Annual Plan 2015–16

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

Contents

Auditor-General's comments

I am pleased to present my Annual Plan for 2015–16.

This annual plan is a key accountability document for my office. It is my statement of intention to the Victorian Parliament and the citizens on what we will scrutinise this year in our role of holding the Victorian public sector to account. It covers the reports we are proposing to produce in 2015–16, and also the topics we are considering for the following year.

As always, we have consulted extensively to develop this plan, focusing on doing the right audits at the right time to make a difference. This coming year we will report on audits of East West Link, bullying and harassment in the health sector, managing the risks and impacts of unconventional gas, and the administration of parole, among many other important topics.

My annual plan is designed to strike a balance between predictability and flexibility. My office monitors issues across the public sector, which I review at least every six months to determine whether adjustments need to be made.

While I will use my discretionary powers to ensure this plan is nimble and well targeted, the resources available to my office remain a challenge, and the restrictions of my legislation prevent me from giving the best value to Victorians.

Further enhancing my office's impact should not be done at the expense of other areas of audit activity. At this stage, my requests for modest increases in budget have not been accepted, but I will continue to press our case for further support.

I cannot fully audit public money provided by the Victorian Government to not-for-profit or for-profit organisations delivering government services. Several other Australian jurisdictions have amended their audit legislation in recent years to provide follow-the-dollar powers. Victoria has been a leader in public auditing—but now lags well behind.

Effective follow-the-dollar powers—the power to audit any recipient of resources, powers or functions distributed by Parliament unfettered by any interference from the Executive Government or Parliament—must be introduced to ensure that Parliament and citizens are receiving assurance that resources are used effectively, efficiently and economically. Fulsome and effective legislative change will see Victoria again emerge at the forefront of public assurance best practice.

I am encouraged by the reassurance provided by government that, in 2015, they will provide me with legislated follow-the-dollar powers, and other amendments to integrate the work of my office with other independent integrity bodies—with a full rewrite of the *Audit Act 1994* to follow. I look forward to this commitment being delivered in consultation with my office.

In addition to the audits mentioned earlier, this year's audit program has a strong focus on infrastructure and information and communications technology.

Infrastructure investment is a key foundation of Victoria's economy, with the current government announcing an ambitious infrastructure program in the recent Budget. This year's audit program continues to put a spotlight on the adequacy of the public sector to choose, plan, implement and evaluate the success of these projects.

My 2014–15 report *Digital Dashboard: Status Review of ICT Projects and Initiatives* found that information and communications technology expenditure for Victorian government agencies was over 4 per cent (more than $3 billion) of the state's average annual operating expenditure, yet there continues to be significant weaknesses in the delivery and benefit realisation of these projects. Such a significant investment requires a high level of scrutiny to ensure Victorians receive value for money.

Our core business, financial audit, will continue to deliver a diverse range of auditing and assurance services. We will focus on financial sustainability, fraud risk assessment and control, asset management, and outsourcing, among other topics.

While my audit program for the coming year is the focus of this document, my priority overall is to strengthen and improve this office—leave it an even better organisation than the one I walked into two years ago.

To achieve this, legislative reforms and resources are critical, and so is developing our people. This coming year we will focus on our own staff development and training. My office has a high calibre team, and we will be ensuring they have access to the development and training opportunities they need to remain role models in the public sector.

We are actively seeking to more effectively communicate my role as Auditor-General, and the work of my office. You can learn about our audits and other work through short audio-visual PowerPoint presentations, short videos and by requesting tailored material.

This annual plan gives you the opportunity to scrutinise my work program. I invite your comments on this year's plan and your ideas for future work, as well as your thoughts about how we can improve our communication and engagement with you. Please feel free to write to me.

John Doyle
Auditor-General

24 June 2015

Proposed VAGO reports to Parliament and other key publications 2015–16 and 2016–17

2015–16	2016–17
Information and Communications Technology	
Delivering services to citizens and consumers via devices of personal choice: Phase 2	Digital Dashboard: Status review of major ICT projects and initiatives
Digital Dashboard: Status review of major ICT projects and initiatives	**ICT strategic planning**
University student management systems	**Security of infrastructure control systems for water and/or transport**
Financial systems controls report	Financial systems controls report
Sector-wide	
Access to public sector information	High Value High Risk
Applying the High Value High Risk process to unsolicited proposals	**Managing public sector records**
High Value High Risk	Public participation in government decision-making
Implementing the gifts, benefits and hospitality framework	Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2015–16
Reducing the burden of red tape	Portfolio Departments and Associated Entities: 2015–16 Audit Snapshot
Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2014–15	
Portfolio Departments and Associated Entities: 2014–15 Audit Snapshot	
Economic Development	
Regional Growth Fund: Outcomes and learnings	**Meeting workforce skill gaps through migration programs**
Education	
Department of Education and Training: Strategic planning	**Managing school infrastructure**
Effectiveness of school governance	**University grants**
Grants to non-government schools	Technical and Further Education Institutes: 2016 Audit Snapshot
Technical and Further Education Institutes: 2015 Audit Snapshot	Universities: 2016 Audit Snapshot
Universities: 2015 Audit Snapshot	
Environment	
Biosecurity: Livestock	Enhancing food and fibre productivity
Monitoring Victoria's water resources	**Managing bushfire threats to Victoria: Planned burning**
Unconventional gas: Managing risks and impacts	**Meeting obligations to protect Ramsar wetlands**
Water Entities: 2014–15 Audit Snapshot	**Nature-based tourism: Sustainable development on public land**
	Water Entities: 2015–16 Audit Snapshot
Health	
Bullying and harassment in the health sector	Chronic disease management: Dementia
Hospital performance: Length of stay	**Efficiency and economy of pathology services in public hospitals**
Patient safety in Victorian hospitals	Improving timely access to dental services in Victoria
Public Hospitals: 2014–15 Audit Snapshot	**Managing drug and alcohol prevention and treatment services**
	Public Hospitals: 2015–16 Audit Snapshot
Human Services	
Diverting young people from the criminal justice system	**Managing Victoria's public housing**
Justice	
Administration of court non-judicial functions	**Management of community correction orders**
Administration of parole	**Regulating gambling and liquor**
Victorian Electoral Commission	
Local Government	
Local government service delivery: Recreational facilities	**Public participation and community engagement: Local government sector**
Local government: 2014–15 Audit Snapshot	Local government: 2015–16 Audit Snapshot
Planning	
	Managing Victoria's developer contributions
	Managing Victoria's planning system for land use and development
	Planning for growth
Transport	
East West Link	**Effectively managing freight growth**
Managing and reporting on the performance and cost of transport capital projects	**Improving safety on Victoria's roads**
Public safety on Victoria's train system	**Managing the performance of rail franchisees**
Follow-up program	
Responses to 2012–13 and 2013–14 performance audit recommendations	Responses to 2012–13, 2013–14 and 2014–15 performance audit recommendations
Collections management in cultural agencies	Three limited scope follow-up audits
Managing major projects	
Occupational health and safety in schools	
Three additional limited scope follow-up audits	
Governance program	
Audit committee governance	Internal audit programs
	Board performance
VAGO accountability products	
Annual Plan 2016–17	Annual Plan 2017–18
Annual Report 2014–15	Annual Report 2015–16
Note: Bold text indicates a new report not in the previous annual plan	Grey shading indicates Financial Audit reports

Thematic Overview of Proposed VAGO reports to Parliament 2015–16 and 2016–17

2015–16	2016–17
1. Governance and Accountability	
Effectiveness of school governance	**Public participation and community engagement: Local government sector**
Grants to non-government schools	Public participation in government decision-making
Victorian Electoral Commission	**University grants**
Local government: 2014–15 Audit Snapshot	Local government: 2015–16 Audit Snapshot
Portfolio Departments and Associated Entities: 2014–15 Audit Snapshot	Portfolio Departments and Associated Entities: 2015–16 Audit Snapshot
Public Hospitals: 2014–15 Audit Snapshot	Public Hospitals: 2015–16 Audit Snapshot
Technical and Further Education Institutes: 2015 Audit Snapshot	Technical and Further Education Institutes: 2016 Audit Snapshot
Universities: 2015 Audit Snapshot	Universities: 2016 Audit Snapshot
Water Entities: 2014–15 Audit Snapshot	Water Entities: 2015–16 Audit Snapshot
Responses to 2012–13 and 2013–14 performance audit recommendations [follow-up program]	Responses to 2012–13, 2013–14 and 2014–15 performance audit recommendations [follow-up program]
Managing major projects [follow-up program]	**Internal audit programs [governance program]**
Audit committee governance [governance program]	**Board performance [governance program]**
2. Information and Communications Technology	
Delivering services to citizens and consumers via devices of personal choice: Phase 2	Digital Dashboard: Status review of major ICT projects and initiatives
Digital Dashboard: Status review of major ICT projects and initiatives	**ICT strategic planning**
Monitoring Victoria's water resources	**Security of infrastructure control systems for water and/or transport**
University student management systems	Financial systems controls report
Financial systems controls report	
3. Quality control, regulation and compliance	
Access to public sector information	**Efficiency and economy of pathology services in public hospitals**
Biosecurity: Livestock	**Managing public sector records**
Bullying in the health sector	Managing Victoria's planning system for land use and development
Hospital performance: Length of stay	**Regulating gambling and liquor**
Implementing the gifts, benefits and hospitality framework	
Patient safety in Victorian hospitals	
Public safety on Victoria's train system	
Unconventional gas: Managing risks and impacts	
Occupational health and safety in schools [follow-up program]	
Reducing the burden of red tape	
4. Infrastructure and Public Private Partnerships	
Administration of court non-judicial functions	**Effectively managing freight growth**
Applying the High Value High Risk process to unsolicited proposals	High Value High Risk
East West Link	**Managing school infrastructure**
High Value High Risk	**Managing the performance of rail franchisees**
Local government service delivery: Recreational facilities	**Managing Victoria's developer contributions**
Managing and reporting on the performance and cost of transport capital projects	**Managing Victoria's public housing**
Regional Growth Fund: Outcomes and learnings	**Meeting obligations to protect Ramsar wetlands**
	Nature-based tourism: Sustainable development on public land
	Planning for growth
5. Other	
Administration of parole	Chronic disease management: Dementia
Diverting young people from the criminal justice system	Enhancing food and fibre productivity
Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2014–15	Improving timely access to dental services in Victoria
	Management of community correction orders
Collections management in cultural agencies [follow-up program]	**Managing bushfire threats to Victoria: Planned burning**
Three additional limited scope follow up audits [follow-up program]	**Managing drug and alcohol prevention and treatment services**
	Meeting workforce skill gaps through migration programs
	Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2015–16
	Three limited scope follow-up audits [follow-up program]
Note: Bold text indicates a new report not in the previous annual plan	Grey shading indicates Financial Audit reports

Further information on the VAGO audit themes is available in Section 1.4.

1. Our products and services

1.1 Role of the Auditor-General

The role of the Auditor-General is to provide independent assurance to Parliament and the Victorian community on the financial integrity and performance of the state. We do this primarily by undertaking financial audits and performance audits of public sector entities. The entities themselves are accountable to Parliament for their use of public resources and the powers conferred on them by Parliament.

1.2 Guiding legislation

The principal pieces of legislation governing and guiding the Auditor-General and the Victorian Auditor-General's Office (VAGO) are the:

- *Constitution Act 1975*, which establishes the role of the Auditor-General and gives the Auditor-General complete discretion in the performance and exercise of his functions and powers
- *Audit Act 1994*, which establishes the Auditor-General's mandate, provides the legal basis for his powers, and identifies the Auditor-General's responsibilities.

Under the *Audit Act 1994*, the Auditor-General has the power to audit departments, public bodies, councils and other entities controlled by the state or a public body.

The key responsibilities of the Auditor-General as established by legislation are:

- financial audits
- performance audits
- publications for accountability and reporting purposes, such as the annual plan and annual report.

In addition, to increase the impact of our audits, the Auditor-General conducts other audit and accountability activities that relate to his primary responsibilities.

1.2.1 The need for legislative change

A vigilant, independent integrity system is critically important for Victorians to trust and hold their governments to account. This is why the work of the Auditor-General is so vital.

The *Audit Act 1994* is now seriously out of date and is failing to keep pace with contemporary trends in public service delivery. For more than six years now, this has been the message supported by the current Auditor-General and his three immediate predecessors.

Follow-the-dollar powers

The most critical reform VAGO is seeking is 'follow-the-dollar' powers—the power to audit any recipient of resources distributed by Parliament, or any activity conducted under government auspices.

The Parliament of Victoria distributes significant resources, powers and functions, including over $60 billion annually to a range of government departments and agencies. Parliament should have assurance that these resources and powers are used effectively, efficiently and economically. As part of providing this assurance, the Auditor-General has the power to conduct performance audits on behalf of Parliament which assess and conclude on these aspects.

The Auditor-General's powers around the conduct of audits should be consistent with a modern contemporary audit office operating in a public sector environment that is complex and extended.

Due to limitations in the *Audit Act 1994*, however, VAGO cannot fully audit the use of resources provided by the Victorian Government to not-for-profit or for-profit organisations delivering government services on commercial terms.

In particular, public private partnerships, known as PPPs, and non-government organisations delivering services on behalf of government are aspects of government that VAGO cannot fully audit under the existing audit legislation. The materiality of these aspects of government service delivery is significant—for example, there is currently over $36 billion of taxpayers' money committed through contracted PPPs. This means assurance about the use of public resources for these activities is beyond VAGO's scrutiny and therefore, the scrutiny of Parliament and citizens.

Some recent audits would have benefitted from follow-the-dollar powers. For example:
- our May 2015 *Tendering of Metropolitan Bus Contracts* audit could not verify the data reported by the metropolitan private sector bus operators about their performance
- our October 2013 *Prevention and Management of Drug Use in Prisons* audit did not review two of the prisons with the highest risk for drug issues because we could not compel the private prison to grant us access to their documents.

The government has promised to provide the Auditor-General with legislated follow-the-dollar powers in 2015. This will lead to a change in VAGO's performance audit practice, which will be considered in the development of next year's annual plan. VAGO might also use these powers on audits commencing conduct in 2015–16, as part of a pilot on our practices in relation to follow-the-dollar powers. Any agencies and other bodies involved will be given ample advance notice and extensive engagement.

Necessary reforms

There are a range of other necessary reforms to the *Audit Act 1994*, including:
- simplifying the requirements for consultation with Parliament and Executive Government prior to the commencement of an audit
- reforming the integrity system in Victoria to ensure that VAGO is both effective and independent
- the power to undertake collaborative audits with other Auditors-General and to conduct collaborative investigations with other integrity bodies
- greater discretion of the Auditor-General about what is included in reports to Parliament.

More information about the reforms VAGO is seeking to the *Audit Act 1994* is available on our website at http://www.audit.vic.gov.au.

1.3   Our funding, outputs and targets

The resources allocated to VAGO each year to deliver our products and services are determined through Victoria's annual Budget process. Under the State Budget framework, our resourcing is based on two output groups:

*   **Output 1: Parliamentary reports and services**—this includes our reports to Parliament on both performance and financial audits, as well as our response to inquiries from Parliament and the public.
*   **Output 2: Audit reports on financial statements**—this covers activities related to our financial audit function (see Section 1.7).

Performance measures for these VAGO outputs are published each year in the State Budget Papers and are reproduced in Figures 1A and 1B. We will report on achievement of these targets in our annual report.

More information on the planned outputs of our financial and performance audit functions is included in Parts 4 and 5 of this annual plan.

Figure 1A
Output 1: Parliamentary reports and services

Performance measure	Unit of measure	2015–16 target	2014–15 expected outcome	2014–15 target	2013–14 actual
Quantity					
Auditor-General's reports	number	36	36	36	37
Quality					
Average score of audit reports by external/peer assessors	per cent	80	80	80	84
Overall level of external satisfaction with audit reports and services—Parliamentarians	per cent	85	85	85	90
Timeliness					
Inquiries from Members of Parliament and the public responded to within 28 days	per cent	95	95	95	98
Reports completed on time	per cent	90	90	90	95
Cost					
Total output cost	**$ million**	**16.7**	**16.3**	**15.7**	**15.1**
The higher 2015–16 target reflects indexation and the cost of implementation of the Auditor-General's change management initiative.					

Source: 2015–16 Budget Papers.

