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Section One

Universities

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 2014. Unqualified audit opinions were issued on all ten universities' 2014 financial statements. Two modified audit opinions were issued on the financial statements of controlled entities. Details of these modifications are provided in the Governance section of this report.

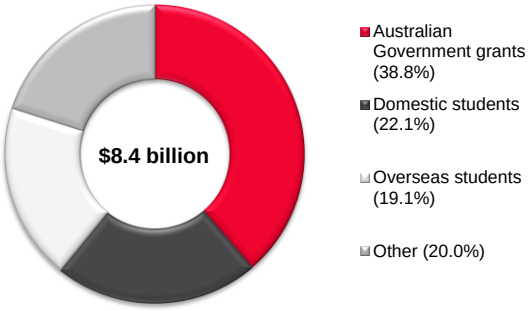
The ten NSW universities are listed in Appendix Four. Their controlled entities are listed in Appendix Five or discussed within this report.

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

NSW Universities' Snapshot 2014

Sources of revenue



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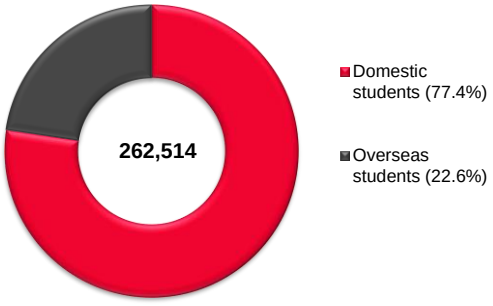
STUDENT TO ACADEMIC RATIO (2013)

$14.2 billion

NET ASSETS

Equivalent full time student load



84%

RESEARCH AT OR ABOVE 'WORLD STANDARD'

2 in top 100

WORLD UNIVERSITY RANKINGS

Financial Reporting

Financial 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.

An analysis of the financial reporting of NSW universities in 2014 indicates:

- combined revenue increased by 4.1 per cent to $8.4 billion with Australian Government grants remaining stable at $3.2 billion
- combined net assets increased by 5.5 per cent to $14.2 billion
- domestic student revenue increased by 5.6 per cent to $1.9 billion with the number of domestic students increasing by 1.7 per cent
- overseas student revenue increased by 10.8 per cent to $1.6 billion with the number of overseas students increasing by 6.2 per cent.

NSW universities' non-academic employee related expenses range between 25.8 per cent and 32.2 per cent of total annual expenses. This is higher than the 18-20 per cent of total expenses considered good practice by the Australian Government Department of Education and Training (the Department).

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 sound financial position, however, financial sustainability pressures are emerging:

- the average combined operating margin fell from 6.6 per cent in 2013 to 4.8 per cent in 2014
- operating expenditure grew at a faster pace than operating revenue at six of the ten NSW universities
- combined operating expenditure grew at a rate of 0.9 per cent more than operating revenue, with employee expenses increasing by an average of 5.1 per cent and other expenses by 5.8 per cent
- average combined interest rate coverage fell from 23 in 2013 to 19 in 2014
- combined debt increased to 10.1 per cent of equity in 2014 compared to 8.5 per cent in 2013.

NSW universities' combined adjusted current ratio was steady at 1.7 and within the Department's benchmark of between 1.5 and 3.0.

Southern Cross University's financial sustainability indicators improved significantly in 2014. It recorded a surplus of $13.1 million compared a loss of $6.6 million in 2013.

Liabilities for defined benefit superannuation schemes of NSW universities totalled $5.9 billion at 31 December 2014. Since 2010, the liability has more than doubled due to the lower discount rate used in the actuarial valuation. The discount rate fell from 5.6 per cent in 2010 to 2.9 percent in 2014.

In December 2014, the Australian and NSW Governments signed a Memorandum of Understanding establishing cost sharing arrangements to meet the superannuation liabilities. The Governments will not fund increases in defined benefit superannuation liabilities that result from salary increases for staff in their final years of employment, that are above an average growth rate.

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.

Generally, the universities' internal controls are appropriately designed and operating effectively to produce reliable and timely financial reports.

As in previous years, information security issues are exposing universities to security attacks, data integrity issues, fraud and identity theft. Some universities have weak processes over user access reviews and the timely termination of user access to systems. It is disappointing that over a quarter of the issues raised by the Audit Office in 2013 were not addressed in 2014.

Common control issues in some universities, included:

- poor controls over payroll processing, such as a lack of segregation of duties in processing online timesheets, increasing the risk of error or fraud
- purchase orders raised after the receipt of invoices, increasing the risk of engaging unauthorised suppliers, becoming liable for goods and services before approval and inaccurate cash flow analysis for purchase order commitments
- compliance frameworks not being fully defined and operational across universities, increasing the risk of non-compliance with policies or applicable legislation.

Backlog maintenance fell in 2014, without a corresponding increase in maintenance expenditure. This indicates the sources some universities use to provide information on backlog maintenance may be incomplete. An effective system to determine actual backlog maintenance is important for decision making on total asset management initiatives.

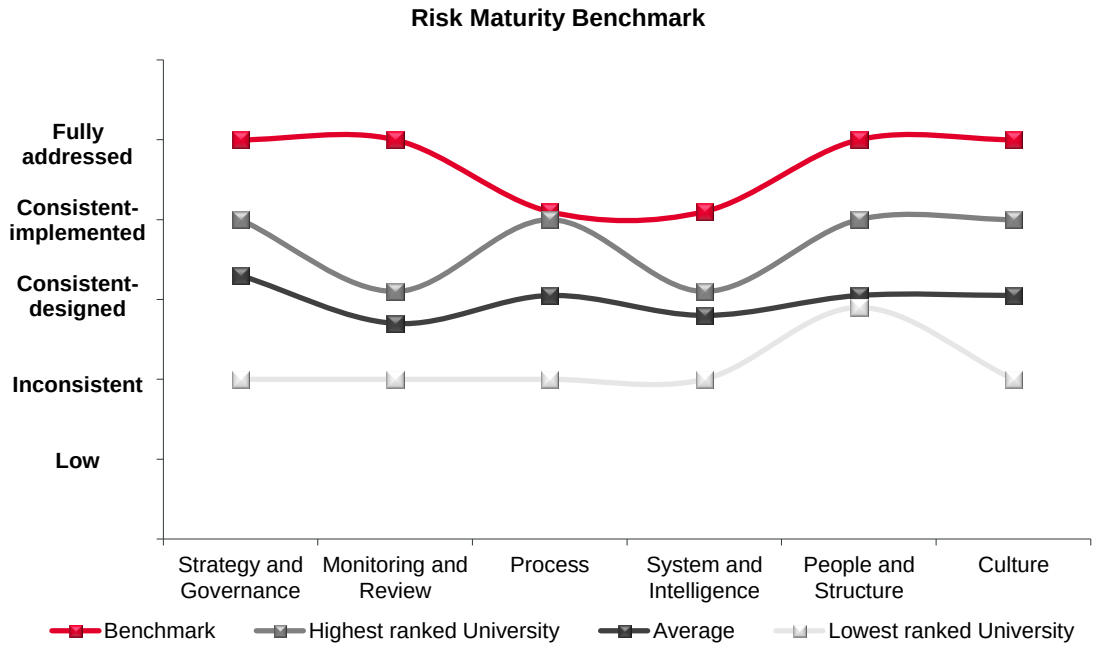
Governance

Governance refers to the high-level framework for rules, behaviours, systems and processes, established to ensure an entity meets its intended purpose, expectations of probity, accountability and transparency and complies with legislative and other requirements.

Good governance promotes public confidence in organisations resulting in improved service delivery and the efficient use of resources.

The Audit Office's recently developed Risk Management Maturity Toolkit is outlined in this report. The complete toolkit will be published on the Audit Office's website in the coming months.

A comparative analysis of the assessment of NSW universities' risk management maturity levels at 31 December 2014, using this tool kit, is shown below. The analysis compares the risk maturity assessment against a benchmark the Audit Office has developed and considers optimal in the university environment.



The graph shows universities' enterprise risk management (ERM) maturity scale from low to when ERM is fully addressed. Most universities are in the design stage of applying the ERM framework.

In the university with the most mature risk management framework, risk awareness is evident at each business level. Executive management uses a top-down approach to communicate strategic risks. Risk owners, at the operational levels, conduct risk management workshops to identify key risks and promptly escalate issues to management.

The university with the least mature risk management framework is yet to establish a culture where risk management is integral to daily operations and risk management processes are consistently applied across faculties and business units.

Most universities have started to embed a risk awareness culture, but this is inconsistent across business units and enterprise risk management lacks depth in the faculties.

A survey of the ten NSW universities identified three that had paid money to attend political party functions and events. Some universities confirmed they had not made any political donations while others did not have policies and systems designed to prevent and detect such donations.

Universities need to strengthen controls around establishing controlled entities and entering into business arrangements to ensure they are not exposed to undue reputational risks. Establishing a controlled entity or entering into a business arrangement should be supported by a cost/benefit analysis, which is fully documented and approved within strict guidelines. This should include sign offs by the university's General Counsel and Chief Financial Officer.

Teaching and Research

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

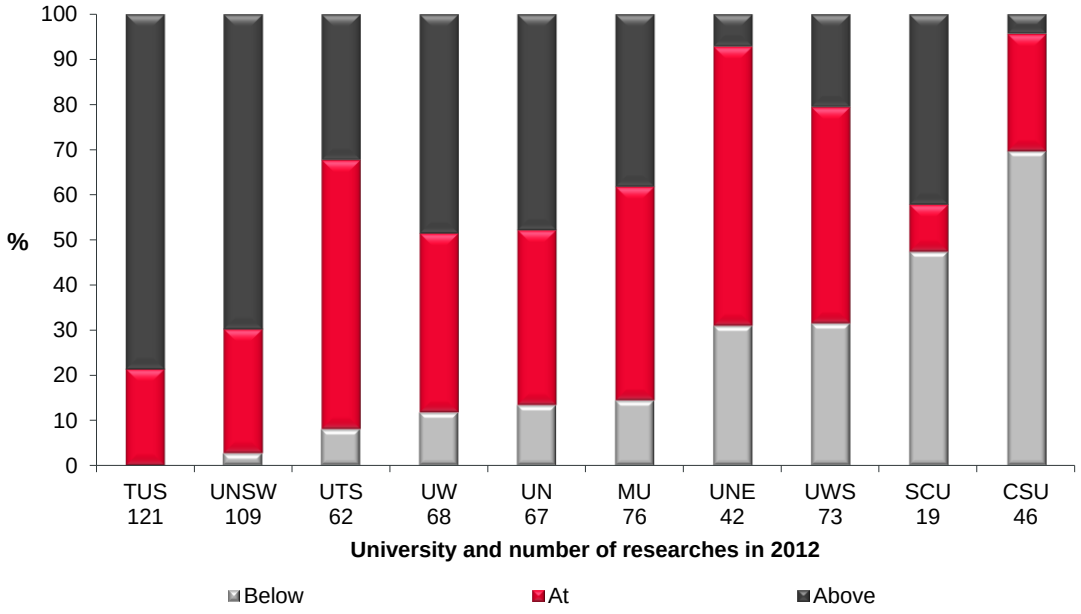
During 2014, the equivalent full-time student load in NSW universities increased by 6,829 (2.7 per cent) to 262,514. Overseas students represented 22.6 per cent of all enrolled students. The number of overseas students fell in three universities in 2014 (six in 2013).

The ratio of students to academic staff declined marginally to 19.8 in New South Wales in 2013 (2014 figures were not available at the time of preparing this report). The University of Western Sydney had the highest ratio of 34.9 and the University of New South Wales the lowest at 12.5. A lower student to academic ratio generally indicates a better teaching experience.

In 2015, the Australian Government will provide research block grant funding of $1.8 billion to eligible Australian universities. NSW universities expect to receive $531 million or 30.0 per cent of this amount. The University of Sydney expects to receive $181 million and the University of New South Wales $162 million.

The results of the 2012 survey performed by the Australian Research Council (ARC) on Excellence in Research for Australia (ERA) for each university in New South Wales are shown below. The graph shows the proportion of each university's research that is above, equal to, or below world standards.

Quality of Research : Percentage of Fields of Research Below, At and Above World Standard



Note: Appendix Four lists the names of the Universities and their abbreviations.

Research intensive universities, such as the University of Sydney and the University of New South Wales, were amongst the most highly rated universities in world ratings and they attracted the highest levels of research funding.

Recommendations

Financial Sustainabilty

1. Universities must have strategies to monitor and address negative earnings gaps, where expenses are growing faster than revenues, as they are not sustainable in the medium to long term.

2. Universities need to develop and implement strategies to effectively manage defined benefit superannuation liabilities arising from excess pre-retirement salary increases.

Financial Controls

3. Universities' total asset management systems should capture backlog maintenance data.

Governance

4. Universities should develop and communicate a risk appetite statement and set risk tolerance limits to ensure they operate within their risk appetite.

5. Universities should improve processes for tracking, monitoring and reporting emerging risks.

6. Universities should design and implement consistent risk management initiatives across faculties and business units. The initiatives should link key performance measures to key risk indicators.

7. Universities should ensure their policies prohibit political donations.

8. Universities' governance frameworks should require an approved business case with a cost/benefit analysis and risk assessment before a controlled entity is established or a business arrangement is entered into.

Teaching and Research

9. To attract more industry research funding, universities should develop long term sustainable research investment plans focussing on research collaboration and partnerships.

Financial Reporting

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

The table below shows the consolidated annual revenues and net asset positions of all NSW universities at and for the years ended 31 December 2013 and 2014.

University	Annual revenue* for the year ended			Net assets at 31 December		
	2014 $m	2013 $m	Per cent increase	2014 $m	2013 $m	Per cent increase
Sydney Metropolitan						
Macquarie	899	870	3.4	1,597	1,532	4.2
New South Wales	1,747	1,620	7.8	2,282	2,116	7.9
Sydney	1,903	1,883	1.1	4,002	3,810	5.0
Technology, Sydney	767	720	6.5	1,438	1,407	2.2
Western Sydney	730	684	6.7	1,455	1,367	6.4
Major Regional						
Newcastle	694	700	(0.8)	1,193	1,132	5.3
Wollongong	617	576	7.2	816	785	3.9
Country						
Charles Sturt	500	492	1.7	868	808	7.4
New England	309	310	(0.3)	372	347	7.2
Southern Cross	212	193	9.9	217	204	6.2
Total	**8,379**	**8,048**	**4.1**	**14,239**	**13,509**	**5.4**

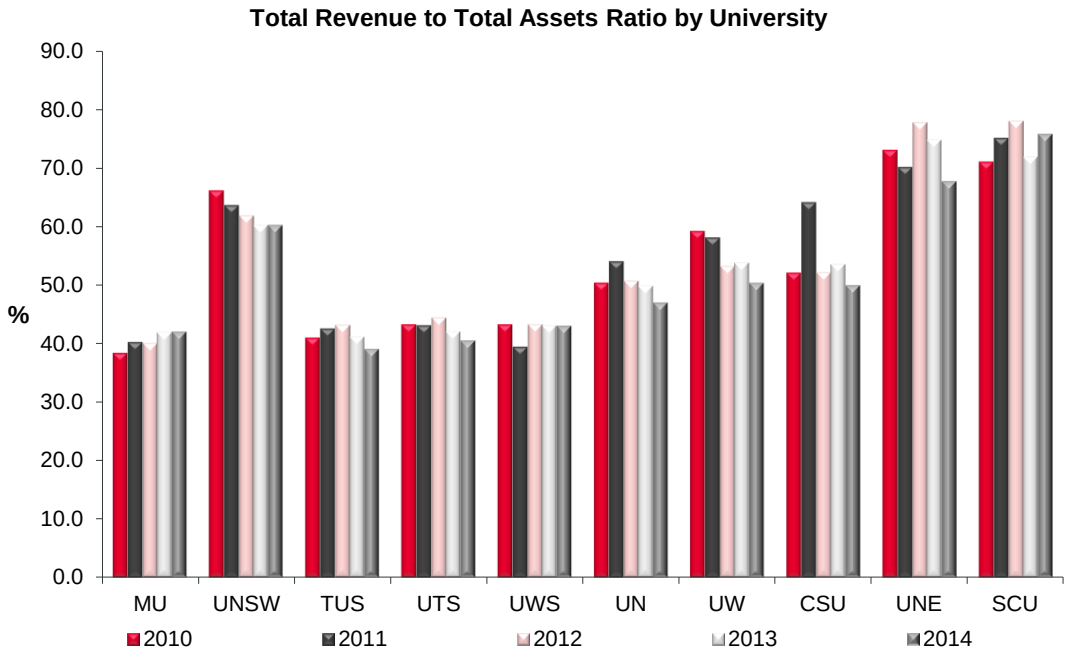
* Annual revenue is consolidated total income from university audited financial statements, and includes capital grants.

Southern Cross University and the University of New South Wales recorded the highest annual revenue growth in 2014 of 9.9 per cent and 7.8 per cent respectively. Southern Cross' result is attributable to an increase of $14.2 million in Australian Government grants and a 37.1 per cent, $5.4 million, increase in international student fees. The University of New South Wales' result was mainly due to significant increases in domestic and international student numbers.

The University of Newcastle and University of New England were the only universities where total revenues fell in 2014 compared to 2013. Annual revenue for the University of Newcastle fell mainly because of lower capital grants, $2.4 million ($28.1 million), while the University of New England's revenue fell primarily due to lower industry research grants, $2.3 million ($7.1 million).

The net asset positions of all NSW universities increased in 2014. The percentage rates of increase are not comparable because some universities (University of Wollongong, Southern Cross University and the University of Sydney) measure a significant proportion of their assets at cost while the others measure them at fair value.

A measure of how efficiently a university uses it assets is the amount of revenue it generates from those assets.



Source: University financial statements (audited).

* Total assets excludes Defined Benefits Superannuation Receivable.

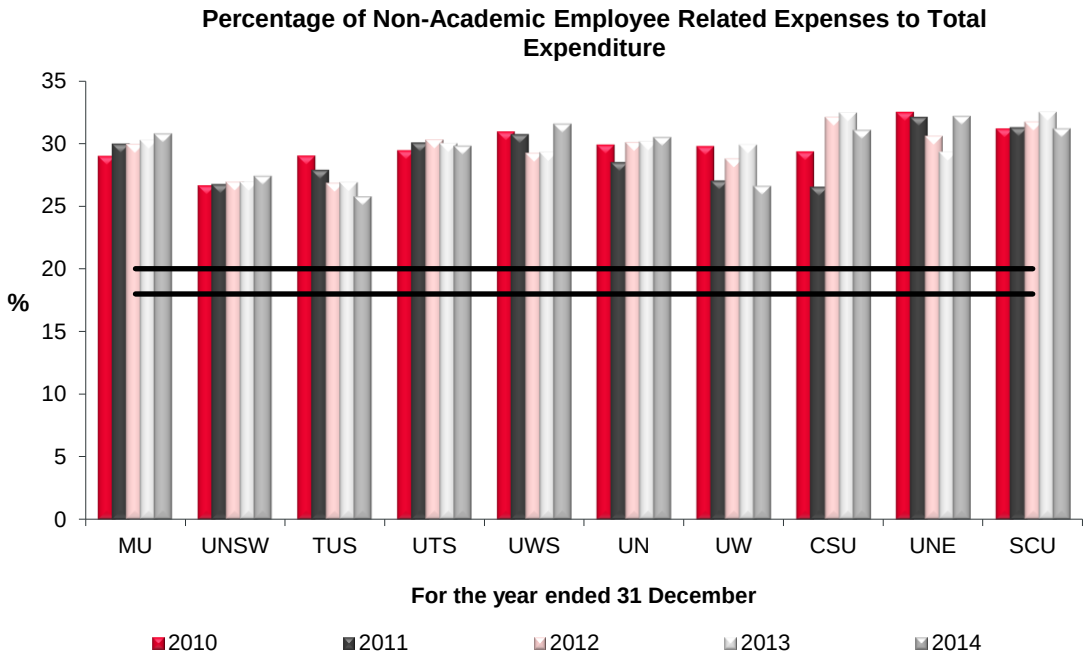
Of the Sydney metropolitan universities, the University of New South Wales generated the highest revenue to assets ratio at over 60 per cent, while the University of Sydney and Macquarie University generated the lowest ratios at around 40 per cent.

In 2014, Southern Cross University and the University of New England generated the most revenue from their assets, at around 75 per cent and 70 per cent respectively.

Non-Academic Employee Related Expenses

Non-academic employees are those not employed in teaching and/or research capacity. The Australian Government Department of Education and Training's (the Department) 'Benchmarking: A Manual for Australian Universities' (the Department's Manual) notes that the higher the proportion of the total annual budget that can be spent on the core functions of teaching and research, the better the university is pursuing its mission.

The graph below shows the percentage of non-academic employee related expenses to total annual expenditure, or salaries expense ratio:



Source: University financial statements (audited).

Note: Benchmark Range of 18-20 per cent: Benchmark 5.6, the Department's Manual (2001).

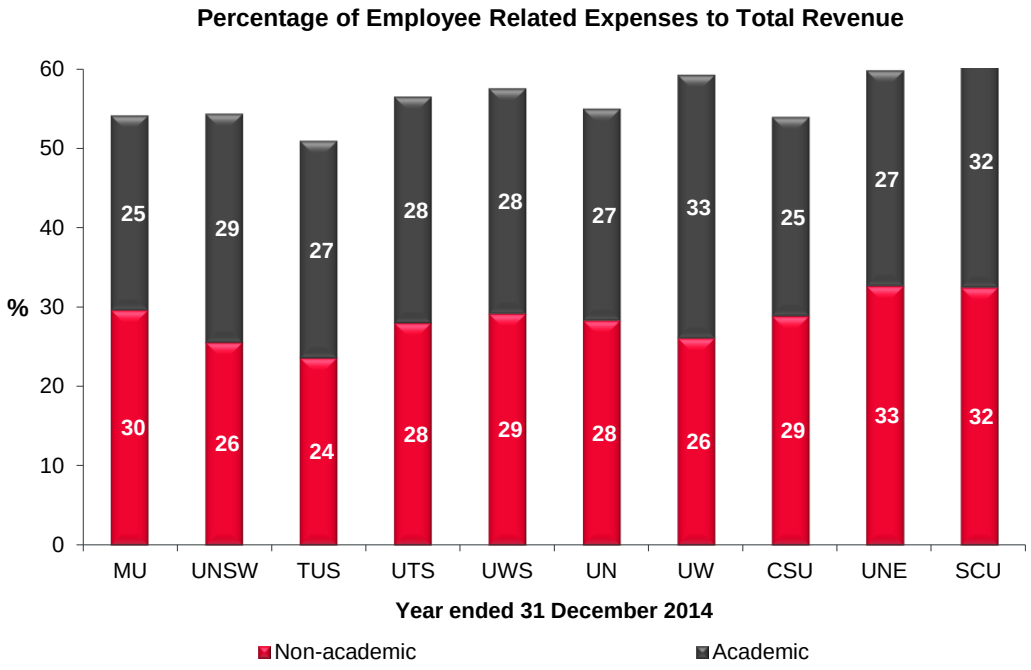
NSW universities' non-academic employee related expenses are between 26.6 per cent and 32.5 percent of total annual expenditure. In 2014, The University of Sydney's salaries expense ratio is the lowest at 25.8 percent and has been falling consistently over the past four years. The University of New South Wales has the lowest average at about 27.0 per cent over the past four years, but it has been increasing. The University of Wollongong's non-academic salaries expense ratio fell most significantly of the ten universities in 2014 to 26.6 per cent from 29.9 per cent in 2013.

The University of New England recorded the highest non-academic salaries expense ratio of 32.2 per cent in 2014, closely followed by the University of Western Sydney at 31.6 percent, Southern Cross University at 31.2 per cent, Charles Sturt University at 31.1 percent and Macquarie University at 30.8 per cent.

The Department's Manual includes a broad benchmark for the teaching and research expenditure ratio. It considers it good practice when universities maximise resources allocated to teaching and research. The Department requires universities to continually demonstrate the steps taken to maximise resources allocated to teaching and research.

The Department's Manual considers it good practice when a university's overall administrative expenses do not exceed 18-20 per cent of total expenses. It defines overall administrative expenses to include central administration, the costs of outsourced functions (e.g. payroll) and any administrative costs within units with devolved responsibilities. Given this, the percentage of non-academic employee related expenses to total expenses at NSW universities is high.

The diagram below shows the percentage of non-academic employee related expenses used to support the teaching and research (academic) employee related expenses, as percentages of revenue.



