



Victorian Auditor-General's Office

# Annual Plan

2012-13



**VAGO**

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



# VAGO

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*Auditing in the Public Interest*

# Annual Plan 2012–13

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



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The Hon. Bruce Atkinson MLC  
President  
Legislative Council  
Parliament House  
Melbourne

The Hon. Ken Smith MP  
Speaker  
Legislative Assembly  
Parliament House  
Melbourne

Dear Presiding Officers

I am pleased to transmit my Annual Plan for 2012–13 in accordance with section 7A of the *Audit Act 1994*.

Yours faithfully



D D R PEARSON  
*Auditor-General*

23 May 2012



# Foreword

Victoria is fortunate to have a robust and independent public sector audit framework—one of the accountability cornerstones of the Westminster system of democracy. A key element of my independent role as Auditor-General is to assess emerging risks and issues in the public sector that warrant audit attention.

The *Constitution Act 1975* protects the independence of my role, so that the Auditor-General is not subject to direction on what, when or how to audit. The *Audit Act 1994* provides the Auditor-General with wide-ranging powers to access information, which can, where necessary, override secrecy or confidentiality provisions. Few other Australian integrity or review bodies have these protections or powers.

This legislated independence and power also requires accountability, and one of my office's most important accountability mechanisms is the production of an Annual Plan outlining a proposed audit program and the resources required to achieve it.

This is the sixth occasion that a four-year forward plan has been prepared and transmitted to the Parliament of Victoria. The Annual Plan gives Parliament, the public sector and the community an opportunity to assess our goals, understand our audit priorities and scrutinise our program. The Annual Plan serves to provide assurance that our selection of audit topics is soundly based and encourages agencies to prepare for and leverage the audit process to improve their program delivery standards.

However, from time-to-time, unforeseen public interest audit topics may emerge at short notice. Recent examples include audits I have tabled on ambulance response times, electronic gaming machines and road safety cameras. Although these audits are additional to those set out in the Annual Plan, we endeavour to complete these audits within our existing resource base, with minimal disruption to our forward plan.

My office has consulted extensively when developing this Annual Plan. This year, we continued our use of stakeholder fora, and further strengthened our interaction with senior management and audit committees of public sector agencies.

I would like to thank the Parliamentarians, public sector staff, community members, and other professionals who contributed their perspectives to the planning process and helped create what I believe is a relevant, authoritative and comprehensive program of audits.



D D R PEARSON  
*Auditor-General*

23 May 2012





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# 1 Our mandate and outputs

## 1.1 Our mandate

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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 563 public sector entities. Entities to be audited during 2012–13 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.

Also, the Auditor-General has responsibility for auditing the local government sector, comprised of municipal councils and the entities they control, as well as regional library corporations.

Combined, these entities collect approximately \$67.2 billion in income, incur about \$66.2 billion in expenditure annually, and hold net assets in excess of \$264.3 billion.

The *Audit Act 1994* provides the Auditor-General with 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 annually provide 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.

## 1.2 Our outputs

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Under the *Audit Act 1994* (the Act) the Auditor-General undertakes financial audits and performance audits. When carrying out these activities, the Auditor-General also considers 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.

Our financial audits of public sector entities establish whether financial statements and, where required, non-financial performance statements, fairly represent the financial position and performance of the entities. Our opinion on each set of statements is issued to the governing body of the entity. An unqualified or 'clear' audit opinion 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 Victoria's Annual Financial Report. The Auditor-General also tables a series of reports on the results of 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. The Act requires that a report on the results of each performance audit is tabled in Parliament.

Both financial and performance audits use methodologies that comply with the Act and Australian auditing and assurance standards.

Under Victoria's output management system, the level of resources allocated to the Victorian Auditor-General's Office (VAGO) each year is determined on the basis of the outputs that it expects to deliver, namely:

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

Detail of our performance against these outputs is presented in Appendix B.

## 1.3 Amendments to the *Audit Act 1994*

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Over the past 20 years, Victoria has seen an increase in the 'arms-length' delivery of public services through the private and community sectors. There has been increased involvement by the private sector in the delivery of public services such as outsourcing agreements and public private partnerships.

There has also been a trend to create legal entities 'outside government', such as companies, associations and statutory bodies. These entities have access to broader revenue sources and more flexible governance regimes.

This circumstance has led to a steady erosion of accountability of these entities to Parliament and the public, as these services and the public monies that fund them fall outside existing accountability frameworks and the mandate of this office.

In response to these changes in the way that government delivers services, in 2010 the Public Accounts and Estimates Committee (PAEC) held an inquiry into the Act. VAGO made several representations to the inquiry, including a formal submission.

The all-party report of this Parliamentary Inquiry made wide-ranging recommendations, seeking to redress the erosion of public sector accountability, strengthen the independence of VAGO and update the Act to reflect contemporary trends. PAEC unanimously recommended measures to:

- 'close the gap' on entities currently outside Parliament's audit mandate
- allow access to public sector information held by private sector contractors
- introduce annual audits of performance statements and management controls
- enable joint audits with other Australian auditors-general
- improve the effectiveness of external performance audits of VAGO
- ensure agency comment included in our reports to Parliament is accurate, balanced and substantiated.

The government tabled its response to PAEC's report on 7 April 2011. The response indicated broad support for PAEC recommendations and the Minister for Finance requested the Department of Treasury and Finance (DTF) to work with this office to draft possible amendments to the Act. VAGO has continued to liaise with DTF and has offered further input relating to the original PAEC submission.

Subsequently, VAGO received advice from the Minister for Finance on 17 October 2011 that any reforms to the Act would be delayed until 2012, in order to align with the establishment of the government's new broad-based anti-corruption body. In light of this and the passage of amendments to the Commonwealth *Auditor-General Act 1997* VAGO continues to assess potential impacts on its proposed reforms to the *Audit Act 1994*.

## 1.4 Changes to the audit program

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Section 2 of this Annual Plan sets out areas of financial and performance audit focus for the four years from 2012–13 to 2015–16. For performance audits, these multi-year programs have been included since the 2007–08 Annual Plan. An equivalent program for financial audits was included for the first time in our 2010–11 Annual Plan.

Forecasting 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 more constructively with the audit process.

Our aim is to encourage improvement in agency performance and to maximise the value that our audits deliver.

This approach works best when there is certainty in our forward work program. However, the 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 by amending 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.

External and internal factors can influence these changes to the audit program.

### 1.4.1 External influences

Recent Annual Plans have been influenced by major issues affecting the Victorian community including the:

- personal, property and policy consequences from the February 2009 bushfires
- recovery and reconstruction effort after the 2010–11 floods
- lingering effects of the global financial crisis
- impact of a high Australian dollar on the state's economy and financial position.

As in previous years, the need for assurance of the quality and adequacy of public sector responses to these issues, and the need in tight fiscal times for government to do more with less, have influenced changes in our forward program.

Environmental scanning during development of this Annual Plan has identified a range of key challenges for government over coming years such as:

- ongoing challenges to protect and manage the natural environment
- preparedness for response and recovery of communities and public infrastructure after natural disasters and other emergencies
- declining populations in some areas of the state and intense population growth in other areas
- refocusing of the state's economy away from traditional manufacturing industries into service and knowledge industries
- an overall ageing of the population
- increasing demand for services for the most vulnerable in our community, particularly children, the elderly, and Indigenous Victorians
- continued demands for greater transparency, responsiveness and accountability in public sector agencies.

In addition to the trends identified by environmental scanning, the Auditor-General responds to concerns raised by Parliamentarians, agencies or the public about the performance of public sector agencies, and exercises his discretion as to whether or not he will review these concerns.

### 1.4.2 Internal influences

Our financial audit program includes a focus on areas where a risk-based assessment 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 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.

## 1.5 Input from the Public Accounts and Estimates Committee

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In early December 2011 we met with PAEC to outline our proposed areas of focus for financial and performance audits from 2012–13 to 2015–16. We provided a further update on our multi-year strategy on 30 January 2012, and sent a draft of the Annual Plan to PAEC on 6 March 2012. We met again with PAEC on 26 March 2012 and received further feedback on the Annual Plan on 29 March 2012.

This extensive engagement and consultation with the PAEC has enabled us to understand the committee's views and concerns relating to many areas of potential audit focus. PAEC's insights and comments have helped clarify the intent and planned coverage for many of our proposed audit topics.

The main issue that the committee requested us to consider was the undertaking of a performance audit of Major Projects Victoria to both complement the committee's current inquiry into *Effective Decision Making for the Successful Delivery of Significant Infrastructure Projects* and to assist with the development of future public policy in this area. This audit has been included in the Annual Plan for 2012–13.

Under section 7A(1)(b) of the Act the draft Annual Plan must be submitted to PAEC, 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 PAEC that have not been adopted.

The draft Annual Plan was provided to PAEC on 13 April 2012, and PAEC's response under section 7A(3) was received on 3 May 2012. PAEC's comments, along with our comments can be found in Appendix I.

We acknowledge and appreciate the input and ongoing support from PAEC in the development of our Annual Plan.

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# 2 Proposed audit activity

## 2.1 Selection of areas of audit focus

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### 2.1.1 Financial audit

The *Financial Management Act 1994*, the *Corporations Act 2001*, the *Associations Incorporation 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 9 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.

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

Australian auditing standards for audits of financial reports as required under the Act state that:

- 'The auditor shall obtain an understanding of the following:
  - (a) Relevant industry, regulatory, and other external factors and the applicable financial reporting framework.
  - (b) The nature of the entity, including:
    - (i) its operations;
    - (ii) its ownership and governance structures;
    - (iii) the types of investments that the entity is making and plans to make, including investments in special-purpose entities; and
    - (iv) the way that the entity is structured and how it is financedto enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial report.
  - (c) The entity's selection and application of accounting policies, including the reasons for changes thereto. The auditor shall evaluate whether the entity's accounting policies are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry.
  - (d) The entity's objectives and strategies, and those related business risks that may result in risks of material misstatement.

(e) The measurement and review of the entity's financial performance.'  
(Australian Auditing Standard ASA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 11).

- 'As part of obtaining an understanding of the entity and its environment in accordance with ASA 315, the auditor shall obtain a general understanding of:
  - (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates; and
  - (b) How the entity is complying with that framework.

The auditor shall obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial report.' (Australian Auditing Standard ASA 250, *Consideration of Laws and Regulations in an Audit of a Financial Report*, paragraphs 12 and 13).

We adopt a risk-based approach to gathering and assessing audit evidence as required by the Australian auditing standards. This includes considering the risk that a balance or disclosure is inherently likely to be materially 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 whether balances and disclosures are correct and we assess the strength of the internal controls over financial reporting. We periodically test 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. By coordinating our audit coverage of these systems between entities, we are able to draw out and report on any systemic issues.

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

- **comprehensive operating statement**—discloses income, expenditure, the net result from transactions, the net result and the comprehensive result
- **balance sheet**—discloses the asset, liability and capital and equity balances
- **cash flow statement**—discloses sources and use of cash from operating, investing and financing activities
- **statement of changes in equity**—discloses the movements in capital and equity
- **the summary of significant accounting policies**—discloses the significant accounting policies used in preparing the financial statements
- **explanatory note disclosures**—supporting detailed disclosures to expand on, and explain the balances and amounts in the statements.

## 2.1.2 Performance audit

Areas of performance audit focus are selected within a framework that considers the performance of the public sector against the 'five goals for a stronger, fairer and safer Victoria'. This framework was outlined in the Governor's speech at the opening of the 57th Parliament on 21 December 2010.

The five goals are:

- a growing economy
- services that work
- strong families and vibrant communities
- secure water and a healthy environment
- government you can trust.

We identify areas for audit coverage that are major contributors to the achievement of these goals. We also look for wastage and lack of probity or financial prudence in the audits we undertake.

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

## 2.2 Areas of audit focus 2012–13

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### 2.2.1 Financial audit

In 2012–13 we expect to provide audit opinions on 563 financial statements (571 in 2011–12), and 114 performance statements (114 in 2011–12). The decrease in audit opinions is the net result of removal from mandate, amalgamation, abolition and creation of financial reporting entities.

When conducting our financial audit work, we also consider whether there has been any wastage of public resources, or a lack of probity or financial prudence in managing or applying public resources, as required by section 3A(2) of the Act.

The areas of focus we propose to report on in 2012–13, and the entities affected, are presented below.

## Financial audit activities related to *comprehensive operating statements*

### Areas of financial audit focus

- Appropriation and trust fund management—portfolio departments
- Credit card security and usage—tertiary education
- Outsourcing—local government
- Self-generated hospital revenue—public hospitals
- Water tariff revenue—water entities

### *Appropriation and trust fund management*

The state funds the 11 portfolio departments through appropriations, using a purchaser-provider model. This means that the state pays an agreed price to the departments for services they provide. Any surplus or deficit achieved by a department from its operations is recorded in the individual department's State Administration Unit (SAU) account.

At 30 June each year, each department recognises in its financial statements, a receivable equal to the amount of its SAU balance. This represents the funds that the department can draw on to deliver additional services or benefits, or obtain new assets. As at 30 June 2011, the cumulative total of SAU receivables for the departments was \$3.7 billion.

A trust fund is a 'ring-fenced' pool of money that can only be spent in accordance with the terms and conditions of the related trust deed or legislation. Individual trust funds can be established under the *Financial Management Act 1994* or by specific legislation, and collectively form the state's Trust Fund, which is a component of the Public Account. Each trust fund is assigned to the department responsible for the administration and expenditure of the monies.

As at 30 June 2011, there were 117 trust funds assigned to the 11 portfolio departments with balances totalling \$2.17 billion.

This focus area will assess the appropriations process, and the adequacy of management and oversight controls over the SAU and trust fund balances.

