

auditing in the public interest

2010: number 1

The next five years

For the past three months we have been focusing heavily on strategic planning for 2010–2014. I am excited by our new vision 'to be a catalyst for continuous improvement in the accountability and performance of the public sector', supported by our values—integrity, personal accountability, teamwork, learning and being outcome focused. I look forward to working together over the next five years toward achieving our vision through the implementation of our key priorities.

I expect 2010 will be another challenging, and I am confident, rewarding year. In addition to our ongoing work program, we will also be dealing with the upcoming integrity review, announced by the Premier on 23 November. This will be in addition to the PAEC inquiry into the *Audit Act 1994*, which will be reported in October 2010 and the external performance audit of VAGO that PAEC will commission.

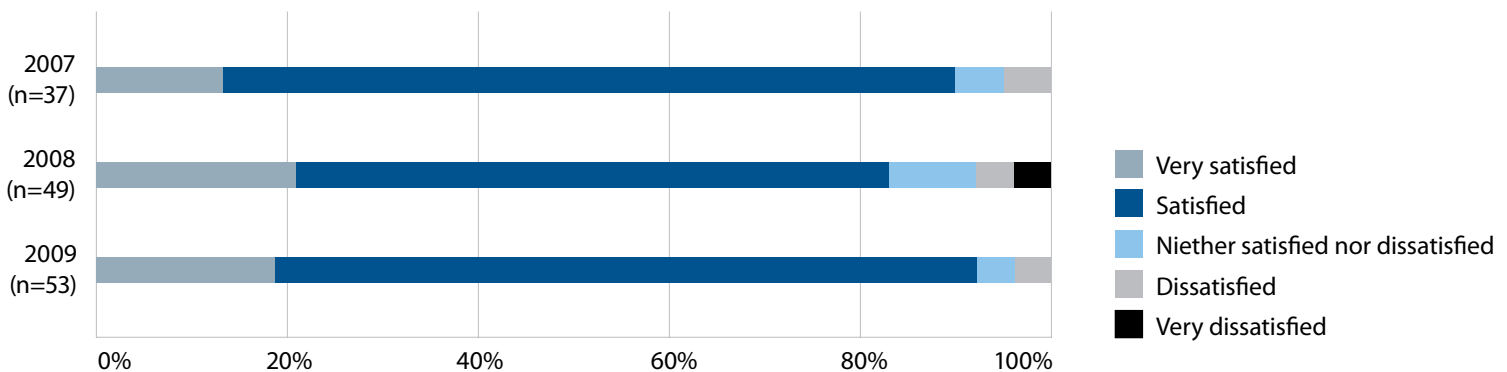
There are challenging and exciting times ahead and I thank you for your support and welcome your ideas and input.



D D R Pearson
Auditor-General



Percentage of Parliamentarians satisfied with the Auditor-General's reports and services statements



P2 Reports tabled in Parliament

P5 Changes to VAGO report structure

P6 VAGO's strategic plan 2010–2014

P7 Parliamentary survey results

REPORTS TABLED IN PARLIAMENT

Local Government: Results of the 2008–09 Financial Audits

TABLED 11 NOVEMBER 2009

This report provides the results of the 2008–09 audit of 79 councils, the 12 entities they control, and 12 regional library corporations.

The report's main conclusion is that Parliament can have confidence in the financial statements of the 103 entities. The report also raised matters related to the quality of performance statements, effectiveness of internal control and financial sustainability of councils.

The report included 10 recommendations, aimed at the Department of Planning and Community Development and councils that focus on improving oversight, compliance, best practice, timeliness, risk management and IT system security across the local government sector.

Public Hospitals: Results of the 2008–09 Financial Audits

TABLED 11 NOVEMBER 2009

This report covers 114 entities, comprising public hospitals, the entities they control, and rural health information technology alliances.

The report informs Parliament about significant issues from the financial audits in the public hospital sector, augmenting the assurance provided through audit opinions issued on financial statements that are included in the respective annual reports.