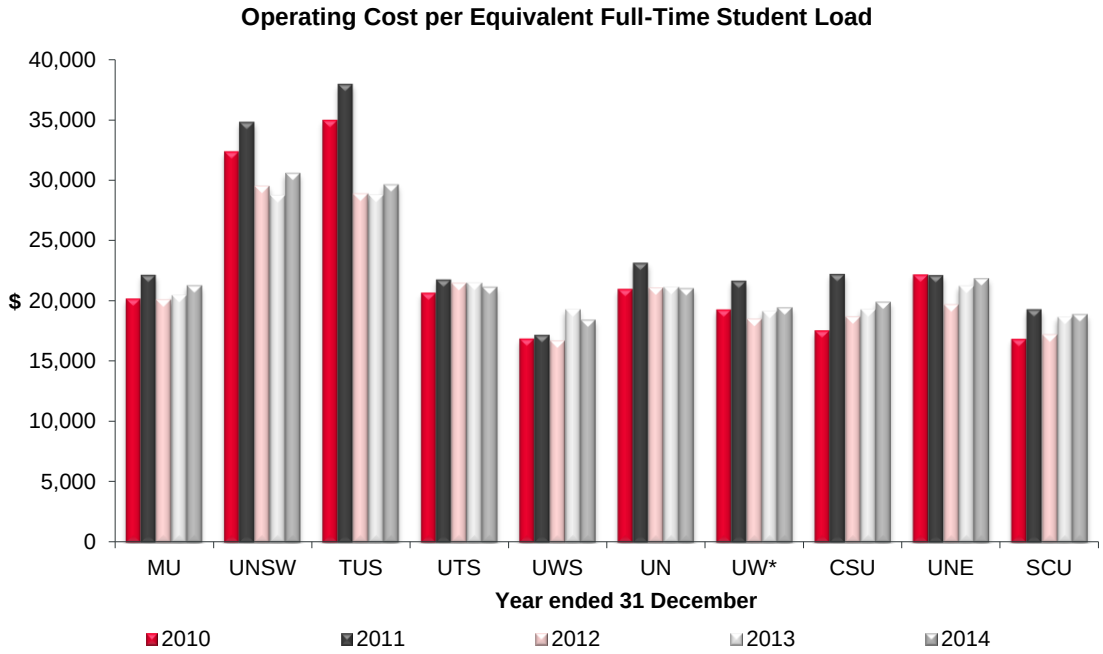
Source: University financial statements (audited).

The University of Sydney, University of New South Wales and University of Wollongong have the lowest percentage of non-academic to academic salaries, while The University of New England has the highest.

Operating Cost per Student

Costs are the key driver of universities' course fees. In 2014, based on university parent entity figures only, universities incurred average operating expenses (excluding research expenditure) of $22,232 ($21,841 in 2013) for every equivalent full-time student load.

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.

* Included in the equivalent full-time student load are a significant proportion of overseas students taught through partnership programs with largely no direct teaching costs.

Note: Only 2010 and 2011 operating costs included research expenditure. The impact of this can be clearly seen in the graph for the University of New South Wales and University of Sydney in those years.

The University of New South Wales and the University of Sydney had the highest operating costs per student of $30,593 and $29,644 respectively in 2014. The University of Western Sydney had the lowest at $18,447 per student.

The average operating cost per equivalent full-time student load increased by 1.8 per cent in 2014 (3.0 per cent in 2013).

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 staff profiles.

The combined universities' revenue by source is shown below.

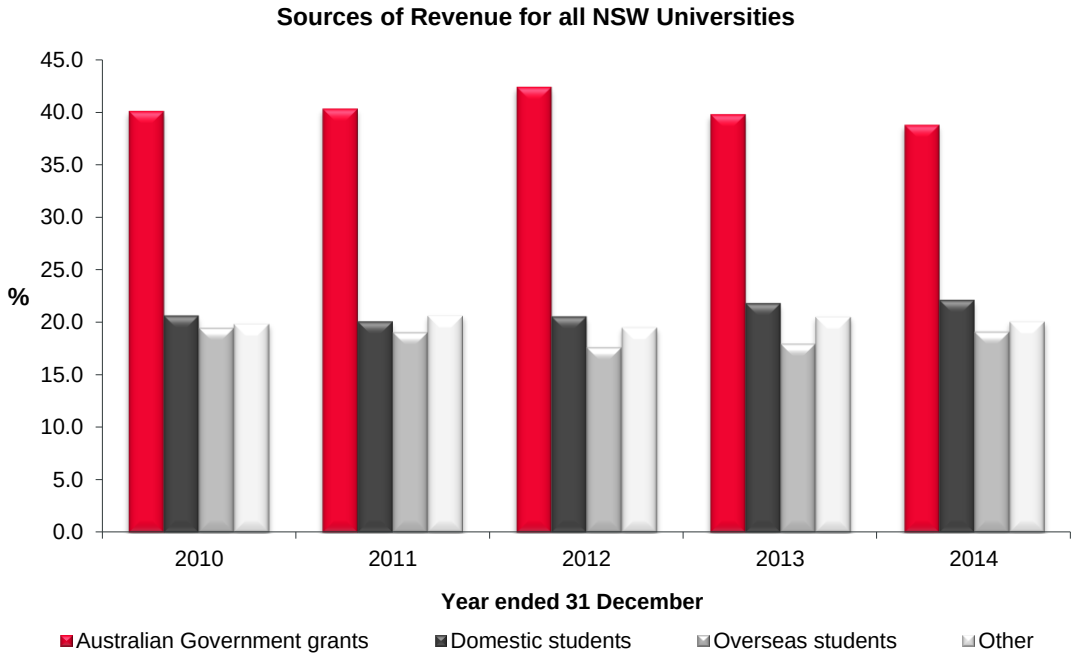
Year ended 31 December	Five year trend	2014 $m	2013 $m	2012 $m	2011 $m	2010 $m
Student course fees						
Domestic students	↑	1,851	1,761	1,562	1,420	1,367
Overseas students	↑	1,600	1,445	1,340	1,348	1,291
Total student course fees	↑	**3,451**	**3,206**	**2,902**	**2,768**	**2,658**
Australian Government grants *	↑	3,248	3,199	3,222	2,853	2,657
Other	↑	1,680	1,642	1,483	1,458	1,316
Total revenue	↑	**8,379**	**8,047**	**7,607**	**7,079**	**6,631**

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.

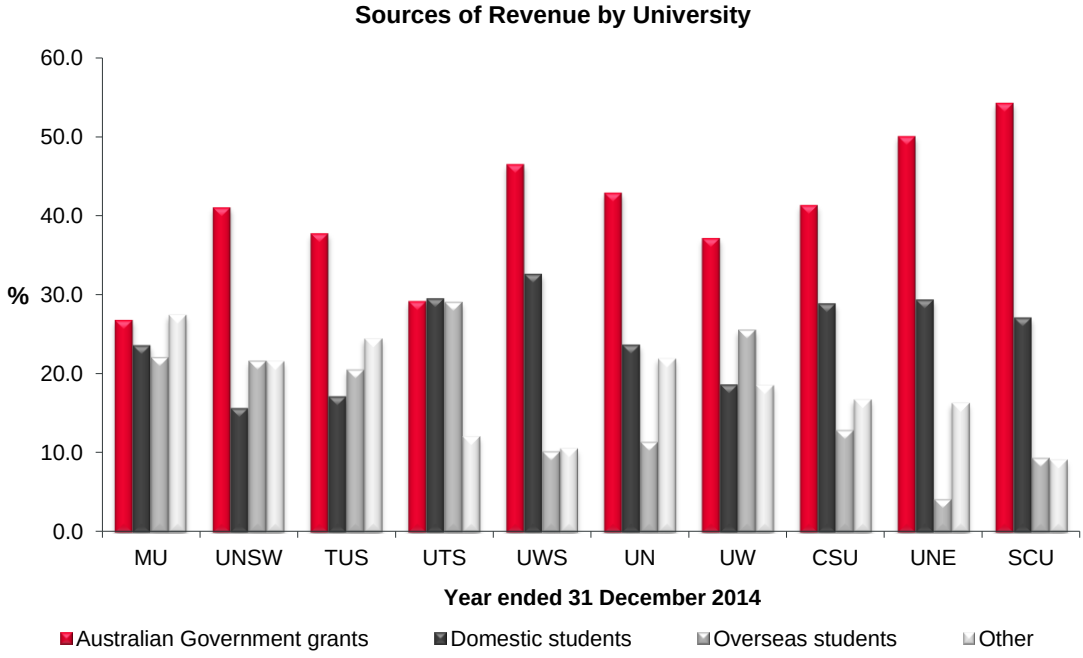
Key: ↑ Trend upwards.

Combined university revenues have increased by 26.4 per cent since 2010, with total student course fees increasing by $793 million or 29.9 per cent. Australian Government grants grew by $591 million or 22.2 per cent over the same period. The Department's Manual includes benchmark 5.2 for the diversity of revenue. It considers it good practice when a university's operating grants revenue is not more than 50.0 per cent of operating revenue.



Source: University financial statements (audited).

The source of revenue for each NSW university in 2014 is shown below.



Source: University financial statements (audited).

In general, major regional and country universities are more dependent on Australian Government grants than Sydney metropolitan universities. As funding pressures increase, universities will need to constrain expenditure growth.

Australian Government Grants

Australian Government grants (operating and capital) are a significant source of revenue for NSW universities accounting for 38.8 per cent (39.8 per cent) of total revenue. These grants increased by $49.3 million or 1.5 per cent in 2014 (decrease of $23.1 million in 2013).

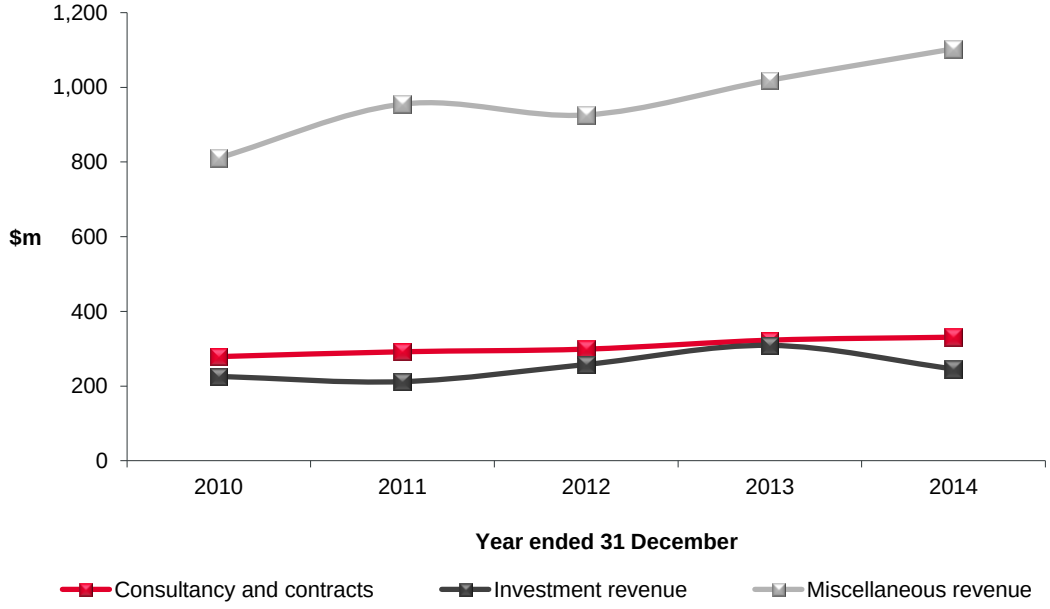
Macquarie University and the University of Technology, Sydney had the most balanced diversity of revenue sources. Macquarie University received 26.9 per cent (25.4 per cent) of its total revenue from Australian Government grants and a similar percentage from other non-core revenue sources. The University of Technology, Sydney received 29.3 per cent (31.9 per cent) of its total revenue from Australian Government grants and a similar percentage from overseas student revenue.

Southern Cross University and the University of New England were most reliant on Australian Government grants, which accounted for 54.3 per cent and 50.1 per cent of their total revenues respectively.

Other Income

Other income of $1.7 billion ($1.6 billion in 2013) was earned by NSW universities in 2014, representing 20.0 per cent of total revenue. It comprised miscellaneous revenue of $1.1 billion ($1.1 billion), consultancy and contracts fees of $331 million ($323 million), and investment earnings of $246 million ($309 million).

Other Income for NSW Universities



Source: University financial statements (audited).

Other income in 2014 was most significant at Macquarie University and The University of Sydney, where it represented 27.4 per cent ($246 million), and 24.5 per cent ($465 million) of total revenues respectively. Other income reported by The University of Sydney includes investment income of $117 million ($178 million) and consultancy income of $95.9 million ($92.7 million). Other income reported by Macquarie University includes $99.3 million from Macquarie University Hospital.

Other income was least significant at Southern Cross University and the University of Western Sydney in 2014, where it represented 9.2 per cent ($19.5 million) and 10.6 per cent ($77.2 million) of total revenue respectively.

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, miscellaneous revenue increased by 8.2 per cent or $84.0 million in 2014 and by 36.0 per cent or $292 million since 2010. Miscellaneous revenue was especially significant at Macquarie University, primarily due to earnings of $99.3 million ($90.0 million) from the Macquarie University Hospital. The University of Sydney recognised most investment income of $117 million in 2014 ($178 million), representing 6.1 per cent (9.5 per cent) of its total revenue.

Total consultancy and contracts revenue increased by 2.5 per cent to $331 million in 2014 ($323 million). This revenue source has increased steadily since 2010.

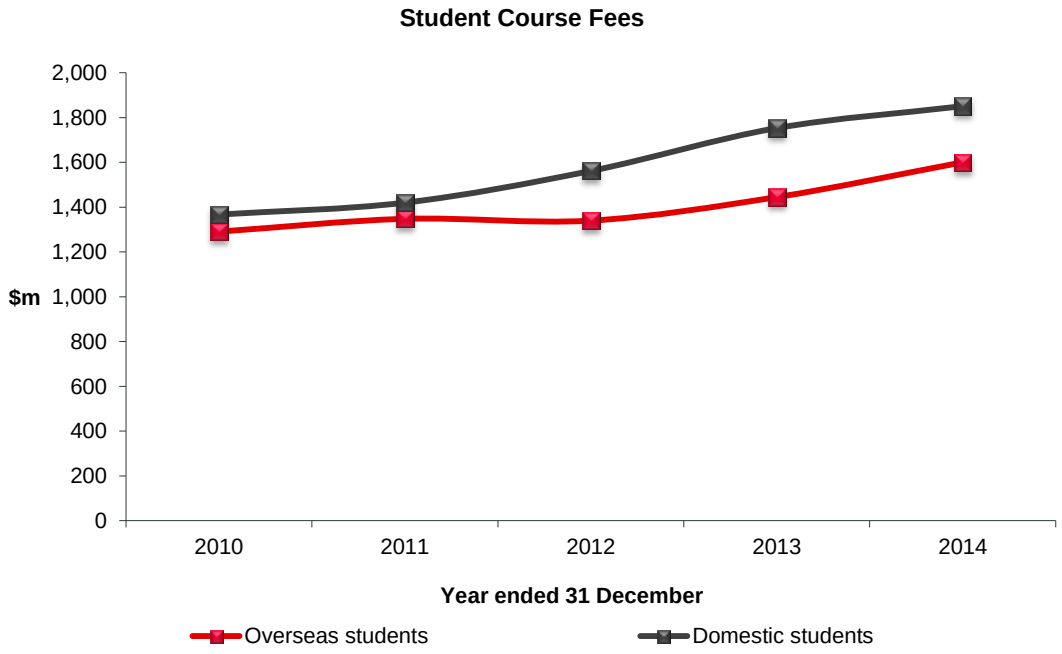
Student Course Fees

Student course fees were a significant source of revenue in 2014, representing 41.2 per cent (39.7 per cent in 2013) of total revenue for all NSW universities. Total student course fees have increased by 29.9 per cent since 2010.

The University of Technology Sydney and Macquarie University had the largest proportion of total revenue from student course fees at 58.6 per cent (56.4 per cent) and 45.7 per cent (46.6 per cent) respectively in 2014. The University of New England had the lowest at 33.6 per cent (32.6 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 2010 to 2014 are shown below.



Source: University financial statements, as adjusted (audited) except for 2014, which was sourced from universities.

In 2014, total revenue from domestic students increased by $98.0 million (5.6 per cent) compared to 2013 and by $484 million (35.4 per cent) since 2010. In 2014, domestic student course fees represented 22.1 per cent of total university revenue, which is relatively consistent over the last four years.

Revenue from overseas fee-paying students increased by $155 million, or 10.8 per cent, in 2014. It continued to be a significant revenue stream for universities, representing 19.1 per cent (18.0 per cent in 2013) of total revenue. Revenue from overseas students has increased by 24.0 per cent since 2010.

Fees from overseas students as a percentage of total revenue ranged from 4.2 per cent (4.3 per cent in 2013) for the University of New England to 29.1 per cent (27.3 per cent) for University of Technology Sydney.

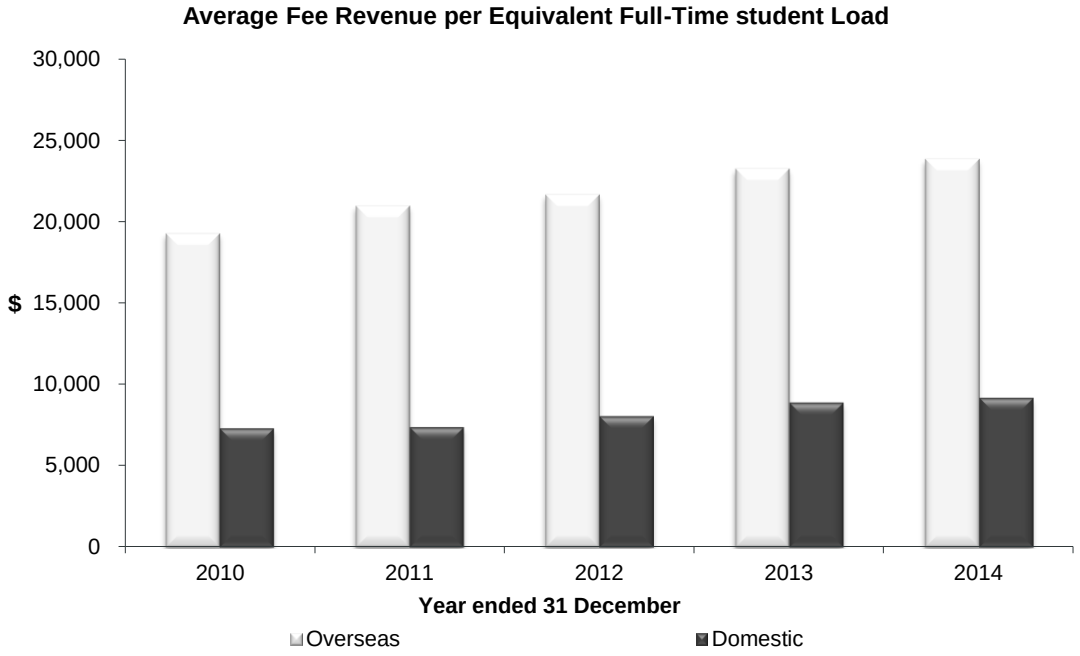
Fees Received per Student

In 2014, NSW universities, excluding their controlled entities, received average fees of $23,828 for each overseas student and $9,128 for each domestic student. Student numbers from the Department for 2014 were unavailable at the time of preparing this report. Data presented for 2014 was sourced from the universities.

Fees received per student were calculated 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.

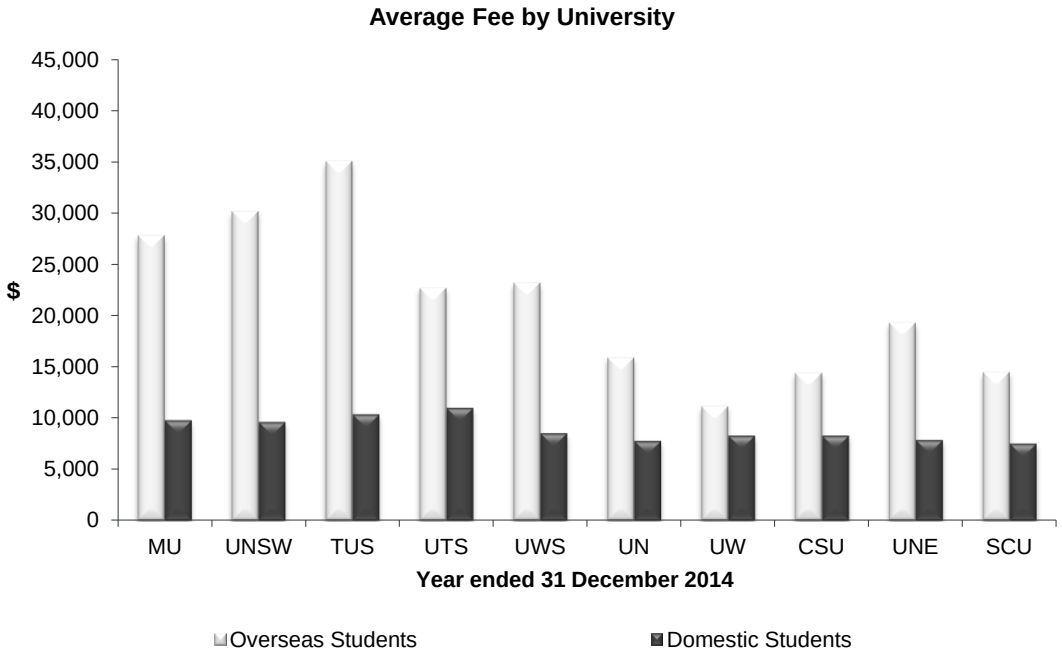
The average fee received per student from 2010 to 2014 for NSW universities is shown below.



Source: Fee information obtained from universities' audited financial statements. Student numbers obtained from Department publications except for 2014, which was sourced from universities.

The average fee received per overseas student increased 6.1 per cent per annum since 2010. Fees received per domestic student increased by 5.2 per cent per annum 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 2014 is shown below.



Source: Fees information obtained from universities' audited financial statements. 2014 student numbers sourced from universities.

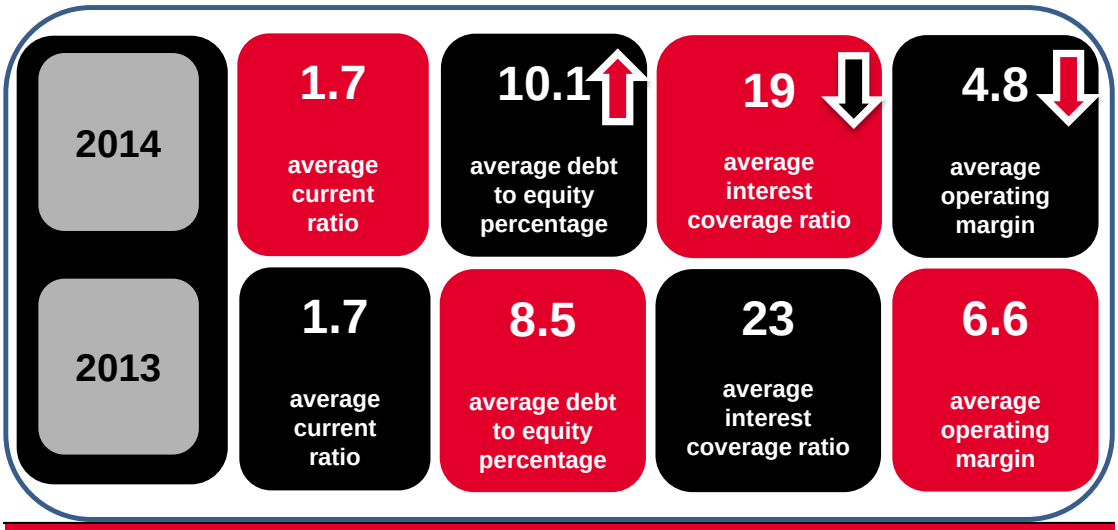
Generally, greater differences between overseas and domestic student fees occur in Sydney metropolitan universities. This is partly due to higher costs associated with Sydney based campuses and the types of degrees offered compared to universities in other areas. In 2014, The University of Sydney had the highest difference between average fees received from an overseas student compared to a domestic student of $24,763. The University of Wollongong had the lowest difference of $2,871 because fee revenue excludes direct student fees for overseas students taught through partnership programs.

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 competition.

The table below summarises the performance of NSW universities against some commonly accepted sustainability indicators for the year ended 31 December 2014:



University	Sustainability Indicators at 31 December 2014			
	Current ratio 1.5 - 3.0 [a]	Debt to equity percentage [b]	Interest coverage ratio > 2.0 [c]	Operating margin percentage [d]
Sydney Metropolitan				
Macquarie	2.1	22.3	5.9	3.5
New South Wales	1.0	1.7	94.7	5.8
Sydney	2.0	10.9	18.2	6.8
Technology, Sydney	1.7	17.1	25.0	5.4
Western Sydney	1.6	5.2	57.9	7.3
Major Regional				
Newcastle	2.3	7.1	16.9	5.4
Wollongong	1.5	16.1	10.2	(0.2)[e]
Country				
Charles Sturt	1.5	3.3	44.7	5.8
New England	3.7	5.4	50.7	(3.0)[e]
Southern Cross	1.1	5.7	19.1	(4.7)[e]

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

a The Australian Government Department of Education and Training's (the Department) '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' considers a ratio greater than two to be reasonable. The Department does not provide an interest coverage ratio.

d The operating margin percentage is the operating result as a proportion of income, excluding capital grants.

e Wollongong, New England and Southern Cross recorded positive net results in 2014 if capital grants are included.

