
New South Wales Auditor-General's Report
Financial Audit

Volume Two 2012

Focusing on Universities



The role of the Auditor-General

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

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

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

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

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

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

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Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

Pursuant to the *Public Finance and Audit Act 1983*,
I present Volume Two of my 2012 report.

A handwritten signature in black ink that reads 'Peter Achterstraat'.

Peter Achterstraat

Auditor-General

30 May 2012

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Significant Items

This summary shows those matters I identified during my audits that I believe are the most significant issues agencies need to address.

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Recommendations

This summary shows my more significant recommendations to agencies to address issues I identified during my audits.

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Members' Additional Entitlements

The Department of Parliamentary Services should remind Members that they should not approve additional temporary staff claim forms before staff have worked the hours.

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University Overview

Universities should review the taxation status of their controlled entities to ensure:

20

- current Australian Taxation Office private rulings are valid for Australian entities not paying tax
- tax is not being incurred unnecessarily.

University of Newcastle

The University should prepare business cases to support all major financial decisions.

63

The University has not prepared a cost/benefit analysis to support its proposal to build a new city campus. As part of the analysis, the University should:

64

- clearly define the project
- determine the maximum it is prepared to invest in the project
- assess the viability of alternative options such as expanding the existing Callaghan campus
- assess whether the results of the cost/benefit analysis are in line with its legislative objective.

The University should do more to improve controls over credit card use.

64

The University should:

65

- ensure it identifies all employee entitlements in Workplace Agreements for financial reporting purposes
- ensure it maintains adequate records and, where applicable, reconstructs these to verify and measure long service leave and any other entitlements
- recognise these entitlements in the financial statements.
- its use of contractors continues to represent value for money.

The University should implement a total asset management plan.

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The company obtain a private ruling as to its tax status from the Australian Taxation Office.

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University of New England


The University develops a policy that ensures leave is not allowed to accumulate to excessive levels.

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Section One

The Legislature

Members' Additional Entitlements



Members' Additional Entitlements

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NSW Auditor-General's Report

Volume Two 2012

MEMBERS' ADDITIONAL
ENTITLEMENTS

Payments for
some temporary
staff approved
before hours
were worked

Some instances
of noncompliance
with the
Parliamentary
Remuneration
Tribunal's
Determination
occurred

Audit Opinion

The Members I tested substantially complied with the requirements of the Parliamentary Remuneration Tribunal's (PRT) Determination for the year ended 30 June 2011.

Key Issues

Additional Temporary Staff

Recommendation

The Department of Parliamentary Services should remind Members that they should not approve additional temporary staff claim forms before staff have worked the hours.

My audit testing found instances where Members had approved time worked by additional temporary staff before they had worked the hours. This is contrary to the Members Handbook and the Clerk of the Legislative Assembly's instruction dated 8 September 2010. As a result, the temporary staff were paid in advance.

The Department of Parliamentary Services is developing an online system for submitting and approving claim forms, which in the future, will prevent Members from approving claim forms before staff have worked the hours. In the interim, they should remind Members that they should not approve time worked in advance.

The PRT's Determination provides entitlements to equipment, services and facilities that are necessary for Members to perform their parliamentary duties. These include the Additional Temporary Staff (ATS) entitlement, which is used to finance the employment of additional temporary officers to assist Legislative Assembly Members at their electorate offices. Additional temporary staff are paid at an hourly rate equivalent to an Electorate Officer Grade Two.

Other Information

Internal Audit of Members' Additional Entitlements

As a result of the self-assessment process for Members' additional entitlement claims, the Parliament introduced a specialised internal audit program focusing on the administration and management of varying aspects of the claims.

Each year, the Legislature's internal auditors select a sample of Members and test compliance with the PRT's determination. The findings of their most recent audit is summarised below. Their audit of Members' additional entitlement claims for 2010–11 was still progress at the time of preparing this report.

Internal Audit Report Date (Period examined)	Findings
February 2011 (1 July 2009 to 30 June 2010)	Moderate-rated issues* Ten instances of Members submitting their claims 60 days after they incurred the expense Six instances of Members lodging claims with inadequate information or insufficient documentation One instance of a member inadvertently duplicating a claim for the use of a private vehicle Low-rated issues** Eight instances of processing errors such as overpayments or incorrect coding, which were later resolved.

* Moderate-rated issue represents a control weakness, which could have or is having an adverse effect on the ability to achieve process objectives.

** Low-rated issue represents a minor control weakness, with minimal impact on the ability to achieve process objectives.

The Legislature's internal auditors also perform a 'themed' audit each year. In 2010–11, their 'themed' audit focused on the Electorate Mailout Account entitlement. At the time of preparing this report, the internal auditors were awaiting management responses to their draft findings.

Summary of Members' Additional Entitlements Expenditure

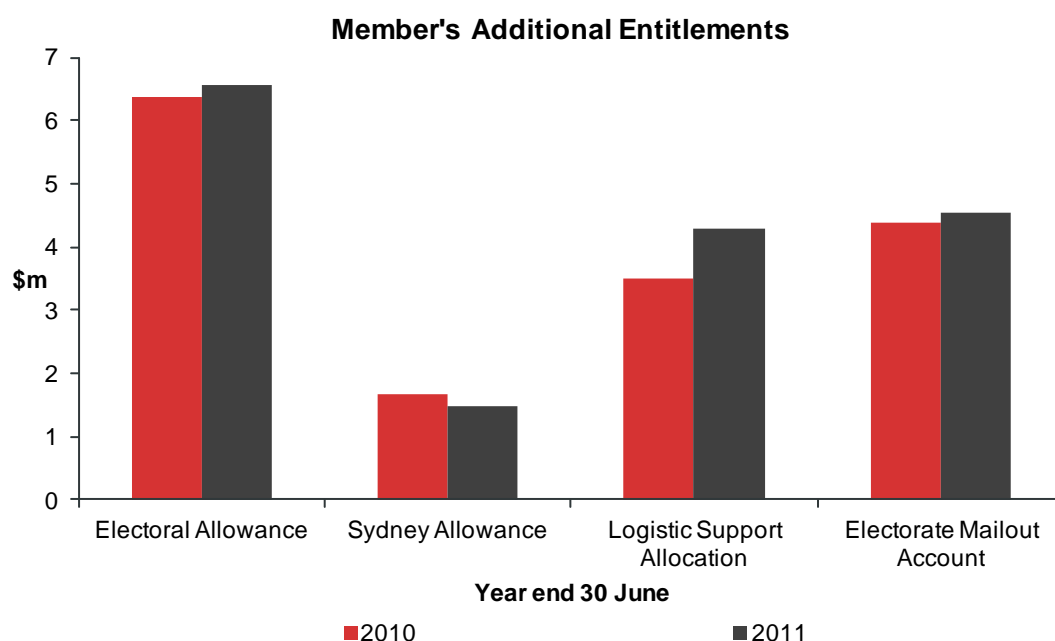
The table below summarises the expected and actual Members' additional entitlements expenditure for the year ended 30 June 2011. The actual expenditure was 13.7 per cent lower than the PRT's expectation.

Entitlement for the year ended 30 June 2011	Expected expenditure per PRT Determination \$	Actual expenditure \$	Variance (Favourable)/ Unfavourable %
Electoral Allowance	6,720,402	6,552,155	(2.5)
Sydney Allowance	2,097,753	1,487,699	(29.1)
Logistic Support Allocation	4,408,581	4,276,258	(3.0)
Electorate Mailout Account	6,231,389	4,527,191	(27.3)
Committee Allowance	26,025	10,459	(59.8)
Electorate Charter Transport Allowance	102,498	40,403	(60.6)
Travelling Allowance for Recognised Office Holders	*	--	N/A
Total	19,586,648	16,894,165	(13.7)

* Expected expenditure has not been provided as the maximum remuneration limit for this allowance is not defined.

N/A Not applicable.

The graph below shows the comparative actual expenditure over the last two years for the major entitlements categories. Except for the logistic support allocation entitlement, it shows the expenditure incurred by Members in 2011 was largely consistent with the previous year. The logistic support allocation expenditure increased by 22 per cent. The Department of Parliamentary Services advises the increase was due to Members spending their carryforward balances from previous years. Under the PRT's Determination, Members can carry forward unspent monies in one year to future years within their four-year term.



The additional
entitlements
expenditure was
less than
expected

Just one Member
did not complete
their Sydney
allowance
reconciliation by
30 September
2011

The table below summarises the average, maximum and minimum amounts claimed by entitlement category. The table is followed by explanations and comments for each entitlement.

Entitlement for the year ended 30 June 2011	Average amount claimed/paid per eligible Member \$	Maximum amount claimed/paid by an eligible Member \$	Minimum amount claimed/paid by an eligible Member \$
Electoral Allowance***	48,534	84,475	41,110
Sydney Allowance	22,888	34,710	1,265
Logistic Support Allocation	31,676	69,644	2
Electorate Mailout Account	48,679	68,290	1,186
Committee Allowance	1,743	2,728	700
Electorate Charter Transport Allowance	5,050	15,377	123
Travelling Allowance for Recognised Office Holders	--	--	--

*** The quantum of the electoral allowance is fixed according to the geographical electoral grouping of the Member, and is paid pro-rata as part of the Member's monthly salary.

Electoral Allowance

The Electoral Allowance is provided to Members to assist with performing parliamentary duties, including the cost of leasing or purchasing a motor vehicle. This is paid to Members in equal monthly instalments and Members are not required to demonstrate if, or how, they have spent this allowance.

Members	Electoral allowance payable per annum
Legislative Assembly Members	From \$41,110 to \$84,475
Legislative Council Members	\$48,140

Source: PRT Determination 2010.

Sydney Allowance

The Sydney Allowance is provided to Members whose principal place of residence is in non-metropolitan electorates. The allowance compensates Members for the additional costs associated with staying in Sydney to attend to parliamentary business.

A Member can choose to receive the Sydney Allowance as either an annual fixed allowance or a daily rate. The choice is made at the start of each financial year and about half of the Members choose to receive an annual fixed allowance. The table below shows the total Members who receive the fixed allowance and how many of them submitted their reconciliation, together with any unspent monies, by the due date.

Year ended 30 June	Legislative Assembly			Legislative Council		
	2011	2010	2009	2011	2010	2009
Members receiving entitlement on an annual basis	21	23	25	7	6	8
Members' reconciliations submitted on time	20	20	22	7	5	8

Members who receive their Sydney Allowance as an annual fixed allowance are required to return any unspent portion to the Department of Parliamentary Services by 30 September each year. For the 2010–11 year, only one Member did not submit their reconciliation on time. At the time of preparing this report, the Department of Parliamentary Services had received most unused monies, with only \$20,486 outstanding.

In its 2010 Determination, the PRT introduced the following sanctions if Members do not return unused monies on a timely basis:

- Suspending the annual entitlement and reverting to a daily rate until the Member reimburses unused monies
- recommending Presiding Officers consider publishing the names of those Members who have not repaid the unused portion of their Sydney Allowance on time.

The Department of Parliamentary Services advises that these sanctions were implemented but there were no occurrences.

In order to receive the allowance, each Member must certify their principal place of residence to the Executive Manager, Department of Parliamentary Services. The table below illustrates the daily rate and the number of nights that an eligible Member could claim for the year ended 30 June 2011.

Maximum allowable overnight stay*	Amount payable for overnight stay where accommodation costs are incurred*	In transit to and from Sydney where no overnight stay is involved
From 105 to 180 nights	\$253.00	Actual reasonable expenses for meals and incidentals up to a maximum of \$82.05 per day

Source: PRT's Determination 2010.

* If a Member chooses to receive the daily rate of allowance and the member exceeds the set number of overnight stays, he/she will be reimbursed actual costs, up to the daily maximum, upon production of tax invoices/receipts for each such occasion. The maximum depends on a Member's parliamentary office and location of principal place of residence.

Logistic Support Allocation

The Logistic Support Allocation provided to Members covers the operational costs associated with their parliamentary duties. This includes transport, communication, printing and stationery costs. A Member can carry forward any unspent monies to the following year.

Legislative Assembly and Legislative Council Members and Recognised Office Holders are entitled to a Logistic Support Allocation as follows:

Member Type	Minimum allocation p.a. \$	Maximum allocation p.a. \$
Legislative Assembly Members and office holders	32,290	41,165
Legislative Council Members and office holders	21,900	33,410

Source: PRT's Determination 2010.

As mentioned earlier, members can carry forward unspent monies in one year to future years within their four-year term.

Electorate Mailout Account

Legislative Assembly Members are provided with an annual amount to fund the cost of preparing and distributing newsletters to their electorate twice each year. They cannot use the Electorate Mailout Account for any other purpose, including electioneering or political campaigning.

Member Services in the Department of Parliamentary Services review the newsletters to ensure the content complies with the PRT's Determination and Parliament's publication guidelines. If Member Services believe a newsletter contains electioneering or political campaigning, they will deduct the cost from the Member's Logistic Support Allocation. Member Services advised the final proofs of newsletters they approved complied with the PRT's Determination and Parliament's publication guidelines.

Member Services advised the newsletters they approved complied with the PRT's Determination and Parliament's publication guidelines

The table below shows the minimum and maximum entitlement for the year ended 30 June 2011.

Range	Annual entitlement \$
Minimum	56,482
Maximum	70,465

Source: PRT's Determination 2010.

Committee Allowance

Committee Allowances are paid to Chairpersons of Joint, Select, and Standing Committees in recognition of the additional responsibilities of the office. Given the statutory nature of the Public Accounts Committee and its role in government activities, an annual allowance rate is payable to all committee members.

Range	Entitlement
Chairpersons of Joint, Select and Standing Committees	\$175 for each day that parliament was not sitting
Public Accounts Committee Members	\$4,010 per annum

Source: PRT's Determination 2010.

Electorate to Sydney Travel

Legislative Assembly and Legislative Council Members, who reside in particular electorate groups and zones, qualify for return air travel entitlement between their electorates/zones and Sydney as follows:

Categories	Electorate to Sydney Travel Entitlement (number of single journeys per annum)
Basic entitlement for all eligible Members	104
Additional entitlement for office holders (Ministers of the Crown, Party Leaders, Presiding Officers and their Deputies)	32
Additional entitlement for other officer holders (Deputy Leader of an eligible party and Deputy Leader of the Opposition)	16

Source: PRT's Determination 2010.

Travel is restricted to economy class and is not transferrable between Members, relatives or Members' staff. Alternatively, the Member may use the entitlement to meet the cost of using a private or rental vehicle, but this must not exceed the cost of an equivalent economy airfare.

Electorate Charter Transport for Legislative Assembly Members

Members of the largest electorates are provided with the Electorate Charter Transport allowance to meet charter transport costs incurred within their electorates. Charter transport includes charter aircraft, vehicle costs and any other mode of transport deemed appropriate by the Speaker of the Legislative Assembly.

The Members must only use the allowance in connection with parliamentary duties and they cannot use it during election campaigns or for other electioneering or party political activities.

Members can receive between \$7,180 and \$21,690 a year.

Travelling Allowances for Recognised Office Holders

Recognised Office Holders, such as the Premier, Deputy Premier and senior ministers, receive a travelling allowance for all travel they undertake in their role as a Recognised Office Holder. They cannot claim the allowance when travelling in their ministerial capacity.

Recognised Office Holders may also claim additional expenses exceeding the entitlement incurred by an approved relative who accompanied them to a State or official function.

Equipment, Services and Facilities

Parliament provides Legislative Assembly and the Legislative Council Members with the equipment, services and facilities necessary to perform their parliamentary duties, including:

- a fitted-out, equipped and maintained office with secretarial services at Parliament House
- a fitted-out, equipped and maintained Electorate Office for Legislative Assembly Members
- equipment and ancillary services in the Member's private residence, including a telephone and facsimile machine, for the performance of parliamentary duties
- administrative support from Presiding Officers:
 - two electorate staff for each Legislative Assembly Member
 - one additional staff for each Independent Legislative Assembly Member
 - entitlement to recruit additional temporary staff to work at Electorate Office or Parliament House for a period of 61 days per annum
 - one staff member for each Legislative Council Member
 - two staff members for each Legislative Council Member who is elected as a cross bench member, but not a minister
 - one staff member for each Whip of a recognised political party of not less than ten Members.

The Role of the Parliamentary Remuneration Tribunal

The PRT's principal function is to determine Members 'additional' entitlements. These additional entitlements fall into two categories:

- those in the nature of allowances:
 - Electoral Allowance
 - Sydney Allowance
 - Committee Allowance
- those in the nature of fixed allocations:
 - Electorate to Sydney Travel
 - Logistic Support Allocation
 - Electorate Mailout Account for Legislative Assembly Members
 - Electorate Charter Transport for Legislative Assembly Members
 - Travelling Allowance for Recognised Office Holders
 - Equipment, Services and Facilities.

The Legislature pays the additional entitlements where Members incur the actual costs. It can either reimburse the Member or pay third parties (e.g. travel providers) for services to the Member.

The additional entitlements determined by the PRT are separate from:

- Members' annual basic salaries, set by the PRT
- additional salaries paid to ministers and certain other office holders, set out in Schedule One of the Act as varying percentages of their basic salaries
- expense allowances paid to ministers and certain other office holders, set out in Schedule One of the Act as varying percentages of their basic salaries.

Comments on the Legislature were reported in Volume Six of my 2011 Auditor-General's Report to Parliament.

Section Two

Overview

University Overview



University Overview

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NSW Auditor-General's Report

Volume Two 2012

UNIVERSITY OVERVIEW

Unmodified audit
opinions issued
for all ten NSW
universities

Universities have
significant capital
works and
employee
entitlements to
fund

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

Sydney Metro

Macquarie University
(MU)

University of New South
Wales (UNSW)

The University of Sydney
(TUS)

University of Technology,
Sydney (UTS)

University of Western
Sydney (UWS)

Major Regional

University of Newcastle
(UN)

University of Wollongong
(UW)

Country

Charles Sturt University
(CSU)

University of New England
(UNE)

Southern Cross University
(SCU)

Audit Opinion

The audits of all ten universities' 2011 financial statements resulted in unmodified audit opinions within their Independent Auditor's Reports.

Key Issues

Universities face financial and reputational challenges, including:

- funding significant capital works programs exceeding \$1.6 billion in 2012
- funding backlog maintenance of \$763 million
- funding for superannuation liabilities of \$4.3 billion
- funding employees' long service leave obligations of \$571 million
- reducing reliance on Australian Government funding
- reliance on revenue from overseas students.

My report focuses on these challenges and includes observations from my audits of the universities' financial statements.

Status of 2010 Audit Recommendations

Last year, I made 25 recommendations to universities and I am pleased to report most have been implemented. The status of those recommendations is shown below.

University	Number of Recommendations Made in 2010	Number of Recommendations Addressed	Details of Recommendations not Addressed
Sydney Metro			
Macquarie	1	1	
New South Wales	3	2	Completion expected in 2012 when the liquidation of a subsidiary is finalised.
Sydney	4	4	
Technology, Sydney	1	1	
Western Sydney	1	1	
Sydney Metro Total	10	9	
Major Regional			
Newcastle	5	3	Recommendation to create and maintain a single record of all contractors and review their roles and responsibilities is in progress and scheduled for completion by 31 December 2012. Recommendation to improve controls over credit cards partially addressed, but more action is required.
Wollongong	2	2	
Major Regional Total	7	5	
Country			
Charles Sturt	4	4	
New England	3	3	
Southern Cross	1	1	
Country Total	8	8	
Total	25	22	

Of the 25 recommendations I made last year, only three remain outstanding

Capital works spending in 2011 across all ten universities totalled \$1.0 billion (\$1.0 billion in 2010)

Capital Programs and Asset Management

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

Capital Works

Capital works spending in 2011 across all ten universities totalled \$1.0 billion (\$1.0 billion in 2010). The University of New South Wales incurred the largest spend of \$225 million.

Most universities have significant capital works programs planned for the next two years, which are primarily designed to:

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

The Australian Government has introduced the Student Demand Driven System, which allows universities to increase student numbers to levels they can support. This can put pressure on universities' resources, infrastructure and funding models for maintenance and capital expenditure.

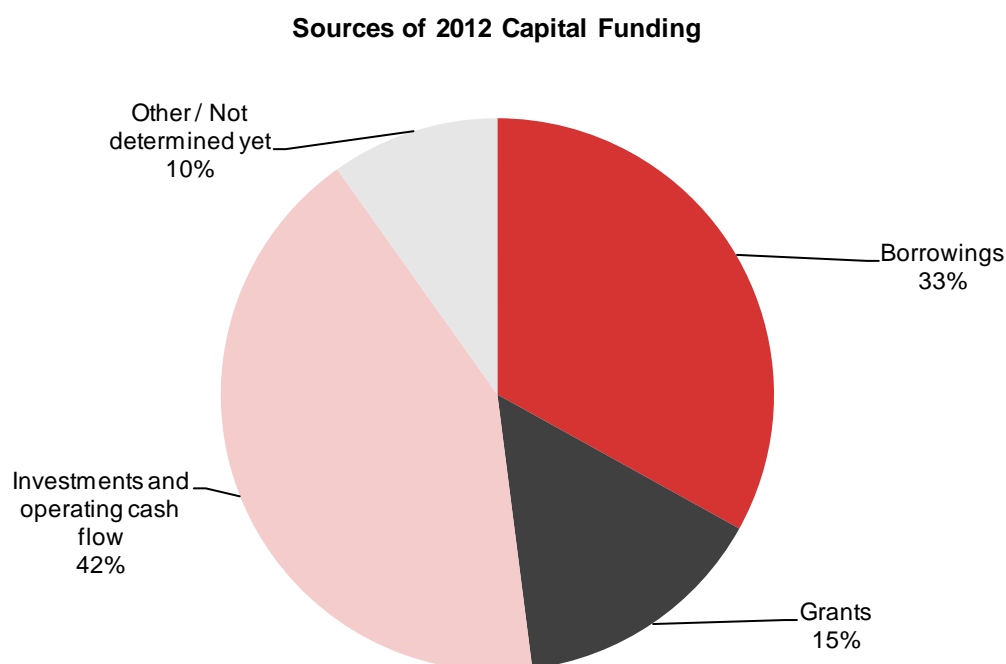
The table below shows the capital spend for each university for the last three years and the budgets for 2012 and 2013.

Year ended 31 December	Budget			Actual		
University	2013 \$m	2012 \$m	Trend	2011 \$m	2010 \$m	2009 \$m
Sydney Metro						
Macquarie	49	157	↓	95	334	165
New South Wales	318	352	↑	225	126	139
Sydney	429	384	↑	198	98	151
Technology, Sydney	296	256	↑	154	108	54
Western Sydney	140	144	↑	111	108	109
Sydney Metro Total	1,232	1,293	↑	783	774	618
Major Regional						
Newcastle	118	113	↑	59	56	35
Wollongong	26	122	~	78	103	69
Major Regional Total	144	235	↑	137	159	104
Country						
Charles Sturt	40	65	↓	77	53	107
New England	22	39	↑	21	20	13
Southern Cross	7	43	↑	25	10	33
Country Metro Total	69	147	↓	123	83	153
Total	1,445	1,675	↑	1,043	1,016	875

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

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

Sources of funding for 2012 combined capital works programs are shown in the chart below.



Backlog maintenance is decreasing, but remains high at \$763 million

Source: Data provided by universities (unaudited).

Refer to individual university comments for more detailed commentary on their capital works programs.

Asset maintenance

Backlog maintenance for all universities remains significant at 31 December 2011, totalling \$763 million.

Year ended 31 December	2011	2010	2009
Backlog maintenance (\$m)	763	782	832
Actual maintenance expenditure (\$m)	192	151	154
Total Property, Plant and Equipment (PPE) values at 31 December (\$b)	9.2	9.5	8.6
Actual maintenance expenditure/PPE values (%)	2.1	1.6	1.8
Depreciation expense (\$m)	448	405	337

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

Backlog maintenance ranged from a low of \$450,000 at Southern Cross University to an estimated \$370 million at The University of Sydney. The estimate for backlog maintenance for some universities could be higher depending on the timing of condition assessments. Some universities perform asset condition audits over a five year cycle while others perform them on an ongoing basis. One university confirmed it is developing asset condition assessment procedures and has not yet performed any assessments.

Further details on backlog maintenance are included in individual university comments.

University Governance

Universities Governing Bodies Act 2011

On 25 October 2011, the *Universities Governing Bodies Act 2011* was assented for the ten NSW universities. The new Act allows for the universities to reduce the membership size of Senate or Council to a minimum of 11.

Governance of Controlled Entities

Over the last couple of years, universities have reviewed their governance arrangements and taken steps to improve these arrangements as part of their ongoing commitment to improving governance.

Universities need to continuously focus on governance arrangements for controlled entities, particularly those incorporated overseas.

Complexity of Universities' Business Arrangements

Universities continue to review their business arrangements and have again reduced the number of domestic controlled entities from 87 to 79. Overseas controlled entities remain at 12.

At 31 December 2011, universities were involved in the following business arrangements:

University	Total Number of Business Arrangements	Number of Controlled Entities	Number of Joint Ventures	Number of Cooperative Research Centres*
Sydney Metro				
Macquarie	23	20	--	3
New South Wales	28	19	--	9
Sydney	20	7	--	13
Technology, Sydney	13	6	4	3
Western Sydney	13	11	--	2
Sydney Metro Total	97	63	4	30
Major Regional				
Newcastle	13	4	--	9
Wollongong	17	9	--	8
Major Regional Total	30	13	--	17
Country				
Charles Sturt	7	3	--	4
New England	13	6	--	7
Southern Cross	17	6	5	6
Country Total	37	15	5	17
Total	164	91	9	64

Source: Data obtained from respective universities.