### *Credit card security and usage*

The use of credit cards can enable entities to purchase goods and services with reduced administrative costs, and provide greater convenience and flexibility for staff compared to using cash or cheques. However, they can expose entities to risk of inappropriate or unauthorised expenditure.

The tertiary education sector spends approximately \$35 million through credit card transactions each year; around 5 per cent of its operating expenditure. While this is not a material dollar value, the potential for waste of public resources through inappropriate or unauthorised expenditure means that effective controls are important.

This focus area will review controls over credit cards including policies, security arrangements, monitoring and transaction processing.

### *Outsourcing*

Councils incurred expenditure on goods and services of \$2.4 billion in 2010–11. Another \$1.6 billion was incurred for capital expenditure, with most of the capital works and maintenance of councils outsourced to service providers.

Section 3C(2)(b) of the *Local Government Act 1989* states that one of a council's objectives is 'to ensure that resources are used efficiently and effectively and services are provided in accordance with the Best Value Principles to best meet the needs of the local community'. The *Local Government (Best Value Principles) Act 1999* identifies the requirements that councils must follow when seeking to achieve best value service provision.

Controls over outsourcing arrangements will be assessed against these requirements.

### *Self-generated hospital revenue*

The state's public hospitals collectively received \$10.8 billion in revenue in 2010–11. Seventy-two per cent of this was provided to the hospitals under Health Service Agreements (HSA) with the Department of Health. The remaining 28 per cent 'non-HSA income' was generated from public hospital activities. Non-HSA income may include facility fees paid by private practitioners, private patient fees and car park income, among other things.

Public hospitals are highly dependent on these additional revenue streams. Our *Public Hospitals: Results of the 2010–11 Audits* reported that a number of hospitals were dependent on letters of comfort from the Department of Health to enable them to remain financially viable.

This focus area will assess trends in non-HSA income and its influence on the ongoing financial sustainability of public hospitals.

### *Water tariff revenue*

In 2010–11, the state's 19 water entities generated revenue of \$3.7 billion. Around 80 per cent of the revenue related to tariff charges for water, sewerage and drainage services. The charges are approved by the Essential Services Commission and aim to keep water entities financially viable. With recent major capital works within this sector, approved tariff charges have significantly increased.

Trends in tariff charges for the four-year period from 2008–09 to 2012–13 will be analysed and the impact of the mix of fixed and variable charges on the financial viability of entities will be examined in this focus area.

## Financial audit activities related to *balance sheets*

### Areas of financial audit focus

- Capital project management–public hospitals

#### *Capital project management*

In the 2010 financial year, public hospitals spent approximately \$900 million on new capital projects. At 30 June 2011, total public hospital assets were worth \$10.5 billion. The effective management of capital projects is critical, given the materiality of property, plant and equipment, and the capital expenditure program.

Controls over capital projects including policies and procedures, risk management, approval, monitoring and governance oversight will be assessed for this focus area.

## Financial audit activities related to *explanatory note disclosures and general internal controls*

### Areas of financial audit focus

- Audit committees–public hospitals
- Budget management–local government
- Internal audit–tertiary education
- Risk management–portfolio departments
- Risk management–water entities

#### *Audit committees*

In recent years, an increased focus on corporate governance in Australia and internationally has resulted in greater recognition of the importance of an effective audit committee. The audit committee plays an important role in assisting a governing board to fulfil its governance and oversight responsibilities, and strengthen accountability of senior management.

The key responsibilities of audit committees will be assessed, including how they oversee an entity's risk management framework and control environment, as well as the accountability of senior management. A further area to be examined will be how the committees engage with internal and external audit and monitor the status of the implementation of audit recommendations.

#### *Budget management*

In 2010–11, Victoria's 79 councils received income worth \$7.5 billion and were responsible for expenditure worth \$6.4 billion. Under the *Local Government Act 1989* the primary objective of a council is to 'endeavour to achieve the best outcomes for the local community having regard to the long term and cumulative effects of decisions'. Sound budget management control is fundamental to enable councils to deliver services effectively and efficiently. The Act also sets out requirements for setting and managing budgets and reporting related information.

This focus area will review budget management controls within the 79 councils including policies, planning and coordination procedures as well as monitoring and approval mechanisms.

### *Internal audit*

Internal audit is a key mechanism to support the governance and oversight responsibilities of an entity's board. Internal audits can review core internal controls and identify areas of risk within an entity, as well as provide assurance to management on the operational effectiveness of key controls. They may also identify and report on management deficiencies or control weaknesses that need to be addressed.

An effective internal audit function strengthens internal controls, adding credibility to an entity's financial and non-financial information, as well as improving the efficiency of key controls and processes.

The policies, controls and arrangements in place for the engagement and use of internal audit services will be examined for this focus area.

### *Risk management*

Managing risk is an important component of governance and is receiving growing attention at both national and international levels.

Growing demand on public services and increasing community expectations mean that public entities are now under greater scrutiny, and require sound governance processes that enable delivery risks to be mitigated, and available resources to be optimised. Effective risk management is also increasing in importance as the public sector moves to more sophisticated approaches to service delivery.

This focus area will assess controls over risk management, including monitoring and management of risks, alignment with strategic and business plans, and governance.

## 2.2.2 Performance audit

This section sets out our areas of performance audit focus for 2012–13. For each prospective audit listed, the final audit approach will be determined after the completion of detailed planning, a process that requires consultation with the Public Accounts and Estimates Committee and relevant agencies.

### Performance audits relating to *a growing economy*

#### Areas of performance audit focus

- Fare evasion on public transport
- Managing traffic congestion
- Organisational sustainability of small councils
- Planning, delivery and benefits realisation of major asset investment
- Port of Melbourne channel deepening project: Achievement of objectives

#### *Fare evasion on public transport*

Fare evasion for Victoria's public transport system has escalated over the past two financial years. Surveys estimate that fare evasion accounted for \$94 million in 2009–10 and \$85 million in 2010–11. The 2010–11 figure accounts for 13 per cent of the \$642 million in fare revenue collected by the Transport Ticketing Authority.

Operational initiatives to minimise fare evasion are undertaken by Victoria's public transport operators and overseen by the Department of Transport. From April 2012, Public Transport Victoria will assume the department's responsibilities covering fare evasion.

The audit will examine the department's oversight of fare evasion and investigate whether programs to address high levels of fare evasion are having the intended effect.

#### *Managing traffic congestion*

Rapid population growth in Melbourne is placing further pressure on the road system which manifests as more severe and longer duration traffic congestion.

In 2005, traffic congestion in Melbourne was estimated to cost the economy \$3 billion per year, with this cost projected to double by 2020.

The audit will assess the effectiveness of agencies in managing traffic congestion and will involve the Department of Transport, VicRoads and the Department of Planning and Community Development because of the crucial link between land use planning and congestion.



### *Organisational sustainability of small councils*

Organisational sustainability is a significant concern for Victoria's small regional and rural councils as they are affected by low population, remoteness and ageing resident populations.

Lower property values and low population density in these councils means they have a limited capacity to pay for the service and capital expenditure requirements of their communities. This limited revenue base presents significant financial challenges for these councils.

The audit will consider the internal planning processes and strategies adopted by selected councils to support organisational sustainability, including financial sustainability and workforce capacity. The audit will identify better practice examples that can help drive improvements across the sector.

### *Planning, delivery and benefits realisation of major asset investment*

The Gateway Review process provides support to departments in the selection, management and delivery of projects and programs. It is designed to provide independent targeted feedback to 'project owners' at the six key decision points, or Gateways, provide a view on the progress of the project or program, and assurance that it should proceed to the next step in the life cycle.

Gateway reviews were first introduced in Victoria in 2003 and in 2010 became mandatory for all high-value/high-risk (HV/HR) projects. HV/HR projects are defined as having a total estimated investment of more than \$100 million and/or identified as high risk according to the Gateway Project Profile Model. Reviews can also be nominated by the Budget and Expenditure Review Committee and subcommittees of Cabinet.

The 2011–12 Budget Papers note that public sector project cost overruns have reached an aggregate total of around \$2 billion, raising concerns about the effectiveness of the Gateway Review processes. The audit will assess the effectiveness of the Gateway processes in assisting agencies to better manage the planning, delivery and benefits realisation of large asset investment projects.

### *Port of Melbourne channel deepening project: Achievement of objectives*

The Port of Melbourne is the biggest container port in Australia and links the Victorian economy with the rest of the world through exports and imports. The channel deepening project was developed so that ships with a larger draught could use the port, with fewer constraints.

The complex and high-risk dredging project was completed at the end of 2009. It directly affected wide sections of the community and heightened community interest in the effect of dredging on the Port Philip Bay environment. VAGO reported on the project's progress in May 2009.

The audit will determine whether the channel deepening project has delivered outcomes consistent with its objectives of improving shipping efficiency while also protecting the Port Philip Bay environment.

## Performance audits relating to *services that work*

### Areas of performance audit focus

- Consumer participation in the health system
- Consumer protection
- Implementation of school infrastructure programs
- Infection control in hospitals
- Learning technologies in government schools
- Management of unplanned leave in Victoria Police, the Metropolitan Fire Brigade and Ambulance Victoria
- Prison capacity planning
- Programs for students with special learning needs
- School governance
- Student completion rates

### *Consumer participation in the health system*

The ability of consumers to have direct input to decisions about their health care is a fundamental human right. This is reflected in legislation, such as the *Victorian Charter of Human Rights and Responsibilities*, as well as legal requirements concerning informed consent to medical intervention.

Consumer participation in health can enhance health outcomes by improving quality and safety, designing services that meet consumer needs, and providing important feedback to allow service improvement.

The audit will assess the effectiveness of consumer participation strategies in the health system, and identify areas for improvement in consumer participation, which could improve health service planning and service delivery, and ultimately, patient outcomes.

### *Consumer protection*

Consumer Affairs Victoria (CAV) protects the public from unfair trading and unsafe goods using various regulation, education, investigation and prosecution functions and powers. In 2010–11, CAV finalised 12 435 disputes, answered 518 219 calls for information and advice, carried out 7 503 residential tenancy inspections and issued fines worth \$224 950.

The audit will examine the role of CAV in protecting consumers in the Victorian community. It will focus on assessing the accessibility and timeliness of information and advice provided to consumers, the efficiency of complaints resolution, and the effectiveness of CAV's monitoring, investigation and enforcement functions.

### *Implementation of school infrastructure programs*

The Department of Education and Early Childhood Development (DEECD) selects schools for modernisation and plans the construction of new schools. In recent years, DEECD has spent more than \$4 billion on major school infrastructure works.

The audit will assess the outcomes of the *Victorian Schools Plan* and the *Building the Education Revolution* program in Victoria. It will also examine how the resulting assets will be sustained through future maintenance programs, and how DEECD plans future infrastructure investment, including in growth areas.

### *Infection control in hospitals*

Infections are the most common complication affecting hospital patients, and in many cases are preventable. Hospital-acquired infections prolong hospital stays and can cause significant harm to patients, some of whom die as a result.

It has been estimated that nationally, hospital acquired infections take up an additional 900 000 bed days, with 5 per cent of all admissions suffering a hospital acquired infection. The estimated economic burden of this is close to \$1 billion per annum nationally.

This audit will examine the effectiveness of prevention, monitoring and control of hospital-acquired infections.

### *Learning technologies in government schools*

The Victorian government aims to provide students with 24/7 access to information and communications technology (ICT) environments to increase students' participation, engagement and achievement in education. The Department of Education and Early Childhood Development (DEECD) has been implementing an innovative project to develop an online teaching and learning environment for students, staff and parents, known as the Ultranet.

The \$60 million Ultranet project was scheduled for rollout to every Victorian government school by the third quarter of 2010 with the final stages of rollout now underway. This is a large investment by DEECD in light of the risks of complex and transformational ICT projects, which can lead to implementation delays and under-achievement of expected goals or benefits.

The audit will examine whether DEECD's investment in learning technologies such as the Ultranet is achieving the expected educational outcomes. It will base this assessment on the original proposals and concepts used to support the case made for project funding.

### *Management of unplanned leave in Victoria Police, the Metropolitan Fire Brigade and Ambulance Victoria*

Unplanned absences are a major concern for emergency services, as they reduce the level of operational response available to deal with crime, fires, and medical emergencies.

Other adverse impacts include increased demands placed on other staff to cover absences, presenting occupational health and safety risks, and additional costs, which are ultimately borne by the taxpayer.

The audit will examine the effectiveness of management strategies and practices to minimise unplanned leave in Victoria Police, the Metropolitan Fire Brigade and Ambulance Victoria.

### *Prison capacity planning*

Victoria's prison population has increased by more than 13 per cent over the past five years, with a daily average of 4 586 prisoners in 2010–11 compared to 4 044 in 2006–07. Within this overall increase across the prisoner population, the average number of female prisoners has increased by 27.5 per cent compared to 12.5 per cent for male prisoners.

Victoria has 12 men's prisons comprising four maximum security, four medium security, three minimum security and one transition centre. In 2010, men's prisons operated at 91.8 per cent capacity. The sole maximum security and sole minimum security women's prisons operated at 99.7 per cent capacity.

The audit will focus on how effectively prison planning anticipates future overall capacity and the needs of specific groups within the prisoner population.

### *Programs for students with special learning needs*

The Department of Education and Early Childhood Development funds a range of programs and interventions designed to assist students with special learning needs resulting from autism, intellectual and other disabilities. These students experience a range of impediments to learning ranging from reading and language difficulties to profound physical or cognitive impairment.

The cost of supporting students with special learning needs is substantial and increasing every year. The 2011–12 State Budget allocated over \$650 million to support these students.

The audit will assess how students with special learning needs are identified and assessed in government schools and whether there are appropriate programs to support them effectively.

### *School governance*

The Department of Education and Early Childhood Development operates a devolved model of service delivery where school principals are responsible for the day-to-day operation of their school and this work is overseen by the school council. The school council and school principal need to work together to ensure the effective operations of the school.