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

All NSW universities recorded surpluses in 2014, if capital grants are included. The University of Sydney's surplus fell by 35 per cent compared to 2013, but it maintained the highest surplus of all NSW universities in 2014 at $162 million ($248 million in 2013). The fall in surplus was largely driven by the University of Sydney's early adoption of AASB 9 'Financial Instruments' which requires market movements to be reflected in the income statement. The market performance in 2014 was positive, but not as strong as 2013.

The surplus of the University of Western Sydney grew to $66.2 million in 2014 ($8.7 million in 2013). This resulted from increases in Australian Government funding ($31.5 million) and course fees earned from overseas students ($12.7 million) due to higher student numbers.

Southern Cross University recorded a surplus of $13.1 million in 2014 compared to a $6.6 million loss in 2013. The operating margin, which excludes capital grants, improved from negative 8.8 in 2013 to negative 4.7 in 2014.

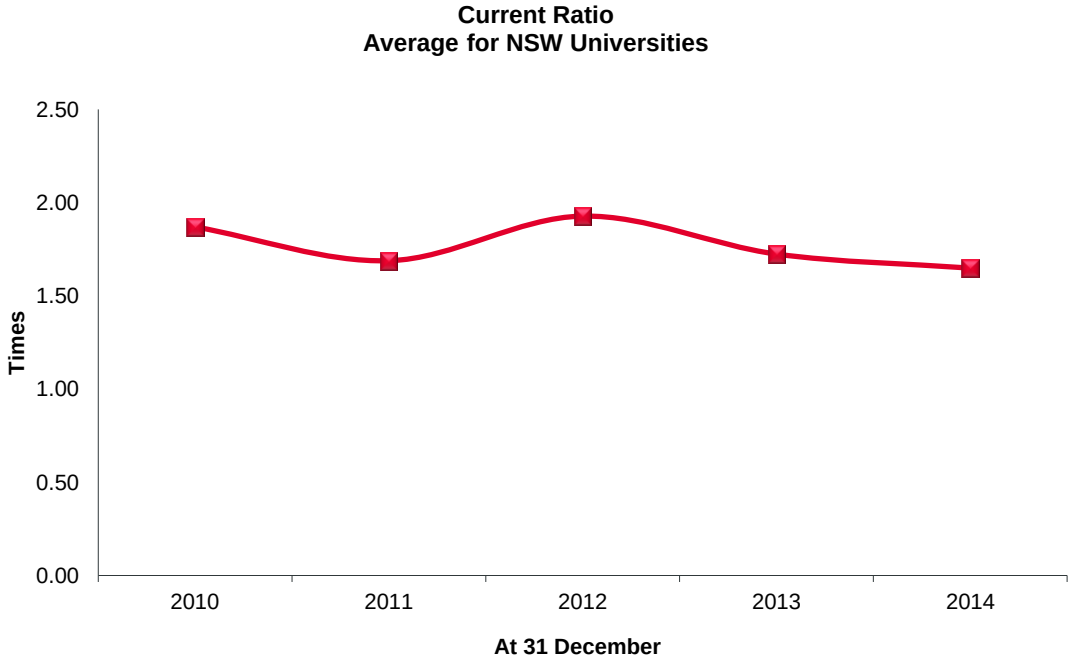
The University of Wollongong and Southern Cross University carry all property, plant and equipment at cost. The University of Sydney's campus land and buildings were recorded at a cost of $2.2 billion. Other NSW universities carry property, plant and equipment at fair value. The different measurement models (cost or fair value) impact the operating margin percentages (because of lower depreciation charges under the cost model) and debt to equity percentages (because of the revaluation reserve included in equity under the fair value model).

Each of the sustainability indicators is discussed further below.

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.

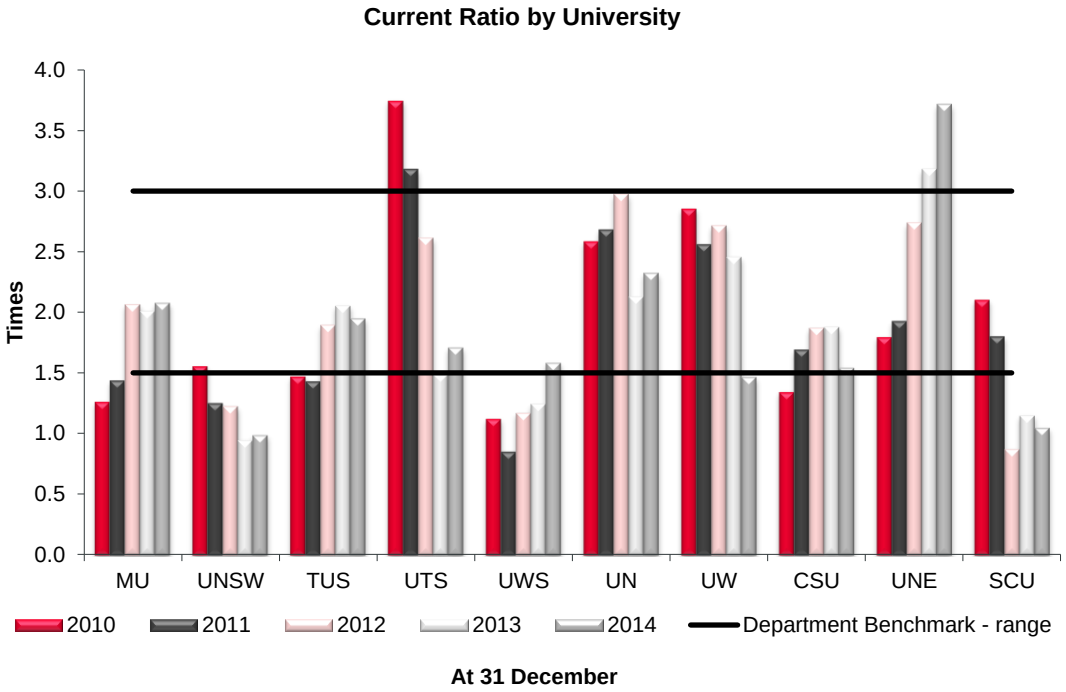
The average current ratio for all NSW universities over the last five years is shown below.



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

The average current ratio for all ten NSW universities remained between 1.7 and 2.0 over the last five years, which is within the benchmark range included in the Department's Manual.

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 2014, two universities (three at 31 December 2013) had current ratios of less than 1.5.

The University of New South Wales' current ratio has been below the Department's minimum benchmark of 1.5 for the past four years. However, the university has access to investments that can be converted to cash, which are classified in its financial statements as non-current financial assets. The University of Wollongong had a current ratio of 1.5 (2.5) in 2014, which is at the lower end of the Department's benchmark, however, it has access to $153 million in non-current investments that can be easily converted to cash.

Southern Cross University had the second lowest ratio of 1.1 (1.2) in 2014 and has been below the Department's minimum benchmark for the past three years. While it did not have access to a pool of liquid non-current financial assets in 2014, it had access to a $30.0 million unused bank loan facility at 31 December 2014.

The University of New England had the highest current ratio of 3.7 (3.2) in 2014, which is above the Department's upper benchmark of 3.0. The University may not be using its current assets or its short-term financing facilities efficiently. Its main financial investment was $110 million in deposits at call with floating interest rates between 3.5 and 3.65 per cent.

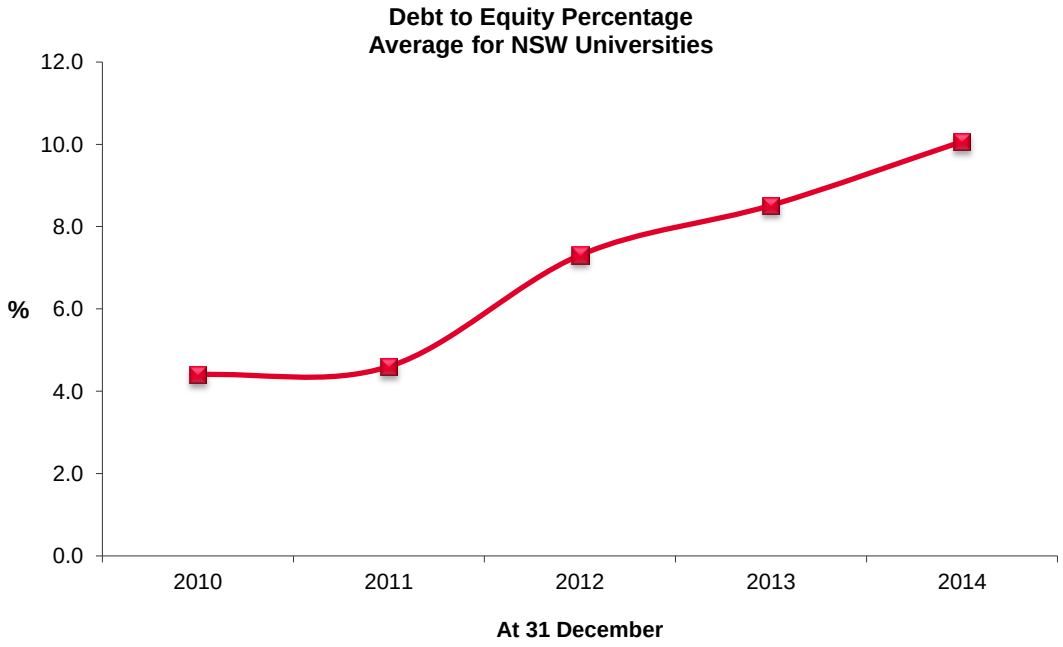
The Department's current ratio benchmark is based on current assets divided by current liabilities. Annual leave and long service leave liabilities, included in the financial statements as current liabilities, that are expected to be settled more than 12 months after 31 December 2014, were excluded from the current liabilities calculation.

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 can be repaid from identifiable revenue sources. The Department's Manual does not currently have a published debt to equity benchmark. Given the increasing levels of debt in the NSW university sector, previous Auditor-General's Reports to Parliament have recommended the Department review its published benchmarks for university financial performance.

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



Source: University financial statements (audited).

The combined average debt of the ten NSW universities increased consistently from 4.4 per cent of equity in 2010 to 10.1 per cent in 2014. Despite this growth, the overall average level of debt remains low, relative to the financial sustainability of NSW universities (see Interest Coverage Ratio comments below).

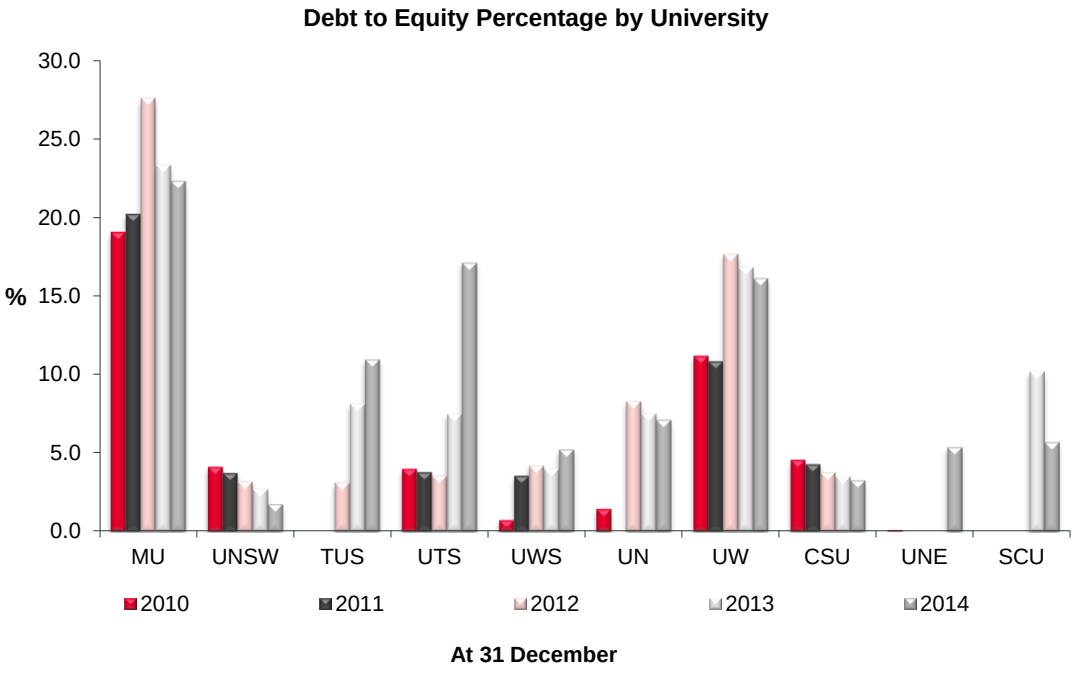
Macquarie University and the University of Technology, Sydney had the highest debt to equity percentages of 22.3 per cent (23.3 per cent) and 17.1 per cent (7.5 per cent) respectively at 31 December 2014.

While Macquarie University had the highest debt to equity percentage, its operating margin was positive and it had an interest cover ratio of 5.9.

The University of Technology, Sydney's debt to equity percentage of 17.1 reflects further borrowings of $140 million during the year to fund its campus development capital program.

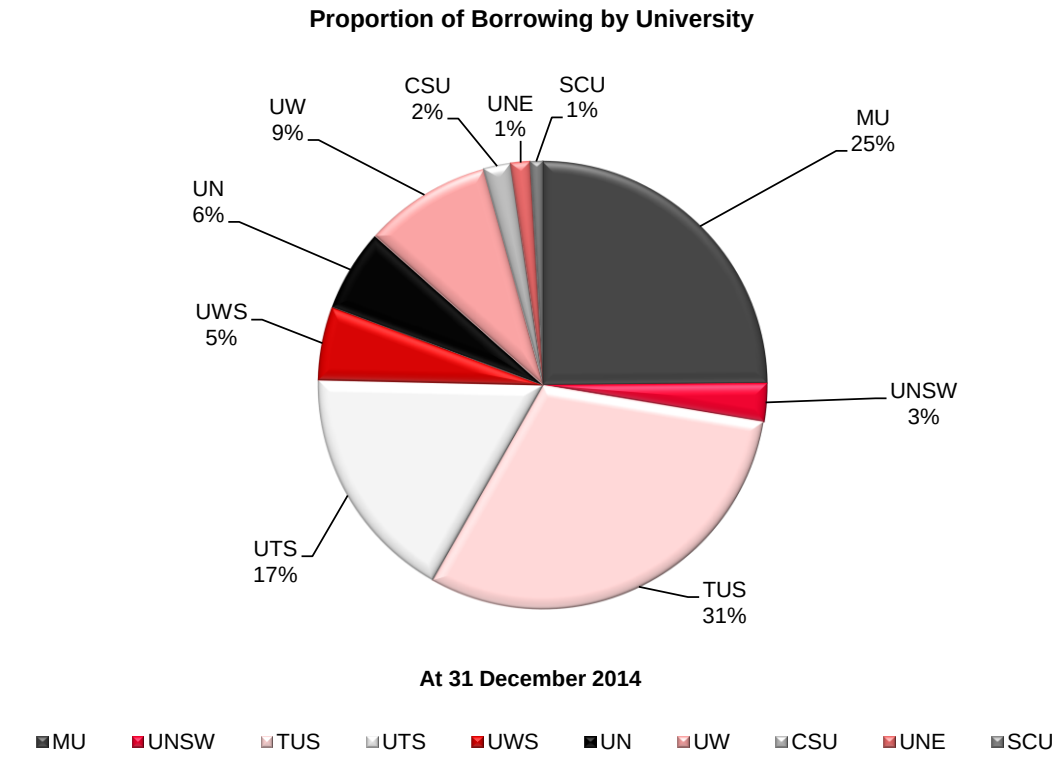
The University of Wollongong recorded a relatively high debt to equity percentage of 16.1 per cent, but recorded an adjusted operating result 10.2 times greater than its interest expense for the year. Since the university measures its property, plant and equipment at cost, the debt to equity percentage will be comparatively higher than that of universities which use fair value.

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).

Universities' borrowings totalled $1.4 billion at 31 December 2014, an increase of $283 million since 31 December 2013. Borrowings in 2014 increased at the University of Technology, Sydney by $140 million and at the University of Sydney by $128 million.



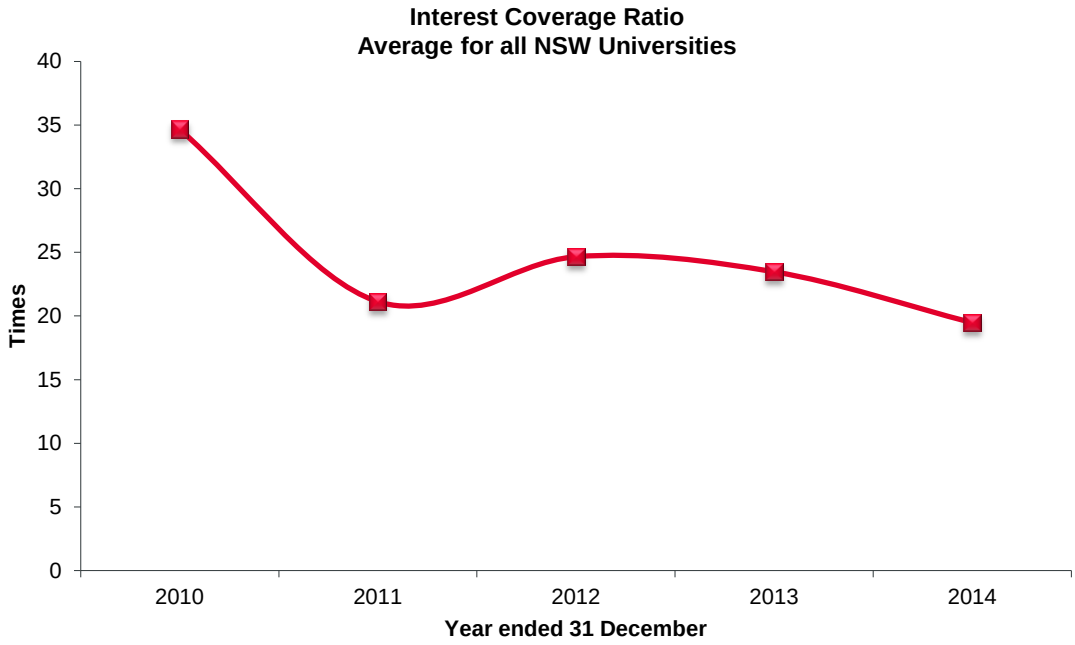
Source: University financial statements (audited).

The University of Sydney had the highest level of borrowings of $438 million ($310 million) at 31 December 2014, used mainly to fund its capital improvement program. Macquarie University had the second highest borrowings of $356 million ($357 million). The University of New England and Southern Cross University recorded the lowest level borrowings of all NSW universities.

Interest Coverage Ratio

The interest coverage ratio measures an entity's ability to meet its interest expense from its operating result before interest, depreciation and amortisation. A ratio greater than two is considered reasonable by the Australian Shareholders' Association because interest expense is covered more than twice by the entity's adjusted operating surplus. The Department's Manual does not include interest coverage ratio as a benchmark.

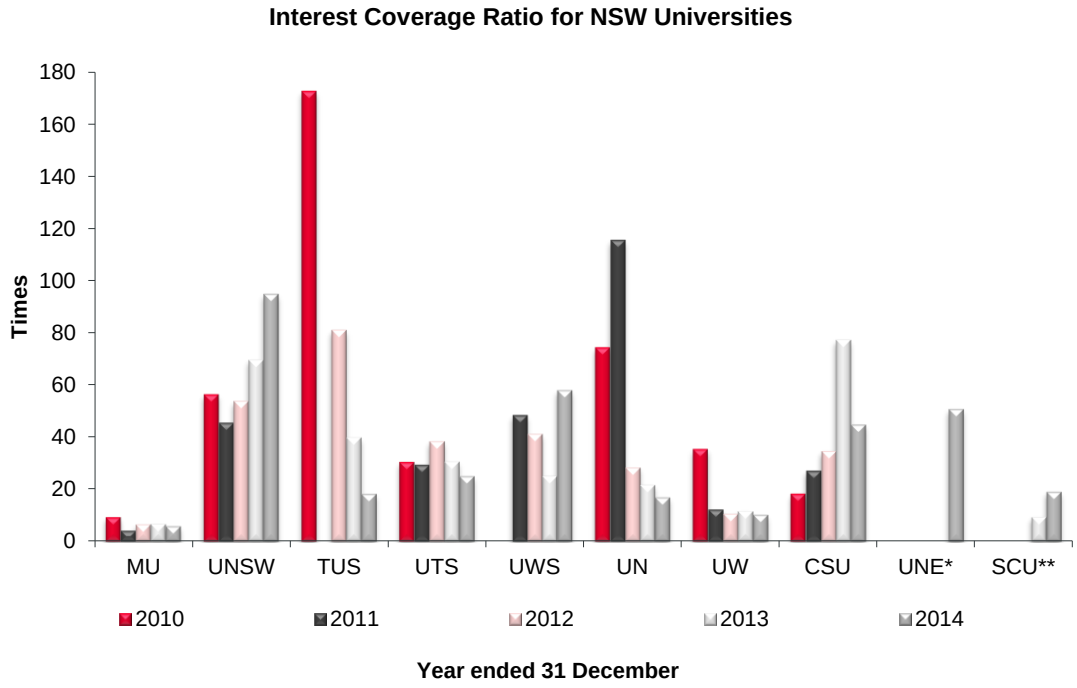
The average interest coverage ratio for all NSW universities over the last five years is shown below.



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 35 times in 2010 to 19 times in 2014. This ratio suggests the level of debt within the NSW university sector is sustainable, overall.

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



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

* UNE did not have any borrowings until 2014.

** SCU did not have any borrowings until 2013.

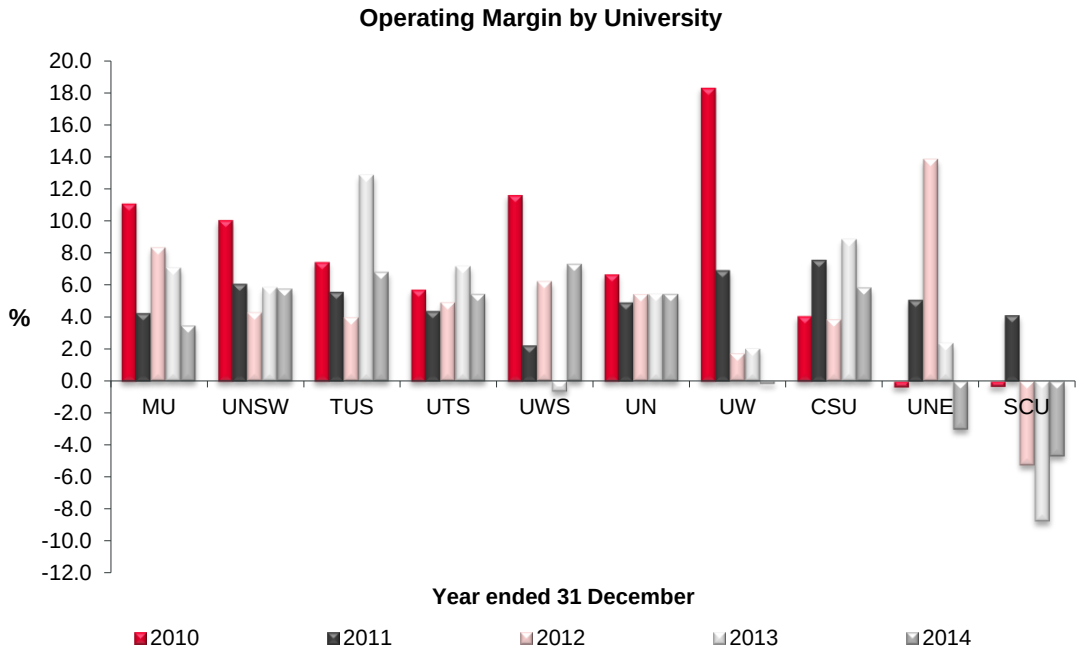
The University of New South Wales and the University of Western Sydney had the highest interest coverage ratios of 94.7 and 57.9 times respectively, reflecting their lower level of borrowings.

Macquarie University had the lowest interest coverage ratio of 5.9 times, reflecting its higher level of debt compared to other NSW universities. The debt was mostly used to fund the construction and operations of Macquarie University Hospital and the Cochlear Building.

