

# auditing

in the public interest

2010: number 2

This year has presented particular challenges for VAGO, including the state election and fewer Parliamentary sitting days. This has meant shortened reporting time lines for financial and performance audit reports and put additional pressure on our operations. Put simply, we had to deliver the same outputs in less time. As many in the public sector know, maintaining quality under time pressures is difficult, but vital.

Yet, I am proud to say that, even in the face of these constraints, we have managed to deliver gains in timeliness, hand-in-hand with an unprecedented, organisation-wide focus on quality.

The past few weeks have been particularly busy for VAGO, with nine reports tabled in Parliament in October bringing to a total of 18 reports tabled since 1 July 2010. We also tabled our Annual Report during this busy period. This, along with finalising effectively all of the Financial Audit opinions was a tremendous effort.

The triennial independent performance audit of our office is now complete. We welcome this scrutiny as an opportunity not only to be formally accountable to Parliament but also to use this as a means of furthering our continuous improvement. It was gratifying to once again receive a positive report.

One of our most significant interactions with Parliament this year has been through our involvement in the Public Accounts and Estimates Committee review of the *Audit Act 1994*.

The Public Accounts and Estimates Committee tabled its report on the inquiry in Parliament on 7 October. The committee put forward 53 recommendations which address my relationship with Parliament, the conduct of audits of administrative functions within Victoria's Courts and avenues available to strengthen numerous operational audit powers and responsibilities. It is pleasing that this comprehensive review and exhaustive analysis of the relevant issues has resulted in clear recommendations to strengthen and align the provisions of the Audit Act with today's more complex program delivery arrangements for the provision of services to the community.

Another important government initiative is the replacement of the *Financial Management Act 1994* with the Public Finance and Accountability Bill. I recently gave evidence at a PAEC hearing at the request of the Legislative Council to reiterate our concerns over some components of the draft legislation. I am pleased to report that the Premier announced on 15 September that the Bill would address the issues raised. However, the Bill failed to pass the Legislative Council prior to Parliament rising in October and has now lapsed. Undoubtedly it will be revisited in the next Parliament.

Looking back over the year I am proud that our products and services have met the high standards we set ourselves, received strong positive feedback from important stakeholders, and earned a clear opinion from the performance auditor appointed by Parliament. It is not often that a broad-ranging review of enabling legislation, a comprehensive organisation-wide performance audit and a significantly tightened operational time frame coincide in one year.



D D R Pearson  
Auditor-General



P2 Reports tabled in Parliament

P6 Recommendations from 2009–10 reports

P6 Public Finance and Accountability Bill

P7 2009–10 survey results

# REPORTS TABLED IN PARLIAMENT

July–October 2010

Areas of audit focus for performance audits are selected within a framework which considers public sector performance against the Victorian Government's *Growing Victoria Together* visions and goals. These visions and goals represent the government's framework for priority setting, including legislation and spending decisions to 2010 and beyond. These reports are presented against this framework.

## THRIVING ECONOMY

More quality jobs and thriving innovative industries across Victoria; growing and linking all of Victoria.

### Management of the Freight Network

TABLED 6 OCTOBER 2010

This audit examined the effectiveness of *Freight Futures—A Victorian Freight Network Strategy*, the government's long-term plan for managing the capacity, efficiency and sustainability of the freight network.

The strategy is an essential starting point for managing growth, but it has limitations that should be addressed. Application of many of the strategy's actions has progressed well, but the Department of Transport has been slow to measure and report on the strategy's outputs and outcomes, improve the information underpinning decisions, and address underdeveloped parts of the strategy.

## QUALITY HEALTH AND EDUCATION

High quality accessible health and community services; high quality education and training for lifelong learning.

### Delivery of NURSE-ON-CALL

TABLED 15 SEPTEMBER 2010

This audit assessed the effectiveness of the NURSE-ON-CALL (NOC) service by examining the accessibility and timeliness of health information and advice, the appropriateness of client and health services outcomes, and the adequacy of performance monitoring and reporting.

The audit found that overall, NOC is a safe and cost-effective service. However, the quality of advice given, timeliness of the service and use by all sections of the community needs to be improved. The Department of Health could also improve the contract's value-for-money through strengthening the contract terms and more active contract management.