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

The number of entities controlled by each university at 31 December was:

At 31 December University+	Incorporated in Australia					Incorporated Overseas				
	Trend	2011	2010	2009	2008	Trend	2011	2010	2009	2008
Sydney Metro										
Macquarie	~	20	20	34	30	~	--	--	--	--
New South Wales	↓	11	13	15	21	↓	8	8	10	10
Sydney	↓	7	7	8	10	~	--	--	--	--
Technology, Sydney	~	4	4	3	3	↓	2	2	3	3
Western Sydney	↓	11	13	13	14	~	--	--	--	--
Sydney Metro Total	↓	53	57	73	78	~	10	10	13	13
Major Regional										
Newcastle	↓	3	5	6	8	~	1	1	1	1
Wollongong	↓	8	10	9	9	↓	1	1	3	3
Major Regional Total	↓	11	15	15	17	↓	2	2	4	4
Country										
Charles Sturt	↓	3	3	5	6	~	--	--	--	--
New England	~	6	8	8	6	~	--	--	--	--
Southern Cross	↑	6	4	3	3	~	--	--	--	--
Country Total	~	15	15	16	15	~	--	--	--	--
Total	↓	79	87	104	110	↓	12	12	17	17

Source: Data obtained from respective universities.

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

Four universities continue to have incorporated controlled entities operating in Singapore, India, Thailand, the USA, Hong Kong and/or China.

During the year Southern Cross University registered two new controlled entities, one to help build a college at the Gold Coast and the other to provide facilities for the delivery of academic programs for football players.

In 2011, New South Wales, Western Sydney, Newcastle, Wollongong and New England universities reduced their controlled entities by two each, while Macquarie had the highest number of controlled entities at 20.

Audit Opinions on Controlled Entities

I issued eight qualified audit opinions on controlled entities' 2011 financial statements, compared to nine last year. All qualifications were because I was unable to express an opinion as to whether the entity had recorded all revenues received from donations and fundraising sources in its financial statements. This is common for entities with these sources of revenue, as it is impracticable for them to maintain effective systems of internal control over the receipt of such revenues until their initial entry in the financial records. My audit opinions for the year ended 31 December 2010 were similarly qualified.

Eight qualified audit opinions issued for university controlled entities, compared to nine last year

Taxation status of
controlled entities
needs to be
confirmed

Universities
should review the
need for
controlled entities
that pay taxation

At the time of this report, two audits were incomplete compared to 16 in 2010. Details are:

University	Number of Controlled Entities		Number of Qualified Opinions		Number of Incomplete Audits	
	2011	2010	2011	2010	2011	2010
Sydney Metro						
Macquarie	20	20	--	--	--	1
New South Wales	19	21	3	3	1	9
Sydney	7	7	--	1	1	5
Technology, Sydney	6	6	--	--	--	--
Western Sydney	11	13	2	2	--	--
Sydney Metro Total	63	67	5	6	2	15
Major Regional						
Newcastle	4	6	1	1	--	1
Wollongong	9	11	--	--	--	--
Major Regional Total	13	17	1	1	--	1
Country						
Charles Sturt	3	3	1	1	--	--
New England	6	8	1	1	--	--
Southern Cross	6	4	--	--	--	--
Country Total	15	15	2	2	--	--
Total	91	99	8	9	2	16

Changes in the Not-For-Profit Sector

Recommendation

Universities should review the taxation status of their controlled entities to ensure:

- current Australian Taxation Office private rulings are valid for Australian entities not paying tax
- tax is not being incurred unnecessarily.

University controlled entities undertake a variety of operations, most of which are Australian income tax exempt. However, a change in activities can affect exemption status. To ensure compliance with taxation law, universities should confirm Australian controlled entities' activities continue to fall within the existing Australian Taxation Office private rulings that support their exempt status. Penalties for noncompliance can be significant.

For controlled entities paying Australian taxation, universities should review the need for those entities, particularly if their operations can be incorporated within the university structure, so that taxation is not payable.

The Australian Government announced its intention to change taxation arrangements applying to the not-for-profit (NFP) sector in the 2011–12 Budget. As a result, they reformed the use of tax concessions for businesses run by NFP agencies to ensure:

- NFPs pay income tax on profits from unrelated commercial activities that are not directed back to their altruistic purpose (i.e. earnings retained from commercial activities)
- input tax concessions, such as FBT and GST concessions, cannot be used by NFPs for unrelated commercial activities.

The new arrangements started on 1 July 2011 and apply to new unrelated commercial activities that commenced after 7.30 pm on 10 May 2011. For pre 10 May 2011 unrelated commercial activities, the Australian Government intends to implement transitional arrangements, which will phase out these concessions over time.

Funding of Employee Entitlements

Superannuation Liabilities Funded by the Government

Universities do not have an agreed timetable with the Australian Government for funding the majority of employee defined benefit superannuation liabilities. Universities need a funding timetable for cash flow management purposes and to inform the superannuation schemes' trustee. Reserve balances held by the trustee for some universities have fallen to a level where the trustee has asked universities for a funding plan. Funding is becoming more critical as increasing numbers of employees retire.

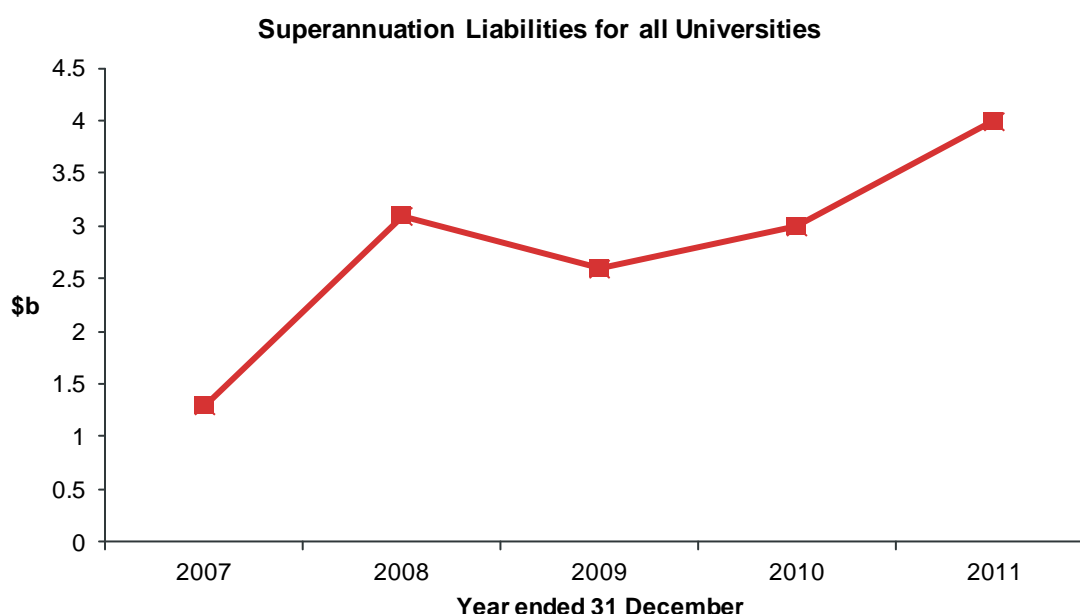
In 2010, I recommended the vice-chancellors of all universities collaborate and approach the Australian Government to negotiate an agreement to fund staff defined superannuation obligations. During 2011, the Chair of the NSW Vice-Chancellors' Committee approached the NSW and Australian Governments and secured an undertaking from them to appoint an independent actuary. Separate actuaries were appointed by each government to assess the relevant liabilities and their allocation between the two governments. The actuaries are contacting each university to discuss their defined superannuation positions.

Liabilities for defined benefit superannuation schemes across all universities increased from \$3.0 billion to \$4.3 billion at 31 December 2011, an increase of \$1.3 billion (\$338 million increase).

At 31 December 2011, 50.8 per cent (51.7 per cent) of superannuation liabilities was attributable to the University of New South Wales and The University of Sydney.

Superannuation liabilities increased from \$3.0 billion to \$4.3 billion

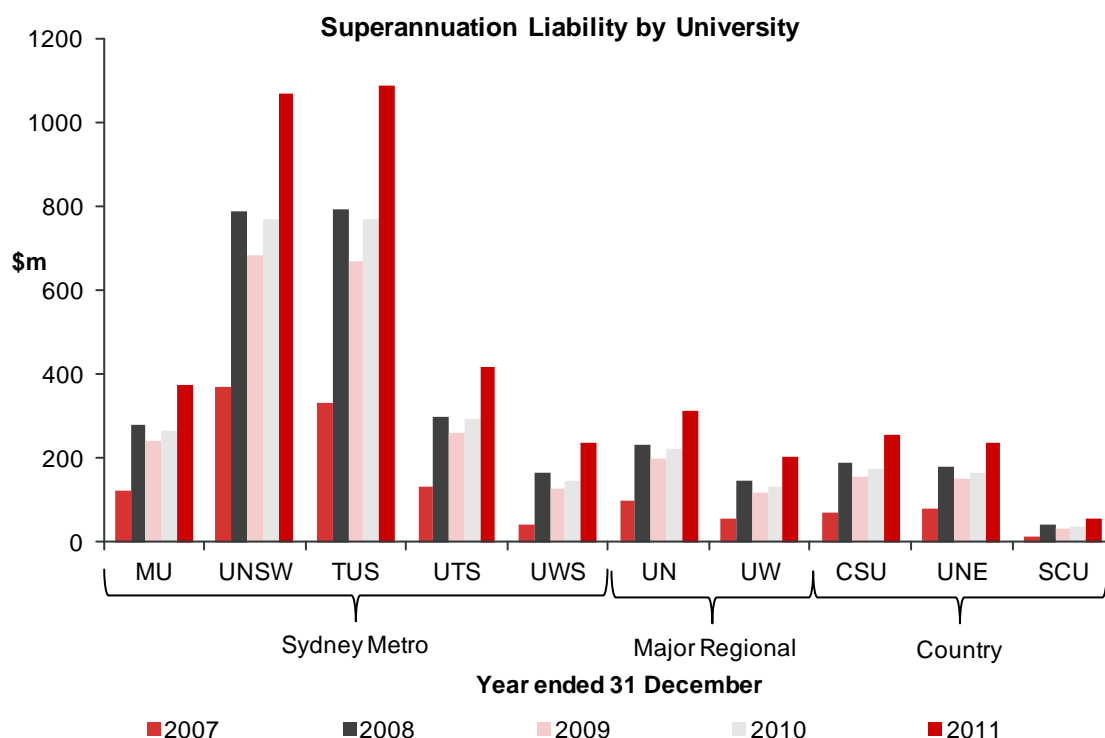
Funding arrangements for superannuation liabilities are becoming more critical



Source: University financial statements (audited).

Universities are not liable for UniSuper liabilities of \$907 million

Most universities are reducing excess annual leave balances



Source: University financial statements (audited).

Superannuation Liabilities Funded by the Universities

At 31 December 2011, the total defined superannuation liability to be funded by universities and not the NSW or Australian Governments was \$226 million (\$174 million). Each university, particularly those with the greatest unfunded liabilities, will need to ensure they have sufficient future cash flows to meet these obligations as they fall due. At 31 December 2011, 50 per cent (44.4 per cent) of the liabilities funded by the universities was attributable to the University of New South Wales, 19.3 per cent (20.3 per cent) to The University of Sydney and 14.3 per cent (17.1 per cent) to the University of Newcastle.

UniSuper

Some university employees are members of the UniSuper Defined Benefit Division (UniSuper), which does not have guaranteed funding arrangements with the universities or governments. As a result, universities' financial statements do not include UniSuper liabilities.

Based on actuarial advice, the Trustee believes UniSuper may have insufficient assets and future funding to provide for current benefit levels and has notified employers and members of this. As at 30 June 2011, the deficit of total assets over vested benefits was estimated at \$907 million (\$1.2 billion).

Excessive Annual Leave

Last year, I recommended universities with high levels of employee excess annual leave liabilities examine trends over the last five to ten years and investigate the drivers of the increases so they can address underlying issues. All universities are reducing excessive annual leave balances except for the University of Technology, Western Sydney and the University of New England where excessive leave is trending up.

Managing excessive annual leave balances is a continual challenge. At 31 December 2011, 1,749 (2,021) university employees or 6.4 per cent (7.2 per cent) of all staff had accrued more than 40 days annual leave. The University of Newcastle continues to have the lowest proportion of its staff with excess annual leave balances.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which increases costs and cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave. The table below shows the number of staff with more than 40 days accrued annual leave at 31 December.

University	Academic				General			
Year	Trend	2011	2010	2009	Trend	2011	2010	2009
Sydney Metro								
Macquarie	↓	156	162	177	↓	42	43	45
New South Wales	↓	294	313	507	↓	95	86	254
Sydney	↓	288	364	420	↓	84	176	265
Technology, Sydney	↑	111	105	105	↑	71	65	53
Western Sydney	↑	59	52	47	↓	48	52	61
Sydney Metro Total	↓	908	996	1,256	↓	340	422	678
Major Regional								
Newcastle	↓	16	21	22	↑	54	47	39
Wollongong	~	11	10	10	↓	68	128	107
Major Regional Total	↓	27	31	32	↓	122	175	146
Country								
Charles Sturt	↓	64	77	86	~	87	115	85
New England	↑	76	72	56	↑	81	76	71
Southern Cross	↓	32	35	46	↓	12	22	44
Country Total	↓	172	184	188	↓	180	213	200
Total	↓	1,107	1,211	1,476	↓	642	810	1,024

Source: Information provided by respective universities (unaudited).

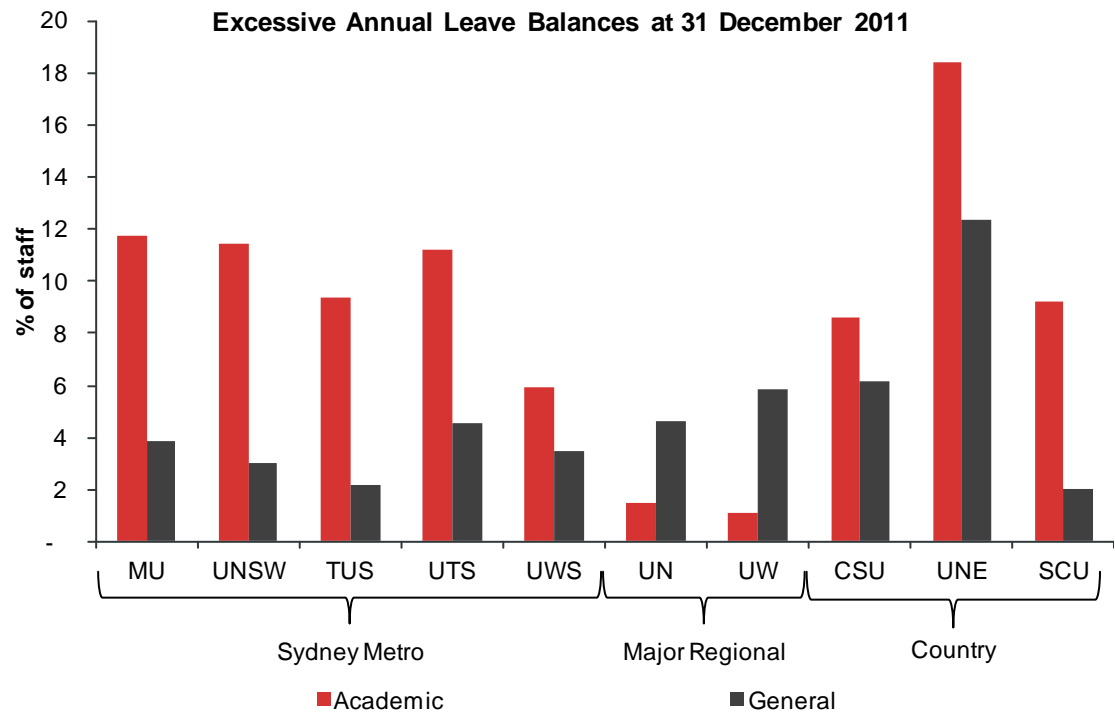
Key: ↑ Trend upwards, ↓ Trend downwards, ~ No trend.

Academic staff with excessive leave balances decreased to 8.8 per cent (10.1 per cent decrease) of total academics. For general staff it decreased to 4.4 per cent (5.1 per cent decrease).

At the University of New England, general staff accrue 25 days of annual leave per year and may not be directed to take leave unless they have accrued more than 50 days. If 50 days is used as the threshold, 38 (41) general staff at the University would have accrued excessive leave balances at 31 December 2011.

Long service
leave liabilities
have increased
by 51.5 per cent
over the past five
years

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



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

Long Service Leave Liability

The long service leave liability for NSW universities has increased by 51.5 per cent over the past five years, mostly due to the impact of a decrease in the discount factor used to calculate the present value of the liability.

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

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

University	Trend	2011 \$m	2010 \$m	2009 \$m	2008 \$m	2007 \$m
Sydney Metro						
Macquarie	↑	42	34	34	36	32
New South Wales	↑	144	106	99	105	91
Sydney	↑	115	99	92	89	82
Technology, Sydney	↑	64	45	40	39	37
Western Sydney	↑	47	41	39	37	34
Sydney Metro Total	↑	412	325	304	306	276
Major Regional						
Newcastle	↑	53	43	39	40	35
Wollongong	↑	45	40	35	33	29
Major Regional Total	↑	98	83	74	73	64
Country						
Charles Sturt	↑	27	23	23	23	21
New England	~	20	21	21	22	19
Southern Cross	↑	14	13	12	12	9
Country Total	↑	61	57	56	57	49
Total	↑	571	465	434	436	389

Source: Universities financial statements (audited).

Key: ↑ Trend upwards, ~ No trend.

The University of Technology, Sydney had the greatest increase in its long service leave liability in 2011 of 42.2 per cent (14.3 per cent for the University of Wollongong). The long service leave liability at the University of New England decreased as the number of employees fell in 2011 and \$2.4 million of leave was paid to exiting employees. This was offset by a \$1.2 million increase in the liability due to service accrued.

Performance Information

Financial Performance

Four universities (two in 2010) met the four Australian benchmarks for university financial performance.

Four universities were again below the liquidity benchmark range at 31 December 2011 and two relied on Australian Government funding for more than 50 per cent of their operating revenue compared to none in 2010. All universities achieved the benchmark for operating surpluses and employee benefits and on-costs in 2011, compared to eight for both in 2010.

Four universities achieved all four benchmarks for university financial performance in 2011 compared to two in 2010

The following table shows each university's performance against the benchmarks at 31 December 2011.

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

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

The benchmark criteria and calculations are presented in the aggregated tables on pages 37 to 40.

Liquidity

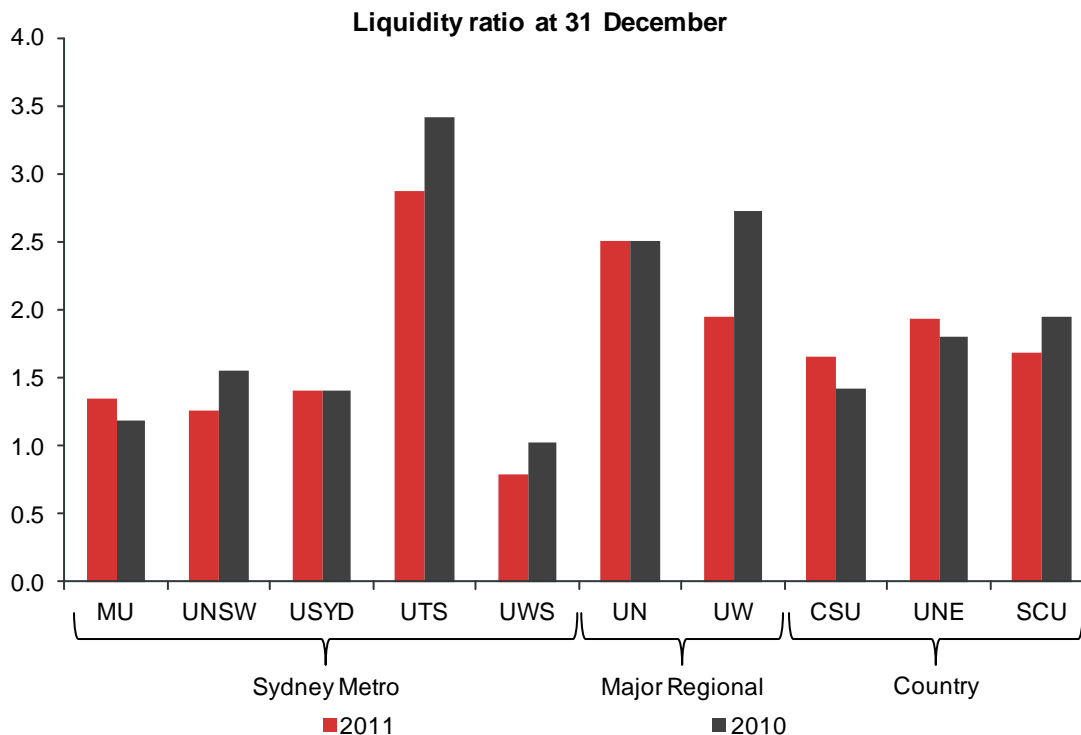
At 31 December 2011, four universities (all Sydney metropolitan universities) compared to five at 31 December 2010, did not meet the DEEWR liquidity benchmark. DEEWR considers a liquidity ratio of less than 1.5 to be below its general better practice guideline.

The University of Western Sydney had the lowest current ratio of 0.8 in 2011 compared to 1.0 in 2010. The University advised it does not have a liquidity risk as it has an undrawn loan facility of \$84.0 million and a highly liquid investment of \$27.5 million included in non-current assets.

The University of Technology Sydney had the highest current ratio of 2.9 (3.4 in 2010), which is close to DEEWR's upper benchmark range of 3.0.

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

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



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

Operating Result

Ten (eight) universities reported operating surpluses in 2011.

In 2011, NSW universities recorded a combined surplus of \$376 million (\$582 million). Operating results for metropolitan and major regional universities were lower than last year, while results for country universities improved. Financial summaries are provided in the University Information tables section later in this overview with more detailed information in each universities comment.

The University of New South Wales again recorded the highest operating surplus of \$88.9 million (\$143 million in 2010). The Southern Cross University recorded the lowest operating result in 2011, a surplus of \$8.0 million.

Although universities are not-for-profit organisations, DEEWR considers the operating result a useful measure of financial performance. Apart from exceptional years, DEEWR believes universities should achieve an operating surplus, which provides a reasonable safety margin.

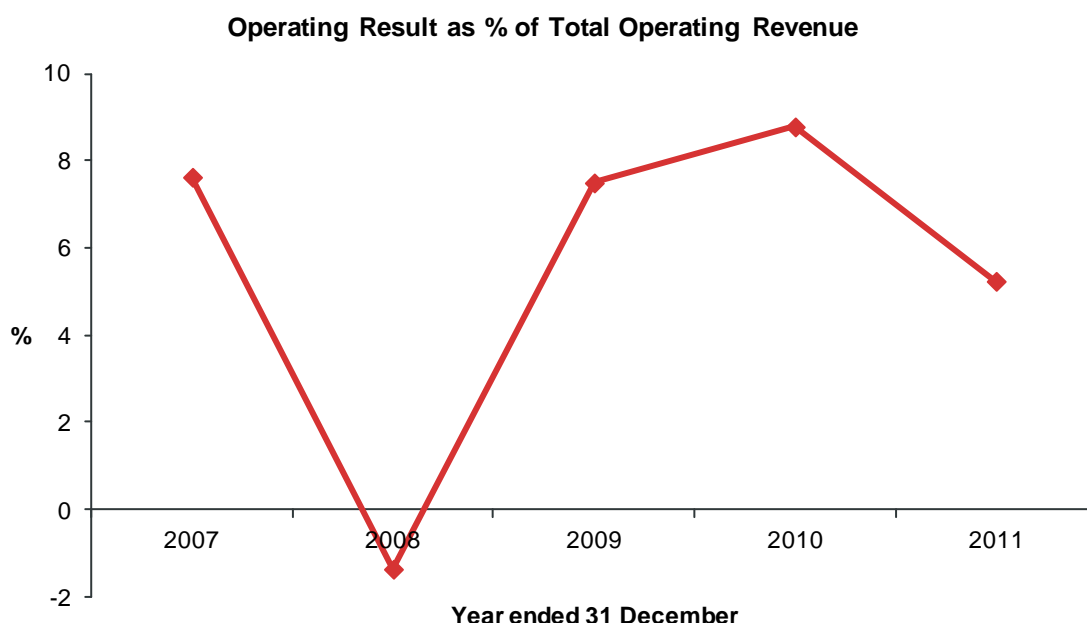
All ten universities reported operating surpluses for 2011

Operating surpluses for metropolitan and major regional universities fell, while country universities' results improved

The University of New South Wales again recorded the highest operating surplus of \$88.9 million (\$143 million in 2010)

Most universities' biggest source of revenue is Australian Government grants

The graph below illustrates the trend in the combined operating result for all universities as a percentage of total operating revenues over the past five years. It shows 2008 as an exceptional year due to the global financial crisis.



