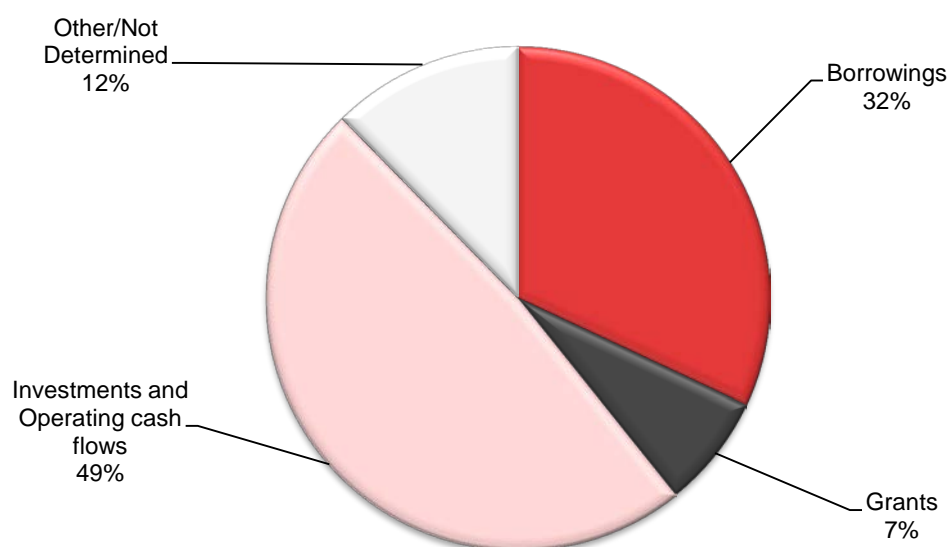
Major capital projects at the University of New South Wales in 2013 included the \$146 million Wallace Wurth Modernisation and Extension and the \$110 million Kensington Colleges Redevelopment. The Wallace Wurth Building modernisation will house medical science teaching and research. The Kensington Colleges Redevelopment was completed in early 2014 and provides additional student accommodation and teaching spaces. Capital projects in 2014 will include a \$145 million project to extend the Physical Sciences precinct, provide accommodation for Materials Science and Engineering and extend facilities for the Mark Wainwright Analytical Centre.

In 2013, The University of Sydney continued work on the \$385 million Charles Perkins Centre, which aims to deliver world-class research into obesity, diabetes and cardiovascular disease. Capital projects in 2014 include the \$250 million Abercrombie Precinct Redevelopment, and \$130 million Australian Institute of Nanoscience. The Abercrombie Precinct will house the new University of Sydney Business School, while the Nanoscience building will be a research and teaching facility.

The University of Technology, as a part of its \$1.0 billion Campus Master Plan, expects to complete its Broadway Building, the Dr Chau Chak Wing and Thomas Street Building, in 2014.

The sources of funding for the proposed 2014 capital works program for NSW universities are:

### Sources of Capital Funding 2014



Source: Data provided by universities (unaudited).

Borrowings are expected to fund 32 per cent of capital projects in 2014, compared to 36 per cent in 2013. The decrease in borrowings is expected to be offset by funding from additional investment returns and operating cash flows, which have been budgeted to increase from 42 per cent in 2013 to 49 per cent in 2014.

### Asset Maintenance

Backlog maintenance remains significant at 31 December 2013, totalling \$941 million.

Year ended 31 December	Three year trend	2013	2012	2011
Backlog maintenance (\$m)	↑	941	669*	763
Maintenance expenditure (\$m)	↑	206	185	192
Property, Plant and Equipment (PPE) values at 31 December (\$m)	↑	11,300	11,500	9,200
Maintenance expenditure/PPE values (%)	↓	1.8	1.6	2.1
Depreciation expense (\$m)	↑	505	486	448

Source: Backlog maintenance data supplied by universities (unaudited). All other data sourced from universities' financial statements (audited).

\* This is the total for nine universities. The University of New England could not provide backlog maintenance data.

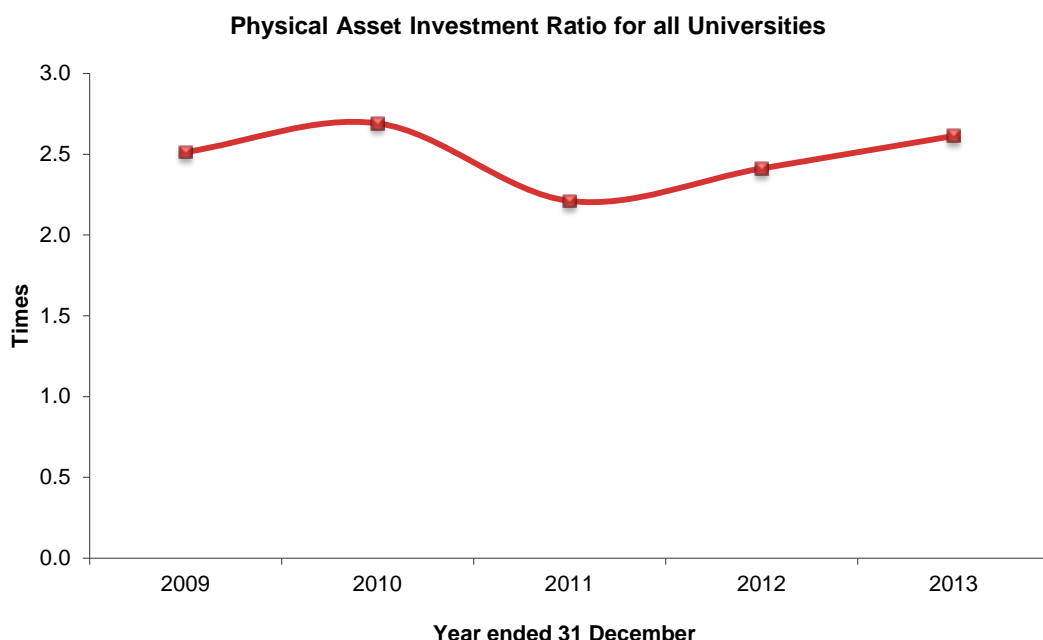
Key: ↑ Trend upwards, ↓ Trend downwards, ~ No trend.

Estimated backlog maintenance ranged from \$1.0 million at Macquarie University to \$360 million at The University of Sydney. Actual backlog maintenance for some universities could be higher depending on the timing of the last condition assessment. Some universities perform asset condition audits over a five year cycle, while others perform these on a continuous basis.

Backlog maintenance can indicate that maintenance tasks to repair, or prevent, equipment failures have not been completed. Asset maintenance is essential to ensure the optimal management of physical assets to maximise value.

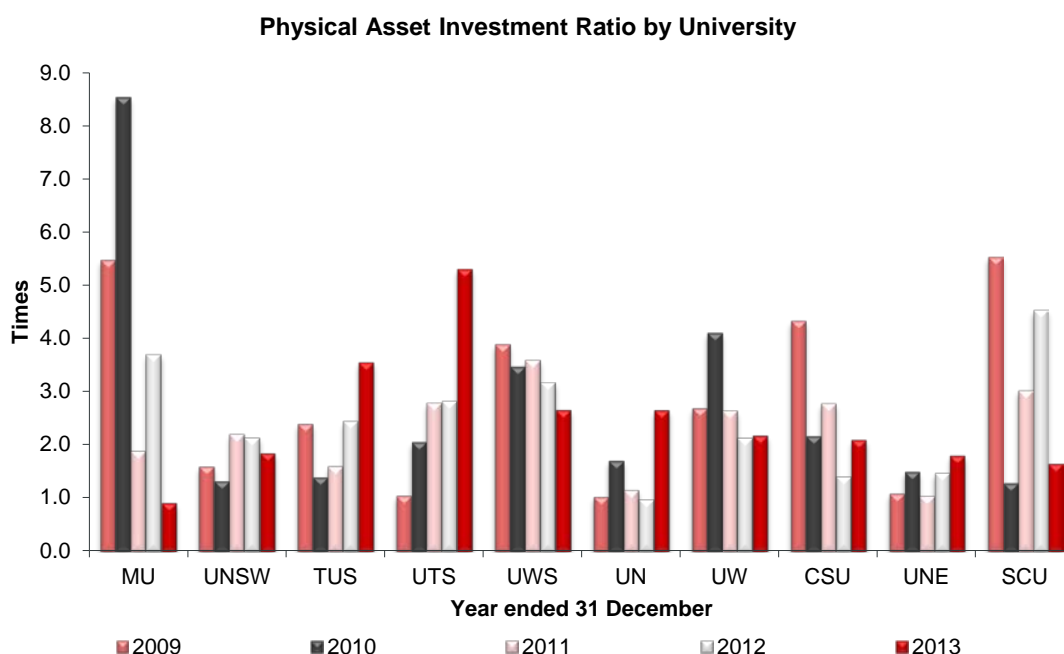
## Physical Asset Investment Ratio

Capital expenditure across all ten NSW universities in 2013 was 2.6 times greater than depreciation charges, an increase from 2.4 in 2012. This physical asset investment ratio calculates the extent to which an organisation renews or grows its physical assets. This is especially important to organisations like the universities, which have significant capital facilities. A ratio above one indicates an increasing investment in physical assets, while a lower ratio could indicate the need for future capital expenditure.



Source: University financial statements (audited).

The physical asset investment ratio for each university over the last five years is shown below.



Source: University financial statements (audited).

The University of Technology Sydney had the highest physical asset investment ratio of 5.3 at 31 December 2013 and Macquarie University had the lowest ratio of 0.9. Southern Cross University's physical asset investment ratio fell significantly to 1.7 from 4.5 the year before. Universities are at different stages in their capital investment programs, but with increasing student populations, future investment in capital facilities is expected.

## Status of 2012 Audit Recommendations

Last year's Report to Parliament recommended universities review the taxation status of their controlled entities. The review is needed to ensure current Australian Taxation Office private rulings remain valid for Australian entities not paying tax and to confirm tax was not being incurred unnecessarily.

In response, all universities performed either a self-review or discussed the issue with external consultants to ensure compliance with taxation law. The universities also assessed the relevance of separate tax paying controlled entities and, where appropriate, are incorporating these entities' activities within the university structure to effectively manage tax exposures.

The Australian Government plans further changes to taxation arrangements which are expected to apply to the not-for-profit sector.

# Governance

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Governance refers to 'the framework of rules, relationships, systems and processes within, and by which, authority is exercised and controlled in universities.'<sup>1</sup> It includes the systems universities, and those charged with governance, use and are held to account by others.

Universities are subject to a range of accountability requirements through reporting to the Australian Government in relation to public funding and national higher education priorities. Further oversight is provided through the annual university audits and related requirements of the *Public Finance and Audit Act 1983*.

## Risk Management

Risk Management is a process of identifying, assessing and prioritising risks to minimize, monitor and control the impact of unforeseen events or to maximise the realisation of opportunities.