### The Department of Human Services' Role in Emergency Recovery

TABLED 5 OCTOBER 2010

This audit examined the effectiveness of the Department of Human Services' emergency recovery management, including whether planning is comprehensive, up-to-date, supported by testing, evaluation and training, and whether recovery operations are coordinated, efficient and effective.

The Department of Human Services is effectively coordinating recovery operations but needs to improve planning and support systems.

### Victorian Registration and Qualifications Authority

TABLED 7 OCTOBER 2010

This report assessed how effectively the Victorian Registrations and Qualifications Authority is regulating vocational education and training providers.

The Victorian Registrations and Qualifications Authority cannot reliably assure that it has effectively regulated vocational education and training providers. Steps to address serious shortcomings found in July 2007 have been slow and some are incomplete.

# HEALTHY ENVIRONMENT

Protecting the environment for future generations; efficient use of natural resources.

## Sustainable Management of Victoria's Groundwater Resources

TABLED 5 OCTOBER 2010

This audit determined that the Department of Sustainability and Environment (DSE) and water corporations do not know whether groundwater use is sustainable.

While they have developed a robust planning framework, poor groundwater data and delayed development and implementation of management tools undermines their effectiveness.

Licensing, metering and compliance monitoring activities are not thorough enough and there is also not enough data about groundwater reserves and sustainable extraction rates.

## Soil Health Management

TABLED 5 OCTOBER 2010

This audit examined how effectively and efficiently the Departments of Sustainability and Environment and Primary Industries, and catchment management authorities have implemented soil health programs on private land, particularly integrated soil health initiatives.

The responsible entities have implemented soil health programs effectively. However, clearer governance arrangements, better coordination and alignment of state and regional priorities would strengthen soil health management.

## Restricting Environmental Flows during Water Shortages

TABLED 7 OCTOBER 2010

This audit assessed how well water corporations are managing restrictions to environmental water rights, including justifications and risks.

The Department of Sustainability and Environment, South Gippsland Water and Grampians Wimmera Mallee Water have not effectively managed restrictions to environmental water rights.

Only Melbourne Water and the three metropolitan retail corporations managed this well.

# CARING COMMUNITIES

Building friendly, confident and safe communities; a fairer society that reduces disadvantage and respects diversity.

## Taking Action on Problem Gambling

TABLED 28 JULY 2010

This audit examined the effectiveness of the strategy—*Taking Action on Problem Gambling*—in reducing problem gambling and gambling-related harm.

We found that the Department of Justice appropriately structured its strategy around public health approaches; however, there was little evidence to suggest the initiatives in the strategy would be effective.

## Security of ICT Management and Control Systems for Water and Trains

TABLED 6 OCTOBER 2010

This audit assessed whether water and transport infrastructure control systems are secure.

We found that the risk of unauthorised access to water and transport infrastructure control systems is high and could compromise these systems and affect the stable delivery of essential services to the community.

It also found that operators are not fully aware of the weaknesses in, and risks to, their systems and that the responsible oversight agencies are equally unaware of the weaknesses in systems that deliver essential services.

## Management of Prison Accommodation Using Public Private Partnerships

TABLED 15 SEPTEMBER 2010

This audit examined whether prison accommodation services contracted under public private partnerships (PPP) are operating effectively and providing value-for-money.

The audit found that the Department of Justice faces significant challenges in managing its long-term PPP prison contracts. Since the audit began, it has made improvements and addressed weaknesses in its contract management and administration.

## Sustainable Farm Families Program

TABLED 5 OCTOBER 2010

This audit examined whether the Sustainable Farm Families program has been effective in improving the health and wellbeing of farming families.

We found that the program has improved participant health, and that participants with 'at risk' health indicators improved the most. However, it is too early to know whether they will maintain these positive results. The program could be improved through better targeting and tighter financial control.

## Access to Ambulance Services

TABLED 6 OCTOBER 2010

This audit examined whether ambulance services are sufficiently accessible and appropriately responsive.

The report found a trend of worsening response times for Code 1 incidents over the last six years. This trend has not been arrested by the amalgamation of metropolitan and rural ambulance services in 2008 or by additional funding allocations. It also found that performance decline was worse in rural regions.

Performance decline is linked to growing demand for ambulance services, and longer times that paramedics have to wait at hospital emergency departments. There is also a need for greater reporting transparency to provide meaningful information to the community, particularly in disclosing area-specific targets and performance.

