



Victorian Auditor-General's Office

Annual Plan

2010–11



VAGO

Victorian Auditor-General's Office
Auditing in the Public Interest

VAGO

Victorian Auditor-General's Office

Auditing in the Public Interest

Annual Plan 2010–11

Prepared pursuant to the
requirements of section 7A of the *Audit Act 1994*



This report has been produced to ISO14001 environmental standards. It is printed on FSC credited Novatech Satin & Media Print Silk paper. The print supplier, Blue Star PRINT has initiated an EMS promoting minimisation of environmental impact through the deployment of efficient technology, rigorous quality management procedures and a philosophy of reduce, re-use and recycle.

ISBN 978 1 921650 31 4

VAGO

Victorian Auditor-General's Office
Auditing in the Public Interest

The Hon. Robert Smith MLC
President
Legislative Council
Parliament House
Melbourne

The Hon. Jenny Lindell MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

I am pleased to transmit my Annual Plan for 2010–11 in accordance with section 7A of the *Audit Act 1994*.

Yours faithfully



D D R PEARSON
Auditor-General

5 May 2010

Foreword

As Parliament's auditor, I continually seek ways to better meet its expectations. Feedback from Members of Parliament during 2009 emphasised the importance of timely, focused, and clear reports on performance and outcomes, addressing their areas of interest.

My 2010–11 annual plan contains a range of initiatives designed to satisfy these expectations. It presents, for the first time, proposed areas of focus for our financial audits over the forward estimates period. It also sets out a revised reporting schedule for the results of our financial audits, in the lead up to the 2010 state election.

As is now well established practice, the plan includes prospective performance audits for the next four years with an unprecedented focus on auditing outcomes, to identify and assess the benefits achieved from agencies' programs and services. This year, I hope that more agencies take advantage of the early notice the four year program provides and act so they are well prepared and ready to engage with each audit.

In developing this annual plan, my office has consulted more extensively than ever before. Consultations within the sectors and with agencies started early, casting a broad net, and adopting new strategies including consultative forums for key sectors and greater interaction with secretaries and senior management of agencies.

In this election year, annual reports of agencies are to be tabled in Parliament almost six weeks earlier than usual. However, this accelerated financial reporting must not diminish either the quality of reporting, or comprehensive independent assurance. With ongoing changes to financial reporting timeframes on the horizon, this will be an important test of the capacity to meet this challenge.

Finally, 2010–11 will be a significant year as the Public Accounts and Estimates Committee reports to Parliament on its inquiry into the *Audit Act 1994*, informing amendments to be considered by government. We are optimistic that this will address the erosion of my audit mandate largely attributable to the growth in privatised delivery of public sector programs and other changes to the public sector business environment. Parliament and the community continue rightly to expect relevant, authoritative reports on the results of audits. Without the discretion to audit all public monies and programs, this expectation cannot be fulfilled.



D D R PEARSON

Auditor-General

5 May 2010

Contents

Foreword	v
1. Our mandate and outputs.....	1
1.1 Our mandate	1
1.2 Our outputs.....	2
1.3 Amendments to the <i>Audit Act 1994</i>	2
1.4 Changes to the audit program.....	3
1.4.1 External influences	4
1.4.2 Internal influences	4
1.4.3 2010 state election	5
1.5 Initiatives	5
1.5.1 Financial audit	5
1.5.2 Performance audit	5
1.6 Input from the Public Accounts and Estimates Committee	6
2. Proposed audit activity	7
2.1 Selection of areas of audit focus	7
2.1.1 Financial audit	7
2.1.2 Performance audit	8
2.2 Areas of audit focus 2010–11	9
2.2.1 Financial audit	9
2.2.2 Performance audit	14
2.3 Reporting the results of 2010–11 audits	25
2.3.1 Financial audit	25
2.3.2 Performance audit	26
2.4 Current and prospective areas of audit focus 2010–11 to 2013–14	27
2.4.1 Financial audit	27
2.4.2 Performance audit	30
Appendix A. Our Strategic Plan 2010–11 to 2014–15	35
Appendix B. Our outputs for 2010–11.....	37
Appendix C. Financial audit framework	41
Appendix D. Performance audit topic selection framework.....	45
Appendix E. Parliamentary reports 2007–08 to 2009–10.....	49
Appendix F. <i>Audit Act 1994</i> section 7A—comments	53

1 Our mandate and outputs

1.1 Our mandate

The *Constitution Act 1975* establishes the Auditor-General as an independent officer of the Victorian Parliament. The Auditor-General provides assurance to Parliament on the accountability and performance of the Victorian public sector.

Under the *Audit Act 1994* the Auditor-General is responsible for the audit of more than 560 public sector entities. Entities to be audited during 2010–11 include government departments and agencies, public hospitals and ambulance services, universities and other educational institutions, water authorities, public sector superannuation funds, as well as companies, trusts and joint ventures controlled by public sector agencies. The Auditor-General also has responsibility for auditing the local government sector, which comprises municipal councils, and the entities they control and regional library corporations.

Combined, the entities subject to audit have over 232 000 employees, collect income of approximately \$57.8 billion and incur about \$56.4 billion in expenditure annually, and hold net assets in excess of \$181.6 billion.

The Audit Act provides for the Auditor-General's access to all government information, and the freedom to report findings arising from audits to Parliament. The Auditor-General is not subject to control or direction by either Parliament or the government.

The *Constitution Act 1975* and the *Audit Act 1994* are complemented by other legislation. The *Financial Management Act 1994* requires responsible ministers to provide annually to Parliament audited financial and, where applicable, performance statements of entities within their portfolios. The *Local Government Act 1989* requires each municipal council to prepare an annual report containing audited financial and performance statements.

The *Financial Management Act 1994* is currently under review by the government. However, it is not anticipated that the new public finance legislation will change the Auditor-General's mandate.

1.2 Our outputs

Under the *Audit Act 1994* (the Act) the Auditor-General undertakes financial audits and performance audits. In carrying out these activities, regard is also had to whether there has been any wastage of public resources or any lack of probity or financial prudence in the management or application of public resources, consistent with the provisions of section 3A(2) of the Act.

Financial audits establish the fair presentation of the financial statements prepared by all entities, and of the non-financial performance statements prepared by some entities. The audit report for each set of statements is issued to the governing body of the entity. An unqualified or 'clear' audit report adds credibility to the statements.

Under the Act the Auditor-General must table a report in Parliament each year on the results of the financial audit of the State's Annual Financial Report. In addition the Auditor-General tables a series of reports on the results of all audits of financial and performance statements undertaken during the year.

Performance audits establish whether public sector entities use resources, including those provided to non-government bodies, economically, efficiently and effectively, and in compliance with all relevant legislation. A report on the results of each performance audit is required to be tabled in Parliament.

Both financial and performance audits are undertaken using methodologies which comply with the Act and Australian Auditing Standards.

Under Victoria's output management system, the level of resources allocated to the office each year is determined on the basis of outputs that it expects to deliver, namely:

- Output 1: Parliamentary reports and services
- Output 2: Audit reports on financial statements.

Details of these outputs are presented in Appendix B, page 37.

1.3 Amendments to the *Audit Act 1994*

The *Audit Act 1994* has been amended a number of times, but has not kept pace with the changing public sector environment. As that environment becomes more complex, and the government pursues alternative service delivery models, the Act has reached the point where it no longer adequately supports the functions of a public sector audit office.

The public sector increasingly relies on the private sector to provide services and to fund and deliver major capital projects. Consequently more public sector information, documents, records and assets are held and controlled by contractors. This limits the scope of audit coverage and impairs audit independence. The Auditor-General's access to private sector service providers generally relies on contractual provisions, inserted at the prerogative of the contracting agency, rather than on a legislated audit mandate.

In addition, the Act does not provide for the Auditor-General to audit Parliament and the courts. Audits of the administrative functions of these entities have been conducted by invitation only.

Across Australia, a number of jurisdictions have recently either significantly reformed their audit legislation, or are in the process of legislative review. Since June 2008 amendments to Victoria's Audit Act have been proposed to government, and discussions are continuing.

In June 2009, the Public Accounts and Estimates Committee announced an inquiry into the Act. The terms of reference recognise that it has been some time since there has been a comprehensive and exhaustive review of the legislation. The Committee is due to report in October 2010.

I look forward to discussing VAGO's proposals for change with the Committee as part of its deliberations.

1.4 Changes to the audit program

Section 2 of this Annual Plan sets out areas of financial and performance audit focus for the four years from 2010–11 to 2013–14. For performance audits, these multi-year programs have been included in VAGO annual plans since 2007–08. This year, in the interests of greater transparency, an equivalent program has been included for financial audits, for the first time.

Signalling our areas of audit focus up to four years ahead gives agencies the opportunity to prepare for, and to improve, where necessary, their internal controls and resource management practices prior to an audit's conduct, and to engage constructively with the audit process. Our aim is to encourage improvement in agency performance and to maximise the value our audits deliver.

This approach works best when there is minimal change to our forward work program. However, the changing public sector environment is never entirely predictable and so in order for our work to remain relevant and authoritative, some change is inevitable. We aim to be agile and flexible and we will retain the ability to change the audit program as needed between one year and the next, if warranted.

Periodically we review and, if necessary, change the priority of prospective areas of audit focus in our multi-year programs as a result of our ongoing planning activities. The Auditor-General retains the discretion to replace and reschedule topics at any time to accommodate issues of higher priority that may emerge.

Changes to the audit program can be influenced by external and internal factors.

1.4.1 External influences

Our last annual plan was influenced by two major incidents affecting the Victorian community: the February 2009 bushfires and the global financial crisis. In 2010–11 recovery from these events continue to influence our audit program. The need for assurance about quality and the adequacy of the public sector response and the need, in tight fiscal times, for government to do more with less have influenced changes in our forward program.

During 2009–10 our scanning identified climate change and the environment; demographic change, including the ageing of our population; risks to sustainable development from diminishing oil supplies; and the continuing need for transparency and accountability, as major challenges for government in coming years. In addition, the COAG Reform Agenda with its goals of boosting productivity, increasing workforce participation and mobility, and delivering better services continues to impact on the Victorian economy, the public sector and accountability arrangements. The audit program has been reviewed and revised in the context of these external influences.

Over and above these macro-level influences, public sector agencies are subjected to more immediate changes to the way they operate. For example, machinery-of-government changes may shift responsibilities between agencies, changes in service delivery methods can occur, or the government or agencies may choose to reschedule programs or initiatives or conduct reviews of their own operations to address performance gaps that have come to light. To determine how well agencies deal with these changes, we will need to change our audit program accordingly.

The Auditor-General also responds to concerns raised by Parliamentarians, agencies or the public about the performance of public sector agencies, and exercises his discretion whether or not to pursue such concerns.

1.4.2 Internal influences

Our financial audit program includes a focus on areas where experience shows that issues of governance, probity, fraud, waste and non-compliance with legislation or public sector financial management and reporting requirements can arise. Our performance audit program is increasingly focused on identifying and reporting on value for money and on achievement against objectives.

We periodically review our assessments of risk and materiality of prospective areas of financial and performance audit focus and make necessary adjustments to our audit programs as these assessments change.

1.4.3 2010 state election

An election year presents an additional pressure to deliver our parliamentary reporting program. While not contributing to changes in the content of the audit program, the dissolution of the Parliament in the lead up to the November state election will significantly affect our 2010–11 tabling schedule.

1.5 Initiatives

1.5.1 Financial audit

In 2008–09 we tabled separate sector reports for public hospitals and their associated entities, and for water sector entities, following the success of our 2007–08 report on the results of financial audits for the local government sector.

These reports were well received by Parliamentarians, the public and relevant entities. Of particular note, the commentary and recommendations on financial sustainability and public hospital investment management have been broadly embraced.

In keeping with Parliament's expectations for audit reports to be focused and timely, we propose to table a separate report on the interim results of 2009–10 audits of portfolio departments early in 2010–11. This report will focus on internal control issues identified during the planning and pre-balance date phases of our financial audits. It will provide timely assessment of the reliance that can be placed on internal controls to produce complete and accurate information for financial reporting purposes, highlighting significant issues requiring attention.