Figure 1B
Output 2: Audit reports on financial statements

Performance measure	Unit of measure	2015–16 target	2014–15 expected outcome	2014–15 target	2013–14 actual
Quantity					
Audit opinions issued on non-financial performance indicators	number	110	109	115	114
The lower 2015–16 target reflects the reduction in the number of Technical and Further Education (TAFE) entities. The 2014–15 expected outcome is lower than the 2014–15 target for the same reasons; furthermore, one TAFE entity did not report in 2014–15.					
Audit opinions issued on the financial statements of agencies	number	547	559	559	554
The lower 2015–16 target reflects the cessation of some audited entities, merger of other entities and the addition of new entities subject to audit.					
Quality					
External/peer reviews finding no material departures from professional and regulatory standards	per cent	100	100	100	100
Timeliness					
Audit opinions issued within statutory deadlines	per cent	98	98	98	100
Management letters issued to agencies within established time frames	per cent	90	90	90	93
Management letters are issued to audited agencies on matters arising from the audits, including observations about the quality of internal controls in place, accounting issues and compliance with applicable laws and standards.					
Cost					
Total output cost	**$ million**	**24.1**	**23.5**	**24.0**	**23.8**
The higher 2015–16 target reflects indexation, which is partly offset by a reduction in the cost of audit service providers.					

Source: 2015–16 Budget Papers.

1.4   Audit themes

In 2014–15, the Auditor-General decided to give VAGO's annual plan a greater strategic focus through the addition of a thematic approach to the selection of topics and areas of focus. While the development of the annual plan centres on identifying sector-specific issues through environmental scanning, stakeholder consultation and desktop research, the introduction of a thematic approach assists in prioritising topics and areas of focus by considering overarching themes as an additional aspect when devising and prioritising our work program.

1.4.1 Themes

VAGO will aim to keep themes stable for the next three years to enable comparability over time and assess the impact of audits in particular areas. Planned annual reviews will, however, consider if there is a specific requirement to vary, add, remove or substitute any themes. In selecting the themes consideration was given to:

- risks identified during our 2014–15 audit planning
- correspondence on issues relevant to Victoria
- analysis of other jurisdictions
- results of our work on identifying key themes across audit findings.

The 2015–16 selected themes are outlined below.

Governance and accountability

Today's government is complex and interconnected, and citizens expect high levels of accountability as well as coordinated service delivery across agencies. Governance weaknesses have been a recurring issue revealed in departments over many years. As a result of this, VAGO has developed a governance program which will include an audit stream as part the initiative. The audits proposed as part of this initiative are:

- *Audit committee governance* (2015–16)
- *Board performance* (2016–17)
- *Internal audit program* (2016–17).

In addition to this new initiative, a selection of other audits that come under the governance and accountability theme include:

- *Effectiveness of school governance* (2015–16)
- *Meeting obligations to protect Ramsar wetlands* (2016–17)
- *Public participation in government decision-making* (2016–17).

For further information on our governance program, see Section 1.5, or see Section 5.2 for additional information on our audit topics.

Information and communications technology

The Victorian public sector does not have a good track record with information and communications technology (ICT) projects. A number of previous audits, including the *Digital Dashboard: Status Review of ICT Projects and Initiatives 2014–15* and the *Information and Communication Technology Controls Report 2014–15*, highlighted persistent weaknesses in the planning and implementation of ICT projects, which often incur substantial delays and cost overruns.

Despite significant expenditure in ICT, most agencies and entities provide little, if any, public information specifying their activities and spend. This lack of transparency makes it difficult to determine whether ICT investments have enhanced government services and whether public resources have been spent in an efficient, effective and economical way. As a result, in addition to undertaking the *Digital Dashboard* and *Financial systems controls report*, we will be increasing the focus on this area in 2015–16 and 2016–17 by undertaking the following audits:

- *University student management systems* (2015–16)
- *ICT strategic planning* (2016–17)
- *Security of infrastructure control systems for water and/or transport* (2016–17).

Further information on these audits is available in Section 5.2.

Quality control, regulation and compliance

Evolving complex regulatory frameworks require adequate accountability and responsibility for ensuring these frameworks are followed and complied with. Previous audits have found regulators needed to strengthen enforcement and compliance and also provide examples of where there is no routine compliance monitoring or alternatively, inadequate monitoring, leading to little enforcement activity. Proposed audits for 2015–16 and 2016–17 that fall under this theme include:

- *Access to public sector information* (2015–16)
- *Patient safety in Victorian hospitals* (2015–16)
- *Regulating gambling and liquor* (2016–17).

Further information on these audits is available in Section 5.2.

Infrastructure and public private partnerships

Victoria has experienced significant population growth over the past decade, primarily driven by migration from other states and overseas. This population increase requires a commensurate growth in service delivery. This creates some challenges both in terms of managing and maintaining existing infrastructure and assets, as well as investing in new infrastructure that will meet future needs. This includes investments in high-cost infrastructure for roads, public transport, schools and health facilities. As a result, the Victorian Government is investing in infrastructure with more and more capital projects being undertaken using PPP arrangements.

While VAGO has always undertaken audits examining issues related to major infrastructure projects, due to the increasing investment in infrastructure and the rising number of capital projects we will be increasing our focus in this area in 2015–16 and beyond. Accordingly, the annual plan includes a number of audits in this area:

- *Applying the High Value High Risk process to unsolicited proposals* (2015–16)
- *East West Link* (2015–16)
- *Managing and reporting on the performance and cost of transport capital projects* (2015–16)
- *Effectively managing freight growth* (2016–17)
- *High Value High Risk* (2015–16 and 2016–17)
- *Planning for growth* (2016–17)
- *Managing school infrastructure* (2016–17)
- *Managing Victoria's public housing* (2016–17).

We expect that we will continue to focus on major projects going forward and will be looking to build our capability in examining details around the efficient and effective planning, implementation and financing of infrastructure projects.

1.4.2 Thematic options

In the 2015–16 annual plan, performance audit topics may fall under three different thematic options as outlined below.

Specific themes

Some audits are based on a specific theme and may be looked at over a number of years, at the end of which an overarching report may be produced. An example of this would be topics concerning governance and accountability, such as effectiveness of school governance.

Topics attached to a theme

Some audits may have a theme attached to them, where information on a particular topic is gathered and used as case studies in the final report. For example, an audit may look at public safety on Victoria's train system and a work program on information technology could also be added to that topic.

Stand-alone topics

While a portion of the topics on the work program will align to one of the chosen themes, some topics may not be linked to a theme and will stand alone. These may be topics that are identified through stakeholder consultation or environmental scanning and are labelled as 'other' topics.
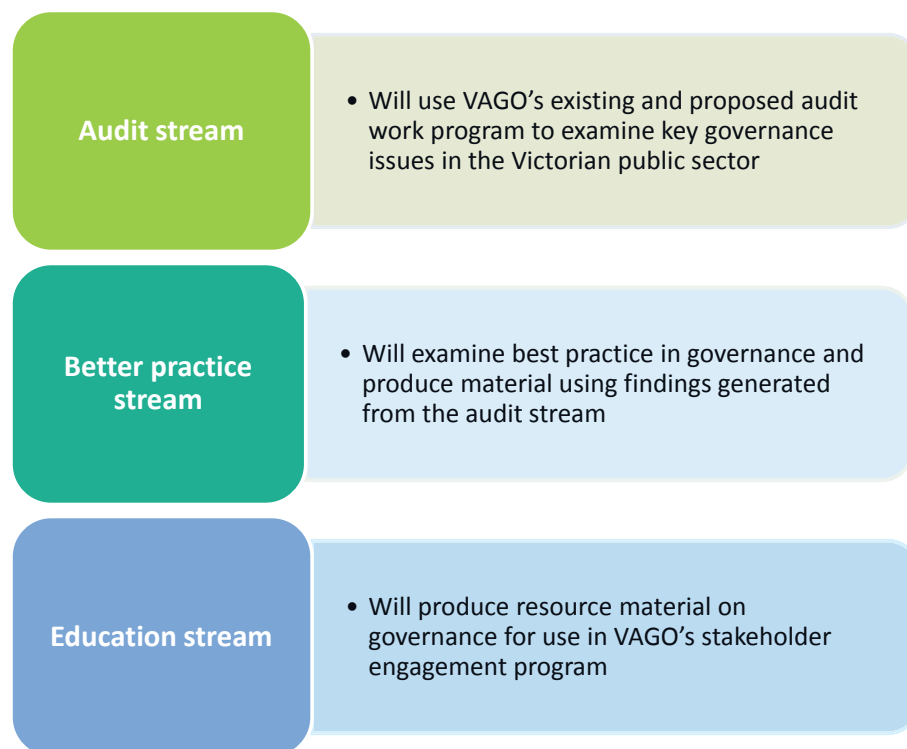
A thematic overview of the VAGO work program can be viewed on page 4.

1.5 Governance program

In 2015–16, VAGO will be developing a governance program. This program aims to demonstrate how audits are key governance tools that can contribute to an agency's understanding of good governance processes. The governance program was proposed by the Auditor-General due to the common theme of governance and accountability issues arising from audits. Its development has been informed through consultation with stakeholders and will consist of three separate but interconnected streams—an audit stream, a better practice stream and an education stream. The three streams of the governance program framework are shown in Figure 1C.

VAGO will be developing the better practice stream and the education stream in conjunction with other public sector agencies such as the Victorian Public Sector Commission.

Figure 1C
Governance program framework

Audit stream	• Will use VAGO's existing and proposed audit work program to examine key governance issues in the Victorian public sector
Better practice stream	• Will examine best practice in governance and produce material using findings generated from the audit stream
Education stream	• Will produce resource material on governance for use in VAGO's stakeholder engagement program

Audit stream

The audit stream will consist of:
- a package of limited scope performance audits focusing on governance
- a more explicit focus on governance in some audits from the performance audit and financial audit work program
- an overarching audit reviewing findings from VAGO's audit program on the governance and accountability theme.

Better practice stream

The better practice stream will seek to identify best practice in governance and accountability, with the findings produced as:
- guides that highlight best practice in governance
- references to governance checklists for agencies to use to assess their governance arrangements.

Education stream

The education stream will consist of:
- a package of resource material on the VAGO website that will include principles, references, useful links and fact sheets on governance
- presentations and broader stakeholder engagement activities.

1.6   Communication of findings

As part of supporting VAGO's core audit functions, we have a stakeholder engagement framework that aims to share the results of our audit findings and to encourage agencies to act on audit recommendations.

We engage with stakeholders through a range of mechanisms including briefings and presentations to Members of Parliament, integrity bodies and audited agencies. We communicate findings through presentations, meetings and one-on-one briefings to stakeholders, and also through the provision of media releases, submissions to inquiries and reviews, lectures, articles and occasional papers. We also provide information on our website—including reports, short videos and other summaries.

1.7   Financial audits

As custodians of public funds, public sector entities must be able to demonstrate that they have appropriate financial management practices. As such, entities are required to produce annual financial statements that are independently audited. As the external auditor of Victorian public sector entities, the Auditor-General has complete discretion about which public sector entities to audit. Key products produced through our financial audit function are summarised below.

1.7.1   Opinions on statements of public sector entities

The Auditor-General produces an opinion on whether the financial statements of public sector entities present fairly their financial position and the results of their operations for the year, in accordance with applicable standards and relevant reporting legislation.

Some entities are also required to prepare performance statements for auditing. These represent an entity's performance in achieving its objectives, through the measurement of achievement against key indicators. The Auditor-General produces an opinion on whether the performance statements are presented fairly in accordance with the relevant reporting requirements.

Financial audits are conducted in accordance with auditing standards issued by the Australian Auditing and Assurance Standards Board using a risk-based audit methodology. These standards include examination of an entity's controls around its financial reporting, as well as its compliance with applicable accounting standards. The *Audit Act 1994* also enables the Auditor-General to apply additional standards for the conduct of audits.

1.7.2   Opinion on the Annual Financial Report of the State of Victoria

The Annual Financial Report of the State of Victoria (AFR) gives the combined financial results of state-controlled entities and is therefore a key accountability document for informing Parliament and the public about the financial transactions and financial position of the state. The *Audit Act 1994* requires the Auditor-General to audit the AFR and express an opinion as to whether the information in the financial report is fairly presented in accordance with the relevant legislation and applicable Australian Accounting Standards.

1.7.3 Review of the Estimated Financial Statements of the Victorian general government sector

The *Audit Act 1994* requires the Auditor-General to review the Estimated Financial Statements of the Victorian general government sector and provide a report. The review is not an audit as it examines prospective information, and is a limited assurance engagement. The Auditor-General's review report is included in the state's Budget Papers.

The Auditor-General is required to provide a report on whether the statements:
• statements have been prepared on a basis consistent with the accounting policies on which they are stated to have been prepared
• statements are consistent with the target established for the state's key fiscal measures specified in them
• statements have been properly prepared on the basis of the assumptions stated
• methodologies used to determine those assumptions are reasonable.

1.7.4 Acquittals of funds

State agencies can receive funds from the Commonwealth Government for specific programs. In some cases the agreement between the state and Commonwealth governments requires the Auditor-General to acquit the expenditure of these funds. The Auditor-General provides an acquittal that monies have been received and spent in accordance with the established criteria for the program. This forms part of the state agency's reporting to the Commonwealth.

1.7.5 Parliamentary reports on the results of financial audits

At the conclusion of an audit cycle, VAGO tables reports in Parliament about the results of audits. The Auditor-General may include any information that he thinks is desirable in relation to matters subject to audit.

VAGO produces two types of financial Parliamentary reports on the results of audits:
• sector-based reports on the consolidated results of audits in a specific sector
• the Auditor-General's Report on the Annual Financial Report of the State of Victoria.

Information on our proposed financial audit program for 2015–16 and 2016–17 is available in Section 4.

1.8 Performance audits

Performance audits assess whether an agency is meeting its aims effectively, using its resources economically and efficiently, and complying with legislation. Performance audits extend beyond the examination of the financial affairs and transactions of a government agency to encompass wider management issues of significance to the community.

Performance audits may examine all or part of an agency's activities, or the activities of a number of agencies. They can provide assurance about activities that are performed well or represent better practice, and also identify opportunities for further improvement. Current legislative arrangements, however, limit our ability to examine private and not-for-profit entities that deliver projects, programs or services for the Victorian Government on commercial terms.

1.8.1   Standards and timing

Performance audits are conducted in accordance with relevant standards issued by the Australian Auditing and Assurance Standards Board. These standards cover planning, conduct, evidence, communication, reporting and other elements of performance audits.

Proposed performance audits are identified by the year in which the report is planned to table in Parliament and according to the areas of the public sector that they will cover.

A typical audit will take six to 10 months to complete, and a number of audits will start the year before tabling is scheduled. This is why we include a two-year program in the plan.
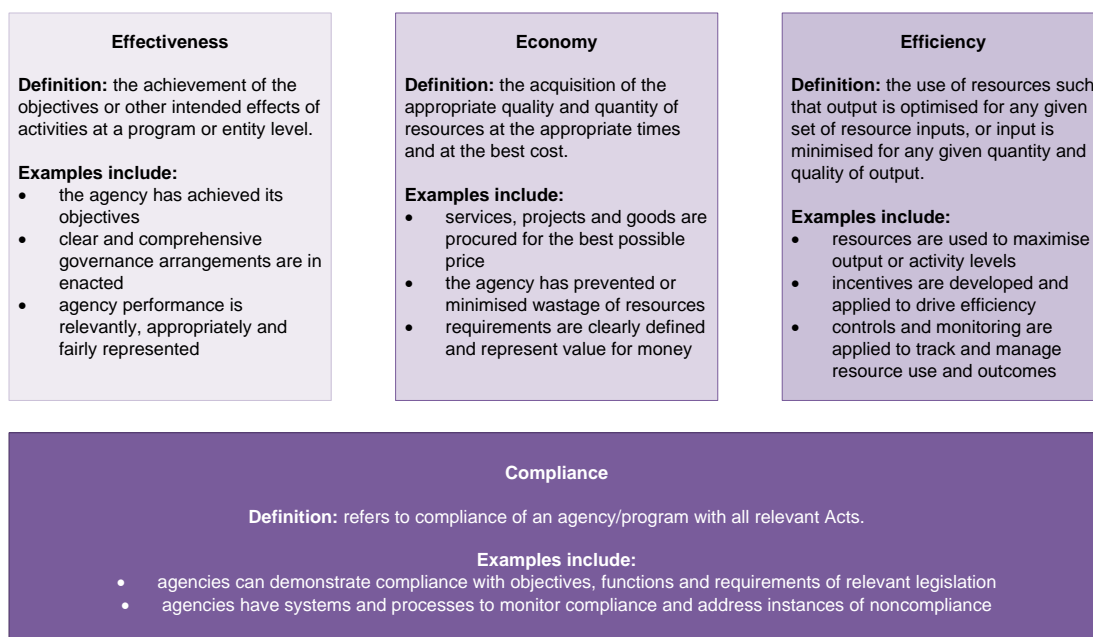
Further detail on our proposed performance audit program for 2015–16 and 2016–17, is available in Sections 3 and 5.