## Political hand on wheel hinders ambulances

Extra funding has failed to reverse rising response times.

Auditor-General slams wait times and failed amalgamation of services  
**Ambo delays get worse**

**Ambulances go backward**

COMPLAINTS about ambulance services in North East Victoria have clearly been ignored. This newspaper has reported in various of very poor response times of services have been across Victoria.

State ambulance response times hit six-year low

**Our lives at risk**

**Response times rise in rural areas**  
Ambulance numbers fall behind demand

**Report slams ambo delays**

**Worst response times in 5 years**

The *Access to Ambulance Services* audit was added to VAGO's program for 2010–11 due to:

- heightened community concern about ambulance response times influenced by media presentation of a number of particular cases
- requests for an audit by the Legislative Council and a number of individual MPs
- correspondence from community members to the Auditor-General setting out personal experiences that suggested there may be systemic issues.

The Auditor-General considered all available information and applied a risk and materiality test, determining that the issue was of such a level of significance to the community that an audit was warranted.

Given the background to this audit it's hardly surprising that the report prompted such interest. There have been: 157 articles across regional, state, national and local press; 179 references on broadcast news; 1 355 visitors to the ambulance report web page on VAGO's web site.

## VIBRANT DEMOCRACY

Greater public participation and more accountable government; sound financial management.

### Portfolio Departments: Interim Results of the 2009–10 Audits

TABLED 28 JULY 2010

This audit provided an interim report on the annual financial statement audit of the portfolio departments. The report comments on the effectiveness of internal controls and the management controls for declarations of interest and procurement.

We identified weaknesses in information technology controls, particularly in the oversight of outsourced IT providers, system-wide security and the protection of personal information. We also found that while portfolio departments have adequate procurement policies overall, they need to improve contract recording and controls over payments.

### Local Government: Interim Results of the 2009–10 Audits

TABLED 11 AUGUST 2010

This report informed Parliament about the effectiveness of internal control issues from our interim financial audit of the local government sector.

We recommend that local government entities assess their policies and procedures against identified internal control weaknesses, and that policies for declarations of interest and gifts be prepared. It also recommends guidance for a consistent approach to presenting income and expenditure in the comprehensive income statement.

### Water Entities: Interim Results of the 2009–10 Audits

TABLED 11 AUGUST 2010

This report informed Parliament about internal control issues arising from our interim financial audit of the 19 water entities, and one controlled entity.

We found that their internal controls are adequate for financial reporting but there were opportunities to strengthen information system controls, the maintenance of fixed asset registers, compliance with procurement policies and procedures, and the timely preparation and review of key account reconciliations.

## Business Continuity Management in Local Government

TABLED 1 SEPTEMBER 2010

This audit assessed the effectiveness of the business continuity plans at four local councils—Alpine Shire Council, Corangamite Shire Council, Manningham City Council and Mildura Rural City Council.

We examined whether these councils have sound business continuity plans, if they regularly test and report on their effectiveness, and if they use test results to continuously improve their business continuity practices. We found that while events that can cause major disruptions are rare, there is little assurance councils' responses would be timely and effective if a disruption happened.

## Public Hospitals: Interim Results of the 2009–10 Audits

TABLED 1 SEPTEMBER 2010

This report informed Parliament of our findings about the effectiveness of internal controls from our interim financial audit of public hospitals.

We found that internal controls were adequate for financial reporting, but there are opportunities to strengthen them further. Controls over leave were generally adequate, but need strengthening. Controls over creditors were generally adequate, but should be strengthened at most public hospitals.

## Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2009–10

TABLED 7 OCTOBER 2010

This report informed Parliament about the results of the audit of the *Annual Financial Report of the State of Victoria, 2009–10* (AFR).

The AFR reports the financial performance and position of the state and general government sector.

The overall conclusion from this audit is that Parliament can have confidence in the AFR which was tabled in Parliament on 15 September 2010.