During our financial audits we review how universities manage their risks focussing on three specific themes:

- risk governance – whether there is a systematic approach to decision making processes associated with operational and strategic risks
- risk management system and oversight – the system that supports identifying, monitoring and reporting of risk management processes
- risk ownership/culture – the assignment of responsibility for risk management and embedding of risk culture in the organisation.

Universities are at different maturity levels in implementing risk management frameworks. The 2013 audits identified some common issues which can be addressed by:

- better communication to people below the executive level on risk roles, responsibilities and processes
- adequately articulating risk management frameworks, policies and guidelines to ensure consistent risk management procedures are implemented in faculties, business units and controlled entities
- adopting a top down approach to documenting strategic risks, decentralised operational risk registers and entity wide communication of these risks
- implementing systems to identify, assess and monitor existing and emerging risks and report these to those charged with governance
- improving entity wide risk awareness through training/workshops for employees on risk management processes that should be applied at each level
- clearly defining roles and responsibilities for risk managed at different levels and making risk framework documents available and accessible to staff on university websites
- considering a centralised technology based solution to reduce reliance on manual processes, and enable better oversight and control of risks.

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<sup>1</sup> Adapted from the Corporate Governance Principles and Recommendations with 2010 Amendments 2nd Edition ASX Corporate Governance Council 2010

## Controlled Entities

In recent years, universities have reviewed their governance arrangements and taken steps to improve them. These actions have delivered positive outcomes for the university sector, including:

- only four modified audit opinions were issued on controlled entities' financial statements in 2013 compared to seven in 2012
- strengthened oversight and monitoring of university controlled entities
- increased collaboration and information sharing between universities on industry specific risks.

## Universities' Business Arrangements

Universities have continued to review their business arrangements and further reduced the number of domestic controlled entities from 71 to 64 at 31 December 2013. However, overseas controlled entities increased from 13 to 14.

At 31 December 2013, NSW universities were involved in the business arrangements shown below.

University	Total number of business arrangements	Number of controlled entities	Number of joint ventures	Number of cooperative research centres*
<b>Sydney Metropolitan</b>				
Macquarie	22	19	1	2
New South Wales	28	18	--	10
Sydney	16	6	--	10
Technology, Sydney	16	6	7	3
Western Sydney	10	8	--	2
<b>Sydney Metro Total</b>	<b>92</b>	<b>57</b>	<b>8</b>	<b>27</b>
<b>Major Regional</b>				
Newcastle	7	3	--	4
Wollongong	14	6	--	8
<b>Major Regional Total</b>	<b>21</b>	<b>9</b>	<b>--</b>	<b>12</b>
<b>Country</b>				
Charles Sturt	5	3	--	2
New England	16	8	--	8
Southern Cross	11	1	5	5
<b>Country Total</b>	<b>32</b>	<b>12</b>	<b>5</b>	<b>15</b>
<b>Total</b>	<b>145</b>	<b>78</b>	<b>13</b>	<b>54</b>

Source: Data obtained from respective universities.

\* Includes CRCs where a university has a core or supporting participant role.

The number of entities controlled by each university at 31 December for the last four years is shown below.

At 31 December	Incorporated in Australia					Incorporated overseas				
University	Four year trend	2013	2012	2011	2010	Four year trend	2013	2012	2011	2010
Sydney Metropolitan										
Macquarie	↓	18	20	20	20	~	1	1	--	--
New South Wales	↓	9	9	11	13	↑	9	8	8	8
Sydney	↓	6	6	7	7	~	--	--	--	--
Technology, Sydney	~	4	4	3	4	~	2	2	2	2
Western Sydney	↓	8	8	11	13	~	--	--	--	--
Sydney Metro Total	~	45	47	52	57	↑	12	11	10	10
Major Regional										
Newcastle	↓	2	3	3	5	~	1	1	1	1
Wollongong	↓	5	7	8	10	~	1	1	1	1
Major Regional Total	↓	7	10	11	15	~	2	2	2	2
Country										
Charles Sturt	↓	3	3	3	4	~	--	--	--	--
New England	↓	8	8	6	8	~	--	--	--	--
Southern Cross	↓	1	3	6	4	~	--	--	--	--
Country Total	↓	12	14	15	16	~	--	--	--	--
Total	↓	64	71	78	88	↑	14	13	12	12

Source: Data obtained from respective universities.

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

In 2013, NSW universities reduced the number of Australian controlled entities by seven. Macquarie University, with 19, had the highest number of controlled entities. The universities continue to review the need for controlled entities and are taking steps to incorporate certain functions within the university when considered appropriate.

Macquarie University deregistered two local controlled entities in 2013 as a part of its rationalisation program. A third entity was deregistered in January 2014. Southern Cross University deregistered two locally controlled entities in 2013. It is reviewing the capital and operating structure of its only remaining wholly-owned subsidiary, and expects to complete this review by December 2014.

## Fundraising Activities

The function of many university controlled entities is to raise funds through donations and other fundraising activities. The funds raised are intended to ultimately flow to the university. These controlled entities comprise trusts, incorporated companies limited by shares or guarantee, and foundations. The trustees, members and directors are similarly diverse, comprising corporations and natural persons who may or may not hold positions at the university itself. These charitable entities fundraise within Australia and abroad, through a range of activities, functions and on-line solicitation.

The activities of these entities fall under the *Charitable Fundraising Act 1991* (CF Act) and its regulation, the *Charitable Fundraising Regulation 2008* (CF Regulation). The CF Regulation exempts NSW universities from the obligation to hold an authority to conduct fundraising appeals. However, the exemption does not extend to the controlled entities of universities.



Most university charitable entities hold fundraising authorities and seek independent assurance from the Audit Office about the design, implementation and operating effectiveness of the controls they must maintain over their fundraising activities. However, some university controlled entities fundraise without the relevant authority and do not seek independent audit assurance regarding the design, implementation and operating effectiveness of controls. In these cases, universities should clarify their legal position and obligations under the CF Act and the CF Regulation from the Office of Liquor Gaming and Racing.

## Audit Opinions on Controlled Entities

The following table summarises the number of controlled entities within NSW universities, their audit result, and incomplete audits at the date of preparation of this report.

University At 31 December	Number of controlled entities		Number of modified opinions*		Number of incomplete audits**	
	2013	2012	2013	2012	2013	2012
<b>Sydney Metropolitan</b>						
Macquarie	19	21	--	--	--	--
New South Wales	18	17	--	1	1	1
Sydney	6	6	1	1	--	1
Technology, Sydney	6	6	--	--	--	--
Western Sydney	8	8	2	3	--	1
<b>Sydney Metro Total</b>	<b>57</b>	<b>58</b>	<b>3</b>	<b>5</b>	<b>1</b>	<b>3</b>
<b>Major Regional</b>						
Newcastle	3	4	--	--	--	--
Wollongong	6	8	--	--	--	--
<b>Major Regional Total</b>	<b>9</b>	<b>12</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>Country</b>						
Charles Sturt	3	3	1	1	--	--
New England	8	8	--	1	--	--
Southern Cross	1	3	--	--	--	--
<b>Country Total</b>	<b>12</b>	<b>14</b>	<b>1</b>	<b>2</b>	<b>--</b>	<b>--</b>
<b>Total</b>	<b>78</b>	<b>84</b>	<b>4</b>	<b>7</b>	<b>1</b>	<b>3</b>

\* A modified opinion is a qualified opinion, adverse opinion or disclaimer of opinion. No adverse opinions were issued in 2012 or 2013.

\*\* Audits were incomplete at the date of preparation of the report. The audit of one controlled entity of the University of New South Wales (UNSW Global India Pvt Limited) was incomplete because its financial period ended 31 March 2014. This audit is not overdue. Incomplete 2012 audits were completed in 2013.

Controlled entities of NSW universities that received an unmodified Independent Auditor's Report on their 2013 Financial Statements are listed in Appendix Five of this Overview. Some of these entities ceased operations during 2013 and will not be included in the table above. Some controlled entities of NSW universities are exempt from audit.

## Modified Audit Opinions

The Audit Office issued four modified audit opinions on controlled entities' 2013 financial statements compared to seven last year.

Organisation	Reason for modification
<b>Modified Opinions on Financial Statements</b>	
<b>University of Western Sydney Foundation Trust</b>	A qualified audit opinion was issued as the Trust finds it impractical to maintain an effective system of internal control over fundraising revenues and voluntary donations until their initial entry in the financial records.
<b>UWS Early Learning Limited</b>	A qualified audit opinion was issued as the Company finds it impractical to maintain an effective system of internal control over fundraising revenues and voluntary donations until their initial entry in the financial records.
<b>Charles Sturt University Foundation Trust</b>	A qualified audit opinion was issued as the Trust finds it impractical to establish control over the collection of donations prior to their entry in the financial records.
<b>Sport Knowledge Australia Pty Limited (controlled entity of The University of Sydney)</b>	A disclaimer of opinion was issued due to the inability to obtain sufficient and/or appropriate evidence to support opening balances in the Company's financial statements. Alternative records were not adequate for the purpose of applying necessary audit procedures.

Three of the modifications related to revenues received from donations and fundraising activities. It is common that entities with these sources of revenue are unable to maintain effective systems of internal control over these sources until they are entered into the financial records. This may result in an unavoidable qualification of the audit opinion.

## Complex Transactions

Universities are increasingly entering into complex business arrangements. University finance teams need specialised skills to understand the implications of these agreements. In each case, an assessment of the accounting considerations and impacts of proposed arrangements should be included in the business case. This will reduce the risk that inappropriate structures/entities are created which can have unforeseen governance and complex accounting implications. When arrangements are long lived, management must reassess the accounting treatment at key milestones over the life of the arrangements and when relevant accounting standards change.

The Australian Accounting Standards Board released a suite of standards effective in 2013 that revise accounting requirements for consolidations, joint ventures and off-balance sheet arrangements. The new standards contain a revised definition of 'control' that may expand the number and types of entities universities control and must consolidate.

## Amendments to University Legislation

The Universities Legislation Amendment (Regulatory Reforms) Bill 2014 (the Bill) proposes amendments to various Acts establishing universities. The key changes proposed for universities are:

- increased freedom to enter into commercial arrangements that support the core functions of teaching, learning, research and scholarship
- reduced external regulation and red tape giving governing bodies a greater say in key aspects of university management.

With respect to financial and commercial matters, the Bill proposes removing the requirement for:

- the NSW Governor on the recommendation of the NSW Treasurer to approve borrowings
- the NSW Minister for Education with the concurrence of the NSW Treasurer to approve investment powers
- the NSW Treasurer on the recommendation of the NSW Minister for Education to approve fund managers
- the NSW Minister for Education on the advice of the NSW Treasurer to approve guidelines for commercial activities carried on by the university.

While providing university governing bodies greater independence and flexibility in decision making, the proposed changes also heighten the importance of strong governance frameworks. NSW universities are public institutions of strategic value to the State and significant businesses and economic drivers for New South Wales.

# Teaching and Research

Teaching and research are core activities of universities. The quality of their teaching is a key driver of their growth and ability to attract domestic and international students.

