

# auditing

in the public interest

Winter 2007

## Significant events... significant achievements



I welcome the performance audit as, with any audit, I see it as a positive input to the future operations of the Office.

Operationally, we have settled a number of senior positions in our organisation, and I welcome the new members of our Senior Management Group and our audit operations groups, and express my appreciation to those senior staff who have recently departed the organisation.

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### Purpose of our newsletter

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

The close of the 2006-07 financial year has brought with it a number of significant events and achievements for the Office.

We have been especially busy in transmitting reports for tabling in Parliament, with 12 reports tabled during the second half of the financial year. We had set ourselves a performance target of completing and tabling 16 reports for the 2006-07 year, and I am pleased to say that we achieved our target.

With the roll-over to the 2007-08 year, we have also been busy in planning for the future – in both the long and short-term. We are about to release our Strategic Plan for the next 3 years, and our Annual Plan for 2007-08 was tabled on 20 June. The Annual Plan, while setting out our reporting program for the coming year, also includes a prospective program of performance audits covering the period 2008-09 to 2010-11.

On the parliamentary front, we are reviewing our relationship protocols with the Public Accounts and Estimates Committee (PAEC) to ensure that the expectations of both parties are met. The PAEC has also appointed an independent performance auditor to undertake a triennial performance audit of our Office.

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With 2007-08 now upon us, we are about to move into another important phase of our operations – providing 2006-07 financial statement audit services for our client agencies. We look forward to this audit round bringing timely and successful outcomes for all involved.



DDR Pearson  
Auditor-General

## ASSESSING OUR PERFORMANCE

### Performance audit of the Office

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Pursuant to section 19 of the *Audit Act 1994*, the Victorian Auditor-General and the Office are subject to a triennial performance audit to determine whether they are achieving their objectives effectively and doing so economically, efficiently and in compliance with the Act.

On the recommendation of the Public Accounts and Estimates Committee (PAEC), Mr John Philips of Acumen Alliance, a member of the Oakton Group, was appointed to conduct the 2007 performance audit (the sixth to date) of the Office. The terms of reference for the 2007 audit are located on the PAEC website and require the performance auditor to complete his report by the end of November. It is expected that the final report will be tabled in Parliament in December 2007.

### Continuous Improvement Project

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As part of the Office's commitment to continuous improvement, an office-wide, self-assessment project commenced in May 2007 to identify and action opportunities for improvement, utilising a framework developed by the Australasian Council of Auditors-General (ACAG) that incorporates the requirements of APES 320 *Quality Control for Firms*.

The Office also engaged a former Auditor-General to provide an external perspective on the operations of the Office and additional comfort on the rigour of the self-assessment process.

Learnings from our self-assessment process will be shared with other ACAG offices in September 2007.

## PARLIAMENTARY PROTOCOL BEING UPDATED

In relation to the work of the Auditor-General, several statutory responsibilities have been assigned to the Public Accounts and Estimates Committee (PAEC). These legislative responsibilities of the PAEC collectively represent the means by which Parliament protects and supports the independence of the Auditor-General and ensures that the Auditor-General is accountable to Parliament.

The purpose of the protocol is to facilitate the productive and complementary exercise of the respective responsibilities of both parties, namely, the PAEC and the Auditor-General. The protocol describes the relationship and processes for the engagement between both parties, and aims to assist each other in discharging our respective responsibilities.

The existing protocol has evolved over a number of years and is now being reviewed and reconciled with current circumstances and context.

## MAJOR OFFICE PLANS



### Strategic Plan, 2007-08 to 2009-10

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The current corporate plan for the Victorian Auditor-General's Office expired on 30 June 2007 and, recently, we have been considering our plan for the next triennium.

The proposed plan, which will be called *Strategic Plan, 2007-08 to 2009-10*, will set out our objectives, how we intend to achieve them and our key performance indicators. The plan has reached an advanced stage of development and we are in the final phase of consultation, including with the Public Accounts and Estimates Committee.

## Annual Plan, 2007-08

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Under section 7A of the *Audit Act 1994*, the Auditor-General is required to transmit to Parliament a copy of an annual plan outlining the proposed work program of the Office and resource requirements for the coming year. For the first time, the *2007-08 Annual Plan*, which was tabled in Parliament on 20 June 2007, also included a prospective program of performance audits for the period 2008-09 to 2010-11. The latter will be reviewed annually by the Office, in consultation with the Public Accounts and Estimates Committee (PAEC), to assess its continued relevance.