VAGO's reports can be downloaded from our website: [www.audit.vic.gov.au](http://www.audit.vic.gov.au)

# 2010–11 REPORTS

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

## Growing Victoria Together

Thriving economy	Quality health and education	Healthy environment	Caring communities	Vibrant democracy
<ul style="list-style-type: none"> <li>● Management of the Freight Network</li> <li>● Effectiveness of the Small Business Support Program</li> <li>● Management of Major Road Projects</li> <li>● Transit Cities: Revitalising Central Dandenong</li> </ul>	<ul style="list-style-type: none"> <li>● Delivery of NURSE-ON-CALL</li> <li>● The Department of Human Services' Role in Emergency Recovery</li> <li>● Victorian Registration and Qualifications Authority</li> <li>● Caring for those with Dementia in an Ageing Population</li> <li>● Early Childhood Development Services: Access and Quality</li> <li>● Indigenous Education Strategies for Government Schools</li> <li>● Managing Drug and Alcohol Prevention and Treatment Services</li> <li>● Managing Student Safety</li> </ul>	<ul style="list-style-type: none"> <li>● Sustainable Management of Victoria's Groundwater Resources*</li> <li>● Soil Health Management</li> <li>● Restricting Environmental Flows during Water Shortages</li> <li>*This report was listed in the 2009–10 Annual Plan</li> <li>● Environmental Management of Marine Parks</li> <li>● Facilitating Renewable Energy Development</li> </ul>	<ul style="list-style-type: none"> <li>● Management of Prison Accommodation Using Public Private Partnerships</li> <li>● Security of ICT Management and Control Systems for Water and Trains</li> <li>● Taking Action on Problem Gambling</li> <li>● Sustainable Farm Families Program</li> <li>● Access to Ambulance Services*</li> <li>*This report is additional to the 2010–11 Annual Plan</li> <li>● Court Diversion Programs</li> <li>● Effectiveness of Victims of Crime Programs</li> <li>● Local Community Transport Services</li> <li>● Motorcycle Safety Programs</li> </ul>	<ul style="list-style-type: none"> <li>● Managing the Requirements for Disclosing Private Sector Contracts*</li> <li>● Business Continuity Management in Local Government</li> <li>● Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2009–10</li> <li>● Local Government: Interim Results of the 2009–10 Financial Audits</li> <li>● Portfolio Departments: Interim Results of the 2009–10 Financial Audits</li> <li>● Public Hospitals: Interim Results of the 2009–10 Financial Audits</li> <li>● Water Entities: Interim Results of the 2009–10 Financial Audits</li> <li>*This report was listed in the 2009–10 Annual Plan</li> <li>● State Trustees Ltd – Represented Persons</li> <li>● Tertiary Education and Other Entities: Results of the 2009–10 Financial Audits</li> <li>● Acquitall Report: Results of the 2009–10 Audits*</li> <li>*This report is additional to the 2010–11 Annual Plan</li> </ul>
Reports tabled by October 2010				
Reports to be tabled by July 2011				

## RECOMMENDATIONS FROM 2009–10 REPORTS

Each year the Minister for Finance tables a report highlighting the recommendations made by VAGO during the preceding financial year and describing initiatives taken by government to address these recommendations. In response to VAGO requests, each agency response must respond to each audit recommendation as 'Supported', 'Not Supported' and 'Partially Supported/Unclear'.

- In 2009–10 agencies provided 368 responses to our recommendations, up from 330 in 2008–09 reports and 298 in 2007–08 reports.
- 99.7 per cent of responses were supported or partially supported, compared to 98 per cent in 2008–09 and 94 per cent in 2007–08.
- There was a substantial increase in the rate of full acceptance of recommendations—87 per cent of responses accepted recommendations from 2009–10, compared to only 68 per cent fully accepted from 2008–09 reports.
- Only one recommendation, from *Managing Teacher Performance* (May 2010), was rejected by the Department of Education and Early Childhood Development. This is the lowest not-supported rate in four years.
- The greatest support for audit recommendations in 2009–10 reports was from the Department of Human Services (and Health). Last year, DHS was responsible for the highest not-supported rate.
- The highest percentage of 'partial' or 'in-principle' support to our recommendations was given by the Department of Justice and the Department of Sustainability and Environment.

## HONORARY AWARD FOR AUDITOR-GENERAL



In August, the Auditor-General was awarded an Honorary Doctor of Business by Central Queensland University in recognition of his contributions to the university and Australia.

At the graduation ceremony for their Melbourne campus, the Chancellor spoke of Mr Pearson's achievements in improving the accountability, transparency and performance of the public sector across more than two decades of public service.