Universities focus on excellence in research to drive economic growth, lead innovation, build a strong international profile, increase global rankings and attract overseas students.

Research raises the profile of universities nationally and internationally and research income is a performance measure used by the Australian Government to calculate various performance-based funding allocations.

## Student Numbers

During 2013, the number of equivalent full-time students (EFTSL) in NSW universities increased by 6,010 (2.4 per cent) to 257,690. An EFTSL of 1.0 represents a student undertaking a program on a full-time basis.

The number of equivalent full-time overseas students decreased by 157 (0.3 per cent) to 56,236. The number of equivalent full-time domestic students increased by 6,167 (3.1 per cent) to 201,454. At 31 December 2013, overseas students represented 21.8 per cent of all enrolled students (22.4 per cent at 31 December 2012).

Overseas and domestic student numbers by university is shown in the table below:

University Year ended 31 December	Overseas Students (EFTSL)				Domestic Students (EFTSL)			
	Three year trend	2013	2012	2011	Three year trend	2013	2012	2011
<b>Sydney Metro</b>								
Macquarie	↓	7,447	8,847	9,582	↑	20,498	19,691	17,499
New South Wales	↓	10,340	10,351	10,865	↑	28,488	26,894	26,534
Sydney	↑	9,759	9,011	9,343	↑	32,500	31,906	30,319
Technology, Sydney	~	7,081	6,907	7,123	↑	19,352	18,870	18,634
Western Sydney	~	2,985	2,983	3,035	↑	28,472	27,196	26,635
<b>Sydney Metro Total</b>	↓	<b>37,612</b>	<b>38,099</b>	<b>39,948</b>	↑	<b>129,310</b>	<b>124,557</b>	<b>119,621</b>
<b>Major Regional</b>								
Newcastle	↓	4,271	4,294	4,306	↑	21,281	20,220	19,514
Wollongong	↑	8,735	8,052	7,539	↑	14,260	13,986	13,721
<b>Major Regional Total</b>	↑	<b>13,006</b>	<b>12,346</b>	<b>11,845</b>	↑	<b>35,541</b>	<b>34,206</b>	<b>33,235</b>
<b>Country</b>								
Charles Sturt	↑	3,502	3,241	3,224	~	18,220	18,563	18,116
New England	↓	739	886	874	↑	10,726	10,295	8,954
Southern Cross	↓	1,377	1,821	2,081	~	7,657	7,666	7,506
<b>Country Total</b>	↓	<b>5,618</b>	<b>5,948</b>	<b>6,179</b>	↑	<b>36,603</b>	<b>36,524</b>	<b>34,576</b>
<b>Total**</b>	~	<b>56,236</b>	<b>56,393</b>	<b>57,972</b>	↑	<b>201,454</b>	<b>195,287</b>	<b>187,432</b>

Source: Department Publications (2013 from Universities).

\*\* Student numbers in the table are for universities excluding controlled entities.

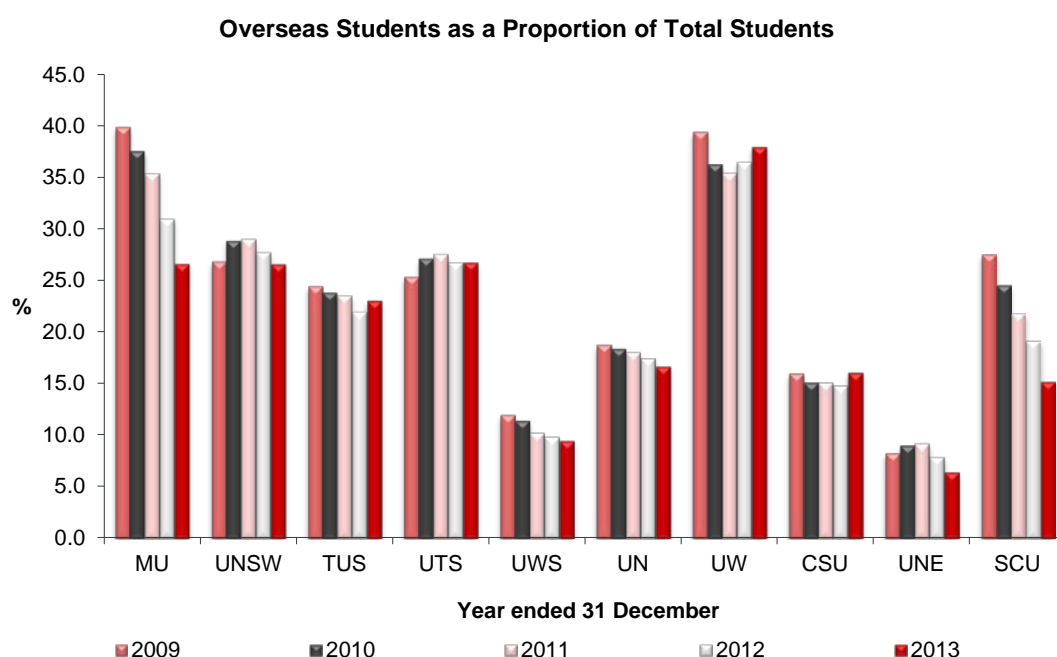
Key: ↑ Trending upwards, ↓ Trending downwards, ~ No trend.

The increase in domestic students at NSW universities in 2013 includes the impact of the demand driven system. This allows universities to allocate course spaces with a guaranteed Australian Government funding contribution for every domestic student enrolled in an undergraduate course.

The University of New South Wales and University of Western Sydney experienced the highest increases in domestic students in 2013, with increases of 1,594 and 1,276 students respectively. Only Charles Sturt University and Southern Cross University had a fall in domestic students.

Overseas students fell in 2013 in five universities (seven in 2012) and a number of universities have had a declining trend in numbers over recent years. Southern Cross University recorded the greatest percentage fall of 24.4 per cent.

The percentage of overseas students at NSW universities over the five years to 31 December 2013 is shown below.

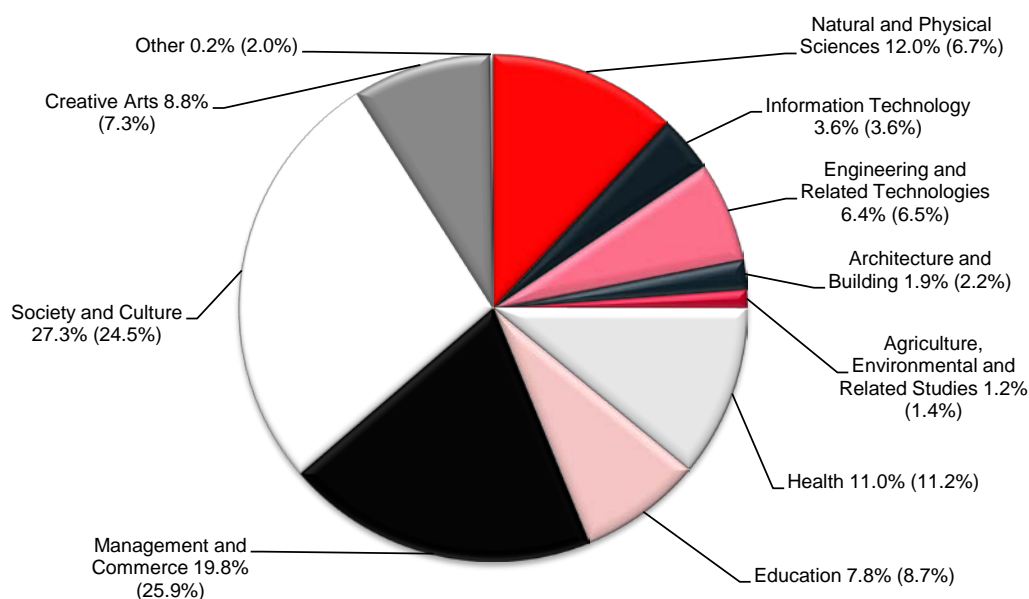


Source: Data analysed from Department Publications (2013 from Universities).

The University of Wollongong consistently had the highest percentage (38.0 per cent in 2013) of overseas students during the five year period. The University of New England continued to have the lowest percentage of overseas students, with 6.4 per cent in 2013 (7.9 per cent in 2012).

The graph below shows the breakdown of total students enrolled in NSW universities split by course category in 2012 (based on the latest information published by the Department).

**2012 Breakdown of Student Numbers by Course Category**



Source: Data analysed from Department Publications.

The following course categories had the highest proportion of enrolled students in 2012:

- society and culture (27.3 per cent)
- management and commerce (19.8 per cent)
- natural and physical sciences (12.0 per cent)
- health (11.0 per cent).

Over the three years to 31 December 2012, total students enrolled in NSW universities increased, with the above four categories the most popular. There was, however, a fall in enrolments in management and commerce from 25.9 per cent in 2011 to 19.8 per cent in 2012. The percentage of students enrolled in natural and physical sciences increased significantly from 6.7 per cent in 2011 to 12.0 per cent in 2012.

## Student to Academic Ratio

In 2012, the NSW universities' student to academic ratio of 19.9 was the fifth lowest of any jurisdiction in Australia (20.1 and sixth lowest in 2011). A lower student to academic ratio often indicates a better teaching experience; but it also means higher salary and related costs. Some universities are concerned such ratios are misleading due to factors such as distance learning. The information in this report should be considered in this context.

Jurisdiction	Number of universities	Students (EFTSL)	FTE Academics	Ratio trend	Student : Academic ratio		
Year ended 31 December		2012	2012		2012	2011	2010
Australian Capital Territory	2	25,555	2,273	↓	11.2	11.2	14.9
New South Wales	10	251,680	12,658	↓	19.9	20.1	29.2
Northern Territory	2	5,154	220	↓	23.4	18.0	25.8
Queensland	7	148,339	8,206	↓	18.1	18.0	26.1
South Australia	3	58,329	3,582	↓	16.3	15.7	23.2
Tasmania	1	17,108	1,008	↓	17.0	16.6	23.4
Victoria	8	233,597	11,136	↓	21.0	21.6	27.7
Western Australia	4	86,590	4,042	↓	21.4	21.2	29.4

Source: Department Publications.

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

The table below shows the student to academic ratio by NSW university for 2012 and 2011.