1.5.2 Performance audit

During development of this plan, we increased our efforts to involve secretaries and senior management of departments in discussions about the proposed multi-year program. The aim was to improve communication and allow more timely input to, and resolution of emerging concerns about, our annual planning processes and the rationale, proposed content and timing of audits. The response to this initiative by departments was positive with most taking up the offer for senior VAGO representatives to attend and present to their executive management teams on the proposed program.

We also piloted forums with major stakeholders in two sectors: human services and health, to seek further input to our developing program of performance audits. Attendees included regulators, practitioners, representatives of community organisations, people involved in direct service delivery, and recipients of government programs and initiatives.

Feedback from attendees was that these forums were valuable; not just for the opportunity to provide direct input, but also in raising their awareness of the Auditor-General's role. The forums also validated the proposed forward program in these sectors.

We plan to rollout this initiative to the remaining sectors during 2010–11 as we prepare our 2011–12 annual plan.

1.6 Input from the Public Accounts and Estimates Committee

In November 2009 and again in February 2010 we met with the Public Accounts and Estimates Committee to discuss proposed areas of focus for financial and performance audit for 2010–11 to 2013–14. The Committee's insights and comments have helped focus and refine the proposed program and helped us clarify our intent and the planned coverage for many audit topics.

Under section 7A(1)(b) of the *Audit Act 1994* the draft Annual Plan must be submitted to the Public Accounts and Estimates Committee, which may choose to provide comments under section 7A(3). Section 7A(5) of the Act requires that the Auditor-General indicate in his annual plan, the nature of any changes suggested by the Committee that have not been adopted.

The draft annual plan was provided to the Committee on 1 April 2010, and the Committee's response under section 7A(3) was received on 20 April 2010.

The Committee's comments, along with our further comments can be found in Appendix F. Also included is advice progressively provided to the Committee following our November and February discussions on the draft plan.

We acknowledge and appreciate the input of the Committee and its ongoing support.

2 Proposed audit activity

2.1 Selection of areas of audit focus

2.1.1 Financial audit

The *Financial Management Act 1994*, the *Corporations Act 2001*, *Associations Incorporations Act 1981* and the *Local Government Act 1989*, require public sector entities to report annually on their financial results and year-end balances in accordance with prescribed reporting frameworks.

Section 8 of the *Audit Act 1994* (the Act) requires the Auditor-General to provide an opinion on these financial statements. Further information about the legislative framework that applies to financial audits is set out in Appendix C.

Forming an opinion on the amounts and other matters disclosed in the financial statements and their accompanying notes, requires the auditor to examine the underlying accounts and records, including the systems and processes used to generate this information.

Australian Auditing Standards imposed under the Act for audits of financial reports require that:

- 'The auditor shall obtain an understanding of the entity and its environment, including its internal control, sufficient to identify and assess the risks of material misstatement of the financial report whether due to fraud or error, and sufficient to design and perform further audit procedures.' (*Australian Auditing Standard 315 (ASA 315), Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement*, paragraph 5)
- 'When designing and performing audit procedures and in evaluating and reporting the results thereof, the auditor shall recognise that non-compliance by the entity with laws and regulations may materially affect the financial report.' (*Australian Auditing Standard 250 (ASA 250), Consideration of Laws and Regulations in an Audit of a Financial Report*, paragraph 5.)

We adopt a risk-based approach to gathering and assessing audit evidence as required by the Australian Auditing Standards. This includes considering both the risk that a balance or disclosure is inherently likely to be wrong; and the risk that each entity's own systems of internal control will fail to pick up significant errors.

To address these risks we look for direct evidence to substantiate that balances and disclosures are correct and we assess the strength of the internal controls, periodically testing these controls to see whether they are operating as the entity intended.

The systems and the controls operating over the most significant and high risk balances are examined and tested each year. Other systems and controls are assessed annually, but tested less frequently. Coordinating our audit coverage of these systems between entities lets us draw out and report on any systemic issues.

We analyse and categorise our planned coverage of systems and processes by aligning it with the various components of the financial statements:

- **operating statement**—discloses the annual revenue, expenditure and operating result
- **balance sheet**—discloses the asset, liability and capital/equity balances
- **cash flow statement**—discloses sources and use of cash from operating, investing and financing activities
- **changes in equity**—discloses the movements in capital and equity
- **accounting policies**—discloses the significant accounting policies used in preparing the financial statements
- **accompanying notes**—supporting detailed disclosures to expand on and explain the balances in the statements.

Consistent with section 3A(2), our financial audit coverage also considers public resource use, the exercise of probity, and financial prudence in the management or application of public resources.

2.1.2 Performance audit

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* (GVT) visions and goals. These visions and goals represent the government's framework for priority setting, including legislation and spending decisions to 2010 and beyond.

The GVT visions and related goals are:

Thriving economy

- more quality jobs and thriving innovative industries across Victoria
- growing and linking all of Victoria

Quality health and education

- high quality accessible health and community services
- high quality education and training for lifelong learning

Healthy environment

- protecting the environment for future generations
- efficient use of natural resources

Caring communities

- building friendly, confident and safe communities
- a fairer society that reduces disadvantage and respects diversity

Vibrant democracy

- greater public participation and more accountable government
- sound financial management.

We identify areas for audit coverage that are major contributors to the achievement of GVT objectives. Consideration is also given to wastage and lack of probity or financial prudence in all audits undertaken.

More detail about our performance audit topic selection method can be found in Appendix D.

2.2 Areas of audit focus 2010–11

2.2.1 Financial audit

Financial audits comprise over 60 per cent of our annual work. In 2010–11 we expect to provide audit opinions on over 560 financial statements (600 in 2009–10), and 114 performance statements (114 in 2009–10). The decrease in audit opinions is the net result of removal from mandate, amalgamation, abolition and creation of financial reporting entities. The significant changes were:

- the Auditor-General is no longer required to audit 39 stand-alone community health centres, following changes to the *Health Services Act 1998*
- metropolitan cemetery reforms, under the *Cemeteries and Crematoria Amendment Act 2009*, merged ten cemetery trusts into two new trusts—a net decrease of eight entities.

In conducting our financial audit work, we give regard to whether there has been wastage of public resources, or a lack of probity or financial prudence in managing or applying public resources.

The areas of focus we propose to cover in 2010–11, as well as the entities affected, are presented below.

Financial audit activities related to *Operating statements*

Areas of financial audit focus

- Management of employment costs—tertiary education and other entities
- Procurement—portfolio departments
- Student fee revenue—tertiary education and other entities

Management of employment costs

The examination of employment costs involves review of the human resource and payroll systems, processes and controls that operate within an entity, to obtain assurance that:

- all employment expenses and provisions for employee benefits have been expensed through the operating statements and/or provided for in the balance sheet
- costs are in accordance with employment terms and conditions and relevant legislation, relate to work performed and payments are to bona-fide employees
- amounts have been appropriately classified and described in the notes to the financial statements including the disclosure of remuneration and other benefits paid to executives in compliance with reporting requirements.

Procurement

By reviewing the systems, processes and controls that operate within an entity we aim to obtain assurance that:

- all procurement costs have been appropriately recorded as expenses or assets in the financial statements
- procurement activities are in accordance with established purchasing policies and procedures and relevant legislation
- amounts have been appropriately classified and described in the notes to the financial statements including the disclosure of commitments.

Student fee revenue

Entities in the tertiary education sector are highly dependent upon student fee revenue. In accordance with the requirements of Australian Auditing Standard 570 *Going Concern* we review an entity's assessment of the external conditions affecting its future student fee revenues, and assess the impact of this on the entity's viability.

To examine revenue from student fees we examine the systems, processes and controls that operate within an entity to obtain assurance that:

- all student fee revenue has been appropriately calculated and recorded in the financial statements as revenue or receivables
- revenue is collected in accordance with relevant policies and legislation
- amounts have been appropriately classified and described in the notes to the financial statements.

Financial audit activities related to *Balance sheets*

Areas of financial audit focus

- Capital project management—portfolio departments
- Capital project management—water entities
- Leave management—public hospitals
- Management of creditors—public hospitals
- Management of creditors—tertiary education and other entities
- Management of creditors—water entities
- Significant issues and developments—Annual Financial Report of the State of Victoria

Capital project management

Capital projects present specific challenges when compared to general expenditure as they typically involve long planning and delivery timeframes, produce long-lived assets and create future funding obligations for operating, maintaining, refurbishing and decommissioning the assets. It is also important that capital projects are well managed given the often substantial funds required for their construction.

As part of our verification of capital work in progress, capital commitments and investing cash flows we examine the capital project management systems, processes and controls that operate to provide assurance that capital expenditure is appropriately recorded, including reviewing:

- capital budgeting
- certification of works in progress and stage of completion
- reporting to management on cost and times variances.

Leave management

Unless managed effectively, failure of employees to take leave regularly can have a detrimental effect on an entity. It can result in large liabilities being carried in the balance sheet or increased staff costs because of increased occupational health and safety premiums.

To examine leave management we review the human resource and payroll systems, processes and controls that operate within an entity to obtain assurance that:

- all provisions for employee benefits for the period have been expensed and/or provided for
- costs are in accordance with employment terms and conditions and relevant legislation, relate to work performed and are to bona-fide employees
- leave balances are being managed in accordance with applicable requirements to minimise liabilities
- amounts have been appropriately classified and described in the financial statements including the disclosure of remuneration and other benefits paid to executives.

Management of creditors

Poor creditor management can lead to increased costs to entities through penalties for late payment, loss of discount for early payment, and reputational damage.

To examine an entity's management of creditors, we review selected internal controls and management guidelines over supply and service related expenditure. We do this to gain assurance that:

- all supplies and service expenses have been appropriately recorded in the general ledger and financial statements
- transactions are in accordance with relevant policies and legislation
- amounts have been appropriately classified and described in the notes to the financial statements.

Significant issues and developments

Each year we examine the state's financial statements and provide observations and analysis on the status and financial implications of significant issues and developments which occurred during 2009–10 and subsequent to year end. This material is included in the *Auditor-General's Report on the Annual Financial Report of the State of Victoria* in accordance with section 16 of the Audit Act.

Financial audit activities related to *Notes disclosure and internal controls*

Areas of financial audit focus

- Declarations of interest—local government
- Declarations of interest—portfolio departments
- Information Technology change management—local government
- Information Technology change management—portfolio departments
- Information Technology security—portfolio departments

Declarations of interest

Disclosing related party interests is fundamental to good governance. It enables entities to identify and manage conflicts so that they can conduct their business while avoiding perceptions of favouritism or inappropriate practice.

Entities are required to include disclosure of related party transactions in their financial statements. To examine these we assess internal controls and management guidelines designed to identify and appropriately manage declarations of interest to provide assurance that:

- all conflicts of interest are identified, registered and managed in accordance with relevant policies and legislation
- conflicts of interest meet the test of related party transactions and are adequately described in the financial statements.

Information technology change management

We review an entity's internal controls over the modification of its information technology and management systems, as part of the financial statement audit. We do this to assess how an agency assures that only tested and approved changes are made.

Information technology security

Information systems used to collect, collate, store and process financial data and statements must be secure so that integrity and confidentiality of the data are protected. This means the systems should be accessible by authorised people only and controls exist to allow only authorised changes to be made. During a financial audit we assess and where necessary test an entity's IT security controls so we can make judgements on the integrity of information handled through the systems.

2.2.2 Performance audit

This section sets out our areas of performance audit interest for 2010–11. For each prospective audit listed, the final audit approach will be determined after the completion of our detailed planning, a process that requires consultation with the Public Accounts and Estimates Committee and relevant agencies.

Performance audits relating to a *Thriving economy*

Areas of performance audit focus

- Effectiveness of the Small Business Support Program
- Management of major road projects
- Management of the freight network
- Transit Cities: Revitalising Central Dandenong

Effectiveness of the Small Business Support Program

According to the Australian Bureau of Statistics, in June 2007 small businesses made up 96 per cent of companies in Victoria. The failure rate for small and medium enterprises is typically high, with the recent global financial crisis exacerbating the risk of their failure. It is important that government action to support these businesses is both targeted and agile. Business Victoria offers several types of support to help the start up and development of small to medium enterprises.