In 2009 there were approximately 20 000 school council members participating across 1 587 government schools.

The audit will examine whether school councils, under the devolved schools model, are equipped to take on their responsibilities. It will also examine training for school council members and whether it is improving governance capacity and performance.

### *Student completion rates*

School completion is critical for students as it progresses learning for the individual, provides entry to further education and training and subsequent employment, and helps develop life skills.

In 2001, the government set a goal that 90 per cent of young people in Victoria will successfully complete Year 12 or its equivalent by 2010. Various programs have been established to support achievement of that goal, resulting in a completion rate of 86.8 per cent in 2009. In July 2009, these programs were subsumed under the National Partnership on Youth Attainment and Transitions, established by the Council of Australian Governments. Victoria's 2001 goal was then revised to 92.6 per cent of young people aged 15–24 attaining a year 12 or equivalent qualification, or a vocational education and training 'Certificate II' by 2015.

This audit will assess the effectiveness of the support provided to students to complete Year 12 or equivalent. It will also examine who is completing what level of education and identify the most effective interventions to support vulnerable young people who are at risk of not completing Year 12 or equivalent.

### Performance audits relating to *strong families and vibrant communities*

#### Areas of performance audit focus

- Carer support programs
- Collections management in cultural agencies
- Crisis housing and homelessness response
- Management of the Provincial Victoria Growth Fund

#### *Carer support programs*

A carer is a person who provides unpaid care to a partner, family member or friend, who has a disability, chronic health condition or mental illness. Carers can also include young people caring for parents and relatives caring for children under child protection orders. Australian Bureau of Statistics data shows that in 2009 there were more than 703 000 informal carers in Victoria. In 2010, Access Economics estimated that informal carers provide \$40.9 billion in care services nationally.

Carers perform a vital role supporting vulnerable persons in our community. However, the caring role is challenging and can affect the carer's health and wellbeing. In addition, our reliance on carers is likely to increase as the population ages and disability associated with chronic illness increases.

The audit will assess the extent to which Department of Health and Department of Human Services are effective in recognising and supporting people who care for others.

### *Collections management in cultural agencies*

Arts Victoria is accountable for advising on and implementing arts policy, developing artists and cultural industries across the state, and making the arts available and accessible to all Victorians.

Arts Victoria oversees an asset base of land, buildings and collections worth \$6.4 billion. Collections are the major component, valued at \$4.9 billion.

This audit will focus on the collections management practices in the Arts portfolio. In particular it will evaluate the economy, efficiency and effectiveness of collections management with regard to acquisitions, collection storage, and online and public access.

### *Crisis housing and homelessness response*

Homelessness is defined as a person left without a conventional home, lacking the economic and social supports that a home normally affords. There are many causes of homelessness, such as family violence, physical or mental health problems, persistent unemployment and lack of access to affordable housing.

The current crisis-oriented homeless service system is fragmented and rarely breaks the cycle of homelessness. The Victorian Homelessness Action Plan 2011–15 commits \$76.6 million over four years to address homelessness in innovative and outcome-focused ways.

This audit will examine the effectiveness of Department of Human Services' plans and strategies to address homelessness. The audit will also assess Victoria's achievement against its agreement with the Commonwealth through the *National Partnership Agreement on Homelessness*. This will involve examination of the governance of the agreement, compliance with conditions of the agreement, and performance against deliverables.

### *Management of the Provincial Victoria Growth Fund*

Provincial Victoria is an important contributor to Victoria's economic prosperity and liveability. In 2008–09 regional and rural Victoria contributed \$62.6 billion towards the state's economy. The sustainable growth of regional and rural areas of Victoria is dependent upon strong economies, communities and infrastructure.

In 2005, the government introduced a \$502 million plan for rural and regional Victoria called *Moving Forward: Making Provincial Victoria the Best Place to Live, Work and Invest*. A key component of the plan was the Provincial Victoria Growth Fund, a \$100 million five-year initiative commenced in 2005 that aimed to support regional communities to drive economic and population growth, create new opportunities in business and industry, and manage the impacts of growth and change.

This audit will examine a sample of funded projects to determine whether intended project and overall fund outcomes have been achieved. The audit will also examine Regional Development Victoria's planning and oversight of the fund, and its role in providing support to funded projects.

## Performance audits relating to *secure water and a healthy environment*

### Areas of performance audit focus

- Effectiveness of compliance and enforcement activities: Primary Industries and Sustainability and Environment
- Energy efficiency in the health sector
- Managing freshwater fisheries

### *Effectiveness of compliance and enforcement activities: Primary Industries and Sustainability and Environment*

The Department of Primary Industries and the Department of Sustainability and Environment are responsible for the sustainable management of the environment and natural resources. This includes water resources and catchments, parks and other public land, forests, fisheries, agriculture and earth resources. Together, these departments administer 90 Acts of Parliament.

Complying with legislation and regulations is essential if Victoria's natural resources are to be used sustainably, and its environment protected from harm or damage. Securing compliance requires an effective framework—one that not only encourages compliance, but imposes sanctions when non-compliance is detected.

The audit will inform the Victorian community and the Parliament on whether public sector entities are appropriately administering legislation. It will also provide assurance that those being regulated are compliant, and that appropriate enforcement action occurs where non-compliance is detected. In addition, the audit will investigate whether persons or agencies authorised to regulate use their powers appropriately and transparently.

### *Energy efficiency in the health sector*

The Victorian public sector accounts for around 1.5 per cent of Victoria's total annual energy consumption, with the largest energy users being healthcare providers. When public sector energy use was last measured in 2008, healthcare providers accounted for around 26 per cent of public sector energy consumption.

After Victoria's water entities, healthcare providers are also the second largest emitter of greenhouse gases, accounting for around 20 per cent of public sector emissions. As large energy users, health services and hospitals face increased energy use and costs due to projected price increases and because of increasing demand for health care.

The audit will assess whether the Department of Health and health services have been effective in improving energy efficiency in hospitals.

### *Managing freshwater fisheries*

Inland Victoria sustains a range of freshwater recreational fisheries. The most popular are introduced species such as trout and redfin, although anglers are increasingly targeting native species such as golden perch, Murray cod and Australian bass. All of these fish species, other than redfin, are stocked regularly by the Department of Primary Industries (DPI) to enhance recreational fishing opportunities for anglers.

From 2006–10, DPI committed to enhancing recreational fishing opportunities by a 30 per cent increase in fish stocking as part of the \$13.5 million Enhanced Recreational Fishing Program. The increase included stocking salmonoid and native fish species into freshwater systems throughout the state.

This audit will focus on the extent to which Victoria's inland freshwater fisheries are being managed in the context of broader outcomes for the state's rivers and biodiversity. It will also consider the evidence base being used to inform stocking programs in terms of the impact of these programs on river health outcomes, and their effectiveness at delivering recreational fishing outcomes.

### Performance audits relating to *government you can trust*

#### Areas of performance audit focus

- CenITex
- Environment and sustainability sector: Performance reporting
- Flood response and recovery: Value-for-money from state and federal relief funds
- Management of major projects
- Public asset valuation
- Rating practices in local government

### *CenITex*

The Centre for IT excellence (CenITex) was created as a state body in July 2008. This was a key outcome of the Efficient Technology Services (ETS) program to consolidate and centralise the information and communications technology infrastructure and operations of core departments and budget sector agencies.

The ETS program is being jointly implemented by the Government Services Division of the Department of Treasury and Finance and CenITex. The ETS program was tasked to achieve net savings to government of \$40 million per year, by June 2013.

The audit will examine the efficiency and effectiveness of CenITex since its establishment, as well as assess whether expected policy outcomes and net savings from the implementation of the ETS program in core departments and budget sector agencies have been achieved. It will also review the adequacy of the policy, standards, and operational oversight role of the Department of Treasury and Finance in regard to CenITex.



### *Environment and sustainability sector: Performance reporting*

The Department of Primary Industries and the Department of Sustainability and Environment as well as other agencies involved in managing Victoria's environment and natural resources use a range of reports to communicate how well their programs and activities are performing.

Reports often compare performance against preselected performance measures and indicators or targets of satisfactory performance, and include agency annual reports as well as various forms of program and performance reporting.

The audit will determine the accuracy, reliability and representation of program and performance reporting in the environment and natural resources sector. It will examine agency annual reports as well as various types of program and performance reporting and their data sources.

### *Flood response and recovery: Value-for-money from state and federal relief funds*

Between September 2010 and January 2011, Victoria experienced extensive rainfall and subsequent flooding. The floods caused damage to agriculture, businesses and residential dwellings, community assets, transport infrastructure and the environment. Initial estimates of the damage costs were around \$1.1 billion. This figure included the direct costs to the Victorian and Commonwealth governments, agricultural losses, repair and restoration costs, and other recovery measures.

Under the Natural Disaster Relief and Recovery Arrangements, the Commonwealth Government supports states where there has been a natural disaster. This support is typically financial, and occurs through a combination of advance payments and reimbursements. The Commonwealth Government advanced Victoria \$500 million under this arrangement for a range of disaster relief and recovery projects.

Victoria has established arrangements under a National Partnership Agreement with the Commonwealth Government to repair, replace or restore essential public assets, as well as support the recovery of communities and local economies. This audit will assess the effectiveness of the flood response and recovery arrangements in achieving these outcomes.

### *Management of major projects*

Major Projects Victoria (MPV) was established in 1988 as the government's in-house project delivery agency. It manages large scale construction projects for public sector agencies, with projects allocated to MPV by the Premier under the *Project Development and Construction Management Act 1994*.

In 2011 MPV managed approximately \$3.7 billion in construction work, with projects over \$100 million making up 85 per cent of the total value of projects delivered. MPV also provides advice to client agencies on complex public private partnerships.

The primary focus of this audit will be on the effectiveness of MPV's management of major projects, including the achievement of outcomes.

### *Public asset valuation*

State government agencies control significant numbers of land and infrastructure assets, worth billions of dollars. Accurate asset valuations are an essential element of effective asset management and impact on the reliability of agency financial reports.

In valuing assets the information gained on the nature and condition of the assets is essential for sound asset maintenance and management. Poor valuations may result in agencies paying too much when purchasing assets, or conversely, not receive enough compensation for sold assets.

This audit will examine processes and procedures used by the Victorian Valuer-General to provide asset valuations used by public sector agencies.

### *Rating practices in local government*

Councils have the power to apply differential rates to different categories of rateable land. They can also set special rates for works and services which are for the benefit of certain segments of ratepayers.

The advice to council on the setting of rates, including differential and special rates should reflect the annual income requirements of the council, the council plan and, where available, any long-term community and financial plan. The application of special rates enables councils to establish linkages between beneficiary and financial responsibility for works that provide a localised benefit.

The audit will examine the adequacy of advice to councils on the setting of rates as part of annual budget process, including consistency with local policy and the *Local Government Act 1989*, and whether the basis of decisions is sound and clearly documented.

## 2.3 Reporting the results of the 2012–13 audits

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Section 16 of the *Audit Act 1994* (the Act) empowers the Auditor-General to report to Parliament on the results of audits and he may include such information as he thinks pertinent. In 2012–13 we intend to table 34 reports on the results of our financial and performance audits. During the year we will also table our Annual Report for 2011–12 and our 2013–14 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.

In October 2012 we propose tabling the Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2011–12 as required under the Act.

We propose to table four reports in October and November 2012 on the results of our 2011–12 financial audits covering local government, portfolio departments, public hospitals, and water entities. We plan to also table the report on the results of the 2012 audits of the tertiary education sector and other entities, in May 2013.

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

The 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 2013–14 Budget Papers to be presented to Parliament in May 2013.

The areas of financial audit focus from 2012–13 to 2015–16 are listed in Appendix E.

Further information about the reports proposed for tabling during 2012–13 is detailed in Figure 2A.

**Figure 2A**  
**Parliamentary reports on results of financial audits to be tabled in 2012–13**

Report title	Proposed report topics
<b>Whole-of-government</b>	
<i>Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2011–12</i>	The results of the audit of the state's annual financial report addressing the quality and timeliness of financial reporting, significant financial results for the state and financial implications of significant projects and developments that occurred during 2011–12 and subsequent to year end.
<b>Portfolio or sector specific</b>	
<i>Local Government: Results of the 2011–12 Audits</i>	The results of the audits of approximately 100 entities in the local government sector addressing the timeliness of their financial and performance reporting, their financial sustainability and aspects of how they manage their budget processes and outsourced arrangements.
<i>Portfolio Departments and Associated Entities: Results of the 2011–12 Audits</i>	The results of the annual financial statement audits of approximately 210 entities. The report will comment on the timeliness of their financial reporting, financial sustainability and reporting developments, and aspects of how the departments manage risks, appropriations and trust funds.
<i>Public Hospitals: Results of the 2011–12 Audits</i>	The results of the audits of approximately 110 entities, addressing the timeliness of their financial reporting, their financial sustainability, a review of the operations of their audit committees, aspects of how they manage capital projects and an analysis of self-generated hospital revenue.
<i>Water Entities: Results of the 2011–12 Audits</i>	The results of the audits of 20 water entities addressing the timeliness of their financial and performance reporting, their financial sustainability and aspects of how they manage risks and analysis of water tariff revenue.
<i>Tertiary Education and Other Entities: Results of the 2012 Audits</i>	The results of the annual financial audits of approximately 120 entities with a financial year end other than 30 June 2012, addressing the timeliness of their financial and performance reporting, their financial sustainability and a review of their utilisation of internal audit and credit card security controls and usage.

Source: Victorian Auditor-General's Office.

## 2.3.2 Performance audit

In 2012–13 we plan to table 28 reports addressing the areas of performance audit focus as outlined previously in Section 2.2.2 of this plan.