1.8.2   Proposed performance audit specifications

Sections 3.3.2 and 5.1.4 set out proposed specifications for our 2015–16 and 2016–17 performance audits. For each audit listed, we outline an objective for the audit and the issues we intend to examine. The *Audit Act 1994* requires us to consult with relevant agencies and the Public Accounts and Estimates Committee (PAEC) on these specifications.

To reach conclusions against our audit objectives we determine criteria against which to assess agency performance. We develop our audit criteria in accordance with requirements of the Australian Auditing and Assurance Standards Board and in consultation with the audited agencies. While criteria are specific to the audit topic and scope, our criteria often share common areas of focus. Figure 1D illustrates the types of criteria commonly included in performance audits.

Figure 1D
Performance audit common criteria

Effectiveness	Economy	Efficiency
Definition: the achievement of the objectives or other intended effects of activities at a program or entity level. **Examples include:** • the agency has achieved its objectives • clear and comprehensive governance arrangements are in enacted • agency performance is relevantly, appropriately and fairly represented	**Definition:** the acquisition of the appropriate quality and quantity of resources at the appropriate times and at the best cost. **Examples include:** • services, projects and goods are procured for the best possible price • the agency has prevented or minimised wastage of resources • requirements are clearly defined and represent value for money	**Definition:** the use of resources such that output is optimised for any given set of resource inputs, or input is minimised for any given quantity and quality of output. **Examples include:** • resources are used to maximise output or activity levels • incentives are developed and applied to drive efficiency • controls and monitoring are applied to track and manage resource use and outcomes

Compliance

Definition: refers to compliance of an agency/program with all relevant Acts.

Examples include:
• agencies can demonstrate compliance with objectives, functions and requirements of relevant legislation
• agencies have systems and processes to monitor compliance and address instances of noncompliance

Our proposed specifications also list the agencies we plan to include in our audits, and identify where an audit covers the activities of agencies that sit across more than one departmental sector.

1.8.3 Follow-up audits

To improve the accountability of agencies and encourage more timely implementation of recommendations VAGO is committed to following up on the actions taken by agencies to implement performance audit recommendations. This will also help to inform and target future audit work, and provide valuable insights to Parliament and the public. In 2015–16, we will extend the follow-up audit program by delivering our first limited scope follow-up audits as well as a number of broad scope follow-up audits.

The follow-up process has four phases.

Phase 1—Action plans

Nearing the end of a performance audit, a proposed draft of the report is provided to audited agencies. At this time, agencies are asked to provide a written response to the report and its recommendations for inclusion in the published report.

To help provide clearer and more detailed information on agency responses to audit recommendations, agencies are now requested to complete an action plan including:

- whether or not they accept the recommendation
- intended action to meet the recommendation
- time lines for the intended action.

This information then forms the basis for the ongoing follow-up program.

Phase 2—Audit of agency responses to recommendations

Starting one to two years after a performance audit is tabled, agencies will be asked to provide an update on their actions in response to recommendations. Agency responses will be collated and published annually along with an overarching analysis examining the extent to which agencies monitor and respond to audit recommendations and any evident trends in responses.

We will follow up on individual recommendations for three years, after which time the review process for those recommendations will cease. Where an agency has failed to adequately take action on a recommendation across the three years this would likely trigger a more detailed follow-up audit.

Phase 3—Limited-scope follow-up performance audits

These audits will seek evidence and assess it to verify agency self-reports about their actions in response to performance audit recommendations. The updates reported by agencies as previously described, the issues identified in the initial audit, as well as consideration of the risk and materiality of the subject matter will inform the selection of limited scope follow-up audits. The audit may review all or a selection of recommendations and/or agencies from the original audit.

Phase 4—Broad-scope follow-up performance audits

The follow-up of past recommendations may also be incorporated into a full-scale performance audit. This will occur where it is beneficial to incorporate the review of past recommendations together with new audit objectives and criteria to address related and emerging issues.

Further detail on our follow-up program is available in section 5.2.11.

1.9 Accountability and reporting publications

The *Audit Act 1994* includes accountability and reporting requirements for VAGO, specifically, that VAGO table an annual plan and an annual report in Parliament.

1.9.1 Annual plan

The Auditor-General is required to prepare an annual plan describing the proposed work program for the coming financial year, and table it in Parliament. This provides Parliament, the public sector and the community with an opportunity to assess our goals, understand our priorities, and scrutinise our program. The annual plan is tabled in Parliament prior to the commencement of the financial year to which it relates. The draft annual plan must be provided to PAEC and their comments considered.

1.9.2 Annual report

The Auditor-General is required to publish an annual report that contains VAGO's financial statements and a report of operations. The financial statements are required to be audited by an independent auditor who is appointed by PAEC. The report of operations and/or financial statements needs to comply with reporting requirements of the *Audit Act 1994*, the *Financial Management Act 1994*, the Financial Reporting Directions and Standing Directions of the Minister for Finance and applicable Australian Accounting Standards. The annual report includes an acquittal of our output performance measures established in the State Budget Papers.

This year, the Annual Report will include an additional volume containing an audit themes report. This is a rolling, three-year report examining themes from our audits. This will extend our previous practice, adding the year's themes to previous years. Once matured, this report will reveal emerging trends while monitoring previous years' themes and whether the public sector agencies are addressing them. This will tie in well with our follow up of performance audit recommendations and will also help Parliament know whether the public sector is being accountable and addressing findings.

1.9.3 Other publications

In addition to VAGO's stakeholder engagement, we occasionally produce publications including better practice guidance, information pieces and occasional papers and contributory articles in books and journals.

Through our audit work, we collect information, knowledge and experience that has relevance beyond solely acquitting our legislative responsibilities. While we have strict secrecy provisions around audit evidence, there is some information that we are able to share which can be used by external stakeholders to help inform their own activities.

Better practice guidance

From time to time, the Auditor-General publishes better practice guidance in relation to an aspect of public sector activity where we have found systemic problems with performance or accountability.

In 2015–16, a selection of previously published better practice guides will be updated.

Information pieces

VAGO publishes occasional information pieces on areas of high public interest to maximise the value to the community from the information we collect. This is achieved with consideration to secrecy provisions under the legislation and adds transparency to complex areas of public sector activity.

Articles and publications on results of audits

In order to drive action on audit findings and to share lessons from our audits, we occasionally publish papers or contribute articles to books and journals, based on our reports to Parliament.

1.9.4 Strengthening Victoria's accountability framework

VAGO has a unique perspective on the regulatory and policy framework governing the accountability of the Victorian public sector. We draw on our experience, expertise and research to contribute to the development of audit and accountability policy in the Victorian public sector, including reforms to legislation, regulation and standards. This takes the form of submissions to relevant Parliamentary or government inquiries, meetings with entities, and comments on exposure drafts. These activities help to increase the impact of our audits, as they ensure that the audit function remains robust and relevant to the Victorian community.

In 2015–16 VAGO will:
* continue to provide submissions to relevant Parliamentary or other inquiries
* continue to provide advice to government and advocate changes to the *Audit Act 1994*
* provide advice on reviews of the regulatory framework underpinning the *Financial Management Act 1994*
* respond to exposure drafts of new accounting and auditing standards relevant to the Victorian public sector
* meet with representatives of agencies developing policy on audit and accountability issues
* monitor other developments in legislation, regulation and policy, and provide advice on audit and accountability implications.

2. Factors shaping our audit program

2.1 A relevant, responsive and risk-based program

In developing a quality work program, VAGO gathers a wide range of information, undertakes extensive stakeholder consultation, and applies rigorous analysis to identify and guide the development of our audit topics and areas of focus.

This input also ensures that our audit program keeps up with the changing priorities and challenges for the Victorian public sector.

2.2 Where do we get our ideas?

To identify potential performance and financial audit topics we:

- perform environmental scanning
- consult with external stakeholders
- identify key risks and challenges for public sector performance and accountability
- consider key risks against our responsibilities under legislation
- assess potential topics against criteria of risk and materiality
- consider the balance and coverage of the program as a whole.

2.2.1 Environmental scanning

Environmental scanning is a year-round process which includes ongoing research as well as work done as part of our audits. It provides audit teams with an understanding of the particular context of that sector, as well as any relevant policy goals and service objectives set by the government of the day.

Our scanning includes consideration of research, statistical data and reports from external sources, information gathered from agencies' we audit and evidence collected, and examination of our own audit reports to identify recurring findings.

Examples of scanning activities include sourcing information from the Australian Bureau of Statistics, Parliamentary Committees, other Auditor-General offices, integrity bodies, various documentation, such as budget papers and annual reports, and agencies' strategies and structures.

2.2.2 Stakeholder consultation

We consult widely to gather information and ideas for audit topics, and to discuss the merits and approach of potential audit topics. We seek input from Parliamentarians, Parliamentary committees, citizens and community groups, public sector and other key stakeholders. This consultation helps us target our audits, both at a whole-of-government level and within sectors.

Consultation feedback is analysed to identify recurring themes and instances of high relevance to our mandate. These are then fed into the planning process for consideration.

Citizens and community concerns

As well as initiating consultation with some community groups, we also receive input from members of the community sharing their concerns about public sector performance and accountability. This communication of issues related to performance, probity and compliance is a key input in helping us understand which audit topics may be of greater public interest.

Examples of issues raised by the community in the past year that have influenced our proposed audit program include:

- bullying in the health sector
- the East West Link project and other major infrastructure projects
- school infrastructure management.

Public sector and other key sector stakeholders

Along with gathering information from the public sector, we consult heads of agencies, leadership teams, boards, agency staff, audit committees, and chief financial officers to help us understand the context of the information we have gathered, and assess the value of potential audit topics. We also consult other Victorian integrity bodies including the Independent Broad-based Anti-corruption Commission (IBAC) and the Victorian Ombudsman.

Sector-based audit teams also meet with representatives from industry, peak bodies, advocacy groups, community groups, unions and academics. Depending on the sector, this engagement can be through one-on-one meetings, facilitated focus groups, round table discussions and surveys.

Examples of issues raised by public sector and other key stakeholders in the past year that have influenced our proposed audit program include:

- community corrections management
- public consultation in government decision-making
- performance of Victorian Government departments.

Parliamentarians

The interests of Parliamentarians are particularly relevant to our work, as they represent the interests of their communities. Throughout the year, we collect ideas and feedback from Parliamentarians on our work program through Parliamentary report tabling briefings, one-on-one meetings, surveys and correspondence.

Examples of issues raised by Parliamentarians in the past year that have influenced our proposed audit program include:

- gambling and liquor regulation
- management of government contracts and procurement
- strategic information, communication and technology planning in government.

Other suggestions received by Parliamentarians in the past year include tackling red tape, public housing supply and demand, planning for secondary schools, procurement, and feral animals.

Public Accounts and Estimates Committee

Our key mechanism for consulting Parliament on our proposed audit program is through PAEC. The *Audit Act 1994* requires us to seek PAEC's comments on our draft annual plan.

This year, PAEC provided useful inputs to our annual plan, including proposed audits for our future audit program and suggestions to improve the transparency and accountability of the plan.

Our legislation requires us to publish in the annual plan any changes suggested by PAEC to the draft plan that the Auditor-General does not adopt. While the following remain areas of audit interest, Figure 2A identifies the suggestions and responses provided to PAEC for areas that we have not included in this annual plan.

Figure 2A
VAGO response to PAEC's suggested changes that
are not included in the Annual Plan 2015–16

PAEC consideration	VAGO response
Annual plan—acquittal in the plan to indicate the extent to which the audits listed in the previous annual plan were carried out or where changes in priorities have been made during the year.	The purpose of the annual plan is not to acquit previous annual plans; rather it is to set out future intentions. As part of my annual report, I include an acquittal of the topics identified on the previous annual plan. This includes indicating which audits listed in the plan were tabled, or deferred. We do not include the dates of tabling of reports in the annual plan as these dates are not always known prior to the planning of an audit. Proposed tabling dates are provided to the agency and PAEC as part of the draft audit plan once an audit is initiated, and made publicly available on our website once the conduct of an audit commences.
Procurement practices in public hospitals and procurement practices in local government—the Committee considers that both of the above areas of public sector expenditure could warrant some detailed audit review in the forward program to test whether procurement practices are economic, efficient and effective.	In addition to the tabled audit *Efficiency and Effectiveness of Hospital Services: High value Equipment* (February 2015), the annual plan includes audits examining procurement practices in hospitals such as *Efficiency and effectiveness of pathology services in public hospitals* (2016–17) and the long list topic examining *Efficiency and effectiveness of pharmacology services in public hospitals*—both of which will examine procurement, service delivery and cost management in these areas. In the local government sector, we have previously examined procurement issues in the February 2015 report *Effectiveness of Support for Local Government* and the June 2012 audit examining Local Government fraud, *Fraud Prevention Strategies in Local Government*. We note that IBAC has recently published a review of six Victorian councils, which explored corruption prevention measures in place. IBAC has indicated that it will be working with councils in 2015 to assist in preventing corruption in the future. We will consider in the next round of annual planning whether a more specific examination of *Procurement practices in local government* is warranted in light of developments in this space.

Figure 2A
VAGO response to PAEC's suggested changes that
are not included in the Annual Plan 2015–16 – *continued*

PAEC consideration	VAGO response
Private practice arrangements in health services and universities—management controls and procedures in place to ensure public facilities and resources are being utilised for public purposes or that there are arrangements in place to ensure that there is some recompense or reciprocal benefits from the use of public facilities and resources for private or 'outside' earnings.	We will consider an audit in this area as part of future annual planning.

Input for future audit topics

We will continue to consult with key stakeholders, including audited agencies and their audit committees, as we develop audit topics for future annual plans. VAGO also welcomes ideas and input from the community on topics of interest for future years. Suggestions can be directed to the Auditor-General via correspondence or the easy to use form on our webpage—http://www.audit.vic.gov.au/contact_us.aspx.

2.3 Deciding on the program

Our scanning, consultation and analysis led to the identification of a large range of possible audit topics for 2015–16 and 2016–17. Each potential audit topic was assessed as part of the selection process and then the balance and coverage of the program was considered as a whole.

2.3.1 Assessing topics

Potential financial audit areas of focus are selected by considering how effectively they cover our legislative obligation to assess waste, probity and financial resource management, and address the risks within the operating environment of the audited agency.

Potential performance audit topics are assessed based on risk and materiality.

Risk

We use a definition of risk consistent with *AS/NZS ISO 31000:2009 Risk Management*. For each topic, we assess the possible impact and consequences if the public sector services were not delivered or the government's objectives were not achieved.

Materiality

Materiality describes the size or scale of the relevant operational area or public sector program. It is a concept that helps us consider how significant the audit will be to the Victorian community. We consider three kinds of materiality:

- **economic materiality**—e.g. cost of program, economic impact of activity
- **social materiality**—e.g. number of people affected, community impact and interest
- **environmental materiality**—e.g. biodiversity, pollution, impact on the environment.

2.3.2 Balance and coverage of the program

When finalising topic selection, we consider whether we have effectively covered our legislative obligations to review efficiency, effectiveness, economy, and compliance with all relevant Acts and to consider waste, probity and resource management. We also consider the spread of activity across both the sectors and selected themes and the number of stand-alone topics and ensure that there is coordination between the financial audit and performance audit programs. Additionally, we consult with integrity bodies and agencies to minimise duplication across the broader integrity system.

We believe that this process has created a balanced, efficient and effective audit program for 2015–16 and 2016–17 that addresses our legislative obligations while remaining responsive to the areas of public interest.

3. Information Systems Audit

3.1   Introduction

In 2013–14, the Auditor-General renewed the focus on ICT by establishing VAGO's Information Systems Audit (ISA) team. The dedicated effort in this area reflects the fact that the Victorian Public Sector spends around $3.02 billion per year on ICT—including maintenance, infrastructure, new projects, and streamlining service delivery to provide better access to information for citizens. This has led to increased complexity of systems, greater use of technology and persistent oversight and governance-related issues found in our previous performance audits.