The audit will determine the effectiveness of initiatives aimed at providing support to small to medium enterprises.

Management of major road projects

The *Victorian Transport Plan (VTP)* underpins the state's continued economic growth and liveability and includes a \$19 billion commitment for new and upgraded roads. Completing major road projects on time and which deliver their intended benefits is critical to the VTP's objectives. This audit will complement our 2009–10 audit on the management of major rail projects.

The audit will determine whether road projects have been well managed and achieved their intended outcomes.

Management of the freight network

The government's 2008 *Freight Futures-Victorian Freight Network Strategy* recognised that efficient, seamless and sustainable freight movement is crucial for Victoria's prosperity and liveability. Freight volumes have grown strongly over the past 15 years and are forecast to almost double by 2030. Around 90 per cent of freight by weight is carried by road; a major challenge in accommodating increased traffic. Freight Futures is the long-term plan for maintaining and improving the freight network. It aims to improve network efficiency, provide sufficient capacity and mitigate any adverse safety, environmental and amenity effects on the community.

The audit will examine the effectiveness of government's Freight Futures strategy for developing and managing Victoria's freight network.

Transit Cities: Revitalising Central Dandenong

As a key initiative of *Melbourne 2030*, the Transit Cities program aims to reduce the impact of growth on Melbourne's outskirts, by concentrating development around major activity centres. Revitalising Central Dandenong is one of 13 Transit Cities projects. It aims to rejuvenate Dandenong's city centre, improve traffic and transport systems, stimulate employment and increase the supply of affordable housing. VicUrban is running the project, in partnership with the City of Greater Dandenong. Funding of \$290 million has been allocated.

The audit will examine whether Revitalising Central Dandenong is progressing as planned, how its success is being measured, and whether the expected benefits are being or are likely to be realised.

Performance audits relating to *Quality health and education*

Areas of performance audit interest

- Caring for those with dementia in an ageing population
- Delivery of the Nurse on Call service
- Early childhood development services: Access and quality
- Indigenous education strategies for government schools
- Managing drug and alcohol prevention and treatment services
- Managing student safety
- The Department of Human Services' role in emergency recovery
- Victorian Registration and Qualifications Authority

Caring for those with dementia in an ageing population

The projected rise in dementia cases to 'epidemic' level is attributed to the rapid ageing of our population and the rise in 'lifestyle' diseases related to dementia risk. The population with dementia is projected to rise from 63 000 in 2009 to almost 100 000 in 2020 and 275 000 in 2050. In two decades dementia spending is projected to reach one per cent of national gross domestic product. In addition to impacts on the individual, the increasing burden of caring will also be felt significantly by the community.

In 2006, the (then) Department of Human Services (DHS) released a *Dementia Framework for Victoria* and an implementation plan. These initiatives aim to reduce dementia risk and to enhance services and quality of life for people with dementia.

The audit will determine how well agencies are prepared to respond to the rising prevalence of dementia, in the context of the *Dementia Framework for Victoria* and its allied implementation plan, and the effectiveness to date in addressing dementia risks.

Delivery of the Nurse on Call service

Timely access to health advice can improve patient health outcomes and reduce demand on other areas of the health system. The Nurse on Call service enables all Victorians to obtain health advice and information over the telephone from a registered nurse on a 24/7 basis, at the cost of a local call. It can play an important role in directing callers to the health service they need, and where appropriate, diverting patients from acute services by providing immediate, expert health advice.

Nurse on Call started in June 2006 and since then has answered over one million calls. Overall, calls to the service have declined by 15 per cent since the first year of operation, from 397 000 in 2006–07 to 338 694 calls in 2008–09. In 2008–09 the cost of the service to the state was \$9.2 million.

This audit will assess the effectiveness of the Nurse on Call service by examining accessibility and timeliness of health information and advice; the appropriateness of outcomes for clients and for health services; and the sufficiency of monitoring and reporting on the performance of the service.

Early childhood development services: Access and quality

The Department of Education and Early Childhood Development (DEECD) supports the health, development, wellbeing and learning of young children by overseeing kindergartens and child care centres, maternal and child health services, supported playgroups, and parenting and early childhood intervention services. These services are run by local government, and community and private organisations.

Funding for early childhood development services in 2008–09 was \$337.9 million and in 2009–10 was \$374.8 million. The Commonwealth government has also committed \$210 million by 2012–13 to provide access to quality early childhood development services including universal access to preschool in the year before school, and improving the qualifications of early childhood teachers.

This audit will assess the effectiveness of DEECD's actions to improve access to early childhood development services and whether services are provided in line with the required standards.

Indigenous education strategies for government schools

Indigenous students perform poorly on key measures such as literacy and numeracy, and school participation, attendance, retention and completion compared with other students from similar socio-economic groups. As a result, DEECD has committed \$30.8 million in 2008–09 to support Indigenous students' individual learning needs as part of the *Wannik: Learning Together—Journey to Our Future* strategy.

This audit will examine whether initiatives under the *Victorian Indigenous Affairs Framework* are improving indigenous student learning outcomes in government schools.

Managing drug and alcohol prevention and treatment services

Harmful drug and alcohol use is a major social issue. Recent public attention on drug and alcohol-related crime and violence and the effects of harmful drug and alcohol use, has focused the community's concerns on these issues. The cost of alcohol-related social problems to the Australian community was estimated at \$55.1 billion in 2004–05. More than 26 000 Victorians entered government funded specialist drug or alcohol programs during 2006–07 and over 77 000 were hospitalised due to an alcohol or drug-related condition. Current treatment philosophy recognises drug and alcohol addiction as a long-term condition, requiring management of episodic relapse and focusing on behaviour change.

The state's response is modeled on the National Drug Strategic Framework focusing on harm minimisation, integration, and evaluation and accountability. State-funded drug and alcohol program development and delivery is guided by *A new blueprint for alcohol and other drug treatment services 2009–2013: a client-centered and service-focused approach* supported by *Restoring the Balance—Victoria's Alcohol Action Plan 2008–2013*. In the 2009–10 budget, \$127.5 million was allocated for drug and alcohol services, including \$37.5 million under the *Victorian Drug Strategy 2006–2009* and \$4.47 million from the \$14.4 million Victorian Alcohol Action Plan 2008–2013.

This audit will assess the effectiveness of drug and alcohol prevention and treatment services overseen by the Department of Health, examining the department's planning, coordination and management activities.

Managing student safety

DEECD is responsible for creating a safe school environment and minimising the risk of harm to students. Threats that can jeopardise safety include arson, vandalism, on-site construction hazards, access by unauthorised people to school sites, occupational health and safety issues, and dangers faced during off-site school activities. It is important to the school community that the safety of students is well managed, that schools are prepared to deal with critical incidents such as pandemics and natural disasters, and to recover from significant disruptions to business.

The audit will assess whether DEECD is managing the safety of students involved in school activities effectively.

The Department of Human Services' role in emergency recovery

Effective emergency management including coordination and delivery of recovery services has a major impact on the degree of community distress, social disruption and business discontinuity arising from an emergency. Recovery can help ensure the future of communities otherwise made unviable by emergencies. In line with the *State Emergency Recovery Arrangements*, responsibility for the coordination of emergency recovery activities is allocated to DHS. Recovery involves assisting persons and communities affected by emergencies to achieve a proper and effective level of functioning.

The audit will determine the effectiveness of DHS' emergency recovery management, examining recovery planning and operations at the state and regional levels, and whether effective evaluation, training and education support those activities.

Victorian Registration and Qualifications Authority

The Victorian Registration and Qualifications Authority (VRQA) is the state's regulatory body for school education, vocational education and training, and higher education. VRQA's functions include accrediting courses, registering education providers, ensuring that providers meet required operating standards and providing public information about courses, qualifications and education providers. In recent times a number of organisations registered to provide vocational education and training have gone out of business. Issues have also been raised about the integrity of operators.

This audit will assess the effectiveness of the VRQA in meeting its legislative responsibilities for regulating vocational education and training providers.

Performance audits relating to a *Healthy environment*

Areas of performance audit interest

- Environmental management of marine parks
- Facilitating renewable energy development
- Soil health management
- Victoria's natural waterways—Managing environmental and community consumption needs

Environmental management of marine parks

Over 12 000 marine animals and plants live in Victoria's marine waters. Introduced pest species are among the biggest threats to native marine animals and plants and to marine industries. At least 250 marine species are known to have been introduced to Australia's marine waters, with over 100 introduced to Port Phillip Bay.

Human activity can spread marine pests to new areas. Examples are discharging ships' ballast water and stripping fouling from the hulls of ships, small vessels or aquaculture equipment.

The audit will examine the effectiveness of programs for preventing and managing invasive marine pests.

Facilitating renewable energy development

Victoria's energy generation relies heavily on brown coal—a major contributor to greenhouse gas emissions. The impacts of climate change will demand significant action to reduce greenhouse gas production. Renewable energy is one of the main ways to reduce greenhouse gases while generating sufficient energy to sustain our standard of living. There are many renewable energy types such as wind, solar, hydro, wave and geothermal. Currently, about 4 per cent of the state's electricity consumption is from such sources. The imposition of mandatory renewable energy targets requires concerted action to increase this rate.

Although the electricity market has been privatised, the government still has a critical role investing in innovative energy technologies and facilitating investment in developing renewable energy supply.

The audit will determine whether the *Renewable Energy Action Plan* has accelerated renewable energy development, and will assess the progress toward meeting renewable energy targets.

Soil health management

Agriculture is an important component of the Victorian rural economy and export earnings. It contributed \$8.7 billion to gross state product in 2006–07, \$472 million of which was from broadacre cropping. In agricultural landscapes, soil health is valued because it can affect productivity. Poor soil health on private land can also affect natural assets on public land, for example, by causing erosion or sedimentation. Soil health management should, therefore, consider the needs of both the agricultural industry and the protection of valued natural assets.

The *Healthy Soils Initiative* under *Our Environment, Our Future* provided \$4 million over four years (2006–10) to improve Victoria’s soil health framework. The *Land Health Program* focuses primarily on reducing soil and dryland salinity threats to high value natural assets and to protect the value of healthy soils. In addition, regional catchment strategies may prioritise soil health through soil health plans and specific projects.

The audit will determine whether soil health initiatives have been efficient and effective in their application. It will focus primarily on the implementation and effectiveness of the Department of Primary Industries’ Soil Health Framework to improve soil health on private land, and soil health initiatives of catchment management authorities to protect natural assets.

Victoria’s natural waterways—Managing environmental and community consumption needs

Victoria has around 85 000 kilometres of streams, rivers, creeks and estuaries. These natural water systems are crucial to the community, supplying water for towns, farms and businesses and contributing to local economies through industries such as boating and tourism. They also support diverse species of native plants, fish and animals, each of which is vital to maintaining environmental balance.

The prolonged drought has seriously affected the volume of surface water available in Victoria. In 2007–08, total stream flow across the state was only 40 per cent of the long-term average volume. In places like the Wimmera, it was only 11 per cent.

The audit will assess how effectively reductions and suspensions of environmental water releases to meet critical human needs have been managed, including actions to minimise impacts on inland surface waters.

Performance audits relating to *Caring communities*

Areas of performance audit interest

- Court diversion programs
- Effectiveness of victims of crime programs
- Local community transport services
- Management of contracted prison services in public private partnerships
- Motorcycle safety programs
- Security of ICT management and control systems for water and trains
- Taking action on problem gambling
- The health and welfare of farming families in rural communities

Court diversion programs

Between June 2005 and June 2009, prisoner numbers rose by 20 per cent, placing significant cost pressures on the prison system. Court diversion programs are an important focus of the government's 2008 *Justice Statement 2* and offer the potential benefits of reduced re-offending, improved public safety, and fewer costs to government. Problem-solving courts are separate from the traditional courts. Examples are the Drug and Family Violence Courts. Other court diversion initiatives encompass the Neighbourhood Justice Centre, which comprises not only a court, but also on-site support services and mediation and crime prevention programs.

This audit will determine whether court diversion programs have reduced imprisonment and reoffending.