University	Students (EFTSL)		FTE Academics*		Student : Academic ratio	
Year ended 31 December	2012	2011	2012	2011	2012	2011
Macquarie	28,538	27,081	991	940	28.8	28.8
New South Wales	37,245	37,400	3,018	2,875	12.3	13.0
Sydney	40,916	39,662	3,048	3,082	13.4	12.9
Technology, Sydney	25,777	25,756	1,002	967	25.7	26.6
Western Sydney	30,179	29,670	861	800	35.1	37.1
Newcastle	24,515	23,820	1,176	1,097	20.8	21.7
Wollongong	22,038	21,259	971	939	22.7	22.6
Charles Sturt	21,804	21,340	805	749	27.1	28.5
New England	11,181	9,829	454	430	24.6	22.9
Southern Cross	9,487	9,587	332	310	28.6	30.9
	<b>251,680</b>	<b>245,404</b>	<b>12,658</b>	<b>12,189</b>	<b>19.9</b>	<b>20.1</b>

Source: Department Publications. FTE Academics does not include casual employees

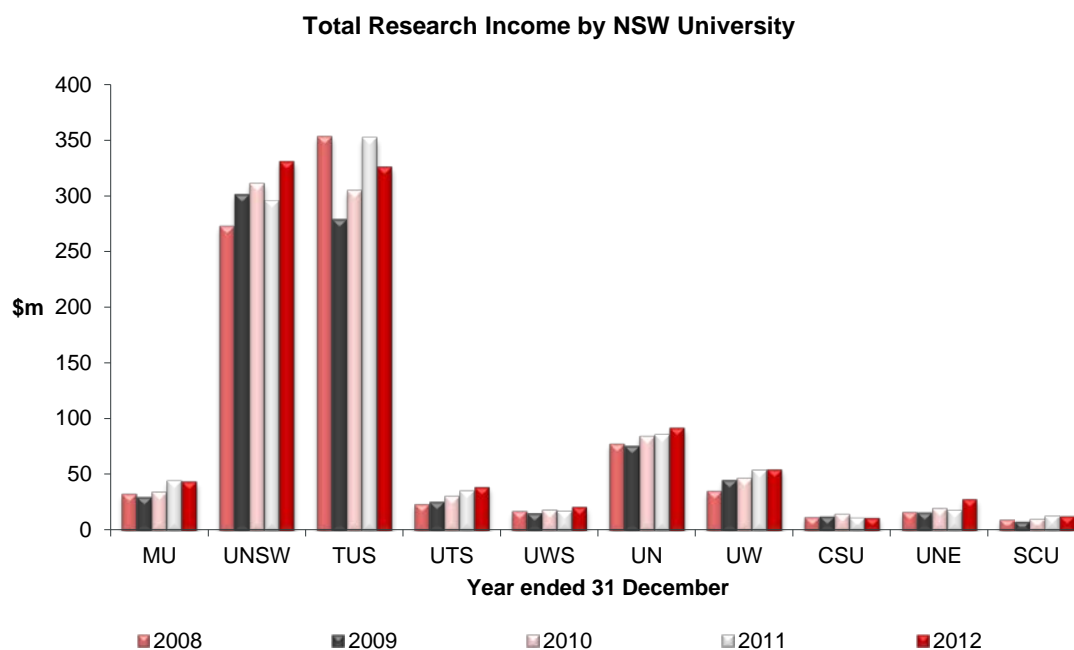
The University of New South Wales and The University of Sydney have the lowest student to academic ratios. The much lower student to academic ratio of these two universities is attributable to a higher number of research staff compared to the other universities.

The University of Western Sydney and Macquarie University reported the highest student to academic ratios in 2012 of 35.1 and 28.8 respectively.

## Research Income

Most research income comes in the form of grants from the Australian Government sector. Each year, NSW universities provide the Department with research income data. The data is used to assess university research performance. Research performance drives the allocation of Australian Government Research Block Grants. These grants reward universities' success in obtaining non-government grants and support further research.

The graph below shows total research income received by NSW universities from 2008 to 2012. Research income data from the Department for 2013 was unavailable at the time of preparing this report.



Source: Data analysed from Department Publications.

Research income received by NSW universities increased to \$963 million in 2012, an increase of 12.7 per cent over the five years to 2012. The proportion of total research income for respective NSW universities remained relatively consistent over that period.

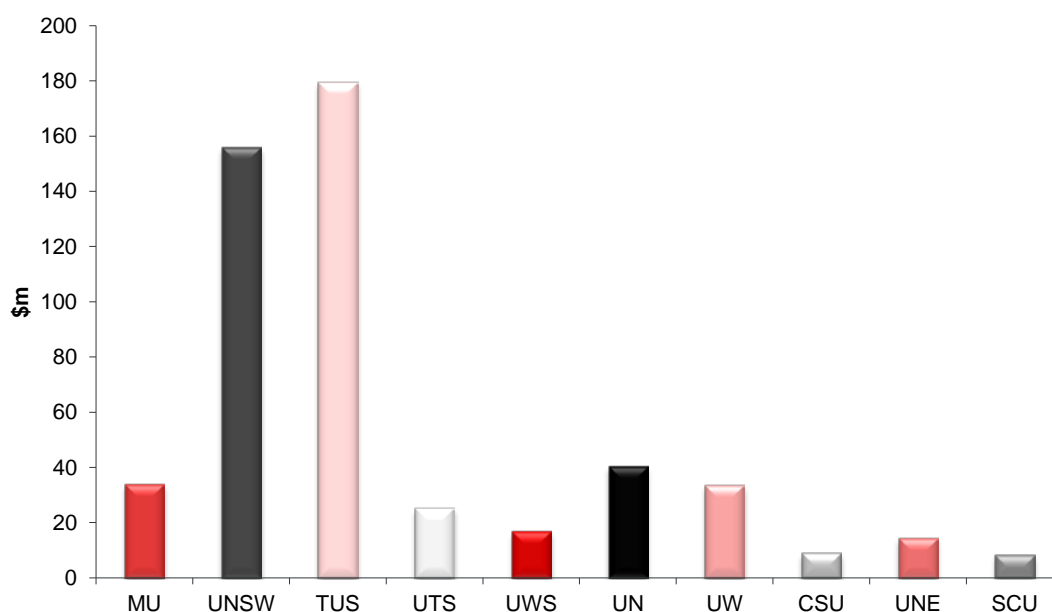
The University of New South Wales and The University of Sydney continue to be the top two recipients, receiving 34.4 per cent and 33.9 per cent of total research income respectively. Most of this came from Australian Government competitive grants and industry and other public sector research grant funding.

In 2014, \$1.7 billion (\$1.7 billion in 2013) will be provided to eligible Australian higher education providers in the form of block grants by the Australian Government.



The graph below shows the total research grant to be provided by the Department to each NSW university in 2014.

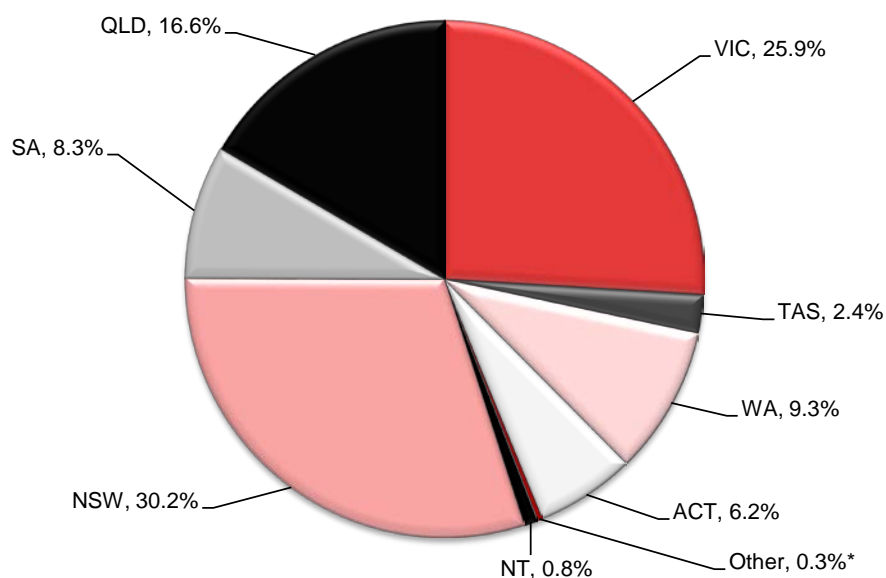
**Total Research Block Grant Allocation for NSW Universities in 2014**



Source: Data analysed from Department Publications.

The University of Sydney and the University of New South Wales expect to receive research grants of \$179 million and \$156 million respectively in 2014.

**2014 Research Block Grant Allocation by State and Territory**



Source: Data analysed from Department Publications.

\* Other – Australian Catholic University.

The graph above illustrates total Australian Government research grants allocated to the universities in each state and territory in Australia. New South Wales receives the highest allocation of 30.2 per cent and Victoria the second highest allocation of 25.9 per cent. NSW universities received 30.0 per cent of the total allocation in 2013.

# Appendix One – Response from Southern Cross University



Office of the Vice Chancellor  
Professor Peter Lee, Vice Chancellor, FTSE

Wednesday, May 21, 2014

Mr Grant Hehir  
Auditor General  
Audit Office  
GPO Box 12  
SYDNEY NSW 2001

Dear Mr Hehir,

Southern Cross University accepts that the Auditor General's office is developing its understanding of the sector and the nuances of performance reporting. The University finds this report useful for comparisons against other NSW Universities but would encourage broader assessment of financial performance, including to other industry sectors as well as provide an opinion about the analysis prepared.

The report paints a much gloomier position than is reality. No doubt Southern Cross University suffered a difficult year in 2013 having to make hard decisions in readiness for the increasingly competitive higher education environment. These included exiting several off-shore agreements no longer aligned to SCU's strategic direction; reducing staffing levels through voluntary redundancies; and considerable asset write downs of library holdings, property and building decommissioning in readiness for construction of the new Learning Centre and Engineering Precinct. These decisions have put the university in an improved position for 2014 and beyond.

During 2013 the University invested in new products and expansion into new international markets which has delivered very encouraging results for 2014. The University is expecting a 6% net margin in 2014, a 34% increase in EBITDA and an interest coverage ratio of 16 times. Total salary expenditure is expected to remain at 2013 levels with lower staffing numbers offsetting the Enterprise Bargaining Agreement increases and non-salaries also expected to be at 2013 levels.

Southern Cross University values its assets at historical cost which considerably understates the net asset position and skews the comparison data to other Universities, therefore the debt to equity ratios are not comparable to other Universities. The loan facility was arranged to fund the new building at the Gold Coast campus which was opened in January 2013 and supports the capital expansion program.

A broader comparison and risk assessment beyond the Universities in this report, would show the University has a healthy balance sheet and is comfortably geared for future challenges.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Peter Lee".

Professor Peter Lee FTSE

**It's all about U**  
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# Appendix Two – Financial Audit Reporting

## Aggregated Results of Operations, Financial Positions and Performance Indicators

The aggregated tables in this appendix give the consolidated results of operations, financial positions and performance indicators for NSW universities.