Source: University financial statements (audited).

Operating results as a percentage of total revenues for individual universities ranged from 2.2 per cent for the University of Western Sydney (0.4 per cent negative for University of New England in 2010) to nine per cent for the Charles Sturt University (18.3 per cent for the University of Wollongong).

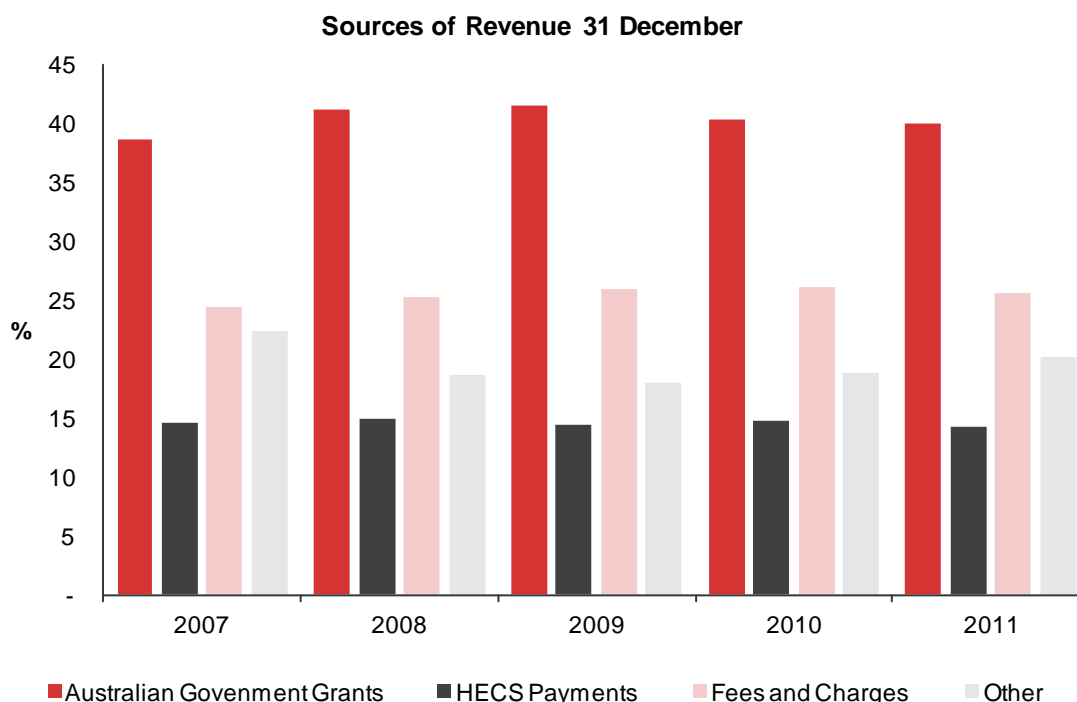
Diversity of Revenue

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

Year	2011 \$m	2010 \$m	2009 \$m	2008 \$m	2007 \$m
Australian Government grants	2,830	2,657	2,518	2,303	1,957
Higher Education Contribution Scheme	1,012	973	875	829	738
Fees and Charges					
- Student fees – domestic	168	167	172	199	187
- Student fees – overseas	1,348	1,291	1,112	928	794
- Consultancy and contracts	291	279	281	282	267
Total fees and Charges	1,807	1,737	1,565	1,409	1,248
Other Income					
- Investment income*	212	226	174	150	283
- Other*	1,213	1,037	918	894	856
Total Other Income	1,425	1,263	1,092	1,044	1,139
Total Operating Revenue	7,074	6,630	6,050	5,585	5,082

Source: University financial statements (audited).

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



Source: University financial statements (audited).

Total operating revenue has increased by 50.4 per cent over the last five years, primarily due to the growth in Australian Government grants of 55.2 per cent since 2006. DEEWR expects Australian Government grants to be not much more than 50 per cent of operating revenue. All universities achieved this expectation except for Southern Cross University and University of New England (both country universities), which scored 53.4 per cent and 50.6 per cent respectively. This is primarily due to lower levels of revenue from overseas students compared to other universities

Australian Government Grants

- Australian Government grants continued to be the main source of revenue for all universities, except Macquarie University and the University of Technology, Sydney, accounting for 23.6 per cent (26.5 per cent) and 30.8 per cent (31 per cent) respectively of total operating revenue in 2011.
- Southern Cross University is most reliant on Australian Government grants at 53.4 per cent (48.3 per cent for University of New England in 2010) of its operating revenue.

Higher Education Contribution Scheme (HECS)

- The ratio of HECS receipts to total operating revenue has remained fairly constant over the last five years at 14.3 per cent (14.7 per cent).
- The University of Sydney has the lowest ratio at 9.4 per cent (9.7 per cent for the University of New South Wales).
- The highest ratio of 29.1 per cent (27.1 per cent) was again achieved by the University of Western Sydney.

Macquarie University's reliance on Australian Government grants is less than all other NSW universities

Southern Cross University is the most reliant on Australian Government grants

Macquarie University's largest source of revenue is from fees and charges

Revenue from overseas students continued to be a significant revenue stream

Macquarie University had the highest percentage of revenue from overseas students, while the University of New England had the lowest

Fees and Charges

- Fees and charges are the second most significant source of revenue for universities.
- Fees and charges have increased by 44.8 per cent over the last five years.
- Macquarie University's largest source of revenue is again from fees and charges at 48.2 per cent (46.4 per cent) of its total operating revenue.
- Southern Cross University has the lowest percentage of revenue from fees and charges at 11.6 per cent (13.5 per cent for the University of Western Sydney).
- Revenue from overseas fee-paying students continued to be a significant revenue stream for universities, representing 19.1 per cent (19.5 per cent) of total revenue. It increased by 4.4 per cent over the prior year and 69.8 per cent over the last five years. Overseas students provide significantly higher financial returns to universities than domestic students.
- For individual universities, revenue from fee-paying overseas students as a percentage of total operating revenue ranged from 5.3 per cent for the University of New England (5.3 per cent for Charles Sturt University) to 31.1 per cent for Macquarie University (31.3 per cent for Macquarie University).

Other

- Since 2007, there has been a nine per cent increase in consultancy and contracts revenue. In the same period, other income increased by 41.7 per cent and investment income decreased by 25.1 per cent.

Student numbers

During 2010, full-time equivalent (FTE) students in NSW universities increased by 14,054 (or 6.2 per cent) to 240,773. FTE overseas students increased by 4,522 (or 8.4 per cent) to 58,364. At 31 December 2010, overseas students represented 24.2 per cent (23.7 per cent) of all enrolled students.

The dissection of students by university is shown in the table below. This is the latest information available from published data of DEEWR. Individual university comments include 2011 data, which has not been through the department's review and publication process.

	Overseas Students				Domestic Students			
University	Trend	2010 FTE	2009 FTE	2008 FTE	Trend	2010 FTE	2009 FTE	2008 FTE
Sydney Metro								
Macquarie	↑	10,029	9,337	8,422	↑	16,661	15,545	14,058
New South Wales	↑	10,575	8,966	7,955	↑	26,062	24,879	24,374
Sydney	↑	9,481	9,270	8,579	↑	30,267	29,553	28,586
Technology, Sydney	↑	6,663	5,928	5,484	~	17,855	18,048	17,404
Western Sydney	↑	3,245	2,971	2,753	↑	25,127	23,092	21,764
Sydney Metro Total	↑	39,993	36,472	33,193	↑	115,972	111,117	106,186
Major Regional								
Newcastle	↑	4,303	3,854	3,441	↑	19,065	18,076	16,616
Wollongong	↑	7,543	7,137	6,454	↑	13,245	12,034	10,954
Major Regional Total	↑	11,846	10,991	9,895	↑	32,310	30,110	27,570
Country								
Charles Sturt	↑	3,223	3,011	2,585	↑	18,068	15,792	15,169
New England	↑	850	752	587	↑	8,538	8,311	8,298
Southern Cross	~	2,452	2,616	2,521	~	7,521	7,547	6,872
Country Total	↑	6,525	6,379	5,693	↑	34,127	31,650	30,339
Total	↑	58,364	53,842	48,781	↑	182,409	172,877	164,095

Source: 2010 Australian Government Department of Education, Employment and Workplace Relations published statistics for 2008–10.

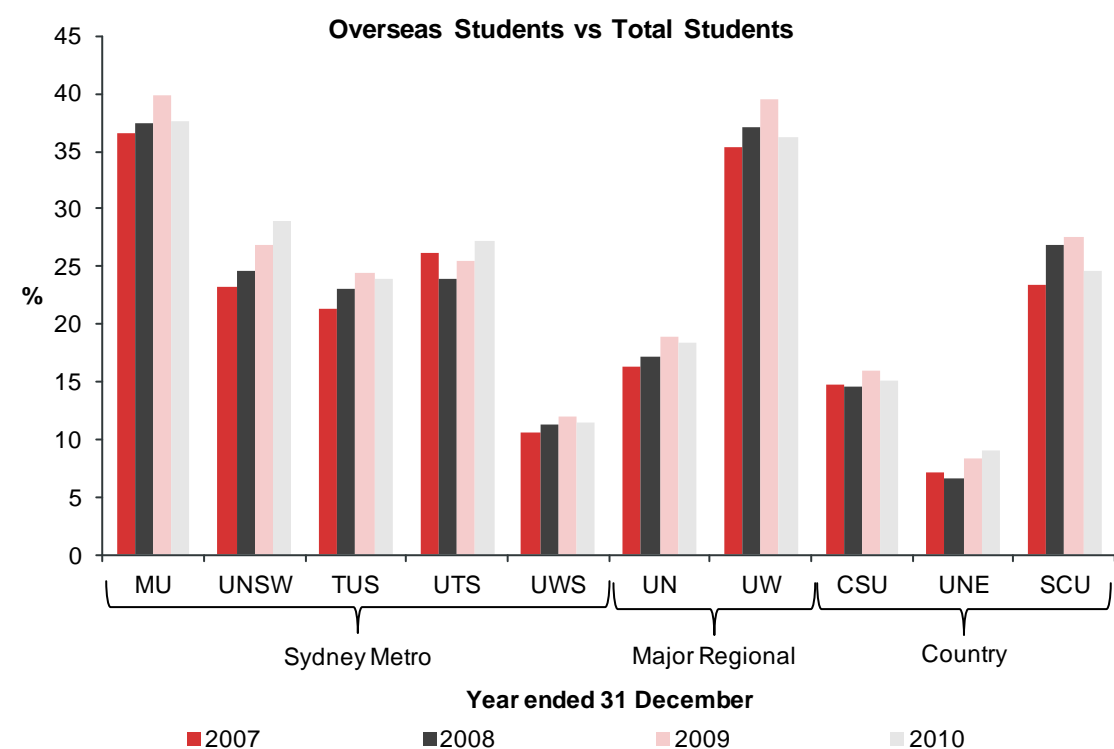
Key: ↑ Trending upwards, ↓ Trending downwards, ~ No trend.

The University of New South Wales recorded the highest growth in overseas student enrolments in 2010, increasing by 17.9 per cent. All universities, except Southern Cross University, demonstrated upward trends in overseas student numbers.

The University of Technology Sydney advised its decline in domestic student numbers in 2010 was due to uncertainty surrounding the ongoing operations of its Kuring-Gai campus.

Southern Cross University advised its decline in overseas student numbers was because it had taken strategic decisions to exit from unproductive relationships.

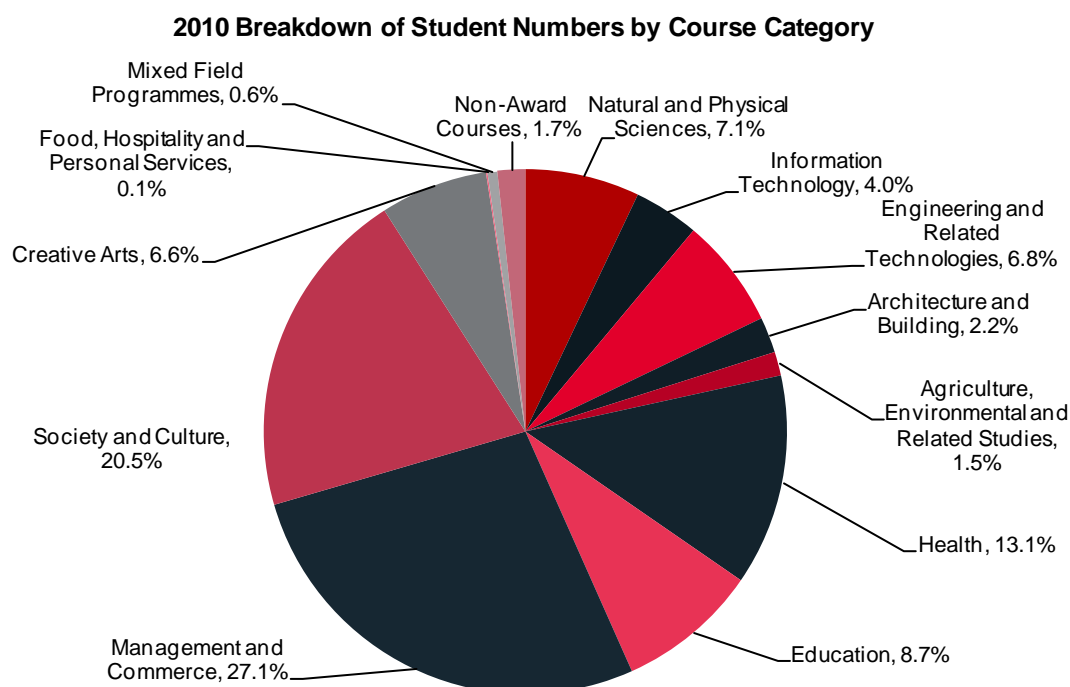
The percentage of overseas students in universities over the last four years is shown in the graph below.



Source: Department of Education, Employment and Workplace Relations: Publications – ‘Higher Education Statistics Collection’.

Over the four years to 31 December 2010, Macquarie University had the highest percentage of overseas students. In 2010, 37.6 per cent of its total students were from overseas (37.5 per cent). The University of New England continued to have the lowest percentage at 9.1 per cent (8.3 per cent).

The chart below shows the breakdown of the total number of students enrolled in NSW universities split by course category for 2010.



Source: Department of Education, Employment and Workplace Relations: Publications – 'Higher Education Statistics Collection'.

Management and Commerce (28.5 per cent), Society and Culture (21.6 per cent) and Health (13.8 per cent) account for the highest proportion of all enrolled students. Over the past three years total students enrolled in NSW universities has increased, but the percentage of students enrolled for each course category has remained steady.

Student to Academic Ratio

At the date of preparing this report, DEEWR statistics for 2011 were not available. The latest available statistics are for 2010 and show that the NSW universities' student to academic ratio of 30.1 was the third highest of any jurisdiction in Australia (28.5 and fifth highest in 2009). Some universities are concerned this ratio is misleading as it includes students enrolled with partner organisations, and excludes the teaching staff of those organisations. The information in this report should be considered in this context.

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

Statistics for 2010 show the ratio increased from 2009 for all jurisdictions, except the Northern Territory.

Jurisdiction	Number of Universities	EFT Students	FTE Academics	Trend	Student : Academic Ratio		
		2010	2010		2010	2009	2008
Australian Capital Territory	2	23,379	973	↑	24.0	21.9	20.8
New South Wales	10	240,773	8,010	↑	30.1	28.5	27.0
Northern Territory	1	4,267	178	↑	24.0	29.8	15.1
Queensland	7	143,768	4,831	↑	29.8	28.6	26.9
South Australia	3	56,856	2,079	↑	27.3	26.9	25.1
Tasmania	1	16,216	697	↑	23.3	21.1	19.4
Victoria	8	220,609	6,930	↑	31.8	30.0	29.0
Western Australia	4	82,902	2,689	↑	30.8	29.6	27.5

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

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

Aggregated Results of Operations, Financial Positions and Performance Indicators

The aggregated tables on pages 37 to 40 give the consolidated results of operations, financial positions and performance indicators for the universities.

Consistent with previous years, I have eliminated deferred income and deferred expenses for superannuation from the tables.

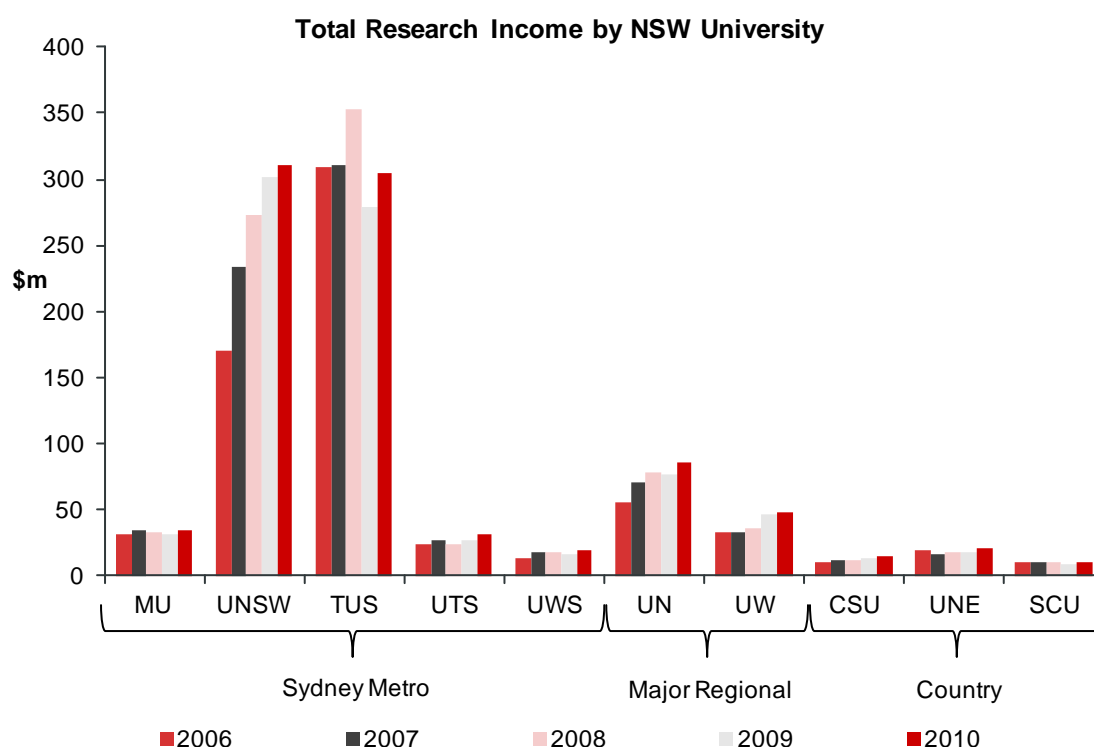
Australian Accounting Standards require entities to report certain liabilities as current liabilities irrespective of when they are expected to be settled. As a result I have excluded long service leave liabilities expected to be settled more than 12 months after the reporting date for the purposes of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

Other Information

Research Income

Each year, NSW universities provide the Department of Industry, Innovation, Science, Research and Tertiary Education (DIISRTE) (formerly provided to the Department of Innovation, Industry, Science and Research) with research income data. The data is used in assessing university research performance. Research performance drives the allocation of Australian Government Research Block Grants. These grants reward the success of universities in obtaining non-government grants and support further research.

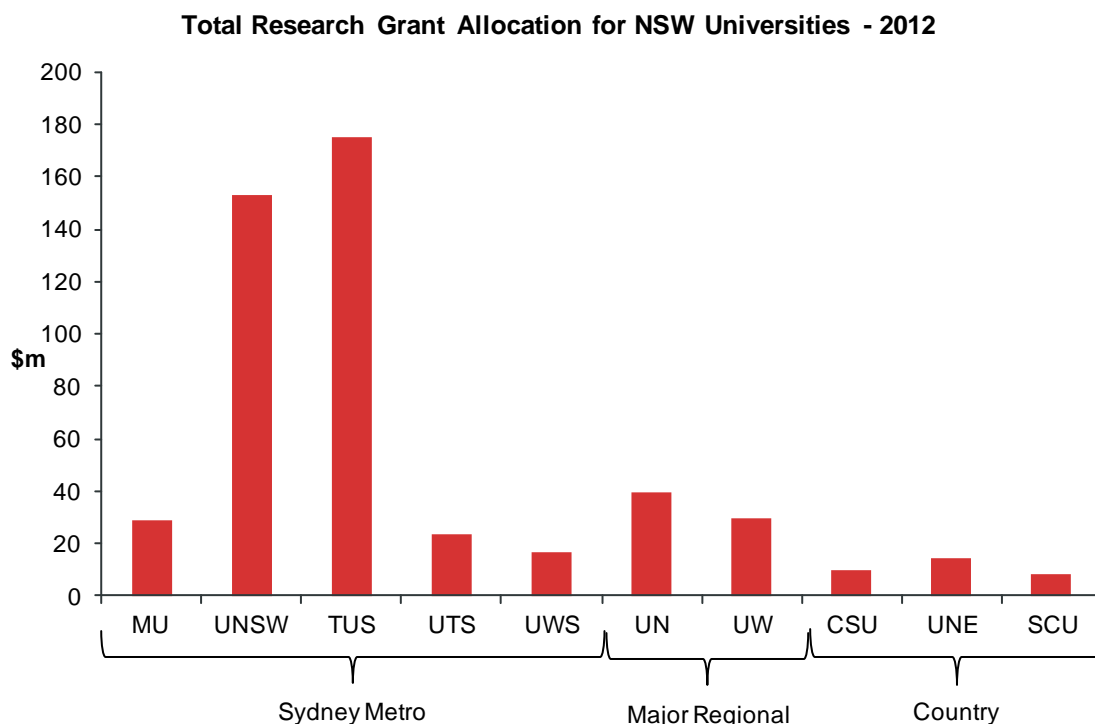
The graph below illustrates the total research income received by NSW universities over the five years to 2010. Research income data for 2011 is unavailable.



Source: Department of Industry, Innovation, Science, Research and Tertiary Education publications.

Research income received by NSW universities has increased by 74.2 per cent over the past five years to \$879 million in 2010, an increase of \$66.4 million over the previous year. Despite the increase, the proportion of total research income allocated to NSW universities is consistent with previous years. The University of New South Wales and the University of Sydney continue to be the top two recipients, receiving 35.4 per cent and 34.7 per cent of total research grants respectively. Most of this income came from Australian competitive grants and industry and other funding for research.

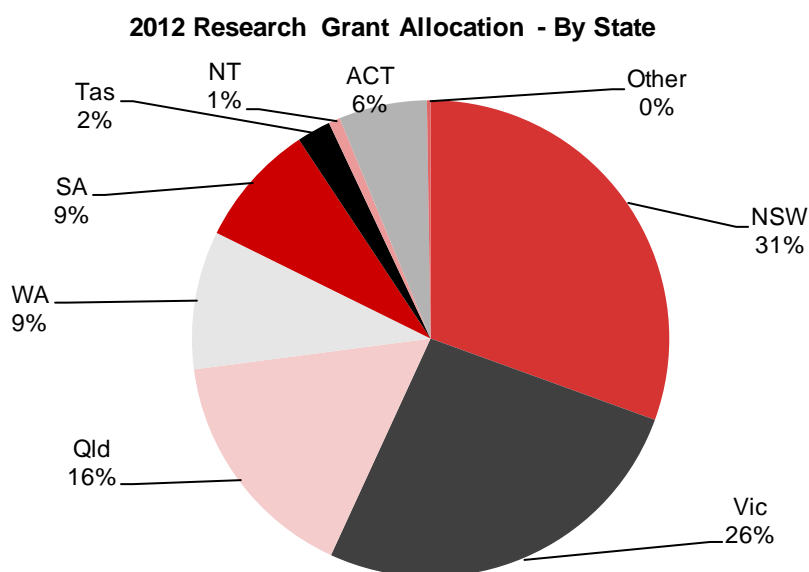
In 2012, \$1.6 billion will be provided to eligible Australian higher education providers in the form of block grants. The graph below illustrates the total research grant to be provided by DIISRTE to each NSW university in 2012.



Source: Department of Industry, Innovation, Science, Research and Tertiary Education publications.

The University of Sydney and the University of New South Wales expect to receive \$175 million and \$153 million respectively in 2012.

The graph below illustrates total research grants allocated to the universities in each state within Australia. NSW receives the highest allocation of 30.5 per cent, while Victoria receives the second highest allocation of 26.3 per cent.