Effectiveness of victims of crime programs

Victims of crime programs play a social justice role by helping the individuals most affected by an offence to recover. Victim support initiatives include the Victims Support Agency that plans, develops and integrates services across the public sector. Other initiatives include counseling for victims of sexual assault, a Victims Charter to improve the justice system's treatment of victims of crime, and restorative justice that brings the victim together with the offender to deal with the offence and its effect.

The audit will examine whether victims of crime programs are effectively managed, and how well they help victims recover from the effects of crime.

Local community transport services

Community transport is an important element of the transport system where conventional public transport is limited or non-existent, particularly in rural areas. Aged persons and those with disabilities are significant users of community transport. Community transport services are provided mainly by local government and community groups through a mix of service types and vehicles.

Transport Connections is a program operating over the period 2006–10 to help communities solve local transport needs in innovative ways, with a budget of \$18.3 million. The program is managed by the Department of Planning and Community Development in partnership with other agencies. It funds 32 projects in rural, regional and outer metropolitan Victoria. It focuses on developing local partnerships and building on assets to improve service access, complement transport services and enhance community participation.

The audit will assess how well the Transport Connections program is managed and whether it is achieving its intended outcomes.

Management of contracted prison services in public private partnerships

A number of the state's prisons operate under public private partnerships with private companies responsible for the delivery of services including facilities maintenance, correctional services, prisoner education and training, transport and health services. Poor standards of service can directly affect the achievement of the correctional services system's main aims—protecting the community and encouraging offenders to adopt law-abiding lifestyles.

The audit will examine whether contracted prison services (excluding correctional services) delivered under the public private partnerships model are operating effectively and providing value for money.

Motorcycle safety programs

Riders of powered two-wheeled vehicles like motorcycles and scooters are amongst the most vulnerable road users. Their serious injuries and deaths account for 13 per cent of the road toll although they comprise only one per cent of traffic. The popularity of motorcycles and scooters has grown rapidly over the decade to 2008 with a 72 per cent increase in vehicle registrations. These trends and safety risks have focused attention on improving the safety of these road users. *Victoria's Road Safety and Transport Strategic Action Plan for Powered Two Wheelers 2009–2013*, which followed the *Victorian Motorcycle Road Safety Strategy 2002–2007*, targets areas for action.

The audit will assess the effectiveness of strategies to improve motorcycle safety.

Security of ICT management and control systems for water and trains

Victoria's water and train infrastructure relies on ICT management and control systems to operate and control power grids, water treatment and distribution facilities, flood control dams, and tram/train power and signaling systems; and collect and supply data required to operate businesses. Any malfunction of such systems—be it deliberate or unintentional—can disrupt essential services with potentially catastrophic consequences for the state.

The audit will assess whether the security risks to the critical ICT management and control systems that operate and control water and train infrastructure are managed effectively.

Taking action on problem gambling

An estimated \$5.1 billion was spent on all forms of gambling in Victoria in 2008–09 and the gambling industry contributed \$1.63 billion in taxes—around 12.8 per cent of total taxes and 4.1 per cent of total revenue—to the state. Gambling is defined as a problem when a person has difficulty limiting the amount of money or time they spend on gambling, leading to adverse consequences to the gambler, their family and the community. In 2007 about 0.7 per cent of the adult population or around 28 700 people were estimated to be problem gamblers.

Taking Action on Problem Gambling: 2006–07 to 2010–11 is a strategy to address problem gambling. The strategy involves community education and awareness initiatives, harm minimisation and consumer protection measures, and treatment for problem gamblers. It has a budget of \$132.3 million over five years derived from the Community Support Fund.

The audit will assess whether the Taking Action on Problem Gambling strategy has reduced the level of problem gambling related harm. It will examine the soundness of the evidence and research base underpinning its initiatives, whether the strategy is being implemented as intended and whether there is reasonable assurance that the interventions are effective.

The health and welfare of farming families in rural communities

Farming communities are under increasing pressure from drought, water scarcity, labour shortages, an ageing workforce and competition from overseas. These pressures are affecting health and wellbeing of farming families who are experiencing more illness including diabetes, cardiovascular disease and respiratory illness. Farmers are experiencing mental health problems as a direct consequence of the prolonged drought. Targeted health support is provided to farmers, their families and farm workers through the *Future Farming Strategy* and the *Sustainable Farm Families* program.

The audit will determine the effectiveness of the Sustainable Farm Families program for improving the health and wellbeing of farming families.

Performance audits relating to a *Vibrant democracy*

Areas of performance audit interest

- Business continuity management in local government
- Managing the requirements for disclosing private sector contracts
- State Trustees Ltd—represented persons

Business continuity management in local government

Fires, floods and other disasters can adversely affect a council's ability to maintain its business operations. Disruption to council services such as land use planning, environmental management, waste collection and family day care can have significant adverse impacts on the community. Effective business continuity management provides assurance about the arrangements to support the continuity of the business in the event of a disruption.

This audit will determine the effectiveness of business continuity management by councils. It will examine whether councils have sound business continuity plans in place, regularly test and report on the effectiveness of related planning and management practices, and continually improve such practices. It will also examine Local Government Victoria's actions to enhance oversight of business continuity management by councils, as part of encouraging continuous improvement.

Managing the requirements for disclosing private sector contracts

Almost all departments and public sector agencies hire contractors for building and construction projects or, increasingly, to deliver services such as maintenance, cleaning and training and for providing advice. In October 2000, a requirement for all government agencies and government business enterprises to disclose major contracts and adhere to principles of openness and transparency was announced. Amongst other requirements, departments are to post on the Victorian Government Purchasing Board's Contracts Publishing System (CPS) details of contracts valued at over \$100 000, within 60 days of award of a contract.

This audit will determine whether contract disclosure requirements have been complied with, by examining the accuracy and completeness of records, disclosures of contracts in annual reports, websites and the CPS, and whether contractor performance and outcomes of contracts are adequately disclosed.

State Trustees Ltd—represented persons

State Trustees Ltd protects the financial and legal interests of people who are unable to manage their own affairs due to mental illness, injury or disability. These people are known as 'represented persons'. State Trustees also provides support aimed at reconnecting these vulnerable people with the community. The ageing population, coupled with better health outcomes for accident victims, is leading to an increased need for State Trustees' services.

This audit will examine whether State Trustees Ltd is effectively managing the financial and legal interests of represented persons and providing appropriate support.

2.3 Reporting the results of 2010–11 audits

Section 16 of the *Audit Act 1994* empowers the Auditor-General to report to Parliament on the results of audits and he may include such information as he thinks pertinent. In 2010–11 we intend to table 35 reports on the results of our financial and performance audits. During the year we will also table our Annual Report for 2009–10 and our 2011–12 Annual Plan.

2.3.1 Financial audit

Parliamentary reports on the results of financial audits routinely comment on:

- the effectiveness of internal controls
- the timeliness of financial reporting
- financial sustainability
- financial reporting developments.

The dissolution of the Parliament in the lead up to the 27 November 2010 State Election will significantly affect the timing of tabling our reports in Parliament in 2010–11. To remain focused and timely with the conduct of our audit program and parliamentary reporting, we propose to table four reports on the results of our financial audits in 2010:

- a report on the interim results of the 2009–10 financial audits of portfolio departments, in July 2010
- reports on the interim results of the 2009–10 financial audits of local government, public hospitals, and water entities, across August and September 2010.

In October 2010 we propose tabling the *Auditor-General's Report on the Annual Financial Report of the State of Victoria*, as required under the Audit Act.

By 30 June 2011 we plan to also table:

- an acquittal report on the timeliness of public sector financial reporting, financial sustainability and the year-end financial reporting process, in February 2011
- the report on the results of the 2009–10 audits of the tertiary education sector and other entities, as usual, in May 2011.

The Audit Act requires the Auditor-General to prepare a review report on the estimated financial statements for the general government sector. As is the usual practice, this report will be included with the government's budget papers presented to Parliament in May 2011.

Our parliamentary sector and portfolio reports will include analysis of indicators of financial sustainability reflecting each entity's revenue raising performance and expenditure control and indicate whether the revenue and expenditure trends and policies are sustainable.

Further information about the reports proposed for tabling during 2010–11 is detailed in Figure 2A.

Figure 2A
Parliamentary reports on results of financial audits conducted in 2010–11

Report title	Proposed report topics
Whole-of-government	
Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2009–10	The results of the audit of the state's annual financial report and addressing the quality and timeliness of financial reporting, explanation of significant financial results for the state and observations on the status and financial implications of significant issues and developments that occurred during 2009–10 and subsequent to year end.
Portfolio or sector specific	
Portfolio Departments: Interim Results of the 2009–10 Audits	Interim results of the audits of 11 portfolio departments addressing the effectiveness of internal control supporting the preparation of the financial reports, aspects of procurement and declaration of interests and financial reporting developments.
Local Government: Interim Results of the 2009–10 Audits	Interim results of the audit of 79 councils, 12 entities they control and 12 regional library corporations addressing the effectiveness of internal control, aspects of declarations of interest and information technology change management.
Public Hospitals: Interim Results of the 2009–10 Audits	Interim results of the audits of approximately 110 entities in the sector, addressing the effectiveness of internal control supporting the preparation of the financial report and aspects of leave management and management of creditors.
Water Entities: Interim Results of the 2009–10 Audits	Interim results of the audits of 19 water entities addressing the effectiveness of internal control supporting the preparation of the financial report and aspects of capital project management, and management of creditors.
Acquittal Report: Results of the 2009–10 Audits	The results of the annual financial statement audits of approximately 420 entities across all sectors including local government, water, health, and the portfolio departments and associated entities. The report will include comment on the timeliness of their financial reporting, financial sustainability and financial reporting developments.
Tertiary Education and other entities: Results of the 2010 Audits	The results of the annual financial audits of 120 entities that have a financial year end other than 30 June 2010 and addressing the timeliness of their financial and performance reporting, effectiveness of internal control, financial sustainability and aspects of student fee revenue.

Source: Victorian Auditor-General's Office.

2.3.2 Performance audit

In 2010–11 we plan to table 28 reports addressing the areas of performance audit focus outlined in section 2.2.2 of this plan.

A list of our Parliamentary reports tabled from 2007–08 to 2009–10 can be found in Appendix E.

2.4 Current and prospective areas of audit focus 2010–11 to 2013–14

2.4.1 Financial audit

We examine and test the systems and the controls operating over the most significant and high risk balances each year.

Other systems and controls are assessed annually, but tested less frequently.

Coordinating our audit coverage of these systems between entities lets us draw out and report on any systemic issues. Figure 2B presents these areas of financial audit focus for 2010–11 and prospective areas of financial audit focus for the period 2011–12 to 2013–14, by report for each major financial statement component.

The prospective areas of focus for 2011–12 to 2013–14 form an indicative program from which we will develop our future annual plans. While they indicate our current assessments of audit risks, we may need to revise our plans over time to respond to emerging developments so that our audit coverage remains relevant and appropriate.