The selection of areas of prospective audit interest for performance audits is based on a framework which considers public sector performance against the Government's established vision or goals, through an environmental scanning process. The environmental scanning process focuses on emerging trends and directions, risks, challenges and other factors which may influence the achievement of the established vision and/or goals.

This scanning includes an assessment of:

- strategic influences or factors impacting on the performance and accountability of public sector agencies now and in the future, and action being taken by these agencies to mitigate these influences or factors
- emerging issues for the public sector, including any anticipated changes in service delivery methods into the future
- international and national trends in public sector practice
- results of current and previous audit work
- concerns raised by Parliament, agencies and the community regarding the performance of public sector agencies.

As part of the identification of the prospective areas of audit interest, we identify and evaluate indicators of performance that relate to the key challenges and risks faced by public sector agencies. These challenges and risks include the growth and ageing of the population, increased urbanisation, the impact of climate change and higher expectations for government services by the community.

We also consider challenges and risks to the capability and resources of public sector agencies such as work force management; maintenance and replacement of infrastructure, including information and communication technology; and the increasing reliance on joined-up government service delivery mechanisms. Furthermore, the relevance and appropriateness of performance reporting across sectors also receives our attention.

The selection criteria used to prioritise areas of audit interest are risk and materiality based in financial and community impact terms. For each prospective area of audit interest, the final audit approach will be determined after the completion of detailed planning by our Office, a process which involves consultation with the PAEC.

The full text of the annual plan is available on the Office's website: <[www.audit.vic.gov.au](http://www.audit.vic.gov.au)>, and then search under <reports and publications>.

## RECENT REPORTS TABLED IN PARLIAMENT

### Giving Victorian Children the Best Start in Life

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*Tabled 2 May 2007*

This audit assessed whether 3 Department of Human Services (DHS) initiatives (municipal early years plans, Best Start, and children's centres) had improved access to services for children aged 0 to 5, and for families at risk.

While the report highlighted that there was some qualitative evidence that DHS' initiatives had improved access and participation in children's early years' services, there was insufficient quantitative data to determine whether the initiatives directly contributed to increased participation in maternal child health and kindergarten services.

The report indicated that DHS needs to further develop its performance measurement and evaluation framework to ensure that it is better placed to assess the effectiveness of its initiatives. DHS also needed to improve its targeting and monitoring of vulnerable clients.

### State Investment in Major Events

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*Tabled 23 May 2007*

The audit examined pre- and post-event assessment and contract management of major events, and commissioned 2 economic studies of the 2005 Australian Formula 1 Grand Prix.

The audit found that applications for funding needed additional analysis to justify the level of funding sought commensurate with the likely net benefits to Victoria. There was a need for greater transparency and rigour in economic assessments in terms of the workings of the economic models and the basis for assumptions used in the modeling.



## Maintaining Victoria's Rail Infrastructure Assets

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*Tabled 23 May 2007*

The audit assessed the arrangements for maintaining metropolitan, regional and interstate rail infrastructure.

The audit found that the metropolitan and interstate maintenance arrangements were satisfactory, but that the regional intrastate arrangements did not provide for adequate maintenance and renewal.

The report found that the Government's recent buyback of the regional intrastate infrastructure lease provided the opportunity to reassess practices and to define service levels consistent with established policies and objectives, and reconcile the level of resources necessary to meet agreed service levels.

### Follow-up of Selected Performance Audits Tabled in 2003 and 2004

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*Tabled 6 June 2007*

The report focused on progress by agencies to address recommendations made in 4 performance audits completed in 2003 and 2004. The 4 audits were:

- Managing medical equipment in public hospitals
- Managing emergency demand in public hospitals
- Addressing the needs of Victorian prisoners
- Managing public housing stock.

The follow-up audits found that agencies had made good progress to address the recommendations in the original audits, and made further recommendations for agencies to continue their progress in these areas.

## Results of Financial Statement Audits for Agencies with other than 30 June 2006 Balance Dates

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*Tabled 6 June 2007*

This report contained the results of our financial statement audits of entities with other than 30 June 2006 balance dates. This includes the State's universities and technical and further education (TAFE) institutes and their associated entities, as well as the State's alpine resorts and several other small entities.

### **Audit opinions issued**

At 30 April 2007, we had issued 121 audit opinions on entity financial statements, of which 117 were unqualified. Four entities received qualified opinions, and 14 entities' financial statements remained outstanding.