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

## University Information

University	Sydney Metropolitan											
	Macquarie		New South Wales		Sydney		Technology, Sydney		Western Sydney		Total	
	2013 \$m	2012 \$m	2013 \$m	2012 \$m	2013 \$m	2012 \$m	2013 \$m	2012 \$m	2013 \$m	2012 \$m	2013 \$m	2012 \$m
<b>Abridged Statement of Comprehensive Income (year ended 31 December)</b>												
Australian Government grants	221	205	698	698	726	761	229	231	319	326	2,193	2,221
Higher Education Contribution Scheme	149	127	185	154	232	194	156	139	200	171	922	785
Fees and charges	273	280	510	488	419	377	236	214	79	83	1,517	1,442
Other	227	203	227	208	506	406	99	99	86	83	1,145	999
<b>Total revenue</b>	<b>870</b>	<b>815</b>	<b>1,620</b>	<b>1,548</b>	<b>1,883</b>	<b>1,738</b>	<b>720</b>	<b>683</b>	<b>684</b>	<b>663</b>	<b>5,777</b>	<b>5,447</b>
Employee benefits and on-costs	434	409	872	834	961	944	394	377	392	365	3,053	2,929
Depreciation and amortisation	58	53	123	115	118	109	62	63	35	35	396	375
Other	315	283	520	508	557	548	197	182	248	202	1,837	1,723
<b>Total expenses</b>	<b>807</b>	<b>745</b>	<b>1,515</b>	<b>1,457</b>	<b>1,636</b>	<b>1,601</b>	<b>653</b>	<b>622</b>	<b>675</b>	<b>602</b>	<b>5,286</b>	<b>5,027</b>
<b>Surplus</b>	<b>63</b>	<b>70</b>	<b>105</b>	<b>91</b>	<b>247</b>	<b>137</b>	<b>67</b>	<b>61</b>	<b>9</b>	<b>61</b>	<b>491</b>	<b>420</b>
<b>Other comprehensive income:</b>												
Net increase in revaluation of assets	27	1	50	48	36	10	31	10	33	14	177	83
Other	(2)	(7)	68	34	15	(5)	--	--	4	12	85	34
<b>Total comprehensive income</b>	<b>88</b>	<b>64</b>	<b>223</b>	<b>173</b>	<b>298</b>	<b>142</b>	<b>98</b>	<b>71</b>	<b>46</b>	<b>87</b>	<b>753</b>	<b>537</b>

University	Sydney Metropolitan											
	Macquarie		New South Wales		Sydney		Technology, Sydney		Western Sydney		Total	
	2013 \$m	2012 \$m	2013 \$m	2012 \$m	2013 \$m	2012 \$m	2013 \$m	2012 \$m	2013 \$m	2012 \$m	2013 \$m	2012 \$m
<b>Abridged Statement of Financial Position (at 31 December)</b>												
Current assets	280	269	219	295	580	489	192	277	157	107	1,428	1,437
Non-current assets	2,144	2,164	3,425	3,268	4,991	4,696	1,919	1,712	1,638	1,682	14,117	13,522
<b>Total assets</b>	<b>2,424</b>	<b>2,433</b>	<b>3,644</b>	<b>3,563</b>	<b>5,571</b>	<b>5,185</b>	<b>2,111</b>	<b>1,989</b>	<b>1,795</b>	<b>1,789</b>	<b>15,545</b>	<b>14,959</b>
Current liabilities	163	165	366	372	373	335	181	166	163	145	1,246	1,183
Non-current liabilities	729	824	1,148	1,283	1,388	1,339	523	514	265	323	4,053	4,283
<b>Total liabilities</b>	<b>892</b>	<b>989</b>	<b>1,514</b>	<b>1,655</b>	<b>1,761</b>	<b>1,674</b>	<b>704</b>	<b>680</b>	<b>428</b>	<b>468</b>	<b>5,299</b>	<b>5,466</b>
<b>Net assets</b>	<b>1,532</b>	<b>1,444</b>	<b>2,130</b>	<b>1,908</b>	<b>3,810</b>	<b>3,511</b>	<b>1,407</b>	<b>1,309</b>	<b>1,367</b>	<b>1,321</b>	<b>10,246</b>	<b>9,493</b>
<b>Performance Indicators (at 31 December)</b>												
Current ratio (a)	2.0	2.1	0.9	1.2	2.1	1.9	1.5	2.6	1.4	1.2	1.6	1.7
Debt to Equity percentage	23.3	27.6	2.7	3.2	8.1	3.1	7.5	3.6	4.0	4.2	8.6	7.1
Interest Coverage ratio	6.6	6.5	69.6	53.7	39.7	80.8	30.5	38.3	25.0	41.1	23.0	23.6
Employee Benefits and on-costs as a % of operating revenue (b)	50.0	50.4	54.2	54.8	51.2	56.7	56.1	57.7	58.5	56.9	53.3	55.3
Operating result as % of total revenue (c)	7.1	8.4	5.9	4.3	12.9	4.0	7.2	4.9	(0.7)	6.2	7.8	5.1
Student numbers	28,964	28,538	38,828	37,245	42,259	40,916	26,433	25,777	31,457	30,179	167,941	162,655
Students per academic (d)	na	28.8	na	12.3	na	13.4	na	25.7	na	35.1	na	18.2

Key: All data except 'Student numbers' and 'Students per academic' are based on financial statements (audited). Performance indicators as per the Australian Government Department of Education'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 Employee Benefits and on-costs as a percentage of Operating Revenue – good practice is between 50 and 70 per cent. Operating Revenue is total income per the university's financial statements, less capital grants.
- c Operating Result less capital grants as a percentage of Total Operating Revenue – should be positive with a safety margin.
- d Australian Government Department of Education publication Higher Education Statistics Collection. Academics are 'Teaching' and 'Teaching and Research'.
- na Not available.

University	Major Regional					
	Newcastle		Wollongong		Total	
	2013 \$m	2012 \$m	2013 \$m	2012 \$m	2013 \$m	2012 \$m
<b>Abridged Statement of Comprehensive Income (year ended 31 December)</b>						
Australian Government grants	320	307	215	217	535	524
Higher Education Contribution Scheme	135	110	96	79	231	189
Fees and charges	112	101	192	174	304	275
Other	133	139	73	76	206	215
<b>Total revenue</b>	<b>700</b>	<b>657</b>	<b>576</b>	<b>546</b>	<b>1,276</b>	<b>1,203</b>
Employee benefits and on-costs	374	365	338	313	712	678
Depreciation and amortisation	37	38	35	31	72	69
Other	224	199	183	185	407	384
<b>Total expenses</b>	<b>635</b>	<b>602</b>	<b>556</b>	<b>529</b>	<b>1,191</b>	<b>1,131</b>
<b>Surplus</b>	<b>65</b>	<b>55</b>	<b>20</b>	<b>17</b>	<b>85</b>	<b>72</b>
<b>Other comprehensive income:</b>						
Net increase in revaluation of assets	22	16	--	--	22	16
Other	20	5	14	9	34	14
<b>Total comprehensive income</b>	<b>107</b>	<b>76</b>	<b>34</b>	<b>26</b>	<b>141</b>	<b>102</b>
<b>Abridged Statement of Financial Position (at 31 December)</b>						
Current assets	186	253	179	200	365	453
Non-current assets	1,482	1,353	1,064	1,038	2,546	2,391
<b>Total assets</b>	<b>1,668</b>	<b>1,606</b>	<b>1,243</b>	<b>1,238</b>	<b>2,911</b>	<b>2,844</b>
Current liabilities	135	135	129	121	264	256
Non-current liabilities	400	445	329	366	729	811
<b>Total liabilities</b>	<b>535</b>	<b>580</b>	<b>458</b>	<b>487</b>	<b>993</b>	<b>1,067</b>
<b>Net assets</b>	<b>1,133</b>	<b>1,026</b>	<b>785</b>	<b>751</b>	<b>1,918</b>	<b>1,777</b>
<b>Performance Indicators (at 31 December)</b>						
Current ratio (a)	2.1	3.0	2.5	2.7	2.3	2.9
Debt to Equity percentage	7.5	8.3	16.8	17.7	11.3	12.3
Interest Coverage ratio	21.7	28.3	11.6	10.6	16.6	17.8
Employee Benefits and on-costs as a % of operating revenue (b)	55.7	57.2	59.4	58.1	57.4	57.6
Operating result as % of total revenue (c)	5.4	5.6	2.0	1.7	3.9	3.7
Student numbers	25,552	24,515	22,995	22,038	48,547	46,553
Students per academic (d)	na	20.8	Na	22.7	na	21.7

Key: All data except 'Student numbers' and 'Students per academic' are based on financial statements (audited). Performance indicators as per Australian Government Department of Education 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 Employee Benefits and on-costs as a percentage of Operating Revenue – good practice is between 50 and 70 per cent. Operating Revenue is total income per the university's financial statements, less capital grants.
- c Operating Result less capital grants as a percentage of Total Operating Revenue – should be positive with a safety margin.
- d Australian Government Department of Education publication Higher Education Statistics Collection. Academics are 'Teaching' and 'Teaching and Research'.
- na Not available.

University	Country							
	Charles Sturt		New England		Southern Cross		Total	
	2013 \$m	2012 \$m	2013 \$m	2012 \$m	2013 \$m	2012 \$m	2013 \$m	2012 \$m
<b>Abridged Statement of Comprehensive Income (year ended 31 December)</b>								
Australian Government grants	212	197	154	173	104	107	470	477
Higher Education Contribution Scheme	112	92	67	56	49	45	228	193
Fees and charges	93	88	44	45	19	19	156	152
Other	75	69	45	41	21	25	141	135
<b>Total revenue</b>	<b>492</b>	<b>446</b>	<b>310</b>	<b>315</b>	<b>193</b>	<b>196</b>	<b>995</b>	<b>957</b>
Employee benefits and on-costs	263	252	163	154	128	122	554	528
Depreciation and amortisation	33	36	19	18	10	9	62	63
Other	139	135	115	97	62	62	316	294
<b>Total expenses</b>	<b>435</b>	<b>423</b>	<b>297</b>	<b>269</b>	<b>200</b>	<b>193</b>	<b>932</b>	<b>885</b>
<b>Surplus/(deficit)</b>	<b>57</b>	<b>23</b>	<b>13</b>	<b>46</b>	<b>(7)</b>	<b>3</b>	<b>63</b>	<b>72</b>
<b>Other comprehensive income:</b>								
Net increase in revaluation of assets	6	14	(1)	--	--	--	5	14
Other losses	2	10	3	--	--	--	5	10
<b>Total comprehensive income</b>	<b>65</b>	<b>47</b>	<b>15</b>	<b>46</b>	<b>(7)</b>	<b>3</b>	<b>73</b>	<b>96</b>
<b>Abridged Statement of Financial Position (at 31 December)</b>								
Current assets	88	96	130	132	36	23	254	251
Non-current assets	1,074	1,045	506	523	283	294	1,863	1,862
<b>Total assets</b>	<b>1,162</b>	<b>1,141</b>	<b>636</b>	<b>655</b>	<b>319</b>	<b>317</b>	<b>2,117</b>	<b>2,113</b>
Current liabilities	74	78	58	61	43	40	175	179
Non-current liabilities	280	319	231	262	74	69	585	650
<b>Total liabilities</b>	<b>354</b>	<b>397</b>	<b>289</b>	<b>323</b>	<b>117</b>	<b>109</b>	<b>760</b>	<b>829</b>
<b>Net assets</b>	<b>808</b>	<b>744</b>	<b>347</b>	<b>332</b>	<b>202</b>	<b>208</b>	<b>1,357</b>	<b>1,284</b>

University	Country							
	Charles Sturt		New England		Southern Cross		Total	
	2013 \$m	2012 \$m	2013 \$m	2012 \$m	2013 \$m	2012 \$m	2013 \$m	2012 \$m
<b>Performance Indicators (at 31 December)</b>								
Current ratio (a)	1.9	1.9	3.2	2.7	1.1	0.9	2.0	1.9
Debt to Equity percentage	3.5	3.8	--	--	10.3	--	3.6	2.2
Interest Coverage ratio	77.0	34.6	--	--	9.0	--	77.8	78.1
Employee Benefits and on-costs as a % of operating revenue (b)	55.2	57.3	53.9	49.5	69.8	66.8	57.5	56.6
Operating result as a % of total revenue (c)	8.9	3.9	2.4	13.8	(8.8)	(5.5)	3.5	5.4
Student numbers	21,722	21,804	11,465	11,181	9,034	9,487	42,221	42,472
Students per academic (d)	na	27.1	na	24.6	na	28.6	na	26.7

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

Performance indicators as per Australian Government's Department of Education 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 Employee Benefits and on-costs as a percentage of Operating Revenue – good practice is between 50 and 70 per cent. Operating Revenue is total income per the university's financial statements, less capital grants.
  - c Operating Result less capital grants as a percentage of Total Operating Revenue – should be positive with a safety margin.
  - d Australian Government Department of Education publication Higher Education Statistics Collection. Academics are 'Teaching' and 'Teaching and Research'.
- na Not available.