Figure 2B
Current and prospective areas of financial audit focus
2010–11 to 2013–14

Operating statement				
Report title	2010–11	2011–12	2012–13	2013–14
Local Government: Results of Audits		<ul style="list-style-type: none"> • Procurement 	<ul style="list-style-type: none"> • Budget management 	
Portfolio Departments: Interim Results of Audits	<ul style="list-style-type: none"> • Procurement 	<ul style="list-style-type: none"> • Grant administration • Management of employment costs 	<ul style="list-style-type: none"> • Credit card usage • Management of contractors/consultants in the public sector 	
Public Hospitals: Results of Audits		<ul style="list-style-type: none"> • Procurement 		
Tertiary Education and Other Entities: Results of Audits	<ul style="list-style-type: none"> • Management of employment costs • Student fee revenue 	<ul style="list-style-type: none"> • Student fee revenue 	<ul style="list-style-type: none"> • Credit card usage • Student fee revenue 	<ul style="list-style-type: none"> • Procurement • Student fee revenue
Water Entities: Results of Audits			<ul style="list-style-type: none"> • Procurement 	

Figure 2B
Current and prospective areas of financial audit focus
2010–11 to 2013–14 – *continued*

Balance sheet				
Report title	2010–11	2011–12	2012–13	2013–14
Auditor-General's Report on the Annual Financial Report of the State of Victoria	<ul style="list-style-type: none"> • Comment on significant issues and developments 	<ul style="list-style-type: none"> • Comment on significant issues and developments 	<ul style="list-style-type: none"> • Comment on significant issues and developments 	<ul style="list-style-type: none"> • Comment on significant issues and developments
Local Government: Results of Audits		<ul style="list-style-type: none"> • Asset management 		
Portfolio Departments: Interim Results of Audits				<ul style="list-style-type: none"> • Asset management
Public Hospitals: Results of Audits	<ul style="list-style-type: none"> • Management of creditors • Leave management 			
Tertiary Education and Other Entities: Results of Audits	<ul style="list-style-type: none"> • Management of creditors 	<ul style="list-style-type: none"> • Capital project management 		
Water Entities: Results of Audits	<ul style="list-style-type: none"> • Capital project management • Management of creditors 			<ul style="list-style-type: none"> • Treasury management

Figure 2B
Current and prospective areas of financial audit focus
2010–11 to 2013–14 – continued

Notes disclosure and internal controls				
Report title	2010–11	2011–12	2012–13	2013–14
Local Government: Results of Audits	<ul style="list-style-type: none"> • Declarations of interest • Information Technology change management 		<ul style="list-style-type: none"> • Outsourcing 	<ul style="list-style-type: none"> • Audit committees • Internal audit
Portfolio Departments: Interim Results of Audits	<ul style="list-style-type: none"> • Declarations of interest • Information Technology change management • Information Technology security 	<ul style="list-style-type: none"> • Audit committees • Information Technology change management • Information Technology security 	<ul style="list-style-type: none"> • Fraud risk • Information Technology change management • Information Technology security • Risk management 	<ul style="list-style-type: none"> • Information Technology business continuity planning and disaster recovery planning • Information Technology change management • Information Technology security
Public Hospitals: Results of Audits			<ul style="list-style-type: none"> • Audit committees • Internal audit 	<ul style="list-style-type: none"> • Fraud risk • Risk management
Tertiary Education and Other Entities: Results of Audits			<ul style="list-style-type: none"> • Internal audit 	<ul style="list-style-type: none"> • Financial policies and delegations
Water Entities: Results of Audits		<ul style="list-style-type: none"> • Declarations of interest • Outsourcing 	<ul style="list-style-type: none"> • Risk management 	<ul style="list-style-type: none"> • Information Technology Business continuity planning and disaster recovery

Source: Victorian Auditor-General's Office.

2.4.2 Performance audit

Figure 2C presents the areas of performance audit focus for 2010–11 and prospective areas of performance audit focus for the period 2010–11 to 2013–14, by portfolio for each GVT vision. The prospective areas of focus for 2011–12 to 2013–14 form an indicative program from which we will develop our future annual plans.

The program will be reassessed periodically and our audit program modified to reflect emerging issues and changed risk assessments.

Figure 2C
Current and prospective areas of performance audit focus
2010–11 to 2013–14

Thriving economy				
Portfolio	2010–11	2011–12	2012–13	2013–14
Innovation, Industry and Regional Development	<ul style="list-style-type: none"> Effectiveness of the Small Business Support Program 	<ul style="list-style-type: none"> Investment attraction Melbourne Markets redevelopment project 	<ul style="list-style-type: none"> Tourism strategy 	
Planning and Community Development	<ul style="list-style-type: none"> Transit Cities: Revitalising Central Dandenong 		<ul style="list-style-type: none"> Builders warranty insurance 	
Sector-wide and central agencies			<ul style="list-style-type: none"> Implementing the Nation Building Program Planning, delivery and benefits realisation of major asset investment VicForests 	<ul style="list-style-type: none"> Changing profile of the public sector workforce
Transport	<ul style="list-style-type: none"> Management of major road projects Management of the freight network 	<ul style="list-style-type: none"> Management of road bridges Public transport performance 	<ul style="list-style-type: none"> Fare evasion on public transport Managing traffic congestion Port of Melbourne channel deepening project: Achievement of objectives 	<ul style="list-style-type: none"> Developing transport infrastructure and services for population growth areas Registration and licensing system project SmartBus competitively tendered contracts
Local Government		<ul style="list-style-type: none"> Best value/continuous improvement Compliance with building permits 	<ul style="list-style-type: none"> Asset management and maintenance by councils 	<ul style="list-style-type: none"> Workforce planning in local government

Figure 2C
Current and prospective areas of performance audit focus
2010–11 to 2013–14 – continued

Quality health and education				
Portfolio	2010–11	2011–12	2012–13	2013–14
Education and Early Childhood Development	<ul style="list-style-type: none"> • Early childhood development services: Access and quality • Indigenous education strategies for government schools • Managing student safety • Victorian Registration and Qualifications Authority 	<ul style="list-style-type: none"> • Addressing the ageing of the teacher workforce • Casual relief teacher arrangements • Learning technologies in government schools • Victorian Institute of Teaching 	<ul style="list-style-type: none"> • Before and After school care program • Implementing the Nation Building Program: Schools • School modernisation program and early childhood facilities • Science and maths participation rates and initiatives • Equitable access to education for rural students 	
Health	<ul style="list-style-type: none"> • Caring for those with dementia in an ageing population • Delivery of the Nurse on Call service • Managing drug and alcohol prevention and treatment services 	<ul style="list-style-type: none"> • Clinical placements: Arrangements between universities and health providers • Preventing and managing chronic disease • Procurement practices in the health sector • Visiting Medical Officer payments in public hospitals 	<ul style="list-style-type: none"> • Hospital access indicators: Follow up of 2009 audit • Infection control in hospitals • Integrity of funding arrangements between the Department of Health and hospitals • Maternity services: Capacity 	<ul style="list-style-type: none"> • HealthSMART clinical and patient health systems • Impacts of amalgamation of Victorian ambulance services • Indigenous health programs and outcomes • Risk management in public hospitals
Human Services	<ul style="list-style-type: none"> • The Department of Human Services' role in emergency recovery 		<ul style="list-style-type: none"> • Early intervention for children at risk 	<ul style="list-style-type: none"> • Redevelopment of the Aids and Equipment Program
Innovation, Industry and Regional Development				<ul style="list-style-type: none"> • TAFE institutes: Student Management Solution

Figure 2C
Current and prospective areas of performance audit focus
2010–11 to 2013–14 – continued

Healthy environment				
Portfolio	2010–11	2011–12	2012–13	2013–14
Primary Industries	<ul style="list-style-type: none"> Facilitating renewable energy development 	<ul style="list-style-type: none"> Agricultural food safety Supporting changes in farming practices 	<ul style="list-style-type: none"> Effectiveness of the Department of Primary Industries' enforcement activities Managing fisheries resources 	<ul style="list-style-type: none"> Implementing the Timber Industry Strategy
Sustainability and Environment	<ul style="list-style-type: none"> Environmental management of marine parks Victoria's natural waterways—Managing environmental and community consumption needs Soil health management 	<ul style="list-style-type: none"> Effectiveness of water restrictions Management of contaminated sites Residential solid waste management (reduction and recycling) 	<ul style="list-style-type: none"> Foodbowl modernisation project, including the Sugarloaf Interconnector Reducing household, business and government energy consumption Victorian bushfire reconstruction: Progressing environmental restorations 	<ul style="list-style-type: none"> Coordinating responses to climate change Managing the demand and supply of urban and regional drinking water Protecting the environment: Monitoring compliance with project approval conditions

Figure 2C
Current and prospective areas of performance audit focus
2010–11 to 2013–14 – continued

Caring communities				
Portfolio	2010–11	2011–12	2012–13	2013–14
Human Services			<ul style="list-style-type: none"> • Crisis housing and homelessness response 	
Justice	<ul style="list-style-type: none"> • Court diversion programs • Effectiveness of victims of crime programs • Management of contracted prison services in public private partnerships • Taking action on problem gambling 	<ul style="list-style-type: none"> • Court backlogs • Effectiveness of volunteer management strategies in emergency services • Racing industry: Boards of management • Victorian Alcohol Action Plan: Justice component 	<ul style="list-style-type: none"> • Consumer protection • Implementation of LINK system in Victoria Police • Management of major trust funds in the Justice portfolio • Prisons: Health and transportation 	<ul style="list-style-type: none"> • Control of drug use in prisons • Implementation of Bushfire Royal Commission recommendations related to emergency services • Management of unplanned leave in Victoria Police and Ambulance Victoria
Planning and Community Development	<ul style="list-style-type: none"> • Local community transport services 			<ul style="list-style-type: none"> • Encouraging participation in sport and recreation • Implementation of the <i>Aboriginal Heritage Act 2006</i>
Primary Industries	<ul style="list-style-type: none"> • The health and welfare of farming families in rural communities 			
Sector-wide and central agencies	<ul style="list-style-type: none"> • Security of ICT management and control systems for water and trains 			<ul style="list-style-type: none"> • Emergency response ICT (incorporating Project 000) • Public safety ICT • Social identity and inclusion
Transport	<ul style="list-style-type: none"> • Motorcycle safety programs 	<ul style="list-style-type: none"> • Developing cycling as a safe and appealing mode of transport • Marine safety 		
Local Government				<ul style="list-style-type: none"> • Emergency management for fire, flood and other potential disasters

Figure 2C
Current and prospective areas of performance audit focus
2010–11 to 2013–14 – continued

Vibrant democracy				
Portfolio	2010–11	2011–12	2012–13	2013–14
Innovation, Industry and Regional Development		<ul style="list-style-type: none"> Provincial Victoria Growth Fund 	<ul style="list-style-type: none"> Verification of outcomes from grants and industry support programs 	
Sector-wide and central agencies	<ul style="list-style-type: none"> Managing the requirements for disclosing private sector contracts State Trustees Ltd—Represented persons 	<ul style="list-style-type: none"> Arts Victoria asset management Bushfire recovery early achievements and appeal fund administration Government advertising and communication Government Online Personal expense reimbursement, travel expenses and corporate credit cards Revenue management practices 	<ul style="list-style-type: none"> Obsolescence of frontline ICT Prudential supervision Quality in reporting: Selected sentinel report (to be determined) Shared services 	<ul style="list-style-type: none"> Implementation of the Government Risk Management Framework Quality in reporting: Selected sentinel report (to be determined) Reducing the regulatory burden
Local Government	<ul style="list-style-type: none"> Business continuity management in local government 	<ul style="list-style-type: none"> Business planning for major capital works/recurrent services Fraud prevention strategies in local government 	<ul style="list-style-type: none"> Rating practices in local government 	

Source: Victorian Auditor-General's Office.

Appendix A.