The report found that all financial reports received clear audit opinions for the year ended 30 June 2009. It also found that the quality of financial reporting in 2009 has improved significantly, particularly timeliness.

The report made 10 recommendations aimed at the Department of Health and public hospitals, focusing on improving financial reporting and investment policies and guidelines.

Towards a 'smart grid' – the roll-out of Advanced Metering Infrastructure

TABLED 11 NOVEMBER 2009

The government approved the Advanced Metering Infrastructure (AMI) project in February 2006. A large and complex project, it aims to record and measure electricity use in more detail than current meters allow. Between 2009 and 2013 the AMI project will replace accumulation meters in 2.4 million homes and provide small businesses with smart meters.

The report found there were significant inadequacies in the advice and recommendations to government about the roll-out of the project. It also highlighted problems with departmental oversight and the project's accountability framework.

The report made eight recommendations that focus on the project's governance structure; economic viability, including a cost-benefit analysis; addressing stakeholder concerns; working with regulators; getting adequate assurance from electricity retailers before installation; and adopting the Department of Treasury and Finance's risk management guidelines.

Responding to Mental Health Crises in the Community

TABLED 11 NOVEMBER 2009

Mental illness touches many lives. Nearly one in five Victorians experiences mental illness each year. While many people successfully manage, or recover from, mental illness, there can be times when a person is so acutely unwell they may become a risk to themselves or others. This is a mental health crisis.

The report found that the agencies dealing with mental health crises were not collecting data on the effectiveness of their responses; that responses were inconsistent and did not always follow inter-agency protocols; and that the impact on people experiencing a crisis were not central to agencies' responses. It also found that the role of the Crisis Assessment and Treatment services did not match community expectations and police cells and vans were used inappropriately to transport and house people experiencing a mental health crises.

The report made 17 recommendations to improve how agencies and associated committees train staff, communicate, coordinate, collaborate, respond and evaluate to mental health crises in the community.

Management of the Community Support Fund

TABLED 11 NOVEMBER 2009

The Community Support Fund (CSF) is a statutory trust fund that has been operating since 1991. CSF funding comes from a set proportion of gambling revenues, and in recent years its income has averaged just over \$100 million annually. The fund balance at year end typically averages around \$50 million, and approximately \$1.4 billion has been spent in grants from the fund since 1991.

The report found that it was impossible to assess the CSF's performance without explicit objectives, proper monitoring, evaluation or performance reporting. It also found that the Department of Planning and Community Development (DPCD) could improve the way it administers some of its programs.

The report made two recommendations about how DPCD, in conjunction with the cross-government working group and administering agencies can improve the management of the CSF and grant management frameworks. The recommendations focus on strengthening guidelines, application procedures, reporting and evaluation.

Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2008–2009

TABLED: 24 NOVEMBER 2009

This report provides the results of the audit of the Annual Financial Report (AFR) of the State of Victoria.

The main conclusion from this audit is that Parliament can have confidence in the Annual Financial Report of the State of Victoria.

Our external audit provides authoritative independent assurance that the Treasurer and the Minister for Finance, WorkCover and the Transport Accident Commission have prepared the AFR in compliance with the provisions of the Financial Management Act 1994 (FMA) and applicable accounting standards.

The report makes three recommendations about how the Department of Treasury and Finance, material and other public sector entities can improve quality assurance, timeliness, alignment with the AFR timetable and adopt consistent measurement policies across the Victorian public sector.

Water Entities: Results of the 2008–09 Audits

TABLED: 25 NOVEMBER 2009

This report covers 19 water businesses, which are wholly owned by the state government.

The water industry comprises:

- 16 water corporations constituted under the Water Act 1989, which report to the Minister for Water
- three metropolitan retail distribution companies established under the Corporations Act 2001, which report to the Treasurer of Victoria.