University Information

University	Sydney Metro											
	Macquarie		New South Wales		Sydney		Technology, Sydney		Western Sydney		Total	
Year	2011 \$m	2010 \$m	2011 \$m	2010 \$m	2011 \$m	2010 \$m	2011 \$m	2010 \$m	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Abridged Statement of Comprehensive Income (year ended 31 December)												
Total revenue	738	687	1,470	1,420	1,596	1,503	624	584	558	562	4,986	4,756
Total expenses	707	611	1,381	1,277	1,507	1,391	597	551	545	497	4,737	4,327
Surplus	31	76	89	143	89	112	27	33	13	65	249	429
Abridged Statement of Financial Position (at 31 December)												
Total assets	2,196	2,047	3,270	2,838	4,787	4,384	1,859	1,637	1,648	1,530	13,760	12,436
Total liabilities	815	687	1,534	1,182	1,421	1,068	621	476	414	274	4,805	3,687
Net assets	1,381	1,360	1,736	1,656	3,366	3,316	1,238	1,161	1,234	1,256	8,955	8,749
Performance Indicators (at 31 December)												
Current ratio (a)	1.3*	1.2*	1.3*	1.6	1.4*	1.4*	2.9	3.4*	0.8*	1.0*	1.4*	1.6
Australian Government grants as a % of total revenue (b)	23.6	26.5	43.0	41.7	43.4	42.7	30.8	31.0	44.1	46.1	38.9	39.0
HECS as a % of total revenue (b)	13.2	13.2	9.6	9.7	9.4	10.8	16.2	16.5	29.1	27.1	13.1	13.5
Fees and charges as a % of total revenue (b)	48.2	46.4	33.6	32.3	23.2	23.1	34.2	35.2	14.5	15.3	30.4	29.8
Employee Benefits and on-costs as a % of total revenue (c)	52.2	48.8*	53.5	50.1	56.2	56.4	58.3	56.4	60.7	54.8	55.6	53.2
Operating result as % of total revenue (d)	4.2	11.1	6.0	10.1	5.5	7.5	4.4	5.7	2.2	11.7	5.0	9.1
Student numbers FTE**	na	26,690	na	36,637	na	39,748	na	24,518	na	28,372	na	155,965
Students per academic**	na	36.3	na	23.0	na	22.4	na	34.2	na	42.7	na	28.4

University	Major Regional					
	Newcastle		Wollongong		Total	
Year	2011 \$m	2010 \$m	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Abridged Statement of Comprehensive Income (year ended 31 December)						
Total revenue	599	546	543	548	1,142	1,094
Total expenses	570	509	505	446	1,075	955
Surplus	29	37	38	102	67	139
Abridged Statement of Financial Position (at 31 December)						
Total assets	1,390	1,275	1,163	1,048	2,553	2,323
Total liabilities	440	346	437	350	877	696
Net assets	950	929	726	698	1,676	1,627
Performance Indicators (at 31 December)						
Current ratio (a)	2.5	2.5	1.9	2.7	2.2	2.6
Australian Government grants as a % of total revenue (b)	42.8	42.3	40.7	41.3	41.8	41.8
HECS as a % of total revenue (b)	16.4	17.3	15.3	14.3	15.9	15.8
Fees and charges as a % of total revenue (b)	15.7	16.6	31.6	32.2	23.2	24.4
Employee Benefits and on-costs as a % of total revenue (c)	53.5	55.7	53.3	47.5*	53.4	51.6
Operating result as % of total revenue (d)	4.9	6.7	7.0	18.3	5.9	12.5
Student numbers FTE**	na	23,368	na	20,788	na	44,156
Students per academic**	na	33.1	na	31.6	na	32.4

University	Country							
	Charles Sturt		New England		Southern Cross		Total	
Year	2011 \$m	2010 \$m	2011 \$m	2010 \$m	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Abridged Statement of Comprehensive Income (year ended 31 December)								
Total revenue	514	392	247	221	185	167	946	780
Total expenses	475	376	234	222	177	168	886	766
Surplus/(deficit)	39	16	13	(1)	8	(1)	60	14
Abridged Statement of Financial Position (at 31 December)								
Total assets	1,060	928	582	464	302	272	1,944	1,664
Total liabilities	362	273	297	218	97	74	756	565
Net assets	698	655	285	246	205	198	1,188	1,099
Performance Indicators (at 31 December)								
Current ratio (a)	1.7	1.4*	1.9	1.8	1.7	1.9	1.8	1.7
Australian Government grants as a % of total revenue (b)	44.3	41.7	50.6*	48.3	53.4*	47.9	48.1	45.0
HECS as a % of total revenue (b)	21.0	20.8	19.8	20.2	20.6	22.2	20.6	20.9
Fees and charges as a % of total revenue (b)	17.4	19.4	17.9	18.5	11.6	13.5	16.3	17.8
Employee Benefits and on-costs as a % of total revenue (c)	54.3	54.3	56.7	60.5	60.1	61.6	56.2	57.7
Operating result as a % of total revenue (d)	7.5	4.3	5.1	(0.4)*	4.1	(0.3)*	6.8	1.9
Student numbers FTE**	na	21,291	na	9,388	na	9,973	na	40,652
Students per academic**	na	39.6	na	24.3	na	53.3	na	36.6

University	Totals for all universities							
	Sydney Metro		Major Regional		Country		Total	
Year	2011 \$m	2010 \$m	2011 \$m	2010 \$m	2011 \$m	2010 \$m	2011 \$m	2010 \$m
Abridged Statement of Comprehensive Income (year ended 31 December)								
Total revenue	4,986	4,756	1,142	1,094	946	780	7,074	6,630
Total expenses	4,737	4,327	1,075	955	886	766	6,698	6,048
Surplus	249	429	67	139	60	14	376	582
Abridged Statement of Financial Position (at 31 December)								
Total assets	13,760	12,436	2,553	2,323	1,944	1,664	18,257	16,423
Total liabilities	4,805	3,687	877	696	756	565	6,438	4,948
Net assets	8,955	8,749	1,676	1,627	1,188	1,099	11,819	11,475
Performance Indicators (at 31 December)								
Current ratio (a)	1.4*	1.6	2.2	2.6	1.8	1.7	1.6	1.8
Australian Government grants as a % of total revenue (b)	38.9	39.0	41.8	41.8	48.1	45.0	40.5	40.2
HECS as a % of total revenue (b)	13.1	13.5	15.9	15.8	20.6	20.9	14.5	14.7
Fees and charges as a % of total revenue (b)	30.4	29.8	23.2	24.4	16.3	17.8	27.5	27.5
Employee Benefits and on-costs as a % of total revenue (c)	55.6	53.2	53.4	51.6	56.2	57.7	55.3	53.5
Operating result as % of total revenue (d)	5.0	9.1	5.9	12.5	6.8	1.9	5.4	8.8
Student numbers FTE**	na	155,965	na	44,156	na	40,652	na	240,773
Students per academic**	na	28.4	na	32.4	na	36.6	na	30.1

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

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

- a Current Ratio – an indicator of liquidity. Good practice is a ratio of more than 1.5 to less than three.
- b Diversity of Revenue – universities should have three or four major income sources with none below five per cent and preferably all above 15 per cent. Reliance on Australian Government funding should be decreasing, preferably to not much more than 50 per cent.
- c Employee Benefits and on-costs as a percentage of Total Revenue – good practice is between 50 and 70 per cent.
- d Operating Result as a percentage of Total Operating Revenue – should be positive with a safety margin.

* Represents performance outside benchmark.

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

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


na Not available.

Section Three

Agency with Individual Comment

Minister for Education

Minister for Primary Industries



Charles Sturt University

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NSW Auditor-General's Report

Volume Two 2012

CHARLES STURT UNIVERSITY

The quality of the financial statements submitted for audit improved in 2011. However, some adjustments were still required

Audit Opinion

The audits of the University and its controlled entities' financial statements for the year ended 31 December 2011 resulted in unmodified audit opinions within the Independent Auditor's Reports for four entities (including the parent) and a qualified audit opinion within the Independent Auditor's Report for Charles Sturt University Foundation Trust (Trust).

I was unable to express an opinion as to whether the Trust had recorded all revenues received from donations and fundraising sources in its financial statements. This is common for entities with these sources of revenue, as it is impracticable for them to maintain effective systems of internal control over the receipt of such revenues until their initial entry in the financial records. My audit report for 2010 was similarly qualified.

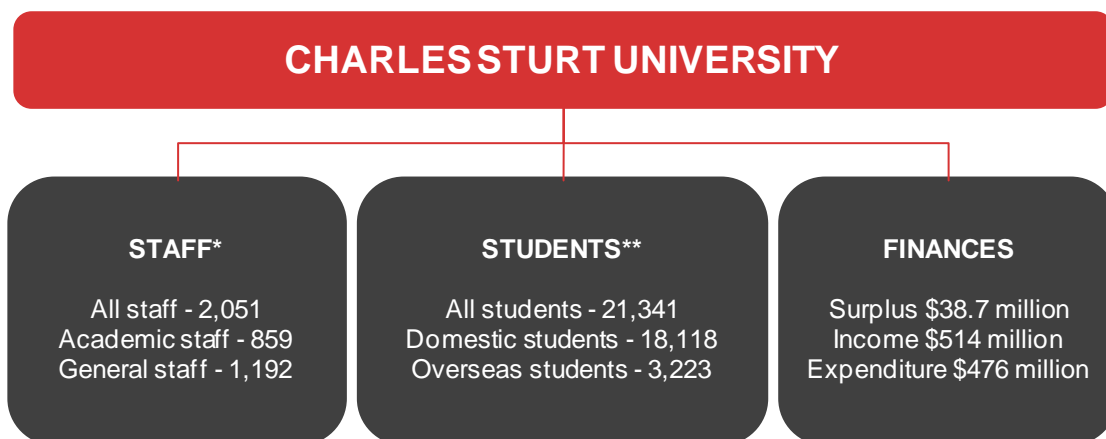
Unless otherwise stated, the following commentary relates to the consolidated entity.

Operational Snapshot

The University is the largest regional university in Australia and has a large number of students in its distance education programs.

The My University website indicates 85 per cent of the University graduates were in full-time employment at the end of their studies.

Below is a snapshot of the University's operations.



Source: Charles Sturt University.

* Full-Time Equivalent (unaudited).

** Equivalent Full-Time Student Load (unaudited).

Other Information

I identified opportunities for improvements to accounting and internal control procedures and will report them to management.

Overseas Operations

The University's Canadian Ontario campus reported revenue of \$4.4 million (\$4.7 million in 2010).

The University is reviewing the Ontario campus' operations for financial and operational viability.

Fair Value of Investments

Following my recommendation last year, the University obtained expert advice for determining fair values for its investments that are not publicly traded. At 31 December 2011, the University held such investments representing collateralised debt obligations of \$15.0 million and floating rate notes of \$13.7 million.

There has been a significant recovery in the market values of the University's investments following the global financial crisis.

Financial Statements

Last year, I recommended the University improve its quality control procedures over the preparation of its financial statements and supporting documentation. The University implemented quality control procedures and improved the quality of the financial statements. However, a number of adjustments were still required to ensure they complied with the requirements of Australian Accounting Standards.

Major Projects

The University is half way through its \$270 million, five-year capital development plan, funded through surpluses and borrowings. Capital expenditure totalled \$76.9 million with \$65.0 million budgeted for 2012.

During the year, the University completed construction of a childcare centre at Thurgoona. It has a number of projects in progress including a \$45.0 million National Life Sciences building at Wagga Wagga campus. The project is expected to be completed in July 2012, consistent with the original target completion date and budgeted cost.

Financial Information

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

Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Australian Government grants	191,434	155,906	191,434	155,906
Higher Education Contribution Scheme	90,841	77,702	90,841	77,702
Fees and charges	75,135	72,521	75,135	72,521
Other	74,436	67,490	72,445	65,838
Deferred income – superannuation	82,400	18,777	82,400	18,777
Total Revenue	514,246	392,396	512,255	390,744
Employee benefits and on-costs	234,306	203,042	229,382	202,724
Depreciation	27,928	26,394	27,928	26,389
Other	130,924	128,197	134,422	126,496
Deferred expense – superannuation	82,400	18,777	82,400	18,777
Total Expenses	475,558	376,410	474,132	374,386
Surplus	38,688	15,986	38,123	16,358
Other Comprehensive Income				
Gain/(loss) on revaluation of land and buildings	6,039	(22,341)	6,039	(22,341)
Fair value losses on available for sale financial assets	(2,654)	(753)	(2,110)	(617)
Exchange losses on translation of foreign operations	(94)	(394)	(94)	(394)
Total Other Comprehensive Income/(Expense)	3,291	(23,488)	3,835	(23,352)
Total Comprehensive Income/(Expense)	41,979	(7,502)	41,958	(6,994)

Australian Government grants revenue increased by \$35.5 million mainly due to receipt of \$31.0 million in Education Investment Funding for construction of the National Life Sciences buildings.

The increase in Higher Education Contribution Scheme (HECS) revenue was largely due to an increase in HECS students by 2.9 per cent. Full-time equivalent domestic students have increased from 18,077 to 18,118 and overseas students have decreased slightly from 3,246 to 3,222.

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

Employee benefits and on costs increased due to a rise in full-time equivalent staff by 133 and salary award increase of two per cent. The increase in full-time equivalent staff is a result of efforts to further enhance the ratio of students to teaching staff at the University.

Abridged Statements of Financial Position

At 31 December	Consolidated		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Current assets	80,930	63,632	79,233	61,901
Non-current assets	978,546	864,260	973,022	858,204
Total Assets	1,059,476	927,892	1,052,255	920,105
Current liabilities	69,384	62,867	69,604	62,512
Non-current liabilities	292,675	209,587	292,435	209,337
Total Liabilities	362,059	272,454	362,039	271,849
Net Assets	697,417	655,438	690,216	648,256

Current assets increased due to additional receipts of Education Investment Funds.

Non-current assets increased due to:

- capital expenditure of \$76.9 million
- the increase of \$81.5 million in the receivable from the Australian Government for deferred superannuation benefits.

The increase in current liabilities reflects an increase in long service leave liabilities resulting from a decrease in the discount factor used to estimate liabilities.

The movement in non-current liabilities is due to the increase in the superannuation liability. The liability is largely funded by the Australian Government.

University Activities

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

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

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

Controlled Entities

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

Entity Name	Website
Charles Sturt Campus Services Limited	*
Charles Sturt Foundation Limited**	www.csu.edu.au/special/foundation
Charles Sturt Services Limited	*
Charles Sturt University Foundation Trust	www.csu.edu.au/special/foundation

* This entity does not have a website.

** This entity was deregistered on 4 January 2012.

Audit Opinion

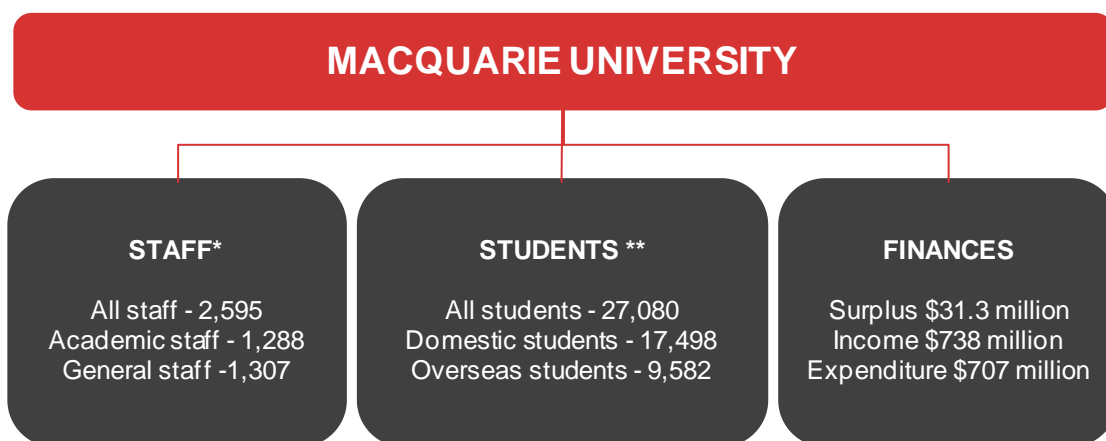
The audits of the University and the consolidated entity's financial statements for the year ended 31 December 2011 resulted in an unmodified audit opinion within the Independent Auditor's Report.

The Independent Auditor's Report drew attention to Macquarie University providing loans totalling \$68.4 million (\$31.6 million at 31 December 2010) to the operator of Macquarie University Hospital (MUH Operations No. 2 Limited). The University assessed these loans as fully recoverable in the medium term. The hospital commenced operations in June 2010 and is in its start up phase.

The audits of all controlled entities are complete and resulted in unmodified audit opinions within the Independent Auditor's Reports.

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

Operational Snapshot



Source: Macquarie University.

* Full-Time Equivalent (unaudited).

** Equivalent Full-Time Student Load (unaudited).

Other Information

Macquarie University Hospital and Clinic

The hospital business is conducted through a University controlled entity, MUH Operations No. 2 Limited. The University believes the hospital business will grow and generate sufficient cash flows for it to repay a loan of \$68.4 million to the University. The company is largely debt funded by the University and the debt is interest bearing. The company rents all property, plant and equipment used in the business from the University.

The hospital business has two main purposes, to support the Australian School of Advanced Medicine (ASAM) and provide patient care and hospital facilities to the public. The majority of doctors working in the hospital are associated with ASAM.

During the first full year of company's activities, the business incurred a loss of \$36.0 million (\$27.5 million for six months of activities in 2010).

Capital Funding

In December 2011, the University received an Aa2 credit rating from Moody's Investors Service (Moody's). This is the same rating as the prior year. Moody's believes the rating reflects the University's sound performance, positive liquidity level and strong market position. Moody's analysis also incorporated a large, but manageable, increase in the University's debt to refinance existing borrowings and to fund its capital works program.

The University estimates it will require approximately \$299 million over the next three years to fund the cost of its capital works program. The University plans to fund these works from increased borrowings and operating cash flows.

Major Projects

The University is building the Australian Hearing Hub, which will enhance research, education and training capacity in hearing and speech sciences through collaboration. Construction has commenced at an estimated cost of \$120 million. The project's target completion date is late 2012.

During 2011, the new Learning and Research Centre opened. This building cost approximately \$93.5 million. The building was delivered on time and on budget.

Internal Controls

I identified opportunities for minor improvements to internal controls and reported them to management.

Financial Information

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

Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Australian Government grants	174,097	182,298	174,043	182,244
Higher Education Contribution Scheme	97,238	90,594	97,238	90,594
Fees and charges	355,528	318,881	287,996	279,147
Other	111,408	95,021	105,171	86,741
Total Revenue	738,271	686,794	664,448	638,726
Employee benefits and on-costs	385,473	335,071	314,187	279,540
Depreciation	50,343	39,063	48,949	34,689
Other	270,538	235,832	235,514	223,351
Deferred expense - superannuation	637	592	637	592
Total Expenses	706,991	610,558	599,287	538,172
Surplus	31,280	76,236	65,161	100,554
Other Comprehensive Income				
(Loss)/gain on revaluation of available for sale financial assets	(11,745)	173	(11,745)	173
Gain (loss) on revaluation of property, plant and equipment	(14,057)	50,032	(14,299)	50,032
Other gains (losses)	270	(20)	270	(20)
Actuarial (loss) from defined benefit superannuation plans	(4,219)	(1,089)	(4,219)	(1,089)
Total Other Comprehensive Income/(Expense)	(29,751)	49,096	(29,993)	49,096
Total Comprehensive Income	1,529	125,332	35,168	149,650

Australian Government grants decreased mainly due to discontinuation of the teaching and learning capital funding. The increase in fees and charges was mainly due to an eight per cent increase in course fees for overseas students.

Higher salary increments awarded to staff and redundancies resulted in an increase in employee benefits and on-costs. Depreciation expense increased due to full year depreciation of the Cochlear and hospital buildings in the current year.

MUH Operations No. 2 Limited incurred a loss of \$36.0 million (\$27.5 million). This is the main reason for the consolidated surplus being lower than the parent surplus.

Abridged Statements of Financial Position

At 31 December	Consolidated		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Current assets	162,888	147,416	106,516	103,170
Non-current assets	2,033,184	1,899,482	2,099,521	1,921,792
Total Assets	2,196,072	2,046,898	2,206,037	2,024,962
Current liabilities	145,751	144,284	125,038	125,245
Non-current liabilities	669,678	542,524	668,233	541,143
Total Liabilities	815,249	686,808	793,271	666,388
Net Assets	1,380,643	1,360,090	1,412,766	1,358,574

Consolidated current assets increased as the University increased its cash balance by drawing down \$20.0 million from its credit facility. The draw down occurred near year-end.

Non-current assets increased due to completion of the Learning and Research Centre at a cost of \$93.5 million, and revaluation increment on the University's land and buildings of \$50.0 million. The employee superannuation benefit receivable increased by \$104 million due to a decline in the government bond yield.

Non-current liabilities increased by \$127 million compared with 2010. The University increased its borrowings by \$19.7 million. The remaining increase of \$107 million is mainly due to an increase in employee benefits provisions across all entities within the group.

University Activities

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

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

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

Controlled Entities

Controlled Entities Submission of Financial Statements

All controlled entities submitted their financial statements on time.

MUH Operations No. 2 Limited (Macquarie University Hospital and Clinic)

Year ended 31 December	2011 \$'000	2010 \$'000
Revenue	49,764	13,767
Expenses	85,764	41,271
Loss	36,000	27,504
Net liabilities (at 31 December)	63,504	27,504

The hospital admitted its first patient on 15 June 2010. This is the first full year of business activity.

During the year, the company acquired 30 per cent of the ordinary share capital of Macquarie Medical Imaging Pty Limited (MMI) for \$48. It also subscribed \$1.0 million for 1,000,000 Series A preference shares in MMI. MMI provides imaging services to the company and is located on the ground floor of the hospital building.

For further information on the company, refer to www.muh.org.au.

Other Controlled Entities

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

Entity Name	Website
Access Macquarie Limited	www.accessmq.com.au
Australian Proteome Analysis Facility Limited	www.proteome.org.au
CMBF Limited	*
COH Property Trust	*
LAMS Foundation Limited	*
LAMS International Pty Limited	www.lamsinternational.com
Macquarie Graduate School of Management Pty Limited	www.mgsm.edu.au
Macquarie University Property Investment Company No. 2 Pty Limited	*
Macquarie University Property Investment Company No. 3 Pty Limited	*
Macquarie University Property Investment Company Pty Limited	*
Macquarie University Property Investment Trust	*
MGSM Ltd (formerly ACN 153 973 481)	*
MU Hospital Pty Limited	*

Entity Name	Website
MUH Operations Pty Limited	*
MUPH Clinic Pty Limited	*
MUPH Hospital Pty Limited	*
Risk Frontiers Flood (Australia) Pty Limited	www.riskfrontiers.com
Risk Frontiers Group Pty Limited	www.riskfrontiers.com
U@MQ Limited	www.campuslife.mq.edu.au

* This entity does not have a website.

Other Bodies Associated With the University

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

Entity Name	Website
Macquarie University Professorial Superannuation Scheme	*
Sydney Educational Broadcasting Limited	www.2ser.com

* This entity does not have a website.

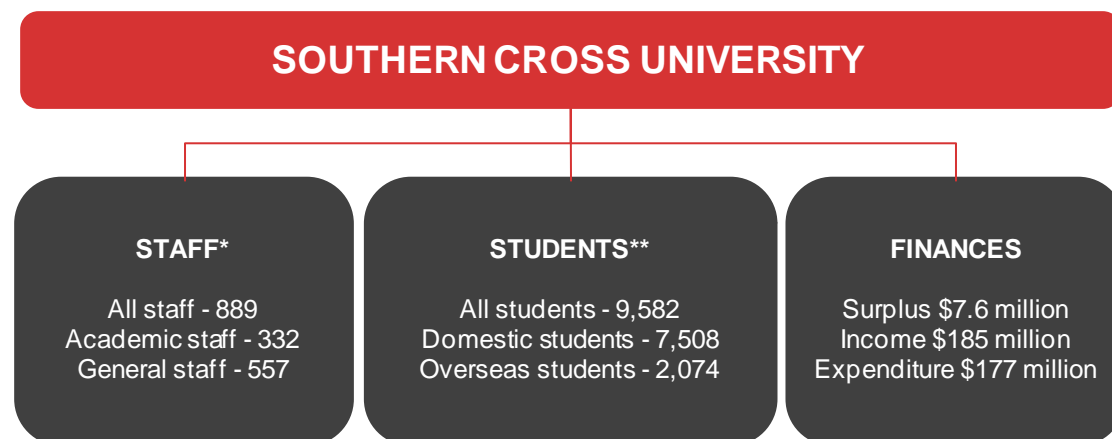
Audit Opinion

The audits of the University and its controlled entities' financial statements for the year ended 31 December 2011 resulted in unmodified audit opinions within the Independent Auditor's Reports for all seven entities in the group, including the parent.

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

Operational Snapshot

Southern Cross University has campuses at Lismore, Gold Coast and Coffs Harbour. It also operates The Hotel School Sydney in partnership with Mulpha Australia. The University has students from more than 80 countries and offers undergraduate and postgraduate courses.



Source: Southern Cross University.

* Full-Time Equivalent (unaudited)

** Equivalent Full-Time Student Load (unaudited)

Key Issues

Major Projects

The University commenced building its Gold Coast Campus in 2008. Initially, the estimated cost for Building A was \$18.0 million and for Building B was \$50.0 million. Building A was completed at a cost of \$20.0 million and opened in February 2010. Construction costs to 31 December 2011 for Building B amounted to \$13.8 million. Building B is expected to be completed in 2013.

During 2011, the University secured \$32.0 million in funding from the Australian Government's Structural Adjustment Fund to build a third high-rise building (Building C) to provide new technical capabilities and a 300 seat lecture theatre. The University has started constructing Building C within the Gold Coast Campus, which will house a newly created SCU College. Total costs incurred at 31 December 2011 were \$2.2 million. Further information regarding SCU College is provided below under 'Other Information'.