Mr Pearson is one of the longest serving Auditor-Generals in Australia, and has been recognised at state and national level by professional bodies such as CPA Australia and the Institute for Public Administration Australia. This academic award further acknowledges the contributions by Mr Pearson to public life and the profession.

Photo – Des Pearson, Auditor-General and Rennie Fritschy, Chancellor.

## PUBLIC FINANCE AND ACCOUNTABILITY BILL

The Public Finance and Accountability Bill has been under development by the Department of Treasury and Finance since 2007 and will replace the *Financial Management Act 1994*, *Borrowing and Investment Powers Act 1987*, *Monetary Units Act 2004*, and *Public Authorities (Dividends) Act 1983*.

Overall, the Bill contains many sound reforms that address issues and improvements raised by VAGO. These include strengthened performance reporting requirements, broader coverage of the public sector and differential reporting for entities of different size and complexity.

VAGO has also provided feedback and suggestions on the draft legislation throughout the development, seeking to strengthen accountability arrangements in the legislation and reflect contemporary better practice in accounting and audit.

One key issue that remained unresolved until recently was the risk to the independence of the Auditor-General embodied in the draft legislation; the Bill allowed both for broad Ministerial direction of VAGO and for the Deputy Secretary of the Department of Treasury and Finance to make instructions that would apply to VAGO.

On 24 August 2010 the Auditor-General gave evidence at a PAEC hearing on this issue, at the request of the Legislative Council. After significant coverage in the press and debate in Parliament, the Premier announced on 15 September that the Bill would address the issue raised by Auditor-General and Ombudsman around these provisions.

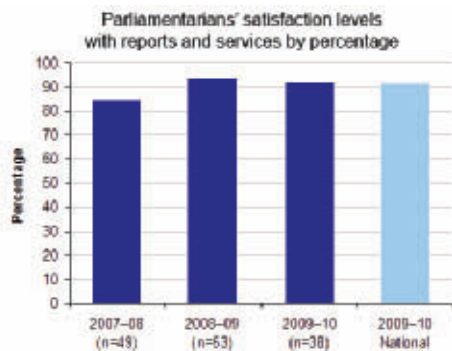
The Bill failed to pass the Legislative Council prior to Parliament rising in October and now has lapsed. Undoubtedly though it will be revisited in the next Parliament.

# 2009–10 SURVEY RESULTS

## Parliamentary survey results

Each year we request feedback from Parliamentarians through a comprehensive survey. This feedback is an important part of our efforts to improve our services and publicly report on our performance.

Feedback from Parliamentarians in 2009–10 was largely positive, with most giving encouraging feedback on most aspects of VAGO's reports and services.



Maintaining the strong result from 2008–09, 92 per cent of Parliamentarians were satisfied or very satisfied with our reports and services

Some highlights from this year's Parliamentary survey include:

- 92 per cent of respondents had referred to a VAGO performance audit report in the past 12 months

- 100 per cent of respondents indicated that VAGO's performance audits addressed their key areas of interest to some extent
- 89 per cent of respondents had referred to financial statement audit reports in the past 12 months
- 91 per cent of respondents agreed that financial audit reports clearly identified significant issues and their implications
- all respondents with direct dealings with VAGO in the past 12 months gave positive ratings for responsiveness.

## Audit clients surveys

VAGO measures agency views on our audits through independently conducted surveys and interviews. We request feedback on three key areas: audit process; audit reporting; and the value of the audit to the agency.

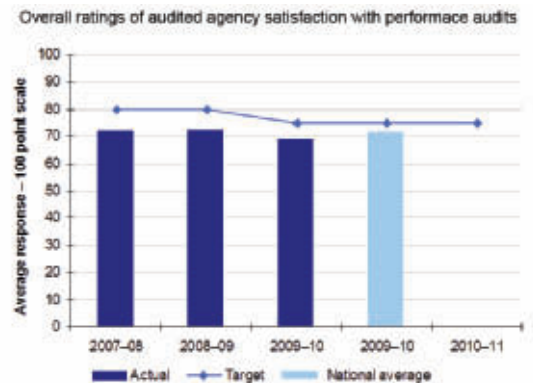
Although most responses for 2009–10 were positive, our overall performance audit client survey results are lower than in 2008–09. This is largely due to a drop in client ratings of audit process and reporting.