Of the 16 entities:

- fourteen (88%) finalised their financial reports in the 12-week statutory time frame
- three retail companies met their 12-week financial reporting time lines
- at 30 September 2009, all 19 financial reports received clear audit opinions
- material adjustments went down from 28 in 2007–08 to 26 in 2008–09, but the value increased by \$135 million

- most adjustments (18) were on the figures in the key financial statements. The other eight were for notes in the financial report.

The report made eight recommendations aimed at the sector and individual entities.

Maintaining the Integrity and Confidentiality of Personal Information

TABLED: 25 NOVEMBER 2009

Personal information is information about an individual that identifies them. Information such as your name and address may be readily accessible, and well known within the community. However, other personal information, such as your health or criminal record, may not be well known and should not be easily accessible.

The report found that there was a consistent lack of effective oversight and coordinated security practices at the three agencies examined, with indications that breaching data confidentiality is likely to be a widespread issue.

The report made three recommendations, one aimed at strengthening central oversight by the Department of Treasury and Finance and the Department of Premier and Cabinet, and the other two aimed at improving all public sector information security practices.

Vehicle Fleet Management

TABLED: 25 NOVEMBER 2009

Vehicle fleets are a significant component of the cost of service delivery in state and local governments. Estimates show that each sector is spending about \$100 million a year to run their fleets.

The report found that there was little assurance that fleets were operationally justified, that fleet management and oversight was inadequate and that fleet size and mix were not determined by business needs. It also found that progress toward 'greener' fleets had been slow.

The report made four recommendations about how agencies could best manage fleet size and mix, life-cycle costs and environmental impact.

Managing Offenders on Community Corrections Orders

TABLED: 25 NOVEMBER 2009

Managing offenders in the community provides a range of financial and social benefits. It is a cost-effective alternative to imprisonment. It also enables offenders to maintain connection with their community, by retaining employment, social networks and accommodation. Offenders can also take part in programs designed to address their behaviour and reduce the likelihood of re-offending.

The report found that Community Correctional Services has a robust, evidence-based framework for offender management, complemented by a strong quality assurance process. The one area for improvement is in measuring the program's effectiveness.

The report made four recommendations aimed at Corrections Victoria that would help it measure the program's effectiveness, timeliness, clarify responsibilities and enforce action plans when targets and delivery outcomes are not met.

Portfolio Departments and Associated Entities: Results of the 2008–09 Audits

TABLED 9 DECEMBER 2009

This report sets out the results of audits of 208 state entities, comprising 10 portfolio departments and 198 associated entities with 30 June 2009 balance dates.

This report informs Parliament about significant issues arising from the financial audits of the portfolio departments and associated entities, augmenting the assurance provided through audit opinions issued on financial statements that are included in their respective annual reports.

The vast majority of audited entities received clear audit opinions. Melbourne Central City Studios received an audit qualification for its 2007–08 comparative figures and 20 other entities warranted an 'emphasis of matter', but received unqualified audit opinions. The strength of internal control systems was generally satisfactory but variable.

This year we reviewed fraud risk, management of leave and audit committees for the 10 departments. Three of the ten departments did not perform a comprehensive fraud risk assessment. Financial sustainability analysis showed 27.5 per cent (14 of 51) of entities had a high risk.

There have been a number of changes to the accounting framework, comprising the Financial Management Act 1994 and Australian Accounting Standards, this year, which have affected how financial statements are prepared.

The report made nine recommendations for specific departments and the sector as a whole.

Making Public Transport More Accessible for People Who Face Mobility Challenges

TABLED 9 DECEMBER 2009

About 20 per cent of Victorians have some type of disability and about one third of these people, or 6 per cent, report that this affects their access to public transport. Other people, for example, parents with young children, also need public transport that is easy to use. The demand for accessible public transport will rise as the population ages; one in four people will be over the age of 60 by 2021, compared with one in six in 2001.