Eighteen audit opinions were issued, for the first time in 2006, on performance statements prepared by TAFE institutes, universities' TAFE divisions and 2 other educational agencies. The audit of one further institute's performance statement was expected to be finalised in May 2007. One other institute did not prepare a performance statement as the request to prepare it was not ministerial or legislative.

### **Timeliness of reporting**

The average elapsed time to finalise the financial statements of education sector entities was 12 weeks, which was consistent with the 12-week statutory requirement. However, there was some slippage against the timeliness of reporting achieved in the previous year – only 44 per cent of sector entities met the 12-week statutory reporting time frame in 2006, compared with 54 per cent in 2005.

### **Internal control structure issues**

The internal control frameworks established to ensure reliable financial reporting were found to be sound in most sector entities. However, poor practices and inadequate documentation supporting personal expenditure reimbursement payments for senior staff and board members across the 5 alpine resorts were noted.

## **Results of Audits: Purchase of Contaminated Land by the Melbourne Port Corporation and Raising and Collection of Fees and Charges by Departments**

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*Tabled 19 June 2007*

The report contained the results of 2 audits.

### **Purchase of Contaminated Land by the Melbourne Port Corporation**

This audit examined whether the Melbourne Port Corporation observed good practice and conformed with government approval requirements for the purchase of a contaminated site at Yarraville in 2001, at a price of \$13.5 million.

The audit found that:

- government requirements were not complied with
- key decision-makers were poorly briefed.

These factors contributed to significant financial exposure for the corporation's successor entity, the Port of Melbourne Corporation.

### **Raising and Collection of Fees and Charges by Departments**

Our examination of this activity covered 5 departments, including the former Department of Education and Training; Department of Infrastructure; Department of Justice; Department of Primary Industries; and Department of Sustainability and Environment. It also extended to the role of the Department of Treasury and Finance, as the responsible central agency, in relation to the administration of fees and charges.

Overall, we found that departments had appropriate legal authority to raise the fees and charges we examined, and generally maintained adequate systems and processes to support the administration of fees and charges. However:

- in relation to \$6.6 million of user charges, we questioned whether the current rates levied by the relevant departments were appropriately "authorised" and valid. This is because the relevant departments could not provide the necessary documentation to demonstrate that they had complied with the required legal processes to "authorise" the current rates charged
- we could not conclude whether many of the fees and charges we examined were determined in accordance with government policy and guidelines, because information on how they had been set was not available.

We identified several areas where departments could improve their policies and internal controls over this activity to minimise the risk of financial loss.

## **Public Hospital Financial Performance and Sustainability**

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*Tabled 19 June 2007*

The financial viability of its public hospital system is one of the State's key risks. Victoria's public hospitals had an annual turnover in excess of \$7 billion in 2005-06, and managed assets totalling some \$7 billion at June 2006.

We assessed Victoria's public hospitals' financial performance and sustainability, using indicators of short-term solvency and longer-term viability.

Since 2002-03, a period of significant financial challenge for public hospitals, the financial performance and position of public hospitals has generally improved.

State budget funding of programs targeted at demand management and financial sustainability has contributed to this general improvement. However, this funding, a feature of State budgets both before and since the aggregate deficit position recorded by public hospitals in 2002-03, has reduced substantially since the 2004 financial year.

Several significant indicators of continuing financial challenge remain. Some indicators have shown consistent unfavourable trends or results over the 6 years to 2006, such as working capital positions, cash holdings and operating results, pointing to some short-term solvency issues and also some longer-term financial sustainability challenges.

The Department of Human Services and public hospital boards share the responsibility for financial performance and management within the sector. They have recognised the need to act on the financial challenges and have undertaken a number of initiatives to better manage the increasing demand for services and promote financial sustainability. These initiatives have included revised governance and accountability arrangements for metropolitan and major regional public hospitals.

### **Administration of Non-judicial Functions of the Magistrates' Court of Victoria**

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*Tabled 20 June 2007*

The audit examined the administration of selected functions of the Magistrates' Court, including corporate planning, asset management, security, human resources and customer service, and followed-up the Office's 2005 special review of the Geelong Magistrates' Court.

The audit found that the core administrative functions were operating efficiently and effectively, improvements had been made to management of the Court fund, and the Court had improved recruitment and retention of staff.

The report indicated that court maintenance and security required further attention.

## Promoting Better Health Through Healthy Eating and Physical Activity

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Tabled 20 June 2007

This audit assessed whether the Government's investment in health promotion had encouraged Victorians to adopt healthier diets and lifestyles.