The ISA team performs ICT-related performance audits in its own right and works closely with the financial audit teams to review information systems and controls as part of financial audits. ISA also provides expertise in data mining and analysis, and provides technical ICT-related advice to performance audit teams.

3.2   Overview of our ISA program

In 2015–16, ISA plans to deliver four reports. The outputs include two ongoing annual reports and various stand-alone audit topics. Where relevant, ISA will also contribute to the delivery of the performance audit program by providing technical ICT-related advice.

From time to time, we may introduce new topics into the program to accommodate high-priority ICT issues that emerge. We will provide advance notice to audited agencies and PAEC of any proposed new performance audit topics.

3.2.1 Ongoing ISA reports

The two ongoing annual reports produced by ISA are:

- ***Financial systems controls report***—a public sector wide report summarising the results of our audits of selected public sector entities' ICT general controls performed in support of VAGO's financial audits. This audit will also examine selected areas each year, focusing on certain aspects of ICT controls, for example, security and cyber intrusion (Section 3.3.1).
- ***Digital Dashboard***—an annual rolling status review examining the time, cost and delivery performance of significant ICT projects and initiatives across the public sector (Section 3.3.2).

3.3   Planned ISA outputs for 2015–16 and 2016–17

This section sets out the ISA audit program for 2015–16 and 2016–17. For each audit listed, the audit scope is set after the completion of detailed planning and consultation with PAEC and relevant departments and agencies.

Each proposed audit also lists the agencies we plan to include in our audits, and identifies where an audit covers the activities of agencies that sit across more than one department 'sector'. Sometimes the Auditor-General may add or remove an authority from an audit. This plan provides an indication of our intentions at this stage.

3.3.1 *Financial systems controls report*, 2015–16 and 2016–17

The annual *Financial systems controls report* will summarise the results of the previous cycle of financial audits in addition to the results of examination of selected areas of focus. Work performed in relation to the selected areas of focus will cover both financial and operational ICT systems and processes implemented by agencies.

Figure 3A lists the *Financial systems controls report* areas of focus to be examined and reported on for 2015–16 and 2016–17.

Figure 3A
***Financial systems controls report* areas of focus 2015–16 and 2016–17**

Area of focus—2015–16	Area of focus—2016–17
IT general controls maturity	IT general controls maturity
Identity and access management	Wireless network security
Software licensing	Implementation of 'Top 4' cyber-intrusion mitigation strategies

Figure 3B lists areas of audit interest that may be included in future *Financial systems controls reports*. These potential areas are given as an indication only, and do not represent a definitive list of future focus areas.

Figure 3B
Potential future *Financial systems controls report* areas of focus 2017–18

Future topic	Description
ICT procurement	Review of ICT procurement policies, practices and management oversight
ICT disaster recovery planning	Review of ICT disaster recovery arrangements in place—including overarching disaster recovery frameworks and policies, alignment with business continuity requirements and testing.
ICT risk management	Review of ICT risk management practices and management oversight, and alignment with organisation wide risk management.

The *Financial systems controls report* areas of focus for 2015–16 and 2016–17 are discussed in more detail below.

IT general controls maturity, 2015–16 and 2016–17

In planning a financial audit, we undertake information technology (IT) general controls work to understand and evaluate an entity's IT environment and related risks to the reliability of financial reporting.

Using the results of our IT general controls work performed as part of the previous cycle of financial audits, along with supporting procedures and reference to better practice maturity frameworks, we will report on departments and selected agencies IT general controls maturity in the following areas:

- user access management
- authentication controls
- audit logging and monitoring of the IT environment
- IT change management
- patch management
- backup management and business continuity and IT disaster recovery planning.

Identity and access management, 2015–16

Identity and access management (IDAM) controls, including staff authentication, passwords and credentials, enable the Victorian Government to reduce the risk of inappropriate information release or access to information and data. Departments and agencies must use the IDAM frameworks specified by the Victorian Government in all IDAM initiatives and ongoing life cycle management.

We will review the policies, procedures and established IDAM controls within departments and selected agencies and assess them against Victorian Government IDAM policies, standards and guidelines.

Software licensing, 2015–16

A software licence is a contract with a software publisher or copyright holder that includes the terms under which the user may install, use, copy, modify or distribute software. Effective management of software licences reduces the risks of breaching software licence contracts, and aims to maximise volume licence pricing and reduce redundant purchasing.

We will review policies, procedures and established controls in relation to software licensing within departments and selected agencies and assess them against better practice.

Wireless network security, 2016–17

Wireless networks enable users and systems to remotely access organisational data and resources without the need to be located within a trusted physical area, such as an office. Wireless security aims to prevent unauthorised access or compromise to systems using wireless networks. We will review the policies, procedures and established wireless network controls within departments and selected agencies and assess them against better practice guidelines.

Implementation of 'Top 4' cyber-intrusion mitigation strategies, 2016–17

In accordance with the Victorian Information Security Management Framework, inner whole-of-Victorian-government (WoVG) agencies are required to implement the Australian Signals Directorate's (ASD) Top 4 Strategies to Mitigate Targeted Cyber Intrusions. The 'Top 4 Strategies' are:

- use application 'whitelisting' to help prevent malicious software and other unapproved programs from running
- maintain up-to-date software patches for applications such as PDF readers, Microsoft Office, Java, Flash Player and web browsers
- maintain up-to-date patches of operating systems
- minimise the number of users with administrative privileges.

We will review the policies, procedures and established controls implemented by selected inner WoVG agencies in relation to the ASD's 'Top 4 Strategies'.

3.3.2 ICT specifications of performance audit program topics

This section sets out proposed specifications for our 2015–16 and 2016–17 ICT performance audits. For each audit listed, we outline an objective for the audit and the issues we intend to examine.

Delivering services to citizens and consumers via devices of personal choice: Phase 2, 2015–16

Objective:

To examine in detail the agency approaches to determine which services will be delivered online via digital devices and the ongoing monitoring of the effectiveness and public utilisation of digital services.

Issues:

The rapid growth of digital device usage in the broader community is challenging the public sector's ability to effectively engage with citizens, deliver services, and provide information appropriately. This report will provide assurance regarding the ability of public sector agencies to monitor and analyse service delivery performance and public utilisation of government services via digital devices.

Proposed agencies:

Department of Premier and Cabinet (DPC), State Revenue Office, Department of Justice & Regulation (DJR), Department of Health & Human Services (only Human Services), Public Transport Victoria (PTV), VicRoads.

Digital Dashboard: Status review of major ICT projects and initiatives, 2015–16 and 2016–17

Objective:

To examine the timeliness, cost and delivery performance, as well as benefits realisation, of a selection of significant ICT projects across the public sector.

Issues:

Successive audit reports by our office have identified deficits in the planning and implementation approaches used for major ICT initiatives, with projects often incurring substantial delays and cost overruns. Given the increasing reliance by government on ICT to manage and deliver services, ICT projects require close monitoring to support their success. This audit will occur on an annual basis, targeting ICT projects of significant risk and materiality. The first phase of this audit was undertaken in 2014–15.

Proposed agencies:

A selection of public agencies undertaking major ICT initiatives.

University student management systems, 2015–16

Objective:

Examine the effectiveness and efficiency of student management systems (SMS) at Victorian universities.

Issues:

Although there has been considerable investment—between $20 and 30 million per university application—made to upgrade and renew SMS' within the university sector, it is not clear that the Victorian public has benefitted from the expenditure. There have also been some notable issues in terms of implementation and in some cases a failure to meet the expected business and educational outcomes.

Proposed agencies:

A selection of public universities.

ICT strategic planning, 2016–17

Objective:

To examine the effectiveness of ICT strategic planning in ensuring public resources are being invested to meet growing expectations and demands.

Issues:

Despite several billion dollars in annual investment, the public sector does not have a good track record for planning and implementing ICT initiatives. Strategic planning for public sector ICT projects is often characterised by reactive 'internal' view of service demand, and is being fundamentally challenged and sometimes overwhelmed by the emerging technology landscape.

Proposed agencies:

DPC, and selected departments and agencies.

Security of infrastructure control systems for water and/or transport, 2016–17

Objective:

To assess whether security risks to critical ICT management and control systems that operate and control water and train infrastructure are managed effectively. This audit will also determine the extent to which agencies have implemented recommendations raised in our 2010–11 audit, *Security of Infrastructure Control Systems for Water and Transport*.

Issues:

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

Proposed agencies:

Department of Environment, Land, Water & Planning (DELWP), Department of Economic Development, Jobs, Transport & Resources (DEDJTR), and PTV.

3.4   Future areas of ICT audit focus

This plan provides a proposed program of ICT areas of focus for 2015–16 and 2016–17. Our planning process, however, also provides us with insight on potential risks, issues and priorities that may shape the audit program in future years.

Figure 3C lists areas of audit interest that may be included in future ISA programs. These potential areas are indicative and do not represent a definitive list of future audits.

We will consult with key stakeholders, including audited agencies and their audit committees, as we develop these topics in future annual plans.

Figure 3C
Potential areas of ISA audit interest 2016–17 and 2017–18

Future topic	Description
Data sharing by the public sector	Examine how well citizens can access government information and services where identification is required to be shared and accessible across government departments. Specifically, can the public access government services seamlessly across departments where proof of identity is required i.e. passport renewal.
Using CCTV to improve public safety	Examine the impact of Close Circuit Television (CCTV) employed to improve public safety, specifically the use of CCTV for safety purposes in high profile public spaces.
Managing TAFE ICT	Examine how well selected TAFE institutions are managing core ICT systems including the student management and learning management systems. Specifically are the systems providing the expected benefits outlined in the business case and technical specifications to students and teachers.
Hospital patient data security	Examine security policies, procedures and practices applied to patient data to ensure privacy is maintained. This will also examine the extent to which patient data is shared among the medical profession to ensure patients receive a consistent level of care.
Whole-of-Victorian-Government disaster recovery capability	Examine whole-of-Victorian-Government ICT disaster recovery arrangements. Specifically disaster recovery frameworks, processes, service level agreements and back up plans in place to ensure departments are prepared at a whole-of-government level to continue service provision in the event of a disaster at a primary data centre.

VAGO welcomes ideas and input from the community on audit topics for future years. You can send through your thoughts to the Auditor-General via our webpage http://www.audit.vic.gov.au/contact_us/concerns_and_suggestions.aspx.

4. Financial audit work program

4.1 Overview of our financial audit program

4.1.1 Planned outputs for 2015–16

In 2015–16, the Auditor-General plans to table seven reports in Parliament arising from the conduct of our annual financial audits. These reports provide Parliament and the citizens of Victoria with information about the key findings resulting from those audits, at a whole-of-government, sector-specific and/or individual entity level.

Our key whole-of-government report provides assurance and commentary on the *Annual Financial Report of the State of Victoria*. Further, our *Portfolio Departments and Associated Entities: 2014–15 Audit Snapshot* report sets out our key findings from our annual financial audit of the portfolio departments and associated entities.

Our reports to Parliament set out the results of our audit of the consolidated financial statements of the State of Victoria, as well as our audits of around 547 financial statements and 110 performance statements of public sector entities. Our reports will also include comment on areas of focus for each sector, covering key elements of financial and resource management, and governance.

We also provide a review report on the Estimated Financial Statements for the general government sector, which forms part of the Victorian Budget Papers.

Our financial audit program is dynamic, reflecting changes such as the creation of new entities and the cessation of others, including the impacts of machinery-of-government changes in the composition of portfolio departments and associated entities. As such, the number of audit and assurance activities we conduct can change throughout the year and over time in accordance with changes in the number of public sector entities.

4.2 Financial audits

We will continue to deliver a diverse range of auditing and assurance services in 2015–16. Figure 4A provides an overview of those activities and the legislative or other arrangements under which we conduct them. This excludes our related parliamentary reporting program.

Figure 4A
Audits and assurance activities expected to be conducted in 2015–16

Basis	Number[a]
Financial statement audits	
Financial Management Act 1994 and/or *Corporations Act 2001*	326
Local Government Act 1989	91
Other legislation or reporting frameworks	126
Audits by arrangement	4
Total financial statement audits	**547**
Performance statement audits	
Financial Management Act 1994 (water entities)[b]	19
Local Government Act 1989	79
Ministerial request (TAFE entities)	12
Total performance statement audits	**110**
Other	
Financial Management Act 1994 (Review of Estimated Financial Statements)	1
Warrants	15
Acquittals of funds[c]	86
Total other	**102**
Total audit and assurance activities	**759**

(a) The number of audits conducted varies year on year due to changes in the number of public sector entities and their associated entities.

(b) Following the release of Financial Reporting Direction 27C *Presentation and Reporting of Performance Information* all 19 water entities are required to prepare and have audited their performance reports.

(c) Based on 2014–15 data. Acquittals are only conducted if required under agreements relating to specific funding programs.

Figure 4B shows these audit and assurance services by sector. The seven sectors are generally aligned with the portfolio department structure—combining DPC and the Department of Treasury and Finance (DTF) as 'central agencies'—with local government disclosed separately. The hospitals, education and training, and local government sectors have the greatest number of entities subject to annual financial audits.

Figure 4B
Number of financial audits by sector planned for 2015–16
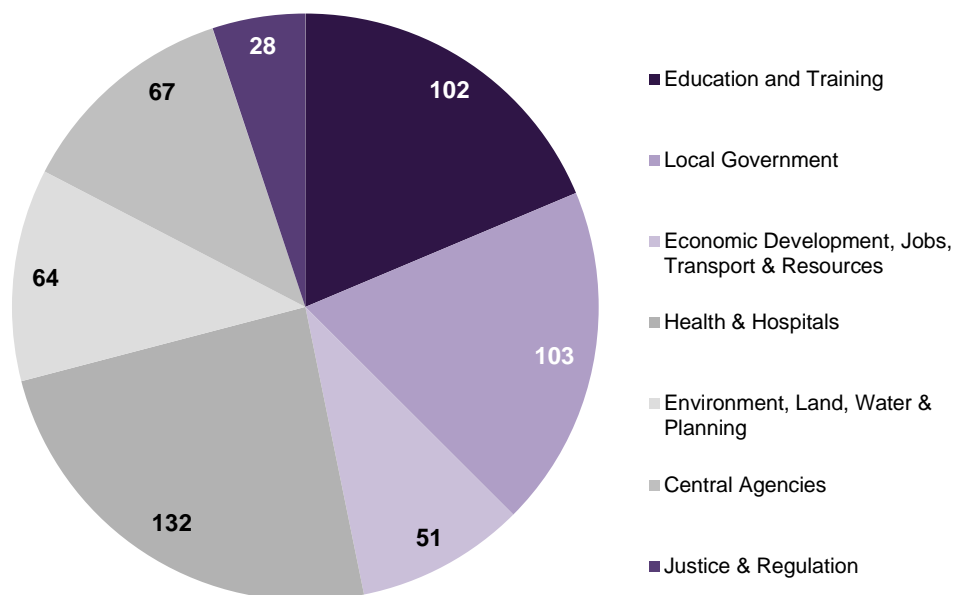
Note: Based on data as at 31 March 2015. The number of audits conducted varies year on year due to changes in the number of public sector entities and their associated entities.

4.2.1 Delivering our audits

Audits are conducted by VAGO staff or with the assistance of external firms engaged by VAGO. All audits conducted with the assistance of external firms—known as audit service providers—are subject to project management and quality assurance by VAGO staff and audit opinions are signed by the Auditor-General or on his behalf by delegated senior VAGO staff.

The mix of resources we use to deliver the financial audit program changes over time based on multiple factors, including materiality and risk. In 2015–16, we anticipate around 32 per cent of our audits will be undertaken by in-house staff and 68 per cent with the assistance of audit service providers.

Figure 4C shows the breakdown of our audits by materiality and risk, and whether they are conducted solely using in-house resources or with the assistance of an audit service provider.

A list of our current audit service providers is available on the VAGO website at http://www.audit.vic.gov.au/reports_and_publications/annual_plan/Financial-audits-and-providers.aspx.