Performance audit topics by sector, from 2012–13 to 2015–16, are listed in Appendix F.

A list of our Parliamentary reports tabled from December 2010 to June 2012 can be found in Appendix G. Reports relating to the 56th Parliament can be found in Appendix H.

## 2.4 Current and prospective areas of audit focus 2012–13 to 2015–16

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### 2.4.1 Financial audit

A financial audit involves more than just verification of the numbers. Australian auditing standards impose a responsibility to comprehend the operational context, to assess the reliability and integrity of related systems, processes and the control environment and to consider compliance with laws and regulations.

Australian Auditing Standard 315 (ASA 315), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* requires the auditor to obtain an understanding of the audited 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. Auditors assess 'materiality' by dollar value and by nature.

ASA 315 outlines the internal controls over the accuracy and reliability of an entity's financial reporting. This includes the entity's:

- governance
- risk assessment
- information systems and related business processes.

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

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

Coordinating our audit coverage of these systems between entities enables us to identify, draw out and report on systemic issues. Figure 2B presents these areas of financial audit focus for 2012–13, and prospective areas of financial audit focus for the period 2013–14 to 2015–16, by report for each major financial statement component.

The prospective areas of focus for 2013–14 to 2015–16 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 responsive.

Financial audit focus areas link directly to an entity's internal controls which we are required by the auditing standards to assess. For example:

- focus areas of audit committees, declarations of interest and internal audit concern an entity's governance, which ASA 315 requires us to assess
- focus areas of asset management concerns the controls on asset valuations and depreciation in the financial report. ASA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* requires this assessment
- focus areas of student fees revenue in tertiary education is part of an assessment of whether the entity is a going concern and its use of that assumption when it prepares its financial report under AASB 101 *Presentation of Financial Statements*. ASA 570 *Going Concern* requires this assessment.

**Figure 2B**  
**Current and prospective areas of financial audit focus 2012–13 to 2015–16**

<b>Comprehensive operating statement</b>				
<b>Report title</b>	<b>2012–13</b>	<b>2013–14</b>	<b>2014–15</b>	<b>2015–16</b>
Local Government: Results of Audits	• Outsourcing	• Rate revenue	• Credit card security and usage	• Asset revaluation reserve
Portfolio Departments and Associated Entities: Results of Audits	• Appropriation and trust fund management	• Management of contractors and consultants	• Outsourcing	• Executive remuneration
Public Hospitals: Results of Audits	• Self-generated hospital revenue	• Private patient fees	• Government revenue	• Outsourcing • Credit card security and usage
Tertiary Education and Other Entities: Results of Audits	• Credit card security and usage	• Procurement	• Student fee revenue	• Sensitive and discretionary expenditure
Water Entities: Results of Audits	• Water tariff revenue	• Procurement	• Revenue	
<b>Balance sheet</b>				
<b>Report title</b>	<b>2012–13</b>	<b>2013–14</b>	<b>2014–15</b>	<b>2015–16</b>
Local Government: Results of Audits			• Management of creditors	• Management of employee leave
Portfolio Departments and Associated Entities: Results of Audits		• Asset management		
Public Hospitals: Results of Audits	• Capital project management		• Asset management	
Tertiary Education and Other Entities: Results of Audits			• Asset management	
Water Entities: Results of Audits		• Treasury management		

**Figure 2B**  
**Current and prospective areas of financial audit focus 2012–13 to 2015–16 – continued**

Explanatory note disclosures and general internal controls				
Report title	2012–13	2013–14	2014–15	2015–16
Local Government: Results of Audits	<ul style="list-style-type: none"> <li>Budget management</li> </ul>	<ul style="list-style-type: none"> <li>Audit committees</li> </ul>	<ul style="list-style-type: none"> <li>Risk management</li> </ul>	
Portfolio Departments and Associated Entities: Results of Audits	<ul style="list-style-type: none"> <li>Risk management</li> </ul>	<ul style="list-style-type: none"> <li>Information technology business continuity and disaster recovery planning</li> </ul>	<ul style="list-style-type: none"> <li>Internal audit</li> </ul>	<ul style="list-style-type: none"> <li>Commitments (including PPPs)</li> </ul>
Public Hospitals: Results of Audits	<ul style="list-style-type: none"> <li>Audit committees</li> </ul>	<ul style="list-style-type: none"> <li>Risk management</li> </ul>	<ul style="list-style-type: none"> <li>Internal audit</li> </ul>	<ul style="list-style-type: none"> <li>Workforce management</li> </ul>
Tertiary Education and Other Entities: Results of Audits	<ul style="list-style-type: none"> <li>Internal audit</li> </ul>	<ul style="list-style-type: none"> <li>Financial policies and delegations</li> </ul>	<ul style="list-style-type: none"> <li>Risk management</li> </ul>	<ul style="list-style-type: none"> <li>Fraud risk assessment and control monitoring</li> </ul>
Water Entities: Results of Audits	<ul style="list-style-type: none"> <li>Risk management</li> </ul>	<ul style="list-style-type: none"> <li>Information technology security</li> <li>Information technology change management</li> </ul>	<ul style="list-style-type: none"> <li>Audit committees</li> </ul>	<ul style="list-style-type: none"> <li>Information technology business continuity and disaster recovery planning</li> <li>Internal audit</li> </ul>

Source: Victorian Auditor-General's Office.

## 2.4.2 Performance audit

Figure 2C presents the areas of performance audit focus for 2012–13, and prospective areas of performance audit focus for the period 2013–14 to 2015–16, by sector for each of the five goals. The prospective areas of focus for 2013–14 to 2015–16 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 2012–13 to 2015–16**

<b>A growing economy</b>				
<b>Sector</b>	<b>2012–13</b>	<b>2013–14</b>	<b>2014–15</b>	<b>2015–16</b>
Business and Innovation		<ul style="list-style-type: none"> <li>Export development</li> <li>Tourism strategy</li> </ul>	<ul style="list-style-type: none"> <li>Support to the automotive industry</li> </ul>	<ul style="list-style-type: none"> <li>Meeting workforce skill gaps through migration programs</li> <li>Trade events benefits realisation</li> </ul>
Education and Early Childhood Development		<ul style="list-style-type: none"> <li>Skills Victoria – including reform of the skills system</li> </ul>	<ul style="list-style-type: none"> <li>Apprenticeship and traineeship completion</li> </ul>	
Planning and Community Development			<ul style="list-style-type: none"> <li>Victoria's consumer protection framework for building construction</li> </ul>	<ul style="list-style-type: none"> <li>Implementing Melbourne's metropolitan planning strategy</li> <li>Management of the Regional Growth Fund</li> </ul>
Sector-wide and central agencies	<ul style="list-style-type: none"> <li>Planning, delivery and benefits realisation of major asset investment</li> </ul>			
Transport	<ul style="list-style-type: none"> <li>Fare evasion on public transport</li> <li>Managing traffic congestion</li> <li>Port of Melbourne channel deepening project: Achievement of objectives</li> </ul>	<ul style="list-style-type: none"> <li>Developing transport infrastructure and services for population growth areas</li> <li>Tendering SmartBus contracts</li> </ul>		<ul style="list-style-type: none"> <li>Managing and reporting on the cost of capital projects</li> </ul>
Local Government	<ul style="list-style-type: none"> <li>Organisational sustainability of small councils</li> </ul>	<ul style="list-style-type: none"> <li>Asset management and maintenance by councils</li> <li>Shared services in local government</li> </ul>	<ul style="list-style-type: none"> <li>Long-term financial planning by local government</li> </ul>	

**Figure 2C**  
**Current and prospective areas of performance audit focus 2012–13 to 2015–16 – continued**

<b>Services that work</b>				
<b>Sector</b>	<b>2012–13</b>	<b>2013–14</b>	<b>2014–15</b>	<b>2015–16</b>
Education and Early Childhood Development	<ul style="list-style-type: none"> <li>Implementation of school infrastructure programs</li> <li>Programs for students with special learning needs</li> <li>School governance</li> <li>Student completion rates</li> </ul>	<ul style="list-style-type: none"> <li>Access to education for culturally and linguistically diverse students</li> <li>Management of staff occupational health and safety in schools</li> </ul>	<ul style="list-style-type: none"> <li>Allocation of capital funding to TAFE institutes</li> <li>Equitable access to education for rural students</li> <li>Transitioning from pre-school to prep</li> </ul>	<ul style="list-style-type: none"> <li>Integrated children's centres</li> <li>Outside school hours care program</li> <li>Programs for gifted and talented students</li> </ul>
Health	<ul style="list-style-type: none"> <li>Consumer participation in the health system</li> <li>Infection control in hospitals</li> </ul>	<ul style="list-style-type: none"> <li>Occupational health and safety risk in public hospitals</li> </ul>	<ul style="list-style-type: none"> <li>End of life care</li> <li>Supporting clinical training</li> </ul>	<ul style="list-style-type: none"> <li>Planning for Melbourne's health infrastructure</li> </ul>
Human Services			<ul style="list-style-type: none"> <li>Department of Human Services workforce</li> <li>Redevelopment of the Aids and Equipment Program</li> </ul>	
Information and communications technology	<ul style="list-style-type: none"> <li>Learning technologies in government schools</li> </ul>	<ul style="list-style-type: none"> <li>Emergency response ICT (incorporating Project 000)</li> <li>HealthSMART clinical and patient health systems</li> <li>TAFE institutes: Student Management Solution</li> </ul>		<ul style="list-style-type: none"> <li>Strategic planning to manage pace and impact of technology change in public sector ICT</li> <li>Using ICT to improve road management outcomes</li> </ul>



**Figure 2C**  
**Current and prospective areas of performance audit focus 2012–13 to 2015–16 – *continued***

<b>Services that work – <i>continued</i></b>				
<b>Sector</b>	<b>2012–13</b>	<b>2013–14</b>	<b>2014–15</b>	<b>2015–16</b>
Justice	<ul style="list-style-type: none"> <li>Consumer protection</li> <li>Management of unplanned leave in Victoria Police, the Metropolitan Fire Brigade and Ambulance Victoria</li> <li>Prison capacity planning</li> </ul>	<ul style="list-style-type: none"> <li>Appropriate dispute resolution</li> <li>Prisons: Health and transportation</li> </ul>	<ul style="list-style-type: none"> <li>Asset confiscation scheme</li> <li>Court backlogs</li> <li>Transition support for prisoners</li> </ul>	<ul style="list-style-type: none"> <li>Effectiveness and efficiency of regionalisation of services in the Justice sector</li> </ul>
Planning and Community Development		<ul style="list-style-type: none"> <li>Accessibility of mainstream services for Aboriginal Victorians</li> </ul>		
Sector-wide and central agencies				<ul style="list-style-type: none"> <li>Access to public sector information</li> </ul>
Transport			<ul style="list-style-type: none"> <li>Public transport coordination</li> </ul>	
Local Government			<ul style="list-style-type: none"> <li>Emergency management for fire, flood and other potential disasters</li> </ul>	
<b>Strong families and vibrant communities</b>				
<b>Sector</b>	<b>2012–13</b>	<b>2013–14</b>	<b>2014–15</b>	<b>2015–16</b>
Education and Early Childhood Development				<ul style="list-style-type: none"> <li>Disaster management planning for schools</li> </ul>
Health		<ul style="list-style-type: none"> <li>Department of Health's role in emergency management</li> </ul>		
Human Services	<ul style="list-style-type: none"> <li>Carer support programs</li> <li>Crisis housing and homelessness response</li> </ul>	<ul style="list-style-type: none"> <li>Access for culturally and linguistically diverse communities</li> <li>Early intervention for children at risk</li> </ul>		<ul style="list-style-type: none"> <li>Preventing and responding to violence against women</li> <li>Services for youth at risk</li> </ul>

Figure 2C

Current and prospective areas of performance audit focus 2012–13 to 2015–16 – *continued*

<b>Strong families and vibrant communities – <i>continued</i></b>				
<b>Sector</b>	<b>2012–13</b>	<b>2013–14</b>	<b>2014–15</b>	<b>2015–16</b>
Justice		<ul style="list-style-type: none"> <li>Control of drug use in prisons</li> <li>Effectiveness of volunteer management strategies in emergency services</li> <li>Operation of the Charter of Human Rights and Responsibilities</li> </ul>	<ul style="list-style-type: none"> <li>Gambling industry reform: Realisation of intended outcomes</li> <li>Justice portfolio mental health strategies</li> </ul>	<ul style="list-style-type: none"> <li>Emergency response to natural disasters</li> <li>Online fraud and internet crime</li> </ul>
Planning and Community Development	<ul style="list-style-type: none"> <li>Management of the Provincial Victoria Growth Fund</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of the Strengthening Community Organisation Action Plan</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of the <i>Aboriginal Heritage Act 2006</i></li> </ul>	<ul style="list-style-type: none"> <li>Strengthening the capacity and capability of the Aboriginal services sector</li> </ul>
Sector-wide and central agencies	<ul style="list-style-type: none"> <li>Collections management in cultural agencies</li> </ul>			<ul style="list-style-type: none"> <li>Strengthening Victoria's multicultural community</li> </ul>
Transport		<ul style="list-style-type: none"> <li>Recreational maritime safety</li> </ul>	<ul style="list-style-type: none"> <li>Improving safety on Victoria's roads</li> </ul>	<ul style="list-style-type: none"> <li>Effectiveness of Protective Services Officer deployment</li> </ul>
<b>Secure water and a healthy environment</b>				
<b>Sector</b>	<b>2012–13</b>	<b>2013–14</b>	<b>2014–15</b>	<b>2015–16</b>
Primary Industries	<ul style="list-style-type: none"> <li>Effectiveness of compliance and enforcement activities: Primary Industries and Sustainability and Environment</li> <li>Managing freshwater fisheries</li> </ul>	<ul style="list-style-type: none"> <li>Managing Victoria's timber resources</li> </ul>	<ul style="list-style-type: none"> <li>Managing marine fisheries resources</li> </ul>	<ul style="list-style-type: none"> <li>Biosecurity</li> </ul>