Our Strategic Plan 2010–11 to 2014–15

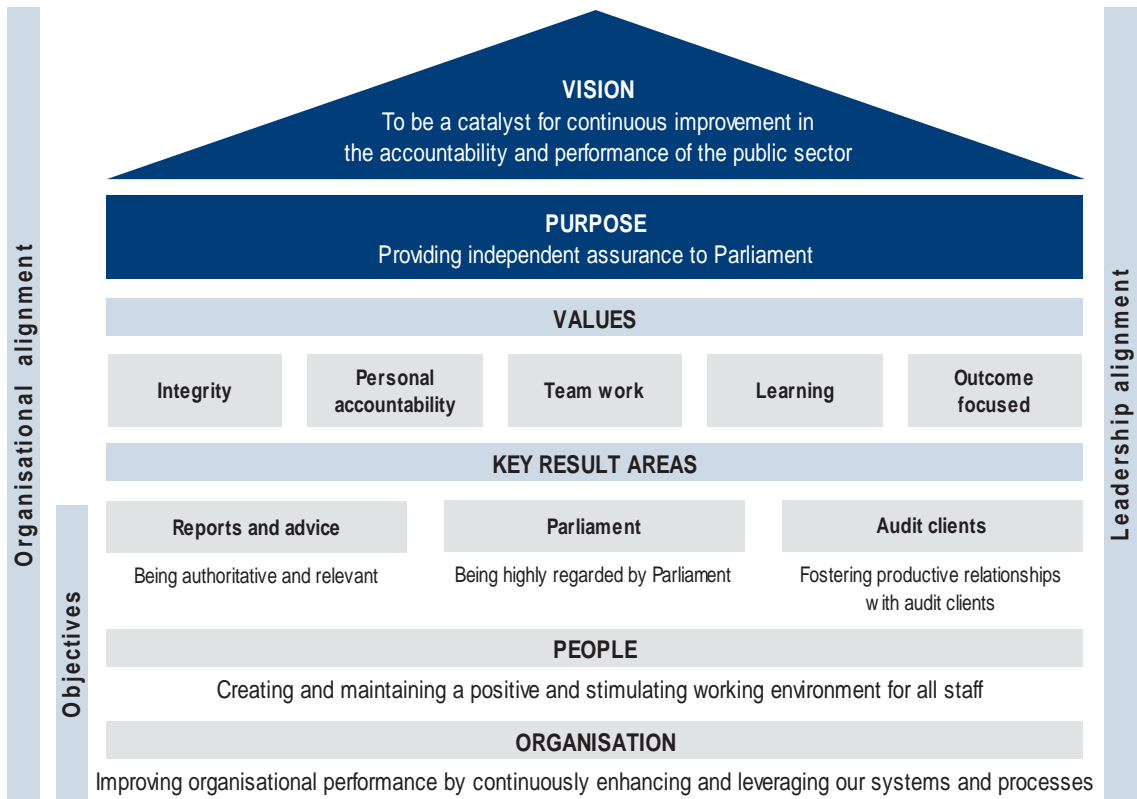
This Annual Plan coincides with the development of our Strategic Plan for 2010–11 to 2014–15. Our vision over the next five years, is for VAGO to be a catalyst for continuous improvement in the accountability and performance of the public sector.

In developing the Strategic Plan we have been seeking staff input, and listening to the views of our stakeholders—Parliamentarians, audit clients, the public sector, community and peers. We have discerned that we need to work smarter, to continue to work on better targeting our audits and to align our resources to achieve a more consistent flow of reports and advice.

By aligning our organisational structures and leadership we will aim to create a strong culture where our values—integrity, personal accountability, teamwork, learning and being outcome focused—encourage an environment of teamwork and a ‘one office’ approach. In line with our values we will continue our commitment to engaging professionally and transparently with the entities, as we go about our purpose of providing independent assurance to Parliament.

We will aim to remain abreast with the changing expectations of audit and accountability and act to keep our mandate relevant and our reports authoritative and relevant. We will continue to foster productive relationships with our clients—both the Parliament and our audit clients—and better inform them about our activities. Crucially, we will remain focused on the health and sustainability of our organisation and our people, creating and maintaining a positive and stimulating work environment for all.

A representation of our planning and the composite elements of our proposed new Strategic Plan is presented below.



Appendix B.

Our outputs for 2010–11

The level of resources allocated to VAGO each year through Victoria's annual budget process is determined in consultation with Parliament's Public Accounts and Estimates Committee. Under the budget framework, our resourcing is based upon two output groups, namely:

- Output 1: Parliamentary reports and services
- Output 2: Audit reports on financial statements.

Output 1: Parliamentary reports and services

Our Parliamentary reports

We inform Parliament, our primary client, of the results of our work through our reports. The reports provide Parliament with independent assurance on the adequacy of accountability and resource management practices in the public sector and include:

- performance audits, that focus on the effectiveness, efficiency and economy of publicly funded activities, or probity and compliance
- an annual assessment of the state's finances
- reports of observations from the previous June and December financial statement audit rounds.

We also table the Auditor-General's Annual Plan and the VAGO Annual Report to inform Parliament of our planned activity and actual performance respectively.

In 2010–11 we intend to table 37 reports in Parliament (target of 34 plus our Annual Report and Annual Plan in 2009–10).

Services we provide to Parliament

We complement our reports by providing a range of other services for Parliament. These services foster enhanced accountability and performance, while promoting better practice resource management in the public sector.

Services include:

- advice and assistance to Parliament, including submissions to Parliamentary committees on matters relevant to their inquiries
- responding to inquiries from Members of Parliament, government agencies and the public, which sometimes leads to the conduct of audits
- advice to central agencies and other public sector agencies, in such areas as draft legislation, financial management proposals, and the development of accountability frameworks

- guidance to public sector agencies, arising from our audit work, in specific areas of governance, management and accountability to support their improved future performance
- advice to external bodies on emerging developments associated with the public sector, including commentary on draft accounting and auditing pronouncements.

In providing this range of services, we seek to use the skills and experience of VAGO to encourage sustained improvement in the management of public resources.

Performance measures

Figure B1 outlines the performance measures for which we will be accountable in 2010–11 as part of our delivery of the Parliamentary reports and services output.

Figure B1
Output 1: Parliamentary reports and services

Major outputs/deliverables	Unit of measure	2010–11 target	2009–10 expected outcome	2009–10 target	2008–09 actual
Performance measures					
Quantity					
Auditor-General's Reports ^(a)	number	37	34	34	32
Quality					
Overall level of external satisfaction with audits	score	-	75	75	75
Overall level of external satisfaction with audits—audit clients ^(b)	score	75	nm	nm	nm
Overall level of external satisfaction with audit reports and services—Parliamentarians ^(c)	per cent	85	nm	nm	nm
Timeliness					
Inquiries from Members of Parliament and the public responded to within 28 days	per cent	95	94	95	72
Reports completed on time	per cent	90	85 ^(d)	90	72
Cost					
Total output cost	\$million	14.1	14.3	13.9	13.3

(a) The target for the performance measure 'Auditor-General's Reports' has increased from 34 to 37 between 2009–10 and 2010–11. This increase is due to the inclusion of the *Annual Report*, *Annual Plan* and the *Portfolio Departments: Interim Results of the 2009–10 Audits*.

(b) This performance measure replaces the 2009–10 performance measure 'Overall level of external satisfaction with audits'. The 2010–11 performance measure measures the same activity as the performance measure in 2009–10. The change simply clarifies who is measured.

(c) New performance measure for 2010–11 to reflect the existence of different stakeholder groups for which satisfaction is measured.

(d) The 2009–10 expected outcome is lower than the 2009–10 target due to the continual protracted delays in obtaining necessary information from agencies, and in clearance of agency responses to draft reports.

Note: nm = new measure.

Source: 2010–11 Budget papers.

Output 2: Audit reports on financial statements

Key attest functions

A core statutory responsibility of the Auditor-General is to undertake an annual examination of the financial statements, and in some areas performance statements, of departments and public bodies, including municipal councils, and to issue an audit opinion on the presentation of those statements.

The main products from the exercise of this mandatory responsibility are the:

- preparation of a short-form report on the Government's Estimated Financial Statements for inclusion in its annual budget papers presented to Parliament
- provision of audit reports on the financial statements of public sector agencies and on the Government's Annual Financial Report
- furnishing of an audit report on non-financial performance indicators prepared by local government, certain water bodies, and technical and further education institutes
- issuing of management letters to audited agencies conveying the findings of audits.

Examination and certification by the Auditor-General of warrants authorising the expenditure of public funds by government

The preparation of warrants in Victoria is required under the provisions of the Constitution Act and the Financial Management Act. Warrants provide the constitutional authority for the Treasurer to spend the funding allocated in the annual budget and must be signed by the Auditor-General and approved by the Governor. Warrants examined and certified by the Auditor-General during 2009–10 have an aggregate expenditure value of more than \$42.8 billion as at 23 April 2010 (\$38.2 billion in 2008–09).

Performance measures

Figure B2 outlines the performance measures for which we will be held to account in 2010–11 as part of our delivery of the audit reports on financial statements output.

Figure B2
Output 2: Audit reports on financial statements

Major outputs/deliverables <i>Performance measures</i>	Unit of measure	2010–11 target	2009–10 expected outcome	2009–10 target	2008–09 actual
Quantity					
Audit opinions issued on non-financial performance indicators	number	114	114	114	114
Audit opinions issued on the financial statements of agencies	number	541 ^(a)	561 ^(b)	600	594
Quality					
Overall level of external satisfaction with audits	score	-	75	75	75
Overall level of external satisfaction with audits—audit clients ^(c)	score	75	nm	nm	nm
Timeliness					
Audit opinions issued within statutory deadlines	per cent	98	98	98	98
Management letters and reports to Ministers issued within established timeframes	per cent	90	90	90	92
Cost					
Total output cost	\$ million	20.3	19.9	19.8	19.8

(a) The 2010–11 target is lower than the 2009–10 target due to:

- (i) the exclusion of stand-alone community health centres; and
- (ii) a reduction in the number of education and health entities being audited.

(b) The 2009–10 expected outcome is lower than the 2009–10 target due to the exclusion of stand-alone community health centres. The lower 2009–10 expected outcome reflects the alignment with internal business plans.

(c) This performance measure replaces the 2009–10 performance measure 'Overall level of external satisfaction with audits'. The 2010–11 performance measure measures the same activity as per the performance measure in 2009–10. The change simply clarifies who is measured.

Note: nm = new measure

Source: 2010–11 Budget papers.

Appendix C.

Financial audit framework

The legislative reporting framework makes it clear that agency heads are responsible for the preparation and content of their financial statements. Our financial audits focus on providing reasonable assurance that the certification given by each agency head on their financial statements can be relied upon by the users of those statements.

Figure C1 sets out the legislative frameworks both for financial reporting and auditing and shows how they relate to each other.

Figure C1
Legislative framework for financial reporting and auditing

Public sector entities	Victorian Auditor-General's Office
Purpose	
Manage entities and prepare financial statements in compliance with legislative and reporting requirements.	Examine the underlying accounts and records of around 560 public sector entities (540 2010–11), including the systems and processes they use to generate financial statements, to provide assurance by expressing an opinion on fairness and probity.
Legislation	
<p>Financial Management Act 1994 (for public sector entities including departments)</p> <p>or</p> <p>Corporations Act 2001 (for incorporated entities)</p> <p>or</p> <p>Associations Incorporations Act 1981 (for incorporated entities not subject to the <i>Corporations Act 2001</i>)</p> <p>or</p> <p>Local Government Act 1989 (for local government and regional libraries)</p>	Audit Act 1994
Standards	
<p>Accounting standards issued by the Australian Accounting Standards Board for public and private sector entities, for example:</p> <ul style="list-style-type: none"> • <i>Property, Plant and Equipment</i> (AASB 116) • <i>Accounting for Government Grants and Disclosure of Government Assistance</i> (AASB 120) • <i>Employee Benefits</i> (AASB 119) 	<p>Auditing standards issued by the Auditing and Assurance Standards Board for audits of public and private sector entities, for example:</p> <ul style="list-style-type: none"> • <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i> (ASA 315) • <i>The Auditor's Procedures in Response to Assessed Risks</i> (ASA 330) • <i>Going Concern</i> (ASA 570)

Figure C1
Legislative framework for financial reporting and auditing – *continued*

Public sector entities	Victorian Auditor-General's office
Directions	
<p>Standing directions of Minister for Finance under the Financial Management Act 1994, for example:</p> <ul style="list-style-type: none"> • <i>Financial Governance</i> (2.2) • <i>Information Technology Management</i> (3.2.1) • <i>Physical and Intangible Assets</i> (3.4.9) <p>Financial Reporting Directions under the Financial Management Act 1994, for example:</p> <ul style="list-style-type: none"> • <i>Responsible Person and Executive Officer Disclosures in the Financial Report</i> (FRD 21A) • <i>Standard Disclosures in the Report of Operations</i> (FRD 22B) • <i>Non-current physical assets</i> (FRD103D) 	<p>Guidance statements issued by the Auditing and Assurance Standards Board for the purpose of understanding and complying with the auditing standards</p>
Tools	
<p>Model financial statements (for relevant entity type—water bodies, departments) comprising:</p> <ul style="list-style-type: none"> • Operating statement • Balance sheet • Cash flow statement • Changes in equity • Accounting policies • Associated notes 	<p>Risk based audit methodology to:</p> <ul style="list-style-type: none"> • understand the entity and its environment, including its internal controls • identify and assess the key risks facing the entity; the risk mitigation strategies; significant recent developments; and the governance and management control framework • assess processes and controls over management, accounting and information technology systems • test controls • examine in detail balances and underlying transactions; assess the reasonableness of balances, and review the presentation and disclosure in the financial statements • express an opinion on the financial statements
Annual report of entity incorporating Auditor-General's Report on the Financial Report	

Source: Victorian Auditor-General's Office.