In September 2006 the government published Accessible Public Transport in Victoria—Action Plan 2006–2012 (the Action Plan). According to the business case underpinning the Action Plan, its objectives were to apply the disability standards and to enable people with a disability to use public transport safely, effectively and with dignity.

The Department of Transport has complied with the disability standards for the most part but it has not adequately measured how these changes have affected people with a disability.

The report made seven recommendations for the Department of Transport, focusing on managing bus stop and regional station upgrades; making audible announcements; incorporating and monitoring disability measures into project designs; reviewing the effectiveness of the Public Transport Access Committee; researching the travel behaviour of disabled people and evaluating the effectiveness of disability access works.

Use of Development Contributions by Local Government

TABLED 9 DECEMBER 2009

Development contributions are payments, or in-kind works, provided by developers towards the supply of infrastructure to support new land developments. They are a critical component of Victoria's broader planning system, and are collected mainly by councils using development contributions plans (DCPs), voluntary agreements and planning and building permit processes.

The audit examined the nature and use of development contributions levied by the following councils up to 2008–09:

- City of Port Phillip
- Surf Coast Shire Council
- Wyndham City Council.

The report found that there is little assurance that the development contributions system is operating as intended across local government and there was a lack of effective oversight and transparent reporting.

The report made five recommendations about council management of development contributions and central monitoring and oversight.

Copies of these reports can be downloaded from our website at http://www.audit.vic.gov.au/reports_publications/reports_by_year.aspx.

CHANGES TO VAGO AUDIT REPORTS

When the first audit reports for the 2009–10 cycle were tabled in November, you might have noticed that their structure looked slightly different.

The structural changes to the reports aim to improve the readability and clarity of our reports to Parliament. Every report now contains its own audit summary, which replaces the need for a standalone summary or briefing paper.

The new audit summaries provide the objective and scope of the audit, and summarise the overall report conclusions. The main findings and all the recommendations are also listed. All this information is in the 'preliminary pages' of each report, followed by the agency responses.

VAGO no longer prepares media releases about the tabling of reports, emphasising that the reports speak for themselves.

VAGO now publishes audit summaries in both PDF and rich text format (RTF) file formats. The minimal formatting in the text file makes it easier for writers and researchers in agencies and other organisations to quote our reports and recommendations.

2009–10 REPORTS

PRESENTED AGAINST THE VICTORIAN GOVERNMENT'S *GROWING VICTORIA TOGETHER* VISION AND GOALS

Growing Victoria Together

Thriving economy

- Management of the Community Support Fund
- Towards a 'smart grid'—the roll-out of Advanced Metering Infrastructure
- Vehicle Fleet Management
- Biotechnology Projects
- Management of Major Rail Projects
- Management of safety risks at level crossings

Quality health and education

- Access to Social Housing
- Teacher Performance in Government Schools
- Effectiveness of Student Wellbeing Services and Programs
- Management of Concessions by the Department of Human Services
- Management of Financial and Services Agreements with non-government providers
- Review of the Victorian Curriculum and Assessment Authority

Healthy environment

- Environmental Management of Victoria's Parks: Control of Pests and Weeds
- Irrigation Efficiency Programs
- Sustainable management of groundwater resources
- Hazardous Waste Management

Caring communities

- Responding to Mental Health Crises in the Community
- Managing Offenders on Community Corrections Orders
- Making Public Transport More Accessible for People Who Face Mobility Challenges
- Utilisation of Development Contributions by local government

- Community building projects, including governance and financial management
- Construction of New Police Stations and Courthouses
- Personal Safety on Public Transport

Vibrant democracy

- Public Hospitals: Results of the 2008-09 Financial Audits
- Local Government: Results of the 2008-09 Financial Audits
- Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2008–2009
- Water Entities: Results of the 2008–09 Audits
- Maintaining the Integrity and Confidentiality of Personal Data
- Portfolio Departments and Associated Entities: Results of the 2008–09 Audits

- Tendering in Local Government
- Fees and Charges—cost recovery by Local Government
- Performance Reporting across Government Agencies
- Results of Audits for Entities with other than 30 June Balance Dates

Reports tabled July–December 2009

Reports to be tabled before the end of June 2010

STRATEGIC PLAN

As part of ongoing organisational alignment, the Senior Management Group is reviewing our strategic plan to guide VAGO's direction for the next five years. We have finalised our purpose, values and key results areas (KRAs) and our organisational vision and we are reviewing the initiatives that support our KRAs.