Figure 2C

Current and prospective areas of performance audit focus 2012–13 to 2015–16 – *continued*

<b>Secure water and a healthy environment – <i>continued</i></b>				
<b>Sector</b>	<b>2012–13</b>	<b>2013–14</b>	<b>2014–15</b>	<b>2015–16</b>
Sustainability and Environment	<ul style="list-style-type: none"> <li>Energy efficiency in the health sector</li> </ul>	<ul style="list-style-type: none"> <li>Effectiveness of outsourced infrastructure: Water sector</li> <li>Managing mining approvals: Environmental conditions</li> <li>Oversight and accountability of Committees of Management</li> </ul>	<ul style="list-style-type: none"> <li>Landfill management</li> <li>Managing the demand and supply of urban and regional drinking water</li> <li>Native vegetation management</li> <li>The safe use of alternate water supplies</li> </ul>	<ul style="list-style-type: none"> <li>Emergency management of environmental incidents</li> <li>EPA licensing reform</li> <li>Protecting the environment: Monitoring compliance with project approval conditions</li> </ul>
Transport			<ul style="list-style-type: none"> <li>Managing the environmental impacts of transport</li> </ul>	
Local Government				<ul style="list-style-type: none"> <li>Land use planning: Preparing for risk of rising sea levels</li> </ul>
<b>Government you can trust</b>				
<b>Sector</b>	<b>2012–13</b>	<b>2013–14</b>	<b>2014–15</b>	<b>2015–16</b>
Business and Innovation	<ul style="list-style-type: none"> <li>Management of major projects</li> </ul>		<ul style="list-style-type: none"> <li>Supporting innovation in Victoria's screen industry</li> </ul>	
Education and Early Childhood Development		<ul style="list-style-type: none"> <li>Funding model for government schools</li> <li>School performance</li> </ul>	<ul style="list-style-type: none"> <li>The state of Victoria's children: Performance reporting</li> </ul>	
Health				<ul style="list-style-type: none"> <li>Reporting hospital performance</li> </ul>

**Figure 2C**  
**Current and prospective areas of performance audit focus 2012–13 to 2015–16 – continued**

<b>Government you can trust – continued</b>				
<b>Sector</b>	<b>2012–13</b>	<b>2013–14</b>	<b>2014–15</b>	<b>2015–16</b>
Information and communications technology	<ul style="list-style-type: none"> <li>• CenITex</li> </ul>		<ul style="list-style-type: none"> <li>• Registration and licensing system project</li> <li>• Value-for-money and effectiveness of ICT contractors and consultants</li> <li>• WoVG Information Security Management Framework</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of LINK system in Victoria Police</li> <li>• Procurement and probity practices for ICT</li> </ul>
Justice				<ul style="list-style-type: none"> <li>• Racing industry: Boards of management</li> </ul>
Sector-wide and central agencies	<ul style="list-style-type: none"> <li>• Flood response and recovery: Value-for-money from state and federal relief funds</li> <li>• Public asset valuation</li> </ul>	<ul style="list-style-type: none"> <li>• Compliance with non-financial requirements of annual reporting</li> <li>• Implementation of the Government Risk Management Framework</li> <li>• Regulation of public sector insurance schemes</li> <li>• Regulatory reform</li> <li>• Shared services</li> </ul>	<ul style="list-style-type: none"> <li>• Board governance in the public sector</li> <li>• Effectiveness of probity practitioners in procurement</li> <li>• Public consultation in policy development</li> </ul>	<ul style="list-style-type: none"> <li>• Management of outsourcing in the public sector</li> </ul>
Sustainability and Environment	<ul style="list-style-type: none"> <li>• Environment and sustainability sector: Performance reporting</li> </ul>	<ul style="list-style-type: none"> <li>• Management of environmental levies and charges</li> </ul>		
Local Government	<ul style="list-style-type: none"> <li>• Rating practices in local government</li> </ul>	<ul style="list-style-type: none"> <li>• Effectiveness of councillor training and support</li> </ul>		

Source: Victorian Auditor-General's Office.

## Appendix A.

# Our *Strategic Plan 2010–11 to 2014–15*

We are two years into our *Strategic Plan 2010–11 to 2014–15*. Our vision for VAGO over this period is to be a catalyst for continuous improvement in the accountability and performance of the public sector.

To inform our Strategic Plan, we sought input from staff as well as views from our stakeholders—Parliamentarians, audit clients, the public sector, community and peers. We 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 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 aim to remain abreast with the changing expectations of audit and accountability, and to act to keep our mandate relevant and our reports authoritative and relevant. We continue to foster productive relationships with our clients—both Parliament and our auditees—and to better inform them about our activities. Crucially, we remain focused on the health and sustainability of our organisation and our people, creating and maintaining a positive and stimulating work environment for all.

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## Appendix B.

# Our outputs for 2012–13

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 on 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 2012–13 we intend to table 36 reports in Parliament (target of 36 in 2011–12).

#### 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 we provide 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 we will be accountable for in 2012–13 as part of our delivery of the Parliamentary reports and services output.

**Figure B1**  
**Output 1: Parliamentary reports and services**

Major outputs/deliverables <i>Performance measures</i>	Unit of measure	2012–13 target	2011–12 expected outcome	2011–12 target	2010–11 actual
<b>Quantity</b>					
Auditor-General's reports <sup>(a)</sup>	number	36	38	36	39
<b>Quality</b>					
Average score of audit reports by external assessors	per cent	80	80	80	nm
Overall level of external satisfaction with audit reports and services—Parliamentarians	per cent	85	85	85	98
<b>Timeliness</b>					
Inquiries from Members of Parliament and the public responded to within 28 days	per cent	95	95	95	99
Reports completed on time	per cent	90	87	90	90
<b>Cost</b>					
Total output cost	\$ million	14.9	14.5	14.1	14.7

(a) The 2011–12 expected outcome is higher than the 2011–12 target due to carry over of two performance audits from previous financial years.

Note: nm = new measure.

Source: 2012–13 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:

- independent review of the government's Estimated Financial Statements and provision of a report for inclusion in its annual Budget papers presented to Parliament
- audit opinions on the financial statements of public sector agencies and on the government's Annual Financial Report
- audit opinions on non-financial performance indicators prepared by local government, certain water bodies, and technical and further education institutes
- letters to management of 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 1975* and the *Financial Management Act 1994*. 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 2011–12 have an aggregate expenditure value of more than \$48.6 billion as at 11 May 2012 (\$41.7 billion in 2010–11).

### Performance measures

Figure B2 outlines the performance measures for which we will be held to account in 2012–13 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	2012–13 target	2011–12 expected outcome	2011–12 target	2010–11 actual
<b>Quantity</b>					
Audit opinions issued on the financial statements of agencies <sup>(a)</sup>	number	563	571	567	551
Audit opinions issued on non-financial performance indicators <sup>(b)</sup>	number	114	114	113	113
<b>Quality</b>					
External/peer reviews finding no material departures from professional and regulatory standards	per cent	100	100	100	nm
<b>Timeliness</b>					
Audit opinions issued within statutory deadlines	per cent	98	98	98	99
Management letters issued to agencies within established time frames <sup>(c)</sup>	per cent	90	nm	nm	nm
<b>Cost</b>					
Total output cost <sup>(d)</sup>	\$ million	22.7	22.1	20.8	21.2

(a) The lower 2012–13 target reflects a change in the number of entities subject to audit.

(b) The 2011–12 expected outcome and 2012–13 target are higher than the 2011–12 target to reflect a change in reporting requirements in the water sector.

(c) This performance measure renames the 2011–12 performance measure 'Management letters and reports to Ministers issued within established time frames'. The 2012–13 measure measures the same activity as the previous measure. However, it has been amended to increase the clarity of the measure.

(d) The 2011–12 expected outcome and 2012–13 target are higher than the 2011–12 target due to a 5.8 per cent increase in budgeted billable hours, which better reflects the resources required to deliver the output. The marginally increased cost levels are expected to be fully recovered through audit fees.

Note: nm = new measure.

Source: 2012–13 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 for both 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
<b>Purpose</b>	
Manage entities and prepare financial statements in compliance with legislative and reporting requirements.	Examine the underlying accounts and records of 563 public sector entities (571 in 2011–12), including the systems and processes they use to generate financial statements, to provide assurance by expressing an opinion on fairness of presentation.
<b>Legislation</b>	
<p><b>Financial Management Act 1994</b> (for public sector entities including departments)</p> <p>or</p> <p><b>Corporations Act 2001</b> (for incorporated entities)</p> <p>or</p> <p><b>Associations Incorporations Act 1981</b> (for incorporated associations)</p> <p>or</p> <p><b>Local Government Act 1989</b> (for local councils and regional library corporations)</p>	<b>Audit Act 1994</b>
<b>Standards</b>	
<p><b>Accounting standards</b> issued by the Australian Accounting Standards Board for public and private sector entities, for example:</p> <ul style="list-style-type: none"> <li>• <i>Property, Plant and Equipment</i> (AASB 116)</li> <li>• <i>Accounting for Government Grants and Disclosure of Government Assistance</i> (AASB 120)</li> <li>• <i>Employee Benefits</i> (AASB 119)</li> </ul>	<p><b>Auditing standards</b> 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"> <li>• <i>Identifying and Assessing the Risks of Material misstatement through Understanding the Entity and Its Environment</i> (ASA 315)</li> <li>• <i>The Auditor's Responses to Assessed Risks</i> (ASA 330)</li> <li>• <i>Going Concern</i> (ASA 570)</li> </ul>

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

Public sector entities	Victorian Auditor-General's Office
<b>Directions</b>	
<p><b>Standing directions of Minister for Finance under the <i>Financial Management Act 1994</i></b>, for example:</p> <ul style="list-style-type: none"> <li>• <i>Financial Governance</i> (2.2)</li> <li>• <i>Information Technology Management</i> (3.2.1)</li> <li>• <i>Physical and Intangible Assets</i> (3.4.9)</li> </ul> <p><b>Financial Reporting Directions under the <i>Financial Management Act 1994</i></b>, for example:</p> <ul style="list-style-type: none"> <li>• <i>Responsible Person and Executive Officer Disclosures in the Financial Report</i> (FRD 21A)</li> <li>• <i>Standard Disclosures in the Report of Operations</i> (FRD 22B)</li> <li>• <i>Non-Current Physical Assets</i> (FRD 103D)</li> </ul>	<p><b>Guidance statements</b> issued by the Auditing and Assurance Standards Board for the purpose of understanding and complying with the auditing standards.</p>
<b>Tools</b>	
<p><b>Model financial statements</b> (for relevant entity type) generally comprising:</p> <ul style="list-style-type: none"> <li>• Comprehensive operating statement</li> <li>• Balance sheet</li> <li>• Cash flow statement</li> <li>• Statement of changes in equity</li> <li>• Summary of significant accounting policies</li> <li>• Explanatory notes</li> </ul>	<p><b>Risk-based audit methodology</b> to:</p> <ul style="list-style-type: none"> <li>• understand the entity and its environment, including its internal controls</li> <li>• identify and assess the key risks facing the entity; the risk mitigation strategies; significant recent developments; and the governance and management control framework</li> <li>• assess processes and controls over management, accounting and information technology systems</li> <li>• test controls</li> <li>• examine in detail balances and underlying transactions; assess the reasonableness of balances, and review the presentation and disclosure in the financial statements</li> <li>• express an opinion on the financial statements</li> </ul>

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 issued 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**

Financial statement components				
Cycle	Comprehensive operating statement	Balance sheet	Explanatory notes	Related systems and processes
<b>Revenue</b>	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 of goods and services	Inventory trade receivables		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
<b>Expenditure</b>	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
<b>Cash and financing</b>	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
<b>Property plant and equipment</b>	Depreciation expense, gain/loss on non-financial assets	Property, plant and equipment Intangible assets		Fixed asset management, capital project management
	Rental income, gain/loss on non-financial assets	Investment properties		Investment management

**Figure C2**  
**Relationship between financial statements and supporting systems – *continued***

Cycle	Financial statement components			Related systems and processes
	Comprehensive operating statement	Balance sheet	Explanatory notes	
Equity	Movements in physical asset revaluation reserve	Physical asset revaluation reserve		Reserve management
	Movements in financial assets available-for-sale reserve	Financial assets available-for-sale reserve		
		Contributed capital		

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 and Appendix E set out our prospective areas of focus for 2012–13 to 2015–16 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 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 Parliament on the accountability and performance of the Victorian public sector.

## Appendix D.

# Performance audit topic selection framework

Figure D1 sets out the framework we use for selecting performance audit topics.

**Figure D1**  
**Performance audit topic selection framework**



(a) Five goals for a stronger, fairer and safer Victoria. This framework was outlined in the Governor's speech at the opening of the 57th Parliament on 21 December 2010.