The total cost of building the Gold Coast Campus is estimated at \$90.0 million and the University intends to borrow \$40.0 million in 2012 and \$5.0 million in 2013 to finance the remaining construction.

Other Information

SCU College

During 2011, the University built the 'SCU College' with its headquarters at the Gold Coast. The college's main objective is to contribute to the sustainability of the University in the medium and long-term by accessing a new cohort of students who are generally not academically prepared for University study. Six learning sites across the region will also contribute to attracting students in this new market. The college will offer a range of programs at the associate degree level as well as the Preparing for Success Program (PSP) and English language training.

Internal Controls

I identified opportunities for improvements to accounting and internal control procedures and reported them to management.

Financial Information

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

Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Australian Government grants	98,617	80,043	98,617	80,016
Higher Education Contribution Scheme	38,079	37,093	38,079	37,093
Fees and charges	21,385	22,524	21,385	22,448
Other	26,566	27,356	36,417	33,966
Total Revenue	184,647	167,016	194,498	173,523
Employee benefits and on-costs	111,040	102,799	110,012	101,880
Depreciation and amortisation	8,295	7,687	8,278	7,539
Other	57,745	57,095	66,570	58,668
Total Expenses	177,080	167,581	184,860	168,087
Surplus/(Deficit)	7,567	(565)	9,638	5,436
Other Comprehensive Income				
Net actuarial losses recognised in respect of defined benefit superannuation plans	(237)	(292)	(237)	(292)
Total Comprehensive (Expense)/Income	7,330	(857)	9,401	5,144

Note: 2010 figures will not agree to the figures reported in Volume Two of the 2011 Auditor-General's Report, due to reclassification of prior year figures in the 2011 financial statements of the University.

Funding received from the Australian Government increased by 23.2 per cent, mainly due to additional funding of \$9.8 million under the Capital Pool Program and a rise in student numbers from 6,606 in 2010 to 6,713 in 2011.

Fees and charges decreased by 5.1 per cent due to a fall in international post-graduate students, especially in the Business, Tourism and Law disciplines. Southern Cross University advised its decline in overseas student numbers was because it has taken strategic decisions to exit from unproductive relationships.

Employee benefits and on-costs rose by eight per cent due to a four per cent award increase and an increase in use of casual staff in the areas of Health and Human Science, Arts and Social Science and Education. The University attributes the increase in casuals to restrictions introduced in the Enterprise Bargaining Agreement to recruit permanent staff.

Abridged Statement of Financial Position

At 31 December	Consolidated		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Current assets	47,296	50,552	47,627	59,367
Non-current assets	254,790	221,047	255,834	212,114
Total Assets	302,086	271,599	303,461	271,481
Current liabilities	37,661	34,724	37,454	35,095
Non-current liabilities	59,695	39,475	59,668	39,448
Total Liabilities	97,356	74,199	97,122	74,543
Net Assets	204,730	197,400	206,339	196,938

Current assets decreased as term deposits of \$4.0 million were used to finance capital expenditure at the Gold Coast Campus. This was partially off-set by the reclassification of non-current assets amounting to \$1.2 million as assets 'held for sale'.

Non-current assets increased by 15.3 per cent or \$33.7 million due to capital expenditure on major projects such as the Gold Coast Campus (\$14.7 million) and the increase in the deferred government contribution for superannuation (\$19.9 million).

Current liabilities increased by 8.5 per cent as there are significant capital accruals relating to the construction at the Gold Coast which was relatively low in the prior year.

Non-current liabilities increased by 51.2 per cent largely due to a \$20.0 million increase in defined benefit superannuation liabilities from \$37.2 million in 2010 to \$57.2 million in 2011.

University Activities

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

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

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

Controlled Entities

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

Entity Name	Website
Asia Pacific Football Institute Operations Pty Ltd	www.apfi.net.au
Australian Plant DNA Bank Limited	www.dnabank.com.au
Biobank Pty Ltd	www.biobank.com
National Marine Science Centre Pty Ltd	www.nmsc.edu.au
Norsearch Limited	www.norsearch.scu.edu.au
SCU College Pty Ltd	www.scu.edu.au

Audit Opinion

The audits of the University and its controlled entities' financial statements for the year ended 31 December 2011 resulted in unmodified audit opinions within the Independent Auditor's Reports for seven entities in the group, including the parent. The audit of one controlled entity was incomplete. Further details on the University's controlled entities appear later in this report.

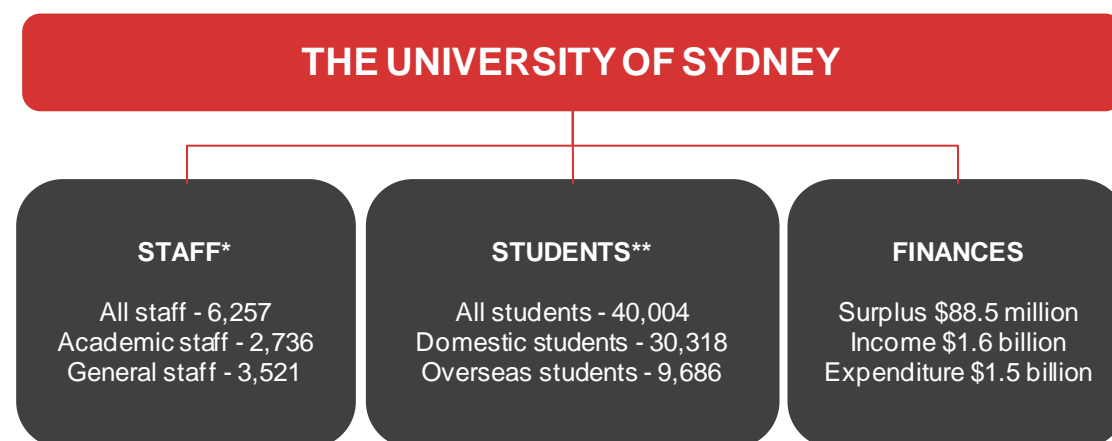
The audit of the University's associate company, the United State Studies Centre Ltd's financial statements for the year ended 31 December 2011, resulted in an unmodified audit opinion within the Independent Auditor's Report.

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

Operational Snapshot

The University of Sydney was established in 1850 and is one of Australia's leading research universities.

Below is a snapshot of the University's operations.



Source: The University of Sydney.

* Full-Time Equivalent (unaudited).

** Equivalent Full-Time Student Load (unaudited).

Key Issues

Strategic Plan and Restructure

The University has embarked on a cost reduction strategy because its revenue estimates are below the targets underpinning its 2011–15 Strategic Plan initiatives. It also requires more funding for its capital expenditure program, particularly the need to direct more resources to the backlog of repairs and maintenance. The fall in revenue is due to a drop in international student demand and changes in enrolment patterns for domestic students.

The cost reduction strategy, finalised in February 2012, aims to:

- reduce non-salary expenditure by \$28.0 million in 2012
- restrict employment costs of general staff, casual staff and contractors
- reduce overall academic staff costs by approximately 7.5 per cent.

These objectives are to be achieved during 2012 through voluntary redundancies, flexible employment contracts and natural attrition. The National Tertiary Education Union has filed a dispute with Fair Work Australia and conciliation hearings have commenced.

The University's Strategic Plan includes 17 key strategies to address the challenges ahead of it. The plan mainly focuses on:

- mutual accountability: University governance, the size and shape of the University
- engaged enquiry: integrated education and research
- engaged enquiry: developing local and international partnerships
- mutual accountability: resources, costs and services.

Independent Commission Against Corruption

The Independent Commission Against Corruption (ICAC) began a public inquiry in March 2012 into allegations of corrupt conduct by a staff member at the University. The inquiry is investigating allegations that he engaged contractors or staff from two businesses that either he or his spouse had an interest in.

The University paid \$1.8 million to these businesses/employees between January 2007 and June 2010. ICAC is investigating if services were actually received for all payments made and the extent of any possible loss incurred by the University.

The University has a complex procurement structure in place and is working to ensure control procedures are strengthened to prevent procurement frauds in the future. Management has advised that it has completed audits of vendor creation and the accounts payable process to identify internal control improvements.

The current ICAC investigation follows a previous investigation (Operation Kanda) where a former employee failed to disclose conflicts of interest arising from the allocation of cleaning contracts to a company jointly owned by a former employee and their partner. The ICAC issued the following recommendations as a result of the investigation:

- staff involved in the procurement of goods and services should be trained
- staff involved in certifying invoices should be given information on the importance of their role in certifying invoices
- all cleaning contracts should be processed through the University's eService Desk system
- the University should develop clear processes and procedures for the procurement of goods, and for the evaluation of quotations under \$200,000
- the University establishes processes to review any 'emergency' service arrangements after a period of three months.

In January 2012, the University reported to ICAC that all recommendations had been implemented.

Performance Information

Comparative performance data on universities appears in the 'Universities Overview' section earlier in this volume. Unless otherwise stated, the information below is based on the consolidated financial statements.

Investment Performance

The University's investment funds of \$897 million are divided into four portfolios. The returns on all portfolios were favourable or in line with relative benchmark returns in 2011, with the exception of the medium-term portfolio. Notwithstanding this positive outcome, the absolute return on the long-term endowment portfolio was only one per cent for the year, primarily due to the negative returns generated in the domestic and international listed equity sectors.

The University provided the following performance information for each portfolio:

Year ended 31 December	2011	2010
Short-term portfolio return %pa	5.3	4.8
Benchmark index return %pa	5.0	4.7
Total Market Value \$m 31 December	53.4	72.1
Medium-term portfolio return %pa	5.9	7.5
Benchmark index return %pa	6.8	5.1
Total Market Value \$m 31 December	13.0	12.7
Foundation fund's portfolio return %pa	6.1	7.5
Benchmark return %pa	6.1	5.3
Total Market Value \$m 31 December	98.7	99.9
Long-term endowment portfolio return %pa	1.0	5.9
Benchmark return %pa	0.2	3.5
Total Market Value \$m 31 December	731.9	724.8

Source: University of Sydney, Quarterly Investment Report (unaudited).

Note: Benchmarks are either market index returns or internal benchmarks calculated based on the strategic asset allocation of the individual portfolio.

Note: All returns are reported Gross of Fees and include unrealised gains and losses.

%pa: per cent per annum.

Short-term funds mainly comprise operational working capital and capital development funds. These have a time horizon of less than one year and are managed internally. Other portfolios primarily comprise bequests and endowments invested in defensive and growth assets, as per the strategic asset allocations determined by the Investment and Commercialisation Committee. The long-term portfolio has an investment time horizon of more than seven years. The debt asset components of these portfolios are managed internally, while management of the growth asset component is outsourced to sector specialist managers.

The University generates significant annual income from its investment funds:

Year ended 31 December	2011 \$m	2010 \$m
Distributions from managed funds	26.4	14.3
Dividends received	14.3	11.0
Interest and discounts from investments	26.7	26.5
Realised gains	9.8	34.3
Gross Income	77.2	86.1
Less: impairment expense for the year	(19.8)	(3.9)
Net Income	57.4	82.2

The lower net income in 2011 is due to a higher impairment expense of \$15.9 million. Volatility in global equity markets in the second half of the year resulted in more of the University's equity holdings being impaired and reduced realised gains for the year by \$24.5 million.

Capital expenditure rose to \$198 million in 2011 and is budgeted for \$384 million in 2012

The University is investing \$385 million in a research and education hub to address obesity, diabetes and cardiovascular disease

Other Information

Major Projects

Capital expenditure totalled \$198 million in 2011, a 102 per cent increase compared to the prior year (\$98.0 million). Despite the increase, spending was below the budget of \$221 million due to slower than planned progress on major capital projects, including the Charles Perkins Centre. Underspending on major projects increases the risk of project timelines not being achieved.

The University continued developing the Sydney Student System in 2011 spending \$14.8 million, which was \$1.6 million below budget. Project costs to 31 December 2011 totalled \$35.6 million. The total budget for the project is \$56.5 million.

The Sydney Student System is significant for the University because it will enable students to pay fees, check subject/exam results, access timetables and provide linkages with alumni through the internet. Its implementation and operation poses significant risks which the University is managing through a steering committee and monitoring by the Finance and Audit Committee. Most of the system is scheduled to go live in September 2012.

The University's capital works budget for 2012 increased by 75 per cent to \$384 million and is designed to:

- continue development of the Charles Perkins Centre
- continue delivery and implementation of the Sydney Student System
- improve infrastructure and address backlog maintenance
- provide suitable accommodation for students and staff
- replace outdated facilities with modern teaching and research facilities
- develop a proactive asset development program.

In 2011, the University entered into a credit facility of \$500 million to fund the capital expenditure program along with government grants and operating surpluses.

Maintenance expenditure of \$61.5 million (53.7 million) increased by 14.5 per cent. This helped reduce backlog maintenance from \$385 million to \$370 million. The University is currently reviewing its maintenance expenditure to further reduce the backlog.

Charles Perkins Centre

The University has budgeted \$385 million to develop the Charles Perkins Centre, which it expects to complete by February 2014. The size and complex nature of this project raises significant financial, operational and reputational risks for the University. A governance structure has been established to oversee the project, which is tracking within the budgeted cost.

Expenditure to January 2012, totalling \$48.5 million, has been spent mainly on earth works, site clearance and demolition.

The Charles Perkins Centre aims to deliver world-class research into obesity, diabetes and cardiovascular disease, the leading causes of death and disease in Australia. The new facility will be located within the grounds of the University, in close proximity to the Royal Prince Alfred Hospital and the Faculties of Medicine, Science and Veterinary Science. When complete, it will house up to 950 researchers and 1,455 undergraduate students.

The project is funded through the borrowing program with additional support coming from the Australian Government's Education Investment Fund.

Philanthropic Income

Philanthropic income totalled \$79.4 million, an increase of 105 per cent compared to the prior year (\$38.8 million). This included \$19.8 million from the sale of a Picasso painting donated to the University during 2010. The University is committed to use these proceeds for scientific research, including establishing multiple endowment chairs in the Charles Perkins Centre. The University also received the \$2.8 million Roderick Pitt Meagher collection, comprising over 1,370 items of artwork and furniture.

In 2010, I recommended the University complete its review of policies and controls over gifts and donations to ensure they are appropriately identified, recorded and managed. During the year, the University:

- implemented a new gift acceptance policy
- developed a new gift administration policy
- established a dedicated trusts office and gift administration board.

The University has also progressed establishment of a centralised gift register. Management has advised that, at 31 December 2011, only four per cent of the value of the gift register has not been reviewed and assessed.

These initiatives have improved the management and processing of gifts.

Internal Controls

I identified opportunities for improvement to internal controls and reported them to management.

Financial Information

The surplus for the year decreased by \$23.7 million. Total revenue increased by \$92.4 million, but this was offset by higher costs, including increases of \$48.3 million in employee benefits, \$33.7 million in depreciation and \$15.9 million for the impairment of available for sale investments.

\$19.8 million from the auction of a donated Picasso painting has been earmarked for philanthropic purposes

Abridged Statement of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Australian Government grants	692,312	642,012	692,300	642,012
Higher Education Contribution Scheme and FEE-HELP	159,988	169,584	159,988	169,584
Fees and charges	370,199	346,890	369,929	346,680
Other	372,986	344,596	374,923	347,362
Total Revenue	1,595,485	1,503,082	1,597,140	1,505,638
Employee benefits and on-costs	896,490	848,199	894,861	845,039
Depreciation and amortisation	104,171	70,466	103,030	70,103
Other	486,500	468,311	486,837	472,821
Impairment of available-for-sale assets	19,808	3,939	19,808	3,939
Total Expenses	1,506,969	1,390,915	1,504,536	1,391,902
Surplus	88,516	112,167	92,604	113,736
Other Comprehensive Income:				
Change in fair value of available for sale financial assets gains/(losses)	(32,193)	1,307	(32,193)	1,307
Gain on revaluation of land and buildings, net of tax	8,548	9,939	8,548	9,939
Defined benefit actuarial losses	(11,286)	(3,572)	(11,286)	(3,572)
Net Reserve Transfers	(3,544)	(33,688)	(4,833)	(33,688)
Total Other Comprehensive Expense	(38,475)	(26,014)	(39,764)	(26,014)
Total Comprehensive Income	50,041	86,153	52,840	87,722

Australian Government Grants increased by 7.8 per cent due to a rise in capital and research grants received. Higher Education Contribution Scheme and FEE-HELP revenue decreased by six per cent, mainly due to a change in the enrolment pattern and student mix. Total full-time equivalent student numbers have slightly decreased from 40,134 to 40,004. Fees and charges increased by 6.7 per cent primarily due to an increase in student fees and changes in subjects undertaken by fee paying students.

Employee benefits and on-cost expenses increased by 5.7 per cent due to increased staff numbers and salary rate increases.

The impairment expense of \$19.8 million (\$3.9 million) increased due to the deterioration in the value of equity investments.

Abridged Statement of Financial Position

At 31 December	Consolidated		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Current assets	322,524	307,178	323,811	313,719
Non-current assets	4,464,884	4,077,120	4,459,345	4,068,705
Total Assets	4,787,408	4,384,298	4,783,156	4,382,424
Current liabilities	305,493	278,802	306,087	284,566
Non-current liabilities	1,115,892	789,514	1,115,853	789,482
Total Liabilities	1,421,385	1,068,316	1,421,940	1,074,048
Net Assets	3,366,023	3,315,982	3,361,216	3,308,376

Total assets increased by \$403 million, which included a \$96.7 million rise in capital work in progress. Non-current receivables from the University's superannuation liabilities increased by \$312 million. This was offset by a corresponding increase in non-current superannuation liabilities.

University Activities

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

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

Controlled Entities

Performance of Controlled Entities

The controlled entities are relatively small and only engage in limited trading activity. Two companies are dormant. The performance of the other five controlled entities is summarised below:

- four of the five entities generated surpluses totalling \$297,000 while Sydney Talent Pty Ltd generated a deficit of \$215,000.
- SydneyLearning Pty Ltd and The Warren Centre for Advanced Engineering Ltd had net liabilities totalling \$816,000 as at 31 December 2011. The other three entities had net assets totalling \$570,000.

Audit Opinions

The audits completed for 31 December 2011 all resulted in unqualified Independent Auditor Reports.

The audits of Bandwidth Foundry International Pty Ltd and Sport Knowledge Australia Pty Ltd for 31 December 2009 resulted in qualified audit opinions within the Independent Auditor Reports. The qualifications arose as the companies were acquired by the University during 2009 and had not previously prepared general purpose financial statements. As these were the first financial statements prepared under the *Public Finance and Audit Act 1983* I was unable to form an opinion on the opening balances or transactions for the period prior up to the acquisition of the companies.

The audit of Bandwidth Foundry International Pty Ltd for 31 December 2010 resulted in a qualified Independent Auditor's Report relating to the comparative information from 2009, which was qualified for similar reasons to those mentioned above.

These audits were significantly delayed due to difficulties obtaining information from third parties.

Audit opinions have not yet been issued for Sport Knowledge Australia Pty Ltd for 2010 and 2011. The audit of Sport Knowledge Australia Pty Ltd's 2010 financial statements has not yet been completed due to continuing delays by third parties providing information.

Financial Reporting

Last year I recommended the University improve its controlled entities' financial reporting processes to ensure quality and timely preparation. The University responded positively and has significantly improved the timeliness of financial reporting by its controlled entities.

Investment in Subsidiaries

In 2011, I recommended the University continue to review the financial arrangements it has with its controlled entities to ensure appropriate financial structures are in place to support their ongoing operations and mitigate any associated risks.

The University is actively monitoring the operations of all its controlled entities and reporting their results as part of its monthly management reporting process. The Group Secretary of the University and the Chief Financial Officer actively review the controlled entities on an ongoing basis to ensure proper budgetary and other controls are in place.

Controlled Entities of the University

For further financial and other information on these entities I have listed their websites.

Entity Name	Website
Bandwidth Foundry International Pty Ltd	www.bwfoundry.com
Sport Knowledge Australia Pty Limited [^]	*
Sydney Talent Pty Limited	http://www.sydneytalent.com.au
SydneyLearning Pty Limited	http://www.sydneylearning.com.au
The Warren Centre for Advanced Engineering Limited	www.warren.usyd.edu.au
Wayahead Pty Limited (dormant [#])	*
Wentworth Annexe Limited (dormant [#])	*

[^] Sport Knowledge Australia is on verge of deregistration.

[#] These companies are not active and did not trade in 2011 or 2010.

* This entity does not have a website.

Other Bodies Associated with the University

The following associated entity has not been reported on separately as it is not considered material by its size or the nature of its operations.

For further financial and other information on this entity we have listed its website.

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

* This entity does not have a website.

Audit Opinion

The audits of the University and its controlled entities' financial statements for the year ended 31 December 2011 resulted in unmodified audit opinions for six entities in the group, including the parent entity, and a qualified audit opinion for one entity within their respective Independent Auditor's Reports.

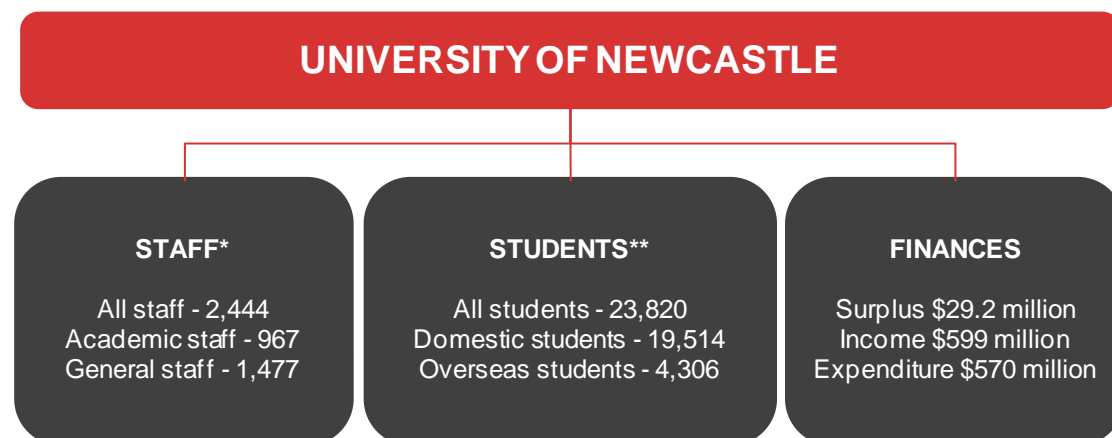
I issued a qualified audit opinion for the UON Foundation for the period ended 2 December 2011, as I was unable to express an opinion as to whether the Foundation had recorded all revenues received from donations and fundraising sources in its financial statements. This is common for entities with these sources of revenue, as it is impracticable for them to maintain effective systems of internal control over the receipt of such revenues until their initial entry in the financial records. My audit opinion for the year ended 31 December 2010 was similarly qualified.

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

Operational Snapshot

As stated in its Annual Report, the University focuses on providing access to higher education for students from disadvantaged backgrounds. The University has higher rates of indigenous participation than the national average, with 676 indigenous enrolments in 2011.

Below is a snapshot of the University's operations.



Source: University of Newcastle.

* Full-Time Equivalent positions occupied by full-time and part-time staff (unaudited).

** Equivalent Full-Time Student Load to be reported to the Department of Education, Employment and Workplace Relations (unaudited).

Key Issues

Contribution to the Clinical Research Facility

Recommendation

The University should prepare business cases to support all major financial decisions.

The University did not prepare a business case to support a contribution of \$26.0 million towards a research facility, of which \$18.0 million was paid in 2011. In December 2010, the University entered into an agreement with the Hunter Medical Research Institute (HMRI) and others, to develop a clinical research facility on the John Hunter Hospital Campus. The total budgeted cost of the project is \$90.0 million, of which the University will contribute \$26.0 million. HMRI is an unrelated company with whom the University has a close association.

Although the University informed us a business case was prepared at the project-wide level (i.e. external to the University), it could not provide us with a formal business case explaining the costs and benefits specific to the University.

The University did not prepare a business case to support a contribution of \$26.0 million towards a research facility

A business case
for the city
campus project
has still not been
prepared

For a contribution of this size, I would expect a business case to have been prepared and approved by the University, explaining the basis for its decision, and expected costs and benefits.

Proposal to Build a New Campus in Newcastle City (Repeat Issue)

Recommendation

The University has not prepared a cost/benefit analysis to support its proposal to build a new city campus. As part of the analysis, the University should:

- clearly define the project
- determine the maximum it is prepared to invest in the project
- assess the viability of alternative options such as expanding the existing Callaghan campus
- assess whether the results of the cost/benefit analysis are in line with its legislative objective.

I previously reported the University had not conducted a University specific cost/benefit analysis of its proposal to build the new campus, although a regional level economic assessment had been prepared. A University specific analysis has still not been performed. In the absence of this analysis, there is a risk that the proposed project may not be cost effective.

In 2010, I reported the University was planning to build a new campus in the Newcastle city centre for an estimated cost of \$562 million. Its application for funding of stage one of the project (estimated at \$159 million) under the Commonwealth's Structural Adjustment Fund was unsuccessful.

There are several unresolved issues with the proposed new campus, including student accommodation and car parking. The University has been granted a parcel of land worth approximately \$4.0 million, and obtained a commitment of financial support from the State Government for \$25.0 million.