While overall we were still above target for audit process, areas where our process ratings dropped included the degree of involvement of our senior staff, and our engagement at the outset of audits.

The areas where we fell significantly below our target were: understanding agencies' operating environments; and agency assessments of the accuracy, balance and fairness of our reporting.

Analysis of this data showed that the lower scores were mainly from a few agencies giving very low scores across a small number of audits. These agencies' scores, however, were in marked contrast to the higher scores given by other agencies that participated in the same audit. We also noted that these very low scores for reporting often came from agencies with particular adverse audit results.

By contrast, this year, agencies' overall ratings for the value of our performance audit reports improved to a historic high. We were pleased to see a particularly positive response from agencies on the capacity of our reports to improve their administration.



# SENIOR STAFF CHANGES

Gail Conman has been appointed as the Executive Director of Corporate Services, replacing Jenni Lillingston.

Gail comes to VAGO from the Department of Premier and Cabinet, where she had a range of responsibilities for major infrastructure projects, including as Project Director for Southbank Cultural Precinct.

Dallas Mischkulnig has joined us as Performance Audit Sector Director for Central Agencies, replacing Paul O'Connor.

Dallas was previously Director of the Legislative Compliance Unit at the office of Ombudsman Victoria and has more than 25 years experience in the public service in the areas of health, education and statutory regulation.

Travis Derricott was appointed as Financial Audit Sector Director for Environment and Water in September 2010.

Prior to taking up this position Travis has held a number of roles within Financial Audit since he commenced as an Audit Graduate, including Audit Senior and Senior Manager roles.



## Victorian Auditor-General's Office

*Auditing in the Public Interest*

### SECTOR CONTACTS

Sector contacts within the office are:

#### Annual Plan

- Craig Burke, Director Financial Audit  
[t] 8601 7133, [e] craig.burke@audit.vic.gov.au
- Ellen Holland, Senior Director Performance Audit  
[t] 8601 7185, [e] ellen.holland@audit.vic.gov.au

#### WoVG/Central agencies

- Simone Bohan, Director Financial Audit  
[t] 8601 7175, [e] simone.bohan@audit.vic.gov.au
- Dallas Mischkulnig, Director Performance Audit  
[t] 8601 7094, [e] dallas.mischkulnig@audit.vic.gov.au

#### Education

- Paul Martin, Director Financial Audit  
[t] 8601 7183, [e] paul.martin@audit.vic.gov.au
- Ray Seidel-Davies, Director Performance Audit  
[t] 8601 7012, [e] ray.seidel-davies@audit.vic.gov.au

#### Health and Human services

- Michael Almond, Acting Director Financial Audit  
[t] 8601 7017, [e] michael.almond@audit.vic.gov.au
- Donna Scott, Director Performance Audit  
[t] 8601 7085, [e] donna.scott@audit.vic.gov.au

#### Justice

- Mashelle Parrett, Director Financial Audit  
[t] 8601 7133, [e] mashelle.parrett@audit.vic.gov.au
- Peter Stoppa, Director Performance Audit  
[t] 8601 7189, [e] peter.stoppa@audit.vic.gov.au

#### Local Government

- Ron Mak, Director Financial Audit  
[t] 8601 7169, [e] ronald.mak@audit.vic.gov.au
- Steve Vlahos, Director Performance Audit  
[t] 8601 7071, [e] steven.vlahos@audit.vic.gov.au

#### Transport

- Mashelle Parrett, Director Financial Audit  
[t] 8601 7133, [e] mashelle.parrett@audit.vic.gov.au
- Ray Winn, Director Performance Audit  
[t] 8601 7043, [e] ray.winn@audit.vic.gov.au

#### Environment and Water

- Travis Derricott, Director Financial Audit  
[t] 8601 7063, [e] travis.derricott@audit.vic.gov.au
- Chris Sheard, Director Performance Audit  
[t] 8601 7079, [e] chris.sheard@audit.vic.gov.au

### 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.

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:

Steve Williams  
Manager, Reports and Communications  
Victorian Auditor-General's Office  
Level 24, 35 Collins St, Melbourne Vic. 3000  
Phone: 03 8601 7050  
Fax: 03 8601 7010  
Email: [steve.williams@audit.vic.gov.au](mailto:steve.williams@audit.vic.gov.au)  
Office website: [www.audit.vic.gov.au](http://www.audit.vic.gov.au)