The audit found that the growing importance of obesity had been recognised in Victoria and agencies had acted to address these risks by better planning and coordinating their activities.

However, the audit also found that these efforts had not significantly slowed the increase in obesity, and that the approach to health promotion needed to be strengthened by improving the evidence base for programs, and better coordinating plans and activities across government.

### Contracting and Tendering Practices in Selected Agencies

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Tabled 21 June 2007

The audit examined 15 contracts to determine whether contract and tendering guidelines were followed, and whether good practice criteria were met.

The audit found that where contracts had been re-tendered, there was evidence of improved practice, indicating that procurement standards are improving.

However, the audit found that documentation of procurement was poor, and that there were many areas for improvement, particularly with respect to monitoring of contractor performance. The audit also concluded that there was scope for improvement in elements of the whole-of-government Construction Supplier Register.

### Managing Risk Across the Public Sector: Toward Good Practice

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Tabled 21 June 2007

The audit examined progress made by departments and 15 agencies following the Office's 2003 audit of risk management.

The report concluded that, since 2003, a range of steps had been taken to improve risk management, and that the formal application of risk management had become an accepted practice in the audited departments and almost all agencies.

However, the audit identified a need for further improvements, including the development of guidelines for managing enterprise-wide and statewide risks, strengthening risk management practices, and applying the Australian and New Zealand Risk Management Standard more rigorously.

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The full text of these reports is available on the Office's website: <[www.audit.vic.gov.au](http://www.audit.vic.gov.au)>

## UPCOMING REPORTS TO PARLIAMENT

Over the coming months, we intend to present the following reports for tabling in Parliament:

- Program for Students with Disabilities: Program Accountability
- Smartcard Tender
- Improving Our Schools: Monitoring and Support
- Report on the Annual Financial Report of the State, 2006-07
- Parliamentary Appropriations: Output Specifications
- Results of Financial Statement Audits for Agencies with 30 June 2007 Balance Dates
- Results of Financial Statement Audits in the Local Government Sector with 30 June 2007 Balance Dates.

Information on these reports can be found on our website: <[www.audit.vic.gov.au](http://www.audit.vic.gov.au)>, and then search under <audits in progress>

## 2005-06 ANNUAL REPORT ACHIEVES GOLD AWARD

Our 2005-06 Annual Report received a Gold Award at an awards ceremony held in Melbourne in June 2007.

The awards, hosted by Australasian Reporting Awards (ARA) Inc., seek to promote excellence in annual reporting through the publication of informative and factual annual reports. Entries in the awards are received from Australasian-wide listed companies, government agencies, community groups and not-for-profit organisations.

The Gold Award represents the highest standard of excellence in reporting.

Our 2005-06 Annual Report was praised for achieving a high level of compliance against the ARA criteria, and for presenting a comprehensive accountability document which emphasises our important value-adding and "watchdog" role in the Victorian public sector.

The Office is very proud of its achievement in producing an annual report which is acknowledged as a model for public sector organisations.



Receiving the Office's Gold Award for its 2005-06 Annual Report – from left, David Reid, John Olesky, Des Pearson and Stan Odachowski.

# PERFORMANCE AUDIT METHODOLOGY REVIEWED

During 2006-07, the Office completed a major project to enhance its performance audit methodology and upgrade the electronic working paper documentation system. The revised methodology reflects better practice in performance auditing and provides guidance to ensure that performance audits continue to be conducted in accordance with the *Audit Act 1994*, Australian auditing standards, and our policies and guidance.

Our performance audit methodology is based on a logical structure to guide evidence collection, documentation and analysis. It provides tools to support robust quality control processes and project management, and enables our staff to access relevant policy and guidance material and business templates, our records management system, and email and calendaring facilities.

Roll-out of the revised audit methodology to current performance audits commenced in late June 2007.



Performance audit methodology development team members, from left, Celinda Estallo, Matthew Brennan, Vishal Suchdev and Joy Patton.

## CURRENT ACCOUNTING AND REPORTING ISSUES

### Public-private partnerships

In the past, there was no Australian accounting standard that dealt specifically with accounting for public-private partnerships (PPP) arrangements, although individual accounting standards apply to parts of such arrangements. The accounting for such arrangements had been the subject of debate among the accounting profession, both domestically and internationally. The Australian Accounting Standards Board (AASB) issued Interpretation 12 *Service Concession Arrangements*, however, this pronouncement scopes out the public sector grantors and applies only to private sector operators. To address this gap, the AASB recently established an interpretation advisory panel in order to formulate the accounting requirements for public sector

entities from a grantor's perspective. A representative from our Office has been appointed to the panel which also includes representatives of the Department of Treasury and Finance and the wider accounting profession.