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 decreased from 6.6 per cent in 2013 to 4.8 per cent in 2014. The 2014 operating margin for each NSW university is shown below.



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

The University of Sydney recorded the highest operating margin of 6.8 per cent (12.9 per cent) primarily due to higher course fees earned from an increased in overseas students.

Southern Cross University recorded the lowest operating margin, negative 4.7 per cent (negative 8.8 per cent in 2013). However, it recorded a surplus of $13.1 million in 2014 if capital grants of $21.1 million are included. Its capital grants in 2014 increased by 122 per cent compared to 2013. The improved financial result also reflects initiatives by the University to adapt to the increasingly competitive higher education environment. Its employee related expenses fell $5.7 million in 2014, due to decreased staff levels following voluntary and involuntary redundancies.

The University of New England recorded a negative operating margin of 3.0 per cent in 2014 (positive 2.4 per cent in 2013) mainly due to a fall in investment revenue from $5.7 million to $4.7 million and an increase in employee related expenses of 9.4 per cent from $164 million to $179 million. Employee related expenses were impacted by a $4.4 million increase in long service leave expenses in 2014 and a general pay increase of 3.0 per cent.

The University of Wollongong recorded a negative operating margin of 0.2 per cent in 2014 (positive 2.0 per cent in 2013) mainly due to the effect of the Australian Government efficiency dividend impact on revenue.

Rate of Increase in Operating Expenditure Compared to Operating Revenue

The ‘earnings gap’ compares the growth in revenue, 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 expenditure of NSW universities increased by 0.9 per cent more than combined revenue in 2014. Total operating revenue increased by 4.5 per cent or $358 million, mainly due to student fees increasing by 7.9 per cent or $253 million, and other income by 3.7 per cent or $60.0 million. Operating expenses increased by 5.4 per cent or $400 million, primarily due to employee benefit expenses increasing by an average of 5.1 per cent and other expenses, including depreciation and amortisation, increasing by 5.8 per cent.

University	Operating revenues*			Operating expenses			Earnings gap
Year ended 3 December	2014 $m	2013 $m	Revenue growth rate	2014 $m	2013 $m	Expenses growth rate	Positive/ (negative)
Sydney Metropolitan							
Macquarie	898	869	3.3	864	807	7.0	(3.7)
New South Wales	1,734	1,610	7.7	1,617	1,515	6.7	1.0
Sydney	1,903	1,877	1.4	1,741	1,636	6.4	(5.1)
Technology, Sydney	767	703	9.0	720	653	10.2	(1.2)
Western Sydney	718	671	7.0	663	675	(1.7)	8.7
Major Regional							
Newcastle	692	672	3.0	650	635	2.4	0.6
Wollongong	598	569	5.1	590	556	6.1	(0.9)
Country							
Charles Sturt	493	477	3.4	460	435	5.8	(2.5)
New England	300	304	(1.4)	304	297	2.5	(3.8)
Southern Cross	191	183	4.3	199	200	(0.5)	4.7
Total	**8,293**	**7,935**	**4.5**	**7,809**	**7,409**	**5.4**	**(0.9)**

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

* Operating revenue is total revenue less capital grants.

The University of Western Sydney and Southern Cross University had the highest positive gap between operating revenues and expenses, of 8.7 per cent and 4.7 per cent respectively.

The University of Western Sydney's operating revenue growth of 7.0 per cent is largely explained by Australian Government grants, which increased by $21.1 million, student fees increasing by $15.4 million and Higher Education Loan Program income increasing by $10.4 million. At the same time, expenses fell 1.7 per cent, mainly because of a one-off $39.0 million lease asset write off in 2013.

Southern Cross University's revenue increased by 4.3 per cent due to Australian Government grants increasing by $11.0 million and students fee income by $3.3 million. Over the same period expenses fell 0.5 per cent.

The University of Technology, Sydney had the highest expense growth rate of 10.2 per cent, with employee benefit expenses increasing 9.8 per cent and other expenses increasing 11.1 per cent to support increased activities. It had the highest operating revenue growth at 9.0 per cent due to increased student numbers in 2014.

The rate of increase in operating expenses exceeded the rate of increase in operating revenues by 5.1 per cent at the University of Sydney. The negative earnings gap is attributable to low revenue growth of 1.4 per cent, partly due to a $61.8 million reduction in investment income.

The University of New England's employee related expenses increased by 9.4 per cent in 2014, offset by a decrease in other expenses of 6.0 per cent. This was largely due to a one-off computer licensing expense of $7.4 million in 2013. Over the same period, the university's operating revenue fell 1.4 per cent, largely due to a $4.8 million decline in non-government grants.

Recommendation

Universities must have strategies to monitor and address negative earnings gaps, where expenses are growing faster than revenues, as they are not sustainable in the medium to long term.

Funding Superannuation Liabilities

Government Funding of Superannuation Liabilities

In December 2014, the Australian and NSW Governments signed a Memorandum of Understanding (MOU) to address future funding of defined benefit superannuation obligations of NSW universities.

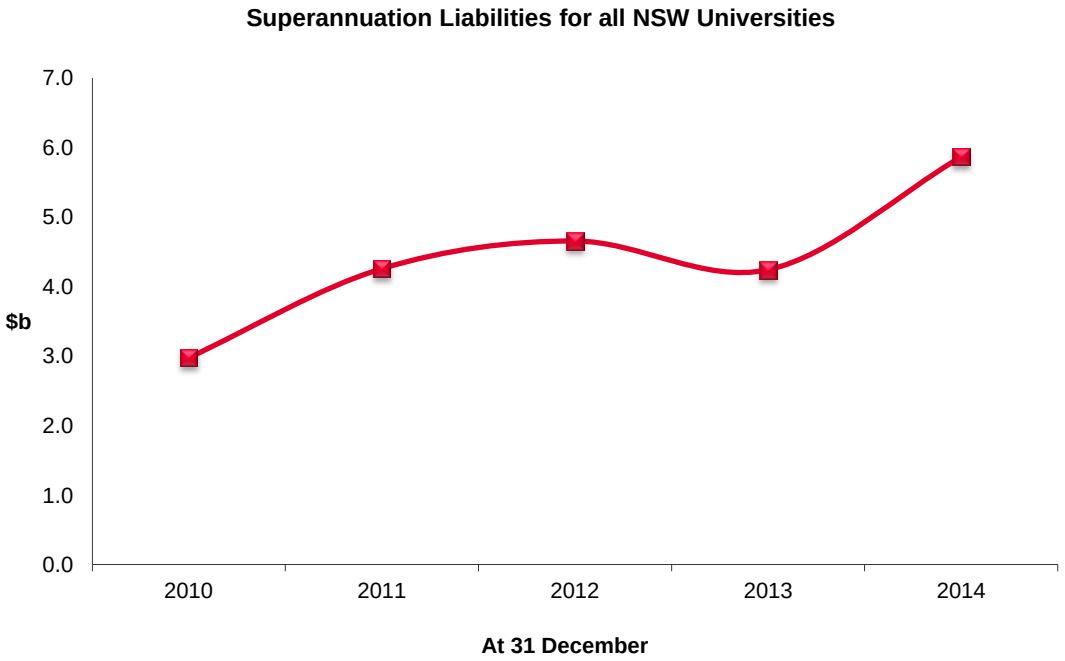
The MOU established a cost sharing arrangement for the following defined benefit superannuation plans: State Superannuation Scheme (SSS), State Authorities Superannuation Scheme (SASS) and the State Authorities Non-Contributory Superannuation Scheme (SANCS). Costs will be shared in the proportion of 78:22 between the Australian and NSW Governments respectively. To facilitate payments in accordance with this arrangement, Amendment No.3 to the Other Grants Guidelines (Education) 2012 under the *Higher Education Support Act 2003* was registered on the Federal Register of Legislative Instruments on 4 December 2014 and is now in effect.

To manage the growing superannuation liability, the MOU includes an 'Excess Salaries' increase clause effective from 1 July 2014. The Australian and NSW Governments will not fund costs associated with salary increases above an average growth rate in the final years of employment. This is designed to ensure universities consider the funding implications of pre-retirement contracts on defined benefits superannuation liabilities in negotiating those contracts.

Recommendation

Universities need to develop and implement strategies to effectively manage defined benefit superannuation liabilities arising from excess pre-retirement salary increases.

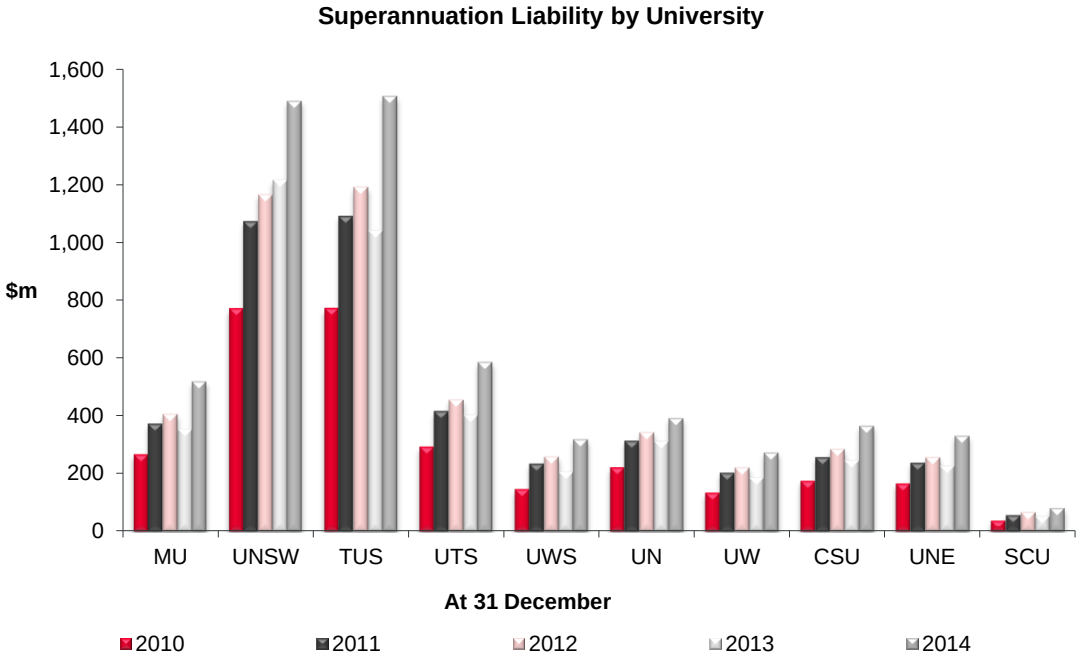
The combined superannuation liability of all ten NSW universities at 31 December 2014 is shown below.



Source: University financial statements (audited).

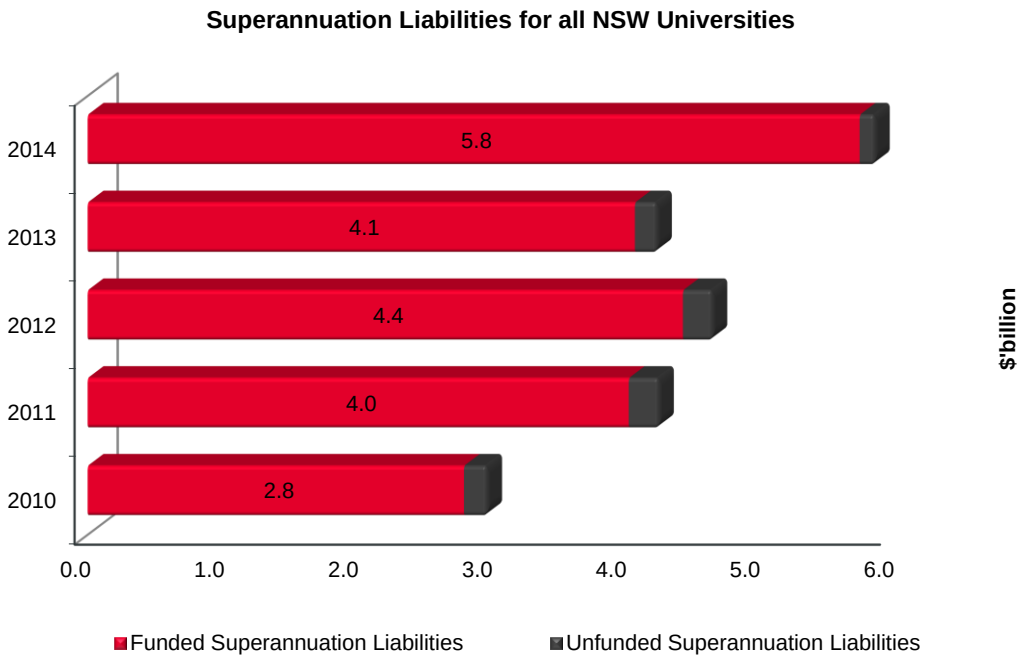
Liabilities for defined benefit superannuation schemes across all ten NSW universities increased from $4.2 billion at 31 December 2013 to $5.9 billion at 31 December 2014, an increase of $1.6 billion ($400 million decrease in 2013). The increase was mainly due to superannuation contribution taxes being included in the calculation of the defined benefits liability as required by accounting standards. Since 2010, the liability has more than doubled in size. This increase is mainly due to the discount rate used in the actuarial valuation falling from 5.6 per cent in 2010 to 2.9 per cent in 2014.

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



Source: University financial statements (audited).

The receivable from the Australian and NSW Governments to fund the liability increased by $1.7 billion, from $4.1 billion in 2013 to $5.8 billion in 2014 ($350 million decrease in 2013).

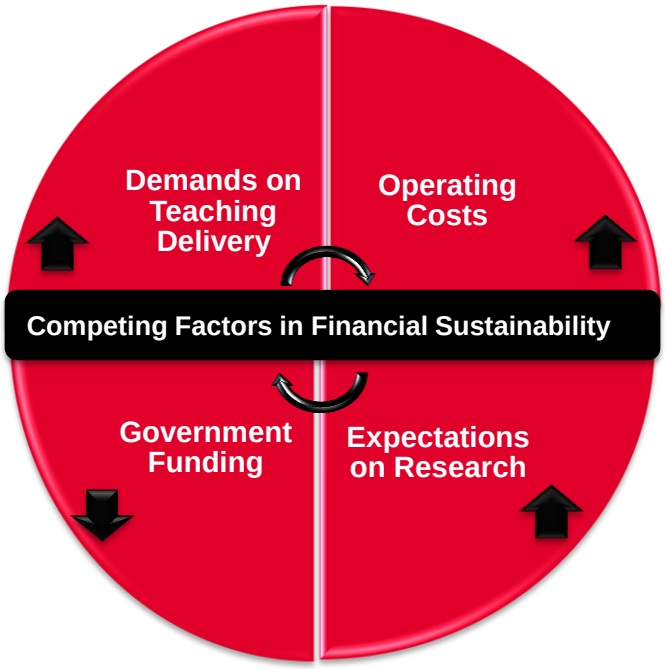


Source: University financial statements (audited).

At 31 December 2014, the total defined benefits superannuation liability to be funded by NSW universities, and not the Australian or NSW Governments, was $114 million ($165 million). Each university needs to carefully manage future cash flows to meet these obligations as they fall due. At 31 December 2014, 95.0 per cent or $108 million of the liability was attributable to the University of New South Wales. $104 million of this liability relates to the Australian Defence Force Academy at UNSW Canberra.

Emerging sustainability risks

The financial sustainability of universities is crucial to the future development and growth of NSW's higher education sector. The universities' operating environment is becoming more challenging due to pressures on research funding, space utilisation, efficiency, capital requirements, international competition for students and uncertainties in government higher education policy.

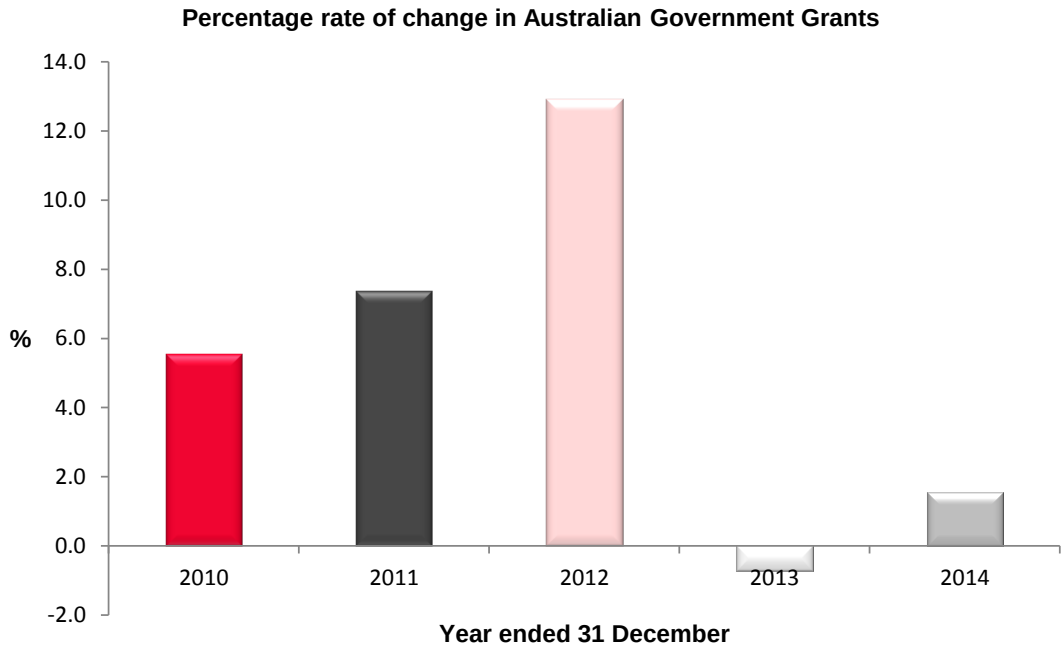


The costs of higher education and research continue to increase rapidly due to growing demands on teaching, higher expectations on research output, rising employee costs and increased marketing spending due to stronger international competition. The level of Government funding may be impacted by the proposed Australian Government fee deregulation policy.

Costs are the key driver of course fees in a deregulated environment. Universities will need to adopt long-term financial and asset management planning strategies to drive down costs. Universities with strategic initiatives to be more efficient and competitive will be in a stronger position to achieve financial sustainability and respond to a changing environment.

Australian Government Grants

The percentage rate of change in Australian government grants is shown in the following graph:



Source: University financial statements (audited).

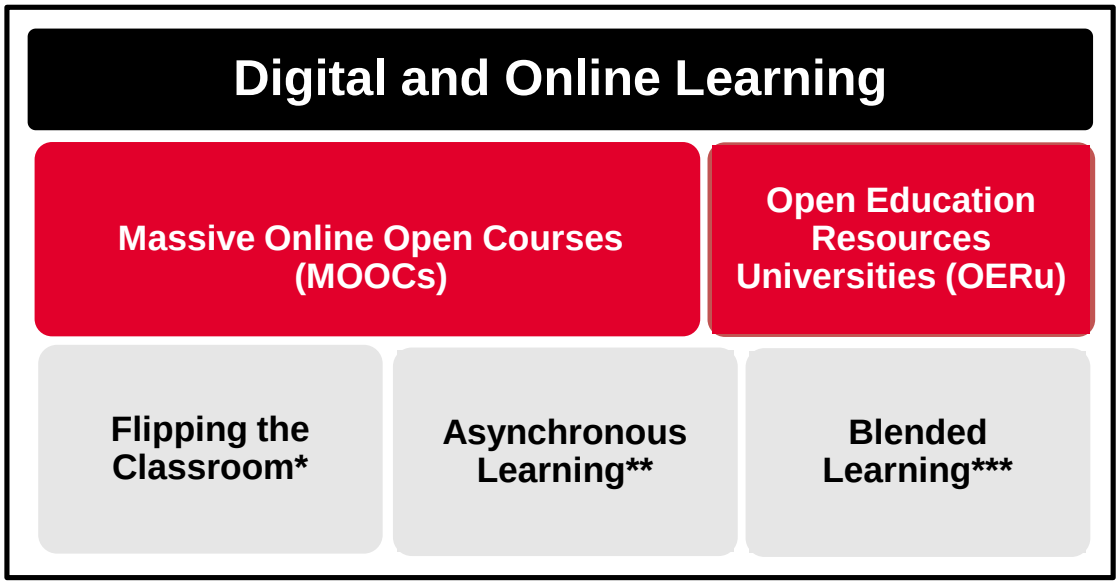
NSW universities recorded a total of $3.2 billion in Australian Government grants in 2014, a marginal increase of $49.3 million (1.5 per cent) compared to 2013. There was an upward trend in government grants to 2012 and a decrease in 2013.

Higher Education Reforms

The Australian Government's higher education package, which is yet to be approved by Parliament, including the deregulation of university fees and a 20.0 per cent cut to course funding, was initially estimated to generate $4.0 billion in savings over four years. The proposed cut to course funding of $1.9 billion over four years was removed from the Higher Education Reform Bill (the Bill). The Bill was defeated in the Senate on 17 March 2015 for the second time.

Digital and Online Learning

The increasingly deregulated higher education sector and advances in technology continue to alter modes of student participation, the structure of course delivery and relations between students and teachers. The introduction of Massive Open Online Courses (MOOCs) in Australian Higher Education in 2012 challenged the debate on the value of campus-based traditional methods of teaching and learning in universities.



* Flipping the Classroom – students gain first exposure to new materials outside of class, usually through reading or lecture videos and use class time to assimilate the knowledge through problem-solving, discussions and debates.

** Asynchronous Learning – forms of education, instruction and learning that do not occur in the same place or at the same time.

*** Blended Learning – formal education program where learning is partly online and partly supervised classroom learning for an integrated experience.

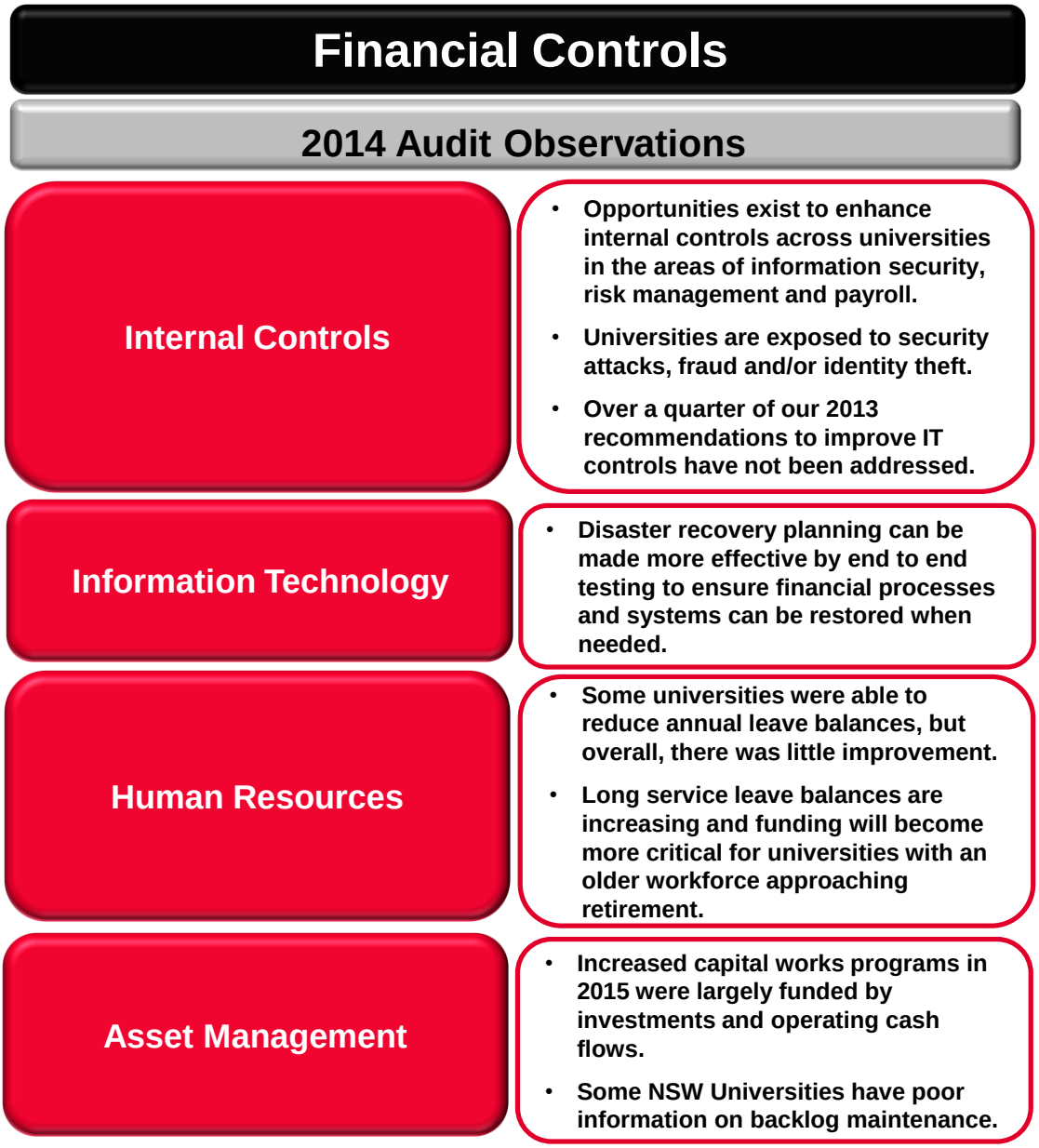
Challenges and opportunities are emerging from:

- the increased expectation and trend of digital engagement in modern education
- the impact of government funding on the quality of teaching and learning
- increased competition in the higher education sector with technology playing a bigger role in attracting future students.