Figure 4C
Audits planned for 2015–16 by materiality, risk and sourcing model

Materiality and audit risk	In-house (number)	Audit service provider assisted (number)	Total (number)
Material entity audits			
• High risk	8	5	13
• Moderate risk	19	15	34
• Low risk	0	1	1
Total material entity audits	**27**	**21**	**48**
Non-material entities			
• High risk	4	8	12
• Moderate risk	50	155	205
• Low risk	97	185	282
Total non-material entity audits	**151**	**348**	**499**
Total financial statement audits	**178**	**369**	**547**

Note: Based on data as at 31 March 2015. The number of audits conducted varies over time due to changes in the number of public sector entities and their associated entities.

The key factors we consider when determining the most appropriate resourcing approach for a particular audit were refined during 2015–16. They now include:
• materiality
• risk profile
• strategic value of the entity.

Our medium-term aim is to resource more of the higher risk, material and/or strategic audits internally. When making resourcing decisions we are also mindful of the limited number of audits which require highly specialised technical skills or expertise that may not currently exist within VAGO and where it may not be viable or practical to establish such a skill base within VAGO. This can occur, for example, for some entities that operate in the financial services sector. In those instances we would normally elect to conduct those audits with the assistance of an audit service provider even when they would otherwise satisfy our criteria for resourcing internally.

Materiality

In addition to the matters discussed in Section 2.3.1, considerations of materiality also includes material entities which are those whose revenue, expenses, assets and/or liabilities are significant to the State of Victoria's annual financial report. In 2015–16, there are 48 audits classified as material, of which 56 per cent will be conducted by in-house staff.

Risk profile

In addition to the matters discussed in Section 2.3.1, an entity's risk profile also includes audit risk. This is the risk that an inappropriate audit opinion is issued when a financial report is materially misstated.

Strategic value of the entity

An entity's strategic value is assessed in terms of its strategic importance to the state or relevant sector as a whole. For example, this includes the significance of its role in the state's budget strategy, as set out in the State Budget Papers.

4.2.2 Timing of our key products and services

Year-round production cycle

Due to the varied reporting year-end dates for public sector entities, not all of our financial audits are conducted simultaneously. The majority of our audits are for entities with year-end dates of 30 June, and to a lesser extent 31 December.

Our audit and assurance services, including our parliamentary reporting program, are undertaken progressively across the entire calendar year to enable the efficient and effective delivery of our key products and services.

Figure 4D shows the timing of these for a selection of key deliverables in 2015–16, and reflects the various year-end dates of entities.

Figure 4D
Selected key milestones for 2015–16

Month of completion	Milestone
August 2015[a]	Audit opinions, closing reports and final management letters issued —material and certain high risk entities (June cycle)
September 2015	Audit opinions, closing reports and final management letters—other entities (June cycle)
November 2015	Parliamentary report—*Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2014–15*
November 2015	2014–15 Audit Snapshot reports to Parliament (June cycle)
November 2015	Interim management letters issued (Non-June cycle)
December 2015	Audit strategies issued—material and high risk entities (June cycle)
March 2016	Audit opinions, closing reports and final management letters issued (Non-June cycle)
May 2016	Review report on the 2016–17 Estimated Financial Statements
May 2016	2015 Audit Snapshot reports to Parliament (Non-June cycle)
May 2016	Interim management letters—non low risk entities (June cycle)

(a) This date depends on the DTF material entity timetable.

4.3 Areas of focus for 2015–16 and 2016–17

A key element of conducting our financial audits is our review of the internal control regimes which operate over the balances and transactions of an entity. The most significant financial reporting controls are examined and tested each year, where this is the most efficient audit approach in accordance with the Australian Auditing Standards.

In addition, we identify key areas to focus on during a particular audit cycle. These financial audit areas of focus are targeted at those matters arising from the conduct of our audits that would provide the greatest value to Parliament and the citizens of Victoria if commented on in our parliamentary reporting program. Our approach to the identification and selection of financial audit focus areas was further refined during 2015–16 as part of our annual planning process.

Figure 4E lists the reports to Parliament and areas of focus to be examined and reported on for 2015–16 and 2016–17.

Figure 4E
Financial audit reports to be tabled in 2015–16 and 2016–17,
including areas of focus

Report	2015–16 areas of focus	2016–17 areas of focus
Sector-wide		
Auditor-General's Report on the Annual Financial Report of the State of Victoria	• State's financial performance • Significant projects and developments • Public private partnerships	• State's financial performance • Significant projects and developments • Public private partnerships
Portfolio Departments and Associated Entities: Audit Snapshot	• **Department of Education and Training—Financial reporting and control** • **Financial sustainability of self-funded entities**	• Procurement—including data matching
Education		
Technical and Further Education Institutes: Audit Snapshot	• Fraud risk assessment and control monitoring	• **Asset maintenance**
Universities: Audit Snapshot	• **International operations**	• Telecommunications expenditure
Environment		
Water Entities: Audit Snapshot	• **Debt management**	• Asset revaluations
Health		
Public Hospitals: Audit Snapshot	• **Liquidity and cash management practices**	• Outsourcing of services
Local government		
Local Government: Audit Snapshot	• Development contributions	• **Asset valuations**

Note: Bold text indicates a new area of focus not in the previous annual plan.

The areas of focus for 2015–16 and 2016–17 are discussed in more detail in the following section.

4.3.1 Sector-wide

Portfolio Departments and Associated Entities: Audit Snapshot

Department of Education and Training—Financial reporting and control, 2015–16

The 30 June 2014 audit of the Department of Education and Training (DET)—previously known as the Department of Education and Early Childhood Development—observed significant failures in financial reporting and are set out in the Auditor-General's report.

This focus area will extend the work performed in 2013–14 and look at the governance and oversight performed by DET over the finances at schools. This includes consideration of the effectiveness of school monitoring activities, assurances obtained over school balances and transactions, liquidity and cash management, the level of fraud identified, and a review of the effectiveness of audit committees. In addition, any financial reporting matters identified during the 2014–15 financial audit may be raised.

Financial sustainability of self-funded entities, 2015–16

As at 30 June 2014, there were forty-five public associated entities, which were considered to be self-funded.

An entity is considered to be self-funded where the majority of its revenue is generated from its own operations, rather than government funding. In the *Portfolio Departments and Associated Entities: Results of the 2013–14 Audits* report to Parliament, eight of these entities were identified as being at a high financial risk in each of the past five financial years, posing a threat to the long-term sustainability of these entities.

The underlying pricing model, or other funding sources, may need review in order to improve long-term financial sustainability of the entities.

We will undertake a deeper review of the financial sustainability of a selection of self-funded entities, to determine what action has been taken to remedy their financial sustainability risks, and what risk management practices are in place at each entity.

We will review the funding model at a selection of these entities, and will also conduct an assessment of the impact of community service obligations and any disconnect between governance responsibilities and the funding/pricing model at these entities.

Procurement—including data matching, 2016–17

Internal control frameworks, and practices within public sector agencies, should assure that procurement satisfies the entity's business needs, is suitably authorised, is in line with policies and procedures and is consistent with the principles of value for money, open and fair competition, accountability, risk management, probity and transparency.

The IBAC report on Operation Fitzroy identified significant shortcomings in procurement practices at the former Department of Transport and PTV. Procurement shortcomings identified in this IBAC report may be evidenced at other portfolio departments.

Portfolio departments are required to implement and maintain an effective internal control framework for procurement.

We will perform a detailed review of the procurement policies, practices and management oversight at two departments. This review will provide the public and Parliament with some assurance around the policies and procedures used by portfolio departments for managing their procurement practices.

4.3.2   Education

Technical and Further Education Institutes: Audit Snapshot

Fraud risk assessment and control monitoring, 2015–16

The changing operating environment at Technical and Further Education Institutes (TAFE) coupled with increasing reliance on technology have contributed to a higher risk of fraud occurring. Fraud risk can be minimised by building a strong fraud prevention culture within an entity, developing adequate policies, conducting rigorous risk assessments, implementing a comprehensive fraud control plan that covers prevention, detection, investigation and reporting strategies, and establishing appropriate internal controls.

We will assess the policies, management practises, governance and oversight relating to fraud risk at TAFEs. We will highlight areas of better practice and examples where improvement can be made.

Asset maintenance, 2016–17

With the changes to the operating environment for tertiary institutes over the past two financial years, and the consequential decline in the financial position of the sector we have observed as a result, TAFEs are reducing expenditure to improve financial sustainability. There is a risk that spending on asset maintenance will be reduced which, over time, will mean that the condition of assets could decline. TAFEs should have in place asset maintenance schedules to ensure that assets are kept in good operating condition.

We will review the asset maintenance plans at each tertiary institute including the management controls and oversight of plans and asset condition.

Universities: Audit Snapshot

International operations, 2015–16

Victorian universities are continually increasing their presence overseas, using this expansion to grow business opportunities. To date, Victorian universities have a presence in countries including but not limited to South Africa, Spain, Vietnam, Malaysia, Singapore and India.

With opportunities also comes risk. There has been a significant financial loss at one university, and risks around the collectability of overseas debtors. The risk of financial loss could be minimised with sound monitoring of overseas operations including regular reporting of financial outcomes and a robust risk management approach.

We will inform Parliament and the public about the nature and extent of university overseas operations and make comment on the monitoring, risk management and oversight applied—including a deeper dive at a sample of international operations.

Telecommunications expenditure, 2016–17

Telecommunication devices are important tools in any business, including public sector entities. Such devices can be an effective and efficient means of communication. However, where such devices are provided to public sector employees there must be adequate control over the cost, and appropriate usage.

Universities should have in place a framework to manage and control expenditure on mobile phones and personal devices such as iPads. Under such a framework there should be a requirement for monitoring the level of expenditure including looking at trends and patterns, verification of invoices and charges levied, rationalisation of redundant devices and setting and enforcing personal use limits on such devices, including procedures to recover expenditure in excess of the limit.

We will review the policies, management practices and oversight of telecommunications expenditure and the use of personal devices at universities.

4.3.3 Environment

Water entities: Audit Snapshot

Debt management, 2015–16

Over the past five years the level of borrowings in the Victorian water sector has increased by 109 per cent, from $7 billion in 2009–10 to $14.6 billion in 2013–14, with a significant increase occurring in 2012–13 of $5.4 billion because of the desalination plant.

Water entities source their borrowings from the Treasury Corporation of Victoria. They have approval to refinance their maturing debt and in recent years have done so. While entities have this approval, they need to take into consideration their ability to generate sufficient cash flows from operations to service their debt—i.e. meeting interest and financial accommodation charges—and repay principal debt.

The long-term financial sustainability of water entities will be impacted if the debt management strategies employed by those charged with governance are not completely sound.

We will review the trend in borrowings, repayments and costs of servicing debt across the state's 19 water entities over the past five years. Our review will also assess the extent of refinancing, the purpose of the debt, and explore the risks to financial sustainability in light of current debt management strategies.

Asset revaluations, 2016–17

Property, plant, equipment and infrastructure assets represented 95 per cent of total assets held by the 19 water entities at 30 June 2014.

A valuation of land, buildings and infrastructure assets for regional and rural water entities was last conducted in 2010–11. Our review of the revaluation in the *Water Entities: Results of the 2010–11 Audits* report found that improvements could be made to the processes applied in valuing infrastructure assets held by rural and regional water entities.

The next scheduled revaluation will occur in 2015–16, in accordance with *Financial Reporting Direction FRD 103E Non-financial physical assets* (FRD 103E). We will assess management practices and oversight of the revaluation process, including the valuation methodology applied, quality of data prepared, the level of engagement with the independent valuer, scrutiny over valuation results, and compliance with FRD 103E and Australian Accounting Standards.

We will also follow up on the status of recommendations made in our *Water Entities: Results of the 2010–11 Audits* report.

4.3.4 Health

Public hospitals: Audit Snapshot

Liquidity and cash management practices, 2015–16

Cash management at public hospitals is extremely important and is of significant interest to the public, as inadequate cash management practices could mean that government funding will need to be diverted from other important areas to top up public hospital operations and/or service provision may suffer.

We have identified that more than 50 per cent of public hospitals had cash holdings which would fund less than 30 days of operating activities.

We will review the maturity of liquidity and cash management practices at a selected number of hospitals and assess appropriateness and effectiveness.

Outsourcing of services, 2016–17

Public hospitals outsource a range of services that impact on their financial operations. The extent and effectiveness of the outsourced service providers' internal controls can significantly affect the operations of public hospitals in terms of service delivery, financial reporting accuracy and data integrity. Obtaining assurance about the effectiveness of controls over outsourced functions is a vital part of a public hospital's overall internal control structure and assessment.

We will review and assess the policies, management practices and governance and oversight arrangements at public hospitals relating to the outsourcing of services, and review the level of compliance with the relevant policies and procedures.

4.3.5 Local government

Local government: Audit Snapshot

Development contributions, 2015–16

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

In 2013–14, the value of contributions collected across all Victorian councils was approximately $788 million, including cash payments, in-kind works, services or facilities, and gifts.

VAGO's 2009 *Use of Development Contributions by Local Government* report identified deficiencies in councils' management of development contributions.

We will assess the policies, management practices and governance oversight on the collection, use and reporting of development contributions including a deeper review of a sample of councils.

Asset valuations, 2016–17

Local councils are required, under AASB 116, Property Plant and Equipment, to carry major classes of non-financial assets at fair value. These assets are subject to periodic revaluation performed by external consultants, engaged by an individual local council or by in-house local council valuers.

Non-financial assets measured at fair value represent approximately 90 per cent of the carrying value of non-financial asset classes held by local councils. Assets subject to fair valuation include land and buildings, road networks and infrastructure.

At 30 June 2014, net valuation increments recorded by Victoria's 79 local councils totalled $2.9 billion, bringing the total non-financial assets to $73.9 billion.

We will assess management practices and oversight arrangements over asset revaluations performed on local councils' non-financial assets including a deeper review of a sample of councils.

4.4 Future areas of financial audit focus

This annual plan provides a proposed program of areas of financial audit focus for 2015–16 and 2016–17. Our planning process, however, also provides us with insight on potential risks, issues and priorities that may shape the audit program in future years.

Figure 4F lists areas of audit interest that may be included in future financial audit programs. These potential areas are given as an indication only, and do not represent a definitive list of future focus areas.

We will consult with key stakeholders, including audited agencies and their audit committees, as we develop these focus areas in future annual plans.

Figure 4F
Potential future financial audit areas of focus

Sector-wide (Portfolio departments and associated entities)	
Governance and accountability	Assess the adequacy of governance and accountability practices.
Outsourcing of services	Assess the management controls at public hospitals over outsourcing arrangements, as part of our cyclical assessment of internal controls.
Commitments (including PPPs)	Review policies and procedures in place to report on commitments in annual financial reports.
Education (Technical and further education institutes)	
Management of sessional academic staff	Assess policies relating to management of sessional academic staff, governance and oversight at TAFEs.
Education (Universities)	
Executive remuneration	Review controls, policies and processes, and monitoring and oversight of executive remuneration in place at universities.
Asset management	Review the asset management controls over land and buildings comprising planning, budgeting, acquisition, disposal, operation and maintenance at universities.
Environment (Water entities)	
Tendering major projects	Review the internal controls over procurement and assess them against public sector guidelines.
Budget management	Review the maturity of budget management and reliability of management budgets and forecasts.

Figure 4F
Potential future financial audit areas of focus – *continued*

Health (Public hospitals)	
Workforce management	Review how legislation and policies affect workforce planning and management at hospitals, such as allocation and management of staff to patient numbers.
Change management	Assess public hospitals' change management processes in light of the new Health Reform legislation that will be in place in 2016.
Local government	
Management of employee leave	Assess the policies, management practices and governance and oversight of management of employee leave by councils against better practice.
Councillor and staff declarations	Assess compliance with specific requirements of the *Local Government Act 1989.*

VAGO welcomes ideas and input from the community on audit topics for future years. You can send through your thoughts to the Auditor-General via our webpage http://www.audit.vic.gov.au/contact_us/concerns_and_suggestions.aspx.

4.5   Reports to Parliament on the results of audits

In 2015–16 our reports to Parliament will continue to bring together our entire financial audit program, reporting on the key findings resulting from our financial audits, including areas of focus, and may provide comment where appropriate on:

- the effectiveness of entity internal controls
- the timeliness of financial reporting by entities
- financial and performance reporting developments
- the timeliness of entity management responses to our audit recommendations, as set out in our management letters and Parliamentary reports.