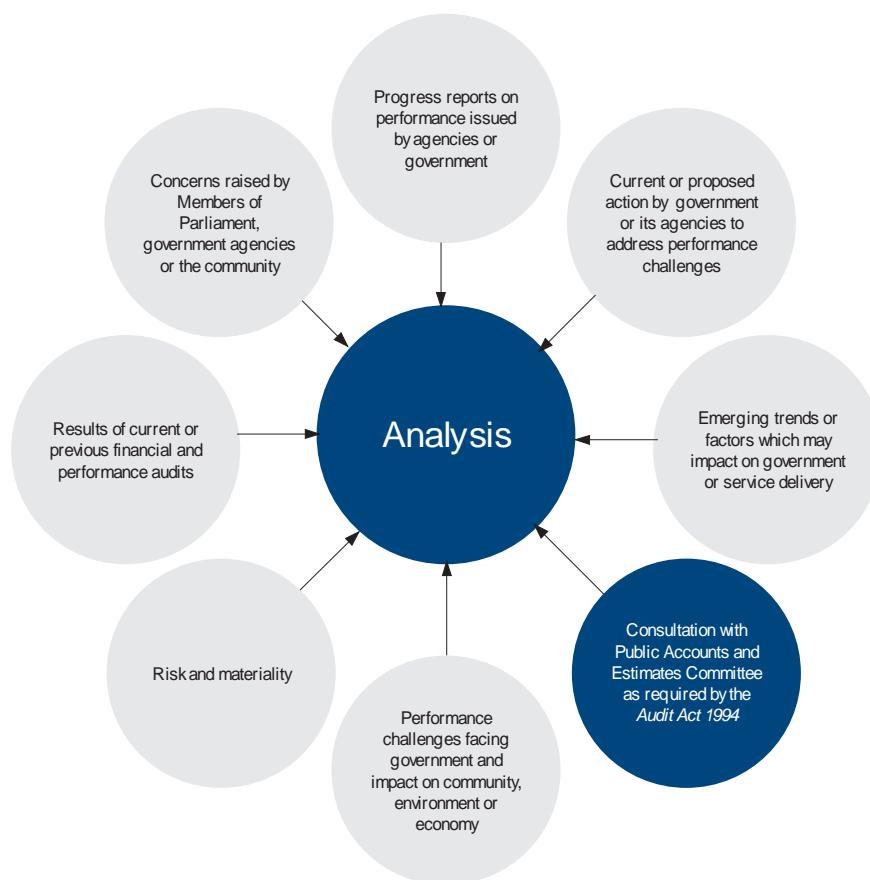
Source: Victorian Auditor-General's Office.

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 fora; agency senior management and line managers; departmental audit committees; 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.

The identification and analysis of potential topics also takes into account a range of other factors 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 this 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.

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## Appendix E.

# Areas of financial audit focus

**Figure E1**  
**Current and prospective areas of financial audit focus 2012–13 to 2015–16**

Sector	2012–13			2013–14		
	Comprehensive operating statement	Balance sheet	Explanatory note disclosures and general internal controls	Comprehensive operating statement	Balance sheet	Explanatory note disclosures and general internal controls
<b>Local Government</b>	<ul style="list-style-type: none"> <li>Outsourcing</li> </ul>		<ul style="list-style-type: none"> <li>Budget management</li> </ul>	<ul style="list-style-type: none"> <li>Rate revenue</li> </ul>		<ul style="list-style-type: none"> <li>Audit committees</li> </ul>
<b>Portfolio Departments and Associated Entities</b>	<ul style="list-style-type: none"> <li>Appropriation and trust fund management</li> </ul>		<ul style="list-style-type: none"> <li>Risk management</li> </ul>	<ul style="list-style-type: none"> <li>Management of contractors and consultants</li> </ul>	<ul style="list-style-type: none"> <li>Asset management</li> </ul>	<ul style="list-style-type: none"> <li>Information technology business continuity and disaster recovery planning</li> </ul>
<b>Public Hospitals</b>	<ul style="list-style-type: none"> <li>Self-generated hospital revenue</li> </ul>	<ul style="list-style-type: none"> <li>Capital project management</li> </ul>	<ul style="list-style-type: none"> <li>Audit committees</li> </ul>	<ul style="list-style-type: none"> <li>Private patient fees</li> </ul>		<ul style="list-style-type: none"> <li>Risk management</li> </ul>
<b>Tertiary Education and Other Entities</b>	<ul style="list-style-type: none"> <li>Credit card security and usage</li> </ul>		<ul style="list-style-type: none"> <li>Internal audit</li> </ul>	<ul style="list-style-type: none"> <li>Procurement</li> </ul>		<ul style="list-style-type: none"> <li>Financial policies and delegations</li> </ul>
<b>Water Entities</b>	<ul style="list-style-type: none"> <li>Water tariff revenue</li> </ul>		<ul style="list-style-type: none"> <li>Risk management</li> </ul>	<ul style="list-style-type: none"> <li>Procurement</li> </ul>	<ul style="list-style-type: none"> <li>Treasury management</li> </ul>	<ul style="list-style-type: none"> <li>Information technology security</li> <li>Information technology change management</li> </ul>

**Figure E1**  
**Current and prospective areas of financial audit focus 2012–13 to 2015–16 – continued**

2014–15			2015–16		
Comprehensive operating statement	Balance sheet	Explanatory note disclosures and general internal controls	Comprehensive operating statement	Balance sheet	Explanatory note disclosures and general internal controls
<ul style="list-style-type: none"> <li>• Credit card security and usage</li> </ul>	<ul style="list-style-type: none"> <li>• Management of creditors</li> </ul>	<ul style="list-style-type: none"> <li>• Risk management</li> </ul>	<ul style="list-style-type: none"> <li>• Asset revaluation reserve</li> </ul>	<ul style="list-style-type: none"> <li>• Management of employee leave</li> </ul>	
<ul style="list-style-type: none"> <li>• Outsourcing</li> </ul>		<ul style="list-style-type: none"> <li>• Internal audit</li> </ul>	<ul style="list-style-type: none"> <li>• Executive remuneration</li> </ul>		<ul style="list-style-type: none"> <li>• Commitments (including PPPs)</li> </ul>
<ul style="list-style-type: none"> <li>• Government revenue</li> </ul>	<ul style="list-style-type: none"> <li>• Asset management</li> </ul>	<ul style="list-style-type: none"> <li>• Internal audit</li> </ul>	<ul style="list-style-type: none"> <li>• Outsourcing</li> <li>• Credit card security and usage</li> </ul>		<ul style="list-style-type: none"> <li>• Workforce management</li> </ul>
<ul style="list-style-type: none"> <li>• Student fee revenue</li> </ul>	<ul style="list-style-type: none"> <li>• Asset management</li> </ul>	<ul style="list-style-type: none"> <li>• Risk management</li> </ul>	<ul style="list-style-type: none"> <li>• Sensitive and discretionary expenditure</li> </ul>		<ul style="list-style-type: none"> <li>• Fraud risk assessment and control monitoring</li> </ul>
<ul style="list-style-type: none"> <li>• Revenue</li> </ul>		<ul style="list-style-type: none"> <li>• Audit committees</li> </ul>			<ul style="list-style-type: none"> <li>• Information technology business continuity and disaster recovery planning</li> <li>• Internal audit</li> </ul>



## Appendix F.

# Areas of performance audit focus

Each prospective audit has been categorised by sector, as well as the 'Five goals for a stronger, fairer and safer Victoria' which were outlined in the Governor's speech at the opening of the 57th Parliament on 21 December 2010.

### Legend:

- a growing economy
- services that work
- ◆ strong families and vibrant communities
- ◇ secure water and a healthy environment
- ▶ government you can trust

**Figure F1**  
**Current and prospective areas of performance audit focus 2012–13 to 2015–16**

Sector	2012–13	2013–14
<b>Business and Innovation</b>	▶ Management of major projects	<ul style="list-style-type: none"> <li>● Export development</li> <li>● Tourism strategy</li> </ul>
<b>Education and Early Childhood Development</b>	<ul style="list-style-type: none"> <li>○ Implementation of school infrastructure programs</li> <li>○ Programs for students with special learning needs</li> <li>○ School governance</li> <li>○ Student completion rates</li> </ul>	<ul style="list-style-type: none"> <li>○ Access to education for culturally and linguistically diverse students</li> <li>▶ Funding model for government schools</li> <li>○ Management of staff occupational health and safety in schools</li> <li>▶ School performance</li> <li>● Skills Victoria – Including reform of the skills system</li> </ul>
<b>Health</b>	<ul style="list-style-type: none"> <li>○ Consumer participation in the health system</li> <li>○ Infection control in hospitals</li> </ul>	<ul style="list-style-type: none"> <li>◆ Department of Health's role in emergency management</li> <li>○ Occupational health and safety risk in public hospitals</li> </ul>
<b>Human Services</b>	<ul style="list-style-type: none"> <li>◆ Carer support programs</li> <li>◆ Crisis housing and homelessness response</li> </ul>	<ul style="list-style-type: none"> <li>◆ Access for culturally and linguistically diverse communities</li> <li>◆ Early intervention for children at risk</li> </ul>
<b>Information and communications technology</b>	<ul style="list-style-type: none"> <li>▶ CenITex</li> <li>○ Learning technologies in government schools</li> </ul>	<ul style="list-style-type: none"> <li>○ Emergency response ICT (incorporating Project 000)</li> <li>○ HealthSMART clinical and patient systems</li> <li>○ TAFE institutes: Student Management Solution</li> </ul>
<b>Justice</b>	<ul style="list-style-type: none"> <li>○ Consumer protection</li> <li>○ Management of unplanned leave in Victoria Police, the Metropolitan Fire Brigade and Ambulance Victoria</li> <li>○ Prison capacity planning</li> </ul>	<ul style="list-style-type: none"> <li>○ Appropriate dispute resolution</li> <li>◆ Control of drug use in prisons</li> <li>◆ Effectiveness of volunteer management strategies in emergency services</li> <li>◆ Operation of the Charter of Human Rights and Responsibilities</li> <li>○ Prisons: Health and transportation</li> </ul>
<b>Planning and Community Development</b>	◆ Management of the Provincial Victoria Growth Fund	<ul style="list-style-type: none"> <li>○ Accessibility of mainstream services for Aboriginal Victorians</li> <li>◆ Implementation of the Strengthening Community Organisation Action Plan</li> </ul>
<b>Primary Industries</b>	<ul style="list-style-type: none"> <li>◇ Effectiveness of compliance and enforcement activities: Primary Industries and Sustainability and Environment</li> <li>◇ Managing freshwater fisheries</li> </ul>	◇ Managing Victoria's timber resources
<b>Sector-wide and central agencies</b>	<ul style="list-style-type: none"> <li>◆ Collections management in cultural agencies</li> <li>▶ Flood response and recovery: Value-for-money from state and federal relief funds <ul style="list-style-type: none"> <li>● Planning, delivery and benefits realisation of major asset investment</li> </ul> </li> <li>▶ Public asset valuation</li> </ul>	<ul style="list-style-type: none"> <li>▶ Compliance with non-financial requirements of annual reporting</li> <li>▶ Implementation of the Government Risk Management Framework</li> <li>▶ Regulation of public sector insurance schemes</li> <li>▶ Regulatory reform</li> <li>▶ Shared services</li> </ul>
<b>Sustainability and Environment</b>	<ul style="list-style-type: none"> <li>◇ Energy efficiency in the health sector</li> <li>▶ Environment and sustainability sector: Performance reporting</li> </ul>	<ul style="list-style-type: none"> <li>◇ Effectiveness of outsourced infrastructure: Water sector</li> <li>▶ Management of environmental levies and charges</li> <li>◇ Managing mining approvals: Environmental conditions</li> <li>◇ Oversight and accountability of Committees of Management</li> </ul>
<b>Transport</b>	<ul style="list-style-type: none"> <li>● Fare evasion on public transport</li> <li>● Managing traffic congestion</li> <li>● Port of Melbourne channel deepening project: Achievement of objectives</li> </ul>	<ul style="list-style-type: none"> <li>● Developing transport infrastructure and services for population growth areas</li> <li>◆ Recreational maritime safety</li> <li>● Tendering SmartBus contracts</li> </ul>
<b>Local Government</b>	<ul style="list-style-type: none"> <li>● Organisational sustainability of small councils</li> <li>▶ Rating practices in local government</li> </ul>	<ul style="list-style-type: none"> <li>● Asset management and maintenance by councils</li> <li>▶ Effectiveness of councillor training and support</li> <li>● Shared services in local government</li> </ul>