## Appendix Three – Financial Sustainability

Indicator	Formula	Description
Operating Margin (percentage)	Operating result excluding capital revenue/Total income excluding capital revenue	A positive result indicates a surplus, and the larger the percentage, the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long term.
Current (ratio)	Current Assets/Current Liabilities	<p>This measures the ability to pay existing liabilities in the next 12 months.</p> <p>A ratio above one means there is more cash and current assets than short-term liabilities.</p> <p>Current liabilities exclude current annual leave and long service leave liabilities expected to be settled after 12 months.</p>
Debt to equity Percentage	Debt/Equity	<p>This is a longer-term measure that compares all current and non-current interest bearing borrowings to equity.</p> <p>It complements the current ratio which is a short-term measure.</p> <p>A low percentage indicates less reliance on debt to finance the capital structure of an organisation.</p>
Interest Coverage (ratio)	Operating result before interest, tax, depreciation and amortisation/Interest incurred	This ratio indicates the extent to which earnings are available to meet interest payments. A lower ratio indicates less earnings are available and the business is more vulnerable to increases in interest rates.



## Appendix Four – List of NSW Universities

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

University	Website
<b>Sydney Metro</b>	
Macquarie University (MU)	<a href="http://www.mq.edu.au">www.mq.edu.au</a>
University of New South Wales (UNSW)	<a href="http://www.unsw.edu.au">www.unsw.edu.au</a>
The University of Sydney (TUS)	<a href="http://www.sydney.edu.au">www.sydney.edu.au</a>
University of Technology, Sydney (UTS)	<a href="http://www.uts.edu.au">www.uts.edu.au</a>
University of Western Sydney (UWS)	<a href="http://www.uws.edu.au">www.uws.edu.au</a>
<b>Major Regional</b>	
University of Newcastle (UN)	<a href="http://www.newcastle.edu.au">www.newcastle.edu.au</a>
University of Wollongong (UW)	<a href="http://www.uow.edu.au">www.uow.edu.au</a>
<b>Country</b>	
Charles Sturt University (CSU)	<a href="http://www.csu.edu.au">www.csu.edu.au</a>
University of New England (UNE)	<a href="http://www.une.edu.au">www.une.edu.au</a>
Southern Cross University (SCU)	<a href="http://www.scu.edu.au">www.scu.edu.au</a>

# Appendix Five – Agencies not Commented on in this Volume, by Minister

The following audits resulted in unmodified independent auditor's reports and did not identify any significant issues or risks.

Entity name	Website	Period/year ended
<b>Attorney General</b>		
NSW Trustee and Guardian Common Fund-Financial Management	<a href="http://www.tag.nsw.gov.au">www.tag.nsw.gov.au</a>	30 June 2011
<b>Minister for Education</b>		
<b>Macquarie University</b>		
Access Macquarie Limited	<a href="http://www.access.mq.edu.au">www.access.mq.edu.au</a>	31 December 2013
Australian Proteome Analysis Facility Limited	<a href="http://www.proteome.org.au">www.proteome.org.au</a>	31 December 2013
CMBF Limited	<a href="http://www.mq.edu.au">www.mq.edu.au</a>	31 December 2013
LAMS Foundation Limited	<a href="http://www.lamsfoundation.org">www.lamsfoundation.org</a>	31 December 2013
LAMS International Pty Limited	<a href="http://www.lamsfoundation.org">www.lamsfoundation.org</a>	31 December 2013
Macquarie University Property Investment Company Pty Limited	<a href="http://www.mq.edu.au">www.mq.edu.au</a>	31 December 2013
Macquarie University Property Investment Trust	<a href="http://www.mq.edu.au">www.mq.edu.au</a>	31 December 2013
MGSM Limited	<a href="http://www.mgsm.edu.au">www.mgsm.edu.au</a>	31 December 2013
MUH Operations No. 2 Pty Limited	<a href="http://www.muh.org.au">www.muh.org.au</a>	31 December 2013
Risk Frontiers Flood (Australia) Pty Ltd	<a href="http://www.riskfrontiers.com">www.riskfrontiers.com</a>	31 December 2013
Risk Frontiers Group Pty Ltd	<a href="http://www.riskfrontiers.com">www.riskfrontiers.com</a>	31 December 2013
U@MQ Limited	<a href="http://www.mq.edu.au">www.mq.edu.au</a>	31 December 2013
Macquarie Education South Africa NPC	*	31 December 2013
<b>University of New South Wales</b>		
Australian Education Consultancy Limited	*	31 December 2013
Cystemix Pty Limited	*	31 December 2013
New South Global (Thailand) Limited	<a href="http://www.unswglobal.edu.au">www.unswglobal.edu.au</a>	31 December 2013
NewSouth Innovations Pty Limited	<a href="http://www.nsinnovations.com.au">www.nsinnovations.com.au</a>	31 December 2013
Qucor Pty Ltd	*	31 December 2013
The New South Wales Minerals Industry/University of NSW Education Trust	*	31 December 2013
University of New South Wales Foundation	<a href="http://www.ufs.unsw.edu.au">www.ufs.unsw.edu.au</a>	31 December 2013
University of New South Wales Foundation Limited	<a href="http://www.ufs.unsw.edu.au">www.ufs.unsw.edu.au</a>	31 December 2013

Entity name	Website	Period/year ended
University of New South Wales Press Limited	<a href="http://www.unswpress.com">www.unswpress.com</a>	31 December 2013
UNSW & Study Abroad - Friends and U.S. Alumni, Inc.	*	31 December 2013
UNSW (Thailand) Limited	<a href="http://www.unswglobal.unsw.edu.au">www.unswglobal.unsw.edu.au</a>	31 December 2013
UNSW Global (Singapore) Pte Limited	<a href="http://www.unswglobal.unsw.edu.au">www.unswglobal.unsw.edu.au</a>	31 December 2013
UNSW Global Pty Limited	<a href="http://www.unswglobal.unsw.edu.au">www.unswglobal.unsw.edu.au</a>	31 December 2013
UNSW Hong Kong Foundation Limited	<a href="http://www.unswglobal.unsw.edu.au">www.unswglobal.unsw.edu.au</a>	31 December 2013
UNSW Hong Kong Limited	<a href="http://www.unswglobal.unsw.edu.au">www.unswglobal.unsw.edu.au</a>	31 December 2013
<b>University of Sydney</b>		
Bandwidth Foundry International Pty Ltd	<a href="http://www.bwfoundry.com">www.bwfoundry.com</a>	31 December 2013
Sydney Talent Pty Limited	*	31 December 2013
SydneyLearning Pty Limited	<a href="http://www.sydneylearning.nsw.edu.au">www.sydneylearning.nsw.edu.au</a>	31 December 2013
The Warren Centre for Advanced Engineering Limited	<a href="http://www.thewarrencentre.org.au">www.thewarrencentre.org.au</a>	31 December 2013
United States Studies Centre Limited	<a href="http://www.ussc.edu.au">www.ussc.edu.au</a>	31 December 2013
University of Sydney Professorial Superannuation System	*	31 December 2013
Wayahead Pty Limited	*	31 December 2013
<b>University of Technology, Sydney</b>		
accessUTS Pty Limited	<a href="http://www.accessuts.uts.edu.au">www.accessuts.uts.edu.au</a>	31 December 2013
AustLii Foundation Limited	<a href="http://www.austlii.edu.au">www.austlii.edu.au</a>	31 December 2013
Insearch (Shanghai) Limited	<a href="http://www.insearch.edu.au">www.insearch.edu.au</a>	31 December 2013
Insearch Education	<a href="http://www.insearch.edu.au">www.insearch.edu.au</a>	31 December 2013
Insearch Education International Pty Limited	<a href="http://www.insearch.edu.au">www.insearch.edu.au</a>	31 December 2013
Insearch Limited	<a href="http://www.insearch.edu.au">www.insearch.edu.au</a>	31 December 2013
Sydney Educational Broadcasting Limited	<a href="http://www.2ser.com">www.2ser.com</a>	31 December 2013
UTS Global Pty Limited	*	31 December 2013
<b>University of Western Sydney</b>		
University of Western Sydney Foundation Limited	<a href="http://www.uws.edu.au">www.uws.edu.au</a>	31 December 2013
University of Western Sydney Foundation Trust	<a href="http://www.uws.edu.au">www.uws.edu.au</a>	31 December 2013
Television Sydney (TVS) Limited	<a href="http://www.tvns.org.au">www.tvns.org.au</a>	31 December 2013
UWS College Pty Limited	<a href="http://www.uwscollege.edu.au">www.uwscollege.edu.au</a>	31 December 2013
uwsconnect Limited	<a href="http://www.uwsconnect.com.au">www.uwsconnect.com.au</a>	31 December 2013
Whitlam Institute within the University of Western Sydney Limited	<a href="http://www.whitlam.org">www.whitlam.org</a>	31 December 2013
Whitlam Institute within the University of Western Sydney Trust	<a href="http://www.whitlam.org">www.whitlam.org</a>	31 December 2013