In 2015–16, we plan to table seven financial audit reports in Parliament:

- *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2014–15*
- *Portfolio Departments and Associated Entities: 2014–15 Audit Snapshot*
- *Water Entities: 2014–15 Audit Snapshot*
- *Public Hospitals: 2014–15 Audit Snapshot*
- *Local Government: 2014–15 Audit Snapshot*
- *Technical and Further Education Institutes: 2015 Audit Snapshot*
- *Universities: 2015 Audit Snapshot.*

The *Audit Act 1994* also requires the Auditor-General to prepare a review report on the Estimated Financial Statements for the general government sector. The report will be included in the 2015–16 Budget Papers which are expected to be presented to Parliament in May 2016.

Auditor-General's Report on the Annual Financial Report of the State of Victoria

The Auditor-General will table a report on the *2014–15 Annual Financial Report of the State of Victoria* (AFR) in November 2015.

This report will build on the outcomes of the previous report for the 2013–14 year, with a focus on continuing to tell the story behind the financial performance and position of the state in a clear and concise format. The report will draw attention to significant projects, developments and outcomes that have helped shape the AFR and influence the outcomes, or have the potential to significantly influence the outcomes in future reporting periods.

Sector-based reports on the results of audits—Audit Snapshot reports

Our sector-based reports for 2015–16 will discuss the key results from our financial statement audits and, where relevant, performance statement audits by sector. This commentary can include the quality and timeliness of financial and performance reporting, financial sustainability risks and the effectiveness of certain financial reporting internal controls.

We will also report on the results of the examination of selected areas of focus for each sector. Figure 4E sets out the areas of focus that are planned to be discussed in each Parliamentary report.

5. Performance audit work program

5.1 Overview of our performance audit program

5.1.1 Planned outputs for 2015–16

Our performance audits provide assurance to Parliament and the public on the effectiveness, efficiency and economy of public sector agencies' operations and activities, and the extent to which agencies are complying with relevant legislation.

In 2015–16, we plan to deliver at least 24 performance audits drawn largely from the topics listed in this annual plan. The topics cover a wide range of issues and areas across the public sector, ranging from education, health, human services, justice, transport, local government as well as areas that apply across the public sector and which are often the focus of central agencies.

We deliberately identify more topics than we plan to audit because:

- some audits may not proceed due to changes in the external environment such as changes to legislation, policy or government responsibilities or because we assess the actions taken by agencies prior to commencing an audit as being sufficient to address the key risks and issues
- other issues or topics may arise that were not included in the list of topics that are considered more material or higher risk and warrant more immediate audit attention.

In this way, our audit program strikes an appropriate balance between predictability and responsiveness and enables us to deliver a full program of audits each year, to maximise the value to Parliament and the public of our performance audit activity.

This annual plan sets out our proposed specification of each of the planned audit topics over the next two years, including the particular objectives and issues that we are likely to examine. Our rolling program of audits means that by the time we publish this plan, we will have commenced around half of the planned topics for the 2015–16 year. Where we commence audit topics that are not set out in the annual plan we will consult audited agencies and PAEC on the specification.

5.1.2 Follow-up audits

In addition to our audit program, we are also committed to a follow-up program. The follow-up program aims to monitor agency progress in implementing actions from previous performance audits, and also verify that actions taken by agencies in relation to a selection of performance audits have been effective in addressing the recommendations. The follow-up program is intended to increase the transparency and accountability of agency action in relation to our audits. Section 1.10 sets out the four steps involved in the follow up program.

In 2014–15, we delivered our first self-attestation-based report following up on 2012–13 performance audit recommendations. We will extend this self-attestation-based follow-up audit by updating for any further developments in relation to uncompleted recommendations from 2012–13 as well as recommendations made in the subsequent years. We will continue to follow up on recommendations for up to three years.

In 2015–16, we will also commence our limited scope follow-up audits which will verify whether agencies' reported actions have in fact been implemented and whether these have addressed the recommendations made in the original audit. For further information on these limited scope performance audits, please see Section 5.2.11.

5.1.3 Governance program

As discussed in Section 1.5, the governance program will consist of three separate but interconnected streams—an audit stream, a better practice stream and an education stream. Part of the audit stream consists of a package of limited scope performance audits on the governance and accountability theme. For further information on these limited scope performance audits, please see Section 5.2.12.

5.1.4 Delivering our audits

We plan to deliver a rolling program of performance audits throughout the year, and aim to table our performance audits in each week that Parliament is sitting. There are often complex issues and multiple agencies involved in our performance audits. This, together with our thorough approach to gathering information, analysing information, briefing agencies and clearing proposed audit reports, means that each audit typically ranges between six to 10 months in duration.

After we have consulted on the specification of an audit as part of the annual plan, we will typically undertake more detailed planning and scoping to refine the criteria and lines of inquiry related to the audit. We normally do this by gathering and reviewing relevant documents as well as consulting with key stakeholders—including agencies, interest groups, academics and others about the key issues that matter. We then finalise the specification before commencing the conduct of the audit.

In contrast to our financial audits, our performance audits are typically delivered by in-house staff who are specially trained by us to undertake performance audits. However, from time to time we do engage experts to advise our performance audit teams on complex and technical issues and/or contractors to supplement our staff resources where required. We have established a contractor panel to enable us to efficiently procure contractors and consultants to assist us in undertaking performance audits.

5.2   Proposed performance audit program specifications

This section sets out proposed specifications for our 2015–16 and 2016–17 performance audits. For each audit listed, we outline our proposed objective and the issues we intend to examine. We also set out the proposed agencies where this is able to be determined based on the objectives and issues. Otherwise, we signal where we are likely to choose a selection of agencies from a sector or across the public sector based on further detailed planning and scoping.

5.2.1   Sector-wide

Access to public sector information, 2015–16

Objective:

To assess whether agencies are effectively facilitating access to public sector information.

Issues:

Public sector information is recognised as one government's most valuable assets due to its ability to drive innovation, contribute to community outcomes and facilitate economic development.

In response to the 2009 Parliamentary inquiry into *Improving Access to Victorian Public Sector Information and Data*, the government established Victoria's Information Management Framework.

In doing so, it noted that the 'Victorian Government has recognised the need to improve and better coordinate its information management practices' and that 'government can only operate efficiently and effectively when staff and citizens have access to the right information'.

Proposed agencies:

DPC, DTF, Public Record Office Victoria (PROV), State Revenue Office, Department of Environment, Land, Water and Planning, DJR and Department of Health & Human Services (DHHS).

Applying the High Value High Risk process to unsolicited proposals, 2015–16

Objective:

To determine whether the High Value High Risk (HVHR) process has been effectively applied to two unsolicited proposals that government has identified as HVHR projects: the Cranbourne–Pakenham Rail Corridor and the CityLink–Tullamarine Widening projects.

Issues:

The HVHR program aims to improve the timing, cost and benefits realisation of infrastructure and ICT investments with an estimated investment of over $100 million, are identified as high risk, or as warranting increased oversight.

VAGO's 2014 audit *Impact of Increased Scrutiny of High Value High Risk Projects* found that the program had improved business cases and procurements for major infrastructure and ICT investments. However, it also identified weaknesses in assessing projects for inclusion in the HVHR process, program administration and evaluation, and the quality of reviews—particularly around the rigour with which anticipated project benefits are developed.

An unsolicited, or market-led proposal, is when the private sector approaches government with a proposal to build infrastructure or deliver services. They are not always subject to competition, nor developed according to the same rigorous processes as applied to government-initiated proposals. Therefore, thorough scrutiny of unsolicited proposals is critical to ensure that benefits are well developed and that value for money is assured.

Proposed agencies:

DTF, DEDJTR, VicRoads, PTV.

High Value High Risk, 2015–16 and 2016–17

Objective:

This is part of an ongoing series of audits examining whether the HVHR program is improving the timing, costs and benefits realisation of major infrastructure projects.

Issues:

The HVHR program aims to achieve improved timing, cost and benefits realisation of infrastructure and ICT investments that have a total estimated investment of greater than $100 million, are identified as high risk, or as warranting increased oversight.

VAGO's 2014 audit *Impact of Increased Scrutiny of High Value High Risk Projects* found that this program had improved the quality of business cases and procurements for major infrastructure and ICT investments. However, it also identified weaknesses in assessing projects for inclusion, program administration and evaluation, and the quality of reviews—particularly around the rigour of project benefit estimates.

Proposed agencies:

DTF and agencies responsible for a selection of HVHR projects that we have not previously examined.

Implementing the gifts, benefits and hospitality framework, 2015–16

Objective:

To examine whether agencies have effectively managed the risks associated with the provision and receipt of gifts, benefits and hospitality.

Issues:

The community expects high standards of integrity and impartiality from public sector employees. They must not to accept or make offers of gifts, benefits or hospitality that influence, or give the impression to influence, any decision unfairly.

The Victorian Public Sector Commission's (VPSC) 2012 *Gifts, benefits and hospitality policy framework* sets minimum requirements and accountabilities in relation to public officials accepting or providing gifts and hospitality. It also includes a suite of tools to assist agencies in its implementation.

Proposed agencies:

VPSC and a selection of public sector agencies.

Reducing the burden of red tape, 2015–16

Objective:

To examine whether red tape reduction initiatives have been effective in reducing the costs imposed on business while achieving regulatory objectives.

Issues:

Red tape can be broadly defined as an unnecessary bureaucracy that imposes costs on businesses. It is considered to be a constraint on economic activity, and successive Victorian governments have implemented initiatives to reduce it to improve conditions for Victorian businesses.

Effective red tape reduction must strike a challenging balance between reducing the burden imposed on business while not detracting from the achievement of regulatory outcomes.

Proposed agencies:

DTF, Victorian Competition and Efficiency Commission, and a selection of agencies and regulators responsible for implementing government regulation policies.

Managing public sector records, 2016–17

Objective:

To determine whether agencies are managing records in accordance with state requirements and whether PROV is effectively assisting agencies to do this.

Issues:

Government's ability to implement policy depends on maintaining public trust, which is directly impacted on by the public's ability to scrutinise the evidence of government activity. To make this scrutiny possible, all Victorian public offices are required by law to meet PROV prescribed standards for effective records management.

In 2008, the *Records Management in the Victorian Public Sector* audit found that the state could not be assured that its records management objectives were being met. More recently, integrity organisations frequently identify records management failures within the course of their investigations.

These widespread and persistent failures suggest a systemic weakness in the government's approach to managing the evidence of its activities.

Proposed agencies:

PROV and a selection of public sector agencies.

Public participation in government decision-making, 2016–17

Objective:

To examine the effectiveness of public participation activities in agency decision-making.

Issues:

Transparent and well managed public participation is a critical input for informing government policies, and how these policies are translated into effective strategies, programs and projects.

VAGO released its *Public Participation in Government Decision-making* Better practice guide in January 2015. The guide aims to assist agencies achieve better practice in public participation activities to inform government decision. It also provides a clear, high-level structure and criteria for managing public participation exercises.

Proposed agencies:

DPC, VPSC, and a selection of public sector agencies.

5.2.2 Economic development

Regional Growth Fund: Outcomes and learnings, 2015–16

Objective:

To assess the effectiveness, efficiency and economy of the Regional Growth Fund (RGF) achievement of the intended outcomes. The audit also examines how lessons learnt are being used to improve the effectiveness of the newly established Regional Jobs and Infrastructure Fund.

Issues:

RGF is a significant investment in regional development, with $500 million allocated to date. While primarily an infrastructure program, the RGF has an indirect impact on the social wellbeing of regional communities. The RGF incorporates investment in social and community infrastructure, which in turn impacts on community vitality and social cohesion. The audit will also follow up on actions against recommendations from the 2012 audit, *Management of the Provincial Victoria Growth Fund.*

Proposed agencies:

DEDJTR.

Meeting workforce skill gaps through migration programs, 2016–17

Objective:

To determine whether state-based migration programs are effective in filling gaps in the skills of the Victorian workforce.

Issues:

Skill gaps and shortages can affect business productivity, delay projects, create ongoing vacancies, increase wages, restrict research and development and place pressure on existing workers. This can then reduce the competitiveness and growth of organisations and their industries.

Government funds a number of programs to address skill gaps, but where they are unsuccessful, an insufficient supply of qualified workers can result. A valuable 'last resort' approach to addressing skill shortages is skilled migration. Managing skilled migration effectively requires a well-informed understanding of the skill shortages industries are experiencing, or are at risk of, and why education and training is unable to prevent this.

DEDJTR oversees the Victorian Skilled Migration program. It has acknowledged that processes for businesses to access highly skilled migrants are inefficient due to low industry awareness of support tools, weak relationships between government and business in this area, and little sharing of prior learning and overseas recruitment experience.

Proposed agencies:

DEDJTR

5.2.3 Education

Department of Education and Training: Strategic planning, 2015–16

Objective:

To examine how effectively DET plans to achieve its objectives.

Issues:

The importance and benefits of education for individuals, the economy and society are well understood. A high functioning education system that demonstrates good outcomes for students is essential.

Effective planning that is based on a thorough understanding of performance across the education sector, and underpinned by a sound evidence base, is a critical part of developing a high functioning education system. So too is effective implementation of those plans and strategies.

DET's data shows that for 16 of its 26 long-term outcome measures, performance either has shown no significant change or results are declining. Successive performance audits of DET and the education sector have demonstrated a range of persistent weaknesses relating to the use of information, monitoring performance and implementation of strategies. Together, these indicate that DET's strategic planning and implementation may not be as effective as it could be to drive improved outcomes.

Proposed agencies:

DET.

Effectiveness of school governance, 2015–16

Objective:

To examine the effectiveness of governance arrangements within Victoria's autonomous schools model.

Issues:

In Victoria, government schools operate under an autonomous model, with the school principal and school council responsible for operating the school. While DET provides guidance and support, accountability for school performance is largely devolved to the school.

Effectively governing schools comes with many challenges. Most school principals begin their career as classroom teachers but take on responsibility for issues such as staffing, asset management and financial management. These are operational areas that DET would have previously managed.

Similarly, school councils have a key governance and accountability role. These councils rely heavily on volunteers and need the right mix of skills and competencies to perform effectively. Attracting capable volunteers who can contribute to improved governance also comes with challenges, especially in rural and small schools.

Proposed agencies:

DET.

Grants to non-government schools, 2015–16

Objective:

To assess whether non-government schools have applied DET grants for their intended purposes, and used the money economically, efficiently and effectively.

Issues:

More than $650 million in recurrent grant funding is provided to non-government schools in Victoria. This includes $241 million for primary schools, $374 million for secondary schools and around $38 million for 'other' schools.

The efficient, effective and economical use of this grant money is not routinely subject to examination by DET. Six private schools closed in 2012–13 after experiencing financial difficulties. This placed additional pressure on the government school system to accommodate these students and placed these students at considerable disadvantage.

Proposed agencies:

DET and selected non-government schools.

Managing school infrastructure, 2016–17

Objective:

To examine the effectiveness, efficiency and economy of DET's planning for new school infrastructure and maintaining existing school infrastructure.

Issues:

School infrastructure, consisting primarily of school buildings, is an essential element of educational achievement. Buildings that are secure, comfortable and user-friendly contribute to learning outcomes. Regular maintenance of school infrastructure is a core role of DET. Inadequate expenditure on assets may reduce their life expectancy, leading to greater costs and degraded facilities for students. In 2013–14, DET 'wrote down' $1.58 billion of taxpayers' investments in schools buildings.

In addition to maintaining existing infrastructure, DET is responsible for planning new infrastructure and building new schools in growth areas. This relies heavily on using good data and forecasting to determine where new investments should occur. Gaining assurance around this data and forecasting, and broader planning for new infrastructure is important given the need to effectively maintain school infrastructure to provide for growing population needs.

We previously examined the management of school infrastructure in the 2013 audit *Implementation of School Infrastructure Programs* and in the 2008 audit *School Buildings Planning, Maintenance and Renewal.*

Proposed agencies:

DET.

University grants, 2016–17

Objective:

To assess whether grants that Victoria's universities administer have been applied for their intended purposes, and whether the money has been used economically, efficiently and effectively.

Issues:

Universities receive grants from both the Victorian and Commonwealth governments. These include capital, operating and research grants. In addition, universities provide grants to staff undertaking research across a range of academic areas.

This audit will examine the governance and accountability around grants management to provide assurance that grants are used for their intended purpose, achieve value for money and also achieve intended outcomes.

Proposed agencies:

Victorian universities.

5.2.4 Environment

Biosecurity: Livestock, 2015–16

Objective:

To examine the effectiveness of biosecurity practices that relate to livestock disease management and the associated risks to primary production, animal welfare and human health.