**Figure F1**  
**Current and prospective areas of performance audit focus 2012–13 to 2015–16 – continued**

2014–15	2015–16
<ul style="list-style-type: none"> <li>▶ Supporting innovation in Victoria's screen industry</li> <li>● Support to the automotive industry</li> </ul>	<ul style="list-style-type: none"> <li>● Meeting workforce skill gaps through migration programs</li> <li>● Trade events benefits realisation</li> </ul>
<ul style="list-style-type: none"> <li>○ Allocation of capital funding to TAFE institutes</li> <li>● Apprenticeship and traineeship completion</li> <li>○ Equitable access to education for rural students</li> <li>▶ The state of Victoria's children: Performance reporting</li> <li>○ Transitioning from pre-school to prep</li> </ul>	<ul style="list-style-type: none"> <li>◆ Disaster management planning for schools</li> <li>○ Integrated children's centres</li> <li>○ Outside school hours care program</li> <li>○ Programs for gifted and talented students</li> </ul>
<ul style="list-style-type: none"> <li>○ End of life care</li> <li>○ Supporting clinical training</li> </ul>	<ul style="list-style-type: none"> <li>○ Planning for Melbourne's health infrastructure</li> <li>▶ Reporting hospital performance</li> </ul>
<ul style="list-style-type: none"> <li>○ Department of Human Services workforce</li> <li>○ Redevelopment of the Aids and Equipment Program</li> </ul>	<ul style="list-style-type: none"> <li>◆ Preventing and responding to violence against women</li> <li>◆ Services for youth at risk</li> </ul>
<ul style="list-style-type: none"> <li>▶ Registration and licensing system project</li> <li>▶ Value for money and effectiveness of ICT contractors and consultants</li> <li>▶ WoVG Information Security Framework</li> </ul>	<ul style="list-style-type: none"> <li>▶ Implementation of the LINK system in Victoria Police</li> <li>▶ Procurement and probity practices for ICT</li> <li>○ Strategic planning to manage pace and impact of technology change in public sector ICT</li> <li>○ Using ICT to improve road management outcomes</li> </ul>
<ul style="list-style-type: none"> <li>○ Asset confiscation scheme</li> <li>○ Court backlogs</li> <li>◆ Gambling industry reform: Realisation of intended outcomes</li> <li>◆ Justice portfolio mental health strategies</li> <li>○ Transition support for prisoners</li> </ul>	<ul style="list-style-type: none"> <li>○ Effectiveness and efficiency of regionalisation of services in the justice sector</li> <li>◆ Emergency response to natural disasters</li> <li>◆ Online fraud and internet crime</li> <li>▶ Racing industry: Boards of management</li> </ul>
<ul style="list-style-type: none"> <li>◆ Implementation of the <i>Aboriginal Heritage Act 2006</i></li> <li>● Victoria's consumer protection framework for building construction</li> </ul>	<ul style="list-style-type: none"> <li>● Implementing Melbourne's metropolitan planning strategy</li> <li>● Management of the Regional Growth Fund</li> <li>◆ Strengthening the capacity and capability of the Aboriginal services sector</li> </ul>
<ul style="list-style-type: none"> <li>◇ Managing marine fisheries resources</li> </ul>	<ul style="list-style-type: none"> <li>◇ Biosecurity</li> </ul>
<ul style="list-style-type: none"> <li>▶ Board governance in the public sector</li> <li>▶ Effectiveness of probity practitioners in procurement</li> <li>▶ Public consultation in policy development</li> </ul>	<ul style="list-style-type: none"> <li>○ Access to public sector information</li> <li>▶ Management of outsourcing in the public sector</li> <li>◆ Strengthening Victoria's multicultural community</li> </ul>
<ul style="list-style-type: none"> <li>◇ Landfill management</li> <li>◇ Managing the demand and supply of urban and regional drinking water</li> <li>◇ Native vegetation management</li> <li>◇ The safe use of alternate water supplies</li> </ul>	<ul style="list-style-type: none"> <li>◇ Emergency management of environmental incidents</li> <li>◇ EPA licensing reform</li> <li>◇ Protecting the environment: Monitoring compliance with project approval conditions</li> </ul>
<ul style="list-style-type: none"> <li>◆ Improving safety on Victoria's roads</li> <li>◇ Managing the environmental impacts of transport</li> <li>○ Public transport coordination</li> </ul>	<ul style="list-style-type: none"> <li>● Managing and reporting on the cost of capital projects</li> <li>◆ Effectiveness of Protective Services Officer deployment</li> </ul>
<ul style="list-style-type: none"> <li>○ Emergency management for fire, flood and other potential disasters</li> <li>● Long-term financial planning by local government</li> </ul>	<ul style="list-style-type: none"> <li>◇ Land use planning: Preparing for risk of rising sea levels</li> </ul>



# Appendix G.

## Parliamentary reports December 2010–June 2012

Details of performance audit and other Parliamentary reports tabled during the 57th Parliament from December 2010 to June 2012 are presented in Figure G1. The 2011–12 program includes audits scheduled for tabling in Parliament by 30 June 2012 that are not yet tabled.

The reports are presented within the framework of the five goals for a stronger, fairer and safer Victoria, outlined in the Governor’s speech at the opening of the 57th Parliament on 21 December 2010.

**Figure G1**  
**Reports tabled 2010–11 to 2011–12 against**  
**the five goals for a stronger, fairer and safer Victoria**

Five goals	December 2010–June 2011	2011–12
A growing economy	<ul style="list-style-type: none"> <li>Effectiveness of Small Business Victoria’s Support Programs</li> <li>Management of Major Road Projects</li> <li>Revitalising Central Dandenong</li> <li>Victorian Life Sciences Computation Initiative</li> </ul>	<ul style="list-style-type: none"> <li>Biotechnology in Victoria: the Public Sector’s Investment</li> <li>Business Planning for Major Capital Works and Recurrent Services in Local Government</li> <li>Investment attraction<sup>#</sup></li> <li>Management of Road Bridges</li> <li>Melbourne Markets Redevelopment</li> <li>Supporting Changes in Farming Practices: Sustainable Irrigation</li> </ul>
Services that work	<ul style="list-style-type: none"> <li>Early Childhood Development Services: Access and Quality</li> <li>Indigenous Education Strategies for Government Schools</li> <li>Managing Drug and Alcohol Prevention and Treatment Services</li> <li>Managing Student Safety</li> </ul>	<ul style="list-style-type: none"> <li>Access to Public Housing</li> <li>Casual Relief Teacher Arrangements</li> <li>Compliance with Building Permits</li> <li>Individualised Funding for Disability Services</li> <li>Maternity Services: Capacity</li> <li>Public Transport Performance</li> <li>Science and Mathematics Participation Rates and Initiatives<sup>#</sup></li> </ul>

**Figure G1**  
**Reports tabled 2010–11 to 2011–12 against**  
**the five goals for a stronger, fairer and safer Victoria – *continued***

Five goals – <i>continued</i>	December 2010–June 2011	2011–12
Strong families and vibrant communities	<ul style="list-style-type: none"> <li>• Construction of Police Stations and Courthouses</li> <li>• Effectiveness of Victims of Crime Programs</li> <li>• Local Community Transport Services: the Transport Connections program</li> <li>• Motorcycle and Scooter Safety Programs</li> <li>• Problem-Solving Approaches to Justice</li> </ul>	<ul style="list-style-type: none"> <li>• Developing Cycling as a Safe and Appealing Mode of Transport</li> <li>• Effectiveness of Justice Strategies In Preventing And Reducing Alcohol-related Harm<sup>#</sup></li> </ul>
Secure water and a healthy environment	<ul style="list-style-type: none"> <li>• Environmental Management of Marine Protected Areas</li> <li>• Facilitating Renewable Energy Development</li> <li>• Municipal Solid Waste Management</li> </ul>	<ul style="list-style-type: none"> <li>• Agricultural Food Safety</li> <li>• Managing Contaminated Sites</li> </ul>
Government you can trust	<ul style="list-style-type: none"> <li>• Acquittal Report: Results of the 2009–10 Audits</li> <li>• Allocation of Electronic Gaming Machine Entitlements</li> <li>• Tertiary Education and Other Entities: Results of the 2010 Audits</li> </ul>	<ul style="list-style-type: none"> <li>• Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2010–11</li> <li>• Fraud Prevention Strategies in Local Government<sup>#</sup></li> <li>• Freedom of Information</li> <li>• Government Advertising and Communications</li> <li>• Local Government: Results of the 2010–11 Audits</li> <li>• Management of Trust Funds in the Justice Portfolio</li> <li>• Obsolescence of Frontline ICT: Police and Schools<sup>#</sup></li> <li>• Payments to Visiting Medical Officers by Rural and Regional Hospitals</li> <li>• Performance Reporting by Local Government</li> <li>• Personal Expense Reimbursement, Travel Expenses and Corporate Credit Cards</li> <li>• Portfolio Departments and Associated Entities: Results of the 2010–11 Audits</li> <li>• Procurement Practices in the Health Sector</li> <li>• Public Hospitals: Results of the 2010–11 Audits</li> </ul>

**Figure G1**  
**Reports tabled 2010–11 to 2011–12 against**  
**the five goals for a stronger, fairer and safer Victoria – *continued***

Five goals – <i>continued</i>	December 2010–June 2011	2011–12
Government you can trust – <i>continued</i>		<ul style="list-style-type: none"> <li>• Road Safety Camera Program</li> <li>• State Trustees Limited: Management of Represented Persons TAFE Governance</li> <li>• Tertiary Education and other entities: Results of the 2011 Audits</li> <li>• Victorian Institute of Teaching</li> <li>• Water Entities: Results of the 2010–11 Audits</li> </ul>

Note: # Report yet to be tabled at 23 May 2012.

Source: Victorian Auditor-General's Office.





# Appendix H.

## Parliamentary reports December 2006– November 2010

Details of performance audit and other Parliamentary reports tabled during the 56th Parliament from December 2006 to November 2010 are presented in Figure H1.

Consistent with the Annual Plans for 2008–09 to 2011–12, the reports are presented under the Growing Victoria Together framework of the former government.

**Figure H1**  
**Reports tabled 2006–07 to 2010–11 against Growing Victoria Together goals**

December 2006– June 2007	2007–08	2008–09	2009–10	July 2010– November 2010
<b>Thriving economy</b>				
<ul style="list-style-type: none"> <li>• Maintaining Victoria's Rail Infrastructure Assets</li> <li>• Purchase of contaminated land by the Melbourne Port Corporation</li> <li>• State Investment in Major Events</li> </ul>	<ul style="list-style-type: none"> <li>• Audits of 2 Major Partnerships Victoria Projects (Melbourne Convention Centre Development and Southern Cross Station Redevelopment)</li> <li>• Discovering Bendigo Project</li> <li>• Funding and Delivery of Two Freeway Upgrade Projects (Tullamarine and Calder Interchange project and M1 Upgrade project)</li> <li>• Maintaining the State's Regional Arterial Road Network</li> <li>• New Ticketing System Tender</li> <li>• Victoria's Planning Framework for Land Use and Development</li> </ul>	<ul style="list-style-type: none"> <li>• Buy-back of the Regional Intrastate Rail Network</li> <li>• Effectiveness of Drought Assistance Measures</li> <li>• Enforcement of Planning Permits</li> <li>• Management of the Multi-Purpose Taxi Program</li> <li>• Melbourne's New Bus Contracts</li> <li>• The Channel Deepening Project</li> </ul>	<ul style="list-style-type: none"> <li>• Management of Major Rail Projects</li> <li>• Management of Safety Risks at Level Crossings</li> <li>• Towards a 'smart grid' – the roll-out of Advanced Metering Infrastructure</li> <li>• Vehicle Fleet Management</li> </ul>	<ul style="list-style-type: none"> <li>• Management of the Freight Network</li> </ul>

**Figure H1**  
**Reports tabled 2006–07 to 2010–11 against Growing Victoria Together goals – *continued***

December 2006– June 2007	2007–08	2008–09	2009–10	July 2010– November 2010
<b>Quality health and education</b>				
<ul style="list-style-type: none"> <li>Contracting and Tendering Practices in Selected Agencies</li> <li>Giving Victorian Children the Best Start in Life</li> <li>Maintaining Public Housing Stock—follow up, including Housing integrated information Program</li> <li>Managing Emergency Demand in Public Hospitals—follow up</li> <li>Managing Medical Equipment in Public Hospitals—follow up</li> <li>Promoting Better Health through Healthy Eating and Physical Activity</li> </ul>	<ul style="list-style-type: none"> <li>Accommodation for People with a Disability</li> <li>Coordinating Services and Initiatives for Aboriginal People</li> <li>Delivering HealthSMART—Victoria's whole-of-health ICT strategy</li> <li>Improving our Schools: Monitoring and Support</li> <li>Management of Specific Purpose Funds by Public Health Services</li> <li>Patient Safety in Public Hospitals</li> <li>Program for Students with Disabilities: Program Accountability</li> <li>The new Royal Women's Hospital—a public private partnership</li> </ul>	<ul style="list-style-type: none"> <li>Access to Public Hospitals: Measuring Performance</li> <li>CASES21</li> <li>Funding of the Home and Community Care Program</li> <li>International Students: risks and responsibilities of universities</li> <li>Literacy and Numeracy Achievement</li> <li>Management of School Funds</li> <li>Managing Acute Patient Flows</li> <li>Private Practice Arrangements in Health Services</li> <li>School Buildings: Planning, Maintenance and Renewal</li> <li>The New Royal Children's Hospital — a public private partnership</li> </ul>	<ul style="list-style-type: none"> <li>Access to Social Housing</li> <li>Administration of the Victorian Certificate of Education</li> <li>Management of Concessions by the Department of Human Services</li> <li>Managing Teacher Performance in Government Schools</li> <li>Partnering with the Community Sector in Human Services and Health</li> <li>The Effectiveness of Student Wellbeing Programs and Services</li> </ul>	<ul style="list-style-type: none"> <li>Access to Ambulance Services</li> <li>Delivery of NURSE-ON-CALL</li> <li>The Department of Human Services' Role in Emergency Recovery</li> <li>Victorian Registration and Qualifications Authority</li> </ul>



**Figure H1**  
**Reports tabled 2006–07 to 2010–11 against Growing Victoria Together goals – continued**

December 2006– June 2007	2007–08	2008–09	2009–10	July 2010– November 2010
<b>Healthy environment</b>				
	<ul style="list-style-type: none"> <li>• Agricultural Research Investment, Monitoring and Review</li> <li>• Piping the System: Incorporating the Wimmera-Mallee Pipeline and Goldfields Superpipe</li> <li>• Planning for Water Infrastructure in Victoria</li> <li>• Review of South-East Water's Works Alliance Agreement</li> </ul>	<ul style="list-style-type: none"> <li>• Administration of the <i>Flora and Fauna Guarantee Act 1988</i></li> <li>• Biosecurity Incidents: Planning and Risk Management for Livestock Diseases</li> </ul>	<ul style="list-style-type: none"> <li>• Control of Invasive Plants and Animals in Victoria's Parks</li> <li>• Hazardous Waste Management</li> <li>• Irrigation Efficiency Programs</li> <li>• Irrigation Water Stores: Lake Mokoan and Tarago Reservoir</li> </ul>	<ul style="list-style-type: none"> <li>• Restricting Environmental Flows during Water Shortages</li> <li>• Soil Health Management</li> <li>• Sustainable Management of Victoria's Groundwater Resources</li> </ul>
<b>Caring communities</b>				
<ul style="list-style-type: none"> <li>• Addressing the Needs of Victorian Prisoners— follow up</li> <li>• Administration of Non-judicial Functions of the Magistrates' Court of Victoria</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of the Criminal Justice Enhancement Program (CJEP)</li> <li>• Services to Young Offenders</li> </ul>	<ul style="list-style-type: none"> <li>• Connecting Courts – the Integrated Courts Management System</li> <li>• Implementing Victoria Police's Code of Practice for the Investigation of Family Violence</li> <li>• Managing Complaints Against Ticket Inspectors</li> <li>• Preparedness to Respond to Terrorism Incidents: Essential services and critical infrastructure</li> <li>• Working with Children Check</li> </ul>	<ul style="list-style-type: none"> <li>• Making Public Transport More Accessible for People Who Face Mobility Challenges</li> <li>• Management of the Community Support Fund</li> <li>• Managing Offenders on Community Corrections Orders</li> <li>• Personal Safety and Security on the Metropolitan Train System</li> <li>• Responding to Mental Health Crises in the Community</li> <li>• The Community Building Initiative</li> <li>• Use of Development Contributions by Local Government</li> </ul>	<ul style="list-style-type: none"> <li>• Management of Prison Accommodation Using Public Private Partnerships</li> <li>• Security of Infrastructure Control Systems for Water and Transport</li> <li>• Sustainable Farm Families Program</li> <li>• Taking Action on Problem Gambling</li> </ul>