The risk-based audit methodology we apply to financial audits meets Australian Auditing Standards. It requires us first to gain an understanding of each entity and its underlying systems of internal control, so that we target our evidence gathering and assessment activities to areas of greatest risk of material misstatement.

We annually assess the systems and processes used to generate the information in the financial statements, including the financial reporting internal controls. We also focus on areas where experience shows that issues of governance, probity, fraud, waste and non-compliance with legislation or public sector financial management and reporting requirements can arise.

These areas are examined with reference to the applicable legislation, accounting and auditing standards, and where applicable, the standing and financial reporting directions under the *Financial Management Act 1994*.

Figure C2 shows how the major financial statement components relate to the underlying systems and processes.

Figure C2
Relationship between financial statements and supporting systems

Cycle	Financial statement components			Related systems and processes
	Operating statement	Balance sheet	Note disclosures	
Revenue	Appropriations and transfer payments such as grants	Statutory receivables	Departmental outputs, summary of compliance with annual parliamentary and special appropriations, annotated revenue agreements	Cash receipting and banking
	Sales revenue	Inventory Trade Receivables	Cost of sales	Sales, credit and billing
	Fees and charges revenue	Unearned fees and charges		Cash receipting and banking
	Investment income such as interest and dividends	Cash, deposits and other investments, accrued interest	Financial instruments	Treasury management
Expenditure	Depreciation expense	Property, plant and equipment Intangible assets		Fixed asset management
	Interest expense	Interest bearing liabilities	Financial instruments	Treasury management
	Grants and other transfers	Payables		Grant management
	Supplies and services	Payables	Commitments and contingencies	Procurement—purchasing and payment, banking
	Employee benefits	Employee provisions	Executive remuneration/related party: responsible persons, superannuation	Payroll and human resources
Cash and financing	Interest income, loss/gain on financial assets	Cash, deposits and other investments	Cash flow information	Banking, treasury management
	Interest expense	Interest bearing liabilities	Financial instruments	Banking, treasury management
Property plant and equipment	Depreciation expense, gain/loss on non-financial assets	Property, plant and equipment Intangible assets	Goodwill	Fixed asset management, capital project management
	Rental income, gain/loss on non-financial assets	Investment properties	Financial instruments	Investment management

Source: Victorian Auditor-General's Office.

Our coverage of supporting systems and processes depends on the relative risk and materiality of the associated financial statement items. We are required to assess the controls in each system each year, but test their operational effectiveness less frequently, based on our risk assessment.

Section 2.4.1 sets out our prospective areas of focus for 2011–12 to 2013–14 from which we will develop our future financial audit annual plans. It indicates the prospective program based on our current assessment of audit risks. However, we may need to revise our plans over time to respond to emerging developments so that our audit test remains relevant and appropriate.

We expect that publishing our areas of financial audit focus for the next four years in the Annual Plan will be a catalyst for the self-assessment and enhancement of internal controls by public sector entities to facilitate the full, accurate and timely disclosure of information on the expenditure of taxpayers' monies. It also increases the transparency of our program in providing independent assurance to the Parliament on the accountability and performance of the Victorian public sector.

Appendix D.

Performance audit topic selection framework

Figure D1 is a graphical representation of the framework we use for selecting performance audit topics.

Figure D1
Performance audit topic selection framework



Source: Victorian Auditor-General's Office.

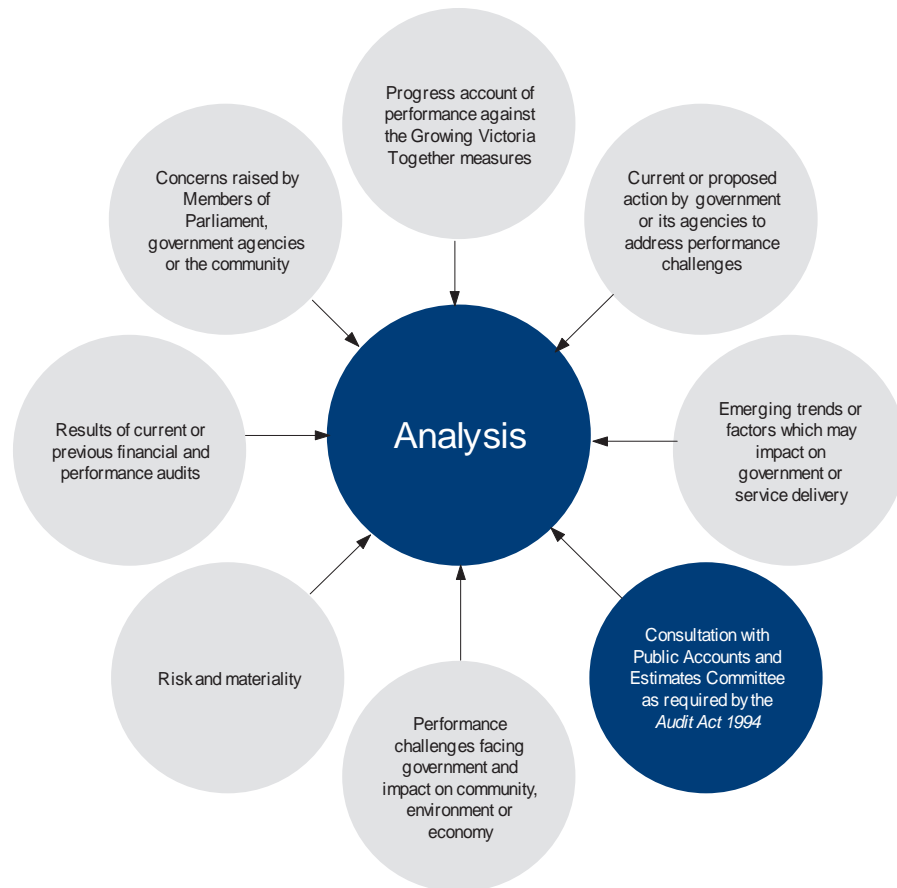
As part of our approach to identifying public sector programs and initiatives to be audited, we consult widely: with departmental secretaries individually and in agency management forums; agency senior management and line managers; industry regulators; other statutory office bearers and commissioners; sector experts and industry representatives; community organisations; academics; other stakeholders such as the recipients of government services; Parliamentarians; and other interested parties.

Through these discussions we enhance our knowledge of emerging issues, performance gaps, risks to efficient, effective and economic service delivery or public sector initiatives, incidents of non-compliance and potential waste and gather contextual information. We also review and respond to correspondence and representations to the Auditor-General from the public and Parliamentarians and consider matters warranting further attention during our planning processes.

Our identification and analysis of potential topics is conducted also with reference to:

- the Victorian Government's *Growing Victoria Together* (GVT) visions and goals. These visions and goals represent the government's framework for priority setting, including legislation and spending decisions to 2010 and beyond
- the *Statement of Government Intentions*, a forward plan that sets out the challenges and opportunities ahead, highlights issues that need to be addressed, outlines the government's priorities in detail for the calendar year, and provides a progress report against the previous year's statement
- consideration of a range of other factors as set out in Figure D2.

Figure D2
Factors considered during the analysis stage



Source: Victorian Auditor-General's Office.

The analysis focuses on emerging trends, inherent risks and challenges that could influence the achievement of the established visions and goals. Inherent risks include constraints to the efficient and economic allocation of resources, the effective achievement of objectives, and compliance with relevant legislation. We identify initiatives and programs with significant inherent risks, underperformance issues, or which are not meeting community expectations or where there is strong public interest. These are identified as potential areas of audit focus.

These newly identified areas together with those from the 'out-years' of the previous year's published multi-year strategy, are assessed in terms of risk and materiality. This assessment considers the program's or activity's potential economic, social and environmental impact and categorises the likely impact of its failure or non-performance into one of five risk categories, ranging from 'negligible' to 'catastrophic'.

Based on this assessment, prospective audit topics are prioritised and areas of performance audit focus for the upcoming year determined. Prospective areas of performance audit focus for the ensuing three years are also prioritised and incorporated into a multi-year strategy to be published in the annual plan.

For each prospective area of audit focus, the final audit approach will be determined following detailed planning to develop an audit specification, a process requiring consultation with the Public Accounts and Estimates Committee and relevant agencies.

While the framework is the main method applied for selecting topics, the Auditor-General retains the discretion to respond to emerging and unforeseen issues and to report on these to Parliament.



Appendix E.

Parliamentary reports 2007–08 to 2009–10

Details of performance audit and other Parliamentary reports tabled in the period 2007–08 to 2009–10 are presented in Figure E1. The 2009–10 program includes audits that are scheduled for tabling in Parliament by 30 June 2010 not yet tabled.

Figure E1
Reports tabled 2007–08 to 2009–10

Growing Victoria Together vision	2007–08	2008–09	2009–10
Thriving economy	<ul style="list-style-type: none"> • Audits of two major Partnerships Victoria projects (Melbourne Convention Centre and Southern Cross Station) • Discovering Bendigo project • Funding and delivery of two freeway upgrade projects (buy-back of CityLink concession notes, Tullamarine and Calder Interchange project, and M1 Upgrade project) • Maintaining the state's regional arterial road network • New ticketing system tender • Victoria's planning framework for land use and development 	<ul style="list-style-type: none"> • Buy-back of the regional intra-state rail infrastructure network • Effectiveness of drought assistance measures • Enforcement of planning permits • Management of the multi-purpose taxi program • Melbourne's new bus contracts • Port of Melbourne channel deepening project 	<ul style="list-style-type: none"> • Biotechnology and the Victorian public sector[#] • Management of major rail projects[#] • Management of safety risks at level crossings • Towards a 'smart grid'—The Roll-Out of Advanced Metering Infrastructure • Vehicle fleet management

Figure E1
Reports tabled 2007–08 to 2009–10 – continued

Growing Victoria Together vision	2007–08	2008–09	2009–10
Quality health and education	<ul style="list-style-type: none"> • Accommodation for people with a disability • Coordinating services and initiatives for Aboriginal people • Delivering HealthSMART—Victoria's whole-of-health ICT strategy • Improving our schools: Monitoring and support • Management of specific purpose funds by public health services • Patient safety in public hospitals • Program for students with disabilities: Program accountability • The new Royal Women's Hospital—a public private partnership 	<ul style="list-style-type: none"> • Access to public hospitals: measuring performance • CASES21 • Delivery of Home and Community Care program • International students • Literacy and numeracy achievement • Management of school funds • Managing acute patient flows • Private practice arrangements in health services • School buildings: Planning, maintenance and renewal • The new Royal Children's Hospital redevelopment—a public private partnership 	<ul style="list-style-type: none"> • Access to social housing[#] • Administration of the Victorian Certificate of Education Assessment System[#] • Management of concessions by the Department of Human Services • Managing teacher performance in government schools[#] • Partnering with the community sector in human services and health[#] • The effectiveness of student wellbeing programs and services

Figure E1
Reports tabled 2007–08 to 2009–10 – continued

Growing Victoria Together vision	2007–08	2008–09	2009–10
Healthy environment	<ul style="list-style-type: none"> • Agricultural research investment, monitoring and review • Piping the system—incorporating the Wimmera-Mallee pipeline and Goldfields superpipe • Planning for water infrastructure in Victoria • Review of South-East Water's works alliance agreement 	<ul style="list-style-type: none"> • Administration of the <i>Flora and Fauna Guarantee Act 1988</i> • Bio-security incidents: planning and risk management for livestock diseases 	<ul style="list-style-type: none"> • Control of invasive plants and animals in Victoria's parks[#] • Hazardous waste management[#] • Irrigation efficiency programs[#] • Irrigation water stores: Lake Mokoan and Tarago Reservoir • Sustainable management of groundwater resources[#]
Caring communities	<ul style="list-style-type: none"> • Implementation of the Criminal Justice Enhancement Program • Services to young offenders 	<ul style="list-style-type: none"> • Connecting Courts—the Integrated Courts Management System • Implementing Victoria Police's code of practice for the investigation of family violence • Managing complaints against ticket inspectors • Preparedness to respond to terrorism incidents: essential services and critical infrastructure • Working with children check 	<ul style="list-style-type: none"> • Construction of courthouses and police stations[#] • Making public transport more accessible for people who face mobility challenges • Management of the Community Support Fund • Managing offenders on Community Corrections Orders • Personal safety and security on the metropolitan train system[#] • Responding to mental health crises in the community • The Community Building Initiative[#] • Use of development contributions by local government