During 2005-06, the Office, in consultation with academics and experienced standard-setters, developed a position paper which sets out the methodology which the Office will apply in determining whether a financing arrangement exists within a PPP arrangement that should be recognised by the agency as a liability on its balance sheet. The position paper is titled *VAGO Position on the Assessment of Public Private Partnership Arrangements for Financial Reporting Purposes*, and is located on our website under <Audit service providers>. Our Office will continue to apply the existing accounting standards in accordance with the position paper in the review of PPP arrangements for the 2006-07 financial reporting period, pending the outcome of the work currently being undertaken by the AASB.

### Model financial reports

The current 30 June 2007 Puddle Regional Water Authority Model will be prepared and issued by the Victorian Auditor-General's Office for the last time this year. Similarly, the forthcoming 31 December 2007 ABC Higher Education Company Pty Ltd and Subsidiaries Model will be prepared by our Office for the last time. While we do not propose continuing to prepare these models, we will continue to provide feedback and input into the draft models.

Our Office is currently liaising with key stakeholders to develop a handover plan to an appropriate department/agency for the preparation of the models going forward. The decision to handover the preparation of the models is to mitigate against potential independence issues for us as the independent external auditor.

## VISITORS FROM THE CHINESE NATIONAL AUDIT OFFICE

We hosted a visit from a Chinese National Audit Office (CNAO) delegation in July 2007. The delegation of 22 was headed by Mr Xi Jian and Mr Su Naimin, both Director Generals from the CNAO.

Catering to the requirements of our Chinese colleagues, the Office presented on a broad range of topics, including an introduction of the Office, the annual planning process, and the management of financial and performance audits. The Chair of the Public Accounts and Estimates Committee, Mr Bob Stensholt, also presented on the Office's relationship with the committee.

The visitors were especially interested in the area of performance audits, and were provided with detailed insights into the planning processes, methodology and audit procedures utilised in conducting a performance audit.

Other aspects of the Office's operations were also looked at during the visit, including the financial management practices of the Office and our relationship with our audit service providers.



Members of the Chinese National Audit Office, with Des Pearson, front row, third from right; Peter Frost, front row, right; and Stuart Kells, far back row, right).

## SENIOR STAFF NEWS

### Senior staff movements

#### Senior appointments

- Brenda Glyn, formerly Office of the Commonwealth Games Coordination, appointed as Executive Director – Business Support Group.
- Stuart Kells, formerly State Services Authority, appointed as Assistant Auditor-General – Performance Audit Group.
- John Findlay, formerly Queensland Audit Office, appointed as Assistant Auditor-General – Policy, Planning and Technical Group.
- Andrew Greaves, appointed to the new position of Assistant Auditor-General – Financial Audit Group.
- Tony Brown, promoted to Senior Director – Financial Audit Group.
- Ellen Holland, promoted to Senior Director – Performance Audit Group.

#### Senior departures

- David Reid, Executive Director – Business Support Group.
- Steve Mitsas, Senior Director – Financial Audit Group.
- Jim Dixon, Director – Policy, Planning and Technical Group.

## SECTOR CONTACTS

Sector contacts within the Office are:

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#### • Environment; Water

Michael Almond, 8601 7017, [michael.almond@audit.vic.gov.au](mailto:michael.almond@audit.vic.gov.au)

#### • Health

Craig Burke, 8601 7176, [craig.burke@audit.vic.gov.au](mailto:craig.burke@audit.vic.gov.au)

#### • Justice; Infrastructure; Innovation and Regional Development; Parliament

Yves Tawil, 8601 7191, [yves.tawil@audit.vic.gov.au](mailto:yves.tawil@audit.vic.gov.au)

#### • Local Government

Simone Bohan, 8601 7175, [simone.bohan@audit.vic.gov.au](mailto:simone.bohan@audit.vic.gov.au)

#### • Premier and Cabinet; Treasury and Finance

Mashelle Parrett, 8601 7133, [mashelle.parrett@audit.vic.gov.au](mailto:mashelle.parrett@audit.vic.gov.au)

## FURTHER INFORMATION

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

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

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

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