Entity name	Website	Period/year ended
<b>University of Newcastle</b>		
Newcastle Innovation Limited	<a href="http://www.newcastleinnovation.com.au">www.newcastleinnovation.com.au</a>	31 December 2013
UON Services Limited	<a href="http://uonservices.org.au">uonservices.org.au</a>	31 December 2013
UON Singapore Pte Ltd	<a href="http://www.newcastle.edu.au">www.newcastle.edu.au</a>	31 December 2013
<b>University of Wollongong</b>		
UOWC Limited	<a href="http://www.uowenterprises.com.au">www.uowenterprises.com.au</a>	31 December 2013
UOWD Limited	<a href="http://www.uowenterprises.com.au">www.uowenterprises.com.au</a>	31 December 2013
The Sydney Business School Pty Limited	*	31 December 2013
UniCentre Conferences and Functions Pty Limited	<a href="http://www.unicentre.uow.edu.au">www.unicentre.uow.edu.au</a>	31 December 2013
University of Wollongong Recreation and Aquatic Centre Limited	<a href="http://www.urac.com.au">www.urac.com.au</a>	31 December 2013
Wollongong UniCentre Limited	<a href="http://www.unicentre.uow.edu.au">www.unicentre.uow.edu.au</a>	31 December 2013
The University of Wollongong USA Foundation	*	31 December 2013
<b>Charles Sturt University</b>		
Charles Sturt Campus Services Limited	<a href="http://www.csu.edu.au">www.csu.edu.au</a>	31 December 2013
Charles Sturt Services Limited	<a href="http://www.csu.edu.au">www.csu.edu.au</a>	31 December 2013
Charles Sturt University Foundation Trust	<a href="http://www.csu.edu.au">www.csu.edu.au</a>	31 December 2013
<b>University of New England</b>		
Agricultural Business Research Institute	<a href="http://www.abri.une.edu.au">www.abri.une.edu.au</a>	31 December 2013
Services UNE Ltd	<a href="http://www.servicesune.com.au">www.servicesune.com.au</a>	31 December 2013
Sport UNE Limited	<a href="http://www.sportune.com.au">www.sportune.com.au</a>	31 December 2013
UNE Foundation	<a href="http://www.une.edu.au">www.une.edu.au</a>	31 December 2013
UNE Foundation Ltd	<a href="http://www.une.edu.au">www.une.edu.au</a>	31 December 2013
UNE Partnerships Pty Ltd	<a href="http://www.une.edu.au">www.une.edu.au</a>	31 December 2013
UNE Open Pty Limited	*	31 December 2013
UNE Health Pty Limited	*	31 December 2013
<b>Southern Cross University</b>		
Asia Pacific Football Institute Operations Pty Ltd	*	19 September 2013
Norsearch Limited	<a href="http://norsearch.scu.edu.au">norsearch.scu.edu.au</a>	31 December 2013
SCU College Pty Ltd	*	19 September 2013
<b>Minister for Family and Community Services</b>		
City West Housing Pty Limited	<a href="http://www.citywesthousing.com.au">www.citywesthousing.com.au</a>	30 June 2013
<b>Minister for Planning</b>		
Hunter Development Corporation	<a href="http://www.hunterdevelopmentcorporation.com.au">www.hunterdevelopmentcorporation.com.au</a>	30 June 2013

Entity name	Website	Period/year ended
<b>Minister for Primary Industries</b>		
Sydney Metropolitan Catchment Management Authority	<a href="http://www.sydney.cma.nsw.gov.au">www.sydney.cma.nsw.gov.au</a>	19 October 2012
<b>Minister for Regional Infrastructure and Services</b>		
New South Wales Rural Assistance Authority	<a href="http://www.raa.nsw.gov.au">www.raa.nsw.gov.au</a>	30 June 2013
Office of the Rural Assistance Authority	<a href="http://www.raa.nsw.gov.au">www.raa.nsw.gov.au</a>	30 June 2013
<b>Treasurer</b>		
Liability Management Ministerial Corporation	*	30 June 2013
Residual Business Management Corporation	*	30 June 2012
Lotteries Assets Ministerial Holding Corporation	*	30 June 2013

\* This entity has no website.



# Section Two

## Agencies with Individual Comments

Minister for Finance and Services

Minister for Police and Emergency Services

Minister for Regional Infrastructure and Services

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State Records Authority of New South Wales

State Emergency Services

Department of Trade and Investment, Regional Infrastructure and Services

# State Records Authority of New South Wales

## Operational Snapshot

The Authority is responsible for managing the NSW State archives collection, setting the rules and providing guidance on the management of official records. It maintains 518 linear kilometres of records stored in the Government Records Repository.

Its assets mainly comprise the records centre in Western Sydney and the State archives valued at \$824 million (\$938 million). It generated income of \$21.8 million (\$22.4 million) in 2012-13 for a cost of \$20.9 million (\$21.8 million).

## Financial and Performance Reporting

### Valuation of State Archives

An unqualified audit opinion was issued on the Authority's 30 June 2013 financial statements. In the prior year, the audit opinion was qualified because we were not able to obtain all the information required to form an opinion on the existence and value of State archives. These had been recognised for the first time at a value of \$938 million at 30 June 2012. The Authority could not provide sufficient evidence to support the linear measurement of records valued.

During 2012-13 the Authority:

- implemented a revised methodology to reconstruct a register of archives series
- reviewed the completeness of recorded archives by verifying the attributes and quantities of each series to records and physical quantities
- measured each series to provide quantities in the correct categories of volumes, boxes, bundles, maps and plans, images, media and AV material
- re-engaged a valuation expert to assess the fair value of archives.

The archives were reliably valued at \$824 million at 30 June 2013.

## Financial Controls

### Digital Archiving (Repeat Issue)

#### Recommendation

**The Authority should complete work on its whole of government digital archiving solution to enable it to comply with its enabling legislation.**

As reported in the past two years, the Crown Solicitor has advised if the Authority holds public records that are not accessible it is in breach of Section 14 of the *State Records Act 1998*. The Authority holds some public records in a digital format which are not accessible.

Furthermore, the Authority has breached Section 59 of the *State Records Act 1998*, because it holds some hard copies of State archives which cannot be issued or copied for public access due to their poor condition.

The State archives have been reliably valued at \$824 million



# State Emergency Services

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## Operational Snapshot

Using volunteers, the Service manages and responds to emergencies resulting from flood, storm, tsunami and other incidents. Approximately 10,000 volunteers operating through 229 State Emergency Service units located throughout the State help with these activities.

The Service incurred a surplus of \$8.4 million in 2012-13 (deficit of \$4.1 million in 2011-12) in responding to emergencies from flood, storm and other incidents.

## Financial and Performance Reporting

A qualified audit opinion was issued on the Service's 30 June 2013 financial statements for the following reasons:

- Recorded inventory of \$4.0 million at 30 June 2013 does not include inventory held at the Service's 229 units. It was not possible to obtain the information required to form an opinion on the existence and value of inventory at units, and consequently whether inventory in the statement of financial position, and related expenses in the statement of comprehensive income, are free from material misstatement.
- As is common for entities that have donations and fundraising as sources of revenue, it is impracticable for the Service to maintain an effective system of internal control over such revenue until its initial entry in the financial records. Accordingly, as the evidence available regarding such revenue was limited, audit procedures were restricted to amounts recorded in the financial records. It was not possible to express an opinion on whether all donation and fundraising revenue was recorded in the financial records.

## Financial Controls

### Internal Controls over Business Processes (Repeat Issue)

#### Recommendation

**The Service should address all financial control deficiencies as a matter of urgency.**

As in prior years, the audit identified a substantial number of deficiencies in the control environment, especially in inventory, donation revenue, payroll and segregation of duties. These deficiencies may represent breaches of Section 11 of the *Public Finance and Audit Act, 1983* (the Act).

The audit identified that officers approved purchases over their delegation limit and performed both section 12 and 13 approvals, under the Act, for the same purchases. These practices are breaches of the Act and increase the risk of inappropriate or unauthorised payment.

# Department of Trade and Investment, Regional Infrastructure and Services

## Operational Snapshot

A snapshot of the Department for the year ended 30 June 2013 is shown below:

**\$36.4 million**

operating deficit

**\$1.7 billion**

annual revenue

**\$7.5 billion**

net assets

The Department works with and supports a range of businesses and industries across New South Wales with the aim of advancing investment, innovation, activity and business improvement across all sectors.

## Financial and Performance Reporting

Financial and performance reporting is an important dimension of good governance. In past reports we have highlighted the need for more timely and accurate financial reporting by the Department. We noted significant improvements in the 2013 audit and were able to issue an unqualified audit opinion on the Department's 30 June 2013 financial statements. These improvements included:

- the Department analysing over 5,000 leases during 2012-13 to determine whether or not they were finance leases. The completion of this analysis allowed us to remove the prior year's qualification in respect of leases. At 30 June 2013, finance lease receivables totalled \$137 million (\$140 million in 2011-12)
- the Department accepting our previous recommendation and reviewed the accounting treatment of Fishery Trust Funds. As a result the six Trust Funds were removed from the financial statements.

Our audit opinion in the prior year included a qualification because the audited financial statements of the Living Murray Joint Venture and River Murray Operations Joint Venture were not available. This year we were able to remove the qualification as alternative evidence was available to confirm the Department's investment in these joint ventures of \$793 million at 30 June 2013 (\$791 million) and its share of the net deficit of \$2.8 million for 2012-13 (net income of \$51.3 million).

While the accuracy of financial reporting improved, the issuance of our audit opinion was delayed more than a month as the Department had difficulties supporting some key balances in the 30 June 2013 financial statements. Without impacting the audit opinion, issues relating to the reconciliation of bank balances and disclosure of service groups were unresolved at the conclusion of the audit.

The Department and the Audit Office agreed a plan to achieve 2014 reporting deadlines. The Department also advised in its annual report that it will work closely with the Audit Office to achieve positive outcomes.

The  
Department's  
2013 financial  
statements were  
unqualified

## Aboriginal Land Claims

### Recommendations

The Department should:

- **complete its development of a strategic model to negotiate and resolve unprocessed Aboriginal land claims**
- **continue looking at new actions to reduce the number of approved land claims not yet transferred out.**

There are  
25,775  
outstanding  
land claims and  
260 approved  
land claims not  
transferred out

The 2013 audit confirmed the Department commenced a trial project to hasten the number of unprocessed claims. Improvement is needed as the audit identified that at 30 June 2013 there are:

- 25,775 outstanding Aboriginal land claims
- 434 outstanding claims are ten or more years old
- 260 approved land claims over land worth approximately \$687 million are not yet transferred out of the Department
- 97 approved claims are ten or more years old.

The number of unprocessed Aboriginal land claims over NSW Crown land made through State legislation, increased by 18,093 or 236 per cent over the last five years. Last year, we recommended the processing of Aboriginal land claims be reviewed and a plan implemented to reduce the number of unprocessed claims.

The Department is exploring opportunities to accelerate the processing of Aboriginal land claims. In early 2013, a trial project was initiated with the Bahtabah Local Aboriginal Land Council (Bahtabah LALC) to prioritise the assessment of claims. Bahtabah LALC conducted a review of unprocessed claims in their area to identify the highest priority ones. It then provided the Department with a detailed assessment of each lot including significant attributes and relevant land use information.

These claims were then assessed under section 36 of the *Aboriginal Land Rights Act 1983*. The process provided an opportunity for the Department to evaluate the merit of each claim by strategic discussion on the information provided. Outcomes from this project included:

- prioritised assessment of 15 claims, with timeframes, resulting in a number being approved
- agreement to the withdrawal of 101 land claims in the Bahtabah LALC area
- a commitment to the process to resolve future undetermined land claims.