Figure E1
Reports tabled 2007–08 to 2009–10 – *continued*

Growing Victoria Together vision	2007–08	2008–09	2009–10
Vibrant democracy	<ul style="list-style-type: none"> • Auditor-General's report on the Annual Financial Report of the State of Victoria, 2006–07 • Local government: Results of the 2006–07 audits • Parliamentary appropriations: Output measures • Performance reporting by public finance corporations • Performance reporting in local government • Project Rosetta (streams 1 and 2) • Records management in the Victorian public sector • Results of audits for agencies with 30 June 2007 balance dates • Results of audits for entities with other than 30 June 2007 balance dates 	<ul style="list-style-type: none"> • Auditor-General's report on the Annual Financial Report of the State of Victoria, 2007–08 • Claims management by the Victorian WorkCover Authority • Governance and fraud control in selected adult education agencies • Local government: results of the 2007–08 audits • Results of audits for entities with 30 June 2008 balance dates • Results of audits for entities with other than 30 June 2008 balance dates • Withdrawal of infringement notices 	<ul style="list-style-type: none"> • Auditor-General's Report on the Annual Financial Report on the State of Victoria, 2008–09 • Fees and charges—cost recovery by local government • Local government: Results of the 2008–09 Financial Audits • Maintaining the integrity and confidentiality of personal information • Performance reporting by departments • Portfolio Departments and Associated Entities: Results of the 2008–09 Audits • Public Hospitals: Results of the 2008–09 Financial Audits • Tendering and contracting in local government • Tertiary education and other entities: Results of the 2009 Audits[#] • Water entities: Results of the 2008–09 Audits

[#] Report yet to be tabled.

Source: Victorian Auditor-General's Office.

Appendix F.

Audit Act 1994 section 7A— comments

COMMENTS provided by the Public Accounts Estimates Committee

PARLIAMENT OF VICTORIA
Public Accounts & Estimates Committee



20 April 2010

Mr Des Pearson
Auditor-General
Victorian Auditor-General's Office
Level 24
35 Collins Street
Melbourne Vic 3000

Dear Mr Pearson

Public Accounts and Estimates Committee review of 2010-11 Draft Annual Plan

On behalf of the Committee, I wish to thank you for providing me with a final draft of your annual plan, as well as attending meetings with the Committee in both November and February to seek feedback.

The following comments and attachment are provided for formal inclusion in the Annual Plan, as required under s.7A(5) of the Act.

I note the need, as expressed by you and your office to give agencies adequate notice to the conduct of an audit, however this needs to be weighed against emerging needs that arise and the capacity to be responsive to new developments and issues in the Victorian public sector.

As requested, please find attached a list of topics and areas where the Committee's feedback has not been incorporated in your draft plan.

In addition, I have noted that two audit topics in particular have amended titles. From the change in title, it could be construed that the scope of the audits may have changed. These are also noted in the attachment.

The recent preparation of sector reports by VAGO consequent to financial audits is an issue of note for the Committee. Whilst members of the PAEC have seen these reports as useful additional analysis, the Committee is also seeking to understand where this additional reporting sits within the overall accountability framework in Victoria and how the preparation and production of a new third and extensive series of reports impacts on the overall mandate, scope of work and budget of VAGO.

In reviewing the *Audit Act 1994*, the Committee is seeking views of the Auditor-General, central agencies and other bodies (for example, the State Services Authority) on the scope and relationship to other agencies of this more extensive reporting. The Committee will also be asking the independent performance auditor of the Auditor-General and VAGO to address this issue in the 2010 audit.

You may wish to provide further comment on these matters when submitting your Annual Plan to Parliament. Should you have any queries, please do not hesitate to contact me.

Yours sincerely

Handwritten signature of Bob Stensholt in black ink.

Bob Stensholt MP
Chair

COMMENTS provided by the Public Accounts Estimates Committee – continued

Attachment A

PAEC suggestions not included in the 2010-11 Draft Annual Plan

- *Equitable access to education for rural students* was seen to be more urgent and a topic that could be brought forward.
- A report into Government advertising and communication was suggested as a topic that could be undertaken sooner.
- The audit, *Court backlogs* was suggested as a topic that could be undertaken sooner.
- Project management and governance in the Department of Transport has not been included. This was a recommendation made by the Committee in its report *Review of the Findings and Recommendations of the Auditor-General's Reports 2007*, tabled in June 2009.
- An audit on the findings of the Gateway 6 review for the Tullamarine-Calder Interchange project was made by the Committee in its report *Review of the Findings and Recommendations of the Auditor-General's Reports 2007-08*.
- The audit, *Genetically Modified Foods* was removed. It was suggested that the topic was still worthy of audit focus.
- Performance reporting of local water authorities was suggested as a possible topic by the Committee.

Amended audit titles – possible scope changes

- The audit, the *Department of Human Service's role in emergency management (response and recovery)* has been changed to the *Department of Human Service's role in emergency recovery*. It seems that recovery was one part of the previous audit topic. The Committee seeks clarification as to whether the wider scope of management, response and recovery will be examined as part of this audit.
- The audit, *Health of Natural Water Systems* has been amended to *Victoria's natural waterways – managing environmental and community consumption needs*. The Committee seeks clarification on whether the original intent of the audit will be retained, that is to examine the health of Victoria's natural water systems. It seems that managing environmental and community consumption needs was a part of the original title, however was broader.

Other issues

- The issue regarding revenue generated from international students and Victoria's possible reliance on revenue generated was seen as a policy issue.

VAGO response to the PAEC's comments

VAGO appreciates the Committee's view that our Reports on the Results of Financial Audits represent 'useful additional analysis'.

These reports were previously known as Ministerial Portfolios Reports. Since 2007–08, the approach was revised to commence reporting to Parliament on the results of financial audits by focusing the reports on specific sectors, to improve report focus and relevance. This action was designed to better meet Parliament's expectations. Based on feedback from Members of Parliament the success of this approach has been confirmed.

This more focused analysis has filled a gap in the public accountability framework in Victoria. Of particular note, the commentary and recommendations on financial sustainability and public hospital investment management have been broadly embraced and clearly served as a catalyst for positive change in the respective sectors.

Specifically, since the introduction of a separate report on the local government sector, financial sustainability in the sector has improved markedly. The first sector specific report relating to the 2006–07 financial year, rated three councils as having a ‘high’ financial sustainability risk, and 18 as having a ‘medium’ financial sustainability risk. The most recent report, on the 2008–09 financial year, identified that no councils had a ‘high’ financial sustainability risk while only eight were rated as having a ‘medium’ financial sustainability risk.

Further, there are already indications that the November 2009 commentary on public hospital investment management is influencing the development of future investment management directions.

These results demonstrate the catalytic effect of these reports.

Figure F1 sets out specific areas of audit focus discussed in November 2009 or February 2010, for which the Committee has provided comment. In these cases, the advice was progressively provided to the Committee during the extended discussion period.

Figure F1
Specific areas of audit focus raised in PAEC comments,
previously addressed by VAGO

PAEC suggestions not included in the 2010–11 Draft Annual Plan		VAGO advice provided:
Area of audit focus	PAEC comment	November 2009
Equitable access to education for rural students	Seen to be more urgent and a topic that could be brought forward.	Will examine this possibility in development of the 2011–12 Plan, but due consideration also needs to be given to balancing the audit program between years and adhering to our principles of transparency and openness by signalling new audits a number of years in advance. VAGO provisional position: Remains in plan in 2013–14. Further advice provided March 2010: Will reconsider timing. Bring forward to 2012–13.
Government advertising and communication	Suggested as a topic that could be undertaken sooner.	Having conducted a number of audits in this space, and given the 2008 PAEC Public Hearing into this, the timing for next audit review remains appropriate. Remains in plan in 2011–12.

Figure F1
Specific areas of audit focus raised in PAEC comments,
previously addressed by VAGO – continued

PAEC suggestions not included in the 2010–11 Draft Annual Plan		Advice provided by VAGO
Area of audit focus	PAEC comment	November 2009
Court backlogs	Suggested as a topic that could be undertaken sooner.	VAGO is continuing to prepare the way for conducting this audit. Remains in plan in 2011–12.
Project management and governance in the Department of Transport	Has not been included. This was a recommendation made by the Committee in its report <i>Review of the Findings and Recommendations of the Auditor-General's Reports 2007</i> , tabled in June 2009.	Currently considering the potential to combine with the 2009–10 audit of Major Rail Projects. VAGO provisional position: Combine with 2009–10 audit. Further advice provided February 2010: Included in ' <i>Management of major rail projects, including project outcomes</i> ' audit 2009–10.
Gateway 6 review for the Tullamarine Calder Interchange project	An audit on the findings of the review was made by the Committee in its report <i>Review of the Findings and Recommendations of the Auditor General's Reports 2007–08</i> .	A performance audit ' <i>Planning, delivery and benefits realisation of major asset investment</i> ', has been included in the forward program for 2012–13.
Genetically Modified Foods	The audit was removed. It was suggested that the topic was still worthy of audit focus.	The Victorian moratorium on genetically modified foods was lifted in February 2009. We will continue to track this area as part of our ongoing sector scanning processes to determine whether any significant issues arise as a result of the removal of the moratorium. Remains deleted.

Figure F1
Specific areas of audit focus raised in PAEC comments,
previously addressed by VAGO – *continued*

PAEC suggestions not included in the 2010–11 Draft Annual Plan		Advice provided by VAGO
Area of audit focus	PAEC comment	November 2009
Performance reporting of local water authorities	Suggested as a possible topic by the Committee.	Aspects of performance reporting by water authorities are routinely examined in the financial audit cycle. VAGO provisional position: Remains in plan in 2011–12. Further advice provided March 2010: Deleted. Reporting of performance of these entities is a function of the Essential Services Commission. Replaced by new audit ' <i>Effectiveness of water restrictions</i> ' 2011–12.
Area of audit focus	PAEC comment	February 2010
Student fee revenue (financial audit)	The issue regarding revenue generated from international students and Victoria's possible reliance on revenue generated was seen as a policy issue.	Assess/review the impact of student fee revenue, including international student fees, on the appropriateness of the going concern assumption. Australian Auditing Standard 570. Further comment, May 2010: Refer to page 10 of this Annual Plan for an explanation of the purpose and approach for this financial audit activity.

Figure F2 sets out new matters raised by the Committee in its April 2010 correspondence and VAGO's comments.

Figure F2
New matters raised by the Committee, April 2010

PAEC suggestions not included in the 2010–11 Draft Annual Plan		VAGO comment
Area of audit focus	PAEC comment	May 2010
The Department of Human Service's role in emergency management (response and recovery)	The audit has been changed to the <i>Department of Human Service's role in emergency recovery</i> . It seems that recovery was one part of the previous audit topic. The Committee seeks clarification as to whether the wider scope of management, response and recovery will be examined as part of this audit.	As outlined in the draft Audit Specification and discussed with the Committee on 12 April 2010, the title has been refined to eliminate ambiguity. The scope is consistent with the department's role under emergency management legislation.
Health of natural water systems	The audit has been amended to <i>Victoria's natural waterways—managing environmental and community consumption needs</i> . The Committee seeks clarification on whether the original intent of the audit will be retained, that is to examine the health of Victoria's natural water systems. It seems that managing environmental and community consumption needs was a part of the original title, however was broader.	Because of the absence of river health data (expected to be available in 2011), and as the Sustainability Commissioner reports data elsewhere, the audit scope was re-considered. It is proposed that the audit will focus on balancing environmental flows and critical human needs, and how well the related entities do this. The draft specification will be discussed with the PAEC shortly.