**Figure H1**  
**Reports tabled 2006–07 to 2010–11 against Growing Victoria Together goals – continued**

December 2006– June 2007	2007–08	2008–09	2009–10	July 2010– November 2010
<b>Vibrant democracy</b>				
<ul style="list-style-type: none"> <li>• Results of Financial Statement Audits for Agencies with 30 June 2006 Balance Dates</li> <li>• Managing Risk Across the Public Sector: Toward Good Practice</li> <li>• Public Hospital Financial Performance and Sustainability</li> <li>• Raising and Collection of Fees and Charges by Departments</li> <li>• Results of Financial Statement Audits for Agencies with other than 30 June 2006 Balance Dates</li> </ul>	<ul style="list-style-type: none"> <li>• Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2006–07</li> <li>• Local Government: Results of the 2006–07 Audits</li> <li>• Parliamentary Appropriations: Output Measures</li> <li>• Performance Reporting by Public Finance Corporations</li> <li>• Performance Reporting in Local Government</li> <li>• Project Rosetta (Streams 1 and 2)</li> <li>• Records Management in the Victorian Public Sector</li> <li>• Results of Financial Statement Audits for Agencies with 30 June 2007 Balance Dates</li> <li>• Results of Audits for Entities with other than 30 June 2007 Balance Dates</li> </ul>	<ul style="list-style-type: none"> <li>• Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2007–08</li> <li>• Claims Management by the Victorian WorkCover Authority</li> <li>• Governance and Fraud Control within Selected Adult Education Agencies</li> <li>• Local Government: Results of the 2007–08 Audits</li> <li>• Results of Audits for Entities with 30 June 2008 Balance Dates</li> <li>• Results of Audits for Entities with other than 30 June 2008 Balance Dates</li> <li>• Withdrawal of Infringement Notices</li> </ul>	<ul style="list-style-type: none"> <li>• Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2008–09</li> <li>• Fees and Charges—cost recovery by local government</li> <li>• Local Government: Results of the 2008–09 Audits</li> <li>• Maintaining the Integrity and Confidentiality of Personal Information</li> <li>• Managing the Requirements for Disclosing Private Sector Contracts</li> <li>• Performance Reporting by Departments</li> <li>• Portfolio Departments and Associated Entities: Results of the 2008–09 Audits</li> <li>• Public Hospitals: Results of the 2008–09 Audits</li> <li>• Tendering and Contracting in Local Government</li> <li>• Tertiary Education and Other Entities: Results of the 2009 Audits</li> <li>• Water Entities: Results of the 2008–09 Audits</li> </ul>	<ul style="list-style-type: none"> <li>• Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2009–10</li> <li>• Business Continuity Management in Local Government</li> <li>• Local Government: Interim Results of the 2009–10 Audits</li> <li>• Portfolio Departments: Interim Results of the 2009–10 Audits</li> <li>• Public Hospitals: Interim Results of the 2009–10 Audits</li> <li>• Water Entities: Interim Results of the 2009–10 Audits</li> </ul>

# Appendix I.

## *Audit Act 1994* section 7A— comments

**COMMENTS provided by the Public Accounts Estimates Committee (PAEC)**

PARLIAMENT OF VICTORIA  
Public Accounts & Estimates Committee



1 May 2012

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 Draft Annual Plan 2012-13**

On behalf of the Committee, I wish to thank you for providing the Committee with a final draft of your Annual Plan for 2012-13 and for your attendance at Committee meetings in December 2011 and in March this year. The draft provides the Parliament with a comprehensive view of the proposed audit coverage of the Victorian public sector by your Office over the next four years.

The Committee also appreciates the consideration and detailed response provided to the questions and comments raised by the Committee at our March meeting and in correspondence with your Office and notes that a number of the matters raised will be considered by your Office in the development of next year's Annual Plan.

Following a review of the detailed response provided to the Committee by your Office on 13 April 2012, the Committee now takes the opportunity, under Section 7A(5) of the *Audit Act 1994*, to reiterate some final comments for inclusion in your Annual Plan 2012-13 (refer Attachment A).

You may wish to provide a response to the matters raised in the attachment when submitting your Annual Plan 2012-13 to the Parliament.

Should you have any queries on the matters raised, please do not hesitate to contact me.

Yours sincerely,

Philip R. Davis MP  
Chairman

**COMMENTS provided by PAEC – continued**

**Attachment A**

**Comments from the Public Accounts and Estimates Committee on the Victorian Auditor-General's Draft Annual Plan 2012-13**

In the main, comments on the draft Annual Plan relate to the timing of audits listed in the Plan over the next four years and to suggested areas of review for inclusion. The Committee acknowledges that the Auditor-General has noted the comments made by the Committee and has indicated that a number of suggestions will be considered during the development of the Office's next Annual Plan.

The Committee makes the following comments in relation to the Victorian Auditor-General's Office Annual Plan 2012-13.

**1. The Committee questions the timing of the following two audit reviews:**

- *Flood response and recovery: Value for money from State and Federal relief funds (2012-13)*
- *Operation of the Charter of Human Rights and Responsibilities (2013-14)*

The Comrie Review of Flood warnings and response (*The Review of the 2010-11 Flood Warnings and Response*) was undertaken during 2011 with the final report, containing 93 recommendations, handed down in December 2011.

In September 2011, the Scrutiny of Acts and Regulations Committee of the Parliament undertook an inquiry into the first four years operation of the Charter of Human Rights and Responsibilities (*Review of the Charter of Human Rights and Responsibilities Act 2006*) to which the Government has recently responded (March 2012).

The Committee questions the timing of the proposed audits given recent extensive and detailed scrutiny of these areas and expresses concerns that the agencies responsible for these areas may be subject to "review overload", assigning significant resources responding to these "additional" reviews whilst seeking to implement the recommendations of previous reviews.

While the Committee considers that audits in these areas would be appropriate at a later point in the planning cycle, it is sufficiently concerned and is of the view that there are a number of alternative high priority areas of audit focus which could be covered in the shorter term instead.

**2. The Committee suggests the following audits be brought forward in the Annual Plan:**

- *Online Fraud and Internet Crime (2015-16)*

The Committee considers that this topic is of significant public interest and warrants review by the Auditor-General earlier than proposed in the Annual Plan. The Committee requested that the Auditor-General consider bringing the timing of the audit forward.

**COMMENTS provided by PAEC – continued****3. The Committee suggested the following audit areas be included in the Annual Plan (2012-13 to 2015-16):**

- *Efficiency measures and achievement of targeted savings across the public sector* – The Government has identified a range of savings measures directed at reducing public sector expenditure. The Committee considers that there is merit for the undertaking of a performance audit during the four-year planning period, of savings achieved by departments and the effectiveness of such measures. A review of the success of previous savings strategies across departments and identification of lessons learned is considered worthwhile and particularly relevant.
- *Patient access management practices in public hospitals* – The Annual Plan includes an audit in 2015-16 referred to as 'Reporting hospital performance'. The Committee's follow up review of 'Access to Public Hospitals: Measuring Performance' in February 2012 recommended that any future audit of public hospital performance relating to "patient access" include on site examination and assessment of the effectiveness of actual access management practices, beyond an assessment of performance measures and associated reporting in this area by hospitals.
- *Literacy and numeracy standards and performance in Victorian schools* – The Committee notes the audit undertaken by the Auditor-General in February 2009. The recent Gonski report prepared for the Australian Government raised concerns about falling standards in reading, scientific and mathematical literacy amongst Australian students.

The achievement of improved standards of literacy and numeracy is at the heart of the prime objectives of school education and is an area which has received significant public investment in Victoria over the last 10 years. For these reasons, the Committee considers it to be an important area for inclusion in the Office's work programme over the next four years.

- *Effectiveness of road safety initiatives directed at young drivers* – The Committee notes that "road safety" audits reported in 2011 have covered: Motor cycle and Scooter safety; the operation of Road Safety Cameras; and developing cycling as a safe mode of transport.

Whilst, the Committee notes that the Annual Plan identifies *Improving Road Safety on Victoria's roads* as an area of focus for 2014-15, it suggests that the effectiveness of road safety initiatives directed at young drivers in particular is an area of significant public interest which hasn't been covered by the Auditor-General in recent years.

**VAGO response to PAEC's comments**

Figure I1 sets out the matters raised by PAEC in the above correspondence and VAGO's comments.

**Figure I1**  
**Matters raised by PAEC, May 2012**

PAEC suggestions for the 2012–13 Annual Plan		VAGO comment
Area of audit focus	PAEC comment	May 2012
Flood response and recovery: Value-for-money from state and federal relief funds 2012–13	The Committee questions the timing of the proposed audit given the handing down of the Comrie Review of Flood warnings and response in December 2011 and expresses concerns that the agencies may be assigning resources in response to this audit whilst seeking to implement the recommendations of the review. The Committee considers that an audit would be appropriate at a later point in the planning cycle.	As advised to PAEC on 13 April 2012, the proposed audit differs from the Comrie Review as it will examine the effectiveness, efficiency and economy of relief and recovery projects—i.e. whether they are achieving value-for-money.  The timing of this audit is driven by our assessment of when audit activity will be most effective for this program of expenditure, considering both the workload of agencies and the value of audit assurance.
Operation of the Charter of Human Rights and Responsibilities 2013–14	The Committee questions the timing of the proposed audit given the recent Government response in March 2012 to the Parliamentary inquiry into the Charter of Human Rights and Responsibilities and expresses concern that agencies may be assigning resources in response to this audit whilst seeking to implement the recommendations of the inquiry. The Committee considers that an audit would be appropriate at a later point in the planning cycle.	VAGO has noted the terms of reference of the Parliamentary inquiry and the government's response.  The proposed audit will assess effectiveness of the Department of Justice in meeting its responsibilities under the Charter, processes in place to meet the Charter's objectives and the impact of the Charter on service delivery.  This audit topic was identified in our program in 2011–12. VAGO does not consider that there is any compelling reason to delay this audit to a later year.
Online fraud and internet crime 2015–16	The Committee considers that this topic is of significant public interest and warrants review by the Auditor-General earlier than proposed in the Annual Plan.	As advised to PAEC on 26 March and 13 April 2012, VAGO notes the community concern expressed about this issue, but also recognises that law enforcement of criminal activity arising from online crime is led by the Commonwealth in a multi-jurisdictional environment.  This audit is a new topic, and as per our usual practice it has been introduced to the program in a later year to encourage agencies to address this issue and prepare for the audit.

**Figure I1**  
**Matters raised by PAEC, May 2012 – continued**

PAEC suggestions for the 2012–13 Annual Plan		VAGO comment
Area of audit focus	PAEC comment	May 2012
Efficiency measures and achievement of targeted savings across the public sector	The Committee considers that there is merit in undertaking a performance audit during the four-year planning period, of savings achieved by departments and the effectiveness of such measures.	As advised to PAEC on 13 April 2012, the need to make savings is important context for much of the audit program. Most performance audits consider the efficiency of government programs and operations. VAGO has an audit scheduled in 2013-14 on <i>Shared services</i> which may consider the question of broader savings due to the consolidation of back office functions.
Patient access management practices in public hospitals	The Annual Plan includes an audit in 2015–16 referred to as 'Reporting hospital performance'. The Committee's follow up review of 'Access to Public Hospitals: Measuring Performance' in February 2012 recommended that any future audit of public hospital performance relating to 'patient access' include on site examination and assessment of the effectiveness of actual access management practices, beyond an assessment of performance measures and associated reporting in this area by hospitals.	As advised to PAEC on 13 April 2012, the intent of the proposed audit is to examine hospital performance reporting beyond access indicators, i.e. to also examine the application and value of performance reporting encompassing safety, quality, health outcomes and consumer experience. This proposed audit will undoubtedly include on-site examination and assessment of the effectiveness of management practices, performance measures and associated reporting. The proposed timing for this audit takes into account the new challenges arising from national health reforms.
Literacy and numeracy standards and performance in Victorian schools	The Committee considers the achievement of improved standards of literacy and numeracy to be an important area for inclusion in the Office's work programme over the next four years.	As advised to PAEC on 13 April 2012, numeracy standards are being assessed as part of the current audit of <i>Science and mathematics participation rates and initiatives</i> . The planned audit of <i>School performance</i> will also address aspects of literacy and numeracy standards and performance. Literacy and numeracy achievement is a key issue that is examined on a yearly basis as part of VAGO's environmental scan of the education sector.
Effectiveness of road safety initiatives directed at young drivers	The Committee suggests that the effectiveness of road safety initiatives directed at young drivers in particular is an area of significant public interest which hasn't been covered by the Auditor-General in recent years.	As advised to PAEC on 13 April 2012, this suggestion will be considered when scoping the proposed 2014-15 audit on <i>Improving safety on Victoria's roads</i> .