Analysis of the marginal differences between offering a certain course or program on campus versus online, the establishment of technology infrastructure, staff training, and the consideration of student experiences should be part of the universities' strategic planning process.

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.



Internal Controls

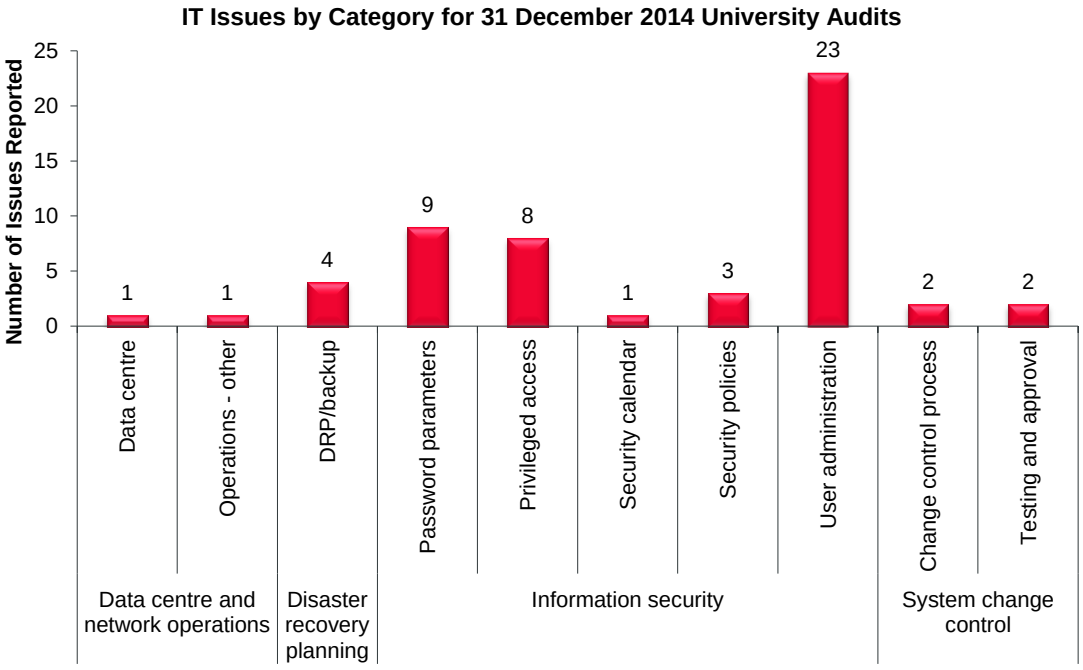
Weaknesses in internal controls increase the risk of fraud and error. The 2014 financial statement audits concluded that, generally, NSW universities' internal controls are appropriately designed and operating effectively to produce reliable and timely financial reports. The audits did, however, identify areas where internal controls could be improved, and these have been reported to university management. Common observations included:

- risk management maturity is at a basic level for some universities
- issues around valuing investments in Education Australia Limited
- compliance frameworks not fully defined and operational across universities
- purchase orders raised after receipt of invoices and instances of unexplained gaps in the sequential numbering of purchase orders
- failure to assess investments for impairment and non-compliance with accounting standard AASB 139 Financial Instruments: Recognition and Measurement
- the absence of a gifts and benefits policy and/or register
- issues around segregation of duties with the processing of online timesheets
- weak controls over payroll processing and payroll exception reporting
- the *Government Information (Public Access) Act 2009* register of government contracts on the university's website not being regularly updated.

Information Technology

The 2014, information system audits performed on NSW universities and some associated entities, focused on information technology (IT) processes and controls supporting the integrity of the financial data used in preparing the financial statements.

These audits identified 54 IT specific issues which were reported to management. Twenty eight per cent of these issues had been reported in the prior year and most related to information security. Failing to address information security issues promptly exposes universities to security attacks, data integrity issues, fraud and/or identity theft.



Information security issues made up 81 per cent of IT issues identified during the 2014 university audits and many were repeat issues. The main area of concern is user administration, which accounted for 43 per cent of the information security issues. Most of these related to:

- the absence of, or weak, processes surrounding user access reviews
- untimely termination of user access to systems
- the configuration of password parameters for authenticating to financial systems
- poor management of privileged user accounts.

Disaster Recovery Planning

In 2014, NSW universities and some associated entities completed a self-assessment of their disaster recovery planning and testing capabilities. Testing of disaster recovery plans continues to be an area of concern. While all NSW universities and associated entities that completed the self-assessment reported they had a full or partial disaster recovery plan in place for key financial systems, most had not completed end-to-end testing of their disaster recovery capabilities. Without adequate testing, universities and associated entities have little comfort over the effectiveness of their disaster recovery plans to restore financial processes and systems in the event of a disaster.

Human Resources

Excess Annual Leave

Managing excess annual leave is a continual challenge for NSW universities. Our past reports to Parliament have recommended universities investigate the reasons for excess annual leave balances and address the underlying causes.

At 31 December 2014, 1,616 (1,643 in 2013) university employees or 5.1 per cent (5.3 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. Employee fraud is also 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 over the past three years.

University Year ended 31 December	Academic staff				General staff			
	Three year trend	2014	2013	2012	Three year trend	2014	2013	2012
Sydney Metropolitan								
Macquarie	↑	101	76	65	↑	57	46	48
New South Wales	↓	56	73	151	↓	13	16	39
Sydney	↓	329	413	392	↓	171	237	220
Technology, Sydney	~	98	106	92	↓	38	44	50
Western Sydney	↓	39	48	61	↓	21	22	33
Sydney Metro Total	↓	**623**	**716**	**761**	↓	**300**	**365**	**390**
Major Regional								
Newcastle	↑	36	18	15	↑	67	58	50
Wollongong	↑	186	108	11	↑	97	63	67
Major Regional Total	↑	**222**	**126**	**26**	↑	**164**	**121**	**117**
Country								
Charles Sturt	↓	47	63	48	↑	90	83	80
New England	↑	80	73	78	~	65	65	87
Southern Cross	↓	12	15	21	↓	13	16	16
Country Total	↓	**139**	**151**	**147**	~	**168**	**164**	**183**
Total	~	**984**	**993**	**934**	↓	**632**	**650**	**690**

Source: Information provided by universities (unaudited).

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

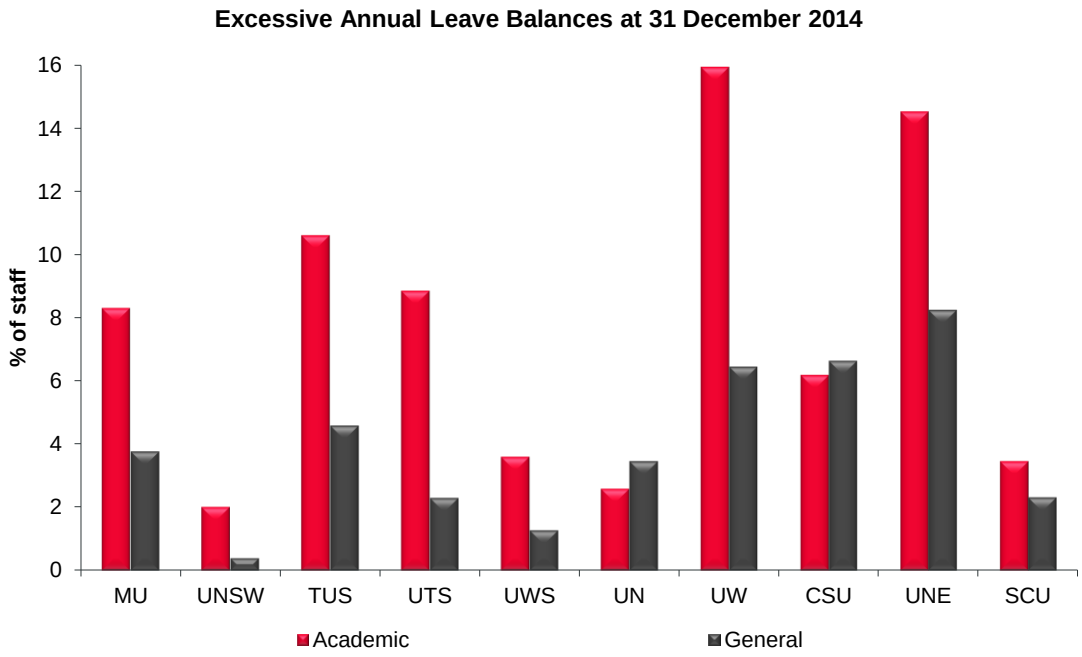
Key: ↑ Trend upwards, ↓ Trend downwards, ~ No trend.

Overall, academic staff with excess annual leave balances decreased to 7.3 per cent of total academics at 31 December 2014 (7.5 per cent at 31 December 2013). For general staff the percentage decreased to 3.5 per cent (3.6 per cent).

The table shows some universities are reducing excess annual leave balances. The University of New South Wales has the lowest proportion of staff with excess annual leave balances.

Academic staff with excess annual leave at the University of Wollongong increased by 72.2 per cent in 2014, which the university attributes 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 2014 at each university.



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

The University of Newcastle and Charles Sturt University are the only universities 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 $262 million (56.4 per cent) since 2010. This increase is largely due to the impact of lower discount rates used to calculate the present value of the liability.

NSW 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 NSW university over the past five years.

University Year ended 31 December	Five year trend	2014 $m	2013 $m	2012 $m	2011 $m	2010 $m
Sydney Metropolitan						
Macquarie	↑	47	43	49	42	35
New South Wales	↑	178	165	161	144	106
Sydney	↑	158	139	121	115	99
Technology, Sydney	↑	79	65	70	64	45
Western Sydney	↑	59	49	51	46	41
Sydney Metro Total	↑	**521**	**461**	**452**	**411**	**326**
Major Regional						
Newcastle	↑	74	70	66	53	43
Wollongong	↑	61	58	52	45	40
Major Regional Total	↑	**135**	**128**	**118**	**98**	**83**
Country						
Charles Sturt	↑	30	28	28	27	23
New England	↑	24	20	22	20	21
Southern Cross	~	16	16	17	14	13
Country Total	↑	**70**	**64**	**67**	**61**	**57**
Total	↑	**726**	**653**	**637**	**570**	**466**

Source: Universities financial statements (audited).

Key: ↑Trend upwards, ~ No trend.

Four NSW universities have had continuous growth in the long service leave liability since 2010. In 2014, the University of Western Sydney had the greatest annual percentage increase of 21.9 per cent (15.3 per cent for the University of Sydney in 2013).

Asset Management

Capital Programs and Asset Management

Universities fund capital works programs through investments, borrowings, grants and in some cases operating cash flows.

Capital Works

Capital expenditure across all ten universities totalled $1.3 billion in 2014 ($1.4 billion in 2013) and $1.4 billion is budgeted for 2015. The University of Sydney incurred the largest spend in 2014 of $355 million and has the largest budget for 2015 of $413 million to fund its capital improvement program.

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 and infrastructure.

The table below shows the capital expenditure of each university over the last three years and the budgets for 2015 and 2016.

University Year ended 31 December	Capital expenditure budget			Capital expenditure actual		
	2016 $m	2015 $m	Three year trend	2014 $m	2013 $m	2012 $m
Sydney Metropolitan						
Macquarie	79	72	↓	69	53	198
New South Wales	281	227	↑	250	223	242
Sydney	285	413	↑	355	398	237
Technology, Sydney	97	110	~	240	294	165
Western Sydney	81	133	~	112	106	115
Sydney Metro Total	**823**	**954**	~	**1,025**	**1,074**	**957**
Major Regional						
Newcastle	65	133	↑	81	98	36
Wollongong	66	132	~	71	75	65
Major Regional Total	**131**	**265**	↓	**152**	**173**	**101**
Country						
Charles Sturt	30	66	↓	36	68	50
New England	50	60	↑	34	28	24
Southern Cross	27	27	~	26	17	38
Country Total	**107**	**153**	↓	**96**	**113**	**112**
Total	**1,062**	**1,372**	~	**1,273**	**1,366**	**1,170**

Source: Data provided by respective universities. Actual figures (audited) budget figures (unaudited). Trend is based on 2012 – 2014 data.

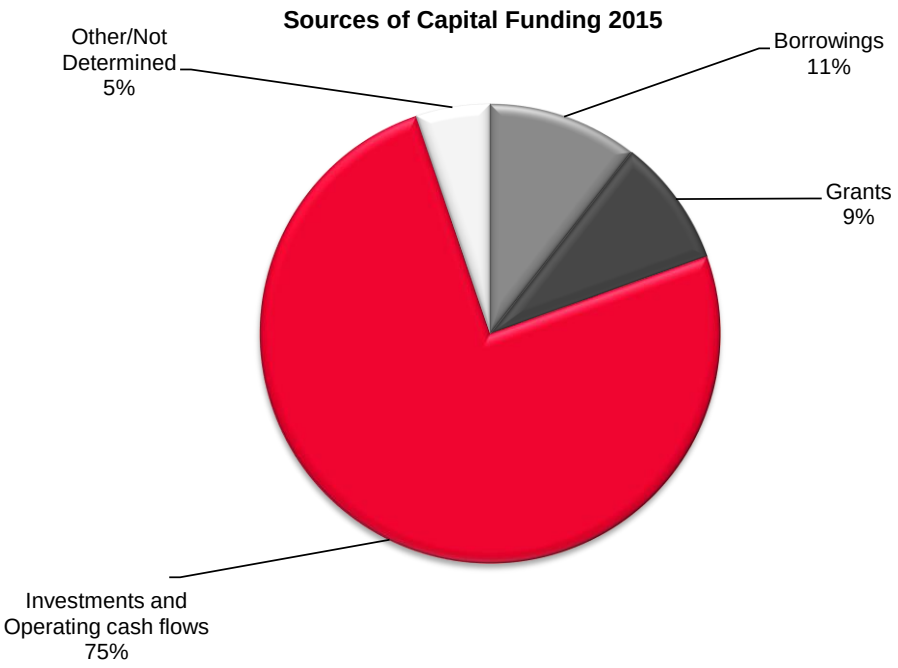
Key: ↑ Trend upwards, ↓ Trend downwards, ~ No trend.

Major capital projects at the University of New South Wales in 2014 included the $103 million Kensington Colleges redevelopment and expansion and the $33.1 million Wallace Wurth refurbishment project. Capital projects in 2015 will include $147 million for the faculty of Science Accommodation renewal project.

In 2014, 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 2015 include the $250 million Abercrombie Precinct Redevelopment and the $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, completed its Broadway Building, the ‘Dr Chau Chak Wing’ and Thomas Street Building in 2014.

The sources of funding for the proposed 2015 capital works program for NSW universities are:



Source: Data provided by universities (unaudited).

Borrowings are expected to fund 11 per cent of capital projects in 2015, compared to 32 per cent in 2014. The decrease in borrowings is expected to be offset by funding from additional investment returns and operating cash flows, which are budgeted to increase 49 per cent in 2014 to 75 per cent in 2015.

Asset Maintenance

NSW universities have indicated their backlog maintenance was $634 million at 31 December 2014 as shown below:

Year ended 31 December	Three year trend	2014	2013	2012
Backlog maintenance ($m)	na	634*	941	669**
Maintenance expenditure ($m)	↑	198	206	185
Property, Plant and Equipment (PPE) ($m)	↑	12,100	11,300	11,500
Maintenance expenditure/PPE values (%)	~	2	2	2
Depreciation expense ($m)	↑	561	505	486

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

* Total for nine universities. The University of Newcastle could not provide backlog maintenance data in 2014.

** Total for nine universities. The University of New England could not provide backlog maintenance data in 2012.

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

na not applicable.

The fall in backlog maintenance in 2014, without a corresponding increase in maintenance expenditure, indicates the sources some universities use to estimate backlog maintenance may be unreliable. An effective system to determine backlog maintenance is important for decision making on total asset management initiatives.

Backlog maintenance for some universities could be higher depending on the timing of the last condition assessment and how robust their systems are in capturing information on backlog maintenance. Some universities perform asset condition audits over a five year cycle, while others perform these continuously.

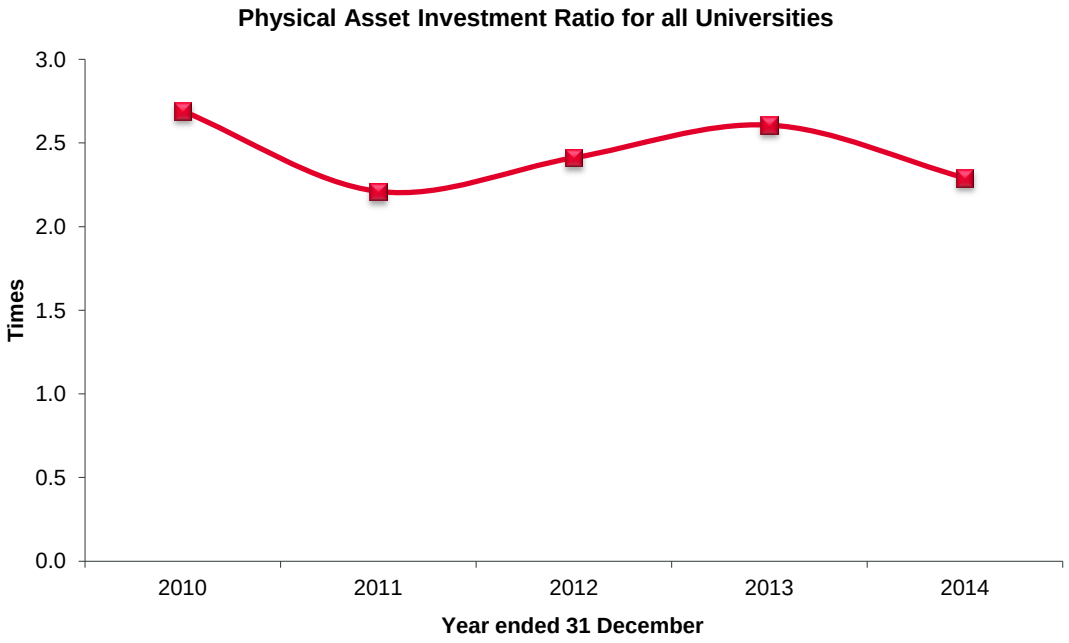
Asset maintenance is essential to ensure optimal management of physical assets to maximise value. The Department's Manual recommends good practice is to reduce maintenance expenditure to less than 3.0 per cent of the Asset Replacement Value.

Recommendation

Universities' total asset management systems should capture backlog maintenance data.

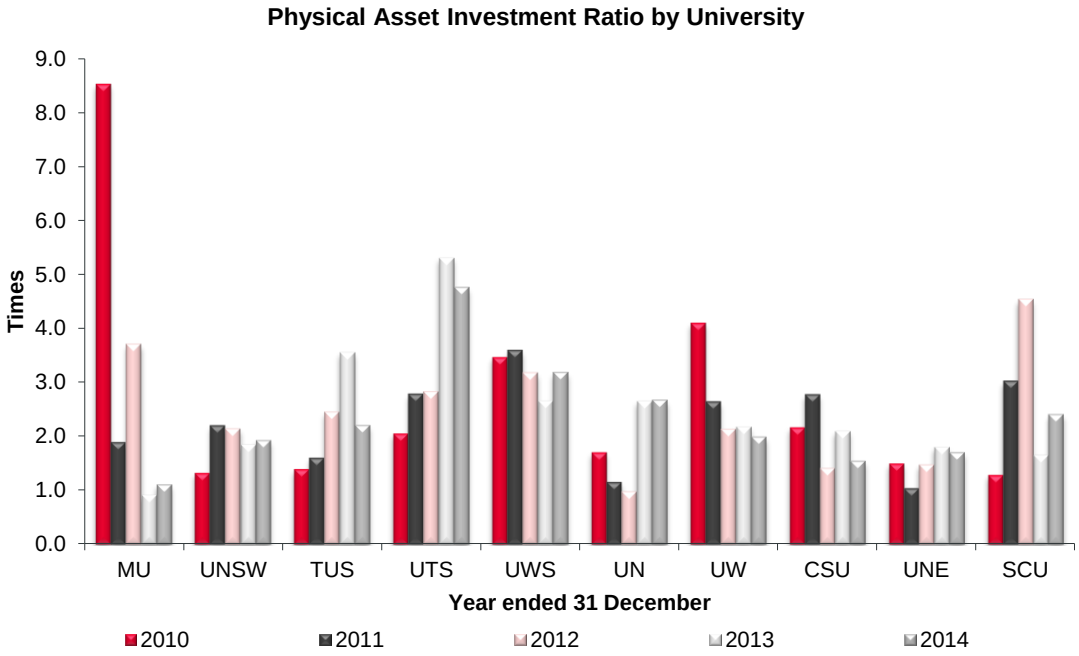
Physical Asset Investment Ratio

Capital expenditure across all ten NSW universities in 2014 was 2.3 times greater than depreciation charges, a decrease from 2.6 in 2013. This physical asset investment ratio calculates the extent to which an organisation renews or grows its physical assets. This is especially important to 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 4.8 at 31 December 2014 and Macquarie University had the lowest at 1.1. The University of Sydney's ratio fell to 2.2 from 3.6 the year before.

Status of 2013 Audit Recommendations

Last year's report to Parliament on universities contained six recommendations. In 2014, all have either been addressed or mostly addressed.

Risk management is at different stages across NSW universities. The results of the assessment of the risk management maturity of NSW universities and related recommendations are detailed in the Governance section of this report.

The Department's Manual is currently being updated. It was last updated in 2001.

All NSW universities advise that their procurement policies and processes are designed to minimise the risk of corrupt conduct. Similarly, they advise they rigorously assess complex business arrangements to ensure risks, rewards and accounting implications are understood and addressed.

NSW universities also advise they have confirmed the legal positions of controlled entities under the *Charitable Fundraising Act 1991* and the Charitable Fundraising Regulation 2008.

Governance

Governance refers to the high-level framework for rules, behaviours, systems and processes established to ensure entities meet their intended purpose, expectations of probity, accountability and transparency, and conform with legislative and other requirements.

Good governance promotes public confidence in organisations resulting in improved service delivery and the efficient use of resources.

Risk Management

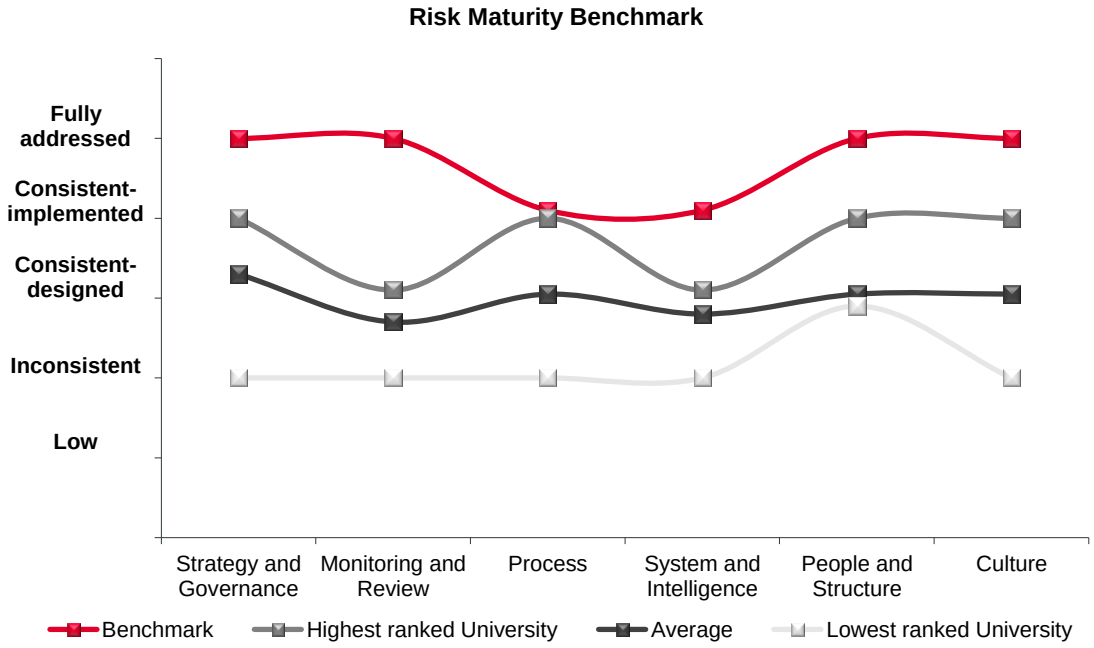
The Audit Office published its updated Governance Lighthouse in 'Volume One 2015 Areas of focus from 2014'. One of the key components of good governance is risk management. When performing appropriate oversight, management and governing councils must ensure the university's risk management processes and structures are appropriately mature to deal with the impact of unforeseen events and maximise the realisation of opportunities.