The Department is continuing to work with this template to further develop a strategic model to negotiate and resolve unprocessed land claims.

Improvements to processes resulted in a decrease, for the first time, in the number of unprocessed claims.

## Number of claims unprocessed

At 30 June	Number of unprocessed claims at year end	Number of claims determined during the year	Value of land transferred to Aboriginal Land Councils \$m
2013	25,775	493	81.4
2012	25,834	482	23.5
2011	25,549	394	10.3
2010	16,875	1,226	116.0
2009	8,786	1,086	11.9
2008	7,682	406	13.4

During 2012-13, 493 claims were determined with 67 successful and 426 unsuccessful leaving 25,775 claims remaining at 30 June 2013. At the time of preparing this report, 203 claims had been determined in 2013-14. There were 25,813 claims outstanding as at 28 April 2014.

## Aging of claims unprocessed at 30 June 2013

Year of claim application	Number of claims unprocessed	Percentage of total claims	Number of hectares
0 – 1 years	474	2	24,705
1 – 5 years	16,660	64	3,628,104
5 – 10 years	8,207	32	3,345,383
10 + years	434	2	788,441
<b>Total</b>	<b>25,775</b>	<b>100</b>	<b>7,786,633</b>

The ten oldest claims are more than 19 years old and account for 0.4 per cent of the number of hectares yet to be processed. The ten largest unprocessed claims are over 789,437 hectares or 10.1 per cent of total hectares claimed.

## Aging of claims approved, but not yet transferred at 30 June 2013

At 30 June 2013, there were 260 Aboriginal land claims that had been approved by the Minister or a court but the land had not been transferred out of the Department. These claims relate to land worth approximately \$687 million. Thirty seven per cent of these claims were approved more than 10 years ago, with one claim taking 27 years to be approved. Another was approved 20 years ago and the land has still not been transferred. At the time of preparing this Overview, surveys for around 60 parcels of land (including some of the older claims) have been completed, reducing the backlog to approximately 200.

The main reason for claims not being transferred is that a land survey is required for:

- compliance with a court order
- a subdivision of land when the claim is only partially granted
- the creation of an easement.

A restructure in 2013-14 moved more surveyors to the Department's Regional Offices. This has already reduced the number of claims approved but not yet transferred.

Year of approval	Number of claims unprocessed	Percentage of total claims	Hectares
0 – 1 years	44	17	10,051
1 – 5 years	50	19	281,610
5 – 10 years	69	27	103,137
10 + years	97	37	133,142
<b>Total</b>	<b>260</b>	<b>100</b>	<b>527,940</b>

## Contaminated Land

Given the nature of vacant Crown land there may be significant unknown instances of contamination. The Department has identified over 1,177 (400 in 2011-12) potentially contaminated sites.

Last year we recommended the Environmental Protection Agency (EPA) lead the effort to compile a database of contaminated land in New South Wales. The EPA advised it is not possible to determine the true extent of contaminated land in New South Wales and that other NSW agencies are also responsible for data collection.

The Department's own database of contaminated Crown land has been fully tested and is now operational. The EPA has issued orders against four of the Department's Crown land sites. The expected cost to remediate these sites is still to be determined.

A performance audit has commenced which will assess how well the risks of harm to human health and the environment from contaminated sites are being managed. We have written to a number of agencies, two of which are:

- the Department, as it is the largest land owner in New South Wales
- the EPA, as the regulator under the *Contaminated Land Management Act 1997*.

The performance audit will consider:

- how well do government agencies identify and manage the risk of potentially contaminated land they own, lease or intend to buy
- how effective are notification and assessment processes in determining the extent of contamination
- how well does the EPA oversee the monitoring and management of significantly contaminated sites?

## Land Titling Review

A review of land titling was undertaken by the Department on request of the Ombudsman and the Audit Office.

The review resulted in recommendations that the Department update guidelines, provide further staff training, increase the use of computer system functionality and address the backlog of tasks. Legal advice is being obtained by the Department to ensure matters are being properly dealt with.

## Financial Controls

Sound accounting policies, processes and controls improve the consistency, quality and timeliness of management information. We have been reporting on significant deficiencies in the Department's internal controls for a number of years. We noted improvements in a number of areas during our 2013 audit. However, there remain significant control deficiencies over bank reconciliations.

We have previously reported on deficiencies in general information system controls. The Department implemented a new information technology system in December 2012 to address control deficiencies in the old SAP system. The new system comprises SAP ByDesign, a new SAP ECC 6.0 for Payroll and a customised integration module between these two SAP systems.

Due to some delays by the Department in delivering responses to our queries during the 2013 audit, we were unable to conclude on the reliability of controls in the SAP By Design system and integration module. The Department has committed to assist us in resolving this matter during the 2014 audit.

## Service Delivery

The quality of public sector service delivery depends on how well agencies oversight and manage internal and external service providers.

### Shared Services

#### Recommendation

**The Department needs to finalise and implement agreements with its clients so it delivers appropriate services across the cluster.**

The Department provides services to a number of NSW Government agencies in its cluster and earns revenue based on a cost recovery basis from some. Service level agreements are still not in place with these agencies.

Service level agreements should clearly define what services are to be provided, the responsibilities of parties to the arrangement, measurable performance targets, and pricing. They usually detail how disputes are resolved and provide for a periodic review of the agreement.

## State Priority Projects

On 4 June 2012, the Australian Government signed deeds for four priority water delivery projects in New South Wales to help meet sustainable water targets. On 24 June 2013, the Australian Government approved further funding on water projects.

	Basin Pipe Project	Healthy Flood Plain Project	Metering Project	Farm Modernisation Project	Total
<b>Commonwealth funding (\$ million)</b>	136	49	197	83	<b>465</b>
<b>State funding (\$ million)</b>	--	6	--	15	<b>21</b>
<b>Total funding (\$ million)</b>	<b>136</b>	<b>55</b>	<b>197</b>	<b>98</b>	<b>486</b>
<b>Amount spent as at 30 June 2013 (\$ million)</b>	1	2	--	5	<b>8</b>
<b>Start date</b>	20 June 2012	1 Nov 2012	8 June 2012	4 June 2012	
<b>Finish date</b>	30 June 2018	30 June 2018	30 June 2018	1 October 2017	
<b>Responsible agency</b>	NSW Office of Water	NSW Office of Water	NSW Office of Water	NSW Department of Primary Industries	--
<b>Participating agency</b>	--	Office of Environment and Heritage	State Water Corporation	--	--
<b>Estimated water savings to date (mega litres)</b>	354	--	--	14,960	<b>15,314</b>
<b>Estimated savings by the end of the project (mega litres)</b>	38,500	--	109,862	--	<b>148,362</b>

The Basin Pipe Project is a water efficiency infrastructure project that will replace open drains, channels and dams with pipeline schemes to provide farmers with more secure and better quality water.

The Healthy Floodplains Project will reform water management on floodplains through the modification of floodplain structures and extraction control.

The NSW Metering Project will upgrade meters on regulated rivers and install or upgrade meters on groundwater and unregulated rivers.

The Farm Modernisation Project will improve water use efficiency and savings and increase water related productivity in irrigated farming systems.

## Financial Results

The Department revised a number of accounting policies in 2012-13 causing significant variances to the prior year's financial performance and financial position. The revisions included the impairment of Aboriginal land claims determined and not yet transferred; reclassification of long-term land leases; and the removal from the financial statements of the Fishery Trust Funds.

## Abridged Consolidated Statement of Comprehensive Income

Year ended 30 June	Consolidated	Parent	
	2013 \$'000	2013 \$'000	2012 \$'000
Employee related expenses	723,932	723,932	755,146
Grants and subsidies	500,898	500,878	559,880
Depreciation and amortisation	75,176	75,176	75,182
Other expenses	448,459	448,432	308,821
<b>Total expenses</b>	<b>1,748,465</b>	<b>1,748,418</b>	<b>1,699,029</b>
Government contributions	1,019,525	1,019,525	1,004,779
Sales of goods and services	224,631	224,631	171,631
Investment income	84,060	84,047	78,776
Grants and contributions	134,503	134,503	117,365
Transfers to Treasury	(69,077)	(69,077)	(58,186)
Other revenue	43,621	43,621	109,891
Personnel services revenue	263,816	263,816	346,701
<b>Total revenue</b>	<b>1,701,079</b>	<b>1,701,066</b>	<b>1,770,957</b>
Gain on disposal	15,117	15,117	5,816
Other gains/(losses)	(4,101)	(4,101)	50,522
<b>Net result - surplus/(deficit)</b>	<b>(36,370)</b>	<b>(36,336)</b>	<b>128,266</b>
<b>Other comprehensive income</b>			
Increase/(decrease) in revaluation of assets	(14,026)	(14,026)	101,413
Other net increases/(decreases) in equity	7,616	7,616	(92,208)
<b>Total other comprehensive income/(deficit)</b>	<b>(6,410)</b>	<b>(6,410)</b>	<b>9,205</b>
<b>Total comprehensive income/(deficit)</b>	<b>(42,780)</b>	<b>(42,746)</b>	<b>137,471</b>

The decrease in employee related expense in 2012-13 was mainly due to the transfer of employees to Forests NSW. Delays in several community projects resulted in a decrease in grants and subsidies expense during the year. The majority of the increase in other expenses was from impairing land (for aboriginal land claims) and payments to contractors.

The fall in personnel services revenue in 2012-13 was from the transfer of employees to Forests NSW and charging less for superannuation as the defined benefit funds had improved results. The decrease in other revenue was mainly due to a fall in the reimbursement cost of long service leave.



## Abridged Consolidated Statement of Financial Position

At 30 June	Consolidated	Parent	
	2013 \$'000	2013 \$'000	2012 \$'000
Current assets	724,539	724,046	513,781
Non-current assets	7,114,307	7,114,775	7,401,187
<b>Total assets</b>	<b>7,838,846</b>	<b>7,838,821</b>	<b>7,914,968</b>
Current liabilities	355,704	355,679	252,101
Non-current liabilities	27,911	27,911	161,808
<b>Total liabilities</b>	<b>383,615</b>	<b>383,590</b>	<b>413,909</b>
<b>Net assets</b>	<b>7,455,231</b>	<b>7,455,231</b>	<b>7,501,059</b>

The increase in current assets at 30 June 2013 was mainly due to higher cash balances following deferral of dividend payments to Treasury and less grant spending due to project delays. At 30 June 2013, the Department had \$538 million (\$335 million) in cash which included: amounts due to Treasury of \$107 million; the Coal Innovation Fund of \$84.0 million; approved commitments of \$60.0 million; the Coal Resource Identification Fund of \$22.0 million; and the Minerals Trust Funds of \$20.0 million.

The fall in non-current assets and non-current liabilities was largely due to the transfer of employees to Forests NSW. The Department no longer recognises the employee obligations and offsetting receivables. Assets also fell due to land being impaired.

The increase in current liabilities at 30 June 2013 was mainly due to the deferral of supplier payments and increases in the liability to Treasury.



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