In March 2012, the University submitted a funding application to the Education Investment Fund Regional Priorities Round for \$65.0 million. It expects an announcement on successful bids in late 2012. The University has advised the project will not proceed until funding is confirmed by the Commonwealth or State Governments.

The University's objective according to the *University of Newcastle Act 1989* is 'the promotion, within the limits of the University's resources, of scholarship, research, free inquiry, the interaction of research and teaching, and academic excellence'. The University should assess whether the benefits expected to be derived from the project exceed the costs, and that the derived benefits are in line with its legislative objective.

Credit Cards (Repeat Issue)

Recommendation

The University should do more to improve controls over credit card use.

Last year, I recommended the University:

- conduct a complete review of issued credit cards to determine whether all 1,001 employees who had credit cards actually needed them
- review its credit card expenditure approval process, and consider reducing the time frame given to card holders for submitting documentation supporting the expenditure
- consider raising a receivable from relevant employees for expenditure incurred on corporate credit cards not acquitted and accounted for within two months of the statement date
- consider following up on and taking appropriate action for breaches of University credit card policy.

Personal expenditure using the University's credit cards has more than halved from the prior year, but too many credit cards are still being used to fund personal expenditure and many are not being used in accordance with the University's policy for their use.

The University advised that in 2011 it:

- assessed the need for each credit card as it fell due for renewal and ensured unnecessary cards were not renewed
- reduced credit card limits, where appropriate
- reviewed its credit card policy and reduced the time frame for card holders to submit supporting documentation from 60 days to 30 days (at 30 April 2012 the University advised all outstanding supporting documentation for 2011 expenditure had been received)
- reviewed credit card expenditure regularly and followed up outstanding supporting documentation
- took action to recover all personal expenditure incurred in breach of its credit card policy.

While controls over credit cards has improved, I noted the following in my 2011 audit:

- 93 (99 in 2010) employees used their credit cards for personal expenditure amounting to \$20,177 (\$46,225). Whilst the University recovered this money, it considers personal expenditure using its credit cards to be fraudulent and a breach of its policy (unless it is for emergency purposes only and reimbursed within 14 days).
- 253 (293) people had their credit cards suspended and 9 (46) were cancelled for not following policy requirements.

The University again advised that documentation supporting credit card expenditure is in many cases still being submitted directly to the Card Services team and not to the authorising officer. According to the University Credit Card Policy, authorising officers should satisfy themselves that expenditures are appropriate prior to approving credit card transactions. This control is less effective if credit card documentation is not available for their review, and increases the risk of inappropriate expenditure. To mitigate this risk, the University's Financial Services Group started reviewing all credit card transactions for validity from August 2010.

The total credit card expenditure during 2011 by 989 (1,001) employees was \$18.7 million (\$19.0 million).

Entitlement of Casual Staff to Long Service Leave

Recommendation

The University should:

- ensure it identifies all employee entitlements in Workplace Agreements for financial reporting purposes
- ensure it maintains adequate records and, where applicable, reconstructs these to verify and measure long service leave and any other entitlements
- recognise these entitlements in the financial statements.

The University has not recognised a liability for casual employee entitlements to long service leave in its financial statements. The main reason for this was that casual staff employment records were not reliable enough to measure this liability.

Management advised it will reconstruct casual staff employment histories in 2012. This will ensure the accuracy of long service leave entitlements and enable reliable measurement of the liability for its financial statements. Management believes the maximum unrecorded liability to be approximately \$3.0 million and that this was not material to the University's 2011 financial statements. I agree with this assessment.

Many credit cards are not being used in accordance with University policy

The University has not recognised a liability for casual employee entitlements to long service leave

Entitlement of Contract Employees to Severance Payments

Last year, I recommended the University:

- implement a formal process to identify and record claims for severance payments by contract employees
- monitor internal controls around HR processes and data capture to ensure compliance with Workplace Agreements
- disclose the existence of potential liabilities to former employees as a contingent liability in the financial statements.

In late 2011, the University implemented new processes to provide more certainty over whether contract separation payments are owed to contract employees and to ensure documentation is maintained to support claims. Although controls around contract employee records could be improved the University has recognised this liability in its 2011 financial statements.

Employment of Contractors (Repeat Issue)

Last year, I recommended the University create and maintain a single record of all engaged contractors and ensure:

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

The University has advised it is implementing a module within the finance system to record and track the engagement of contractors and associated expenditure. Once it is operational, information about the cost, number and frequency of all contractors will be readily available. The new module is expected to be implemented by 31 December 2012.

Total Asset Management Plan (Repeat Issue)

Recommendation

The University should implement a total asset management plan.

For several years I have recommended the University implement a total asset management plan to ensure assets are planned and managed efficiently and effectively. The University is still developing such a plan, but expects it will be implemented in 2012.

Other Information

Student Numbers

Over the last five years, the University's equivalent full-time student load (EFTSL) increased by 27.7 per cent. The international EFTSL rose by 44.4 per cent and the domestic EFTSL rose by 24.1 per cent.

The table below shows the EFTSL by type.

At 31 December	2011	2010	2009	2008	2007
Domestic	19,512	19,044	18,050	16,603	15,717
International	4,825	4,964	4,614	3,993	3,340
Total	24,337	24,008	22,664	20,596	19,057

Source: University of Newcastle 2011 Annual Report (unaudited).

The University attributes the growth in total student numbers over the past five years to specific management efforts to achieve growth.

International Benchmarking

The University was awarded an overall maximum rating of five stars from the new QS Stars international benchmarking system. Of eight ratings areas, the University received five stars in five areas and four stars in the remaining three areas.

As a result, the University will focus on:

- greater communication with graduate employers
- continuing to improve teaching
- boosting innovation through more collaboration with industry.

QS Stars provides an independent assessment of universities' strengths and weaknesses worldwide using a rating method. Universities are evaluated against eight criteria: Research Quality, Teaching Quality, Graduate Employability, Specialist Subject, Internationalisation, Infrastructure, Third Mission and Innovation and Knowledge Transfer.

For further details, refer to <http://www.topuniversities.com/qsstars/australia>.

The University is ranked 291 out of the top 400 universities in the world according to the QS World University Rankings 2011–12.

Major Projects

The University is planning capital expenditure of \$113 million in 2012, \$40.7 million of which will be funded by grants, mainly from the Australian Government. The major components of the planned capital expenditure are: \$89.8 million for buildings, \$5.0 million on information technology projects and \$18.6 million on plant and equipment.

The University has commenced a project to build additional student accommodation for up to 750 students on the Callaghan campus for an estimated cost of \$85.0 million, which is to be funded through debt. The University expects the income generated by the accommodation will exceed the cost of funding the project over its life.

During 2011, the University spent \$69.8 million on capital expenditure, with \$25.7 million funded through grants, and the remaining \$44.1 million funded through operational cash flows. The University estimates its backlog maintenance is \$62.7 million (\$64.9 million).

Opportunities to Improve Accounting and Internal Control Procedures

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

The University has advised it is taking action to address these issues.

Financial Information

Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Australian Government grants	268,871	242,236	268,871	242,236
Higher Education Contribution Scheme	98,163	94,503	98,163	94,503
Fees and charges	93,811	90,767	88,081	84,908
Other	138,242	118,715	124,558	101,524
Total Revenue	599,087	546,221	579,673	523,171
Employee benefits and on-costs	320,430	303,973	306,403	290,088
Depreciation and amortisation	42,109	40,403	41,485	39,744
Other	206,739	162,345	202,486	158,721
Deferred expense – superannuation	560	2,945	560	2,945
Total expenses	569,838	509,666	550,934	491,498
Surplus	29,249	36,555	28,739	31,673
Other Comprehensive Income				
Gain on revaluation of land and buildings	--	17,709	--	17,709
Unrealised losses on available for sale financial assets	(8,294)	(1,024)	(8,296)	(1,027)
Other expense	(26)	(40)	--	--
Total Other Comprehensive (Expense)/Income	(8,320)	16,645	(8,296)	16,682
Total Comprehensive Income	20,929	53,200	20,443	48,355

Australian Government grants increased by 11 per cent mainly due to \$15.9 million received in 2011 for the Newcastle Institute for Energy and Resources. The Institute opened in July 2011, and aims to be a hub for leading-edge research into the development of clean energy resources. Additional Commonwealth Grants Scheme grants of \$4.5 million and transitional loading of \$2.5 million for mathematics, statistics and science units were also received compared to the prior year.

Other revenue increased by 16.4 per cent, partly due to increases of \$3.9 million and \$3.4 million in engineering and health research revenue respectively. The University also received new Commonwealth funding of \$11.0 million in 2011 for the construction of a medical education and training centre in Tamworth.

Employee benefits and on-cost expenses increased by 5.4 per cent mainly due to two salary rate increases of two per cent each paid from March and October 2011.

Other expenses increased by 27.3 per cent mainly due to a contribution of \$18.0 million paid by the University towards the development of a clinical research facility on the John Hunter Hospital Campus.

The increased loss on value of available for sale financial assets of \$7.3 million was due to the deterioration in the value of equity investments.

Abridged Statement of Financial Position

At 31 December	Consolidated		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Current assets	199,028	190,815	178,895	180,602
Non-current assets	1,190,588	1,084,312	1,187,798	1,082,024
Total Assets	1,389,616	1,275,127	1,366,693	1,262,626
Current liabilities	114,197	106,117	111,179	112,939
Non-current liabilities	325,361	239,882	324,670	239,286
Total Liabilities	439,558	345,999	435,849	352,225
Net Assets	950,058	929,128	930,844	910,401

Total assets increased by \$114 million in 2011, mainly due to an increase of \$90.7 million in the non-current receivable from the Australian Government for deferred superannuation benefits. This was offset by a corresponding increase in non-current superannuation liabilities.

Current liabilities increased by \$8.1 million primarily due to increases in annual and long service leave obligations, income in advance and tax liabilities owed by the University's subsidiary GraduateSchool.com Pty Limited.

University Activities

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

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

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

Controlled Entities

The following significant matters were noted in the controlled entities.

Newcastle Innovation Limited

Tax Exemption Status

Recommendation

The company obtain a private ruling as to its tax status from the Australian Taxation Office.

The company last obtained a notice of endorsement for its tax concession in 2007. Since then, the company has not obtained a formal review of its tax exemption status to ensure the current tax concession is still valid.

The Federal Government announced its intention to change taxation arrangements applying to the not-for-profit (NFP) sector in the 2011–12 Budget. As a result the government reformed the use of tax concessions for businesses run by NFP agencies to ensure:

- NFPs pay income tax on profits from unrelated commercial activities that are not directed back to their altruistic purpose (i.e. earnings retained from commercial activities)
- input tax concessions, such as FBT and GST concessions, cannot be used by NFPs for unrelated commercial activities.

Accordingly, I strongly recommended to the company that it obtain a private tax ruling from the Australian Taxation Office in 2012. The company has agreed to do this. I made a similar recommendation for UON Services Limited.

UON Singapore Pte Ltd

Dispute with Partner

Last year, I reported the company's partner had claimed a share of student course fee revenue totalling SGD \$907,000 for the period 2008 to 2010. The company has advised that the partner withdrew its claim in 2011.

Loan from the University of Newcastle

Last year, I reported that in December 2010 the company received a fixed interest loan of SGD \$1.0 million from the University to help with its cash flows. Mainly as a result of improved cash flows from new payment arrangements having been negotiated with its partner in Singapore, the loan was fully repaid in 2011.

UON Foundation and UON Foundation Limited

Deregistration of the company and wind-up of the Foundation

The company was deregistered on 23 February 2012. The Foundation was woundup on 2 December 2011, resulting in \$11.7 million being distributed to the University.

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

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

* This entity does not have a website.

Audit Opinion

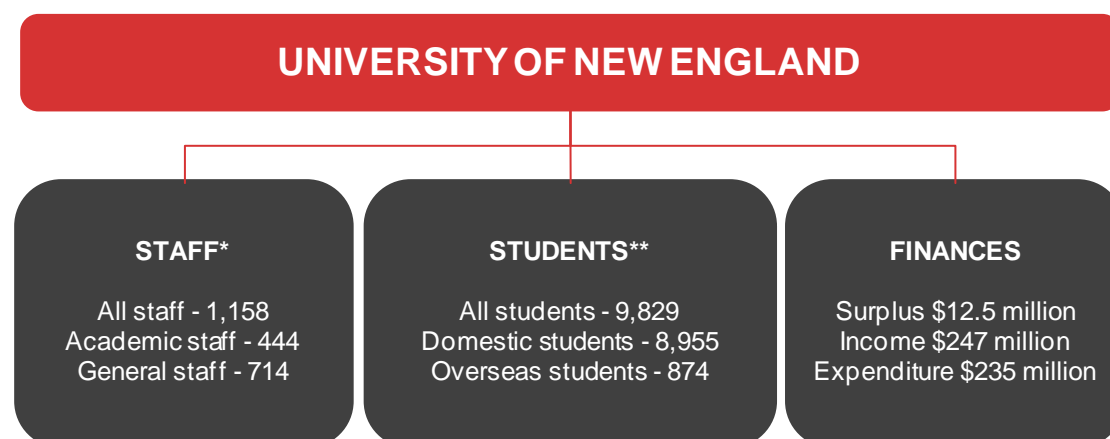
The audits of the University and its controlled entities' financial statements for the year ended 31 December 2011 resulted in unmodified audit opinions within the Independent Auditor's Reports for six entities, including the parent.

I qualified my audit opinion within the Independent Auditor's Report for the UNE Foundation as I was unable to express an opinion as to whether all revenues received from donations and fundraising sources were recorded in its financial statements. This is common for entities with these sources of revenue, as it is often impracticable for them to maintain effective systems of internal control over the receipt of such revenues until their initial entry in the financial records. My audit report for 2010 was similarly qualified.

During 2011, the University of New England Sports Association ceased operations and Sport UNE Limited took over operation of the University's sporting facilities.

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

Operational Snapshot



Source: University of New England.

* Full-Time Equivalent (unaudited)

** Equivalent Full-Time Student Load (unaudited)

Key Issues

Deferred Maintenance

Last year I recommended the University urgently revitalise and replace ageing infrastructure and address backlog maintenance of approximately \$76.0 million. Of this amount, \$45.7 million relates to rehabilitation works for residential colleges. These works are important to ensure the University is compliant with all applicable building related legislation.

The University advises that it continues to seek ways to address this issue. To date, it has not been able to obtain the capital funding, or reach a suitable commercial arrangement, that would allow it to carry out projects on the scale necessary to address the entire backlog.

While seeking a longer term solution, the University continues to carry out maintenance essential to its current viability, and to demolish buildings surplus to its needs. This limited capital works program has enabled the University to contain the backlog maintenance figure to similar levels over the last three years.

The University anticipates that after 2012, given current funding and the recent history of building works already undertaken, the backlog maintenance figure will again increase unless \$3.0 million per annum is spent solely on deferred maintenance.

The University's backlog maintenance may again increase from 2012

About one-third of planned capital expenditure in 2011 was delayed

Insufficient resources were allocated to risk management and internal audit

Capital Expenditure Program

Capital expenditure in 2011 of \$21.1 million (\$20.3 million) was \$10.2 million less than budgeted as delays led to a lack of progress with a number of major projects.

Including expenditure delayed from 2011, the University expects capital expenditure of \$38.0 million in 2012 as work progresses on the following major projects:

- \$9.3 million to complete the \$12.4 million Tablelands Clinical School and its associated GP Training Practice at Armidale Hospital. Delays in this project were caused by the need to enhance the design following the receipt of unexpected additional funding
- \$6.3 million for building a new primary internet connection to the Australian Research and Education Network for all network services. This is a complex project and delays were caused by the need to engage an independent consultant to review the design, route and costing
- \$3.2 million expenditure from the of \$6.5 million fire compliance improvements project to be completed in 2013
- \$2.7 million for improvements to the animal house facility to handle livestock. Delays in this project were caused by wet weather and unfavourable ground conditions, and
- \$1.5 million to complete the \$4.8 million teaching and laboratory facilities for the new Pharmacy course.

The University's capital works program for the period 2012 to 2016 totals \$121 million. The University is seeking to fund this program through government grants and operating surpluses, but remains significantly dependent upon Australian Government policy decisions for the higher education sector generally.

Need for Enterprise Risk Management and Enhanced Internal Audit

Over the past few years, many planned internal audits have not been completed and internal audit coverage has been insufficient. The University has had a regime of adhoc risk and compliance activities. There has been turnover of staff in the Audit and Risk Directorate and insufficient outsourcing of internal audit activities. As a consequence, the overall internal control environment was weakened, increasing the risk of errors, intentional manipulation and inefficient and ineffective practices.

At present, the primary focus of the University's Audit and Risk Directorate is the implementation of a university-wide risk management compliance framework and improvements to the Internal Audit function. The University is allocating substantial funds in 2012 to secure additional resources both internally and externally to develop this area.

The University expects the new risk management compliance framework will represent a structured, consistent and continuous process across the whole University for identifying, assessing, responding to, and reporting on, opportunities and threats that affect the University. It will ensure that risk management is integrated with the University's strategy-setting, decision-making processes, governance arrangements, policies, plans and procedures.

Independent Commission Against Corruption

The Independent Commission Against Corruption (ICAC) began a public inquiry in January 2012 into allegations of corrupt conduct by a staff member at the University. The inquiry is investigating allegations that the staff member corruptly solicited and received benefits for himself and others in return for improperly favouring certain contractors in awarding University contracts and for approving payment of false invoices submitted by those companies.

The staff member is also alleged to have corruptly arranged for payment for the hire of University facilities for the use of a third party by providing false and misleading information to other University employees. The staff member is no longer employed at the University.

Ageing of Academic Staff

Last year, I recommended the University further develop and implement policies to address and manage its ageing academic workforce.

The University does not currently have sufficient financial resources to undertake extensive restructuring of either academic or general staff and will therefore not be able to shift its ageing profile in the short-term.

The University expects that its project to enhance course offerings through flexible and online distance education will provide future opportunities to recruit younger staff who may not necessarily reside in the New England region. It expects that recently awarded Australian Government funding of \$36.6 million, to be provided through the Structural Adjustment Fund in 2012 and 2013, will assist in this regard.

Excessive Annual Leave Balances (Repeat Issue)

Recommendation

The University develops a policy that ensures leave is not allowed to accumulate to excessive levels.

The number of academic staff with annual leave balances in excess of 40 days increased from 62 in 2009 to 76 in 2011 (72 in 2010). The number of general staff with leave balances in excess of 50 days has declined from 41 in 2010 to 38 in 2011. Academic staff accrue 20 days annual leave per annum and general staff accrue 25 days.

In previous years, I recommended the University establish individual leave plans with employees to reduce leave balances within an acceptable timeframe. In September 2010, the University implemented measures which included setting targets aimed at reducing the overall liability and requiring all staff to take their current annual entitlement each year. Those with more than two years entitlement were required to take a minimum two further weeks during the year.

These measures resulted in reductions to the excessive balances existing at the end of 2010, however, they have not controlled the number of new excessive balances accruing during 2011.

The University's employee agreements allow the University to direct staff to take annual leave where they have more than two years of accrued leave.

The University is facing challenges from the potential loss of retiring academic staff

Student numbers increased by 5.4 per cent in 2011

Performance Information

Student numbers

In 2011, the University's Equivalent Full-Time Student Load (EFTSL) increased by 502 EFTSL or 5.4 per cent from 9,326 in 2010 to 9,828. Across the University, Commonwealth supported places increased in 2011 by 495 EFTSL compared to 2010. This equated to an increase in income of \$11.8 million.

In 2011, the University advised that it was one of only a few Australian universities where the number of international students on campus increased, predominately in postgraduate course enrolments. The University attributes this growth to its commitment to diversity in recruitment and to the range of countries it recruits students from.

Full fee paying international student enrolments increased in 2011 on the prior year by 50 EFTSL, resulting in increased revenue of \$1.5 million. Students were mainly from China and Saudi Arabia while a significant number came from other Asian nations (Bangladesh, Thailand, Vietnam and India). Full fee paying domestic student enrolments in 2011 were similar to the previous year.

In 2011, contrary to the national trend, there was strong growth in student numbers in agricultural courses. The University attributes this growth to an expansion over the past two years in the sector courses it offers to include:

- Bachelor of Animal Science
- Bachelor of Ecology
- Graduate Certificate in Agriculture
- Graduate Certificate in Environmental Science
- Graduate Certificate in Precision Agriculture.

Australian Government Grants

The Australian Government awarded the University \$36.6 million from the Structural Adjustment Fund. Key projects to be progressed under this funding include the establishment of a Future Campus at Parramatta and the redevelopment of University courseware for online delivery.

The University plans to develop future campuses in both metropolitan and regional settings. This will give students studying by distance education, access to state-of-the-art learning technologies, and opportunities to collaborate with peers and instructors. Online delivery is particularly important for the University, given that nearly 80 per cent of its students study via distance education.

Other Information

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

Financial Information

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

Abridged Statement of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Australian Government grants	124,980	106,792	124,980	106,792
Higher Education Contribution Scheme	48,903	44,746	48,903	44,746
Fees and charges	44,331	40,841	37,975	35,064
Other	28,999	28,600	20,668	22,097
Total Revenue	247,213	220,979	232,526	208,699
Employee benefits and on costs	140,075	133,666	130,147	124,316
Depreciation and amortisation	15,069	13,690	14,354	12,861
Other	79,060	74,016	72,210	67,837
Deferred expense – superannuation	521	424	521	424
Total Expenses	234,725	221,796	217,232	205,438
Surplus/(Deficit)	12,488	(817)	15,294	3,261
Other Comprehensive Income				
Gain on revaluation of property, plant and equipment	31,080	210	30,443	210
Actuarial losses on defined benefit superannuation plans	(4,044)	(1,392)	(4,044)	(1,392)
Other comprehensive (expense)/income	(283)	37	826	858
Total Comprehensive Income/(Expense)	39,241	(1,962)	42,519	2,937

Total revenue in 2011 was significantly higher than in the previous year due to higher student numbers and additional capital funding.

Employee costs increased by \$6.4 million, due to a four per cent increase in salary rates from 1 July 2011 and restructurings costs.

Abridged Statement of Financial Position

At 31 December	Consolidated		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Current assets	81,871	64,298	64,613	46,429
Non-current assets	499,631	399,373	493,602	390,819
Total Assets	581,502	463,671	558,215	437,248
Current liabilities	54,565	49,146	50,358	45,044
Non-current liabilities	242,195	169,024	241,988	168,854
Total Liabilities	296,760	218,170	292,346	213,898
Net Assets	284,742	245,501	265,869	223,350

The increase in current assets was largely due to a \$17.2 million increase in cash. This was due to higher levels of Australian Government grant funding in 2011, including funding for capital developments that will occur from 2012.

The increase in non-current assets was mainly due to a \$30.7 million revaluation in the value of land, buildings and infrastructure and a \$67.9 million increase in the amount owed by the Australian Government to fund the superannuation liability.

The increase in non-current liabilities was mainly due to a \$68.4 million increase in the superannuation liability, nearly all of which is funded by the Australian Government.

University Activities

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

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

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

Controlled Entities

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

Entity Name	Website
Agricultural Business Research Institute	www.abri.com.au
Services UNE Ltd	www.servicesune.com.au
Sport UNE Limited	www.une.edu.au/sportune
UNE Foundation	*
UNE Foundation Ltd	*
UNE Partnerships Pty Ltd	www.unepartnerships.edu.au

* This entity does not have a website.

Audit Opinions

The audits of the University and its controlled entities' financial statements for the year ended 31 December 2011 resulted in unmodified audit opinions within the Independent Auditor's Reports for 15 entities (including the parent), and a qualified audit opinion within the Independent Auditor's Report for three entities.

I was unable to express an opinion as to whether the following entities had recorded all revenues received from donations and fundraising sources in their financial statements:

- University of New South Wales Foundation Trust
- UNSW Hong Kong Foundation Limited, and
- UNSW Study Abroad – Friends and U.S. Alumni Incorporated.

This is common for entities with these sources of revenue, as it is impracticable for them to maintain effective systems of internal control over the receipt of such revenues until their initial entry in the financial records. My audit reports for 2010 were similarly qualified for these entities.

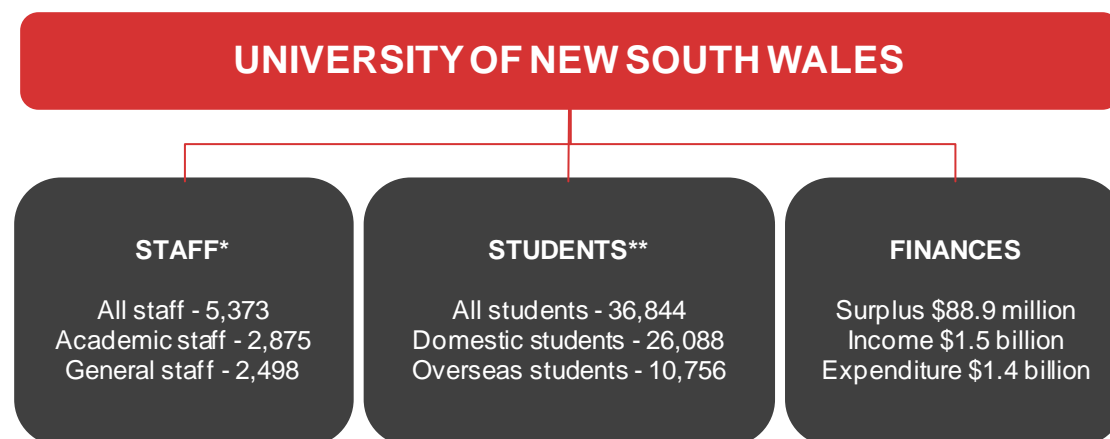
The audit of one controlled entity in the group is incomplete because its financial period ends 31 March 2012 and my audit will only be completed in June 2012.