A mature risk management process should:

- foster an embedded risk aware culture
- ensure alignment of strategic and business decision making processes with risk management activities
- improve resilience in dealing with adversity and increase agility in pursuing new opportunities.

The 2014 financial audits assessed the risk management maturity level of NSW universities using the Audit Office Risk Management Maturity Toolkit (the Toolkit). Further details of the Toolkit are included in Appendix Three.

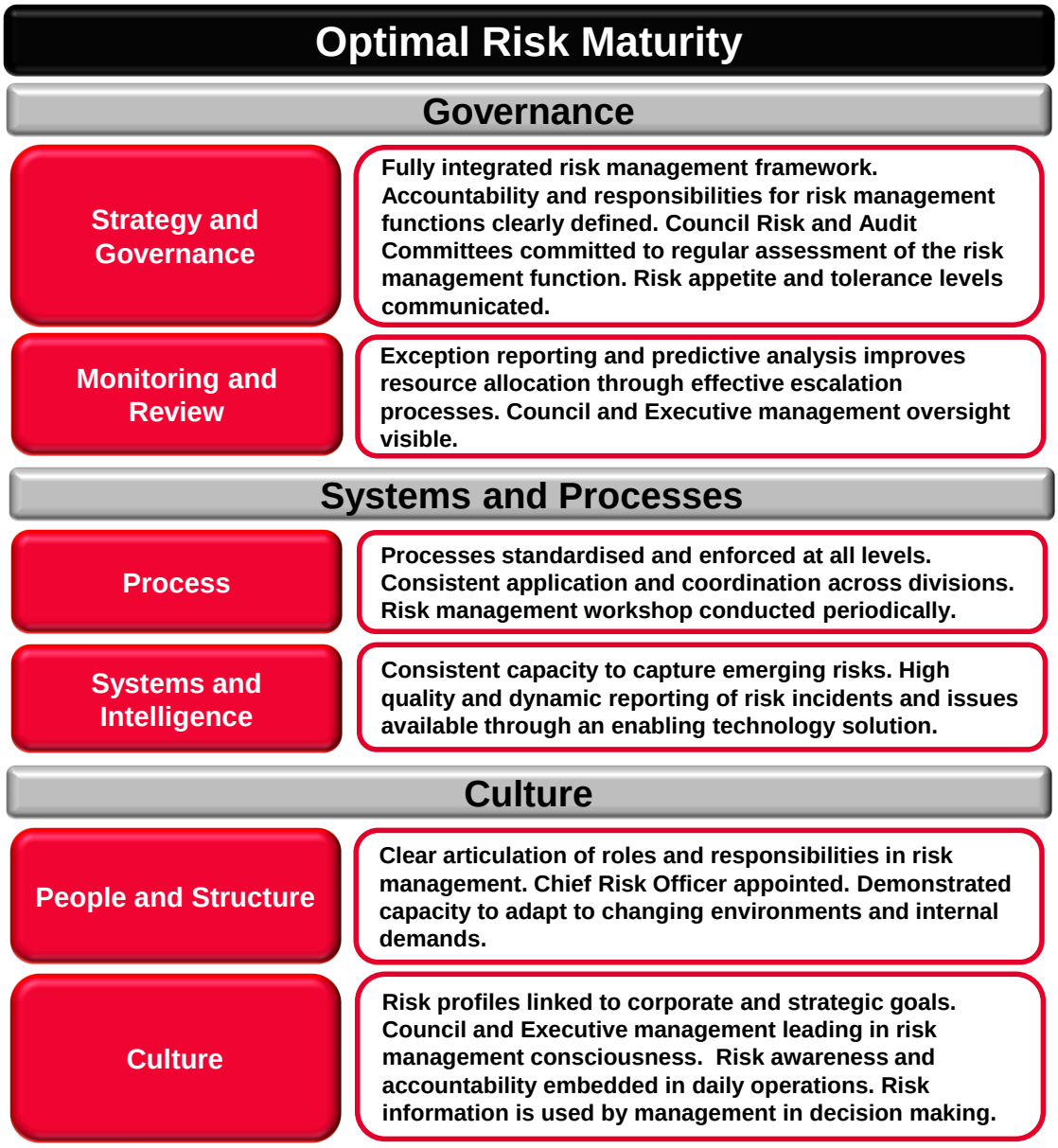
A comparative analysis of the universities' risk management maturity levels at 31 December 2014 is shown below. The Audit Office has constructed and included a benchmark it considers optimal in the university environment.



The graph shows universities' enterprise risk management (ERM) maturity scale from low to when ERM is fully addressed. Most universities are in the design stage of applying the ERM framework.

The Toolkit is based on the principles and guidelines of the International Standards on Risk Management AS/NZS ISO 31000: 2009 Risk Management, the NSW Treasury Policy Guideline TPP 12-03: Risk Management Toolkit for the NSW Public Sector', and the Committee of Sponsoring Organisations of the Treadway Commission's (COSO) Enterprise Risk Management Integrated Framework.

An optimal risk maturity level for NSW universities is detailed below.



In the university with the most mature risk management framework, risk awareness is evident at each business level. Executive management uses a top-down approach to communicate strategic risks and risk owners at operational levels conduct risk management workshops to identify key risks and escalate issues to management.

The university with the least mature framework for risk management is yet to embed a risk aware culture, where risk management is integral to the daily operations of the university. Current risk management processes are not consistently applied across faculties and business units.

Recommendations based on the risk maturity assessment of NSW universities are detailed below.

Governance

Recommendation

Universities should develop and communicate a risk appetite statement and set risk tolerance limits to ensure they operate within their risk appetite.

Universities encounter risks every day in pursuing their objectives. Clear guidelines on the level of risk considered acceptable and the degree to which risks can be tolerated is a key step to towards optimising risk management maturity.

Risk appetite is the amount of risk a university is willing to accept in pursuit of its objectives and value. As such it should broadly understand the risk it is willing to accept in doing so.

Therefore, a university should determine its risk appetite when it decides which objectives to pursue and communicated this in broad terms throughout the university.

To operationalise the risk appetite within each faculty, school and business unit, a university will need to determine the risk tolerance applicable to each specific objective. Operating within risk tolerances helps ensure the university remains within its risk appetite.

Most universities lacked regular risk reporting by faculties and business units and risks in local risk registers were not promptly escalated.

All universities have taken steps to improve their enterprise risk management framework.

Systems and Processes

Recommendation

Universities should improve processes for tracking, monitoring and reporting emerging risks.

In most universities, risk management processes were not fully standardised and enforced. Out-dated risk prioritisation and inconsistent application of risk management processes were evident. Some universities have purchased risk management software solutions, but there is no evidence they have been implemented and are in use.

Most universities use basic spreadsheets for risk registers. Consequently, risk reporting is reactive and does not support decision making processes.

Implementing a technology based solution may help universities ensure frequent and consistent risk reporting, proactive monitoring of changes in Key Risk Indicators and improve business resilience to rapid changes.

Dynamic dashboard reporting helps provide executive management with an overarching view of the internal and external risks and enhances agility in pursuing new opportunities.

Culture

Recommendation

Universities should design and implement consistent risk management initiatives across faculties and business units. The initiatives should link key performance measures to key risk indicators.

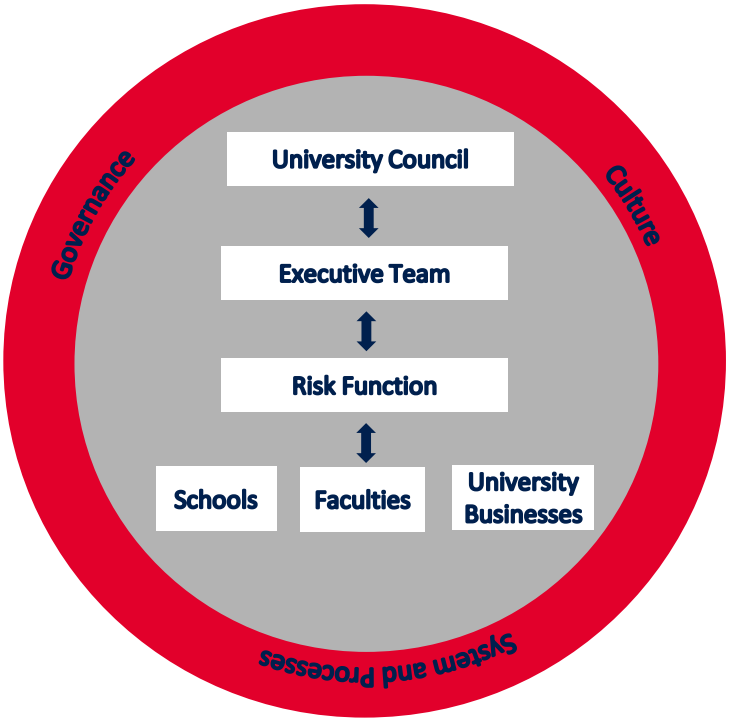
Enterprise risk management is not isolated from business strategy, planning or day to day decision making, nor is it about compliance. Enterprise risk management should be part of the university's culture and the way decisions are made on a day to day basis.

Most universities have started to embed risk awareness cultures, but this is inconsistent across business units and a lack of depth throughout the faculties.

Most universities have a low risk appetite for risk exposures that may significantly impact their university's reputation.

Integrated and mature risk management should be based on a top-down and bottom-up approach, as shown in the diagram below:

Risk Management in a University Context



The international standard on risk management requires the commitment and mandate of the governing council as the first step to ensuring risk management is given the priority required for an organisation to achieve a culture-centric risk management process.

Ethics

Ethics is another key component of good governance referred to in the Audit Office Governance Lighthouse and is based on 'Principle 3: Acting Ethically and Responsibly', issued under the governance principles of the Australian Securities Exchange (ASX).

A university's reputation is one of its most valuable assets for attracting quality teachers, students and research funding. Acting ethically should not only focus on compliance with laws and regulations. It should also involve acting with honesty, integrity and in a manner consistent with the reasonable expectations of the broader community.

Effective ethical frameworks detail the measures in place to encourage the reporting of unlawful or unethical behaviour, processes for preventing unethical payments or inducements, and encourage a culture of ethical behaviour.

An ethical framework that supports the university community to act ethically and in public interest is highly desirable. Most universities frequently review and monitor research ethics, the results of which are recorded in their risk registers and visible on their websites. Most universities' codes of conduct include the need to deal with business partners who demonstrate similar ethical and responsible business practises. However, business ethics statements are not visible on universities websites.

A recent report by the Independent Commission Against Corruption (ICAC) indicates the ethical frameworks currently applied by universities require improvement.

In its April 2015 report: '*Learning the hard way: managing corruption risks associated with international students at universities in New South Wales'*, the ICAC identified several corruption risks created by universities' international student businesses.

The ICAC reported that academics can feel pressured to forsake their role in enforcing compliance with academic standards for the financial good of the faculty because of the competitive environment of the international student market.

The ethics component of the Audit Office Governance Lighthouse focuses on broad ethical requirements including the need for:

- an Ethical Framework
- a Compliance Framework
- a Fraud and Corruption Control Framework.

Political Donations

Recommendation

Universities should ensure their policies prohibit political donations.

Most NSW universities have policies in place that prevent donations to political parties. A survey of the ten NSW universities found seven universities had made no political donations since 2008. However, some advised they need to improve their policies and systems for monitoring this area. Three universities indicated they had paid money to attend political party functions and events. Under election funding legislation, monies paid to attend functions and events held by political parties are considered to be political donations.

Management of the three universities that made the political donations advise that attendance at political party events is designed to maintain relationships and gain a thorough and broad understanding of major public policy commitments being proposed by major political parties.

While the value of the donations identified in the survey was small in the context of the university's operations, the use of university finances for political donations is considered inappropriate for public entities.

Despite these donations being inappropriate use of public monies, universities or their controlled entities may not be precluded from making political donations or be in breach of election funding legislation.

Controlled Entities

Last year's Report to Parliament included details on the number of controlled entities and business arrangements universities were involved in. The report concluded that NSW universities significantly reduced their controlled entities by deregistering those no longer considered necessary. In 2014, the number of controlled entities fell by a net of three entities, from 78 to 75.

NSW universities need to strengthen the processes around establishing controlled entities and entering into business arrangements to ensure they are not exposed to undue reputational and other risks. The cost/benefit of establishing a controlled entity or entering into a business arrangement should be analysed, adequately documented and approved within strict guidelines. Approval should include sign offs by the university's General Counsel and Chief Financial Officer.

Recommendation

Universities' governance framework should require an approved business case with a cost/benefit analysis and risk assessment before a controlled entity is established or a business arrangement is entered into.

Universities continue to review their governance arrangements and take steps to improve them. These actions have delivered positive outcomes for the university sector, including:

- strengthened oversight and monitoring of university controlled entities, including fund raising activities
- only two modified audit opinions issued on controlled entities' financial statements in 2014 compared to four in 2013.

Audit Opinions on Controlled Entities

The table below shows the number of controlled entities within NSW universities, their audit result and incomplete audits at the date of preparing this report.

	Number of controlled entities		Number of modified opinions*		Number of incomplete audits**	
University At 31 December	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Sydney Metropolitan						
Macquarie	16	19	--	--	--	--
New South Wales	18	18	--	--	1	1
Sydney	6	6	1	1	--	--
Technology, Sydney	7	6	--	--	--	--
Western Sydney	7	8	--	2	--	--
Sydney Metro Total	**54**	**57**	**1**	**3**	**1**	**1**
Major Regional						
Newcastle	3	3	--	--	--	--
Wollongong	6	6	--	--	--	--
Major Regional Total	**9**	**9**	**--**	**--**	**--**	**--**
Country						
Charles Sturt	3	3	1	1	--	--
New England	8	8	--	--	--	--
Southern Cross	1	1	--	--	--	--
Country Total	**12**	**12**	**1**	**1**	**--**	**--**
Total	**75**	**78**	**2**	**4**	**1**	**1**

* A modified opinion is a qualified opinion, adverse opinion or disclaimer of opinion. Only one disclaimer opinion was issued in 2014.

** The audit of University of New South Wales (UNSW Global India Pvt Limited) was incomplete because its financial year ended 31 March 2015. This audit is not overdue. The incomplete 2013 audit was completed in 2014.

Controlled entities of NSW universities which received unmodified Independent Auditor's Reports on their 2014 Financial Statements are listed in Appendix Four. Some of these entities ceased operations in 2014 and are not included in the table above. Some controlled entities of NSW universities are exempt from audit because they are dormant.

Macquarie University reduced the number of its controlled entities by three in 2014. MU Hospital Pty Ltd was deregistered; the university's 77 per cent investment in LAMS International Pty Ltd was sold to the minority shareholder and the university resigned as the member of LAMS Foundation Ltd.

NSW Treasury exempted three controlled entities of the University of New South Wales from audit because they were dormant and in the process of winding up. This process is expected to be completed between June 2015 and December 2015.

The University of Western Sydney Foundation Trust ceased operations in 2014 and the University of Western Sydney Foundation Limited was deregistered in April 2015.

Modified Audit Opinions

The Audit Office issued two modified audit opinions on controlled entities' 2014 financial statements compared to four in 2013.

Modified Opinions on Financial Statements	
Organisation	**Reason for modification**
Charles Sturt University Foundation Trust	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.
Sport Knowledge Australia Pty Limited (controlled entity of The University of Sydney)	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. Sport Knowledge Australia Pty Ltd was wound up on 28 March 2014 and a disclaimer of opinion was issued on its final financial report on 9 October 2014.

Charles Sturt University Foundation Trust's modification relates to revenue received from donations and fundraising activities. Some 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.

Fundraising Activities

Previous Reports to Parliament have reported that some university controlled entities raise funds through donations and other fundraising activities. The money raised is intended to ultimately flow to the university. These controlled entities include Australian charities and not-for-profits Commission registered 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. In some cases, the trustee is the university itself. These entities fundraise within Australia and abroad, through a range of activities, functions and on-line solicitation.

Fundraising activities of charitable entities fall under the *Charitable Fundraising Act 1991* (CF Act) and the Charitable Fundraising Regulation 2008 (CF Regulation). Activities subject to the CF Act and CF Regulation are regulated by the Office of Liquor Gaming and Racing. While the CF Regulation exempts NSW universities from holding an authority to conduct fundraising appeals, the exemption does not extend to the controlled entities of universities.

Last year's Report to Parliament recommended that NSW universities clarify their legal position and obligations under the CF Act and the CF Regulation from the relevant authority, currently the Office of Liquor Gaming and Racing. All NSW universities have confirmed they implemented the recommendation.

Teaching and Research

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

Through research, NSW universities contribute to creating economic growth, lead innovation, attract overseas students, and increase their profile and global ranking against other universities in Australia and overseas.

Student Numbers

During 2014, the number of students in NSW universities, measured as equivalent full-time student load (EFTSL), increased by 6,829 or 2.7 per cent to 262,514.

The number of equivalent full-time overseas students increased by 3,451 or 6.2 per cent to 59,410 in 2014. At 31 December 2014, overseas students represented 22.6 per cent of all enrolled students (21.9 per cent at 31 December 2013).

The number of equivalent full-time domestic students increased by 3,378 or 1.7 per cent to 203,104 in 2014.

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

	Overseas Students (EFTSL)				Domestic Students (EFTSL)			
University Year ended 31 December	Three year trend	2014	2013	2012	Three year trend	2014	2013	2012
Sydney Metro								
Macquarie	↓	6,877	7,443	8,847	↑	21,840	20,486	19,691
New South Wales	↑	10,605	10,340	10,351	↑	28,992	28,488	26,894
Sydney	↑	11,150	9,759	9,011	~	32,501	32,503	31,906
Technology, Sydney	↑	7,610	7,207	6,907	↑	20,126	19,427	18,870
Western Sydney	↑	2,955	2,714	2,758	↑	27,375	26,865	26,277
Sydney Metro Total	↑	**39,197**	**37,463**	**38,099**	↑	**130,834**	**127,769**	**124,557**
Major Regional								
Newcastle	↑	4,562	4,271	4,294	↑	21,535	21,281	20,220
Wollongong	↑	9,113	8,601	8,052	↑	14,165	14,057	13,986
Major Regional Total	↑	**13,675**	**12,872**	**12,346**	↑	**35,700**	**35,338**	**34,206**
Country								
Charles Sturt	↑	4,490	3,506	3,241	↓	17,827	18,216	18,563
New England	↓	672	741	886	↑	10,977	10,746	10,295
Southern Cross	↓	1,376	1,377	1,821	↑	7,766	7,657	7,666
Country Total	↑	**6,538**	**5,624**	**5,948**	~	**36,570**	**36,619**	**36,524**
Total*	↑	**59,410**	**55,959**	**56,393**	↑	**203,104**	**199,726**	**195,287**

Source: Department publications (except for 2014, which was unaudited sourced from universities).

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

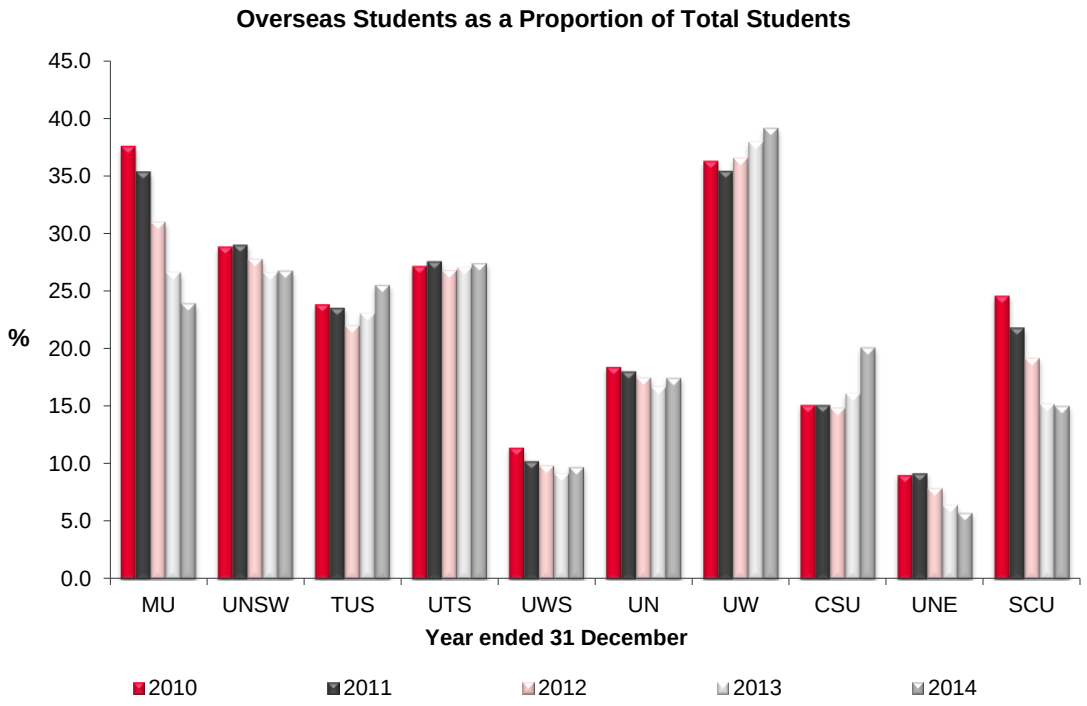
Key: ↑ Trending upwards, ↓ Trending downwards, ~ No trend.

The increase in overseas students in most universities in 2014 was mainly attributed to the fall in the Australian dollar, making Australia a more competitive choice for students.

Overseas student enrolments fell in three universities in 2014 (six in 2013). The University of New England recorded the greatest percentage fall of 9.3 per cent. The University attributes the significant fall to changes in course offerings.

Macquarie University and the University of Technology experienced the highest increase in domestic students in 2014, with increases of 6.6 per cent and 3.6 per cent respectively. The number of domestic students fell by 2.1 per cent at Charles Sturt University.

The percentage of overseas students at NSW universities over the five years to 31 December 2014 is shown below.

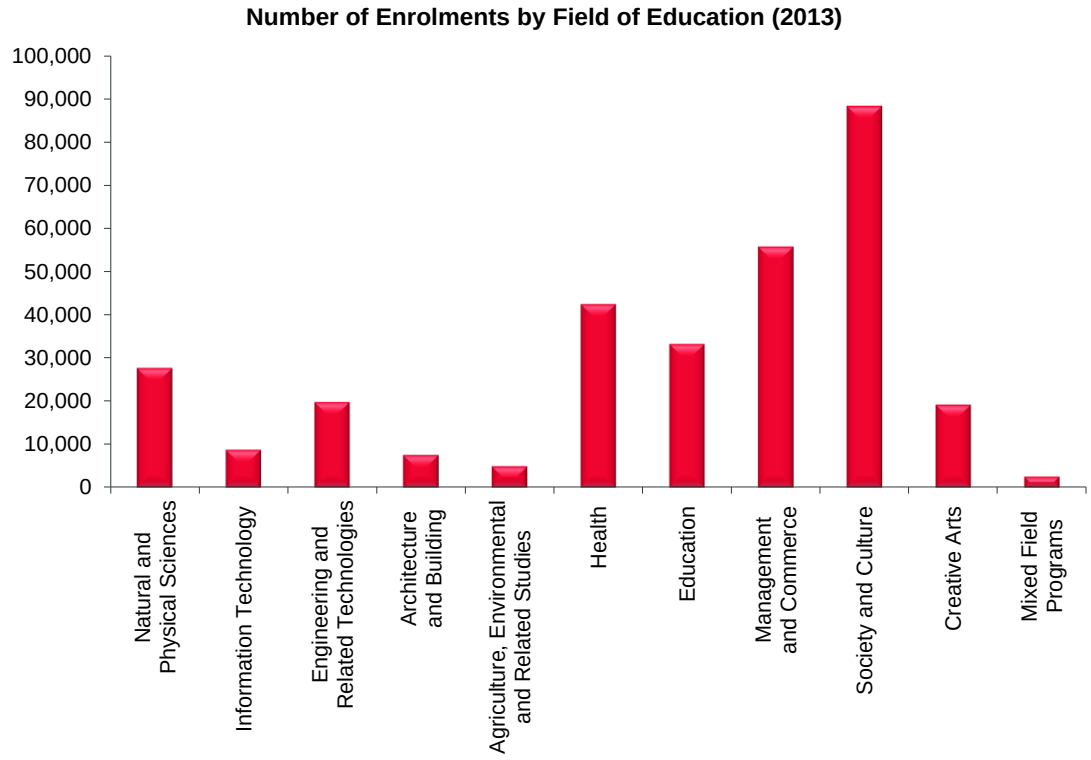


Source: Data analysed from Department publications. 2014 unaudited data from universities.