Staff focus groups have contributed to the new vision and values. We have developed an internal communication strategy, which is being rolled out to support overall VAGO cultural and organisational alignment by promoting the vision and strategic direction and creating an environment based on teamwork and 'one culture'.

A 'Living VAGO Values' campaign is being rolled out across all teams and the main results areas will be incorporated into individual roles from 2010–11.

AUDIT SERVICE PROVIDERS BRIEFING

Eighty-nine Audit Service Providers (ASPs) joined senior Financial Audit team members and the Auditor-General for a half-day briefing session on 4 December 2009.

VAGO contracts ASPs to carry out financial audits on its behalf. ASPs make a significant contribution to the work program each year, completing about 70 per cent of audits (by number of entities) and 50 per cent of overall audit work.

This year's briefing was held in a function room at Etihad Stadium and we were pleased to see attendance was up by 10 per cent since last year.

The briefing covered updates on quality assurance issues; client survey results; performance against targets; improving the timeliness of the finalisation of financial statements; areas of interest for 2009–10, such as sustainability and capital management; and a discussion of reports tabled in Parliament in 2009.

The Auditor-General spoke to the group about concerns that the audit mandate is being eroded because of changes in the way the public service delivers its services, particularly the rise in reliance on peripheral entities and commercial contracts.

Officers from the Department of Treasury and Finance (DTF) outlined the main elements of proposed new public finance legislation scheduled for 2010 and 2011.

NEW PUBLIC FINANCE AND ACCOUNTABILITY LEGISLATION

Following inquiries held by the Parliamentary Accounts and Estimates Committee (PAEC) and DTF, the government introduced a Bill for new public finance legislation on 10 December 2009.

It is proposed the new legislation will include:

- a broader coverage and expanded definition of what is a public entity
- a stronger focus on outcomes, planning and performance reporting
- earlier (90 day) financial reporting
- a differential reporting and accountability framework, with different levels of reporting and compliance for different kinds of entities.

DTF consulted with VAGO in October and November 2009 to gauge our views about its proposed new differential reporting and accountability framework.

The proposed framework categorises entities by financial size, and the Minister for Finance can elevate entities into higher categories if he considers greater accountability is needed.

Higher categories (larger entities) face stronger accountability requirements, while smaller entities would be subject to lower 'fit-for-purpose' standards of financial reporting and accountability.

Following VAGO's early submissions and informal contact, DTF is now formally consulting with VAGO officers on the main components of the proposals.

VAGO has raised for consideration aspects of the proposed reforms related to public accountability and impact on the independence of bodies like VAGO.

SPEECHES AND PRESENTATIONS

As part of promoting public sector improvement in Victoria and developing knowledge in the field, the Auditor-General and VAGO staff often accept opportunities to present on our work at forums, conferences and seminars.

In 2009, we presented to public sector staff, other national and international audit and accountability authorities, community groups, universities and the auditing and accounting profession.

Highlights included:

- CPA Australia
- Australasian Evaluation Society
- Rotary Club of Kyneton
- ANZSOG
- Australian Institute of Company Directors
- VMIA Risk Management Conference
- Institute of Public Administration Australia
- Intergovernmental Relations Conference
- Chartered Secretaries Australia
- Deakin University
- Cooperative Research Centre for Integrated Engineering Asset Management
- Commonwealth Parliamentary Association
- Australasian Council of Public Accounts Committees

These presentations ranged from conversations on a specific audit’s findings to broad discussions on management, governance accountability and reporting.