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

Operational Snapshot

The University of New South Wales, established in 1949, is a research and teaching university. The University was the first Australian university to be awarded five stars (the highest possible) in the new international QS Stars rating system. It is a founding member of the Group of Eight (Go8) research intensive universities in Australia. The University's Vice-Chancellor, Professor Fred Hilmer AO, was appointed Chair of the Go8 in December 2011.

Below is a snapshot of the University's operations.



Source: University of New South Wales.

* Full-Time Equivalent (unaudited).

** Equivalent Full-Time Student Load (unaudited).

Other Information

Major Projects

Capital expenditure totalled \$225 million, an increase of \$99.0 million on 2010. The table below shows major projects recently completed or still under construction.

Project	Forecast Completion Date	Project Approval* \$m
Tyree Energy Technologies Building	January 2012	125.0
Redevelopment of residential colleges	December 2013	110.0
IT systems upgrade project	April 2014	59.2
Redevelopment of the College of Fine Arts	January 2013	58.0

* This reflects the most recent project approval costs. It does not represent the original budget costs. These figures have been provided by the University and are unaudited.

The Tyree Energy Technologies Building project comprises a new building with facilities for research into clean energy. The project received \$75.0 million from the Australian Government's Education Investment Fund. The building received a six-star Green Star rating (highest possible rating) from the Green Building Council of Australia. The building was completed in January 2012, but will not be in full use until May 2012 after a minor fit-out has been completed and staff and students have been progressively relocated.

Redevelopment of the University's residential colleges is part of a major expansion in student accommodation and comprises new housing facilities for 923 students.

IT systems updates comprise migration of student and human resources systems to new technology platforms to mitigate the risk of system failure until the systems are replaced.

Redevelopment of the College of Fine Arts comprises refurbishment of new teaching, learning, studio and laboratory facilities. Funding includes \$48.0 million from the Education Investment Fund.

The capital expenditure program is also designed to:

- address the University's infrastructure needs and backlog maintenance, estimated at \$160 million at 31 December 2011 (\$183 million)
- replace outdated facilities with modern teaching and research facilities.

International Benchmarking

The University was awarded five stars (highest number of stars possible) across all eight categories of the new QS Stars international benchmarking system.

QS Stars evaluates and rates universities worldwide against eight criteria; research quality, teaching quality, graduate employability, infrastructure, internationalisation, innovation and knowledge transfer, third mission and specialist subject criteria.

Internal Controls

I identified opportunities for improvements to accounting and internal control procedures and reported them to management.

Financial Information

Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Australian Government grants	632,261	592,950	632,261	592,950
Higher Education Contribution Scheme	140,894	137,886	140,894	137,886
Fees and charges	493,565	458,255	422,485	373,342
Other	203,017	231,161	274,112	223,365
Total Revenue	1,469,737	1,420,252	1,469,752	1,327,543
Employee benefits and on-costs	786,033	711,205	746,921	666,013
Depreciation and amortisation	104,038	96,541	102,412	94,685
Impairment of available-for-sale assets	13,573	14,892	11,611	10,549
Other	477,129	454,155	440,460	415,151
Total Expenses	1,380,773	1,276,793	1,301,404	1,186,398
Outside equity interest and income tax expense	(78)	(281)	--	--
Surplus	88,886	143,178	168,348	141,145
Other Comprehensive Income				
Gain on revaluation of property, plant and equipment	39,573	43,651	39,573	43,651
Loss on revaluation of available-for-sale financial assets	(13,837)	(17,846)	(14,972)	(15,575)
Exchange losses on translation of foreign operations	(33)	(428)	--	--
Actuarial losses on defined benefit superannuation plans	(35,884)	(8,038)	(35,239)	(7,890)
Total Other Comprehensive (Expense)/Income	(10,181)	17,339	(10,638)	20,186
Total Comprehensive Income	78,705	160,517	157,710	161,331

Australian Government grants increased by \$39.3 million, largely due to increases of \$15.2 million from the Commonwealth Grant Scheme, \$6.3 million from the Australian Research Council and \$11.4 million from the Department of Innovation, Industry, Science and Research.

The \$35.3 million increase in fees and charges was mainly due to an 11 per cent increase in average unit fees and a four per cent increase in the equivalent full-time student load from full fee-paying domestic and overseas students.

Other revenue decreased by \$28.1 million due mainly to a one-off \$20.0 million capital funding contribution for the Virology Institute Building, which was reported as revenue last year.

The \$74.8 million increase in employee benefits and on-costs expenses was mainly due to a four per cent annual salary increase and a five per cent increase in the number of full-time equivalent employees. Employee benefits also increased due to a large increase in the long service leave liability. See below for commentary on increases in these liabilities.

The \$23.0 million increase in other expenses was mainly due to the provision of more scholarships, grants and related costs from an increase in overseas and domestic students.

Student Numbers

The University's equivalent full-time student load (EFTSL) has risen by 14 per cent over the last four years. The overseas student EFTSL has increased by 35.2 per cent since 2008 while domestic EFTSL has increased by seven per cent over the same period.

The table below shows the EFTSL by type over the past four years.

Year ended 31 December	2011	2010	2009	2008
Domestic	26,088	26,034	24,220	24,374
Overseas	10,756	10,573	8,633	7,955
Total	36,844	36,607	32,853	32,329

Source: University of New South Wales (unaudited).

Abridged Statements of Financial Position

At 31 December	Consolidated		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Current assets	336,431	350,098	304,374	287,850
Non-current assets	2,933,228	2,487,998	2,917,699	2,419,759
Total Assets	3,269,659	2,838,096	3,222,073	2,707,609
Current liabilities	371,366	296,364	343,316	263,621
Non-current liabilities	1,162,963	885,107	1,160,096	883,037
Total Liabilities	1,534,329	1,181,471	1,503,412	1,146,658
Net Assets	1,735,330	1,656,625	1,718,661	1,560,951

The increase in total assets is predominantly due to a \$39.6 million increase in the value in property, plant and equipment and a \$269 million increase in the Australian Government's contribution for superannuation.

The \$353 million increase in total liabilities was mainly due to a \$304 million increase in superannuation and \$38.5 million increase in long service leave liabilities.

Investment Portfolio Performance

The University's long-term and short-term investments performed well during 2011 compared to benchmarks. Long-term investments do not include refunds from the Australian Taxation Office for franking credits worth about 0.5 per cent in additional return:

Fund	2011		2010		2009	
	Actual Return %	Benchmark Return %	Actual Return %	Benchmark Return %	Actual Return %	Benchmark Return %
Long-term	(0.63)	(2.31)	3.63	3.80	20.26	13.74
Short-term	6.14	5.23	6.17	5.00	3.46	3.79

Source: University of New South Wales (unaudited).

Employee Entitlements

	2011 '000	2010 '000	2009 '000	2008 '000	2007 '000
Net liability for defined benefit superannuation	1,072,929	769,123	686,724	787,264	370,258
Annual leave liability	50,801	52,851	50,201	52,647	52,406
Long service leave liability	144,126	105,620	98,908	104,578	90,689
Total	1,267,856	927,594	835,833	946,489	513,353

Source: UNSW Audited Financial Statements.

Defined benefit superannuation liabilities increased from \$769 million in 2010 to \$1.1 billion in 2011, mainly due to a sharp decrease in the discount rate used to calculate the present value of the liability from 5.59 per cent to 3.70 per cent. The Australian Government will fund around 90 per cent of these liabilities, minimising the impact on the University's operating result and cash flows. However, the University is responsible for funding defined benefit superannuation schemes with a combined liability of \$113 million (\$77.3 million).

The University is addressing employee excessive annual leave balances. Employees with excess annual leave balances have fallen over the last four years from 655 to 389, 40.6 per cent. Of 5,727 (5,427) employees, 389 or 6.8 per cent (399 or 7.4 per cent), held annual leave balances exceeding the maximum thresholds allowed under the University's leave policy.

The long service leave liability has increased by 35.8 per cent to \$144 million (\$106 million) over the previous year, mainly due to the sharp decrease in the discount factor used to calculate the present value of the liability from 5.65 per cent to 4.01 per cent. This resulted in the liability increasing by \$13.0 million.

University Activities

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

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

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

Controlled Entities

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

Entity Name	Website
ACN 125 694 546 Pty Ltd ¹	*
AGSM Limited	www.agsm.edu.au
Australian Education Consultancy Limited	www.aecl.com.hk
Cystemix Pty Limited	www.nsinnovations.com.au/aboutnsi/spinoffs.html
John Lewis and Pamela Lightfoot Trust	*
NewSouth Global (Thailand) Limited	*
NewSouth Innovations Pty Limited	www.nsinnovations.com.au
Qucor Pty Ltd	*
The New South Wales Minerals Industry/University of New South Wales Education Trust	*
University of New South Wales Foundation	www.giving.unsw.edu.au/aboutus.html
University of New South Wales Foundation Limited	www.giving.unsw.edu.au/aboutus.html
University of New South Wales International House Limited ³	www.ihunsw.edu.au
University of New South Wales Press Limited	www.unswpress.com.au
UNSW & Study Abroad - Friends and U.S. Alumni, Inc	www.giving.unsw.edu.au/usalumni.html
UNSW Hong Kong Limited	www.hongkong.unsw.edu.au
UNSW (Thailand) Limited	www.unswthailandoffice.com
UNSW Global (Singapore) Pte Limited	www.singapore.unsw.edu.au
UNSW Global India Private Limited	www.unswindiaoffice.com
UNSW Global Pty Ltd	www.nsg.unsw.edu.au
UNSW Hong Kong Foundation Limited	www.giving.unsw.edu.au/aboutus.html

* This entity does not have a website.

1 This entity was deregistered on 16 November 2011.

2 This entity was deregistered on 23 November 2011.

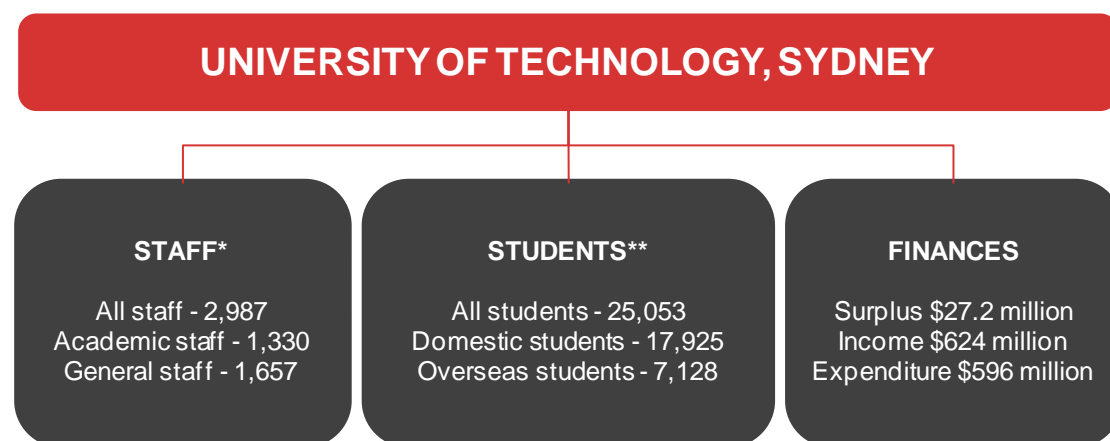
3 2011 financial statements were not submitted to the Auditor-General.

Audit Opinion

The audit of the University and its controlled entity's financial statements for the year ended 31 December 2011 resulted in unmodified audit opinions within the Independent Auditor's Reports for six entities (including the parent).

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

Operational Snapshot



Source: University of Technology, Sydney.

* Full-Time Equivalent (unaudited).

** Equivalent Full-Time Student Load (unaudited).

The University offers over 130 undergraduate and 150 postgraduate courses across traditional and emerging disciplines.

Other Information

Major Projects

Construction of the University's campus master plan projects commenced in December 2009. The plan is expected to take six years to complete at a total cost of approximately \$1.0 billion.

In 2011, capital expenditure totalled \$154 million, \$27.3 million below the budget of \$182 million. This was achieved by refining project plans to ensure building designs most effectively meet the University's current and future needs.

The table below shows total capital expenditure for 2010 and 2011 and predicted expenditure for 2012.

	2012 \$m	2011 \$m		2010 \$m	
	Budget	Budget	Actual	Budget	Actual
Campus Master Plan	229.6	143.9	109.9	133.0	86.5
Other Capital Expenditure	34.3	37.6	44.3	36.0	21.6
Total Capital Expenditure	263.9	181.5	154.2	169.0	108.1

Source: UTS Budgets (unaudited).

The budget for 2012 will be funded from internal resources.

The University is finalising a 'debt funding plan' which is expected to be approved by the Council and NSW Treasury by December 2012. Borrowings, to supplement the campus master plan funding, will occur from 2013 and will be sourced from TCorp and a bank credit facility.

Major campus master plan projects include:

- a student accommodation tower, completed ahead of schedule in July 2011
- the Broadway Building, excavation works are almost complete with main construction work commencing in March 2012
- Dr Chau Chak Building, early works excavation has commenced and the building is expected to be complete by early 2014.

The Dr Chau Chak Building is a key component of the University's Campus Master Plan. It is an Australian first in design by Frank Gehry, one of the world's most influential architects, and will provide teaching, learning, research and office accommodation for the University's Business School.

Internal Controls

I identified opportunities for improvements to accounting and internal control procedures and reported them to management.

Financial Information

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

Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Australian Government grants	192,351	180,887	192,351	180,887
Higher Education Contribution Scheme	101,186	96,529	101,186	96,529
Fees and charges	258,669	245,071	220,619	198,037
Other	71,999	61,545	73,146	61,191
Total Revenue	624,205	584,032	587,302	536,644
Employee benefits and on-costs	363,873	329,361	339,728	305,768
Depreciation and Amortisation	58,226	54,028	55,371	52,466
Other	174,397	166,734	164,794	148,134
Deferred expense – superannuation	441	440	441	440
Total Expenses	596,937	550,563	560,334	506,808
Income tax expense	41	17	--	--
Surplus	27,227	33,452	26,968	29,836
Other Comprehensive Income:				
Gain on revaluation of land and buildings	51,362	36,540	51,362	36,540
Other losses	(912)	(321)	(1,275)	(386)
Total Other Comprehensive Income	50,450	36,219	50,087	36,154
Total Comprehensive Income	77,667	69,671	77,055	65,990

Revenue from the Higher Education Contribution Scheme and fees and charges increased as total student enrolments rose from 24,186 in 2010 to 25,053 in 2011. Additional international student enrolments contributed to just over half of the rise in total student numbers, increasing from 6,647 in 2010 to 7,128 in 2011.

Other revenue increased primarily due to improved interest revenue and additional hire and rental income from the opening of the new student accommodation tower.

The increase in employee benefits was due to an increase of 61 full-time equivalent (FTE) academics and 45 FTE support staff, salary increments and two pay increases totalling approximately four per cent during the year. Staff numbers rose in line with the increase in student enrolments in 2011.

Other comprehensive income increased due to the value of land and buildings being \$14.8 million higher than the previous year due to the completion of campus master plan projects including the student accommodation tower.

Abridged Statement of Financial Position

At 31 December	Consolidated		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Current assets	287,100	334,690	245,275	288,553
Non-current assets	1,571,682	1,301,894	1,548,594	1,286,218
Total Assets	1,858,782	1,636,584	1,793,869	1,574,771
Current liabilities	146,945	130,770	126,444	112,585
Non-current liabilities	473,939	345,593	471,620	343,436
Total Liabilities	620,884	476,363	598,064	456,021
Net Assets	1,237,898	1,160,221	1,195,805	1,118,750

Current assets decreased by \$47.6 million primarily due to the sale of Kuring-gai land, previously classified as 'asset held for sale'. The proceeds from the sale were used to fund campus master plan projects.

Non-current assets increased by \$270 million, mainly due to an increase of \$123 million in superannuation liabilities recoverable from the Australian Government and an increase of \$145 million in property, plant and equipment. The increase in property, plant and equipment resulted from additions and the revaluation increment on land and buildings.

Current liabilities increased by \$16.2 million, mainly due to an increase in employee long service leave liabilities.

Non-current liabilities rose by \$128 million, due mainly to an increase in superannuation liabilities.

University Activities

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

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

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

Controlled Entities

Insearch Limited

Insearch Limited is a company limited by guarantee. It provides education courses in English language, business, information technology and other disciplines to Australian and international students. Insearch Limited also sources approximately 1,660 students for the University annually. It is accredited as a higher education institution.

Insearch Limited operates controlled entities in Australia and China, and a charitable foundation in the United Kingdom. It also has a joint venture in Vietnam. Insearch has in excess of 350 agency agreements across 67 countries to enrol students from various countries.

Year ended 31 December	Consolidated		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Revenue	56,948	55,282	59,620	55,144
Expenses	56,299	51,304	56,151	51,307
Profit	649	3,978	3,469	3,837
Net assets (at 31 December)	37,971	36,959	35,611	32,142

The increase in consolidated revenue was mainly due to a rise in tuition fees for domestic students of \$2.1 million.

The increase in parent entity revenue relates to the transfer of a joint venture, Sydney Institute of Language and Commerce, to the University of Technology, Sydney during the year for consideration of \$2.8 million.

The company donated \$5.0 million (\$4.0 million in 2010) to the University as a contribution towards the University's operations.

The decrease in profit in 2011 was mainly due to:

- a \$1.0 million increase in donations to the University of Technology, Sydney
- a \$1.3 million increase in depreciation expense due to the \$9.8 million campus refurbishment that took place during the year
- increases in other expenses including employee benefits, occupancy expenses and marketing expenses which relate directly to the increase in students numbers in 2011.

Other Controlled Entities

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

For further financial and other information on these entities I have listed their websites.

Entity Name	Website
accessUTS Pty Limited	www.accessuts.uts.edu.au
Insearch (Shanghai) Limited	*
Insearch Education	*
Insearch Education International Pty Limited	*

* This entity does not have a website.

Other Bodies Associated with the University

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

For further financial and other information on these entities I have listed their websites.

Entity Name	Website
AustLii Foundation Limited	www.austlii.edu.au
Sydney Educational Broadcasting Limited	www.2ser.uts.edu.au

Audit Opinion

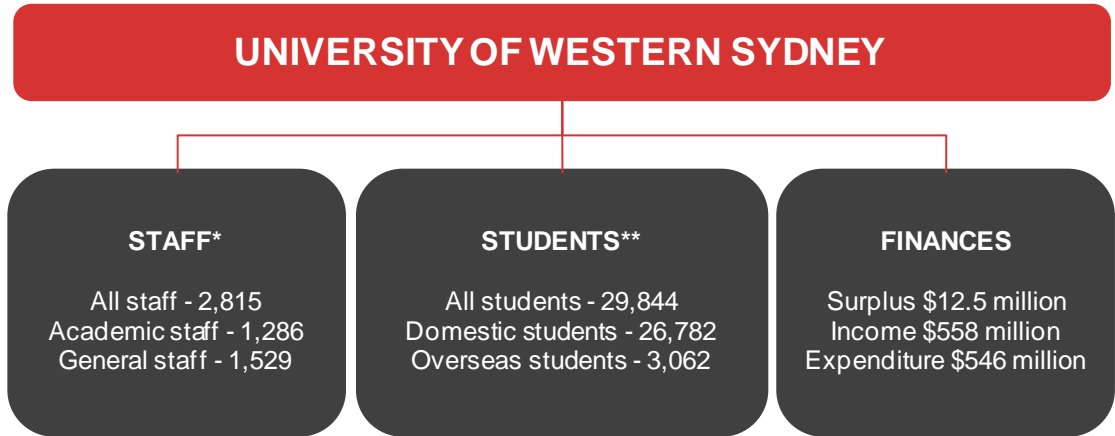
The audits of the University and seven of its controlled entities' financial statements for the year ended 31 December 2011 resulted in unmodified audit opinions within the Independent Auditor's Reports. The audits of the following entities resulted in modified audit opinions within the Independent Auditor's Reports:

- University of Western Sydney Foundation Trust
- Whitlam Institute within the University of Western Sydney Trust.

I was unable to express an opinion as to whether the Trusts had recorded all revenues received from donations and fundraising sources in their financial statements. This is common for entities with these sources of revenue as it is impracticable for them to maintain effective systems of internal control over the receipt of such revenues until their initial entry in the financial records. My audit opinions for 2010 were similarly modified.

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

Operational Snapshot



Source: University of Western Sydney.

* Full-Time Equivalent (unaudited).

** Equivalent Full-Time Student Load (unaudited).

Other Information

Major Projects

Capital expenditure in 2011 totalled \$111 million (\$108 million). Major capital projects during the year were:

Project	Original Target Date	Forecast Completion Date	Months late	Project Approval* \$m	Forecast Final Cost \$m
Climate Change and Energy Research Facility	31/10/2010	24/02/2011	4	11,156	11,135
Infrastructure renewal	Various Projects	--	--	20,800	20,800
Hawkesbury Student Residence	30/01/2012	31/08/2012	7	13,500	13,500
Penrith Kingswood Student Residence	30/01/2012	31/08/2012	7	10,200	10,349
Bankstown Student Residence phase 1	30/01/2012	31/11/2012	10	18,450	18,874
Bankstown Student Residence phase 2	31/01/2013	31/01/2013	--	17,550	17,550

* This reflects the most recent project approval costs. It does not represent the original budget costs.

The University advises these projects ran over time due to adverse climate conditions and delays in council development application approvals.

Campus regeneration to support higher future student numbers has been a high priority for the University in 2011. The regeneration includes refurbishing existing buildings and building new student residences to accommodate a budgeted student load of 32,694 by 2014 compared with 29,844 in 2011. The University plans to spend more than \$381 million over the next three years on capital works funded by a combination of internal funds, grants from the Australian Government and borrowings. The capital expenditure program is designed to address the challenges facing the University, including its infrastructure needs and backlog maintenance. Backlog maintenance at 31 December 2011 was estimated at \$30.8 million (\$43.8 million), a decrease of 29 per cent from the previous year. The decrease was due to an increase focus by management to reduce maintenance backlog through infrastructure renewal and refurbishment of existing buildings.

Quality Learning and Teaching

The University received the highest award for learning and teaching when an associate professor from the School of Natural Sciences won the 2011 Prime Minister's award for the Australian University Teacher of the Year. The University was placed within the top three Universities in the country, receiving eight citations for outstanding contribution to student learning and three awards for teaching excellence.

Other

I identified opportunities for improving accounting and internal control procedures and have reported them to management.

Financial Information

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

Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Australian Government grants	246,195	259,054	246,128	258,950
Higher Education Contribution Scheme	162,646	152,427	162,646	152,427
Fees and charges	81,157	85,892	69,951	69,892
Other	68,246	64,940	45,977	42,415
Total Revenue	558,244	562,313	524,702	523,684
Employee benefits and on-costs	338,690	307,997	310,383	282,374
Depreciation	31,942	31,182	31,195	30,421
Other	174,871	157,307	167,975	149,273
Deferred expense – superannuation	218	241	218	241
Total Expenses	545,721	496,727	509,771	462,309
Surplus	12,523	65,586	14,931	61,375
Other Comprehensive (Expense)/Income				
(Decrease)/increase in fair value of available for sale financial assets	(4,873)	34	(4,873)	34
(Loss)/gain on revaluation of land and buildings and artworks	(28,408)	239,999	(28,408)	239,986
Actuarial loss from defined benefit superannuation plans	(1,083)	(553)	(1,083)	(553)
Other gains	133	36	133	36
Total Other Comprehensive (Expense)/Income	(34,231)	239,516	(34,231)	239,503
Total Comprehensive (Expense)/Income	(21,708)	305,102	(19,300)	300,878

Australian Government grants decreased mainly due to the discontinuation of Commonwealth Government Research grants and a reduction in clinical schools funding.

The increase in the Higher Education Contribution Scheme (HECS) income was in line with the higher student load in Commonwealth Supported Places which increased from 23,553 in 2010 to 25,223 in 2011. The University is now the State's highest provider of government-funded places and the second largest in Australia.

International fee paying students dropped from 3,252 in 2010 to 3,062 in 2011. This was in line with decreases in the sector.

Salary step increases awarded to staff and the appointment of additional staff resulted in a rise in employee benefits and on-costs.

The \$240 million gain in the value of land and buildings in 2010 mainly reflected the movement in values over the three years following the previous revaluation plus increases in market values in some specific areas. The \$28.0 million decrease this year is attributed to:

- decreases in market values experienced in the Penrith and Kingswood areas
- the reassessment of portions of Campbelltown land as 'residential use under development' instead of 'academic use'.