The University of Wollongong had the highest percentage of overseas students at 39.1 per cent of total students (38.0 per cent in 2013). The University of New England had the lowest percentage of overseas students, with 5.8 per cent in 2014 (6.4 per cent).

Student Enrolment by Course category

The graph below shows the breakdown of total students enrolled in NSW universities split by course category in 2013 (the latest information published by the Department).



Source: Data analysed from Department publications.

Over the three years to 31 December 2013, total students enrolled in NSW universities continued to increase.

The following course categories had the highest proportion of enrolled students in 2013:

- society and culture (28.4 per cent)
- management and commerce (18.0 per cent)
- health (13.7 per cent)
- education (10.7 per cent)
- natural and physical sciences (8.9 per cent)
- engineering and related technologies (6.4 per cent).

Student to Academic Ratio

In 2013, (the latest information published by the Department) NSW universities' student to academic ratio remained steady at 19.8 (19.9 in 2012).

A lower student to academic ratio often indicates a better teaching experience; but to lower the ratio can mean 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		2013	2013		2013	2012	2011
Australian Capital Territory	2	26,083	2,261	↑	11.5	11.2	11.2
New South Wales	10	255,685	12,935	↓	19.8	19.9	20.1
Northern Territory	2	5,612	236	↑	23.8	23.4	18.0
Queensland	7	152,613	8,405	↑	18.2	18.1	18.0
South Australia	3	59,556	3,682	↑	16.2	16.3	15.7
Tasmania	1	18,307	1,010	↑	18.1	17.0	16.6
Victoria	8	244,903	11,479	~	21.3	21.0	21.6
Western Australia	4	88,289	4,077	↑	21.7	21.4	21.2

Source: Department Publications.

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

The table below shows student and academic numbers and ratios for individual NSW universities for 2013 and 2012.

University	Students (EFTSL)		FTE Academics*		Student : Academic ratio	
Year ended 31 December	2013	2012	2013	2012	2013	2012
Macquarie	27,929	28,538	1,052	991	26.5	28.8
New South Wales	38,828	37,245	3,113	3,018	12.5	12.3
Sydney	42,262	40,916	3,018	3,048	14.0	13.4
Technology, Sydney	26,634	25,777	1,025	1,002	26.0	25.7
Western Sydney	29,579	30,179	847	861	34.9	35.1
Newcastle	25,552	24,515	1,196	1,176	21.4	20.8
Wollongong*	22,658	22,038	961	971	23.6	22.7
Charles Sturt	21,722	21,804	895	805	24.3	27.1
New England	11,487	11,181	480	454	23.9	24.6
Southern Cross	9,034	9,487	348	332	26.0	28.6
Total	**255,685**	**251,680**	**12,935**	**12,658**	**19.8**	**19.9**

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

* Student (EFTSL) includes overseas students taught through partnership programs with largely no corresponding FTE academics.

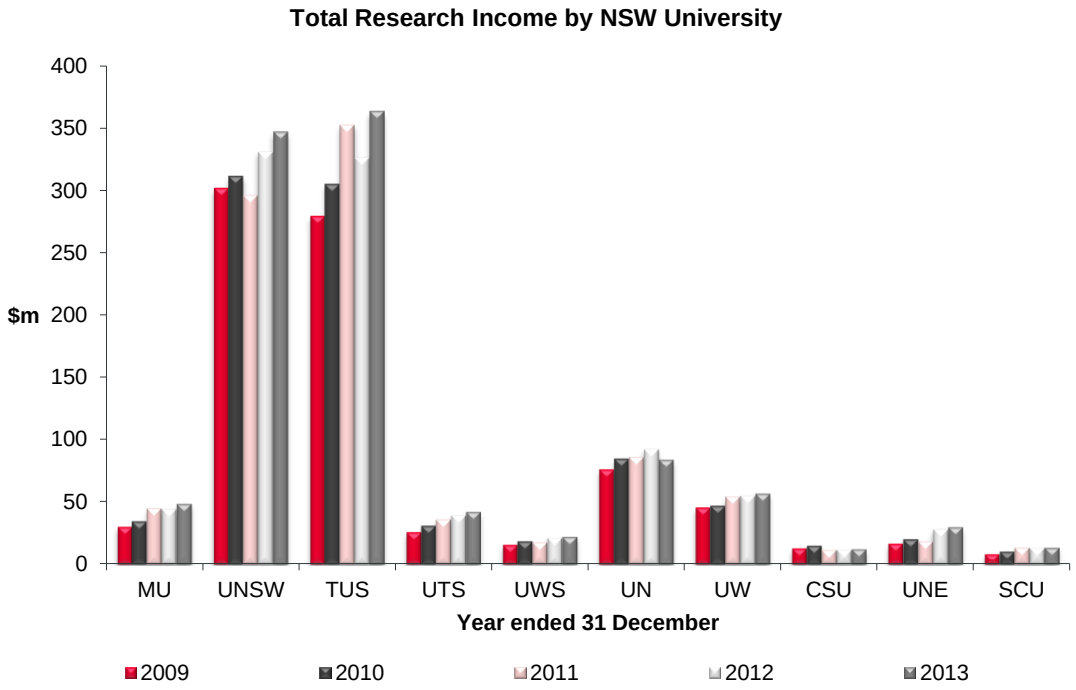
In 2013, the University of New South Wales and the University of Sydney have the lowest student to academic ratios of 12.5 and 14.0 respectively, mainly attributable to a higher number of research staff compared to the other universities.

The University of Western Sydney and Macquarie University reported the highest student to academic ratios in 2013 of 34.9 and 26.5 respectively.

Research Income

Most research income comes in the form of grants from the Australian Government. 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 2009 to 2013. Research income data from the Department for 2014 was unavailable at the time of preparing this report.



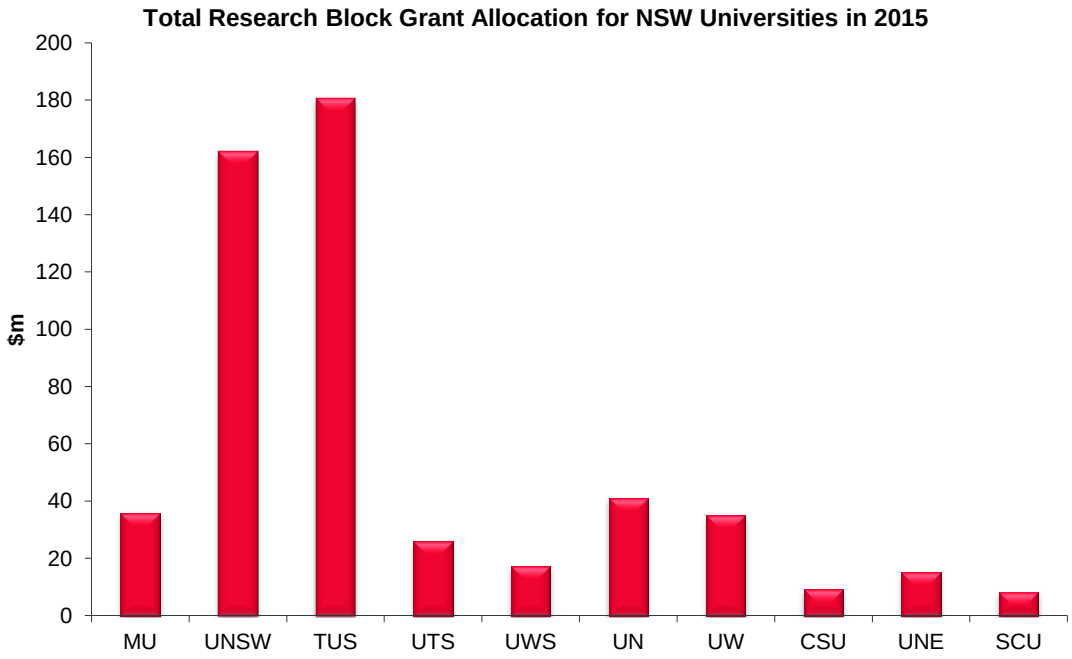
Source: Data analysed from Department publications.

Total research income received by NSW universities increased to $1.0 billion in 2013, an increase of 25.5 per cent over the five years to 2013. The proportion of total research income for each NSW university remained relatively consistent over that period.

The University of Sydney and the University of New South Wales continue to be the top two recipients, receiving 35.6 per cent and 34.0 per cent of total research income respectively. Most of this came from Australian Government competitive grants, other public sector grants and industry research grant funding.

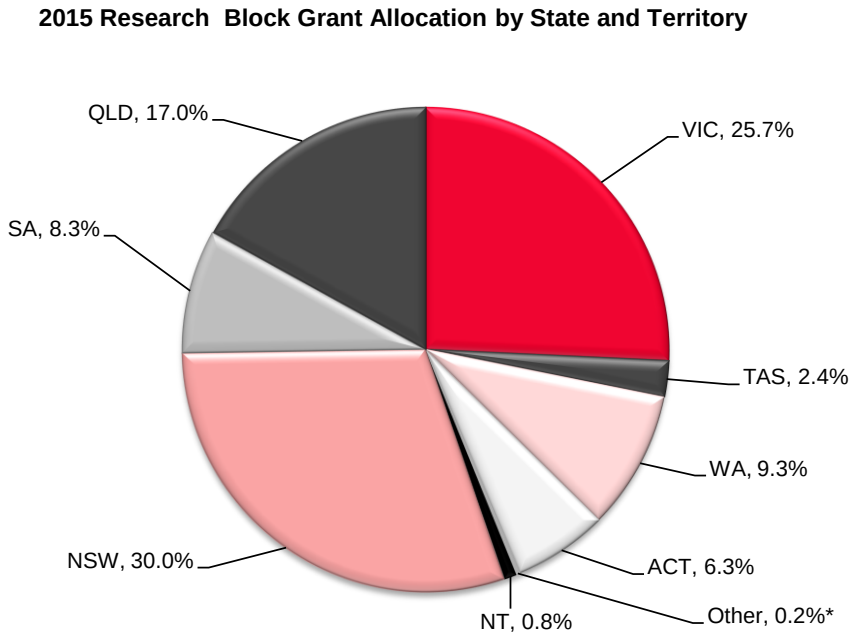
In 2015, $1.8 billion ($1.7 billion in 2014) will be provided to eligible Australian higher education providers in the form of block grants by the Australian Government. NSW universities expect to receive $531 million or 30 per cent of this grant.

The graph below shows the block grant to be provided by the Department to each NSW university in 2015.



Source: Data analysed from Department publications.

The University of Sydney and the University of New South Wales expect to receive research grants of $181 million and $162 million respectively in 2015.



Source: Data analysed from Department publications.

* Other – Australian Catholic University.

The graph above illustrates Australian Government research grants allocated to universities in each state and territory in Australia. New South Wales receives the highest allocation of 30.0 per cent followed by Victoria at 25.7 per cent.

Measuring Research Impact

Research income is a performance measure used by the Australian Government to calculate various performance-based funding allocations.

The Australian Government supports research as a key contributor towards improving Australia's productivity over the longer term. According to the Australian Bureau of Statistics, in 2011-12 (the latest available information), Australian higher education organisations spent $9.6 billion on research and experimental development. Of this, $2.9 billion (about 30 per cent) was spent in New South Wales.

Assessing the impact of research involves demonstrating the contribution research makes to the economy, society, culture and quality of life beyond its contributions to academia.

Trials undertaken by the Group of Eight (Go8) Australian universities found significant economic, social and environmental benefits arise from research undertaken at Australian universities. Measuring the impact of research can be difficult given the many diverse routes through which research achieves impact. In addition, the time taken for research to make an impact can be significant, and in some cases the impact may be indirect.

Australian Research Council Evaluation of Research Excellence

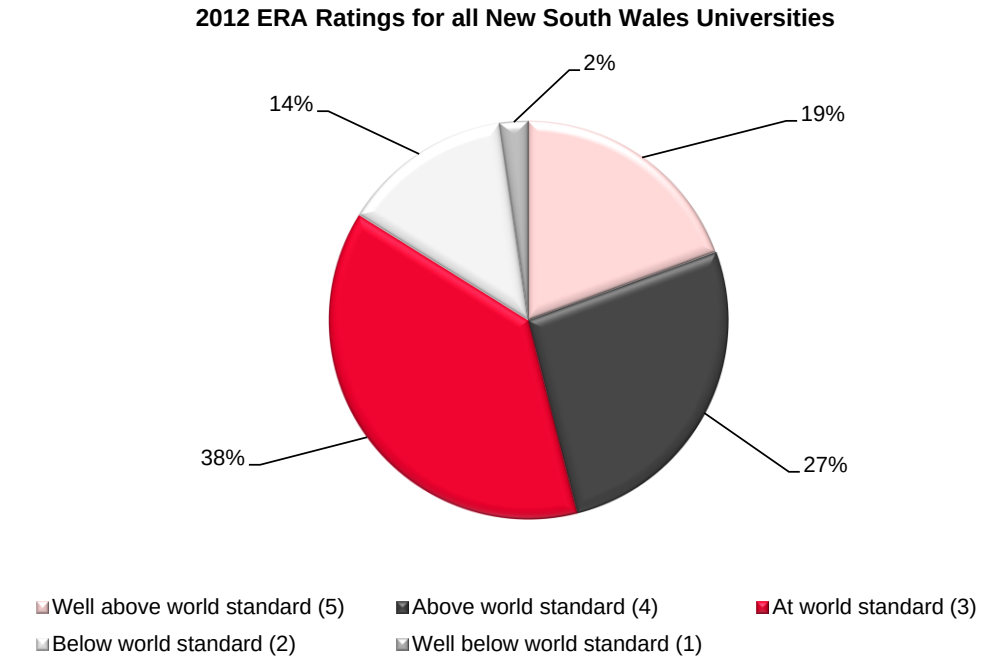
In 2012, the Australian Research Council (ARC) performed a second evaluation of Excellence in Research for Australia (ERA). Its report provides an overview of research quality undertaken in higher education institutions across Australia between 1 January 2005 and 31 December 2010. The next Excellence in Research survey will be performed in 2015.

The survey is designed to provide taxpayers with assurance that public money spent on research is invested wisely. It also provides business and the broader community with detailed information about the research strengths of universities, so that individual strengths can be exploited to Australia's advantage.

The survey report assigns a rating of one to five for each field of research at Australian universities:

- a rating of one or two indicates the research activities are below world standard
- a rating of three indicates research is conducted at the world standard
- a rating of four or five indicates the research is above the world standard.

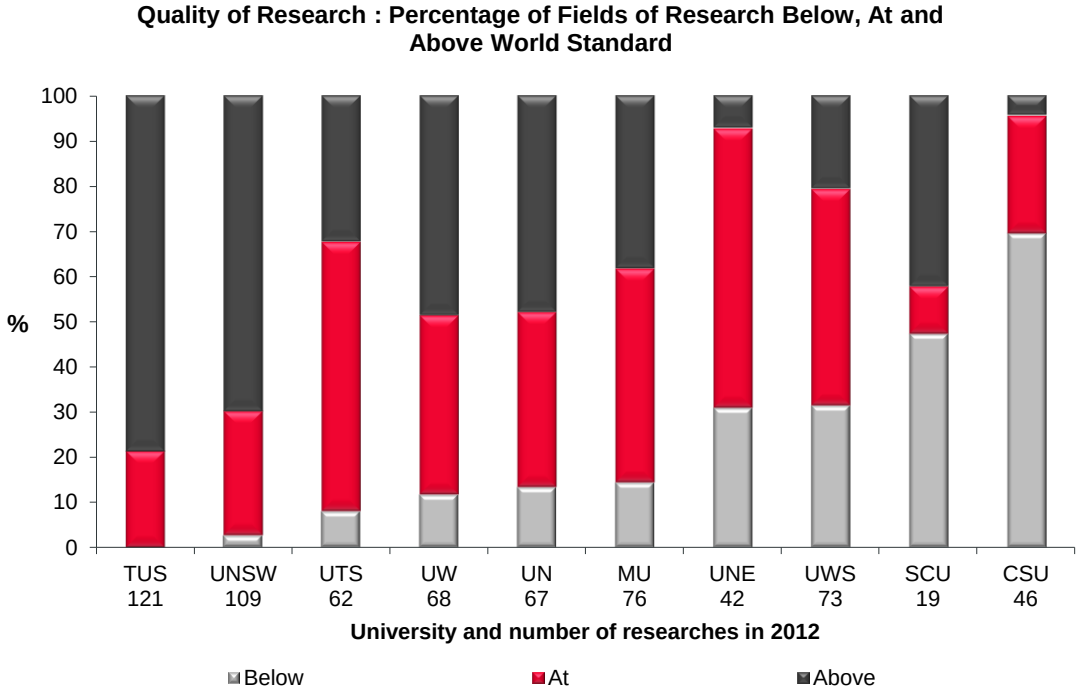
The overall outcome of the 2012 survey assessment for the ten NSW universities is shown below.



Source: Excellence in Research for Australia 2012 National Report (Audit Office analysis).

Based on the evaluation metrics used by the ARC in the 2012 survey, 84 per cent of the discrete areas of research performed by NSW universities were at or above world standard.

The 2012 survey results for each NSW university are shown below. The graph shows the relative percentage of research considered above, equal to or below world standard.



Source: Data analysed from the Excellence in Research for Australia 2012 National Report.

The University of Sydney and the University of New South Wales had the most individual research activities. These universities also achieved the highest ratings with 100 per cent and 97 per cent respectively of research undertaken being assessed at or above world standard. These universities receive the largest amounts of research funding in New South Wales.

Charles Sturt University had the lowest rating in the 2012 ERA survey with 30.4 per cent of research activities ranked at or above world standard.

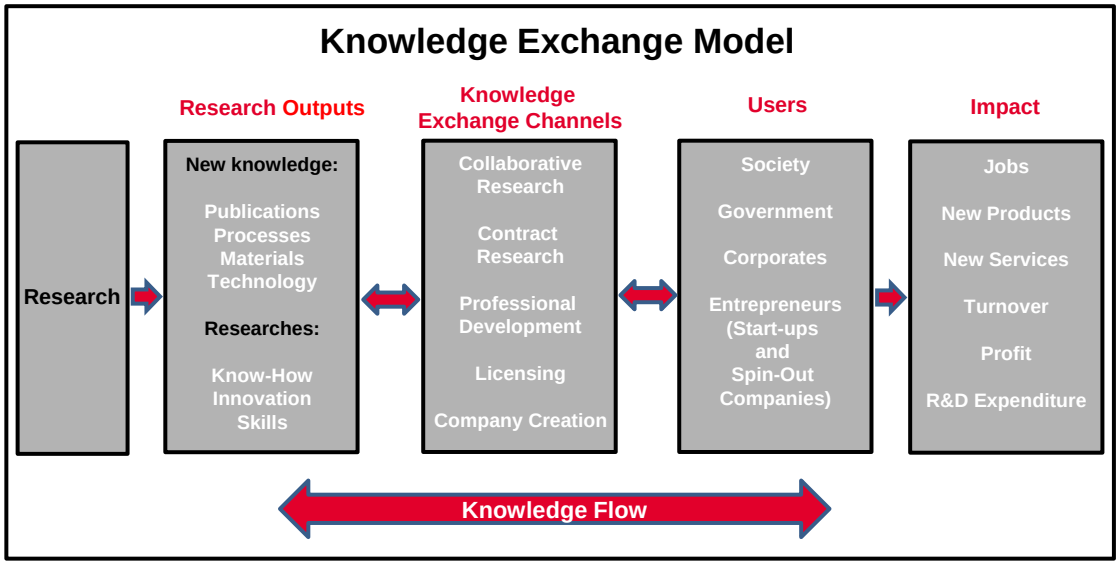
Regional universities contribute significantly to ‘above world standard' research in the fields of Environmental Sciences, Agriculture and Veterinary Sciences. Southern Cross University had the least number of areas of research, but 52.6 per cent were at or above world standard.

The Engagement Metrics Model of Research Impact

Engagement Metrics is another method developed to assess the impact of research. This model was developed by NewSouth Innovations (NSi) and the University of New South Wales to create an appropriate set of measures across the research spectrum. The model was refined and tested through research commissioned by the former Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education to enable universities to better understand and influence the level of engagement with research users.

The outcome of the research was published in the ‘University Engagement Metrics Report’ in October 2013. Fourteen Australian universities were involved in the research. The report concluded that industry research funding is significantly influenced by higher engagement between universities and research users.

A key part of Engagement Metrics is the Knowledge Exchange Model, which illustrates the relationships relevant to transferring university research into beneficial outcomes for industries and Government.



Source: Adapted from NewSouth Innovations and the University of New South Wales.

According to the model, a high industry funding flow indicates a beneficial impact for the users of the research outputs.

The table below shows the total research income from industry and other sources (non-government) over the four years to 2014 for each university:

University	Total Research Income from Industry and Other Sources				
Year ended 31 December	Four year trend	2014	2013	2012	2011
Sydney Metro					
Macquarie	↓	6,530	8,956	8,198	10,063
New South Wales	↑	75,326	64,906	58,925	54,872
Sydney	↑	88,835	84,251	72,587	70,970
Technology, Sydney	↑	9,050	8,688	7,504	6,544
Western Sydney	~	4,757	5,595	5,178	4,601
Sydney Metro Total	↑	**184,498**	**172,396**	**152,392**	**147,050**
Major Regional					
Newcastle	↑	33,060	27,750	33,008	31,088
Wollongong	~	21,302	21,505	18,880	21,302
Major Regional Total	↓	**54,362**	**49,255**	**51,888**	**52,390**
Country					
Charles Sturt	↓	1,585	3,509	3,144	3,623
New England	↓	9,400	15,580	14,689	13,835
Southern Cross	↓	3,634	4,242	4,529	3,746
Country Total	↓	**14,619**	**23,331**	**22,362**	**21,204**
Total	~	**253,479**	**244,982**	**226,642**	**220,644**

Source: Unaudited data from universities.

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

Note: Other sources include competitive and peer-reviewed research income, donations, bequests, foundations and funding contracts.

Note: Industry research revenue is just one of the measures for assessing research engagement and impact. There are other reporting mechanisms such as the National Survey of Research Commercialisation by the Australian Government Department of Industry and Science and the Institutional Performance Portfolio produced by the Department.

The University of Sydney and University of New South Wales attracted the most funds from industry and other sources.

Recommendation

To attract more industry research funding, universities should develop long term sustainable research investment plans focussing on research collaboration and partnerships.

University World Rankings

World university rankings such as the Times Higher Education and QS World University rankings are another way the quality of research can be assessed. Both organisations consider research in their overall rating: 60 per cent of the Times Higher Education World University Ranking and 20 per cent of the QS World University Ranking is tied to research.

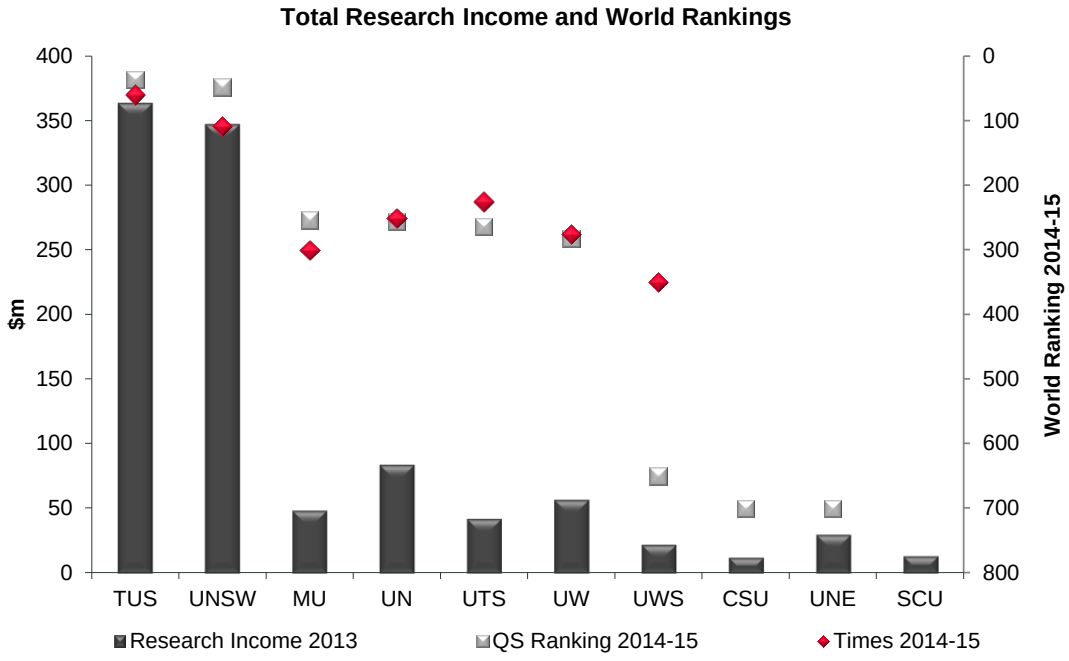
The ratings for each NSW university for 2013-14 and 2014-15 are shown below (lower rankings are better).