In January 2010, we have been invited back to the Commonwealth Parliamentary Association Summer Residency for Public Accounts Committees. This program provides intensive training for Members of Parliament from developing nations.

We will also continue to contribute regularly throughout 2010 to the Institute of Public Administration Australia courses on how government works, aimed at new employees in the public sector and those who want to get a broader overview.

PARLIAMENTARY SURVEY RESULTS

Last year, Victorian agencies’ valuable feedback to our office, which has shaped our improvement strategies. Agencies also expressed interest in the results of the stakeholder surveys.

The overall results have been positive, especially in the following areas:

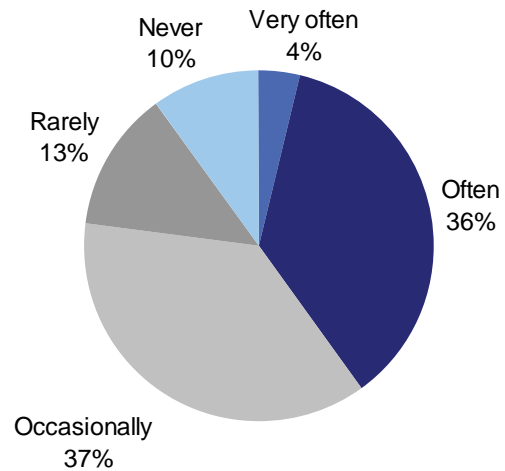
- Parliamentarians’ satisfaction has improved significantly from the previous year, and participation levels continued to increase
- response rates for Performance Audit client surveys have sharply improved, and the overall performance index recorded a historical high.
- Financial Audit clients continue to provide very positive feedback, with the overall performance index recording a historical high.

Parliamentarians

Positively, Parliamentarian participation increased yet again, with 53 taking part in our survey. Members praised the high quality of reports, and the office’s responsiveness. Many confirmed that our performance audit topics addressed their areas of interest.

It was pleasing to see how often Parliamentarians referred to our reports. Ninety per cent of respondents referred to VAGO performance audit reports during the 2008–09 year. Eighty-five per cent of respondents referred to financial audit reports during the same period.

Percentage of Parliamentarians referring to performance audit reports during 2008–09



Audit clients

Performance Audit clients acknowledged senior staff involvement and the effective communication of staff, including the prompt notification of significant issues during the course of audits as improvements.

Financial Audit clients recognised the professionalism, skills and knowledge of auditors, clarity and quality of management letters and timeliness of audit opinions.

Agencies also credited the value of audit, including the potential to improve administration and providing a sense of assurance.

Our stakeholder surveys also highlighted aspects of our products and services that could be improved, and some areas where our continuing good performance is important.

These ‘key success factors’ have been incorporated into VAGO’s business plans for 2009–10, and include:

- clear, consistent and timely client communication, especially around emerging audit issues, fees (for financial audits) and audit time lines.
- Parliamentary reports that demonstrate independence and balance; that are clear, concise and identify performance.
- recommendations and reports that offer value and have the potential to help agencies improve activities.



Victorian Auditor-General's Office

Auditing in the Public Interest

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FURTHER INFORMATION

Auditing in the Public Interest is prepared by the Victorian Auditor-General's office. It is published to provide information to public sector agencies on recent activities of the Victorian Auditor-General's Office, and current developments in financial disclosure and reporting. Information on recent and upcoming parliamentary reports is also provided.

This newsletter is prepared by the Victorian Auditor-General's Office. Every effort is taken to ensure that the information is accurate. Neither the office, nor any of its employees, shall be liable on any grounds whatsoever to any party in respect of decisions or actions they may take as a result of using the information contained in this newsletter.

The information in this newsletter is of a general nature only and is not intended to be relied upon as, or as a substitute for, specific professional advice.

Further information about any of the issues contained in this newsletter, or about the Victorian Auditor-General's office, may be obtained from:

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