Issues:

Despite Victoria's favourable animal biosecurity status, exotic animal diseases remain an ever-present threat to Victoria's livestock industries. Livestock diseases can also pose significant public health risks through zoonoses—animal diseases that are transmittable to humans. Managing these risks is made more complex by climate change, increasing global trade and travel, and increasing human and livestock encroachment into wildlife habitat. This audit will examine arrangements to prepare for, and respond to, livestock disease outbreaks.

Proposed agencies:

DEDJTR and DHHS.

Monitoring Victoria's water resources, 2015–16

Objective:

To examine the effectiveness and efficiency of water monitoring programs and partnerships across Victoria's water resources.

Issues:

The *Water Act 1989* requires continuous assessment of water resources. A coordinated and efficient statewide approach is needed to collect water quality data to support this. A sound understanding of water quality and quantity is essential to decision-making in water management and regional planning, and tracking progress against government targets. This audit will assess the quality of data collection and reporting, and how agencies work together to both collect information and to assess and understand performance against government targets.

Proposed agencies:

DELWP, the Environment Protection Authority, Melbourne Water, regional and rural water corporations and authorities, DHHS, a selection of local councils and the Water Registrar.

Unconventional gas: Managing risks and impacts, 2015–16

Objective:

To examine whether Victoria is well placed to effectively respond to potential environmental and community risks and impacts in the event that unconventional gas activities proceed in this state.

Issues:

Unconventional gas is natural gas sourced from different—unconventional—rock layers in the earth rather than from layers where natural gas has more traditionally been found. It is usually harder to extract gas from these unconventional sources and can require different techniques, such as horizontal drilling and hydraulic fracturing.

The issues surrounding unconventional gas exploration and production in Australia and globally are complex, technical, wide ranging and in some cases, contentious. Victoria is still in the early stages of understanding the potential for an unconventional gas industry. There has been some exploration for unconventional gas in Victoria but no commercial production and there is currently a moratorium preventing hydraulic fracturing and new onshore exploration for all types of gas, including from unconventional sources. Community views in relation to the development of an unconventional gas industry vary greatly.

This audit will inform Parliament about Victoria's preparedness to effectively respond to emerging risks and challenges in the event that unconventional gas activities proceed in this state. This will include examining recent activities and approaches to manage the risks and impacts associated with unconventional gas exploration and production.

Proposed agencies:

DEDJTR and DELWP.

Enhancing food and fibre productivity, 2016–17

Objective:

The audit will assess the extent to which research in the dairy and grains industries is used to drive innovation, productivity and practice change.

Issues:

Victoria is Australia's largest food and fibre exporting state and to maintain this it needs to continue to be at the forefront of research to drive continuous improvement in innovation and build on achievements to date. This is particularly important in the face of pressures such as climate change and competition from overseas markets. This audit will examine how well research informs and drives dairy and grain practice and productivity.

Proposed agencies:

DEDJTR.

Managing bushfire threats to Victoria: Planned burning, 2016–17

Objective:

To assess the effectiveness of planned burning and planned burning targets in minimising the threat of bushfires to Victoria.

Issues:

South eastern Australia is one of the most bushfire-prone areas in the world. In 2014, the Climate Change Council projected the bushfire cost in Victoria as more than $172 million and anticipates that this will double by the middle of the century. A significant part of Victoria's bushfire management preparedness is to undertake planned burns in accordance with set targets. Planned burning has the potential to impact on indigenous flora and fauna and therefore biodiversity. The audit will examine how effectively planned burn targets are set, how areas are prioritised for burning, and how planned burns are managed by the agencies involved.

Proposed agencies:

DELWP, Inspector-General for Emergency Management, Country Fire Authority, Metropolitan Fire Brigade and a selection of local councils.

Meeting obligations to protect Ramsar wetlands, 2016–17

Objective:

To assess the effectiveness of management of the Ramsar wetlands, including whether Victoria is effectively meeting its national and international obligations, and the effectiveness of interagency collaboration.

Issues:

Ramsar wetlands are wetlands of international importance listed and protected under the Ramsar Convention on Wetlands to which Australia is a signatory. Effective management of these wetlands requires the states, territories and Commonwealth governments to collaborate to meet Ramsar obligations. It also relies on good knowledge of the environmental, social and economic values and benefits of the wetlands and integrated management of the numerous potential threats to these.

Proposed agencies:

DELWP, Parks Victoria, Melbourne Water and other relevant rural water authorities and catchment management authorities.

Nature-based tourism: Sustainable development on public land, 2016–17

Objective:

To examine the effectiveness of strategies and programs to support Victoria's nature-based tourism on public land in maintaining a balance between developments for tourists' use and preserving the natural environment.

Issues:

Nature-based tourism is one of the fastest growing tourism sectors internationally. Victoria, with its diverse natural attractions is well placed to capitalise on this growth. Ineffective environmental management through tourism activities however, can lead to the destruction of delicate ecosystems and degradation of Victoria's natural environment. This can render once popular and significant areas irreparable and permanently inaccessible. A coordinated effort across government agencies and the tourism industry is required to positively exploit and leverage Victoria's natural assets.

Proposed agencies:

DELWP, DEDJTR, Tourism Victoria, Parks Victoria, Regional Tourism Boards, and a selection of local councils.

5.2.5 Health

Bullying and harassment in the health sector, 2015–16

Objective:

To determine whether public health services are effectively managing the risk of bullying and harassment in the workplace.

Issues:

Workplace bullying and harassment are perpetrated by workers and managers and affect mental and physical health and wellbeing. They can result in absenteeism, reduced productivity and healthcare workers leaving the profession. They also have the potential to create risks for patient safety. Studies show that bullying in the health sector is generally associated with the social organisation of work, including issues of hierarchy, resourcing and leadership, and is often not reported out of fear of retribution.

This is the third audit in a series on workplace safety in the health sector following the 2013 *Occupational Health and Safety Risk in Public Hospitals* and the 2015 *Occupational Violence Against Healthcare Workers* audits.

Proposed agencies:

DHHS, Victorian WorkCover Authority, Victorian Public Sector Commission and a selection of public health services including Ambulance Victoria.

Hospital performance: Length of stay, 2015–16

Objective:

To determine the relative efficiency of acute patient length of stay in the largest Victorian public hospitals.

Issues:

Given the growing costs of and increasing demand for hospital services, improving the efficiency of hospitals is more important than ever. Length of stay reflects the amount of time a patient spends in hospital and is a well-accepted indicator of hospital efficiency, a key driver of hospital costs and has an impact on the capacity of the system. Hospitals can improve their productivity, while still achieving quality health outcomes, by reducing avoidable causes of increased length of stay. Recent research has shown that there is substantial variation in length of stay between hospitals, but the reasons for this variation are not well understood.

Proposed agencies:

DHHS and a selection of public hospitals.

Patient safety in Victorian hospitals, 2015–16

Objective:

This audit will determine whether public hospitals are reliably monitoring and effectively managing and responding to the risks to patient safety.

Issues:

Clinical incidents in healthcare settings cause, or have the potential to cause, unexpected harm to patients. They include falls, pressure sores and medication errors and may result in near misses, adverse events where harm has occurred or sentinel events resulting in serious harm or death. It has been estimated that around one in 10 hospitalised patients suffers preventable harm and an adverse event related to care.

The number of near misses, the accuracy of reporting of patient safety incidents, and the effectiveness of subsequent investigation are not known.

Proposed agencies:

DHHS, the Victorian Managed Insurance Authority and a selection of health services.

Chronic disease management: Dementia, 2016–17

Objective:

To assess the effectiveness of the *Victorian Dementia Action Plan 2014–18* in supporting people with dementia and their families and carers.

Issues:

The number of Victorians affected by dementia is increasing each year as the population ages and life expectancy increases. In 2011, Victoria had 68 397 people with dementia, with that number expected to reach 98 100 by 2020, and 245 800 by 2050. Dementia is a major contributor to disability and the incidence of dementia-related disability is expected to increase. In 2010–11, dementia was the third leading cause of death and fourth leading cause of burden of disease in Australia. Although age is the main risk factor for dementia, other preventable risk factors include a history of stroke and other cardiovascular diseases, smoking, low exercise levels, midlife obesity, insulin-dependent diabetes and hypertension. Early onset dementia provides particular challenges for patients, carers and the broader community, including being misdiagnosed, and struggling to maintain employment and manage a family.

Proposed agencies:

DHHS, a selection of health services and Cognitive, Dementia and Memory Services.

Efficiency and economy of pathology services in public hospitals, 2016–17

Objective:

To assess the efficiency and economy of pathology services in public hospitals.

Issues:

There are different delivery models for pathology services in public hospitals, such as outsourcing, in house and shared services between health services. The type of delivery model, and how well it is implemented, determines the health service's exposure to risks such as increased costs, quality issues, and misdiagnosis.

This audit offers an independent review of the efficiency and economy of pathology services to determine what delivery models are cost-effective, and if further savings and revenue opportunities can be achieved while maintaining a safe and high quality pathology service.

Proposed agencies:

DHHS, Health Purchasing Victoria and a selection of public health services.

Improving timely access to dental services in Victoria, 2016–17

Objective:

To assess the economy, efficiency and effectiveness of public dental health services.

Issues:

Public dental services are provided to eligible Victorians through community dental clinics in community health services, rural hospitals and the Royal Dental Hospital of Melbourne. Issues include a lack of timely access to public services for basic restorative and preventive care in some areas, poor oral health for particular demographic groups and in particular regions, and workforce under-utilisation. Delayed access can mean patients need emergency care procedures for preventable conditions.

This audit will assess whether public dental health services are accessible, appropriately distributed across the state, and address the growing demand for general dental, preventative and emergency services.

Proposed agencies:

DHHS, Dental Health Services Victoria and a selection of public dental health providers.

Managing drug and alcohol prevention and treatment services, 2016–17

Objective:

To determine whether DHHS has improved the effectiveness of its funded drug and alcohol prevention and treatment services.

Issues:

Drug and alcohol abuse is a significant problem in the Victorian community. A November 2014 Victorian government report noted that more than one person dies as a direct result of alcohol and drug use each day in Victoria. The government also recently announced a taskforce to examine the risk that methamphetamines pose to the safety and wellbeing of Victorians. VAGO's 2011 *Managing Drug and Alcohol Prevention and Treatment Services* audit made 12 recommendations to improve resource management, the treatment service system, monitoring of service providers and performance reporting and review. In response to the 2011 audit, the responsible Minister committed to 'develop a much needed whole-of-government prevention and treatment strategy to reduce the incidence and impact of drug and alcohol abuse'.

This audit will assess whether the issues identified in the 2011 audit, *Managing Drug and Alcohol Prevention and Treatment Services* have been addressed through the new whole-of-government strategy and other responses.

Proposed agencies:

DHHS.

5.2.6 Human services

Diverting young people from the criminal justice system, 2015–16

Objective:

To assess the effectiveness of strategies to divert young people away from the criminal justice system.

Issues:

The trajectory into the criminal justice system starts early in life. Current systemic and welfare responses appear to have only a limited impact on preventing early contact with child protection and the youth justice system from escalating into a cycle of incarceration.

This audit will focus mainly on people in the youth justice system who are at risk of being immersed in the adult criminal justice system. This includes young people at the pre-sentencing and deferral of sentencing stage, and young offenders managed in the community through parole, probation, youth supervision orders, youth attendance orders, or Youth Justice Centre orders. The audit will examine a range of youth justice support and diversion programs.

This audit is the third in a series of audits focusing on children and young people at risk. It follows the 2014 *Residential Care Services for Children* audit and the 2015 *Early Intervention for Vulnerable Children and Families* audit. It is also one of a series of audits focusing on managing offenders in the community including the future audits focused on *Administration of parole, Managing community correction orders* and *Managing sex offenders*.

Proposed agencies:

DHHS, Victoria Police and relevant courts.

Managing Victoria's public housing, 2016–17

Objective:

To determine whether DHHS is managing public housing efficiently and effectively.

Issues:

Previous audits have identified substantial shortcomings to the management of public housing. Without access to stable and affordable housing, other conditions such as mental illness, drug use, criminal behaviour, and unemployment can be exacerbated. VAGO's 2012 audit on *Access to Public Housing* found the operating model to be unsustainable, no long-term strategy and an estimated 10 000 properties, or 14 per cent of the portfolio, nearing obsolescence—representing a significant maintenance liability. This audit will examine how efficiently and effectively Victoria's public housing stock is being managed and maintained.

Proposed agencies:

DHHS, including the Office of Housing.
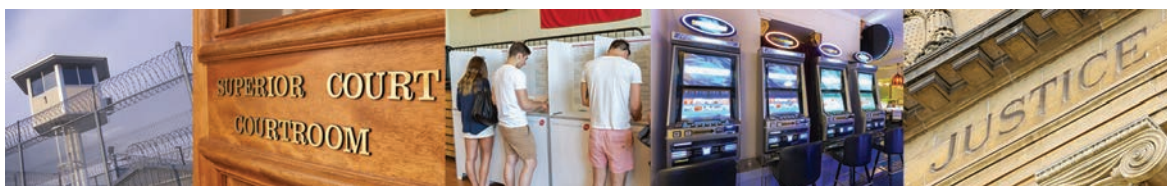
5.2.7 Justice

Administration of court non-judicial functions, 2015–16

Objective:

To examine the efficiency and effectiveness of administrative activities to support the performance of the judicial, quasi-judicial and administrative functions of the courts.

Issues:

A number of courts and tribunals operate in Victoria. Their role is to interpret the law, decide who is right or wrong in a dispute, and impose penalties on people or organisations that have broken the law. In order to conduct their judicial functions, each court undertakes a range of administrative functions across a number of different locations. While each court in Melbourne has its own facility, other metropolitan and country courts operate out of shared facilities in more than 50 locations. Where necessary, some of these courts are also used to provide additional support to assist with managing metropolitan caseloads. Since 2014, the courts have been assisted in this administrative function by Court Services Victoria (CSV). CSV provides administrative services and facilities for Victoria's courts, the Victorian Civil and Administration Tribunal and the Judicial College of Victoria.

This audit will examine whether the administrative activities undertaken by courts and CSV are efficient and effective, and whether they are enabling the courts to deliver the highest standard of justice to the community.

Proposed agencies:

CSV and selected courts.

Administration of parole, 2015–16

Objective:

To examine the efficiency and effectiveness of the administration of parole.

Issues:

Parole forms an important component of the criminal justice system. It increases community safety by preventing reoffending through the supervision and reintegration of offenders into the community.

This audit will examine the efficiency and effectiveness of the administration of parole including supervising and monitoring parolees, support and training for staff managing parolees, detecting and reporting parole breaches, executing warrants and demonstrating achievement of outcomes in terms of reducing recidivism.

This is the first in a series of audits examining the administration of programs to manage offenders in the community. Other proposed audits in this area include *Diverting young people from the criminal justice system*, *Management of community correction orders*, and *Managing sex offenders*.

Proposed agencies:

Adult Parole Board, DJR including Corrections Victoria, Victoria Police.

Victorian Electoral Commission, 2015–16

Objective:

To assess the effectiveness, efficiency and economy of the Victorian Electoral Commission (VEC) including the conduct of state elections.

Issues:

VEC maintains the electoral enrolment register and conducts state, local government, statutory, commercial and community elections and boundary reviews. It is critical that the work of VEC is efficient and inspires public confidence in the electoral system process. This audit will examine the performance of VEC including its management of early voting, voter turnout and participation, electronically assisted voting, automatic enrolments, electronic roll mark off, and election-related infringements.

Proposed agencies:

VEC.

Management of community correction orders, 2016–17

Objective:

To examine the efficiency and effectiveness of the management of community corrections orders (CCOs).

Issues:

Offenders on CCOs are managed and supervised in the community as an alternative to a prison sentence. These orders are court imposed. Community safety is dependent on the administration of CCOs being effective, efficient and well governed.

This audit will examine the efficiency and effectiveness of the management of CCOs with a focus on maintaining public safety, achieving social and financial benefits, and training and support for staff. This is the second in a series of audits examining the administration of programs to manage offenders in the community. Other proposed audits in this area include *Administration of parole*, *Diverting young people from the criminal justice system*, and *Managing sex offenders*.

Proposed agencies:

DJR including Corrections Victoria, and Victoria Police.

Regulating gambling and liquor, 2016–17

Objective:

To examine the effectiveness and efficiency of the Victorian Commission for Gambling and Liquor Regulation (VCGLR) in regulating gambling and liquor licensing.