		Times Higher Education World University Ranking			QS World University Ranking	
University	**Movement**	**Ranking 2014-15**	**Ranking 2013-14**	**Movement**	**Ranking 2014-15**	**Ranking 2013-14**
Sydney	↑	60	72	↑	37	38
New South Wales	↑	109	114	↑	48	52
Technology, Sydney	↑	226-250	301-350	↑	264	272
Newcastle	~	251-275	251-275	↑	257	298
Wollongong	~	276-300	276-300	↓	283	276
Macquarie	↓	301-350	276-300	↑	254	263
Western Sydney	**na**	351-400	nr	~	651-700	651-700
New England	**na**	nr	nr	~	701+	701+
Charles Sturt	**na**	nr	nr	**na**	701+	nr
Southern Cross	**na**	nr	nr	**na**	nr	nr

Source: QS World University Rankings and Times Higher Education World University Rankings for 2013-14 and 2014-15.

Key: ↑ Better, ↓ Worse, ~ No change, nr Not rated, na Movement not applicable.

The graph below compares the Times Higher Education and QS World University rankings for 2014-15 for each NSW university against their total research income for the year ended 31 December 2013.



Source: Data analysed from Department Publications, Times and QS rankings for 2014-15.

Note: Where a range is given for a ranking, the lower range is reported above. Also some universities are not ranked by Times and QS and therefore do not appear in the chart above.

Research intensive universities, such as the University of Sydney and the University of New South Wales, both received the highest ratings. These universities also receive the largest amounts of research funding each year.

Section Two

Appendices

Appendix One – Financial Information

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	Macquarie		New South Wales		Sydney	
	2014 $m	2013 $m	2014 $m	2013 $m	2014 $m	2013 $m
Abridged Statement of Comprehensive Income (year ended 31 December)						
Australian Government grants	242	221	718	698	720	726
Higher Education Contribution Scheme	168	149	198	185	246	232
Fees and charges	264	273	566	510	497	427
Other	225	227	265	227	440	498
Total revenue	**899**	**870**	**1,747**	**1,620**	**1,903**	**1,883**
Employee benefits and on-costs	486	434	942	874	974	961
Depreciation and amortisation	60	58	135	123	159	118
Other	318	315	540	519	608	557
Total expenses	**864**	**807**	**1,617**	**1,516**	**1,741**	**1,636**
Surplus	**35**	**63**	**130**	**104**	**162**	**247**
Other comprehensive income:						
Net increase in revaluation of assets	32	27	65	50	40	36
Other	(2)	(3)	(29)	70	(10)	16
Total comprehensive income	**65**	**87**	**166**	**224**	**192**	**299**
Abridged Statement of Financial Position (at 31 December)						
Current assets	302	280	332	219	528	580
Non-current assets	2,355	2,144	3,950	3,590	5,837	4,991
Total assets	**2,657**	**2,424**	**4,282**	**3,809**	**6,365**	**5,571**
Current liabilities	172	163	469	366	373	373
Non-current liabilities	888	729	1,531	1,327	1,990	1,388
Total liabilities	**1,060**	**892**	**2,000**	**1,693**	**2,363**	**1,761**
Net assets	**1,597**	**1,532**	**2,282**	**2,116**	**4,002**	**3,810**
Performance Indicators (at 31 December)						
Current ratio (a)	2.1	2.0	1.0	0.9	2.0	2.1
Debt to equity percentage	22.3	23.3	1.7	2.7	10.9	8.1
Interest coverage ratio	5.9	6.6	94.7	69.4	18.2	39.7
Operating result as % of total revenue (b)	3.5	7.1	5.8	5.9	6.8	12.9
Student numbers	28,717	27,929	39,597	38,828	43,651	42,262
Students per academic (c)	na	26.5	na	12.5	na	14.0

University	Technology, Sydney		Sydney Metropolitan Western Sydney		Total	
	2014 $m	2013 $m	2014 $m	2013 $m	2014 $m	2013 $m
Abridged Statement of Comprehensive Income (year ended 31 December)						
Australian Government grants	224	229	340	319	2,244	2,193
Higher Education Contribution Scheme	170	156	210	200	992	922
Fees and charges	269	236	94	79	1,690	1,517
Other	104	99	86	86	1,120	1,145
Total revenue	**767**	**720**	**730**	**684**	**6,046**	**5,777**
Employee benefits and on-costs	433	394	413	392	3,248	3,053
Depreciation and amortisation	66	62	37	35	457	396
Other	221	197	213	248	1,900	1,837
Total expenses	**720**	**653**	**663**	**675**	**5,605**	**5,286**
Surplus	**47**	**67**	**67**	**9**	**441**	**491**
Other comprehensive income:						
Net increase in revaluation of assets	(13)	31	16	33	140	177
Other	(4)	1	5	4	(40)	85
Total comprehensive income	**30**	**99**	**88**	**46**	**541**	**753**
Abridged Statement of Financial Position (at 31 December)						
Current assets	207	192	162	157	1,531	1,428
Non-current assets	2,271	1,919	1,853	1,638	16,266	14,282
Total assets	**2,478**	**2,111**	**2,015**	**1,795**	**17,797**	**15,710**
Current liabilities	185	181	149	163	1,348	1,246
Non-current liabilities	855	523	411	265	5,675	4,232
Total liabilities	**1,040**	**704**	**560**	**428**	**7,023**	**5,478**
Net assets	**1,438**	**1,407**	**1,455**	**1,367**	**10,774**	**10,232**
Performance Indicators (at 31 December)						
Current ratio (a)	1.7	1.5	1.6	1.2	1.6	1.6
Debt to equity percentage	17.1	7.5	5.2	4.0	10.7	8.6
Interest coverage ratio	25.0	30.5	57.9	25.0	19.9	23.0
Operating result as % of total revenue (b)	5.4	7.2	7.3	(0.7)	5.9	7.7
Student numbers	27,736	26,634	30,330	29,579	170,565	165,232
Students per academic (c)	na	26.0	na	34.9	na	18.2

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

Note: Performance indicators as per the Australian Government Department of Education and Training'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 Operating result less capital grants as a percentage of total operating revenue – should be positive with a safety margin.

c Australian Government Department of Education and Training's publication Higher Education Statistics Collection. Academics are 'Teaching' and 'Teaching and Research'.

na Not available.

University	Major Regional					
	Newcastle		Wollongong		Total	
	2014	2013	2014	2013	2014	2013
	$m	$m	$m	$m	$m	$m
Abridged Statement of Comprehensive Income (year ended 31 December)						
Australian Government grants	298	320	230	215	528	535
Higher Education Contribution Scheme	143	135	100	96	243	231
Fees and charges	112	112	207	192	319	304
Other	141	133	80	73	221	206
Total revenue	**694**	**700**	**617**	**576**	**1,311**	**1,276**
Employee benefits and on-costs	380	374	354	338	734	712
Depreciation and amortisation	37	37	37	35	74	72
Other	233	224	199	183	432	407
Total expenses	**650**	**635**	**590**	**556**	**1,240**	**1,191**
Surplus	**44**	**65**	**27**	**20**	**71**	**85**
Other comprehensive income:						
Net increase in revaluation of assets	12	22	--	--	12	22
Other	5	20	4	13	9	33
Total comprehensive income	**61**	**107**	**31**	**33**	**92**	**140**
Abridged Statement of Financial Position (at 31 December)						
Current assets	230	186	300	179	530	365
Non-current assets	1,640	1,528	1,199	1,064	2,839	2,592
Total assets	**1,870**	**1,714**	**1,499**	**1,243**	**3,369**	**2,957**
Current liabilities	147	135	266	129	413	264
Non-current liabilities	530	447	417	329	947	776
Total liabilities	**677**	**582**	**683**	**458**	**1,360**	**1,040**
Net assets	**1,193**	**1,132**	**816**	**785**	**2,009**	**1,917**
Performance Indicators (at 31 December)						
Current ratio (a)	2.3	2.1	1.5	2.5	1.7	2.3
Debt to equity percentage	7.1	7.5	16.1	16.8	10.8	11.3
Interest coverage ratio	16.9	21.7	10.2	11.6	13.1	16.6
Operating result as % of total revenue (b)	5.4	5.4	(0.2)	2.0	2.8	3.9
Student numbers	26,097	25,552	23,278	22,658	49,375	48,210
Students per academic (c)	na	21.4	na	23.6	na	22.4

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 and Training'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 Operating result less capital grants as a percentage of total operating revenue – should be positive with a safety margin.

c Australian Government Department of Education and training's publication Higher Education Statistics Collection. Academics are 'Teaching' and 'Teaching and Research'.

na Not available.

University	Country			
	Charles Sturt		New England	
	2014	2013	2014	2013
	$m	$m	$m	$m
Abridged Statement of Comprehensive Income (year ended 31 December)				
Australian Government grants	207	212	155	154
Higher Education Contribution Scheme	119	112	72	67
Fees and charges	118	93	44	44
Other	56	75	38	45
Total revenue	**500**	**492**	**309**	**310**
Employee benefits and on-costs	266	263	179	164
Depreciation and amortisation	34	33	21	19
Other	160	139	104	114
Total expenses	**460**	**435**	**304**	**297**
Surplus/(deficit)	**40**	**57**	**5**	**13**
Other comprehensive income:				
Net increase in revaluation of assets	16	6	17	--
Other	4	1	4	3
Total comprehensive income	**60**	**64**	**26**	**16**
Abridged Statement of Financial Position (at 31 December)				
Current assets	109	88	135	130
Non-current assets	1,260	1,074	650	506
Total assets	**1,369**	**1,162**	**785**	**636**
Current liabilities	99	74	56	58
Non-current liabilities	402	280	357	231
Total liabilities	**501**	**354**	**413**	**289**
Net assets	**868**	**808**	**372**	**347**
Performance Indicators (at 31 December)				
Current ratio (a)	1.5	1.9	3.7	3.2
Debt to equity percentage	3.3	3.5	5.4	--
Interest coverage ratio	44.7	77.0	50.7	--
Operating result as a % of total revenue (b)	5.8	8.9	(3.0)	2.4
Student numbers	22,317	21,722	11,649	11,487
Students per academic (c)	na	24.3	na	23.9

University	Country			
	Southern Cross		Total	
	2014	2013	2014	2013
	$m	$m	$m	$m
Abridged Statement of Comprehensive Income (year ended 31 December)				
Australian Government grants	115	104	477	470
Higher Education Contribution Scheme	52	49	243	228
Fees and charges	24	19	186	156
Other	21	21	115	141
Total revenue	**212**	**193**	**1,021**	**995**
Employee benefits and on-costs	123	129	568	556
Depreciation and amortisation	11	10	66	62
Other	65	61	329	314
Total expenses	**199**	**200**	**963**	**932**
Surplus/(deficit)	**13**	**(7)**	**58**	**63**
Other comprehensive income:				
Net increase in revaluation of assets	--	--	33	6
Other	--	1	8	5
Total comprehensive income	**13**	**(6)**	99	**74**
Abridged Statement of Financial Position (at 31 December)				
Current assets	41	36	285	254
Non-current assets	320	285	2,230	1,865
Total assets	**361**	**321**	**2,515**	**2,119**
Current liabilities	50	43	205	175
Non-current liabilities	94	74	853	585
Total liabilities	**144**	**117**	**1,058**	**760**
Net assets	**217**	**204**	**1,457**	**1,359**
Performance Indicators (at 31 December)				
Current ratio (a)	1.1	1.2	2.0	2.1
Debt to equity percentage	5.7	10.2	4.2	3.6
Interest coverage ratio	19.1	9.4	36.0	78.0
Operating result as a % of total revenue (b)	(4.7)	(8.8)	1.1	3.5
Student numbers	9,142	9,034	43,108	42,243
Students per academic (c)	na	26.0	na	24.5

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 and Training'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 Operating Result less capital grants as a percentage of total operating revenue – should be positive with a safety margin.

c Australian Government Department of Education publication Higher Education and training's Statistics Collection. Academics are 'Teaching' and 'Teaching and Research'.

na Not available.

Appendix Two – Sustainability Indicators

Indicator	Formula	Description
Operating Margin (percentage)	Operating result excluding capital revenue/Total income excluding capital revenue In 2014, a one-off income from State Authorities Non-contributory Superannuation (SANCS) receivable from Australian Government was excluded in the calculation.	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	This measures the ability to pay existing liabilities in the next 12 months. A ratio above one means there is more cash and current assets than short-term liabilities. Current liabilities exclude current annual leave and long service leave liabilities expected to be settled after 12 months.
Debt to equity Percentage	Debt/Equity	This is a longer-term measure that compares all current and non-current interest bearing borrowings to equity. It complements the current ratio which is a short-term measure. A low percentage indicates less reliance on debt to finance the capital structure of an organisation.
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 Three – Risk Management Maturity Assessment Tool

Maturity Scale

Assessment Criteria	Strategy and governance	Monitoring and Review	Process	Systems & Intelligence	People and structure	Culture
Fully Addressed	Leading edge, aligned risk management and mitigation strategies in place. Fully integrated risk management framework. Accountability and responsibilities for risk management functions clearly defined. Council Risk and Audit Committees committed to regular assessment of the risk management function. Risk management incorporated in daily operations. Risk appetite and tolerance levels communicated.	Aligned strategic methodologies that emphasise continuous improvement exist. External best practice benchmarking is conducted routinely. Advanced incident tracking and control systems across the organisation exists from Council/Audit committee to risk management and line management. Council and executive management oversight and monitoring visible.	Loss Prevention and risk management processes are standardised and integrated organisation-wide. Proactive audit and program compliance enforcement exists. Employees/associates participation and knowledge of risk control parameters is advanced. Risk management process is auditable. Best practices achieved for risk management.	Highly automated reliable information sharing capability organisation-wide enabling quick response, remediation and mitigation of risk incidents/issues. Use of sophisticated tools and data collection to quantify risks.	Organisation demonstrates the capacity to adapt to changing environments and internal demands, continuously seeking improved methodologies such as transferring/reducing non core risks. Chief Risk Officer appointed.	Risk profiles linked to corporate and strategic goals. Board and Executive management leading in risk management consciousness. Leading in key risk indicators which are related to strategic and corporate goals. Empowers strategic achievement and innovation with well understood and communicated limits of risk appetite and tolerance levels. Embeds risk awareness and accountability in daily operations.
Consistent-Implemented	Strategic and risk management plans and policies drive actions in all levels of the organisation. There is organisation buy-in of risk management procedures.	Targeted and specialised programs focusing on elimination of root causes of loss/risk incident implemented. Exception reporting and predictive analysis improves resource allocation.	Risk management processes standardised and enforced at all levels. Improved coordination across divisions. Risk management practices deliverables sustained. Risk management workshop conducted periodically.	Consistent capacity to track key milestones and compliance. High quality reporting of risk incidents and issues available through enabling technology solutions. Improved controls and compliance reporting available for resource deployment and decision making.	Organisation and staff demonstrate risk management expertise in core competencies. Cross functional business units seamlessly coordinate and execute risk management initiatives.	Effective education and communication strategies integrated into organisations' governance and risk programs. Risk appetite and tolerance levels set at council level. Risk management is an explicit part of business planning. Reward for appropriate risk behaviors. Risk training is scheduled.
Consistent-Designed	Annual risk management plans created. Risk appetite statement and risk tolerance established. Strategic sourcing of key resources in place (defined policies, roles, and responsibilities).	Formalised risk monitoring and review methodologies allow improved analysis and response for critical decision making. Effective system of formal risk incident reporting and tracking and data repositories. Heat map and risk ratings produced with improved automation.	Risk management processes defined at the business unit or division level. Some internal strategic partnerships and collaboration established.	Some capacities to track key milestones and compliance. Some availability of risk incidents, issues and trend reports. Risk control assessment, compliance and performance measured regularly for appropriate resource deployment and decision making.	Formal cross functional business units report to risk management business unit. Risk management and control decisions coordinated on business unit basis. Some coordination between risk management, finance, internal audit and operations. Risk management roles and responsibilities clearly defined.	Systematic risk monitoring. Tolerance and risk appetite defined. Board receives risk information and uses information to facilitate risk oversight. Some linkages in HR policy as performance criteria in relation to risk management tasks.
Inconsistent	Only occasional strategic focus on risk management and little long term planning. Informal policy guidelines and standards established.	Simple tools used inconsistently. Risk management often captured on spreadsheet and risk control strategies reliant on "word of mouth" delivery. Data stored in folder/file structure and created using excel spreadsheets. Data synthesis predominantly manual.	Risk management processes and control management applied inconsistently. No formal procedures for compliance enforcement. Some use of risk management and control assessment templates and risk register.	Unable to identify strategy impact on risks and risk incidents. Key risk indicators, risk appetite and tolerance limits unable to be determined. Compliance and performance measured manually on annual basis. Analysis supported by basic spreadsheets.	Formal reports to Board and management. Some coordination of risk management decisions cross business units. A growing recognition of risk management and opportunities associated with an effective risk management function.	Risk management can inhibit performance. Poorly communicated, risk management may be misunderstood and taken as proxy for conservatism and risk avoidance. Decision making and risk consideration done infrequently and reliant on individual's skills.
Low	Risk not addressed as a strategic opportunity. The organisation provides little risk management direction.	No risk compliance or performance monitoring methodology. No capacity to track trends or exceptions in risk categories and exposure. Data stored in paper format and analysis is manual and labor intensive. Risk rating created in basic formats such as excel spreadsheets. Unable to achieve predictive analysis. Exception based reporting and analysis non-existent.	No standard Risk Management processes and procedures. Lack of operational controls lends to uncontrolled risk loss. Risk management often ad-hoc and reactive. No structured employee education and awareness to risk management. Reactive risk management.	Critical information not available. No capacity to track risk management and exposure through incidents and events. No capacity to evaluate operational controls and compliance. Compliance and performance measured sporadically. Manual reporting with limited data integrity.	Organisation lacks a formal risk management process. Risk and loss control related decisions made on business unit level and led by Operations, Legal or Finance, with no collaboration or input from other business units.	No formal risk management and mitigation strategy. Risk management and business planning bears no correlation. Risk management serves to achieve organisational compliance. No alignment of risk culture.

Appendix Four - List of NSW Universities

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

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

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
Minister for Education		
Macquarie University		
Access Macquarie Limited	www.access.mq.edu.au	31 December 2014
Australian Proteome Analysis Facility Limited	www.proteome.org.au	31 December 2014
CMBF Limited	www.mq.edu.au	31 December 2014
Macquarie University Property Investment Company Pty Limited	www.mq.edu.au	31 December 2014
Macquarie University Property Investment Trust	www.mq.edu.au	31 December 2014
MGSM Limited	www.mgsm.edu.au	31 December 2014
MUH Operations No. 2 Pty Limited	www.muh.org.au	31 December 2014
Risk Frontiers Flood (Australia) Pty Ltd	www.riskfrontiers.com	31 December 2014
Risk Frontiers Group Pty Ltd	www.riskfrontiers.com	31 December 2014
U@MQ Limited	www.mq.edu.au	31 December 2014
Macquarie Education South Africa NPC	*	31 December 2014
MUPH Clinic Pty Limited	*	31 December 2011
MUPH Clinic Pty Limited	*	31 December 2012
MUPH Clinic Pty Limited	*	31 December 2013
MUPH Clinic Pty Limited	*	31 December 2014
MUH Operations Pty Limited	*	31 December 2012
MUH Operations Pty Limited	*	31 December 2013
MUH Operations Pty Limited	*	31 December 2014
University of New South Wales		
Australian Education Consultancy Limited	*	31 December 2014
Cystemix Pty Limited	*	31 December 2014
NewSouth Innovations Pty Limited	www.nsinnovations.com.au	31 December 2014
Qucor Pty Ltd	*	31 December 2014
The New South Wales Minerals Industry/University of NSW Education Trust	*	31 December 2014
University of New South Wales Foundation	www.ufs.unsw.edu.au	31 December 2014
University of New South Wales Foundation Limited	www.ufs.unsw.edu.au	31 December 2014
University of New South Wales Press Limited	www.unswpress.com	31 December 2014
UNSW & Study Abroad - Friends and U.S. Alumni, Inc.	*	31 December 2014
UNSW Global (Singapore) Pte Limited	www.unswglobal.unsw.edu.au	31 December 2014
UNSW Global Pty Limited	www.unswglobal.unsw.edu.au	31 December 2014
UNSW Hong Kong Foundation Limited	www.unswglobal.unsw.edu.au	31 December 2014
UK Friends of UNSW Australia	*	31 December 2014
UNSW Hong Kong Limited	www.unswglobal.unsw.edu.au	31 December 2014

* This entity has no website.

Entity name	Website	Period/year ended
Minister for Education		
University of Sydney		
Bandwidth Foundry International	www.bwfoundry.com	31 December 2014
Sydney Talent Pty Limited	*	31 December 2014
SydneyLearning Pty Limited	www.sydneylearning.nsw.edu.au	31 December 2014
The Warren Centre for Advanced Engineering Limited	www.thewarrencentre.org.au	31 December 2014
United States Studies Centre Limited	www.ussc.edu.au	31 December 2014
University of Sydney Professorial Superannuation System	*	31 December 2014
Wayahead Pty Limited	*	31 December 2014
Westmead IVF Pty Limited	*	31 December 2014
University of Technology, Sydney		
accessUTS Pty Limited	www.accessuts.uts.edu.au	31 December 2014
AustLii Foundation Limited	www.austlii.edu.au	31 December 2014
Insearch (Shanghai) Limited	www.insearch.edu.au	31 December 2014
Insearch Education	www.insearch.edu.au	31 December 2014
Insearch Education International Pty Limited	www.insearch.edu.au	31 December 2014
Insearch Limited	www.insearch.edu.au	31 December 2014
UTS Global Pty Limited	*	31 December 2014
University of Western Sydney		
University of Western Sydney Foundation Limited	www.uws.edu.au	31 December 2014
University of Western Sydney Foundation Trust	www.uws.edu.au	31 December 2014
Television Sydney (TVS) Limited	www.tvs.org.au	31 December 2014
UWS College Pty Limited	www.uwscollege.edu.au	31 December 2014
uwsconnect Limited	www.uws.edu.au/uwsconnect	31 December 2014
UWS Early Learning Limited	www.uws.edu.au/campuses_structure/cas/services_facilities/childcare	31 December 2014
Whitlam Institute within the University of Western Sydney Limited	www.whitlam.org	31 December 2014
Whitlam Institute within the University of Western Sydney Trust	www.whitlam.org	31 December 2014
University of Newcastle		
Newcastle Innovation Limited	www.newcastleinnovation.com.au	31 December 2014
UON Services Limited	uonservices.org.au	31 December 2014
UON Singapore Pte Ltd	www.newcastle.edu.au	31 December 2014
University of Wollongong		
UOWC Limited	www.uowenterprises.com.au	31 December 2014
UOWD Limited	www.uowenterprises.com.au	31 December 2014
The Sydney Business School Pty Limited	*	31 December 2014
UniCentre Conferences and Functions Pty Limited	www.unicentre.uow.edu.au	10 August 2014
University of Wollongong Recreation and Aquatic Centre Limited	www.urac.com.au	31 December 2014
Wollongong UniCentre Limited	www.unicentre.uow.edu.au	31 December 2014
The University of Wollongong USA Foundation	*	31 December 2014
Charles Sturt University		
Charles Sturt Campus Services Limited	www.csu.edu.au	31 December 2014
Charles Sturt Services Limited	www.csu.edu.au	31 December 2014
Charles Sturt University Foundation Trust	www.csu.edu.au	31 December 2014

* This entity has no website.

Entity name	Website	Period/year ended
Minister for Education		
University of New England		
Agricultural Business Research Institute	www.abri.une.edu.au	31 December 2014
UNE Life Pty Limited	www.servicesune.com.au	31 December 2014
Sport UNE Pty Limited	www.sportune.com.au	31 December 2014
UNE Foundation	www.une.edu.au	31 December 2014
UNE Foundation Ltd	www.une.edu.au	31 December 2014
UNE Partnerships Pty Ltd	www.une.edu.au	31 December 2014
UNE Open Pty Limited	*	31 December 2014
UNE Health Pty Limited	*	31 December 2014
Southern Cross University		
Norsearch Limited	norsearch.scu.edu.au	31 December 2014