Abridged Statements of Financial Position

At 31 December	Consolidated		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Current assets	78,451	95,061	39,100	54,102
Non-current assets	1,569,518	1,435,176	1,566,044	1,432,076
Total Assets	1,647,969	1,530,237	1,605,144	1,486,178
Current liabilities	133,843	122,339	128,484	118,349
Non-current liabilities	279,729	151,793	279,380	151,249
Total Liabilities	413,572	274,132	407,864	269,598
Net Assets	1,234,397	1,256,105	1,197,280	1,216,580

The decrease in current assets was due primarily to a reduction in other financial assets of \$7.6 million and a fall in receivables of \$6.0 million relating to upfront HECS payments.

Non-current assets increased mainly due to:

- a \$48.0 million increase in property plant and equipment through the capital expenditure program, partially offset by reduced land values as outlined above
- the Australian Government's receivable for deferred superannuation benefits increasing by \$88.0 million.

Although current liabilities exceed current assets in the parent, the University does not believe it has a liquidity risk as:

- its current liabilities include \$41.9 million of leave provisions not expected to be paid in the next 12 months
- it has access to a \$128 million loan facility of which only \$44.0 million was drawn down in 2011
- a significant amount of investments (\$27.5 million) shown as non-current assets are highly liquid and management's intention is to hold these long term.

Non-current liabilities rose by \$128 million due primarily to an increase in borrowings of \$34.8 million and an increase in superannuation liabilities of \$88.0 million.

University Activities

The University is constituted under the *University of Western Sydney Act 1997*. It mainly:

- provides educational facilities of a university standard, having particular regard to the needs and aspirations of the residents of Greater Western Sydney
- achieves excellence through a commitment to scholarship, teaching, learning and research and provides educational services in the regional, national and international community beginning in the community of Greater Western Sydney
- disseminates and increases knowledge, undertakes and promotes research and scholarship and contributes to the intellectual life of Greater Western Sydney
- develops consultancy and entrepreneurial activities, including research and development initiatives, that will contribute to the development of Greater Western Sydney
- awards diplomas and degrees of Bachelor, Master and Doctor and other certificates and awards.

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

Controlled Entities

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

The University has provided support in the form of loans/advances to two of its controlled entities, with the most significant being a \$5.0 million loan to Television Sydney (TVS) Limited. The University has fully impaired the receivable as it is doubtful that Television Sydney (TVS) Limited will be able to repay the loan.

The University has provided financial guarantees to CADRE Design Pty Limited and Television Sydney (TVS) Limited, to meet going concern considerations.

Entity Name	Website
CADRE Design Pty Limited and CADRE Design Unit Trust (sold 20 April 2012)	www.cadre.com.au
Television Sydney (TVS) Limited	www.tvs.org.au
Television Sydney Foundation Limited and Television Sydney Foundation Trust (in the process of being wound up and both entities were exempted by NSW Treasury from preparing financial statements for 2011)	*
University of Western Sydney Foundation Limited and University of Western Sydney Foundation Trust	*
UWS College Pty Limited	www.uwscollege.edu.au
UWS Early Learning Limited (exempted by NSW Treasury from preparing financial statements for 2011)	*
uwsconnect Limited	www.uwsconnect.com.au
Whitlam Institute within the University of Western Sydney Limited and Whitlam Institute within the University of Western Sydney Trust	www.whitlam.org

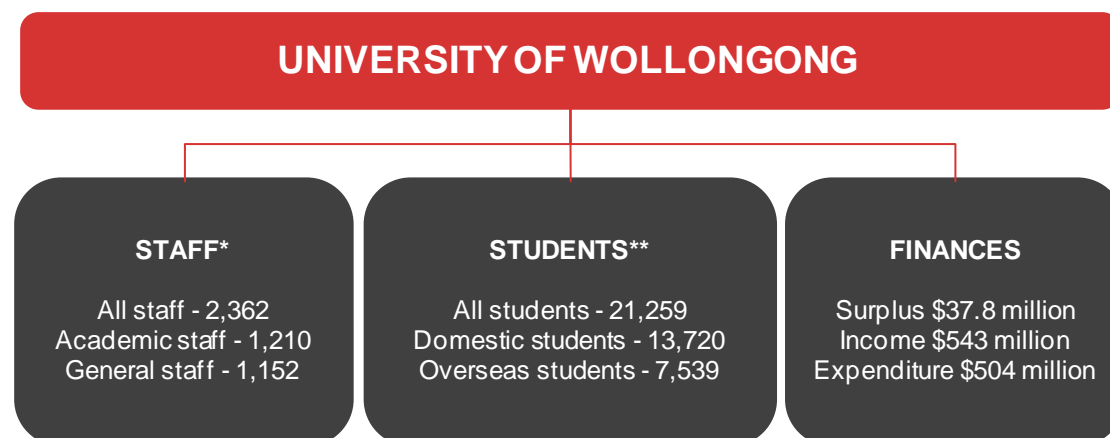
* This entity does not have a website.

Audit Opinion

The audits of the University and its controlled entities' financial statements for the year ended 31 December 2011 resulted in unmodified audit opinions within the Independent Auditor's Reports for eleven entities (including the parent).

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

Operational Snapshot



Source: University of Wollongong.

* Full-Time Equivalent (unaudited).

** Equivalent Full-Time Student Load (unaudited).

Key Issues

Innovation Campus

The University is in the process of terminating, by mutual agreement, its joint venture arrangement for developing the Innovation Campus. It has decided to develop the remaining stages of the campus itself. The University advised it will not incur any penalties for terminating its arrangement with the private sector firm.

Six buildings have been completed on the Innovation Campus, including the iC Central and iC Enterprise 1 commercial buildings, at a total cost of \$164 million. The University is currently performing due diligence and a market appraisal to sell the iC Enterprise 1 building.

The University entered into the joint venture arrangement in 2004, to develop the campus over a 10 to 15 year period. The campus aims to provide an environment for commercial and research entities to co-locate with University teams and establish successful partnerships. Once completed, the campus will provide 135,000 square metres of gross floor area for research and office space, retail and service facilities, a hotel and conference centre and residential accommodation.

The University is terminating its joint venture for developing the Innovation Campus

The University is addressing a shortage of student accommodation

The University has not experienced major delays or cost overruns on its major projects

Student Accommodation

The University has a shortage of student accommodation. There is only one available bed for every four international on-campus students. The University's student numbers, available beds and occupancy rate for the last three years is shown in the table below.

	2011	2010	2009
Wollongong based international students (at 31 December)	5,895	6,217	5,567
Wollongong based domestic students (at 31 December)	16,503	15,797	14,730
Total Wollongong based students (at 31 December)	22,398	22,014	20,297
Number of available student accommodation beds (at 31 December)	1,395	1,395	1,385
Annual average occupancy rate for student accommodation (year ended 31 December) (%)	93.0	93.8	93.2

Source: University of Wollongong (unaudited).

To address this shortage, the University acquired the former Hotel IBIS in Wollongong and converted it to student accommodation in January 2012. The University is also constructing another 360 beds in self-catered units, which it expects to complete in May 2013. In addition to increasing its portfolio, the University is developing private rental support processes to provide more affordable accommodation to its students.

Other Information

Major Projects

The University spent \$77.9 million (\$103 million during 2010) on capital works during the year. Below is a list of major capital projects in progress at 31 December 2011 or completed during the year.

	Original Budgeted Cost \$'000	Revised Budgeted /Actual Cost \$'000	Original Estimated Completion Date	Revised Estimated /Actual Completion Date
Innovation Campus - iC Enterprise 1 commercial building	*	*	June 2011	June 2011
Innovation Campus - Australian Institute for Innovative Materials, Processing and Devices building	43,800	43,800	March 2011	March 2011
SMART Infrastructure Facility	50,000	50,000	February 2011	February 2011
Accommodation expansion - Kooloobong precinct (stage 2)	44,000	45,308	January 2013	May 2013
Sustainable Buildings Research Centre	31,300	32,300	March 2013	June 2013
IBIS/MarketView expansion	12,600	12,600	January 2012	January 2012

Source: University of Wollongong (unaudited).

* Figures withheld because of imminent sale.

The University has not experienced major delays or major cost overruns on its major capital projects. All completed projects were delivered within the University's original estimated timeframe and within the original budgeted cost or lower.

The University's accommodation expansion project will add another 360 beds in self-catered units to its student accommodation portfolio. As mentioned earlier, this will address some of the student housing shortage. The University will fund this project with borrowings. The University advises this project is running behind schedule because of poor weather.

Construction of the Sustainable Buildings Research Centre commenced in November 2011. The facility will be the Illawarra's first 6 Green Star rated building.

Future Capital Works

The University has commenced a significant capital works program. It plans to spend over \$185 million over the next five years and will fund the program from a combination of internal funds, grants from the Australian Government and borrowings. Major projects currently planned over the next five years include:

- \$43.3 million for the expansion of student accommodation, due for completion in 2013
- \$27.7 million for continuing works on the Resilient and Sustainable Buildings facility, due for completion in 2013
- \$23.5 million on redeveloping and relocating the existing science labs, due for completion in 2015.

Benchmarking

The University was awarded the maximum 'Five Stars' rating in QS Stars first international benchmarking. QS Stars said the University's impressive performance across its six criteria of employability, teaching, infrastructure, internationalisation, innovation and engagement helped it achieve the top five star status.

The University also received a five star result in the 2012 Good Universities Guide. The guide revealed the University was number one in New South Wales in a new category targeting domestic graduates. The University advises the guide awarded it 24 out of a possible 25 stars for this new category.

Excess Annual Leave

Last year, I recommended the University take further action to reduce excess annual leave balances held by employees. The University has implemented my recommendation and just 79 employees (138 employees in 2010) had more than 40 days accrued annual leave at 31 December 2011. This represents less than five per cent of the University's workforce.

Australian Universities Quality Agency (AUQA) Audit

In 2011, the University was audited by the Australian Universities Quality Agency (now the Tertiary Education Quality and Standards Agency). The audit focused on enabling undergraduate learning and international activities. It made 15 commendations, 12 affirmations and eight recommendations. Some of the recommendations included:

- the University should formally evaluate all subjects and teaching on a more regular basis
- the University should clarify the role and responsibilities of course coordinators
- the University should ensure all academic staff are subject to regular, formal performance reviews
- the University should benchmark and review its oversight and management of offshore teaching partnerships
- the University exercise greater oversight in identifying and mitigating potential reputational risks associated with its Dubai campus.

The University has established a quality improvement plan, project coordinator and oversight committee to address the recommendations and suggested improvements.

The University received Five Stars rating in international benchmark

Quality review audit made eight recommendations to improve learning and international activities

The University
maintains its AA
credit rating

Credit Rating

The University has maintained its AA credit rating. The 2011 Standard & Poor's credit rating report identified good governance, teaching and research reputation and significant Australian Government revenue as the University's strengths. However, the report did highlight that the University, compared to its peers, has significant exposure to offshore campuses and fee paying international students. To mitigate against the risk of declining international students, the University budgets conservatively for international student fee revenue.

Financial Information

Abridged Statements of Comprehensive Income

Year ended 31 December	Consolidated		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Australian Government grants	221,356	226,357	221,356	226,332
Higher Education Contribution Scheme	86,993	82,578	86,993	82,578
Fees and charges	171,585	176,651	127,401	129,751
Other	63,430	62,203	58,039	60,069
Total Revenue	543,364	547,789	493,789	498,730
Employee benefits and on-costs	289,657	260,026	250,696	219,434
Depreciation and amortisation	29,512	25,062	26,606	23,059
Impairment of investment assets	(16)	75	(16)	75
Other	184,119	160,458	177,844	155,270
Deferred expense – superannuation	486	492	486	492
Total Expenses	503,758	446,113	455,616	398,330
Income tax expense	1,095	1,018	--	--
Operating loss from discontinued operations	745	91	--	--
Operating loss attributable to minority interest	1	106	--	--
Surplus	37,765	100,461	38,173	100,400
Other Comprehensive Income				
Loss in value of available for sale financial assets	(8,653)	(1,170)	(8,566)	(569)
Profit on translation of foreign operations	175	667	--	--
Actuarial loss from defined benefit superannuation plans	(1,454)	(686)	(1,454)	(686)
Other gains	26	--	--	--
Total Other Comprehensive Expense	(9,906)	(1,189)	(10,020)	(1,255)
Income/(expense) attributable to non-controlling interest	(1)	106	--	--
Total Comprehensive Income	27,858	99,378	28,153	99,145

Australian Government grants were lower than the previous year primarily due to a decrease in capital grants from the Education Investment Fund. The decrease in fees and charges was largely due to a decline in international student fee revenue. International student numbers decreased by 213 from 2010, resulting in a 4.7 per cent drop in fee revenue to \$92.8 million (\$97.4 million). The University attributed this decline to the strong Australian dollar and increased international competition. Domestic student numbers remained relatively steady.

The significant increase in employee benefits and on-costs is largely attributable to the University recognising an annual leave provision of \$8.3 million for academic staff. This follows the signing of a new award in December 2011, which allows academics to accrue annual leave. Under the previous award, academics had to take their leave during the year and could not accrue it. The increase in salary award rates and full-time equivalent staff also contributed to the increase in employee benefits and on-costs. Full-time equivalent staff increased by 150 to 2,362 in 2011. The University attributes a large portion of this growth to the continued expansion of research activities at the Innovation Campus.

The main reasons for the increase in other expenses were new operating leases for gym equipment and information technology infrastructure, higher scholarship payments and new service contracts for recently acquired premises.

To ensure the University can continue to meet its strategic plan goals, it has implemented an eight year sustainable financial model. Under this model, the University plans to keep employee benefits and on-costs within 55 per cent of total expenses. It also plans to achieve a surplus, adjusted for capital grants and depreciation, of between six to eight per cent of total income each year.

Abridged Statements of Financial Position

At 31 December	Consolidated		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Current assets	193,405	249,774	166,219	223,134
Non-current assets	969,779	798,289	960,489	786,665
Total Assets	1,163,184	1,048,063	1,126,708	1,009,799
Current liabilities	132,780	118,888	112,985	99,049
Non-current liabilities	304,463	231,095	312,461	237,641
Total Liabilities	437,243	349,983	425,446	336,690
Net Assets	725,941	698,080	701,262	673,109

The drop in current assets was largely due to the University changing its investment strategy. In June 2011, it decided to transfer investments of \$55.4 million into a longer term managed fund portfolio. This resulted in a reclassification of assets from current to non-current. Non-current assets also increased because of the University's capital works spend and a \$71.0 million increase in the deferred government contributions receivable for its superannuation liabilities.

The increase in liabilities is largely due to the increase in the University's superannuation liabilities, which increased from \$134 million to \$203 million, and the recognition of an \$8.3 million annual leave provision for academic staff.

ITC Ltd decided to cease its aviation school operations after a loss of \$959,000

UniCentre is addressing financial reporting and internal control deficiencies

University Activities

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

- provides educational and research facilities of university standard, having particular regard to the needs of the Illawarra region
- provides courses of study across a range of fields and carries out research to meet community needs
- disseminates and increases knowledge
- confers degrees of Bachelor, Master and Doctor and awards diplomas and other certificates.

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

Controlled Entities

ITC Ltd

In December 2011, ITC Ltd decided to cease its aviation school operations because of low enrolments and the significant capital investment required to be competitive in the industry. ITC Ltd incurred an operating loss of \$959,000 in the 16 months it operated the aviation school.

ITC Ltd entered the aviation education sector in August 2010, when it acquired ITC Aviation Ltd for \$500,000. It invested in this sector because of the existing and projected demand for qualified pilots in the domestic and international market. However, this demand did not materialise.

ITC Ltd was established to support and add value to the strategic goals and objectives of the University. Its activities include pathway and English courses for the University, offshore education and marketing and student recruitment for the University. To grow its business ITC Ltd pursues opportunities in Australia and overseas. For the year ended 31 December 2011, it recorded consolidated revenue of \$57.3 million (\$59.6 million) and it achieved a profit from continuing operations (before tax) of \$4.8 million (\$4.6 million).

Wollongong UniCentre Limited (UniCentre)

UniCentre and its controlled entity, UniCentre Conferences and Functions Pty Ltd, did not submit their financial statements for audit within the statutory deadline of six weeks after year end. UniCentre advised a change in key finance staff in December 2011 was the main reason for the delay. UniCentre has recently increased its finance resourcing to improve its overall internal control environment and to ensure the company meets its statutory reporting requirements in the future.

My audit identified some internal control deficiencies, particularly in the fixed assets area. For example, UniCentre had not regularly reconciled its asset records during the year, resulting in a number of discrepancies between its accounting records. I have identified and reported to management a number of opportunities to improve internal control procedures. Despite these control deficiencies, UniCentre's financial position is sound, with its current assets exceeding current liabilities by \$2.4 million.

UniCentre aims to complement the academic activities of the University by providing relevant products, services and facilities to meet the diverse social and cultural needs of the University population. UniCentre is currently winding up its controlled entity.

University of Wollongong Recreation and Aquatic Centre Limited (URAC)

URAC incurred an operating loss of \$752,000 (\$975,000) for the year. Since the introduction of voluntary student unionism at the beginning of 2007, URAC has incurred losses totalling \$4.5 million. URAC expects to incur a further loss in 2012, before returning to a profit in 2013. The continuing losses have reduced URAC's net assets to \$1.9 million at 31 December 2011.

At 31 December 2011, URAC's current liabilities exceeded its current assets by \$3.0 million giving a current ratio of 0.12. This means it had 12 cents of current assets for every dollar of current liabilities. This deficiency is making it difficult for URAC to settle its intercompany loan account with the University, which at 31 December 2011 was \$2.8 million (\$2.9 million). The University issued a letter of financial support to URAC to satisfy the going concern assumption for financial reporting purposes.

URAC provides aquatic and recreational facilities to the University community and the general public.

The following controlled entity has not been reported on separately as it is not considered material by its size or the nature of its operations to the consolidated entity.

Entity Name	Website
International Film School Sydney Pty Ltd	www.ifss.edu.au
International School of European Aviation Pty Ltd	*
ITC (New Zealand) Limited	*
ITC Aviation Pty Ltd	*
ITC Education Ltd	www.itcltd.com.au
The Sydney Business School Pty Limited	*

* This entity does not have a website.

Recreation and
Aquatic Centre's
finances continue
to deteriorate

Gosford Water Supply Authority

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NSW Auditor-General's Report

Volume Two 2012

GOSFORD WATER SUPPLY
AUTHORITY

Audit Opinion

The audit of the Authority for the year ended 30 June 2011 resulted in a qualified audit opinion within the Independent Auditor's Report. I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the fair value and recoverability of the Authority's investment portfolio of \$30.9 million.

Since July 2007, global financial markets have experienced a period of high volatility, which impacts the value, recoverability, liquidity, cash flows and rates of return of many financial assets. This market volatility impacted the Authority's investment portfolio. Many of its investments did not have market values that were independently quoted and were not widely traded.

The audit opinion for 2009–10 was similarly qualified.

Operational Snapshot

The Authority, with the Wyong Water Supply Authority, manages the urban water supply system on the Central Coast. It is the third largest urban water supply system in New South Wales after Sydney and Hunter. The system includes three dams, three weirs, three water treatment plants, 40 reservoirs and 1,900 kilometres of pipelines. It serves an urban population of approximately 300,000 people. It generated \$102 million in revenue (\$87.1 million in 2009–10) and made a surplus of \$34.8 million (\$19.4 million).

Performance Information

Operational Performance Indicators

Year ended 30 June	2011	2010	2009	2008
Average volume of water consumed (kilolitres) per residential property	148	146	140	135
Water quality complaints per 1,000 properties	9.3	38.9	25.3	94.3
Average frequency of unplanned water supply interruptions per 1,000 properties	200.0	239.0	203.4	181.0
Water main breaks per 100 km of water main	29.3	34.3	27.1	28.9
Water losses (kilolitres/water main kilometre/day)	3.7	3.0	1.8	1.4
Total connection sewer main breaks and chokes per 100 kilometres of sewer main	42.0	40.0	29.7	35.4
Percentage of sewage treated to a secondary level	98.1	97.3	98.1	99.0

Source: National Water Commission 'National Performance Report 2010–11.

The Authority advised:

- the significant decrease in water quality complaints is due to the ongoing flushing program and the benefits from a capital upgrade program jointly funded by the Australian Government
- an increasing number of chokes is not necessarily a reflection of poor performance. Increases in proactive maintenance are likely to increase the number of chokes identified
- Gosford City Council is implementing a program to install additional area meters to allow more accurate measurement of water losses. Currently, meter reads are done over a six month period. The above fluctuation is due to measurement difficulties as well as water losses.

Other information

Central Coast Water Corporation

On 17 February 2011, Gosford City Council and Wyong Shire Council approved the Central Coast Water Corporation's (the Corporation) constitution and shareholders agreement. The new Corporation will be responsible for managing water, wastewater and drainage services (or parts thereof) to residents on the Central Coast subject to a cost benefit analysis (CBA). The CBA will provide advice to the Councils in relation to the optimal operating structure for the Corporation including the scope of services to be provided by the Corporation and optimal timing to minimise risk. The councils are expected to make a decision on the operating model for the Corporation in June 2012. The councils will continue to provide water, wastewater and drainage services until the services (or parts thereof) are transferred to the Corporation.

The establishment of the Corporation is expected to increase effectiveness in areas such as planning, environmental issues and drought management while maintaining benefits to the Central Coast community.

On 15 December 2011, the NSW Governor endorsed the appointment of five directors to the Corporation's Board. The Board is responsible for the governance of the Corporation and had its first official meeting in February 2012. The Board is comprised of three external Directors, including the Chairperson, and two Council (shareholder) representative Directors.

The Corporation will be subject to an Operating Licence regulated by the NSW Independent Pricing and Regulatory Tribunal. The Operating Licence will be issued following the transfer of the Councils' Water Supply Authority status to the Corporation and will regulate service levels.

Mardi-Mangrove Link System

The Mardi-Mangrove Link system was launched on 31 August 2011 and is operational. The Wyong Shire Council has taken over early use of the system enabling it to move from level two restrictions to Waterwise rules contributing to the total water storage levels being the highest in ten years.

A total of 5,500ML has been transferred to Mangrove Dam over the testing and commissioning phase. The system is currently transferring at near maximum capacity of 110ML/day.

Work started in March 2010. The original estimated cost was \$120 million and the target completion date was 30 June 2011. The revised estimated completion date is June 2012 and the revised estimated cost to complete is \$115 million. The delay was due to wet weather, construction difficulties, additional works and rectification of quality issues and equipment performance. There have been several construction innovations that have helped minimise construction risks and avoid using the full budget contingencies.

The project is a key element of WaterPlan 2050 which is the long-term water supply strategy for the Central Coast. The project involves constructing two new pump stations and a two-way pipeline between Mardi Dam and the much larger Mangrove Creek Dam, enabling more water to be harvested from Wyong River and Ourimbah Creek during high river flows.

Dividend

The Authority paid a dividend of \$1.8 million (\$1.7 million) to Gosford City Council. Local government water and sewerage supply businesses are permitted to pay annual dividends to councils from operating surpluses.

Financial Information

Abridged Income Statement

Year ended 30 June	2011 \$'000	2010 \$'000
Service charges	37,334	38,352
Usage charges	27,788	23,491
Other	36,959	25,293
Total Revenue	102,081	87,136
Total Expenses	67,292	67,721
Surplus	34,789	19,415

The increase in combined service and usage charges was due to higher prices. Typical residential sewerage charge property increased from \$464 to \$483 representing an increase of four per cent. Other revenue increased due to grant income of \$27.0 million (\$12.0 million) for the Mardi Mangrove link construction.

Expenses decreased slightly because employee benefits costs fell by \$2.1 million (due to the decrease in employee numbers) offset by higher borrowing costs of \$1.7 million associated with borrowings for the Mardi-Mangrove link construction.

Abridged Statement of Financial Position

At 30 June	2011 \$'000	2010 \$'000
Current assets	42,720	71,318
Non-current assets	1,870,221	946,146
Total Assets	1,912,941	1,017,464
Current liabilities	12,627	21,145
Non-current liabilities	87,934	90,886
Total Liabilities	100,561	112,031
Net Assets	1,812,380	905,433

Current assets decreased by \$28.6 million due to the decrease in the receivable from Gosford City Council of \$19.3 million and a decline of investments of \$12.1 million.

Non-current assets increased due mainly to \$819 million revaluation increment of water supply network and sewerage assets during the year. The increment was the result revaluing assets at 30 June 2011.

Authority Activities

Gosford Water Supply Authority is part of Gosford City Council and provides water, sewerage and related services.

For further information on Gosford City Council, refer to www.gosford.nsw.gov.au.

Appendix 1

Agencies not reported elsewhere in this volume, by minister

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

Entity name	Website	Period/year ended
Minister for Education		
Uniprojects Pty Limited	*	30 June 2011
Minister for Regional Infrastructure and Services		
Timber and Carbon Plantations Pty Ltd	www.dpi.nsw.gov.au/forests	31 December 2011
Trustees of the Farrer Memorial Research Scholarship Fund	www.dpi.nsw.gov.au/agriculture/field/field-crops/f	31 December 2011
Wild Dog Destruction Board	*	31 December 2011
Wild Dog Destruction Board Division	*	31 December 2011
Wine Grapes Marketing Board	www.wgmb.net.au	31 December 2011
Minister for Sport and Recreation		
Parramatta Stadium Trust	www.parramattastadium.com.au	31 December 2011

* This entity does not have a website.

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