Issues:

Alcohol and gambling are accepted parts of Australian culture and generate positive impacts for the state in the form of revenue and employment. However, the misuse of alcohol and gambling can result in significant short-term and long-term harm for individuals, their families, friends and the wider community. The growth of the online gambling industry, combined with technological innovations like smart phones, have radically altered the Victorian gambling environment.

VCGLR is responsible for regulating gambling and liquor licensing in Victoria. The audit will examine VCGLR's regulatory practices including for licensed venues and packaged alcohol. It will also review VCGLR's progress in meeting its Statement of Expectations and strategic priorities. The audit will also examine the interconnected activities of the Office of Liquor, Gaming and Racing Division of DJR and the Victorian Responsible Gambling Foundation (VRGF).

Proposed agencies:

VCGLR, DJR, including the Office of Liquor, Gaming and Racing Division and VRGF.

5.2.8 Local government

Local Government service delivery: Recreational facilities, 2015–16

Objective:

To assess the effectiveness of local government service delivery with a focus on recreational activities and facilities.

Issues:

Councils continue to face resource constraints and sustainability issues, particularly smaller councils. Statewide council community satisfaction surveys report recreational facilities as a high priority for communities. Efficient and effective delivery of recreational facilities and activities requires councils to balance service delivery with increasing community expectations around quality, standards of governance, reduced costs, enhanced efficiencies and value for money.

This audit will include examination of identification of needs, establishment of service levels and standards, and whether specific recreational services are delivered efficiently and economically to achieve intended community outcomes.

Proposed agencies:

DELWP and a selection of councils.

Public participation and community engagement: Local government sector, 2016–17

Objective:

To assess the effectiveness of community engagement and participation at the local government level.

Issues:

Poor community engagement in council planning and decision making may result in poor decisions and a lack of community support for council activities. Performance audits frequently identify inadequate community engagement in a range of areas such as service delivery, planning and the development of council plans and strategies. This includes activities where mandatory community engagement exists, such as the development of council budgets. Ratepayers should be effectively engaged in council decision making, especially where community services and infrastructure are considered and may influence a community's willingness to pay. This audit will apply our better practice guide on *Public Participation in Government Decision-making* and focus on community participation in areas including developing key plans and strategies and planning decisions.

Proposed agencies:

DELWP and a selection of councils.

5.2.9 Planning

Managing Victoria's developer contributions, 2016–17

Objective:

To assess the efficiency and effectiveness of the development contribution system.

Issues:

The lack of robust systems within councils for the collection of levies and the planning and delivery of associated infrastructure, poses substantial financial risks to the community and may not reflect the needs of growth area councils. The Parliamentary Accounts and Estimates Committee's 2014 *Review of the Auditor-General's reports 2009–11* found that most councils had not adequately addressed recommendations we made in our 2009 audit *Use of Development Contributions by Local Government.*

This audit will examine how efficiently and effectively councils set, collect and use development contributions, their progress in implementing VAGO's 2009 recommendations, and the impact of new reform initiatives. The audit will also assess the role of DELWP in supporting and overseeing the system and examine the Metropolitan Planning Authority's (MPA) role in overseeing and managing the Growth Area Infrastructure Contribution and whether funds have been effectively and efficiently managed.

Proposed agencies:

DELWP, MPA and a selection of growth area councils.

Managing Victoria's planning system for land use and development, 2016–17

Objective:

To assess whether Victoria's planning system for land use and development is managed effectively and efficiently and in compliance with legislation.

Issues:

An effective planning system is vital for protecting the physical and cultural amenities of communities, natural resources and the environment, and for responding to development needs and future challenges posed by climate change. The planning permit process is a significant part of the overall planning system with around 50 000 permit applications made each year. Effective application and oversight of permit processes is essential to prevent inappropriate land use and development, reduce risk, and to enable Parliament and the wider community to have confidence in the planning system.

The audit will examine whether the system is being managed in accordance with the *Planning and Environment Act 1987* and planning schemes and will also assess DELWPs oversight of the planning system. The audit will include examination of councils' administration of the planning system and the issuing and monitoring of planning permits.

Proposed agencies:

DELWP and a selection of councils.

Planning for growth, 2016–17

Objective:

To assess how growth area councils have planned for infrastructure and service provision, as well as the effectiveness of MPA and DELWP planning, guidance and oversight.

Issues:

The growing population of Melbourne, along with expanding metropolitan boundaries will have a significant economic, social and environmental impact, particularly in providing the required infrastructure and services to these areas. The longer-term risks of ineffective planning and management of population growth are among the most serious issues facing Victoria. Managing growth requires strong, early action. This audit will examine whether agencies have the foundations needed to effectively and efficiently manage growth.

Proposed agencies:

DELWP, MPA and a selection of growth area councils.

5.2.10 Transport

East West Link, 2015–16

Objective:

To identify the total costs of the East West Link (EWL) project including financial implications from terminating the project.

Issues:

The proposed EWL was to be one of the largest transport infrastructure projects ever undertaken in Australia. The first stage was expected to cost around $8 billion. The financial implications to the state from terminating the project could be significant. The Commonwealth Government has indicated the $1.5 billion it has already provided for EWL cannot be used for a compensation payment. This audit will review the key project decisions, events and related advice influencing the project's financial outcomes.

Proposed agencies:

DPC, DTF, DEDJTR, DELWP, the Linking Melbourne Authority, VicRoads and the Environment Protection Authority.

Managing and reporting on the performance and cost of transport capital projects, 2015–16

Objective:

To examine how effectively transport agencies manage the scope, cost and delivery of major capital projects.

Issues:

The scale and complexity of transport projects in the budget mean that successful delivery represents a major challenge for DEDJTR and related agencies. Project scope and cost blowouts can significantly impact the state's finances and preclude investment in other worthy projects. Failing to deliver these projects effectively may significantly affect the state's liveability, transport efficiency, productivity and accessibility. This audit will examine agencies' understanding of the drivers of increased costs and how they manage these factors to deliver value for money.

Proposed agencies:

DEDJTR and a selection of agencies responsible for major transport projects, such as VicRoads, PTV, Port of Melbourne Corporation and the Port of Hastings Development Authority.

Public safety on Victoria's train system, 2015–16

Objective:

To examine the effectiveness of Protective Services Officers (PSO) in reducing crime and improving perceptions of safety on trains.

Issues:

PSOs are a key strategy in efforts to reduce crime and improve commuter perceptions of train safety, especially at night. The audit will provide insights into the deployment of PSOs, and the actions necessary to optimise future deployment. This audit will also review departmental actions in response to our recommendations in the 2010 audit *Personal Safety and Security on the Metropolitan Train System*.

Proposed agencies:

DEDJTR, Victoria Police and PTV.

Effectively managing freight growth, 2016–17

Objective:

To examine the effectiveness of strategies across transport agencies for managing freight growth.

Issues:

The scale of Victoria's freight industry is forecast to triple by 2050. Containerised imports and exports are expected to more than quadruple over the next 40 years. Effective management of this growth will require significant investment in road and rail infrastructure, as well as investment in new port capacity. It also requires long lead times and timely decision making to avoid the high costs likely if required corridors are encroached upon or not provided.

This audit will examine the extent to which transport agencies are integrating their planning for the future development of Melbourne's ports to effectively and efficiently support broader transport and land-use strategies, and address emerging challenges from expected freight growth.

We last examined freight management in the 2010 audit *Management of the Freight Network.*

Proposed agencies:

DEDJTR, selected port managers, PTV and VicRoads.

Improving safety on Victoria's roads, 2016–17

Objective:

To assess whether Victoria's road safety strategy is being effectively and efficiently implemented and achieving improved road safety outcomes.

Issues:

The cost of road trauma to Victorians is significant, estimated at more than $3 billion annually. It also costs lives, wellbeing and happiness. Road safety initiatives have previously had some success in reducing fatalities and serious injury. *Victoria's Road Safety Strategy 2013–2022* aims to reduce fatalities and serious injuries by 30 per cent over that period. This audit will examine the impact of the current road safety strategy, and the extent to which lessons from previous road safety initiatives have informed current and planned future actions.

Proposed agencies:

DJR, the Transport Accident Commission, VicRoads and Victoria Police.

Managing the performance of rail franchisees, 2016–17

Objective:

To examine PTV's effectiveness in managing the performance of Melbourne metropolitan train and tram franchisees, including the adequacy of contracts and performance monitoring arrangements.

Issues:

The current train and tram franchise agreements were established in November 2009 for a maximum of 15 years, split into an initial eight-year period and a seven-year extension. The right to negotiate the extension is based on the operator's performance through the first six years. The agreements include targets with penalties or incentives applied depending on the franchisee's performance. The audit will examine if the agreements are driving improved performance and franchisees are delivering value for the state, and the effectiveness of PTV's related contract management arrangements.

Proposed agencies:

PTV.

5.2.11 Follow-up program

Phase 2—Responses to performance audit recommendations, 2015–16 and 2016–17

Objective:

To determine the extent of agency response to, and monitoring of, VAGO performance audit recommendations.

Issues:

Our performance audits generate recommendations to address identified deficiencies and improve the management and delivery of public services. Each year, we ask agencies to self-attest on their progress in responding to and monitoring past performance audit recommendations. This audit promotes agency accountability for responding to audit recommendations and facilitates knowledge sharing across public entities regarding responses to identified audit issues.

Proposed agencies:

For 2015–16, all public entities that received performance audit recommendations in 2013–14 and that were yet to complete 2012–13 performance audit recommendations as per the report published in 2014–15.

For 2016–17, all public entities that received performance audit recommendations in 2014–15 and that were yet to complete either 2012–13 or 2013–14 performance audit recommendations as per the report published in 2015–16.

Phase 3—Limited-scope follow-up performance audits

Objective:

To verify agency self-attestations about the actions they have taken to address recommendations made in the *Responses to Performance Audit Recommendations* report.

Issues:

Agencies are asked to self-attest each year on their progress in responding to and monitoring previous performance audit recommendations. We then select a number of previous performance audits to undertake limited scope follow-ups. The scope of these audits is limited to seeking evidence from agencies to verify their reported actions in response to performance audit recommendations and assessing whether:

- they have taken timely action to address recommendations
- their actions have addressed performance issues identified in the audit
- audit committees and agencies have monitored and reviewed actions to assess their impact.

Proposed agencies:

The selection of limited scope follow-up audits is based on the responses provided by agencies through the self-attest based audit, and the risk and materiality of the issues identified in the initial audit. The audit may review all or a selection of recommendations and/or agencies from the original audit.

Limited scope performance audits will be published annually.

5.2.12 Governance program

Audit committee governance, 2015–16

Objective:

To examine the effectiveness of governance arrangements for audit committees including their composition, operational arrangements and information received.

Issues:

Audit committees play a key accountability role in public sector agencies. This role is primarily to provide independent assurance in regards to risk management, internal controls, financial statements, compliance requirements and internal and external audit.

The member composition of an audit committee, its operating arrangements including terms of reference, roles and responsibilities, and lines of communication and reporting, and the type and extent of information it receives from management all significantly impact on its effectiveness in providing independent assurance. This audit will examine the effectiveness of audit committee governance arrangements in supporting robust agency accountability.

Proposed agencies:

This audit will involve a selection of public sector agencies.

Board performance, 2016–17

Objective:

To examine whether public sector boards are assessing their performance effectively and contributing to the effective governance of their agencies.

Issues:

Public sector boards perform key governance roles. They are accountable for the overall effectiveness of the entity they govern, including the achievement of objectives and outcomes.

Boards perform many functions that contribute to the effectiveness of the entity. These include developing the overall strategy and monitoring risk, finance and performance.

This audit will examine how the performance of boards and board members is assessed and managed. It will also assess the extent to which the board understands its roles and responsibilities and assess how effectively and efficiently it performs its functions.

Proposed agencies:

This audit will involve a selection of public sector agencies.

Internal audit programs, 2016–17

Objective:

To examine how effectively, efficiently and economically agencies use their internal audit processes to oversee and manage organisational risks.

Issues:

Internal audits are an assurance activity of public sector entities, typically involving 'arm's length' reviews of the effectiveness of an entity's operations. Each public sector entity is required to establish, maintain and resource an internal audit function that is independent of management, and which is overseen by the audit committee.

This audit will examine how effectively, efficiently and economically agencies use their internal audit process to identify and manage risks. This will include examining procurement of internal audit function, including managing conflicts, how topics are identified and linked to enterprise risks, the adequacy of the internal audits and how the agency and audit committee implements and monitors recommendations.

Proposed agencies:

This audit will involve a selection of public sector agencies.

5.3   Future areas of performance audit focus

This plan provides a proposed program of areas of audit focus for 2015–16 and 2016–17. However, our planning process also provides us with insight on potential risks, issues and priorities that may shape the audit program in future years.

Figure 5G lists areas of audit interest that may be included in future performance audit programs. These potential areas are indicative and do not represent a definitive list of future audits.

We will consult with key stakeholders, including audited agencies and their audit committees, as we develop these topics in future annual plans.

Figure 5G
Potential areas of performance audit interest for 2017–18 and beyond

Sector-wide	
Effectiveness of government communication	Examine whether agencies are adhering to the public sector value of integrity through honest, open and transparent communication processes.
Managing State Purchase Contracts	Examine whether State Purchase Contracts are being effectively managed to achieve value for money in the procurement of common use goods and services.
Preparedness to respond to terrorism incidents	Follow-up on the implementation of recommendations made in the 2009 *Preparedness to Respond to Terrorism Incidents* audit.
State asset management	Examine the effectiveness of the *Asset Management Framework* in informing government's asset management decisions and understanding of benefits, costs and risks.
Executive remuneration	Assess how effectively and efficiently executive remuneration targets skills and experience and recognises performance and achievement of outcomes.
Economic development	
Supporting workers in transitioning industries	Assess the effectiveness of programs aimed at supporting Victorian workers to transition from declining to stable and emerging sectors of industry.
Education	
Reforming the skills system	Determine whether implementation of reforms to the vocational education and training (VET) system have created a responsive VET market which meets student and employer needs.
TAFE governance	Examine whether TAFE boards are providing effective oversight and operating within recommended guidelines for governance and risk management.
Environment	
Implementation of the Victorian coastal strategy	Assess how effectively the Victorian Coastal Strategy is being implemented to determine whether our coastal assets are being sustainably managed.
Managing onshore emergency environmental spill incidents	Examine the effectiveness and efficiency of agencies responsible for managing environmental spill incidents, looking at small frequent incidents to large infrequent environmental emergencies such as a marine oil spill.
Meeting future water security challenges	Assess the effectiveness of Victoria's water reform program to improve the security of Melbourne's drinking water supplies.

Figure 5G
Potential areas of performance audit interest for 2017–18 and beyond –
continued

Health	
Efficiency and effectiveness of pharmacology services in public hospitals	Assess efficiency and economy of the procurement and dispensation of pharmaceuticals in public hospitals.
Improving community participation in sport and recreation	Assess the effectiveness, efficiency and value for money of programs and initiatives aimed at promoting community participation in sport and recreation, and the extent to which the intended outcomes have been achieved.
Improving outcomes for people with mental illness	Assess the effectiveness of DHHS' mental health reforms.
Human services	
Accessibility and effectiveness of the National Disability Insurance Scheme in Victoria	Assess the economy, efficiency and effectiveness of the implementation of the National Disability Insurance Scheme in Victoria.
Access to services for people with a disability	Assess the effectiveness of plans and strategies to improve access to key services and outcomes for people with a disability.
Justice	
Justice policy outcomes	Assess the effectiveness and economic benefits of the implementation of justice policies.
Managing sex offenders	Examine Corrections Victoria and Victoria Police's management of sex offenders, including those on supervision orders and those living in the community.
Transport	
Fraud and corruption strategies in the public sector	Assess the effectiveness and efficiency of public sector policies and practices to prevent and identify fraudulent behaviour.
Implementing the taxi industry reforms	Evaluate the effectiveness of recent taxi reforms and their implementation, including the role of the Taxi Services Commission.
Maintaining state-controlled roadways	Assess whether Victoria's road network is being efficiently and effectively maintained.
Regulating transport safety	Assess the efficiency and effectiveness of the state's arrangements for regulating bus and rail safety.

VAGO welcomes ideas and input from the community on audit topics for future years. You can send through your thoughts to the Auditor-General via our webpage http://www.audit.vic.gov.au/contact_us/concerns_and_suggestions.aspx.

Photographs